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Model of Capital Structure and Firm Value

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Abstract *The main goal of all companies is to build shareholder prosperity to the maximum and then it is realized by maximizing share prices. Thus maximizing the stock price means maximizing the value of the company. While the fundamentals that affect stock prices, one of which is the capital structure. From several research results revealed that tangibility or asset structure, profitability, company size and growth opportunity, depreciation to total assets, taxes and inflation as determinants of the company's capital structure. The research objectives: (1) Analyze the effect of asset structure on capital structure, (2) Analyze the effect of sales growth on capital structure, (3) Analyze the effect of profitability on capital structure, (4) Analyze the effect of liquidity on capital structure, and (5) Analyze effect of capital structure on firm value. Research method: This research is also a causal study, namely research conducted with the intention of providing an explanation of cause-and-effect or relationships between variables through hypothesis testing. The population used is manufacturing companies listed on the Indonesia Stock Exchange, totaling 144 in 2019. The sample in this study is manufacturing companies in the textile and garment sub-sector as many as 21 companies. While the sampling technique using purposive sampling is a technique to determine the sample with certain considerations, namely the company issues annual financial statements continuously and the company must show a positive total equity and profit balance in the annual financial statements for 4 consecutive years. The data analysis technique used in this study is the classical assumption test and multiple linear regression analysis. The calculation of the regression coefficient with the help of SPSS, namely: using multiple linear regression analysis models assisted by computer calculations with SPSS (Statistics Program for Social Science), then the magnitude of the influence of these independent variables will be known accurately. Results: multiple linear regression analysis are: Asset structure value = 0.062 < significance level (α) 0.05 there is no significant effect on capital structure. Sales growth value = 0.655 < significance level (α) 0.05 there is no significant effect on capital structure. Profitability value = 0.298 < significance level (α) 0.05 there is no significant effect on capital structure. Liquidity value = 0.001 < significance level (α) 0.05 there is a significant effect on capital structure. Capital structure value = 0.000 < significance level (α) 0.05 there is a significant effect on firm value.*

Keywords*: asset structure, sales growth, profitability, liquidity, capital structure, firm value.*

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I. Introduction

Financial theories in the field of corporate finance have one focus, namely how to maximize the prosperity of shareholders or company owners (wealth of the shareholders). Building shareholder prosperity to the maximum is manifested by maximizing share prices (Brigham & Daves, 2007: 4). In this context, companies that can create stock price increases are highly favored by investors (Ramadan, 2016). The value of the company is often associated with the stock price. The higher the stock price, the higher the value of the company. While the fundamentals that affect stock prices include capital structure, ownership structure, size and so on (Sucuahi & Cambarihan (2016), Kodithuwakku (2016), and Lai et al. (2016).

Capital structure as one of the fundamental factors that affect stock prices is a management decision related to funding. Sources of funds obtained are a combination of internal and external companies. Khradyar & Ibrahim (2011) conclude that capital structure has a positive effect on stock prices of primary and secondary industrial companies in China. Meanwhile, Salim & Yadav (2012), Chen & Chen (2011) and Zeitun & Tian (2007) stated that capital structure has a negative effect on stock prices as a proxy for firm value.

Factors that affect the company's capital structure are important as a basis for consideration in determining the composition of the company's capital structure. Durdureanu & Tudose (2015), M'ng, Rahman & Sannacy (2017) and Indra & Nuzula (2016) suggest tangibility or asset structure, profitability, company size and growth opportunity, depreciation to total assets, taxes and inflation as structural determinants company capital.

Based on the description above, several research gaps that can be investigated further are: First, the findings of previous researchers regarding the effects of asset structure, sales growth, profitability and liquidity

on capital structure are still inconsistent. Second, the findings of previous researchers regarding the effect of capital structure on firm value are still inconsistent. Both of these things are interesting and urgent to be investigated further.

II. Literature Review

2.1 Company Value

Understanding Company Value

Firm value is an economic measure that reflects the market value of a business on the number of claims by creditors and shareholders (Brigham & Houston, 2015:112). One of the financial ratios to determine the value of the company is Price to Book Value (PBV) also known as price-equity comparing the closing share price (market value) with its book value (shareholder equity). The price-to-book ratio is an indication of how much shareholders are paying for the net assets of the company.

2.2 Capital Structure

Understanding Capital Structure

Capital structure is the proportion of debt and equity in the capital configuration (capital) of a company (Brigham & Ehrhardt, 2017:600). The main objective of capital structure decisions is to maximize the market value of the firm through the right mix of long-term sources. The tool that is often used for capital structure research is the ratio or solvency index or leverage, namely the Debt to Asset Ratio (DR). According to Van Horne & Wachowiz (2009: 140) Debt to Asset Ratio (DR) compares the company's total debt with its total assets.

2.3 Asset Structure

Understanding Asset Structure

Asset structure or also known as tangibility is a comparison between fixed assets and total assets (Camara, 2012; Haron, 2014). Companies that have relatively large fixed assets will tend to use foreign capital in their capital structure. This is done because fixed assets, such as land and buildings, can be accepted by banks when companies apply for loans to banks as debt collateral (Atmaja, 2008: 273).

2.4 Sales Growth

Definition of Sales Growth

Sales growth is an indicator of demand and competitiveness of companies in an industry. According to Brigham & Houston (2015: 472), companies with relatively stable sales can get more loans than companies with unstable sales, because the need for funds used by a company with high sales levels will be even greater. Sales growth refers to the increase in sales and services between the current year and the previous year in percentage terms (Carvalho & Costa, 2014).

2.5 Profitability

Understanding Profitability

Profitability is the company's potential to earn a return on the business it runs based on its resources (Brigham & Houston, 2015: 99). Brigham & Houston (2015:109) suggest profitability ratios that can be used in financial analysis and research are Profit margin on sales, Return on Assets (ROA) and Return on Equity (ROE). Haron (2014) asserts that ROA which is the ratio of earnings before interest and taxes (EBIT) to total assets is very feasible to be used in research as a proxy for profitability.

2.6 Liquidity

Definition of Liquidity

Liquidity is one of the variables that affect the capital structure. Liquidity shows the ability of a person or company to meet their financial obligations with liquid assets available to them, or the ability to pay off debts as they mature (Brigham & Houston (2015: 473)). Liquidity is usually measured by the current ratio, which compares cash and other current assets with current liabilities (Notoatmojo, 2018).

III. Research Methods

This research is also of the type of causal study, namely research conducted with the intention of providing an explanation of cause-and-effect or the relationship between variables through hypothesis testing. The population used is manufacturing companies listed on the Indonesia Stock Exchange, totaling 144 in 2019. The sample in this study is manufacturing companies in the textile and garment sub-sector as many as 21 companies.

While the sampling technique using purposive sampling is a technique to determine the sample with certain considerations, namely the company issues annual financial statements continuously and the company must show a positive total equity and profit balance in the annual financial statements for 4 consecutive years.

The data analysis technique used in this study is the classical assumption test and multiple linear regression analysis. The calculation of the regression coefficient with the help of SPSS, namely: using multiple linear regression analysis models assisted by computer calculations with SPSS (Statistics Program for Social Science), then the magnitude of the influence of these independent variables will be known accurately.

IV. Results And Discussion

4.1 Results

4.1.1 Descriptive Analysis Results

1) The asset structure variable has an average score of 0.47, thus it can be interpreted that fixed assets (total current assets) divided by total assets (total assets) result in a percentage value of 47 and have fairly high current assets.
2) The sales growth variable has an average score of 0.03 thus it can be interpreted that (S1) sales for the current period are reduced (S0) last year's sales and the results are divided into (S0) sales last year the percentage value is 3 and sales grow only 3%.
3) The profitability variable has an average score of -0.02, thus it can be interpreted that EBIT (net profit for the year) divided by total assets (total assets) is the percentage value of -2 and manufacturing companies experience losses or are unable to generate returns on company assets.
4) The liquidity variable has an average score of 1.65, thus it can be interpreted that the total fixed assets (total current assets) divided by current liabilities (short term liabilities) results in a percentage value of 165 and current liabilities are fully paid from company assets.
5) The capital structure variable has an average score of 0.96, thus it can be interpreted that total debt (total liabilities) divided by total assets (total assets) results in a percentage value of 96 and is funded by debt.
6) The firm value variable has an average score of 0.50, thus it can be interpreted that the total equity (capital deficiency) divided by the number of outstanding shares (issued and paid-up balance) results in a percentage value of 50 and the number of shares outstanding is quite high.

4.1.2 Classical Assumption Test

1) Normality Test

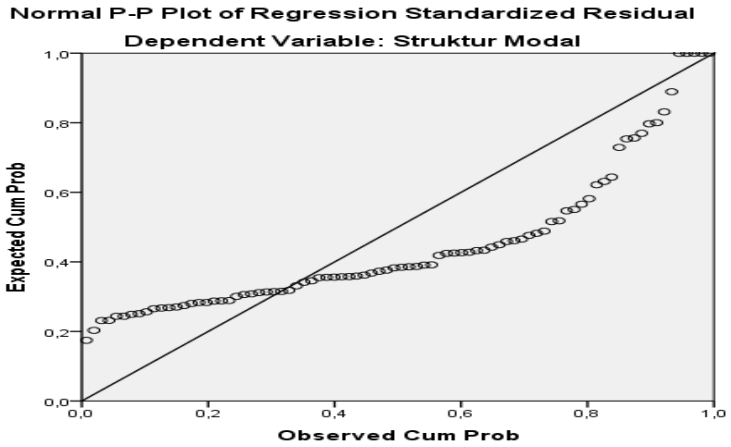


Figure: 1 Normality Test

Based on the results of the normality test, it shows that the data that has been collected is not normally distributed, because the results of linear regression analysis with the P-P Plot graph on the residual error of the regression model show that the points are far from the diagonal line even though they are away but back to the diagonal line. So this shows that the multiple linear regression model is not normally distributed.

2) Multicollinearity Test

Table: 1 Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Asset Structure	,615	1,625
	Sales Growth	,817	1,224
	Profitability	,560	1,785
	Liquidity	,770	1,299

Based on the results of the multicollinearity test showing the tolerance value is greater than 0.1 and the VIF value is less than 10, it can be concluded that there is no multicollinearity.

3) Heteroscedasticity Test

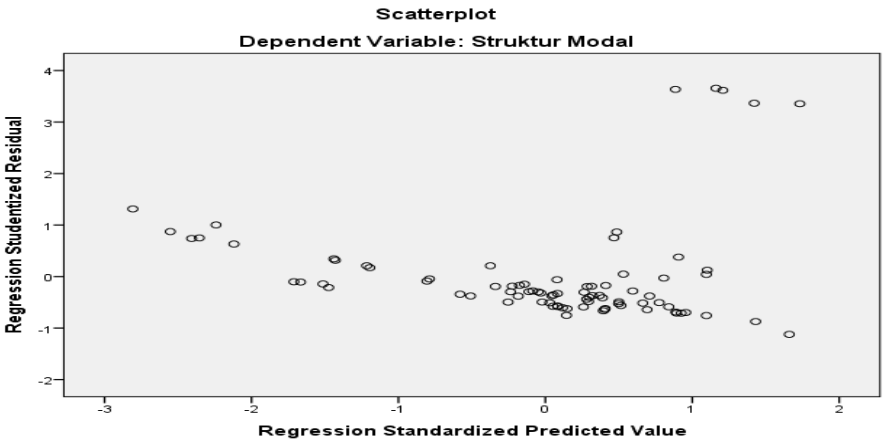


Figure: 2 Heteroscedasticity Test

Based on the results of the heteroscedasticity test of scatterplots, it can be seen that the points do not form a certain pattern, where the points spread above and below the number 0. These results show that there is no heteroscedasticity.

4.1.3 Multiple Linear Regression Analysis

1) The value of the asset structure = 0.062 < significance level (α) 0.05, it can be concluded that there is no significant effect of the asset structure (X1) on the capital structure (Y1).
2) Sales growth value = 0.655 < significance level (α) 0.05, it can be concluded that there is no significant effect of sales growth (X2) on capital structure (Y1).
3) Profitability value = 0.298 < significance level (α) 0.05, it can be concluded that there is no significant effect of profitability (X3) on capital structure (Y1).
4) Liquidity value = 0.001 < significance level (α) 0.05, it can be concluded that there is a significant effect of liquidity (X4) on capital structure (Y1).
5) Capital structure value = 0.000 < significance level (α) 0.05, it can be concluded that there is a significant effect of capital structure (Y1) on firm value (Y2).

4.1.4 Hypothesis Testing

Table: 2 Hypothesis Testing

Testing the effect of asset structure, sales growth, profitability and liquidity on capital structure

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	,823	,334		2,463	,016		

Asset Structure	1,249	,659	,247	1,895	,062	,615	1,625
Sales Growth	-,149	,331	-,051	-,449	,655	,817	1,224
Profitability	-1,936	1,850	-,143	-1,047	,298	,560	1,785
Liquidity	-,285	,080	-,414	-3,550	,001	,770	1,299

a. Dependent Variable: Capital Structure

1) Results of Hypothesis Testing 1
Asset structure value = 0.062 < significance level (α) 0.05, it can be concluded that there is no significant effect of asset structure (X1) on capital structure (Y1). So: asset structure has no significant effect on capital structure.
2) Results of Hypothesis Testing 2
Sales growth value = 0.655 < significance level (α) 0.05, it can be concluded that there is no significant effect of sales growth (X2) on capital structure (Y1). So: sales growth has no significant effect on capital structure.
3) Results of Hypothesis Testing 3
Profitability value = 0.298 < significance level (α) 0.05, it can be concluded that there is no significant effect of profitability (X3) on capital structure (Y1). So: profitability has no significant effect on capital structure.
4) Results of Hypothesis Testing 4
Liquidity value = 0.001 < significance level (α) 0.05, it can be concluded that there is a significant effect of liquidity (X4) on capital structure (Y1). So: liquidity has a significant effect on capital structure.

Table: 3 Hypothesis Testing
Testing the effect of capital structure on firm value

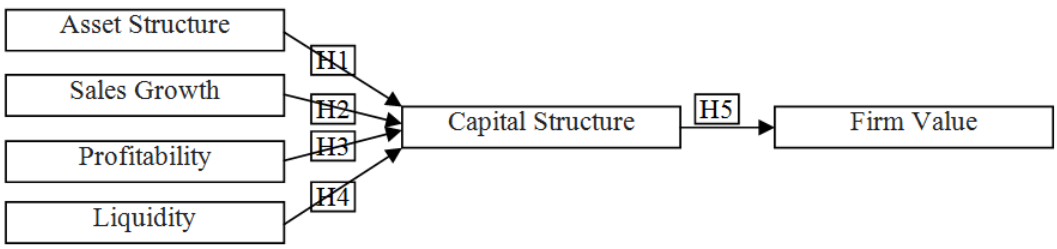
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	,771	,109		7,086	,000		
	Capital Structure	-,285	,076	-,383	-3,759	,000	1,000	1,000

a. Dependent Variable: Firm Value

5) Results of Hypothesis Testing 5
Capital structure value = 0.000 < significance level (α) 0.05, it can be concluded that there is a significant effect of capital structure (Y1) on firm value (Y2). So: capital structure has a significant effect on firm value.

4.1.5 Model of Capital Structure and Firm Value



Based on the analysis of the results of the model of capital structure and firm value, it can be explained as follows:
1) The results of the asset structure analysis have no significant effect on the capital structure.
2) The results of the analysis of sales growth there is no significant effect on the capital structure.
3) The results of the profitability analysis have no significant effect on the capital structure.
4) The results of the liquidity analysis have a significant effect on the capital structure.
5) The results of the analysis of capital structure have a significant effect on firm value.

4.2 Discussion

The effect of asset structure on capital structure, research conducted by Salawu & Agboola (2008), Joni and Lina (2010), and M'ng, Rahman & Sannacy (2017) states that asset structure has a positive and significant effect on capital structure. Different studies conducted by Sheikh (2011) and Indra & Nuzula (2016) found that the asset structure (tangibility) had a negative impact on the company's leverage or capital structure.

The effect of sales growth on capital structure, studies conducted by Mas'ud (2008) and Firnanti (2011) state that the results of the company's growth rate have a positive and significant effect on capital structure.

Different results in the research of Kesuma (2009), and Mahapsari and Taman (2013) stated that company growth has a negative and significant effect on capital structure.

The effect of profitability on capital structure, Cekrezi (2013), and Mohammadzadeh et al. (2013) prove that profitability affects capital structure in a negative direction, because companies with high profitability prefer to finance themselves first internally through retained earnings. If a company finances itself internally, it means it is strong without having to finance itself through increased debt. The opposite conclusion occurred in the study of Kiptanui et al. (2014) and Ichwan and Widyawati (2015).

The effect of liquidity on capital structure, empirical studies of Durdureanu & Tudose (2015), Cahyani & Handayani (2017) and Fernandes & Sumiaty (2019) show that there is a negative correlation between the two variables of liquidity and capital structure. Different results were found by Seftianne and Handayani (2011) that the liquidity variable had no significant effect on capital structure.

The effect of capital structure on firm value, Khradyar and Ibrahim (2011) conclude that capital structure has a positive effect on stock prices of primary and secondary industrial companies in China. Meanwhile, Salim and Yadav (2012), Chen and Chen (2011) and Zeitun and Tian (2007) stated that capital structure has a negative effect on stock prices as a proxy for firm value.

V. Conclusions And Suggestions

5.1 Conclusion

5.1.1 Descriptive Analysis Results

1) The asset structure variable has an average score of 0.47, thus it can be interpreted that fixed assets (total current assets) divided by total assets (total assets) result in a percentage value of 47 and have fairly high current assets.
2) The sales growth variable has an average score of 0.03 thus it can be interpreted that (S1) sales for the current period are reduced (S0) last year's sales and the results are divided into (S0) sales last year the percentage value is 3 and sales grow only 3%.
3) The profitability variable has an average score of -0.02, thus it can be interpreted that EBIT (net profit for the year) divided by total assets (total assets) is the percentage value of -2 and manufacturing companies experience losses or are unable to generate returns on company assets.
4) The liquidity variable has an average score of 1.65, thus it can be interpreted that the total fixed assets (total current assets) divided by current liabilities (short term liabilities) results in a percentage value of 165 and current liabilities are fully paid from company assets.
5) The capital structure variable has an average score of 0.96, thus it can be interpreted that total debt (total liabilities) divided by total assets (total assets) results in a percentage value of 96 and is funded by debt.
6) The firm value variable has an average score of 0.50 thus it can be interpreted that
total equity (capital deficiency) divided by the number of outstanding shares (issued and paid-up balance) yields a percentage value of 50 and the number of shares outstanding is quite high.

5.1.2 Multiple Linear Regression Analysis Results

1) The results of the asset structure analysis have no significant effect on the capital structure.
2) The results of the analysis of sales growth have no significant effect on the capital structure.
3) The results of the profitability analysis have no significant effect on the capital structure.
4) The results of liquidity analysis have a significant effect on capital structure.
5) The results of the analysis of capital structure have a significant effect on firm value.

5.2 Suggestions

Based on the results of this study, indicating that the overall model meets the requirements and can be accepted, the researcher's suggestions are:

1) Providing benefits for scientific contributions in theory development, theoretical contributions in the form of developing models of capital structure and firm value.
2) Providing input for companies with relatively stable sales can get more loans than companies with unstable sales, because the need for funds used by a company with high sales levels will be even greater.
3) The findings in this study can provide theoretical implications for the implementation of further research. The development of the model of capital structure and firm value still needs to be studied further to confirm the results of other studies.

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