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The Influence of Company Size, Capital Structure, Growth Opportunity, and Profitability on Company Value
(Empirical Study on Manufacturing Companies Listed on BEI from 2016-2021)

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Abstract: This study aims to analyze company size, capital structure, growth opportunity, and profitability against company value. The indicator used to measure a company's value is price book value. The population in this study involved companies listed on the Indonesia Stock Exchange (IDX). The sample selection method uses purposive sampling, with a total sample of 253 data. The data was obtained using secondary data from the annual report for the period 2016-2021. The analysis method used is multiple linear regression analysis. The results of empirical research prove that company size, capital structure, growth opportunity, and profitability affect company value**.**

Keywords: Company size, capital structure, growth opportunity, profitability

1. Introduction

1.1 Background

Competition within the business industry drives manufacturing companies to enhance their operations, such as through product innovation, product quality improvement, and enhanced performance to achieve their goals. The main objective of companies is to generate profits and enhance the welfare of their owners and shareholders by optimizing the value of the company. The value of a company reflects its current and future status, hence its capacity to influence investor evaluations of the company. The value of a company can be ascertained by its stock price, which is determined by the supply and demand of investors, thus making it a suitable proxy for company value (Fama, 1978, as cited in Dewi and Ary, 2013). The higher the stock price, the higher the company value, and vice versa. Failure to increase the value of a company may be attributed to the failure to apply factors that affect company value, resulting in a negative assessment by investors.

Profitability refers to a company's capacity to generate profits in relation to its assets, sales, and equity. The increase of profits and the maximization of the company's value are correlated with the enhancement of the shareholders' welfare, making this objective a crucial aspect in sustaining the existence of the company, improving the well-being of its employees, and enhancing the quality of its products. This is because a higher level of profitability of an entity ensures the survival of the business, the company's capability to generate profits, and the evaluation of the operational level and efficiency in utilizing its assets, as stated by Yanti and Damaryanti (2019).The capital structure is a pool of funds that can be utilized and allocated by a company, where the funds are obtained from long-term debt and equity or in other words, a combination or a pool of debt, preferred shares, and equity used to raise capital (Brigham and Houston, 2003: 402). An optimal capital structure is one that is able to generate maximum company value with minimum capital costs by using debt optimally (Parhusip et al., 2016). If the capital structure position is above its optimal target, then any increase in debt will decrease the company's value, according to Sianipar (2017).

According to Yanti and Damaryanti (2019), the size of a company is determined by the level of sales, equity, or assets held by the company. Large companies have a wider stakeholder base, meaning that various policies of large companies will have a greater impact on public interests compared to small companies. Growth opportunity reflectsthe operational success of the company in the past and is used as a prediction of future growth. With high growth opportunities, it is expected that the company will achieve high profits in the future, thus increasing the stock price which is an indicator of company value, as stated by Pratiwi and Lailatul (2017).Companies with high growth opportunities tend to spend investment expenditures with their own capital to avoid underinvestment problems, whichis the failure of company managers to implement all positive-valued investment projects, as mentioned by Chen in Hermuningsih (2013:129).

Based on the aforementioned background, the author is interested in conducting research entitled "The Effect of Company Size, Capital Structure, Growth Opportunity, and Profitability on Company Value (An Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange in the Period 2016-

2021)".

1.2 Literature Review

This study took several theories which can be drawn:

1.2.1. According to Achmad (2017), the signaling theory discusses how a company should signal to financial statement users. This signal takes the form of information about what management has done to realize the owner's desires. The signal can be in the form of promotion or other information that states that the company is better than other companies.

1.2.2. Packing order theory is a policy pursued by a company to seek additional funds by selling its assets, such as buildings, land, inventory, and other assets, including funds derived from retained earnings. The ability of a business entity to generate profits using all of its capital is known as retained earnings (Soukotta, 2016).

1.2.3. Company size is a scale by which the size of a company can be classified in various ways, such as by total assets, log size, stock market value, and others. Company size is an indicator of how large the company is (Prasetyorini, 2013: 186).

1.2.4. Growth opportunity refers to changes in a company's overall assets. Companies that are expected to experience high growth in the future prefer to use equity to finance their operational activities. Investment opportunities can provide positive signals to investors about the company's future growth. Positive signals from investors can affect the value of the company. With high growth opportunities, it can be said that this is an opportunity to obtain higher profits in the future. This means that growth opportunity has an impact on the value of the company (Kartini and Arianto, 2008 (Hermuningsih, 2013).

1.2.5. Capital structure is the composition of the debt side in the balance sheet of a company, or the mix of funding sources used by a company to finance its operational activities (Higgins, 2004:372) in Hasudunungan, 2017. The comparison or balance of equity with short-term debt, long-term debt, preferred stock, and common stock is permanent (Riyanto, 2008:282).

1.2.6. Company value is a certain condition that has been achieved by a company as a representation of society's trust in the company after going through a process of activities for several years, from the establishment of the company until now (Sukirni, 2012).

1.2.7. Profitability is the end result of a number of policies and management decisions of the company (Brigham and Houston, 2006). Therefore, company profitability can be said to be the company's ability to generate net income from activities performed in the accounting period.

1.3 Hypothesis Development

1.3.1. The influence of company size on company value

Company size is a reflection of the magnitude of a company, which is indicated by the total assets it possesses. A large-sized company generally has good performance quality and relative financial stability, which attracts investors to own the company's shares. Investors prefer companies with large size because they are more well-known by the public, allowing the company to obtain capital more easily through the capital market. The increase in demand for company stocks can lead to an increase in stock prices in the capital market. The larger the company size, the more tendency investors have to own the shares, resulting in an increase in stock prices. This increase in stock prices will cause the price book value (PBV) or company value to increase.

H1: Company size influences company value.

1.3.2. The influence of capital structure on company value

The trade-off theory explains that an optimal capital structure is achieved by balancing the benefits of debt financing (favorable corporate tax treatment) with higher interest rates and bankruptcy risk. The Trade-off model assumes that a company's capital structure is the result of the trade-off between the benefits of tax savings from using debt financing and the costs that arise from using debt. The Debt Equity Ratio (DER) is used as a proxy for the trade-off theory in the capital structure by balancing the benefits and sacrifices that arise from using debt. The Debt Equity Ratio reflects a company's ability to meet all of its obligations indicated by its own capital used to pay off debt. This means that the larger the capital structure, the higher the company value will be. However, a company cannot use 100%debt in its capital structure because the financial risk to the company will also increase. This risk arises because the company is unable to pay interest and principal payments in times of economic downturn. Therefore, the company must be able to determinethe amount of debtbecause the use of debt to a certain limit can increase a company value.

H2: Capital structure influences company value.

1.3.3. The influence of growth opportunities on company value

Growth opportunity is a company's opportunity to invest in profitable ventures. This is supported by Hermuningsih's (2013) study, which states that growth opportunity has a positive and significant effect on company value. Investment opportunities in a company provide a positive signal for future growth. These investment opportunities will affect company value. The more investment opportunities, the more chances investors have to obtain profit. Companies with high growth opportunities have so many investment opportunities that eventually attract investors to invest in them. This will trigger an increase in demand for company stocks and cause stock prices to rise. When stock prices rise, company value will also increase. Based on these statements and research results, hypotheses can be drawn. Companies with high growth rates should use equity as a source of financing to avoid agency costs between shareholders and company management. Conversely, companies with low growth rates should use debt as a source of financing because the use of debt requires the company to pay interest regularly (Brigham and Ehrhardt, 2007). High growth leads to an increase in funding needs. The higher the growth rate of the company, the higher the cost required for investment. Growing companies will require more funding, which companies can use to obtain investors who are willing to provide capital. Thus, it can be said that if a company's growth opportunities increase, this will also have an impact on the increased company value, and vice versa.

H3: Growth opportunities influence company value.

1.3.4. The influence of profitability on company value

Profitability, also known as the profitability ratio, refers to a company's ability to generate profit during a specific period. The profitability of a company is the ratio of profit to assets or capital that generates that profit. A company that is able to generate increasing profits indicates good performance, which can create positive sentiment among investors and increase the stock price of the company. In this study, profitability is measured using return on equity (ROE), which reflects the level of investment return for shareholders. A company with a high profitability ratio is likely to attract investors to invest in the company. Based on this statement, it can be said that profitability has a positive effect on company value. The research results of Sujoko and Soebiantoro (2007), Intan and Akram (2007), as well as Hidayati (2010) and Andi (2012), support this notion and found evidence that profitability has a positive effect on company value. Based on these statements and research results, the following hypothesis can be drawn:

H4: Profitability has a significant positive effect on company value.

2. Methodology

2.1 Population dan Sample

This quantitative study was conducted to test hypotheses. The data used were secondary in nature, obtained by examining annual reports listed on the Indonesia Stock Exchange (IDX) for the period 2016-2021, which were obtained through the website www.idx.com and the relevant company websites. The population in this study consisted of all companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2021. The sampling method used was purposive sampling. The criteria for selecting the research sample were as follows:

2.1.2 The manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the period 2016-2021.
2.1.3 Manufacturing companies that presented financial statements as of December 31 during the research period.
2.1.4 Manufacturing companies that experienced consecutive profits during the research period.
2.1.5 Manufacturing companies that presented financial statements during the research period in the Indonesian Rupiah currency.
2.1.6 Manufacturing companies that are consistent with the required data or variables used in this research.

2.2 Operational Definition of Variables

This study employs company size, capital structure, growth opportunity, and profitability as independent variables, while company value as the dependent variable. The operational definitions of these variables are presented in Table 1. below:

Table 1 Operational Definition of Variables

No.	Variable	Operational Definition of Variables	Measurements
1.	Company Size	The size of the company is related to the size of a company. The size of the company is divided into 3 categories, namely small companies, medium companies and large companies.	SIZE = Ln (Total Assets)
2.	Capital Structure	Capital structure defines capital structure as a comparison between long-term sources of borrowing and own capital.	$\textbf{Capital Structure DER} = \frac{\textbf{Total Liabilities}}{\textbf{Total Equity}} \times 100\%$
3.	Growth Opportunity	Growth opportunity is the opportunity for growth of a company in the future which is reflected in the share price that investors are willing to pay for every rupiah of profit earned by the company.	Growth Opportunity = $\frac{\textbf{Share Price}}{\textbf{Earnings per Share}}$
4.	Profitability	Profitability is a ratio that measures a company's ability to manage assets to generate profits or profits over a certain period.	Profitabilities $ROA = \frac{Net\ Profit\ After\ Tax}{Total\ Asset}$
		Dependent Variables	
1.	Company Value	Company value is a picture of the welfare of the company and shareholders.	Company Value PBV = $\frac{Share\ Price}{\text{Book Value Per Share}} \times 100\%$

3. Results

3.1 Descriptive Statistical Analysis

Table 2 Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Company Value	253	,05	14,95	2,0035	2,16271
Company Value	253	26,32	33,54	29,1922	1,61519
Capital Structure	253	,07	3,38	,7267	,61973
Growth Opportunity	253	,90	59,27	16,0064	11,44996
Profitability	253	,00	,36	,0839	,06438
Valid N (listwise)	253				

Sources: SPSS data processed, 2023.

In Table 2., it can be seen that the number of data used in this study was 253, where the data shows the different minimum, maximum, mean, and standard deviation values of five variables, namely company size, capital structure, growth opportunity, profitability, and company value. The descriptive statistical analysis results for each variable are explained as follows:

3.1.1. The company value has a minimum value of 0.05 located at PT. Mulia IndustrindoTbk (MLIA) in 2020 and a maximum value of 5.44 located at PT. Multi Bintang Indonesia Tbk (MLBI) in 2021. The mean value generated from 253 samples over a period of six years is 2.0035 and the standard deviation is 2.16271.

3.1.2. Company size has a minimum value of 26.32 located at PT. IntanwijayaInternasionalTbk (INCI) in 2016 and a maximum value of 33.54 located at PT. Astra International Tbk (ASII) in 2021. The mean value generated from 253 samples over a period of six years is 29.1922 and the standard deviation is 1.61519.

3.1.3. Capital structure has a minimum value of 0.07 located at PT. Supreme Cable Manufacturing& Commerce Tbk (INCI) in 2021 and a maximum value of 3.38 located at PT. Indal Aluminium Industry Tbk (INAI) in 2017. The mean value generated from 253 samples over a period of six years is 0.7267 and the standard deviation is 0.61973.

3.1.4. Growth opportunity has a minimum value of 0.90 located at PT. Ekadharma International Tbk

(EKAD) in 2016 and a maximum value of 59.27 located at PT. Indocement Tunggal Prakarsa Tbk (INTP) in 2018. The mean value generated from 253 samples over a period of six years is 16.0064 and the standard deviation is 11.44996.

3.1.5. Profitability has a minimum value of 0.00 located at PT. Sekar Bumi Tbk (SKBM) in 2019 and a maximum value of 0.36 located at PT. Unilever Indonesia Tbk (UNVR) in 2019. The mean value generated from 253 samples over a period of six years is 0.0839 and the standard deviation is 0.06438.

3.2 Classical Assumption Tests

3.2.1. Based on the normality test using asymp.sig. (2-tailed) in this study, the Central Limit Theorem (CLT) was used, which states that if the sample size is sufficiently large ($n > 30$), the normality assumption can be ignored.

3.2.2. Based on the results of multicollinearity, all variables have tolerance values greater than 0.10 and VIF values less than 10. Therefore, it can be concluded that there is no multicollinearity in the data.

3.2.3. Based on the results of the autocorrelation test, the Durbin-Watson value is 2.046, indicating that there is no autocorrelation in the data.

3.2.4. Based on the results of the heteroskedasticity test, the significance value is greater than 0.05. Thus, it can be concluded that there is no heteroskedasticity in the data.

3.3 Multiple Regression Analysis Tests

3.3.1. Hypothesis Test

Table 3 Hypothesis Test Results

	Unstandardized Coefficients		Standardized Coefficients		
Models	B	Std. Error	Beta	t	Sig.
(Constant)	-6,462	1,260		-5,128	,000
Company Size	,151	,045	,113	3,393	,001
Capital Structure	,679	,117	,194	5,781	,000
Growth Opportunity	,089	,006	,471	14,327	,000
Profitability	25,451	1,142	,758	22,290	,000

Sources: SPSS data processed, 2023.

Based on the data, the regression equation can be formulated as follows:

$$\mathbf{NP = -6{,}462 + 0{,}151SIZE + 0{,}679DER + 0{,}089PER + 25{,}451ROA + e}$$

The regression equation can be interpreted as follows:

(a) The value of α = -6.462

Indicates that if the independent variables such as company size (SIZE), capital structure (DER), growth opportunity (PER), and profitability (ROA) experience changes, the value of the company (NP) will decrease by -6.462.

(b) The value of β_1 = 0.151

Indicates that if the variable of company size (SIZE) increases by one percent, it will lead to an increase in the company's value by 0.151.

(c) The value of β_2 = 0.679

Indicates that if the variable of capital structure (DER) increases by one percent, it will lead to an increase in the company's value by 0.679.

(d) The value of β_3 = 0.089

Indicates that if the variable of growth opportunity (PER) increases by one percent, it will lead to an increase in the company's value by 0.089.

(e) The value of β_4 = 25.451

Indicates that if the variable of profitability (ROA) increases by one percent, it will lead to an increase in the company's value by 25.451

3.3.2. Test of F and Coefficient of Determination

Based on the F-test, the data is considered appropriate or suitable for analysis. In addition, the coefficient of determination (Adjusted R2) is 0.748 or 74.8%. This indicates that independent variables such as company size, capital structure, growth opportunity, and profitability can explain 74.8% of the variation in the dependent variable, which is company value. The remaining 25.2% is explained by other variables not included in this study.

4. Discussion

4.1 Company size affects company value

The research findings prove that company size has a significance value of 0.001 < 0.05. This means that H1 is accepted or company size partially has a significant influence on company value in manufacturing companies listed on the Indonesia Stock Exchange from 2016-2021. This result is in line with the research conducted by Merienda Fauzia Tumangkeng (2019).

4.2 Capital structure affects company value

The research findings prove that capital structure has a significance value of 0.000 < 0.05. This means that H2 is accepted or capital structure partially has a significant influence on company value in manufacturing companies listed on the Indonesia Stock Exchange from 2016-2021. This result is in line with the research conducted by Ruslita Oktavia (2019) and Syafira Salsabila (2021).

4.3 Growth opportunity affects companyvalue

The research findings prove that growth opportunity has a significance value of 0.000 < 0.05. This means that H3 is accepted or growth opportunity partially has a significant influence on company value in manufacturing companies listed on the Indonesia Stock Exchange from 2016-2021. This result is in line with the research conducted by Ramadhan Harahap (2019).

4.4 Profitability affects company value

The research findings prove that profitability has a significance value of 0.000 < 0.05. This means that H4 is accepted or profitability partially has a significant influence on company value in manufacturing companies listed on the Indonesia Stock Exchange from 2016-2021. This result is in line with the research conducted by Eka Putri Ismi Novita Deli (2017).

5. Conclusion

The purpose of this study was to analyze the influence of company size, capital structure, growth opportunity, and profitability on company value in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period of 2016-2021. Based on the testing and discussion conducted in the study, it can be concluded that there are three independent variables that have a significant impact in this study: company size, capital structure, and profitability, while growth opportunity did not have a significant impact. Company size had a significant influence on company value with a significance value of 0.001 less than the significance level of 0.05, indicating that company size has a significant influence on company value. The capital structure had a significant influence on company value with a significance value of 0.000 less than the significance level of 0.05, indicating that capital structure has a significant influence on company value. Growth opportunity had a significant influence on company value with a significance value of 0.000 less than the significance level of 0.05, indicating that growth opportunity has a significant influence on company value. Profitability had a significant influence on company value with a significance value of 0.000 less than the significance level of 0.05, indicating that profitability has a significant influence on company value.

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