The Influence Of Capital Structure And Growth of Company to Firm Value at Company in Indonesian Stock Exchange

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Abstract

The aim of this study was proving the influences of capital structure and growth of company to firm value at company in Indonesian Stock Exchange. The population in research is all company which listed in Indonesian Stock Exchange, at period time 2007 to 2009. Sample choice by using purpose sampling method amount 45 company. Techique of test by parsial that capital structure have an effect on negatively and significant to firm value, growth of company have an effect on negatively but not significant to firm value.

This study findings partial that capital structure have an effect growth of company (sign = 0,001), growth of company haven't an effect to firm value (sign = 0,582) Result of research by simultan that capital structure and growth of company growth of company (sign =0,001)

Keywords: *capital structure, growth, firm value*

INTRODUCTION

For firm values, the funding decision related with the choice of funding sources, whether from inside or from outside, which is significantly affect firm value. Source from internal derived from retained earnings and depreciation. External fund comes from debts. Funds received from the owners of capital. Currently, business really depends on funding problem. There is an argument that in order to stimulate economic growth, the real sector should be determined, although there are many obstacles facing the company, one of the most important problems is funding. Efforts to overcome financial difficulties, managers of must be careful in determining the company's capital structure, with careful planning when defining the capital structure, which is expected to enhance firm values and head in the face of business competition.

The long term company's goal is to optimize the firm value by minimizing the cost of capital. Debt policy can be used to create the desired firm value, but debt policy also depends on company growth that also related with firm size. A big company and the company that has a good rate of growth is relatively easier access to capital markets. Large companies are relatively easy to meet the source of debt financing through capital market. The good growth rate shows the company's ability to pay interest on the debt. Therefore, relationship of the capital structure, company's growth and firm value becomes relevant.

Weston and Brigham (1985) said that the financial structure is the way the company's to buy assets. This is the right sides of balance sheet. While, the company's capital structure is permanent spending fund, especially in the form of long-term debt, preferred shares / common stock, but not all are included in short-term debt. So the company's capital structure is only part of the financial structure. The principle of good management demands that companies in obtaining and using the funds should be based on efficiency and effectiveness. Efficient use of funds means that whatever funds are invested in assets should be used efficiently as possible to generate maximum profit. Functions of the use of funds include planning and controling the use of assets in current assets and fixed assets. Funds are embedded in every element of the asset on the one side is not too small, so it can not be interfered with the liquidity and business continuity, and on the other side is not too large in number, giving rise to unused funds.

Therefore, the fund allocation should be based on a proper planning, so the idle will decrease. The efficiency of use of funds will determine the size of the profits generated from investments. Managers must be careful in carrying out the function of the use of funds.They are always asked to seek alternative investments later in the analysis. The results of the analysis must take the alternative investment decisions. In other words, managers must make investment decisions. According to trade off theory, managers can choose the ratio of debt to maximize firm value. Fama (1978) argues that the firm value will be reflected in stock market prices. Jensen (2001) explains that to maximize firm value not only with the value of equity, but also all the sources of finance such as debt, warrant, and preferred stock.

The theory of capital structure explains the influence of capital structure on firm value. Firm value can be interpreted as an expectation value of shareholders' investment (equity market) or expectations of total firm value (market equity plus the market value of debt, or the expectations of the market price of the asset (Sugihen, 2003) Growth.

Research on the affect of capital structure on firm value has been widely applied in Indonesia. Some researchers Sugihen (2003) found that capital structure does not have a direct negative effect on firm value. Wahyu and Hartini (2004) proved that the financing decisions affect firm value, but the investment decisions and dividend policy has no effect

on firm value. Hasnawati (2005) proved that dividend policy directly affects on firm value and indirectly affect through a dividend policy and funding decisions. The results of this study are consistent with the findings Mogdiligani and Miller in 1963 that by including corporate income tax, then the use of debt will increase firm value. Sriwardany (2006) found evidence that capital structure has a negative effect to stock price, which gives the sense that if we use debt in our capital structure decisions, there will be a decline in stock prices, while the growth of the company has a direct impact on stock prices.

The purpose of this study were 1) examining the effect of capital structure on firm value in Indonesia 2) examining the effect of growth on the firm value in Indonesia 3) examining the effect of capital structure and company growth on firm value in the Indonesia.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Capital Structure and Firm Value

The theory of capital structure explains the effects of capital structure change to firm value, if the investment decisions and dividend policy is constant. In other words, if the company replaced as capital by debt or vice versa and the company does not change any other financial decisions, the stock price will change. In other words, if the change in capital structure does not change firm value, meaning that none of the best capital structure. All the capital structure is good. But if the change turns out the company's capital structure change, we will get the best capital structure. Capital structure will maximize firm value is the best capital structure (Husnan, 2004). Capital structure theory explains that the company's funding policy in determining the mix between debt and equity aims to maximize firm value. Any funding decisions require managers to consider the benefits and costs from the sources of funds. Funding sources is classified into two categories, internal funding and external funding sources. Internal funding sources can be obtained from the profits on hold and the depreciation of fixed assets while the source of external financing can be obtained from the creditors , called by debt.

Modigliani and Miller (1958) showed that a firm value is not affected by capital structure. The evidence is based on a series of assumptions, among others, no brokerage fees (brokerage), no taxes, no bankruptcy costs, investors can borrow with interest rate equal to the company, all investors have the same information, EBIT is not affected by the cost of debt. With these results show the conditions under which capital structure does not relevant. MM also provided clues to be releven capital structure so as to affect firm value (Brigham and Houston, 2001)

MM in 1963 published an article that further made weak the assumption of no company tax. Tax laws allow the reduction of interest payments as an expense, but dividend payments to shareholders can not be deducted. Research results prompted the company to use debt in capital structure. This conclusion is modified by Miller when the effects of individual incorporate taxes. Miller argued that investors are willing to accept the decision on the shares before taxes are relatively low compared with pre-tax return on bonds (Brigham and Houston, 2001). MM results will releven depended on the assumption of the absence of bankruptcy costs. Bankrupt company has very high legal and accounting costs. They are also difficult to retain customers, suppliers and employees. In fact, bankruptcy is often forces a company to liquidate or sell the property at a price below the price. Costs associated with bankruptcy, namely: (1) profitability occurrence, (2) costs that will arise when financial difficulties will arise. Companies with unstable profit will facing bankruptcy costs greater, so they must use less debt than the stable company's (Brigham and Houston, 2001).

Leverage Trade-off theory explains that the optimal capital structure is found by balancing the benefits of financing with debt (liability favorable tax treatment) by the higher interest rates and bankruptcy costs (Brigham and Houston, 2001). The cost of debt resulting from (1) increased of bankruptcy caused by debt obligations that depend on the level of business risk and financial risk. (2) cost of control agents and corporate actions (3) cost associated with managers who have a more information about the company's prospects than investors (Sriwardany, 2006). Modigliani and Miller said in the conditions of corporate income tax existing, firm value will increase due to greater use of debt. The present value of financial distress and the present value of agency cost can result in decreased firm value that has leverage (Sartono, 2001)

Solihah and Taswan (2002) indicated that the debt policy has not significant effect on firm value. The results of this study are inconsistent with the findings of Modigliani and Miller in 1963 that by including corporate income taxes, the use of debt will increase firm value. Hasnawati (2005) indicated that the funding decisions have a positive influence on firm value. Sriwardany (2006) found that firm growth has a direct and positive effect on stock price changes, which means that information about the company's growth responded positively by investors, thus increasing the stock price. From the trade-off theory implied that the company's growth directly affects firm value. Driffild, et.al (2007) showed that there was the influence of the ownership structure on leverage and firm value (Tobin'Q) in Indonesia, Korea, Malaysia., but not significant in Thailand.

The trade-off theory explains that if the position of capital structure under the optimal point, any additional debt will increase firm value. And conversely, if the position of each capital structure is above the optimal point, any additional debt will decrease firm value. Therefore, assuming the point of optimal capital structure target is not reached, the trade-off theory predicts a positive relationship on firm value.
So, whether capital structure is useful in increasing firm value becomes an empirical issue that can be tested using the following hypothesis

Hypothesis 1: The Capital Structure has a positive effect on the Firm value

Company Growth and Firm value
Companies with high growth rates, in hubungaunnya with leverage, you should use the equity as a source of financing in order to avoid agency costs between shareholders and management, otherwise companies with low growth rates should use debt as a source pembiayaanya because the use of debt the company will mengharyskan will pay interest regularly. Company's with rapid growth, the greater the need for funding for expression. The greater of the need for future financing will increase of the company's desire to increase profits. So the company that is growing should not distribute profits as dividends but are better used for expansion. This growth potential can be measured from the high cost of research and development. The greater the R & D cost means a company's prospects for growth (Sartono, 2001).

Kallapur and Trombey (1999), realization of company growth is proxied by with companies growth value that include asset and equity growth. Company's assets shows the use of funds decision or investment decisions in the past. Assets defined as resources that have the potential to provide economic benefits to the company in the future. Resources that are able to generate cash inflow or reduce the ability of outflow cash can be called assets. These resources will recognized as assets the company acquired rights to use assets as a result of transactions or exchanges in the past and the future economic benefits can be measured, quantified with an adequate level of accuracy.

Growth is the impact on the corporate funds flow from operational changes caused by growth or decline in business volume (Helfert, 1997). Growth is expected by the company's internal and external company, because growth is good sign for the development of member companies. From the investors standpoint, the company growth is a sign that the company has a favorable aspect, and investors will expect a return on investments made showing good growth.

So, whether the company's growth is useful in enhancing firm value becomes an empirical issue that can be tested using the following hypothesis
Hypothesis 2: The company's growth has a positive effect on firm value

And whether the company's capital structure and growth are also useful in enhancing firm value becomes an empirical issue that can be tested using the following hypothesis

Hypothesis 3: The company's capital structure and the simultaneous growth of a positive effect on firm value.

RESEARCH METHOD

Research Population
The population in this study is companies listed on the Indonesia Stock Exchange.
Sampling was done by purposive sampling, ie samples which have the following criteria:
1) Companies listed on the Stock Exchange in 2009 and entered into the group LQ45
2) The Company is not a financial company (banking, securities and insurance) are listed on the Indonesia Stock Exchange
3) The company publishes audited financial statements with fiscal years ending on December 31.

Data analysis techniques in this study using the Multiple Regression

Variable Measurement
Capital Structure
Capital structure is the ratio of total debt to total equity firm owned by the company. Capital structure is calculated with o Debt Equity Ratio

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Company Growth
Company Growth change calculated using total assets, meaning that the company's growth is change of total assets owned by the company in the current period with prior periods of the previous period total assets.

$$\text{Delta TA} = \frac{\text{Total Assets}_{t} - \text{Total Assets}_{t-1}}{\text{Total Assets}_{t-1}}$$

Firm Value=PBV
Price to book value or PBV illustrate how much the market value of shares of a company's book value. the higher this ratio means that the market believes the prospects for the company.

$$PBV = \frac{\text{Stock Price}}{\text{BV}}$$

Book Value (Book Value / BV) is the ratio of the price computed by dividing the total net assets (assets - debt) to total shares outstanding.

$$BV = \frac{\text{Total Equity}}{\text{The amount of share}}$$

Hipothesis Testing

To answer the research questions and assess the models, an analytical tool used is multiple regressions. The software used was SPSS Version 16. The regression equation, as follows:

$PBV = a + b_1 St\ Mod + \varepsilon$ ……..……(3.1)

$PBV = a + b_2 Growth + \varepsilon$ …….(3.2)

$PBV = a + b_1 St\ Mod + b_2 Growth + \varepsilon$ ……..(3.3)

where:

PBV	=	Firm value
St.Mod	=	Capital Structure
Growth	=	Company growth
ε	=	standard error

ANALYSIS RESULTS AND DISCUSSION

Descriptive Statistics

Table 4.1 DescriptiveStatisics

Variable	N	Minimum	Maximum	Average	Standard Deviation
St Mdl	30	1.3792354E230	1.0418475E5	1.248415794E4	2.4963521861E4
Growth	30	-9.4286261E-1	1.3757736E6	4.585917253E	2.5118072819E5
PBV	30	5.2830523E2	2.2414121E8	3.177400215E7	5.7288615692E7

Table 4.1 shows the average value of capital structure with a standard deviation of 1.24841579 2.4963521861. The average value of 4.585917253 company's growth with a standard deviation of the value 2.5118072819

Hypothesis 1

Hypothesis testing conducted to test whether the company's capital structure affects firm value. Results of testing hypothesis 1 can be seen in table 4.2 below:

Table 4.2 R Square

Model	R	R Square	Adjusted Square
1	0,619	0,383	0,360

Predictors: (Constant), Growth, StrModl

From the table above, the R2 value of 0.383 obtained means that the firm value value is influenced by the variable capital structure and growth of 36%, while for 61.7% diengaruhi by other variables that are not included in the study

Table 4.3 Hypothesis 1

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.665E16	1	3.641E16	17.347	0,001[a]
	Residual	5.853E16	28	2.099E15		
	Total	9.518E16	29			

a. Predictors: (Constant), StrModl
b. Dependent Variable: PBV
From the table above are calculated F values obtained for 17 347 with probability 0.001. Because the probability is smaller than the significance level α (5%). It can be said that the capital structure has a positive and significant effect on firm value.

Table 4.4 Hyphotesis 1 Model

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.405E7	9.384E6		1,498	0,145
	StModl	1419.396	340.7900,619		4,165	0,000

From the table 4.4, the capital structure coefficient obtained is positive, meaning that the information tntang member firm's capital structure can be responded positively by investors sehngga meningkatlan firm value. Thus the test hypothesis 1 produces the following models:
Firm value = 1.405E7 + 1419.396 Capital Structure

Hypothesis 2
Testing hypothesis 2 conducted to test whether the growth of corporate influence on firm value. The results of testing hypothesis 2 can be seen in table 4.5 below:

Table 4.5 R Square

Model	R	R Square	Adjusted Square
1	0,105	0,011	-,024

Predictors: (Constant), Growth

From the table above, the R2 value of 0.105 obtained means that the firm value value is influenced by the variable growth of 1%, while 99% influenced by other variables that are not included in the study

Table 4.6 The Significancy of Hipothesis 2

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.044E15	1	1.044E15	0,11	0,582[a]
	Residual	9.413E16	28	3.362E15		
	Total	9.518E16	29			

a. Predictors: (Constant), Growth
b. Dependent Variable: PBV

From the above table Fhitung obtained value of 0.11 with probability 0.582. Because the probability is greater than the significance level α (5%). It can be said that the rowth companies do not have an influence on firm value.

Table 4.7 Hipothesis 2 Model

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.287E7	1.077E7		3.053	005
	Growth	-23.891	42.865	-.105	-.557	.582

From the table 4.7. coefficient obtained from the company's growth is negative, meaning that gives information about the company's growth can be responded negatively by investors, so meningkatlan firm value. Thus the test hypothesis 1 produces the following models:
Firm value = 287E7 - Growth 23 891

Hypothesis 3
Hypothesis testing conducted to test whether the company's capital structure affects firm value. The results of testing hypothesis 3 can be seen in Table 4.8 below:

Table 4.8 R Square

Model	R	R Square	Adjusted Square
1	0,621	0,385	0,339

Predictors: (Constant), Growth, StrModl

From the table above, the R2 value of 0.385 obtained means that the firm value value is influenced by the variable capital structure and growth of 38.5%, while for 61.5% diengaruhi by other variables that are not included in the study

Table 4.9 The Significancy of Hipothesis 3

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.665E16	2	1.832E16	8.453	0,001[a]
	Residual	5.853E16	27	2.168E15		
	Total	9.518E16	29			

a. Predictors: (Constant), Growth, StModl
b. Dependent Variable: PBV

From the above table values obtained Fhitung of 8.453 with probability 0.001. Because the probability is smaller than the significance level α (5%). It can be said that the capital structure has a positive and significant effect on firm value

Table 4.10 Hipothesis 3 Model

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.471E7	9.738E6		1,510	0,143
	StModl	1409.160	347.712	0,614	4,053	0,000
	Growth	-11.459	34.557	-0,050	0,332	0,743

Dependent Variable: PBV

From table 4.10. coefficient obtained from the Capital Structure is positive, meaning that the information tntang member firm's capital structure can be responded positively by investors sehngga meningkatlan firm value. Thus the test hypothesis 1 produces the following models:
Firm value = 1.405E7 + -11 459 1419.396 Growth Capital Structure

CONCLUSION

Conclusion

1. Capital structure has positive significant effect on firm value. This study are consistent findings and Taswa Solihah (2002) and Hasnawati (2005)
2. Company growth does not has affect firm value. This study is not consistent with Sriwardany (2006)
3. Capital structure and company growth has positive significant effect on firm value. This means that the use of debt as a source of corporate financing and increase the changes of total assets will increase the price per share on equity shares when the company reduced debt, companies were able to obtain funds in capital markets to make investments so the market value of equity shares will increase

5.2. Research Limitation

The result of this study has R square of 0.385. It meas that the firm value is influenced by variables of Capital Structure and Company Growth of 38.5%, while for 61.5% influenced by other variables that are not included in the study. So, researchers who will conduct the same research needs to add other variables such as firm size, ownership structure, or other variables so that research results can be predicted more strong.

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