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COMPANY VALUE: THE ROLE OF CAPITAL STRUCTURE AND COMPANY PROFITABILITY GROWTH

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Abstract

This study aims to examine and analyze the effect of capital structure, firm growth and profitability on firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017 - 2019 period. This study uses an associative approach. Data collection techniques in this study using documentation techniques. The data analysis technique in this research is using descriptive statistical analysis, multiple linear regression analysis, classical assumption test, hypothesis testing, and the coefficient of determination with a significance level of 5%. The results of this study indicate that the capital structure as measured by the Debt to Equity Ratio (DER) has a negative and significant effect on firm value as measured by Price Book Value (PBV). Company growth has a positive and insignificant effect on firm value (PBV). Profitability as measured by using Return On Equity (ROE) has a positive and insignificant effect on Company Value (PBV) and capital structure, company growth and profitability together have a significant effect on company value in manufacturing companies listed on the Indonesia Stock Exchange for the period 2017 -2019.

Keywords: *Capital Structure (DER), Company Growth, Profitability (ROE) and Company Value (PBV)*

1. INTRODUCTION

The physical form of the capital market is the Stock Exchange. The consumer goods industry is one of the most attractive industrial sectors. This is because consumer goods products are always needed in human life. Consciously or not, humans need it. The consumer goods industry sub-sectors are the food and beverage industry, the cosmetics and household goods industry, the cigarette industry, the pharmaceutical industry, and the household appliances industry. According to (Jensen, 2001), to maximize the value of the company, not only the value of equity is considered, but financial sources such as debt and preferred shares. According to (Brigham, 2012) company value is very important because high company value will be followed by high shareholder prosperity. The higher the share price, the higher the company value. High company value is the desire of company owners, because a high value shows the prosperity of shareholders is also higher. The company has short-term goals and long-term goals. The company's short-term goal is to obtain maximum profit with existing resources, while the company's long-term goal is to optimize the company's value (Meidiawati, 2016). Corporate value is a form of company achievement that comes from public trust in the company's performance after going through a long process of activities, since the company was founded until now. The company has short-term goals and long-term goals. The company's short-term goal is to obtain maximum profit with existing resources, while the company's long-term goal is to optimize the company's value (Meidiawati, 2016). Corporate value is a form of company achievement that comes from public trust in the company's performance after going through a long process of activities, since the company was founded until now. The company has short-term goals and long-term goals. The company's short-term goal is to obtain maximum profit with existing resources, while the company's long-term goal is to optimize the company's value (Meidiawati, 2016). Corporate value is a form of company achievement that comes from public trust in the company's performance after going through a long process of activities, since the company was founded until now.

The increase in the value of the company is an achievement that is in accordance with the objectives of the go-public company, because with the increase in the value of the company, the welfare of the owners will also increase. Price to Book Value is the relationship between share price and book value per share. This ratio can also be used as an alternative approach to determine the value of a stock because theoretically the market value of a stock must reflect its book value.

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Firm value in this study is proxied by Price to Book Value (PBV) because this ratio is widely used by securities analysts to estimate stock prices in the future. With the Price Book Value (PBV) ratio, it can be seen that a good company value is when the PBV value is above one (overvalued), i.e. the market value is greater than the company's book value. The higher the PBV, the more successful the company is in creating value or prosperity for shareholders. On the other hand, if the PBV is below one (undervalued), the company value is not good (Nurminda, 2017).

Capital structure is the key to improving productivity and company performance. In this study, the author uses the debt to equity ratio (DER) indicator, which aims to measure how much debt is used in marking the company's capital. Shareholders' equity is obtained from total assets minus total debt, so shareholders' equity is also called total capital. According to (Nugrahani, 2012), "Investors tend to be more interested in certain DER levels of less than one or 100 percent, because if more than one indicates the company's risk tends to be higher and will affect the decline in firm value. DER calculation is also in accordance with the definition of capital structure , according to (Halim, Business Financial Management: Concepts and Applications, First Edition, 2015) the capital structure is as follows: "Capital structure is a comparison between total debt (foreign capital) and total equity/equity." The reason the author chooses the Debt to Equity Ratio (DER) indicator as a measuring tool for capital structure, because the Debt to Equity Ratio (DER) ratio describes the company's funding sources with the consideration that the greater the total debt, the higher the company's risk of facing bankruptcy.

Factors that affect the value of the company is the company's growth. The company's growth is the company's ability to increase the size. Growth (growth) is how far the company puts itself in the overall economic system or the economic system for the same industry (Machfoedz, 2006) Companies with good asset growth are companies that are able to manage resources to generate profits, so that they can increase the assets they already have by the company.

Companies that continue to grow will generally have good prospects, this will certainly be responded positively by investors so that it will have an effect on increasing stock prices. An increase in stock prices also means an increase in the value of the company (Brigham, 2012). As best as possible, company growth is measured using changes in total assets. Asset growth is the difference between the total assets of the company in the current period and the previous period to the total assets of the previous period (Dewi, 2013). In this study, the company's growth is measured by the proportion of changes in assets, to compare the increase or decrease in the total assets owned by the company. The growth rate of a company will show the company's ability to earn profits,

Profitability is very important in maintaining the continuity of the company for the long term, (Puspita, 2011). The importance of profitability can be seen by considering the impact that comes from the company's inability to get maximum profit to support its operational activities. How to calculate profitability is varied and depends on the profits and assets or capital that will be compared with one another. One way to calculate profitability is Return On Equity (ROE).

According to (Brigham, 2012) Return On Equity is the return on ordinary equity, namely the ratio of net income to ordinary equity or measuring the rate of return on investment of ordinary shareholders. In this case the shareholders expect an increase in the return on shareholder capital and attract new investors to invest their funds. One of the important indicators for investors in assessing the company's prospects in the future is to see the extent of the company's profitability growth (Tandelilin, 2001).

According to (Lestari, 2017), ROE is the ratio used to measure the net profit obtained from managing the capital invested by the owner of the company. The ROE number can be said to be good if > 12%. Or the closer the ROE value is to 100%, the better it will be for the value of the company. ROE that is worth 100% indicates that every 1 rupiah of shareholder equity can generate 1 rupiah of the company's net profit. The greater ROE reflects the company's ability to generate high profits for shareholders (Lestari, 2017).

Because if the higher the debt in the value of the Debt to Equity Ratio (DER), it means that the company's ability to maintain its business is decreasing, then the company cannot manage capital efficiently to earn income, this will certainly have an impact on the size of investors in issuing funds to the company.

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2. RESEARCH METHODS

The research approach used in this study is to use an associative approach. The associative approach is an approach using two or more variables in order to determine the effect or influence between one variable and another. The sample in this study is as many as 13 manufacturing companies in the consumer goods industry sub-sector listed on the Indonesian stock exchange. The data used in this study were collected by documenting the financial statements of manufacturing companies in the consumer goods industry sub-sector sourced from the Indonesia Stock Exchange (IDX).

3. RESULTS AND DISCUSSION

Results

This following table show the results of this research:

Table 1. Muktiple Regression Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,445	,755		3,241	,003
	Capital Structure	-,344	,149	-,386	-2,318	0.027
	Company Growth	,227	,189	,187	1,203	0.018
	Profitability	,727	,254	,240	1.254	,033

a. Dependent Variable: Firm Value

From the table above, it can be seen that the capital structure measured by using the Debt to Equity Ratio (DER) has a value of tcount < ttable, namely -2,318 < 2,030. with a significance value of 0.027 <0.05, and a negative value of -0.386. This shows that the capital structure variable (X1) as measured by using the Debt to Equity Ratio (DER) to Firm Value (Y) as measured by the Price Book Value (PBV) has a negative and significant effect, so the conclusion is Ho is rejected.

From the table above, it can be seen that the Company's Growth as measured by using *Asset Growth*has a tcount > table that is 1.203 < 2.030 with a significance value of 0.238> 0.05 and a positive value of 0.227. This shows that the variable Company Growth (X1) which is measured using Asset Growth on Company Value (Y) as measured by using Price Book Value (PBV) has a positive and significant effect, then the conclusion is Ho is accepted.

From the table above, it can be seen that Profitability as measured by using Return On Equity has a value of tcount < table that is 1.254 < 2.030 with a significance value of 0.033 < 0.05 and a positive value of 0.240. This shows that the Profitability variable (X1) as measured by using Return On Equity to Firm Value (Y) as measured by using Price Book Value (PBV) has a negative and insignificant effect, then the conclusion is Ho is accepted.

The Effect of Capital Structure on Firm Value

The results of this study indicate that the size of the company's debt does not really affect the value of the company. Companies with high debt can have a company value which is calculated by the value of Price Book Value (PBV), if the debt is managed properly then the company has a large market value equity. Likewise, companies that have low debt levels can also have high company values, if the market value of the company's equity is large. So the size of the company's debt does not affect the value of the company. The results of this study indicate a negative and significant direction so that the capital structure is not the only factor in determining the value of a company.

The results of this study state that capital structure as measured by using the Debt to Equity Ratio (DER) has a negative and significant effect on firm value as measured by Price Book Value (PBV). This is in line with the results of research conducted by (Fau, 2015) in his research which says that capital structure has a negative and significant effect on firm value.

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The Effect of Company Growth on Firm Value

The results of this study indicate that the higher the growth of the company, the greater the value of a company. This is probably because the total assets of the company this year are greater than the total assets of the company in the previous year. This means that any increase in changes in total assets during the study period will affect the value of the company.

Any increase in assets owned by a company is a positive signal for investors. The company's growth is highly expected by internal and external parties of the company, because good growth gives a sign for the company's development. Positive asset growth also means that management has been able to manage the company well. The results of this study indicate that company growth has a positive and insignificant effect on company value as measured by Price Book Value (PBV). This is in line with research from (Sari, 2013) which states that company growth has a positive and significant effect on firm value as measured by using Price Book Value (PBV).

The Effect of Profitability on Firm Value

The results of this study indicate that high profitability will increase firm value. This is because high profits will also provide a good prospect for the company so that it can respond to investors to increase demand for shares. The increasing demand for shares will cause the value of the company to also increase. Thus, the higher this ratio, the better the company's position, which means the company provides large income opportunities for investors.

In addition, a company that has a large level of net income will reflect the condition of the company in a healthy condition, the better the level of profit in financial performance achieved by the company will affect the increase in company value. The results of this study indicate profitability as measured by using Return On Equity (ROE) has a negative and insignificant effect on firm value as measured by using Price Book Value (PBV). This is in line with the results of research conducted by (Gultom, 2013) which also states that profitability has a positive and significant effect on firm value.

The Effect of Capital Structure, Company Growth and Profitability on Firm Value

The results of this study indicate that if the company's profitability increases, the company's growth will be followed, and the company will be able to pay or pay off the company's debts where the company will experience a decrease in its capital structure so that the company can increase the value of the company's shares which causes shares to be in demand by many investors. will increase the value of the company.

4. CONCLUSION

Based on the results of the research and discussion described in the previous chapter, it can be concluded that, capital structure (DER) has a negative and significant effect on Firm Value (PBV). Firm Growth has a positive and significant effect on Firm Value (PBV). Profitability (ROE) has a positive and significant effect on Firm Value (PBV), Capital Structure (DER), Sales Growth and Profitability (ROE) have a significant effect on firm value (PBV).

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