

# EBIC 2 - The Influence of Capital Structure, Profitability, and Company Size on Firm Values in Manufacturing Companies Listed on the Indonesia Stock Exchange

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# The Influence of Capital Structure, Profitability, and Company Size on Firm Values in Manufacturing Companies Listed on the Indonesia Stock Exchange

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Abstract: The value of the company is achieved when an investment generates a rate of return that is greater than the investment risk. By increasing the value of the companies, shareholders' value will also increase, which is indicated by the high return on investment to shareholders. Several factors that can influence firm values are capital structure, profitability, and the size of the companies. Financial risk is a risk that affects the financial aspects of the company. And market risk is the risk that occurs due to business competition with the emergence of potential new competitors in the market of the same product. The population of the study was 61 and 12 companies were selected to be the samples through purposive sampling technique. The data were analyzed by using descriptive statistics technique. From the results of the study, it can be concluded, that capital structure has a significant effect on firm value, but has a negative coefficient direction. Even though the capital structure of a company has decreased, but the value of the company may not necessarily decline. Profitability has a positive and significant effect on firm value, and firm size has a positive and significant impact on firm value. Capital structure, profitability, and company size simultaneously have a significant impact on firm value.

## 1 BACKGROUND

### 1.1 Background of the Problem

The main goal of the company is to maximize shareholders' value. Thus managements find ways to increase the value of the company. So, the company needs to ensure that the value of the company grows sustainably. The cost of the company is achieved when an investment generates a rate of return that is greater than the investment risk. At the simplest level, all leads to the investors or shareholders. This group of people have risk factors within the company because they contribute their values to the company in the hope that they can get returns.

So it is essential for companies' need to improve their financials to attract new investors or make investment decisions. This is the main thing for some companies to increase their corporate values. By increasing the value of the companies, shareholders' value will also increase, which is indicated by the high return on investment to shareholders. Several

factors that can influence company values are capital structure, profitability, and the size of the companies.

According to Agus (2010: 240), capital structure is a comparison or balance of long-term funds of the company as indicated by the similarity of long-term debt to own capital. Capital structure shows the use of debt to finance its investment, so that by knowing the company's capital structure, investors can find out the balance between the risk and return on investment. The purpose of capital structure management is to combine the sources of funds used by the companies to finance the operations. In other words, this goal can be seen as a combination of funds that will minimize the cost of capital and maximize the value of the company.

The most important thing for a company is how the profit can maximize the wealth of the shareholders rather than how much profit the company makes (Santy Kusumaningrum: 2016).

According to Ferry and Jones (2001), the size of the company is as indicated by total assets, total sales, average of total sales, and proportion of total assets. The size of the company has dramatically influenced

the ability of the company to obtain a loan. Large companies have significant funding needs to finance the operation activities of the companies. Large companies are more comfortable to get loans than small companies. However, large companies have more significant risks compared to smaller companies, such as financial risk and market risk. Financial risk is a risk that influences the financial aspects of the company. And market risk is the risk that occurs due to business competition with the emergence of potential new competitors in the market of the same product.

Firm's size is the size of assets owned by the company. Firm size is also an indicator that shows the company's financial strength. So, the size of the firm is considered to be able to influence the value of the company, because the larger the size of the company, the company is more comfortable to obtain funding from both internal and external.

This research was conducted at manufacturing companies listed at the Indonesia Stock Exchange (IDX). A manufacturing company is a processing industry company that processes raw materials into semi-finished goods or finished goods which have higher added value. In manufacturing companies, there are three sectors, namely the essential industrial and chemical sectors, various industrial sectors, and the consumer goods industry sector. However, in this article, the researcher put the limit in the research to only study the essential industrial and chemical sectors in manufacturing companies listed at the Indonesia Stock Exchange.

Several studies have been conducted to analyze the factors that can affect the value of the firm whose results are in line or adverse. These studies include those conducted by Nunung Nur Hanifah (2016) showed that partially, the capital structure has effected positively and not significantly on firm's value. While company growth, company size, and profitability have impacted positively on firm's value. Simultaneously, capital structure, the company's growth, the company's size, and profitability have impacted positively and considerably on the firm's value. Based on the research of Santy Kusumaningrum (2016) has shown that simultaneously, all the independent variables of capital structure and profitability have influenced positively and significantly on firm's value. And based on research conducted by Ayu Sri, et al. (2013), it showed that the capital structure has effected negatively and significantly on firm's value, profitability had influenced positively and significantly on the firm's value, and firm size did not affect firm's value.

Based on the inconsistency of the above results of several studies, therefore the researchers carried out further research which would be able to provide more adequate results with data that was more relevant to current conditions.

Since the beginning of 2017, the primary and chemical industry sectors on the Indonesia Stock Exchange (IDX) have recorded high growth. The primary and chemical industry sectors had recorded growth of 17.08% year to date. This has made this sector the second-most top growth sector after the growth of financial industry of 29.18 year to date.

## 1.2 Identification of Problems

Based on the background of the above problem, the problem identifications in this study are:

1. The value of the firms have not been stable.
2. The purpose of the company is to increase the value of the company has not been achieved effectively and efficiently.

## 1.3 Problem Formulation

Based on the description of the background and identification of the above problem, the formulation of the problems in this study are:

1. Does the capital structure partially influence the value of the firm?
2. Does profitability have a partial influence on the value of the firm?
3. Does the size of the company partially influence the value of the firm?
4. Does the capital structure, profitability, and size of the company influence simultaneously the value of the firm?

## 1.4 Research Objectives

Based on the formulation of the problem above, the objectives of this study are:

1. To test and analyze the effect of capital structure on the value of the firm.
2. To test and analyze the effect of profitability on the value of the firm.
3. To test and analyze the effect of company size on the value of the firm.
4. To test and analyze the effect of capital structure, profitability, and firm size on the value of the firm.

## 2 LITERATURE STUDY

### 2.1 Agency Theory

Agency theory describes the relationship between shareholders as principals and management as agents. Jansen and Meckling in Okky (2015:16) explain that agency relations is agency relationship, a contract under which one or more person (the principals) engage another person (the agent) to perform some service or their behalfs which involve delegating some decision making authority to the agents.

Potential agency problems occur when the manager's share of the company is less than one hundred percent (Okky, 2015:17). The proportion of ownership that only a part of the company makes managers tend to act for personal interests and not to maximize the company. This will cause agency costs.

The presence of managerial ownership can be used to reduce the agency cost that has the potential to rise, because by owning the shares of the company, it is expected that the manager feels the benefits directly from each decision taken.

### 2.2 Signal Theory

Signal theory is based on the assumption that the information received by each party is not the same. In other words, signal theory is related to information asymmetry, which is what happens if one party from a transaction has more or better information than the other party.

If the information contains positive things, it is expected that the market will react when the market receives the announcement. A change in stock prices indicates the market reaction at the time the information is announced, and all market participants have received the information. Whereby, external parties will analyze the data as a good signal or a wrong signal. If the announced information is a good signal for external parties, then there will be an increase in stock prices (Okky, 2015: 10). The profit that is reported by the company can indicate the good or bad condition of the company.

### 2.3 Financial Reports

#### 2.3.1 Definition and Purpose of Financial Statements

In simple terms, Keown (2004) defines financial statements are reports that show the company's financial statements at this time or in a certain period.

The purpose of the financial report that shows the current condition of the company is the current condition.

Financial statements describe the company's economic posts obtained from a period. In practice, several types of business reports are known, such as; balance sheet, income statement, statement of changes in equity, notes to financial statements, and cash flow statement.

According to Kasmir (2015: 10), there are several objectives of the preparation of financial statements, namely:

1. Provide information about the type and amount of assets held by the company;
2. Provide information about the type and amount of liabilities and capital owed by the company;
3. Provide information about the type and amount of income obtained in a given period;
4. Provide information about the amount of costs and types of expenses incurred by the company in a certain period;
5. Provide information about changes that occur to assets, liabilities, and capital;
6. Provide information about the performance of the company's management in a period;
7. Provide information about the notes to the financial statements; and other financial information.

#### 2.3.2 Analysis of Financial Statements

After the financial statements are prepared based on relevant data and carried out the correct accounting procedures and valuations, the actual financial condition of the company will be seen. The financial situation is known as how many assets, liabilities, and capital in the balance sheet. Then it will also see the income received and the amount of costs incurred during specific periods. Thus, it can be understood how are the results of the business obtained during a certain period of income statement are prepared.

#### 2.3.3 Value of the Firm

The value of the firm can reflect the value of assets owned by companies such as securities. Stock is one of the securities issued by the company. Financial conditions influence the high and low of the stock prices. The value of the firm is an investor's perception of the level of success of the company that is closely related to its stock price (Hermuningsih, 2013 : 131). High stock prices make the value of the firm high and increase market confidence not only in the company's current performance, but also in the company's prospects. The stock price generally refers



to the closing price and is the price that occurs when the stock is traded on the market (Situmorang, 2016 : 14).

There are several methods that have been used to measure the value of a firm, such as Price Earning Ratio (PER), Price to Book Value (PBV), and Tobin's Q. Price-earnings ratio serves to measure changes in future expected earnings ability.

Price-earnings ratio is one of the most significant measures in fundamental stock analysis and part of the valuation ratio for evaluating financial statements. Price-earnings ratio is useful to see how the market appreciates the performance of a company's stock on company performance reflected in earnings per share. Price-earnings ratio shows the relationship between average stock market prices and profits per share.

Price-earnings ratio (PER) is a fundamental analysis technique with the value of shares and compares it with the price of shares per sheet with profits generated from each share. According to Brigham and Houston, the formula for calculating PER is:

$$\text{Price-earnings ratio (PER)} = \frac{\text{Price stock}}{\text{Earning per share}}$$

Companies with low growth usually have a low PER. Besides that, it can also mean that the higher the PER allows the market price of each share to be better, and vice versa.

Price-earnings ratio is also a measure to determine how the market member values a company's stock. Firms with high growth rates usually have a high PER, and vice versa, companies with low growth rates, have a low PER.

### 2.3.4 Capital Structure

Agus (2010 : 248) states that to determine the optimal capital structure, finance managers need to consider several important factors such as: level of sales, asset structure, the growth rate of the company, profitability, profits in tax protection, company scale, and internal corporate and macroeconomic conditions.

The term gearing is used to describe the mix of loan finance and equity finance in a company (Weetman, 2011 : 348). Debt to equity ratio is the ratio that uses debt and capital to measure the ratio. The Debt to equity ratio is a ratio used to measure the level of debt usage against the company's total shareholder equity. Then the formula used is:

$$\text{Debt to equity ratio (DER)} = \frac{\text{Total Liabilities}}{\text{Total Capital}} \times 100\%$$

The debt to equity ratio can provide an overview of the capital structure owned by the company, so that the level of risk of uncollectible liability can be seen.

### 2.3.5 Profitabilities

The profitability of a company shows a comparison between profit and assets or capital that produces the benefit. According to Brealey, Myers, and Marcus, the income statement measures the profitability of the company during the year (2012 : 74). In other words, profitability is the ability of a company to generate profit. Company profitability concerns the ratio of increasing company profits.

The measurement of profitability ratios can be done with a return on assets (ROA). Return on assets is the ratio between the balance of net income after tax and the total assets of the company. ROA also describes the extent of the return on all assets owned by the company. Return on assets also to measure a company's ability to generate profits using total assets and after capital costs are excluded from the analysis. Thus, the formula is:

$$\text{Return on Assets (ROA)} = \frac{\text{Net profit after tax}}{\text{Total asset}} \times 100\%$$

ROA is a ratio used to measure the net profit obtained from the use of assets. In other words, the higher the rate, the better the productivity of assets in earning net profits. This will further increase the attractiveness of the company to investors.

### 2.3.6 Firm Size

The size of the company is an increase from the fact that large companies will have a large market capitalization, a significant book value, and high profits. Whereas in small companies will have a small market capitalization, little book value, and low profit (Ayu Sri, 2013 : 6).

Block, Hirt, and Danielsen states that in determining the appropriate capital mix, the firm generally begins with its present capital structure and ascertains whether its current position is optimal (2011 : 342)

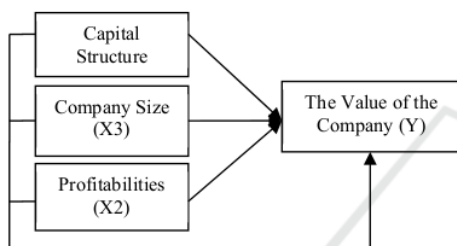
Bauman and Kaen classify firm size as technological, organization and institutional. Thus, firm size is an indicator that can indicate a condition or characteristic of a company. Firm size can be measured by natural logarithm (Ln) on total assets, with the formula:

$$\text{Size} = \text{Ln on total assets}$$

The size of the firm is one of the variables that are considered to influence the company's decision to choose the form of funding. The size of the firm will affect the company's debt policy. Companies that are large and have a good reputation in the market will use more debt as a source of funding. This increase in debt can increase shareholder value.

## 2.4 Framework of Thinking

The thinking framework is a conceptual model of how theory relates to various factors that have been identified as essential problems (Sugiyono, 2012 : 91). The thinking framework in this study can be described as follows:



Source: Drawn by the researcher

Figure 2.1: Thinking Framework

## 2.5 Hypothesis

According to Sugiyono (2012 : 96), the hypothesis is a temporary answer to the research problem formulation. The assumption in this study are:

H1: The capital structure partially has a significant effect on the value of the firm listed on the Indonesia Stock Exchange.

H2: Profitability partially has a significant effect on the value of the firm listed on the Indonesia Stock Exchange.

H3: The size of the firm partially has a significant effect on the value of the firm listed on the Indonesia Stock Exchange.

H4: The capital structure, profitability, and size of the firm simultaneously have a significant effect on the value of the firm listed on the Indonesia Stock Exchange.

## 3 CONCEPTS AND THEORIES

### 3.1 Methods and Types of Research

The research method has used descriptive statistics research, used to test specific theories by examining relationships between variables. These variables are measured so that data consisting of numbers can be analyzed based on statistical procedures.

### 3.2 Research Sites

This research was conducted on the primary industrial and chemical manufacturing companies listed on the Indonesia Stock Exchange in 2014 - 2017 with the site [www.idx.co.id](http://www.idx.co.id).

### 3.3 Research Variables

There are two types of research variables, namely:

1. Independent variable is a variable that value does not depend on other variables.
2. The dependent variable is a variable that depends on the value of the independent variable.

### 3.4 Types and Data Sources

The type of data used in this study is secondary data which is generally in the form of evidence, records, or historical reports of the company. The collection of secondary data sources were obtained from the annual report of the primary industrial and chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2014 - 2017 by accessing the IDX website, namely [www.idx.co.id](http://www.idx.co.id).

### 3.5 Population and Samples

The research population was 61 essential companies and chemical industry companies listed on the Indonesia Stock Exchange from eight sub-sectors. The research sample was 12 companies in 2014 - 2017. The technique of determining the sample is purposive sampling namely, sampling is made more accessible by the prescribed criteria.

The criteria of researchers in sampling are:

1. The primary industrial and chemical industry manufacturing companies on the IDX are still active and have complete and accessible financial data from 2014 - 2017.
2. Companies that earn net income every year from 2014 - 2017.

3. Companies that use Rupiah as the denominator in financial statements.

### 3.6 Data Collection Technique

Data collection techniques are the most important step in the research, because the main purpose of the research is to get data (Sunyoto, 2016). Data collection methods used in this study are; library research and documentation techniques.

### 3.7 Variable Measuring Scale

The measurement scale of the variables studied are:

Table 3.1: Variable Measurement Scale

Variable Type	Research Variable	Parameter	Measuring Scale
Independent variable	Capital Structure (X <sub>1</sub> )	$DER = \frac{\text{Total Liabilities}}{\text{Total Capital}} \times 100\%$	Ratio
	Profitabilities (X <sub>2</sub> )	$ROA = \frac{\text{Net profit after tax}}{\text{Total asset}} \times 100\%$	Ratio
	Company Size (X <sub>3</sub> )	$Size = \ln \text{ on total assets}$	Ratio
Dependent variable	The value of the company (Y)	$PER = \frac{\text{Price}}{\text{Earning per share}}$	Ratio

Source: Authors' results from operational research variables

### 3.8 Data Analysis Technique

The data analysis technique used in this study is quantitative analysis. Quantitative analysis is an analysis that uses statistical formulas that are adjusted to the title of the research and formulation of the problem, to calculate the numbers to analyze the data obtained (Danang, 2016: 26).

Data analysis method is an analytical method used to process data to obtain results and make conclusions.

## 4 RESULTS AND DISCUSSION

### 4.1 Overview of Research Objects

In this study, the objects of the study were 61 essential companies and chemical industry companies listed on the Indonesia Stock Exchange from eight sub-sectors. The technique of determining the sample in this study was purposive sampling. Where there are 61

companies listed on essential industrial and chemical sector companies and the remaining 12 companies that meet the requirements. This research was conducted for four years, from 2014 - 2017.

## 4.2 Research Results

### 4.2.1 Descriptive Statistics Test

Descriptive statistical analysis has the objective to describe all the variables used in this study, based on the statistics table that shows the measurement of the mean, minimum and maximum values. The following shows the results of testing descriptive statistics of firm value, capital structure, profitability, and firm size.

Table 4.1: Descriptive Statistics

	N	Descriptive Statistics			
		Minimum	Maximum	Mean	Std. Deviation
Firms' Value	48	,01	,18	,0865	0,04987
Capital Structure	48	,08	,95	,3644	0,25726
Profitabilities	48	,01	,21	,1029	0,05095
Size of the firm	48	,12	,18	,1456	0,01797
Valid N (listwise)	48				

Source: Data processed with SPSS 23

From table 4.1, N shows a sample data of 48. The minimum value of the company value is 0.01, and the maximum amount is 0.18, and the average cost is 0.0865, and the standard deviation is 0.04987. In the capital structure, the minimum amount is 0.08, and the maximum amount is 0.95, and the average amount is 0.3644, and the standard deviation is 0.25726. On profitability, the minimum amount is 0.01, and the maximum amount is 0.21, and the average is 0.1029, and the standard deviation is 0.05095. At firm size, the minimum amount is 0.12, and the maximum amount is 0.18, and the average is 0.1456, and the standard deviation is 0.01797.

### 4.2.2 Multiple Linear Regression Analysis

In this study used multiple regression analysis models, because more than one independent variable, which are the capital structure, profitability, and size of the company. The results of multiple regression analysis are as follows:

Table 4.2: Multiple Linear Regression

Model	Coefficients <sup>a</sup>						Collinearity Statistics	
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.		Tolerance	VIF
	B	Std. Error	Beta					
(Constant)	-.028	.049		-.562	.577			
Capital Structure	-.094	.024	-.484	-3.849	.000	.888	.126	
Profitabilities	.303	.126	.310	2.397	.021	.840	.190	
Size of the Firm	.805	.378	.290	2.129	.039	.755	.325	

a. Dependent Variable: Firms' Value

Source: data is processed with SPSS 23

From table 4.2 it showed the multiple linear regression analysis above, namely:

Firm value = -0.028 - 0.094 capital structure + 0.303 profitability + 0.805 firm size + e

Information:

Y = Firm Value

a = Constant

b = Regression Coefficient

X1 = Capital Structure

X2 = Profitability

X3 = Firm Size

e = Error

The explanation of the results of the regression analysis above are:

1. The boarding value is 0.028, which means that if the capital structure, profitability, and size of the firm are constant, then the firm value will decrease by 0.028.
2. The capital structure coefficient of -0.94 states that an increase in capital structure of 1% and other independent variables remains unchanged, then the value of the firm will decrease by -0.94.
3. The profitability coefficient of 0.303 states that an increase in profitability of 1% and other independent variables remains constant, then the value of the firm will decrease by 0.303.
4. The coefficient of company size of 0.805 states that the increase in company size of 1% and other variables remain constant, then the value of the firm will increase by 0.805.

### 4.2.3 Classical Assumption Test

**Normality Test.** The normality test aims to determine whether each variable distributes normally or not. A normality test is needed because to test other variables by assuming that the residual value follows a normal distribution. The normality test is carried out using one Kolmogorov-Smirnov sample.

Table 4.3: Normality Test Results

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		48
Normal	Mean	.0000000
Parameters <sup>a</sup>	Std. Deviation	.03916675
Most Extreme	Absolute Positive	.106
Differences	Negative	-.060
Test Statistic		.106
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

a. Test distribution is Normal.

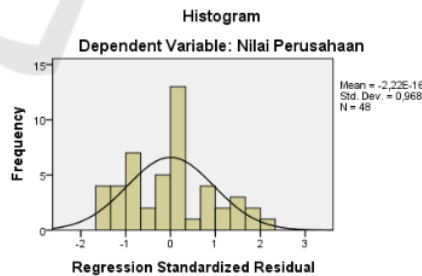
b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Source: Data is processed with SPSS 23

From the table above, shows that the data have distributed normally by looking at the Kolmogorov-Smirnov value of 0.106 and the value of Asymp. Sig. (2-tailed) 0.200, which is higher (>) than 0.05. The normality test can also be shown through histogram images and standard P-P Plot of Regression Standardized graphs.

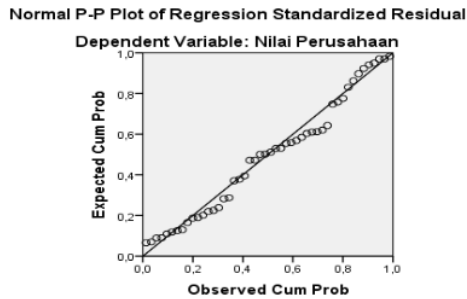


Source: Data processed with SPSS 23

Figure 4.1 Histogram

Figure 4.1, shows that the shape of the curve has a balanced slope, so it can be concluded that the variable data is distributed normally. Normality can be detected through residual standard p-p plot of regression standardized graphs, as shown below.





Source: Data processed with SPSS 23

Figure 4.2 Normal P-P Graph Plot of Regression Standardized Residual

Figure 4.2, has showed that the data spreads around the diagonal line and follows the direction of the diagonal line. Thus, the data meet the assumptions of normality.

**Multicollinearity Test.** Multicollinearity test aims to test whether the regression model is found to correlate with independent variables. A good regression model should not have a correlation between independent variables. The general limits used to indicate the presence of multicollinearity are tolerance values > 0.1 and VIF < 10.

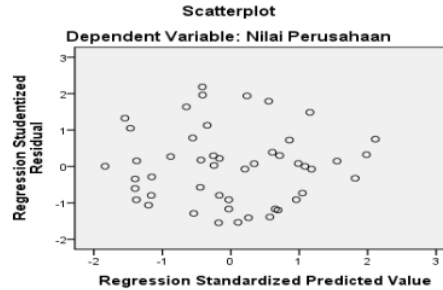
Table 4.4: Multicollinearity Test Results

Model	Coefficients <sup>a</sup>					Collinearity Statistics	
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF
	B	Std. Error					
(Constant)	,028	,049		,562	,577		
Capital Structure	,094	,024	,484	3,849	,000	,888	,126
Profitabilities	,303	,126	,310	,014	,021	,840	,190
Firm Size	,805	,378	,290	,009	,039	,755	,325

Source: Data processed with SPSS 23

From table 4.4, it can be seen that the overall variable has a tolerant value > 0.1 and VIF value < 10. Thus it can be concluded that the independent variables of this study are free from multicollinearity.

**Heteroscedasticity Test.** Heteroscedasticity test is to test whether in the regression model variance inequalities occur from residuals to one observation to another observation remains.



Source: Data processed with SPSS 23

Figure 4.3 Heteroscedasticity Test Results

A good regression model is homoscedasticity, or heteroscedasticity does not occur. From figure 4.3, it can be seen that the points spread randomly above and below the number 0 on the Y-axis and do not form a clear pattern. So it can be concluded that there is no problem of heteroscedasticity in the regression model.

#### 4.2.4 Hypothesis Test

**F Test (Simultaneous Test).** The F test is carried out by simultaneously testing, whether all the independent variables used in the regression model together can affect the dependent variable. These testing criteria are:

1. If  $F_{count} > F_{table}$ , then  $H_0$  is rejected and  $H_a$  is accepted. This means that there is a significant influence between the independent variables (X) together on the dependent variable (Y).
2. If  $F_{count} < F_{table}$ , then  $H_0$  is accepted and  $H_a$  is rejected. This means that there is no significant influence between the independent variables (X) together on the dependent variable (Y).

Table 4.5: F Test Results (Simultaneous)

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	,045	3	,015	9,113	,000 <sup>b</sup>
Residual	,072	44	,002		
Total	,117	47			

Source: Data processed with SPSS 23

Table 4.5 showed that  $F_{count} = 9.113$  and  $F_{table} = 2.82$  ( $9.113 > 2.82$ ), meaning that there is a simultaneous significant influence between the capital structure, profitability and size of the firm on the value of the firm. The amount of Sig. Equal to 0,000, which means smaller than 0.05 (0,000  $<$  0,05), then the whole independent variables have a significant effect on the dependent variable.

**T-test (Partial Test).** The t statistical test aims to show how far the influence of one independent variable individually in explaining the variation of the dependent variable. Decision criteria are:

1. If the significance value is  $< 0.05$ , it means that the independent variable influences the dependent variable.
2. If the significance value is  $\geq 0.05$ , it means that the independent variable does not influence on the dependent variable.
3. If  $t_{count} > t_{table}$ , then the independent variable has a significant effect on the dependent variable.
4. If  $t_{count} < t_{table}$ , then the independent variable does not have a significant effect on the dependent variable.

Table 4.6: T-test Results (Partial)

Model	Unstandardized Coefficient		Standardized Coefficients	T	Sig.
	B	Std. Error			
1 (Constant)	.028	.049		-.562	.577
Capital Structure	-.094	.024	-.484	-3.849	.000
Profitabilities	.303	.126	.310	2.397	.021
Firm Size	.805	.378	.290	2.129	.039

Source: Data processed with SPSS 23

The explanation of table 4.6 are as follows:

- a. Capital structure has influenced significantly on the value of the firm because the  $t_{count}$  of -3.849 and  $t_{table}$  of 2.015, the significant value is 0,000  $<$  0,05 and the direction of the coefficient is negative, so H1 is accepted.
- b. Profitability has a significant effect on the value of the firm, as it is shown from the  $t_{count}$  of 2,397 and the table of 2,015, and the direction of coefficient is positive, so H2 is accepted.
- c. Firm size has a significant influence on the firm value, since  $t_{count}$  is 2,129 and  $t_{table}$  is 2.015, and the direction of the coefficient is positive, so H3 is accepted.

**Determination Coefficient Test.** The ratio of determination ( $R^2$ ) is used to measure how far the ability of the model in explaining the variation of the dependent variable. The ratio of determination is between zero and one ( $0 \leq R^2 \leq 1$ ). A small  $R^2$  value or close to 0 (zero) means that the ability of independent variables to explain variations in the dependent variable is minimal. Values close to 1 (one) independent variables provide almost all the information needed to predict differences in the dependent variable.

Table 4.7: Determination Coefficient Test Results

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.619 <sup>a</sup>	.383	.341	.04048

a. Predictors: (Constant), Capital Structure, Profitabilities, and Firm Size  
 b. Dependent Variable: Firms Value

Source: Data processed with SPSS 23

Table 4.7 shows that the  $R^2$  is 0.383, which means the value is closer to number 0, which means that independent variables (capital structure, profitability, and firm size) in explaining the variation of the dependent variable (firm value) are very limited. This also shows that company value is influenced by 38.3% of the variable of capital structure, profitability, and firm size. While the remaining 61.7% is influenced by other factors that are not examined in this study, for example, cash flow factors, funding decisions, dividend policies, investment decisions, and so forth.

### 4.3 Discussion

#### 4.3.1 Effect of Capital Structure on Firm Values

Theoretically, there is an influence of capital structure on firm value. Where, capital structure policy is basically a decision in selecting of funding sources with the type of investment that must be chosen by the company to be in line with the company's objective, namely to maximize shareholder welfare.

From the results of the study, it showed that there was a significant influence between capital structure on firm value, but with a negative coefficient direction. In other words, the capital structure has a negative and significant effect on firm value. Even though the capital structure of a company has decreased, but the value of the company may not necessarily decline. The results of this study are

supported by the research of Ayu Sri Wahatma Dwi and Ary Wirajaya (2013). But the results of this study adverse to the research conducted by Santy Kusumaningrum (2016) and Fifi Syahadatina (2015), which states that the capital structure partially has a positive and significant effect on firm value.

From the results of the test, there is a negative and significant influence between the capital structure on firm value which indicates that capital structure is not always a benchmark in increasing the value of the company. So, in order to increase shareholders' prosperity, the company does not rely on the level of capital structure of the company.

#### 4.3.2 Effect of Profitability on Firm Values

Profitability is income minus expenses and losses during the reporting period. Analysis of profitability is very important for creditors and investors. For creditors, are to know the source of interest and principal payments. While for investors, are to determine the changes in the value of the firm.

From the results of study showed that profitability partially has a positive and significant effect on firm value. The results of hypothesis testing showed tcount of 2,397 and ttable of 2,015 ( $2,397 > 2,015$ ), a substantial amount of  $0.021 < 0.05$  with a positive coefficient direction, so H2 is accepted. The result is supported by previous research, namely by Nunung Nur Hanifah (2016), Ayu Sri Wahatma Dwi and Ary Wirajaya (2013), Santy Kusumaningrum (2016) and Benny Halomoan Situmorang (2016) have shown that profitability partially has a positive and significant effect on firm value. But contrary to the research conducted by Nur Hidayah (2015) which indicates that profitability partially does not have a substantial impact on firm value.

From the above results which states that there is a significant influence between profitability on firm value which proves that company profitability is a benchmark in increasing the value of the firm. In this case, investors must pay attention to the level of profitability of the company in investing because with the increase in the profitability of the company, it will increase stock prices. So that, this can increase the prosperity of the investors.

#### 4.3.3 Effect of Firm Size on Firm Values

The size of the firm is one of the variables that are considered to influence the company's decision to choose the form of funding. The size of the firm will affect the company's debt policy. Companies that are large and have a good reputation in the market will use debt more as a source of funding. The increase in

debt can increase shareholder's value. This states that the size of the firm influences the increase in firm value.

The results also indicate that the size of the firm influences the value of the firm because it is shown from tcount of 2,129 and ttable of 2,015 ( $2,129 > 2,015$ ), with a positive coefficient direction, so that H3 is accepted. The size of the firm has a positive and significant effect on the value of the firm. The results of this study are supported by previous research conducted by Nunung Nur Hanifah (2016) and Santy Kusumaningrum (2016). But it is contrary to the research conducted by Ayu Sri Wahatma Dwi and Ary Wirajaya (2013), which states that the size of the firm does not affect the value of the firm.

You (1995), in his paper gives a survey of the theories of the determinants of firm size and the distribution of firm sizes, with a special emphasize of small firms. Thus, firm size is one of the company's benchmarks in increasing the value of firm. So, shareholders or investors also need to consider the size of the firm in investing.

#### 4.3.4 Effect of Capital Structure, Profitability and Company Size on Firm Value

Capital structure, profitability and firm size simultaneously influence the value of the firm because it shows from Fcount of 9,113 and Ftable of 2,82 ( $9,113 > 2,82$ ), with a significant amount of  $0,000 < 0,05$ . So, to increase the value of the firm, it is necessary to consider the capital structure, profitability, and size of the firm.

The results of this test is supported by previous research, namely by Nunung Nur Hanifah (2016) with the results that simultaneously capital structure, company growth, firm size, and profitability have a positive and significant effect on firm value. Thus, increasing the capital structure, profitability, and size of the firm can also increase the value of the firm. According to Cuong's (2014) study has shown that there was triple threshold effect exists between debt ratio and firm value.

## 5 CONCLUSION

The purpose of this study is to test and analyze the effect of capital structure, profitability, and firm size on firm value. From the results of the study, it can be concluded, that:

1. Capital structure has a significant effect on firm value, but has a negative coefficient direction.

- From the results of the study, it can be concluded that the high capital structure of a company does not necessarily increase the value of the firm.
- Profitability has a positive and significant effect on firm value. The results of the study showed that the high profitability of a company can increase the value of the firm.
  - Firm size has a positive and significant effect on firm value. The results showed that the size of a firm affects the increase in the value of the firm.
  - Capital structure, profitability and firm size simultaneously have a significant effect on firm value. The results indicated that the level of capital structure, profitability, and the size of a firm affect the increase in firm value.

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