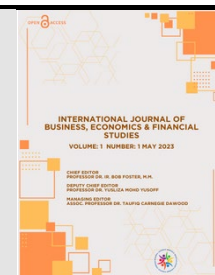




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Original Article



The Effect of Capital Structure, Financial Performance, Firm Growth and Size on Firm Value: Empirical Study on Manufacturing Listed Companies on the Indonesia Stock Exchange

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Abstract

Today, companies in the industry and the current economic conditions have created tight competition between manufacturing companies. Competition in the manufacturing industry makes every company improve its performance so that its goals can still be achieved. A high company value is the desire of every company owner because a high company value indicates the prosperity of its shareholders is also high. This study analyses the effect of capital structure, financial performance, firm growth, and size on firm value. This type of research was descriptive quantitative. The study was conducted on 181 manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019. The research sample was 41 companies. The sampling technique used was purposive. The type of data used is secondary data. Data were analyzed using multiple linear regression analysis methods. The results show that financial performance partially has a positive and significant effect on firm value. Meanwhile, capital structure, firm growth, and firm size partially have a positive and insignificant effect on firm value.

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1. Introduction

The number of companies in the industry and the current economic conditions have created tight competition between manufacturing companies (Molina et al., 2023). Competition in the manufacturing industry makes every company improve its performance so that its goals can still be achieved. A high company value is the desire of every company owner because a high company value indicates the prosperity of its shareholders is also high. Firm value is influenced by Earning Per Share (EPS) (Hutabarat et al., 2023). A high EPS will encourage potential investors to invest because a high EPS indicates a high investment return in the future. An increase in demand for shares will increase the price of these shares. The wealth of shareholders and companies is represented by the market price of shares, which reflects investment decisions, financing (financing), and asset management. It is in line with the theory that states that the main goal of a company is to maximize shareholder wealth (Aryawati et al., 2023).

Stock prices fluctuate from time to time. Various factors, both internal and external to the company, influence price fluctuations. The existence of price fluctuations also impacts the company's value, which in turn affects the shareholders' welfare (Laia et al., 2023). The company's financial performance influences the increase in firm value. Yulianti & Enas (2020) suggest that financial performance positively affects firm value. That is, the good or bad value of the company depends on the financial performance of the company itself. The company's financial performance shows the company's ability to provide benefits from assets, equity, and debt. Company performance is the company's work performance. One measure of company performance is Return on Equity (ROE).

Every activity the company carries out will require internal funds (own capital) and funds originating from sources outside the company. It would be ideal if the company used internal funds to make investments. Still investment requires large funds, so the company must seek it through external funding. The use of funds from

outside the company (external) in financial management is called the capital structure, which appears on the liability and equity side of the company's balance sheet (Syahyunan, 2015), (Putra & Jubaedah, 2016) concluded that capital structure has a positive influence on firm value.

In addition to capital structure and financial performance, firm value is also influenced by firm growth and firm size. This means that large companies with good growth have the potential to have good corporate value as well. This is because large companies usually find sources of funds from outside the company in loans or debt relatively easily. (Pakpahan, 2015) states that company growth has a positive effect on firm value. The company's growth describes how it manages its funds for investment and operating activities. Companies that continue to grow will experience an increase in size in terms of assets and equity. The larger the company's size, the greater its ability to generate profits because adequate assets support it. Maryam et al. (2020) found that firm size positively and significantly affected firm value.

Data on capital structure (DER), financial performance (ROE), and company growth (total asset growth) of several manufacturing companies listed on the Indonesia Stock Exchange do not depict a positive correlation with firm value (PBV).

Table 1. Capital Structure (DER), Financial Performance (ROE), Company Growth (Total Asset Growth), Company Size and Company Value BUDI, SMCB and KDSI

No.	Code	Year	DER	ROE	Total Asset Growth	Firm Value
1	BUDI	2016	1,51	0,033	-10,231	1
		2017	1,46	0,038	0,260	1
		2018	1,76	0,041	15,428	1
		2019	1,33	0,049	-11,589	1
2	SMCB	2016	1,45	0,035	14,095	1
		2017	1,72	0,105	-0,691	1
		2018	1,90	0,129	-4,887	1
		2019	1,80	0,071	4,822	1
3	KDSI	2016	1,72	0,112	-2958	1
		2017	1,73	0,142	16,284	1
		2018	1,50	0,138	4,752	1
		2019	1,06	0,105	-9,901	1

Source: Indonesia Stock Exchange (2021)

Table 1 shows that during the 2016-2019 period, the firm value was constant (fixed), while the capital structure (DER), financial performance (ROE), and firm growth (total asset growth) fluctuated. This is not in line with the results of several previous studies. Therefore, it is important to investigate this phenomenon. Firm value is an important indicator for investors. Although dividends can be used as a benchmark for decision-making by investors because they reflect the quality of earnings (Zalukhu, 2018), the company's value can still influence investors' perceptions in making investment

decisions. This study will examine the effect of capital structure, financial performance, firm growth, and firm size on firm value. This test will construct the relationship between capital structure, financial performance, firm growth, firm size, and firm value.

2. Literature Review

2.1. Firm Value

According to Keown & John (2011), firm value is the market value of outstanding debt securities and company equity. Meanwhile, according to Sadalia (2010), firm value is the value or amount of money that will be received if the company is sold. Firm value can describe investors' perceptions of the company, which is often associated with stock prices. High stock prices increase the company's value to maximize its wealth or value. Firm value is the market value of outstanding debt securities and company equity. Firm value can be measured using price-to-book value (PBV).

2.2. Capital Structure

According to Syahyunan (2015), every investment activity carried out by the company will require funding. Therefore, the company must seek funds from outside sources if the internal funds (own capital) are insufficient. Capital Structure is the composition of the company's capital seen from its source, especially showing the portion of the company's capital originating from debt sources (creditors) and, simultaneously, the portion of capital originating from own capital (owners' equity). Capital structure is measured using three indicators, namely leverage, equity debt, and collateralizable assets. Leverage reflects the use of sources of funds originating from long-term debt (foreign capital), which creates a fixed burden for the company, such as interest expense. The value of this indicator is determined using the long-term debt-to-total assets ratio (Sugeng, 2012).

2.3. Financial Performance

The company's financial performance directly influences changes in stock prices, which means that investors respond positively to information about growth so that it will increase stock prices (Fathihani & Saputra, 2022). Good company performance will impact dividends that shareholders will receive because dividends are always based on the current year's net income, which measures the company's financial performance.

Financial performance can be seen from the company's financial statements. Financial performance is a critical assessment process of the company's finances. Good financial performance will help management achieve company goals (Paliling et al., 2023). The higher the company's financial performance, the better the company's value in the eyes of investors. Financial performance does not always show positive results. It is not uncommon for a company to experience financial distress (financial difficulties) (Lee et al., 2022).

According to Muliadi & Fahmi, (2016) there are 4 categories of financial distress, namely:

Category A or very high and very dangerous. This category allows the company to be declared bankrupt.

Category B or high and dangerous. In this category, companies must think of various solutions to save their assets. Companies must be very wise in determining which assets to sell and which assets to hold on to.

Category C or moderate. In this category the company is considered to be able to survive by seeking additional funds, both from internal and external companies.

Category D or low. In this category the company is considered only experiencing financial fluctuations that are common.

2.4. Firm Growth

The company's growth describes the benchmark for the company's success. This success is also an investment benchmark for future growth. The growth of the company can be shown from the growth of assets owned by the company. Assets show the assets used for the company's operational activities. The larger the assets, it is expected that the greater the operational results generated by the company. An increase in assets followed by an increase in operating results will further increase the confidence of outsiders in the company. By increasing the trust of outsiders in the company, the company's efforts to increase debt become easier, resulting in a larger proportion of debt than its own capital. This is based on creditors' confidence that the funds invested in the company are guaranteed by the amount of assets owned by the company.

In addition, the company's growth indicators can be seen from the increase in sales from year to year. A company in an industry that has a high rate of sales growth, must provide sufficient capital to cover the company's expenses. Fast growing companies tend to use more debt than slow growing companies. Companies with high sales and profit growth rates tend to use debt as a larger source of external funds when compared to companies with low sales growth rates (Susilawati & Purnomo, 2023). The company's growth can also be an indicator of the company's profitability and success. Companies that have high growth have a profitable opportunity to fund their investment internally (Arfan & Antasari, 2008). Companies that have positive growth can certainly generate positive profitability as well.

2.5. Firm Size

Firm size is a measure of the size of the assets owned by the company so that large companies generally have large total assets (Susilawati & Purnomo, 2023). Large companies can more easily access the capital market than small companies. The larger the size of the company, the easier it is to get external capital in larger

amounts, so investors are interested in investing in the company. With the availability of these funds, it will make it easier for companies to carry out investment opportunities. Firm size can also be used as a proxy for the level of stock uncertainty, large-scale companies tend to be known by the public so that information about the prospects of large-scale companies is relatively easier for investors to obtain than small-scale companies. The level of uncertainty that will be faced by potential investors regarding the future of the company will be minimized with the increasing amount of information obtained.

Basically, the size of the company is divided into three, namely large companies (large firms), medium companies (medium firm), and small companies (small firms). Determination of this size is based on the total assets of the company. Firm size shows the company's ability to develop what it has to continue to be optimized. A large Firm size indicates that the company continues to develop so that investors will respond positively and the value of the company will increase (Nelyumna, 2018).

3. Materials and Methods

This research is quantitative descriptive. The study was conducted on 181 manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019. The research sample amounted to 41 companies. The sampling technique used purposive sampling method. The process of determining the sample based on the criteria determined by the researcher is presented in Table 2 below:

Table 2. Sampling criteria

No	Description	Frequency
1	Manufacturing companies listed on the IDX during 2019	181
2	The company does not issue audited financial statements for the period 2019	(33)
3	Using foreign currency	(32)
4	Reporting a loss for the period 2019	(25)
5	Incomplete financial data for measurement of all research variables	(50)
Sample		41

This study examines firm value as the dependent variable, while the independent variables include capital structure, financial performance, growth and firm size. Measurement of company value using Price to Book Value (PBV), capital structure measurement using Debt to Equity Ratio (DER), financial performance measurement using Return on Equity (ROE), company growth measurement using total asset growth, and company size measured by total assets. This study uses secondary data. Data obtained from the Indonesia Stock Exchange page, <https://www.idx.co.id/>.

Methods of data analysis using multiple linear regression analysis methods. The research regression equation can be presented as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Note:

- Y = Firm Value
 X1 = Capital Structure
 X2 = Financial Performance
 X3 = Company Growth
 X4 = company size
 a = Constant
 b1 – b4 = regression coefficient
 e = Standard error

4. Result and Discussion

4.1. Classical Assumption Test

Classical assumption test in this study includes normality test, multicollinearity test and heteroscedasticity test. Normality test using Kolmogorov-Smirnov Test. The data is declared normally distributed if the Asymp. Sig. (2-tailed) value > 0.05.

Table 3. Result of Normality using One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		41
Normal	Mean	0.000
Parameters ^{a,b}	Std. Deviation	522568660.508
Most Extreme	Absolute	0.083
Differences	Positive	0.083
	Negative	-0.069
Test Statistic		0.083
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Table 3 shows the Asymp. Sig. (2-tailed) values is 0.200. Asymp. Sig. (2-tailed) value is greater than 0.05. Therefore, it can be concluded that the data used in the study were normally distributed.

Table 4. Result of Multicollinearity Test

Variable	VIF
Capital structure	1,055
Financial performance	1,090
Firm growth	1,032
Firm size	1,107

Multicollinearity testing was carried out by considering the Variance Inflation Factor (VIF) value. The VIF value must be less than 10 to declare the research model free from multicollinearity problems. The results of the multicollinearity test, summarized in Table 4, show that the VIF value of all independent variables is less than 10. It can be concluded that the research model is free from multicollinearity problems.

Table 5. Result of Heteroscedasticity Test

Variable	Sig.
Capital structure	0.553
Financial performance	0.901
Firm growth	0.320
Firm size	0.107

Heteroscedasticity testing in this study used the Glejser test. The research model can be declared free from heteroscedasticity problems if the significance probability value of all independent variables is greater than 0.05. Based on the results of the Glejser test summarized in Table 5, it is known that the significance probability value of all independent variables is above 0.05. Thus, it can be concluded that the research model is free from heteroscedasticity problems.

4.2. Hypothesis Test

a. Coefficient of Determination Test.

The coefficient of determination test aims to see how much the independent variable contributes to the dependent variable. The greater the coefficient of determination, the better the ability of the independent variable to explain the dependent variable. The coefficient of determination is indicated by the R square (R²) value.

Table 6. Result of Coefficient of Determination

Model	R	R Square	Adj. R Square	Std. Error of the Estimate	D-W
1	0.503 ^a	0.253	0.170	550835733.67	1.504

a. Predictors: (Constant), Capital Structure, Firm Size, Financial Performance, Firm Growth

b. Dependent Variable: Firm Value

Table 6 shows the R square value of 0.253. This means that the variables of capital structure, financial performance, firm growth and firm size can explain the variation of the firm value variable by 25.3%, the remaining 74.7% is explained by other variables outside this research model.

4.3. Partial Significance Test (t Test)

The t-test aims to partially test the independent variable's effect on the dependent variable.

Table 7. Result of Hypothesis Testing

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.936	0.886		1.201	0.238
Financial Performance	0.470	0.140	0.496	3.354	0.002
Firm Growth	0.746	0.476	0.054	0.358	0.723
Firm Size	0.006	0.108	0.009	0.060	0.953
Capital Structure	0.024	0.274	0.013	0.088	0.931

Table 7 shows the regression coefficient of the capital structure variable of 0.024. The positive regression coefficient indicates a positive relationship between capital structure and firm value. The analysis results also show the probability of the significance of the capital structure variable is 0.931. The significance probability value is greater than 0.05. Thus, it can be concluded that the capital structure has no significant positive effect on firm value.

According to the analysis results, the regression coefficient value of the financial performance is 0.470. The regression coefficient is positive. That is, financial performance is positively related to firm value. Furthermore, the significance probability value of the financial performance variable is 0.002. The significance probability value is smaller than the alpha value of 0.05. Thus, it can be concluded that financial performance positively and significantly affects firm value. Improved financial performance will have an impact on increasing the value of the company. This further confirms that the company's ability to generate profits is an important consideration for investors in determining investment decisions. Investors prefer to invest in companies that continue to report profits or have good financial performance because they promise investment returns in the future. The more investors invest, the more the company's stock price will rise, and the value of the company will increase.

According to the analysis results, the regression coefficient value of the firm growth variable is 0.746. The regression coefficient is positive. The firm's growth is positively related to the company's value. The probability value of the significance of the firm growth variable is known to be 0.723. The significance probability value is greater than the alpha value of 0.05. Thus, it can be concluded that firm growth has no significant positive effect on firm value.

The firm size variable has a regression coefficient of 0.006 and a significance probability value of 0.953. The positive regression coefficient indicates a positive relationship between firm size and firm value. Furthermore, the significance probability value of the firm size variable is greater than the alpha value (0.953 > 0.05). Thus, it can be concluded that firm size has no significant positive effect on firm value.

5. Conclusion

This study concludes that capital structure has no significant positive effect on firm value. Financial performance has a positive and significant effect on firm value. Firm growth has no significant positive effect on firm value and Firm size has no significant positive effect on firm value.

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