

**THE EFFECT OF CAPITAL STRUCTURE, FIRM GROWTH, FIRM SIZE  
AND PROFITABILITY ON FIRM VALUE OF COMPANIES WITH  
GOOD CORPORATE GOVERNANCE AS A MODERATING  
VARIABLES IN MANUFACTURING COMPANIES IN  
THE BASIC AND CHEMICAL INDUSTRY  
REGISTERED IN INDONESIA STOCK  
EXCHANGE (IDX) IN 2013-2017.**

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**Abstract:** the objective of this study is to determine the effect of capital structure, firm growth, firm size and profitability on the value of manufacturing companies in the Basic Industry and Chemical sectors listed on the Indonesia Stock Exchange. The independent variables in this study are capital structure, firm growth, firm size and profitability. The dependent variable is firm value. The moderating variable is Good Corporate Governance. This type of research is a causal associative research conducted to determine the effect or also the relationship between two or more variables. This study looked at manufacturing companies listed on the Indonesia Stock Exchange in 2013-2017. The sample in this study was 29 companies so the number of observations in this study was  $29 \times 5 = 145$  data. The sampling technique used was purposive sampling. The analytical method used is panel data regression analysis and moderating testing with the help of Eviews software. The results of this study indicate that simultaneously capital structure, firm growth, firm size and profitability affect firm value. While partially the capital structure does not affect firm value, firm growth affects firm value, firm size affects firm value and profitability affects firm value. While testing moderating good corporate governance has no effect on capital structure, firm growth, firm size, profitability and firm value.

**Keywords:** capital structure, firm growth, firm size, profitability, firm value, good corporate governance.

## **1. Introduction**

Companies that have gone public want the price of shares sold to have a high price potential so that they attract investors to invest their funds in these companies. The higher the stock price can reflect the higher the firm value. Increasing the firm value also provides an increase in the prosperity of the owner or shareholder.

Firm value does not depend on the ability to generate cash flow but also depends on the operations and finances of the company itself (Keown, 2011). Firm value in question is a number of prices that investors are willing to pay if the company is to be sold. Firm value can reflect the value of assets owned by the company and the higher the firm value, the company will have a better image. The company has a long-term goal of maximizing firm value. The higher the firm value, the prosperity of shareholders will increase (Wahyudi and Pawestri, 2006).

According to Aries (2011) firm value is the result of management's work from several dimensions including net cash flow from investment decisions, growth and the company's capital costs. For investors, firm value is an important concept because firm value is an indicator of how the market values the company as a whole. High firm value shows good company performance. Firm value can provide maximum prosperity to shareholders if the share price increases. The higher the share price of a company, the higher the prosperity of its shareholders.

The following are the firm value in the Basic and Chemical Industry companies in research:

Table 1. Firm Value of Basic and Chemical Industries

No	Code	Company	Firm Value (Tobin's Q)		
			2014	2015	2016
1	ALKA	Alakasa Industrindo Tbk	1,11	1,09	1,59
2	ALMI	Alumindo Light Metal Industry Tbk	0,85	0,8	0,85
3	BRNA	Berlina Tbk	1,09	0,36	1,02
4	BRPT	Barito Pacific Tbk	0,62	0,5	0,76
5	BTON	Betonjaya Manunggal Tbk	0,72	0,61	0,70
6	FASW	Fajar Surya Wisesa Tbk	1,44	1,02	1,82
7	GDST	Gunawan Dianjaya Steel Tbk	0,98	0,73	1,08
8	JPRS	Jaya Pari Steel Tbk	0,53	0,33	0,37
9	KIAS	Keramika Indonesia Assosiasi Tbk	1,03	0,78	0,73
10	KRAS	Krakatau Steel Tbk	0,93	0,62	0,83
11	LION	Lion Metal Works Tbk	1,14	1,07	1,42
12	NIKL	Pelat Timah Nusantara Tbk	0,82	0,75	4,20
13	SMCB	Holcim Indonesia Tbk	1,46	0,95	0,94
14	SULI	SLJ Gloal Tbk	1,62	1,38	1,79
15	TOTO	Surya Toto Indonesia Tbk	3,33	2,41	2,68

Source: Indonesia Stock Exchange (IDX)

Based on the table above, in the basic and chemical industry sectors listed on the IDX, there are 15 companies that experienced a decline in the value of the company in 2015. The 15 companies have a known firm value (Tobin's Q) which declined in 2015 if compared to 2014, but in the following year in 2016, these companies managed to increase the firm value again. But there are also some companies that actually experienced a decline again. The phenomenon of the ups and downs in the firm value in 2015 and 2016 as the researchers explained earlier showed that in 2016 the sector experienced a good period. Based on the IDX report, this sector increase to 21.17% year to date (ytd).

## 2. Literature Review

### 2.1 Agency Theory

The concept of agency theory according to Hendriksen and van Breda (1991) is a theory that explains the relationship or contact between the principal and agent. Principal employs the agent to perform tasks in the interests of the principal, including the delegation of decision-making authorizations from the principal to the

agent. In companies whose capital consists of shares, shareholders act as principals, and CEO (Chief Executive Officer) as their agent.

## **2.2 Trade Off Theory**

The trade-off model assumes that the company's capital structure is the result of trade-offs from tax profits using debt with costs that will arise as a result of using that debt. The essence of trade-off theory in capital structure is to balance the benefits and sacrifices that arise as a result of using debt. As far as the benefits are greater, additional debt is still permitted. If the sacrifice due to the use of debt is already greater, then the additional debt is not allowed. Trade-off theory has considered various factors such as corporate tax, bankruptcy costs, and personal tax, in explaining why a company chooses a certain capital structure.

## **2.3 Firm Value**

Firm value is an investor's perception of a company that is often associated with stock prices. High firm value is the desire of the owners of the company, because with high value shows the prosperity of shareholders is also high (Hemastuti, 2014). Increasing the firm value is an achievement, which is in accordance with the wishes of its owners, because with increasing firm value, the welfare of the owners will also increase. Noerirawan (2012) states that the firm value is a condition that has been achieved by a company as an illustration of public trust in the company after going through a process of activities for several years, namely since the company was founded until now.

## **2.4 Capital Structure**

Capital structure is a permanent expenditure which reflects the balance or comparison between long-term debt with own capital. The capital structure in this study is measured by Debt to Equity Ratio (DER). Debt to Equity Ratio is an attempt to show in another format the relative proportion of lenders' claims to ownership and is used as a measure of the role of debt. Capital structure is the funding of equity and debt in a company.

## **2.5 Firm Growth**

Firm growth shows that the company's assets used in the company's operational assets show growth / decline. If the firm growth increases, the company will need more funds. The measure used is to calculate the proportion of increase or decrease in assets that shows the growth of assets used for the company's operational activities (Jannati, 2013).

## **2.6 Firm Size**

Firm size is an increase from the fact that large companies will have large market capitalization, large book values and high profits (Dewi and Wirajaya, 2013). Eka (2010) states that firm size is an increase from the fact that large companies will have large market capitalization, large book values and high profits. Whereas a small firm will have a small market capitalization, a small book value and low profits. Meanwhile, according to Brigham and Houston (2010) firm size is the size of a company that is indicated or valued by total assets, total sales, total profits, tax expenses and others.

## **2.7 Profitability**

Company profitability is one way to assess precisely the extent of the returns to be obtained from investment activities. If the condition of the company is

categorized as favorable or promising profits in the future, many investors will invest their funds to buy the company's shares. That of course will push share prices higher. Profitability is the end result of a number of company management policies and decisions (Rositawati 2015).

## 2.8 Good Corporate Governance

Corporate governance according to Sutedi (2011) is: “A process and structure used by corporate organs (shareholders / owners of capital, commissioners / supervisory boards and directors) to increase business success and corporate accountability in order to realize shareholder value in the long term by continuing to pay attention to the interests of other stakeholders, based on legislation and ethical values “.

## 3. Method

This type of research is causal associative research. This research was conducted at companies manufacturing basic and chemical industry sectors listed on the Indonesia Stock Exchange (IDX) and conducted in December 2018 to May 2019. Data collection methods used were literature study and documentation. The type of data used in this study is secondary data. The data analysis method used is using Eviews software. Data were analyzed using panel data regression analysis and moderating testing.

## 4. Result and Discussion

### 4.1 Result

#### Descriptive Statistical Analysis

Based on the results of data processing, the descriptive statistics of the research data can be seen in the following table.

Table 2. Descriptive statistical analysis

Variable	N	Mean	Std. Deviation	Information
Capital Structure (X <sub>1</sub> )	145	-0.058	1.206630	The average value of capital structure in companies in the basic and chemical industry sectors is -0,058. This value shows the percentage of funds provided by shareholders to lenders in companies in the basic and chemical industry sectors.
Firm Growth (X <sub>2</sub> )	145	2.564	1.048572	Firm growth which is illustrated through the Investment opportunity set shows the availability of investment alternatives for the company in the future. The higher the IOS value, the better because the company will have the opportunity to continue to experience growth.

Firm Size (X <sub>3</sub> )	145	2.658	0.125089	Firm size in the basic industrial and chemical sectors have an average value of 2.658. This value shows the level of firm size in companies with basic and chemical industry sectors.
Profitability (X <sub>4</sub> )	145	2.023	1.107374	In the basic industrial and chemical sectors, profitability ratios have an average value of 2,023. This shows that in general the ability of companies in the basic and chemical industry sectors to generate profits based on company equity is quite high.
Good Corporate Governance (Z)	145	2.493	0.075701	The value of Good Corporate Governance measured based on the Corporate Governance Index shows how many disclosure points in the GCG implementation guidelines disclosed by the company in the annual report.
Nilai Perusahaan (Y)	145	0.088	0.563299	The firm value in the basic industrial and chemical sectors is 0.088. Firm value is an investor's perception of the company's success rate that is often associated with stock prices.

### Chow Test

Following are the test results to choose whether the best estimate is fixed effect (FE) or common effect (CE) with the Chow test.

Table 3. Chow Test Results

No	Effect Test	Statistic	d.f.	Prob.
1	Cross-section F	13.084423	(28,112)	0,0000
2	Cross-section Chi Square	210.521546	28	0,0000

Source: Results of data processing with Eviews 9

If the probability value is less than 0.05 (<0.05), then the best model to use is the Fixed Effect (FE). But if the probability value is greater than 0.05 (> 0.05), then the model used is the Common Effect (CE). Chow Test probability value is seen based on the Chi-Square Cross-section probability in the table above which has a value of 0,000. Based on the table, the Chow Test states that a better estimation model is fixed effect (FE) than common effect (CE).

### Regression Analysis with Panel Data

The results of multiple linear regression analysis can be seen in the following table:

Table 6. Results of Multiple Linear Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
<b>C</b>	13.68898	1.930566	7.090655	0.0000
<b>X1</b>	-0.059993	0.055564	-1.079693	0.2826
<b>X2</b>	0.165526	0.030407	5.443724	0.0000
<b>X3</b>	-5.351882	0.720607	-7.426904	0.0000
<b>X4</b>	0.098324	0.031862	3.085949	0.0026

Source: Results of data processing with Eviews 9

Based on the table above can be seen the multiple linear regression equation, namely:

$$Y = 13.68898 - 0.059993X_1 + 0.165526X_2 - 5.351882X_3 + 0.098324X_4 + e$$

From this equation can be explained as follows:

1. Constants (a) = 13,68898 indicate a constant value, where if the value of all independent variables is equal to zero, then the variable value of the company (Y) is equal to 13,68898.
2. The capital structure coefficient (X1) = -0.059993, meaning that based on this study if other variables are fixed in value and the capital structure has increased by 1 unit, the value of the company will decrease by 0.059 (5.99%).
3. The coefficient of firm growth (X2) = 0.165526, meaning that based on this study if other variables are fixed in value and firm growth has increased by 1 unit, firm value will increase by 0.165526 (16.55%).
4. The coefficient of firm size (X3) = -5.351882 means that based on this research if other variables are fixed in value and firm size has increased by 1 unit, the firm value will actually decrease by 5.351882.
5. The coefficient of profitability (X4) = 0.098324 means based on this study if other variables are fixed in value and profitability has increased by 1 unit, firm value will increase by 0.098324 (9.83%). The positive value of Unstandardized Coefficients B shows that there is a positive relationship between profitability (X4) and firm value (Y). That is, if profitability increases, firm value will also increase.

#### Statistical Test F

The following F test results can be seen in the following table:

Table 7. F Test Results

Cross-section Fixed		
<b>1</b>	<b>F-statistic</b>	33,402
<b>2</b>	<b>Prob. (F-statistic)</b>	0,000

Source: Results of data processing with Eviews 9

Based on the table above, it appears that the results of the F test show a significant value of 0.000 less than 0.05. The results of this F test indicate that the independent variables together (simultaneously) have a significant influence on the dependent variable, namely firm value.

### Test Statistics t (Partial)

Based on Table 7, the results of the regression test analysis states that firm growth partially (individually) has a significant effect on firm value. Capital structure has a significance value of t of  $0.2826 > 0.05$ , meaning that capital structure partially does not have a significant effect on firm value. The firm growth has a significance value of t of  $0.0000 < 0.05$ , meaning that the firm growth partially has a significant effect on firm value. The firm size has a significance value t of  $0.0000 < 0.05$ , meaning that the firm size also partially has a significant effect on firm value. And finally profitability which has a significance value of t is  $0.0026 < 0.05$ , so that profitability also has a significant effect on firm value partially.

### Coefficient Determination Test

The following results are the coefficient of determination that can be seen in the following table:

Table 8. Results Coefficient of Determination

Cross-section Fixed		
1	R-squared	0,905
2	Adjusted R-squared	0,878
3	S. E. of regression	0,196

Source: Results of data processing with Eviews 9

Based on the table above, the value of R Square ( $R^2$ ) is 0.905, which means that 0.905 or (90.5%) independent variables namely capital structure, firm growth, firm size and profitability are able to explain firm value. While the remaining 9.5% is influenced or explained by other variables not included in the research model.

### Moderating Test

To see GCG being used as a moderating variable in this research model, it can be seen based on its interactions with the research model in the following table.

Table 9. Regression Results with Moderating Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1_Z	-0.087771	0.327461	-0.268036	0.7892
X2_Z	-0.534820	0.326245	-1.639319	0.1041
X3_Z	0.777039	0.507621	1.530746	0.1288
X4_Z	-0.236155	0.326956	-0.722283	0.4717

Source: Results of data processing with Eviews 9

Based on the table above, it can be seen that each of the interactions between the moderating variables is GCG with each independent variable, namely capital structure, firm growth, firm size and profitability to firm value. However, based on these results it can be concluded that all moderating variable interactions do not have a significant effect on firm value because the significance value is greater than 0.05.

## 4.2 Discussion

### First Hypothesis

The first hypothesis in this study states that capital structure has a positive effect on firm value in basic and chemical industry companies listed on the Indonesia Stock Exchange. The test results in this study indicate that the capital structure partially does not have a significant effect on the firm value in the basic

industrial and chemical sector companies listed on the Indonesia Stock Exchange. With these results, H1 was rejected.

The results of the study are in line with research conducted by Mayoriza and Majidah (2018) which in their research found that capital structure does not have a significant effect on firm value. And the results of this study are not in line with research conducted by Atmadja (2014) because in this study no it can be proven that capital structure has a significant effect on firm value.

### **Second Hypothesis**

The second hypothesis in this study states that firm growth has a positive effect on firm value in basic and chemical industry companies listed on the Indonesia Stock Exchange. The test results in this study indicate that firm growth partially has a positive and significant effect on the firm value in the basic industrial and chemical sector companies listed on the Indonesia Stock Exchange. With these results, H2 is accepted.

The results of this study also support the results of previous research conducted by Yuniarti (2013) stating that firm growth has a positive effect on firm value.

### **Third Hypothesis**

The third hypothesis in this study states that firm size has a positive effect on firm value in companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange. The test results in this study indicate that firm size partially has a negative and significant effect on firm value in the basic industrial and chemical sector companies listed on the Indonesia Stock Exchange. With these results, H3 is rejected.

The results of the study which showed that firm size had a negative influence on the value of the company were not in line with research conducted by Pramana and Mustanda (2016) which in their research stated that the effect was positive; and the results of Suryana and Rahayu's research (2018) which in their research also found that firm size had a positive and significant influence on firm value. Instead this research was in line with research conducted by Safrida (2012); and Rohimah and Munthe (2018) which stated that firm size had a negative and significant effect on firm value.

### **Fourth Hypothesis**

The fourth hypothesis in this study states that profitability has a positive effect on firm value in basic and chemical industry companies listed on the Indonesia Stock Exchange. The test results in this study indicate that profitability as an independent variable partially has a positive and significant impact on firm value in companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange. With these results, H4 is accepted.

The results of this study are in line with research conducted by Lastri (2014); Mispa (2016); and Rohimah and Munthe (2018) which states that profitability has a positive and significant effect on firm value. Instead this study is not in line with research Herawati (2012); and Suryana and Rahayu (2018) which states that profitability actually has a negative and significant effect on firm value.



### **Fifth Hypothesis**

The fifth hypothesis in this study states that good corporate governance can moderate the effect of capital structure on firm value in basic and chemical industry companies listed on the Indonesia Stock Exchange. The test results in this study indicate that the interaction between good corporate governance and capital structure does not have a significant effect on firm value because the significance value is greater than 0.05. With these results, H5 was rejected.

So in this study it turns out that GCG cannot be used as a moderating variable in the effect of capital structure on firm value.

### **Sixth Hypothesis**

The sixth hypothesis in this study states that good corporate governance can moderate the effect of firm growth on firm value in basic and chemical industry companies listed on the Indonesia Stock Exchange. The test results in this study indicate that the interaction between good corporate governance and firm growth does not have a significant effect on firm value because the significance value is greater than 0.05. With these results, H6 is rejected.

The results of the study found that the existence of GCG applied by the company could not weaken nor strengthen the effect of the firm growth on the firm value in the basic and chemical industry companies listed on the Indonesia Stock Exchange.

### **Seventh Hypothesis**

The seventh hypothesis in this study states that good corporate governance can moderate the effect of firm size on firm value in basic and chemical industry companies listed on the Indonesia Stock Exchange. The test results in this study indicate that the interaction between good corporate governance and firm size does not have a significant effect on firm value because the significance value is greater than 0.05. With these results, H7 was rejected.

In this study it was found that GCG cannot be used as a moderating variable in the effect of firm size on firm value. This means that the application of GCG is not something that can weaken or strengthen the effect of firm growth on firm value

### **Eighth Hypothesis**

The eighth hypothesis in this study states that good corporate governance can moderate the effect of profitability on firm value in basic and chemical industry companies listed on the Indonesia Stock Exchange. The test results in this study indicate that the interaction between good corporate governance and profitability does not have a significant effect on firm value because the significance value is greater than 0.05. With these results, H8 was rejected.

In this study it was found that GCG is not a moderating variable between the effect of profitability on firm value.

## **5. Conclusions and Suggestions**

### **5.1 Conclusions**

Some conclusions that can be drawn from the results of this study include:

1. The capital structure does not have a significant effect on firm value in the basic and chemical industry companies listed on the Indonesia Stock Exchange. So H1 is rejected.

2. The firm growth has a positive and significant influence on firm value in companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange. So H2 is accepted.
3. The firm size has a negative and significant influence on firm value in companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange. So H3 is rejected.
4. Profitability has a positive and significant effect firm value in companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange. So H4 is accepted.
5. Good corporate governance cannot moderate the effect of capital structure on firm value in companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange. So H5 is rejected.
6. Good corporate governance cannot moderate the effect of firm growth on firm value in companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange. So H6 is rejected.
7. Good corporate governance cannot moderate the effect of firm size on firm value in companies in the basic and chemical industry sectors which are listed on the Indonesia Stock Exchange. So H7 is rejected.
8. 8. Good corporate governance cannot moderate the effect of profitability on firm value in companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange. So H8 is rejected.

## **5.2 Suggestions**

From the results of the research, discussion and conclusions obtained in this study, then some suggestions can be made as follows:

1. In the research results it can be seen that firm growth which is proxied by investment opportunity set (IOS), firm size and profitability (ROE) is able to have a significant effect on firm value in companies in basic and chemical industry sectors, moreover partially growth companies and profitability have a positive effect on firm value, so it is recommended that companies in the basic and chemical industry sectors pay attention to the firm growth and the level of profitability generated each year. Because with the better the firm growth and profitability will be able to increase the firm value.
2. Future studies are expected to re-examine the influence of other variables that can affect firm value in the basic and chemical industry companies listed on the IDX. Some of the variables that can be examined include leverage, liquidity, operating cash flow and so on.
3. In the results of this study it can be seen that GCG cannot be used as an independent variable in the effect of capital structure, firm growth, firm size and profitability on firm value in companies in the basic and chemical industry sectors listed on the IDX. So in future studies, it is expected to re-examine GCG in the research model whether as an independent variable or as an intervening variable.

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