

e-ISSN: 2721-303X, p-ISSN: 2721-3021

Received: 20 February 2021, Revised: 05 March 2021, Publish: 23 March 2021

DOI: <https://doi.org/10.38035/dijefa.v2i1><https://creativecommons.org/licenses/by/4.0/>

Role of Firm Size and Profitability on Capital Structures and Its Impact Over Firm Value

Jajat Sudrajat¹, Hari Setiyawati²

¹Universitas Mercu Buana, Jakarta, Indonesia, kang.ajattea28@gmail.com

²Universitas Mercu Buana, Jakarta, Indonesia, hari_setiyawati@mercubuana.ac.id

Corresponding Author: Jajat Sudrajat¹

Abstract: This research has a purpose to reveal and evaluate the significant impact from firm size to capital structure; Profitability to capital structure; capital structure to firm value; firm size to firm value; profitability to firm value; and those indirect effects of firm size and capital structure towards firm value; and those indirect effects of profitability along with capital structure to firm value. This research population was 178 manufacturing companies, while the research sample was 13 automotive subsector companies and its components which registered on the IDX by the sampling technique were purposive sampling methods. The research method that was used was quantitative methods, while the analysis model used regression analysis model with t-test and sobel test. These research results illustrated that firm size had a significant affect on capital structure; profitability had a negative and significant affect on capital structure; capital structure has no significant affect on firm value. firm size had a significant affect on firm value; profitability has no effect and is insignificant to firm value; there is no indirect and insignificant affect occurred between firm size, capital structure and firm value; There is no indirect and insignificant affect that occurs between profitability, capital structure and firm value.

Keywords: Firm Size, Profitability, Capital Structure, Firm Value

INTRODUCTION

High mobility from the Indonesian citizens has demand fast and efficient movement. This could be a signal for automotive manufacturers in order to support the mobility of residents, especially those who do business in big cities such as Jakarta, Bandung, Surabaya and so on. The Automotive producers, especially the automotive and component manufacturing industries should need to prepare for an increased in production, so it means that it will require the capital and the need of change in the firm value and the company's capital structure which could be done by increasing the profitability and its firm size.

Capital structure or it is often called as leverage is an important tool in estimating the effectiveness of the use of corporate debt. Through the leverage, the companies will not only gain profits but also it could be something that causing losses in the company, because the financial leverage means that the company will imposes risks to shareholders, thereby it would affecting the stock returns (Weston and Copeland, 1999). This capital structure could be estimated through the use of the Debt Equity Ratio (DER) proxy where this ratio often used to calculate the proportion of company funds from debt to finance company assets (Sudana, 2009:23). The research results from Sinha (2017), Osazuwa and Che-Ahmad (2015), Aggarwal and Padhan (2017) revealed that capital structure has a negative affect on firm value.

Firm value is the amount of price that potential buyers (investors) are willing to pay if the company is sold. The normative goal of the company is to maximize the shareholder wealth (Sudana, 2009:7). Those Shareholders intend to earned wealthy from the results in maximizing firm value (Atmaja, 2008:4). Firm value could be estimate by Price to Book Value (PBV) analysis. Tobin's Q analysis is also known as the Tobin's Q ratio. This ratio is a valuable concept because it shows the current of financial market estimation of the return value of each dollar of investment in the future. According to Smithers and Wright (2007:37), Tobin's Q could be estimated through the ratio of the company's stock market value plus debt then compare to the company's total assets. The firm value which mentioned above could be influenced by the capital structure.

The company size (firm size) is the size of the company which aimed at or valued by total assets, total sales, total profit, tax expense and others (Brigham & Houston, 2010:4). Seeing from the total assets, total sales, the amount of profit which could determine the capital structure and the firm value of the company. The result of the research by Hasan and Zaki (2005), Harc (2011), Krisnanda and Wisuana (2015), Karadenisz et al (2011) revealed that firm size has an affect towards the capital structure. Meanwhile, the research results from Hamyat et al (2017), Wahome et al (2015), Armelia (2016) explained that firm size has no affect on capital structure. Besides those things above, the research from Yuniarti et al (2017) and Nuraina (2012) defined that firm size could affect the firm value.

Meanwhile, the profitability or which could be referred as the company's ability to earned the profits from its sales or in other words a measure of how far the company's ability to generate profits (Husnan and Pujiastuti, 2015: 76). Profitability could be measured through various ratios, including Return On Equity. Whereas ROE is an estimate tool to check of how much profit belongs to the owner. Some of the research results which explain that profitability had an impact towards capital structure, among those are from Datangvci (2015), D'Arcy and Lwin (2012), Prabansari and Kusuma (2005). Meanwhile, the research from Singh and Singh (2018) shows that profitability has no effect on capital structure. In another case, the profitability will affect the firm value, this was in accordance with the research from Mahendra et al (2012) and Dewi and Wirajaya (2013).

Generally speaking, this research aims to discover and learn further about the significant influence from firm size and profitability on capital structure and its impact on firm value. Therefore, this research hadls includes with these following questions, such as: 1) Does the firm size have a significant affect on capital structure?; 2) Does the profitability have a significant affect on capital structure?; 3) Does the capital structure have a significant

affect on firm value?; 4) Does the firm size have a significant affect on firm value?; 5) Does the profitability have a significant affect on firm value ?; 6) Does the firm size and capital structure have a significant indirect effects on firm value?; 6) Does the profitability and capital structure have a significant indirect effects on firm value?.

LITERATURE REVIEW

Agency Theory

Brigham and Houston (2012) were explained that agency theory could be viewed from the correlations between shareholders and parties which acts as agents, namely management in a company, therefore there has a separation of company ownership. It could be concluded that agency relations would occurred when there is one or more of the individuals called the principal of hiring another individual or organization called as an agent to perform a number of jobs or services which could delegate in order to create authority or decisions towards that agent.

Pecking Order Theory

Myers (1978) were explained that the funding structure according to the pecking order theory is: a) Companies prefers the internal funding; b) The company has target on dividend payout ratio for the company's investment opportunities and seeks to avoid sudden changes in dividends; c) Sticky dividend policy and unpredictable fluctuations in profit and investment opportunities where the internal cash flow sometimes exceeds the capital spending and in certain times the amount of internal cash is insufficient; d) If the company needs external funding sources, the company will first choose a safer source, namely debt, then the securities or perhaps both mixed securities such as convertible bonds and equity as the last options.

Trade Off Theory

Trade off theory argues that there are tax benefits due to the use of debt, Therefore the companies will use debt in a certain level to extent the maximize firm value. The essence of trade off theory in capital structure is to balance the benefits and tradeoffs which arise as a result of using debt. As long as the benefits are greater than debt, The additional debt is still allows then If the sacrifice cause of the debt use is already greater, then the additional debt is not allowed.

Firm Value

The maximum increase in the company stock price will increase the wealth to shareholders aswell. Those Various policies and decisions which taken by management in an effort to increase the firm value by increasing the prosperity of its owners and shareholders as well as investors which are reflected in stocks prices. (Brigham & Houston, 2006: 19). The company ability to pay dividends to shareholders is a real portrait of the firm value which created in a company (Mahendra et al, 2012). Price to Book Value (PBV) is an illustration of how much the market gives the price to book value of a companies stocks. The higher the ratio, meaning that the market believes in the company's future (Afzal, 2012). PBV has shown how far the company creating the firm value which relevance to the amount of capital that invested. PBV is also the ratio which shows whether the price of the stocks traded is

overvalued (above) or undervalued (below) the book value of the stock (Fahrudin and Hadianto, 2001). Systematically, the PBV formulation could be estimated through the formula (Setiadharmas and Machali, 2017).

Capital Structure

Capital structure is a balance or comparison between foreign capital and own capital. Foreign capital, in this case, both long-term and short-term debt. Meanwhile, capital itself is divided into retained earnings and company ownership. The optimal capital structure is an optimize capital structure in its balance between risk and return so it would produced a maximum stocks prices. Thats why, in determining the capital structure of a company, it is necessary to consider those various variables which have an impact on it.

Firm Size

Brigham & Houston (2010: 4) defined the company size or Firm size as follows: " Firm size is the size of a company which reflected or valued by total assets, total sales, total profit, tax expense and others". Hartono (2008: 14) company size (firm size) are : "the size of the company which could be measured by the total assets / size of the company's assets trough the logarithmic value of total assets". Then the size of the company according to Torang (2012: 93) is: "The size of the organization is to determine the number of members associated in choosing how to control activities in an effort to achieve goals".

Profitability

Return on Equity (ROE) this ratio shows the success or failure of the management in maximizing the return to shareholder investment. It is emphasizes on return on investment. According to Sartono (2001), ROE is a return on yield or equity which those amount is refers as a parameter and earned from an investment in the company's common shares during certain period of time. The amount of ROE is strongly influenced by the amount of profit which received by the company, the higher the profit, then The ROE will be highly increased. Meanwhile, ROE is the ratio between profit after tax to total own capital (equity) which comes from owner's deposit, undivided profit and other resources owned by the company.

Conceptual Framework

The Affect of Firm Size on Capital Structure

Firm size is often used as an indicator of the possibility of bankruptcy for a company, where a company with a larger size is considered would be more capable in facing a crisis when running its business. According to research results by Singh (2016); Singh and Kaur (2015); Javad et al (2017); Hermuningsih (2012); Irawati (2012) Based on these five research which stated that firm size has a direct effects on the company's capital structure. In responses to this thought, the authors have other thing to urges which stated that the firm size of the company will have an affect to the capital structure of a company.

The Affect of Profitability in Capital Structure

Companies during their activities have one thing which remain as the main object, namely gained profit or maximum profit. With this aim, all company activities have a main

focus point in how the company could earned big profits and equity. In packing order theory it is already explains that the companies with large profit levels tend to have small levels in debt. This is according to research results from Pandey & Nahu (2017); Alipour et al (2015); Kumar & Babu (2016); Azlina (2009); Mardiyati et al (2012) revealed that profitability could be viewed by ROA and ROE which has an impact towards capital structure.

The Affect of Capital Structure on Firm Value

Firm value is a perception or description from investors regarding the company's success rate which tightly related to stocks prices. The higher the stock value of a company, the higher the firm value of the company, and that sort of thing could increase the market trust not only in company's current performance but hopefully in the future. Fakhruddin and Hadiananto (2001) suggest that the stocks which generally used will always use the closing stock prices as reference and those price often occurs when the stocks are traded on the market. In research which conducted by Sinha (2017); Baek et al (2016); Taqi et al (2016); Moniaga (2013); Kesuma (2009) argues if the capital structure could affect the firm value.

The Affect of Firm Size on Firm Value

Based on Consoladi et al. research in Oktaviani (2014) which stated that: "The firm size could affect the social performance of the company because large companies often have broadly vision, so surely they would participate lots in advancing the company's social performance". Sujoko and Soebiantoro (2007) in Hermuningsih (2009) stated that firm value is a perception or description from investors towards company's success rate which tightly related to stock prices. The research by Singh & Kaur (2014); Sia et al (2017); Kouki & Said (2011); Main & Main (2013); Nuraina (2012) who found regarding these five research which stated that the firm size could affect the firm value.

The Affect of Profitability on Firm Value

The advantage of profit/benefits is an result from management policies, therefore the company performance could be measured by its profits. The company's ability to earned profits in a certain period through the use of all capital owned by the company. The basic concept of this statement are when the profitability increases, the firm value would also increases. The Research conducted by Shirzad et al (2015); Eventsvci (2018); Kumar & Sujit (2018); Taufik et al (2010); Kusumadilag (2010) argues that profitability affects firm value.

The Indirect Effects of firm Size and Capital Structure towards Firm Value

The scale of the company in carrying out its activities is certainly seen from the firm size, a company with a large scale would require lots funding (capital) which is not small aswell. In other words, the large of firm size will requires a huge amount of capital. According to these thought, it can be defined that firm value commonly with size of the company which is large, through an increased of capital structure it will also increase the firm value. The research that conducted by Singh & Kaur (2014); Sia et al (2017); Kouki & Said (2011); Main & Main (2013); Nuraina (2012) argues that the firm size have an affect on firm value through capital structure.

The Indirect Effects of Profitability along with Capital Structure towards Firm Value

The profit/benefits is the result from management policies, so the company performance is actually could be measured by profit. The company's ability to earned profits in a certain period through the use of all capital owned by the company. A large profits which earned from the company's activities will reduce the capital structure which comes from debt then it will increase the firm value because the company could maximize the potential for increased the profits and same time could reduce the potential in using the debt on company's capital structure. The research from Shirzad et al (2015); Eventsvci (2018); Kumar & Sujit (2018); Taufik et al (2010); Kusumadilag (2010) suggests that profitability have an affect on firm value through capital structure.

According to these explanation from the theoretical framework that mentioned previously, then the writer could drawn the theoretical framework as in these following image below:

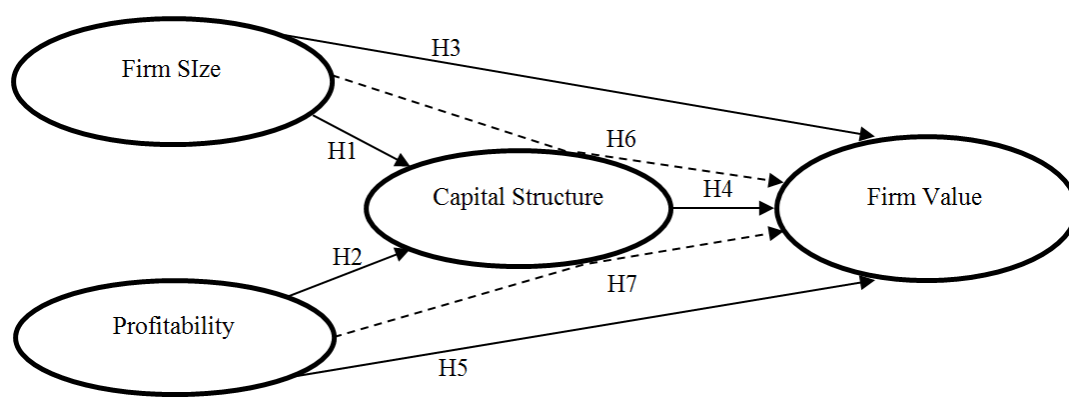


Fig. 1. Conceptual Framework

Hypothesis

Referring to the results from the theoretical review and its frameworks which have been described previously, the author could suggests several research hypothesis that could be seen as follows:

- 1) There has a significant affect from firm size to capital structure.
- 2) There has a significant affect from profitability to capital structure.
- 3) There has a significant affect from capital structure on firm value.
- 4) There has a significant affect from firm size towards firm value.
- 5) There has a significant affect from profitability on firm value.
- 6) There has a significant indirect effects from firm size on firm value through capital structure.
- 7) There has a significant indirect effects from profitability on firm value through capital structure.

RESEARCH METHODS

This research type was included in quantitative causality research (Sekaran, 2017:76). The quantitative causality research means to test those influence through the use of independent variables of firm size and profitability as well as the dependent variable of capital structure and firm value, both directly or indirectly. These research population was

178 from 3 sectors of manufacturing companies and it obtained sample of 13 manufacturing companies which are the Automotive Subsectors companies and its Component which have been listed on the Stock Exchange during period of 2013-2017 which have been done through sampling method which is purposive sampling. Simple regression analysis and path analysis with the sobel test is used to examine the research model with assist of SPSS 24.00 as an instrument tests.

RESULT AND DISCUSSION

Descriptive Analysis

These following table are the results of each variable:

Table 1. The Descriptive Statistical Analysis

| Variable | Min | Max | Mean | Std. Dev. |
|----------|---------|-------|--------|-----------|
| PBV | .01 | 4.76 | 1.2894 | 1.15817 |
| DER | .09 | 8.26 | 1.0983 | 1.16506 |
| ROE | -124.12 | 82.94 | 5.1437 | 21.01885 |
| FZ | 3.42 | 7.58 | 6.1938 | .83846 |

The average value of the firm size variable was 6.1938 percent, which shown that it was above 1, meaning that these research sample had consisted with lots of large-scale companies. The standard deviation value was 0.8384 percent which is smaller than the average value, thus was indicating that the data distribution shows normal. The lowest average value of the ROE variable in this research was -124.12%, which means that the company suffered a loss in that period so it could not gained net profit from the total equity. While the highest value, which is 82.94%, meaning that these company had generates its net profit from the total equity during in that period. The average (mean) was 5.1437%, this means that the company has the ability to earned net profit from the total shareholder equity. In the debt equity ratio (DER) variable, the highest value was 8.26. And the lowest DER value, which is 0.09 times, meaning that it is capable to return its obligations properly. With an average value of 1.09 times, meaning that the research sample company was 1.09 times. The Price Book to Value (PBV) variable has the highest PBV value of 4.76 times, what it means by this high PBV value is the company's stock price would be so expensive. With an average value (mean) of 1.28 times, it can be said that the average research sample company has an expensive stock price because it was more than 1.

Coefficient of Determination (R^2)

Table 2. Coefficient of Determination Model

| Model | R | R Square | Adjusted R Square |
|-------|------|----------|-------------------|
| 1 | .734 | .538 | .515 |

The Adjusted R-Square value is 0.515 or 51.5%, which means that this value refers to the value of 51.5% that Firm Value (PBV) was influenced by Firm Size, Profitability (ROE) and Capital Structure (DER), while the remaining of 48, 5% was influenced by other variables (epsilon) outside these research.

Fit Test Model (Goodness of Fit Test)**Table 3. Fit Test model (Goodness of Fit)**

| Model Testing | Sum of Squares |
|---------------|----------------|
| First Test | 34.087 |
| Second Test | 6.110 |
| Third Test | .003 |

From the test results it shows that the Sum of Squares value was in decreased, so according to these criteria test the H0 hypothesis was accepted, then hypothesized model seems fit with data (goodness of fit).

First Model of Multiple Regression Analysis**Table 4. First Model of Coefficients**

| Model | Unstandardized Coefficients |
|----------|-----------------------------|
| | B |
| Constant | -.704 |
| ROE | -.023 |
| FS | .290 |

According to the table 4 above, the linear regression equation which obtained could be explained as follows:

$$Y = -0.704 + 0.290X_1 - 0.023X_2$$

According to the regression coefficient value, it could be said that the value of the Capital Structure variable (DER) Could be viewed through its constant value of -0.704 with the noted that the variable of Firm Size (FS), Profitability (ROE) is equal to 0 (zero). The regression coefficient for the firm size variable (FS) was 0.290, it means that the firm size variable (FS) had increased by one unit, so the capital structure variable (DER) will increase by 0.290. The regression coefficient for Profitability variable (ROE) was -0.023, it means that the profitability variable (ROE) had increases by one unit, so the Capital Structure (DER) variable would decrease by 0.023.

Second Model of Multiple Regression Analysis**Table 5. Second Model of Coefficients**

| Model | Unstandardized Coefficients |
|----------|-----------------------------|
| | B |
| Constant | 1.197 |
| DER | ,041 |
| ROE | ,092 |
| FS | -.082 |

Based on table 5 above, the linear regression equation that obtained could be explained as follows:

$$Z = 1.197 + 0.041Y + 0.092X_2 - 0.082X_1$$

According to the analysis of the regression coefficient value, it could be said that the value of the dependent variable i.e Firm Value (PBV) that could be seen from its constant value was 1,197 with noted that the variables of Firm Size (FS), Profitability (ROE) and Capital Structure (DER) are equal to 0 (zero). The regression coefficient of firm size (FS) variable was -0.082, meaning that the firm size (FS) variable has increased or inclined by one unit, the firm size variable (PBV) will decrease by 0.082. The regression coefficient of the Profitability variable (ROE) was 0.091, so it could be said if the Profitability variable (ROE) has increased or inclined by one unit, the Firm Value variable (PBV) will increase by 0.091. The regression coefficient of the capital structure variable (DER) was 0.041, meaning if the Capital Structure (DER) variable increases by one unit, the Firm Value (PBV) variable will increase by 0.041.

First Model of Hypothesis Tests

Table 6. First Model of T-test

| Model | | |
|-------|--------|------|
| | T | Sig |
| ROE | -3.463 | .001 |
| FS | 5.909 | .000 |

The firm size variable (FS) had a t-count of 5.909 with significance level of 0.000 and has a significance level of 0.05 or $0.000 < 0.05$, so then the H_0 was rejected and H_a was accepted. The profitability variable (ROE) has a t-count was -3,463 with significance level of 0.001 and significance level of 0.05 or $0.001 < 0.05$, so H_0 was rejected and H_a was accepted, which means that there is a negative and significant affect of Profitability (ROE) on Capital Structure (DER).

Next is the partial hypothesis test between the variable of firm size (FZ/Logn), profitability (ROE) and capital structure (DER) with the dependent variable of firm value (PBV). The test results could be described as follows:

Table 7. Second Model of t-test

| Model | | |
|-------|-------|------|
| | T | Sig |
| ROE | .221 | .826 |
| FS | 7.436 | .000 |
| DER | -.548 | .586 |

The results from hypothesis test shows that the firm size variable (FS) has a t-count of 7.436 with a significance level of 0.000 and a significance level of 0.05 or $0.000 > 0.05$, then H_a was accepted and H_0 was rejected, meaning that there has a significant affect from Firm Size (FS) to Firm Value (PBV). The results from hypothesis test shows that the profitability variable (ROE) has a t-count of .221 with a significance level of 0.826 and significance level of 0.05 or $0.826 < 0.05$, so H_0 was accepted and H_a was rejected, so it said there has no significant affect from Profitability (ROE) on Firm Value (PBV). The results of hypothesis test shows that the Capital Structure (DER) variable has a t-count of -.548 with significance

level of 0.586 and significance level of 0.05 or $0.586 > 0.05$ then H_a was rejected and H_0 was accepted, so it said there has no affect from Capital Structure (DER) to Firm Value (PBV).

Sobel Test

Table 8. Sobel Test

| Model | Unstandardized Coefficients | |
|-------|-----------------------------|------------|
| | B | Std. Error |
| ROE | .091 | .012 |
| FS | .082 | .151 |
| DER | .041 | .186 |

$$Sab = \sqrt{(0.041^2 \times 0.151^2) + (-0.082^2 \times 0.186^2) + (0.151^2 \times 0.186^2)}$$

$$Sab = \sqrt{0.00418 + 0.00024 + 0.00029}$$

$$Sab = 0.069$$

Furthermore, to test the significance of the indirect effects from the independent variable to dependent variable, it is necessary to estimate the t-value of the ab coefficient through these following formula:

$$t = \frac{-0.082 \times 0.041}{0.069} = -0.048$$

By the value of t-count (-0.048), so in accordance with sobel test that H_0 was accepted and H_1 was rejected, that is, there has no indirect affect between firm size (FS) and capital structure (DER) on firm value ($2.750 > -0.048$).

$$Sab = \sqrt{(0.041^2 \times 0.012^2) + (0.091^2 \times 0.186^2) + (0.012^2 \times 0.186^2)}$$

$$Sab = \sqrt{0.00000024 + 0.0000125 + 0.0000050}$$

$$Sab = 0.00421$$

Moreover, to examine the significance of the indirect effects from the independent variable to the dependent variable, it is necessary to estimate the t-value of the ab coefficient with these following formula:

$$t = \frac{0.091 \times 0.041}{0.0042} = 0.886$$

By the t-count value was (0.886), so according to the sobel test results, it is proven that H_0 was accepted and H_1 was rejected, namely there has no an indirect effects between profitability (ROE) and capital structure (DER) on firm value ($2.750 > 0.886$).

Table 9. Summary of Hypothesis Test Results

| Hypothesis Testing | Result |
|--|----------|
| There has a significant affect from firm size to capital structure | Accepted |
| There has a significant affect from profitability to capital structure | Accepted |
| There has a significant affect from capital structure to firm value | Rejected |
| There has a significant affect from firm size to firm value | Accepted |

| | |
|---|----------|
| There has a significant affect from profitability to firm value | Rejected |
| There has a significant indirect affect between firm size and capital structure on firm value | Rejected |
| There has a significant indirect affect between profitability and capital structure on firm value | Rejected |

Discussion

Significant affect from Firm Size to Capital Structure

There has a significant affect from Firm size to capital structure. It means that if the firm size has increased, it would followed by an increase in the company's capital structure. The results of these research are in line with the pecking order theory which stated that the use of internal funds is priority than the use of external funds. These research results were in line with the results from Sri Hermuningsih (2012) which has resulted that firm size had a positive affect on capital structure and also the research results from Suman Kumar and P. Chitti Babu (2016) which stated that firm size has a positive impact towards capital structure.

Significant Affect from Profitability to Capital Structure

There has a negative and significant affect of profitability towards capital structure. The negative affect means that if ROE has increases, the DER will decrease. This is because if the profitability increases, the company will use the return as in the form of retained earnings instead of using the debt to financing the company. This were in line with the pecking order theory which stated that companies prefer internal funding such as the use retained earnings. The results were in line with the research from Hermuningsih (2012) which shows that profitability has a positive and significant affect on capital structure. This result was contrary with the results from Firnanti (2008) which showed that profitability has a negative affect on capital structure.

Significant Affect from Capital Structure to Firm Value

There has no proven that capital structure has an impact on firm value. Meaning that there is no impact between capital structure on firm value. This opposite with the trade off theory, which stated that companies can use debt if those benefits are great. The results of this research were in line with the research results from Riana and Diah Iskandar (2017) which said that partially capital structure has no affect on firm value in mining companies which have been listed on the Indonesia Stock Exchange during period 2011-2014. However, it is contrary to the results from research which conducted by R. Bintara (2018) that defined if the Capital Structure have a positive affect on Firm Value.

Significant affect from Firm Size to Firm Value

There has an impact of Company Size towards Firm Value. Meaning that the greater the firm size, the greater the firm value. These results was supported from the signaling theory which stated that when a company use an internal funds to finance its business it would appear as a positive signal. These research results were in line with the research from Prasetyorini (2013) which show that firm size has a positive and significant affect on firm value. However, the results of this research were in line with research by Dewi and Wirajaya

(2013) which stated that firm size had a significant affect on firm value which was unacceptable.

Significant Affect from Profitability to Firm Value

There has no correlation between Profitability and Firm Value. This result was contrary to the trade off theory whereas the companies tends to use internal funding. These results were in line with the research results from Dewi and Wirajaya (2013) which has resulted that profitability had a positive and significant affect on firm value. This result was opposites to the results of research from Firnanti (2008) which showed that profitability has a negative affect on firm value.

Significant Indirect Effects of Firm Size and Capital Structure towards Firm Value

There has no indirect effects between firm size and capital structure on firm value. These research results did not support the trade off theory which suggests that companies prioritize funding from internal funding. Based on these results, it shows that the firm size has no affect on firm value through the capital structure. These research results was contrary with the results of research which stated by Hermuningsih (2012) defined that firm size has a positive and significant affect on firm value through capital structure.

Significant Indirect Effects Between Profitability and Capital Structure on Firm Value

There has no significant indirect effects between profitability and capital structure on firm value. These results did not support the trade off theory which suggests that companies prioritize its funding from internal funding. Based on these research results, it shows that profitability did not have an affect on firm value through capital structure. These results were opposites with the results from Hermuningsih (2012) which stated that profitability has a positive and significant affect on firm value through capital structure.

CONCLUSION AND RECOMMENDATION

Conclusion

Firm size has a significant affect on capital structure. The bigger the firm size, the bigger the company's capital structure would be; Profitability has a negative and significant affect on capital structure. The return which generated by the company has increased or could be said that the company tends to use more debt; Capital structure has no significant affect on firm value. The firm value will not affected by the use of company debt as a source of financing the company's operations; Firm size has a significant affect on firm value. Companies with large asset values will increase the firm value ; Profitability has no affect and insignificant to the firm value. The return value would not increase the firm value; There is no indirect effects between firm size and capital structure on firm value. Assets which has source from company debt will not affect the firm value . There is no indirect effects between profitability and capital structure on firm value. the return value and the amount of debt would have no affect in increasing the firm value.

Recommendation

For further researchers, it is expected that they could carry out more varied research such as: a) the REO has a negative affect on DER, it could be done with a longer time gap in financial data so perhaps it would give different results; b) By adding another variables as independent variables that has an affect to the capital structure and firm value; As For automotive and its component manufacturing companies, there has ways that could be done in order to increase the firm value and capital structure such as; by increasing the firm size of the company (FS) through adding the company's current assets so the company's internal funds would increase then the company will use often its internal funds than the debt and also by increasing the company's profitability (ROE) through increasing the total equity and net income. Therefore it requires an effective and efficient management to manage all equity so it would resulted in higher profits. One of the efforts in increasing the net income is by increasing the sales.

REFERENCE

- Acaravci, S.K. (2015). The Determinants of Capital Structure: Evidence from the Turkish Manufacturing Sector. *Internasional Journal of Economics and Financial*, 5(1): 158-171.
- Afzal, A., & Rohman, A. (2012). Pengaruh Keputusan Investasi, Keputusan Pendanaan, dan Kebijakan Deviden Terhadap Nilai Perusahaan. *Diponegoro Journal of Accounting*, 1(2): 9.
- Aggarwal, D., & Padhan, P.C. (2017). Impact Of Capital Structure On Firm Value: Evidence From Indian Hospitality Industry. *Theoretical Economics Letters*, 2017, 7, 982-1000.
- Alipour, M., Mohammadi, M.F.S., & Derakhshan, H. (2015). Determinants of Capital Structure: An Empirical Study Of Firms In Iran. *International Journal of Law and Management*, 57(1): 53-83.
- Arifin, Z. (2005). *Teori Keuangan dan Pasar Modal*, Yogyakarta: Ekonisia.
- Arikunto, S. (1998). *Prosuder Penelitian Suatu Pendekatan Praktek*. Jakarta: PT. Rineka Cipta.
- Arlita, D.P., & Surjandari, D.A. (2019). The Effect of Profitability, Liquidity, Asset Structure, Growth Opportunity, Institutional Ownership on Capital Structure (Case Study at Property and Real Estate Companies in Indonesia Stock Exchange Period 2013-2017). *Scholars Bulletin Abbreviated*, 5(8): 461-470.
- Atmaja, L.S. (2008). *Teori dan Praktek Manajemen Keuangan*. Yogyakarta: Andi.
- Bintara, R. (2020). The Effect of Working Capital, Liquidity and Leverage on Profitability. *Saudi Journal of Economics and Finance Abbreviated*, 4(1): 28-35.
- Brigham & Houston. (2010). *Dasar-dasar Manajemen Keuangan Buku 1 (Edisi 11)*. Jakarta : Salemba Empat.
- Bursa Efek Indonesia. (2019). *Laporn Keuangan Perusahaan Manufaktur Otomotif Tahun 2019*. Jakarta, Indonesia.
- Dewi, A.S.M., & Wirajaya, A. (2013). Pengaruh Struktur Modal, Profitabilitas Dan Ukuran Perusahaan Pada Nilai Perusahaan. *E-Jurnal* 4.2: 358-372.
- Fahmi, I. (2011). *Analisa Laporan Keuangan*, Bandung: Alfabeta.
- Fakhrudin, M., & Hadiano, M. (2001). *Perangkat dan Model Analisis Investasi di Pasar Modal*. Jakarta: Gramedia.
- Hamyat, H., Sarita, B., & Hasbudin, S. (2017). The Effect of Firm size and Diversification on Capital Structure and FirmValue (Study in Manufacturing Sector in Indonesia Stock Exchange). *The International Journal of Engineering and Science*, 6(6): 50-61.

- Harc, M. (2015). The Effect Of Firm Size on SME's Capital Structure. *Croatian Academy of Sciences and Arts Institute for Scientific research and Artistic Work in Osijek*. 30(3): 301-313.
- Hasan, S.S., & Zaki, A.R. (2005). Critique on Optimal Capital Structure and Capital Structure Decisions by Firms in The UK. *Journal of European Studies*, 3(2005):358.
- Hermuningsih, S. (2012). Pengaruh Profitabilitas, Size Terhadap Nilai Perusahaan Dengan Struktur Modal Sebagai Variabel Intervening. *Jurnal Siasat Bisnis*, 16(2): 232-242.
- Husnan, S., & Pudjiastuti, E. (2015). *Dasar-Dasar Manajemen Keuangan, Edisi Ketujuh*. Yogyakarta: UPP STIM YKPN.
- Jensen, M., C., dan W. Meckling, (1976). Theory of the firm: Managerial behavior, agency cost and ownership structure. *Journal of Finance Economic*, 3: 305-360.
- Karadeniz, E., & Kandir, S.Y. (2011). Firm Size and Capital Structure Decisions: Evidence From Turkish Lodging Companies. *International Journal of Economics and Financial Issues*, 1(1): 1-11.
- Kumar, M. S., & Babu, P.C. (2016). Determinants of Capital Structure of Select Edible Oil Firms In India. *Indian Journal of Commerce & Management Studies*, VII(1).
- Mahendra, A. Dj., L.G.S.A., & Suarjaya, A.A.G. (2012). Pengaruh Kinerja Keuangan Terhadap Nilai Perusahaan Pada Perusahaan Manufaktur Di Bursa Efek Indonesia. *Jurnal Manajemen, Strategi Bisnis, Dan Kewirausahaan*, 6(2).
- Nuraina, E. (2012). Pengaruh Kepemilikan Institusional Dan Ukuran Perusahaan Terhadap Kebijakan Hutang Dan Nilai Perusahaan (Studi Pada Perusahaan Manufaktur Yang Terdaftar di BEI). *Akuntansi AKRUAL*, 4(1): 51-70.
- Osazuwa, N.P, & Che-Ahmad, A. (2015). The moderating effect of profitability and leverage on the relationship between eco-efficiency and firm value in publicly traded Malaysian firms. *Emerald Group Publishing Limited*, 12(2): 295-306.
- Otoritas Jasa Keuangan. (2018). Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 35/POJK.052018 tentang Penyelenggaraan Usaha Perusahaan Pembiayaan. Jakarta, Indonesia.
- Prasetyorini, B.F. (2013). Pengaruh Ukuran Perusahaan, *Leverage*, *Price Earning Ratio*, dan Profitabilitas Terhadap Nilai Perusahaan. *Jurnal Imu Manajemen*, 1(1).
- Putu, H.K., & Wisuana, I.G.B. (2015). Pengaruh Ukuran Perusahaan, Pertumbuhan Penjualan, dan *Non-Debt Tax Shield* terhadap Struktur Modal pada Perusahaan Telekomunikasi di Bursa Efek Indonesia. *E-Jurnal Manajemen Unud*, 4.
- Republik Indonesia. (2019). Undang-Undang Republik Indonesia Nomor 20 Tahun 2008 Tentang Usaha Mikro, Kecil, dan Menengah. Jakarta, Indonesia.
- Sartono, A. (2010). *Manajemen Keuangan Teori dan Aplikasi* (4th ed.). Yogyakarta: BPFE.
- Sekaran, U. (2017). *Metode Penelitian untuk Bisnis*. Jakarta: Salemba Empat.
- Setiadharmas, S., & Machali, M. (2017). The Effect of Asset Structure and Firm Size on Firm Value with Capital Structure as Intervening Variable. *Journal of Business & Financial Affairs*. DOI: 10.4172/2167-0234.1000298
- Shelly, A. (2016) Pengaruh ukuran perusahaan, profitabilitas, likuiditas dan struktur aktiva terhadap struktur modal. *JOM FISIP*, 3(2): 1-13.
- Sinha, A. (2017). An Enquiry Into Effect Of Capital Structure On Firm Value: A Study Of Power Sector Companies In India. *Parikalpana - KIIT Journal of Management*. December, DOI : 10.23862/kiit-parikalpana/2017/v13/i2/164525
- Smithers, A., & Wright, S. (2007). *Valuing Wall Street*. McGraw Hill.
- Sudana, I.M. (2012). *Manajemen Keuangan Perusahaan*. Jakarta, Erlangga.
- Torang, S. (2012). *Metode Riset Struktur dan Perilaku Organisasi*. Bandung: Alfabeta.

- Wahome, M ., Njogu., F.M., & Muturi, W. 2015. The effects of firm size and risk on Capital Structure decisions of Insurance Industry in Kenya. *International Journal of Scientific and Research Publications*, 5(8).
- Weston, J. F., & Copeland, T.E. (2004). *Manajemen Keuangan. Jilid 2*. Edisi Kesembilan. Binarupa Aksara. Jakarta.
- Yuniarti, E., Mukhtaruddin, & Hanim, N. (2017). Effect On Value Earnings Management Company with Good Corporate Governance Practicesa as Moderating Variabel. *SHS Web of Conferences shsconf/201 FourA 2016 04007*.