THE EFFECT OF PROFITABILITY, COMPANY SIZE AND CAPITAL STRUCTURE ON COMPANY VALUE

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ABSTRACT

This study aims at determine the effect of firm value profitability Company Size, and Firm Value Capital Structure Against the property subsector manufacturing companies listed on the Indonesia Stock Exchange year period. The method used in this research is descriptive method. The population used in this study is a property sub-sector manufacturing company listed on the Indonesia Stock Exchange for the 2014-2020 periods by using purposive sampling, sampling obtained a sample of companies that received the study criteria. Simultaneous research results profitability, firm size, and capital structure affect the capital structure. The results partially show that profitability has a positive effect on firm value, firm size has an effect on firm value, and capital structure has no effect on firm value.

Keywords: Profitability, company size, capital structure, firm value

I. INTRODUCTION

The property is one of the basic human needs, the property business is a business engaged in ownership asset, such as land and buildings (Wiradinata, 2020). Examples of property products are houses, commercial buildings, apartments, infrastructure and others. In the 2014-2019 period, the RJPMN (National Medium-Term Government Plan) illustrates that infrastructure development in Indonesia is a priority, with an investment of 5,500 trillion rupiah (Mahendra, 2019, pp. 282-283). The property business is one of the factors that affect economic growth in Indonesia; in 2019 the property sector contributed 2.77% of Indonesia's GDP (Hussy, 2020). At the beginning of 2020, the covid-19 outbreak spread, as a result of the outbreak the world economy suffered enormous losses, world losses were predicted to reach US $ 5.8 trillion to US $ 8.8 trillion due to the covid-19 outbreak. One of the property business factors that suffered losses was the residential property business; in the first quarter of 2020 it contracted by 43.19% after the fourth quarter of 2019 experienced a growth of 1.19%. The property business is feeling the impact of the pandemic. In experiencing this pandemic condition, many strategies are carried out by companies to run the new normal; the new normal is a way to improve the economy in Indonesia (Hartanto, 2020).

According to the inter-census population survey (2019) of 10.57 million people, this increases of 72 thousand people from the previous year which was 10,504,100 million people. This figure is up 0.7% from the report from the Central Statistics Agency (BPS, 2019). Not only for people of mature age, middle-upper economy, but also for millennial and low-income people who also participate in the trend of looking for residential property despite the issue of the COVID-19 pandemic (Polman, 2019). Indonesia has a fairly large population based on data released by the Ministry of Home Affairs in January 2021; in 2020 Indonesia has 271,349,888 residents. It has a positive effect on the property business in the country. The development of the property sector in the country has had its ups and downs, which has caught the attention of investors. Every company in the property sector is competing to increase competitiveness with various quality improvements and the quality of the products produced.

In improving the quality to increase competitiveness, of course, it takes a lot of money. The property company is one of the companies that can seek funding through the capital market. Companies generally try to achieve their goals, both short-term goals, namely maximizing company profits and long-term goals, namely being able to increase company value and prosper the shareholders. Attracting the attention of investors to the company is the goal of increasing the value of the company (Pramana & Mustanda, 2016). Husnan and Pudjiastuti (2012: 7) define company value as the price that prospective buyers can pay when the company is sold.
The companies that go public or have offered shares to the public, then the value of the company is defined as an investor's perception of the company itself.

Firm value can be measured using the ratio of price to book value (PBV). Brigham and Houston (2015:152) state that price to book value (PBV) is the comparison between the stock price and the book value per share. The higher is the PBV, the higher the level of prosperity of the shareholders which is the main goal of a company. According to Wiagustini (2014:7), firm value can be influenced by financial management decisions including funding decisions, investment decisions and dividend decisions.

This study uses four factors that will be investigated for their influence on firm value. The four factors are profitability, capital structure, firm size and dividend policy. These four factors are the company’s internal factors, the company’s internal conditions describe the company’s financial management and the results of previous studies are different so it is interesting to re-examine the effect of profitability, capital structure, company size and dividend policy on firm value (Rassri & Mustanda, 2013).

The definition of the capital market according to Azis et al. (2015: 15) is a market for various long-term financial instruments that can be traded, both debt securities (bonds), equities (stocks), mutual funds, derivative instruments and other instruments. The capital market plays a role in supporting the implementation of national development in the context of improving, equitable distribution, growth and stability of the national economy towards improving people's welfare (Ari Sudrajat, 2015:13). Analysis of a company's financial statements is basically because they want to know the level of profitability (profit) and the level of risk or the level of health of a company (Hanafi & Halim, 2016:5), according to Sujarweni (2017:6), financial statement analysis is a process in order to help analyze or evaluate the company’s financial condition, the results of the company’s past and future operations. The purpose of financial statement analysis is to assess the performance achieved by the company so far and estimate the company’s performance in the future.

Financial statements can be used as a reference in order to assess the company’s performance through the efficiency of activities in generating profits. If the information is presented correctly, the information is very useful for the company in making decisions and to determine the company’s performance. To measure how much the company’s success in obtaining the rate of return on profits, it is necessary to do a financial analysis with Profitability ratios. Profitability ratio is the company’s ability to generate profits in a certain period.

In this study using Return on Assets (ROA) which is measured based on the comparison between net incomes after tax with the company’s total assets. The higher the ratio of net income to total assets, the better for the company, meaning the company has utilized existing assets properly to generate profits. The higher the Return on Assets of a company, it can be said that the profitability of the company is getting better. Conversely, if it decreases, the company’s profitability also decreases. There are several factors that affect profitability, including total asset turnover, debt to equity ratio and current ratio. Previous research also showed a partially significant positive effect of Current Ratio and Debt to Equity Ratio on return on assets by Mahardhika and Marbun (2016) and other researchers Pranata, et al. (2014) also proved a significant positive effect of Total Assets Turnover on ROA.

II. LITERATURE REVIEW

The Value of the Company

The company's value according to Harmono (2017: 233) is the performance of companies that dicermin - right by the share price is formed by supply and demand of capital markets. The demand and supply reflects the public's assessment of the company's performance in real terms. Meanwhile, Maya Septiyuliana (2016), Firm value is often associated with stock prices. The higher the stock price, the higher the value of the company, that by maximizing the value of the company means also maximizing the prosperity of shareholders which is the company's goal. Firm value is the investor's perception of the company's level of success which is often associated with stock prices. High stock prices make the value of the company also high, and increase market confidence not only in the company's current performance but also in the company's prospects in the future. According to Irham Fahmi (2015: 82), the value of the company is: The market value ratio is a ratio that describes the conditions that occur in the market. This ratio is able to provide an understanding for the company's management on the conditions of implementation that will be implemented and their impact in the future. Agus Sartono (2016:9) states that the value of the company is the goal of maximizing the prosperity of shareholders can be achieved by maximizing the present value or the present value of all shareholder profits will increase if the price of the shares owned.
increases. Meanwhile, according to Harmono (2014: 233), Firm Value is the company's performance which is reflected by the stock price formed by the demand and supply of the capital market which reflects the public's assessment of the company's performance.

**Measurement of Company Value**

Value can be measured using stock prices using a ratio called the valuation ratio. According to Sudana (2011:23), the valuation ratio is a ratio related to the assessment of the performance of company shares that have been traded in the capital market (go public).

**Price to Book Value (PBV)**

Price to Book Value (PBV) is a ratio that shows whether the price of the shares traded is overvalued (above) or undervalued (below) the book value of the shares (Fakhruddin & Hadianto, 2001). Price to Book Value (PBV) describes how much the market appreciates the book value of a company's shares. The higher this ratio, it means that the market believes in the company's prospects. PBV also shows how far a company is able to create firm value relative to the amount of capital invested.

For companies that are doing well, this ratio generally reaches above one, which indicates that the market value of the stock is greater than its book value. The greater the PBV ratio, the higher the company is assessed by investors relative to the funds that have been invested in the company. The formula used to measure Price to Book Value (PBV) is as follows:

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

The company's goal is to maximize the value of the company, this is very important for a company, because maximizing the value of the company will also affect the value of the company. Increasing the value of the company is an achievement of the owner of the company because with the increase in the value of the company, the welfare of the owners will also increase.

The measurement of company value in this study uses Profitability, Sartono in Fatmawati (2017: 19) states that profitability is the company’s ability to earn profits in relation to sales, total assets and own capital. Putu Ayu and Gerianta (2018) suggest that company size is a scale where the size of the company can be classified as measured by total assets, total sales, share value and so on. Meanwhile, according to Irham Fahmi (2017: 179), what is meant by capital structure is the capital structure is a description of the form of the company's financial proportions, namely between owned capital sourced from long-term debt (long-term liabilities) and own capital (shareholders' equity), become a source of financing for a company. The purpose of companies that have gone public is not only for profit but also must be able to increase the value of the company. Sartono (2010:9) firm value is the agreed price of the company when it is sold to investors. The value of the company is very important, because it can reflect the company's financial performance which can have an impact on the desire of investors to invest in the company.

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

Research conducted by Dede Hertina, Mohamad Bayu Herdiawan Hidayat, Dara Mustika with the title "Company Size, Debt Policy and Profitability Its Effect on Firm Value" the results of the study state that simultaneously firm size, debt policy, and profitability affect firm value in property companies. and Real Estate listed on the Indonesia Stock Exchange (IDX) for the period 2014-2017.

**The Effect of Profitability on Firm Value**

Research conducted by Fakhrana Oktaviarni and Yetty Murni (2018) with the title "The Effect of Profitability, Liquidity, Leverage, Dividend Policy, and Firm Size on Firm Value" states that profitability has a positive effect on firm value. However, the research conducted by Febri Indra Farizki and Suhendro (2021:3) with the title "The Effect of Profitability, Leverage, Liquidity, Company Size and Asset Structure on Firm Value" states that profitability has no effect on firm value.
The Effect of Firm Size on Firm Value

Research conducted by Dede Hertina, Mohamad Bayu Herdianan Hidayat, Dara Mustika with the title "Company Size, Debt Policy and Profitability Influence on Firm Value" the results of the study state that company size has a negative effect on firm value in Property and Real Estate companies listed on the Stock Exchange. Indonesian Securities (IDX) for the period 2014-2017. Size is not the main factor for investors in assessing a company. The larger the size of the company does not guarantee that the profits obtained are also greater, and vice versa, the smaller the company does not necessarily mean that the company will earn small profits. However, in a study conducted by Femelia Yovita Bita, Sri Hermuningsih with the title "The Influence of Liquidity Profitability and Firm Size on Firm Value" states that firm size has a positive and significant effect on firm value.

Effect of Capital Structure on Firm Value

Research conducted by Muhammad Rhamdan Setiawan and Neneng Susanti (2021:2) with the title "The Influence of Capital Structure, Working Capital Turnover, and Firm Size on Firm Value" states that Capital Structure partially has a significant positive effect on the value of the property and real estate sub-sector. estate for the period 2014-2018. If the position of the capital structure is below the optimal point, each additional debt will increase the value of the company. Working Capital Turnover partially has a significant positive effect on firm value, but in research conducted by Octavia Languju and Marjam Mangantar (2016) with the title "The Effect of Return On Equity, Company Size, Price Earning Ratio and Capital Structure on Property and Real Estate Company Value Listed on the Indonesia Stock Exchange" states that capital structure has no significant effect on firm value.

Hypothesis

H1: Profitability, firm size, and capital structure affect firm value
H2: Profitability has an effect on firm value
H3: U company size has an effect on firm value
H4: Capital structure affects firm value

III. RESEARCH METHOD

This study uses a descriptive method while for sample selection using purposive sampling method. The unit of analysis in this study is a property sub-sector manufacturing company listed on the Indonesia Stock Exchange for the period 2014 to 2020. This study also uses the panel data method and the classical assumption test. The variables used in this study are independent variables consisting of profitability, firm size, capital structure, while the dependent variable in this study is firm value.

Research Sample Determination Criteria

2. Property sub-sector Manufacturing Company that has published financial statements for the 2014-2020 period.
3. Manufacturing companies sub sector Property which has the financial statements in accordance with the needs of this research.

IV. RESULTS AND DISCUSSION

Table 1. Panel Data Regression Results

<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>8.685569</td>
<td>3.438574</td>
<td>2.525922</td>
<td>0.0151</td>
</tr>
<tr>
<td>ROE</td>
<td>5.234935</td>
<td>1.040598</td>
<td>5.030698</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

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The regression model for this study is:

\[ Y = 8.68556897023 + 5.2349346973 X_1 - 0.323145493259 X_2 - 0.0556182903884 X_3 + e \]

From the panel data regression model above, it can be concluded as follows:

\( \beta_0 = 8.68556897023 \) means that if the Return on Equity, Size, and Debt to Equity variable is zero (0), then the Price to Book Value will be 8.68556897023 units. Or in another sense, the regression lines will intersect the Y axis at the point 8.68556897023

\( \beta_1 = 5.2349346973 \) means that if the Return on Equity variable increases by one unit and the other variables are constant, then the Firm Value variable will decrease by 5.2349346973 units.

\( \beta_2 = -0.323145493259 \) means that if the Size variable increases by one unit and the other variables are constant, then the Firm Value variable will decrease by -1.368022848791 units.

\( \beta_3 = -0.0556182903884 \) means that if the Debt to Equity Ratio variable increases by one unit and the other variables are constant, then the Firm Value variable will decrease by -0.0556182903884 units.

Influence Profitability, Company Size and Capital Structure Against Corporate Value on Property Company Listed on the Bursa Effects Indonesia Period Year 2014-2020

The results of the hypothesis test state that the calculated F value (16.42) > F table value (3.2), Hal it can be concluded that simultaneously the Return of Equity, Size, Debt to Equity Ratio variables affect the Price to Book Value of property and real estate companies listed on the IDX for the period 2014-2020. The results of this study are in line with research conducted by Hertina, Herdiawan Hidayat, and Mustika (2019:4), which states that simultaneously company size, debt policy, and profitability have an effect on firm value.

This research is also in line with research conducted by Octavia Languju (2016). The results of hypothesis testing indicate that Return On Equity (ROE), Firm Size, Price Earning Ratio, and Capital Structure can simultaneously affect Firm Value.

The Effect of Profitability Firm Value

Based on the results of the study, Return On Equity (ROE) produces a value of tcount > table of 5.030698 > 2.0098 and αcount < αtable of 0.00000 < 0.05, which means that partially Return of Equity has a positive and significant effect on Price to Book Value in property companies for the period 2014-2020. This means that when the company experiences an increase in profitability, the company's stock price also increases, thus affecting the value of the company. This research is in line with the research of Femelia Yovita Bita (2021:3). The results of this study show
that partially profitability has a positive and significant effect on the value of property companies for the 2015-2019 period. However, this study is not in line with the research conducted by Febri Indra Rizki (2021:3). Based on the results of the regression test analysis, it is stated that profitability has no effect on the value of property companies for the 2015-2019 period. This study also contradicts research conducted by Thaib and Dewantoro (2017:36) which states that profitability has a negative and insignificant effect on the value of property companies.

The Effect of Firm Size on Firm Value the Firm

Influence of Size on Firm Value Firm size obtained from the table produces a value of tcount < ttable of -2.251206 < 2.0098 and count < table of 0.0293 < 0.05, which means that partially the variable Company Size has a negative and significant effect on company value in Property and Real Estate companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. These results are in line with research conducted by Dede Hertina (2019:4) which states that firm size has a negative effect on firm value. If the company has large total assets, the management is more flexible in using the assets in the company. However, this study is not in line with the research conducted by Femelia Yovita Bita (2021:3). The results of the study indicate that company size has a positive and significant effect on the value of property companies.

Effect of Company's Capital Structure on Firm Value

Effect of Capital Structure as proxied by Debt to Equity Ratio (DER). Based on the results of the study, the Debt to Equity Ratio (DER) produces a value of tcount < ttable of -0.289487 < 2.0098 and count > table of 0.7735 > 0.05, it can be concluded that partially capital structure has a negative and insignificant effect on firm value. The results of this study are in line with research conducted by Dewa Ayu Intan and Gede Mertha with the title "The Effect of Profitability, Company Size, and Asset Growth on Capital Structure and Firm Value" which states that capital structure has a negative effect on firm value. However, the results of this study are not in line with the research of Muhammad Rhamadan Setiawan (2021:2). Company size partially has a significant positive effect on the value of the property and real estate sub-sector for the period 2014-2018. The results of this study contradict the research conducted by Octavia Languju (2016) with the results of the study that capital structure partially does not have a significant effect on the value of property and real estate companies.

V. CONCLUSION

1. Profitability, company size, and capital structure have an effect on firm value in property sub-sector manufacturing companies listed on the Indonesia Stock Exchange period 2014-2020
2. Profitability has a positive effect on firm value in property sub-sector manufacturing companies listed on the Indonesia Stock Exchange period 2014-2020
3. Company size has a negative and significant effect on firm value in property sub-sector manufacturing companies listed on the Indonesia Stock Exchange period 2014-2020
4. Capital structure has a negative and insignificant effect on firm value in property sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2014-2020

REFERENCES