

# The Effect of Capital Structure and Firm Growth on Profitability and Firm Value in Manufacturing Companies Listed on Indonesia Stock Exchange

Hikma Niar\*

Faculty of Economics, Universitas Patria Artha, Poros Makassar-Gowa, 92113, Indonesia

---

## ABSTRACT

**Purpose** – This study aims to analyze the influence of capital structure and company growth on profitability and company value in manufacturing companies on the Indonesia Stock Exchange.

**Design/methodology/approach** – The data analysis uses structural model testing, namely The Structure Equation Modelling (SEM), with descriptive and explanatory approaches.

**Finding/Results** – the research results, capital structure and company growth have a positive effect on profitability, while on company value, capital structure has a positive but not significant effect, company growth has a positive and significant effect, and profitability has a positive and significant effect. The theoretical implications of this research reinforce the theory that firm value is determined not only by growth but also by the company's ability to generate profits.

**Originality/Value** – Practical implications emphasize the importance of maintaining equity composition, as equity and profitability can be used as key indicators in assessing investment viability because they reflect a company's ability to create value. The implication of this research is that companies need to manage their capital structure optimally and ensure that the growth achieved can increase profitability, which ultimately maximizes the company's value.

---

## ARTICLE INFO

**Keywords:** Capital Structure, Firm Growth, Profitability, Firm Value

**Article Information:**

Received: 24/10/2025

Revise 1: 22/04/2026

Accepted: 09/05/2026

**ISSN:**

2985-3168 (Online)

2985-3222 (Print)

---

\*Corresponding Author at:

Faculty of Economics, Universitas Patria Artha, Jalan Tun Abdul Razak, Poros Makassar- Gowa, 92113, Indonesia.

E-mail address: [nhieart@yahoo.com](mailto:nhieart@yahoo.com) (Hikma Niar)

The work is licensed under a [Creative Commons Attribution-ShareAlike 4.0 International \(CC BY-SA 4.0\)](https://creativecommons.org/licenses/by-sa/4.0/)



## 1. Introduction

Due to the increasingly tight business competition today, manufacturing companies in Indonesia need to manage their capital structure and firm growth optimally to increase their profitability and firm value. Therefore, financial management must be wise in making capital structure decisions. A higher firm value indicates greater prosperity for the company's owners, according to Kusumajaya (2011). One of the things that all stakeholders hope for is the company's growth, both long-term and short-term.

The phenomenon is further demonstrated by data supporting firm growth as follows:

The following table shows the average growth of manufacturing companies listed on the Indonesia Stock Exchange related to profit, assets, and sales growth from 2022 to 2024, based on available information:

**Table 1.** Average Growth of Manufacturing Companies

Year	Profit Growth (%)	Asset Growth (%)	Sales Growth (%)
2022	14,8%	5,9%	11,7%
2023	15,5%	6,2%	12,3%
2024	16,3%	6,5%	12,9%

Source: Data processed, 2025

Based on the trend in Table 1 above, the magnitude of manufacturing profit growth was 14.8% in 2022, increased to 15.5% in 2023, and rose again to 16.3% in 2024. Meanwhile, asset growth was 5.9% in 2022, increased to 6.2% in 2023, and rose to 6.5% in 2024. Sales growth was 11.7% in 2022, increased to 12.3% in 2023, and rose to 12.9% in 2024. Copeland (2008: 124) states that growth refers to the theory that a company's economic growth must reflect stable growth in sales, assets, and company profit. The higher the company's growth rate, the greater the effect on the firm's value. This means that manufacturing companies strive to maintain company stability by increasing assets, capital, and profit.

In addition to the phenomenon gap above, several previous studies also prove that there is a research gap between one study and another. This is shown in several studies that have been conducted and have obtained different results, including: Dian Ambar Kusumaningrum (2013), whose analysis of the effect of investment decisions, funding decisions, dividend policy, and profitability on firm value showed that investment decisions, funding decisions, dividend policy, and profitability were proven to have a significant effect on firm value. Different results were found in research conducted by Herawati (2012), who found that debt policy or leverage did not have a significant effect on firm value. Therefore, research on the effect of capital structure and firm growth on profitability and firm value is very important to conduct.

The objectives of this research are as follows, to analyze the effect of capital structure on profitability in manufacturing companies on the Indonesia Stock Exchange. to analyze the effect of firm growth on profitability in manufacturing companies on the Indonesia Stock Exchange, to analyze the effect of capital structure on firm value in manufacturing companies on the Indonesia Stock Exchange, to analyze the effect of firm growth on firm value in manufacturing companies on the Indonesia Stock Exchange. to analyze the effect of profitability on firm value in manufacturing companies on the Indonesia Stock Exchange.

## **2. Literature Review & Hypothesis Development**

### **2.1 Capital Structure.**

Capital structure according to Weston and Brigham (2010:150) is the mix or combination of debt, preferred stock, and common stock that the company desires in its capital structure. Riyanto (2010:22) states that capital structure is permanent financing reflected in the balance between own capital and long-term debt. Meanwhile, Van Horne and Wachowicz (2005:3) suggest that capital structure is the mix or proportion of a company's long-term permanent funding represented by debt, preferred stock, and common stock equity. Thus, capital structure is financing that reflects the balance between long-term debt and own capital.

### **2.2 Profitability**

Profitability according to Martono and Agus (2010:53) is the ratio that shows the company's ability to obtain profit from the use of its capital. Furthermore, Husnan (2008:72) states that the profitability ratio is intended to measure the efficiency of using the company's assets (a group of company assets). High profitability indicates good company prospects, so investors will respond positively to the signal, and the firm's value will increase (Sujoko and Soebiantoro, 2007). Investors invest in a company with the goal of getting a return, which consists of yield and capital gain. The profitability ratio measures the company's ability to generate profit from its business activities, so investors can see how efficiently the company uses assets and performs its operations to generate profit (Mardiyati, 2012).

### **2.3 Firm Value**

Firm value is also defined as market value because firm value can provide maximum shareholder prosperity if the company's stock price increases (Hasnawati, 2005). According to Husnan (2013), firm value, also called market value, is the price that a potential buyer is willing to pay if the company is sold. Therefore, firm value can provide maximum shareholder prosperity if the company's stock price increases. Shareholder and company wealth is represented by the market price of the stock, which is a reflection of investment, financing, and asset management decisions. Firm value is very important because a high firm value will be followed by high shareholder prosperity (Keown, 2000:555). The higher the stock price, the higher the firm value. High firm value is the desire of company owners because high value indicates high shareholder prosperity.

### **2.4 Firm Growth**

Growth according to Copeland (2008:124) is the company's ability to increase its size. Thus, firm growth can be defined as an increase that occurs in a company. A company in an industry with a high growth rate must provide sufficient capital to finance company expenditures. This growth potential can be measured by the magnitude of research and development costs. The larger the R&D cost, the greater the prospect for the company to grow (Sartono, 2001:248). Safrida (2008:91) found that firm growth has a direct and positive effect on the company's stock price, which means that information about firm growth is positively responded to by investors, thus increasing the stock price. Therefore, a company's faster growth opportunity rate will identify that the company is undertaking expansion.

## **3. Methodology**

### **3.1 Data Analysis Method**

This study uses a quantitative method with an explanatory research design to examine the effect of capital structure and firm growth on profitability and firm value in manufacturing companies listed on the Indonesia Stock Exchange. The data used are secondary data from the company's annual financial reports, with a population and

sample of 149 companies, so this study uses a census or saturated sampling. The unit of analysis is the company, not the individual, because all variables are taken from published financial reports and annual reports. Data collection is done through documentation, namely copying and processing data on total debt, equity, sales, net income, assets, and stock prices. Variables are measured using financial ratios, for example, capital structure with Debt to Equity Ratio (DER), firm growth with sales growth, profitability with Return on Assets (ROA), and firm value with Price to Book Value (PBV) or Tobin's Q. Data analysis is carried out descriptively and continued with panel data regression or path analysis to test the direct and indirect effects between variables, with model equations that are systematically arranged and numbered according to a scientific format.

#### 4. Result and Discussion

##### 4.1 Result

**Table 2.** Evaluation of Goodness of Fit Indices Overall Model Final Stage Criteria

Goodness of Fit Index Model Result			
Goodness of Fit Index	Hasil Model	Cut-off Value	Keterangan
Chi Square	124.046	Expected to be small	Good
Probability	0.111	$\geq 0.05$	Good
DF	0.106	$\leq 2.00$	Good
GFI	0.925	$\geq 0.90$	Good
AGFI	0.878	$\geq 0.90$	Marginal
TLI	0.982	$\geq 0,95$	Good
CFI	0.987	$\geq 0.94$	Good
RMSEA	0.032	$\leq 0.08$	Good

Source: Data processing results 2025

The evaluation results of the proposed model revealed that the overall model evaluation of the constructs revealed no critical violations across various criteria, allowing for further model suitability testing. The table above indicates that the results meet the fit criteria, indicating that the SEM model is appropriate for use.

After the overall model was declared fit, a significance test was conducted to determine the influence between constructs. This test uses the critical ratio (CR) or probability (P) value of standardized regression weights. The relationship between variables is considered significant if  $P < 0.05$ . Based on the analysis, of the seven tested paths, two were insignificant, as evidenced by a probability value or p value above 0.05 (5%) and a calculated t value above the t table value. These were the influence of investment decisions on firm value (0.000, indicating a p value of 0.152), and capital structure on firm value (0.452), thus disqualifying these paths from being used in the model evaluation.

##### 4.2 Discussion

Based on the data analysis performed, the discussion of the research results is as follows:

Effect of Capital Structure on Profitability.

Capital structure has a positive and significant effect on profitability because, in reality, manufacturing companies listed on the Indonesia Stock Exchange, managers, when making corporate funding decisions, strive to choose a capital structure by considering the company's Long Term Debt to Equity Ratio (LTDER). This decision regarding capital structure is made by the leadership to reinforce that the capital structure decision is always based on the consideration of Return on Asset (ROA). This finding indicates that the greater

the capital structure's influence on profitability, the higher the profit distributed by the company, which has a positive impact on investors, which will impact the increase in firm value, and vice versa. This is relevant to the research conducted by Dewa Kadek Oka Kusumajaya (2011) that capital structure has a positive effect on profitability, meaning that capital structure will maximize a company's stock price.

*Effect of Firm Growth on Profitability.*

The path analysis results show that firm growth has a positive and significant effect on profitability. Growth (firm growth) affects the profitability owned, thus influencing the company's productivity and efficiency, which ultimately also affects profitability. The faster the firm growth, the higher the company's ability to generate profit, which means the assessment of the profitability ratio is also high. This research is related to previous research conducted by Dewa Kadek Oka Kusumajaya (2011). This means that firm growth is capable of increasing profit.

*Effect of Capital Structure on Firm Value.*

Capital structure has a positive and not significant effect on firm value. This is because, in reality, manufacturing companies listed on the Indonesia Stock Exchange, investors, when seeking funding sources or capital structure, consider the Long Term Debt to Equity Ratio (LTDER) in order to increase the company's Price Earning Ratio (PER). The decision to use capital structure by investors is made to reinforce that investors seeking funding sources or capital structure in the manufacturing sector on the Indonesia Stock Exchange are not based on Net Profit Margin considerations but on firm value, namely the company's Price Earning Ratio (PER). This situation shows that capital structure can contribute to firm value because it can consider the composition between the use of debt and own capital. This research aligns with Putu Yunita Saputri Dewi et al. (2014) and Dewa Kadek Oka Kusumajaya (2014), meaning capital structure highly influences the company's financial status, which will ultimately affect firm value.

*Effect of Firm Growth on Firm Value.*

Firm growth has a positive and significant effect on firm value. This is because, in reality, manufacturing companies listed on the Indonesia Stock Exchange, managers can increase firm growth by considering profit growth in order to increase the company's Price Earning Ratio (PER). Efforts for firm growth can be based on profit growth, and ultimately, a company with growing profit can strengthen the relationship between the company's size and the level of profit obtained. Where companies with growing profit will have a large amount of assets, thus providing a greater opportunity to generate profitability. This situation shows that firm growth can contribute to firm value because it is capable of increasing firm growth through efforts to increase sales growth, asset growth, and profit growth, which directly affect firm value. This is in line with Nurdin B (2010), Meissa Myers (2002), who found that firm growth has a positive effect on firm value. This means that realizing growth and firm value for manufacturing companies listed on the Indonesia Stock Exchange is a goal that must be achieved.

*Effect of Profitability on Firm Value.*

A company's ability to obtain profit comes from sales and investments made by the company. Profitability is also a depiction of management's performance in managing the company. Company profitability in this research is calculated using ROA (Return on Asset), by dividing Earnings After Tax (EAT) by total assets. The higher the ROA, the higher the company's ability to generate profit, which will make the company's profitability high. High profitability will give a positive signal to investors that the company is in a profitable

condition. This becomes an attraction for investors to own the company's shares. This situation shows that profitability can contribute to firm value because the company's ability to generate profit can change firm value and even increase firm value. This is in line with previous research by Umi Mardiyati (2012) and Sri Hermuningsih (2012) that profitability has a positive and significant effect on firm value. This means that higher profitability can genuinely increase firm value. An increase or decrease in profitability will contribute to an increasingly high firm value or vice versa, thereby influencing firm value in the eyes of investors.

## **5. Conclusion and Suggestion**

### **5.1 Conclusion**

Based on the results of the data analysis and the discussion presented previously, several conclusions can be drawn, Capital structure has a positive and significant effect on profitability, firm growth has a positive and significant effect on profitability, capital structure has a positive and not significant effect on firm value, firm growth has a positive and significant effect on firm value, Profitability has a positive and significant effect on firm value.

This research provides theoretical benefits by enriching the literature on the relationship between capital structure, firm growth, profitability, and firm value particularly in manufacturing companies in Indonesia, as well as strengthening or retesting relevant financial theories. Empirically, the results of this study can provide concrete evidence for future researchers in understanding how these variables influence each other in real company conditions. In terms of economic benefits, the research findings can help company management in formulating more efficient funding policies, increasing profitability, and maximizing firm value, thereby impacting shareholder welfare. This research also has the potential to generate new findings, such as the indirect influence of capital structure and firm growth on firm value through profitability, or differences in the influence between variables that have not been widely discussed in the Indonesian manufacturing sector. The limitations of this study need to be critically assessed, for example, the use of only secondary data, a limited observation period, a sample that is only from the manufacturing sector, and the possibility of not including other variables such as company size, business risk, or macroeconomic conditions. These limitations are important because they can affect the generalizability of the results and the interpretation of the research impact.

### **5.2 Suggestions**

The decision in selecting funding sources needs to be maintained because it will affect the company's capital structure, which will ultimately affect profitability. The research sample companies should pay more attention to their funding needs because a company in the growth stage will require a large amount of funds. Pay more attention to the company's capital expenditure because it is very important to increase firm value, by signaling the company's earnings growth, in this case, the expected growth of assets and sales in the future. To grow and develop, further improve the effective management of operational funding sources to generate net profit in the future.

## **Reference**

Bambang, Riyanto, 2010. *Dasar-Dasar Pembelanjaan Perusahaan*, Edisi Keempat, Cetakan Ketujuh, BPFE Yogyakarta, Yogyakarta.

- Copeland. 2008. *Dasar-Dasar Manajemen Keuangan Jilid II*. Jakarta: Erlangga.
- Dewa Kadek Oka Kusumajaya, 2011. Pengaruh struktur modal dan pertumbuhan perusahaan terhadap profitabilitas dan nilai perusahaan pada perusahaan manufaktur di Bursa Efek Indonesia.
- Hasnawati, Sri. 2005. Implikasi Keputusan Investasi, Pendanaan, dan Dividen terhadap Nilai Perusahaan Publik di Bursa Efek Jakarta. *Usahawan*. No. 09/Th XXXIX. September 2006: 33-41.
- Husnan dan Pudjiastuti. 2013. *Dasar-Dasar Manajemen Keuangan (7th ed.)*. Yogyakarta: UPP STIM YKPN.
- Husnan, Suad. 2008. *Teori Portofolio Dan Analisis Sekuritas*. UPP AMP YKPN–Yogyakarta.
- Keown, A.J. 2004. *Manajemen Keuangan, Terjemahan Haryandini, edisi 9, Indeks*, Jakarta.
- Mardiyati, Umi; Gatot Nazir Ahmad dan Ria Putri. 2012. Pengaruh Kebijakan Dividen, Kebijakan Hutang dan Profitabilitas terhadap Nilai Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia (BEI) Periode 2005-2010. *Jurnal Riset Manajemen Sains Indonesia (JRMSI)*: Vol. 3, No. 1.
- Martono dan D. Agus Harjito. 2005. *Manajemen Keuangan*. Penerbit Ekonisia: Yogyakarta.
- Meissa Myers and Frank Bacon, 2002. *The Determinants of Corporation Dividen Policy*.
- Meythi, dkk (2012). Pengaruh Struktur Modal Terhadap Nilai Perusahaan Dengan Pertumbuhan Perusahaan sebagai variabel Moderating.
- Safrida, E. 2008. Pengaruh Struktur Modal dan Pertumbuhan Perusahaan terhadap Nilai Perusahaan Pada Perusahaan Manufaktur di Bursa Efek Jakarta. Medan: Universitas Sumatera Utara.
- Sartono Agus, 2001. *Manajemen Keuangan Teori dan Aplikasi*. Yogyakarta: BPFE-YOGYAKARTA.
- Sri Hermuningsih, 2012. Pengaruh profitabilitas, ukuran perusahaan, terhadap nilai perusahaan dengan struktur modal sebagai variabel intervening.
- Sujoko dan Ugy Soebiantoro. 2007. Pengaruh Struktur Kepemilikan Saham, Leverage, Faktor Interen dan Faktor Eksteren terhadap Nilai Perusahaan. *Jurnal Manajemen dan Kewirausahaan*. Vol 9. No. 1.
- Umi Mardiyati, dkk tahun penelitian (2012). Pengaruh kebijakan dividen, kebijakan hutang dan profitabilitas terhadap nilai perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI).
- Van Horne, James. C., & Wachowicz, John. M. 2010. *Prinsip-Prinsip Manajemen Keuangan*. Jakarta: Salemba Empat.
- Weston and Brigham, 2010. *Dasar-dasar Manajemen Keuangan, edisi 9*, Erlangga.