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EFFECT OF PROFITABILITY, BUSINESS SIZE, AND INSTITUTIONAL OWNERSHIP ON BUSINESS VALUE WITH CAPITAL STRUCTURE AS A MODERATING VARIABLE (Empirical Study on Food and Beverage Companies Listed on The Indonesia Stock Exchange for The 2017-2020 Period)

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Profitability, Business Size, Institutional Ownership, Business Value, Capital Structure

ABSTRACT

This study aims to analyze the effect of profitability, business size, and institutional ownership on business value with capital structure as a moderating variable in food and beverage companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2020. Using purposive sampling, 48 companies were selected as the sample. Multiple regression analysis with IBM SPSS Statistics 25 was employed to analyze the data. The analysis unveiled that profitability affected business value. However, business size had no influence on business value, and institutional ownership did not significantly impact business value. Moreover, the capital structure could moderate profitability with business value but could not moderate business size and institutional ownership.

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INTRODUCTION

As an economic entity, a company has a purpose in carrying out its business operations. The primary goal of the company's establishment is to obtain optimal profit by utilizing its potential and operations. Its goals are classified into two categories: short-term and long-term. Short-term goals are something that the company wants to achieve shortly by generating a profit in a specific period. In contrast, long-term goals are the results the company wants to accomplish within a more extended period to maximize its value. The higher the business value, the more affluent the owner. Accordingly, the business value is critical for investors and creditors to understand.

When a company is to be sold, its value is the amount prospective purchasers are willing to pay (Suwardika & Mustanda, 2017). Business value is frequently related to stock price. Therefore, the greater the stock price, the higher the business value (Kalsum, 2020), and vice versa. Price Book Value (PBV), the ratio used to measure whether a company's stock price is low or costly, can quantify corporate value. It is measured by comparing the market price per share with the book value per share. PBV reflects an investor's opinion of a company's equity. The share price is employed to calculate PBV because the greater the stock price, the higher the business value. The shareholders seek a high PBV to encourage investors to invest their capital (Radiman & Athifah, 2021).

Profitability, business size, and institutional ownership are all variables influencing business value. Several companies experience a drop in profits, followed by a setback owing to a disorganized capital structure and a mismatch between the fulfillment of funds and the period of their demands. To prepare for this, financial managers must be more cautious in defining the appropriate capital structure to improve the business value.

Profitability is a company's capacity to generate profits within a specific time frame and a method for analyzing the company's overall operational performance (Anisa et al., 2021). Essentially, the profitability problem in the company is more essential than the profit problem because the quantity of the profit obtained does not always indicate whether a company is claimed to be efficient. Profitability reflects the business value. If the company's profit or strong earnings improve its prospects, it might prompt investors to join in boosting the demand for shares because high demand for shares leads the business value to rise (V. S. Dewi & Ekadjaja, 2020).

Business size is a measure that categorizes companies based on their size. Large companies receive greater attention from investors because, before investing, investors want to see how much the companies have grown. The degree of external attention outsiders pays to other elements, one of which is the business value. The total assets a company possesses for its operations also indicate the business size (Irawan & Kusuma, 2019). If a company has many assets, the management will be more versatile in using those assets. A study by Dede, Bayu, and Dara (2019) discovered no relationship between business size and business value. Conversely, Surpa, Wayan, and Putu Agus (2019) unveiled a relationship between business size and business value.

Institutional ownership is crucial in monitoring management; hence, it plays a significant function for a company. Institutional ownership will promote and experience an ideal increase for the company. This supervision by institutional investors will assure shareholder prosperity. Cristy and Marjam (2017) reported that institutional ownership had a negative and insignificant influence on business value. Lestari (2017), on the other hand, disclosed that institutional ownership positively impacted business value.

Companies often utilize their capital structure to finance operating activities and buy assets. A company's capital structure is defined as the debt and equity ratio to total capital (Irawan & Kusuma, 2019). Capital structure decisions are crucial for the company's financial management because capital structure decisions, investment decisions, and dividend policy decisions aim to achieve optimal business value. The development of optimal business value implies the realization of overall success. The optimal capital structure maximizes the balance between risk and return (Umdiana & Claudia, 2020). The term "optimal capital structure" refers to a financial structure that can deliver optimum business value while assuming a specific degree of risk or reducing total expenses in managing company operations. The debt-to-equity ratio (DER) illustrates the capital structure in this study.

Cristy, Marjam, and Ivonne (2018) discovered that capital structure positively influenced business value. Conversely, Rita and Irham (2018) revealed that capital structure negatively and significantly affected business value.

Food and beverage companies listed on the Indonesian Stock Index (IDX) were selected to be investigated since the sector's development is one indicator having the potential for a country's economic growth. Investment in food and beverage companies is a potential future investment and has practically become the primary choice for investors. Every economic activity requires a product, whether in the service or manufacturing sectors.

This research refers to a study by Endang, Herman, and Rudy (2018) on the influence of capital structure and institutional ownership on business value in construction businesses listed on the IDX (2014-2016). Furthermore, a profitability variable was added to measure the efficiency of capital within a company by comparing profits and capital.

METHOD

This study belongs to quantitative research, which examines quantitative data provided in the form of numbers. The quantitative method is an objective and quantifiable means of viewing unexpected human behavior and social reality (Yusuf, 2017 in Jufrizen & Sitorus, 2021). This study relied on secondary data, also known as indirect data, of annual financial reports from food and beverage companies listed on the IDX from 2017 to 2020. PBV, DER, return on assets (ROA), business size, and institutional ownership (KI) were employed in this study.

Multiple regression

$NP = b_{0} + b_{1}P + b_{2}UP + b_{3}ki + e$

Description:

NP = Business value

b_0 = Constant

$b_1X_1 + b_2X_2 + b_3X_3$ = Coefficient of predictor regression equation X_1, X_2, X_3

SM = Capital structure

UP = Business size

P = Probability

Ki = Institutional ownership

e = Error

Moderated Regression Analysis (MRA) Test

$NP = \beta0 + \beta1P + \beta2UP + \beta3KI + \beta4P*X + \beta5UP*X + \beta6KI*X + e$

Description:

NP : Business value

β0 : Constant

β : Variable regression coefficient

UP : Business size

P : Profitability

KI : Institutional ownership

e : Error

RESULTS AND DISCUSSION

Results

The constant had a positive value of 7.084, demonstrating a business value of 7.084. The profitability was -0.174, implying that the business value rises if profitability falls. However, if profitability rises, the business value falls. The business size was 0.016, illustrating that as a business size grows, so does its value. If the business size declines, so does its value. The institutional ownership obtained -5,098, indicating that if institutional ownership decreases, the business value increases. On the other hand, as institutional ownership grows, so does the business value. The moderating value of SM*P acquired 0.532, suggesting that any rise in profitability moderated by capital structure enhances the business value. On the other hand, if profitability falls and is moderated by the capital structure, the business value also declines.

The SM*UP moderation value of -0.296 implies that the business value increases for every fall in business size moderated by capital structure. On the other hand, if the business size increases while being moderated by the capital structure, the business value decreases. The SM*KI moderation value was 9.241, signifying that every rise in institutional ownership moderated by capital structure increases the business value. On the other hand, a decline in institutional ownership moderated by capital structure reduces business value. The t-test determines how much effect one independent variable has on explaining the dependent variable.

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Table 1. Hypothesis Test (t-test)

Variable	t	Sig.
Profitability	11.269	0.000
Business size	-0.737	0.465
Institutional ownership	1.370	0.178

At a significance level of 0.05, the t-test revealed that the profitability and capital structure variables influenced business value. In contrast, neither business size nor institutional ownership had any impact on the level of voluntary disclosure.

$$t\ table = t\ (0.025;n\text{-}k\text{-}1) = t\ (0.025\ ;\ 44) = 2.015 \quad (1)$$

Table 1 displays the t-test findings. H1 is accepted since the profitability variable acquired a t count of 11.269 > a t table of 2.015, with a significance of 0.000 < 0.05, indicating that profitability influenced business value. H2 is also rejected as the t count of -0.737 < a t table of 2.015, with a significance of -0.737 < 0.05, was obtained for the business size variable, indicating that profitability did not influence business value. H3 is also rejected because the institutional ownership variable yielded a t count of 1.370 < a t table of 2.015, with a significance of 0.178 > 0.05, demonstrating that institutional ownership did not affect business value. The coefficient of determination was employed to control how well the model explains the independent variables.

Table 2. Coefficient of Determination Test

Model	Adjusted R Square
1	0.696

Table 2 exhibits that the adjusted R^2 was 0.696, suggesting that 69.6% of the business value variable could be described by independent variables. In contrast, the remaining 30.4% was explained by variables excluded in this study.

DISCUSSION

The t-test revealed that the profitability variable obtained a t count of 11.269 > a t table of 2.015, with a significance value of 0.000 < 0.05. In short, profitability affected business value. Therefore, the first hypothesis is accepted. It demonstrates that the efficacy of the company's management will provide optimal profits for the company and indirectly improve profits for shareholders, as investors will evaluate the company based on its profitability. This study's findings are corroborated by Astuti and Yahya (2019) and Tias, Diamonalisa, and Edi (2018), discovering that profitability affected business value.

The business size variable obtained a t count of -0.737 < a t table of 2.015, with a significance value of 0.465 < 0.05. In other words, the business size had no bearing on its value. Hence the second hypothesis is rejected. There is no correlation between the business size and the magnitude of its value, as both large and small companies are capable of earning high profits (Nurminda 2017). This study's findings align with the research by Dina and Varya (2019), disclosing no correlation between business size and business value.

The third hypothesis is rejected based on the findings of testing institutional ownership, implying that the variable had no influence on business value based on a t count of 1.370 < a t table of 2.015, with a significance value of 0.178 < 0.05. Institutional ownership is seen as capable of influencing the business value since, in general, it could serve as a moderating variable. The more significant the proportion of institutional ownership in a company, the greater the motivation to maximize its value (L. S. Dewi & Abundanti, 2019). Institutional ownership possessed the capacity to effectively supervise management to enhance its performance. This conclusion is consistent with the findings of Linda & Abundanti (2019) and Fitri & Eliada (2019), who discovered that institutional ownership did not affect business value.

The relationship between profitability and business value acquired a significant value of 0.000 < 0.05 and a t count of 5.166 > a t table of 2.015. Following the t-test findings, the fourth hypothesis is accepted. As a result, the capital structure influenced the relationship between profitability and business value. It indicates that capital structure interacted with profitability and had a significant relationship with business value. Under the trade-off theory, debt issuance reduces agency expenses and bankruptcy costs. However, debt incurs interest costs. The business value rises as a result of this. If management feels that the company's prospects with debt will be favorable, they can discuss it with investors. It is a good thing to improve the business value. The findings of this study support a study

by Izza (2020), revealing that capital structure influenced the relationship between profitability and business value.

The test on the relationship between profitability and business value generated a significant value of 0.012 < 0.05 and a t count of -2.637 < a t table of 2.015. It implies that the fifth hypothesis is rejected. Therefore, the capital structure did not influence the relationship between business size and business value. In other words, business size positively influenced external resources, as measured by total assets or total revenues. Access to capital had become more straightforward due to the business size. As a result, investors would pay close attention to the company. This result is consistent with Siti, Nardi, and Masno (2021), uncovering that capital structure could moderate the relationship between business size and business value.

The t-test findings unveiled that the capital structure on the relationship between institutional ownership and business value acquired a significance value of 0.131 > 0.05. It signifies that the sixth hypothesis is rejected. The relationship between institutional ownership and business value could not be moderated by capital structure. According to this analysis, the value of the capital structure has dropped from year to year. This fall happened not due to a debt reduction but rather due to the degree of debt and insufficient institutional supervision of managerial performance. The findings of this analysis align with Tatas, Umi, and Djuni (2020), reporting that capital structure could not modify the relationship between institutional ownership and business value.

CONCLUSION

The study findings disclosed that profitability influenced the business value of food and beverage companies listed on the IDX from 2017 to 2020. Hence, H1 is accepted in this study. However, H2 is rejected because business size had no influence on business value. H3 is also rejected because institutional ownership did not impact business value. H4 is accepted since capital structure could modify the association between profitability and business value. H5 is rejected as the capital structure was unable to regulate the association between business size and business value. H6 is rejected because capital structure could not moderate the relationship between institutional ownership and business value.

Following the findings and limitations of this study, it is envisaged that more studies should expand on various variables with the potential to impact business value significantly to have relevant outcomes. Further research is recommended to add a sample of companies larger than the population of a research observation.

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