effect of capital structure, company size, and profitability on company value

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ABSTRACT
This study aims to determine and analyze the effect of capital structure, company size, profitability on firm value in automotive and component companies listed on the Indonesia Stock Exchange in 2015-2021. The research method used is a quantitative method. The data used is secondary data in the form of annual financial reports of automotive and component companies listed on the Indonesia Stock Exchange for 7 years of observation, from 2015 to 2021. The research population is automotive and component companies and the sample of this study is 11 companies using a purposive sampling technique. The analytical method used is panel data regression analysis. The results of this study indicate that capital structure has an insignificant positive effect on firm value, while company size and profitability have a significant positive effect on firm value in automotive and component companies listed on the Indonesia Stock Exchange in 2015-2021.

KEYWORDS:
Company Value, Capital Structure, Company Size, Profitability.

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1. INTRODUCTION
The rapid development of industry in Indonesia is currently marked by the many new businesses that have emerged and are widespread throughout Indonesia. This causes increasingly tight business competition between companies. Intense competition makes companies increasingly vying to develop the company and show the value of the company to attract investors. The company value will give a positive signal in the eyes of investors to invest in a company, while for creditors the company value reflects the company’s ability to
pay off its debts so that creditors do not feel worried about giving loans to the company. The company's goal is to get maximum profits, prosper the company owners as well as shareholders and optimize company value which can be seen from the share price (Manoppo & Arie 2016).

Capital structure is considered to have an influence on firm value. Capital structure has a positive effect on firm value, if the capital structure is too high coming from debt funds it will make the company value decrease and if a company wants high company value, that is by means of the level of debt owned by the company does not exceed reasonable limits Dewi & Wirajaya (2013 ). Research by Widyantari & Yadnya (2017) shows that capital structure has a significant negative effect on firm value. The research results of Damayanti (2016), Dewi & Sudiartha (2017) capital structure has no significant effect on firm value.

The size of the company can have an influence on the value of the company, if a company is large it will make an investor interested in investing in that company. According to Hidayati (2010), Manoppo & Arie (2016) explained that company size is seen from the total assets owned by the company that can be used for company operations. Large total assets make it easier for companies to meet their funding needs. Larger companies can access the capital market in obtaining funding more easily (Widyantari & Yadnya, 2017). The results of Damayanti’s research (2016), Hidayah (2015) company size have no significant effect on firm value.

Profitability can be seen from the amount of profit owned by a company, investors and creditors will be very interested in working with the company if a company's profits are large. According to Analysis (2011) Dewi & Wirajaya (2013) explained that company value can also be influenced by the size of the profitability generated by the company. According to Putri (2017), Widyantari & Yadnya (2017), Manoppo & Arie (2016), Hidayah (2015), Dewi & Sudiartha (2017) show that profitability has a significant effect on firm value.

The formulation of the problem in this study examines whether capital structure, company size and profitability positively affect firm value in automotive and component companies listed on the Indonesia Stock Exchange (IDX). Meanwhile, the purpose of this study is to analyze whether capital structure, company size and profitability have a positive effect on company value in automotive and component companies listed on the Indonesia Stock Exchange for the 2015-2021 period.

**Firm Value**

According to Fama (1978), Dewi and Wirajaya (2013) explained that the value of a company can be seen from its share price. Share prices are formed at the request and supply of investors, so that the share price can be used as a proxy for the company's value. Firm value is an investor's perception of the company's success in managing its resources, which is reflected in the company's stock price. The higher the stock price, the higher the company value, conversely, the lower the stock price, the lower the company value or the company's performance is not good (Efendi, 2016).

**Capital Structure**

The capital structure is a permanent expenditure which reflects the balance between long-term debt and own capital. Capital is divided into two, namely own capital and foreign capital. Own capital comes from internal funding and external funding (Riyanto, 2001 in Utomo & Christy, 2017). Dewi & Wirajaya (2013) introduced a theoretical model of capital
structure systematically, scientifically and on the basis of continuous research. It should be noted that introducing the theory of capital structure with the following assumptions:

1. No taxes.
2. Investors can borrow at the same rate as the company.
3. Information is always available to all investors and can be obtained free of charge.
4. EBIT (Earnings before interest and taxes) has no effect on the use of debt.

**Firm Size**

Dewi & Badjra (2017) explain that company size includes the size of a company as shown by assets, number of sales, average total sales, and average total assets. The size of the company will also affect the company's ease in obtaining funding from the capital market. It will affect the strength of the company in carrying out the bidding process in inter-company financial contracts. According to Manoppo & Arie (2016) states that company size is not a consideration for investors in investing. The size of a large company cannot guarantee a high company value because large companies may not have the courage to make new investments related to expansion before their obligations (debt) have been paid off. This also shows that the size of the company will not affect the size of the company.

**Profitability**

According to Dewi & Wirajaya (2013) Profitability is revenue minus expenses and losses during the reporting period. Analysis of profitability is very important for creditors and equity investors. For creditors, profit is a source of payment of interest and loan principal, while for equity investors, profit is one of the determining factors in changes in securities value. The most important thing for the company is how the profit can maximize shareholders, not how much profit the company generates. Profitability is the company's ability to earn profits. Investors invest shares in companies to get returns. The higher the company's ability to earn profits, the greater the return expected by investors, thus improving the company's value (Saidi, 2004 in Dewi & Wirajaya, 2013).

**Hypothesis**

The hypothesis in this study is as follows:

1) **Effect of Capital Structure on Firm Value**

According to Hermuningsih (2013), based on the theory of capital structure, if the position of the capital structure is above the optimal capital structure target, then any increase in debt will reduce the company's value. The results of research conducted by (Dewi & Wirajaya, 2013) and (Fu, 2015) found that capital structure has a significant positive effect on firm value. The higher the debt to finance the company's operations, the lower the company's value because with a high level of debt, the burden that the company will bear is also large. So it can be concluded that the capital structure positively affects firm value.

**H1: Capital structure positively affects company value in automotive and component companies listed on the Indonesia Stock Exchange for the 2015-2021 period.**

2) **The Effect of Firm Size on Firm Value**

Company size describes the size of a company seen from its total assets. The bigger the company, the company will be trusted to provide a high rate of return by investors (Widyantari & Yadnya, 2017). If the company's size is large, it tends to improve the company's value and increase. The size of a company can make investors and creditors interested in a company that has a large company size. So it can be concluded that firm size
significantly positively affects firm value.

**H2: Company size positively affects company value in automotive and component companies listed on the Indonesia Stock Exchange for the 2015-2021 period.**

3) Effect of Profitability on Firm Value

Profitability is a company's ability to generate profits and measure the level of operational efficiency and efficiency in using its assets (Hermuningsih, 2013). Profitability is measured by the return on equity (ROE) indicator. ROE growth shows better company prospects, which investors will capture as a positive signal from the company which in turn makes it easier for company management to attract capital in the form of shares. If there is an increase in demand for a company's shares, it will indirectly increase the price of these shares in the capital market (Hermuningsih, 2013). According to Manoppo & Arie (2016), Widyantari & Yadnya (2017), Putri (2017) Profitability has a positive and significant effect on company value. It can be concluded that profitability significantly positively affects firm value.

**H3: Profitability positively affects company value in automotive and component companies listed on the Indonesia Stock Exchange for the 2015-2021 period.**

2. METHODOLOGY RESEARCH

The research method used is quantitative. The data used is secondary data in the form of annual financial reports of automotive and component companies listed on the Indonesia Stock Exchange for 7 years of observation, from 2015 to 2021. The research population is automotive and component companies, and this study's sample is 11 companies using a purposive sampling technique with the following criteria.

<table>
<thead>
<tr>
<th>Table 1. Sampling Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>Total Sample</td>
</tr>
<tr>
<td>Final sample quantity</td>
</tr>
</tbody>
</table>

*Source: Processed Data, 2022*

The operational definition in this study is as follows:

1) Company value is measured by PBV (Price Book Value), which relates the share price to the book value of shares per share.
2) Capital structure is measured by DER (Debt to Equity Ratio), which is the ratio between total debt and equity.
3) Company size is measured using the total assets' Natural Logarithm (LN).
4) Profitability is measured using ROE (Return on Equity) which is the ratio between the amount of available profit and the amount of own capital that generates the profit.

The analytical method used is panel data regression analysis, which combines time series data and cross-section data. The formula for testing panel data regression is as follows:

\[ Y = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \ldots + \varepsilon \]

\[ Y = \text{Firm Value} \]
There are three approaches that can be used to estimate the panel data regression model, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (RAM). In addition, there are three tests that can be used to select a panel data regression model, namely the Chow Test, Hausman Test, and Lagrange Multiplier Test. For the classic assumption test used in regression with the Ordinary Least Square (OLS) approach is Multicollinearity, Autocorrelation, Heteroscedasticity. Then to test the hypothesis using the Determination Coefficient Test (R2), Model Feasibility Test (F test) and Partial Significance Test (T test).

3. RESULTS & DISCUSSIONS

3.1. Data Analysis

Based on the Chou and Hausman tests, the best model to use is the Fixed Effect Model. Therefore the model used is the Fixed Effect Model and there is no need to analyze the Langrage multiplier test (Rofiantonio, 2018). In this study, the model used did not have problems in the multicollinearity, autocorrelation, and heteroscedasticity tests. Based on the panel data regression analysis, the selected model is the Fixed Effect Model so that the following equation results are obtained:

Table 11. Summary of Regression Analysis Results of Fixed Effect Model Panel Data

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>94.42859</td>
<td>62.52821</td>
<td>1.510176</td>
<td>0.0360</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>0.047437</td>
<td>6.387570</td>
<td>0.814938</td>
<td>0.6718</td>
</tr>
<tr>
<td>Firm Size</td>
<td>2.792070</td>
<td>17.04745</td>
<td>0.163782</td>
<td>0.6784</td>
</tr>
<tr>
<td>Profitability</td>
<td>1.708328</td>
<td>0.693391</td>
<td>2.463730</td>
<td>0.0065</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.666545</td>
<td>0.693391</td>
<td>2.463730</td>
<td>0.0065</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.597737</td>
<td>0.693391</td>
<td>2.463730</td>
<td>0.0065</td>
</tr>
<tr>
<td>F-statistic</td>
<td>9.686993</td>
<td>0.693391</td>
<td>2.463730</td>
<td>0.0065</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.000000</td>
<td>0.693391</td>
<td>2.463730</td>
<td>0.0065</td>
</tr>
</tbody>
</table>

Sumber: E-Views 9, 2022

The results of panel data regression analysis calculations, the Adjusted R square value of 0.666545 means that capital structure, company size and profitability can explain the value of the company by 66.6 percent. In contrast, other variables outside the model explain 33.4 percent. The F statistic test produces an Fcount of 9.686993. The F table of degrees of freedom: df1 = k-1 and df2 = n-k (n = 77, k = 7) with a confidence level of 95% shows a number that is 2.14 meaning that Fcount is greater than ftable 9.686993 > 2.14 thus the regression of the effect of the capital structure variable, company size, profitability to firm value is feasible to use. To determine the significant effect of capital structure, firm size, profitability on firm value, the t test is used. With degrees of freedom: df : n-k (77-7) or df = 70 with = 0.05 shows 1.66691.
3.2. Discussions

1) The effect of capital structure on firm value

Based on the results of the study of the capital structure t test on firm value, it can be seen that the tcount value is smaller than ttable or (0.047437 < 1.66691) and the sig value is 0.6718 > 0.05. This means that the results of this study prove that there is a non-significant positive effect of capital structure on firm value and is rejected statistically. Using debt in a company's capital structure can increase the chances of bankruptcy because too much debt causes cash flow to be insufficient to pay interest and repay debt. This is referred to as the cost of financial distress, a condition in which a company experiences financial difficulties and is threatened with bankruptcy. The greater the debt, the greater the cost of financial pressure, which will affect the company's value (Utomo & Christy, 2017). So the capital structure may not necessarily affect the continuity of the company in managing the economy and finances of a company if the use of finance (debt) is not in balance with existing finances. The results of this study are in line with the research of Widyantari & Yadnya (2017), Dewi & Wirajaya (2013), Damayanti (2016), Fau (2015), which states that capital structure has no significant positive effect on firm value.

2) The effect of firm size on firm value.

Based on the results of the study of firm size t test on firm value, it can be seen that the tcount value is greater than ttable or (2.792070 > 1.66691) and the sig value is 0.0374 < 0.05. This means that the results of this study prove that there is a significant positive effect of firm size on firm value and is accepted statistically. Company size is seen from the total assets owned by a company that can be used for the company's operational activities. Large total assets make it easier for companies to deal with funding issues more easily, Widyantari & Yadnya (2017). Company size is one option to measure the influence of investors and creditors on a company. Dewi & Badjra (2017) explained that company size includes the size of a company as shown by assets, number of sales, average total sales and average total assets. The results of this study are in line with the research of Suffah (2016), Setiawan & Lim (2018), Eka (2010), Putri (2017) which states that the size of positive influence is significant on company value.

3) The effect of profitability on firm value

Based on the results of the study on profitability t test on firm value, it can be seen that the tcount value is large (1.708328 > 1.66691) and the sig value is 0.0165 < 0.05. This means that the results of this study prove that there is a significant positive effect of profitability on firm value and is accepted statistically. Profitability or profit is revenue minus expenses and losses during the reporting period. Analysis of profitability is very important for creditors and equity investors. For creditors, profit is a source of payment of interest and loan principal, while for equity investors, profit is one of the determining factors in changes in securities value. The most important thing for the company is how the profit can maximize shareholders, not how much profit the company generates. Profitability is the company's ability to earn profits. Investors invest shares in companies to get returns. The higher the company's ability to earn profits, the greater the return expected by investors, thus making the company's value better (Saidi (2004) in Dewi & Wirajaya, 2013). Companies that have a lot of profitability certainly make investors and creditors tempted and interested in working together. with that company. Investors and creditors also want profits when a company has
high profitability, of course it won't be wasted if that happens to a company. So profitability can attract investors and creditors. The results of this study are in line with the research of Widyantari & Yadnya (2017), Dewi & Sudiartha (2017), Hidayah (2015), Mardiyati, et al (2012) which state that profitability has a significant positive effect on firm value.

4. CONCLUSIONS

Based on the analysis results, it can be concluded that firm size and profitability have a significant positive effect on firm value. In contrast, capital structure does not affect firm value. This study suggests that companies should continue to periodically evaluate the factors that affect company value. For investors who have previously decided to invest or invest their shares in a company, it is better to pay attention to the capital structure, company size and profitability of the company value in a particular company. Investors should see a yearly increase in company value through the company's financial statements.

5. REFERENCES


