



(Research) Article

The Influence of Investment and Company Growth on Increasing Firm Value Through Profitability

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Abstract: The purpose of this research is to analyze the effect of investment and firm growth on the improvement of firm value, with profitability serving as a mediating factor. This study employs a quantitative research design using secondary data obtained from the Indonesia Stock Exchange (IDX). The population includes infrastructure sector companies listed on the IDX from 2021 to 2023, and purposive sampling was applied to select 29 companies, yielding a total of 87 firm-year observations. Path analysis with SPSS software was used to test the hypotheses and examine both direct and indirect relationships among the variables. The findings reveal that investment has a significant positive impact on firm value, indicating that firms with higher levels of investment tend to enhance their market valuation. Similarly, firm growth contributes positively to firm value, suggesting that sustainable expansion fosters greater investor confidence. Moreover, profitability is proven to mediate the relationship between investment and firm value, showing that the benefits of investment are maximized when they lead to improved profitability. Profitability also significantly mediates the relationship between firm growth and firm value, underscoring its role as a key driver in translating growth strategies into shareholder value. These results highlight the importance of profitability as a strategic element in strengthening firm value. Practically, the study suggests that managers should prioritize profitable investments and sustainable growth strategies to maximize firm value, while investors may consider profitability as a central indicator when evaluating firm performance.

Keywords: Company Growth; Firm Growth; Firm Value; Investment; Profitability.

1. Introduction

In Indonesia, the infrastructure sector has become a key focus in development policies, in line with the government’s efforts to improve infrastructure quality to promote equitable development and support a more productive economy. Many companies in this sector have become public companies, namely companies that offer their shares openly to the public through the stock exchange (Effendi, 2022). Firm value reflects the level of public trust in a company, which is formed through the results of its operational activities since its establishment (Wulanningsih & Agustin, 2020).

Tobin’s Q serves as the measurement proxy for firm value in this study. The Tobin’s Q of 54 infrastructure sector companies, which form the research population on the Indonesia Stock Exchange, is summarized as follows:

Table 1. Firm Value (Tobin’s Q) of Infrastructure Sector Companies Listed on IDX

No	Sub Sektor	Average Tobins’Q(%)		
		2021	2022	2023
1	Transportation Infrastructure	10,19	8,27	7,00
2	Building Construction	2,80	6,30	4,60
3	Utilities	4,95	2,41	2,33
4	Telecommunication	2,42	1,80	2,00

Source: Data Processed

Received : July 12 2025

Revised : July 23 2025

Accepted : August 29, 2025

Published : September 19, 2025

Current Ver.: September 19 28,
2025



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The table illustrates that the companies in each sub-sector within the infrastructure sector have inconsistent Tobin's Q values. In the infrastructure and utilities sub-sector, the average Tobin's Q has declined each year. Meanwhile, the average Tobin's Q in the building construction and telecommunications sectors fluctuates annually. Several factors influence firm value, such as investment, company growth, and profitability.

Infrastructure companies require large investments to run their projects. Good investments can attract investors to buy shares, thus increasing stock prices and, in turn, raising firm value. Krisdiyanto et al. (2020), show that investment contributes to firm value. However, Setiani & Astawa (2023), show that investment does not contribute to firm value.

In addition to investment, firm growth represents another key factor influencing firm value. Pristi & Anwar (2022), company growth reflects the firm's capacity to expand. Consistent and sustainable growth can attract investors, potentially increase stock prices, and strengthen firm value. Maharani & Mawardhi (2022), show that firm growth contributes to firm value. However, Pristi & Anwar (2022), show that firm growth have no contribution to firm value.

The inconclusive findings on how investment and growth affect firm value have led this study to consider profitability as a mediating factor. Profitability, as a reflection of a company's ability to sustain earnings, influences how investors perceive its value. Profitable investments enhance investor confidence, stimulate demand for shares, and ultimately raise firm value. While Suryani & Yeni (2022), show that profitability serves as a significant mediating role between investment and firm value. Meanwhile, Wardani et al. (2022), indicates that profitability fails to serve as mediating between investment and firm value.

Firm growth also does not automatically increase firm value if it is not accompanied by sufficient profitability. If growth does not generate significant earnings, investors may perceive that the expansion is inefficient, which may eventually hinder the increase of firm value. While Adelin et al. (2023), shows that profitability serves as a significant mediating role between firm growth and firm value. However, another study by Windaputri & Muharam (2022) reveals that profitability fails to serve as mediating between firm growth and firm value.

2. Review

Signaling Theory

Signaling theory, by Michael Spence in 1973, explains how parties who possess information about a company send signals to other parties to communicate the company's condition. Signaling theory explains that a sound company is able to provide signals to the market indicating that it can operate efficiently and has profitable prospects (Setiani & Astawa, 2023). Signaling theory posits that firm value can fluctuate if the company is unable to clearly signal its true condition. As a result, the perceived value may be overstated or understated compared to its real value (Silvia & Wuryani, 2024).

Firm Value

Firm value represents the level of Public perception of trust in the firm, shaped by the results of its operational activities since its inception (Wulanningsih & Agustin, 2020). Firm value reflects investors' perspective on a company's success (Putri & Syahzuni, 2024) A company's economic value is represented through its firm value as reflected in how the market assesses all of its assets, performance, prospects, and risks, both in the present and in the future.

Investment

Investment is a capital decision made at present with the objective of gaining future returns (Arianti & Yatiningum, 2022). Investment is carried out to acquire, improve, or maintain assets that can be used to generate income or added value in the long term. Appropriate and efficient investments can drive company growth, increase production capacity, expand markets, and strengthen competitive positions within the industry.

Company Growth

(Effendi, 2022). It reflects the condition in which a company is able to create future opportunities. According to Pristi & Anwar (2022), company growth illustrates the firm's capacity to develop. Sound and sustainable growth is highly desirable for both internal and external stakeholders, as it signals the positive development of the company.

Profitability

Profitability relates to a company's success in generating earnings over a certain period (Ramadhani & Anwar, 2021). The company's profits are derived from product sales activities and investment decisions made by the firm (Oktavia & Kalsum, 2021). Furthermore, this ratio also measures the effectiveness of management in utilizing the company's resources.

The Effect of Investment on Firm Value

Good investment can serve as a positive signal for investors to buy shares. This, in turn, increases stock prices and enhances firm value. According to Mubarakah & Indah (2021), corporate investments carried out optimally are perceived positively by investors because they indicate higher profit prospects in the future, thereby potentially increasing firm value. Agustin & Anwar (2022) also state that companies with higher levels of investment will be viewed more favorably by prospective investors. Moreover, effective and efficient resource management can provide greater benefits for the company, as it will be able to attract investor interest in purchasing shares and, at the same time, raise firm value.

The Effect of Company Growth on Firm Value

Strong company growth indicates that a firm is capable of maintaining its business existence. As a result, investors will be more interested in purchasing shares, which will ultimately drive up stock prices and increase firm value. According to Putra (2021), company growth brings positive expectations for both internal and external stakeholders, since optimal growth can provide positive signals about the company's development prospects. Margareta (2022) explains that company growth, as reflected in increasing corporate assets, enables firms to expand more easily, thereby fostering business development and strengthening external trust. This leads to greater stock demand, which in turn enhances firm value.

Profitability Has a Mediate Between Investment and Firm Value

Investments that yield maximum returns indicate that the company is capable of providing greater returns to investors. This strengthens market confidence, drives stock price increases, and ultimately raises firm value. However, in this study, investment has a stronger direct influence on firm value. According to Wijayanti & Setiawati (2024), proper investment decisions can drive revenue growth and operational efficiency, which in turn contribute to improving firm profitability. According to Suryani & Yeni (2022), when shareholders increase their investment in a company, it can indirectly enhance the firm's value, particularly if supported by strong and optimal profitability.

Profitability Has a Mediate Between Firm Growth and Firm Value

Firm growth positively affects efficiency and the company's capacity to generate profits. Higher profitability increases the firm's attractiveness in the eyes of investors, strengthens market confidence, and eventually boosts firm value. According to Adelin et al. (2023), high profitability levels indicate healthy company growth, as the firm is able to generate optimal earnings through its operations.

3. Proposed Method

A quantitative approach is applied in this study. A quantitative approach emphasizes the analysis of numerical data, which is then processed using appropriate statistical methods. The object of this study is infrastructure sector companies listed IDX during the 2021–2023 period, with a population of 54 infrastructure companies listed on the IDX in that period. For sampling, this study applied a purposive sampling technique with two criteria: (1) companies that published financial reports and (2) companies that recorded profits during the research period. Based on these criteria, a total of 29 companies met the requirements. Data were analyzed using path analysis with the support of SPSS software

The following table presents a summary of the research variables, including their operational definitions and measurement indicators:

Table 2. Operational Definition and Indicators

Variable	Type	Operational Definition	Indicator	Source
Firm Value	Dependent (Y)	Firm value is the level of public trust in a company.	Tobins'Q = (MVE + DEBT) / TA	Wardani et al. (2022)
Investment	Independent (X1)	Investment is the allocation of capital at present with the objective of obtaining future returns.	$CAPBVA = \frac{\text{Book Value of Fixed Assets}_t - \text{Book Value of Fixed Assets}_{t-1}}{\text{Total Assets}_{t-1}} \times 100$	Sudarmo & Kharunnisa (2020)
Firm Growth	Independent (X2)	Firm growth refers to a firm's capability to expand and sustain its development over time.	$AGR = \frac{\text{Total Assets}_t - \text{Total Assets}_{t-1}}{\text{Total Assets}_{t-1}}$	Antoro et al. (2020)
Profitability	Mediation (Z)	The firm's capability to generate sustainable earnings.	$ROA = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$	Isnanei et al. (2024)

4. Results and Discussion

Description of Research Results

Table 3. Average Investment, Firm Growth, Profitability, and Firm Value

Year	Investment (%)	Firm Growth (%)	Profitability (%)	Firm Value (%)
2021	4,448	5,568	5,141	2,218
2022	3,908	5,368	5,399	2,203
2023	1,569	5,038	5,123	2,252

Source: Data Processed

The table illustrates that the level of investment declined each year, from 4.448% in 2021 to 3.908% in 2022, and further decreased to 1.569% in 2023. The level of company growth also showed a yearly decline, from 5.568% in 2021 to 5.368% in 2022, and continued to decrease to 5.038% in 2023. Meanwhile, the level of profitability fluctuated annually, rising from 5.141% in 2021 to 5.399% in 2022, before declining again to 5.123% in 2023. Similarly, firm value also experienced yearly fluctuations, decreasing from 2.218 in 2021 to 2.203 in 2022, and then increasing to 2.252 in 2023.

Hypothesis Testing

Table 4. Hypothesis Testing

No	Relationship Between Variable	Path Coefficient	P-Value	Description
1	Investment → Firm Value	0,371	0,001	Significant
2	Firm Growth → Firm Value	0,181	0,002	Significant

Source: Data Processed

The results in the table illustrate that: (1) Investment (X1) has a significant contributes to Firm Value, with a path coefficient of 0.371 and a significance level of 0.001. (2) Company Growth (X2) has a significant contributes to on Firm Value, with a path coefficient of 0.181 and a significance level of 0.002.

Path Analysis

The sub-structural equations are as follows:

$$Z = 0.218 (\text{Investment}) + 0.583 (\text{Company Growth}) + e$$

$$Y = 0.371 (\text{Investment}) + 0.181 (\text{Company Growth}) + 0.788 (\text{Profitability}) + e$$

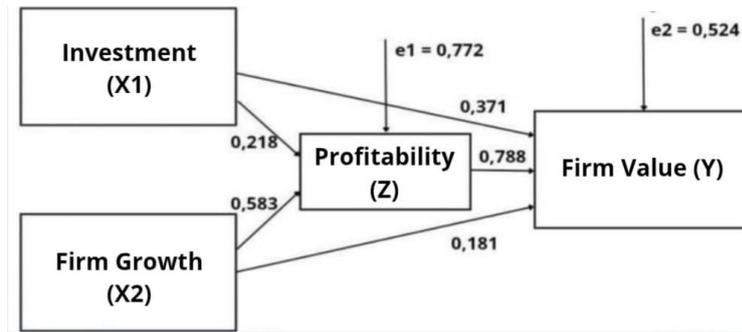


Figure 1. Diagram Path Analysis.

Mediation Testing

Table 5. Mediation Testing

No	Relationship Between Variable	Mediation (Z)	Path Coefficient	P-Value	Description
1	Investment → Firm Value	Profitability	0,036	0,010	Signifikan
2	Firm Growth → Firm Value	Profitability	0,101	0,000	Signifikan

Source: Data Processed

The table illustrates that: (1) Profitability serves as a significant mediator between Investment (X1) and Firm Value (Y), with a path coefficient of 0.036 and a significance level of 0.010. (2) Profitability serves as a significant mediator between Company Growth (X2) and Firm Value (Y), with a path coefficient of 0.101 and a significance level of 0.000.

Furthermore, the data analysis shows that the R-Square value is 0.725. This indicates that Investment (X1), Company Growth (X2), and Profitability (Z) collectively influence Firm Value (Y) by 72.5%, while the rest, amounting to 27.5%, can be ascribed to variables not included in this model, for instance capital structure, dividend policy, and additional external aspects.

The Effect of Investment on Firm Value

Investments made by companies, whether in the form of fixed asset purchases, technological development, or operational expansion, indicate growth prospects and value creation in the future. Appropriate investment decisions are able to build positive expectations from investors toward the company. Based on signaling theory, such conditions provide a positive signal to the market, as they are perceived to have the potential to generate optimal returns, thereby encouraging investors to invest. Consequently, stock prices increase, and automatically firm value also rises. Therefore, H1 in this study, which states that Investment contributes to firm value, is accepted.

The Effect of Firm Growth on Firm Value

Company growth reflects positive prospects that are potentially capable of generating maximum returns. Growth indicators can be observed from changes in total assets, where both increases and decreases in assets reflect business development. Signaling theory suggests that strong firm growth provides a beneficial signal to investors, leading to greater interest in the company's equity. This condition pushes stock prices upward, which in turn enhances firm value. Therefore, H2 in this study, posits that firm growth contributes to firm value, is accepted.

Profitability as a Mediator Between Investment to Firm Value

When investments made by a company are able to generate efficient output and revenues greater than the costs incurred, the firm's profitability will increase. According to signaling theory, Higher profitability delivers a beneficial signal to investors and the market, indicating sound investment management by the company. This strengthens the market leading to higher stock prices, ultimately increasing firm value. Therefore, H3 in this study, posits that profitability mediates between investment to firm value, is accepted.

Profitability as a Mediator Between Firm Growth on Firm Value

Sustainable firm growth, reflected through the expansion of assets, increased sales, and broader business operations, enhances the firm's capacity to generate earnings. Within the framework of signaling theory, strong profitability conveys a favorable signal to the market, thereby encouraging investors to allocate their capital to the firm. This situation contributes to the rise of stock prices and ultimately strengthens firm value. Therefore, H4 in this study, posits that profitability mediates between firm growth to firm value, is accepted.

5. Conclusions

Based on the research findings, the following conclusions can be drawn (1) Investment contributes to firm value, (2) Company growth contributes to firm value, (3) Profitability serves as a significant mediator between investment to firm value, and (4) Profitability serves as a significant mediator between company growth to firm value.

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