JPEB

Jurnal Penelitian Ekonomi dan Bisnis, 5 (2), 2020, Hal: 194-202

http://www.jpeb.dinus.ac.id

DO CAPITAL STRUCTURE, PROFITABILITY, AND FIRM SIZE AFFECT FIRM VALUE?

Ririh Dian Pratiwi*
Accounting Study Program, Faculty of Economics and Business, Dian Nuswantoro University
Jalan Nakula I No: 1-5 Semarang, Indonesia
*Corresponding Author: ririh.dian.pratiwi@dsn.dinus.ac.id

Received: February 2020; Revised: July 2020; Published: September 2020

ABSTRACT

The purpose of the research is to analyze whether there is an influence between capital structure, profitability, and firm size on firm value. The population used in this study is the LQ 45 company listed on the Indonesia Stock Exchange (IDX). A sampling of research using a purposive sampling method of determining the certain criteria with a total samples of 31 LQ 45 companies during 2014-2018. The research uses multiple linear regression to analyze the data. The results show that capital structure and profitability evaluate the value of the company. While the size of the company does not oppose the value of the company. The results of this research are expected to provide benefits for the parties, investors, and further researchers.

Keywords: Firm Value; Capital Structure; Profitability Firm Size

DOI: 10.33633/jpeb.v5i2.3717

ISSN
2442 – 5028 (Print)
2460 – 4291 (Online)

INTRODUCTION

The current tight business competition requires companies to pay attention to their quality. These qualities describe the good or bad condition of the company. The main goal of the company is to increase the value of the company by increasing shareholder prosperity. Company managers, especially financial managers hold the responsibility of investing and funding decisions. In terms of funding, capital expenditures for company operations must be considered. Good management will support the operation, thereby increasing the value of the company in the eyes of investors (Ang, 2007).

Firm value is influenced by several factors, namely capital structure, profitability, and company size (Dewi & Wirajaya, 2013). Capital, funding, and investment are factors that bring great influence on the ongoing company. Therefore, company managers are more careful in making decisions related to the capital structure which is expected to increase the value of the company.

Permanent spending, which is indicated by the balance between own capital and long-term debt, the term of capital structure in the opinion of Riyanto (2010). The balance between the two things will affect the level of risk and the rate of return expected by the company. Through the right capital structure, the company's goal to increase the value of the company can be achieved.

Profitability is the ability of a company to get profits in a certain period or the result of some company management policies and decisions. One measure of profitability is Return On Assets (ROA) (Rahmawati, et al, 2007). According to Manopo & Arie (2016) the higher the profitability, the higher the value of the company, and vice versa. Companies that have high profitability will give a good signal to investors that companies with high profitability values have good prospects in the future.

Another factor that influences company value is firm size. The average company size of total net sales for the year in question for the next several years. In this case, the greater the sale, the company will benefit, if the sales decrease, the company will experience a loss. In this case, the size of the company may not be an influence on the firm value. It can be said whether or not the firm value based on profitability and capital structure (Sartono, 2010).

Companies listed on the Indonesia Stock Exchange (IDX) which are classified as LQ 45 are companies with an issuer index on the IDX with high liquidity (LiQuid). LQ 45 totals 45 issuers. The selection of 45 companies is based on several selection criteria that also consider market capitalization. The criteria that have been determined are not just any stock can enter LQ 45, the existing shares must have large capitalization and very high liquidity, so it is easy to trade. Many suggest alternative ways of trading shares in LQ 45 compared to other shares. The reason for choosing LQ 45 group companies is because LQ 45 is a leading stock group of 45 companies and is updated every six months.

Based on the background, this research contains the following problem formulations:

1) Does the capital structure affect firm value?
2) Does the profitability affect firm value?
3) Does the size of the company affect the firm value?

LITERATURE REVIEW

a. Signaling Theory

Signaling theory illustrates that a company can provide signals in the form of information to all stakeholders. The information can be in the form of all information that can be used by various parties to make decisions, for example, investors use that information for investment decisions. Signals can resemble promotions or other useful information to state that the company's condition is far better than the condition of other companies (Moniaga, 2013).

According to Jogiyanto (2014), when companies provide information, market participants will analyze the information as good news or bad news. According to Brigham and Houston (2011), in theory, a company's signal has an impulse to provide information in financial statements to external parties.

Signaling theory explains why companies have the urge to provide information to outsiders. This information is contained in the financial statements. The reason companies are compelled to provide information is because usually management and parties within the company know more information about the company's prospects than outsiders (Brigham and Houston, 2011). If investors get insufficient information about a company, they are less likely to be interested in investing, so it will not support the increase in the value of the company. Efforts that can be made by a company to increase its value in the eyes of investors are by reducing information asymmetry, namely by providing signals to outsiders. As a result, when the company's financial condition occurs and it is conveyed to investors, it can result in changes in company value. The company's financial management department should be able to produce good financial performance so that it can be a positive signal for outsiders.

b. Firm Value

The company's financial manager needs to determine the objectives to be achieved in making a financial decision. The firm value is the price that potential buyers are willing to pay if the company is sold. The higher the stock price, the higher the shareholder prosperity. The better the quality of the firm value, the investors or shareholders will be more interested in working together and investing their capital. Firm value can reflect the company's performance and level of success that can affect investor perceptions of the company. Furthermore, Kusumajaya (2011) states that the firm value is the market value of a company's equity plus the market value of the debt. Thus, the addition of the company's equity to company debt can reflect the firm value.

c. Capital Structure

Riyanto (2010) states that capital structure is a comparison between the amount of long-term debt with its capital. Capital structure will have an impact on the company. The use of own capital can affect the financial condition which will then affect the quality of the company's value. One measure used is the Debt to Equity Ratio (DER).

DER describes the ratio of total debt and total equity owned by a company, where this ratio is used to measure the level of use of the company's debt to its total equity. The DER formula is as follows:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total equity}} \times 100\%$$

d. Profitability

Profitability is the ability of a company to get profits in a certain period or the result of some company management policies and decisions. Based on the opinion of some experts, it can be concluded that profitability is a measure of the company's success in obtaining after-tax profits that are greater than their capital with a greater number of sales as well. The ability of capital invested in all company assets to generate profits can be shown by the measure of profitability, namely Return on Assets (ROA).

e. Firm Size

The size of the company is considered able to provide influence and insight into the company's progress. Because the larger the size or scale of the company, the easier it will be for companies to obtain funding sources both internal and external (Hargiansyah, 2015). The size of the company is seen from the total assets owned by the company that can be used for company operations. Companies that have large total assets, then the management will be easier to use the assets in the company.

Hyphothesis Development

a. The Effect of Capital Structure on Firm Value

Signaling theory shows the existence of information asymmetry between the company's management and those who have an interest in the information (investors and creditors). Capital structure also has a way to optimize the value of the company that aims in the company's funding policy to determine the capital structure (a mix between debt and equity). Every decision taken by company management tries to be conveyed to investors, one of which is the company's capital structure (Safrida, 2008)

If the company's debt increases, it is likely to go bankrupt and put a huge risk to the company. And if the use of debt is low, it will minimize the risk of the company. A company with a good capital structure can attract investors to invest. This will increase the company's stock price, thereby increasing the firm value.

H1: Capital structure affects the firm value

b. The Effect of Profitability on Firm Value

Profitability is the ability of a company to get profits in a certain period or the result of some company management policies and decisions. Based on the opinion of experts, it can be concluded that profitability is a measure of the company's success in obtaining after-tax profits that are greater than their capital with a greater number of sales as well. Management seeks so that the company can earn profits following the ability of the company itself. While investors want the company to provide capital as much as possible through the profits obtained. The profitability measure used is Return on Assets (ROA).

H2: Profitability affects the firm value

c. The Effect of Firm Size on Firm Value

Firm size is an important factor in determining a company's value. The size of the company is seen from the total assets, total net sales, the average level of sales, and the average total assets owned by the company that can be used for company operations. If the total assets the bigger the meal, the greater the capital that will be invested by the company. So it can be said that the size of the company is the size or size of the assets of wealth owned by a company. Investors will be more interested in investing in or cooperating with large companies compared to smaller companies.

H3: Firm size affects the firm value

RESEARCH METHODS

a. Population and Sample

The population in this study was all LQ 45 companies on the Stock Exchange. While the sample was obtained by a purposive sampling method with several criteria (Sugiyono, 2010), namely:

1. LQ 45 companies for the 2014-2018 period in a row
2. Companies that meet the variables needed in research

According to the criteria, there are some 31 companies that will be sampled in this study. The data used are quantitative data collected by the documentation method. The data used in this study are the annual financial statements of the company LQ 45 in 2014-2018. Data obtained through the website or the official website of the Indonesia Stock Exchange at www.idx.co.id.

b. Data Analysis Method

Multiple Linear Regression Analysis

The analytical method used is a multiple linear regression with the following equation (Ghozali, 2016):

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

$$\text{Firm Value} = a + \beta_1 \text{ (Capital structure)} + \beta_2 \text{(Profitability)} + \beta_3 \text{(Firm Size)} + e$$

RESULT AND DISCUSSION

Classic assumption test

Before testing the models and hypotheses, the linear regression test holds the classic assumption testing requirements. The classical assumption tests include tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. In all four of these tests, the research data was stated to be able to meet the tests of normality, multicollinearity, heteroscedasticity, and autocorrelation. The following tables are the results of the classic assumption test:

Table 1. Normality Test

	Unstandardized Residual
Test Statistic	.071
Asymp. Sig. (2-tailed)	.066c

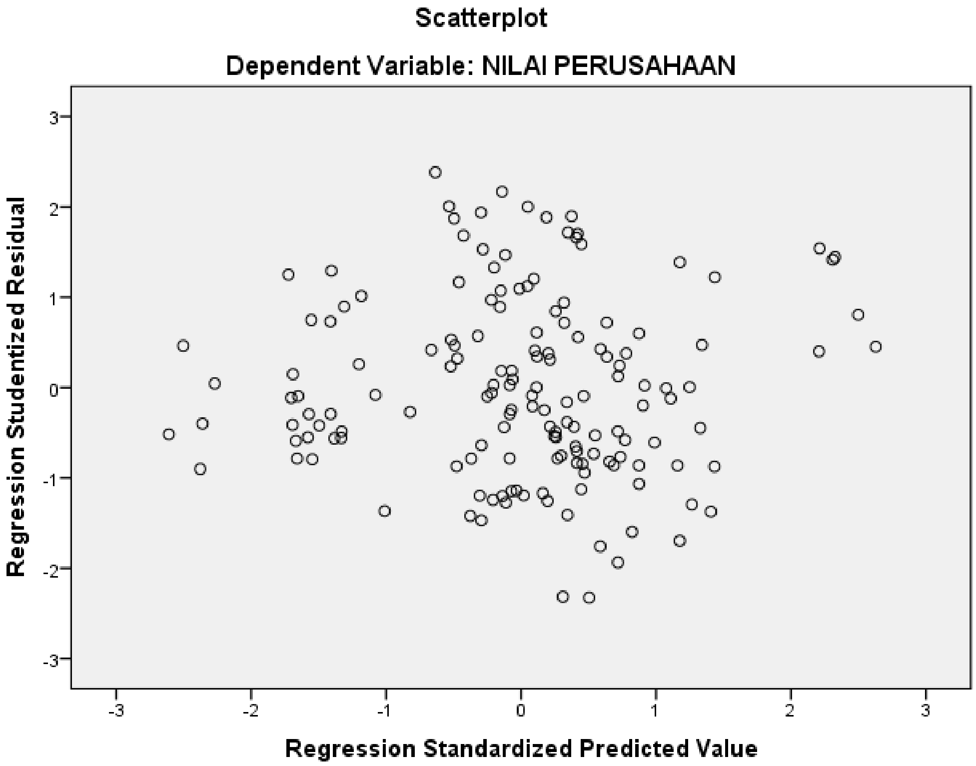

Figure 1. Uji Heteroskedastisitas

Table 2. Multicollinearity Test

Model		Collinearity Tolerance	Statistics VIF
1	(Constant)		
	CAPITAL STRUCTURE	.553	1.818
	PROFITABILITY	.724	1.387
	LnX3	.629	1.583

a. Dependent Variable: FIRM VALUE

Model test

Table 3. F-test

Model		F	Sig.
1	Regression	10.689	.000[b]
	Residual		
	Total		

a. Dependent Variable: FIRM VALUE
b. Predictors: (Constant), FIRM SIZE, PROFITABILITY, CAPITAL STRUCTURE

Based on table 3, this research has a good model. This can be seen from the significance value of less than 0.05. All independent variables, namely capital structure, profitability, and firm size affect the firm value.

This research uses a sample of 31 companies with the following analysis and discussion:

Table 4. T-test

Model		Unstandardized Coefficients B	Std. Error	t	Sig.
1	(Constant)	17.180	6.718	2.564	.012
	Capital Structure (X1)	-.510	.234	-2.194	.032
	Profitability (X2)	.199	.070	2.861	.006
	Firm Size (X3)	-.087	.390	-.223	.828

Based on Table 4 above can be explained as follows:

1. Effect of Capital Structure on Firm Value
   The capital structure variable has a value of t = -2,194 and a significance value of 0.032 (<0.05). Thus, it can be concluded that the capital structure influences the firm value variable.
2. Effect of Profitability on Firm Value
   The profitability variable has a value of t = 2.861 and a significance of 0.006 (<0.05). Thus the variable profitability affects the firm value.
3. Effect of Company Size on Firm Value
   The company size variable has a value of t = -0.223 and a significance of 0.828 (> 0.05). Thus the size of the company does not affect the firm value.

The regression equations obtained based on table 1 are as follows:

Y= 17,180 – 0,510(X1) + 0,199(X2) - 0,087(X3) + e

The results of the multiple linear regression equation can be interpreted as follows:

1. The constant value of 17,180 in the regression equation shows that if the value of the variable capital structure, profitability and firm size is constant, then the value of the company is 17.180.
2. The regression coefficient of the capital structure variable has a value of - 0.510, which means that if the capital structure increases by one unit, the value of the company will decrease by 0.510 assuming that the other independent variables are constant.
3. The profitability variable regression coefficient is 0.199, meaning that if profitability increases by one unit the company value will increase by 0.199 assuming that the other independent variables are constant.
4. The regression coefficient of the firm size variable is -0.087, meaning that if the firm size variable is one unit, then the company value will decrease by 0.087 assuming that the other independent variables are constant.

Hypothesis Test

1. The effect of capital structure on firm value

This study shows the results that capital structure affects firm value. The level of capital structure (DER) will affect the value of a company. The signaling theory states that a company will take action to guide investors about management's views on the company's prospects which will affect the company's value. In this theory, the instructions conveyed by the company to external parties are in the form of financial statement information. This information needs to be conveyed aimed at reducing the asymmetry of information between the company and external parties because internal parties know more about the company's prospects and image than external parties (investors and creditors). According to Hanafi (2013), capital structure is a signal that managers send to the market. An increase in debt owed by a company will increase the risk and threaten bankruptcy. The low corporate debt will minimize risk. This risk illustrates the inability of a company to pay debts so that it will have a negative impact on company value.

The data obtained in this study indicate that most of the samples have above-average capital structures that are in line with firm value. For example, some sample firms have an increase in capital structure followed by an increase in firm value. Likewise, several samples experienced a decline in capital structure followed by a decrease in firm value. From these data conditions, it can be concluded that the capital structure affects firm value. This study obtained results in line with Rumondor et al. (2015), namely that capital structure affects firm value.

2. Effect of profitability on firm value

This study shows that profitability affects firm value. The level of company profitability as measured by ROA has an effect on the level of firm value. Profitability is the ability of a company to generate profits. The higher the profit generated by the company is a good signal for investors to decide to invest in the company. The more demand for shares of a company, the price will increase, so that it will affect the increase in company value.

Signaling theory illustrates that profitability describes the prospects of a company that can be conveyed to potential investors so that it will affect company value. The processed data shows that most companies that experience an increase in profitability are followed by an increase in firm value, as well as those that experience a decrease in the value of profitability, followed by a decrease in firm value. It can be concluded that profitability has a significant effect on firm value. Data conditions like this can also support the signal theory which states that the increase or decrease in the profitability of a company can be a good or a bad signal for investors to judge the company.

This study obtained results that can support the research of Nofrita (2013) which states that profitability has an effect on firm value.

3. The effect of company size on firm value

This study found that company size has no effect on firm value. The results of statistical tests also show that company size has an effect on firm value. In this study, company size describes the size of a company seen from its total assets. The larger the total assets, the bigger the size of the company, on the contrary, the smaller the total assets, the smaller the size of a company. However, the size of the assets owned by a company does not necessarily indicate the effectiveness and efficiency of management in their use, so investors do not use the size of a company in assessing the company.

The results of this study are not in line with the picture of the signaling theory, because investors do not see the value of a company from its size proxied by total assets. Large companies are not necessarily effective and efficient in managing their assets to generate profits that will have an impact on investors. These statistical results are supported by most of the data that shows that investors are interested or not in buying shares of a company not because of the size or size of the company's assets. So that the company size is concluded to not affect the company value. The results of this study support Dewi and Wirajaya (2013) who obtained research results that company size has no effect on firm value.

CONCLUSION

The first hypothesis is accepted, namely capital structure influences firm value. The second hypothesis is accepted, namely, profitability affects the firm value. The third hypothesis is rejected, namely, the size of the company has no effect on firm value.

As for some suggestions that researchers can convey as follows :firm Value is one of the indicators of a company's financial performance. Therefore, investors can see the firm value to make investment decisions. For companies, especially for company managers, it is necessary to review and pay attention to the quality of the firm's value, especially in terms of capital structure and profitability.The next researcher is expected to be able to use other variables to be studied such as managerial ownership, company growth, and so on.

REFERENCES

Ang, Robbert. (2007). *Pasar Modal Indonesia.* Jakarta : Mediasoft Indonesia

Brigham dan Houston. (2011). *Dasar-Dasar Manajemen Keuangan.* Edisi 10, Buku 2. Jakarta: Salemba Empat.

Dewi, A. S., & Wirajaya, A.(2013). Pengaruh Struktur Modal, Profitabilitas, dan Ukuran Perusahaan terhadap Nilai Perusahaan. *E-Jurnal Akuntansi Universitas Udayana 4.2* , 358-372.

Ghozali,Imam. (2016). *Aplikasi Analisis Multivariate dengan Program SPSS.* Semarang: BP-UNDIP

Hanafi, Mamduh. (2013). *Manajemen Keuangan*. Edisi Pertama. Cetakan Keenam. Yogykarta : BPFE-Yogyakarta.

Hargiayansyah, Faisal Rifqi. (2015). Pengaruh Ukuran Perusahaan, Leverage, dan Profitabilitas Terhadap Nilai Perusahaan (Studi Empiris Pada Perusahaan

Manufaktur Yang terdaftar di Bursa Efek Indonesia). *Artikel Ilmiah Mahasiswa*, 2015.

Jogiyanto, Hartono. (2016). Teori Portofolio dan Analisis Investasi. Yogyakarta : BPFE-Yogyakarta.

Manoppo, H., & Arie, F. V. (2016). Pengaruh Struktur Modal, Ukuran Perusahaan dan Profitabilitas terhadap Nilai Perusahaan pada Perusahaan Otomotif yang terdaftar di Bursa Efek Indonesia Periode 2011-2014. *Jurnal EMBA Vol 4 No 2,* 485-497.

Moniaga, Fernandes. (2013). Pengaruh Struktur Modal, Profitabilitas dan Struktur Biaya Terhadap Nilai Perusahaan Industri Keramik, Procelen dan Kaca Periode 2007-2011. *Jurnal EMBA*, 1 (4), 433-442.

Nofrita, Ria. (2013). Pengaruh Profitabilitas terhadap Nilai Perusahaan dengan Kebijakan Dividen sebagai Variabel Intervening (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI). *Jurnal Akuntansi*, 1 (1).

Kusumajaya, Oka. (2011). Pengaruh Struktur Modal dan Pertumbuhan Perusahaan terhadap Profitabilitas dan Nilai perusahaan pada Perusahaan Manufaktur di BEI. *Tesis*. Denpasar: Program Pascasarjana Universitas Udayana.

Rachmawati, Andri dan Hanung Triatmoko. (2007). Analisis Faktor-Faktor yang Mempengaruhi Kualitas Laba dan Nilai Perusahaan. *Proceeding*, Presented at Simposium Nasional Akuntansi X, Makassar.

Riyanto,Bambang. (2010). *Dasar – Dasar Pembelanjaan Perusahaan*.Yogyakarta:BPFE.

Rumondor, Regina. (2015). Pengaruh Struktur Modal, Ukuran Perusahaan Dan Risiko Perusahaan Terhadap Nilai Perusahaan Pada Sub Sektor Plastik Dan Pengemasan Di BEI. *Jurnal Riset Ekonomi, Manajemen, Bisnis Dan Akuntansi*, 3 (3)

Safrida,Eli. (2008). Pengaruh Struktur Modal dan Pertumbuhan Perusahaan terhadap Nilai Perusahaan Pada Perusahaan Manufaktur di BEJ. *Tesis*. Medan: Sekolah Pascasarjana Universitas Sumatera Utara.

Sartono,Agus .(2010). *Manajemen Keuangan Teori dan Aplikasi*. Yogyakarta. BPFE.

Sudana, I. M. (2009). *Manajemen Keuangan Teori dan Praktek*. Surabaya : Airlangga University Press

Sugiyono. (2010). *Metode Penelitian Kuantitatif, Kualitatif dan RND*. Bandung: Alfabetha.

http://www.idx.co.id