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The Effect of Profitability on Firm Value: The Role of Firm Size and Economic Crisis (2008–2024)

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Abstract: Profitability is a key indicator of a company's financial performance, influencing investor confidence and market valuation. However, its effect on firm value may vary depending on internal characteristics and external economic conditions. This study aims to analyze the effect of profitability on firm value by examining the moderating roles of firm size and economic crisis. Using a quantitative approach with moderated regression analysis, the research utilizes panel data from 2,050 companies listed in the Forbes Global 2000 during 2008–2024, resulting in 33,963 firm-year observations across multiple sectors and countries. Firm value is measured by market value (log-transformed), profitability by return on assets (ROA), and moderating variables include firm size and economic crisis, both measured as dummy variables. The results show that profitability significantly affects firm value, with a stronger impact for larger firms and a weaker impact during economic crises. Interaction analysis reveals that high profitability mitigates the negative effects of crises on firm value, indicating its role as a resilience factor. These findings highlight that the profitability–firm value relationship is contingent upon both internal attributes and macroeconomic conditions, offering insights for managers and investors in aligning strategic decisions with organizational capacity and prevailing economic environments.

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INTRODUCTION

Profitability is a fundamental indicator of a firm's financial health, reflecting its efficiency in managing resources to generate earnings. Data from the Forbes Global 2000 reveal substantial fluctuations in firm value, profitability, and assets during 2008–2024. Firm value stood at 38,238.43 in 2008, dropped sharply to 9,783.82 in 2009 due to the global financial crisis, and fluctuated before peaking at 44,204.77 in 2024.

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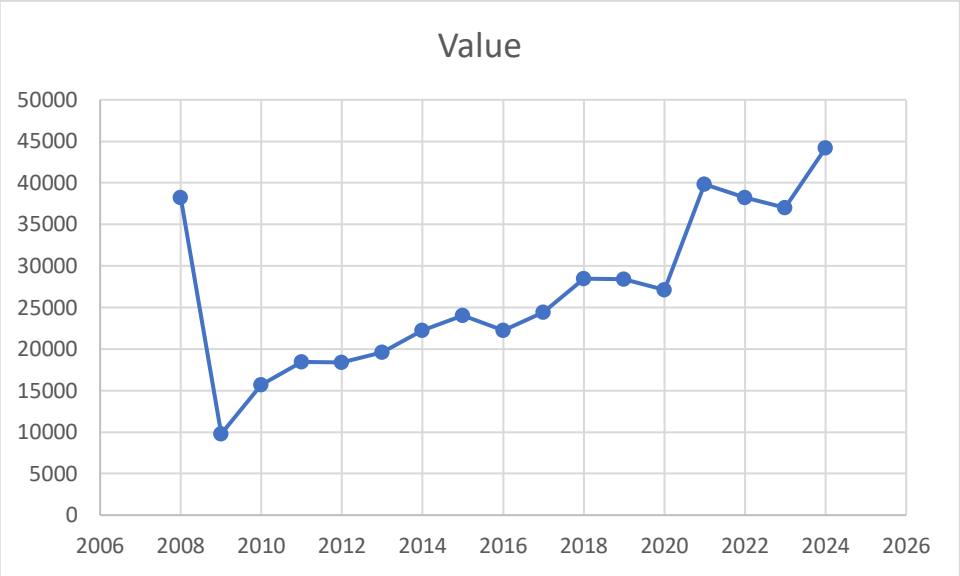

Figure 1. Trends in Firm Value (2008–2024)
Source: Processed data from Forbes Global 2000 (2008–2024)

Aggregate profitability also fell from 2,500.66 in 2008 to 815.76 in 2009, hitting its lowest point in 2010 (706.53) and peaking in 2022 (2,500.66).

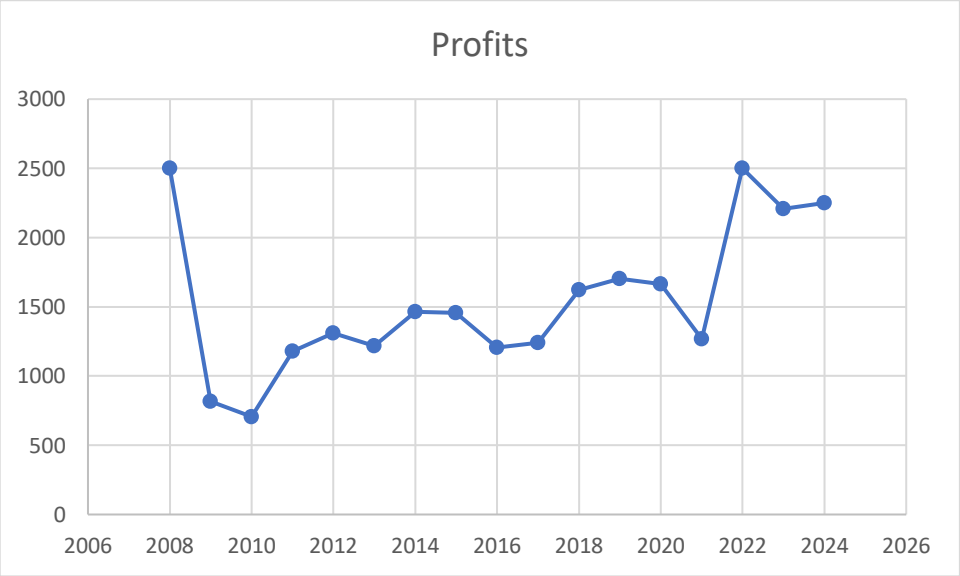

Figure 2. Trends in Profitability (2008–2024)
Source: Processed data from Forbes Global 2000 (2008–2024)

Meanwhile, total assets as a measure of firm size declined from 117,114.22 in 2008 to 62,300.70 in 2009, then increased steadily to 119,091.30 in 2024.

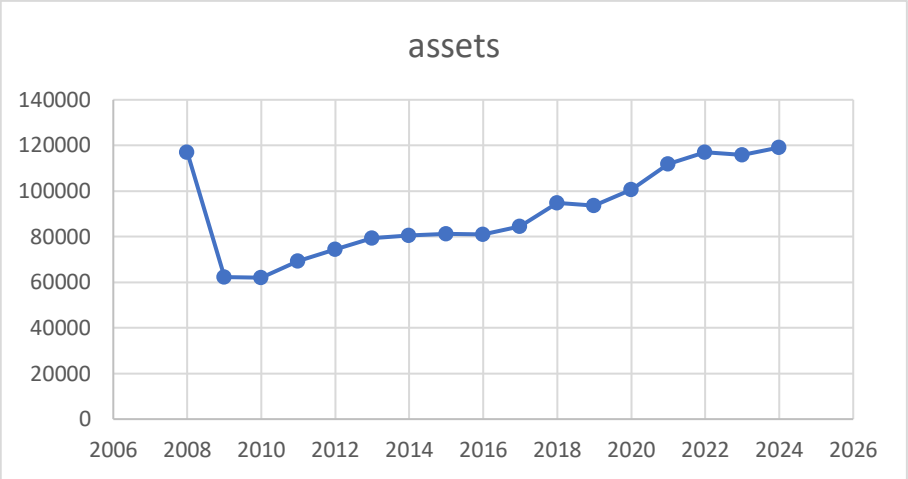

Figure 3. Trends in Assets (2008–2024)
Source: Processed data from Forbes Global 2000 (2008–2024)

The 2008–2024 period encompasses several global crises that significantly affected corporate performance and valuation. The 2008–2009 global financial crisis triggered sharp declines in firm value, profitability, and assets. The 2011–2012 Eurozone debt crisis and the 2018–2019 US–China trade war created market uncertainty and slowed growth. The COVID-19 pandemic in 2020 represented the most severe shock of the past decade, followed by the 2022 global energy and food crisis due to the Russia–Ukraine war. Ongoing inflationary pressures and global monetary tightening in 2023–2024 continued to weigh on markets, despite partial recovery in some sectors. This chronology highlights that external factors, particularly global economic crises, are key moderators in the profitability–firm value relationship.

Previous studies, such as Gautama et al. (2024) and Yanah & Sufiyati (2025), have found that profitability positively influences firm value by sending positive signals to the market. However, this relationship is not always linear or stable. During crises, heightened market uncertainty can make investor perceptions more volatile, potentially weakening or reversing the effect of profitability on firm value (Choi & Wang, 2023; Hanen et al., 2023). Firm size is another important factor that can moderate this relationship. Larger firms generally possess greater resources, broader diversification, and stronger credibility in capital markets, enabling them to leverage profitability more effectively to sustain or enhance market value (Berger & Udell, 2023; Yanah & Sufiyati, 2025). Nevertheless, there is limited research that simultaneously examines the moderating roles of firm size and economic crisis using long-term, multi-sector, cross-country data (Hirdinis, 2024; Khuong & Anh, 2023).

From the perspectives of signaling theory and contingency theory, the impact of profitability on firm value depends on both internal firm attributes and external economic conditions. However, empirical evidence integrating these perspectives remains scarce. Many previous studies employ cross-sectional designs, limiting their ability to capture the longitudinal dynamics of these relationships. This creates a theoretical gap that must be addressed to provide more robust guidance for decision-making in dynamic business environments.

Accordingly, this study aims to investigate the effect of profitability on firm value by incorporating the moderating roles of firm size and economic crisis, using panel data across multiple sectors and countries over the period 2008–2024. The findings are expected to contribute theoretically to corporate finance literature and practically to managerial and investment decision-making by aligning strategies with firm characteristics and prevailing macroeconomic conditions.

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METHODS

The population of this study consists of companies listed in the Forbes Global 2000 during the period 2008–2024. From this population, firms were selected based on the availability of complete annual data on market value, return on assets (ROA), and firm size classification for the entire observation period. After applying these criteria, the final sample comprised 2,050 unique companies from various sectors, resulting in 33,963 firm-year observations. The sample covers manufacturing, financial, technology, energy, and consumer goods firms, representing both developed and emerging markets.

This research employs a quantitative approach using Moderated Regression Analysis (MRA), which is an extension of multiple linear regression suitable for testing the moderating effects of firm size and economic crisis on the relationship between profitability and firm value. Data were obtained through documentation and secondary data processing from the Forbes Global 2000.

The variables in this study are defined as follows:

- Dependent variable: Firm value, measured by market value and transformed using the natural logarithm.
- Independent variable: Profitability, measured by Return on Assets (ROA) in ratio form.
- Moderating variables:
  1. Firm size (dummy variable: 1 = large firm, 0 = small firm).
  2. Global economic crisis (dummy variable: 1 = crisis year, 0 = non-crisis year).

The moderated regression model is specified as follows:

$$LOG\_VALUE_{it} = \beta0 + \beta1\ ROA_{it} + \beta2\ SIZE\_DUMMY_{it} + \beta3\ CRISIS\_DUMMY_{it} + \beta4\ (ROA_{it} \times SIZE\_DUMMY_{it}) + \beta5\ (ROA_{it} \times CRISIS\_DUMMY_{it}) + \varepsilon_{it}$$

Where:

- LOG_VALUE_{it} = Firm value in logarithmic form for firm i in year t.
- ROA_{it} = Profitability (Return on Assets) for firm i in year t.
- $SIZE\_DUMMY_{it}$ = Dummy variable for firm size (1 = large, 0 = small).
- $CRISIS\_DUMMY_{it}$ = Dummy variable for global economic crisis (1 = crisis year, 0 = non-crisis year).
- $\beta0$ = Constant term.
- $\beta1$–$\beta5$ = Regression coefficients.
- ε_{it} = Error term.

Expected Signs of Coefficients:

- $\beta1 > 0$: Higher profitability is expected to increase firm value.
- $\beta2 > 0$: Larger firms are expected to have higher firm value.
- $\beta3 < 0$: Economic crises are expected to reduce firm value.
- $\beta4 > 0$: The positive effect of profitability on firm value is expected to be stronger for larger firms.
- $\beta5 > 0$: Profitability is expected to mitigate the negative effect of economic crises on firm value.

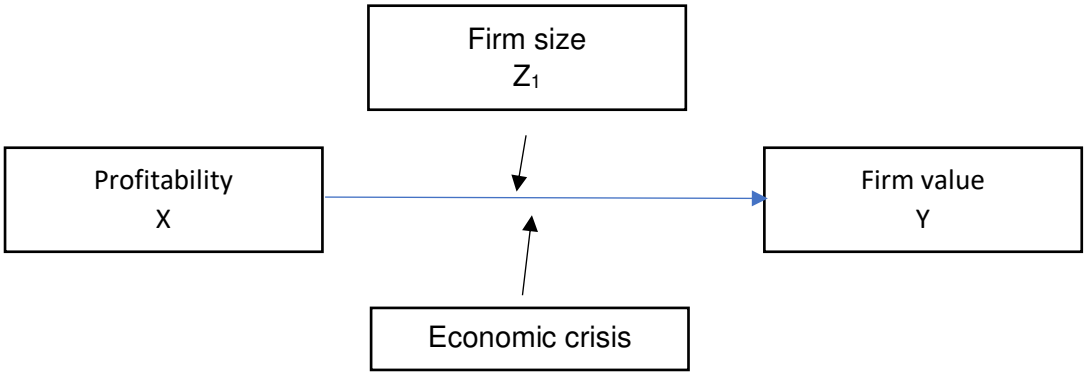

Figure 4. Research Framework: The Effect of Profitability on Firm Value with Firm Size and Economic Crisis as Moderating Variables
Source: Author's illustration (2025)

RESULTS AND DISCUSSION

Table 1. Model Summary of Moderated Regression Analysis (MRA)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.424	0.180	0.180	1.12558

Source: SPSS Output, processed by authors (2025)

The R value of 0.424 indicates a moderate positive correlation between the set of predictors (profitability, firm size, crisis dummy, and their interaction terms) and firm value. The R Square of 0.180 means that 18% of the variation in firm value is explained by the model. Although this may seem modest, it is common in financial models given the complexity of firm valuation, which is influenced by numerous non-financial factors. The Adjusted R Square being the same as R Square confirms that the model's explanatory power is stable and not inflated by irrelevant variables.

Table 2. ANOVA Results of Moderated Regression Analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	9,425.708	5	1,885.142	1,487.966	0.000
Residual	43,020.973	33,957	1.267		
Total	52,446.681	33,962			

Source: SPSS Output, processed by authors (2025)

The ANOVA table shows that the regression model is statistically significant ($F = 1{,}487.966$, $p < 0.001$). This means that the independent and moderating variables collectively explain a significant portion of the variation in firm value.

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Table 3. Coefficients of Moderated Regression Analysis

Variable	B	Std. Error	Beta	t	Sig.	Expected Sign
Constant	9.125	0.009	—	985.371	0.000	—
Profitability (ROA)	-0.043	0.010	-0.022	-4.387	0.000	(+)
Firm Size (Dummy)	0.175	0.013	0.070	13.221	0.000	(+)
Economic Crisis (Dummy)	-0.119	0.015	-0.041	-8.183	0.000	(−)
ROA × Size	13.947	0.190	0.390	73.304	0.000	(+)
ROA × Crisis	0.096	0.038	0.013	2.496	0.013	(+)

Source: SPSS Output, processed by authors (2025)

Interpretation and Discussion

The results show that profitability (ROA) has a negative and statistically significant effect on firm value (B = -0.043, p < 0.001). This finding contradicts the expected positive relationship stated in signaling theory, which posits that higher profitability should convey positive signals to the market, thereby increasing firm valuation. Similar anomalies have been observed in emerging markets, where high accounting profitability may be associated with earnings management practices or perceived risks that reduce investor confidence (Wijaya & Wibowo, 2023). This suggests that, in certain contexts, investors may discount profitability metrics when they perceive them as less reliable or disconnected from cash flow performance.

Firm size has a positive and significant impact on firm value (B = 0.175, p < 0.001), supporting both the contingency theory and prior empirical evidence (Berger & Udell, 2023; Chen et al., 2022). Larger firms typically have greater operational stability, more diversified revenue streams, and better access to capital markets, which enhance their resilience and attractiveness to investors.

The economic crisis variable exerts a negative and significant influence on firm value (B = -0.119, p < 0.001), aligning with studies by Irawan & Salim (2021) and Hamzah et al. (2023), which highlight that macroeconomic shocks reduce investor sentiment and market capitalization. This is consistent with contingency theory, which acknowledges that external environmental factors, such as global crises, can disrupt the typical financial performance–valuation relationship.

The interaction between profitability and firm size is both strong and positive (B = 13.947, p < 0.001), indicating that the positive impact of profitability on firm value is amplified in larger firms. This finding supports the argument of Kumar & Singh (2022) that scale advantages, market reputation, and resource endowments enable large firms to convert profitability into sustained market value more effectively than smaller firms.

Finally, the interaction between profitability and economic crisis is positive and significant (B = 0.096, p = 0.013), though with a smaller effect size. This suggests that profitability can act as a buffer during crises, mitigating their adverse effects on firm valuation. This result is consistent with the findings of Hamzah et al. (2023), who argue that firms with strong profitability and liquidity are better equipped to maintain investor confidence in turbulent times.

Overall, these findings provide empirical support for the application of both signaling theory and contingency theory in explaining firm value determinants. Profitability remains an important driver, but its influence is contingent upon firm-specific characteristics (size) and macroeconomic conditions (crises). These results highlight the need for managers to align financial strategies with both internal capacities and external realities to optimize firm value.

CONCLUSION

This study concludes that profitability significantly influences firm value, with the effect being amplified in larger firms and diminished during periods of economic crisis. Firm size strengthens the positive impact of profitability on firm value, while economic crises generally weaken it. Nevertheless, profitability serves as a partial buffer against the adverse effects of crises. These results confirm that the profitability–firm value relationship is contingent upon both internal firm characteristics and external macroeconomic conditions, emphasizing the need for managers and investors to align strategic decisions with firm size and prevailing economic circumstances.

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