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The Impact of Capital Structure and Profitability on Company Value

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Abstract

This study aims to investigate the effects of return on assets and the debt-to-equity ratio on the value of manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. The price-to-book value ratio is used to determine a company's value. This research employs a quantitative method using multiple linear regression analysis. The sample includes 67 companies selected through purposive sampling techniques. The hypothesis testing results show that both the debt-to-equity ratio and return on assets have a significant and comprehensive effect on firm value. Furthermore, the results indicate that the debt-to-equity ratio and return on assets together have a notable impact on the company's value. The coefficient of determination shows that these two independent variables account for only 34% of the variation in firm value, with the remaining 66% influenced by other unexamined factors. This study provides insights for businesses and investors regarding the importance of financing strategies and operational efficiency in enhancing firm value, especially during the economic recovery following the pandemic. Therefore, future researchers are advised to include additional variables to obtain more comprehensive and conclusive results.

Keywords

Book Value, Debt to Equity Ratio, Return on Assets, Company Value, Manufacturing Company.

1. Introduction

The worth of a company indicates how the market views its capacity to generate economic value in the future. Weston and Copeland (2018) state that a firm's value encompasses all assets, whether tangible or intangible, along with its capacity to produce cash flow. This figure is also considered a measure of management's effectiveness in handling the resources entrusted by shareholders (Tafuro et al., 2022; Tannady et al., 2022; Wang et al., 2024; Al Frijat et al., 2024). The price-to-book value ratio, which compares the market stock price to the book value per share, is used in this study to assess a firm's value. Since it reflects how much the market values the company's net assets, this ratio is commonly used in publicly listed companies. A high price-to-book ratio suggests that the market is optimistic about the company's achievements and future potential. In this context, a company's worth is influenced by several internal factors, such as its financial structure (represented by the debt-to-equity ratio) and asset utilization (expressed by the return on assets).

The Debt-to-Equity Ratio measures the proportion of debt to equity in a company's capital structure. A high ratio indicates a high level of leverage, which can increase financial risk due to interest payments and debt servicing obligations. However, if managed well, the use of debt can also enhance a company's profitability through more efficient financing. Return on Assets (ROA) reflects the company's efficiency in generating profits from its total owned assets. A high ROA indicates strong managerial performance and positive financial prospects, making the company more attractive to investors as it demonstrates the firm's ability to manage assets effectively to generate profits.

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Although there is extensive literature discussing this topic, several gaps remain. First, previous studies often combine internal and external factors, making it difficult to isolate the influence of financial ratios alone. Second, many studies do not focus on companies that are specifically struggling to maintain their value. Third, research focusing on the post-COVID-19 recovery period—particularly the critical phase when manufacturing companies face financial pressure and undergo strategic restructuring—is still limited. This study offers novelty in terms of the period examined, namely 2021–2023, which represents the recovery phase following the COVID-19 pandemic. Therefore, this study specifically aims to examine the impact of internal financial factors, particularly return on assets and the debt-to-equity ratio, on the business value of manufacturing companies listed on the Indonesia Stock Exchange during the post-pandemic recovery period of 2021–2023.

2. Literature Review & Hypothesis Development

2.1. Agency Theory

Agency Theory, introduced by Jensen and Meckling (2019), explains the contractual relationship between the principal (the shareholder or owner of the company) and the agent (the manager). In this relationship, the principal delegates authority to the agent to operate the business with the expectation that the agent will act in the best interests of the principal. However, due to the separation of ownership and control, a potential conflict of interest—known as the agency problem—may arise, where the agent prioritizes personal goals over the long-term value of the company. According to Astuti and Wulandari (2022), the way the agent manages the company's financing, particularly in terms of debt usage, is a crucial concern for the principal. Excessive debt increases financial risk and may diminish the company's value. This supports the claim made by Binesh et al. (2025) that higher leverage can amplify both risks and returns. If the agent raises capital through debt without generating adequate returns, it can lead to falling stock prices and declining investor confidence. One key indicator of capital structure that reflects financial risk is the debt-to-equity ratio (DER). Depending on how effectively debt is managed, high leverage may signal future growth or potential financial trouble (Kalash, 2023). Meanwhile, management's ability to generate profits from company assets is reflected in Return on Assets (ROA) (Supriyadi, 2021; Singh, 2024). A high ROA indicates operational efficiency, which can attract investors and enhance the company's value.

2.2. Debt to Equity Ratio and Company Value

Company value reflects how the market evaluates a firm's ability to generate future profits. According to Oktaviani (2022), company value represents an investor's assessment of the company's success in managing assets to achieve long-term growth. In modern financial management, maximizing company value is considered the primary objective, as it aligns with the goal of maximizing shareholder wealth (Hartono et al., 2023). One commonly used metric to measure company value is the Price to Book Value (PBV) ratio. Saputra and Kusuma (2025) explain that PBV compares the market price of a company's shares with its book value per share, indicating whether the market perceives the company as undervalued or overvalued. A PBV greater than 1 suggests that the market values the company higher than its accounting value, often due to strong profitability, growth potential, or intangible assets (Fitria et al., 2025). In addition to market perception, Widyastuti (2024) emphasizes that company value is also influenced by internal factors such as profitability (e.g., Return on Assets), capital structure (e.g., Debt to Equity Ratio), and operational efficiency. These internal indicators affect how effectively a company utilizes its resources and finances its operations, thereby shaping investor confidence.

The Debt-to-Equity Ratio (DER) is a key indicator of a company's capital structure, measuring the extent of debt used relative to shareholders' equity. According to Munthe et al. (2024), a higher DER indicates a greater reliance on external financing, which increases the company's financial risk. Companies with high DER may face challenges in meeting their financial obligations, especially during economic downturns, potentially undermining investor confidence and reducing the company's value. From the perspective of agency theory (Lily & Susilawati, 2024), excessive debt can create conflicts between managers (agents) and shareholders (principals), as managers may pursue riskier projects to meet debt obligations, thereby increasing agency costs. The trade-off theory (Skillet, 2013) also provides a valuable framework, suggesting that companies must balance the tax benefits of debt with the costs of financial distress. While moderate leverage can enhance returns, overly aggressive borrowing exposes companies to solvency risks.

Furthermore, signaling theory posits that a company's capital structure sends signals to the market about its quality (Ahmed, 2023). Companies that manage their DER wisely convey positive signals regarding stability and sound management practices.

H1. Debt to Equity Ratio has a positive effect on the value of the company.

2.3. Return on Asset and Company Value

Return on Assets (ROA) is a key financial ratio that measures a company's effectiveness in generating profits from its total assets. It is calculated by dividing net profit after tax by total assets. According to Astuti et al. (2023), ROA reflects management's efficiency in utilizing resources to generate earnings. A higher ROA indicates that a company is managing its assets more efficiently, demonstrating stronger operational performance and better prospects for long-term profitability. ROA also serves as a signal to investors; companies with high ROA are often considered well-managed, which can increase investor confidence (Syafar et al., 2025). This aligns with signaling theory, which suggests that strong financial ratios convey positive information about a company's management and financial health. In addition, according to DuPont analysis, ROA is a component of Return on Equity (ROE), combining profit margin and asset turnover to assess overall efficiency. Empirical studies support its importance: Handayani and Ismunawan (2023) found that ROA has a positive and significant impact on firm value in the banking sector, while Kurnia et al. (2025) confirmed similar results across the broader financial industry. However, recent research shows that the effect of ROA may vary by sector; for instance, its impact is less significant in capital-intensive industries like manufacturing or technology. Overall, ROA remains a vital indicator of internal performance and is often linked to higher firm valuations, particularly from an efficiency and signaling standpoint.

H2. Return on Assets has a positive effect on the company's value.
H3. Debt-to-Equity Ratio and Return on Assets simultaneously affect the value of the company.

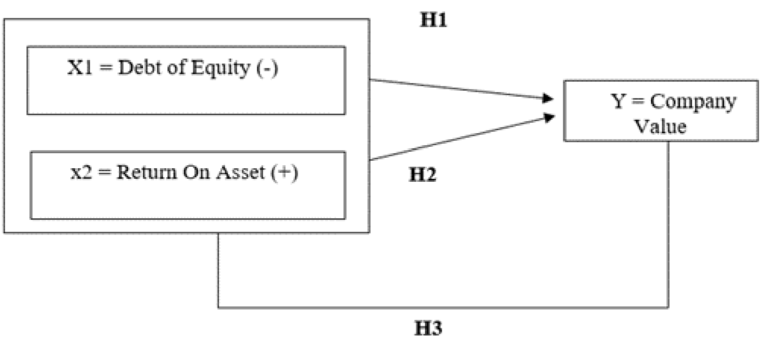

Figure 1. Research Framework

The relationship between capital structure and productivity on firm value is illustrated in the diagram as a conceptual framework. Firm value, represented by Y, is the dependent variable in this model, while the independent variables are the debt-to-equity ratio (DER), represented by X1, and return on assets (ROA), represented by X2. According to the first hypothesis (H1) in this model, ROA and DER each have a partial effect on firm value. DER is expected to have a negative impact because a higher debt-to-equity ratio indicates the company is taking on more financial risk, which may reduce investor confidence and lower the company's value. On the other hand, ROA is expected to have a positive impact, as investors are more attracted to companies that efficiently generate profit from their invested assets. The second hypothesis (H2) proposes that ROA and DER simultaneously influence firm value. Meanwhile, the third hypothesis (H3) introduces an indirect or combined relationship, highlighting the more complex ways in which the interaction between DER and ROA might affect firm value. This model, grounded in modern financial theory, emphasizes the critical role of operational efficiency and capital structure management in enhancing the market's assessment of a company's worth.

3. Research Methods

This research uses a quantitative method with multiple linear regression analysis to examine the effect of the Debt-to-Equity Ratio (DER) and Return on Assets (ROA) on firm value. The subjects of this study consisted of all manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The sample was selected using a purposive sampling technique, which involved setting specific criteria to ensure that the collected data aligned with the research objectives. The criteria were as follows: (1) manufacturing firms consistently listed on the IDX throughout the 2021–2023 period, (2) firms that published complete annual financial reports accessible to the public, and (3) firms that provided data on the examined variables, specifically DER, ROA, and Price-to-Book Value (PBV). Based on these criteria, 67 companies were selected as research samples.

4. Results

Drawing from the findings of a descriptive analysis of 201 observations of manufacturing company data from 2021 to 2023, statistical data were gathered regarding the three primary variables examined: Debt-to-Equity Ratio (DER), Return on Assets (ROA), and Price-to-Book Value (PBV).

Table 1. Results of Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Dev
Debt-to-Equity Ratio	201	0.07	2.66	0.6972	0.49205
Return on Asset	201	-9.56	31.30	5.3959	5.56757
Price to Book Value	201	0.00	17.96	1.6785	2.14828

Based on Table 1, the DER variable ranges from a minimum of 0.07 to a maximum of 2.66, with an average value (mean) of 0.6972 and a standard deviation of 0.49205. This indicates that the firms' capital structures generally remain within reasonable boundaries, showing moderate variation among companies. Meanwhile, ROA ranges from a low of -9.56 to a high of 31.30, with a mean of 5.3959 and a standard deviation of 5.56757. The negative minimum value suggests that some companies are experiencing losses; however, overall, asset utilization to generate profits appears to be at a reasonable level. PBV, used as a proxy for assessing company value, ranges from 0.00 to 17.96, with an average of 1.6785 and a standard deviation of 2.14828. This indicates significant variation in how the market values different companies, with some being highly regarded by investors, while others are valued lower or even below their book value. These findings highlight substantial differences in financial performance and market valuation among the manufacturing sector companies analyzed.

Table 2. Normality Test Results

Component	Value
N	201
Mean	0.0000000
Std. Deviation	1.73041191
Most Extreme Differences (Absolute)	0.074
Most Extreme Differences (Positive)	0.065
Most Extreme Differences (Negative)	-0.058
Test Statistic	0.074
Asymp. Sig. (2-tailed)	0.106

The results of the Kolmogorov-Smirnov test (Table 2) indicate that the Asymp. Sig. (2-tailed) value is 0.106, which exceeds the significance level of 0.05. This suggests that there is no significant difference between the distribution of the sample data and a normal distribution. Therefore, the data is assumed to follow a normal distribution.

The test statistic value of 0.074, with the highest positive difference at 0.065 and the highest negative difference at -0.058, indicates that any deviation from normality is minimal. As a result, the assumption of normality is satisfied, allowing the data to be further analyzed using parametric statistical techniques, such as multiple linear regression. A normally distributed dataset is a key requirement for producing valid and reliable regression estimates.

Table 3. Multicollinearity Test Results

Variable	Tolerance
Debt-to-Equity Ratio	0.941
Return on Asset	0.941

Table 3 displays the findings of the multicollinearity analysis on the independent variables Debt to Equity Ratio (DER) and Return on Assets (ROA). The test results show that both variables have a tolerance value of 0.941 and a Variance Inflation Factor (VIF) of 1.063. Since the tolerance value is greater than 0.1 and the VIF value is less than 10, there is no multicollinearity between DER and ROA. This indicates that there is no significant correlation between the two variables, and they can be used together in a multiple linear regression model. Therefore, the regression model meets the multicollinearity assumption, which is essential to ensure the reliability and validity of the regression analysis results used in this study.

Table 4. Heteroscedasticity Test Results

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	0.173	0.177		0.980	0.328
Debt-to-Equity Ratio	0.205	0.168	0.289	1.219	0.224
Return on Asset	0.015	0.015	0.407	0.988	0.325

The outcomes of the heteroscedasticity examination using the Glejser Test in Table 4 indicate that each variable has significance values of 0.224 and 0.325, both exceeding 0.05. Therefore, the regression model in this study is free from heteroscedasticity.

Table 5. Run Test Results

Component	Value
Test Value	-.25670
Cases < Test Value	100
Cases >= Test Value	101
Total Cases	201
Number of Runs	98
Z	-1.715
Asymp. Sig. (2-tailed)	.087

The results in Table 5 show that the Run Test yields an Asymp. Sig. (2-tailed) value of 0.087. Therefore, it can be concluded that there are no symptoms of autocorrelation in the study variables, as the significance value of the Run Test is greater than 0.05.

Table 6. Multiple Regression Analysis Results

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	-.534	0.270		-1.976	0.050
Debt-to-Equity Ratio	1.447	0.258	0.331	5.617	0.000
Return on Assets	0.223	0.023	0.578	9.799	0.000

Table 6 presents the results of the multiple linear regression analysis examining the impact of the independent variables Debt-to-Equity Ratio (DER) and Return on Assets (ROA) on the dependent variable, Price-to-Book Value (PBV), as a measure of company value. Based on the regression output, the resulting equation is defined as: PBV = -0.534 + 1.447(DER) + 0.223(ROA) + e. This equation can be interpreted as follows: the constant value of -0.534 indicates that if both DER and ROA are zero, the company's value would be -0.534, suggesting a negative baseline when no explanatory variables are present. The regression coefficient for DER is 1.447, indicating that a one-unit increase in DER is associated with an increase of 1.447 in company value, assuming ROA remains constant. Similarly, the coefficient for ROA is 0.223, meaning a one-unit increase in ROA leads to a 0.223 increase in PBV, holding DER constant. Both variables show a positive relationship with company value, indicating that improvements in capital structure efficiency (DER) and asset utilization (ROA) contribute to enhancing the market valuation of a company. Table 6 also displays the results of the t-test analysis for each independent variable in relation to company value. The findings show that DER has a significance value of 0.00, which is below the 0.05 threshold. This indicates that DER has a statistically significant effect on company value. Likewise, ROA also shows a significance value of 0.00, confirming a significant impact on company value. These results suggest that both DER and ROA play critical roles in shaping market perceptions of a company's performance and future prospects.

Table 7. F Test Results

Type	Sum of Squares	Df	Mean Square	F	Sig.
Regression	324.156	2	162.078	53.587	.000
Residual	598.865	198	3.025		
Total	923.021	200			

The Table 7 calculated F-value is 53.587, while the F-table value (based on the test equation F: f(k, n−k) = F(2, 199)) is 3.04 at a significance level of 0.05. Since the significance value (Sig.) is 0.000 < 0.05 and the calculated F-value is greater than the F-table value (53.587 > 3.04), it can be concluded that the variables Debt-to-Equity Ratio and Return on Assets simultaneously have a significant effect on the company's value.

5. Discussion

Based on the regression analysis, the t-test results show a significance value of 0.000 and a t-value of 5.617, which exceeds the critical t-table value of 2.052. These findings indicate that the Debt-to-Equity Ratio (DER) has a significant positive influence on the company's value. In other words, higher leverage is associated with an increase in firm value, suggesting that investors may perceive debt financing as a signal of growth potential or financial strength. The positive relationship implies that companies with a higher DER may benefit from tax shields or are effectively utilizing debt to generate higher returns. However, these findings contradict previous studies, such as those by Maharani et al. (2021) and Ramadhani et al. (2023), which concluded that the DER negatively affects company value. In those studies, higher debt levels were seen as increasing financial risk and potentially reducing investor confidence, thus lowering firm value. The discrepancy between this study and prior research could be due to differences in sample characteristics, industry sectors, or economic conditions during the observation periods. Therefore, while this study supports the positive role of DER in enhancing firm value, it also highlights the need for context-specific analysis when interpreting the impact of capital structure on firm performance.

The hypothesis test for Return on Assets (ROA) resulted in a significance value of 0.000, which is below the threshold of 0.05. This outcome confirms hypothesis H2, indicating that ROA has a significant positive influence on the company's value. The t-value of 9.799, which surpasses the t-table value of 2.052, further strengthens this conclusion. These results suggest that a higher ROA, reflecting a company's ability to efficiently generate profits from its assets, contributes positively to increasing firm value. A strong ROA may signal effective management and operational efficiency, thereby attracting investor confidence. Moreover, these findings are consistent with those of previous research by Maharani et al. (2021), Rahmadani (2021), and Sari and Nugraheni (2022), all of whom reported that ROA significantly enhances company value. This consistency across studies reinforces the importance of profitability as a key determinant of firm value in financial performance analysis.

Furthermore, the F-test from the SPSS regression analysis produced a significance value of 0.000, which is less than 0.05. This confirms hypothesis H3, which states that ROA and the Debt-to-Equity Ratio simultaneously affect company value. The calculated F-value was 53.587, exceeding the F-table value of 3.04 at a 5% significance level. Thus, both variables together significantly influence firm value. This conclusion is supported by the findings of Rahayu and Putra (2021), who also observed a simultaneous effect of ROA and the Debt-to-Equity Ratio on company value.

6. Conclusion

Based on the research findings and discussion, it can be concluded that both individually and jointly, the Debt-to-Equity Ratio (DER) and Return on Assets (ROA) significantly affect the value of manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. Specifically, DER and ROA have a positive effect on Price to Book Value (PBV), indicating that a higher market valuation is associated with more effective asset utilization and capital structure management. Theoretically, these findings support the trade-off, agency, and signaling theories, highlighting the importance of asset efficiency and debt management in shaping investor perceptions. In practical terms, manufacturing firms should focus on balancing debt usage and optimizing asset management to enhance investor confidence and market competitiveness. However, this study has limitations, including its exclusive focus on the manufacturing sector and a limited timeframe (2021–2023), making it less applicable to other industries or different economic periods. Furthermore, the study only considers internal variables (DER and ROA), without accounting for external factors such as macroeconomic conditions or government regulations. Future research should broaden the scope by including a wider range of industries and timeframes, as well as incorporating relevant external factors such as inflation, interest rates, and currency exchange rates. Additionally, using panel data analysis or structural equation modeling could yield deeper insights into the determinants of firm value.

Several recommendations are made for relevant parties based on the research findings. Since Return on Assets (ROA) has been shown to have a significant impact on firm value, it is recommended that businesses improve the efficiency of asset utilization to ensure continued growth in ROA. Investors can use the Debt-to-Equity Ratio (DER) and ROA as indicators to assess a company's performance and financial health before making investment decisions. To provide a more comprehensive analysis of the factors influencing firm value, future researchers are advised to include additional variables, such as managerial ownership or company size.

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