e-ISSN: 3026-6696

Enigma in Economics

Journal website: https://enigma.or.id/index.php/economy

The Influence of Profitability, Liquidity, and Company Growth on Capital Structure and Company Value: A Study of Companies Listed on the LQ45 Index for the 2016-2020 Period

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ARTICLE INFO

Keywords:
Capital structure
Company growth
Company value
Liquidity
Profitability

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All authors have reviewed and approved the final version of the manuscript.

https://doi.org/10.61996/economy.v1i2.26

A B S T R A C T

This research was conducted to test and analyze the effect of profitability on capital structure, liquidity on capital structure, company growth on capital structure, profitability on company value, liquidity on company value, company growth on company value, and capital structure on company value. The type of research is associative quantitative research. This research uses secondary data from the company's annual financial report data published at www.idx.co.id. Deep sample study This numbered 21 companies and sample selection was carried out randomly through purposive sampling. This research uses multiple linear regression analysis with SPSS tools (statistical package for social sciences) version 23. The research results show that liquidity has an effect on capital structure, while profitability and business risk have no effect on capital structure. Capital structure has an effect on company value, while profitability, liquidity, and company growth have no effect on company value.

1. Introduction

The LQ45 index is a company on the Indonesia Stock Exchange (IDX) with high liquidity, which is selected using several selection criteria. The shares included in the LQ45 index are shares that have added value in the eyes of investors. This added value is associated with the liquidity value and high market capitalization value of these shares compared to shares outside the LQ45 index group. This added value creates its own perception for investors in order to assess the quality of these shares, especially regarding expectations regarding the amount of return that investors will receive. LQ45 and IHSG capitalization movements from 2016, 2017, and 2019 increased but decreased in 2018 and 2020. According to CNBC Indonesia, the performance of the LQ45 index on the IDX during 2018 decreased by 8.95%. This is because various economic events, both global and domestic, also influenced the movement of LQ45. Based on data from the Indonesian Stock Exchange, the LQ45 index was corrected by 7.85% percent, and the IHSG fell by 5.09% throughout 2020. One of the factors that caused the decline in capabilities in 2020 was the arrival of the COVID-19 outbreak in Indonesia and the implementation of large-scale social restrictions (PSBB).[1-4]

Several previous studies have shown that profitability influences company value. Other studies show that liquidity has an effect on company value. Other studies show that company growth affects

company value. Other studies show that capital structure influences company value. Profitability is one of the important indicators seen by investors in terms of the company's future prospects. Profitability is said to be important because profitability is an indicator in measuring a company's financial performance, so it can be used as a reference for assessing the company.[5-9] This study aims to assess the influence of profitability, liquidity, and company growth on capital structure and company value: a study of companies listed in the LQ45 index for the 2016-2020 period.

2. Methods

This type of research is classified as quantitative research. Quantitative research is research in the form of numbers and analysis using statistics and meets scientific principles such as concrete, objective, measurable, rational, and systematic. This type of research also includes a type of causal associative relationship. Causal here means that there is a relationship that causes the independent variable to be influenced by the dependent variable. The sample in this research is companies that are consistently included in the LQ45 index during the period 2016-2020. Sample selection was carried out randomly through purposive sampling. The sample in this research consisted of 21 companies. The dependent variables in this research are capital structure and company value. The independent variables in this research are profitability, liquidity, and company growth.

The data in this research is secondary data in the form of financial reports and stock prices obtained by accessing a website, www.idx.co.id, and through various sites related to economics and finance on the internet. This research is research with series data (time series), namely 2016-2020. The data analysis technique in this research is to use multiple linear regression. Data was processed using the SPSS assistance program (statistical package for social sciences) version 23.

3. Results and Discussion

Profitability (ROE)

ROE has a maximum value of 3.6546 and a minimum value of 0.0035. These results show that the amount of ROE in this study ranges from 0.0035 to 3.6546 with an average ROE value of 0.2537 and a standard deviation value of 0.4663, which shows that the standard deviation value of ROE is above the average value.

Liquidity (CR)

CR has a maximum value of 7.4135 and a minimum value of 0.6056. These results show that the CR value in this study ranges from 0.6056 to 7.4135, with an average CR value of 2.3131 and a standard deviation value of 1.2247, which shows that the standard deviation value of CR is below the average value.

Company growth (GROWTH)

GROWTH has a maximum value of 3.2128 and a minimum value of -0.7022. These results show that the amount of GROWTH in this study ranges from -0.7022 to 3.2128 with an average GROWTH value of 0.1432 and a standard deviation value of 0.3962, which shows that the standard deviation value of GROWTH is above the average value.

Capital structure (DER)

The DER variable has a maximum value of 3.1590 and a minimum value of 0.1535. These results show that the DER value in this study ranges from 0.1535 to 3.1590 with an average DER value of 0.9247 and a standard deviation value of 0.7171, which shows that the standard deviation value of DER is below the average value.

Company value (PBV)

The PBV variable has a maximum value of 16.1283 and a minimum value of 0.359. These results show that the PBV in this study ranges from 0.359 to 16.1283 with an average PBV value of 2.4748 and a standard deviation value of 2.4769, which shows that the standard deviation value of PBV is above the average value.

Multiple linear regression analysis (DER as dependent variable)

The multiple linear regression equation is obtained from statistical results with the following equation:

DER = 0.575 + 0.049 ROE - 0.125 CR - 0.105 GROWTH + e

From the equation above, it can be explained that the constant value (α) of 0.575 indicates that when the independent variables, namely ROE, CR, and GROWTH, have a value of 0 (X1=0, X2=0, X3=0), then the DER is 0.575. The ROE regression coefficient is 0.049 with a positive coefficient value, which means that ROE and DER have a unidirectional relationship. If ROE increases by one point, the DER value will increase by 0.049, assuming the other independent variables remain constant. On the other hand, if ROE decreases by one point, the DER value will decrease by 0.049, assuming the other independent variables remain constant. The CR regression coefficient is -0.125 with a negative coefficient value, which means CR and DER have an inverse relationship. If CR increases by one point, the DER value will decrease by 0.125, assuming the other independent variables remain constant. On the other hand, if CR decreases by one point, the DER value will increase by 0.125, assuming the other independent variables remain constant. The GROWTH regression coefficient is -0.105 with a negative coefficient value, which means GROWTH and DER have an inverse relationship. If GROWTH increases by one point, the DER value will decrease by 0.105 with variable assumptions.

Multiple linear regression analysis (PBV as dependent variable)

The multiple linear regression equation is obtained from statistical results with the following equation:

PBV = 0.429 + 0.370 ROE - 0.106 CR - 0.239 GROWTH – 0.510 DER + e

From the equation above, it can be explained that the constant value (α) of 0.429 indicates that when the independent variables, namely ROE, CR, GROWTH, and DER, have a value of 0 (X_1=0, X_2=0, X_3=0, X_4=0) then the PBV is 0.429. The ROE regression coefficient is 0.370 with a positive coefficient value, which means ROE and PBV have a unidirectional relationship. If ROE increases by one point, the PBV value will increase by 0.370, assuming the other independent variables remain constant. On the other hand, if ROE decreases by one point, the PBV value will decrease by 0.370, assuming the other independent variables remain constant. The CR regression coefficient is -0.106 with a negative coefficient value, which means CR and PBV have an inverse relationship. If CR increases by one point, the PBV value will decrease by 0.106, assuming the other independent variables remain constant. On the other hand, if CR decreases by one point, the PBV value will increase by 0.106, assuming the other independent variables remain constant. The GROWTH regression coefficient is -0.239 with a negative coefficient value, which means GROWTH and PBV have a negative relationship. If GROWTH increases by one point, the PBV value will decrease by 0.239, assuming the other independent variables remain constant. On the other hand, if GROWTH decreases by one point, the PBV value will increase by 0.239, assuming the other independent variables remain constant. The DER regression coefficient is -0.510 with a negative coefficient value, which means DER and PBV have an inverse relationship. If DER increases by one point, the PBV value will decrease by 0.510, assuming the other independent variables remain constant. On the other hand, if DER decreases by one point, the PBV value will increase by 0.510, assuming the other independent variables remain constant.

Statistical t-test (DER as dependent variable)

Based on the results of the t-test for ROE, it has a significance value of 0.899. If the significance value (themselves) > 5 %, then it can be concluded that H_0 is accepted and H_a is rejected, which means ROE partially has no significant effect on DER. Based on the results of the t-test for CR, it has a significance value of 0.000. The significance value (sig) is <5%, so it can be concluded that CR partially has a significant effect on DER. Based on the results of the t-test for GROWTH, it has a significance value of 0.777. The significance value (sig) is > 5%, so it can be concluded that partial GROWTH has no significant effect on DER.

Statistical t-test (PBV as dependent variable)

Based on the results of the t-test for ROE, it has a significance value of 0.122. The significance value (sig) is > 5%, so it can be concluded that H_0 is accepted and H_a is rejected, which means that partial ROE has no significant effect on PBV. Based on the results of the t-test for CR, it has a significance value of 0.489. The significance value (sig) is > 5%, so it can be concluded that partial CR has no significant effect on PBV. Based on the results of the t-test for GROWTH, it has a significance of 0.135. The significance value (sig) is > 5%, so it can be concluded that partial GROWTH has no significant effect on PBV. Based on the results of the t-test for DER, it has a significance of 0.028. The significance value (sig) is <5%, so it can be concluded that DER partially has a significant effect on company value (PBV).

The research results show that profitability has no effect on the capital structure of companies listed on the LQ45 index in the 2016–2020 period. This is because companies that generate profits in their operations will not necessarily use these profits to be used as funding or operational capital for the company. Especially companies that plan to invest in the future, or it is possible that the profits can be used as retained earnings to pay dividend distribution. These findings support the pecking order theory, which states that companies will prefer to use internal funding, namely by using their current assets to meet their funding needs. The higher the company's liquidity level, the less debt it will use because, with large total assets, the company will prefer to fund its business activities with its own capital, so liquidity has an effect on the capital structure (DER). Company growth does not affect the capital structure because companies with high sales growth prefer to use their own capital or retained earnings to finance their operational activities rather than using long-term debt.[10-13]

Profitability in this research is measured using ROE; if ROE has no effect on company value, then it can be said that the company's ability to generate profits with its own capital is low. ROE has no effect on company value because an increase in the amount of capital is not followed by an increase in the amount of profit in the company, so it will indicate that the company will not be able to obtain profits for shareholders. Another thing that could be the cause is that investors are more technically oriented than micro-fundamental oriented, where investors estimate stock prices by observing price changes in the past. At some point, liquidity that is too high can also reduce company profits because too many funds are idle. When a company's profits decrease due to non-optimal turnover of funds, the company will reduce its dividend payout ratio. Liquidity is short-term oriented, while company value is long-term oriented. So, high or low liquidity cannot be one of the factors that influence the high or low value of the company.[14-16]

High growth causes the need for funds to increase; the higher the company's growth rate, the less funds are available to distribute to shareholders. Funds issued by the company can also be obtained from debt, the higher the funds issued by the company, the less funds or dividends that can be distributed to its shareholders. Therefore, high company growth will not increase investor confidence or increase company value. Investors have more confidence in companies that are already established and not growing. Therefore, even though the company's growth rate is high, it will not affect investor confidence so it will not affect the company's PBV level. The optimal capital structure is a combination of debt and equity that can maximize the price of the company's shares. Changes in the cost of capital will affect capital budget satisfaction and will ultimately affect the company's share price. Determining the capital structure, which is a mix of debt and equity, aims to optimize the value of a company. The optimal capital structure of a company is to maximize the company's share price. For every company, the decision to select sources of funds is important because this will affect the company's financial structure, which will ultimately affect the company's performance. The higher the debt to finance the company's operations, the lower the company value because with a high level of debt, the burden the company will bear is also large.[17-20]

4. Conclusion

Profitability does not have a significant effect on capital structure because the company has determined the capital structure based on the amount of benefits (return) and sacrifices (capital costs) resulting from the use of debt to support company operations. Companies that generate profits will not necessarily use these profits to be used as funding or operational capital for the company. Liquidity has a significant effect on the capital structure because, with large total assets, the company will prefer to fund its business activities with its own capital. Pecking order theory states that the company would prefer to use internal funding, namely by using its current assets to meet its funding needs. Company growth does not have a significant effect on the capital structure because, with increasing company growth, the profits that will be obtained will also increase companies, so companies are more likely to use their own capital (retained earnings) to finance company operations rather than using long-term debt. Profitability does not have a significant effect on company value because an increase in the amount of capital is not followed by an increase in the amount of profit in the company, so it will indicate that the company will not be able to obtain profits for shareholders. Liquidity does not have a significant effect on company value because liquidity that is too high can also reduce company profits; this is caused by too many idle funds. When a company's profits decrease due to non-optimal turnover of funds, the company will reduce its dividend payout ratio. Company growth does not have a significant effect on company value because high company growth does not increase investor confidence or company value. Investors believe more in companies that are already established and not growing. Capital structure has a significant effect on company value because changes in the cost of capital will influence capital budget decisions and ultimately affect the company's share price. For every company, the decision to select sources of funds is important because this will affect the company's financial structure, which will ultimately affect the company's performance.

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