

Profitability, Growth Opportunity and Capital Structure on Firm Value at Non-Go Public Banks

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ABSTRACT: This study aims to examine the effect of profitability, growth opportunity, and capital structure on firm value at non-go public banks. The type of data used in this study is secondary data. From a population of 103 companies, 20 companies were obtained as samples with a period of year 2016-2020 taken by random sampling method. The analytical method of this study uses multiple linear regression analysis with SPSS version 16. The results show that profitability, growth opportunity, and capital structure have a joint effect on firm value. Profitability and capital structure have an effect on firm value, growth opportunity has no effect on firm value. Profitability, growth opportunity, and capital structure simultaneous affect firm value.

Keywords: Profitability, growth, capital structure, firm value.

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INTRODUCTION

Banking is a financial institution whose business activities are collecting funds from the general public, returning these funds to the public, and providing other banking services. Banks are financial intermediaries between people who have excess funds and people who have lack of funds topurpose or financial intermediary. According to(Nurdin, 2021) Specifically, the bank functions as an Agent of Development, Agent of Trust, and Agent of Service

Conventional banking statistics published by the Service AuthorityFinance (OJK) showed positive growth although it slowed slightly compared to 2018. The Bank's profitability was maintained even though the bank's ROA slightly decreased from 2.55% to 2.47% compared to the same period in 2019. This was partly due to a decrease in profit of 4.28% (year-on-year) compared to 13.15% (year-on-year), mainly due to an increase in interest expense to non-third parties and a decrease in interest income. due to slow credit (OJK, 2019)

According to (Prasetyorini, 2013)The main goal in a company is to achieve profitability, maximize profits or wealth, and maximize company value. To maximize the value of the company, the company needs to implement the right strategy to improve the company's financial performance. financial performance is the result of the company's achievement in the ability to generate profits. with the increase in the company's financial performance can also be expected as an increase in the value of the company(Swing, 2020). The EVA principle provides an appropriate measurement system in assessing the financial performance of the company's management because EVA is directly related to the market value of a company(Erkanawati, 2018)

One of the factors that influence the value of the company is profitability(Andriani, 2017). Profitability is the company's ability to generate profits during a certain period to measure the level of management effectiveness in running the company's operations, profitability can be used as a tool to measure the level of effectiveness of management performance. Good performance will be shown through the success of management in generating maximum profit for the company(Herry, 2016). One of the ratios used to measure the level of financial performance is Return on Assets (ROA).

A more focused ROA ratio can show how effective the company is in using its assets in the short term, where the higher the return on assets means the higher the net duration generated from each rupiah embedded in the company's total assets.(Herry, 2016). In research(Miranda, 2021), Return on Assets (ROA) has a positive and significant effect on firm value. However, different things were found in research(Widyawanti & Widyawati, 2021)where ROA has a negative and insignificant effect on firm value.

Another variable that affects the value of the company is the company growth variable (Growth Opportunity). Company growth is an index that shows the company's ability to maintain its economic position in the midst of economic growth and its sector of activity.(Suwardika & Mustanda, 2017). Company growth can indicate a company is

experiencing growth or not. The company's growth can be measured by Total Asset Growth (TAG), where TAG is the difference between total assets in the present and in the past to total assets in the past (Dewi & Sudiarta, 2017). In terms of company growth (Growth Opportunity), research conducted by (Saputri & Giovanni, 2021) shows that the growth of the company has a negative effect on the value of the company. However, research conducted by Saputri and (Goddess & Fun, 2021) shows that company growth has a positive and significant effect on firm value.

So far, almost all research uses companies that go public as research samples such as that conducted by (Saputri & Giovanni, 2021) and (Salsabilla, 2021) and few studies used non-go public companies as research samples, so this research will be different from previous research. From the above phenomenon, the aims of research is to analyse the effect of Profitability, Growth Opportunity and Capital Structure on Firm Value at Non-Go Public Banks in Indonesia in year 2016-2020.

LITERATURE REVIEW

The value of the company

According to (Andriani, 2017) the purpose of starting a business is to increase the value of the company. To maximize the value of the company, the company needs to implement the right strategy to improve the company's financial performance. Financial performance is the result of the company's achievement in the ability to generate profits. With the increase in the company's financial performance can also be expected to increase value of the company (Ayuni, 2020). Assessment of a company is an important step in maintaining the sustainability of the company because the company's evaluation can provide information to investors to invest their capital, indirectly maintaining the credibility of the company. In this study using the economic value added (EVA) method to obtain value from the company, this method shows the company's financial health (Mustanti, 2016).

Profitability

A company has a goal, one of which is to make a profit by selling goods/services to customers and the big goal is to maximize profits, both in the short and long term. The profitability ratio is useful for describing the company's ability to earn profits with all its expertise and resources, namely sales activities, use of assets and capital investment (Hery, 2016).

Growth Opportunity

The company's growth or growth opportunity is a factor expected by the company's owner or investor. On the investor side, companies with sustainable growth have good opportunities or prospects in the future. Companies that develop will generate high returns in line with their growth (Suastini, Purbawangsa, & Rahyuda, 2016).

Capital Structure

According to (Subramanyam, 2017), capital structure is a description of the form of the company's financial proportions, namely between long-term debt (long-term liability) and equity (equity), which is a source of finance for a company. Capital structure is a combination of long-term funding sources used by the company. Good fund management will also have a good impact on the company. Good financing decisions can be seen in the optimal capital structure. The optimal capital structure is a condition in which a company can use a combination of debt and capital ideally, namely by balancing the value of the company and the costs of its capital structure. (Tumangkeng & Mildawati, 2018).

HYPOTHESIS

Return On Asset ratio is a measurement of profitability where the greater the company's ability to cover the investments used, thus allowing the company to finance investments from funds originating from the company. from internal sources available in retained earnings so that information in ROA can increase positive value for investors and can increase firm value. (Miranda, 2021) said that Return On Assets (ROA) has a positive and significant effect on firm value. Meanwhile, (Widyawanti & Widyawati, 2021) found that ROA has a negative and insignificant effect on Firm Value.

H1: It is suggested that Return on Assets (ROA) (X1) has an effect on Firm Value (Y)

The company's growth has an important in maintaining its long-term survival, because the company's growth shows a good prospect in the future. The high growth of the company is certainly expected by the owners and investors. For investors, high company growth reflects high profit margins. because the company's high growth shows good prospects in the future, and this will affect the increase in the value of the company. Saputri & Giovanni, 2021) research shows that Growth Opportunity has a negative effect on firm value. However, Saputri and (Dewi & Asyik, 2021) mentioned that company growth has a positive and significant effect on value of the company.

H2: It is suggested that Growth Opportunity(X2) has an effect on Firm Value (Y)

The use of debt in the company's capital structure can increase the chance of bankruptcy because big debt can cause a mismatch between cash flow of interest payments and debt installments are even greater. This will support financial distress, which is a condition where the company experiences a financial difficulties and face bankruptcy. According to (Utomo, 2017) the greater the debt, the greater the cost of financial pressure which will affect the value of the company.

H3: It is suggested that the capital structure (X3) has an effect on firm value (Y)

According to (Nintara, 2018) Capital structure policies will support company fund sources of equity and reduce company liabilities. An increasing of company assets indicates the healthy of company growth. This means that its growth might not be accompanied by the increasing of costs. Companies which manage it well and are not burdened by a large debts to pay interest each year should be able to generate positive profitability. An effective capital structure will support company to grow positively without debt, and the business will achieve high profitability. These three complementary conditions will affect the value of the company, hence

H4: It is suggested that Return on Assets (ROA) (X1), Growth Opportunity (X2), and Capital Structure (X3) have a joint effect on Firm Value (Y)

The structure model of hypotheses can be drawn in Figure 1.

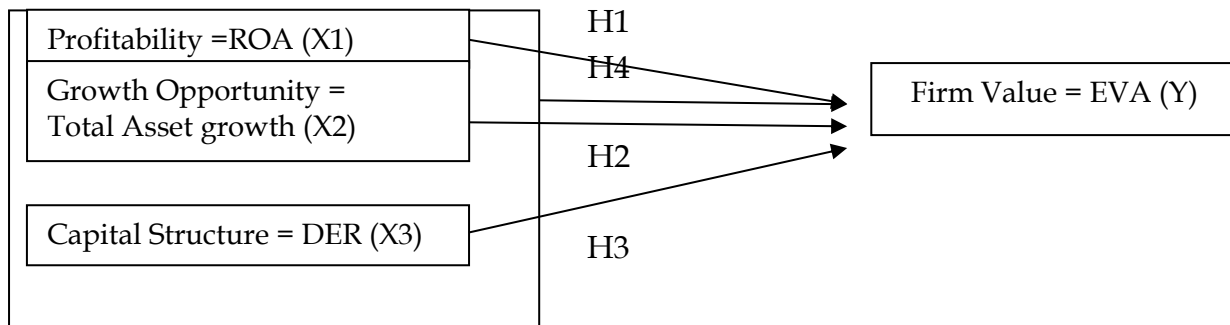


Figure 1. Conceptual framework

RESEARCH METHODS

This is a quantitative research with a population of 103 companies and a sample of 20 (20%) non-go public banks registered on the Financial Services Authority, as well as reporting complete financial statements and published in <http://www.ojk.co.id>, and on each bank's website in year 2016-2020. Samples were obtained by using Simple random sampling method. The data collection process uses literature studies and documentation in the form of secondary data taken from the website <http://www.ojk.co.id> And each bank's website.

The independent variables are profitability (X1) that measured by Return on Assets (ROA); growth opportunity (X2) is proxy by the growth of bank's total assets, and capital structure (X3) is proxy by Debt to Equity Ratio (DER). Firm Value (Y) as the dependent variable is measured by Economic Added Value (EVA).

This research was conducted by using descriptive Statistical analysis followed by classical Assumption Test in order to find out the data is normally or not normally distributed. The hypotheses are tested by using T test, F test and Adj R square.

RESULTS AND DISCUSSION

Table 1 shows that the value of Adj. R. Square (R2) is 0.286, it means that the regression model used is able to explain the effect of profitability, Growth Opportunity and capital

structure variables on firm value by 28.6%, while the remaining 71.4% is explained by other variables which not included in this study

Table 1 : Model Summary

Model	R	Rsquare	Adj.R square	Std error of The estimate	Durbin Watson
1	0.555	0.308	0.286	80.43407	2.063

Table 2 exhibited that the calculated F is 13.921 with a significance value of 0.000 < 0.05. The F test shows that there is a significant influence simultaneous of profitability, growth opportunity and capital structure variables on firm value.

Table 1. F Uji test

Model	Sum of Squares	df	Mean Squares	F	Sig.
Regression	273039.387	3	91013.129	13.921	0.000
Residual	627634.421	96	6537.859		
Total	900673.809	99			
Predictors:	DER, TAG, ROA				
Dependent Variable:	EVA				

Table 2. T test

Model	Unstandardized Coefficient		standardized Coefficient		
	B	Std. Error	Beta	t	Sig
Constant	29.746	27.886		1.067	0.289
ROA	-26.616	8.881	-0.257	-2.997	0.003
TAG	16.728	24.703	0.058	0.677	0.500
DER	2.206	0.377	0.500	5.857	0.000

Dependent variable: EVA

Table 3 illustrated that the effect of the profitability variable (X1) on firm value (Y) has 5% level of significance ($\alpha = 0.05$) with 95% confidence level obtained sig value of 0.003 < 0.05, it is concluded that partially profitability variable (X1) has a significant negative effect on firm value. The effect of the Growth Opportunity (X2) variable on Firm Value (Y), is shown by 5% level of significance ($\alpha = 0.05$) with a confidence level of 95% and obtained a sig value of 0.500 > 0.05, it is concluded that partially the Growth Opportunity (X2) does not affect firm value. The effect of the Capital Structure variable (X3) on Firm Value (Y) is shown by the 5% level of significance ($\alpha = 0.05$) with a confidence level of 95% and sig value of 0.000

<0.05 , it is concluded that partially the Capital Structure (X3) has a significant effect on firm value.

The result show that ROA has a significant effect on firm value with negative sign therefore hypothesis 1 is confirmed. Chaidir (2015) argued that the higher the ROA, the lower the value of the company. The value of the company can also decrease when high ROA is not reacted by investors to decide to invest. Company profits are usually expected by investors who has long-term investment profits orientation. The investors consider other factors such as exchange rates, fluctuations, economic conditions, meanwhile the sample in this study is non go-public banks which are not selling shares in stock exchange. This study contradicted with (Miranda, 2021) and (Abdillah, 2021) who asserted that the existence of the influence of profitability on the company value of commercial banks shows that in assessing the company, external parties will see how much the company able to generate profits is. In order to improve company performance and customer loyalty, commercial banks try to earn maximum profit that can add company's capital and increase firm value.

The statistical test shows that growth opportunity has no significant effect on firm value. A research conducted by (Yudistira, 2019) also exhibited that the firm's growth variable has no effect on firm value. Therefore, if company growth tend to increased or decreased, then it will not affect the value of company. Every year total assets can fluctuate so that it does not affect the value of the firm. According to (Abdillah, 2021) there are several companies in the research year that did not experience growth due to changes in assets that decreased from the previous year. In addition, the large growth in bank assets does not necessarily describe the company as having high assets because assets consist of liabilities and equity. Banks rely on debt that collected from customer who save their money. banks have a higher amount of liabilities than total equity. Thus, the company's growth is difficult to determine. High company assets does not necessarily indicate high company growth due to ignorance of the company's internal and external conditions. Therefore, hypothesis 2 is rejected

The debt to equity ratio has a significant effect on firm value is shown in table 3 and this confirm that hypothesis 3 is accepted. Therefore, this study is corroborate with a research held by (Sartono, 2015). The capital structure is the balance of the amount of debt with its own capital. The use of debt in the company's capital structure can increase the chance of bankruptcy because high debt can disturb cash flow due to being not meet interest payments, and debt installments are even greater. This is referred to financial distress, which is a condition where the company experiences financial difficulties and is threatened with bankruptcy. According to (Utomo, 2017) the greater the debt, the greater the cost of financial pressure which will affect the value of the company. In addition, source of funds in banking is dominantly from debt such as saving and time deposits.

The F test confirm that Profitability, Growth Opportunity and Capital Structure have a joint effect on Firm Value, along with that Hypothesis 4 is accepted. The results of this study consistent with (NCO, 2018). Capital structure policies should support sources of equity

financing and reduce corporate liabilities. An increase in company assets due to more equity indicates healthy company growth in the sense that its growth is not accompanied by an increase in some of its costs. Banks that be managed well and not burdened by high debts so they will not pay off each year should be able to generate positive profitability. An effective capital structure will make a company grow positively without debt burden, and banks will achieve high profitability. The three conditions that complement each other will affect the value of the company. The results of research conducted by (Natalia, 2019) states that ROA, growth opportunity and capital structure together affect the firm value support this research.

CONCLUSIONS AND RECOMMENDATIONS

Profitability has an effect on firm value with negative sign, which means that hypothesis 1 is accepted. Growth Opportunity has no effect on the firm value hence hypothesis 2 is rejected. Capital structure has an effect on firm value, therefore hypothesis 3 is accepted. Profitability, Growth Opportunity and Capital Structure simultaneously influence Firm Value, finally hypothesis 4 is confirmed.

It is no doubt that source of funds of banks mostly from third party (debt) such as saving and time deposit, therefore banks should consider its equity and keep maintaining the recommended ratio of Capital Adequacy Ratio (CAR) and increase their capital.

FURTHER STUDY

Due to the value of Adj is 28.6%, while the remaining 71.4% is explained by other variables, for further researchers is suggested to add some more other variables. In addition, there are still more other non-go public banks which can be used as the sample. Most of researcher used to employ go public banks for their samples, whereas all banks must publish their annual reports, so the non-go public banks are good to be revealed.

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