



CONTRIBUTION OF PROFITABILITY AND COMPANY SIZE TO COMPANY VALUE (A STUDY OF AGRICULTURAL SECTOR ISSUERS LISTED ON THE INDONESIA STOCK EXCHANGE IN 2019-2023)

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Abstract

This study was conducted to analyze the effect of profitability and company size on company value in the agricultural sector listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. The background of this study is based on fluctuations in agricultural sector stock performance that reflect the dynamics of company value due to changes in profitability and company size. The purpose of this study is to determine the extent of the influence of profitability variables as measured by Net Profit Margin (NPM) and company size as measured by Ln total assets on company value proxied by Tobin's Q. This study uses a quantitative approach with secondary data obtained from the annual financial reports of 12 agricultural companies over five years of observation, with a total of 60 observation data. The analysis was carried out using multiple linear regression with the help of SPSS software version 22. The results show that profitability has a positive and significant effect on company value, while company size has a negative and significant effect on company value. Simultaneously, profitability and company size have a significant effect on company value. These findings indicate that increasing profits has an important role in building investor confidence, while the size of assets does not always reflect the efficiency of company management and performance. The resulting policy implication is the need for company management to focus on increasing profitability to strengthen the company's value in the capital market.

Keywords: Profitability, Company Size, Company Value, Agricultural Sector



INTRODUCTION

Indonesia is an agrarian country with the agricultural sector as one of its main economic pillars. This sector plays a crucial role in providing food, industrial raw materials, and creating jobs. The agricultural sector plays numerous strategic roles, including providing food and industrial raw materials, contributing to GDP, foreign exchange earnings, employment, providing a primary source of income for rural households, producing feed and bioenergy, and contributing to greenhouse gas emissions reductions.

The agriculture sector listed on the Indonesia Stock Exchange experienced significant dynamics between 2019 and 2023, in line with global economic developments, commodity prices, and government policies. This sector encompasses several sub-sectors, such as plantations, livestock, food crops, and horticulture. Investor interest in the agriculture sector during this period fluctuated and depended heavily on commodity prices and government policies.

To influence investors' investment decisions in investing capital or withdrawing investment from a company, the Company Value is considered (Mulya, 2024). According to Brigham & Houston (2010), Company value is defined as the primary objective of managerial decisions, taking into account the risks and timing associated with estimated earnings per share to maximize the company's stock price. A high company value indicates a positive situation for the company.

The following is a graph of the price movements of agricultural sector stocks listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023:

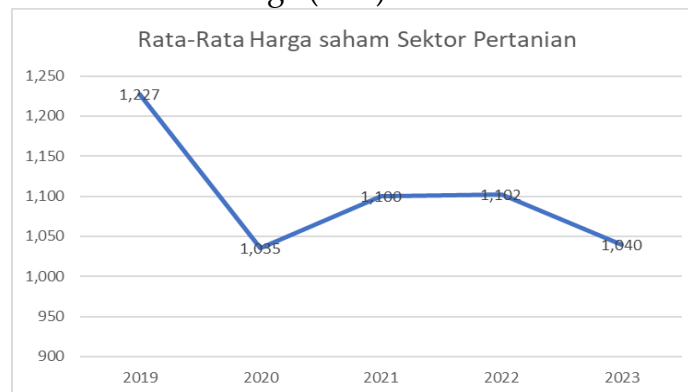


Figure 1
Average Stock Prices in the Agricultural Sector on the Indonesia Stock Exchange 2019–2023

Source: Company annual report, 2023



From the phenomena seen above, the agricultural sector index has a fluctuating (unstable) trend, partly due to the fluctuations in the stock index of several agricultural companies themselves. Furthermore, there are elements related to the company value of agricultural companies that are indicated to influence the movement of the sector index.

Based on the results of previous research, the results of this study are in line with previous research from Novelia et al (2020) and Nurwani (2019) where the results of the study show that the profitability variable and the company size variable have a significant effect on company value.

LITERATURE REVIEW

Signal Theory

Signaling Theory was first put forward by (Spence, 1973) This theory explains that the sender (the information owner) provides signals in the form of information reflecting the condition of a company, which is beneficial to the recipient (investor). This theory can be interpreted as the behavior of company management providing guidance to investors regarding the company's future condition. The basic assumption of signaling theory is that management possesses information about the company's value that shareholders do not. This information is very useful for investors when investing in a company.

Company Values

According to Brigham & Houston (2010), Company value is defined as the main objective of managerial decisions by considering the risks and time associated with estimated earnings per share to maximize the company's stock price. Brigham & Houston (2010) also explains that if the company's stock price is high, it reflects investors' assessment of the company because the company is considered capable of maximizing shareholder wealth. There are several ratio analysis approaches in assessing company value, consisting of Price Earning Ratio (PER), Price Book Value (PBV), Market Book Ratio, dividend yield ratio, dividend payout ratio, and Tobin's Q. In this study, the author uses Tobin's Q as a proxy for company value.

Profitability

According to Cashmere (2011), the profitability ratio is a ratio used to assess a company's ability to generate profits. A higher profitability value indicates a company's greater efficiency in utilizing its assets to generate profits, indicating good financial performance and increasing the company's value. This ratio also provides a measure of a company's management effectiveness. This is indicated by the profit generated from sales and investment income. The financial ratios used as indicators in



assessing a company's profitability are Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). In this study, the author used Net Profit Margin (NPM) as a measure of profitability ratios.

Company Size

According to Brigham & Houston (2012) explains that company size is a measure of the size of a company, indicated or assessed by total assets, total sales, profit, tax burden, and so on. This illustrates the extent to which a company can be categorized as large or small. Furthermore, variables such as sales volume, average asset sales, and average total company assets can be used to further analyze company dimensions. In this study, the author uses a logarithmic formula for assessing company size based on the company's total assets.

Research Hypothesis

The Influence of Profitability on Company Value

Profitability is a ratio that reflects a company's ability to generate profits. The higher the profitability ratio, the greater the company's profits, which in turn can increase the company's value. Profitability encompasses the effects of liquidity, asset management, and debt levels on a company's operating results.

This is in line with research Ilyas et al. (2022) that profitability has a significant and positive influence on company value. Based on this explanation, the following hypothesis is proposed:

H1: It is suspected that profitability has a significant effect on company value.

The Influence of Company Size on Company Value

According to Brigham & Houston (2012) explains that company size is a measure of the size of a company which is indicated or assessed by total assets, total sales, amount of profit, tax burden and so on. Jove Vernando & Teguh Erawati (2020) explains that company dimensions can be classified using several methods, such as revenue scale, total assets, and total equity. In this context, the larger the company's dimensions, the more effective investment management, which can result in increased company value. The existence of a company with high total assets can attract investors to invest, considered a sign of success and stability.

Based on the research results found by Pangkey & Christine Elisabeth (2022) which shows that company size has a positive and significant influence on company value. Based on this explanation, the following hypothesis is proposed:

H2: It is suspected that company size has a significant positive effect on company value.



The Influence of Profitability and Company Size on Company Value

The hypothesis proposed is that there is a significant relationship between profitability, company size, and company value. The combination of optimal profitability and good company size can create an optimal balance in sending positive signals to investors. Therefore, the hypotheses proposed in this study are as follows:

H3: It is suspected that Profitability and Company Size have a significant effect on Company Value.

RESEARCH METHOD

This study uses a quantitative approach to test the hypothesis by measuring variables numerically and analyzing the data statistically.(Bordens & Abbott, 2014). Secondary data were obtained from annual reports and financial statements of agricultural sector companies listed on the Indonesia Stock Exchange for 2019-2023. Sampling was carried out using purposive sampling with the criteria of companies that consistently publish annual reports and financial statements and companies that generate profits during the 2019-2023 period, thus obtaining 12 companies that meet the criteria, with an observation period of five years, namely 2019-2023, so the total sample in this study amounted to 60 samples. Data processing used multiple linear regression with the help of SPSS software version 22.

RESULTS AND DISCUSSION

Multiple Linear Regression Test Results

Multiple regression analysis is a statistical method used to analyze the relationship between one dependent variable and two or more independent variables. The goal of multiple regression analysis is to understand the extent to which the independent variables can influence the dependent variable based on the values of the independent variables.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.603	.255		6.297	.000
	Profitabilitas	.003	.001	.351	2.982	.004
	Ukuran Perusahaan	-.020	.009	-.273	-2.322	.024

a. Dependent Variable: Nilai Perusahaan

Source: Processed Research Data 2025



Based on the table above, it can be seen that the constant value is 1.603 and the regression coefficient β_1 is 0.003, and β_2 is -0.020. Therefore, it can be arranged in multiple linear regression as follows.

$$Y = 1.603 + 0.003X_1 + -0.020X_2 + e$$

1. The constant value of 1.603 indicates that if all independent variables, namely Profitability (X1) and company size (X2), have a value of zero, then the dependent variable, namely company value, has a value of 1.603.
2. The regression coefficient value of the variable (X1) Profitability is 0.003 with a positive relationship direction, indicating that if profitability increases, it will be followed by an increase in company value, and vice versa.
3. The regression coefficient value of the variable (X2) Company Size is -0.020 with a negative relationship direction, indicating that if the company size increases, the company value will decrease, and vice versa.

F Test Results

The F test or ANOVA test is used in research to see the influence of independent variables simultaneously on dependent variables.

Table 2.
F test

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.110	2	.055	8.331	.001 ^b
	Residual	.376	57	.007		
	Total	.486	59			

a. Dependent Variable: Nilai Perusahaan

b. Predictors: (Constant), Ukuran Perusahaan, Profitabilitas

Source: Processed Research Data 2025

Based on table 2 shows the influence of profitability variables (X1) and Company Size (X2) on Company Value (Y) with an F value of 8.331 with a significance of 0.001, smaller than the significance level used in the study, namely 0.05 (0.001 < 0.05). This shows that the profitability and company size variables jointly influence company value. It can be concluded that the hypothesis test above rejects Ho and accepts Ha. So that Ha states that profitability and company size jointly (simultaneously) influence company value.



The Influence of Profitability on Company Value

Table 2 shows that profitability has a positive contribution to firm value, as evidenced by a coefficient value of 0.351 with a significance level of 0.004. This significance value is lower than the 0.05 level ($0.004 < 0.05$). Based on these findings, the first hypothesis (H1), which states that profitability has a positive effect on firm value, is empirically proven.

This indicates that an increase in profitability will be followed by an increase in company value. A significant effect indicates that a company's profitability is a factor for investors in assessing its growth prospects and stability. Although the effect is relatively small, it does indicate that increased profitability contributes to increased company value. However, it is not the dominant factor that completely determines the value of a company, influencing investor perceptions of agricultural companies.

The results of this study are consistent with the findings of several previous studies confirming the influence of profitability on firm value, including those conducted by Felicia Herawan and Sofia Prima Dewi (2021), Christine Elisabeth Keni and Royke Pangkey (2022), and Lina Ristiani and Sri Sudarsi (2022), which found that profitability has a positive and significant influence on firm value.

The Influence of Company Size on Company Value

The research results indicate that company size has a negative and significant effect on company value. This means that company size does not significantly affect company value. This suggests that larger company size is influenced by factors other than the company's value itself. Although the effect is relatively small, this condition means that financial performance does not always improve in line with company size growth. As a result, the market perceives large companies as less efficient, resulting in decreased company value. Companies with large assets tend to have a high risk of asset misappropriation, and if company management is unable to manage risk effectively, this can lead to owner concerns about their assets.

The results of this study provide important implications: company size is no guarantee of increased value. Agricultural company management cannot rely solely on asset growth to boost investor confidence but must focus on how those assets are managed to generate strong profitability.

This research is in line with the results of previous research conducted by Felicia Herawan and Sofia Prima Dewi (2021) and Daud Alfian and Dwi Ermayanti Susilo (2023) states that company size has a negative effect on company value.

The Influence of Profitability and Company Size on Company Value

Profitability and company size are important variables that simultaneously or jointly influence a company's value. High profitability indicates efficiency and good



performance, while company size reflects a company's long-term capacity and resilience. These two factors increase investor confidence in a company's prospects, thus increasing its value. This indicates that when both variables—profitability and company size—increase simultaneously, the company's value also increases.

The results of this study are in line with previous research from Novelia et al (2020) and Nurwani (2019) where the results of the study show that the profitability variable and the company size variable have a significant effect on company value.

CONCLUSION

Based on the data analysis, discussion, and hypothesis testing conducted in the previous chapter, it can be concluded that the Profitability Variable (NPM) has a positive and significant effect on firm value (Tobin's Q) in agricultural companies listed on the Indonesia Stock Exchange from 2019 to 2023. This indicates that the higher the level of profitability, the higher the firm value. Companies that are able to generate consistent profits can increase market confidence in the company's prospects.

The firm size variable (Ln Total Assets) has a negative and significant effect on firm value (Tobin's Q) in agricultural companies listed on the Indonesia Stock Exchange from 2019 to 2023. These results indicate that firm size does not affect firm value. This is in line with the test results, which show that increasing total assets has not been able to optimally contribute to increasing firm value.

Profitability (NPM) and Company Size (Ln Total Assets) simultaneously have a positive and significant effect on Company Value (Tobin's Q) in agricultural companies listed on the Indonesia Stock Exchange from 2019 to 2023. This indicates that both variables together can contribute to increasing company value in the agricultural sector.

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