Capital Structure Analysis in Order to Increase Company Value (Study on Food and Beverage Companies Listed on the Indonesian Stock Exchange in 2014-2020)

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A B S T R A C T

The purpose of this study was to determine the effect ofCapital Structure on Firm Value with Firm Size and Dividend Policy as Control Variables(Case Study on Food and Beverage Companies which are listed on the Indonesia Stock Exchange for the 2014-2020 Period). This research uses quantitative descriptive research type. Sample 27 companies using Purposive sampling technique. The analysis method uses path analysis with SPSS software version 21. Based on the test results in this study that the variable capital structure have a positive and significant effect on firm value either using the control variable or not used the control variable. Firm size and dividend policy do not have a significant impact on the effect of capital structure on firm value.

Keywords: Capital structure, Firm value, Firm size, and Dividen policy.

1. Introduction

Companies that have gone public aim to increase the prosperity of the owners or shareholders through increasing the value of the company. The value of the company is very important because a high company value will be followed by high shareholder prosperity. The higher the stock price, the higher the value of the company. A high company value is the desire of the company owners, because a high value indicates the prosperity of shareholders is also high. The wealth of shareholders and companies is represented by the market price of shares which is a reflection of investment decisions, funding, and asset management. Many factors can affect the value of the company, one of which is the capital structure. Every company has a long-term goal of maximizing the value of the company. The higher the value of the company, the prosperity of shareholders will increase. Firm value is the result of management work from several dimensions including net cash flow from investment decisions, growth and the company's cost of capital. For investors, the value of the company is an important concept because the value of the company is an indicator of how the market values the company as a whole. High company value indicates good company performance. One of them is the view of the value of the company for creditors. For creditors, the value of the company is related to the company's liquidity, namely the company is judged to be able or not to repay the loans provided by the creditors. If the implied value of the company is not good, investors will value the company with a low value. The value of companies that have gone public can be seen from the price of shares issued by the company.

The development of the economic sector that supports the smooth running of economic activity, especially the Food and Beverage sector in Indonesia is very interesting to observe. Food and Beverage companies are one of the sectors that can survive in the midst of Indonesia's unfavorable economic conditions, and Food and Beverage companies are expected to be able to provide favorable prospects in meeting the needs of the community. The prospect is favorable, making the Food and Beverage sector chosen in this study. Besides being profitable, the Food and Beverage sector is a sector that survives or survives, because this sector under any conditions and in any crisis, some food and beverage products are still needed. Because these food and beverage products are basic needs for people in Indonesia. The Indonesian Central Statistics Agency (BPS) said that the development of the production index for the Food and Beverage sector industry in Indonesia has increased. The increase in the Food and Beverage sector which occurred by 0.2 percent to 16.5 percent.

Table 1 -Price to Book Value (PBV) Food and Beverage Companies listed on the IDX (2014-2020)

Company Code	Price to Book Value (PBV)				
	2015	**2016**	**2017**	**2018**	**2019**
ADES	1.82	1.53	1.23	1.13	1.09
ALTO	1.41	1.51	2.04	2.27	2.30
BUDI	0.26	0.36	0.38	0.38	0.39
BTEK	4.53	4.90	3.18	3.06	1.09
CEKA	0.63	0.90	0.85	0.84	0.88
DLTA	4.90	3.97	3.22	3.44	4.50
ICBP	5.08	5.69	5.30	5.64	5.14
IIKP	38.68	28.85	36.67	30.00	4.55
INDF	1.67	2.40	2.15	1.95	1.84
AISA	0.38	0.92	1.40	2.50	-0.51
MLBI	22.53	30.21	27.07	28.88	28.49
MYOR	5.25	6.00	6.29	7.02	4.75
PSDN	0.54	0.94	1.66	1.70	1.94
ROTI	5.38	5.80	2.85	2.61	2.62
STTP	3.92	3.62	4.16	3.01	2.78
ULTJ	4.07	3.80	3.66	3.35	3.50
Avereage	**6.32**	**6.34**	**6.38**	**6.11**	**4.08**

In the opinion of experts, the value of a company can be measured using Price To Book Value (PBV), which is a ratio that compares the price per share with the book value per share. The Price to Book Value (PBV) ratio gives an idea of how many times we pay for a stock with the company's book value. Price to Book Value (PBV) is one of the ratios to measure the value of the company, because this ratio looks at how much undervalued or overvalued the stock price is calculated based on the book value after being compared with the market price. The higher the Price to book value (PBV) ratio means the company can be said to have succeeded in creating corporate value and shareholder prosperity. This increases the level of market confidence in the company's prospects, thus attracting investors. Therefore, companies are more dominant in using the ratio of price to book value (PBV). Price to Book Value (PBV) data in Table 1 shows that the Food and Beverage company sector listed on the Indonesia Stock Exchange (IDX) in 2014-2020 has a fluctuating average PBV value. In 2016 it decreased by 0.3%. Furthermore, in 2017 it increased by 0.6%. In 2018 it decreased by 4.2% and in 2019 it decreased by 33%. Based on these conditions, Food and Beverage companies are less consistent in increasing the value of their companies during 2014-2020. Especially in 2019, which had the smallest company value compared to other periods, which was 4.08.

2. Literature Review

2.1. Agency Theory

Agency theorywas popularized by Jensen and Meckling (1996). This theory arises when there is a cooperation contract relationship between managers and shareholders which is described as a relationship between agents (management), principals (shareholders). The cooperation contract relationship is in the form of granting authority by the principal to the agent to work for the achievement of the principal's goals. Managers are appointed by the owners to run the company's operations because shareholders have limitations in managing the company. Agency theory can be viewed as a contractual model between two or more people (parties), where one party is called the agent and the other is called the principal. The principal delegates responsibility for decision making to the agent, it can also be said that the principal gives a mandate to the agent to carry out certain tasks in accordance with the agreed work contract. The authority or responsibility of the agent or principal is regulated in the employment contract by mutual agreement.

2.2. Pecking Order Theory

The pecking order theory states that companies prefer internal funding to external funding, safe debt versus risky debt and the last is common stock (Myers & Majluf, 1984). The pecking order theory proposed by (Myers & Majluf, 1984) uses the premise that there is no specific target debt to equity ratio where there is only a hierarchy of sources of funds that are most favored by the company. The essence of this theory is that there are two types of capital, external financing and internal financing. This theory explains why profitable companies generally use less debt. This is not because the company has a low target debt ratio, but because they require little external financing. Companies that are less profitable will tend to use larger debt for two reasons, namely; (1) insufficient internal funds, and (2) debt is the preferred external source. Therefore, this pecking order theory creates a hierarchy of sources of funds, namely from internal (retained earnings) and external (debt and shares).

2.3. Trade-off Theory

This theory states that there is an optimal capital structure and the capital structure of a company can be determined by creating a balance between the effects of taxes, agency costs, bankruptcy costs and so on. The trade-off theory explains that if the position of the capital structure is below the optimal point, any additional debt will increase the value of the company. on the other hand, if the position of the capital structure is above the optimal point, then any additional debt will reduce the value of the company (Myers & Majluf, 1984). Based on Beattie et al. (1994), firms with greater financial flexibility

have less debt, because they eliminate the need for external financing by increasing their flexibility. In addition, other researchers concluded that financial flexibility is the main determinant of optimal capital structure, this is in line with the trade off theory (Graham and Harvey, 2001).

2.4. Firm Value

The company's main goal is to maximize profits or wealth, especially for its shareholders, manifested in the form of efforts to increase or maximize the market value of the company's share price. As a normative goal (supposedly) financial management objectives are related to decisions in the financial sector to maximize the value of the company. The purpose of maximizing the value of the company is as a measure of the company's success in achieving the planned profit and can maximize the prosperity of the owner of the company

2.5. Capital Structure

The capital structure is a mix of long-term debt and equity financing (Brealey et al., 2011). Capital structure can be interpreted as a capital structure that can minimize the overall cost of capital use or the average cost of capital, so that it will maximize the value of the company. The capital structure consists of short-term funding, long-term funding, and equity. Short-term and long-term debt can be obtained from external parties of the company. Long-term debt will be used by the company to finance capital investment. Mortgages and bonds payable are examples of long-term debt. Mortgage debt can also be called secured debt.

2.6. Dividend Policy

Dividends can be defined as the distribution of the company's net profit which is distributed to shareholders upon the approval of the General Meeting of Shareholders (GMS). One of the policies that must be taken by management is to decide whether the profits earned by the company during a period will be divided all or partly divided into dividends and partly not distributed in the form of retained earnings. Management has 2 alternative treatments for the company's net income after tax: 1) to be distributed to the company's shareholders in the form of dividends, and 2) to be reinvested in the company as retained earnings. So it can be concluded that the definition of dividend policy is the management's decision to determine the treatment of Earning After Tax (EAT) which is distributed as dividends. There are several factors that are considered in the dividend policy, among others: the company's liquidity position, the need for funds to pay debts, business expansion plans, supervision of the company.

2.7. Firm Size

Company size is a scale which can be classified as large or small companies according to various ways, including: total assets, log size, stock market value, and others. The size of the company according to Lanis and Richardson (2013) can be measured by the natural legitimacy of total assets. Firm size is used as a control variable to avoid bias of the influence of the independent variable on the dependent variable.

3. Methodology

3.1. Types of Research

The type of research conducted in this research is causal associative research with quantitative techniques. Causal associative research is research that aims to determine the relationship between two or more variables. With this research it will be possible to build a theory that serves to explain, predict and control a symptom. Associative research uses quantitative or statistical analysis techniques. Quantitative research is one type of research whose specifications are systematic, well-planned, and clearly structured from the beginning to the making of the research design.

3.2. Research Location and Time

The scope of this research is Food and Beverage Companies listed on the Indonesia Stock Exchange which are listed on the Indonesia Stock Exchange (IDX) 2014-2020. The scope of the object of this research is the use of capital structure in order to increase company value in Food and Beverage Companies listed on the Indonesia Stock Exchange. The scope of the place in this study is the Indonesia Stock Exchange (IDX). The time specified in this study is based on the needs of the research conducted in February-April 2022.

3.3. Data Source

Research data is an important factor that will be taken into consideration in determining the method of data collection. Data is a source or material that will be used in a study. The type of data used in this study is secondary data. Secondary data is a source that does not provide data to data collectors. Secondary data are generally in the form of historical evidence or records that have been compiled in published and unpublished archives. The secondary data in this study comes from the annual financial reports of Food and Beverage companies listed on the Indonesia Stock Exchange in the 2014-2020 period.

3.4. Data Collection Technique

Here the following is a description of the data collection method used for this research:

    1.   Library Reasearch

This technique is carried out by examining various theories and discussions relevant to the preparation of this thesis such as data sourced from various references such as literature, archives, documentation and other data needed in this research.

    2.   Field Reasearch

This technique is carried out by going directly to the research field to obtain data related to research needs, the data obtained by collecting financial data for Food and Beverage Companies listed on the Indonesia Stock Exchange in the period 2014-2020 obtained from the website www. yahoofinance.co.id.

3.5. Firm Value

The value of the company, which is formed through stock market indicators, is strongly influenced by investment opportunities. In this study, firm value can be proxied using Price to Book Value (PBV). Price to Book Value (PBV) is an assessment of an issuer against its book value, which is obtained from the total value of assets divided by the number of shares.

$$\textit{Price to Book Value} = \text{Share Price per Share / Book Value}$$

3.6. Capital Structure

In this study, capital structure is measured by Long term Debt to Equity (LDE). Long term Debt to Equity Ratio (LDE) is a measure of a company's financial leverage. It is calculated as Long-Term Debt divided by Equity.

$$\text{LDE= Long-Term Debt / Equity}$$

3.7. Dividend Policy

Dividend policy is a decision whether the profits earned by the company, at the end of the year will be distributed to shareholders in the form of dividends or will be withheld to increase capital for investment financing in the future. Dividend policy can be measured by the Dividend payout ratio. According to Sudana (2015), the dividend payout ratio is the percentage of net profit after tax paid as dividends to shareholders, the larger this ratio means the less profit the company can hold.

$$\text{DPR} = \frac{\textit{Divident per Share}}{\textit{Earning per Share}}$$

3.8. Firm Size

Size (company size) is the size of the company which can be classified based on various ways, including the size of income, total assets and total equity (Brigham & Houston, 2010).

$$\text{Size = Ln} \times \text{Total Assets}$$

4. Result and Discussion

Table 2 - Descriptive Statistical Analysis Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Firm Value	112	.0409718	3.8287180	1.052936240	.8854134530
Capital Structure	112	.0105691	1.3794502	.366352284	.2920717410
DPR	112	.0000000	2.5246093	.257710964	.3934382430
Firm Size	112	26.8154971	32.3923024	29.159336310	1.2732843910
Valid N (listwise)	112				

Table 3 - Multiple Linear Regression Analysis Results Without Control Variables Coefficients[a]

	Model	Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.658	.126		5.208	.000
	Capital Structure	1.078	.270	.356	3.990	.000

a. Dependent Variable: Firm Value

Table 4 - Multiple Linear Regression Analysis Results Without Control Variables

Coefficients[a]

	Model	Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-2.262	1.808		-1.251	.214
	Capital Structure	1.037	.270	.342	3.846	.000
	DPR	.195	.200	.087	.975	.332
	Firm Size	.099	.062	.142	1.598	.113

a. Dependent Variable: Firm Value

The interpretation of the multiple linear regression equation is:

1. The constant (a) is 0.658 if you do not use the control variable and -2.262 with the control variable. So it shows if the Capital Structure variable is 0, then the Firm Value variable in Price to Book Value has a value of 0.658%. However, with the control variable if the Capital Structure and control variables DPR and Firm Size are 0, then the Firm Value variable in Price to Book Value is -2.262%.

2. The regression coefficient shows that for each addition of the Capital Structure variable by 1%, the firm value will increase by 1.078% if not using the control variable and 1.037 % using the control variable.

Based on the results of the regression using the control variable, the capital structure constant was reduced by 0.041 which was relatively small with a Dividend Payout Ratio constant of 0.195 and a significance of 0.332 and a Firm Size constant of 0.099 with a significance of 0.113. Thus the control variable does not have a significant influence in controlling the capital structure to affect firm value.

Table 5 - Coefficient of Determination Test Results Without Control Variables

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.356[a]	.126	.118	.8312992120

a. Predictors: (Constant), Capital Structure

b. Dependent Variable: Firm Value

Table 5 - Coefficient of Determination Test Results Without Control Variables

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.390[a]	.152	.129	.8265067950

a. Predictors: (Constant), Firm Size, Capital Structure, DPR

b. Dependent Variable: Firm Value

4.1. Effect of Capital Structure on Firm Value

The test results show that capital structure has a positive effect on firm value without using control variables in food and beverage companies which are proxied by Long term debt to equity with a significance of 0.000 which is lower than 0.05 and a regression coefficient of 1.078. Then the capital structure has a positive effect on firm value by using a control variable with a capital structure significance of 0.000 and a coefficient of 1.037 with a control variable. Therefore, if the capital structure increases, the value of the company will also increase. With this, companies in the food and beverage sector that went public in the 2014-2020 period have a good corporate structure that affects the company's value positively and significantly. This result is supported by the average capital structure value of 0.3222 which is still relatively low. Therefore , the company has not used the optimal capital structure so that it is still possible for the company to add more debt to optimize its capital structure . This supports the Trade-off Theory where the company will always try to adjust the level of the debt ratio towards the optimal, in this study the company can still improve the capital structure towards the optimal due to the low debt ratio.

The results of this study are in line with the dividend irrelevance theory conducted by Miller & Modigliani (1961). This theory states that the company's dividend policy has no effect on firm value. In this study, the data shows that the average value of the dividend payout ratio is low so that it does not affect the dividend payout ratio variable as a control variable. The value of the company is determined by the company's ability to generate revenue (earning power) and business risk. Therefore, the profit generated by the company can be used to finance the company's investment in order to generate income (earnings) rather than being used to finance the company. Associated with the size of the company (Size) in agency costs, the larger the size of the company, the smaller the agency costs incurred by the company.

5. Conclusion

This study aims to determine the effect of capital structure on firm value. This research was conducted on food and beverage sector companies that IPO in 2014-2020 with a population of 26 companies, while the sample used was 16 companies that were not delisted. The hypothesis which states that capital structure has an effect on firm value is supported. The results of the capital structure variable show a positive and significant effect on firm value in food and beverage companies that IPO in 2014-2020 on the Indonesia Stock Exchange. This means that if the level of capital structure in a company increases, the value of the company also increases. Then, based on the results of the hypothesis testing that has been done, it is concluded that the control variable does not have a significant impact on the effect of capital structure on firm value. These results are in line with the dividend irrelevant theory (Miller & Modigliani, 1961) that dividend policy has no effect on firm value. And, these results are in line with the agency cost theory that the larger the size of the company, the smaller the agency costs incurred by the company. Furthermore, the R2 value of the capital structure has an effect of 11.8% without the control variable and 12.9% using the control variable. So that the control variable increases the effect of capital structure on firm value by 1.1%.

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