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The Role of Profitability in Mediating the Influence of Company Size and Leverage on the Value of Manufacturing Companies Listed on the Indonesia Stock Exchange in 2020-2023

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Abstract—Bank Indonesia (BI) saw that the manufacturing sector's success in 2023 slowed the rise in company value, as shown by the changing business value. If the growth comes with a high rate of return on investment for shareholders, it will change how many investors or shareholders are worth. There are several ways to figure out how much a business is worth. Before investing, people look at a number of factors that will help them figure out how much a company is worth. This research examines how profitability influences Indonesia Stock Exchange-listed manufacturing businesses' value between 2020 and 2023. It will examine debt and firm size effects on value. Study participants are manufacturers that went public on the Indonesia Stock Exchange between 2020 and 2023. Over four years, 52 firms provided 208 observational data points. The data was collected from public and private archives, which contain papers, documentation, and historical reports. Researchers employ inferential path analysis to solve the question. The research found that company size significantly reduces profitability. Relatively little leverage affects corporate profitability. Size doesn't affect firm worth as much. Leverage boosts corporate value significantly. Profitability has a positive and significant effect on company value. Profitability is able to mediate the effect of company size on company value. Profitability is not able to mediate the effect of leverage on company value.

Keywords: Firm value; profitability; firm size; leverage

Introduction

A lot of the companies that are traded on the Indonesia Stock Exchange (IDX) are in the manufacturing industry. The IDX lists manufacturing companies by sector, such as the consumer goods industry sector, the many industrial sectors, and the industrial and chemical sector. www.idxchannel.com says that in 2023, the IDX found 165 production businesses. There is fierce competition among manufacturing enterprises due to the industry's high number of businesses and the state of the economy. As seen by the fluctuating business value, Bank Indonesia (BI) observed that the manufacturing sector's performance in 2023 caused the rise in company value to slow down.

A strong shareholder return on investment will affect investors' or owners' value if the company rises. There are various approaches to value a firm. This study values companies using price book value (PBV) (Kartika, 2021).

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A company's Price to Book Value can be used to determine its value. To predict stock price changes, PBV is employed. Buyers can calculate how many times a company's market price is worth its book value. Company value affects stock prices indirectly. (Suri, Yasa, and Sari, 2023)

The next graph shows how the average price of the company's worth has gone up and down over time, based on its price book value. From 2020 to 2022, it shows the average price book value (PBV) in the financial business as a whole.

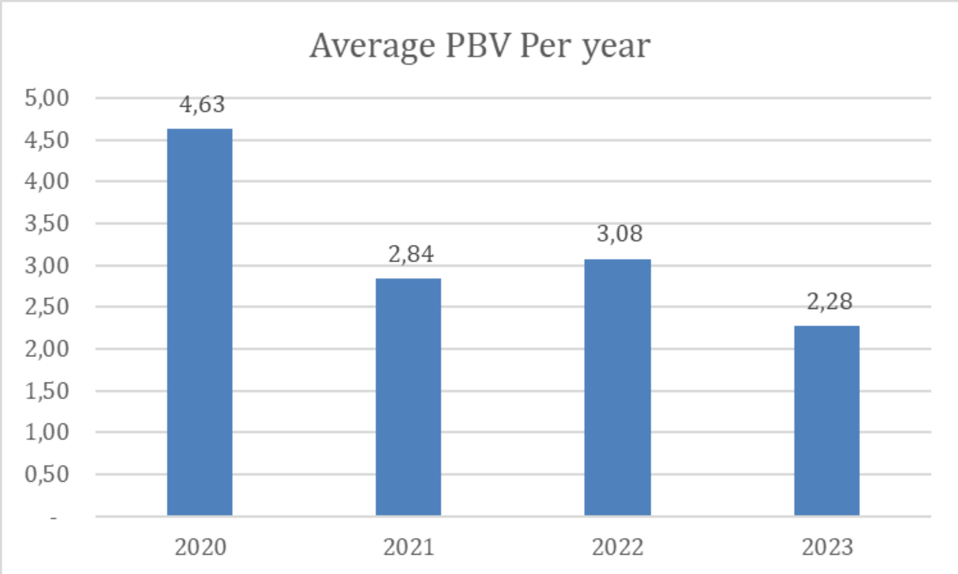

Figure 1. Average PBV Per Year

Source: Processed primary data, 2024

The manufacturing PBV is still varying between 2020 and 2023, as seen in Figure 1. Additionally, according to a report from www.kemenperin.go.id, of the IDR 386.5 trillion that PMDN acquired overall, investors put IDR 72.7 trillion, or 18.8%, into manufacturing enterprises. This suggests that the growing number of investors in the manufacturing sector necessitates that businesses fully realize their potential in order to offer the best possible company value and attract in investors.

As Goh et al. (2024) say, the higher the value of a company, the more buyers will want to put money into it. A high firm value will reassure investors and creditors because it shows that the business is well-equipped to pay its bills. This will make them feel better about lending money to the business (Brigham and Gapenski, 2011). Companies need to know what factors can affect company value so they can keep their businesses going. This is because a high company value can be a good sign for clients.

Before investing, people look at a number of factors that will help them figure out how much a company is worth. Size is one thing that can change how much a business is worth (Pratama & Wiksuana, 2016). For Brigham and Houston (2011:4), firm size is the amount of money a business has based on its total assets, total sales, profit margin, tax load, and other things. Octaviany et al. (2019) found that a company's assets indicate its size. According to Octaviany et al. (2019), a company's worth increases with its size. These findings and those of Wahyudi (2016), Dani (2017), Fitriana (2018), Khoriyah (2018), and Pratama (2018) demonstrate that a company's scale increases its worth.

Along with size and debt, the debt ratio helps determine a company's value. The leverage ratio, often known as the debt ratio, measures how much debt a company can use in its capital structure (Salma & Riska 2020). The company can acquire internal and external funding. Depreciation and retained earnings are internal sources. Loans and stock sales are external sources. A business can increase its return by using fixed-cost capital or assets like debt or shares. This is leverage. (2019, Anwar). Dharmaputra's 2022 study reveals that leverage boosts corporate value. These data, together with Putri & Hendriyani (2024), Nanda (2019), and Solikahan (2022), suggest that leverage boosts corporate value.

Profitability also influences business value. Being profitable over time is what a business is called "profitability." Buyers consider investment profitability while making decisions. Businesses with high profits will attract buyers. Business financial accounts may reflect profitability. Financial records that demonstrate higher profitability lead investors to believe the business is profitable. Profitable businesses attract investors, increasing their value (Surasmi and Putra, 2022). Yanti and Setiawati's 2022 study found that profitability boosts firm value. Goh et al. (2024), Septiana & Zulkifli (2024), Putri & Hendrayani (2024), and Sari & Candra (2024) all found that purchasers value profitable companies.

Researchers are interested in doing more research because of the significance of firm size, profitability, and leverage in determining company value as well as the inconsistent findings of earlier studies. To ascertain the impact of firm size, leverage, and profitability on company value, this study employs profitability as a mediating variable. This is due to the fact that profitability is regarded as one of the primary indicators of corporate success. Research can examine the degree to which specific business initiatives affect raising company value by employing profitability as a mediating variable.

Concept and Literature Review

Company Values

Company value is an economic indicator of its worth. The value of a corporation depends on this essential commercial and economic concept (Goh et al., 2024). Businesses aim to maximize value to create as much money as possible, especially for its owners. Investors' perception of the company is called "firm value" and is tied to the stock price. High business value leads to private wealth, making it crucial. Company value increases with stock price.

Because Price Book Value (PBV) is used to make business decisions, this study used it to value a corporation. Book value is straightforward and accurate, making it a good benchmark for comparing market values, note Brigham and Houston (2011). PBV may also evaluate similar companies and determine share prices. Consider how this number may affect share prices in the future.

Company Size

Company size is measured by equity, sales, and total assets. Asset size boosts a company's capacity to prove maturity. Business maturity brings positive cash flow and a decent profit.

Asset benchmarking can aid firm size research. Converting the company's assets to natural logarithms simplifies this given their size. The company size can be calculated using this formula:

Company size (Size) = Ln Total Assets

According to Octaviany et al. (2019), a company's worth increases with its size. These findings and those of Wahyudi (2016), Dani (2017), Fitriana (2018), Khoriyah (2018), and Pratama (2018) demonstrate that a company's scale increases its worth. The aforementioned reasoning allows the following hypothesis:

H1: Profitability is positively impacted by company size

H3: The size of a corporation positively impacts its value.

Leverage

Kasmir (2019) The solvency ratio, commonly known as the leverage ratio, measures a company's debt-funded assets. displaying the company's debt-to-asset ratio. This study uses the Debt-to-Equity Ratio (DER) to measure leverage. DER is used to calculate the leverage ratio since it describes the company's asset management and debt-backed asset ratio. In their financial reports, public companies include DER.

Dharmaputra's study from 2022 shows that leverage has a big and positive effect on a company's value. According to these results, research by Putri & Hendriyani (2024), Nanda (2019), and Solikahan (2022) also showed that using debt to make a business more valuable has a big and positive effect on its value. The above explanation makes it possible to come up with the following hypothesis:

H2: Leverage has a big and positive effect on profits.

H4: In this case, influence makes the company more valuable.

Profitability

Kasmir (2016) says that profitability is a measure that shows how well a business can make money. While the company is trying to make money, its success shows how well it runs and how efficiently it runs its operations. Firm profitability means that the business made a net profit from its operations during the accounting period. It is the result of many decisions and actions made by management (Pokharel, 2019).

This study measures manufacturing company profitability using ROA. Kasmir (2016) states that return on assets (ROA) measures how much a company makes from its assets. ROA shows how well management manages firm investments.

According to research by Yanti & Setiawati (2022), a firm's value is positively and significantly impacted by its profitability, with the higher the profitability level, the higher the value of the company. Consistent with these findings, studies by Goh et al. (2024), Septiana & Zulkifli (2024), Putri & Hendrayani (2024), and Sari & Candra (2024) discovered that businesses with high profitability are typically preferred by investors, which increases the company's perceived value. The aforementioned description allows for the formulation of the following hypothesis:

H5: Profitability increases the value of a business.

H6: Profitability can act as a go-between for the relationship between company size and value.

H7: Profitability can reduce the effect of debt on the value of a business.

The conceptual framework of the research is described as follows.

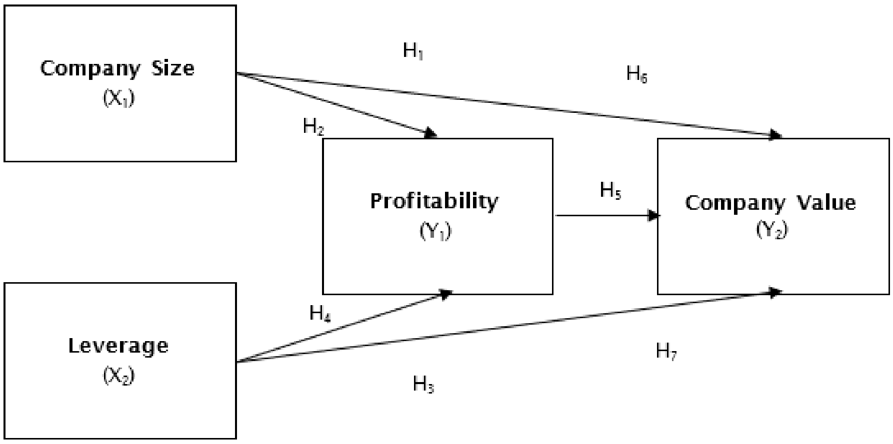

Figure 2. Research Framework

Method

This research is examined IDX-listed industrial companies start from 2020 to 2023. Numeric data was employed in research. The analysis data included all 2020–2023 Indonesia Stock Exchange-listed companies. Over four years, 52 samples yielded 208 data points. This work uses archival data (archival method). Archival data is information that can be found in both published and unpublished archives as records, evidence, or historical reports. With the SPSS program, the research was analysis using descriptive statistics and path analysis.

Result and Discussion

Descriptive Statistics

Table 1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1_Company size	208	22.72	33.89	28.2138	2.17991
X2_Leverage	208	-8.55	5.64	.6584	1.56180
M_Profitability	208	-1.79	3.74	.1892	.62147
Y_Company value	208	-25.94	75.36	2.3845	9.14540
Valid N (listwise)	208				

Table 1 indicates that 208 data points were employed in the statistical computations. With the lowest values, the variables X1_Company Size (22.72), X2_Leverage (-8.55), M_Profitability (-1.79), and Y_Company Value (-25.94) are those with the smallest values. This demonstrates that the data varies, allowing for extremely low values for certain variables.

Company Size has the highest value at 33.89, Leverage has the highest value at 5.64, and Profitability has the highest value at 3.74, among other variables. 75.36 is the company value with the highest value.

The mean and standard deviation of each variable are 28.2138 and 2.17991, respectively. The business size deviates greatly from the mean. Leverage (debt to stock ratio) averages 0.6584 and standard deviation is 1.56180. This changes the firm's leverage significantly. The collection's average profit is 0.1892, very poor. However, the standard deviation is 0.62147, indicating that profitability fluctuates. Company value: The company has a mean of 2.3845 and a standard deviation of 9.14540. The data points differ greatly, indicating that the company's worth fluctuates.

Hypothesis Testing

Testing the First Hypothesis and the Second Hypothesis

The results of the regression testing on regression model I through the t-test in this study are as follows:

Table 2. Results of Regression Model I Testing

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
	(Constant)	3.070	.524		5.859	.000
1	X1	-.103	.018	-.361	-5.572	.000
	X2	.035	.026	.089	1.374	.171

a. Dependent Variable: Y`1

Source: Processed data, 2024

The regression equation in this study will use multiple regression analysis as follows:

Multiple regression model I

Y1 = 3,070 – 0,103 X1 +0,035 X2

Information:

Y1 = Profitability

a = constanta

bi = regression coefficient

X1 = Company size

X2 = Leverage

Test findings in table 2 indicate a negative coefficient value of 0.103 for firm size (β1) in the first regression model. This suggests that company size does not affect earnings as much as value. The relationship between business size and profitability is 0.000, less than 0.05. Therefore, the first hypothesis is correct. Because of this, corporate size has a positive and considerable impact on profitability. Since the leverage coefficient (β2) is positive (0.035), it appears that leverage has a similar impact on economic value. So, the second hypothesis is not true because the significance level for the link between company size and profitability is 0.171, which is greater than 0.05. Because of this, leverage has almost no effect on profits.

Testing the Third, Fourth and Fifth Hypotheses

The results of regression testing on regression model II via the t test in this study are as follows:

Table 3. Results of Regression Model II Testing

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.701	8.339		.804	.423
	X1	.266	.292	.063	.909	.364
	X2	.968	.382	.165	2.538	.012
	M	5.054	1.029	.343	4.913	.000

a. Dependent Variable: Y2

Source: Processed data, 2024

The regression equation in this study will use multiple regression analysis as follows:

Multiple regression model II

Y2 = 6,701 + 0,266 X1 +0,968 X2 + 5,054 M

Information:

Y2 = Company Value

a = constanta

bi = regression coefficient

X1 = Company size

X2 = Leverage

M = Profitability

Table 3 shows second regression model test results. Company size (β1) has a positive coefficient value of 0.266, indicating that both factors are equally impacted. Thus, the third hypothesis is false because the significance level for firm size and business value is 0.364, more than 0.05. There's little correlation between firm size and value.

The second regression model test results in Table 5 indicate a positive leverage coefficient (^{2}2) of 0.968. So borrowing money has the same effect on firm value. The fourth hypothesis is valid because the firm valuation has an effect size of 0.012, less than 0.05. Thus, leverage boosts corporate value significantly.

Table 5.6 shows second regression model tests. The profitability coefficient (^{2}3) of 5,054 indicates a correlation between company value and profit. The fifth theory is valid because profitability has a considerable effect on firm value of 0.000, less than 0.05. Profitability boosts corporate value because of this.

Testing the Sixth and Seventh Hypotheses

While this study looks at the relationship between business size and leverage on company value, profitability is used as a bridge between the two.

Path Analysis

A path analysis test is the first step in the indirect testing of the Keenman and seventh hypotheses, with profitability serving as a mediating variable in this investigation. The purpose of path analysis is to ascertain the causal relationship. The outcomes of the regression test employed in this investigation are as follows:

Multiple regression model I

Y1 = 3,070 – 0,103 X1 +0,035 X2

Keterangan:

Y1 = Profitability

a = Constanta

bi = Regression coefficient

X1 = Company size

X2 = Leverage

Table 4. Results of Regression Model I Testing

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.377[a]	.142	.134	.57848

a. Predictors: (Constant), X2, X1

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.070	.524		5.859	.000
	X1	-.103	.018	-.361	-5.572	.000
	X2	.035	.026	.089	1.374	.171

a. Dependent Variable: Y`1

Source: Processed data, 2024

Based on the data in Table 4, the regression coefficients for firm size are -0.103 and for leverage they are 0.035. These numbers show that both factors have an effect on profitability at the same time.

Multiple regression model II

Y2 = 6,701 + 0,266 X1 +0,968 X2 + 5,054 M

Information

Y2 = Company value

a = constanta

bi = Regression coefficient

X1 = Company size

X2 = Leverage

M = Profitability

Table 5. Results of Regression Model II Testing

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.380[a]	.145	.132	8.52022

a. Predictors: (Constant), M, X2, X1

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	6.701	8.339		.804	.423
	X1	.266	.292	.063	.909	.364
	X2	.968	.382	.165	2.538	.012
	M	5.054	1.029	.343	4.913	.000

a. Dependent Variable: Y

Source: Processed data, 2024

The regression coefficient for company size is 0.266, for leverage it is 0.968, and for profitability it is 5.054. These numbers come from table 5, which shows the results of looking at how company size and leverage affect company value at the same time.

Based on tests done on regression models I and II shown in tables 6 and 7, the regression equation is:

Y1 = 3,070 – 0,103 X1 +0,035 X2

$R^2 = 0,142$

e1 = $\sqrt{1-0,142}$ = 0,926

Y2 = 6,701 + 0,266 X1 +0,968 X2 + 5,054 M

$R^2 = 0,145$

e1 = $\sqrt{1-0,145}$ = 0,925

Using path analysis as follows is the next stage to investigate the profitability variable as a mediator between company size and leverage on company value:

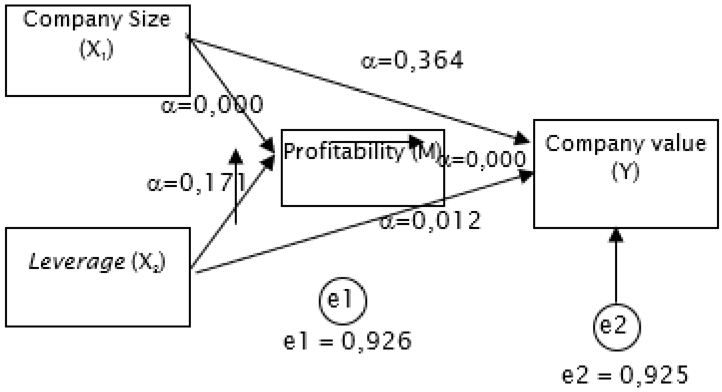

Figure 3. Path Analysis Model

The route analysis model is in Figure 3. Each regression coefficient value shows how much the independent variable impacts the dependent variable in the study model. The study model error or residual number indicates unmeasured differences.

The sixth hypothesis

H6: Profitability mediates the effect of firm size on firm value

For indirect calculations on the sixth hypothesis in this study are as follows:

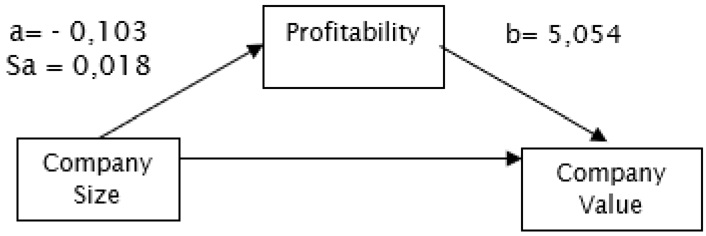

Figure 4. The Effect of Company Size on Company Value Through Profitability as a Mediating Variable

Information:

a = Regression coefficient of the influence of company size on profitability

b = Regression coefficient of the influence of profitability on company value

Sa = Standard error on the effect of company size on profitability

Sb = Standard error on the effect of profitability on firm value

$$Sab = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

$$= \sqrt{(5{,}054^2 \text{ x } 0{,}018^2) + (-0{,}103^2 \text{ x } 1{,}029^2) + (0{,}018^2 \text{ x } 1{,}029^2}$$

$$= \sqrt{(25{,}5429 \text{ x } 0{,}00032) + (0{,}01061 \text{ x} 1{,}05884) + (0{,}00032 \text{ x } 1{,}05884)}$$

$$= \sqrt{(0{,}00828) + (0{,}01123) + (0{,}00034)}$$

$= \sqrt{0{,}01985}$

= 0,1409

t = ab / Sab

= (- 0,103 x 5,054) / 0,1409

= -0,52056 / 0,1409

= -3,6945

Compared to the t table with a significance threshold of 0.05, -3.6945 is bigger than -1.971. This suggests that profitability mediates the relationship between company size and value. The huge mediation coefficient of 0.1409 is also important.

The seventh hypothesis

H7: Profitability mediates the effect of leverage on firm value

For indirect calculations on the seventh hypothesis in this study are as follows:

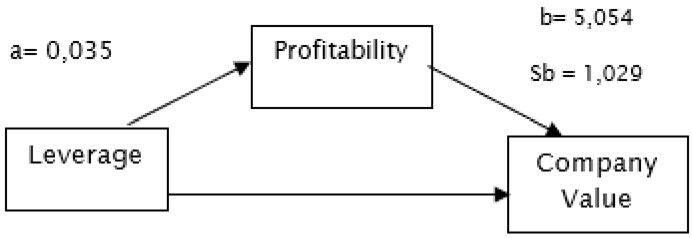

Figure 5. The Effect of Leverage on Company Value Through Profitability as a Mediating Variable

Information

a = Regression coefficient of leverage influence on profitability

b = Regression coefficient of the influence of profitability on company value

Sa = Standard error on the effect of leverage on profitability

Sb = Standard error on the effect of profitability on firm value

Sab $= \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$

$= \sqrt{(5{,}054^2 \text{ x } 0{,}026^2) + (0{,}035^2 \text{ x } 1{,}029^2) + (0{,}026^2 \text{ x } 1{,}029^2}$

$= \sqrt{(25{,}5429 \text{ x } 0{,}00068) + (0{,}00123 \text{ x} 1{,}05884) + (0{,}00068 \text{ x } 1{,}05884)}$

$= \sqrt{(0{,}01727) + (0{,}0013) + (0{,}00072)}$

$= \sqrt{0{,}01928}$

= 0,1389

t = ab / Sab

= (0,035 x 5,054) / 0,1389

= 0,17689 / 0,1389

= 1,27351

The mathematics preceding shows that the t value of 1.27351 is less than the t table with a significance level of 0.05, which is 1.971. The mediation coefficient of 0.1389 is not significant, therefore the income variable cannot explain how leverage impacts firm value.

The effect of company size on the profitability of manufacturing companies listed on the IDX in 2020-2023

A study that looked at the link between the size of a company and its ability to make money found that there was a strong and negative link between the two. The study's results show that a company's income goes down as its size grows compared to its total assets. This shows that theory 1 is wrong, which says that a company's size has a big effect on how profitable it is.

In this case, the size of a company is not a good indicator of its ability to make good income. As a business grows, it will have to pay more for things like labor, administrative fees, building maintenance, machinery, and other things that keep it running. This will make the business less profitable (Fajartania, 2018).

The results of studies by Sukadana & Triaryati (2018), Qur'ani & Purwaningsih (2022), and Hardinis (2019) that found a strong and positive link between profitability and company growth do not agree with this one. Still, this study backs up Fajartania's (2018) research, which showed that a company's size has a big and bad effect on its profits.

The effect of leverage on the profitability of manufacturing companies listed on the IDX in 2020-2023

Leverage has no discernible impact on profitability, according to the results of the test of its influence on profitability. The study's findings show that, in the tests carried out, the amount of debt (leverage) by itself is insufficient to assess the profitability of the business. This demonstrates that hypothesis 2, according to which leverage significantly and favorably affects profitability, is disproved.

According to the data studied, a company's ability to turn a profit (profitability) is not significantly impacted by its amount of debt usage (leverage) or is not statistically demonstrated to be so. This indicates that manufacturing businesses do not rely on debt financing to cover their financial needs during this observation period. so that the extent of the profitability the business achieves is unaffected by the quantity of debt it owns.

According to study by Rahmanetal et al. (2020), Puspitarini (2019), Hanie (2018), Saputri & Febyansyah (2023), and Wijayanto & Putri (2018), leverage significantly and favorably affects business profitability. This finding contradicts their findings. This study, however, supports that of Octaviany et al. (2023), who discovered that leverage had no discernible impact on profitability.

The effect of company size on company value in manufacturing companies listed on the IDX in 2020-2023

An experiment discovered no correlation between firm size and value. According to the study, a company's value is based on its assets, not its size. This shows that theory 3 is wrong, which says that a company's size has a large and positive effect on its value.

The size of a corporation is determined by the entire assets it owns for its operations; the larger the firm, the more money it will require for these operations. Large corporations should be able to collect substantial returns in the form of assets when they remove their debt. The value of the assets pledged as security for the loan exceeds the return on the company's assets. Investors are concerned because this demonstrates a lack of solvency between assets and debts. The company's high level of risk is thought to increase the likelihood of bankruptcy. (Putra and others, 2023)

This contradicts Wahyudi (2016), Dani (2017), Fitriana (2018), Khoriyah (2018), and Pratama (2018), who showed that a company's scale increases its worth. This analysis supports Heliani et al.'s (2023) conclusion that firm size does not affect value.

The effect of leverage on company value in manufacturing companies listed on the IDX in 2020-2023

A test that looked at how leverage affects company value found that it has a big effect on profits. The study found that a company's value will go up as its amount of leverage goes up. This means that theory 4, which says that leverage has a large and positive effect on a company's value, is accepted.

Leverage is when a business can use fixed costs, like debt or shares, to control its capital or assets in order to make its revenue (return) more valuable (Anwar, 2019). Businesses that use a lot of debt tend to be better at making money, which makes investors think the business is worth more (Putri & Hendriyani, 2024).

Some believe debt policy reduces agency conflict (Brigham and Enhardt, 2008). Debt policy is supposed to increase corporate value by preventing managers and business owners from fighting over control. This means leverage greatly impacts corporate value. Since debt affected the company's earnings in this study, it makes a sense that its funding plan, in this case debt, affected its valuation. Leverage affects business value, as shown by test results and public opinion.

Dharmaputra's 2022 study found that leverage boosts a company's value. These data, together with Putri & Hendriyani (2024), Nanda (2019), and Solikahan (2022), suggest that leverage boosts corporate value.

The effect of profitability on company value in manufacturing companies listed on the IDX in 2020-2023

A study found a positive and significant association between profitability and firm value. Profitability increases a company's value, according to the study. Hypothesis 5, that profitability considerably and positively affects business value, is supported.

The higher the profitability growth, the more optimistic the company's future prospects are, which means that investors will find the company more valuable. According to Putri and Hendrayani (2024), a company's efficiency increases with its profitability, which in turn leads to improved performance. Businesses that are profitable will increase investor confidence, allowing them to secure enough capital to enhance their performance and ultimately raise their value.

The study found that a company's profitability affects its ability to survive and improve the future. Profitability helps the company explain its favorable status and promotes investor trust, which may affect its value. The stock price and value of a corporation will certainly rise as more investors invest.

This analysis confirms Yanti and Setiawati's 2022 findings that Dharmaputra increased business value. More money makes a corporation more valuable. Goh et al. (2024), Septiana & Zulkifli, Putri & Hendrayani, and Sari & Candra (2024) support these findings. Buyers prefer profitable companies, making them more value.

The role of profitability in mediating the effect of company size on company value in manufacturing companies listed on the IDX in 2020-2023

A test found that profitability mediates this link. The study found that profitability affects company size and value. The size of a corporation indirectly influences its value by changing its revenue. This supports hypothesis 6, which states that profitability mediates the company size-value relationship.

This research says that profitability acts as a bridge between firm size and value. This means that a bigger company that does well will send investors a good message, which will raise the value of the business. Larger companies usually have more assets that can be used for activities that make the company more money. Investors tend to trust and respect larger businesses more, which can help them make more money and increase their value. According to it, a bigger business usually makes more money, which tells investors and possible investors that the business is worth more and increases its value.

Similar results were found by Octaviany et al. (2020), who found that profitability acts as a link between firm size and value, with higher amounts of profitability usually resulting in higher company value.

The role of profitability in mediating the influence of leverage on firm value in manufacturing companies listed on the IDX in 2020-2023

Profitability does not mediate the effect of leverage on firm value, according to a test. Profitability did not mediate leverage and corporate value, according to the study. This disproves hypothesis 7, which states that profitability mediates the effect of leverage on firm value.

In this situation, the relationship between leverage and company value cannot be explained or bridged by profitability. According to the first claim of Modigliani and Miller's theory (1958), capital structure including the use of debt or leverage does not impact business value in a perfect market. Because the earnings or losses resulting from debt will be proportionate to the impact on the cost of capital, a firm's worth will remain the same even if it employs debt (leverage) in this situation.

Agency theory says that managers and owners can work together better when they use debt. It might be harder for management to make bad or unprofitable investments when there is more debt, which could increase the value of the business. In this case, the effect of debt on firm value doesn't need to be filtered through profitability because debt helps to lower agency conflicts, which can raise the company's value right away. Research by Cengiz & Gungor (2020), Firdaus & Ilham (2020), Kurniawan & Septiani (2020), Abdillah & Purwanto (2021), Wulandari & Kusumawardhani (2021), and Rachmawati & Yulianto (2021) says that firm value can be affected by debt, but profitability can act as a buffer. These results are different from what this study found. Still, these results are similar to those of studies by Yanti & Setiawati (2022) and Pratama & Wiksuana (2021), which found that success couldn't lessen the effect of debt on firm value.

Conclusion

The company's size hurts its profitability. Company value is affected by profitability, leverage, and profitability. Profitability and leverage can influence a company's value. Leverage and firm size don't affect profitability or value. Businesses must increase revenue, cut costs, and improve operational efficiency in orders to maximize profitability. Leverage can be used prudently to improve capital structure management while lowering the danger of bankruptcy or excessive interest rates. To boost the company's competitiveness and market worth, concentrate on innovation and risk management. Because the distinct features of various businesses can alter the set of elements that affect tourist interests, this research's weakness is its limited ability to generalize its findings to other industries.

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