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The Effect of Capital Structure, Firm Size, and Profitability on Firm Value with Investment Decisions as Moderating

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ABSTRACT

The purpose of this study is to examine the effect of capital structure, firm size, and profitability on firm value with investment decisions as moderating. The population of this study was 49 various industrial sector manufacturing companies listed on the IDX in 2016-2019. Sampling using purposive sampling technique, in order to obtain a sample of 22 companies with 72 units of analysis. Data analysis was performed using the Moderated Regression Analysis (MRA) test. The results showed that profitability had a positive effect on firm value, while capital structure did not affect firm value and firm size had a negative effect on firm value. Investment decisions are able to strengthen the effect of profitability on firm value but are not able to strengthen the effect of capital structure and firm size on firm value. The conclusion of this study is that company value will increase if it has high profitability because the greater the profit the company gets, the better the company's performance, and the company value will decrease when the larger the company size means that the bigger the company, the more difficult it is to control and supervise by company management. Meanwhile, the right investment decision increases the company's chances of making a profit, thereby strengthening the effect of profitability in increasing firm value.

INTRODUCTION

Competition in the business world requires every company to maximize firm value for the survival of the company so that it can survive and compete in the hope of being able to give positive signals to investors to invest. There are two company goals; the short-term goal is to use all available resources to get the maximum profit possible while the long-term goal is to maximize the value of the company. Thus, the company must maximize firm value to get earnings as a measure of company performance and information for investors in making decisions.

Firm value is the selling value or growth value achieved by the company from the results of assessing, evaluating, measuring, and describing the company's performance that has been implemented as a form of public trust to the company (Wulandari et al., 2018). Wulandari et al. (2018) said that firm value is reflected in the high and low share prices, if the value of the shares is high then the condition of the company is good so that it becomes hope for the owner of the company. The stock market price reflects the welfare of shareholders and the company from the results of funding, investment decisions, and asset management (Rodoni & Ali, 2014). Thus, to see the firm value, it can be assessed from the high and low stock prices where the stock price is a reflection of the firm value.

The ability to increase firm value is the goal of every company since it is able to attract investors and promises big profits in the future. However, in reality, the various industrial sector indexes listed on the IDX posted the most negative result of -16.05%, the United States-China trade war, the Dow Jones Futures Index declined, the selling of shares by foreign investors amounted to Rp. 379.01 billion, the Covid-19 pandemic, and the projection of the global economic recession that will occur in 2020 by the International Monetary Fund (IMF). With the emergence of this phenomenon, the JCI weakened and fluctuated which then directly affected stock price fluctuations so that the value of the company decreased in the financial market.

Research related to the effect of capital structure on firm value has been studied previously, such as Nurlaela et al. (2019), Banjarnahor & Simanjuntak (2019), Utami et al. (2017), and Wulandari et al. (2018) show a positive relationship. However, the research results

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of Noviana et al. (2016) and Irawan & Kusuma (2019) show no effect. In addition, company size is also able to affect firm value. The results of research by Gathogo & Ragui (2014), Noviana et al. (2016), and Iswajuni et al. (2018) indicate a positive relationship. Meanwhile, research conducted by Henriansyah & Dharmayuni (2017), Utami et al. (2017), and Zuhroh (2019) show no effect, while the results of the study conducted by Irawan & Kusuma (2019) and Hirdinis (2019) show a negative effect.

Profitability according to the research conducted by Majid & Benazir (2015), Henriansyah & Dharmayuni (2017), Basuki & Yulianah (2018), Iswajuni et al. (2018), Noviana et al. (2016), Sabrin et al. (2016), Zuhroh (2019), and Sari & Sedana (2020) find a positive effect. This is different from the research of Utami et al. (2017) who find no effect, as well as research by Wulandari et al. (2018) finds a negative effect.

Based on the phenomenon gap and supported by the results of previous studies, which are still inconsistent in terms of capital structure, company size, and profitability. Previous research has also not used the investment decision variable as a moderator, so this study makes this variable moderating so that it is expected to strengthen the relationship of the independent variable to the dependent variable. According to Basuki & Yulianah (2018), investment decisions are used as the basis for determining the number of assets, where making this decision is the task of financial managers in a company. Thus, investment decisions are the result of decisions on the allocation of funds by financial managers both internally and externally from the company for various investment activities listed on company assets. Examples of short-term investments are cash, inventories, receivables, and securities, while long-term investments are buildings, production equipment, land, vehicles, and other fixed assets. The right investment decisions can increase firm value and guarantee stockholder wealth.

The objective of this study is to determine the effect of capital structure, company size, and profitability on firm value with investment decisions as moderating. The originality of the research lies in the addition of a moderating variable, which is investment decisions. The reason is that the right investment decision can increase firm value because a good investment structure can invite investors to invest so that it is expected to strengthen the independent variable against the dependent. In addition, investment decisions have never been used as a moderating variable in previous studies.

This study is based on two theories, which are agency theory and signal theory. First, agency theory was originally studied by Ross (1973) and popularized by Jensen and Meckling (1976), is an agency relationship as a contract in which one or more principals use another person or agent to carry out the company's operational activities which activities involve the delegation of some decision-making authority. Agency theory is able to describe and explain the workings of the parties involved in the company through attitudes, because agents and principals have different goals and interests, causing agency conflicts. The way to reduce agency conflict is by way of the shares being owned by institutions and management.

Second, the signal theory according to Spence (1973) is able to explain the reason why a company needs to present information in the capital market. This is to avoid the occurrence of information asymmetry between internal and external parties of the company. Asymmetry information makes managers know more about the conditions and prospects of the company than external parties. The way to overcome asymmetry information is through financial statements that contain complete, relevant, accurate, and timely information as an analytical tool needed by investors and management in making decisions.

Capital structure is the proportion between foreign capital, which is short-term and long-term debt and own capital which consists of retained earnings and company ownership (Sulindawati et al., 2017). The optimal capital structure will produce high returns so that the company and shareholders will get the benefit. Based on the agency theory, the capital structure will affect the financial position and sustainability of the company. An optimal capital structure is to use debt wisely as a source of funds where the less debt the company has, the higher the value of the company. Meanwhile, according to signaling theory, an increasingly optimal capital structure will be a positive signal for the community so that an assessment appears that the company has a low risk of bankruptcy. Research conducted by Nurlaela et al. (2019), Banjarnahor & Simanjuntak (2019), Wulandari et al. (2018), and Utami et al. (2017) found a positive relationship between capital structure and firm value.

H_1: Capital structure has a positive effect on firm value

Company size is a measure used to describe the small-large size of a company based on the company's total assets (Henriansyah & Dharmayuni, 2017). Based on agency theory, the larger the size of the company, the more opportunities to obtain sources of funding, both internal and external, so that management is more flexible in managing and maximizing firm value. In addition, according to signaling theory, management must share the same information regarding the size of the company through the company's total assets to stockholders. According to Rohmah et al. (2017), companies with a larger size tend to have higher operating returns because they are able to provide a more profitable return on investment so that it can increase the value of the company compared to small companies. Research conducted by Gathogo & Ragui (2014), Noviana et al. (2016), and Iswajuni et al. (2018) show that company size has a positive effect on firm value.

H_2: Company size has a positive effect on firm value

Profitability is the ability to generate profits using capital over a certain period (Henriansyah & Dharmayuni, 2017). Based on the signal theory, the higher the company's profit will give a good signal for investors so as to increase the value of the company. According to Basuki & Yulianah (2018), the higher the profitability, the higher the value of the company, because the higher

the profit, the better the prospects of the company so that it motivates investors to invest and increase the value of the company. Research conducted BY Majid & Benazir (2015), Henriansyah & Dharmayuni (2017), Basuki & Yulianah (2018), Iswajuni et al. (2018), Noviana et al. (2016), Sabrin et al. (2016), Zuhroh (2019), and Sari & Sedana (2020) state that profitability has a positive effect on firm value.

H_3: Profitability has a positive effect on firm value

Capital structure is the proportion between foreign capital and own capital, where foreign capital is defined as short-term and long-term debt, while own capital is divided into retained earnings and company ownership (Sulindawati et al., 2017). The effect of capital structure on firm value will be even greater when it is supported by investment decisions. This is because the optimal capital structure is able to increase firm value and attract the attention of investors, creditors, and other users of financial information to do investment. According to Basuki & Yulianah (2018), investment decision is the first stage in determining the total assets needed by the company, where the company's financial management is one of the responsibilities of the company's financial manager. Therefore, the more investment activities that are supported by the determination of the right composition of the company's investment will have an impact on the proportion of the company's asset balance in the form of current assets and fixed assets so that it strengthens the company in carrying out optimal capital structure funding thereby investors are interested in investing their funds and firm value will increase. Thus, making the right investment decisions can strengthen the effect of capital structure on firm value.

H_4: Investment decisions strengthen the effect of capital structure on firm value

Company size is a measure used to describe the small-large size of a company based on the company's total assets (Henriansyah & Dharmayuni, 2017). The effect of company size on firm value will be even greater when it is supported by investment decisions. This is because the larger the scale of the company, the easier it is for the company to obtain funding sources and management is more flexible in managing the company so that it can provide greater returns on investment and increase firm value. According to Basuki & Yulianah (2018), investment decision is the first stage in determining the total assets needed by the company, where the company's financial management is one of the responsibilities of the company's financial manager. Therefore, with the right investment decisions on the proportion of the asset balance in the form of current assets and fixed assets, it is able to maximize the profits to be obtained by the company so that it can carry out its operating activities and make it easier for the company to find sources of funding. Thus, the right investment decisions will strengthen the company in increasing the total assets of the company, where the higher the total assets of the company, the larger the size of the company so that it can attract the attention of investors to invest and increase firm value.

H_5: Investment decisions strengthen the effect of company size on firm value

Profitability is the ability to generate profits using capital over a certain period (Henriansyah & Dharmayuni, 2017). The effect of profitability on firm value will be even greater when it is supported by investment decisions. This is because high profitability provides flexibility for managers in carrying out various company operational activities and provides an overview of the prospects for good company performance so as to attract the attention of investors, creditors, and other users of financial information that will increase firm value. According to Basuki & Yulianah (2018), investment decision is the first stage in determining the total assets needed by the company, where the company's financial management is one of the responsibilities of the company's financial manager. Therefore, with the right investment decisions on the proportion of the asset balance in the form of current assets and fixed assets, it is able to maximize the

Table 1. Sampling Criteria

No.	Sample Criteria	Beyond Criteria	Included Criteria
1.	Manufacturing companies in the various industrial sectors listed on the Indonesia Stock Exchange (IDX) for the 2016-2019 periods in a row.	(9)	40
2.	Manufacturing companies in the various industrial sectors that published consecutive and complete financial reports during the sampling year, 2016-2019.	(7)	33
3.	Manufacturing companies in the various industrial sector issued shares during the 2016-2019 period.	(0)	33
4.	Manufacturing companies in the various industrial sectors that published financial statements using the rupiah (Rp) currency	(11)	22
	Number of research analysis units during 2016–2019		88
	Data outliers that are eliminated from the sample	(16)	
	The final number of research analysis units for 2016 – 2019		**72**

Source: Secondary data processed year 2020

profits to be obtained by the company by using resources effectively and efficiently so that the company can carry out its operating activities and give a positive signal for investors to invest. J Thus, the right investment decision will strengthen the company's efforts to maximize profits, where the higher the company's profitability, the better the company's performance so as to attract the attention of investors to invest and increase firm value.

H_6: Investment decisions strengthen the effect of profitability on firm value

RESEARCH METHODS

The population in this study was manufacturing companies in the various industrial sectors listed on the Indonesia Stock Exchange in 2016-2019. The sample selection using the purposive sampling technique with sampling criteria is presented in Table 1.

The dependent variable in this study was firm value. The independent variables were capital structure, company size, and profitability. Meanwhile, the investment decision was a moderator. The definition of each variable is described in Table 2.

The data in this study were secondary information in the form of financial statements of the manufacturing companies in the various industrial sector listed on the IDX in 2016-2019 obtained through the documentation on the IDX website (Indonesian Stock Exchange) (www.idx.co.id). The data analysis techniques used in this research were descriptive statistical analysis, classical assumption test, Moderated Regression Analysis (MRA) test using interaction test, hypothesis testing with a significance level of 5%, and coefficient of determination test.

RESULTS AND DISCUSSION

The results of descriptive statistical analysis of each variable are presented in Table 3. Based on the calculations in Table 3, the maximum values for firm value, capital structure, company size, profitability, and investment decisions are 3.3443, 3.7511, 33.4945, 0.2273, and 1.050.1096, respectively. Meanwhile, the minimum values for firm value, capital structure, company size, profitability, and investment decisions are 0.3798, -2.2145, 25.2156, -0.0316, and -38.1504 respectively. Mean values for firm value, profitability, and investment decisions are in the low category, while the capital structure is in the optimal category, and company size is in the medium category. The standard deviation values for firm value, capital structure, company size, profitability, and investment decisions are 0.6979, 1.0814, 1.7981, 0.0592, and 134.4388, respectively. Higher mean values of Std. Deviation, it can be indicated that the gap between companies is not much different. This is inversely proportional if the mean value is lower than Std. Deviation, it can be indicated that the gap between companies is much different.

The classical assumption tests are done in order to get a BLUE research model. The normality test using the one-sample Kolmogorov-Smirnov test shows a sig value. 0.185, which is greater than 0.05, so the research data are normally distributed. The multicollinearity test shows that each research variable has a tolerance value > 0.1 and a VIF value < 10, it can be indicated that there is no multicollinearity. The result of the autocorrelation test using Durbin's Two-Step Method test shows that each DW value of each method is $(DU = 1.7358) < (DW) < (4-DU = 2.2642)$, so it can be concluded that the regression model does not have autocorrelation. The heteroscedasticity test using the White test concludes that there is no heteroscedasticity problem because the calculated Chi-Square value is 0.149 less than the Chi-Square table value of 7.815.

The result of the coefficient of determination shows the value of Adjusted R2 of 0.710, it can be interpreted that 71% of the firm value variable (Tobin's Q) is able to be interpreted by the independent and moderating variables in this study. Meanwhile, the remaining 29% is explained by other variables outside this model. The regression test equation can be seen in Equation 1 and the result of hypothesis testing can be seen in Table 4.

Tobin's Q = 2.331 – 0.003 DER – 0.061 SIZE + 2.327 ROA + 0.000 DER_PER + 0.000 SIZE_PER + 0.695 ROA_PER + e .....(1)

The Effect of Capital Structure on Firm Value

Capital structure does not affect firm value where the result of this study is not in line with agency theory and signal theory. The result of the study proves that the capital structure does not affect the high and low value of the company. This is due to investors do not see firm value based on the company's capital structure, because investors believe that the funding decisions chosen by the manager will not affect the investment decisions of investors. Investors are more concerned with how the company's management utilizes funds from debt effectively and efficiently in order to create added value for the company. Thus, the high and low use of debt does not affect firm value. The result of this study is in line with research conducted by Noviana et al. (2016) and Irawan & Kusuma (2019) which state that capital structure does not affect firm value.

The Effect of Company Size on Firm Value

Company size has a negative effect on firm value where the result of this study is not in line with agency theory and signal theory. The result of this study is supported by empirical data, namely PT Astra International Tbk in 2016-2019 has total assets, respectively 33.1988, 33.3202, 33.4737, and 33.4945 in the large category. Meanwhile, the firm values (Tobin's Q) are 1.7451, 1.6091, 1.4601, and 1.2659 in the low category, respectively. Thus, companies with a lot of total assets are not necessarily able to use them effectively, causing hoarding of assets, less effective company performance also causes a decrease in firm value. Investors do not judge whether a company is good or bad based on the value of the company's assets, but will look at the company's

Table 2. Operational Definition of the Variables

No	Variable	Operational Definition	Indicator	Measurement
1.	Firm Value (*Tobin's Q*)	The selling value or growth value achieved by the company from the results of assessing, evaluating, measuring, and describing the company's performance that has been implemented as a form of description of public trust to the company (Wulandari *et al.*, 2018)	*Tobin's Q*	$\frac{\textit{Total Market Value + Total Book Value of Liabilities}}{\textit{Total Book Value of Assets}}$ (Chung & Pruitt, 1994; Iswajuin *et al.,* 2018; Alamsyah & Latief, 2019)
2.	Capital Structure (DER)	The proportion between foreign capital and own capital, where foreign capital is defined as short-term and long-term debt, while own capital is divided into retained earnings and company ownership (Sulindawati *et al.*, 2017).	*Debt to Equity Ratio* (DER)	$\frac{\text{Total Liabilities}}{\text{Total Equities}}$ (Banjarnahor & Simanjutak, 2019 and Utami *et al.,* 2017)
3.	Company size (SIZE)	The size used to reflect the small-large size of a company based on the company's total assets (Henriansyah & Dharmayuni, 2017)	*Log natural total asset* (SIZE)	*Ln Total Asset* Noviana *et al.,* 2016 and Iswajuni *et al.,* 2018)
4.	Profitability (ROA)	The ability to generate profit using capital over a certain period (Henriansyah & Dharmayuni, 2017)	*Return on Assets* (ROA)	$\frac{\text{Net profit after tax}}{\text{Total Asset}}$ (Henriansyah & Dharmayuni, 2017 anf Iswajuni *et al.,* 2018)
5.	Investment Decision (PER)	The ability to measure the strength of the company by investors and show management performance in generating earnings on investment decisions made so that they can find out how the market values the performance of a company's shares on the company's performance as reflected by its EPS (Basuki & Yulianah, 2018)	*Price Earnings Ratio* (PER)	$\frac{\text{Stock price}}{\text{EPS}}$ (Basuki & Yulianah, 2018)

Source: Processed from various sources, 2020

overall good information such as sales levels, financial statements, goodwill, and others before investing. Thus, if the company's total assets are high but have bad information, investors will not be interested in investing. On the other hand, small companies are easier to monitor and have higher growth opportunities. The result of this study supports the research conducted by Irawan & Kusuma (2019) and Hirdinis (2019) which state that company size has a negative effect on firm value.

The Effect of Profitability on Firm Value

Profitability has a positive effect on firm value. This is in line with the signal theory where the greater the earning generated by the company will encourage

Table 3. The Result of Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
DER	72	-2.2145	3.7511	.989734	1.0813709
SIZE	72	25.2156	33.4945	28.583335	1.7981301
ROA	72	-.0316	.2273	.056296	.0591927
Tobin's Q	72	.3798	3.3443	1.198203	.6978871
PER	72	-38.1504	1050.1096	31.708978	134.4388063
Valid N (listwise)	72				

Source: Output IBM SPSS 25 year 2020

a strong positive signal to investors so that firm value will also increase relatively large. Thus, the company's ability must be considered to obtain a surplus so that it can give a good signal to investors to invest. In addition, high profitability indicates that the company is in a favorable condition so that investors are interested in owning the company's shares. High demand for shares makes investors raise stock prices more than the value of the shares recorded on the company's balance sheet, so that company's Tobin's Q is high, which means the firm's value is also high. The research results are supported by Majid & Benazir (2015), Henriansyah & Dharmayuni (2017), Basuki & Yulianah (2018), Iswajuni et al. (2018), Noviana et al. (2016), Sabrin et al. (2016), Zuhroh (2019), and Sari & Sedana (2020) give the result that profitability has a positive effect on firm value.

The Effect of Capital Structure on Firm Value Moderated by Investment Decisions

Investment decisions are not able to strengthen the effect of capital structure on firm value where the result of this study is not in line with agency theory and signal theory. The result of this study is supported by empirical data, namely PT Indomobil Sukses Internasional Tbk in 2016-2019 respectively having DER values of 2.8203, 2.3805, 2.9672, and 3.7511 in the non-optimal category which were then supported by investment decisions with PER values respectively, -11.5779, -36.1267, 60.4710, and 18.7810. Meanwhile, the firm values (Tobin's Q) are 0.8796, 0.7782, 0.8938, and 0.8610 in the very low category. This proves that companies with non-optimal DER values, which are moderated by investment decisions, have firm values in the very low category.

In addition, PT Indospring Tbk in 2016-2019 respectively had DER values of 0.1979, 0.1351, 0.1313, and 0.1019 in the optimal category, which was then supported by investment decisions with PER values of 10.7265, 7.2763, 13.1621, and 14.9984. Meanwhile, the firm values (Tobin's Q) are 0.3798, 0.4587, 0.7030, and 0.6250 in the very low category. This proves that companies with optimal DER values moderated by investment decisions have firm values in the very low category. Thus, companies with optimal or non-optimal capital structures moderated by investment decisions are not able to strengthen the effect of capital structure on firm value because investment decisions have not been able to affect capital structure to attract investors to invest in the company and increase firm value.

The Effect of Company Size on Firm Value Moderated by Investment Decisions

Investment decisions are not able to strengthen the effect of company size on firm value where the result of this study is not in line with agency theory and signal theory. The result of this study is supported by empirical data, namely PT Indomobil Sukses Internasional Tbk in 2016-2019, respectively, having total assets of 30.8749, 31.0770, 31.3435, and 31.4310 in the large category which is then supported by investment decisions with PER values respectively, namely -11.5779, -36.1267, 60.4710, and 18.7810. Meanwhile, the firm values (Tobin's Q) are 0.8796, 0.7782, 0.8938, and 0.8610 in the very low category. This proves that companies with large total assets that are moderated by investment decisions have firm values in the very low category.

In addition, PT Nusantara Inti Corpora Tbk in 2016-2019 had total assets of 26.7938, 26.7786, 26.7628, and 26.7581 in the small category, which is then supported by investment decisions with PER values of 31.5520, 16.1947, 38.4268, and 23.3950 respectively. Meanwhile, the firm values (Tobin's Q) are 0.4991, 0.4651, 0.4604, and 0.4417 in the very low category. This proves that companies with small total assets that are moderated by investment decisions have firm values in the very low category. Thus, the size of the company's total assets moderated by investment decisions is not able to strengthen the effect of company size on firm value because investment decisions have not been able to affect company size to attract investors to invest in the company and increase firm value.

The Effect of Profitability on Firm Value Moderated by Investment Decisions

Investment decisions are able to strengthen the effect of profitability on firm value where the result of this study is in line with the signal theory where the greater the profit generated by the company, the more positive signals will be for investors so that the value of the company will also increase relatively large. High profitability means the higher the amount of net profit generated

Table 4. Summary of Hypothesis Test Results

	Hypothesis	α	β	Significance	Results
H_1:	Capital structure has a positive effect on firm value.	0.05	-0.003	0.957	Rejected
H_2:	Company size has a positive effect on firm value.	0.05	-0.061	0.049	Rejected
H_3:	Profitability has a positive effect on firm value.	0.05	2.327	0.048	**Accepted**
H_4:	Investment decisions strengthen the effect of capital structure on firm value.	0.05	0.000	0.650	Rejected
H_5:	Investment decisions strengthen the effect of company size on firm value.	0.05	0.000	0.653	Rejected
H_6:	Investment decisions strengthen the effect of profitability on firm value.	0.05	0.695	0.000	**Accepted**

Source: Processed Secondary Data, 2020

from each rupiah of funds embedded in total assets. In addition, with the right investment decisions on the proportion of the balance sheet in the form of current assets and fixed assets, it is able to maximize the profits obtained by the company in the future by using resources effectively and efficiently so that the company can carry out its operating activities and become a positive signal for investors to invest. Thus, the right investment decision will strengthen the company's efforts to maximize profits, where the higher the company's profitability, the better the company's performance so that the company will gain the trust of investors and potential investors to buy shares and increase the firm value.

CONCLUSIONS

The conclusion of this study indicates that firm value will increase if it has high profitability. This is because if the profit earned by the company is greater, it indicates that the company's performance is getting better and firm value will decrease. When the company size is getting bigger, it means that the bigger the company, the more difficult it is to be controlled and monitored by company management. Meanwhile, the right investment decisions increase the company's opportunities to earn profits, thereby strengthening the effect of profitability in increasing firm value. Suggestion for investors and potential investors is the profitability variable can be used as a reference to be considered in making investment decisions due to companies with high profitability have more opportunities to increase firm value. Future research is expected to use other measurements for the variable of investment decision such as Total Asset Growth (TAG) because it can describe how much investment growth in fixed assets is based on policies made by the companies from the previous year to the next year so that it can produce better research results.

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