EFFECT OF COMPANY SIZE, PROFITABILITY AND CAPITAL STRUCTURE ON FIRM VALUE IN INDONESIA

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ABSTRACT: Rated companies are certain conditions that have achieved by a company as an illustration of public trust in the company after going through a process of activities for several years, from the time the company was founded until now. Firm value is often associated with stock prices. The highest share price makes the value of the company will also be high. This study aims to examine the effect of company size, profitability, and capital structure on Firm value. This research was conducted on the Indonesia Stock Exchange (IDX) in year 2019. The number of samples used in the study were 413 companies, which were taken using a purposive sampling method with several predetermined criteria. The data analysis technique used is multiple linear regression. The results of this study indicate that company size, profitability, and capital structure have a significant effect on Firm value. Partially, company size and profitability have a positive and significant effect on firm value with a significance value of 0.00 each. While the capital structure does not affect the value of the company indicated by the significance value of 0.54.

KEYWORDS: Firm value, Company Size, Profitability, Capital Structure.

I. INTRODUCTION

A company is an organization established by a person or group of people or other bodies whose activities carry out production and distribution to meet the economic needs of humans. Companies that have gone public have top priority to increase the prosperity of their owners or shareholders. High stock prices on the stock exchange or capital market will encourage investors to invest their capital, so that it will encourage the company's economic growth and increase the value of the company (Suparda, 2014). Value if company is a certain condition that has been achieved by a company as an illustration of people's trust in the company after going through a process of activities for several years, ie since the company was founded until now. The company has a long-term goal of maximizing the value of the company. The higher the value of the company, the prosperity of shareholders will increase. Firm value is an important concept for investors because the company's value is an indicator of how the market is valuing the company as a whole that is often associated with a stock price (Widnyana, et al., 2020).

Company size described the size of a company that can be expressed by total assets or total net sales. The greater the total assets, the greater company size. While the more sales there are, the more money there is in the company. The large size of the company shows that the company has developed so that investors will respond positively and the value of the company will increase.

Weston and Copeland (1997) define profitability to what extent a company generates profits from the company's sales and investment. If the profitability of the company is good, the stakeholders' consist of creditors, suppliers, and investors will see the extent to which the company can generate profits from the sale and investment of the company. With good company performance will also increase the value of the company (Suharli, 2010).

Capital structure is a comparison of the value of debt with the value of own capital which is reflected in the company's year-end financial statements. Capital structure is very important for the company because it will relate to and influence the amount of risk borne by shareholders and the amount of expected returns or levels of profit. Funding decisions related to the selection of sources of funds both from within and outside the company that greatly affect the value of the company. (Widnyana, et al., 2020).

The purpose of this study is as follows: (1) To determine the effect of company size on firm value, (2) To determine the effect of profitability on firm value, (3) To determine the effect of capital structure on firm value, (4) To determine the effect of company size, profitability, and capital structure on firm value.
II. LITERATURE REVIEW

Signal is actions taken by company management in which management knows more complete and accurate information about the company's internal and future company prospects than investors. Therefore, managers are obliged to give signals about the condition of the company to stakeholders through the company's financial statements. The main assumption of the signal theory is to provide space for investors to find out how the decision they will make is related to the company's value. If investors interpret the signal given by the company as a positive signal to the company's growth in the future, then it can increase stock prices as an indicator of Value if Company, so that the company's value also increases.

Value if Company is the price that potential buyers (investors) are willing to pay if the company is sold. The main goal of the company is to maximize the company's wealth or value for shareholders (Margaretha, 2014: 1). Value if Company is an investor's perception of the company's success in managing a company, which is often associated with stock prices. In this study the value of the company is measured using price to book value (PBV), with the following formula (Fahmi, 2012: 119):

\[ PBV = \frac{\text{Share Price Per Share}}{\text{Book Value Per Share}} \]

Company size indicates company size that can be seen from company size total assets owned. The greater the total assets of the company, the greater company size. Company size is measured using natural log (Ln) of total assets. This natural log is used to reduce the significant difference between company size that is too large with company size that is too small, then the total value of assets is formed into a natural logarithm, this natural logarithmic convention aims to make total asset data normally distributed (Astriani 2014). The formula used is:

\[ \text{Size} = \text{Ln (Total Assets)} \]

Profitability is a performance indicator carried out by company management in managing company assets shown by the profits generated by the company. Broadly speaking, the profits generated by the company come from sales and investments made by the company. Profitability in this study was measured using ROE (return on equity). According to Kasmir (2010: 137), ROE can be calculated using the following formula:

\[ \text{ROE} = \frac{\text{Net profit after tax}}{\text{Equity}} \times 100\% \]

Capital structure is permanent expenditure which reflects the balance or comparison between long-term debt with own capital which is reflected in the final company's financial statements year. The capital structure in this study is measured by Debt to Equity Ratio (DER). The DER equation is as follows (Horne and John, 2012):

\[ \text{DER} = \frac{\text{Total debt}}{\text{Total equity}} \times 100\% \]

III. METHOD

Figure 1. The Research Model

Type of data used in this study is quantitative data, namely data in the form of numbers or qualitative data allegedly (Sugiyono, 2018: 23). Quantitative data used in this study is the financial statements of companies listed on the Indonesia Stock Exchange for the period of 2016-2018. The data source used in this study is secondary data that is data obtained by researchers in the form that has been made or has been collected by other parties and those related to this research (Sugiyono, 2018: 61). In this study the source of the data used was obtained through a search from the Indonesia Stock Exchange website, www.idx.co.id.
The population in this study are companies listed on the Indonesia Stock Exchange (IDX) for the year 2019. The number of companies is 662 companies. The sample selection in this study uses a purposive sampling method (Sugiyono, 2018: 65) with the following criteria:

1) Companies listed on the Stock Exchange during the year 2019.
2) Companies that publish annual financial statements on December 31, 2019.
3) The company has complete data in the study period such as company size, profitability, and capital structure on 31 December 2019.

Based on the stages of determining the number of samples in this study, then obtained a sample of 413 companies, with a 1-year observation period.

The data collection method in this research is the documentation study which is a way of collecting data obtained from company documents relating to the research object (Sugiyono, 2018: 71).

Data analysis technique used in this study is multiple linear regression analysis, namely regression analysis that is able to explain the relationship between the dependent variable (dependent) with the independent variable (independent) more than one (Nafaririn, 2007). Multiple linear regression analysis in this study used to determine the effect of company size, profitability, and capital structure on firm value.

### IV. RESULTS AND DISCUSSION

<table>
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<th>Variables</th>
<th>Unstandardized coefficient</th>
<th>Standardized coefficient</th>
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<th>Sig</th>
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<td>B</td>
<td>Std Error</td>
<td>Beta</td>
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<td>Company size</td>
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<td>Profitability</td>
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<td>Significance F</td>
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Table 1. Recapitulation of multiple linear regression test results

Based on Table 1, the multiple linear regression equation can be written as follows:

\[ Y = -3.218 + 0.177 X_1 + 0.064 X_2 - 0.058 X_3 \]

From the analysis results The regression can be seen that the value of \( \alpha = -3.218 \). This means that if company size \( X_1 \), profitability \( X_2 \), and capital structure \( X_3 \) is zero \((0)\) then the value of the company \((Y)\) is \(-3.218\).

Correlation coefficient is an analysis to measure the level of closeness of the relationship between the dependent variable with the independent variables together (Wirawan, 2012: 213). The results of the multiple correlation analysis in Table 1, show that the correlation coefficient is 0.746, which means that the close relationship between firm size, profitability, and capital structure to Firm value is strong because it is in the category of 0.600-0.799.

According Ghozali (2018: 97), the analysis of determination \( R^2 \) essentially measures how far the ability of the model to explain variations in the dependent variable. Determination analysis test results in Table 1, shows the coefficient adjusted \( R^2 \) is 0.557, which means the level of the coefficient of determination of company size, profitability, and capital structure is 55.7%, which means the variation fluctuation value of the company amounted to 55.7% influenced by company size, profitability, and capital structure while 44.3% is influenced by variables not yet included in the model.

Based on the results of the F statistical tests in Table 1, the F-test significance value of 0.000 is smaller than 0.05. Because the significance value is smaller than 0.05, it can be said that company size, profitability, and capital structure simultaneously have a significant effect on Firm value.

The t statistic testing basically shows how far the influence of the independent variables individually in explaining the variation of the dependent variable (Ghozali, 2018: 98). To test the truth of the overall regression coefficient, the significance value of \( t \) arithmetic compared with \( \alpha = 0.05 \). Based on the results of the t statistical test in Table 1, the effect of company size, profitability, and capital structure on Firm value can be explained as follows:

1) The Effect of Company Size on Firm value

The test results show a positive positive regression coefficient of 0.177 while a significance value of \( t \) of 0.000 is smaller than 0.05, it can be said that company size has a positive and significant effect on Firm value.
This is because company size determines the assets of the company, the larger company size, the greater the assets owned so that the company's activities have a large scope and can increase the company's business growth. Large business growth is able to give a signal to investors by giving a positive response to the company which means an increase in the value of the company. Therefore, the greater company size, the higher the value of the company. The results of this study are in line with research by Rachmawati, et al (2007), Prasetyorini (2013), Anindita (2015), Haroyanto and Juniarti (2011) who find that company size has a positive and significant effect on Firm value.

2) Effect of Profitability on Firm value

Test results show a positive value of the regression coefficient of 0.064 while the significance value of t is 0.000 less than 0.05, it can be said that profitability has a positive and significant effect on Firm value. This is due to an increase in profits earned by the company or an increase in the company's profitability ratio will be followed by an increase in the company's value. The higher the profits obtained by the company, the higher the company's ability to meet its obligations to pay dividends so as to increase the value of the company. The results of this study are in line with research by Fau (2015) and Nurmayasari (2012) who found that profitability has a positive and significant effect on Firm value.

3) Effect of Capital Structure on Firm value

Test results show a negative coefficient of regression that is -0.058 while the significance value of t is 0.054 greater than 0.05, it can be said that the capital structure has no effect on Firm value. This is due to the company's capital structure IDXng a permanent financing which consists of long-term debt, preferred shares and shareholder capital, so that a company's capital structure is only a part of its financial structure. This indicates the higher or lower debt owned by a company will not affect the value of the company. The size of capital owned by the company is not considered by investors because investors look at how the company's management uses these funds effectively and efficiently to achieve high values for the value of the company. The results of this study are in line with research Rizkiastuti (2016), Welly and Untu (2015) which found that capital structure had no effect on Firm value.

V. CONCLUSION AND RECOMMENDATION

Conclusions

Based on the results of the analysis and testing of hypotheses, it can be concluded that:

1) Company size has a positive and significant effect on Firm value in companies listed on the Indonesia Stock Exchange. This is because the larger company size, the greater the business activities of the company so that there is an increase in the company's business growth that is able to increase the firm value.

2) Profitability has a positive and significant effect on Firm value in companies listed on the Indonesia Stock Exchange. This is because the increase in profitability ratio obtained by the company will be followed by an increase in the firm value. The higher the profits obtained by the company, the higher the company's ability to meet its obligations to pay dividends so as to increase the firm value.

3) The capital structure does not affect the value of the company in manufacturing companies listed on the Indonesia Stock Exchange. This is because the company's capital structure is permanent financing consisting of long-term debt, preferred shares and shareholder capital, so that the capital structure of a company is only a part of its financial structure. So, high or low company debt does not affect the value of the company.

4) Company size, profitability, and capital structure significantly influence the value of the company in companies listed on the Indonesia Stock Exchange.

Recommendation

Based on research conducted by researchers, the advice that researchers want to convey are:

1) For Companies

Based on the results of the study, the management must pay attention to company size (X1), profitability (X2), and capital structure (X3) to maintain / increase the value of the company. But from the results of the t test, profitability (X2) needs more attention by the management because profitability has a dominant influence on Firm value. So that later can increase the value of the company which is the company's top priority.

2) For Further

The researcher hopes that the next research can use other indicators in assessing the value of the company by taking into account the company's financial ratios (liquidity), Corporate Social Responsibility (CSR), mechanism Good Corporate Governance (GCG), dividend policy, ownership structure, and investment decisions.
REFERENCES


