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THE EFFECT OF CAPITAL STRUCTURE AND FIRM GROWTH ON FIRM VALUE WITH PROFITABILITY AS MEDIATION VARIABLE IN INDONESIA STOCK EXCHANGE

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Abstract

Firm value are certain conditions that have been achieved by a company as an overview of public trust toward the company after going through a process of several years since it was founded. The purpose of this study was to examine and analyze about how the influence of capital structure and firm growth on firm value with profitability as an mediator. The population of this study is sub sector company of food and beverage registered in Indonesia stock exchange over the period of 2015-2017. While the population of this study is food and beverage subsector companies that has a complete financial statement and it include as much as 14 companies. The census sampling method used as the relatively small population. The finding of the study showed that the capital structure and firm growth has positive influence on profitability and firm value, profitability has positive influence on firm value and profitability is able to mediate both the influence of capital structure with firm value and the effect of firm growth with firm value.

Keywords: capital structure, firm growth, profitability, firm value

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INTRODUCTION

The coorporation objective in financial management is to prosper shareholder prosperity. Company value can be seen from the market price of the company's shares. Maximizing the value of the company, management is demanded by shareholders to manage company assets to the maximum in order to increase the company's wealth. Maximum company wealth will directly increase the value of the company in the eyes of investors.

Company value is influenced by several factors, one of which is profitability. This is one of the most important factors that signify the success of management of stock satisfaction, attractiveness to investors and corporate sustainability (Mustafa Bekmezci, 2015). The price of shares traded on the exchange is an indicator of company value. High and low stock prices of a company are largely determined by the company's financial performance presented in the financial statements.

One of the ratios used to measure financial performance is ROA (Return on Assets), which is used in this study. Return on assets is one form of profitability ratios intended to measure the ability of the company for the overall funds invested in activities used for the company's operating activities with the aim of generating profits by utilizing the assets they have.

There are several variables that affect profitability as will be examined in this study, namely capital structure and company growth. a company that has a high capital structure is a company that has a high level of debt compared to total equity. Debt held by a company will incur interest costs which in turn reduce tax Capital structure is measured by Debt to Equity Ratio (DER). DER is a ratio used to measure the level of leverage (use of debt) to the total shareholder’s equity owned by the company. If the company has a higher level of DER ratio, the company's ability to get profitability will be lower. Because, companies will face the risk of failure due to increasing debt (Wibowo & Efendi, 2016).

The next factor influencing company value is company growth. Companies that continue to grow generally will have good prospects, this will certainly be responded positively by investors so that it will affect the stock price increase. According to the perspective of corporate investors who have good growth will produce a good rate of return from the investment made to the company. The higher the company's ability to earn profits, the greater the return expected by investors. Kusumajaya's research (2011) states that the company's growth on changes in stock prices has a significant positive effect.

A company that is able to optimize and manage its debt properly used for its operational activities will increase its profits, otherwise if the company does not manage its debt properly, it will result in a decline in sales and profits from the company. Investors in the capital market who

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do not like risk will tend to avoid companies that have a high DER value, so the demand for the company's shares in the capital market decreases resulting in the company's share price will also decline. Research conducted by Hamidy et al (2015) shows profitability is able to mediate the influence of capital structure on stock prices.

Growth is expressed as total asset growth in which past asset growth will reflect future profitability and future growth, (Dewi et al, 2014). Companies that are able to manage the company well and have high profitability are considered to have high growth. Companies that have high growth rates will get the main attention from investors and creditors (Sudarmono, 2016: 02). Kasmir (2015: 116), explains that the growth ratio is a ratio that illustrates the ability of a company to maintain its economic position amid economic growth and its business sector.

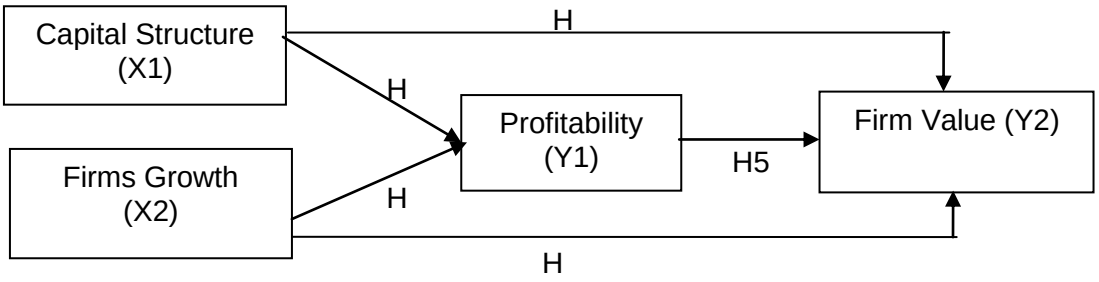

Figure 1. Hypotheses formulation

The decision in choosing the source of funds is very important because it will affect the company's financial structure, which in turn will affect profitability. Research conducted by Luu Yin (2015) is in line with research which states that there is a positive relationship between capital structure and profitability. Research conducted by Alhassan Musah (2017) shows that capital structure has a significant positive impact on profitability. This shows that managers need to consider this impact in their financing or capital structure decisions.

H1: Capital structure has a positive effect on company profitability

The company's growth reflects the company's operational success in the past period and can be used as a prediction of future growth. The company's growth in a company will affect the company's ability to maintain profits, and opportunities in the future. ÇOBAN (2014) examined the interaction between company growth and profitability, which produced a statistically positive relationship between current earnings and current growth. The above research is in line with the research of Nawaf Ahmad (2015) which states that there is a significant influence between company growth on profitability.

H2: Company growth has a positive effect on profitability

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Asset growth is the growth of company assets that will affect the profitability of the company. High asset growth will cause fluctuations in value, so that with high asset growth, the company has a high dividend. High asset growth will increase return. Investors will respond to this by increasing share demand so that it will raise share prices.

H3: Capital Structure has a positive effect on Company Value

The growth of the company is one of the assessment of investors in determining whether to invest in the company or not. Good growth will reflect the development of a good company too. According to the investor's point of view, a company that has good growth will produce a good rate of return from its investment in the company. The higher the company's ability to earn profits, the greater the return expected by investors. Large companies are more desirable than small companies so that company growth greatly affects the value of the company

H4: Company Growth has a positive effect on Company Value

The better the financial performance of a company is definitely the better the value of the company (Triagustina. 2014). The ability of large companies to generate profits also shows good company management, thereby fostering trust in investors. This investor confidence can ultimately be the most effective instrument for increasing the company's stock price. An increase in share price is tantamount to increasing the value of a company, so as to guarantee the prosperity of shareholders.

H5: Profitability has a positive effect on Company Value

In order to escalate firms value, company are ordered to gain profit in each of its operations. The level of the company's ability to generate profits can be reflected in the company's Return on Assets (ROA). ROA is a reflection of how well a company's performance through the results of the implementation of the company's strategic policies in an effort to increase company value. Companies that develop in the future, require proper investment management in the form of good performance in order to get a profitable company value. Kusumajaya (2011) in his research produced that profitability played a role as a mediating variable in the relationship between capital structure and firm value.

H6: Profitability is able to mediate the effect of capital structure on firm value

Growth is illustrated through the growth of assets. Growth is a sign that the company has good prospects going forward and also influences investment opportunities. The greater the company's assets, it is expected that the company's operational results will also be even

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greater. Rising profitability is a positive signal for investors. Investors are becoming increasingly confident in companies issuing funds in buying shares. When the demand for shares increases while the availability of fixed shares will result in an increase in share prices which means it will also increase in value. Therefore, ROA is considered capable of mediating the effect of the company's growth on the company's value.

H7: Profitability is able to mediate the effect of Company Growth on Company Value

RESEARCH METHODOLOGY

The type of research used is quantitative descriptive research. Data sources in this study are secondary data. The data used are data obtained from reports relating to the problem under study, namely data on Capital Structure (DER), Company Growth, Profitability (ROA) and Company Value food and beverage subsector companies listed on the Indonesia Stock Exchange. The population in this study is relatively small, therefore the method used in sampling is the saturated or census sampling method. The data collection method used in this study is a non-participant observation method where the observer performs only one function, which is to make observations that are truly valid and in accordance with the conditions being observed. Data is collected by observing, recording and taking data through the official website of the IDX, www.idx.co.id. The technique used in this study is to use path analysis. Path analysis can be done using the SPSS (Statistical Package for Social Science) program.

RESULTS AND DISCUSSION

Table 1. Results of Statistical Descriptive Analysis

	N	Minimum	Maximum	Mean	Std.Deviation
Capital Structure	42	.19	3.56	1.0164	.69626
Company Growth	42	3.73	51.27	16.6367	9.97264
Profitability	42	3.19	35.63	10.1264	7.24251
Firm’s value	42	3.77	30.72	18.6936	6.08706

Table 1 shows that the amount of data used in this study amounted to 42 samples, obtained from a total sample of 14 companies multiplied by the study period of 3 years. Based on the calculation during the observation period, 2015-2017, it can be seen that the lowest capital structure is 0.19 percent, which is in 2016 PT Ultrajaya Milk Industry and Trading Company Tbk, and the highest is 3.56 percent, namely in the company PT Multi Bintang Indonesia Tbk. 2016. The results of the table also show that the Capital Structure has a positive average change of

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1.0164 percent. This shows that every year during the 2015-2017 period, the capital structure has increased, while the standard deviation of 0.69626 percent.

The lowest company growth was 3.73 percent, namely in PT Delta Djakarta Tbk in 2016 and the highest was 51.27 percent, namely in the company PT Nippon Indosari Corporindo Tbk in 2015. The results of the table also show that Company Growth has a positive average change of 16.6367 percent. This shows that every year during the 2015-2017 period, the company's growth has increased, while the standard deviation of 9.972644 is lower than the average growth of the company.

The lowest profitability value was 3.19 percent, namely in the company PT Wilmar Cahaya Indonesia Tbk in 2015 and the highest was at 35.63 percent, namely in the company PT Multi Bintang Indonesia Tbk in 2017. The results of the table also showed that profitability had an average the average positive change was 10.1264 percent. Profitability standard deviation is higher than the average profitability of 7.24251 percent.

Table 2. Normality of Substructure II Result

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		42
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	6.41607614
Most Extreme Differences	Absolute	.128
	Positive	.128
	Negative	-.105
Test Statistic		.128
Asymp. Sig. (2-tailed)		.098[c]

a. Test distribution is Normal.

b. Calculated from data.

The lowest Company Value Data (PER) was 3.77 percent in the company PT Wilmar Cahaya Indonesia Tbk in 2015 and the highest was 30.72 percent in the company PT Mayora Indonesia Tbk in 2016. The results of the table also show the average Company Value during the observation period was 18.6936 percent and the standard deviation of 6.08706 percent.

Table 2 shows that the Asymp coefficient. Sig (2-tailed) is 0.098 while the significant level used is 0.05. These results indicate that the data used are normally distributed because of the Asymp value. Sig (2-tailed) is greater than 0.05 (0.098> 0.05).

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Table 3. Normality of Substructure III Result

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		42
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	5.36663392
Most Extreme Differences	Absolute	.065
	Positive	.057
	Negative	-.065
Test Statistic		.065
Asymp. Sig. (2-tailed)		.200

a. Test distribution is Normal.

b. Calculated from data.

Table 3 shows that the Asymp coefficient. Sig (2-tailed) is 0.200 while the significant level used is 0.05. These results indicate that the data used are normally distributed because of the Asymp value. Sig (2-tailed) is greater than 0.05 (0.200> 0.05).

Table 4. Results of Multicollinearity Substructure I

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Firm Growth, Capital Structure[b]	.	Enter

a. Dependent Variable: Profitability

b. All requested variables entered.

Coefficients[a]

		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	Capital Structure	.964	1.008
	Firm Growth	.964	1.008

a. Dependent Variable: Profitability

Table 4 shows the tolerance and VIF values for capital structure and company growth variables based on these values, it can be concluded that there are no symptoms of multicollinearity. This happens because the tolerance value obtained is more than 0.1 each and the VIF value is less than 10.

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Table 5. Results of Multicollinearity Substructure II

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Profitability, Firm Growth, Capital Structure[b]	.	Enter

a.Dependent Variable Firm Value

b. All requested variable entered

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Capital Structure	.814	1.422
	Firm Growth	.942	1.162
	Profitability	.762	1.246

a. Dependent Variable: Firm Value

Table 5 shows the values of tolerance and VIF for variables capital structure, company growth and profitability based on these values, it can be concluded that there are no symptoms of multicollinearity because the tolerance value obtained is more than 0.1 each and the VIF value is less than 10.

Table 6. Results of Heterocedasticity of Substructure I

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Firm Growth, Capital Structure[b]	.	Enter

a. Dependent Variable: RES_3

b. All requested variables entered

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.832	1.712		1.654	.134
	Capital Structure	1.623	1.227	.203	1.322	.178
	Firm Growth	-.122	.098	-.182	-1.244	.224

a. Dependent Variable: RES_3

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Table 6 shows that the significance value of each variable is 0.178 and 0.224. The significance value of each variable is greater than 0.05, it can be concluded that the regression model in substructure I does not occur heterokedasticity.

Table 7. Results of Heterokedastisitas Substructure II

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Profitability, Firm Growth, Capital Structure[b]	.	Enter

a. Dependent Variable: RES_3 b. All requested variables entered

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.648	1.614		1.021	.265
	Capital Structure	.155	.784	.034	.198	.768
	Firm Growth	.062	.079	.164	.784	.462
	Profitability	.138	.108	.218	1.278	.246

a. Dependent Variable: RES_4

Table 7 shows that the significance value of each variable is 0.768, 0.462 and 0.246. The significance value of each variable is greater than 0.05, it can be concluded that the regression model in substructure II does not occur heterokedasticity.

Table 8. Autocorrelation Test Results for Substructure I

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Firm Growth, Capital Structure[b]	.	Enter

a. Dependent Variable: Profitability b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.896[a]	.803	.763	6.96846	1.768

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

b. Dependent Variable: Profitability

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DW value of 1,768 compared to the significance table value of 5%, the number of samples 42 (n) and the number of independent variables 3 (K = 3), the value of du 1.6617 was obtained. DW value of 1,768 is greater than the upper limit (du) which is 1.6617 and less than (4-du) 4-1.6617 = 2.33383 it can be concluded that there is no autocorrelation.

Table 9. Sub-structure Autocorrelation Test Results II

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Profitability, Firm Growth, Capital Structure[b]	.	Enter

a.Dependent Variable: Firm Value

b. All requested variables entered

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.866[a]	.750	.688	5.77282	1.864

a. Predictors: (Constant), Profitability, Firm Growth, Capital Structure

b. Dependent Variable: Firm Value

DW value of 1,864 compared to the significance table value of 5%, the number of samples 42 (n) and the number of independent variables 3 (K = 3), the value of du 1.6617 was obtained. DW value 1,864 is greater than the upper limit (du) which is 1.6617 and less than (4-du) 4-1.6617 = 2.33383 it can be concluded that there is no autocorrelation.

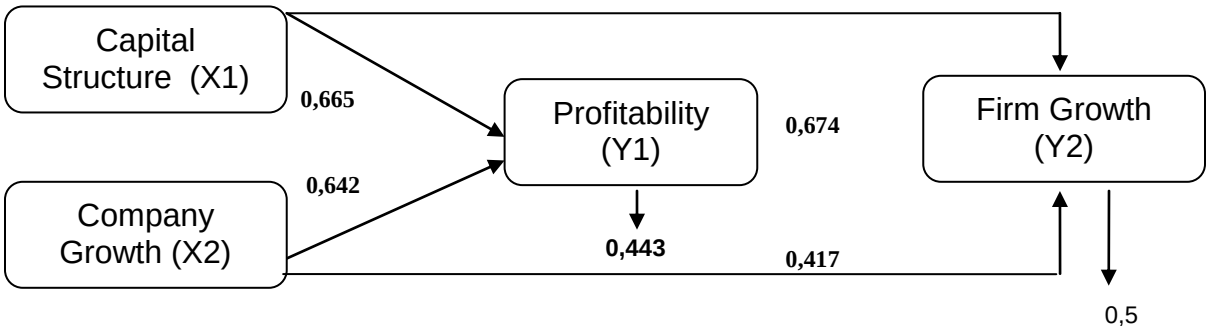

Figure 2. Path Analysis

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1) Effect of Capital Structure on Profitability

The results of this study indicate that the Capital Structure has a positive effect on profitability in the Food and Beverage Sub-Sector Manufacturing Companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The results of this study support the first hypothesis that Capital Structure has a positive effect on profitability. Capital structure has a positive effect on profitability, which can be seen from the capital structure regression coefficient of 0.665 with a significant value of 0.001, which means that any increase in debt as a source of corporate funding by 1 unit will affect the profitability increase of 0.665 units. If the Capital Structure (DER) increases, the profitability (ROA) will also increase. The results of this study are in line with Luu Yin (2015) and Alhassan Musah (2017).

2) Effect of Company Growth on Profitability

The results of this study indicate that company growth has a positive effect on profitability in the Food and Beverage Sub-sector Manufacturing Companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The results of this study support the second hypothesis: Company Growth has a positive effect on profitability. Company growth has a positive effect on profitability, which can be seen from the regression coefficient of company growth of 0.642 with a significant value of 0.002, which means that any increase in asset growth as a picture of the company by 1 unit will affect the increase in profitability of 0.642 units. If the company's growth increases, the profitability (ROA) will also increase. The results of this study strengthen the finding of Kouser et.al (2012) and Nawaf Ahmad (2015).

3) Effect of Capital Structure on Company Value

The results of this study indicate that the Capital Structure has a positive effect on Company Value in Food and Beverage Sub-Sector Manufacturing Companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The results of this study support the third hypothesis: Capital Structure has a positive effect on firm value. Capital Structure (DER) has a positive effect on Company Value (PER). Which can be seen from the capital structure regression coefficient of 0.431 with a significant value of 0.011 which means that any increase in debt as a source of corporate funding by 1 unit will have an effect on increasing the value of the company by 0.431 units. If the DER increases, the PER will also increase, and vice versa. Companies that apply the right capital structure will get the maximum profit, so the company can improve its performance which results in an increase in company value. Companies that apply the right capital structure will get maximum profits, the use of more intense debt will lead to a higher level of supervision from creditors to the company. Creditors have the expectation that the funds

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channeled to the company can be paid together with interest that has been mutually agreed upon. To achieve this goal, creditors conduct oversight of managers and evaluations within a certain period to ensure that the funds used are used efficiently (Wiagustini et.al, 2017).

4) Effect of Company Growth on Company Value

The results of this study indicate that company growth has a positive effect on firm value in the food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The results of this study support the fourth hypothesis that company growth has a positive effect on firm value. Company growth has a positive effect on Company Value (PER), which can be seen from the regression coefficient of company growth of 0.417 with a significant value of 0.016, which means that any increase in asset growth as a picture of the company by 1 unit will affect the increase in firm value by 0.417 units. If company growth increases, PER will increase as well, and vice versa. Large companies are more attractive than small companies so that company growth greatly affects the value of the company. The results of this study are in line with the results of research from Memon et al. (2012) and Kouser et al. (2012), Munandar (2014), Amijaya (2016), Andayani (2017), Gemaputri and Hidayati (2017).

5) Effect of Profitability on Company Value

The results of this study indicate that profitability has a positive effect on firm value in the food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The results of this study support the fifth hypothesis that profitability has a positive effect on firm value. Profitability (ROA) has a positive effect on Company Value (PER), which can be seen from the profitability regression coefficient of 0.674 with a significant value of 0,000 which means that every increase in financial performance by 1 unit will affect the increase in firm value by 0.674 units. If ROA increases, PER will increase as well, and vice versa. With high profitability it can be said that the company's ability to generate profits is also good. This will increase investor confidence or attract investors to increase stock demand. Rising stock demand will cause the price of the stock to also increase thereby increasing the value of the company. The results of this study are in line with the results of research from Gill (2012), Asiri (2014) and Idrus (2015).

6) Effect of Capital Structure on Company Value through Profitability

The sobel test results show that profitability is not able to mediate the effect of capital structure on firm value in the food and beverage sub-sector manufacturing companies listed on the Stock

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Exchange in the 2015-2017 period. The result of the sobel test calculation of the influence of Capital Structure on Company Value through Profitability obtained the value of Zhitung 2.76 which in which the Zitung is greater than 1.96 (95 percent confidence level limit), so it can be concluded that Profitability is able to mediate the effect of the Capital Structure on Company Value.

7) Effect of Company Growth on Company Value through Profitability

Sobel test results indicate that profitability is able to mediate the effect of Company Growth on Company Value in Food and Beverage Sub-Sector Manufacturing Companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The result of the sobel test calculation of the effect of Company Growth on Company Value through Profitability obtained Zhitung value of 2.80, where the value of Zhitung is greater than 1.96 (95% confidence level limit), so it can be concluded that Profitability is able to mediate the effect of Company Growth on Company Value. The results of this test also support the results of research conducted by Memon et al. (2012) and Kouser et al. (2012)

Table 10. Direct Effects, Indirect Effects, and Total Effects

	Direct Effect	Indirect Effect	Total Effect
X1 → Y1	0,665		
X2→ Y1	0,642		
X1→ Y2	0,431		
X2→ Y2	0,417		
Y1→ Y2	0,674		
X1 → Y1 →Y2		0,448	0,879
X2→ Y1→ Y2		0,432	0,849

Model Validation Check

$R^2m = 1 – (e_1)^2 (e_2)^2$

$= 1 – (0,443)^2 (0,5)^2$

$= 0,951$

Variation of data influenced by the model of 95.1% means that the information contained in the data of 95.1% can be explained by the model, while the remaining 4.9% is explained by other variables outside the model.

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Sobel Test

The sobel test in this study was used to determine the indirect effect of X1 (Capital Structure) on Y (Company Value) through M (Profitability) and X2 (Company Growth) on Y (Company Value) through M (Profitability). If the Z count is greater than 1.96 (with a 95 percent confidence level), the mediator variable is assessed to significantly mediate the relationship between the independent variable and the dependent variable. The results of the test of the influence of Capital Structure (X1) and Company Growth (X2) on Company Value (Y) through Profitability (M) are presented as:

$$Z_1 = \frac{ab}{\sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}}$$

$$Z_1 = \frac{4{,}523.0{,}458}{\sqrt{0{,}458^2.1{,}245^2 + 4{,}523^2.0{,}106^2 + 1{,}245^2.0{,}106^2}}$$

Z_1 = 2,76

The result of the calculation of the sobel test of the influence of the Capital Structure on Company Value through Profitability obtained the value of Zhitung 2.76. Zhitung greater than 1.96 which means there is an indirect influence of exogenous variables on endogenous variables through mediators. These results indicate that the tabulated results Z1 = 2.76 which means profitability is able to significantly mediate the effect of Capital Structure on Company Value.

$$Z_2 = \frac{0{,}442.0{,}458}{\sqrt{0{,}458^2.0{,}124^2 + 0{,}442^2.0{,}106^2 + 0{,}124^20{,}106^2}}$$

Z_2 = 2,80

The result of the calculation of the sobel test of the influence of Company Growth on Company Value through Profitability obtained the value of Zhitung 2.80. Zhitung greater than 1.96, which means there is an indirect influence of exogenous variables on endogenous variables through mediators. These results indicate that the tabulated results Z2 = 2.80 which means that Profitability significantly mediates the effect of Company Growth on Company Value.

CONCLUSION

The results of this study indicate that capital structure has a positive effect on profitability, company growth has a positive effect on profitability, capital structure has a positive effect on firm value, company growth has a positive effect on firm value, profitability has a positive and significant effect on firm value, profitability is able to mediate the effect of capital structure on

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firm value, profitability is able to mediate the effect of company growth on the value of the company.

SUGGESTIONS

1. For the Food and Beverage Sub Sector Manufacturing company listed on the IDX.

Food and Beverage Sub-sector Manufacturing Companies listed on the IDX are advised to pay more attention to the Capital Structure, Company Growth and Profitability owned to increase Company Value through appropriate funding decisions, to increase the value of a company, as well as to increase company performance such as increasing company profits which later can be an attraction for investors to invest.

2. For future research

This research is only limited to researching about the variable Capital Structure, Company Growth, Profitability and Firm Value, it is recommended to further researchers to add other variables such as Firm Size that have not been included in this study in order to expand this research, and get a comparison of results, future researchers It is also expected to add to the research period.

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