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DETERMINANTS OF FIRM VALUE: EVIDENCE FROM CONSUMER CYCLICAL COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

Objective: This study was designed to examine how profitability, as measured by Return on Assets (ROA), the implementation of Good Corporate Governance as represented by the proportion of independent commissioners, and firm size influence firm value, as measured by Tobin's Q, with a focus on companies in the consumer cyclicals sector listed on the Indonesia Stock Exchange.

Research Design & Methodology: The approach used is a quantitative associative one with secondary data in the form of annual financial reports. From a population of 157 companies in the consumer cyclicals sector for the 2018–2022 period, 47 companies were selected as the sample through purposive sampling, resulting in a total of 235 observations. Data analysis was conducted using panel data regression, preceded by model selection tests (Chow and Hausman) and classical assumption tests.

Findings: The results indicate that profitability has a positive effect on firm value, while Good Corporate Governance was not found to have a significant effect. Conversely, firm size has a negative effect on firm value. Simultaneously, these three variables have a positive and significant effect on firm value, explaining 75.2088% of the variation in firm value.

Contribution: These findings provide an empirical perspective for both investors and corporate management regarding the factors relevant to assessing the prospects of companies in the consumer cyclicals sector, particularly during the recovery period following the COVID-19 pandemic.

Novelty: This study enriches the empirical evidence regarding the inconsistencies in previous research findings on the effects of profitability, good corporate governance, and firm size on firm value, by highlighting the potential for a size effect anomaly in the consumer cyclicals sector in Indonesia.

Keywords: Profitability, Good Corporate Governance, Firm Size, Firm Value.

JEL codes: G32, G34

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INTRODUCTION

The primary objective of a profit-oriented company is to maximize its long-term value. A company's value is a key indicator because it reflects investors' perceptions of the company's performance, growth prospects, and ability to create value for shareholders. In publicly traded companies, corporate value is generally reflected in the stock price formed in the capital market. The higher the stock price, the higher investors' assessment of the company's ability to generate profits and maintain business sustainability (Brigham & Houston, 2018). Therefore, increasing corporate value is a key focus for management because it is directly related to the company's survival and investor confidence.

The global and national economies have come under pressure in recent years due to the Coronavirus Disease 2019 (COVID-19) pandemic. The pandemic has not only caused a health crisis but has also disrupted economic activity through restrictions on public mobility, supply chain disruptions, and a decline in household consumption. In Indonesia, the impact of the pandemic was reflected in a 2.07% contraction in economic growth in 2020—the first economic contraction since the 1998 Asian financial crisis (Badan Pusat Statistik, 2021). This decline in economic activity has affected various industrial sectors, including the consumer cyclicals sector, which is highly dependent on consumption levels and consumer purchasing power.

The consumer cyclicals sector consists of companies that produce non-essential goods and services, such as retail, automotive, media, entertainment, restaurants, hotels, and various other secondary consumer products and services. Unlike the staples sector, which tends to be stable, demand for products and services in the consumer cyclicals sector is heavily influenced by economic conditions. When household incomes rise, demand for products and services in this sector tends to increase. Conversely, when economic conditions weaken, people prioritize basic needs, leading to a decline in demand for non-essential products and services. These characteristics make the consumer cyclicals sector one of the most sensitive to changes in economic conditions.

The impact of economic pressures on the consumer cyclicals sector is reflected in the movements of the sectoral stock index during the 2018–2022 period. Throughout that period, the consumer cyclicals sector experienced several significant declines: 14.6% in 2018, 16.1% in 2020, and 5.5% in 2022. The largest declines occurred during the pandemic when economic activity and consumer spending slowed. Additionally, in 2022, a number of companies in the consumer cyclicals sector were placed on the Indonesia Stock Exchange's special monitoring list due to fundamental issues, such as negative equity and stock prices below Rp51 per share. These conditions indicate that some companies are facing challenges in maintaining their performance and market confidence.

The capital market perspective, a company's deteriorating fundamentals can shape investors' negative perceptions of the company's future prospects. These perceptions have the potential to reduce investor interest in purchasing the company's shares, leading to a decline in demand and downward pressure on the stock price. Since the stock price is one of the primary proxies for a company's value, a decline in the stock price reflects a decline in the company's value in the eyes of investors. This phenomenon indicates that companies need to have strategies capable of boosting market confidence and reinforcing investors' positive perceptions of the company's prospects.

The relationship between corporate information and investor response can be explained through Signaling Theory, as proposed by Spence (1973), this theory explains that management possesses more complete information about the company's condition than external parties, resulting in information asymmetry. To reduce this asymmetry, companies can convey various types of information that reflect the company's quality and prospects to investors. This information will be interpreted as signals that influence investment decisions. Positive signals will increase investor confidence, drive demand for shares, and ultimately increase the company's value. Conversely, negative signals can reduce investor interest and lead to a decline in the company's value.

One factor that investors often use to assess a company's quality is profitability. Profitability reflects a company's ability to generate profits from its resources. The higher a company's profitability, the greater its ability to generate returns for shareholders. From the perspective of Signaling Theory, a high level of profitability can serve as a positive signal regarding the effectiveness of a company's management and its future business prospects. Therefore, companies with high profitability tend to receive better evaluations from investors, thereby increasing their corporate value (Ross et al., 2016).

Besides profitability, another factor expected to influence a company's value is Good Corporate Governance (GCG). The implementation of GCG is important because the separation of ownership and management functions can give rise to conflicts of interest between shareholders and management. According to Agency Theory, such conflicts can result in agency costs that ultimately reduce a company's value (Jensen & Meckling, 1976). Therefore, companies need effective governance mechanisms to ensure that management's decisions align with shareholders' interests.

One of the mechanisms of Good Corporate Governance frequently used in research is the independent director. Independent directors play a role in overseeing management policies, maintaining objectivity in decision-making, and ensuring the implementation of the principles of corporate transparency and accountability. The presence of independent directors can also improve the quality of oversight over financial reporting, thereby reducing the potential for opportunistic actions by management. As the quality of corporate governance improves, investors are expected to have a higher level of confidence in the company, which can lead to an increase in the company's value (Effendi, 2009).

Another factor often associated with a company's value is its size. Company size reflects the extent of the economic resources a company possesses and is generally measured by total assets. Larger companies tend to have broader access to funding sources, better operational capabilities, and a higher level of stability compared to smaller companies. Within the framework of Signaling Theory, company size can serve as a signal of the company's ability to survive and grow in the long term. Therefore, investors generally place greater trust in companies with large assets and strong market positions, which has the potential to increase the company's value (Komara et al., 2020).

Although the relationship between profitability, good corporate governance, firm size, and firm value has been extensively studied, previous research findings remain mixed. Several studies have found that profitability has a positive effect on firm value because a company's ability to generate profits is viewed as a positive signal for investors. These findings are supported by the research of Chang and Wirianata (2025), Saputra and Yanti (2025), also Kelvin et al., (2025) which show that companies with high profitability tend to have higher firm value. However, studies by Dahlia et al., 2024, also Inrawan and Lie (2024) yielded different results, namely that profitability has no significant effect or even a negative effect on firm value. These differing results indicate that the ability of profitability to increase firm value is still influenced by industry characteristics and prevailing economic conditions.

Furthermore, a significant research gap remains in terms of industry context. Most previous studies have focused on manufacturing, infrastructure, energy, banking, food and beverage, and consumer non-cyclical sectors. Empirical evidence specifically examining the determinants of firm value within the consumer cyclicals sector remains relatively limited, particularly during periods encompassing both the COVID-19 pandemic and post-pandemic recovery. Given the sector's high sensitivity to economic fluctuations and consumer spending behavior, additional research is necessary to provide a deeper understanding of the factors influencing firm value.

This study therefore addresses the existing research gap by examining the effects of profitability, Good Corporate Governance, and firm size on firm value among consumer cyclical companies listed on the Indonesia Stock Exchange during the period 2018–2022. The study contributes to the literature by providing empirical evidence from a sector that has received relatively limited attention in previous research and by examining firm value determinants during a period characterized by substantial economic disruption and recovery. The findings are expected to enrich the literature on corporate finance and corporate governance while providing practical insights for investors, corporate managers, and policymakers seeking to enhance firm value in emerging markets.

LITERATURE REVIEW

Signalling Theory

Signaling theory explains how management, as the company's administrators, possesses more complete information about the company's condition and prospects than external parties, particularly investors. This situation gives rise to information asymmetry—that is, an imbalance in information between management and investors when assessing the company's performance and prospects. To reduce this information gap, management needs to disclose relevant information through financial statements, annual reports, announcements of company policies, and other information that accurately reflects the company's current condition. According to Suwardjono (2013), the information published by a company serves as a signal that investors can use in their investment decision-making process. The higher the quality and transparency of the information provided, the easier it is for investors to assess the company's prospects, thereby minimizing uncertainty in decision-making.

The signals a company sends to the capital market can include information regarding its profitability, the implementation of Good Corporate Governance (GCG), and the company's size. High profitability reflects a company's ability to generate profits and indicates favorable future business prospects, thereby boosting investor confidence. The effective implementation of Good Corporate Governance also serves as a positive signal because it demonstrates a transparent, accountable, and responsible corporate management system, thereby reducing investment risk. Additionally, a large company size is often perceived as an indicator of stability and the company's ability to navigate various business conditions. These various positive signals are expected to increase investor interest in the company's stock, which ultimately drives up the stock price and firm value. Therefore, signaling theory is used in this study as the theoretical foundation to explain the effects of profitability, Good Corporate Governance, and firm size on firm value.

Agency Theory

Agency Theory explains the contractual relationship between a company's owners (principals) and management (agents), who are granted the authority to manage the company's resources to achieve predetermined objectives. This theory was first proposed by Jensen and Meckling (1976) who argued that the separation of ownership and control within a company can lead to conflicts of interest. Management, as the agent, has greater access to company information than the owners, which can potentially lead to information asymmetry. Under certain conditions, management may make decisions that prioritize personal interests, such as seeking higher compensation, increasing their power, or engaging in other opportunistic actions that do not always align with shareholders' goals of maximizing corporate value. These conflicts of interest then give rise to agency costs—the costs incurred to monitor, control, and ensure that management acts in the best interests of the company's owners.

The company needs effective oversight mechanisms through the implementation of Good Corporate Governance (GCG) to mitigate these potential agency conflicts. One key mechanism in corporate governance is the Board of Commissioners—particularly the Independent Commissioners—who are responsible for objectively overseeing management's performance and policies. Independent Commissioners are expected to carry out their oversight functions without interference from management or controlling shareholders, so that the decisions made by the company better reflect the interests of all stakeholders. Furthermore, the application of GCG principles—such as transparency, accountability, responsibility, independence, and fairness—can help create a more effective and trustworthy corporate management system. According to Sochib (2016), effective oversight through corporate governance mechanisms can improve the quality of decision-making, reduce the risk of abuse of authority by management, and increase investor confidence in the company. Thus, agency theory serves as a relevant foundation for explaining the importance of Good Corporate Governance as a control mechanism for enhancing corporate value.

Enterprise Value

Enterprise value is a measure of a company's success in creating value for shareholders, as reflected in investors' perceptions of the company in the capital market. Enterprise value is often associated with stock price because the stock price reflects the market's assessment of the company's financial condition, operational performance, and future growth prospects. Corporate value indicates how investors assess a company's ability to manage its resources to generate profits and ensure business sustainability (Putri & Putri, 2022). The higher the corporate value, the greater the level of investor confidence in the company's ability to create added value. This aligns with Harmono (2022) view that a high stock price reflects investors' positive expectations regarding the company's performance, thereby enhancing shareholder prosperity—the company's primary objective.

A company's value can be measured using various indicators, one of which is Tobin's Q, which is widely used in financial and capital market research. Tobin's Q is a ratio that compares a company's market value to the value of its assets, thereby showing how the market values the company's potential relative to the book value of its assets. This ratio is considered more comprehensive than other measures, such as Price-to-Book Value (PBV), because it not only takes equity value into account but also considers the company's total assets, including both tangible and intangible assets. A Tobin's Q value greater than one indicates that the market assigns a higher valuation than the company's asset value, suggesting strong growth prospects and favorable investment opportunities. Conversely, a low Tobin's Q value may suggest that the market perceives the company as less capable of optimally utilizing its assets. Therefore, Tobin's Q is considered capable of providing a more accurate picture of a company's value and investors' expectations regarding the company's future performance.

Profitability

Profitability refers to a company's ability to generate profit from all of its operational activities carried out during a specific period. The profitability ratio indicates the extent to which a company is able to manage its resources—such as assets, capital, and sales—to generate optimal profits. Profitability ratios reflect the final results of various management decisions and policies related to liquidity management, operational activities, capital structure, and the efficient use of a company's assets (Brigham & Houston, 2018). Therefore, profitability is often used as a key indicator to assess a company's financial performance because it illustrates the level of management's effectiveness and efficiency in achieving the company's objectives. One of the most widely used measures of profitability in research is Return on Assets (ROA), a ratio that measures a company's ability to generate net income based on its total assets. The higher the ROA value, the better the company's ability to utilize its assets to generate profits.

High profitability indicates that a company has strong financial performance and is capable of generating profits on a sustainable basis. This sends a positive signal to investors regarding the company's ability to create added value and ensure the sustainability of its business in the future. According to Harmono (2022), companies capable of generating high profits tend to be more attractive to investors because they have greater potential to provide a return on investment, whether in the form of dividends or rising stock prices. Furthermore, a high level of profitability also reflects a company's ability to manage business risks and capitalize on available growth opportunities. From a signaling theory perspective, information regarding profitability serves as a key signal that investors use to assess a company's prospects. Consequently, profitability is often considered a primary factor in investment decision-making and is expected to have a positive impact on increasing a company's value.

Good Corporate Governance

Good Corporate Governance (GCG) is a system, process, and set of rules used to guide and control a company so that its operations run effectively, efficiently, and responsibly. The implementation of Good Corporate Governance aims to strike a balance between the interests of shareholders, management, creditors, the government, employees, and other stakeholders so that the company can achieve its business objectives in a sustainable manner. Through good corporate governance, companies are expected to enhance transparency in information disclosure, strengthen management accountability, and minimize the potential for abuse of authority that could harm the company and its investors. The implementation of GCG is also a key factor in boosting market confidence, as it reflects a company's commitment to sound and professional business practices. In general, Good Corporate Governance is based on five key principles—transparency, accountability, responsibility, independence, and fairness—which serve as guidelines for modern corporate management.

One of the key mechanisms in the implementation of Good Corporate Governance is the presence of Independent Commissioners as part of the Board of Commissioners. Independent Commissioners play a strategic role in overseeing management policies and actions without being influenced by the interests of any particular party. According to Sochib (2016), an Independent Commissioner is a member of the Board of Commissioners who has no financial, managerial, shareholding, or family ties with the controlling shareholders, the Board of Directors, or other commissioners, thereby enabling them to carry out their oversight duties objectively and independently. The presence of independent commissioners is expected to reduce conflicts of interest between management and shareholders, improve the quality of decision-making, and promote transparency in corporate management. The larger the proportion of Independent Commissioners in the board's structure, the stronger the oversight function that can be exercised over management. Thus, the implementation of Good Corporate Governance—as measured by the proportion of Independent Commissioners—is viewed as one mechanism that can enhance investor confidence and support an increase in corporate value, although various empirical studies still show mixed results regarding this relationship.

Company Size

Company size is one of the characteristics of a company that indicates the scale of its operations and the resources it possesses in conducting its business activities. Company size can be measured using various indicators, such as total assets, total sales, number of employees, and market capitalization. Company size reflects a company's capacity to manage economic resources as well as its ability to ensure long-term business sustainability (Brigham & Houston, 2018). Company size is generally proxied in accounting and finance research using the natural logarithm (Ln) of total assets, as total assets are considered to represent the company's overall resources. The use of the natural logarithm also aims to reduce excessive differences in scale between companies, thereby making the data more normally distributed and easier to analyze statistically. Therefore, firm size is often used as a key variable in research related to financial performance, capital structure, and firm value.

Larger companies are generally considered to have a competitive advantage over smaller ones. The size of their assets reflects their ability to secure financing, expand their operations, develop innovations, and manage various business risks arising from changes in economic conditions or market competition. In addition, large companies typically have a better reputation, a higher level of transparency, and broader access to capital markets, thereby boosting investor confidence. From a signaling theory perspective, a large company size can serve as a positive signal indicating operational stability and better future growth prospects. However, a large company size can also pose challenges in the form of increased organizational complexity, higher operating costs, and a greater potential for agency problems due to the broad scope of corporate management. These conditions mean that the effect of firm size on firm value is not always consistent across studies. Nevertheless, in general, larger firms tend to be perceived as more capable of creating value for shareholders, thereby potentially increasing firm value in the eyes of investors.

Hypothesis Development

Profitability and Firm Value (H1)

Profitability reflects a company's ability to generate earnings from its assets and operational activities. According to Signaling Theory (Spence, 1973), profitability serves as an important signal that communicates the firm's financial performance and future prospects to investors. A higher level of profitability indicates effective management performance and a greater capacity to generate returns for shareholders. Consequently, investors tend to perceive highly profitable firms more favorably, leading to increased demand for their shares and a higher market valuation.

Empirical studies have consistently shown that profitability contributes positively to firm value. Chang and Wirianata (2025), Saputra and Yanti (2025), and Kelvin et al. (2025) found that firms with higher profitability tend to exhibit higher market value because investors interpret strong earnings performance as a positive indicator of future growth and sustainability.

Based on the theoretical arguments and empirical evidence, the following hypothesis is proposed:

H1: Profitability has a positive effect on firm value.

Good Corporate Governance and Firm Value (H2)

Good Corporate Governance (GCG) refers to a system of rules, practices, and processes that directs and controls corporate activities. Agency Theory Jensen and Meckling (1976) argues that conflicts of interest may arise between managers and shareholders due to the separation of ownership and control. Effective governance mechanisms are therefore required to minimize agency conflicts and ensure that managerial decisions align with shareholders' interests. One important governance mechanism is the presence of independent commissioners. Independent commissioners are expected to strengthen oversight, improve transparency, enhance accountability, and reduce opportunistic managerial behavior. As a result, investors may perceive firms with stronger governance structures as less risky and more reliable, which can contribute to higher firm value. Previous studies conducted by Ammann et al. (2011) and Putri and Putri (2022) reported that the implementation of Good Corporate Governance positively affects firm value by increasing investor confidence and improving monitoring effectiveness.

Therefore, the following hypothesis is formulated:

H2: Good Corporate Governance has a positive effect on firm value.

Firm Size and Firm Value (H3)

Firm size reflects the scale of a company's operations and resources and is commonly measured by total assets. Larger firms generally possess stronger financial capacity, greater market power, broader access to financing, and better opportunities for expansion. According to Signaling Theory, firm size can serve as a positive signal regarding the company's stability and long-term growth prospects. Large firms are often perceived as more

capable of surviving economic uncertainty because they have greater resources and operational flexibility. This perception may encourage investors to place higher valuations on larger firms. Furthermore, larger companies tend to attract more analyst coverage and public attention, thereby reducing information asymmetry between management and investors. Previous empirical studies have found that larger firms generally enjoy higher market valuations due to their perceived stability and growth potential (Komara et al., 2020; Afridi et al., 2022).
Based on these arguments, the following hypothesis is proposed:
H3: Firm size has a positive effect on firm value.

Conceptual Framework

Based on these theoretical arguments, profitability, Good Corporate Governance, and firm size are positioned as independent variables, while firm value serves as the dependent variable. The conceptual framework illustrates the direct relationships between these variables and forms the basis for the formulation and testing of the research hypotheses presented in this study.

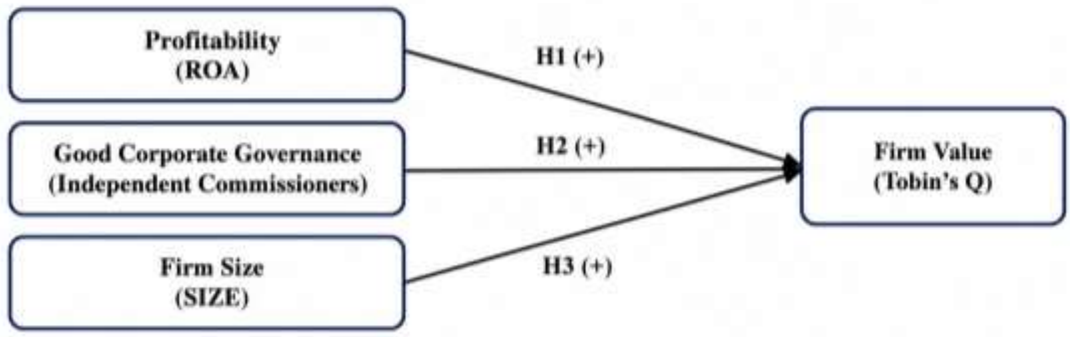

Figure 1. Conceptual Framework

METHODS

This study employs a quantitative approach using an associative research design aimed at analyzing and explaining the causal relationship among the variables under study. This approach was chosen because it provides empirical evidence regarding the influence of independent variables on the dependent variable through measurable statistical tests. In this study, firm value is positioned as the dependent variable, while profitability, Good Corporate Governance (GCG), and firm size serve as independent variables. The data used are secondary data obtained from the annual financial reports of companies in the consumer cyclicals sector listed on the Indonesia Stock Exchange (IDX) for the period 2018–2022. Data sources were obtained through official publications of the Indonesia Stock Exchange as well as annual reports available on each company's official website. Data collection was conducted from March to May 2024 by searching for and documenting relevant information as required by the study.

The population in this study comprises all companies in the consumer cyclicals sector listed on the Indonesia Stock Exchange during the observation period. The sample was selected using a non-probability sampling technique with a purposive sampling method, in which the sample is determined based on specific criteria tailored to the research objectives. Based on the selection process, 47 companies were identified as meeting the sample criteria. With an observation period of five years, the total number of research data points reached 235 observations. The analysis technique used was panel data regression, as it combines cross-sectional and time-series data dimensions, resulting in more accurate and efficient estimates. The analysis began with descriptive statistics to characterize the research data, followed by the selection of a panel data regression model using the Chow and Hausman tests to determine the most appropriate model. Next, classical assumption tests were conducted, including tests for heteroscedasticity and multicollinearity, to ensure the model's validity. Hypothesis testing was performed through panel data regression analysis, which included partial tests (t-tests), simultaneous tests (F-tests), and the coefficient of determination (R^2) to measure the ability of the independent variables to explain variations in firm value.

RESULT

Descriptive statistical analysis was used to provide an overview of the research data, including the mean, minimum, maximum, and standard deviation for each variable. The results of the descriptive statistical analysis are presented in Table 1.

Table 1. Results of Descriptive Statistical Tests

	Q	ROA	IC	Size
Mean	0,932373	-0,000128	0,409361	28,23091
Median	0,866300	0,010100	0,400000	28,18310
Maximum	2,346500	0,428300	1,000000	30,67400
Minimum	0,215800	-0,522400	0,300000	24,56550
Std. Dev.	0,387778	0,087956	0,134144	1,384908
Observations	235	235	235	235

Source: data processed by the researcher

Based on Table 1, the firm value proxied by Tobin's Q had a minimum value of 0.215800, recorded for PT Greenwood Sejahtera Tbk in 2020, and a maximum value of 2.346500, recorded for PT Fortune Indonesia Tbk in 2021. The average firm value was 0.932373 with a standard deviation of 0.387778. The profitability variable (ROA) had a minimum value of -0.522400 recorded by Bukit Uluwatu Villa Tbk in 2020, and a maximum value of 0.428300 recorded at PT Pudjiadi & Sons Tbk in 2022, with a mean of -0.000128 and a standard deviation of 0.087956.

The Good Corporate Governance variable, proxied by the proportion of independent commissioners, has a minimum value of 0.300000 and a maximum value of 1.000000, with a mean of 0.409361 and a standard deviation of 0.134144. Meanwhile, the firm size variable has a minimum value of 24.56550, recorded for PT Fortune Indonesia Tbk in 2021, and a maximum value of 30.67400, recorded for PT Mitra Adiperkasa Tbk in 2022, with a mean of 28.23091 and a standard deviation of 1.384908.

Panel Data Regression Model Selection Test

1. **Chow Test**

The Chow test was conducted to determine which panel data regression model is more appropriate: the Common Effects Model (CEM) or the Fixed Effects Model (FEM). The results of the Chow test are presented in Table 2.

Table 2. Results of the Chow Test

Effects Test	Prob.
Cross-section F	0,0000
Cross-section Chi-Square	0,0000

Source: data processed by the researcher

Table 2 shows that the probability value for the Cross-section F is 0.0000, which is smaller than the significance level of 0.05. Thus, the model selected based on the Chow test is the Fixed Effects Model (FEM).

2. **Hausman Test**

The Hausman test was conducted to determine which model is more appropriate: the Fixed Effects Model (FEM) or the Random Effects Model (REM). The results of the Hausman test are presented in Table 3.

Table 3. Results of the Hausman Test

Test Summary	Prob.
Cross-section random	0,0000

Source: data processed by the researcher

Table 3 shows that the probability value for "Cross-section random" is 0.0000, which is smaller than the significance level of 0.05. Thus, the most appropriate panel data regression model to use in this study is the Fixed Effects Model (FEM).

3. **Classical Assumption Tests**

Based on the results of the model selection test, the most appropriate model for this study is the Fixed Effects Model (FEM). In panel data regression analysis, this type of model can use the Ordinary Least Squares (OLS) approach. According to Kuncoro (2009), the OLS approach does not require normality or autocorrelation tests. Therefore, the classical assumption tests conducted in this study include tests for heteroscedasticity and multicollinearity.

4. Heteroscedasticity Test

The heteroscedasticity test in this study was conducted using the Harvey test, which involves regressing the absolute values of the residuals against the independent variables. The results of the heteroscedasticity test are presented in Table 4.

Table 4. Heteroscedasticity Test Results

Prob. Chi-Square	Conclusion
0,0745	No heteroscedasticity

Source: data processed by the researcher

Table 4 shows that the Chi-Square probability value for this study's model is greater than 0.05. Thus, it can be concluded that the regression model in this study does not exhibit heteroscedasticity.

5. Multicollinearity Test

The multicollinearity test was conducted by examining the Tolerance and Variance Inflation Factor (VIF) values. The results of the multicollinearity test are presented in Table 5.

Table 5. Results of the Multicollinearity Test

Variable	VIF	Conclusion
ROA	1,054277	No multicollinearity
IC	1,027364	No multicollinearity
Size	1,039345	No multicollinearity

Source: data processed by the researcher

Table 5 shows that all independent variables in this study have centered VIF values less than 10. Thus, it can be concluded that the regression model in this study does not suffer from multicollinearity.

Multiple Linear Regression Analysis

A multiple linear regression analysis was conducted to test the effects of the independent variables—profitability, good corporate governance, and firm size—on the dependent variable, firm value. The results of the regression test are presented in Table 6.

Table 6. Hasil Uji Regresi

Variable	Coefficient	Std. Error	t-Stat / Prob.
C	20,92676	2,555753	8,188100 / 0,0000
ROA	0,439487	0,196182	2,240197 / 0,0263
IC	0,123163	0,185496	0,663963 / 0,5075
Size	-0,710028	0,090468	-7,848365 / 0,0000

Source: data processed by the researcher

Based on Table 6, the results of the multiple linear regression test can be expressed in the following equation:

$$\textit{Tobin's } Q = 20{,}92676 + 0{,}439487\, ROA + 0{,}123163\, IC - 0{,}710028\, Size + e$$

Hypothesis Testing

1. Partial Test (t-Test)

Hypothesis testing using the t-test was conducted to determine the effect of each independent variable on the dependent variable. The test results for each variable are summarized as follows.

a. The Effect of Profitability on Firm Value

Based on Table 6, the regression coefficient for profitability is 0.439487, with a t-statistic of 2.240197 and a significance level of 0.0263. Since this significance level is less than 0.05, it can be concluded that profitability has a positive effect on firm value. Thus, the first hypothesis is accepted.

b. The Effect of Good Corporate Governance on Firm Value

Based on Table 6, the regression coefficient for Good Corporate Governance is 0.123163, with a t-statistic of 0.663963 and a significance level of 0.5075. Since this significance level is greater than

0.05, it can be concluded that Good Corporate Governance has no effect on firm value. Thus, the second hypothesis is rejected.

c. The Effect of Firm Size on Firm Value

Based on Table 6, the regression coefficient for firm size is negative at -0.710028, with a t-statistic of -7.848365 and a significance level of 0.0000. Since this significance level is less than 0.05, it can be concluded that firm size has a negative effect on firm value. Thus, the third hypothesis is rejected.

2. Simultaneous Test (F-Test)

A simultaneous test was conducted to examine the combined effect of all independent variables on the dependent variable. The results of the F-test are presented in Table 7.

Table 7. Results of the Simultaneous Test (F-Test)

F	Sig.	Conclusion
15,48745	0,000000	Significant

Source: data processed by the researcher

Table 7 shows that the F-value in this research model is 15.48745 with a significance level of 0.000000. This means that H0 is rejected and H1 is accepted; thus, it can be interpreted that profitability, good corporate governance, and firm size simultaneously influence firm value in the consumer cyclicals sector listed on the Indonesia Stock Exchange for the 2018–2022 period.

3. Coefficient of Determination Test (Adjusted R^2)

The coefficient of determination test was conducted to assess how well a model explains the variation in the dependent variable that can be attributed to the independent variables. The results of the coefficient of determination test (Adjusted R^2) are presented in Table 8.

Table 8. Results of the Coefficient of Determination Test (Adjusted R^2)

Variabel Independen	Adjusted R^2
ROA, IC, Size	0,752088

Source: data processed by the researcher

Table 8 shows that the Adjusted R^2 value in this study is 0.752088. This means that the ability of the independent variables—namely, profitability, good corporate governance, and firm size—to explain the variation in firm value is 75.2088%, while the remaining 24.7912% is explained by other factors not examined in this study.

DISCUSSION

The Effect of Profitability on Firm Value

The results of the first hypothesis test indicate that profitability has a positive and significant effect on firm value. This is indicated by a regression coefficient of 0.439487 with a significance value of 0.0263, which is less than 0.05. These findings suggest that the higher a company's profitability, the higher its value as reflected in investors' assessments in the capital market. These results are consistent with the studies by Isnaeni et al., (2021), Ristiani and Sudarsi (2022), and Akhmadi and Januarsi (2021) which found that profitability has a significant positive effect on firm value. However, the results of this study differ from those of Fridatien and Romadon (2023) who found a significant negative effect of profitability on firm value.

These findings can be explained by Signaling Theory, which states that information regarding a company's ability to generate profits can serve as a positive signal to investors regarding the company's future prospects (Spence, 1973). High profitability reflects management's success in effectively managing the company's assets and resources to generate profits. According to Brigham and Houston (2018), companies capable of generating high profits tend to be perceived as having sound financial conditions and promising growth prospects. These conditions boost investor confidence in investing their capital, thereby increasing demand for the company's shares and leading to higher stock prices and an increase in the company's value.

Profitability is a key indicator for companies in the consumer cyclicals sector, as this sector is heavily influenced by consumer spending levels and economic conditions. Companies that are able to maintain high profitability demonstrate an ability to adapt to market changes, manage costs efficiently, and create products that meet consumer needs. According to Harmono (2022), profitability reflects a company's operational effectiveness, which ultimately contributes to enhancing shareholder welfare. Therefore, the high profitability of consumer cyclicals companies during the study period helped boost investor confidence, drive an increase in stock demand, and ultimately enhance the company's value, as reflected in higher stock market prices.

The Effect of Good Corporate Governance on Firm Value

The results of the second hypothesis test show that Good Corporate Governance (GCG)—proxied by the proportion of independent commissioners—has a regression coefficient of 0.123163, with a t-statistic of 0.663963 and a significance level of 0.5075. A significance level greater than 0.05 indicates that Good Corporate Governance does not have a significant effect on firm value. Thus, the hypothesis stating that Good Corporate Governance affects firm value cannot be accepted. These findings are consistent with the study by Winningsih and Rejeki (2022) which found that Good Corporate Governance mechanisms do not affect firm value. However, these findings differ from the studies by Simanjuntak et al., (2025), and Ammann et al., (2011) which showed that the implementation of Good Corporate Governance can increase firm value by enhancing investor confidence and the effectiveness of management oversight.

Theoretically, based on Agency Theory, the presence of independent commissioners is expected to reduce conflicts of interest between management and shareholders through a more objective and independent oversight function. Effective oversight should improve the quality of managerial decision-making, thereby sending positive signals to investors and leading to an increase in firm value. However, the results of this study indicate that the proportion of independent commissioners in companies in the consumer cyclicals sector has not yet had a significant impact on market valuation. This finding reinforces the results of Bakhtiar et al., (2021), Amaliyah and Herwiyanti (2019), Armstrong et al., (2014), and Nugraha and Wirajaya (2024) who state that the presence of independent commissioners is often more of a formality to meet regulatory requirements—particularly those set by the Financial Services Authority—rather than serving a substantive role in enhancing the effectiveness of corporate governance. Consequently, investors tend not to consider the proportion of independent commissioners as a primary factor in assessing a company's prospects and value; thus, changes in the number of independent commissioners do not directly translate into an increase in corporate value.

The insignificant effect of independent commissioners may also reflect the characteristics of the consumer cyclical sector in Indonesia. Investors in this sector tend to focus more on financial performance indicators such as profitability, revenue growth, and market prospects than on governance structures. In addition, the appointment of independent commissioners may primarily serve regulatory compliance purposes rather than functioning as an effective monitoring mechanism. Consequently, variations in the proportion of independent commissioners may not generate a sufficiently strong signal to influence market valuation.

The Effect of Firm Size on Firm Value

The results of the third hypothesis test show that firm size has a regression coefficient of -0.710028 with a t-value of -7.848365 and a significance level of 0.0000, which is less than 0.05. These results indicate that firm size has a significant negative effect on firm value in the consumer cyclicals sector. Thus, the larger the firm size, the lower the firm value as reflected in its stock price. This finding is consistent with the study by Krisnando and Novitasari (2021) which found that firm size has a negative effect on firm value, but differs from the study by Afridi et al., (2022) concluded that firm size has a significant positive effect on firm value. These differing results suggest that the effect of firm size on firm value can vary depending on industry characteristics, market conditions, and investor behavior.

Theoretically, the results of this study do not fully support Signaling Theory, which states that large companies are perceived more favorably by investors because they have greater resources, broader access to financing, and a higher level of operational stability. Conversely, the findings of this study indicate that the size of a company's assets does not necessarily lead to an improvement in the market's perception of the company's prospects. According to Ramdhonah et al., (2019), companies with large total assets tend to retain most of their earnings to support expansion and operational needs rather than distributing them as dividends. This situation can be viewed as an unfavorable signal for investors seeking short-term returns through dividend payments. Consequently, investor interest in the stocks of large companies may decline, leading to a drop in stock prices and corporate value.

The results of this study can also be explained by the size effect anomaly, which indicates an inverse relationship between company size and stock returns. This anomaly was first proposed by Banz (1981) who found that small-sized companies tend to generate higher stock returns compared to large-sized companies. A similar explanation was also put forward by Shabri et al., (2023) who stated that investors are often more interested in the stocks of small-cap companies because they are perceived to have greater growth potential and capital gains. In the consumer cyclicals sector, investors likely view large companies as having reached a relatively mature stage of growth, thereby limiting the potential for future performance improvements. This situation results in relatively lower demand for the stocks of large companies compared to smaller ones, leading to a decline in stock prices and, ultimately, a reduction in company value.

CONCLUSION

This study examined the effects of profitability, Good Corporate Governance (GCG), and firm size on firm value among consumer cyclical companies listed on the Indonesia Stock Exchange during the 2018–2022 period. The findings reveal that profitability has a significant positive effect on firm value, indicating that investors perceive strong earnings performance as a positive signal of future prospects, thereby supporting Signaling Theory. In contrast, Good Corporate Governance, proxied by the proportion of independent commissioners, does not significantly affect firm value, suggesting that governance mechanisms may not yet be fully considered by investors as a key determinant of market valuation in the consumer cyclical sector. Furthermore, firm size is found to have a significant negative effect on firm value, indicating the possibility of a size-effect anomaly in which larger firms are not necessarily valued more highly by the market. Simultaneously, profitability, Good Corporate Governance, and firm size significantly influence firm value and explain 75.21% of its variation. Theoretically, these findings contribute to the literature on corporate finance, Signaling Theory, and Agency Theory by providing evidence from the consumer cyclical sector in an emerging market context. Practically, the results suggest that corporate managers should prioritize improving profitability to enhance firm value, while investors may use profitability as an important consideration in investment decision-making. This study is limited to three explanatory variables and a five-year observation period; therefore, future research is encouraged to incorporate additional determinants such as leverage, liquidity, dividend policy, ownership structure, growth opportunities, and macroeconomic factors, as well as extend the observation period and employ alternative governance proxies to obtain a more comprehensive understanding of the factors affecting firm value.

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