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Exploring the drivers of firm value in the transportation and logistics industry

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Abstract

This study explores the drivers of firm value in the transportation and logistics industry by examining the influence of capital structure, institutional ownership, and profitability. The research focuses on companies listed on the Indonesia Stock Exchange during 2021–2023 and applies a quantitative approach using secondary data from annual financial reports. Firm value is measured by Tobin's Q, capital structure by the Debt to Asset Ratio (DAR), institutional ownership by the proportion of institutional shareholding, and profitability by Return on Equity (ROE). Multiple linear regression is employed as the analytical technique. The findings indicate that capital structure and profitability have a positive effect on firm value, suggesting that well-managed leverage and higher profitability strengthen investor confidence in firm performance. Conversely, institutional ownership does not show a significant effect, implying that a larger proportion of institutional shares does not necessarily enhance firm value. These results emphasize the role of financial management and profitability in shaping firm value within the transportation and logistics industry.

Introduction

The value of a firm reflects investors' assessment of its operational performance and long-term prospects, making it one of the main indicators used to determine investment suitability in the capital market (Salsabilla & Rahmawati, 2021). A high firm value indicates the management's ability to effectively manage resources and provides a positive signal to shareholders and potential investors. Furthermore, increasing firm value is considered the primary objective in modern financial management because it reflects the success of funding, investment, and operational strategies (Brigham & Houston, 2019). Therefore, exploring the factors that drive firm value is important for understanding how companies can enhance their competitiveness, strengthen investor confidence, and ensure the sustainability of their business. One of the most widely used indicators for comprehensive firm valuation is Tobin's Q, which measures the ratio of a firm's market value to the replacement cost of its assets. This ratio not only reflects operational efficiency and financial health, but also shows how much the market values the firm's growth prospects (Akin et al., 2024).

The transport and logistics sector in Indonesia plays a strategic role in supporting the smooth running of the national supply chain, the distribution of goods and the mobility of the population (Bursa Efek Indonesia, n.d.). As an archipelagic country, Indonesia relies heavily on this sector to drive economic growth and domestic trade. The pandemic has put significant pressure on transport activities (Cahyono, 2024). However, the logistics sub-sector actually experienced growth of around 40% during the pandemic due to increased e-commerce transactions and the need for quick last-mile

deliveries (Rabbi, 2021). This positive trend has continued since the pandemic, as reflected in the sector's contribution to national economic growth of 5.98% in the third quarter of 2023 (Fima Blog, 2024)). Nevertheless, firm performance in this sector still shows significant differences between companies (Kosasih, 2021), making it an interesting area for further research.

The fundamental factors of a firm are one of the most common approaches used to explain variations in firm value. Three factors that are widely discussed in the literature are capital structure, institutional ownership, and profitability (Sudiyatno et al., 2023).). It is believed that optimal capital structure can maximise firm value by balancing tax protection benefits and financial risk (Almomani et al., 2022; Umdiana & Claudia, 2020).). Institutional ownership plays a key role in corporate governance as it can reduce conflicts of interest between managers and encourage better corporate governance practices (Perdana et al., 2023; Saleh et al., 2022). Meanwhile, profitability, as measured by Return on Equity (ROE), is often the main indicator for investors as it reflects the efficiency of capital usage and the firm's growth prospects (Brigham & Houston, 2019; Linawati et al., 2022).

Although many studies have explored the relationship between these three variables and firm value, the results remain inconsistent. Capital structure was found to have a positive effect on firm value (Akin et al., 2024; Bui et al., 2023; Mahirun et al., 2024), while Almomani et al. (2022) dan Ayuba et al., (2019) found no effect. Institutional ownership was found to have a positive effect (Saleh et al., 2022), and a negative effect (Hidayat et al., 2020; Perdana et al., 2023), while Doğan, (2020) dan Sudiyatno et al. (2023) found no effect. Profitability was also found to have a positive effect (Ayuba et al., 2019; Linawati et al., 2022), a negative effect (Akin et al., 2024; Alghifari et al., 2022), and no effect (Irawan et al., 2022). The differences in the results of these studies indicate the need for further research, especially considering the characteristics of specific sectors.

This phenomenon has prompted research into the factors that influence the value of companies in the transportation and logistics sector listed on the Indonesia Stock Exchange between 2021 and 2023. The focus of this study is expected to contribute to three aspects: (1) enriching the empirical literature on the determinants of firm value in a strategic sector; (2) providing practical input to management in formulating funding, governance, and profitability strategies; and (3) providing relevant information to investors and regulators in decision-making. The novelty of the research lies in the combination of variables, the focus on the transport and logistics sector, and the post-pandemic analysis period, which is still rarely researched in Indonesia.

Literature Review

The theoretical foundation of this study integrates three perspectives that explain how firm value is shaped by financial structure, ownership, and performance. Trade-Off Theory serves as the grand theory, as it provides the primary rationale for examining capital structure, particularly in the transportation and logistics industry where firms rely heavily on debt to finance large fixed assets. Agency Theory and Signaling Theory function as middle-range supporting theories. Agency Theory clarifies how institutional ownership can reduce agency problems and strengthen governance, while Signaling Theory explains how profitability conveys information about managerial efficiency and future prospects. Together, these theories offer a coherent framework for analysing how capital structure, institutional ownership, and profitability influence firm value in this sector.

Trade-Off Theory

The trade-off theory emphasises that companies strive to achieve an optimal capital structure by considering the tax benefits of debt (tax shield) and the risks arising from high liabilities (Modigliani & Miller, 1963). The tax benefits arise because interest payments reduce taxable income, thereby increasing firm value. However, excessive debt increases the risk of default, bankruptcy costs, and conflicts of interest with creditors (Deangelo & Masulis, 1980). Therefore, the ideal capital structure is achieved when companies balance the tax benefits of debt with the potential losses caused by financial risk (Wiagustini et al., 2017).

In the context of the transport and logistics sector, the trade-off theory becomes highly relevant. Companies in this sector usually have substantial fixed assets, such as vehicle fleets, ships, or warehouses, which can be used as collateral to obtain debt financing. This gives them a relatively high debt capacity compared to other sectors. However, price volatility, dependence on market demand, and regulatory risk also increase the potential for losses when debt levels are too high. Therefore, companies in the transport and logistics sector need to be careful when determining their capital structure to maximise value without taking on excessive financial risk.

Agency Theory

According to the Agency Theory, there is a conflict of interest between shareholders as principals and managers as agents, which arises from asymmetric information and differing objectives (Jensen, 1986). Managers often tend to pursue their own interests, such as increasing the size of the firm or making investments that are not always profitable for shareholders. This conflict can result in agency costs, which can reduce the value of the firm.

Institutional ownership is considered one of the most effective governance mechanisms for reducing such conflicts. Investor institusional, such as pension funds, insurance companies and investment managers, generally have the necessary expertise and resources, as well as a long-term investment focus. Therefore, they are able to exercise tighter oversight of managerial policies (Saleh et al., 2022). A high level of institutional ownership is expected to curb opportunistic behaviour by managers, encourage decision-making that aligns with the interests of shareholders, and ultimately increase firm value (Perdana et al., 2023).

For the transportation and logistics sector, which has high operational complexity and requires significant investment, the presence of institutional investors is becoming increasingly important. Their presence not only reduces agency costs, but also increases public trust in corporate governance, which in turn has a positive effect on firm value.

Signaling Theory

The Signal Theory focuses on how companies convey information to reduce information asymmetry between management and the market (Spence, 1973). One of the most important signals for investors is a firm's profitability. High profitability indicates the management's ability to efficiently manage resources and consistently generate profits. Return on Equity (ROE) is the main profitability indicator, measuring a firm's ability to generate profit based on shareholders' equity (Brigham & Houston, 2019).

A high ROE can signal to the market that the firm has good growth prospects, thus increasing investor confidence and ultimately increasing the firm's value (Ayuba et al., 2019). A high ROE can signal to the market that the firm has good growth prospects, thus increasing investor confidence and ultimately increasing the firm's value (Ayuba et al., 2019). Conversely, a low ROE can send a negative signal, reducing market confidence. In the transportation and logistics sector, profitability is often a primary concern because this industry is heavily influenced by operational efficiency, such as fleet utilisation, supply chain management, and distribution speed. Therefore, a firm's ability to maintain high profitability can be a key factor in increasing its value in the eyes of investors.

Firm Value

The firm's value can be understood as the investor's perception of the firm's success in creating shareholder value, which is often reflected in the price of its shares on the stock market. This value not only reflects the current financial situation, but also market expectations regarding growth prospects, the effective management of resources, and the quality of corporate governance. The higher the firm's value, the greater investor confidence that the firm will be able to provide a profitable return in the future (Brigham & Houston, 2019).

One of the most widely used indicators for measuring firm value is Tobin's Q, which is the ratio of a firm's market value to the replacement cost of its assets. This ratio provides an indication of how the market values the firm compared to its book value. The interpretation of Tobin's Q is important because it can show whether the market is optimistic or pessimistic about a firm.
Interpretation of Tobin's Q:

1. Q > 1 (overvalued/valued higher by the market).
   If the Tobin's Q value is greater than 1, it means that the market values the firm more highly than the replacement cost of its assets. This usually indicates that investors have positive expectations regarding the firm's growth prospects. For example, a firm may be seen as capable of generating high profits in the future, carrying out continuous innovation, or having competitive advantages that are not fully reflected in the value of its physical assets (such as a strong brand, reputation, customer loyalty, or patents). In this situation, companies tend to find it easier to attract new investment because the market values each additional asset as having the potential to generate a greater value than its acquisition cost.
2. Q < 1 (undervalued/valued lower by the market).
   If the Tobin's Q value is less than 1, it means that the market values the firm lower than the replacement cost of its assets. This can indicate that the market doubts the firm's ability to manage assets to generate optimal profits. Investors may view the growth prospects as low, the operational risks as high, or the financial performance as unstable. In the long term, an undervalued condition can signal that the firm needs to improve its efficiency, strategies, or restructure to increase investor confidence. On the other hand, some investors may also see this as an opportunity because the price of the stock is relatively low compared to the firm's fundamental value.
3. Q = 1 (fairly valued/valued at market price)
   If the Tobin's Q value is 1, it means that the firm's market value is equal to the replacement cost of its assets. This reflects a fair market valuation, where the firm is valued according to its tangible assets without significant premiums or discounts. In normal conditions, the market views the performance and prospects of the firm as average, with no significant advantages or problems. A firm with a Tobin's Q close to 1 is usually considered to have stable conditions, although its or your hypothesis potential or competitive advantage may be limited compared to companies with a Q far above 1.

The Effect of Capital Structure on Firm Value

Trade-Off Theory explains that firms determine an optimal capital structure by balancing the tax advantages of debt with the increasing financial risk that arises from excessive leverage (Modigliani & Miller, 1963). Debt provides a tax shield that can enhance firm value, but beyond a certain point the risk of financial distress increases, reducing firm value. In asset-intensive industries such as transportation and logistics, firms often have higher capacity to use debt, making the trade-off between tax benefits and bankruptcy risk particularly relevant.

Empirical findings generally support the positive relationship between capital structure and firm value. Akin et al. (2024), Bui et al. (2023), and Mahirun et al. (2024) found that well-managed leverage increases firm value. These studies indicate that firms using debt proportionally and efficiently tend to enjoy higher market valuation.
H_1: Capital structure has a positive effect on firm value.

The Effect of Institutional Ownership on Firm Value

Agency Theory argues that conflicts arise between managers and shareholders when managers act in their own interest rather than maximising shareholder value. Institutional ownership serves as an effective governance mechanism because institutional investors possess expertise, monitoring capacity, and long-term investment orientation. Their presence can reduce managerial opportunism and encourage decisions that enhance firm value (Saleh et al., 2022).

Previous studies support this view. Saleh et al. (2022) found that institutional ownership positively influences firm value by improving oversight and reducing agency costs. Firms with higher institutional ownership typically have stronger governance structures, which can lead to better financial performance and higher market valuation.
H_2: Institutional ownership has a positive effect on firm value

The Effect of Profitability on Firm Value

Signaling Theory explains that firms use observable financial indicators to convey information to investors and reduce information asymmetry. Profitability, particularly Return on Equity (ROE), serves as a credible signal of managerial efficiency and future growth prospects (Spence, 1973). Higher profitability signals operational strength and sustainable performance, which can increase investor confidence and firm value.

Empirical research consistently shows a positive influence of profitability on firm value. Ayuba et al. (2019) and Linawati et al. (2022) found that firms with higher ROE tend to have stronger market valuations, as investors interpret strong profitability as a positive signal of future performance.
H_3: Profitability has a positive effect on firm value.

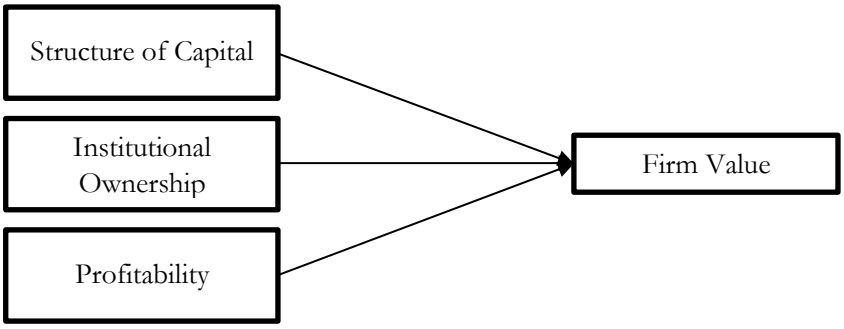

Figure 1. Conceptual Framework

Research Method

This study uses a quantitative approach with an associative causal design, which aims to empirically analyse the influence of independent variables on dependent variables. The relationship between the variables was tested using multiple linear regression analysis. The research focuses on companies in the transport and logistics sector that are listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. The study population comprised 37 companies, and a full sample was used.

The operational definitions of variables in this study are described as follows:
Firm Value (Y) reflects investors' assessment of a company's ability to generate future profits, based on historical performance, current market conditions, and growth prospects (Brigham & Houston, 2019). Company value is measured using Tobin's q ratio with the following formula:

$$\text{Tobin's Q} = \frac{\text{MVE} + \text{Total debt}}{\text{Total Assets}}$$

Information:
Tobin's Q = Firm value
MVE = Closing share price x Number of shares outstanding
Total ebt = Book value of total liabilities
Total assets = Book value of total assets

Structure of Capital (X_1) describes the proportion between total liabilities and total assets of a company (Brigham & Houston, 2019). This capital structure is measured by the Debt to Asset Ratio (DAR), using the following formula:

$$\text{DAR} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Institutional Ownership (X_2) refers to the ownership of a company's shares by certain institutions or entities, such as pension funds, insurance companies, or investment managers (IFC, 2018). This variable is measured using the following formula:

$$\text{Institutional Ownership} = \frac{\sum \text{Number of Institusional Shares}}{\sum \text{Number of Shares Outstanding}}$$

Profitability (X_3) indicates the extent to which a company is able to consistently generate profits through its main operational activities (Brigham & Houston, 2019). Profitability is measured using Return on Equity (ROE) with the following formula:

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Total Equity}}$$

Data analysis was performed using descriptive statistics and a classic assumption test (normality, multicollinearity, heteroskedasticity and autocorrelation), followed by a multiple linear regression analysis to test the hypothesis. Data processing was carried out with the help of the statistical software SPSS version 23 to obtain the estimated model results and test the hypothesis. The regression model equation used is as follows:

$$\text{TOBIN'S } Q_{it} = \alpha + \beta_1 DAR_{it} + \beta_2 KI_{it} + \beta_3 ROE_{it} + \varepsilon_{it}$$

Keterangan:

TOBIN'S Q	: Firm Value *i* in year *t*
α	: Constant
β_1 - β_3	: Regression Coefficient
DAR	: Capital structure of firm *i* in year *t*
KI	: Institutional Ownership *i* in year *t*
ROE	: Profitability *i* in year *t*
ε	: Error *i* in year *t*

Results and Discussion

A total of 37 companies were sampled for the study, with a three-year observation period, resulting in a total of 111 data observations. However, 11 data points were unusable due to some companies having recently conducted an initial public offering (IPO), lacking institutional ownership, or being suspended. Furthermore, the data testing results showed that 25 data points were identified as outliers, meaning that the final number of observations used in the analysis was 75.

Descriptive Statistics

Table 1. Descriptive Statistics Results

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DAR	75	0.023	2.292	0.447	0.414
KI	75	0.175	0.984	0.707	0.205
ROE	75	-0.181	0.327	0.078	0.115
TOBIN'S Q	75	0.182	2.935	1.265	0.661

Based on a descriptive statistical analysis of 75 observation data, an overview of the characteristics of the research variables was obtained, including structure capital (DAR), institutional ownership (KI), profitability (ROE) and firm value (Tobin's Q). The variable of the capital structure (DAR) showed a minimum value of 0.023 and a maximum value of 2.292, with an average of 0.447 and a standard deviation of 0.414. This average indicates that the level of leverage of companies in the transport and logistics sector is generally moderate. However, the wide range of values indicates significant differences in funding strategies between companies in this sector.

The institutional ownership (IO) variable has a minimum value of 0.175 and a maximum value of 0.984, with an average of 0.707 and a standard deviation of 0.205. This average value indicates that the majority of the firm's shares in the sample are owned by institutions, so it can be categorised as having dominant ownership. This condition has the potential to positively effect firm value through more effective investor oversight.

The profitability variable (ROE) has a minimum value of -0.181 and a maximum value of 0.327, with an average of 0.078 and a standard deviation of 0.115. The positive but relatively low average value indicates that the companies' ability to generate profits from equity capital is still limited, so they can generally be categorised as having low profitability. There is also a significant variation in performance between companies, including those that have incurred losses.

The firm value variable (Tobin's Q) ranges from 0.182 to 2.935, with a mean of 1.265 and a standard deviation of 0.661. A mean exceeding 1 indicates that the market values companies in this sector higher than their book value, thus generally categorizing them as overvalued. This reflects investor optimism regarding the companies' future growth prospects and performance.

Classical Assumption Test

Before running the regression, the classical assumption tests were conducted. The results show that the residuals are normally distributed, and the multicollinearity indicators (tolerance and VIF) fall within acceptable ranges, indicating no multicollinearity among the independent variables. The scatterplot also confirms the absence of heteroscedasticity, and the Durbin–Watson statistic indicates no autocorrelation. Overall, the regression model meets all classical assumptions and is appropriate for further analysis.

Regression Analysis

Table 5. Regression Results

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Constant	0.563	0.244	2.305	0.024
Capital Structure (DAR)	0.436	0.176	2.485	0.015
Institutional Ownership (KI)	0.543	0.369	1.472	0.145
Profitability (ROE)	1.567	0.613	2.555	0.013
R Square	0.251			
Adjusted R Square	0.219			
F-statistic	7.935			
Prob (F-statistic)	0.000			

Notes: Significance levels: $p < 0.05$

Based on Table 5, the results of the regression analysis can be written as follows:

$$\text{TOBIN'S Q} = 0.563 + 0.436\text{DAR} + 0.543\text{KI} + 1.567\text{ROE} + \varepsilon$$

The constant value obtained in the regression model is 0.563. This indicates that when all independent variables are assumed to be equal to zero, the firm value variable (Y) will have a value of 0.563. This constant reflects the baseline level of firm value that exists even in the absence of the explanatory variables included in the model. The regression coefficient for capital structure

(X1) is 0.436. This result implies that an increase in the capital structure variable will lead to an increase in firm value by 0.436 units, assuming that the other independent variables remain constant. In other words, a better capital structure tends to contribute positively to the improvement of firm value.

Furthermore, the regression coefficient for institutional ownership (X2) is 0.543. This finding indicates that when institutional ownership increases, the firm value will increase by 0.543 units, provided that other variables in the model remain unchanged. This suggests that higher institutional ownership can play a role in enhancing firm value. Meanwhile, the regression coefficient for profit margin (X3) is 1.567. This result shows that an increase in the profitability variable will increase firm value by 1.567 units, assuming that the values of other variables remain constant. This indicates that profitability has a relatively strong positive influence on firm value compared to the other variables in the model.

Hypothesis Testing

F-statistic test

The regression results indicate an F-statistic of 7.935 with a significance level of 0.000, which is below the 0.05 threshold. This demonstrates that the independent variables, capital structure, institutional ownership, and profitability, jointly influence firm value. In other words, the model provides a statistically reliable explanation of variations in firm value among transportation and logistics companies.

Partial test (t-test)

Table 5 presents the results of the t-test that examine the influence of the independent variables on the dependent variable. The results indicate that capital structure (DAR) has a regression coefficient of 0.436 with a significance level of 0.015, which is lower than the threshold value of 0.05. This finding indicates that capital structure has a significant positive effect on firm value, meaning that H1 is supported. In contrast, institutional ownership (KI) shows a regression coefficient of 0.543 with a significance level of 0.145, which is higher than 0.05. This result indicates that institutional ownership does not have a statistically significant effect on firm value. Therefore, H2 is not supported in this study. Meanwhile, profitability (ROE) produces a regression coefficient of 1.567 with a significance level of 0.013, which is below the 0.05 significance threshold. This result confirms that profitability has a significant positive influence on firm value. Accordingly, H3 is supported, indicating that higher profitability contributes to an increase in firm value.

Coefficient of Determination (R^2)

The model's R-square (0.251) and Adjusted R-square (0.219) indicate that approximately 21.9% of the variation in firm value can be explained by the three independent variables as shown in Table 6. The remaining 78.1% is influenced by other factors not included in this study, such as market conditions, macroeconomic variables, operational efficiency indicators, or company-specific strategies. Although modest, this R-square value is common in corporate finance studies that focus on multi-company data, where firm value is shaped by numerous external and internal determinants.

Discussion

The Effect of Capital Structure on Firm Value

The positive and significant relationship between capital structure and firm value supports the fundamental proposition of Trade-Off Theory, which states that firms can enhance value by balancing the tax advantages of debt with the increasing risk of financial distress. The coefficient of 0.436 indicates that, in the transportation and logistics sector, additional debt tends to be

perceived positively by the market, suggesting that firms are operating below or near their optimal leverage level.

Transportation and logistics companies typically require substantial long-term funding to invest in core assets such as fleets, warehouses, tracking technology, cold-chain facilities, and integrated distribution systems. These large, tangible assets not only facilitate operational expansion but also provide credible collateral, enabling firms to secure financing at comparatively lower costs. When these borrowed funds are allocated to strategic investments, such as fuel-efficient vehicles, route-optimisation technologies, or modern warehousing systems, the resulting improvements in efficiency and service reliability translate into higher profitability and customer trust. This strengthens the firm's competitive advantage and signals operational robustness to investors.

Moreover, the logistics industry faces intense pressure to maintain reliability, speed, and service quality. The strategic use of leverage can allow firms to modernise operations and adopt digital logistics tools (e.g., fleet management systems, real-time tracking, inventory automation), which improve asset utilisation and reduce operational bottlenecks. As these enhancements become visible in operational performance, investors interpret the increasing debt as value-creating rather than risk-increasing, contributing to higher firm valuation.

This study's findings are aligned with prior empirical evidence. Akin et al. (2024), Bui et al. (2023), and Mahirun et al. (2024) similarly document that firms which manage debt efficiently and invest it productively tend to experience increases in firm value. Collectively, these results reinforce the idea that, in capital-intensive industries where debt plays a central role in expansion and technological upgrading, leveraging financing decisions can indeed function as a strategic tool for value creation, provided that firms maintain a balance between growth opportunities and financial risk.

The Effect of Institutional Ownership on Firm Value

The empirical results show that institutional ownership does not exert a significant influence on firm value, indicating that the presence of institutional investors in transportation and logistics companies has not translated into stronger market valuation. From the perspective of Agency Theory, institutional investors are expected to act as effective monitors of managerial actions due to their expertise, resources, and long-term investment horizons. However, the insignificant coefficient suggests that this governance mechanism may not be functioning optimally within the sector.

There are several plausible explanations for this outcome. First, the transportation and logistics industry is characterised by operational complexity, high capital requirements, and exposure to regulatory and market risks. Monitoring such multifaceted operations requires deep industry-specific knowledge, which institutional investors may not always possess or prioritise. As a result, despite holding sizeable ownership stakes, many institutions may adopt a passive investment approach, limiting their direct involvement in strategic decisions or oversight activities.

Second, institutional ownership in emerging markets such as Indonesia often serves more as a portfolio diversification strategy rather than a channel for active governance intervention. Institutions may hold shares for financial returns rather than to influence managerial behaviour, reducing the effectiveness of institutional ownership as a mechanism to mitigate agency problems. In this context, institutional shareholders may not consistently pressure management to enhance transparency, efficiency, or long-term strategic planning.

Third, firms in this sector frequently face volatile demand, fluctuating fuel prices, and logistical disruptions. These challenges can overshadow the potential governance benefits of institutional ownership, making institutional influence less visible in market performance. Consequently, investors may not interpret institutional shareholding as a strong value-enhancing signal when evaluating firm prospects.

The finding is consistent with prior studies, including Doğan (2020) and Sudiyatno et al. (2023), which report that institutional ownership does not always contribute significantly to firm

value, particularly in industries with complex operations or markets where institutional activism is limited. Taken together, the results suggest that while institutional ownership theoretically holds the potential to strengthen governance, its practical impact in the transportation and logistics industry remains weak, possibly due to passive monitoring, limited engagement, or structural industry dynamics that dilute its effectiveness.

The Effect of Profitability on Firm Value

The study finds that profitability exerts a significant positive effect on firm value, indicating that companies with higher returns on equity tend to receive stronger market valuations. This result aligns closely with Signaling Theory, which emphasises that firms use observable financial indicators to convey information to investors in environments characterised by information asymmetry. Profitability serves as one of the clearest and most credible signals of managerial effectiveness, operational strength, and the firm's ability to generate sustained returns from its invested capital.

In the transportation and logistics sector, profitability carries even greater importance due to the sector's high operational intensity. Firms in this industry must coordinate complex networks of fleets, routes, warehousing, and customer demand while managing cost pressures such as fuel, maintenance, and regulatory compliance. High profitability therefore reflects the firm's ability to optimise fleet utilisation, control operational expenses, maintain service reliability, and respond efficiently to fluctuations in logistics volumes. These capabilities signal competitive strength and operational discipline, which increase investor confidence and translate into higher firm value.

Moreover, profitability demonstrates that firms are able to convert substantial capital investments into efficient operational performance. This sector often requires investments in digital logistics platforms, tracking systems, fuel-efficient vehicles, and warehousing automation. Firms that generate high ROE are perceived as capable of managing these large-scale assets effectively, which reduces perceived investment risk and enhances their valuation in the capital market.

The findings are consistent with the empirical results of Ayuba et al. (2019) and Linawati et al. (2022), who report that profitability plays a central role in determining firm value. Together, these studies support the view that investors place significant emphasis on profitability as an indicator of long-term financial health, operational capability, and the firm's potential for growth in the transportation and logistics industry.

Conclusion

This study explores the effect of capital structure, institutional ownership and profitability on the value of companies in the transport and logistics sector in Indonesia. The results of the analysis show that the capital structure and profitability have a positive effect on the value of the firm, while institutional ownership has no effect. These findings are consistent with the Trade-Off Theory, which states that optimal use of liabilities can increase firm value through tax shield benefits and funding efficiency. In addition, the Signal Theory also proved relevant, whereby high profitability becomes an indicator of good firm performance, thus attracting investor interest. However, the insignificance of institutional ownership indicates that the role of institutional investors in management oversight is not optimal, or they may be more focused on short-term profits than long-term value creation. In practice, the results of this study can inform firm management in the development of optimal funding strategies, particularly in determining the composition of liabilities and equity to maximise firm value. For investors, this finding reinforces the importance of considering profitability as the main indicator when making investment decisions. Meanwhile, from a theoretical perspective, this study enriches the literature on corporate finance by providing up-to-date empirical evidence on the factors that determine the value of companies in the transportation and logistics sector, which has unique characteristics in the Indonesian economy.

Although this study provides useful insights into the determinants of firm value in the transportation and logistics sector, there remains considerable scope for further exploration. Future research may extend this analysis by incorporating additional variables that capture strategic, governance-related, or risk-management dimensions, such as corporate social responsibility (CSR), hedging policies, or managerial ownership. Including these factors could provide a more comprehensive understanding of how financial decisions and organizational practices interact to influence firm value across different market conditions.

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