

The Effect Of Corporate Growth, Capital Structure On profitability and Corporate Value

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Abstract: High value of the company will increase investor's confidence in the performance of the company and also on the company's prospects so it is expected that firms that go public can increase the prosperity of the owners or shareholders. The aim of the research was to determine the direct and indirect effect of corporate growth, and capital structure on profitability and corporate value in manufacture companies listed in Indonesia Stock Exchange 2011-2016. The reasearch was done by downloading financial report and the summary of manufacture companies listed in Indonesia Stock Exchange 2011-2016. The sample was selected using purposive sampling technique based on the set criteria, so there were 68 companies. The data were analyzed withregresi data panel using software Eviews 9. The growth of companies was proxied with the change of total asset; capital structure was proxied with debt equity ratio, and profitability was proxied with return on equity. The results of the research indicate that the corporate growth has a direct positive signifikan effect on companie' value. The corporate growth has a positive signifikan effect on profitability. Capital structure has positif signifikan affect profitability. Capital structure has a direct positivesignifikan effect on companies' value. Profitability has a direct positive effect on companies' value. Profitability is to mediate the effect of the corporate growth, capital structure on companies' value.

Keywords: the Corporate Growth, Capital Structure, Profitability, Companies' value.

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I. Introduction

One of the objectives of the company is to maximize the welfare of company owners by increasing the value of the company. Investors will invest in companies that can improve their welfare. High corporate value can attract investors to invest in the company. Company value can basically be measured through several aspects, one of the measures or proxies used is price book value (PBV) or comparing market prices per share with book value per share. Price Book Value reflects the investor's assessment of each equity owned by the company. The greater the PBV ratio the higher the company is valued by investors, relative to the funds invested in the company (Husnan, 2001). Most people will agree that if the company should distribute excess profits to shareholders (Horne & Wachowicz, 2013).

In improving and maintaining the performance of the company is measuring the ability of the capital structure in influencing the level of company profitability and company value that can increase the prosperity of the owner of the company. Based on the capital structure theory, the trade-off theory if the capital structure position is above the optimal capital structure target, then any increase in debt will reduce the value of the company. The research conducted by Hamidy (2014), proves that the capital structure has a positive and significant effect on profitability and firm value. The research is not consistent with the research conducted by Taani (2013), finding that the capital structure has a negative effect on profitability and firm value.

Company growth is expressed as growth in total assets where past total assets will reflect future profitability and future growth (Taswan, 2003). Asset growth illustrates the growth of company assets that will affect the company's profitability, which believes that the percentage change in total assets is a better indicator in measuring the growth of the company (Putrakisnanda, 2009). Research conducted by Sriwardany (2006), the variables studied were company growth, changes in stock prices and capital structure policies, the results of the analysis obtained was that the growth of the company had a positive influence on the price of stock changes.

Many research has been done on profitability. The study was conducted by Antwi et al (2012), which states that the capital structure represented by DER variables has a significantly negative effect on profitability. Suharli (2006), proves that profitability affects company value insignificantly. This research is not consistent with the research conducted by Chowdhury & Chowdhury (2010), which states that the greater the use of debt in the capital structure, the higher the return on equity in the profitability of a company. While the research

conducted by Ghi (2015), suggests that profitability has a significant positive effect on firm value. This finding is supported by MM theory which states that firm value is determined by profit from company assets.

Based on the description above, there are no consistent results of the studies. So this research was conducted with the aim to determine the direct and indirect effects of company growth, capital structure on firm value through profitability in manufacturing companies listed on the Indonesia Stock Exchange for the period 2011-2016.

II. Research Methods

Location and Design of Research

This research was conducted at manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2011-2016 and on the internet site: (www.idx.co.id). This type of research is explanatory research. This study uses a quantitative approach. This is used to study and analyze the influence between variables by looking at the level of significance. Thus, testing the hypothesis in this study will analyze the direct influence and indirect influence of company growth, capital structure on firm value through profitability, each variable is defined and measured based on its proxies.

Population and Samples

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange in 2011-2016. Determination of the sample using purposive sampling. With the criteria a) Manufacturing companies listed on the IDX during the 2011-2016 period. b) Manufacturing companies that publish complete financial statements from 2011-2016 respectively. c) Manufacturing companies that have data needed in this study (Return on Equity, Growth Asset, Debt Equity Ratio, price book value) during 2011-2016. Based on the technique of determining the sample, the number of samples was 68 companies out of 142 companies so that the number of observations was 408 (68 companies multiplied by 6 years).

Method of collecting data

The data used is secondary data. Secondary data studied are panel data is a combination of time series data and time section. The method used in collecting research data is by downloading annual reports and company financial summaries on the Indonesia Stock Exchange website (www.idx.co.id).

Analysis Model

The test conducted in the research is the Classic Assumption Test. The hypothesis testing with a significant level of 5% using the panel data regression method and processing data using software Eviews 9. The purpose of the data panel regression method is to determine the direct effect and indirect influence through a set of exogenous variables on endogenous variables. structural equation models as follows:

$$Y_1 = \rho_{y1x1}X_1 + \rho_{y1x2}X_2 + \rho_{y1\epsilon1}\epsilon_1$$

$$Y_2 = \rho_{y2x1}X_1 + \rho_{y2x2}X_2 + \rho_{y2y1}Y_1 + \rho_{y2\epsilon2}\epsilon_2$$

Information:

Y1	=	Profitability
Y2	=	Company Value
X1	=	Company Growth
X2	=	Capital Structure
ρ_{yxi}	=	Path Coefficient
ϵ	=	Error Terms

III. Results

Descriptive statistics

Based on table 1 which provides an overview of the research variables. Descriptive statistics used in this study consist of determining mean values, maximum values, minimum values, and standard deviations. From the number of samples (N), which is 408, which consists of 68 companies, each company has 6 years of observation, namely 2011 to 2016. Variables of company growth, capital structure and firm value with a standard deviation value greater than the average value. This means that the variable during the observation period has a high gap between minimum and maximum values. While the profitability variable with a deviation value is lower than the average value. This means that the low gap between the minimum value and the maximum value.

Structural Model Test

Based on table 2 shows the R-square value for profitability variables that are influenced by company growth and capital structure is 0.5193, this means that 51% of profitability variables are influenced by variables of company growth and capital structure and 49% are influenced by other variables. The R-square value for the company value variable which is influenced by company growth and capital structure of 0.9509 means that firm value variables can be influenced by company growth and capital structure by 95%, while the remaining 5% is influenced by other variables not included in the model.

Path coefficient

Based on table 3, it can be seen the direct influence and indirect influence between variables in this study. The first hypothesis says that company growth has a positive effect on profitability in manufacturing companies in the 2011-2016 period. The beta coefficient of regression influences company growth (X1) on profitability (Y1) of 0.2022, it can be said that there is a positive relationship between growth of the company (X1) on profitability (Y1). This means the first hypothesis is accepted.

The second hypothesis says that the capital structure has a positive effect on profitability in manufacturing companies in the 2011-2016 period. The beta coefficient of regression influences the capital structure (X2) on profitability (Y1) of 3.8255, it can be said that there is a positive relationship between capital structure (X2) to profitability (Y1). This means the second hypothesis is accepted.

The third hypothesis says that company growth has a positive effect on firm value in manufacturing companies in the 2011-2016 period. The beta coefficient of regression influences firm growth (X1) on firm value (Y2) of 0,0006, it can be said that there is a positive relationship between company growth (X1) to firm value (Y2). This means the third hypothesis is accepted.

The fourth hypothesis says that the capital structure has a positive effect on firm value in manufacturing companies in the 2011-2016 period. The beta coefficient of regression influences capital structure (X2) on firm value (Y2) of 0.0172 so it can be said that there is a positive relationship between capital structure (X2) to firm value (Y2). This means that the fourth hypothesis is declared acceptable.

The fifth hypothesis says that profitability has a positive effect on firm value in manufacturing companies in the 2011-2016 period. The beta coefficient of regression influences profitability (Y1) on firm value (Y2) of 0.0020, it can be said that there is a positive relationship between profitability (Y1) to firm value (Y2). This means that the fifth hypothesis is declared acceptable.

The sixth hypothesis says that company growth has a positive effect on company value through profitability in manufacturing companies in the 2011-2016 period. The coefficient value of the direct influence of company growth on firm value is 0,0006. The coefficient of indirect influence of company growth on firm value through profitability of 0.0004. This means that profitability is able to mediate the influence of company growth on firm value, so hypothesis 6 is declared acceptable.

The seventh hypothesis says that the capital structure has a positive effect on firm value through profitability in manufacturing companies in the 2011-2016 period. The coefficient value of the direct effect of capital structure on firm value is 0.0172. The coefficient of indirect influence of company growth on firm value through profitability is 0.0077. This means that profitability is able to mediate the effect of capital structure on firm value, so that hypothesis 7 is accepted.

IV. Discussion

The results of testing the first hypothesis found that the growth of the company has a positive effect on profitability in manufacturing companies registered in Indonesia securities period 2011-2016. Asset growth is a description of future assets against an increase or decrease in a company's assets by comparing assets of the current year with assets of the previous year. The growth of the company in this study was measured using the proportion of the increase and decrease in the total assets of the company. Asset growth affects the profitability, the higher the growth rate of assets will also increase the profitability of the company. Company growth has a significant and positive effect on profitability, which is where an increase in company growth can lead to an increase in profitability (ROE). The results of this study are in line with Haruman's (2007) research, indicating high investment is a signal of growth in the future.

The results of testing the second hypothesis show that the capital structure has a positive effect on profitability in manufacturing companies registered in Indonesia securities period 2011-2016. The source of corporate funding consists of foreign capital and own capital as measured by a debt to equity ratio (DER). Where if this ratio gets lower, then it can be said that the company's ability to get profits will be higher, so that DER is positively related to profitability. The right combination in the company's capital structure is expected to increase profitability. In this study capital structure is measured by a debt to equity ratio, where DER is a ratio of total long-term debt to total capital. The results of this study indicate that the increase in long-term debt will have an impact on the size of the profit for the company, this reflects the company's capacity to fulfill all its

obligations. The findings are consistent with previous findings by Myers (1984), who found that companies that have a high level of profitability tend to be caused by taking less debt. Similarly, the results of the Antwi et al (2012) study, which states that the capital structure has a positive effect on financial performance.

The results of testing the third hypothesis obtained that the growth of the company has a positive effect on the value of the company in manufacturing companies in the Indonesia Stock Exchange period 2011-2016. From the investor's point of view, the growth of a company is a sign that the company has a favorable aspect, and investors will expect the rate of return from the investment made to show a good development or otherwise. These findings are supported by Stulz (1990), finding evidence that companies that face low growth opportunities, the debt ratio is positively related to firm value.

The results of testing the fourth hypothesis found that the capital structure has a positive effect on the value of the company in manufacturing companies listed on the Indonesia Stock Exchange 2011-2016. Capital structure is the proportion of funding with a company's debt (debt financing), which is the leverage ratio of a company. Thus, debt is an element of the company's capital structure. Capital structure is the key to improving productivity and company performance. The capital structure theory explains that the company's financial policy in determining the capital structure (the mix between debt and equity) aims to optimize the value of the company. The results of this study found that there is a positive and significant influence on firm value, this finding is supported by the tradeoff theory which states that (assuming the target capital structure is not optimal) an increase in the debt ratio in the capital structure will increase the value of the company. The findings support the results of a previous study, Kusumajaya (2011), Ahmad (2012), Manik (2014), found that capital structure has a positive correlation with firm value.

The results of testing the fifth hypothesis found that profitability has a positive effect on the value of the company in manufacturing companies on the IDX for the period 2011-2016. The results of this study are in accordance with Mardiyati (2012), which states that profitability or ROE has a significant positive effect on firm value. This means that the higher the value of the profit obtained, the higher the value of the company. Because high profits will give an indication of good company prospects so that it can trigger investors to participate in increasing the demand for shares. Increasing stock demand will lead to increased company value. The results of this finding state that return on equity (ROE) has a positive and significant effect on firm value which simultaneously supports the findings of Hidayati (2010), proving that higher profitability leads to increasing company value resulting in a positive and significant effect.

The results of testing the sixth hypothesis found that the growth of the company has a positive effect on the value of the company through profitability in manufacturing companies on the IDX for the period 2011-2016. When the company's growth is very large, the company is easier to obtain company value, where investors are willing to invest their shares. The results of this study are in line with the research of Rahmawati et al (2015), which states that company growth and profitability have a positive effect on shareholder value. Sriwardany (2006) who found that company growth has a positive relationship to changes in stock prices in companies. This means that information about the company's growth will be responded positively by investors so that it will increase stock prices and otherwise.

The results of testing the seventh hypothesis found that the capital structure has a positive effect on the value of the company through profitability in manufacturing companies on the IDX for the period 2011-2016. The results show there is a correlation between leverage and firm value. This study also shows the possibility of a decrease in debt can increase the value of the company proportionally. Where open government companies are consistently more leverage (lever) than private companies. The findings are consistent with the findings of Cheng et al. (2010) indicating a positive significance between the debt ratio (DR) and tangible assets, but the relationship between the debt ratio and profitability for the two types of companies is negative. The capital structure and company value show equity as a component of capital structure relevant to firm value, and long-term debt is also found to be the main determinant in firm value.

V. Conclusions And Recommendations

The results of this study concluded that the growth of the company has a positive effect on profitability. Capital structure has a positive effect on profitability. company growth has a positive effect on the value of the Company. Capital structure has a positive effect on firm value. Profitability has a positive effect on company value. The company's growth has a positive effect on company value through profitability. Capital structure has a positive effect on firm value through profitability. The suggestions are that business people should be better, especially for company managers and prospective investors to pay attention to disclosures about profitability. Because companies that have good financial performance will have an impact on better company value.

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ATTACHMENT

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Company Growth	408	0.05	143.53	17.03	21.23
Capital Structure	408	0.01	58.48	3.30	7.32
Profitability	408	0.01	90.78	17.17	14.45
Company Value	408	0.09	10.12	1.09	1.17
Valid N (listwise)	408				

Table 2. Value of R-Square

Variable	R-square
Profitability	0,5193
Company Value	0,9509

Tabel 3. Summary of Data Panel Regression Method Test Results

No	Research Hypothesis	Direct Effect	Indirect Effect	Total Effect
1	Company Growth→Profitability	0,2022	-	0,2022
2	Capital Structure→Profitability	3,8255	-	3,8255
3	Company Growth→Company Value	0,0006	-	0,0006
4	Capital Structure→Company Value	0,0172	-	0,0172
5	Profitability →Company Value	0,0020	-	0,0020
6	Company Growth→Company Value through Profitability	-	0,0004	0,2026
7	Capital Structure→Company Value through Profitability	-	0,0077	3,8332

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