

Effect of Capital Structure and Growth Opportunity on Firm Value (Case Study on Manufacturing Companies on the Stock Exchange Indonesian Securities)

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ABSTRACT

The calculation results obtained using the multiple linear regression analysis models show that capital structure and growth opportunity simultaneously have a positive and significant influence on firm value. This is supported by the F-counted value of 4,645 at the 0.011 significance level smaller than 0.05, which means that the F-count is greater than the F-table value of 4,645 > 3,058. The capital structure is partially insignificant to the company. This is supported by the T-count value of 0.273 at a significance level of 0.785 greater than 0.05, which means that the T-count is smaller than the T-table value of 0.273 < 1.976. The growth opportunity is partially negative and significant. This is supported by a T-count value of -3.033 at a significance level of 0.003, smaller than 0.05, which means the amount smaller than the T-table value is -3.033 < 1.994.

Keywords – Capital Structure; Growth Opportunity; Company Value

INTRODUCTION

The business world today is very dependent on funding issues. The setback experienced in the business world was caused by many financial institutions experiencing financial difficulties. The impact was due to past credit bottlenecks by banks and approved creditworthiness problems (1). The company's financial manager must be careful in determining the capital structure because the expected capital structure of the company can increase the company's value and is superior in facing business competition (2). The company's long-term goal is to minimize the company's cost of capital and expect optimal company value: the higher the company's value, the more prosperous the owner of the company (3).

The trade-off theory is a theory that explains that the optimal capital structure is found by balancing the benefits of financing with debt (favorable corporate tax treatment) with higher interest rates and bankruptcy costs caused by agency costs and bankruptcy costs (4).

Growth opportunity is how big the company can place itself in the overall economic system or the economic system for the same industry (5). Companies that grow rapidly get positive results in strengthening their position in the era of competition, enjoying significantly increased sales, and accompanied by an increase in market share. As an illustration, the company can develop its business with its internal capabilities. Growth opportunity is expressed as total asset growth, where past total assets will describe future profitability and future growth (6). Executing an appropriate strategy with the expected results shows the success of the company's long-term goals. Goals must be quantitative, measurable, realistic, understandable, challenging, hierarchical, achievable, and aligned with organizational units, usually expressed in asset growth. Long-term goals are needed in all sub-organizations and can include something associated with revenue growth, profits, high returns on investment, and improved cash flow (7).

In this study, the research object used is a manufacturing company listed on the Indonesian stock exchange. The manufacturing industry is an industry that dominates companies listed on the Indonesian stock exchange (IDX). Around 143 companies in the manufacturing industry are grouped into 19 industry subcategories. Therefore, the results of this study are expected to apply to all industrial sectors.

METHOD

This research is classified as a type of hypothesis-testing research. The variables used in this study are firm value (dependent variable), capital structure, and growth opportunity (independent variable). The research object was selected from the Indonesian Stock Exchange in this study. The research focused on manufacturing companies listed on the Indonesian stock exchange and having published financial reports from 2011 to 2015. The data used in this study is quantitative, namely data in the form of numbers that are analyzed using being classified and calculated so that the results are correct. The data analysis method used in this research is the multiple linear regression analysis methods.

RESULTS

Descriptive Analysis

To determine the effect of one variable on other variables, it is very appropriate to use a multiple linear regression approach, where the estimation of the value of the multiple linear regression parameter using the SPSS 16 for windows program on the financial statement data of 30 manufacturing companies listed on the Indonesia Stock Exchange for the period 2011 – 2015, with the independent variable is capital structure (X1) and growth opportunity (X2), and the dependent variable is the firm value (Y).

Descriptive analysis is an analysis based on collecting, processing, and then presenting the results of data processing in the form of a list of descriptive tables (8). A descriptive summary is made in a table that shows the difference in the mean score (mean) of each research variable. As shown in Table 1 follows:

Table 1. Descriptive Statistics

	Mean	Std. Deviation	N
The value of the company	8,76	35,823	150
Capital Structure	0,76	0,524	150
Growth_Opportunity	0,14	0,107	150

Source: Data processed by SPSS 16 for windows, 2017

The table above shows that the amount of data entered is 150 data samples, with the results of the analysis as follows: 1) Firm value, during the study period, it appears that the mean (average) calculated firm value is 8.76 and the standard deviation is equal to 35,823; 2) Capital structure, during the research period it is seen that the calculated mean (average) capital structure is 0.76, it can be explained that the performance of manufacturing companies in managing capital to increase firm value on average has changed by 0.524; 3) Growth opportunity, during the research period, it can be seen that the calculated mean (average) growth opportunity is 0.14. It can be explained that the performance of manufacturing companies in taking advantage of existing business growth opportunities to increase firm value has, on average, changed by 0.107.

Classic assumption test

Multicollinearity Multiple Regression Assumption Test

According to Santoso (2006: 206) To see whether there is multicollinearity in this study can be seen through the results of the calculation of the value of the variance inflating factor (VIF), where if the value of the variance inflating factor with a tolerance number is close to 1 then the data presented does not occur multicollinearity (9). From the results of processing data on the financial statements of manufacturing companies listed on the IDX, it shows that the variables analyzed for the value of the inflating factor and the tolerance number indicate that there is no multicollinearity, with the VIF value of 1,000, then the cut off value used to indicate the presence of multicollinearity is: if the tolerance value < 0.10; then multicollinearity occurs, but if the tolerance value is > 0.10; then there is no multicollinearity.

The results of the multicollinearity test in this study showed that there was no correlation value between the independent variables. Because the value was > 0.10, there was no multicollinearity, as shown in Table 2 as follows:

Table 2. Multicollinearity test results

Colinearity Statistics		
Independent Variable	Tolerance	VIF
Capital Structure (X1)	1.000	1,000
Growth Opportunity (X2)	1.000	1,000

Source: Primary Data After Processing in 2017

Based on the test results in Table 2 above, because the VIF value for all variables has a value less than 5, it can be concluded that there are no symptoms of multicollinearity between independent variables.

Heteroscedasticity Multiple Regression Assumption Test

The heteroscedasticity assumption test determines whether the absolute residual variation is the same (homoscedasticity) or not the same (heteroscedasticity) for all observations. According to Sudarmanto (2004: 56), if the assumption of non-occurrence of heteroscedasticity is not met, then the estimation becomes inefficient in both small and large samples, and the estimated coefficient can be said to be less accurate (9). For more details, the research results can be seen in Figure 1 as follows:

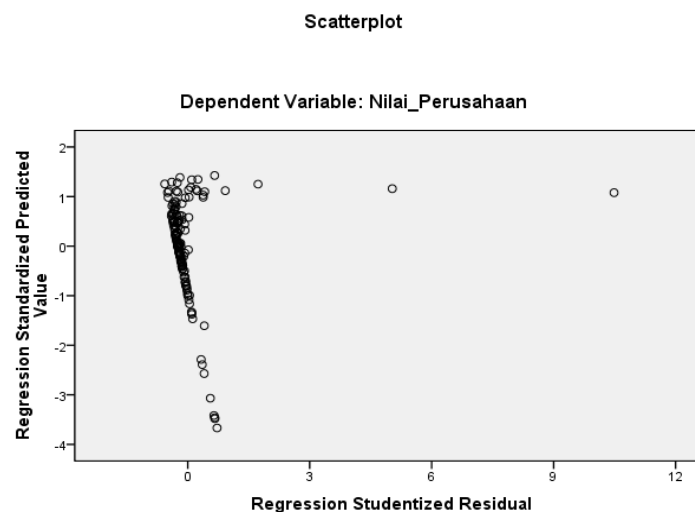


Figure 1. Heteroscedasticity Assumption Test

Based on the scatterplot diagram above, it can be seen that the points do not spread randomly and collect parallel to the Y-axis. This indicates that there is heteroscedasticity in the regression model, so the regression model is not suitable to predict firm value based on the input of the independent variables, namely capital structure and growth opportunity.

Normality Multiple Regression Assumption Test

According to Santoso (2000:84), the normality test is used to test whether, in a regression model, the dependent variable and the independent variable are normally distributed or not (10). To detect, it can look at the spread of data (dots) on the diagonal axis of the graph spread around and follow the diagonal line. For details, it can be seen in Figure 2 as follows:

Normal P-P Plot of Regression Standardized Residual

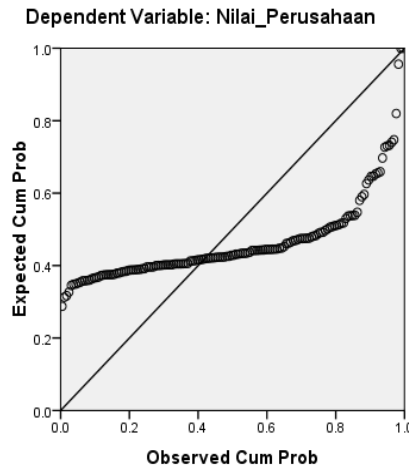


Figure 2. Normality Assumption Test

The results of the graphical analysis in Figure 2 above show that the data points do not spread as a whole around the diagonal line, and the distribution does not follow the direction of the diagonal line, so the assumption of normality cannot be fulfilled.

Autocorrelation Multiple Regression Assumption Test

In the assumption of the regression model, autocorrelation is defined as the occurrence of a correlation between observational data, where other data influence the emergence of one data. A good regression model is a regression that is free from autocorrelation. To find out whether or not the regression is free from autocorrelation by looking at the Durbin Watson value close to 2 or more. Detect the presence of autocorrelation in the regression equation model by passing Durbin Watson according to the following conditions:

- | | |
|----------------|----------------------------|
| DW < 1.10 | = there is autocorrelation |
| DW 1.11 – 1.54 | = without conclusion |
| DW 1.55 – 2.46 | = no autocorrelation |
| DW 2.47 – 2.90 | = without conclusion |
| DW > 2.91 | = there is autocorrelation |

In this study, it is known that the value of Durbin Watson is 1.140. Thus, by Gujarati's assumptions, the regression model in this study is free from autocorrelation at the level without conclusions.

Research Results Analysis

Multiple Linear Regression Analysis

In performing multiple linear regression analysis, we will discuss the correlation coefficient, the coefficient of determination, the regression equation, the regression coefficient, and the partial correlation coefficient for regression involving more than one independent variable.

The data obtained from the research results in the field is then analyzed using qualitative and quantitative analysis, where quantitative analysis is used to prove the proposed hypothesis using multiple linear regression analysis. At the same time, the qualitative analysis itself explains the evidence from the quantitative analysis.

Proof with qualitative analysis is intended to test the variation of the multiple linear regression model used in explaining the independent variable (X) to the dependent variable (Y) by testing the significance of the regression coefficients. The results of calculations using the regression model (Model Regression) are obtained with multiple linear regression coefficient values, as shown in Table 3 as follows:

Table 3. Multiple Linear Regression Processing Results

Dependent Variable Y = Firm Value						
Variable	Reg. Coeff	Std. Error	Beta	t Count	t Table	Sig
C = Constanta	19,155	6,342		3,020		0,003
X1 = Capital Structure	1,495	5,468	0,022	0,273	1,976	0,785
X2 = Growth Opportunity	-81,138	26,747	-0,243	-3,033	1,976	0,003
R = 0,244			F- Count = 4,645			
R-Square = 0,059			F- Table = 3,058			
Durbin Waston = 1,140			Sig. F = 0,011			

Source: Results of 2017 data processing

Based on the calculation results obtained, shown in Table 3 above, the regression equation is obtained which is stated as follows:

$$Y = 19,155 + 1,495 (X1) + -81,138 (X2)$$

In the multiple linear regression model equation, the regression coefficient value of the independent variable (X) is obtained. Namely, the capital structure (X1) is positive, and the growth opportunity (X2) is negative. Unidirectional change in the dependent variable (Y), namely the value of the company, and vice versa. In other words, the firm value variable (Y) is = 19,155 if there is no influence from the capital structure variable (X1) and growth opportunity (X2) or equal to 0 (zero). In contrast, the firm value variable (Y) will increase by 1.495 from a constant value of 19,155 if there is an increase of 1 (one) value in

the capital structure variable (X1) with the assumption that there is no influence from the growth opportunity variable (X2) or equal to 0 (zero), as well as the growth opportunity variable (X2) if it occurs an increase of 1 (one) value will decrease the firm value variable (Y) by -81.138 from a constant value of 19.155 with the assumption that there is no influence from the capital structure variable (X1) or equal to 0 (zero).

For the correlation coefficient value of 0.244, it shows that there is a very weak relationship between the capital structure variable (X1), Growth opportunity (X2), and the firm value variable (Y), with a coefficient interval of 0.20 – 0.399 (Sugiyono, 2004). Likewise, the R Square (coefficient of determination) of 0.059 indicates that 5.9% of firm value is determined by the capital structure variable (X1) and growth opportunity (X2), so there are 94.1% of other variables that do not explain the firm value variable and which not identified in this study, namely profitability, liquidity, stock prices, asset structure funding decisions, dividend policy, investment decisions, company growth, and company size.

F test

The F test was conducted to see the effect of all independent variables together (simultaneously) on the dependent variable.

Simultaneous Effect of Capital Structure (X1) and Growth Opportunity (X2) on Firm Value (Y)

Based on Table 3 above, it can be seen that in the test, the F-count results are 4.645 with a significance level of 0.011, which is smaller than 0.05, where the F-count value (4.645) is greater than the F-table value; As for the F-table value (significance 5% with $df_1 = 3-1 = 2$, and $df_2 = 150-2-1 = 147$) is 3.058, then H_0 is rejected, and H_a is accepted. It means that capital structure and growth opportunity together or simultaneously positively affect firm value.

Thus, the first hypothesis states that capital structure and growth opportunity simultaneously positively and significantly affect firm value in manufacturing companies listed on the IDX. It is proven and accepted. The results of this study indicate that with an optimal capital structure that can minimize the overall cost of capital use or the average cost of capital and a high growth opportunity, the company will be more likely to use its shares to fund the company's operations. As investment spending with its capital, thus this can increase the company's value. According to Keown in Jantana (2012: 7), company value is the market value of outstanding debt securities and company equity. Firm value is an investor's perception of the company's level of success which is often associated with stock prices. This means that debt and equity are part of the capital structure. At the same time, the company's success is related to growth opportunities that always have opportunities in the future, so it can be concluded that the capital structure and growth opportunity simultaneously (simultaneously) affect the company's value.

T test

The t-test was conducted to see whether each independent variable significantly affected the dependent variable. By using a significance level of 5%, the following are the results of the t-test carried out.

Capital Structure (X1) Partial and Significant Effect on Firm Value (Y)

Based on Table 3 above, it can be seen that the second hypothesis test is that the capital structure variable has an at-count of 0.273 with a significance level of 0.785, which is greater than 0.05, meaning that it is not significant, where the t-count value is 0.273) smaller than the t-value. table; As for the t-table value (2-sided test, 5% significance with $(df) = 150 - 2 - 1 = 147$) is 1.976. Not significant here means that the hypothesis is rejected. This means that the capital structure partially has no significant effect on firm value.

Thus, the second hypothesis, which states that capital structure significantly affects firm value, can be rejected. This study indicates that increasing capital structure will not have implications for firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Growth Opportunity (X2) Partial and Significant Effect on Firm Value (Y)

Based on Table 3 above, it can be seen that the results of hypothesis testing for the three growth opportunity variables have an at-count value of -3.033 with a significant level of 0.003, which is smaller than 0.05, meaning that it is significant, but has a negative t-count value of (-3.033) as for the t-table value (2-sided test, 5% significance with $(df) = 150 - 2 - 1 = 147$) is 1.994. Significant here means that if the growth opportunity value increases negatively or decreases, the company value will increase positively. Otherwise, if the growth opportunity increases positively, it will decrease the company's value. Thus the hypothesis is rejected. This means that growth opportunity partially has a negative and significant effect on firm value in manufacturing companies listed on the BEI. Thus, the third hypothesis, which states that growth opportunity partially has a positive and significant effect on firm value, is rejected. The results of this study indicate that if the value of growth opportunity increases, it will decrease the company's value.

DISCUSSION

Simultaneous Effect of Capital Structure and Growth Opportunity Variables on Firm Value

Firm value is an investor's perception of the company, often associated with stock prices. High stock prices make the value of the company also high. According to the theory of the firm, the main purpose of the company is to maximize the company's wealth or value (value of the firm).

This study indicates that the capital structure (X1) and growth opportunity (X2) variables have a simultaneous and significant effect on firm value in manufacturing companies listed on the BEI.

It can be explained that capital structure and growth opportunity can play a role in increasing firm value. The use of debt financing can be used to create the desired company value, but debt policy also depends on the company's growth which is also related to company value. This means that large companies with good growth rates are relatively easier to access the capital market. This convenience indicates that large companies are relatively easy to meet sources of funds from debt through the capital market. Companies that have good company growth rates show their ability to pay interest on the debt if they use debt to fund their operations. Therefore, linking capital structure and growth opportunity with firm value becomes relevant.

Effect of Capital Structure on Firm Value

The results of this study indicate that the capital structure variable partially does not have a significant effect on firm value in manufacturing companies listed on the BEI, where the t-count $X1 = 0.273$ at an error rate of 5% or a probability value of $0.05 < 0.785$, this shows that if the change in capital structure does not change the value of the company, it means that there is no best capital structure. If changing the capital structure, it turns out that the value of the company changes, then the best capital structure will be obtained. According to Husnan (2000: 41), the capital structure that can maximize firm value, or stock price, is the best.

The results of the analysis of this study indicate that the capital structure has no significant effect on firm value in manufacturing companies listed on the BEI. This can be related to Husnan's opinion, which means that most of the capital structures owned by manufacturing companies listed on the IDX are not optimal to change the value of stock prices, or the capital structure owned by manufacturing companies listed on the IDX is risky as stated by Gitman in Uniariny (2012: 23), Capital structure produces both benefits and costs. The benefit of debt is the emergence of a tax shield (tax shield) from interest payments. The cost of the capital structure arises from three factors: 1) The possibility of increasing the risk of bankruptcy due to debt obligations. 2) Agency costs arising from monitoring and control by the actions of company lenders. 3) Costs incurred due to managers having more information about the company's prospects than investors.

Based on this opinion, it can be concluded that manufacturing companies listed on the IDX have prospects that can reduce the interest of investors, which results in a decrease in stock prices so that the value of the company also decreases.

The Effect of Growth Opportunity on Firm Value

This study indicates that the growth opportunity variable has a negative and significant effect on firm value in manufacturing companies listed on the Stock Exchange, where the t-count $X2 = -3.033$ at an error level of 5% or a probability value of $0.05 > 0.003$. The growth opportunity variable ($X2$) partially has a negative and significant effect on firm value in manufacturing companies listed on the BEI.

The results of the analysis of this study indicate that growth opportunity has a negative and significant effect on firm value. It can be explained that, according to Indrajaya, Herlina, and Setiadi (2011: 62), companies with high growth rates require more funds in the future, especially funds. Externally to meet its investment needs or to meet its growth needs. This means that financing growth will require external funding (debt). Outsiders interpret an increase in debt as the company's ability to pay obligations in the future or high business risk. This will be responded negatively by the market. This will certainly affect the decline in the value of the company.

CONCLUSION

This study concludes that capital structure and growth opportunity together or simultaneously have a positive and significant effect on firm value. This is supported by the F-count value of 4.645 at a significance level of 0.011, which is smaller than 0.05, which means that the F-count value is greater than the F-table value, which is $4.645 > 3.058$. And capital structure has a partially positive and insignificant effect on firm value. This is supported by the t-count value of 0.273 at a significance level of 0.785, which is greater than 0.05, which means that the t-count value is smaller than the t-table value of $0.273 < 1.976$. Furthermore, growth opportunity partially has a negative and significant effect on firm value. This is supported by the t-count value of -3.033 at a significance level of 0.003, which is smaller than 0.05, which means that the t-count value is smaller than the t-table value of $-3.033 < 1.994$.

SUGGESTION

The recommendations for the companies selected in this study only come from manufacturing companies listed on the IDX. This may cause problems in the level of representation of financial statement data. Therefore, in the next research, the company can still be expanded, for example, banking and insurance companies listed on the IDX.

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