The Effect of Capital Structure, Profitability, Institutional Ownership, and Liquidity on Firm Value

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Abstract
Every company that is established must have a goal to prosper every owner and company to continue running (going concern), including retail companies. Entering the digital era, retail companies are required to be able to innovate with current development so that shopping becomes easier with the presence of online retail store. The purpose of this study was to investigate the effect of capital structure, profitability, institutional ownership and liquidity on firm value. Currently there are 25 companies that have listed their shares on the Indonesia Stock Exchange from 2011 to 2017. The purposive sampling technique was used to take research samples so that 106 data were collected into research samples. The result that the capital structure and institutional ownership did not affect the firm's value, profitability has a positive effect on firm value while liquidity has a negative effect on firm value.

Keywords
capital structure
firm value
institutional ownership
liquidity
profitability

1. Introduction

Retail companies are required to be more progressive and innovative to keep up to date by utilizing technological advances in developing their retail business (Putra, 2018). Innovations are needed to keep retail companies in the market because those who are retail competitors are not only offline retail companies but also online retail companies that make it easy for consumers to shop.

Entering the digital era, retail companies face new challenges to be able to meet the demands of consumers spread everywhere. Retail companies in carrying out their business must continue to be consistent in understanding of consumers’ needs and are committed to continue to meet the needs of consumers everywhere. Each retail company applies different policies related to the management of the company from business invasion policies, corporate financial management to policies related to the company's business strategy.

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Management of corporate finance consists of funding decisions, investment decisions and dividend payments to shareholders (Karadeniz et al., 2009). Financial management is one of the concerns of company management because of funding decisions reflected the company's value of retail companies from investors and creditors' perspectives.

Company value becomes an important part that must be considered by company management because the value of the company becomes one of the objectives of the establishment of a company as reflected in the price of the company's shares in the capital market. And from the value of the company to be a reflection of the prosperity of the shareholders and the value of the company can be used to see the survival of the company in the future (Hardiningsih, 2009; Dwilestari, 2010).

Financial managers take funding decisions related to optimizing the value of the company that will attract potential investors to invest (Oino & Ukaegbu, 2015). The higher the value of the company, the higher the share price and the prosperity of the shareholders. Funding decisions are also related to the use of funds sourced from the company's operations in the form of retained earnings and funding sourced from loans (debt) and sale of shares to investors.

Corporate funding is also related to management policy in combining funding from retained earnings and also from debt and capital sourced from the sale of shares as an alternative funding company that will increase the value of the company. The combination of corporate funding is often referred to as a capital structure. Capital structure and its relationship to the value and performance of the company is still a topic of problems in corporate finance and accounting literature since the discovery of Modigliani and Miller (MM) Theory, where MM used the assumption of perfect capital markets, investors who expect homogeneous, tax free and there are no transaction costs, therefore, the capital structure is irrelevant for the determination of company value (Ebaid, 2009; Ogbulu & Emeni, 2012; Ardalan, 2017). However, in reality these assumptions did not occur, some researchers used these assumptions for their research so as to create a capital structure that could affect the value and performance of the company especially after the findings of Jensen & Meckling (1976).

Capital structure is a management decision that is related to the company's finances that will be used for the company's operations and for the company's investment activities. The company's financial decisions also include funding decisions related to the composition of the use of debt and capital to achieve an optimal capital structure (Zavertiaeva & Nechaeva, 2017). Capital structure can be said to be optimal if the risk inherent in financing through debt or the addition of sahama in circulation is proportional to the benefits obtained so that it can raise stock prices (Ardalan, 2017).

Research conducted by Sari et al. (2013) found that capital structure has a negative influence on firm value while research conducted by Mas'ud (2009); Dewi & Wirajaya (2013) found that capital structure has an effect on firm value. Research conducted by Febrianti (2012); Hermuningsih (2013); Hasbi (2015) found that the capital structure has a significant positive effect on firm value. Research conducted by Sambora (2014); Apriada & Suardikha (2016) found that the capital structure has a negative effect that is not significant on firm value.
Profitability is the company's ability to generate profits from the company's operational activities. Profit from the company's operational activities will be used by management (directors and company managers) with the approval of the company's commissioners as representatives of the shareholders at the General Meeting of Shareholders (GMS) to make decisions relating to the company's survival in the future. Profits are shared with shareholders in the form of dividends, while profits that are not shared (retained earnings) will be used by management to finance the company's operations and also for the company's investment activities.

Companies that are able to generate high profitability can use this opportunity to attract investors to invest in companies, because the higher the company's operating profit, the dividends that will be received by shareholders will also be higher. Previous discoveries from Ogbulu & Emeni (2012); Febrianti (2012); Wulandari (2013); Dewi & Wirajaya (2013); Hermuningsih (2013); Hasbi (2015) found that profitability has an influence on the value of the company. The findings from Moniaga (2013); Apriada & Suardikha (2016) found that profitability does not affect the value of the firm.

The relationship between ownership and firm value where capital ownership is spread in a small part of shareholders and concentrated control on management ownership will result in poor performance. The discovery of Jensen & Meckling (1976) explains the existence of agency conflicts between shareholders and company management. Jensen & Meckling (1976) suggest that managerial share ownership can be used to reduce managerial incentives and reduce share ownership by shareholders so that it can be used to reduce agency conflict between managers and shareholders (Margaritis & Psillaki, 2010).

Large share ownership by external parties will create conflict because of the power of incentives to monitor management performance. Increasing share ownership by management can also make "stronghold" between managerial owners and external owners since there is an increase in managerial opportunities for the costs that must be incurred by investors, therefore, the company's value can be maximized because of the high supervision of shareholders (Margaritis & Psillaki, 2010).

Investors in large institutions on the other hand have incentives to monitor management and perhaps the institutional investors can also act to impose desire on company management. The concentration of share ownership also has a positive impact on the company if the control of a large shareholder acts in accordance with state regulations with weak investor protection and low development of the capital market (Thanatawee, 2014). Apriada & Suardikha (2016) found that the structure of institutional ownership affects the value of the company.

Liquidity is the company's ability to pay its obligations that have or will be due to its creditors. Companies that have high liquidity indicate that the company has good ability to pay its obligations (Alipour et al., 2015). The more able the company to pay its obligations on time, the company has signaled to creditors that the company has good and reliable performance when creditors lend funds to the company. Companies that have good liquidity can give creditors a signal that the company has good cash flow. High liquidity can be utilized by management to attract creditors, making it easier for management to withdraw financing for operational and corporate investment financing sourced from external financing in the form of debt. But on the other hand,
with high liquidity characterized by high cash flow, management can use it to finance the company's operations and company investment in the future so that management can reduce dependency on external funding. The findings from Wulandari (2013) found that liquidity has no effect on firm value. While research conducted by Febrianti (2012); Le & Phan (2017) found that liquidity has a positive but not significant effect on firm value.

Until now, studies of company value, capital structure, profitability, institutional ownership and liquidity are still developing and finding inconsistent research results. Hasbi (2015) found that capital structure variables, growth and profitability had a significant positive effect on firm value. Apriada & Suardikha (2016) found that institutional ownership and profitability had a positive effect on firm value while for managerial ownership and capital structure variables had a negative effect on firm value. Sheikh & Wang (2013) found that the capital structure and asset structure had a negative effect on firm value by measuring return on assets and market to book ratio while firm size and growth had a positive effect on firm value. Ogbulu & Emeni (2012) found that long term debt has a positive effect on firm value but equity has no significant effect on firm value.

From the background of the problem, the researchers set the purpose of this research is to investigate the effect of capital structure, profitability, institutional ownership and retail company liquidity on firm value. As well as from the background of the problem, the problem can be formulated, namely whether the capital structure, profitability, institutional ownership structure and liquidity influence the value of the company.

2. Methods

This research was a secondary research through third parties, namely the Indonesia Stock Exchange (www.idx.co.id) and Indonesia Capital Market Directory (ICMD). The object of this research was the financial statements of retail companies that record the sale of their shares on the Indonesia Stock Exchange from 2011-2017. The sample selection used was a purposive sampling technique with sample criteria was a retail company that publishes annual financial reports from 2011-2017 and provides financial data needed during the year of the study in full and collected samples of 25 companies. The type of data used in this study was panel data consisting of cross section and time series data and collected 140 observation data as a population while 106 data observations can be used as research samples.

The variables used in this study were the dependent variable and the independent variable. The dependent variable is a variable that is influenced by independent variables while the independent variable is a variable that can affect the dependent variable. The dependent variable in this study was the value of the firm is a description of the performance of the company's management in the past and a description of the company's growth prospects in the future (Mas'ud, 2009). The value of the firm that is proxied with Tobins Q, which is a comparison of the value of the market shares of the company against the book value of the company's equity (Hermuningsih, 2013).
Independent variables in this study were capital structure (CS), return on assets (ROA) structure of institutional ownership (IOWN), and liquidity (CR). Capital structure is a management decision in determining the composition of the company's financing through debt and issuance of these new shares. In this study, the capital structure is proxied by debt to equity ratio (DER) (Hasbi, 2015). Profitability is the company's ability to generate corporate profits for a certain period. Profits generated by companies are usually used for dividend payments distributed to shareholders, to pay obligations and interest to creditors as well as retained earnings that the company will use to develop its business. With a proxy for return on assets (ROA) (Al Ani & Al Amri, 2015). Institutional ownership (IOWN) is a stock that is a retail company owned by an entity or other company both domestic and foreign companies. Liquidity is the company's ability to pay its obligations to creditors. The better the company pays its obligations that are due, it will increase the creditor's trust in lending funds to the company. The proxy for measuring liquidity is the current ratio (CR) (Chadha & Sharma, 2015).

Multiple regression analysis in this study was used to predict the influence between two or more independent variables on the dependent variable.

\[ Q = \alpha + \beta_1 CS + \beta_2 ROA + \beta_3 IOWN + \beta_4 CR + \epsilon \]

Explanation:
- \( Q \): Firm value
- \( \alpha \): Constant
- \( \beta_1 \): Capital structure regression coefficient
- \( CS \): Capital structure
- \( \beta_2 \): Profitability regression coefficient
- \( ROA \): Profitability
- \( \beta_3 \): Regression coefficient of institutional ownership structure
- \( IOWN \): Institutional ownership structure
- \( \beta_4 \): Liquidity regression coefficient
- \( CR \): Liquidity
- \( \epsilon \): Standard error

3. Results and Discussion

Descriptive statistics is used to see an overview of research data through the number of research samples, maximum values, minimum values and mean values and standard deviation values of each research variable. The data that used as the study sample were 106 observation data. The capital structure has a maximum value of 18.19 and a minimum value of -4.76 with a mean value of 1.7270. Return of Assets has a maximum value of 0.04, the minimum value is -3.73 with a mean value of -1.1608. Institutional ownership structure has a maximum value of 1.00, the minimum value is 0.00 and the mean value is 0.6951. Liquidity has a maximum value of 14.03, the minimum value is 0.64 and the mean value is 2.6276 and the value of the company has a maximum value of 1.20, the minimum value is -1.63 and the mean value is 0.2242.
The Effect of Capital Structure, Profitability, Institutional Ownership, and Liquidity...  

Table 1  Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CS</td>
<td>106</td>
<td>-4.76</td>
<td>18.19</td>
<td>1.727</td>
<td>2.62068</td>
</tr>
<tr>
<td>ROA</td>
<td>106</td>
<td>-3.73</td>
<td>0.04</td>
<td>-1.1608</td>
<td>0.48962</td>
</tr>
<tr>
<td>IOWN</td>
<td>106</td>
<td>0.00</td>
<td>1.00</td>
<td>0.6951</td>
<td>0.18611</td>
</tr>
<tr>
<td>CR</td>
<td>106</td>
<td>0.64</td>
<td>14.03</td>
<td>2.6276</td>
<td>2.43699</td>
</tr>
<tr>
<td>Q</td>
<td>106</td>
<td>-1.63</td>
<td>1.20</td>
<td>0.2242</td>
<td>0.37892</td>
</tr>
</tbody>
</table>

To test the feasibility of the model in this study using adjusted R-squared with a value of 0.304 or 30.4% (Table 2) so that it can be concluded that the variable capital structure, profitability, institutional ownership structure and liquidity can explain the company's value of 30.4% while for the remaining 69.6% explained by other independent variables.

Hypothesis testing is used to determine the effect of capital structure, profitability, institutional ownership structure and company liquidity on firm value both simultaneously and partially. Variable capital structure, profitability, institutional ownership structure and company liquidity have a significance value of 0.000 with a calculated F-value of 13.022 (Table 2), therefore, it can be concluded that the variable capital structure, profitability, institutional ownership structure and company liquidity simultaneously influence the firm's value.

Table 2  Results of Regression Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.947</td>
<td>.137</td>
<td>6.933</td>
<td>.000</td>
</tr>
<tr>
<td>SM</td>
<td>.018</td>
<td>.012</td>
<td>1.407</td>
<td>.162</td>
</tr>
<tr>
<td>LOG_ROA</td>
<td>.363</td>
<td>.063</td>
<td>5.791</td>
<td>.000***</td>
</tr>
<tr>
<td>SKI</td>
<td>-.318</td>
<td>.163</td>
<td>-1.958</td>
<td>.053*</td>
</tr>
<tr>
<td>CR</td>
<td>-.045</td>
<td>.013</td>
<td>-3.389</td>
<td>.001***</td>
</tr>
<tr>
<td>R-squared</td>
<td>.329</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>.304</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>13.022</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** significant at level 1%; ** significant at level 5%; * significant at level 10%

Capital structure variables have a value of t-statistics of 1.407 with a significance level of 0.162 so that it can be concluded that the capital structure does not affect the value of the company. The direction of the relationship between capital structure variables to firm value is positive, which can be interpreted that if there is an additional debt composition in the capital structure of retail companies, it will increase retail value of creditors but for investors, corporate debt cannot influence investment decisions so that capital structure tends not to affect company value. This finding is in accordance with the results of research from Sambora (2014) and the results of this study are not in accordance with the findings of Mas'ud (2009); Hermuningsih (2013); Sari et al. (2013); Dewi & Wirajaya (2013). The conclusion of the results of this study on the hypothesis which states that the capital structure has a positive effect on the value of the company is rejected.
Profitability variable has t-statistics of 5.791 with a significance level of 0.000 so it can be concluded that the profitability variable has a significant positive effect at 1% or 0.01 level on firm value. The direction of the relationship between profitability and company value is positive, which can be interpreted that if the company is better at generating profits and good future prospects of the company, investors will respond positively to increase the value of the company Syardiana et al. (2015). The results of this study are in accordance with findings from Ogbulu & Emeni (2012); Wulandari (2013); Dewi & Wirajaya (2013). However, this finding is not in accordance with the findings of Moniaga (2013); Apriada & Suardikha (2016). The conclusion of the results of this study on the hypothesis which states that the variable profitability has a positive effect on the value of the company is accepted.

The variable structure of institutional ownership has a value of t-statistics of -1.958 with a significance level of 0.053 so that it can be concluded that the ownership structure has a significant negative effect on the level of 10% or 0.10 against the value of the company. The direction of the relationship between the structure of institutional ownership to the value of the company is negative, which can be interpreted that if the shares owned by the institution will increase the value of the company in the eyes of investors because more shares are owned by an institution or other company. retail companies and the greater the share ownership of other institutions or companies, the greater the institution will be to control retail companies. Conclusions from the results of this study on the hypothesis which states that the structure of institutional ownership variables negatively affect the value of the company is accepted. The result indicates that a dominating institution might hurt firm value as was conjectured (Chen et al., 2008). This is consistent with Navissi & Naiker (2006). The impact on the value of the firm becomes negative, giving rise to a non-linear relation. The extent of shareholding by institutions without board representation, on the other hand, is not related to the value of the firm.

The company's liquidity variable has a value of t-statistics of -3.389 with a significance level of 0.001 at a significance level of 0.01 or 1% with the direction of the relationship having a negative sign so that it can be concluded that the variable corporate liquidity has a significant negative effect on firm value. A negative sign indicates that the more capable the company is to pay its obligations that are due, the lower the value of the retail company. The conclusion of the results of this study on the hypothesis which states that the liquidity variable has a negative effect on the value of the company received. The results of this discovery are not in accordance with the findings of Febrianti (2012); Wulandari (2013); Le & Phan (2017).

4. Conclusion

The results of this study can be concluded that only the variable profitability, institutional ownership structure and liquidity that influence the value of the company, for the profitability variable with a positive direction while for the variable institutional ownership and liquidity with negative direction. For capital structure variables does not affect the value of the company.
This study is expected to contribute to the development of agency theory and capital structure theory in the field of accounting. This study is expected to be able to provide information to future researchers related to the effect of capital structure, profitability, institutional ownership and liquidity on the value of retail companies. For the management of retail company companies, it is expected that the findings of this study can be used as material for consideration in determining the company's financial policies that can affect company value.

The object of study is only using retail companies that have been listed on the IDX so that the results of this study have not been able to describe all retail companies in Indonesia because retail companies that are not listed on the IDX are not the object of research, for future research use the object of research from all retail companies in Indonesia both those listed on the IDX and those that are not listed on the IDX. The year of research observation is limited to 2017, and further studies are expected to add to the year of observation until 2018.

For further research, researchers provide suggestions for: 1) Adding the object of research by including retail companies that are not listed on the IDX; 2) Using other research objects such as wholesale companies, plantations, and other types of companies; 3) Using other independent variables such as company size, sales growth, dividend policy, management share ownership; 4) Using different measurement proxies for capital structure, profitability, liquidity and company value.

References


