

The Influence Of Profitability And Growth Opportunity On Capital Structure And His Implication On Corporate Values

Aria Dian Tri Wahyuni¹, Prihat Asih², Nanik Sisharini³

¹ Student in Magister Management Program, University of Merdeka Malang, Indonesia
^{2,3} Lecturer in Economics and Business Faculty, University of Merdeka Malang, Indonesia

Abstract: *Company value is a describe of a company's level of success that is usually associated with stock prices. Rising stock prices give a sign that the value of the company is good. This study was conducted to examine the effect of profitability and growth opportunity on capital structure and its implications on the value of the company in pharmaceutical companies that have conducted an IPO before 2013. The sample selection is done by purposive sampling method. So we get a sample of 8 pharmaceutical companies. The analysis technique used is path analysis. The results showed; partially, profitability has a negative effect (significant) and Growth Opportunity has no effect on capital structure. Partially, profitability has a positive (significant) effect, Growth Opportunity has no influence and capital structure has no influence on the firm's value. The capital structure in this study only mediates the effect of profitability on firm value.*

Keywords : *Profitability, Growth Opportunity, Modal Structure, Firm Value.*

I. Introduction

A pharmaceutical company is a business company engaged in commercial sector that focuses on researching, developing and distributing drugs, especially in terms of health. When viewed globally, pharmaceutical companies are companies that have a large market. The Indonesian pharmaceutical market in 2015 grew 11.8% to US \$ 4.6 billion, equivalent to Rp 56 trillion compared to last year, according to the International Pharmaceutical Manufacturing Group (IPMG, 2015). The estimated market value reflects pharmaceutical spending of (US \$ 19 per capita per year, with national companies controlling 70% of the market. In 2016, the pharmaceutical industry sales are estimated to reach Rp. 62 trillion and will rise to Rp. 72 trillion. This indicates that pharmaceutical companies are an industry that large and growing, so the pharmaceutical company must be able to maintain this success.

In achieving success there are problems that will arise that affect the value of the company. Therefore, it is important to know how much the factors that influence it, so the company can prepare strategies to overcome these problems.

According Febrina [1] company value is a growing value for shareholders, the value of the company will be reflected in the market price of its shares. The prosperity of shareholders in accordance with Hermuningsih [2] reflected by the market price of shares which is a reflection of investment, funding and asset management decisions.

Profitability is the measure of percentage used to assess the extent to which a company is able to generate profits at an acceptable level. The profitability of a company can be assessed in various ways depending on profits and assets or capital to be compared with one another.

Growth opportunity is a growth opportunity for a company in the future and is an opportunity for a company to invest in things that benefit the company [3]. Growing companies can make investors interested in investing because growing companies indicate that the company has favorable prospects in the future. So investors expect to get a rate of return on the investment they plant during this period. Growth opportunity is measured using Investment Opportunity Set (IOS). William's asymmetric information model [4] and ree cash flow theory from Jensen [5] provides a basis that there is a relationship between company growth and the company's stock price. Both predict that changes in stock prices are a response from the company's growth information. A company that grows is a company that has a high growth opportunity, is predicted to have a positive relationship to stock prices while for companies that do not grow or companies that have limited growth, is predicted to have a negative relationship with the company's stock price.

High growth opportunities are basically an expectation that is desired by the internal company as well as investors and creditors. High growth opportunities reflect company productivity. On the other hand, the cost of issuing shares is more expensive than the issuance of debt securities so this is the reason companies with high growth use debt more in the company's capital structure (capital structure). Capital structure is related to the long-term expenditure of a company which is measured by the comparison of long-term debt with own capital [6]. Capital structure theory explains the effect of capital structure on firm value. According to Sartono [7] nilai perusahaan adalah nilai jual sebuah perusahaan sebagai suatu bisnis yang sedang beroperasi. Nilai High companies will make the market believe not only in the company's current performance but also in the company's future prospects.

Much research has been done on the factors that influence capital structure. But from a number of previous studies, there are still inconsistencies in the results of research, especially regarding the variables studied, namely the effect of the level of profitability and growth opportunity on capital structure and its implications for company value. In addition there are differences in the results of research with existing theories.

Research conducted by Hermuningsih [2] said that growth opportunity has a positive and significant effect on capital structure, meaning that the debt use policy can help the excessive use of free cash funds by management, the use of debt can also be a positive signal for investors. The results of this study are certainly not in accordance with the pecking order theory which briefly states that encouraging companies that have large profits to use their internal funds first in funding company activities so that the level of use of debt will be relatively low and will reduce the risk of bankruptcy and debt costs incurred. High use of debt can also be a positive signal for investors.

Research result Setyawan, Topowijono, and Nuzula [3] said that growth opportunity has a negative and significant effect on capital structure. Research conducted by Moniaga [8] found that capital structure has a significant effect on firm value whereas Prasetia, Tommy and Saerang [9] found that capital structure had no significant effect on firm value.

II. Literature review

a. Firm value

The purpose of the company is to always grow by increasing the value of the company. The company's sign of growth can be seen from a high valuation by the company's external parties towards assets or stock market growth. According to Harmono, the company's value is an objective value by the market that is oriented towards the company's survival [10].

To analyze whether a particular stock investment is feasible or not, then we need a way to measure it. PER is used by investors to predict the ability of companies to generate profits in the future. Investors can consider this ratio to sort out which stocks can later provide large profits in the future.

b. Struktur Modal

According to Riyanto [11], capital structure is permanent expenditure that is reflected through a balance between own capital and long-term debt. The capital structure is also called the decision to choose the source of funding or the composition of the selection of funding which is a comparison in determining the fulfillment of corporate spending needs where the funds obtained are a combination of sources originating from long-term funds consisting of two main sources, namely originating from within and outside the company [12].

c. Profitability

Profitability is the company's ability to generate profits with all the capital that works in it [13] Sutrisno [13]. Profitability has an important meaning in business, namely to maintain the survival of the company in the long run because profitability indicates whether the entity has prospects in the future or not.

d. Growth Opportunity

Growth Opportunity is the company's ability to increase company assets. Growth Opportunity describes the level of expansion undertaken by the company by looking at the growth of assets used in operational activities.

e. Conceptual Framework

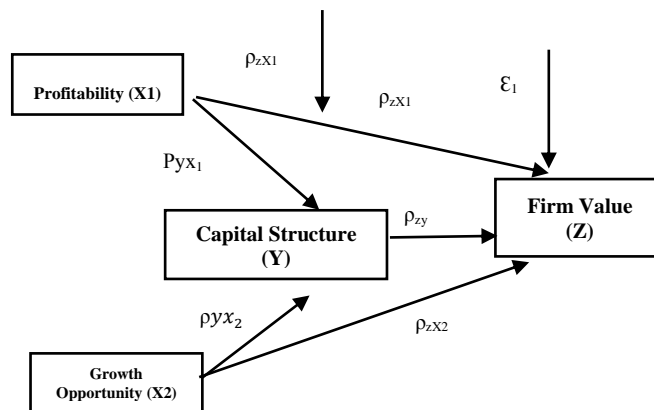


Figure 1 : Conceptual Framework

f. Hypothesis

The hypothesis tested in this study is

- H1 : Profitability has a positive and significant effect on Modal Structure.
- H2 : Growth Opportunity has a positive and significant effect on Modal Structure.
- H3 : Profitability has a positive and significant effect on Firm Value .
- H4 : Growth Opportunity has a positive and significant effect on Firm Value.
- H5 : Modal Structure has a positive and significant effect on Firm Value Firm Value.
- H6 : Modal Structure as an intervening variable between the effect of Profitability on Firm Value.
- H7 : Modal Structure as an intervening variable between the effect of Growth Opportunity on Firm Value.

III. Research Methods

g. Population and Research Samples

Based on the time of implementation, this study uses a longitudinal method (time series) that is data collection is carried out in several periods, each period the data obtained is then processed, analyzed and drawn conclusions. The population of this study is pharmaceutical manufacturing which is listed on the Indonesia Stock Exchange, citing the rapid development and pharmaceutical technology in Indonesia that attracts foreign and domestic investors to invest in the pharmaceutical sector. The sample selection was carried out using a purposive sampling method based on predetermined criteria, namely pharmaceutical manufacturing companies that had conducted an IPO before 2013.

Table 1 : Number of Companies in the Research Sample

No	Information	Number of Companies
1	Pharmaceutical manufacturing companies listed on the IDX	10
2	Companies conducting IPOs after 2013	(2)
	Total sample	8

Source: Data processed

Table 2 : List of Company Sample Names

No	Nama Perusahaan
1	Darya Varia Laboratoria, Tbk
2	Indofarma, Tbk
3	Kimia Farma, Tbk
4	Kalbe Farma, Tbk
5	Merck Indonesia, Tbk
6	Pyridam Farma, Tbk
7	Taisho Pharmaceutical Indonesia, Tbk
8	Tempo Scan Pacific, Tbk

Source: www.idx.co.id

The data used in this study are secondary data. Secondary data were obtained from annual reports of farmasi companies in 2013-2017 at www.idx.co.id.

h. Variable Research

The variables used in this study are of two kinds namely

i. Variable Independent

(a) Profitability (X₁)

Profitability can be measured in a way:

$$ROE = \frac{(Net\ income)}{(total\ capital)} \times 100\% \quad (1)$$

(b) Growth Opportunity (X₂)

Firm size can be measured in a way:

$$Growth = \frac{Total\ Aktive(t) - Total\ Aktive(t - 1)}{Total\ Aktive(t - 1)} \times 100\%$$

ii. Variable Dependent

(a) Struktur Modal (Y)

Modal Structure can be measured in a way:

$$DER = \frac{Total\ Debt}{Total\ Modal}$$

(b) Firm Value (Z)

Firm value can be measured in a way:

$$PER = \frac{Market\ price\ per\ share}{Earnings\ per\ share} \quad (4)$$

i. Analysis Technique

The data analysis technique used in this study is path analysis using SPSS 21.0 software. Hypothesis testing by t test is if $p \geq 0.05$ means the hypothesis is rejected (no effect). And if $p < 0.05$ means the hypothesis is accepted (influential). The regression analysis equation model is formed as follows:

$$Y = \rho_{yx_1}X_1 + \rho_{yx_2}X_2 + \epsilon_1$$

$$Z = \rho_{zx_1}X_1 + \rho_{zx_2}X_2 + \rho_{zy}Y + \epsilon_2$$

Note:

X₁ = Profitability

X₂ = Growth Opportunity

Y = Modal Structure

Z = Firm Value

ρ_{yx_1} = The path coefficient of profitability on modal structure

ρ_{yx_2} = The path coefficient of growth opportunity on modal structure

ρ_{zy} = The path coefficient of modal structure on firm value.

- ρ_{zx_1} = The path coefficient of profitability on firm value
- ρ_{zx_2} = The path coefficient of growth opportunity on firm value
- ϵ_1 = Another factor influencing stucture modal
- ϵ_2 = Another factor influencing firm value

IV. Results and Discussion

Table 3: Summary of Coefficients

Regression	Standardized Coefficients	T hitung	P Value
ROE → DER	-0,758	-6,997	0,000
Growth → DER	0,076	0,701	0,487
ROE → PER	0,777	4,214	0,000
Growth → PER	-0,114	-0,932	0,358
DER → PER	0,118	0,644	0,523

The regression equation analysis model is formed as follows:

$$Z = -0,758X_1 + 0,076X_2 + 0,454$$

$$Y = 0,777X_1 - 0,114X_2 + 0,118Z + 0,567$$

j. Profitability on Struktur Modal

The coefficient of the effect of profitability on capital structure is -0,758 with a significance level of 0,000 that is smaller than 0.05 which means that the profitability variable has a significant and negative effect on the capital structure variable. Then hypothesis 1 is accepted. The greater the level of profitability obtained by pharmaceutical companies, the use of capital structures derived from debt will decrease.

Pharmaceutical companies have a large rate of return and have a greater source of internal funding, so this affects managers in making decisions relating to capital structure or funding of pharmaceutical companies in financing their business activities, such as developing pharmaceutical products or health equipment, or the need to invest. Pharmaceutical companies may prefer to use their own capital, namely from pharmaceutical company internal funds first, as in the form of retained earnings derived from profits generated by pharmaceutical companies rather than using external funds or funds from outside pharmaceutical companies, namely debt, so the level debt used by companies is relatively low and can reduce the risk of bankruptcy and the high cost of capital or debt.

This research, supported and in accordance with the theory of capital structure, namely the Pecking Order Theory proposed by Myers and Maljuf in 1984, suggested that companies tend to use retained earnings first, namely from retained earnings and depreciation, rather than using external funds (Debt and Shares) from funding activities. In addition this research is in line with research conducted by Yusrianti [14].

k. Growth Opportunity on Struktur Modal

The coefficient of influence of growth opportunity is 0.076 with a significance level of 0.487 greater than 0.05, which indicates that the growth opportunity variable does not significantly influence the capital structure variable, then hypothesis 2 is rejected. Companies with high growth rates prefer to use their own capital compared to using external capital that has a risk of bankruptcy (debt).

Own capital obtained by the company is of two kinds, namely retained earnings (the remaining profit rather than company profits that have not been distributed to shareholders as dividends) and ordinary shares (the type of capital invested in the company by shareholders / investors). Shareholders will get the right to receive a portion of fixed income / dividends from the company and the obligation to bear the risk of losses suffered by the company. This research is in line with Mustika's research [15].

l. Profitabilitas Terhadap Nilai Perusahaan

The coefficient of the effect of profitability on firm value is 0.777 with a significance level of 0.000 which is smaller than 0.05 which indicates that the profitability variable has a significant and positive effect on firm value, then hypothesis 3 is accepted. the better the company's profitability growth, the future prospects of the company are considered better, and the value of the company is seen better by investors.

In accordance with one of the signaling theories which states that when an investor receives good information about a company's performance, the investor will react, that is to buy shares. If the company's

ability to generate profits increases, the share price will also increase. Thus the higher this ratio, the better the company's position, which means the greater the company's ability to cover the investment used. This can enable companies to finance investments from funds originating from internal sources available in retained earnings. The results of this study are consistent with Ria Nofrita's research [16].

The similarity of the results of this study shows that the greater the level of profitability, the better for the company itself. The higher the level of profitability, the greater the level of prosperity that the company provides to shareholders. The greater the level of prosperity provided by the company will attract investors to own the company and will have a positive influence on stock prices in the market. This means it will increase the value of the company.

m. Growth Opportunity Terhadap Nilai Perusahaan

The coefficient of the influence of Growth Opportunity on firm value is -0.114 with a significance level of 0.358 which is greater than 0.05 which indicates that the growth opportunity variable does not significantly influence the firm value variable, then hypothesis 4 is rejected.

The size of the total assets does not affect the value of the company as measured by the ratio of stock prices to the book value of the company. In accordance with the theory of dividend irrelevance conveyed by Modigliani Miller, states that dividend policy does not have a good effect on stock prices or capital costs (dividend policy is irrelevant). This research is in accordance with the research of Ramadhan Harahap [17].

n. Modal Structure on Firm Value

The coefficient of influence of the Capital Structure of the firm's value is 0.118 with a significance level of 0.523 which is greater than 0.05 which indicates that the capital structure has no significant effect on the firm's value, then hypothesis 5 is rejected. capital structure is not able to influence investor interest to invest in a company. It is possible for investors to prefer if a company increases the value of the company rather than increasing the debt. By using the Debt to Equity Ratio indicator is not a calculation by stock growers to see whether a company's performance is worth buying or not, so Debt to Equity Ratio cannot affect the size of the company value. This research is in accordance with Permatasari's research [18].

o. Pengaruh profitabilitas terhadap nilai perusahaan melalui Struktur modal

Table 4 : Hypothesis Testing of Profitability throught Modal Structure

Variable	Direct Effect	Indirect Effect
ROE → DER → PER	0,777	-0,758 x 0,118 = -0,089

Sumber: data diolah

Based on table 4, the results of calculations are known that the value of the indirect effect is smaller than the value of the direct influence (-0.089 < 0.777). This shows that the capital structure is not able to mediate between the value of profitability with the value of the company, then hypothesis 6 is rejected. a company with a high level of profitability is able to finance its business operations with its retained earnings, so that the company will use relatively small amounts of debt.

Based on its relationship with profitability and the value of the company that companies that have large profitability every year, tend to be in demand by many investors. Investors assume that companies that have large profits will also produce large returns. This is captured by investors as a positive signal from the company, so that it will increase investor confidence and will facilitate company management to attract capital in the form of shares. If there is an increase in demand for a company's shares, it will indirectly increase the price of the company's shares in the market. The results of this study are in line with research conducted by Andanika [19].

p. Pengaruh growth opportunity terhadap nilai perusahaan melalui Struktur modal

Table 5 : Hypothesis Testing of Growth Opportunity throught Modal Structure

Variable	Direct Effect	Indirect Effect
ROE → DER → PER	-0,114	0,076 x 0,118 = 0,008

Sumber: data diolah

Based on table 5, the calculation results are known that the value of the indirect effect is greater than the value of the direct influence ie (0.008 > -0.114) so it shows that the value of growth opportunity through capital structure influences the firm's value, then hypothesis 7 is accepted. Companies with high levels of growth opportunity will encourage companies to continue to expand, using external capital. The existence of investment opportunities in a company gives a positive signal to the company's growth in the future. These investment opportunities will affect the value of the company. Companies with high growth opportunities have many investment opportunities that ultimately attract investors to invest in these companies. This can trigger an increase in demand for company shares and cause share prices to rise, so that it can increase the value of the company. This research is in line with Hermuningsih's research [2].

V. Conclusions

Based on the results of research and discussion previously described, it can be concluded that the greater the level of profitability obtained by pharmaceutical companies, the use of capital structures derived from debt will decrease. In this pharmaceutical company the growth rate of the company does not affect the capital structure used, because the company prefers to increase the growth of the pharmaceutical company from product sales and shares rather than having to expand. The ability of pharmaceutical companies to generate profits increases, the price of pharmaceutical companies' shares will also increase. In this study, the size of the growth of pharmaceutical companies which is assessed from the total assets of the company does not affect the value of the pharmaceutical company as measured by the ratio of the stock price of the pharmaceutical company itself. By using the Debt to Equity Ratio indicator, it does not become a calculation by shareholders to see whether a company is worth buying or not, so that the capital structure cannot affect the size of the company value. Profitability does not affect the value of pharmaceutical companies through the capital structure but profitability directly affects the value of the company.

VI. Recommendations

For the company, the company can expand or invest to strengthen the value of the company with external capital while still considering the proportion of the company's debt value which will later become a burden on the company's obligations.

For further researchers can add other variables in conducting further research such as company size, taxes, managerial ownership and other variables that are thought to affect the value of the company.

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