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Original Research Article

Improving Corporate Value through Capital Structure, Company Size and Profitability

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Abstract: This study aims to investigate the impact of capital structure, business size, and profitability on firm value. The research population consists of manufacturing firms listed on the IDX between 2017 and 2021, with a total of 270 data points. The sampling method employed was purposeful sampling. Quantitative research data and secondary data sources are categorized. Techniques for descriptive statistical data analysis include the traditional assumption test, multiple regression analysis, the coefficient of determination, and hypothesis testing. The results demonstrated that capital structure and profitability have a positive and statistically significant effect on business value; however, firm size has no effect. This research is limited to manufacturing businesses. Thus the results can only represent some companies listed on the IDX. It is anticipated that future researchers will add and expand the research object and lengthen the research time so that the empirical results are more robust or accurate.

Keywords: Business Size, Profitability, and Firm Value.

1. INTRODUCTION

The manufacturing sector continues to contribute the most to the national economy. This is evident from the expansion of various industrial industry sectors. According to Central Statistics Agency (BPS) data, p The manufacturing industry expanded by 4.07 percent more in 2018 than in 2017. In 2018, the sectors that contributed to the expansion of the non-oil and gas processing business were the rubber, rubber, and plastic goods industry, which expanded by 11.85 percent, and the leather, leather goods, and footwear industry, which expanded by 11.38 percent. Food and beverage growth reached 8.67 percent, while the textile and garment industry growth reached 6.39 percent. Consistently, the manufacturing sector has contributed most significantly to the national Gross Domestic Product (GDP). 19.83 percent in the second quarter of 2018.

As a result of the number of companies in the industry and the current economic climate, manufacturing companies face intense rivalry. This can direct the company's primary objective, which is to raise the owner's or shareholders' wealth by growing the company's worth (Salvatore, 2005). The firm's value is the market value of its debt and equity (Keown, 2010, p. 35). Firm value is crucial since it shows a company's success, which can influence investors' perceptions of the business. The worth of a firm is the market value of its equity plus the market value of its debt.

The importance of the company's value stems from the correlation between a company's value and the prosperity of its owners (Brigham & Gapenski, 2006, p. 632). The high stock price accurately reflects the company's high value. Managers are obligated to make decisions that take into account all stakeholders in order to optimize the long-term value of the organization. Managers' performance is frequently evaluated based on the success of attaining organizational objectives (Jensen, 2001). The operational value of the company reflected in the stock price can be determined by comparing the stock price to the book value per share (price to book value) (Brigham & Gapenski, 2010, p. 631). The greater the ratio between the stock price and the book value per share, the greater the investor's evaluation and the greater their desire to purchase shares (Ang, 2002).

Capital structure choices involve selecting between debt and equity investment (Brealey & Stewart, 2004, p. 7). To optimize stock values, the optimal capital structure must establish a balance between risk and reward (Brigham & Houston, 2006, p.

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7). According to capital structure theory, the funding strategy (financial policy) in setting the capital structure (a mix of debt and equity) tries to maximize the firm's value. According to the principle of trade-offs, managers can select the debt ratio to optimize business value.

The stock price will represent the company's worth (Fama, 1978). In order to maximize the value of the company, all sorts of financial sources, including debt, warrants, and preferred stock, must be taken into account (Jensen, 2001). Optimization of company value, the company's objective, can be accomplished through the financial management function, in which one financial decision can influence other financial decisions and affect company value (Fama & French, 1998). Evidence was revealed by Chowdhury and Chowdhury (2010) that the capital structure, as determined by its determinants, is related to corporate value. Cheng and Tzeng (2011) demonstrate that the value of companies that employ leverage and have good financial quality is typically higher than that of companies that use leverage alone. Unleveled. Cheng *et al*., (2010) and Rahim *et al*., (2010) discovered that leverage positively correlates with business value. According to Adekunle *et al*., (2010) and Ha and Tai (2017), there is a negative link between the ratio of debt to capital and the value of a company. Cuong and Canh (2012) demonstrate that the link between leverage and business value is nonlinear.

A company's size can influence firm value (Weston & Copeland, 2010, p. 13). The greater the size or scale of a corporation, the easier it is to access internal and external funding sources. Information on a company's size is crucial for investors (Lischewski, 2010). Large corporations utilize several risk mitigation measures. Large enterprises typically have more credit than small ones (Chen & Chen, 2011). Large corporations demonstrate that they are experiencing growth, which investors respond favorably to and causes stock prices to rise, increasing the company's worth (Hansen, 2014). Cheng, Liu, and Chien (2001) found that business size independently influences the value of Chinese stock exchange-listed enterprises. Purnomosidi *et al.*, (2014), Obradovich and Gill (2013), Paramita (2007), and Sujoko and Soebiantoro (2007) discovered that the size of a company has a favorable effect on its value. Gill and Mathur (2011) demonstrate that the larger the company, the more detrimental the effect on its value. According to Machfoeds and Hamonangan (2006), the size of a company does not affect its value.

Profitability is a significant component in establishing the company's worth. Profitability, according to Hunan (2015: 317), is the capacity to earn profits at a particular level of sales, assets, and share capital. The proportion of total profitability that can be distributed to shareholders will pique the interest of investors (Hanafi & Halim, 2012, p. 177). A company's worth can be enhanced by its high profitability. The more an investor evaluation of a stock, the greater the stock's price. The higher the stock price, the greater the company's value (Ghosh & Gosh, 2008). The high amount of profit earned indicates that the company's prospects for continuing its activities are likewise high, increasing its value, which is reflected in the stock price. According to Taswan and Soliha's (2002) findings, profitability has a positive and statistically significant effect on business value.

The study's findings about the effect of capital structure, company size, and profitability on firm value are inconsistent, or a research void exists. This research gap raises concerns regarding the likelihood of other impacting elements. The findings of past empirical studies suggest that various variables affecting firm value, structure capital, firm size, and profitability will significantly impact firm value.

2. LITERATURE REVIEW

2.1 The Agency Hypothesis (Agency Theory)

The theory of agency describes the contractual relationship between the party delegating particular decision-making (principal/owner/shareholder) and the entity receiving the delegation (agent/director/management). Agency theory determines the most effective contracts governing principal-agent relationships (Alijoyo & Zaini, 2004). The pattern of agency relationships demonstrates that the value of agency theory is the separation of powers between owners and managers, which influences the dimensions of responsibility between principals and agents as well as the delegation of authority. The purpose of the principal-agent relationship is to maximize the owner's profit. Hence it is evident that the manager will only sometimes act by the principal's instructions (Jensen & Meckling, 1976).

2.2 The worth of the business

Businesses combine and organize diverse resources to produce goods and services for sale (Salvatore, 2005). According to Husnan (2000: 58) and Keown (2003: 74), a company's value is the prospective price purchasers are ready to pay if the company is sold, whereas the value of a corporation is the market value of existing debt and equity securities. Firm value is an investor's assessment of a company's success, frequently correlated with stock prices (Sujoko & Soebiantoro, 2007). High stock prices increase the worth of the company. Price to book value (PBV) is commonly used as a proxy for the worth of a company (Ahmed & Nanda, 2000). The PBV is calculated by comparing the share price to the book value per share. Ang (1997) states that PBV is a market ratio that measures the performance of stock market prices relative to their book value. PBV is crucial for determining investment strategies on the capital market, as investors can predict overvalued or undervalued

companies using PBV (Ahmed & Nanda, 2000). Companies that are doing well typically have a price-book value ratio greater than 1, indicating that the stock's market value exceeds its book value. A high price book value represents shareholder prosperity; shareholder prosperity is the company's primary objective (Weston & Brigham, 2000, p. 71). Investors might anticipate overvalued or undervalued stocks (Ahmed & Nanda, 2000). Companies that are doing well typically have a price-book value ratio greater than 1, indicating that the stock's market value exceeds its book value. A high price book value represents shareholder prosperity; shareholder prosperity is the company's primary objective (Weston & Brigham, 2000, p. 71). Investors might anticipate overvalued or undervalued stocks (Ahmed & Nanda, 2000). Companies that are doing well typically have a price-book value ratio greater than 1, indicating that the stock's market value exceeds its book value. A high price book value represents shareholder prosperity; shareholder prosperity is the company's primary objective (Weston & Brigham, 2000, p. 71).

2.3 Capital Structure

Capital structure is the determination of the composition of capital, i.e., the debt-to-equity ratio or the result of a financing decision, essentially the selection of debtor equity to fund corporate activities (Syamsuddin, 2009, p. 9). According to Brigham and Houston (2006:45), the capital structure consists of debt, preferred stock, and common stock. According to Husnan (2009.85), capital structure is the balance or contrast between foreign and domestic capital. Capital structure is a crucial consideration when making expenditure decisions for a business. Both long-term debt and portions of own capital are permanent or long-term finances, reflecting the capital structure.

2.4 Company Measurement

Investors might utilize the grouping of companies based on their operating size (big or small) as a consideration when making investment decisions. Indicators of a company's size, such as total revenues, average sales volume, and total assets (Panjaitan, 2004). Large corporations typically have substantial total assets to entice investors to invest in the company. Business size is a scale that categorizes companies based on numerous factors, such as total assets, log company size, and stock market valuation. Firm size is classified into influential organizations, medium-sized, and small businesses. The size of a firm is determined by total assets (Machfoedz, 1994).

2.5 Profitability

Profitability is the capacity to make profits and indicates financial investment advantages. Financial managers who employ the packing order hypothesis with retained earnings as the first option for fulfilling funding needs, debt needs as the second option, and the issuance of shares as the third option will always boost profitability to increase profits (Myers & Majluf, 1984). The profitability ratio measures the ability to generate profits relative to sales, total assets, and equity (Sartono, 2008). Because it relates to stock prices and dividends, the ratio is a primary concern for potential investors and shareholders. The sales method and investment approach can be used to calculate profitability ratios. The most prevalent metrics are returned on assets (ROA) and return on equity (ROE) (ROE). ROA and ROE profitability ratios represent the business's attractiveness. ROA measures a company's ability to generate profits from its total quantity of accessible assets. ROA is utilized to determine the overall operating efficiency level.

3. RESEARCH METHODS

3.1 Population and sample

The research population consists of registered and operational Indonesia Stock Exchange manufacturing enterprises (IDX). The classification is based on the core chemical industry, other industries, and the consumer goods industry, a total of 193 firms. Purposive sampling was employed for the sampling method. To avoid sampling errors, the following sample requirements are established: Manufacturing companies that are listed on the IDX and have gone IPO during at least the 2017-2021 period, present consistent data in financial reports during the research year, have net profit after taxes during the research year, report finances in rupiah currency, and have complete data according to the research variables.

Table 1 Sample Selection Procedure

Information	Amount
Manufacturing companies listed on the IDX until the end of 2021	193
Manufacturing companies that do not present data consistently in financial reports during the year of study	(81)
Manufacturing companies that do not have net profit after tax during the year of study	(47)
Manufacturing companies that do not declare financial statements in rupiah (Rp)	(5)
The company does not have complete data according to the research variables	(6)
Amount	54

Source: Data Processing

The number of research samples is 54 companies with observations made between 2017 and 2021, which is five years; therefore, the analysis will be based on 54 x 5 = 270. This is a quantitative study utilizing secondary data. The research data consists of financial reports with issuers selected based on market size, the proportion of shares offered, trading volume, and all data gathered from the Indonesia Capital Market Directory and IDX's annual report.

3.2 Data analysis technique

They display the average (mean), median, standard deviation, and correlation coefficients for capital structure, company size, profitability, and firm value. The objective of the analysis is to characterize the data. The standard assumption tests include normalcy, multicollinearity, autocorrelation, and heteroscedasticity. In addition, assessing the coefficient of determination, doing multiple linear regression, and t-testing the hypothesis.

4. RESULTS AND DISCUSSION

4.1 Descriptive Analysis

The outcomes of the descriptive analytical test of capital structure, company size, profitability, and company value for 2017-2021 are presented in Table 2 below.

Table 2 Variable Descriptive Statistics

Variable	Minimum	Maximum	Means	std. Deviation
Capital structure	10,19	845.34	94.1821	100.30720
Company size	128444	3335740359	127046571,29	442236697,94
Profitability	0.02	100.00	10.43	14.02
The value of the company	1.43	1720.47	134,13	221.80

Source: Processed data, 2022

The capital structure runs from 10.19 to 845.34, with a mean of 94.18, showing that the composition of capital with debt or capital structure is the consequence of a funding decision that decides whether to utilize debt or equity for financing. The asset value runs from 127,046,571.29 to 3,335,740,359, with an average of 127,046,571.29. Furthermore, the assets of large corporations are of considerable value. Larger organizations are more specific than smaller ones, reducing uncertainty surrounding prospects. Profitability with ROE runs from 0.02 to 100, with an average of 10.43, indicating that the greater the ROE, which contains information about a firm's performance, the better it is at generating profits and demonstrates that the company has utilized its capital resources optimally. The firm with the lowest PBV value is 1.43, and the company with the highest PBV value is 1,720.47, with an average of 134.13. PBV measures the market's appreciation of a stock's book value.

4.2 Normality Test Results

The normality test results are presented in Table 3.

Table 3 Normality Test Results

N		270
Normal Parameters A,b	Means	.0000000
	std. Deviation	207.2050982 9
Most Extreme Differences	absolute	.213
	Positive	.213
	Negative	-.145
Test Statistics		.213
asymp. Sig. (2-tailed)		.062c

Source: Processed data, 2022

Based on the Kolmogorov-Smirnov test table for a single sample, the Kolmogorov-Smirnov/Test Statistics value is 0.213 with a significance level of 0.062. This table's sig value is more than 0.05, indicating that the data are typically distributed.

4.3 Multicollinearity Test Results

The test results are shown in Table 4 below.

Table 4 Multicollinearity Test Results

Variable	Collinearity Statistics	
	Tolerance	VIF
Structure_Modal	.942	1,062
Company size	.935	1,069
Profitability	.988	1012

Source: Processed data, 2022

In table 4, the coefficients reveal that the VIF values of the three variables are less than ten or that there are no independent variables with a variance inflation factor (VIF) of more than 10, indicating that multicollinearity does not exist between independent variables in the regression model.

4.4 Autocorrelation Test Results

The serial correlation model is tested using the Durbin-Watson (DW) approach to determine whether autocorrelation exists in the regression analysis model. Based on the test results, it is known that the DW value is 0.933. Thus the value -2 0.933 2 indicates no autocorrelation; consequently, the regression model contains no autocorrelation (Anderson *et al*., 2011, p. 750).

4.5 Heteroscedasticity Test Results

Heteroscedasticity is the non-uniform residual variance across all observations in a regression model. Heteroscedasticity should not arise in a valid regression.

Table 5 Heteroscedasticity Test Results

Variable		Unstandardized Residuals	Information
Capital Structure	Correlation Coef	.073	There is no heteroscedasticity
	Sig. (2-tailed)	.232	
Company size	Correlation Coef	.070	There is no heteroscedasticity
	Sig. (2-tailed)	.252	
Profitability	Correlation Coef	-.017	There is no heteroscedasticity
	Sig. (2-tailed)	.395	

Source: Processed data, 2022

4.6 Test of the Coefficient of Determination

The coefficient of determination (R2) has a correlation coefficient of 0.077, indicating a significant association between the independent and dependent variables because R is near 1. The dependent value increases as the independent value increases. Adjusted R Square for the coefficient of determination (R2) test yielded a value of 0.077.

4.7 Multiple Regression Analysis

Based on theory, regression analysis is used to estimate the causal link between variables that have been previously defined. The outcomes of the tests are as follows:

Table 6 Multiple Regression

Variable	Regression Coefficient	std. Error	t value	Sig. Value
Capital Structure	.124	38,257	1985	048
Company Size	-.108	6.147	-1,725	086
Profitability	.287	.926	4,907	.000
Dependent variable: Firm value				

Source: Processed data, 2022

4.8 Hypothesis Testing Results

The relevance of each path's different parameters is tested to determine the effect of the independent factors on the dependent variable. The results of hypothesis testing one indicate that capital structure directly influences profitability, with a sig value of 0.048 0.05. Thus, hypothesis 1 is statistically evaluated to see whether or not capital structure has a positive and substantial effect on firm value. The magnitude of the direct influence of company size on firm value is -0.108 with a significance level of 0.086 0.05, according to the analysis of Hypothesis 2. In other words, company size does not affect firm value. Hence hypothesis 2 cannot be statistically tested. The third study indicates that the magnitude of profitability's direct effect on company value is zero.

4.9 DISCUSSION

Capital Structure Against Firm Value

The theory of capital structure discusses funding policies for deciding capital structure (debt and equity) to maximize corporate value. According to the principle of trade-offs, managers can select the debt ratio to optimize business value. The stock price will represent the company's worth (Fama, 1978). In order to maximize the value of the company, all sorts of financial sources, including debt, warrants, and preferred stock, must be taken into account (Jensen, 2001). Based on its determinants, Chowdhury and Chowdhury (2010) discovered that capital structure is related to firm value. Cheng and Tzeng (2011) demonstrate that the value of leveraged firms is higher than that of unlevered firms and that the positive effect of leverage on firm value tends to enhance when the firm's financial soundness is likewise high. Cheng *et al*., (2010) demonstrate that when a company's debt structure increases, the company's worth increases. The research findings are backed by Rahim *et al*., (2010) conclusion that leverage is positively associated with business value. Adekunle *et al*., (2010) and Ha and Tai (2017) also discovered contrasting outcomes. As a proxy for capital structure, the debt ratio has a negative correlation with business value. Cuong and Canh (2012) discovered that the link between leverage and business value is nonlinear.

Company Size Against Firm Value

Investors do not consider company size when making investments. A large firm's size does not ensure a high corporate value since the company Before the debt is paid off; it may be too risky for large corporations to make new investments for expansion. Since company size does not determine the source of both internal and external capital, it is deemed insufficient for company size to impact company value. Decisions will determine the company's share price level regarding the firm's size (Weston & Copeland, 2010, p. 13). The findings of Cheng *et al*., (2010) that company size individually influences firm value do not support the research outcomes. According to Paranita (2007), Sujoko and Soebiantoro (2007), Obradovich and Gill (2013), and Purnomosidi. L. *et al*., (2014), company size positively affects firm value, which means that a larger company size is anticipated to improve firm value. Gill and Mathur (2011) have demonstrated that company size has a detrimental effect on the value of the business.

Profitability Against Company Value

The investigation indicates that profitability has a favorable and considerable impact on the value of a company. A company's worth can be enhanced by its high profitability. The greater the potential return, the more eager investors, will be to invest their money. High stock prices have a favorable impact on the value of a company. The greater the profit, the greater the return investors receive. High or low levels of standard return on investment influence investor evaluation. Previous studies have also revealed that profitability has a beneficial effect on a company's market value, supporting the present study's findings (Taswan & Soliha, 2002; Paranita, 2007; Chowdhury *et al*., 2010; Rizqia *et al*., 2013).

5. CONCLUSION AND RECOMMENDATION

The research investigates the impact of capital structure, firm size, and profitability on the value of a company. The study revealed that capital structure has a considerable beneficial effect on the value of a company. The capital structure influences the value of a company. The lack of a correlation between firm size and the firm value indicates that company size is not a factor in determining firm value. A vast company's high worth is not necessarily contingent on its size. Profitability has a significant and positive effect on the worth of a company, such that profitability can boost company value. The greater the profit, the more investors it will entice to invest their capital, increasing stock prices and influencing the company's worth. High or low profits created by the company are indicative of the company's performance. In order to raise the value of Centuryfuture, investors think that the company's earnings are consistent from year to year and do not change. This gives investors confidence in Centuryfuture's future performance.

The process has conducted this research, but there are still certain restrictions, such as the fact that only manufacturing companies were included. Therefore the results can only reflect some companies listed on the IDX. To generalize research outcomes, future researchers will be expected to add and expand study objects, such as all companies listed on the IDX. Limited study period, resulting in a limited number of samples and a less accurate empirical test, prompting subsequent researchers to extend the research period so that the empirical results are more significant or accurate.

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