

DETERMINANTS OF THE P/B RATIO IN THE COSMETIC SUBSECTOR IN INDONESIA

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ABSTRACT

The cosmetics industry in Indonesia has seen significant growth in recent years, driven by high competition, rapid consumer trend shifts, and the need for constant product innovation. This study aims to analyze the effects of capital structure, profitability, and firm size on the Price to Book Ratio (P/B Ratio) of companies in Indonesia's cosmetics subsector. Using a quantitative approach with a descriptive-verify analysis, the study population includes 10 cosmetics companies listed on the Indonesia Sharia Stock Index (ISSI) from 2021 to 2023, utilizing a saturated sample. Data were collected from each company's annual financial reports, focusing on variables such as Debt to Equity Ratio (DER), Return on Assets (ROA), and total assets as indicators of capital structure, profitability, and firm size, respectively. Multiple linear regression analysis was conducted to determine the impact of these financial metrics on firm value. The findings show that capital structure (DER) and profitability (ROA) positively and significantly affect the P/B Ratio, while firm size has no significant impact. These results imply that cosmetics companies should focus on managing debt strategically and improving profitability to enhance market valuation, as investors prioritize financial health and adaptability over sheer size.

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1 Introduction

The cosmetics industry in Indonesia has experienced unprecedented growth, underscoring its importance as a key contributor to the national economy. Between 2022 and mid-2023, the number of cosmetics companies surged by 21.9%, from 913 to 1,010. Moreover, exports of cosmetic products, fragrances, and essential oils amounted to USD 770.8 million from January to November 2023 (Humas Kemenko Perekonomian, 2024). Domestically, the potential market size for cosmetics in 2023 reached 467,919 products—

a more than tenfold increase over five years—while the global market is projected to grow to USD 473.21 billion by 2028, with an annual growth rate of 5.5% (Waluyo, 2024). This dynamic growth, coupled with intense competition and rapidly evolving consumer trends, underscores the need for rigorous financial assessment tools to evaluate firm performance and guide strategic decision-making.

A key metric for assessing company value in the cosmetics subsector is the Price to Book Value (P/B) ratio, which measures how well a company's intrinsic value aligns with its market valuation (Brigham & Houston, 2004). High P/B ratios typically reflect positive market sentiment and strong growth expectations, while low ratios suggest undervaluation or market skepticism (Brigham & Daves, 2017). However, understanding the drivers of P/B ratios in the cosmetics industry remains underexplored, especially given the sector's unique blend of high competition and consumer-centric dynamics. This research seeks to fill this gap by investigating how financial determinants such as capital structure, firm size, and profitability influence the P/B ratio in Indonesia's cosmetics subsector.

Previous studies on these determinants yield mixed and often contradictory findings, highlighting a significant research gap. Capital structure, for instance, is theorized to influence firm value through the trade-off theory, which suggests that an optimal level of debt enhances firm value. Dewi P. Y. (2014) found a positive relationship between capital structure and firm value, while Dewi A. S. (2013) and Ayako (2015) reported negative or non-significant effects depending on leverage levels. More recent studies, such as those by Munzir, Andriyan, & Hidayat (2023) and Yulandri et al. (2023), align with the latter findings, indicating no significant impact of leverage on firm value (Komalasari & Yulazri, 2023; Munzir et al., 2023; Yulandri et al., 2023).

Similarly, the role of firm size in determining firm value remains contested. Larger firms are often perceived as more stable and resource-rich, aligning with signaling theory, which predicts higher valuations for such firms. Pratama (2016) supports this view by finding a positive relationship between firm size and value (Pratama & Wikuswana, 2016). However, Onasis (2016) found a negative effect of firm size on firm value, contrasting with Hargiansyah (2015), who stated that firm size has no effect. Studies by Nafisah, Widjajanti, and Budiati (2023), Yulandri et al. (2023), and Komalasari & Yulazri (2023) also found that firm size does not significantly impact firm value (Komalasari & Yulazri, 2023; Nafisa & Nurul Khamimah, 2021; Yulandri et al., 2023).

Profitability is another critical variable frequently debated in the literature. While signaling theory posits that higher profitability enhances firm attractiveness, as supported by (Chen & Chen, 2011) and Nafisah et al. (2023), contradictory findings from Herawati (2013) and Rahayu (2014) suggest that profitability can negatively or insignificantly influence firm value. These inconsistencies indicate a need for more nuanced analyses, particularly within specific industries like cosmetics, which are driven by consumer preferences and innovation.

This research contributes to the literature by addressing these gaps and offering a sector-specific exploration of the cosmetics subsector in Indonesia, a market characterized by high competition and consumer-centric trends. By examining the relationships between capital structure, firm size, profitability, and the P/B ratio, this study seeks to clarify unresolved questions from previous research and provide actionable insights for investors, managers, and policymakers. This unique focus not only enriches understanding of

financial determinants in a rapidly growing industry but also offers practical implications for strategic financial decision-making in one of Indonesia's most vibrant economic sectors.

2 Literature Review

The trade-off theory and signaling theory are two primary theories used in analyzing firm value, particularly in understanding the effects of capital structure, firm size, and profitability on company value. According to trade-off theory, an optimal capital structure is achieved when a firm balances the benefits and costs of debt usage. Debt can provide benefits such as tax reductions, which are expected to increase the firm's value up to a certain point, beyond which bankruptcy risk begins to escalate. This theory posits that an appropriate capital structure can enhance a firm's value in the eyes of investors, as reflected in the Price to Book Value (P/B) ratio (Myers & Majluf, 1984).

A number of studies support the trade-off theory. Dewi P. Y. (2014) found that capital structure positively impacts firm value, indicating that moderate debt usage can increase the company's attractiveness to investors. Studies by Setiawati, Mariati, & Dewi (2023) and Fitriani, Anggarini, & Sihono (2023) show that the Debt to Equity Ratio (DER) has a significant positive effect on firm value, with investors viewing a high debt ratio as an opportunity for future profit growth. Bui, Nguyen, & Pham (2023) also found that the debt-to-assets ratio has a significant positive effect on firm value, where increased debt is seen as capable of enhancing firm value (Bui et al., 2023). These findings align with previous studies (Afeanti & Yuliana, 2021; Maptuha et al., 2021; Santoso & Budiarti, 2020; Yulandri et al., 2024) that suggest DER has a positive impact on firm value.

H₁: Capital structure affects the P/B Ratio

Signaling theory suggests that well-performing companies will seek to send positive signals to the market. In this context, firms with strong performance or high profitability may signal their value through various strategies, such as profit increases or expansion efforts, to attract investor interest and enhance company value. Signaling theory explains that firm size and profitability can shape investor perception, where larger and more profitable companies are considered more stable and appealing, thereby boosting market value, as reflected in the P/B ratio.

Profitability is a crucial indicator associated with firm value, especially as highly profitable companies are perceived as more stable and attractive to investors. Chen (2011) demonstrated that profitability positively impacts firm value, suggesting that investors tend to place a higher value on more profitable companies (Chen & Chen, 2011). This finding is supported by Komalasari & Yulazri (2023), who found that profitability has a significant effect on firm value, indicating that companies capable of generating high profits are viewed as more valuable (Komalasari & Yulazri, 2023).

Research by Setiawati, Mariati, & Dewi (2023) revealed that Return on Assets (ROA) has a significant impact on firm value, while Fitriani, Anggarini, & Sihono (2023) found that high Return on Equity (ROE) is associated with increased firm value (Fitriani, 2023). Similarly, Ristiani & Sudarsi (2022) demonstrated that profitability has a significant positive effect on firm value, indicating that companies with high profitability attract investor interest (Ristiani & Sudarsi, 2022). Herawan & Dewi (2021) found that profitability,

measured by ROA, significantly affects firm value, while Yulandri et al. (2023) observed that ROE, calculated using the DuPont method, has a significant positive impact on Tobin's Q, further reinforcing the idea that high profitability enhances firm value (Yulandri et al., 2023).

H₂: Profitability affects the P/B Ratio

Firm size is another factor often considered to influence firm value. According to signaling theory, larger companies are perceived as more stable and competitive, thereby sending a positive signal to the market. Pratama (2016) supports this theory by finding that firm size positively impacts firm value (Pratama & Wikusuana, 2016). Similarly, Ristiani & Sudarsi (2022) demonstrated that companies with larger assets tend to be more attractive to investors (Ristiani & Sudarsi, 2022).

H₃: Firm size affects the P/B Ratio

3 Research Methods

This study employs a quantitative approach with a descriptive-verification analysis method to examine the relationship between financial variables influencing firm value in the cosmetics subsector listed on the Indonesia Sharia Stock Index (ISSI). The research focuses on cosmetics companies that meet the ISSI criteria through 2023. Ten companies that meet these criteria form the study population, and the study utilizes a saturated sample approach, including the following companies:

1. PT Mustika Ratu Tbk (MRAT)
2. PT Unilever Indonesia Tbk (UNVR)
3. PT Kino Indonesia Tbk (KINO)
4. PT Mandom Indonesia Tbk (TCID)
5. PT Akasha Wira International Tbk (ADES)
6. PT Martina Berto Tbk (MBTO)
7. PT Kimia Farma Tbk (KAEF)
8. PT Paragon Technology and Innovation (WARDAH)
9. PT Cottonindo Ariesta Tbk (KPAS)
10. PT Victoria Care Indonesia Tbk (VICI)

The data used in this study are secondary data obtained from the annual financial reports of each company from 2021 to 2023. These data include information on financial variables such as capital structure, profitability, and firm size, which are subsequently analyzed to assess their relationship with firm value, as measured by the Price to Book Value (P/B) ratio.

The study uses independent variables, including capital structure proxied by the Debt to Equity Ratio (DER), profitability proxied by the Return on Assets (ROA), and firm size proxied by total assets. The dependent variable in this study is firm value, proxied by Price to Book Value (PBV) or P/B Ratio.

Data analysis is conducted using multiple linear regression to identify the impact of each financial variable on firm value. Prior to hypothesis testing, normality and multicollinearity tests will be performed to ensure the data meet the classical regression assumptions.

4 Results and Discussion

The results and discussion are presented in two distinct sections. First, the statistical testing results will be explained, followed by a discussion of the research findings, supported by relevant theories and previous studies.

4.1. Result

This section presents the statistical data analysis results processed through SPSS software. The data in this study is panel data consisting of 10 companies over three years (2021-2023). The statistical tests conducted include the normality test, multicollinearity test, descriptive statistics test, goodness of fit, correlation and coefficient of determination tests, and multiple regression analysis (regression coefficient and hypothesis testing).

**Table 1 Data Normality Test Results
One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Predicted Value
N		30
Normal Parameters ^{a,b}	Mean	1.9896667
	Std. Deviation	1.75132536
Most Extreme Differences	Absolute	.272
	Positive	.272
	Negative	-.210
Test Statistic		.272
Asymp. Sig. (2-tailed)		.073 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source: SPSS Software Output Version 26 (Data Processed, 2024)

The Kolmogorov-Smirnov test results indicate that the regression model's predicted data follows a normal distribution, with a significance value of $0.073 > 0.05$. This outcome suggests that the normality assumption for the regression model's predicted values is met.

Overall, these findings provide a basis for further analysis and support the validity of the regression model in explaining the relationships between the independent variables (capital structure, profitability, and firm size) and the dependent variable (firm value).

**Table 2 Multicollinearity Test Results
Coefficients^a**

Model		Collinearity Statistics	
		Tolerance	VIF
1	DER	.542	1.845
	ROA	.440	2.270
	Size	.667	1.498

a. Dependent Variable: P/B Ratio

Source: SPSS Software Output Version 26 (Data Processed, 2024)

The results of the multicollinearity test in the Collinearity Statistics table indicate that the independent variables in this regression model—DER, ROA, and Size—do not experience

significant multicollinearity issues. The tolerance values for each variable are above the threshold of 0.1 (DER: 0.542, ROA: 0.440, Size: 0.667), indicating no excessive correlation between independent variables that could disrupt model accuracy. Additionally, the Variance Inflation Factor (VIF) values for DER (1.845), ROA (2.270), and Size (1.498) are all below 10, further confirming that multicollinearity is not an issue in this model. Therefore, these three independent variables can be used together in the regression analysis without causing distortion in the coefficient estimates, ensuring that the model is stable and the results are reliable.

Table 3 Descriptive Statistics Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DER	30	.13	3.58	1.0083	1.06097
ROA	30	.13	72.30	13.8790	16.77096
Size	30	27.43	43.12	36.8397	6.55462
P/B Ratio	30	.17	8.24	1.9897	1.99359
Valid N (listwise)	30				

Source: SPSS Software Output Version 26 (Data Processed, 2024)

The descriptive statistics results in the table provide a summary of the data for the variables analyzed in this study, namely DER (Debt to Equity Ratio), ROA (Return on Assets), Size (Firm Size), and P/B Ratio (Price to Book Ratio) from a sample of 30 companies.

- DER has a minimum value of 0.13 and a maximum of 3.58, with a mean of 1.0083 and a standard deviation of 1.06097. This indicates that, on average, companies in the sample have a DER of approximately 1.0083, with considerable variation, as evidenced by the high standard deviation. This substantial variation suggests significant differences in the capital structure among companies, especially in their use of debt compared to equity.
- ROA shows a minimum value of 0.13 and a maximum of 72.30, with a mean of 13.8790 and a standard deviation of 16.77096. An average ROA of 13.8790 indicates that, generally, companies in the sample have a relatively good level of profitability. However, the high standard deviation reflects substantial variability in profitability across companies in the sample, meaning that some companies have profitability significantly above or below the average.
- Size (Firm Size) has a minimum value of 27.43 and a maximum of 43.12, with a mean of 36.8397 and a standard deviation of 6.55462. Firm size in this sample varies but is not as extreme as other variables. The mean of 36.8397 represents a typical firm size within this sector.
- P/B Ratio has a minimum value of 0.17 and a maximum of 8.24, with a mean of 1.9897 and a standard deviation of 1.99359. This average P/B Ratio indicates that, overall, the companies in the sample have a market-to-book ratio close to 2, suggesting that the market value of these companies tends to be higher than their book value. The relatively large standard deviation points to wide variation among companies in terms of market valuation.

Overall, these descriptive statistics reveal substantial variation in DER, ROA, and P/B Ratio within the sample. This variability indicates significant differences among companies in terms of capital structure, profitability, and market valuation, which may impact subsequent analysis in understanding the factors influencing firm value.

Table 4 Goodness of Fit Result

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	88.947	3	29.649	29.299	.000 ^b

Residual	26.310	26	1.012		
Total	115.257	29			

a. Dependent Variable: P/B Ratio

b. Predictors: (Constant), Size, DER, ROA

Source: SPSS Software Output Version 26 (Data Processed, 2024)

The Goodness of Fit test results in the ANOVA table indicate that the regression model used to analyze the relationship between the independent variables (Firm Size, Debt to Equity Ratio (DER), and Return on Assets (ROA)) and the dependent variable (P/B Ratio) is statistically significant. This is evidenced by an F-value of 29.299 and a significance level (Sig.) of 0.000, which is below the 0.05 significance threshold.

The high F-value and very low significance level (0.000) suggest that the regression model is suitable for explaining the dependent variable. In other words, this model is considered effective for predicting the P/B Ratio based on the variables Firm Size, DER, and ROA

**Table 5 Correlation and Coefficient of Determination Results
Model Summary^b**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.878 ^a	.772	.745	1.00595

a. Predictors: (Constant), Size, DER, ROA

b. Dependent Variable: P/B Ratio

Source: SPSS Software Output Version 26 (Data Processed, 2024)

An R (Correlation Coefficient) of 0.878 indicates a strong relationship between the independent variables (Firm Size, DER, and ROA) and the dependent variable (P/B Ratio). This value signifies a high positive correlation.

The Adjusted R Square value of 0.745 reflects the percentage of variation explained by the model after accounting for the number of independent variables. This value of 0.745 means that 74.5% of the variation in the P/B Ratio is explained by the model after adjusting for the number of variables, providing a more accurate estimate when multiple independent variables are involved.

Overall, this regression model has a high coefficient of determination (R Square 77.2% and Adjusted R Square 74.5%), indicating that the model is effective in explaining the variation in the P/B Ratio based on Firm Size, DER, and ROA.

**Table 6 Multiple Regression Test Results
Coefficients^a**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.023	1.423		.719	.479
	DER	.773	.239	.412	3.234	.003
	ROA	.061	.017	.510	3.615	.001
	Size	-.018	.035	-.058	-.509	.615

a. Dependent Variable: P/B Ratio

Source: SPSS Software Output Version 26 (Data Processed, 2024)

Based on the **Coefficients** table above, the multiple linear regression equation for the dependent variable **P/B Ratio** with the independent variables **DER** (Debt to Equity Ratio), **ROA** (Return on Assets), and **Size** (Firm Size) can be expressed as follows:

$$\mathbf{P/B\ Ratio = 1.023 + 0.773\ DER + 0.061\ ROA - 0.018\ SIZE}$$

Interpretasi dari setiap komponen dalam persamaan ini adalah sebagai berikut:

1. Constant (1.023): This value represents the initial level of the P/B Ratio when all independent variables (DER, ROA, and Size) are zero. While this constant is rarely interpreted in practical economic terms, mathematically, it indicates that without the influence of DER, ROA, and Size, the expected P/B Ratio would be 1.023.
2. DER Coefficient (0.773): This coefficient shows that with every one-unit increase in Debt to Equity Ratio (DER), assuming ROA and Size remain constant, the P/B Ratio increases by 0.773. This positive and significant coefficient (Sig. = 0.003 < 0.05) indicates that an increase in DER has a positive relationship with the P/B Ratio. This suggests that investors tend to value companies with a higher debt-to-equity ratio more positively, potentially because a higher DER can enhance potential returns through financial leverage. H_1 is accepted.
3. ROA Coefficient (0.061): This coefficient indicates that each one-unit increase in Return on Assets (ROA), with DER and Size held constant, increases the P/B Ratio by 0.061. This positive and significant coefficient (Sig. = 0.001 < 0.05) implies that companies with higher profitability (indicated by ROA) tend to have a higher market value in the eyes of investors. This aligns with signaling theory, where higher profitability is seen as a positive signal that enhances the company's appeal. H_2 is accepted.
4. Size Coefficient (-0.018): This coefficient suggests that each one-unit increase in firm size, assuming DER and ROA remain constant, decreases the P/B Ratio by 0.018. This negative but not statistically significant coefficient (Sig. = 0.615 > 0.05) indicates that firm size does not significantly impact the P/B Ratio in this study. Thus, whether a company is large or small does not have a meaningful effect on its market value as measured by the P/B Ratio. H_2 is denial.

4.2. Discussion

This discussion section will present an analysis of the research findings outlined in the previous section.

4.2.1. Capital Structure's Effect on the P/B Ratio of Indonesia's Cosmetics Subsector Companies

The research findings indicate that capital structure, measured by the Debt to Equity Ratio (DER), has a positive effect on the Price to Book Ratio (P/B Ratio) of companies in Indonesia's cosmetics subsector, aligning with trade-off theory. This theory posits that companies can achieve an optimal capital structure when the benefits of debt usage outweigh the costs, primarily through enhanced financial leverage that increases shareholder returns. (Serrasqueiro & Caetano, 2014). In the cosmetics industry, debt plays a crucial role due to the high funding needs for product innovation, marketing, and expansion. This industry is highly competitive and relies heavily on brand image and quick adaptation to consumer trends. Thus, debt enables companies to secure additional funding without diluting equity ownership, which can be allocated for research, development, and marketing campaigns. Investors view this approach as a strategic advantage when the company can achieve returns greater than the cost of debt. With effective leverage management, cosmetics companies can increase market share, revenue, and market value, reflected in an improved P/B Ratio.

Supporting studies, including Dewi P. Y. (2014) and Setiawati, Mariati, & Dewi (2023), reinforce the positive relationship between DER and firm value. Dewi (2014) found that capital structure, specifically DER, positively influences firm value, supporting the trade-off theory that

prudent debt usage enhances a company's attractiveness to investors. According to Dewi, a moderate level of debt can signal sound financial strategy to investors by offering tax benefits and boosting shareholder returns. When a company optimally utilizes debt, investors tend to value it higher, resulting in a positive impact on the company's P/B Ratio.

Similarly, Setiawati, Mariati, & Dewi (2023) found that higher DER is positively viewed by investors due to its potential to increase returns. With appropriate leverage, a company can expand operations or increase profits without relying solely on equity capital. A higher DER may indicate that a company is positioned to capitalize on growth opportunities, thus creating greater expected returns for investors. This is consistent with trade-off theory, where companies that effectively use debt can attract more investors and increase market value, as seen in a higher P/B Ratio (Serrasqueiro & Caetano, 2014).

Additionally, research by Fitriani, Anggarini, & Sihono (2023) suggests that investors often perceive higher DER as an indication of future profit potential. In this context, companies with higher DER are viewed as having greater potential to enhance profits through leverage, provided they manage their debt burden effectively. A high DER demonstrates the company's ability to benefit from debt financing, thereby increasing profits attributable to shareholders. Consequently, firm value, as measured by the P/B Ratio, rises with higher expected returns (Fitriani, 2023).

However, trade-off theory also cautions about the risks associated with increased DER. High levels of debt can lead to greater financial burdens, including interest obligations that may strain the company, particularly if profits do not offset debt costs (Khoa et al., 2020). This could elevate the risk of bankruptcy, which in the long term could reduce firm value. Therefore, investors who value companies with high DER may also consider the firm's capability to manage financial risk, as the theory implies an optimal threshold for debt usage (Hackbarth et al., 2007).

While many studies support the positive relationship between DER and P/B Ratio, some findings present contrasting results. Dewi A. S. (2013) found that higher DER can reduce firm value, as investors may view excessive debt as a heightened bankruptcy risk. Ayako (2015) also concluded that capital structure does not always significantly impact firm value when debt remains below a certain threshold, with investors often prioritizing factors such as profitability or firm size. Munzir, Andriyan, & Hidayat (2023) echo this perspective, stating that high DER is less appealing to investors if the company lacks stable cash flows to meet debt obligations. These studies suggest that DER's impact on firm value can be context-dependent, where high debt may reduce a company's appeal if financial risks are deemed too high by investors.

4.2.2. Profitability's Effect on the P/B Ratio of Indonesia's Cosmetics Subsector Companies

In the cosmetics industry, the positive and significant relationship between Return on Assets (ROA) and the Price to Book Ratio (P/B Ratio) indicates that high profitability plays a crucial role in enhancing a company's market value in the eyes of investors. A significance level (Sig.) of 0.001 (< 0.05) supports this relationship, indicating that cosmetics companies with higher profitability are consistently valued positively by the market. This aligns with signaling theory, which suggests that high profitability sends a positive signal to investors regarding a company's financial health and operational efficiency (Ilmia & Yulandri, 2023). In the highly competitive cosmetics industry, high ROA demonstrates the company's ability to utilize assets to generate profit, reflecting its competitiveness and managerial efficiency (Alisa & Dwi Nita Aryani, 2022).

Cosmetics companies often face rapidly changing markets and rely on product innovation and aggressive marketing strategies to sustain consumer interest. High ROA indicates a company's ability to adapt quickly and use resources efficiently to create desirable products while maintaining profit margins. Investors see high profitability as a sign that the company can withstand market challenges and continue generating profits, enhancing the company's appeal in the market.

In this context, high profitability becomes a primary attraction for investors as it demonstrates potential for growth and long-term stability (Atiningsih et al., 2020). The increased P/B Ratio among more profitable cosmetics companies suggests that investors are willing to pay a premium for shares of companies they perceive to have strong financial prospects. Thus, high profitability in the cosmetics industry not only reflects financial efficiency but also strengthens the company's competitive position, thereby increasing its market value.

Previous research supports these findings. Chen (2011) found that profitability positively affects firm value, with higher profitability increasing investor appeal. Komalasari & Yulazri (2023) also found that higher ROA enhances firm value, as it is considered a sign of stability and long-term growth potential. Setiawati, Mariati, & Dewi (2023) demonstrated that high ROA significantly increases firm value, reflecting effective management's ability to utilize assets for profit generation.

However, some studies did not find a significant relationship between profitability and firm value. Herawati (2013), for example, found that profitability does not always positively influence firm value, as investors may focus on other factors such as leverage or cash flow stability. Rahayu (2014) showed that high profitability does not always increase firm value, especially if it does not align with growth expectations. Munzir, Andriyan, & Hidayat (2023) also found that inconsistent profitability or profitability unsupported by sound financial management does not significantly affect firm value, as investors may consider cash flow stability or capital structure instead.

4.2.3. Firm Size Effect on the P/B Ratio of Indonesia's Cosmetic Subsector Companies

The research findings indicate that firm size does not significantly affect the Price to Book Ratio (P/B Ratio). This suggests that the size of a cosmetics company, whether large or small, does not directly impact its value in the eyes of investors. The cosmetics industry is known for its intense competition, where product appeal and the ability to adapt to consumer trends often take precedence over company size. In other words, larger cosmetics companies are not necessarily more valuable, especially if their competitive advantage is not sustained through product innovation and effective marketing strategies.

Several studies support this result, showing that firm size is not a primary factor in determining market value in the cosmetics sector. Hargiansyah (2015) and Nafisah, Widjajanti, and Budiati (2023) found that firm size does not significantly impact firm value, indicating that aspects such as innovation, competitiveness, and financial management play a more crucial role in attracting investors. Komalasari & Yulazri (2023) and Yulandri et al. (2023) similarly concluded that firm size does not significantly influence firm value, particularly in highly competitive sectors like cosmetics, where innovation and brand strength are key to capturing consumer interest.

However, other research indicates that firm size can have a positive impact on firm value in certain industries. Pratama (2016) found that larger companies tend to have higher firm value, supported by signaling theory, which suggests that larger firms are perceived as more stable and resource-rich, making them more attractive to investors. Ristiani & Sudarsi (2022) also showed that firm size has a significantly positive effect on firm value, indicating that in some sectors, size can be a marker of stability and growth capacity.

In the cosmetics industry context, firm size may not have a significant impact on the P/B Ratio because investors primarily focus on a company's ability to adapt to market trends, attract consumers, and maintain brand loyalty. The cosmetics industry is heavily reliant on product innovation, effective marketing strategies, and brand appeal to maintain market share. Smaller companies that are innovative and efficient in marketing can achieve high market value without large size. This explains why investors may prioritize profitability and innovation over firm size when assessing the attractiveness of cosmetics companies.

Overall, the findings of this study offer several practical implications for cosmetics companies, investors, and policymakers, particularly in emerging markets like Indonesia. For cosmetics companies, the results emphasize the importance of strategic financial management, specifically optimizing capital structure and focusing on profitability to enhance market valuation. Companies should leverage moderate levels of debt to fund growth initiatives such as innovation, product development, and marketing strategies that resonate with rapidly changing consumer trends. Enhancing profitability through efficient asset utilization is equally critical, as it signals financial stability and operational excellence, attracting greater investor interest.

For investors, the study highlights key financial indicators—such as DER and ROA—that can serve as benchmarks for evaluating the market value and financial health of cosmetics companies. These metrics provide insights into a company's ability to generate returns and sustain growth in a competitive environment. Policymakers and regulators can also benefit from these findings by encouraging practices that promote financial transparency and stability within the cosmetics industry. Supporting policies that foster innovation and sustainable financial management can further strengthen the sector's contribution to the national economy. Overall, these practical insights not only guide financial strategies but also enhance decision-making for stakeholders seeking to capitalize on opportunities in this dynamic and rapidly growing industry.

5 Conclusion

The findings of this study indicate that capital structure and profitability significantly impact the Price to Book Ratio (P/B Ratio) of companies in Indonesia's cosmetics subsector, while firm size does not have a meaningful effect. The positive influence of capital structure, measured by the Debt to Equity Ratio (DER), suggests that moderate use of debt enhances a company's attractiveness to investors, as it signals effective financial leverage in a competitive industry with high funding needs for innovation and expansion. Similarly, the significant impact of profitability, represented by Return on Assets (ROA), reflects that investors value high-profit companies as they demonstrate operational efficiency and financial health, which is crucial in the fast-changing cosmetics market. However, firm size does not significantly affect P/B Ratio, indicating that in the cosmetics industry, investors prioritize a company's adaptability, innovation, and brand strength over mere size. Thus, for cosmetics companies in Indonesia, strategic financial management and sustained profitability are key to enhancing market valuation, whereas firm size alone does not drive investor interest.

The findings suggest that cosmetics companies in Indonesia should prioritize strategic financial management and profitability over mere size to enhance their market valuation. By carefully managing capital structure, companies can leverage moderate debt for growth initiatives, such as innovation and marketing, which are crucial in a competitive industry focused on brand relevance and consumer trends. Enhancing profitability through efficient asset utilization should also be a priority, as it signals financial health and

operational efficiency to investors. However, this study's small sample size of ten companies and a short timeframe (2021–2023) limit the generalizability of its findings. The exclusive focus on Indonesia's cosmetics industry further restricts applicability to other sectors or markets. Future research should expand the sample size, extend the timeframe, and explore financial determinants in other emerging markets to uncover broader trends and deepen understanding of financial strategies impacting firm value..

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