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The Effect of Company Size and Capital Structure on Company Value

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ABSTRACT
This study aimed to examine the effect of company size and capital structure on company value. The research design used quantitative causal. The subject of this research was the transportation sub-sector company listed on the Indonesia Stock Exchange and the objects of this research were company size, capital structure, and company value. The data were collected by record documents, and analysed by multiple linear regression analysis. The results showed that: (1) company size and capital structure has a significant effect on company value, (2) company size has a positive and insignificant effect on company value, and (3) capital structure has a positive and significant effect on company value.

Keywords: *Capital structure, Company size, Company value*

1. INTRODUCTION

The company grows largely due to good management between labor, capital, and natural resources to earn high profits. The company that earns profit will be able to maintain the continuity of the company and restore the prosperity of its owner [1]. The development of globalization has given the company an opportunity in the field of economics to expand its business abroad. Indonesia, as part of Southeast Asia, must face the established free-market challenges of the ASEAN Economic Community (MEA). Domestic companies should be able to compete and face the challenges of MEA enforcement. The company has an obligation to meet the needs of stakeholders to improve the company's progress [2].

Capital markets become solutions for long-term financing and companies can utilize existing funds for investment purposes. Meanwhile, for capital market investors, they provide an alternative investment for surplus funds [3]. The capital market economic system has two functions, including economic function and financial function. Economic function means that the capital market provides facilities to transfer funds from the lenders to those who need borrowers to finance investment. Therefore, lenders expect a reward for the handover of the funds. In carrying out financial functions, they provide the funds required by borrowers, while the lenders provide funds without having to engage directly in the ownership of rill assets necessary for investment [4]. The company value is the price that prospective buyers (investors) will pay if the company is sold [5].

The company's goal is to maximize the profit given to shareholders. Therefore, the financial manager needs to make the right decision so that it can increase the company value and prosper the stakeholders. According to Ismail, the company value is defined as the price of a share that has been circulated in the stock market that must be paid by investors to be able to own a Company Goes Public that allows the public and management to know the company value [1]. The company value is reflected in the bargaining power of the stock. If the company is expected to be a company that has good prospects in the future, the value of the stock will be higher. Conversely, if the company is judged to lack prospects, the share price becomes weak. It is also said that to maximize the company value, not only the value of equity is considered, but also financial sources such as debt and preferred shares [6]. To increase the company value, management must determine the optimal capital structure so that it can be used by the company. Therefore, the optimal capital structure is a capital structure that must be in the balance between risk and return that maximizes the share price.

Higher risks tend to drive down stock prices, but the expected rate of return will drive up the share price [7]. One of the business sub-sectors in the capital market is transportation companies. Based on the gap of the theory with the facts obtained and the inconsistent results of previous research on the relationship of the company size and the capital structure to the company value, it is necessary to retest the three variables. The objective of this research is to test the effect of the company size and the capital structure on the company value in the transportation sub-sector companies listed on the Indonesia Stock Exchange.

2. LITERATURE REVIEW

2.1. Relationship between Company Size and Capital Structure to Company Value

There is a relationship between company size and capital structure to company value, in which management company and other related parties see the importance of looking at the condition of the capital structure and company size simultaneously in measuring company value [8]. This statement is supported by [9], in which if the company size increases and capital structure is high, the company value will tend to be high, and vice versa if the company size decreases and capital structure is low, the company value will tend to be low.

H_1: There is a significant effect between company size and capital structure on company value

2.2. Relationship of Company Size to Company Value

The relationship of company size to company value is conveyed by [10] stating that the larger company size the higher company value. This is in line with the results of the research by [11], showing that the company size is considered able to affect company value because the larger the size or scale of the company, the easier it will be for the company to obtain funding sources both internal and external.

H_2: There is a positive and insignificant effect of company size on company value

2.2. Relationship of Capital Structure to Company Value

The relationship of capital structure to company value is conveyed by [6], explaining that if the position of the capital structure is below the optimal point, any increase in debt will increase the company value. Conversely, if the position of the capital structure is above the optimal point, any increase in debt will lower the company value. Based on [11] research, capital structure has a positive and significant effect on the company value.

H_3: There is a positive and significant effect of the capital structure on company value.

3. RESEARCH METHOD

This research was conducted on the Transportation Sub-Sector listed on the Indonesia Stock Exchange in 2017-2018. The type of research used was quantitative causal. The subject of this study was the transportation sub-sector listed on the Indonesia Stock Exchange in 2017-2018. The research objects used were company size, structure capital, and company value. The method of analysis used was multiple linear regression analysis. The study used multiple linear regression analysis with data processing using Statistical Package for Social Science (SPSS) 22.0 for windows. Before the data processed into multiple regression analysis, they were first tested by testing classic assumptions because the requirements for multiple regression analysis are free of classical assumptions, such as: (1) normality test, (2) multicollinearity test, (3) heteroscedasticity test, and (4) autocorrelation test. Hypothesis test in this research used the partial test (t-test) and simultaneous test (F-test). In this research, the hypotheses testing to be proven are as follows:

H_1: The effect of company size and capital structure on company value.

H_2: The effect of company size on company value.

H_3: The effect of capital structure on company value.

4. RESULT AND DISCUSSION

4.1. Normality Test

Normality tests are used to test whether or not distributed residual values are normal [12]. To test whether the data are normally distributed or not, it can be known by using a normal probability plot chart. The normal probability plot chart is presented in Figure 1.

Based on Figure 1., it indicates that the residual data spread around the diagonal line and follow the direction of the normal diagonal line probability plot, so that the regression model can meet the normality test. It can be concluded that the normality test in this study has been distributed normally.

4.2. Multicollinearity Test

The results of the multicollinearity test of this study are presented in Table II. Based on the multicollinearity test results in Table 2, both independent variables have a tolerance value higher than 10% and a VIF value lower than 10. The tolerance value on the company size and capital structure variables is higher than 10% or (0.374 >

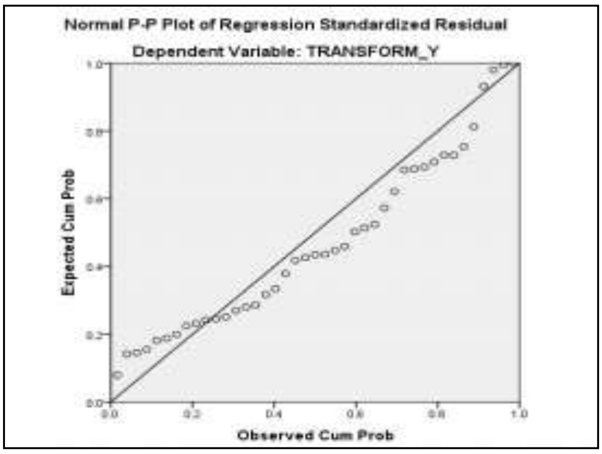

Figure 1 Normal Probability Plot Chart.

Table 1. Multicollinearity results

Independent Variable	Tolerance	VIF
Company Size	0.374	2.675
Capital Structure	0.374	2.675

0.10) and the VIF value is lower than 10 or (2.675 < 10). Based on the results of the multicollinearity test, it can be concluded that there are no symptoms of multicollinearity in the regression model of this study.

4.3. Heteroscedasticity Test

The results of the heteroscedasticity test of this study are presented in Figure 2. Based on Figure 2, the scatter plot chart shows that the dots spread randomly and are scattered above and below the number 0 (zero) on the Y axis. It can be concluded that there was no heteroscedasticity in the regression model in this study.

4.4. Autocorrelation Test

The results of the autocorrelation test of this study are presented in Table II. Based on Table II, Durbin Watson (DW) test results show that the DW value is 2.250 which means that the DW value is between -2 and +2 or (- 2<2, 250+2). It can be concluded that there was no autocorrelation in the regression model in this study.

4.5. Multiple Linear Regression Analysis

This study uses the multiple linear regression analysis method that aims to test the relationship of the effect of company size and capital structure on company value with the Statistic Package for Social Science (SPSS) 22.0 for windows program. The linear regression results are presented in Figure 3.

Based on the results of the multiple linear regression test in Table 4, the structure of the effect of company size and capital structure on company value is presented in Table 4.

The results show that Ryx1x2 is 0.709 or Ryx1x2 $\neq 0$ with a p-value of 0.000 < 0.05, so H_0 is rejected. The amount of influence is 0.502 or 50.2%. The result means that 50.2% of the company value is influenced by the company size and capital structure, while the amount of influence of other variables that are not studied in this study is 0.498 or 49.8%.

The results show that Pyx1 is 0.252 or Pyx1 $\neq 0$ with a p-value of 0.094 > 0.05, so H_0 is accepted. The amount of influence is 0.064 or 06.4%. The result means that 06.4% of the company value is influenced by company size. Then, it can be concluded that there is a positive and insignificant effect of company size on company value.

The results show that Pyx2 is 0.361 or Pyx2 $\neq 0$ with a p-value of 0.015 < 0.05, so H_0 is rejected. The amount of influence is 0.130 or 13.0%. The result means that 13.0% of the company value is affected by the capital structure.

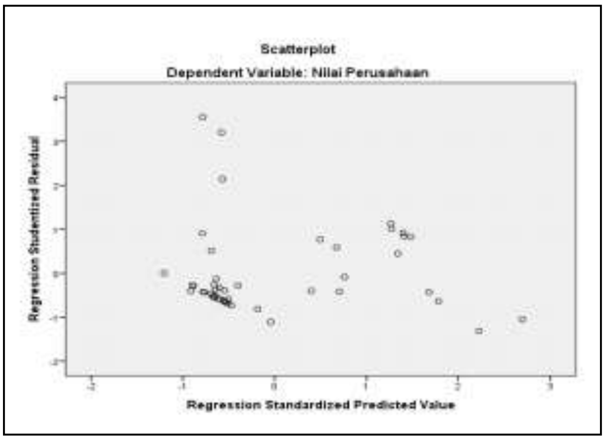

Figure 2 Scatter plot Chart

Table 2. Autocorrelation test results

Model	R	R Square	Durbin-Watson
1	0.709^a	0.502	2.250

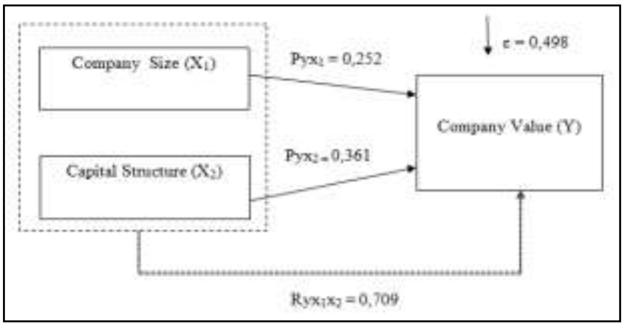

Figure 3 Model structure.

Table 3. Multiple linear regression test results

Parameter	Value	p-Value	Alpha (α)
Ryx_1x_2	0.709^a	0.502	2.250
$R^2yx_1x_2$	0.502	0.000	0.05
ε	0.498	-	-
Pyx_1	0.252	0.094	0.05
P_2yx_1	0.064	-	-
Pyx_2	0.361	0.015	0.05
P_2yx_2	0.130	-	-
A	- 13.745	0.348	0.05
$β_1$	0.301	0.094	0.05
$β_2$	0.446	0.015	0.05

4.6. Discussion

Based on the results of multiple linear regression analysis, the company size and capital structure have a simultaneous effect on company value. The results of this study are conveyed by [13], in which the size of the capital structure and the company's decision in determining the company size that the company uses for its operations determines the company value that the company wants. This statement is supported by [9], in which if the company size increases and the capital structure is high, the company value will be high, and vice versa, if the company size decreases and the capital structure is low, the company value will tend to be low.

5. CONCLUSION

5.1. Conclusion

Based on the results of research on transportation sub-sectors listed on the Indonesia Stock Exchange in 2017-2018 that have been presented before, it can be concluded as follows. (1) company size and capital structure has a positive and significant effect on company value in the transportation sub-sectors listed on the Indonesia Stock Exchange, (2) company size has a positive and insignificant effect on company value in the transportation sub-sectors listed on the Indonesia Stock Exchange, 3) capital structure has a positive and significant effect on company value in the transportation sub-sectors listed on the Indonesia Stock Exchange

5.2. Suggestions

Based on the discussion of the results of the research and the conclusions, some suggestions can be provided as follows. First, companies need to pay attention to company value as the long-term goal of the company to attract the attention of investors by paying attention to the company size and capital structure variables. The company size assessed from the total assets of the company should be able to be managed optimally, to provide a financial advantage in achieving the company's goals that will be viewed positively by investors. In addition, the company must assess precisely the composition of the selected capital structure so that the loss or impairment of the company is not very large. Second, for future researchers, it is expected to develop this study with a broader research subject. In addition, researchers are then expected to test other variables that are thought to affect the company value. Other variables that are expected to affect the value of the company, such as profitability, leverage, dividend policy, share price, company growth, and liquidity.

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