

THE EFFECT OF CAPITAL STRUCTURE AND PROFITABILITY TO FIRM VALUE

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Abstract

Objective: The purpose of this study is to empirically investigate the effect of capital structure and profitability to firm value. Investors, in general, evaluate a company's ability to increase the wealth of its shareholders where the company's capital structure and also profitability play an important role. The study seeks to provide valuable contributions to the field of investment & finance, utilizing empirical approach.

Design/Methods/Approach: The study used one of index listed at IDX that monitors the 20 of the best BUMN which called BUMN20 Index. The population in this study are companies listed on the BUMN20 Index listed on the Indonesia Stock Exchange (BEI) in 2019-2022 with a total of 20 companies. The source of the data of this research was conducted from annual report and sustainability report. This research is using quantitative approach with multiple linear regression analysis method and measured using SPSS 20 software.

Findings: The research results noted that there was an insignificant influence between capital structure and firm value in BUMN20 index companies. Meanwhile, profitability were found to have a significant influence on firm value of state-owned companies from 2019-2022.

Originality/Value: The study is a replicate research which means that the variables has been used by previous researchers. Nonetheless, the research employs BUMN companies index, which is rarely studied, as it is a new index in the stock exchange, while the companies has large reach to society.

Practical/Policy implication: The research findings have significant implications for management and business practices, as well as policy aspects. As the result indicated that between source of capital and the company's ability gain profit, the factor that affecting firm value is profitability, and this held an importance for the company, which means that the management need to take notes and evaluate their ability to gain profit in maintaining or increasing the wealth of its shareholders.

Keyword: capital structure, profitability, firm value

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Introduction

Current world developments provide opportunities for various businesses to participate globally. Indonesia, like it or not, sees itself as having to be present and involved globally, where currently regionally Indonesia is a leader in ASEAN and has introduced a free market in this region which has the name of the ASEAN Economic Community (AEC). With the MEA, it is hoped that various types of businesses in Indonesia can compete to achieve opportunities in the market. In achieving its goals, companies need to pay attention to various aspects of their business continuity in the future.

The company's goal, in Suharyanto (2020), turns out to be an effort to increase Firm Value. Firm Value, or Firm Value, can be seen from the movement of shares in the company, the result of investors' views and actions in the capital market (Hayat et al, 2021). Hayat et al (2021) see the importance of maximizing

company value. Investors will of course be happy to have share ownership that has increased value, meaning that the company is rated positively by market players. Therefore, it is important for analysts and business actors to look at the factors that can influence company value.

The first factor seen as having a role in company value is capital structure. Looking at the definition, Siswanto (2020) describes capital structure as company funding based on its proportion, whether from debt or own capital. Debt here is seen to play a role in improving and changing the company's profitability. Profitability is the second factor, which is considered to play a role in company value. Profitability, according to Hayat et al (2021), describes a business's ability to achieve profits. If the profits obtained are large, it could attract interest from large market players in the company. It is normal for investors to want to make a profit from what they invest. Big profits, it could be that the distribution of profits to investors will be even greater, this is something that market players are waiting for.

Based on the discussion above, this research wants to see whether there is an influence of capital structure and profitability on company value. The state-owned companies in IDXBUMN20 were chosen as the sample for this research, because state-owned companies play a role in people's livelihoods and are more likely to play a global role. The contribution of this research is a measuring tool that can be used to predict company value.

Stockholder Theory

Stockholder theory is important because it helps companies identify their role in relation to shareholders, and how they can maximize company profits. This theory also helps companies identify how to serve the company's shareholders and why they buy company shares. Shareholders typically use their resources to purchase shares of publicly traded companies to seek profits over time. It is also important to identify the differences between shareholders and stakeholders so that businesses can make informed decisions that benefit both parties. Shareholders are usually stakeholders in a company because the company's profits and operations impact them (Tse, 2011).

Capital Structure and Company Value

Capital structure, according to Hayat et al (2021) is company funding based on the proportion of debt and the company's own capital. The size of a company's business certainly requires large amounts of funding. If these funds are managed well, they will certainly provide benefits and profits for investors. Firm Value can be affected by the funding used by the company, therefore capital structure and company value are related.

Lisda & Kusmayanti (2021), in their research, proved that the increase in company value was found to be due to the role of the company's capital structure. Furthermore, Ester & Hutabarat (2020) added that it was found that the determinant of company value was capital structure, due to the significant results. Referring to the discussion above, the research hypothesis is:

H1: Company value is significantly influenced by Capital Structure

Profitability and Company Value

Profitability, according to Siswanto (2020), means the ability to generate profits for a business. And how efficiently the company uses assets to generate these profits. If the profits obtained are large, it could attract interest from large market players in the company. It is normal for investors to want to make a profit from what they invest. Big profits, it could be that the distribution of profits to investors will be even greater, this is something that market players are waiting for.

Hidayat & Khotimah (2022) in their research findings see that company value is not influenced by profitability. On the other hand, Azhar & Wijayanto (2018), in manufacturing companies in 2012-2016 it was found that there was a significant influence between profitability and company value. Referring to the discussion above, the research hypothesis is:

H1: Company value is significantly influenced by profitability

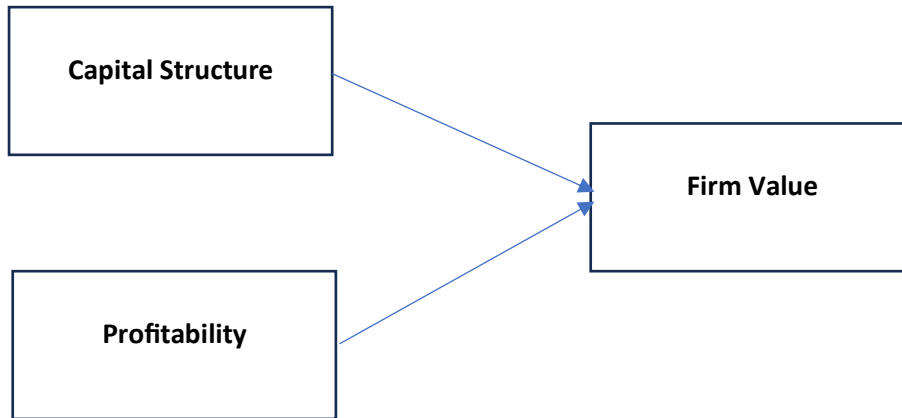


Figure 1. Conceptual framework

METHOD

This research uses quantitative secondary data from company financial reports on the Indonesian Stock Exchange. The data obtained from the IDX site are company financial reports from 2019-2022, the same data can be obtained from each company's website. The IDX BUMN20 index was used to obtain research samples, namely state-owned companies located there to meet the purposive sampling criteria for this research. The dependent variable uses company value with the price to book value ratio. The research independent variables consist of: profitability and capital structure.

Tabel 1. Operational Variables

Price to book value (Brigham & Houston, 2019)	PBV is used as a company value ratio. The PBV measure is the ratio of share price divided by book value per share
Capital Structure (Brigham & Houston, 2019)	DER is used as a company capital structure ratio. The DER or debt to equity measure is total liabilities divided by total equity.
Profitability (Brigham & Houston, 2019)	Profitability is the ratio of a company's profit level to the return on equity ratio, net income divided by total assets

The statistical analysis used in this research is the correlation coefficient, coefficient of determination, descriptive statistical analysis, regression analysis, significant F and t tests. SPSS 20 was used to process and present research data. The classical assumption test was used in this research before multiple linear regression analysis. This test uses various tests such as search tests: multicollinearity, normality, and autocorrelation. And the regression equation obtained can be seen in the following information:

Note: Y = company value (PBV)
 a = constant number
 X1 = capital structure (SM).
 X2 = profitability (PR).

RESEARCH RESULT

Descriptive Statistical Analysis

Table 2. Descriptive Statistics

	Mx	Mn	M	SD
PR	.07	.00	.0110	.01456
SM	17.07	.01	4.2258	3.95453
PBV	4895.32	13.20	1542.3501	1010.91275

Referring to table 2, the SM variable has an Mn value of 0.01 and the largest is 17.07 with a deviation of 3.95. It is also found that the average capital structure of BUMN companies is 4.22 or 422%. For the PR variable, the Mn value was found to be 0.00, and the largest was 0.07 with a deviation of 0.014. It was also found that the average profitability of state-owned companies was 1.1%. For company value, the average company value was found to be 1542.35.

Autocorrelation and Multicollinearity Test

Table 3. Autocorrelation and Multicollinearity

	DW	VIF	Tolerance
Model 1	1.376	1.062	0.942

The autocorrelation test shows, DW 1.376, which is between -2 and 2, so the conclusion given is that autocorrelation does not occur in the results of table 3.

Referring to the same table, the multicollinearity test shows a VIF value of 1.062 and Tolerance 0.942, where the tolerance value is > 0.10 and VIF < 10, this means that multicollinearity does not occur in the regression model

Normality test

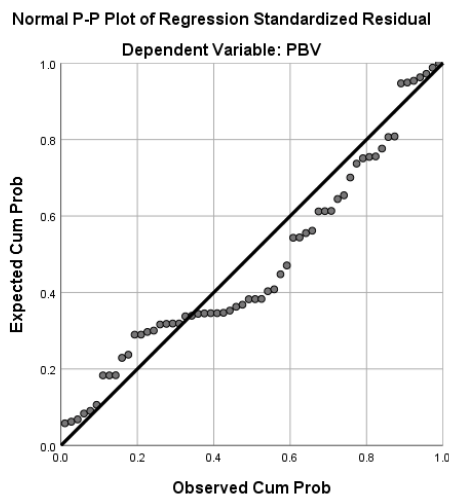


Figure 2. Normality

The normality test shows that the plot points are between the diagonal lines, meaning the data is normally distributed and the test is accepted.

Linear Regression Test

Table 4. Linear Regression Test

	B	SE
(Constant)	1480.431	203.179
SM	-6.227	33.559
PR	2672.388	1315.958

The regression model shows the following equation:

$$Y = 1480.431 - 6.227 X_1 + 2672.388 X_2$$

Referring to the value $\alpha = 1480.431$, this means that if the SM and PR variables are 0, every increase in the PR variable by 1 unit can reduce the company value by -6,227. This also means that the PR or profitability variable and company value are negatively correlated. Then for β_2 , it is found that $\beta_2 = 2672,388$, this means that increasing the SM variable by 1 unit can increase the company value by 2672,388, with the condition that the PR variable has a fixed value. This also means that SM or capital structure and company value have a positive correlation.

Hypothesis testing

Table 5. Hypothesis Testing

	B	SE	t	Sig.
SM	-6.227	33.559	-.186	.853
PR	2672.388	1315.958	2.031	.047

Referring to the hypothesis test, it was found that the PR variable had a significant value of 0.047, at the standard point of 0.05 it was found that H1 was accepted, and this means that profitability and company value have a significant effect. However, for the capital structure variable, the significant value was found to be 0.853, at the standard point of 0.05 it was found that H2 was rejected, and this means that capital structure and company value have no significant effect.

Correlation and Determination Coefficient

Table 6. Coefficient of Determination

Model	R	R-Sq	Adj R-SQ
1	.273 ^a	.075	.042

Referring to the results of the coefficient of determination test, the R-Sq value was found to be 0.075, this means that the contribution of SM and PR in influencing changes in company value was 7.5%, and the rest was possible due to the influence of other variables outside the research. Table 6 also shows an R value of 0.273, which shows the magnitude of the relationship between SM and PR on company value.

The Influence of Capital Structure on Company Value

The statistical test above contradicts Hypothesis 1, which means that H1 is rejected that there is no significant influence between capital structure and company value, according to the sig value. $0.853 > 0.05$. Based on signaling theory, it is explained how signals are given by companies to investors, which can be used as directions for prospective companies (Brigham & Houston, 2019). Investors can see these results for their investment decisions, especially since the capital structure has no effect on company value. Previous research that supports these results includes Dewi & Yanti (2022), and Chasanah (2018). Previous research that shows different results can be seen from the research of Gita et al (2023), and Pangesti et al (2020), where they found that capital structure had a positive effect on company value.

The Influence of Profitability on Company Value

The statistical test above refers to Hypothesis 2, which means that H2 is accepted that there is a significant influence between profitability and company value, according to the sig value. $0.047 < 0.05$. These results are in accordance with signaling theory, which states how signals are given by companies to investors, which can be used as a guide to the company's prospects (Brigham & Houston, 2019). Referring to this profitability value can be a guide for shareholders when investing in this state-owned company. Previous research that supports these results includes Chandra & Hastuti (2022, and Dewi & Ekadjaja (2020). Previous research that shows different results can be seen from research by Gita et al (2023), Murarromah & Hakim (2021), and Veronika & Viriany (2021). 2020).

5.CONCLUSION

The conclusions drawn based on the results of the discussion above are:

1. Company value cannot be influenced by capital structure because the results are not significant for companies on IDX BUMN20.
2. Company value can be influenced by profitability with significant results for companies in IDX BUMN20.
3. The contribution of capital structure and profitability to changes in company value is 7.5% and the remainder is due to other factors.

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