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THE EFFECT OF PROFITABILITY ON COMPANY VALUE MODERATED BY CRISIS EVENTS (2008-2022)

Yosep Rahman Hidayat[1]*, Endang Mahpudin[2], Disman[3]

[1,3] FEB, Universitas Pendidikan Indonesia, Indonesia
[2] FEB, Universitas Singaperbangsa Karawang, Indonesia
*Email corresponding author: y_r_hidayat@upi.edu

Abstract

Profitability is a crucial financial indicator for companies, reflecting their ability to generate profits and overall financial health. A high level of profitability can enhance company value, which is typically measured through stock prices in the capital market. However, company value is not solely influenced by profitability. External factors, such as crisis events, can significantly impact investor perceptions and, consequently, company value. Economic crises, political crises, and natural disasters introduce uncertainty and market volatility, often leading to a decline in company value. This study aims to analyze the moderating effect of crisis events on the relationship between profitability and company value. The dependent variable in this study is company value, while profitability serves as the independent variable, and crisis events function as the moderating variable. The study focuses on examining how crisis events influence the impact of profitability on company value. The dataset comprises 30,000 data pairs collected using a cross-sectional approach from Forbes Global 2000 companies for the period 2008 to 2022. The findings indicate a significant positive relationship between profitability and company value. Additionally, the results confirm that crisis events moderate the effect of profitability on company value.

Keywords: Profitability, company value, crisis events, financial performance, stock market

INTRODUCTION

One of the fundamental goals of a company is to maximize the wealth of its shareholders. This objective is reflected in the firm's value, which serves as a comprehensive measure of a company's performance in the eyes of investors. Firm value is typically indicated by stock prices in the capital market, which aggregate investor expectations about the company's current profitability and future prospects. Therefore, understanding the determinants of firm value is critical in both academic research and business practice.

Profitability is widely recognized as a primary internal determinant of firm value. Firms with higher profitability are generally perceived as more stable and efficient, leading to increased investor confidence and, subsequently, higher valuation in the market. However, empirical observations reveal that the relationship between profitability and firm value is not always straightforward. During periods of economic or political crisis, for instance, stock prices may fall sharply regardless of a company’s strong profitability. This indicates the presence of external moderating factors that may weaken or alter the effect of profitability on firm value.

Between 2008 and 2022, the global economy experienced several major crises—including the global financial crisis, the COVID-19 pandemic, and various geopolitical tensions—that disrupted markets and investor sentiment. These events provide a relevant context for examining whether crisis periods moderate the effect of profitability on firm value. While previous studies have examined the direct effect of profitability on firm value, limited research has explored this relationship through the lens of crisis events as moderating variables over an extended period across diverse sectors.

This study aims to fill this gap by investigating the moderating role of crisis events in the relationship between profitability and firm value using a large cross-sectional dataset of global companies. The novelty of this research lies in its comprehensive time frame (2008–2022), its use of large-scale international data from Forbes Global 2000, and its focus on crisis periods as moderators. The findings are expected to contribute theoretically by expanding the understanding of dynamic financial relationships under exogenous shocks, and practically by providing insights for corporate managers and investors in managing firm performance and valuation during uncertain times.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Firm value represents how the market perceives the worth of a company, often captured through indicators such as market capitalization or price-based valuation metrics. According to Signaling Theory, a firm's profitability serves as a positive signal to investors about its future prospects and operational efficiency (Spence, 1973). High profitability indicates the firm's capability to generate sustainable earnings, which in turn increases investor trust and market valuation (Pham & Tran, 2023; Zhao et al., 2021).

Empirical studies have consistently found a significant positive relationship between profitability and firm value (Jiang & Kim, 2022; Khan et al., 2022). For example, Malik et al. (2023) show that firms with better financial performance tend to attract more investor interest, especially in stable market conditions. However, the relationship between profitability and firm value is not always linear or stable across different economic conditions. External shocks such as financial crises, pandemics, or geopolitical tensions may significantly distort investor perceptions and market reactions, thus altering the expected positive effect of profitability (Ahmed et al., 2020; Kim & Sohn, 2021). During crises, even highly profitable firms may experience a decline in stock prices due to heightened uncertainty and risk aversion.

The moderating role of crises on financial relationships has been increasingly studied. For instance, Khan et al. (2022) found that the COVID-19 pandemic weakened the positive relationship between firm performance and stock returns. Similarly, studies by Agyemang & Nguyen (2021) and Malik et al. (2023) emphasized the importance of contextual economic disruptions in shaping how investors interpret firm fundamentals. These findings suggest that crises can act as a moderator in the profitability–firm value nexus, influencing both the strength and direction of the relationship.

Despite these insights, there is a lack of studies that comprehensively examine long-term, multi-crisis periods involving global firms. This research contributes by using cross-sectional data from Forbes Global 2000 over a 15-year span (2008–2022), encompassing major global crises, to test whether the influence of profitability on firm value is moderated by crisis events.
Based on the literature and theoretical reasoning, the following hypotheses are proposed:
H1: Profitability has a positive effect on firm value.
H2: Crisis events moderate the relationship between profitability and firm value.

RESEARCH METHODS

This research employs a quantitative, explanatory approach with the aim of analyzing the effect of profitability on firm value and examining the moderating role of crisis events in this relationship. The study uses secondary data obtained from Forbes Global 2000 companies over a 15-year period from 2008 to 2022, covering multiple economic crises such as the 2008 global financial crisis, the COVID-19 pandemic.

This is a cross-sectional study, where firm-level financial and market data were compiled for each year. The data were collected using purposive sampling, with the main criteria being companies with complete data on profitability and market value, and sufficient exposure to at least one major crisis period.

Dependent Variable – Firm Value. Firm value is measured using Market Value (MV), specifically the market capitalization at year-end, which reflects the market's perception of the firm's worth. Independent Variable – Profitability. Profitability is measured using Return on Assets (ROA), calculated as net income divided by total assets. ROA reflects the efficiency with which a firm utilizes its assets to generate earnings. Moderating Variable – Crisis Events. Crisis events are treated as a dummy variable, coded as 1 for crisis years (e.g., 2008–2009, 2020–2021) and 0 for non-crisis years. This variable captures the external shock effect of global economic or political crises on the firm's operations and valuation.

The analysis employs Moderated Regression Analysis (MRA) to examine the interaction between profitability and crisis events in influencing firm value. The analysis was conducted using IBM SPSS Statistics 26, with significance levels tested at 5%. Prior to analysis, data were screened for outliers and multicollinearity to ensure the robustness of the regression model.

RESULTS AND DISCUSSION

The results of the moderated regression analysis are presented in Table 1. The regression model tests the effect of profitability on firm value, along with the moderating effect of crisis events using an interaction term.

Table 1. Regression Coefficients

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	8664.913	331.958	—	26.102	0.000
Profitability (X)	10.559	0.084	0.650	125.981	0.000
Crisis Dummy (Z)	-350.688	633.448	-0.002	-0.554	0.580
Interaction (X*Z)	2.528	0.135	0.100	18.768	0.000

The analysis shows that profitability has a statistically significant positive effect on firm value (B = 10.559, $p < 0.01$), supporting Hypothesis 1 (H1). This indicates that for every one-unit increase in Profitability, market value increases by 10.56 units, controlling for other variables. This is consistent with prior studies (Pham & Tran, 2023; Zhao et al., 2021), affirming that profitability signals financial strength and market credibility.

The crisis dummy variable, representing whether a firm operates during a crisis year, shows a negative but statistically insignificant effect (B = -350.688, $p = 0.580$). This suggests that crisis events alone do not significantly affect firm value across the sample.

However, the interaction term between profitability and crisis (X*Z) is positive and statistically significant (B = 2.528, $p < 0.01$), confirming Hypothesis 2 (H2). This finding implies that crisis events moderate the relationship between profitability and firm value. Specifically, the positive impact of profitability on market value becomes stronger during crisis periods. This could occur because in times of economic uncertainty, profitable firms are perceived as safer investments, thus attracting higher valuation premiums.

The results of this study show that profitability has a strong and significant positive effect on firm value, as measured by market value. This supports the general consensus in financial literature that firms with higher profitability tend to be more highly valued by investors. These findings are in line with previous studies such as:

- Pham and Tran (2023), who found that profitability significantly increased firm value in Vietnamese listed companies.
- Zhao et al. (2021), who documented a positive effect of profitability on stock valuation among manufacturing firms in China.

- Jiang and Kim (2022), who emphasized that in Asian emerging markets, profitability is consistently seen as a primary determinant of firm value, especially in sectors where intangible assets and growth potential are harder to evaluate.

This reinforces the Signaling Theory (Spence, 1973), where high profitability acts as a positive signal to investors about future performance and reduces perceived risk, thus increasing firm valuation.

In contrast, the crisis dummy variable was not statistically significant, indicating that crisis events alone do not directly reduce firm value. This may be due to the heterogeneity of firm responses during crises—some firms suffer losses, while others may benefit from crisis-induced market shifts. This is consistent with the findings of:

- Ahmed et al. (2020), who found mixed impacts of crisis events on firm value in GCC countries, noting that sector and firm-specific resilience influenced the outcome.
- Malik et al. (2023), who argue that economic uncertainty alone does not uniformly depress market valuations; rather, its effect depends on investor perception of firm fundamentals.

More importantly, the study finds that crisis events positively moderate the relationship between profitability and firm value, meaning the effect of profitability on valuation is even stronger during crises. This implies that investors place greater weight on profitability during turbulent times, likely as a measure of stability and survival. This finding contrasts with some prior studies but also confirms more recent perspectives:

- Khan et al. (2022) found that the COVID-19 pandemic weakened the profitability–return relationship in some markets, but also suggested that firms with strong financials outperformed peers.
- Agyemang and Nguyen (2021) showed that investors in global industries used profitability as a key signal of firm quality when macroeconomic conditions were uncertain.

This study extends prior work by demonstrating that the moderating role of crises can enhance the valuation impact of profitability, possibly due to a flight to quality phenomenon among investors.

This finding adds nuance to the literature, indicating that contextual conditions—such as global crises—do not necessarily weaken financial signals, but rather reframe investor priorities. Profitability becomes not only a performance metric but a risk buffer in investor decision-making.

The results of this study, particularly the strong positive effect of profitability on firm value, are consistent with a growing body of literature published in high-impact journals. The evidence further affirms the robustness of the signaling role of profitability, especially during periods of macroeconomic uncertainty.

For instance, Adrangi et al. (2025), using panel data from U.S. durable goods industries, found that while economic policy uncertainty negatively impacts firm valuation (measured by Tobin's Q), firms with higher profitability exhibited significantly less sensitivity to these shocks. This supports the finding in the present study that profitability strengthens investor confidence and firm valuation even during systemic crises.

Similarly, Pagano et al. (2020) explored asset pricing during disaster periods and reported that firms with high operational continuity and financial resilience, proxied in part by stable profitability, achieved better stock performance during the COVID-19 pandemic. This aligns directly with the significant positive interaction effect found in the current study between profitability and crisis periods. It suggests that investors engage in a "flight to quality" strategy by shifting capital toward firms with reliable earnings.

Although not directly investigating profitability, Mousa et al. (2021) analyzed how marketing investments affect firm value under different ownership structures. Their findings highlighted the importance of moderating variables (such as ownership control) in enhancing the explanatory power of firm-level performance indicators. Methodologically, this supports the use of interaction effects as applied in this study, where crisis events are treated as a moderator.

CONCLUSION

This study aimed to examine the effect of profitability on firm value and the moderating role of crisis events using data from Forbes Global 2000 companies over the period 2008–2022. The findings confirm that profitability has a strong and significant positive effect on firm value. Firms with higher levels of profitability tend to have greater market valuations, supporting the assumptions of signaling theory, where financial performance serves as a credible signal to investors regarding firm stability and future prospects.

Interestingly, while crisis events alone do not directly affect firm value in a statistically significant manner, they do play a critical moderating role. The interaction between profitability and crisis events is positive and significant, suggesting that the market responds more strongly to profitability during periods of crisis. In other words, profitability becomes a more salient indicator of firm value under conditions of economic uncertainty. This finding contributes to the literature by offering new empirical evidence that financial fundamentals not only remain relevant but become even more important during crises.

From a theoretical perspective, this research reinforces the robustness of internal firm indicators—particularly profitability—as primary drivers of market-based valuation. From a practical standpoint, the findings highlight the strategic importance for firms to maintain strong profitability, not only as a performance target but also as a source of resilience in times of crisis.

The results of this study carry several important implications for both academia and business practice. First, the significant role of profitability in enhancing firm value reinforces its position as a critical performance metric in corporate financial management. Managers should focus on sustaining profitability not only to meet operational objectives but also to signal strength to the capital markets.

Second, the finding that profitability becomes more influential during crisis periods offers valuable insight for investors and portfolio managers. In times of heightened uncertainty, evaluating a firm's profitability can serve as a useful screening tool to identify resilient and high-value firms. This has strategic relevance for investment decision-making, especially in crisis-prone environments.

Third, for policymakers and regulators, understanding the reinforcing effect of profitability during economic shocks suggests the importance of supporting firm-level financial health through macroeconomic stability policies, tax incentives, and crisis mitigation frameworks.

This study, while comprehensive in scope, has several limitations. First, the measurement of crisis events is based on a binary dummy variable, which may oversimplify the varying degrees and types of crises. Second, this research focuses solely on profitability as the internal performance indicator. Other internal variables such as liquidity, efficiency, or corporate governance were not examined and could provide additional explanatory power.

Future research could explore several extensions of this study. First, scholars may consider employing more nuanced measures of crisis intensity (e.g., volatility indices or economic shock scores) to improve the accuracy of moderation effects. Second, future studies may incorporate other internal and external variables, such as leverage, firm size, or ESG performance, to build a more holistic model. Comparative studies across regions or industries may also uncover contextual variations in how profitability influences firm value under crisis conditions.

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