

# The Influence of Capital Structure, Company Size and Profitability on Value Firm With Good Corporate Governance as a Moderation Variable in The Processed Food Sub-Industry/Processed Food Listed in Indonesia Stock Exchange

**Nindra Meimayana**

Fakultas Ekonomi dan Bisnis,  
Universitas 17 Agustus 1945 Surabaya,  
Jl. Semolowaru No.45, Menur Pumpungan,  
Kec. Sukolilo, Kota Surabaya, Jawa Timur,  
Indonesia  
[Nindrimei@gmail.Com](mailto:Nindrimei@gmail.Com)

**Ulfi Pristiana**

Fakultas Ekonomi dan Bisnis,  
Universitas 17 Agustus 1945 Surabaya,  
Jl. Semolowaru No.45, Menur Pumpungan,  
Kec. Sukolilo, Kota Surabaya, Jawa Timur,  
Indonesia  
[ulfi@untag-sby.ac.id](mailto:ulfi@untag-sby.ac.id)

## ABSTRACT

*This study aims to determine the effect of capital structure, firm size and profitability on firm value with good corporate governance as a moderating variable. This research was conducted at processed food sub-industry companies listed on the IDX for the 2019-2022 period. The population used in this research was 24 companies and there were 14 companies used as research samples. The data analysis technique and hypothesis testing used is SmartPLS 4.0.9.4 software. The results of this study indicate that the capital structure variable has no significant effect on firm value, firm size has no significant effect on firm value, profitability has a significant effect on firm value, GCG moderates capital structure on firm value, GCG has not been able to moderate firm size on firm value, GCG moderating profitability on firm value.*

**Keywords:** *Capital Structure, Company Size, Profitability, Corporate Value and Good Corporate Governance.*

## INTRODUCTION

The development of companies in Indonesia makes business competition increasingly tight amidst the progress of the global economy. With competition between companies, companies are starting to improve performance within the company so that their goals can be achieved, namely by maximizing the value of the company so that it can attract investors to invest capital so that it will prosper and improve the welfare of shareholders.

**Table 1. Data on Company Value (PBV) for The Processed Food Sub-Industry/Processed Food Registered on The IDX for The 2019-2022 Period**

No.	CODE	2019	2020	2021	2022
1	BUDI	0,361	0,337	0,580	0,704
2	CEKA	0,878	0,842	0,806	0,760
3	COCO	7,405	5,558	1,171	1,167
4	GOOD	4,029	3,238	6,367	5,78
5	HOKI	3,545	3,670	2,598	1,49
6	ICBP	4,875	2,219	1,847	2,029
7	INDF	1,284	0,76	0,638	0,631
8	MYOR	4,624	5,376	4,015	4,355
9	ROTI	2,601	2,607	2,932	3,046
10	SKBM	0,685	0,583	0,628	0,609
11	SKLT	2,924	2,656	3,085	2,280
12	STTP	2,744	4,655	2,996	2,551
13	TBLA	1,118	0,957	0,738	0,613
14	TGKA	3,200	4,180	3,652	3,188

Source: [www.idx.co.id](http://www.idx.co.id)(data processed 2023)

Based on table 1. above, shows that PBV in processed food companies has experienced fluctuations in increases and decreases. Companies with the codes BUDI, GOOD, HOKI, ICBP, MYOR, SKBM, SKLT, STTP, and TGKA experienced fluctuations during 2019-2022. Companies with the codes CEKA, COCO, INDF, and TBLA experienced a decline during 2019-2022. Companies with the ROTI code experienced an increase during 2019-2022. This phenomenon underlies the problem of research because if the resulting PBV has low results it will have an impact on the company. So investors will view the company as unfavorable for investing and investors will think again about investing their capital. A high PBV ratio shows the success of the company's shareholders. The PBV ratio between companies can be compared so that investors can conclude the condition of the company's value in the long term, whether it is above (overvalued) or even under (undervalued). Therefore, further research is needed to answer existing problems. So researchers conduct research using influencing factors, namely capital

structure, company size, profitability, and GCG to find out what the condition of the company's financial performance is.

## **LITERATURE REVIEW**

### **Capital Structure**

Capital structure is a comparison between own capital and long-term debt, meaning how much own capital and long-term debt will be used for the company's needs so that it can be optimal [1] [2] [3]. Research supports that capital structure has a positive effect on company value [4]. This is contrary to research which states that capital structure does not have a significant effect on company value Corporate Governance as a moderating variable [5].

### **Company Size**

Company size is one of the financial factors that is considered capable of influencing company value. Company size reflects the assets owned by a company [6].

In general, large companies have higher asset values than small companies, so it is easier for large companies to enter the capital market<sup>6</sup>. Research supports that company size has a positive effect on company value [7]. This is contrary to research which states that company size hurts company value [8].

### **Profitability**

Profitability is the company's ability to generate profits related to sales results, total assets, and own capital [9]. Companies that can generate high profits tend to use more funds from loans to gain benefits. Research that supports profitability has a significant effect on company value with GCG as the moderating variable [10].

### **Good Corporate Governance**

Good Corporate Governance as a moderating variable is a form of good corporate governance with systems, structures, mechanisms, and culture that will protect the interests of shareholders and stakeholders . GCG is used to increase business success and company accountability to realize good company values. Companies that implement GCG in the long term can guarantee business continuity and significantly increase profits. The implementation of GCG is thought to be able to optimize company value for shareholders while still paying attention to other stakeholders. This is supported by research showing that good corporate governance able to strengthen the positive influence of capital structure on company value [11]. This is also supported by research that shows GCG can strengthen the relationship between company size and company value [12]. Research shows that profitability significantly influences company value with GCG as the moderating variable [13]. Research shows that GCG strengthens the

relationship between company size and company value [14]. This is contrary to what research shows corporate governance does not affect the relationship between profitability and company value [15]. Research shows GCG is not able to strengthen the capital structure of the company value [16]. Research shows that capital structure does not have a significant effect on company value and good corporate governance as a moderating variable [17].

Based on the background above, the author is interested in conducting research with the title "The Influence of Capital Structure, Company Size and Profitability on Company Value with Good Corporate Governance as a Moderating Variable in the Processed Food sub-industry for the 2019-2022 period."

**RESEARCH METHODS**

The research design taken is causal, this design examines the cause-and-effect relationship of a phenomenon to measure the magnitude of the relationship between two or more variables which are generally conjectural (hypothesis). The data source for this research is secondary data obtained from the Indonesia Stock Exchange (BEI) in 2019-2022. The population that is the object of this research is sub-industrial companies processed food/processed food as many as 24 companies. The sample used purposive sampling to produce 9 companies. The analysis tool used is SmartPLS version 4.0.9.4.

**RESULTS**

**Outer Model Testing**

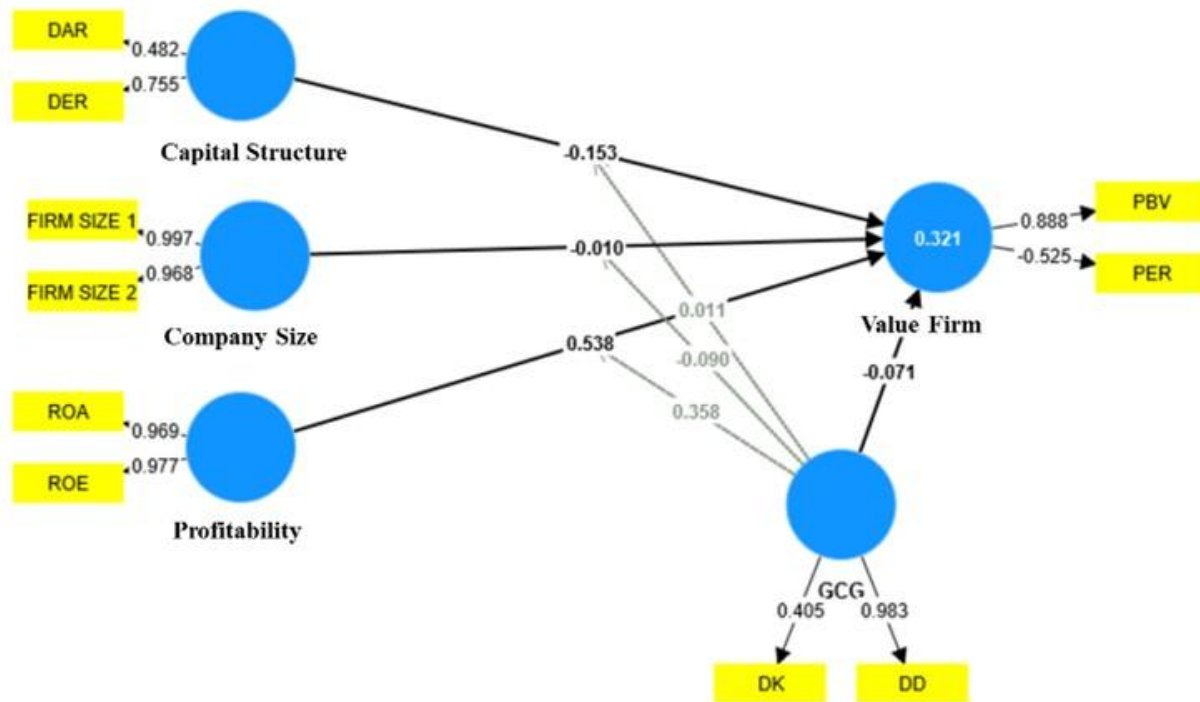


Figure 1. Outer Model

### Convergent Validity

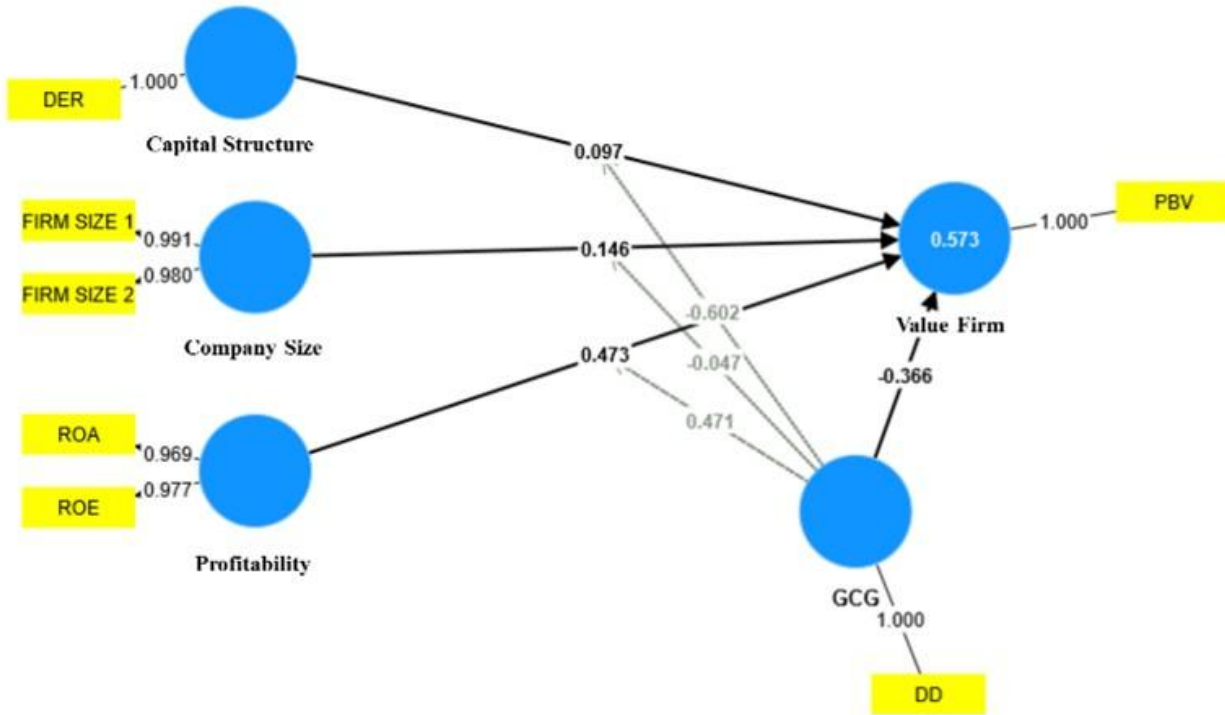
Convergent Validity is measuring the validity of indicators as measuring variables as seen from the outer loading of each variable indicator. An indicator is declared to have good reliability if the outer loading value is above 0.70. Outer loading on an indicator with a high value means that the indicator is the strongest measure in reflecting the latent variable in question. Following are the results of the PLS algorithm:

**Table 2. Outer Loading Before Adjustment**

Variable	Indicator	Outer loading	Information
Capital Structure	BUT	0,482	Invalid
	THE	0,755	Valid
Size Company	FIRM SIZE 1	0,997	Valid
	FIRM SIZE 2	0,968	Valid
Profitability	LONG	0,969	Valid
	ROE	0,977	Valid
The value of the company	PBV	0,888	Valid
	PER	0,525	Invalid
GCG	DK	0,405	Invalid
	DD	0,983	Valid

Source: Financial Report processed by SmartPLS (Secondary data processed, 2023)

In Table 2., it can be seen that 3 indicators do not meet the criteria, namely the DAR, PER and DK indicators < 0.70. Thus, based on existing criteria, these indicators are excluded from measuring the construct of the value firm variable. The next step is to re-execute after the indicator is eliminated. The results after the indicators from measuring the activity construct were eliminated are presented in Figure 2. and Table 3.



**Figure 2. Re Outer Loading**

Based on figure 2. and table 3., it can be seen that all loading factor values are above 0.70, so it can be concluded that the indicators used in this research are all considered feasible or valid.

**Table 3. Outer Loading After Adjustment**

Variable	Indicator	Outer loading	Information
Capital Structure	BUT	0,482	Invalid
	THE	0,755	Valid
Size Company	FIRM SIZE 1	0,997	Valid
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Source: Financial Report processed by SmartPLS (Secondary data processed, 2023)

### Discriminant Validity

Discriminant validity aims to test to what extent the latent construct is truly different from other constructs. The way to test discriminant validity is to look at the cross-loading value. If the cross-loading value of each indicator of the latent variable is greater than the cross-loading value of other variables, then the indicator is said to be valid.

**Table 4. Cross Loading Value**

	GCG	Mark Company	Profitable	Structure Modal	Size Company	GCG x Profitability bag	GCG x Structure Modal	GCG x Size Company
DD	1.000	-0.362	-0.282	0.364	0.700	0.062	-0.011	0.517
THE	0.364	-0.131	-0.269	1.000	0.232	0.035	0.029	0.074
FIRM SIZE 1	0.737	-0.136	0.167	0.272	0.991	-0.083	0.145	0.460
FIRM SIZE 2	0.622	-0.093	0.365	0.166	0.980	-0.282	0.108	0.302
PBV	-0.362	1.000	0.376	-0.131	-0.120	0.220	-0.458	-0.070
LONG	-0.342	0.335	0.969	-0.454	0.158	-0.432	0.100	-0.128
ROE	-0.216	0.392	0.977	-0.097	0.317	-0.475	-0.005	-0.104
GCG x Profitability bag	0.062	0.220	-0.468	0.035	-0.166	1.000	-0.188	0.357
GCG x Structure Modal	-0.011	-0.458	0.044	0.029	0.132	-0.188	1.000	-0.039
GCG x Size Company	0.517	-0.070	-0.118	0.074	0.401	0.357	-0.039	1.000

Source: Financial Report processed by SmartPLS (Secondary data processed, 2023)

An indicator is declared valid if it has the highest loading factor on the target variable compared to the loading factor on other variables. Based on table 4. above, shows that the loading factor for Company Size with the Firm Size 1 and Firm Size 2 indicators is higher than the other variables. Thus, latent constructs predict indicators in their blocks better than those of indicators in other blocks and all cross-loading values are above 0.70. Thus, overall the indicators forming the constructs of Capital Structure, Company Size, Profitability, GCG, and Value firm are categorized as valid.

## Reliability Test

Reliability is a measure of internal consistency and indicators of a construct that shows the degree to which each indicator indicates a common construct or latent factor. Measuring the reliability of a construct with reflective indicators can be done in two ways, namely by Cronbach's Alpha and Composite Reliability. The Rule of Thumb for assessing construct reliability is that the Composite Reliability value must be greater than 0.70.

**Table 5. Mark Cronbach's Alpha and Composite Reliability**

	Cronbach's Alpha	rho_A	Composite Reliability	AVE
GCG moderation in capital structure	1.000	1.000	1.000	1.000
GCG moderation on company size	1.000	1.000	1.000	1.000
GCG moderation on profitability	1.000	1.000	1.000	1.000
Capital structure	1.000	1.000	1.000	1.000
Company Size	0.971	1.081	0.985	0.947
Profitability	0.944	0,961	0.973	0.947
The value of the company	1.000	1.000	1.000	1.000
GCG	1.000	1.000	1.000	1.000

Source: Financial Report processed by SmartPLS (Secondary data processed, 2023)

From the measurement results above, all latent variables have values Composite Reliability >0.70, meaning that all independent latent variables are suitable and suitable to be used as variables tested to determine their effect on the dependent latent variable, namely Value firm. On the other hand, the test results's Alpha also shows a high value. Based on the degree of reliability above, the value Cronbach's Alpha Capital Structure, Company Size, Profitability, GCG, and Value firm can be said to be reliable because these values have a high degree of reliability, namely Capital Structure of 1,000, Company Size of 0.947, Profitability of 0.947, GCG of 1,000 and Value firm of 1,000.



**Inner Model Testing**

The inner model is a structural model that connects latent variables. The structural model was evaluated using R-square for the dependent construct, the Stone-Geisser Q-square test for predictive relevance, and the test as well as the significance of the structural path parameter coefficients. In assessing a model with PLS, start by looking at the R-square for each dependent latent variable. Value change can used to assess the influence of certain independent latent variables on whether the dependent latent variable has a substantial influence. The following is a table of calculation results for the R-square value.

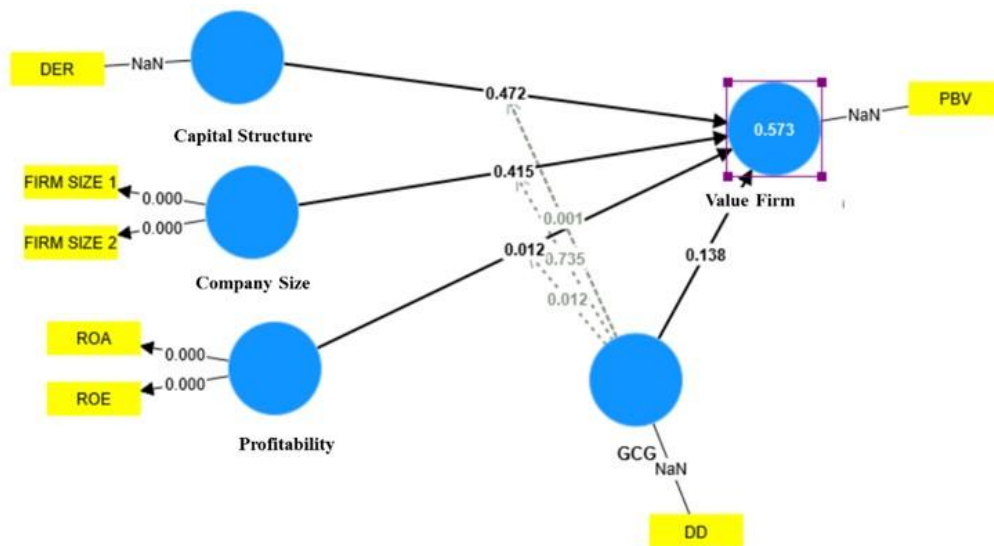
**Table 6. R-square**

	<i>R-square</i>	<i>R-Square Adjusted</i>
The value of the company	0.573	0.511

Source: Financial Report processed by SmartPLS (Secondary data processed, 2023)

Mark Adjusted R-square has a value with an interval between 0 to 1. If the value adjusted R-square The closer it is to 1, it shows that the independent latent variable (X) explains the variation of the dependent latent variable (Y) better. In this research, values were obtained Adjusted R-square amounting to 0.511 or 51.1%. So it can be concluded that 51.1% of the variation that occurs in the dependent variable (Y) can be explained by the independent variable (X), while the remaining 48.9% can be explained by other variables not studied.

**DISCUSSION**



**Figure 3. Bootstrapping (inner model)**

**Table 7. Path Coeffisien**

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values	Information
Profitability ->Value firm	0.473	0.533	0.189	2.505	0.012	Significant
Structure Capital -> Value Company	0.097	0.080	0.134	0.719	0.472	No significant
Size Company ->Value firm	0.146	0.144	0.179	0.816	0.415	No significant
GCG x Profitability ->Value firm	0.471	0.528	0.188	2.500	0.012	Significant
GCG x Structure Capital -> Value Company	-0.602	-0.610	0.175	3.438	0.001	Significant
GCG x Size Company ->Value firm	-0.047	-0.074	0.139	0.339	0.735	No significant

Source: Financial Report processed by SmartPLS (Secondary data processed, 2023)

### **Results of Analysis of the Effect of Capital Structure on Value firm**

The capital structure shows that it is not significant to the value of the company, meaning that the size of the capital structure has no effect on the value of the company. This is not in accordance with the pecking order theory, where this theory explains that companies prefer to use internal funds first, if internal funds are not sufficient then the company will use external funds in the form of debt as a source of funding.

The research results are in line with research which shows that capital structure measured by DER shows that the capital structure variable has a significant negative effect on value firm, so it can indicate that an increase in debt will be followed by a decrease in value firm [18]. However, the results of

this research do not support research conducted by (D. K. Wardani&Djando, 2022), (Saifaddin, 2020) that capital structure has a positive influence on value firm [19].

### **Results of Analysis of the Effect of Company Size on Value firm**

Company size has no significant effect on value firm. Based on the research results, it means that large or small company size will not be able to influence value firm. Company size has a negative effect on value firm, which can also be caused by investors who think that companies that have large total assets tend to set retained earnings that are greater than the dividends distributed to shareholders.

The results of this research are in line with research which shows that company size has a negative effect on value firm [20]. Results of this research does not support research which shows that company size has a positive effect on value firm [21].

### **Results of Analysis of the Effect of Profitability on Value firm**

Profitability shows significant results on value firm. The results of this research show that in theory high profits indicate good company prospects, thus triggering investors to increase demand for shares. Rising demand for shares causes value firm to increase. These findings are supportive signaling theory which states that the company has earning increasingly. Increasing is a signal that the company has a good future.

The results of this research are in line with the results identifying that the company is able to use all its assets to generate profit after tax effectively [22]. Also supported by research that shows profitability has a significant effect on value firm [23].

### **Results of GCG Moderation Analysis on Capital Structure on Value firm**

Capital structure has a significant effect in moderating capital structure on value firm. The implementation of GCG increases supervision of management to encourage effective decision making, prevent actions that are not in line with the company's interests, and reduce information asymmetry between executives and stakeholders. Capital Structure is defined as the composition of the company's capital in terms of its sources, especially showing the portion of the company's capital that comes from debt sources (creditors) and at the same time the portion of capital that comes from the owners themselves.

The research results show the interaction between capital structure and Good Corporate Governance influential and significant on value firm with a positive relationship. It means that Good Corporate Governance strengthen the relationship between capital structure and value firm [24]. Supported too good corporate governance which is proxied by an independent board of commissioners is

able to strengthen the positive influence of capital structure on value firm [25]. The results of this research do not support research which shows that GCG is not able to strengthen capital structure on value firm [26].

### **Results of GCG Moderation Analysis on Company Size on Value firm**

Company size has an insignificant effect in moderating company size on value firm. GCG has not been able to moderate due to proportion

The board of commissioners is caused by the current average composition of the board of directors being less efficient in carrying out its supervisory function because the proportion of directors is not yet able to dominate every policy taken by the board of commissioners.

The results of this research show that Good Corporate Governance has not been able to moderate the relationship between company size and value firm [27]. The results of this study do not size on value firm [28].

### **Results of GCG Moderation Analysis on Profitability of Value firm**

Profitability has a significant effect in moderating profitability on value firm. The role of the manager as well as the owner reduces agency conflicts in generating profits so that GCG is able to strengthen the influence of profitability on value firm. Good implementation of GCG causes managers to be more transparent in managing the company and public control will become stronger. It can be concluded that monitoring by the owner is more dominant in efforts to gain profit. GCG is used to manage companies in increasing the profitability of a company. The better you manage the company, the higher the company's profitability.

The results of this research are in line with research that shows the interaction between profitability and Good Corporate Governance influential and significant on value firm with a positive relationship. It means that Good Corporate Governance strengthen the relationship between profitability and value firm [29]. The results of this study are not in line with what research shows Good Corporate Governance (GCG) does not affect the relationship between profitability and value firm [30].

## **CONCLUSION**

Based on the results of the analysis and discussion described above, it can be concluded that:

1. Capital structure has no significant effect on value firm.
2. Company size has no significant effect on value firm.
3. Profitability has a significant effect on value firm.
4. GCG as a moderating variable is able to moderate the influence of capital structure on value firm.

5. GCG as a moderating variable has not been able to moderate the influence of company size on value firm.
6. GCG as a moderating variable is able to moderate the influence of profitability on value firm.

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