

# Influence of capital structure, size and growth on profitability and corporate value

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FILE	UCTURE,_SIZE_AND_GROWTH_ON_PROFITABILITY_AND_CORPORATE_VALUE.DOC (827K)		
TIME SUBMITTED	17-JUN-2020 12:51PM (UTC+0700)	WORD COUNT	14771
SUBMISSION ID	1345230302	CHARACTER COUNT	75768



# Influence of capital structure, size and growth on profitability and corporate value

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## Article History

Received 21 June, 2016  
Received in revised form 14 July, 2016  
Accepted 20 July, 2016

## Keywords:

Capital structure,  
Size,  
Growth,  
Profitability,  
Company value.

## Article Type:

Full Length Research Article

## ABSTRACT

The purpose of this study was to examine and analyze whether capital structure, company size and growth have effect on the profitability of companies listed in Indonesia Stock Exchange from 2010-2014. Also to test and analyze whether capital structure, company size, growth and profitability affect the values of the companies. The population of the study was all manufacturing companies listed on Indonesia Stock Exchange from 2010 to 2014. The research samples were taken on the basis of saturated sampling. The study used secondary data through data collection and documentation. Data analyses were performed through the Smart PLS. The results of the analyses proved that capital structure has significant effect on profitability. Company size significantly influenced profitability, and growth of companies have a significant effect on profitability. Also, capital structure significantly influenced the value of the company; company size significantly influenced the value of the company. While company growth has no significant effect on the value of the company, but has significant effect on the profitability of the company's value.

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## INTRODUCTION

The Indonesian Stock Exchange is dominated by manufacturing companies. Manufacturing companies have created competition among manufacturers. Competition makes every manufacturing company to try to improve the performance of the company to achieve its goals. According to Arsyad (2008: 11), company's main goal is the maximization of wealth or enterprise value maximization. Company's value can be reflected in its share price. If the company's stock price is high, it can be concluded that the value of the company is good. Nurlela and Ihsaluddin (2008) stated that firm value is an important concept for investor because it is an indicator for assessing the company's overall market. According to Sartono (2010: 9) the value of the company is defined as the price a prospective investor is willing to pay if a company will be sold.

Table 1 shows the average data value of companies

listed on the Indonesia Stock Exchange during the period 2010-2014. These were calculated based on the ratio of price earnings ratio (PER).

According to Table 1, the value of companies during the observation period decreased so that companies are unable to increase the value of firms in line with expectations. Research conducted by Prastika (2013) found evidence that a significant leverage has effect on profitability. On the other hand, Wahyuni (2012) argued that capital structure does not affect profitability. Research conducted by Rustendi and Jimmi (2008) revealed that debt has significantly influence on the value of company, while Kusuma et al. (2013) found out that capital structure does not have significant effect on the value of company. Research conducted by Devi (2013) reported that company size significantly influenced profitability while Wiranata and Nugrahanti (2013) reported that the size of the company with total assets of proxy does not affect the profitability. Research conducted by Nuraina (2012) found that company size has a significant influence on the value of the company.

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**Table 1.** Average value of manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

Year	Value of the company
2010	29.786
2011	264.562
2012	2.470
2013	15.116
2014	3.533

<sup>5</sup> Dewi and Wirajaya (2013) found that the size of company does not have significant effect on the value of the company. Also, Sari and Abundanti (2012) reported that the growth of the company has significant positive effect on profitability as against Sunarto and Budi (2009) whose findings are that company's growth has no significant effect on profitability. The study conducted by Wijaya and Utama (2014) revealed that company's growth is significantly influenced by the value of the company. Kusuma et al. (2013) revealed that company's growth have no significant effect on company's value.

Based on the problems facing companies regarding the decline in value as well as the controversy in previous research, this study was aimed to examined the effects of capital structure, company size and company's growth on profitability and value of manufacturing companies.

## LITERATURE REVIEW

### Effect of capital structure on profitability

According to Sunarto and Budi (2009) in considering the use of funds derived from debt needed to pay attention to company's ability to meet its fixed obligations; the greater the amount of debt and the shorter the repayment period, the greater the burden that remains in the firm. Brigham and Houston (2010: 187) stated that owners of a company may be able to use a relatively large debt amount to limit its manager. High debt ratio would increase the threat of bankruptcy; therefore there is need to be more careful in other not to squander the money of shareholders. For each company, the decision in the selection of the source of funds is important because it will affect the company's financial structure, which will ultimately affect profitability. Based on this explanation, it can be concluded that capital structure has an influence on profitability.

**H1:** There is significant relationship between capital structure and profitability.

### Effect of company size on profitability

According to Sofyaningsih and Hardingsih (2011), large

companies that are considered to have reached the stage of maturity is a picture that the company is relatively stable and able to generate profits than small enterprises. The size of the company shows whether a company is large and can compete with its competitors. This is because large companies have assets that can be used in company activities; so as to increase the company's revenue. This shows that the larger the assets owned by the company, the greater the company's ability to be ahead of the competition.

**H2:** There is significant relationship between company size and profitability.

### Effect of growth companies on profitability

Mahapsari and Taman (2013) described growth as an increase of sales or assets as well as increase in the number of employees of the firm and expansion of company business. Increased sales can contribute to create profitability. Sari and Abundanti (2012) stated that, some companies gain high profitability by reducing production costs or by implementing efficient business strategy. The faster the growth of a firm, the higher the profits of that firm; which means that, an assessment of the profitability ratio will also be high.

**H3:** There is significant relationship between growth and profitability.

### Effect of capital structure on company values

<sup>1</sup> Brigham and Houston (2010: 183) explained the relationship between capital structure and corporate value through the Tradeoff Theory. They elucidated that companies exchange tax benefits of debt financing with the problems raised by the potential bankruptcy. According to Atmaja (2008: 254), Modigliani-Miller concluded that the use of debt (leverage) will increase the value of the company if the cost of interest on debt is a cost that reduces the payment of taxes (a tax-deductible expense).

On the other hand, Tradeoff Theory explains that if the position of the capital structure is under optimal point, then any additional debt will increase the company's value. Conversely, if the position of each capital structure is above the optimal point, then any additional debt would lower the value of the company. It can be said that capital structure has an influence on company values.

**H4:** There is significant relationship between capital structure and company value.



### Effect of size on company values

According to Dewi and Wirajaya (2013) the size of a company increases from the fact that large companies have large market capitalization; book value is large and high profit too. Investors tend to be more interested in companies with large scale. This is because large companies tend to have a more stable condition. This stability attracts investors to own shares in the company, and this will cause a rise in share price in the capital market. It can be said that size has an influence on company values.

**H5:** There is significant relationship between company size and company value.

### Effect of growth on corporate values

Growth is the impact of cash flow of the company's operational changes due to increase or decrease in business volume (Kusumajaya, 2011). Companies with high potential growth rate have a tendency to generate high cash flows in the future and high market capitalization that will attract investors to invest. The value of the company formed by indicators of stock market value is influenced by investment opportunities. The existence of investment opportunities can provide a positive signal about the company's growth in the future, so as to enhance shareholder value. It can be said that growth has influence on company values.

**H6:** There is significant relationship between growth and company value.

### Effect of profitability on corporate values

According to Husnan and Pudjiastuti (2011: 183) an investment is said to be, if the investment could make investors wealthier. In other words, the investor becomes greater in prosperity after investing. This understanding is consistent with the objective of maximizing the value of the company. The most important thing for the company is how to maximize the profit of shareholders, and not how much profit is generated by the company. Profitability is the company's ability to make a profit. The investors have shares in order to get a return. The higher the ability of the company to make profit, the greater the expected return of investors, making the value of the company better.

**H7:** There is a significant relationship between profitability and company value.

## RESEARCH METHOD

The population of this study comprises all the

manufacturing companies listed on Indonesia Stock Exchange during the period 2010-2014. The sampling method was saturated sampling. The samples used were 30 manufacturing companies over a period of 5 years so that the number of observational studies are as many as 150. The data collection method was literature study and documentation. The data used was secondary data which were obtained from the company's financial statements that were retrieved from the site "www.idx.co.id".

### Definition of variables

Identification of variables are as follows: Capital structure measured by the ratio of debt to the ratio of equity (DER), debt to asset ratio (DAR), long term debt to equity ratio (LDER). DER is the ratio of total debt held by the company's own capital or equity. The reason for using DER was because it aims to determine how large a proportion of its capital can provide its shareholders and *vice versa*. DER was adopted from previous research conducted by Bukit (2012), Ferina et al. (2015) and Santika and Sudiyatno (2001).

DAR indicates the proportion of assets and their source of funding (a loan or credit). The reasons for using DAR ratios to measure capital structure is because it emphasizes the percentage of the company's assets backed by debt. So a high value of DAR in a company means the company is unable to pay all its obligations, and consequently, shareholders of that company will pay high interest and this will reduce dividend payments. DAR was adopted from previous research conducted by Yuliana and Aprilia (2013), Hermuningsih (2013) and Setiana and Rahayu (2012).

LDER is the proportion of long-term debt or equity sources of funding from shareholders. The reason for using LDER is because LDER stresses capital structure for the provision of funds by a percentage of shareholders' long-term liabilities. So, the lower the LDER the better a company's ability to pay long-term liabilities and the smaller the risk borne by the shareholders. LDER was adopted from previous research conducted by Setiana and Rahayu (2012), Syafiqurrahman et al. (2014) and Agnes (2011).

Secondly, a company's size shows how big the company is, and it is measured from the total assets and total sales held. Company size in this study was measured by  $\ln$  of total assets and  $\ln$  of total sales. The reason for using  $\ln$  of total assets and  $\ln$  of total sales is due to the size of the company with respect to the provisions stipulated in Law No. 20 of 2008; assessed based on the net assets and the number of sales, making it easier to determine the scale of the size of the company. This is consistent with previous studies conducted by Prasanjaya and Ramantha (2013), Agnes (2011), Rumondor et al. (2015) and Putri et al. (2015).

Thirdly, a company's growth is the increase in the number of sales and the increase in total assets from year to year or from time to time. A company's growth has an important role in the management of working capital. The company's growth is measured using the ratio of the change in total assets and the ratio of the change in total sales.

Asset growth is the difference between total assets of the company in the current period compare to the previous period over the total assets of the previous period. The reason for using the change in total assets as a ratio to measure the company's growth as total assets the total assets of both current assets and also fixed assets used for operating activities of the company, so any changes in either an increase or decrease in assets reflects the company experienced growth rates. The use of total assets change in measuring the company's growth refers to previous research conducted by Nuryanti (2012) and Prabansari and Kusuma (2005).

Sales growth is the difference between the total sales of the company in the current period to the total sales of previous period. The reason for using a total change of sales as a ratio to measure the growth of the company due to growth in sales of a product of the issuers depending on the product life cycle. If the growth of sales per year increases, investors will trust the issuer, that the issuer will provide benefits in the future. The using of changes in total sales in the company's growth refers to previous research conducted by Yuniarti (2014), Putra and Badjra (2015) and Hansen and Juniarti (2013).

Fourthly, profitability was measured by return on assets (ROA), return on equity (ROE) and earnings per share (EPS). The ROA ratio is the ratio of net profit after tax to total assets overall. The rationale for this ratio because, ROA has the advantage that a comprehensive assessment which entirely affect the financial statements, are easily calculated. It is is very significant in determining absolute value and a denominator that can be applied at any organizational unit responsible for profitability and business units. The use of ROA in measuring profitability refers to previous research conducted by Barus and Leliani (2013), Hansen and Juniarti (2013) and Devi (2013).

ROE ratio is a ratio used to measure the net after tax pumpkins with their own capital. The reason for using ROE for measuring profitability is because ROE gives a company's ability to generate net income attributed to the dividend payment, so that stakeholders can know the size of the results obtained (both holder of preferred stock or common stock) on investment in the company. The use of ROE in measuring profitability refer to previous research conducted by the Dewi and Wirajaya (2013), Rosy (2013) and Prastika (2013).

EPS is the net profit divided by the number of shares of the company. The reason for using EPS is because it can describe the outlook for corporate earnings in the future.

The use of EPS in measuring profitability refer to previous research conducted by Ircham et al. (2014), Mugi et al. (2014) and Meythi et al. (2011).

Fifthly, the value of a company is an investor perception of the level of success of the company that is closely related to its stock price. The company's value in this study was measured by price-book value (PBV), the PER, and dividend per share (DPS).

PBV is the earning power, which shows the ratio between market price and book value. Reasons for using PBV in measuring the value of the company is because PBV indicates how a company is able to create its value relative to the amount of capital invested. In addition, investors can also learn directly how many times the market value of the stock appreciated from book value as well as get an idea of the price of a stock. PER is a ratio that measures the ratio between share prices and the benefits of the shareholders. The reasons for using PER to measure the value of the company is to see how the market appreciated the performance of the company in addition to the earnings. Use of PER in measuring the value of the company refers to previous research conducted by Kusuma et al. (2013).

DPS is a ratio that measures how big the dividends are distributed by the number of shares outstanding in a given year. The reasons for using DPS is because this ratio give an idea of how much profit is distributed in the form of dividends to shareholders for each share. Use of DPS in measuring the value of the company refers to previous research conducted by Sappar et al. (2013) and Priyatinah and Kusuma (2012).

## Data analysis

The data were analysed using Partial Least Square (PLS) by the application SmartPLS program. PLS can be used at any kind of scale of datas (nominal, ordinal, interval, and ratio) and assumes more flexible terms. PLS is also used to measure the relationship between each indicator and its construct (Ghozali and Latan, 2012). PLS analysis has two models, namely inner and outer models. Outer models are also called outer relations or measurement model that shows the specification of the relationship between the variables with the indicator (Ghozali, 2006). While the inner model is also called the inner relations or structural model, it shows the relationship between variable specification latent, between exogenous (independent) variables. Prior to doing PLS analysis techniques, first in doing descriptive statistical analysis.

## Descriptive analyses

Descriptive statistics was used for the delineation of statistical data such as minimum, maximum, mean, sum,



**Table 2.** Descriptive statistics for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

Variable	Indicator	N	Mean	Standard deviation	Minimum	Maximum
Capital structure	DAR	150	0.0182	0.03165	0.00000206	0.23817
	DER	150	0.0347	0.06183	0.0000023	0.39054
	LDER	150	0.455	2.358	0.002	28.909
Company size	LN S	150	1.645	2.234	0.001	12.37
	LN A	150	1.774	2.307	0.001	15.607
Company growth	SG	150	1.038	4.387	-26.738	32.093
	SA	150	1.6	18.2	-0.95	222.97
Profitability	ROA	150	0.0197	0.1972	0.00000256	2.4181
	ROE	150	0.0064	0.00975	0.0000029	0.08077
	EPS	150	6338	5.319	0.00113	14.769
Company value	PBV	150	1.137	1.852	0.000402	10.177
	DPS	150	2.097	9.702	0.0000001	99.75
	PER	150	0.7058	1.0373	0.00000057	5.8443

standard deviation, variance, range, and others. According Priyatno (2014: 30), statistical descriptive analysis is used to analyze the data in ways that describe or depict the data that has been collected as it is without intending to apply to general conclusions or generalizations. Descriptive statistics only relate to decipher or supply of information regarding the data or circumstances. In other words, descriptive statistics serve to explain the circumstances, symptoms, or problems. Conclusion on descriptive statistics (if any) addressed only the existing data set. According Priyatno (2014: 34), the average is a measure of central tendency that is very frequently used. The advantage of calculating the average is a number that can be used as a representative of the observed data. Besides the average, standard deviation (standard deviation) is denoted by, showed an average deviation of data from average price. Here are the results of the descriptive analysis of data for each of the variables are presented in Table 2. Based on Table 2, we can explain in the following:

### Capital structure

DAR shows the lowest value at 0.00000206 and a high at 0.2382, with an average value of 0.0182 and the value of standard deviation of 0.0317. Measurement of capital structure through DAR with the ratio less than 1 shows that the equity is greater than the debt, it indicates that the majority of companies listed on the Stock Exchange during the observation period using internal funds greater than the external funds to finance its operations.

DER shows the lowest value of 0.0000023, the highest at 0.3905, with an average value at 0.0347 and the value of the standard deviation at 0.0618. Capital structure as

measured by DER with the value less than 1 means that the equity is greater than the debt, so this indicates that the majority of companies listed on Bursa Efek Indonesia (BEI) during the observation period using internal funds greater than the external funds to finance its operations.

LDER shows the lowest value at 0.002, the highest value at 28.909, with mean at 0.455 and the standard deviation at 2.358. Capital structure as measured through LDER men wave average value ratio LDER above a value of 1 means the debt is greater than equity or equity capital, thus indicating that the majority of companies listed on BEI during the period of observation using funds were externally larger than internal funds required to finance their operations.

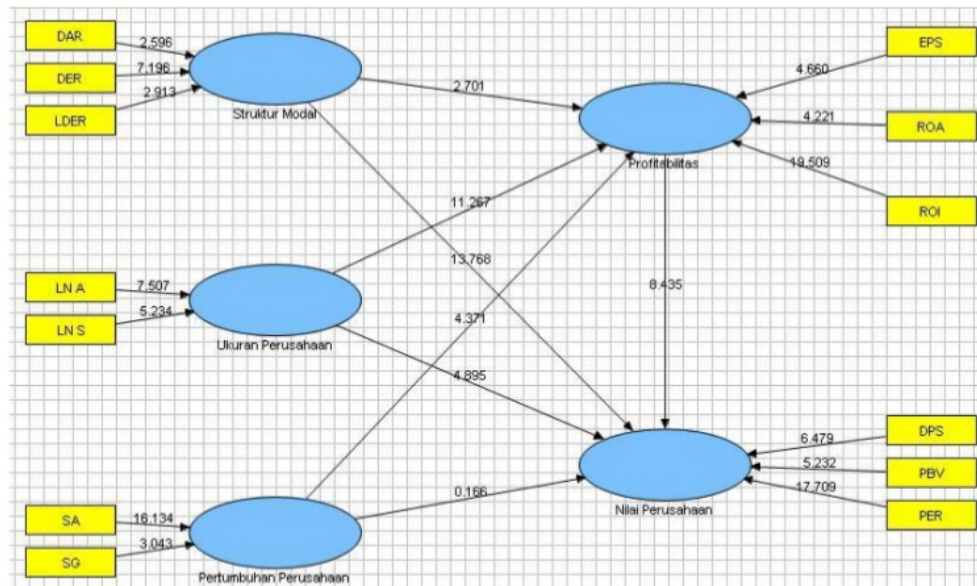
### Company size

Company size measured by natural log of sales shows the average value at 1.645 or 5.18 trillion rupiah, so it can be concluded that the majority of companies listed on the Indonesian Stock Exchange during the period of observation are large company because it has large sales more than 50 billion rupiah.

Company size is measured by Log natural of asset shows the average value at 1.774 or 5.89 trillion rupiah, so it can be concluded that the majority of companies listed on the Stock Exchange during the period of observation in the category of large companies because it has a net worth above 10 billion rupiah.

### Company growth

Company growth is measured by both sales growth (SG)



**Figure 1.** Measurement model PLS formative for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

shows the average value at 1.038 (more than 1) and asset growth (AG) shows the average value at 1.6 (more than 1) so it can be conclude that most of the manufacturing companies listed on the Stock Exchange during the period of observation are company with a rapid growth rate.

### Profitability

Profitability is measured by ROA shows the average value at 0.0197 (less than 1) and ROE shows value at 0.0064 (less than 1) so it can be conclude that the majority of companies listed on the Stock Exchange during the period of observation is classified as company with low ability to earn profit. From the indicator of EPS shows the average value at 6.338 (more than 1) so it can be said than from EPS, the majority of company listed on the Stock Exchange during the period of observation is classified as company with high ability to earn profit.

### Company value

Profitability measured by PBV shows the average value at 1.337 (over than 1) and dividend per share (DPR) shows value at 2.097 (over than 1) so it can be conclude that the majority of company listed on the Stock Exchange during the period of observation is classified

as company with high value. From the indicator of PER shows the average value at 0.7058 (less than 1) so it can be conclude that the majority of company listed on the Stock Exchange during the period of observation is classified as company with low value.

### Partial least square (outer model)

Outer model is used to test a validity and reliability from the value of significance of weight with the value of 1.64. Figure 1 and Table 3 represent measurement of outer model. PLS estimation results with a formative model as outlined in Table 3.

Figure 1 and Table 3 shows that the DAR has a value of 2,596 t-statistic on capital structure, DER has a value of t-statistic 7196 on the capital structure, LDER t-statistic has a value of 2,913 on the capital structure. In A t-statistic has a value of 7,507 to the size of the company, In S has a value of t-statistic 5,234 against the size of the company. SA has a value of 16,134 t-statistics on the growth of the company, the SG has a value of 3,043 t-statistics on the growth of the company. EPS has a value of t-statistic 4.660 to profitability, ROA has a value of 4,221 t-statistics on profitability, ROE has a value of 19,509 t-statistic on profitability. DPS has a t-statistic value of 6,479 to the value of the company, PBV has a t-statistic values 5,232 to company value, PER has a value of 17,709 t-statistic on firm value. Based on the above explanation can be in the know that all indicators are

**Table 3.** Outer weights for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

	Original Sample (O)	T-statistics (  O/Sterr I)	Probability
DAR -> Capital structure	0.268381	2.595609	Significant
DER -> Capital structure	0.737805	7.195736	Significant
LDER -> Capital structure	-0.019702	2.912903	Significant
LN A -> Company size	0.590007	7.507456	Significant
LN S -> Company size	0.412875	5.233984	Significant
SA -> Company growth	1.224037	16.1339	Significant
SG -> Company growth	-0.281914	3.042635	Significant
EPS -> Profitability	0.074087	4.660492	Significant
ROA -> Profitability	-0.246729	4.220622	Significant
ROE -> Profitability	1.085468	19.50912	Significant
DPS -> Value company	0.009784	6.478648	Significant
PBV -> Value company	0.229329	5.232215	Significant
PER -> Value company	0.772155	17.70931	Significant

Values in second and third columns are mean and T-values respectively.

significant to the variable with the t-statistic above 1,645 (for a significance level of 0.05), which means that all indicators are valid and can be used to measure the construct.

#### Partial least square (inner model)

Testing of structural models (inner model) using PLS measured by the value of R-square, Q-square (predictive relevance) and goodness of fit models. Coefficient of determination (R-square) value resulting the company value at 0.696632 and profitability at 0.521606. It explains that the strip relationship between capital structure, company size, profitability and growth of the company to the value of the company to produce the R-square of 0.696 which indicates that the percentage of the diversity of the value of manufacturing companies can be explained by the variable capital structure, company size, profitability and growth of the company amounted to 69.6%, while the remaining 30.4% is explained by other variables in addition to the capital structure, company size, profitability and growth. R-square value of 0696 can be concluded that the model is robust.

Strip the relationship between capital structure, company size and growth of the company to profitability generating R-square value of 0.521 which indicates that the percentage of the diversity of the profitability of manufacturing companies can be explained by the variable capital structure, company size and growth of 52.1%, while the remaining 47.9% is explained by other variables in addition to the capital structure, company size and growth of the company. R-square value of 0522 can be concluded that the model is moderate.

Predictive relevance (Q-square) was used to measure

how well the observed values generated by the model and parameter estimation. From the results of the regression analysis obtained values of the coefficient of determination total of 0.880 which means the PLS model developed can explain the value of the company with the capital structure, company size, profitability and growth of the company by 88%, while the remaining 12% is explained by other variables not used in the model. Q-square has a value of 0.880 > 0 then it can be concluded that the model has predictive relevance, or it could be said that the model is better because has a value of 0.880 which is getting close to 1.

Goodness of Fit (GoF) is shown by the value of communality (Table 4). From Table 4 it can be calculated that the average value of communality  $(0.662698 + 0.763958 + 0.581 + 0.661719 + 0.993894) : 5 = 0.732654$ . Results of the average communality is then multiplied roots and average value of R-square is  $X = 0.66804$ .

From the results of this calculation, it can be seen that the combined model fit test results show that the GoF value of 0.66804 and included substantial criteria. This means that the overall model with the three latent variables that make it up have substantial validity (strong).

#### Hypothesis testing

Results of hypothesis testing through the PLS used boot straping resampling methods by the number of 1000, which show the direct influence of exogenous variables on endogenous variables based on t-statistic that must be > 1.96 are presented in Table 5. From Table 5 shows the relationship between variables directly influence



**Table 4.** Commuality of manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

Variables <sup>1</sup>	Commuality
The value of the company	0.662698
Company growth	0.763958
profitability	0.581
Capital structure	0.661719
Company size	0.993894

**Table 5.** Path coefficients of manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

	Original Sample (O) <sup>4</sup>	T Statistics (IO/Sterrl)	Information
Capital structure -> Profitability	0.184167	2.700619	Significant
Company size -> Profitability	0.557133	11.26691	Significant
Growth companies -> Profitability	0.263492	4.371123	Significant
Capital structure ->Company value	0.505941	13.76842	Significant
Company size ->Company value	0.227035	4.895197	Significant
Growth companies ->Company value	-0.002577	0.165967	Not significant
Profitability ->Company value	0.272538	8.434978	Significant

Values in second and third columns are mean and T-values respectively.

research show cased in the following explanation, *hypothesis 1*, the estimation results of the influence of capital structure to profitability of unknown magnitude is 0.184167 to 2.700619 value of t-statistics. Based on these results<sup>4</sup>, the value of t-statistic  $2.700619 > 1.96$ , we conclude capital structure has a significant influence on the profitability of the companies listed on the Stock Exchange. Thus, the first hypothesis is accepted. Capital structure is a mix use of funds from equity and debt. Consequences to be borne by the company if it uses debt, company must comply with debt covenants. If companies use the resources in the form of the issuance of shares, the company must provide compensation to investors in the form of dividends. The capital structure of the company is closely related to investment so that in this case would involve the source of funds used to finance the investment projects. Issuance of shares and bonds are often referred to as the source of funds from outside the company (external financing), while funds from retained earnings referred to as funds originating from within the company (internal financing). Figures capital structure of less than 1 indicates that more companies choose to finance its activities using its own capital so as to companies that have a number of capital structure in Figure 1 shows that the participation of owners is greater than the participation of creditors. In contrast, the rate of capital structure that is more than 1 indicates that more companies choose to use debt to finance its activities, so for companies that have a capital

structure in Figure 1 figures show that creditor participation is greater than the participation of the owner. Capital structure in this study was measured using DAR, DER, and LDER.

The capital structure of companies surveyed have an average value of 0.1693 massive capital structure at manufacturing companies to give the sense that the vendor manufacturing during the observation period using internal funds to finance its operational activities. In addition to capital structure as seen from the magnitude of the average value, this research also viewed from the many companies that have a value above its capital structure 1 and the number of companies that have a value below the value of the capital structure 1.

There are 25 manufacturing companies that have massive capital structure value below the value 1. Selection of the use of equity capital of the company manufacturing in financing activities of the company has meant that companies like internal funds derived from the company's operating results are tangible retained earnings. The manufacturing company during the observation period prefer internal funds of external funding for, the amount of internal funds available in the cash flow manufacturing enterprises so that enterprises do not need to look for another loan from outsiders.

On the other hand, there are five companies that have massive capital structure value above 1. This represents a minority of manufacturing companies that still use debt to finance its activities. The use of debt in the company is

one of the risks that may occur, due to the indebted companies are obliged to pay installments of debt and other financial burdens that can reduce free cash flow. This situation involves the role of the manager is very important in making funding decisions that will ultimately have an impact on shareholder and potential investors.

Hypothesis 2, the estimation results of influence between the size of the company to profitability in mind the magnitude of the value is 0.557133 11.266905 t-statistic. Based on these results, the value of t-statistic  $11.266905 > 1.96$  then the inferred size of the company has a significant effect on the profitability of the companies listed on the Stock Exchange. Thus the second hypothesis is accepted. Large companies have better control (greater control) to market conditions, so that they are able to face economic competition which makes them less susceptible to economic fluctuations. The size of the company described the size of a company that can be expressed by total assets or total net sales. The greater total assets or total sales the greater size of company. The greater the assets, the greater the capital invested, while the more sales, the more also the velocity of money in the company. The size of the company stipulated in Republic Act NO.20 of 2008, which is basically the size of the company is divided into four categories based on total assets and total sales of the company: micro-enterprises, large enterprises, medium-sized companies, small companies (small firm). The size of the company in this study was measured using Ln of total assets (Ln A), Ln of total sales (Ln S).

Size companies studied had an average value of 1.71 scale size manufacturing companies to give the sense that the vendor in full size scale where the greater the total assets and sales, the greater the size of a company. The greater the assets, the greater the capital invested, while the more sales, the more also the velocity of money in the company. In addition to the size of the company is seen from the magnitude of the average value, this research also viewed from the many companies that have large companies and medium sized companies.

There are 23 companies by size category of large enterprises, can be explained that the manufacturing companies during the observation period has a large market capitalization in terms of investing so as the company can expand its share of the market to meet demand for the product, has a book value which is great for positive response by investors, and high profits earned from the sales are growing, and followed with the closing costs out during the production process. Besides large companies such as manufacturing companies are considered to have a lower risk, are already well established, has reached a stage of maturity, relatively more stable, so have a good control of market conditions,

easy access to the capital markets and have good prospects in a period of relative long.

On the other hand there are 7 manufacturing company with medium firm size categories. This is because all five manufacturing firms have less good control of market conditions, so companies are not able to face economic competition, and result in a small market capitalization, book value is small and low profit.

Hypothesis 3, the estimation results of influence between the growth of the company to profitability in mind the magnitude of the value is 0.26492 4.371123 t-statistic. Based on these results, the value of t-statistic  $4.371123 > 1.96$ , we conclude the growth of the company has a significant effect on the profitability of companies listed on the Stock Exchange. Thus the third hypothesis is accepted. Growth is how far the company put investor in the overall economic system or economic system for the same industry. The company's growth is expected by internal or external parties of a company, because it can provide a positive aspect for them. The company's growth illustrates the measure of the success of the company. The success also a benchmark investment for growth in the future. So that rapid growth has no meaning less cost growth under control, then manage the growth of the company should have control of the operations with an emphasis on cost control. Company growth in this study was measured using change of total assets and the change in total sales.

Growth companies studied had an average growth rate of 1.3178 scale manufacturing companies to give the sense that the vendor experiencing rapid growth. The growth rate of manufacturing companies capable of producing a high level of future cash flows and higher market capitalization thus enabling the company to have a lower capital cost. In addition to the company's growth is seen from the magnitude of the average value, this research also viewed from the many companies that have growth in the company above the value of 1 and a corporate discount the value of the company's growth below 1.

There are 22 companies that have the magnitude of the value of the company above 1. Because of the amount of value that is greater than 1 then in this case the researchers explained that the growth of manufacturing companies that can quickly be demonstrated by the growth in assets and sales growth of the company. Their asset growth occurred in manufacturing companies showed great assets used for operational activities of the company, so that the operational results generated by the company also increased. In addition, since the company is considered to have good control of the manufacturing company can predict the trend of product sales from year to year so that the company knows exactly demand sales in the future, regulate the production schedule well, knowing the outcome of bills receivable, as well as companies may schedule its debt maturity to match the



net cash flows in the future.

On the other hand there are 8 manufacturing company that has a magnitude value of the company below the value 1. This shows that even though the companies are manufacturing companies go public, but there is still a company with a slow growth rate. This is due <sup>1</sup> the inability to manage the company's assets so that **assets used for operating activities of the company** are not put to good use so that the operational results generated are not up to this situation have an impact on the decrease <sup>2</sup> in the number of sales. In order for rapid growth, then **manage the growth of the company** must have a good performance, especially in the control of the company's operations with an emphasis on cost control. <sup>1</sup>

Hypothesis 4, the estimation results of the influence of capital structure to the company's value is unknown <sup>4</sup> magnitude with the value 0.505941 13.768420 t-statistic. Based on these results, the value of t-statistic  $13.768420 > 1.96$ , we conclude capital structure has a significant effect on the value of the company on the companies listed on the Stock Exchange. Thus the <sup>5</sup> hypothesis 4 is accepted. The company's profitability is the company's ability to generate net income from the activity undertaken in the accounting period. At the core profitability of a company is a picture that measures how well companies profit from operational processes that have been implemented to ensure the continuity of the company in the future. Profitability analysis provides supporting evidence regarding the company's ability to earn income and the extent to which the effectiveness of the management of the company. Profitability in this study was measured using the EPS, ROA and ROE.

Profitability of companies studied had an average value of  $2.12 > 1$  the amount of the value of the profitability of manufacturing companies to give the sense that the vendor manufactures gain level of ability in generating high profits during the period of observation. It is clear that manufacturing companies have a good performance, as evidenced by the company is successfully managing the company's assets effectively and efficiently so that the company was able to post improved earnings each period. In addition to profitability as seen from the magnitude of the average value, this research also viewed from the many companies that derive value and company profitability above 1 which has profitability less than 1.

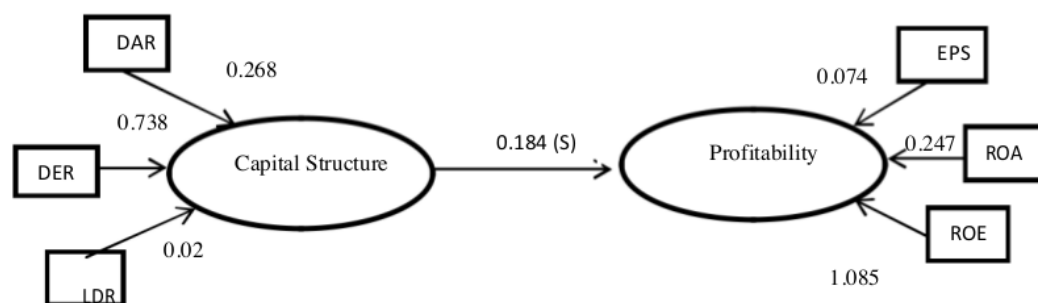
There are 22 companies that have massive profitability values above 1. The high value of the profitability of the manufacturing companies this has any relevance to investors because they are interested to invest in order to expand its business. In addition to having significance to investors, high profitability also has meaning for the manufacturing company itself, a manufacture company maintain the survival of the company in the long term, and as a material for the evaluation of the effectiveness of management of the company.

On the other hand there are 8 manufacturing company that has a magnitude of profitability values below 1. This shows that a small percentage of manufacturing companies still have to improve a good performance in order to balance out the other companies. This situation has implications for managers, shareholders, and potential investors. Where managers are considered less capable of performing their duties, the shareholders will be related to the stock price, the investor side of this is information that is less attractive to invest because it affects the dividend will be accepted.

Hypothesis 5, the estimation results of the effect of firm size on firm value is unknown amount of 0.227035 to 4.895197 value of t-statistics. Based on these results, the value of t-statistic  $4.895197 > 1.96$ , we conclude the size of the company has a significant effect on the value of the company on the companies listed on the Stock Exchange. Thus hypothesis 5 accepted. The value of the company is an investor perception of the company, which is often associated with the stock price. High stock prices make the company's value is also high. The share price is the price that occurred at the time the stock traded in the market. In reality not all companies want a high stock price (expensive), for fear of not sold or not attract investors to buy them. That is why the share price should be made as optimal as possible. This means that stock prices should not be too high or too low. The share price is too low may adversely affect the company's image in the eyes of investors. The value of the company is very beneficial for the company's management to evaluate the performance of the company. Owner's enterprise value is used to measure the level of their welfare. This value reflects the price paid by the investor is willing to have a company. The company's value exceeds 1.0 proves <sup>3</sup> that investors are willing to pay more for the stock than the book value of the company. So the companies that have enterprise value above 1 indicate that the company has a high value. In contrast, the value of the company is less than the figure of 1 proves <sup>3</sup> that investors are not willing to pay more for the stock than the book value of the company. So the companies that have enterprise value below 1 indicate that the company has a low value. The company's value in this study was measured by using PBV, DPS and PER.

Manufacturing enterprise value is seen through the average value has a magnitude of 1.313 value of enterprise value to give the sense that any one company's book value appreciated by the market by 1313. Since the average value of the company in manufacturing companies during the observation period has a magnitude of a value greater than 1 it was explained that the value of the manufacturing company has a high value. Increasing the value of manufacturing companies because of the high price of these shares will make the market believe in the company's performance and prospects for the future. In addition to the value of





**Figure 2.** Model effect of capital structure on profitability for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

the company is seen from the magnitude of the average value, this research also viewed from the many companies that have the value of the company above the value of 1 and a company that has the value of the company below the value 1.

There are 25 companies that have the magnitude of the value of the company above 1. Thus achieving the company's value is in itself an achievement because of the high value of the company which will be followed by a high prosperity shareholders but it can boost market confidence in the prospects of the company and indicates the strong shareholder wealth. On the other hand there are five manufacturing companies that have the magnitude of the value of the companies under the value of 1, this situation gives the sense that there are a small part manufacturing company that has not been able to maximize the company's goal is to maximize the value of the company, this condition becomes a chore for shareholders, managers and creditors in terms of realizing the high value of companies. To realize this condition there are 5 steps by Weston and Thomas (Hidayat, 2013) to increase the value of the company, namely: the synchronization of assets, work efficiency, improved productivity, improved cash flow and increase in value.

Hypothesis 6, the estimation results of the influence of the company's growth to the company's value is unknown magnitude -0.002577 with a value of t-statistic 0.165967. Based on these results, the value of t-statistic  $0.165967 < 1.96$ , we conclude the growth of the company has no significant effect on the value of the company on the companies listed on the Stock Exchange. Thus the hypothesis could not accepted.

Hypothesis 7, the estimation results of influence between the profitability of the company's value is unknown amount of 0.272538 to 8.434978 value of t-statistics. Based on these results, the value of t-statistic  $8.434978 > 1.96$ , we conclude profitability has a significant effect on the value of the company on the

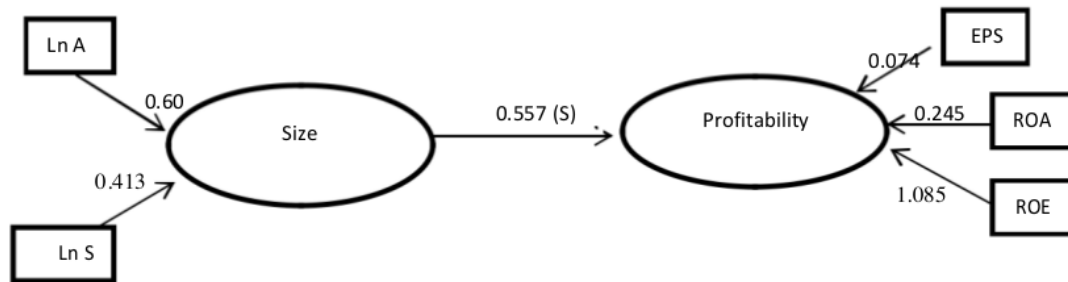
companies listed on the Stock Exchange. Thus the hypothesis 7 is received.

## 2 Effect of capital structure to profitability

The test results of the capital structure variables measured by three indicators, namely: DAR, DER, and LDER to profitability as measured by EPS, ROA, ROE seen in Figure 2. The test results variable capital structure to profitability shows the value of 2,701 t-statistic is greater than 1.96. These results indicate that capital structure have a significant effect on profitability. Positive relationships contained in the variable effect of capital structure on profitability, this is indicated on the data of the value of the original sample of 0.1841. This positive relationship meant that the optimal capital structure will raise the profitability.

In this research note that the decision to use capital structure chosen by company listed on the Stock Exchange during the period of observation that most of the manufacturing company using its own capital is greater than the external capital and the company was also able to earn a profit, which means a manufacturing company in Indonesia during the period of observation in favorable circumstances. The use of equity capital selected by the manufacturing company to finance its business activity of the company is due to take into account the financial risks arising from the use of high debt is the inability of companies to pay obligations and the possibility of not achieving the targeted profit by the company. The high level of profitability that occurred in manufacturing companies to give the sense that the company is in a state of profitable and have retained earnings were great, so the company would prefer to use retained earnings prior to use debt in addition the company has a state of good cash flow that the company does not need any additional external funding (debt).

This research is in accordance with the pecking order



**Figure 3.** Company size model influence on profitability for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

theory states that companies prefer to finance companies with internal funds are derived from retained earnings and cash flows depreciation. Pecking order theory explains about company implement a dividend policy for investment opportunities, companies prefer internal funds. Internal funds are obtained from the profit generated from operations, when the external financing needs of the first companies will choose issuing debt securities, while issuance of securities that kind of capital will be the last. Pecking order theory also explains why the companies are profitable generally borrow an amount slightly. This is not because the company has a target debt ratio is low, but because it requires external financing slightly.

In theory of optimal capital structure based on the rule structure of conservative financial where it is stated that the debt should not be greater than the capital that guarantee/collateral (equity). For each company, the decision in the selection of the source of funds is important because it will affect the company's financial structure, which will ultimately affect profitability. Companies with a high profitability would have more internal funds of the companies with low profitability.

According to Brigham and Houston (2010: 150) companies with high returns on investment using debt is relatively small, which means that any company that has a composition of debt the company will be a high rate of return. The lower debt is high profit.

The results which explain that the increase in debt and in the capital structure related to increased profitability of a company supported by Hamidy (2014), which explains that the additional debt that the company can increase the net income of the company. The research results that do not agree with the results of this study are Kusuma et al. (2013) found that the projected capital structure with no effect LDIER toward profitability. The debt does not affect profitability for companies with a large size. Companies with a large size is more able to generate profits compared to the company's with a small size, for companies with large size are more able to generate

earnings as compared with small companies.

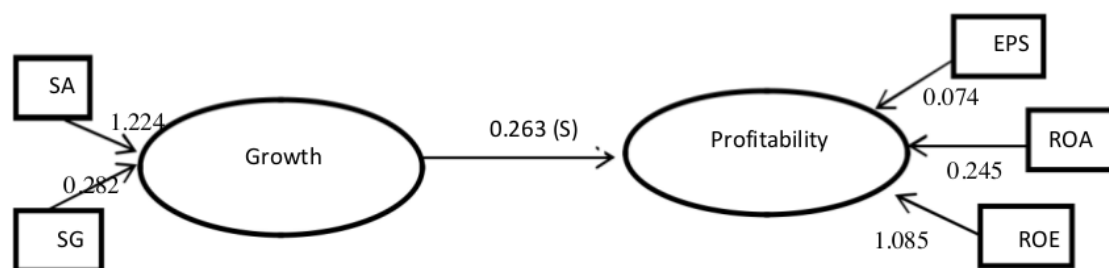
### Company size influence profitability

The test results of the variable size of the company measured by Ln of total assets and Ln of total sales on profitability as measured by EPS, ROA, and ROE. Results of testing the effect of firm size on profitability can be seen in Figure 3.

The test results on the profitability of the company size variable indicates the value of 11 267 t-statistic greater than 1.96. These results indicate that the size of the companies have a significant effect on profitability. This positive relationship is found in the effect of variable size of the company to profitability, this is indicated on the data of the value of the original sample of 0.5571. This positive relationship meant that the large size of the company that it can increase its profit.

In this research note that the size of the companies listed on the Stock Exchange during the period of observation included in the category of large sizes and followed with a favorable condition of the company. This represents a unidirectional relationship where the size of large companies indicated that firms with large financial level as well. The size of large companies such as manufacturing companies considered has reached a stage of maturity certainly have greater resources, the manufacturing company can make investments both for current assets and fixed assets and also meet consumer demand for its products. Thus, it will further expand market share, with sales of products from a manufacturing company that increasing the manufacturing company can cover the costs that went to the production process. So this is a big picture that the company is relatively stable and able to generate profits from investment activity will be assets and product sales.

This research is in accordance with the opinion of Bhattacharyya and Saxena (2009), a company that has a larger size have an influence on increasing the



**Figure 4.** Model company growth effect on profitability for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

company's profitability and corporate value. This is because a large company has several competitive advantages, including a market power where a large company can set a high price for their products, their economics of scale that have an impact on cost savings due to the size of the company that produces great bargaining power against suppliers and when the product can mass produced, it is a large company can be more efficient. With the various competitive advantages, then it will have an impact on improving the profitability of the company.

The size of the company is a reflection of the size of the companies that appear in the value of total assets and total sales of the company on the balance sheet and income statement of the year. Companies that have total assets and total sales shows that the company reached a stage of maturity where at this stage the company cash flow has increased and is considered to have good prospects within a relatively long time, but it also reflects that large companies are relatively more stable and are able to generate profits than companies with total assets and total sales were small.

This study is relevant to the research conducted by Devi (2013) and Damayanti and Savitri (2011), which explains that the bigger size will also increase the profitability of banks. The research done by Wiranata and Nugrahanti (2013) found that the size of the vendor does not affect the profitability so that it indicates that company size is not a guarantee that the company will have a good performance as reflected in the earnings. Putra and Badjra (2015) reported that the size of a company has significantly negative effect on profitability in the company. These results indicate that company size is not a major factor that can affect profitability, because the bigger the size of a company, then the company will require greater cost to run the operational activities that will reduce the profitability of the company.

#### Effect of growth companies to profitability

The test results of the company's growth variables

measured by the change in total assets and total change of sales to profitability as measured by EPS, ROE and ROA.

The test results variables on profitability growth shows the value of 4,371 t-statistics greater than 1.96. These results indicate that the growth of the company have a significant effect on profitability. Positive relationships contained in the variable effect of growth on profitability, this is indicated on the data of the value of the original sample of 0263. This positive relationship meant that the high growth of the company will improve profitability. Results of testing the effect of firm size on profitability can be seen in Figure 4.

The growth of manufacturing companies during the observation period of rapid indicates that companies with a greater level of profits. The company's growth is happening in manufacturing firms during the observation period due to an increase their sales, followed by the addition of assets. The addition of the assets used to Operational activities of companies one of which is to support production activities. The product in mass production have the impact on cost savings. An increase in the volume of sales is high indicates that there are velocity of money in the company and the company is able to control the costs arising from the operation of the company so that the company generated profit increase.

This research is in accordance with the opinion of Brigham and Houston (2010: 150) says that sales should cover the costs so as to increase the profit so the company can determine the steps to be taken to anticipate the increase or decrease in sales in the coming year. When sales are increased, then the assets must also be added, while on the other hand, if the company knows exactly demand sales in the future, the results of bills receivable, as well as the schedule for its products, the company can set up a schedule maturity debt to match the net cash flows in the future. As a result profits can be maximized.

Companies with more rapid growth have capabilities in generating profits than companies with low growth. The company's growth illustrates average growth, change the





**Figure 5.** Effect of capital structure model on corporate values for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

company's assets as well as improved performance. A company that is at the stage of growth will require substantial funds. Due to the greater need for funds, the companies tend to hold most of its revenue. Theoretically the growth of the company described the measure of the success of the company. The success is also a benchmark investment for growth in the future. The growth rate marked by an increase in assets or an increase in sales (turnover) which indicates that the company is expanding, but the failure of the expansion will increase the company's expense.

Relevant to Sari and Aundanti (2012) argues that the growth (growth) affects profitability, through assets that affect the company's productivity and efficiency, which in turn affect profitability. The faster growth of the company, the company's ability to generate profits higher, this means an assessment of the profitability ratio is also high. The study is not relevant to this study is the research conducted by Sunarto and Budi (2009) did not affect the sales growth to profitability. These results are not in accordance with the theory put forward by Brigham and Houston (2010: 317) states that the sale is directly proportional to profitability. The bigger sales of company have the greater benefit.

## 2

### Effect of capital structure to corporate values

The test results of the capital structure variables measured by DAR, DER and LDER on corporate value as measured by DPS, PBV and PER. Results of testing the effects of capital structure to the company's value can be seen in Figure 5.

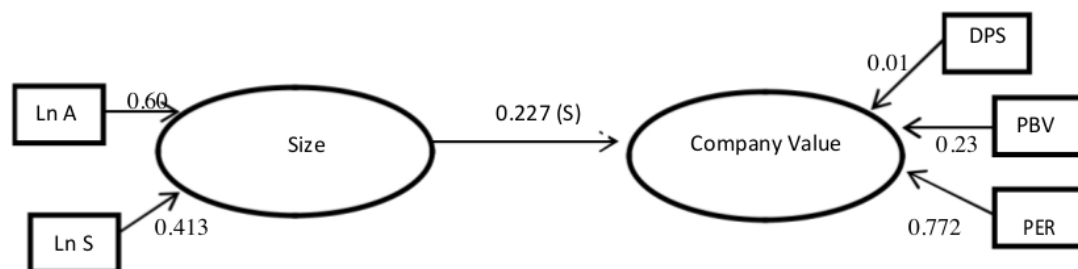
The test results variable capital structure to the company's value shows the value of 13 767 t-statistics greater than 1.96. These results indicate that capital structure significantly influence the value of the company. This positive relationship is found in the effect of variable capital structure to the company's value, this is

indicated on the data of the value of the original sample of 0506. This positive relationship gives the sense that the optimum capital structure can increase the value of the company.

In this research note that the decision to use capital structure chosen by company listed on the Stock Exchange during the period of observation that is using its own capital, and the company also has a high value of the company. This means that manufacturing firms in Indonesia during the period of observation in good condition so as to attract the attention of investors and impact on the rising value of the manufacturing company. The use of equity capital selected by the manufacturing company to finance the activity of operations is due to the manufacturing company will be free of interest expense and risk of bankruptcy that can occur due to the use of debt, risks in question is the risk that arises because of the inability of companies to pay interest and principal payments in a state poor financial. Things like this give a positive assessment of the investors to invest in manufacturing companies because they believe in the company's performance and found that firms are solvable. Investors to invest in companies manufacturing firms caused the stock price to rise, followed by the rising value of the company and impacting the wealth of shareholders.

This research is in accordance with the pecking order theory which states that a company like internal financing (funding from the company operating results are tangible retained earnings), if funding from outside (external) is required, the company will issue securities are the safest in advance that began with the publication bonds, followed by the securities which are characterized option, then finally when not enough new shares issued. Internal funds are preferred over external funding for internal funding allows the company to no longer need to seek loans from outside parties.

A company that has a large amount of debt would give a heavy burden to the company concerned and these



**Figure 6.** Model effect of company size on company value for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

companies can be categorized as a company with a capital structure that is not good. The Tradeoff Theory states that the use of debt will increase the value of the company but only to a certain point. After that point, the use of debt it will decrease the value of the company due to the increase in profit from the use of debt is not worth the increased cost of financial distress and agency conflict. Agency conflict raises agency costs is the cost incurred because the company uses debt and there are relationship between shareholders and creditors.

Research relevant to the research conducted by Hill (2012) argues that the use of debt in the capital structure will give companies the opportunity to develop, and can boost investment that would affect the value of the company and according to the Theory of Tradeoff. Dewi and Wirajaya (2013) the capital structure influence on firm value, which means that the company is not too much use debt as a source of corporate funding, but rather use the equity as a source of corporate funding so the effect on the increase in value of the company.

Yuliana and Aprilia (2013) showed that the capital structure has no effect and no significant effect on the value of the company revealed that manufacturing companies, rising corporate profits encourage companies prefer the funding coming from within the company. Sari and Abundanti (2012), the high ratio of leverage shows the company is not solvable showed a negative response to the investor the value of the company declined.

### Effect company size to company value

The test results of the variable size of the company measured by Ln of total asset and Ln of the total sales of the company's value as measured by DPS, PBV and the PER. Results of testing the effect of firm size on firm value can be seen in Figure 6.

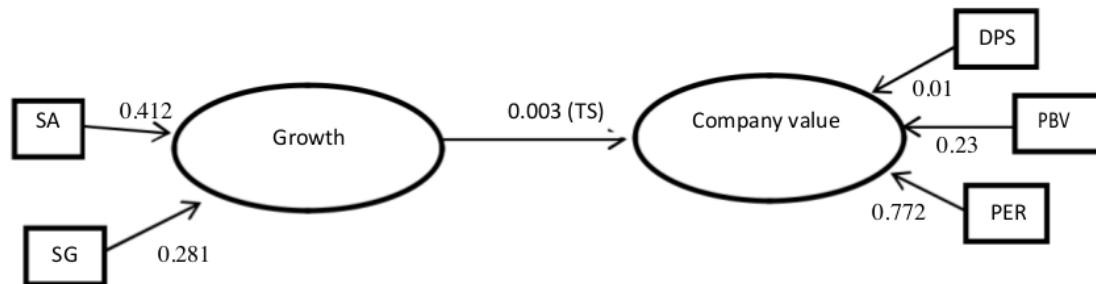
The test results on the value of the variable firm size companies showed the value of 4,895 t-statistics greater

than 1.96. These results indicate that company size significantly influence the value of the company. This positive relationship is found in the effect of variable size companies to corporate value, this is indicated on the data of the value of the original sample of 0.227. This positive relationship meant that the size of a large company, it can increase the value of the company.

In this research note that the size of the companies listed on the Stock Exchange during the period of observation included in the category of large size and is followed by the high value of the company. This represents a unidirectional relationship where the size of a large company that would affect the value of the company so that investors will consider the size of the company in buying shares. Large size manufacturing companies can be used as a benchmark that the company has a good performance in the sense of having a good structure and mechanism of the management company. Besides the size of a large manufacturing company shows stable conditions, especially in the return of stock returns for investors are higher, as investors have great expectations of the big companies in the form of dividends from the company's acquisition. This will be responded positively by investors and the share price increased manufacturing companies that have an impact on increasing the company's value.

This research is in accordance with the opinion of Sujoko and Soebiantoro (2007), the size of the company also affect the value of the company, which the company has a large size indicates the company has developed, in addition to the size of a large company shows stable conditions, especially in the return of stock returns for investors higher. This will be responded positively by investors and make the company's stock price increases so will increase the value of the company.

Large companies have greater control to market conditions, so that they are able to face economic competition, which makes them less susceptible to economic fluctuations. Company size is a measure of the amount of assets owned by the company so that large companies generally have greater total assets. Large



**Figure 7.** Model effect of company growth on company value for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

companies can be easier to access capital markets compared with small companies. The larger companies find it easier to obtain external capital in larger quantities, so investors interested to invest in these companies so that raising the value of the company. With the availability of these funds, the company provides an easy to implement investment opportunities.

This study supports research conducted by Nuraina (2012) found that company size effect on firm value. The results give the sense that large corporations can easily access to the capital markets in the flexibility and the ability to obtain funding. The ease their arrested by investors as a positive signal thereby increasing the company's value. Other studies by Agnes (2012) resulting that size of the company have significant positive effect on firm value.

This study does not support the research conducted by Rumondor et al. (2015) the variable size of the company does not have a significant effect on the value of the company. The size of companies can be viewed on the total assets, the company with total assets that is dominated by receivables and inventories may not be able to pay dividends (retained earnings) due to assets that have accumulated on accounts receivable and inventory. More companies retain earnings than distribute to shareholders as dividends, which may affect the stock price and corporate value. The results of this study do not support the research conducted by the Dewi and Wirajaya (2013) also rejected that company size significantly influence the value of the company. Large size of the company does not guarantee the company's value is also high.

#### Effect of company growth to company value

The test results of the company's growth variables measured by the change in total assets and total change of sales to the value of the company as measured by DPS, PBV, and the PER. The test results influence the

growth of the company to the value of the company can be seen in Figure 7.

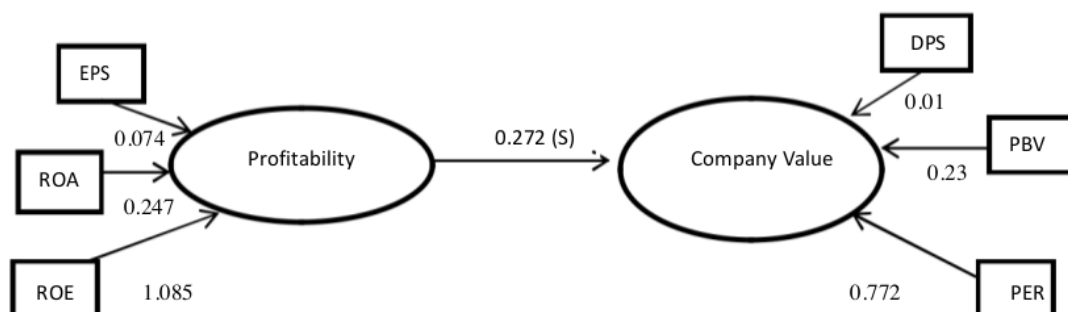
The test results variable growth company to company value shows the value 0.0166 t-statistic is less than 1.96. These results indicate that the growth of the company not significant effect on the value of the company. This finding meant that the movement in the company's growth did not affect the rise and fall of the value of the company, meaning that between the growth of the company and the value of the company have a relationship of opposites where the increase of sales and assets did not affect the rise and fall of the value of the company.

Interest of investors in investing is to obtain the return of the maximum. Based on these objectives, the researcher outlines several reasons to address this hypothesis 6. First, risk not easy for investors to invest in a company, because there is a risk that must be considered. The growth of manufacturing companies that quickly leads to increased funding requirements and high costs required to invest, so there is a risk of resulting from the decision to invest which resulted in the company's expense, since it must cover the costs of investing. Therefore, although the company's growth rate is high, it will not affect the confidence of investors, so it will not affect the value of the company.

Second is interest rate during the study period known tended to increase. The average of interest rate is 6.65 during 2010-2014. On the other hand the average rate of return obtained by investors in buying shares of manufacturing companies of 2.12 and an average capital gain of 0.16. If the comparison between the interest rate with the return of shares and capital gain on the share of manufacturing companies investors will choose to invest their funds in the bank, because it has a return that is higher than should buy stocks of manufacturing company. The interest rate increases will cause investors to shift their funds banks.

Third is bond with the average rate of return obtained by investors in buying shares of manufacturing





**Figure 8.** Profitability influence on corporate values for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

companies of 2.12 and an average capital gain of 0.16. If the comparison between the return offered on bonds and capital gain bonds, investors will opt to choose to buy the bonds that have higher profit rate than in buying shares of manufacturing companies. Fourth is inflation with the average 6.58%. High inflation reduces the real income earned rank of investors of investment (Tandellin, 2010: 342). This means that investors will take into account the level of benefits to be obtained when inflation. The result of the calculation using the formula inflation - adjusted return shows that the investor will receive a return estate of -0.00398 or -0.398% so that with the high inflation, investors will be put off to buy shares of manufacturing companies because it has a return estate that small.

This research is in accordance with the opinion of Titman and Wessel (1988) in Sunarto and Budi (2009) says that the opportunity to grow as a company is an appropriate proxy for the cost of agency debt. They suggest that the tendency to invest is going to companies that are in industries that are growing. The company's growth illustrates the measure of the success of the company. The success is also a benchmark estimation for growth in the future. The company's growth is expected by internal and external parties for good growth signaled for the development of the company. For investors, the growth of a company as a sign of the company has a favorable aspect, so it is expected to earn the rate of return is better on investment they do.

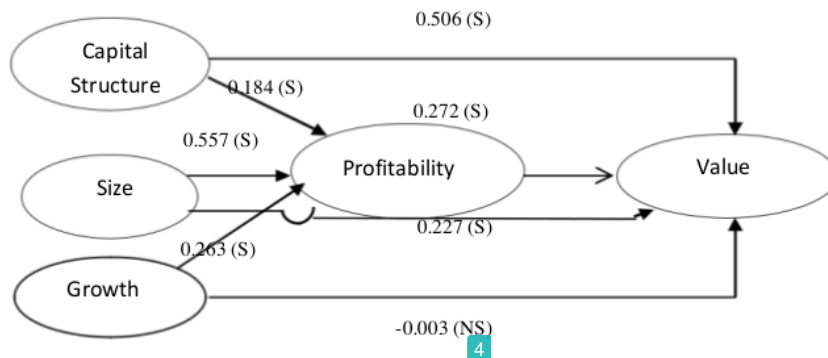
This study is relevant to the research conducted by Sunarto and Budi (2009) found that high growth led to increased funding requirements (leanings retained earnings). The larger the company's growth rate, the higher the cost needed for investment. Rosy (2013) argues that the company's growth is not influence on value of the company. Research that is not relevant is the research conducted by Wijaya and Utama (2014) where the growth opportunity effect on firm value (closing price). Found, the tendency of companies with a high growth

rate resulted in the level of future cash flows and higher market capitalization thus enabling the company to have a lower capital cost. This increases confidence in public sentiment that led to the idea that companies have bright prospects in the future. Sari and Abundanti (2012) the company's growth can be an indicator of the value of the company. From the perspective of investors, the growth of the company shows a positive signal and a good development in which the growth of a company that has a favorable impact and the company also expects a rate of return on investment which is conducted.

### Effect profitability to corporate values

Profitability is measured by EPS, ROA, and ROE to corporate value is measured through the PBV, DPS and PER. The test results influence the profitability of the company's value can be seen in Figure 8.

The test results on the value of the company's profitability variables showed the value of 8435 t-statistic greater than 1.96. These results indicate that profitability significantly influence the value of the company. Positive relationships contained in variables influence the profitability of the company's value. It is proofed by the data from the value of the original sample of 0.272. This positive relationship meant that the high profitability can increase the value of the company, because the higher the ability of the company makes a profit, the greater the return expected investor making the company's value is also high. In this research note that companies listed on the Stock Exchange during the period of observation in favorable circumstances, and is followed by the high value of the company. This represents a unidirectional relationship where profitability will affect the value of the company so that investors would consider buying the stock. Gains derived by manufacturing companies to provide information that companies are able to pay more dividends, in addition to manufacturing companies have a



**Figure 9.** The direct and indirect influence for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

**Table 6.** The direct and indirect influence for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

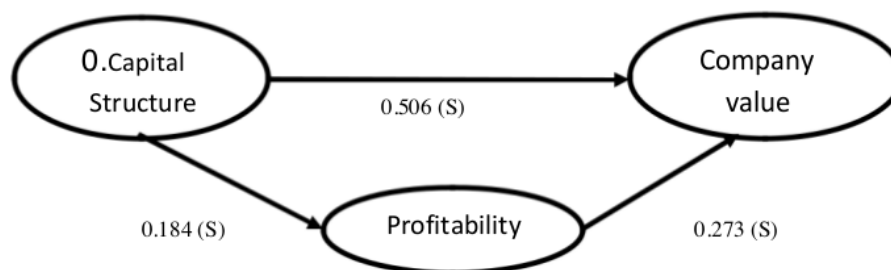
Lane	Direct impact	Indirect influence
Capital structure → Profitability	0.184167	
Company size → Profitability	0.557133	
Company growth → Profitability	0.263492	
Capital structure → Company value	0.505941	
Company size → Company value	0.227035	
Company growth → Company value	0.002577	
Profitability → Company value	0.272538	
Capital structure → Profitability → Company value		$0.184167 \times 0.272538 = 0.050192$
Company size → Profitability → Company value		$0.557133 \times 0.272538 = 0.151840$
Company growth → Profitability → Company value		$0.263492 \times 0.272538 = 0.071811$

good performance in managing the company's assets effectively and efficiently so that the company is able to generate profits each period. This prompted investors who will invest their funds to buy shares of manufacturing companies. That certainly will push the share price rose to a higher and have an impact on the increase in value of a manufacturing company.

The results are consistent with the opinion of Brigham and Houston (2010: 212) which states investors prefer dividends than capital income as dividends are more uncertain than capital gains. The higher the level of profitability achieved by the company, the higher the value of the company, so to increase company's value, company must improve their performance. Lower profitability shows the company's prospects are not good so that investors do not respond to it and the company's value will decline. Investors buy shares with the intention of getting return, consisting of yield and capital gains.

Profitability of the company will influence the policy of the investors on the investment made. The company's ability to generate profits to attract investors to invest

their funds in order to expand its business, otherwise a low level of profitability will cause investors to withdraw their funds. To get a profit, company have to evaluate the effectiveness and efficiency. Profitability also has significance in an attempt to survive in the long term, because the profitability indicates whether these enterprises have good prospects in the future. Thus, each entity will always strive to improve its profitability, due to the higher profitability of a business entities, the survival of these enterprises will be more secure. This study supports the studies that have been conducted by Dewi and Wirajaya (2013) who found that the higher the ROE, the higher the price book value as a measure of the value of the company as investors will buy the shares and will be more interested in there turn on equity or part of the total profitability to shareholders. Research does not support ongoing research Rosy (2013), profitability does not affect the value of the company. Findings from the company that is not profitable give a negative signal to investors as indicated by the decline in stock prices can decrease the value of the company.



**Figure 10.** Direct and indirect effect of capital structure and profitability on value for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.



**Figure 11.** Direct and indirect effect of size on the profitability and value for manufacturing companies listed in Indonesian Stock Exchange from 2010 to 2014.

### Direct and indirect influence

Testing the hypothesis influence of exogenous variables on endogenous variables through the intervening variables from direct and indirect effect can be seen in Figure 9 and Table 6. By using a variety of methods in choosing the capital structure of a financial manager will be able to get enough information to take a rational decision. The decision will be the right capital structure can enhance the value of the company and will ultimately improve the company's profitability. The effect of direct and indirect effect of capital structure on firm value presented in Figure 10.

Based on Figure 10 it is known that there is significant influence variable capital structure on profitability because the value of t-statistic greater than t-table ( $2.7 > 1.96$  with a value much influence 0184) and significant influence profitability variable to the value of the company for the value of t-statistic greater than t-table ( $8.8 > 1.96$  with the value of the influence of 0273) so that the profitability of mediating the effect of capital structure to the company's value, however, because the capital structure also significantly influence the value of the company for the value of t-statistic greater than t-table ( $13.768 > 1.96$  to the value of the influence of 0506), the effect of profitability is a partial mediation. It can be explained that the capital structure can directly influence

the value of the company, but can also indirectly influence is through the first and profitability variable to the variable value of the company. Logically capital structure optimum can improve profitability, and the high profitability of influence on the rising value of the company. The implication of this is that profitability can support the capital structure to enhance shareholder value. That is because the capital structure decisions can be used by companies to raise capital in order to increase profits and greater profits, the greater the company's ability to pay dividends, and this has resulted in increased value of the company.

### Direct and indirect effect of size of profitability and company value

Companies that have a larger size have an influence on increasing the company's profitability and corporate value. The influence of direct and indirect effect on the profitability of firm size and value of the company is presented in Figure 11. Based on Figure 11, it is known that there is a significant influence on the size of the company to profitability for the value of t-statistic greater than t-table ( $11.266 > 1.96$  with the value of the influence of 0557) and a significant influence profitability variable to the value of the company for the value of t-statistic



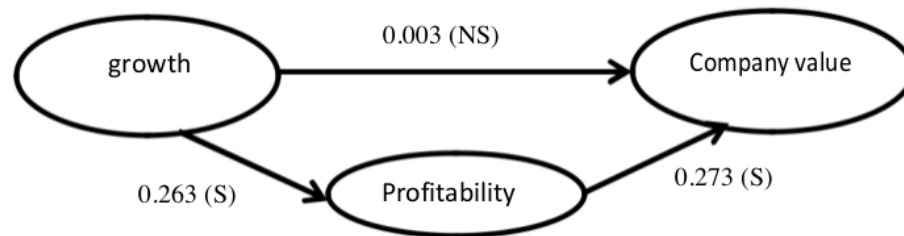


Figure 12. Direct and indirect influence of company's growth and profitability to value.

greater than t-table (8.835 > 1.96 with the value of the influence of 0.273) so that the profitability of mediating the effect of firm size on firm value, however, because size of company also significantly influence the value of the company for the value of t-statistic greater than t-table (4.895 > 1.96 with great value the influence of 0.227), the effect of profitability is partial mediation.

It can be explained that the size of the company can directly influence the value of the company, but can also indirectly influence is through the first and profitability variable to the variable value of the company. Logically, the greater the size of the company's profitability also increased, the high profitability can affect the rise in the value of the company. The implication of this study is that profitability can support the size of the company to increase the value of the company. Company with large size relatively more both stable and profitable. Profitability is high reflecting the company's ability to generate high returns for shareholders. The greater the profits, the greater the company's ability to pay its dividend, and this has an impact on the increase in value of the company. These findings are relevant to the findings of the Wijaya and Utama (2014), stating that the profitability of mediating variables firm size on firm value.

#### Direct and indirect influence of company's growth and profitability to value

Companies that grow quickly also enjoy the benefits and positive image and large company more desirable than small-company. The direct and indirect effect of company growth and company value to profitability can be seen in Figure 12. From Figure 12, it is known that there is a significant influence on the growth of the company to profitability for the value of t-statistic greater than t-table (4.371 > 1.96 with a value much influence 0.263) and significant influence profitability variable to the value of the company for the value of t-statistic greater than t-table (8.835 > 1.96 with the value of the influence of 0.273) so that the profitability of mediating the effect of growth on firm value, however, because of the variable growth

companies not significant effect on the value of the company for the value of t-statistic is smaller than t-table (0.166 < 1.96 influence with great value 0.003), the effect of profitability is full mediation.

It can be said that growth can not directly affect the value of the company but can influence directly to profitability and to the values of the company. Logically, the faster growth company can increase profitability, with the high profitability of influence on the rising value of the company. The implication of this study is that profitability can support the company's growth to enhance shareholder value. This is due to the increased profitability through its assets and therefore contributes to the productivity and efficiency of the company's total sales and which will ultimately increase the value of the company. These findings are relevant to the findings obtained Kusumajaya (2011), stated that profitability could mediate growth variable firm to firm value.

#### Conclusion

The inference to be made based on the results of research that has been described previously are there were significant influence of capital structure, size, and growth to profitability, there were significant effect of capital structure and size to company value and there were not significant effect of growth to company value. Capital structure has significant effect to profitability, so that an optimal capital structure can increase profitability. It implies the decision in the selection of the source of funds is important because it will affect the company's financial structure, which in turn affects to profitability.

Size and growth have significant effect on profitability, so the size of a large company that reflects the company capable in generating profits. The implication is a company with great size shows that companies are relatively stable and reached a stage of maturity where at this stage the company has a good cash flow that the company is able to generate profits. Capital structure have significant effect to value of company so that the

optimal capital structure can increase the value of companies. The implication is that the optimal capital structure is the comparison of the use of funds comes from equity and debt. When the decision to use the funds that taste of debt or equity is taken then the company must take into account the risks and benefits to be obtained. Funding decision will either respond by investors and the stock price increases and followed by a rise in the value of the company. <sup>3</sup>

Size have significantly influence to the value of the company, so the size of a large company that reflects the value of the company higher. The implication is company with great size appoint an experienced company and indicates the company is in a stable condition return stock returns. So this will be responded positively by investors that the company's value increases. Growth has no significant effect to value of company, so the company's rapid growth affect the rise and fall of the value of the company. The implication is that the rate of growth marked by an increase in assets or an increase in sales which indicates that the company is investing, but failure of investment led to increased corporate expenses. This provides information that is bad for investor so it does not affect the rise and fall of the value of the company.

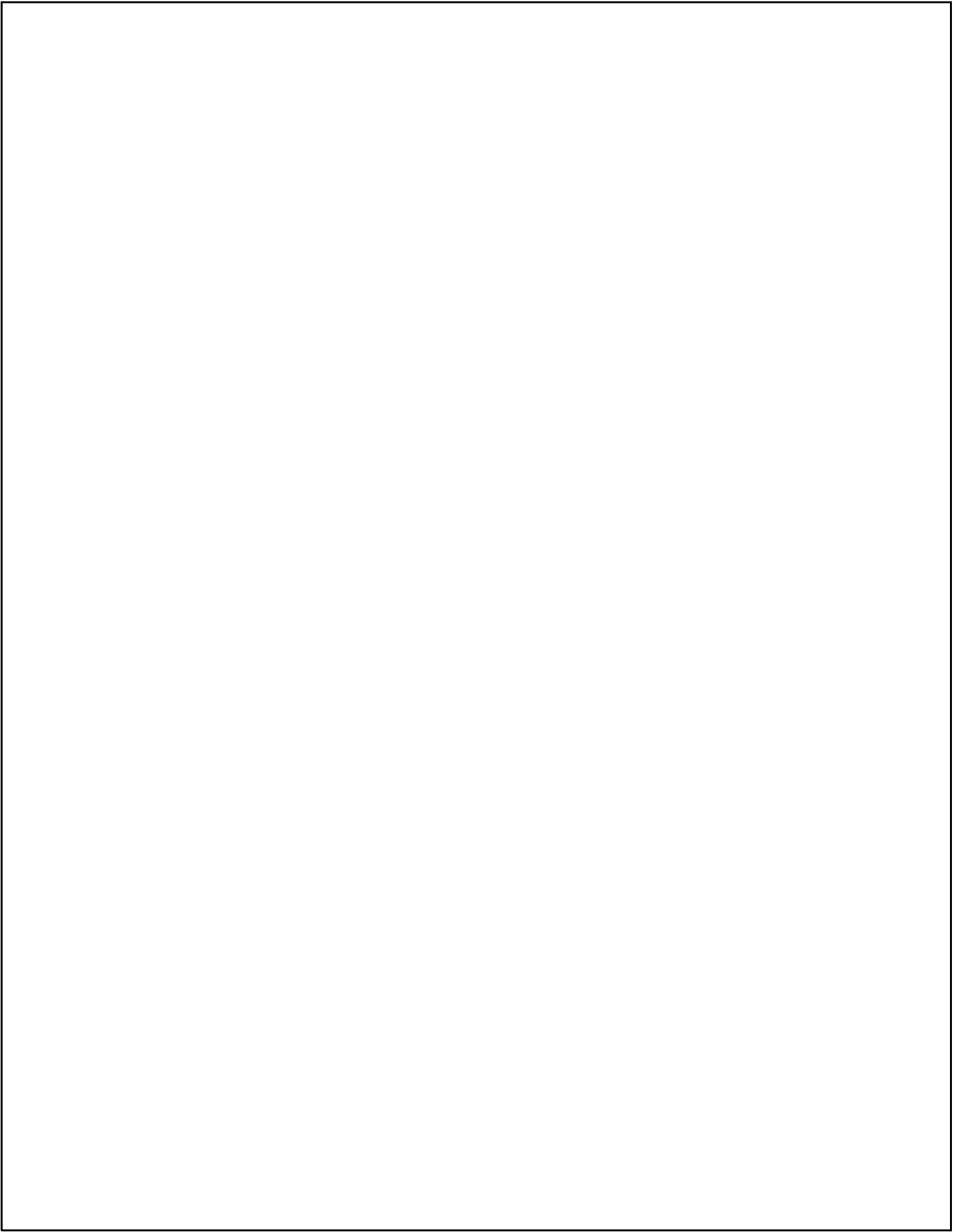
Profitability has significant effect on the value of the company, so the company with high profitability will able to increase the value of the company. The implication is that corporate profits provide the information that the company is able to pay more dividends. This information directly responded well by investors and raises the value of the company. The capital structure has directly influence to the value of the company and also has the effect of indirectly is through profitability and then to the value of the company. If the capital structure decisions can be used by companies to increase the company's capital in the frame of increase profits and more profits, the greater the company's ability to pay dividend and this has resulted in increased value of the company.

Firm size has a direct impact on the value of the company and also have the indirect effect is through profitability and then to the value of the company. Companies with large size relatively more stables and better able to generate profit than another. Profitability is high reflecting the company's ability to generate high profits for shareholders.

Growth has no direct impact on corporate value but have an influence directly impact to profitability and then to the company's value. When assets improved the productivity and yield of sales also increased so the impact on company profits increase, which in turn will increase the value of the company. In addition, there were significant effect of profitability to company value so profitability can serve as an intervening variable in the effect of capital structure the value of the company in manufacturing companies listing in Indonesia Exchange

Market. This means that the profitability can support the capital structure to increase the value of the company. Moreover, profitability also can serve as an intervening variable in the value of the company's growing influence in manufacturing companies. This means that profitability can support the company's growth in increasing the company's value.

In any scientific research, there are still some limitations likely this study was performed only to companies listed in the Indonesia Stock Exchange with a sample of 30 companies at 2010-2014 periode. There are so many factors that can affect the value of companies such as dividend policy, capital structure, market growth, profitability, inflation rates, sales growth, company size, institutional ownership and shareholding structure. Moreover, in theory there are several indicators used to measure the value of the company include: the PER, PBV, market book ratio, the dividend yield ratio, DPR, DPS, but in this study using a PER, PBV and DPS to measure the value of the company.





# Influence of capital structure, size and growth on profitability and corporate value

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