International Journal of Education, Information Technology and Others (IJEIT), Agustus 2025, 8(3.A), 10-18
DOI: https://jurnal.peneliti.net/index.php/IJEIT/article/view/12654
p-ISSN: 2654-2528 e-ISSN: 2623-2324
Accredited by Directorate General of Strengthening for Research and Development
Available online at https://jurnal.peneliti.net/index.php/IJEIT

The Influence Of Profitability On Company Value With Company Size As A Moderating Variable

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07 July 2025
16 July 2025
23 July 2025

Abstract

This study aims to examine the effect of Return On Investment (ROI) on Firm Value with Company Size as a Moderating Variable. This study uses secondary data with the population of this study are 10 consumer goods industry companies listed on the Indonesia Stock Exchange in 2016-2019. The research sample used in this study was 11 companies selected based on Purposive Sampling Technique. The method used in this research is the multiple linear analysis method. The results showed that there was a significant influence between Return On Investment on Company Value with Company Size as a Moderating Variable.

Keywords: *Return On Investment, Company Size, Company Value*

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How to Cite: Wahyudi, A., & Choeriyah, P. (2025). The Influence Of Profitability On Company Value With Company Size As A Moderating Variable. *International Journal of Education, Information Technology, and Others*, *8*(3.A), 10-18. Retrieved from https://jurnal.peneliti.net/index.php/IJEIT/article/view/12654

INTRODUCTION

The main goal of a company is to increase the value of the company. The increasingly fierce level of competition in today's business world requires companies to continuously increase Company Value. High Company Value can help the company to develop and advance its business, high company value can also make shareholders invest their capital in the company. The Company also has obligations to other interested parties who provide assistance to obtain profits. The company is not only faced with the responsibility of obtaining profits, but also must pay attention to the responsibility to the Investor, therefore in paying attention to its responsibilities the company must pay attention to the value of the company.

One of the benchmarks that is widely used to measure a company's value is Return On Investment (ROI). This Return On Investment is the result of net profit divided by total assets. A high ROI indicates a high Company Value. One indication of a high-value company is a company that has a high value of Brigham's shares (in Hidayat, 2019). This is in line with the assumption that the company's goal is to increase the value of the company as part of increasing the prosperity of the company's owners and investors.

Research in the field of finance has been done to identify factors that can affect the Company's Value. Although it has been extensively researched, the results of research conducted in recent years are still inconsistent. For example, the size of the company has been proven to have a significant effect on the value of the company (Chandra et al., 2016; Siddik & Chabachib, 2017; Pratama & Wiksuana, 2016; Prasetia & Tommy, 2014), while Lestari (2017) and Lumoly et al. (2018) have not been able to prove the significance of the relationship. The size of the

company is considered to be able to affect the value of the company because the larger the company size, the easier it will be for the company to obtain sources of funding, both internal and external. The size of the company is stated to be positively and significantly related to the company's value according to Dewi Ernawati (2015). However, the size of the company has a negative and significant value by Siallagan and M. Machfoedz (in Dewi Ernawati 2015).

The inconsistency of results is also shown in the relationship between profitability and company value, where Siddik and Chabachib (2017) found a negative and significant effect, while Sihombing and Zulaika (2020) found a positive and significant relationship between ROI and company value. Profitability can affect a company by showing good company prospects so that investors will respond positively and the company's value will increase.

The many differences from the results of previous research provide evidence that clarification of key factors affecting the Company's Value is still being carried out. Thus, in addition to aiming to overcome the gap in previous research by retesting the effect of Return On Investment on Company Value with Company Size as a moderation variable. This research can provide information and the basis for the company's decision-making to manage existing resources.

RESEARCH METHOD

Population, Sample and Research Period

The population in this study is consumer goods industry companies listed on the Indonesia Stock Exchange during the 2017-2019 period. The sampling technique used is purposive sampling. The criteria used to select the sample are as follows: Companies listed in the consumer goods industry sector on the Indonesia Stock Exchange during the 2017-2019 period, present financial statements for the 2017-2019 period, have a price to book value that reflects the company's growing value, have positive leverage that shows the company's ability to pay off debts and have a positive profitability ratio to ROI.

Data Sources Used

Secondary Data is data that refers to information collected from existing sources. Secondary data sources are company records or documentation, government publications, industry analysis by the media, websites, the internet and so on. The data sources used in this study were taken in the observation period between 2017-2019 obtained from official websites such as the Indonesia Stock Exchange (https://www.idx.co.id/id)

Research Model

This study uses regression analysis with moderation variables to test the research hypothesis using the SPSS data processing application version 26. Before interpreting the regression results, it is necessary to first perform a classical assumption test as a requirement for the regression model to have a bias-free estimate. Ghozali (in Ernawati, 2015) The Classical assumption test consists of:

1. Normality test, if the data is distributed normally, then further parametric analysis such as regression analysis can be continued, and vice versa if the data is distributed abnormally, nonparametric analysis can be carried out to test the hypothesis (Suryani and Hendryadi, 2015). This normality test can use a histogram to analyze whether or not the residual is normally distributed. Data

is normally distributed if the histogram curve forms a mountain or the data spreads to the right and left evenly. The normality test can also be seen from the Asymp value. Sig. (2-tailed) greater than 0.05 which means that the data is normally distributed.

2. The multicollinearity test, by looking at a VIF value that is smaller than 10 or a tolerance value that is more bearish than 0.1, can be interpreted as a dependent variable free from the multicollinearity problem.
3. The Heteroscedasticity test on which the basis of this test can be seen from the scatterplot graph or data points on the scatterplot graph spread above and below the number 0 on the x axis and the y axis.
4. The Autocorrelation test can be seen from the Durbin-Watson value. The decision making of whether or not there is autocorrelation can be seen from: (1) The DW value is located between the upper limit or *Upper Bound* (du) and (4-du), then the autocorrelation coefficient is equal to zero meaning that there is no positive autocorrelation; (2) If the value of DW is smaller than the lower bound (dl), then the autocorrelation coefficient is greater than zero, meaning there is a positive autocorrelation; (3) if the value of DW is greater than the lower bound limit (4-dl), then the autocorrelation coefficient is less than zero means that there is a negative autocorrelation; (4) If the value of DW lies between the upper limit (du) and the lower limit (dl) or DW lies between (4-du) and (4-dl), then there is no definite conclusion.

After conducting the Classical Assumption Test, a Regression Test can be carried out to test the research hypothesis. The Regression Test can be carried out with the T test, the F test and the Determination coefficient test.

1. The T test is used to test the magnitude of the influence of each independent variable on the dependent by individually testing an independent variable can be said to have an effect on the dependent variable if the significance value is less than 0.05 (Santoso, 2014).
2. The F test was used to test the overall influence of the independent variables included in the regression model on the dependent variables simultaneously. The criterion used in the F test is that if the Profitability (ROI) value is less than 0.05, then the regression model can be used to predict dependent variables (Santoso, 2014).
3. The Coefficient of Determination test is used to see if there is a correlation between independent variables and dependent variables. A high Adjusted R Square value is interpreted as having a strong influence, which is above 0.5 (Santoso, 2014).

The formula for regression equations used in this study is:

$$Y = a + b1x1 + b2z + b3xz + e$$

Y = Company Value
a = Constant
b = Regression Coefficient
x = *Return on Invesment*
z = Company Size
e = Error-Standard

Operationalization and Variable Measurement
Variable Dependent
Company Values

In this study, the bound variable is the value of the company which is symbolized by (Y) and presented by *Tobin's Q* ratio. If the Q ratio is above one, it means that investing in an asset generates a profit that provides higher value than the investment expense. Investment in assets is not attractive if the Q ratio is below one according to Herawaty (in Zulaika, 2020).

According to Alghifari, et.al. (in Sihombing, 2020) states that the value of a company is measured through *Tobin's Q*, which is formulated with the following percentage units:

$$Tobin's\ Q = \frac{MVS\ +\ D}{TA}$$

Information:
Tobin's Q = company value
MVS (*Market Value Shares*) = *closing price* x number of shares outstanding
D (*Debt*) = Total Debt
TA = *Total Assets*

Variable Independent
Profitability

Rerurn On Invesment (ROI) is a ratio that measures the company's ability to earn net profit from the amount of funds invested by the company or the company's total assets. Ratio measurement *return on aseets/invesment* as follows: Martono (in Sihombing, 2020)

$$ROI = \frac{EAT}{TA} x1\%$$

Information:
EAT = *Earning afer tax* (net profit).
TA = *Total Assets*

Variable Moderating
Company Size

In this study, the size of the company is expressed by the total assets on the balance sheet. So the larger the total assets, the larger the size of the company and vice versa. In this study, the Company Size is assessed with *a log of total assets*. This is done because the size of the company as seen from the total assets is expressed in millions of rupiah, making the data digits too large, the value, and the distribution are also large from other variables so that it can cause excessive data fluctuations. The size of the company is measured using natural logs of Manoppo's total assets (2016).

SIZE = Log of total asset

RESULTS AND DISCUSSION
CLASSIC ASSUMPTION TEST

The research was conducted on all manufacturing companies in the food and beverage sector listed on the IDX using data *time series* period 2016-2019. The number of data in this study is 44 data. Based on 44 research data, the following are the results of the Classical Assumption Test.

Table 1.
Normality Test Results

		Unstandardized Residual
N		44
Normal Parameters[a,b]	Mean	.0000000
	Hours of deviation	.87888600
Most Extreme Differences	Absolute	.102
	Positive	.102
	Negative	-.074
Test Statistic		.102
Asymp. Sig. (2-tailed)		.200[c,d]

Table 1 shows the Sig. (2-tailed) value in the One-Sample Kolmogorov-Smirnov test on multiple linear regression analysis and MRA of 0.200 respectively, which is greater than 0.05 or alpha 5%, meaning that the tested data is normally distributed.

Table 2.
Multcolinearity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Itself.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	BRIGHT
	(Constant)	-.437	.675		-.648	.521		
	KING	215.060	127.725	.253	1.684	.100	.979	1.022
	Company Size	.148	.099	.224	1.495	.143	.979	1.022
a. Dependent Variable: ABS_RES								

Table 2 shows that variables with a tolerance value greater than 0.1 and a VIF value less than 10, meaning that the data in this study do not contain symptoms of multicollinearity.

Regression Test and Hypothesis Test

T Test

The purpose of conducting the T Test is to find out that the independent variable *Return On Investment* (ROI) and Company Size (*SIZE*) as an individual moderator has a significant influence on the dependent variable, namely Company Value.

Table 3.
T Test Results

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Its elf.
		B	Std. Error	Beta		
	(Constant)	5.214	1.807		2.886	.006
	KING	-9162.513	1975.998	-4.516	-4.637	.000
	Company Size	-.709	.279	-.451	-2.544	.015
	ROI*Company Size	1625.418	308.085	5.084	5.276	.000
a Dependent Variable: Company Value						

From table 3 shows the hypothesis results using multiple linear regression. Hypothesis 1 is *Return On Investment* (ROI) affects the Company's Value showing a Sig value of 0.000 < 0.05 and it can be concluded that H1 is accepted. This shows that the lower the ROI ratio of a company, the lower the company's ability to obtain profits from investment. The results of this study are in line with the results of previous researchers, namely Cahyanto (2014)

Hypothesis 2 is that the Company Size affects the Company Value by showing a Sig value of 0.015 < 0.05 and it can be concluded that H2 is accepted. It can be interpreted that larger companies have more organizational resources because it gives the company a bigger and better opportunity to increase Company Value.

Hypothesis 3 is that *Return On Investment* (ROI) affects the Company's Value with Company Size as a moderation variable showing a sig value of 0.000 < 0.05 or alpha 5% can be concluded H3 is accepted, H3 is accepted means that there is a significant positive influence between the *Return On Investment* (ROI) variable on Company Value and Company Size as a moderator that strengthens the *Return On Investment* variable(ROI) . This shows that the larger the Company Size, the greater the company's ability to obtain profits from its investment, the benchmark of Company Value increases.

Table 4.
F Test Results

ANOVA

Model		Sum of Squares	df	Mean Square	F	Itself.
1	Regression	37.264	3	12.421	25.368	.000b
	Residual	19.586	40	.490		
	Total	56.850	43			
a. Dependent Variable: Company Value						
b. Predictors: (Constant), ROI*Company Size, Company Size, ROI						

Table 4 shows the results of the F Test that there are already variables interacting with dependent variables. The table shows that the Sig value is 0.000 < 0.05 which means that there is a significant positive influence simultaneously of the variable *Return On Investment* (ROI) and Company Size that have been interacted.

Coefficient Determination Test

Table 5.
Determination Coefficient Test Results

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.548a	.301	.284	.97286
a. Predictors: (Constant), ROI				

Table 5 shows the results of the Determination Coefficient Test. From the table, it can be seen that the value of the Adjusted R Square is 0.284 or 28%, this indicates that the *Return On Investment* (ROI) that is included in the model is able to explain 28% of the Value variable, the remaining 72% is explained by variables or other factors that are not included in the model.

Table 6.
Determination Coefficient Test Results

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.810a	.655	.630	.69975
a. Predictors: (Constant), ROI*Company Size, Company Size, ROI				

Table 6 shows the results of the determination coefficient test after the inclusion of the moderation variable. From the table, it can be seen that the value of the Adjusted R Square is 0.630 or 63%, this indicates that the Company Size

variable that is included in the model can strengthen *Return On Investment* (ROI) or increase influence *Return On Investment* (ROI) to Company Value. While the remaining 37% is explained or influenced by other variables or factors that are not contained in the model.

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the results of the research and discussion described earlier, this study focuses on State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) in the period 2016-2017. The results of the study can be concluded as follows:

1. The *Return On Investment* (ROI) variable has a significant effect on the Company's Value. It can be concluded that the lower the *Return On Investment* (ROI) value, the lower the Company Value.
2. The Company Size variable has a significant effect on the Company's Value. It can be concluded that smaller Company Sizes have smaller sources of funds as well.
3. The *Return On Investment* (ROI) variable has a significant effect on the Company's Value with the company's size as the moderation variable. It can be concluded that the influence of ROI on Company Value is getting bigger after the interaction of the Company Size variable. This means that the larger the Company Size, the higher the ROI ratio in obtaining profits from investments that increase the Company's Value.

Suggestion

Based on the conclusions that have been described, the researcher tries to provide suggestions for future researchers, including:

1. The next study is expected to use a larger sample of research with a longer and newer period in order to obtain better and useful results;
2. Further research is expected to add other variables that are suspected to affect the Company's Value. This is based on the Adjusted R Square level of 63% in this study which means that there are still 27% of other information variables that affect the Company's Value

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