

The Effect of Company Size and Liquidity on Company Value With Capital Structure as An Intervening Variable Empirical Study on The Indonesia Stock

Masyaili¹

¹Universitas Lakidende

JL. Sultan Hasanuddin, No. 234, Wawotobi, Lalosabila, Kec. Unaaha, Kabupaten Konawe,
Sulawesi Tenggara 93461

E-mail: sailiunaaha@gmail.com¹

ABSTRACT

This study examines and determines the effect of firm size and liquidity on firm value with capital structure as the intervening variable. This study took a sample of companies members of the LQ 45 index listed on the Indonesia Stock Exchange. The type of data used in this study is secondary data in the form of the company's annual financial reports for the LQ 45 Index for the 2018-2021 period. The population in this study is 45 companies that are members of the LQ45 index. The sampling method used in this study was purposive sampling, namely a sampling method with certain criteria so that only 35 companies met the requirements. Data were analyzed using path analysis. The results of the study are as follows: (1) Company size has a positive and not significant effect on capital structure, (2) liquidity has a positive and significant effect on Capital Structure, (3) company size has a positive and not significant effect on firm value, (4) liquidity has an effect positive and not significant to firm value, (5) capital structure has a positive and significant effect on firm value, (6) capital structure does not significantly mediate the effect of firm size on firm value, (7) capital structure does not significantly mediate the effect of liquidity on firm value.

Keywords: *Size, Liquidity, Capital Structure, Company Value*

Introduction

Company value is the present value of a company's cash flow in the form of expected profits in the future [1]. [2] Normatively, financial decisions are to maximize the company's value because by maximizing the company's value, the owner will become more prosperous/rich. Meanwhile, the company's value is the price prospective buyers are willing to pay if the company is sold.

The measurement of company value in this study uses Price to Book Value, which is the ratio of a stock's market price to its book value, to indicate investors' views on a company [3]. The high value of PBV suggests that the company's stock price is high. Therefore this ratio can reflect stocks that are overvalued or undervalued. According to [4], the value of Price to Book Value greater than one means that investors are willing to buy shares higher than their book value. Therefore, the high value of PBV indicates a high level of shareholder prosperity[5][6].

The company's size is considered to affect the value of the company because the larger the company's size, the easier it is for the company to obtain sources of funding that can be used to achieve company goals. However, on the other hand, it will

cause a lot of debt because the company's risk in fulfilling its responsibilities is very small [7].

Liquidity is the ability to meet short-term obligations. Liquidity is very important for a company because it is related to converting assets into cash [2], [7]–[14]. High liquidity suggests the company can reduce the Impact resulting from short-term financial liabilities and vice versa. The high and low ratio of this will affect investors' perception of the company if it has a high liquidity value that indicates the company's performance is good so that it will increase the stock price reflecting the value of the company[15][8][16].

Mistakes in determining the capital structure will impact the company, especially companies that are large enough to use debt, the greater the fixed burden that the company must bear. The optimal capital structure of an enterprise is a combination of debt and equity that can affect the company's share price. The company will experience a setback if the capital structure does not undergo an adjustment between the way the funds are fulfilled and the period of its needs because the company has to bear a large amount of capital. After all, the funding from the debt element is greater than its capital. To anticipate this, the company's financial managers must be careful in determining the capital

structure that the company hopes to increase the company's value to be superior in facing business competition [17][18].

Research conducted by [19][20][21][22][9] concluded that company size has a positive and significant effect on company value. In contrast, the research results of [10][23][24][25] concluded that the size of the company does not affect its value company. Research by [26][27][28] concluded that liquidity has a positive and significant effect on company value, while the study of [29] concluded that liquidity does not affect company value

This research is a replication of the research of [30]–[32][33]. The difference between this research and the previous research is that the object of this research is on the LQ 45 Index company for the 2018 – 2021 period, while the research of [34] is on property and Real Estate companies for the period 2016 – 2018.

Company Values

Company value is an indicator used by investors to see the potential that exists in the company. The potential in question is the rate of return on investments made by investors. The higher the company's value, the higher the rate of return on investment. Company value means when a company is sold, and investors will pay according to that value [24]. A company value ratio is a set of ratios that link a company's share price to earnings and book value per share. This ratio gives management a clue as to what investors think of the company's past performance and prospects [35].

Company value is an investor's view of a company, usually viewed through the stock price. This study measured company value using Price to Book Value (PBV). The value of the PBV reflects the company's share price. The greater the PBV value, the company's share price can be said to be expensive and a reflection that the company's value is high, and vice versa [36].

Company Size

According to Halim & Sarwoko (2014), the size of the company is the size of the company, both in terms of the number of assets and in terms of the level of sales, will greatly affect the size of working capital, so large companies tend to diversify and be more resistant to the risk of bankruptcy and have a lower probability of experiencing financial difficulties. This study measured the company's size using the natural logarithm of total assets [37].

Liquidity

According to [24], liquidity is the company's ability to meet debts with a maturity of less than one year. Companies that can fulfill their obligations are said to be liquid companies. Investors will increasingly trust companies with high liquidity because they

have large funds and are used to finance investments. Liquidity is the ability of a company to pay its short-term debt promptly [10]. In this study, the measurement used for liquidity is the current ratio because the current balance can measure the extent to which existing assets can guarantee current liabilities, withholding losses, and as a current fund reserve [26].

Capital Structure

According to [27], the capital structure is the composition of funding used by the company. The capital structure relates to using funds from inside and outside the company. The capital structure is very important because it is directly related to the company's financial position. The company can make policies related to the optimal capital structure to maximize shareholder prosperity. A good capital structure achieves a balance of risk and returns to optimize company value [28]. In this study, the capital structure is measured by the Debt to Equity Ratio (DER). DER is a ratio between financing and funding through debt and own capital. Funding decisions through capital in larger amounts than through debt can increase the company's value. The higher the DER ratio, the lower the company's funding provided by shareholders. Debt to Equity Ratio (DER) is one of the leverage ratios that aims to measure the ability of own capital to be used as collateral for the company's overall debt [33].

Research Methodology

The type of data used in this study is secondary data with research variables consisting of company size, liquidity (CR), capital structure (DER), and company value (PBV). This research data is sourced from the annual financial statements of LQ 45 Index companies for 2018-2021 published by the Indonesia Stock Exchange. The selection of samples in this study was carried out using the purposive sampling method, so 35 companies were obtained in this study. The data analysis technique used in this study is path analysis.

Results and Discussions

Direct Influence

The result of the path coefficient of the structure of the first model can be described as follows:

Table 1 coefficient of the structure

Type	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Error Std.	Beta	T	
(Constant)	3.379	1.721		1.964	.052
Size	.068	.095	.055	.715	.476
CR	.452	.061	.574	7.455	.000

a. Dependent Variable: DER

Based on the results of the first model regression output (table 1) above, it shows that the significance value of the company size variable is $0.476 > 0.05$, which means that the company size variable does not affect the capital structure variable, while the variable liquidity significance value is $0.000 < 0.05$ which means that the liquidity variable affects the capital structure.

Table 2 variable affects the capital structure

Type	R	Adjusted R Square	Std. The error in the Estimate
1	.555 ^a	.309	.95321

a. Predictors: (Constant), CR, Size

The magnitude of the R square value (table.2) above is 0.309. This shows that the contribution percentage of the company size and liquidity variables to the capital structure is 30.9%. The remaining 69.1% is the contribution of other variables not included in the study. For the value of $e1 = \sqrt{1-0.309} = 0.831$. Thus obtained is the path diagram of the first structure model as follows in Figure 1.

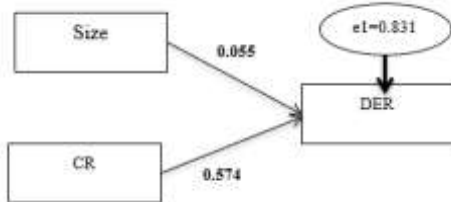


Figure 1 first structure model

The result of the path coefficient of the structure of the second model can be described as follows:

Table 3. Coefficients

Type	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	T	
1 (Constant)	100.264	51.203		1.958	.052
Size		2.795	.175	1.964	.052
CR	5.489	2.110	.096	.911	.364
DER	5.744	2.507	.226	2.291	.024

a. Dependent Variable: PBV

The results of the second model regression output (table 3) above show that the significance value of the company size variable is $0.052 > 0.05$, which means that the company size variable does not affect the company value variable.

The significance value of the liquidity variable is $0.364 > 0.05$, which means that the liquidity variable does not affect the company value, while the significance value of the capital structure variable of $0.024 < 0.05$ means that The variable capital structure affects the variable value of the company.

Table 4. Model Summary

Type	R	Adjusted R Square	Std. The error in the Estimate
1	.297 ^a	.088	27.97616

a. Predictors: (Constant), DER, Size, CR

The magnitude of the R square value (table.4) above is 0.088. This shows that the contribution percentage of the company size variable, liquidity variable, and capital structure to the company value is 8.8%, and the remaining 91.2% is the contribution of other variables not included in the study. For the value of $e1 = \sqrt{1-0.088} = 0.912$. Thus obtained, the path diagram of the second structure model is as follows:

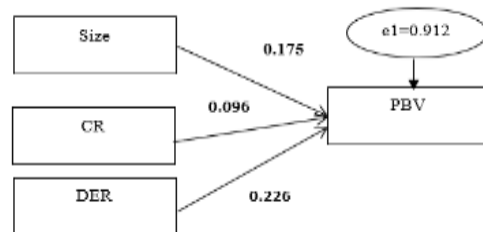


Figure 2 path diagram of the second structure model

Influence is not direct

The effect of company size on the value of the company through the capital structure

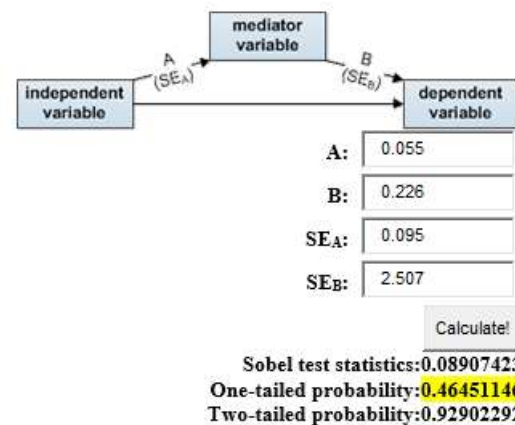


Figure 3 shows the company through the capital structure

Based on the results of the Sobel test above, a Tailed Probability value of $0.465 > 0.05$ was obtained, meaning that the capital structure variable could not mediate the company size variable against the company's value. The effect of liquidity on the value of the company through the capital structure

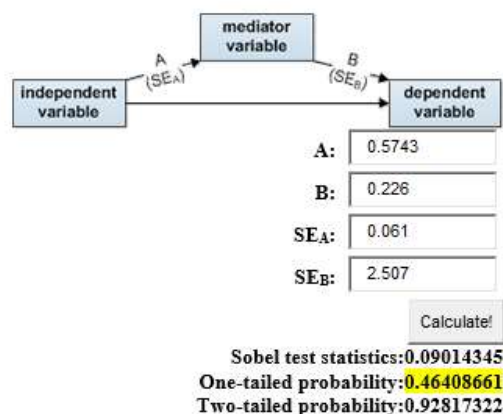


Figure 4 value of the company through the capital structure

Based on the results of the Sobel test above, a Tailed Probability value of $0.464 > 0.05$ means that the capital structure variable cannot mediate the liquidity variable against the company's value.

Conclusion

From the test results of various variables, it can be concluded that 1) the company's size has a positive and insignificant effect on the capital structure, and 2). Liquidity positively and significantly affects the capital structure. 3). the size of the company has a positive and insignificant effect on the company's value, 4). liquidity has a positive and negligible impact on the company's value, 5). The capital structure positively and significantly affects the company's value, 6). Insignificant capital structure mediates the Impact of company size on company value, (7) negligible capital structure mediates the effect of liquidity on company value. Suggestions for subsequent researchers to take objects other than LQ45 companies, enlarge their samples, and add intervening variables such as profitability.

Reference

[1] M. Wang, "The effect of the spatial heterogeneity of human capital structure on regional green total factor productivity," *Structural Change and Economic Dynamics*, vol. 59. pp. 427–441, 2021. doi: 10.1016/j.strueco.2021.09.018.

[2] Ngatno, "Moderating effects of corporate governance mechanism on the relation between capital structure and firm performance," *Cogent Bus. Manag.*, vol. 8, no. 1, 2021, doi: 10.1080/23311975.2020.1866822.

[3] X. M. Li, "The joint effects of economic policy uncertainty and firm characteristics on capital structure: Evidence from US firms," *J. Int. Money Financ.*, vol. 110, 2021, doi: 10.1016/j.jimonfin.2020.102279.

[4] J. Yang, "Stringent environmental regulation and capital structure: The effect of NEPL on deleveraging the high polluting firms," *Int. Rev. Econ. Financ.*, vol. 79, pp. 643–656, 2022, doi: 10.1016/j.iref.2022.02.020.

[5] H. Cuevas-Vargas, "Impact of capital structure and innovation on firm performance. Direct and indirect effects of capital structure," *Procedia Computer Science*, vol. 199. pp. 1082–1089, 2021. doi: 10.1016/j.procs.2022.01.137.

[6] Q. Wang, "Effect of positive tone in MD&A disclosure on capital structure adjustment speed: evidence from China," *Account. Financ.*, vol. 61, no. 4, pp. 5809–5845, 2021, doi: 10.1111/acfi.12777.

[7] A. Ayange, "Effect of capital structure on firms performance in Nigeria," *Univers. J. Account. Financ.*, vol. 9, no. 1, pp. 15–23, 2021, doi: 10.13189/ujaf.2021.090102.

[8] R. Zeitun, "The nonlinear effect of foreign ownership on capital structure in Japan: A panel threshold analysis," *Pacific Basin Finance Journal*, vol. 68. 2021. doi: 10.1016/j.pacfin.2021.101594.

[9] M. Ran, "Spatial spillover effects of capital factor agglomeration on the urban industrial structure upgrading in China: Based on panel data of 284 prefecture-level cities," *PLoS One*, vol. 16, 2021, doi: 10.1371/journal.pone.0258758.

[10] B. U. Baba, "The effect of ownership structure on social and environmental reporting in Nigeria: the moderating role of intellectual capital disclosure," *J. Glob. Responsib.*, vol. 12, no. 2, pp. 210–244, 2021, doi: 10.1108/JGR-06-2019-0060.

[11] M. A. A. Zaid, "Corporate governance practices and capital structure decisions: the moderating effect of gender diversity," *Corp. Gov.*, vol. 20, no. 5, pp. 939–964, 2020, doi: 10.1108/CG-11-2019-0343.

[12] Amarudin, "Effect of growth opportunity, corporate tax, and profitability toward value of firm through capital structure (listed manufacturing companies of indonesia)," *Finance: Theory and Practice*, vol. 23, no. 5, pp. 18–29, 2019. doi: 10.26794/2587-5671-2019-23-5-18-29.

[13] Sulastri, "The effect of stock ownership structure, capital structure, and profitability to firm value in manufacturing company sector in Indonesia stock exchange," *Int. J. Sci. Technol. Res.*, vol. 7, no. 11, pp. 187–192, 2018, [Online]. Available: https://api.elsevier.com/content/abstract/scopus_id/85059850410

[14] S. Syamsudin, "Corporate governance and

- firm value: A moderating effect of capital structure," *Int. J. Innov. Creat. Chang.*, vol. 12, no. 2, pp. 264–277, 2020, [Online]. Available: https://api.elsevier.com/content/abstract/scopus_id/85083062422
- [15] I. W. K. Ting, "The effects of managerial ability on firm performance and the mediating role of capital structure: evidence from Taiwan," *Financ. Innov.*, vol. 7, no. 1, 2021, doi: 10.1186/s40854-021-00320-7.
- [16] M. Hang, "Rather complements than substitutes: Firm value effects of capital structure and financial hedging decisions," *Int. J. Financ. Econ.*, vol. 26, no. 4, pp. 4895–4917, 2021, doi: 10.1002/ijfe.2045.
- [17] W. Y. Chung, "From whom should ICT startups raise capital? The effect of ownership structure on efficiency in new ICT startups," *Int. Rev. Econ. Financ.*, vol. 82, pp. 82–91, 2022, doi: 10.1016/j.iref.2022.06.010.
- [18] M. Muhammad, "Capital structure of family firms: the effect of debt and equity market timing," *J. Fam. Bus. Manag.*, vol. 11, no. 1, pp. 1–18, 2021, doi: 10.1108/JFBM-09-2019-0059.
- [19] A. Shahzad, "Investigating the Effects of Capital Structure and Corporate Governance on Firm Performance: An Analysis of the Sugar Industry," *Front. Psychol.*, vol. 13, 2022, doi: 10.3389/fpsyg.2022.905808.
- [20] A. Amin, "Corporate Governance and Capital Structure: Moderating Effect of Gender Diversity," *SAGE Open*, vol. 12, no. 1, 2022, doi: 10.1177/21582440221082110.
- [21] X. Huo, "Institutional investors and cost of capital: The moderating effect of ownership structure," *PLoS One*, vol. 16, no. 4, 2021, doi: 10.1371/journal.pone.0249963.
- [22] S. Chauhan, "Effect of Capital Structure on the Financial and Social Performance of Indian Microfinance Institutions," *FIIB Bus. Rev.*, 2022, doi: 10.1177/23197145221099677.
- [23] R. S. Hendiarto, "The Effect of Capital Structure on Firm Value (Case Study on Mining Sector Companies Listed On the Indonesia Stock Exchange (Period 2014-2018)," *Rev. Int. Geogr. Educ. Online*, vol. 11, no. 5, pp. 3198–3206, 2021, doi: 10.48047/rigeo.11.05.210.
- [24] H. Hwang, "The Diversity Imperative: The Effects of Local Economic Structure and Social Capital on Local Philanthropy," *Voluntas*, vol. 33, no. 3, pp. 571–586, 2022, doi: 10.1007/s11266-021-00365-3.
- [25] R. K. Ronoowah, "The moderating and mediating effects of corporate governance and capital structure on firm performance: empirical evidence from an emerging market," *Manag. Financ.*, 2023, doi: 10.1108/MF-08-2022-0382.
- [26] R. E. Essel, "The Effect of Capital Structure on Corporate Performance: Panel Empirical Evidence of an Emerging Capital Market," *J. African Bus.*, 2023, doi: 10.1080/15228916.2023.2170856.
- [27] O. A. Thakur, "Impact of goodwill on firms capital structure in developed and developing countries: moderating effects of legal system," *Macroekon. Financ. Emerg. Mark. Econ.*, 2023, doi: 10.1080/17520843.2023.2170068.
- [28] P. Sormin, "The Effect Of Credit Risk, Operational Efficiency, And Capital Structure On Profitability (Empirical Study On The Banking Industry Listed On The Idx)," *J. Pharm. Negat. Results*, vol. 13, pp. 1274–1281, 2022, doi: 10.47750/pnr.2022.13.S05.202.
- [29] A. Salman, "effect of capital structure on corporate liquidity and growth: Evidence from tobacco industry in Pakistan," *Acad. Strateg. Manag. J.*, vol. 18, no. 2, 2019, [Online]. Available: https://api.elsevier.com/content/abstract/scopus_id/85068447295
- [30] E. Norton, "THE EFFECTS OF VENTURE CAPITALISTS' CHARACTERISTICS ON THE STRUCTURE OF THE VENTURE CAPITAL DEAL," *Venture Capital*. pp. 149–158, 2022. doi: 10.4324/9781315235110-9.