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An Analysis on the Influence of Financial Variables to Capital Structure and Firm Value (Studies in Manufacturing Companies Sector of Consumer Goods Industry Listed on the Bei).

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Abstract: *This study analyzes the relationship of variables that effect on capital structure and firm value simultanous. Research actually aims to find out and anlyze the influence of profitability, growth and volatility on capital structure and firm value simultanous, also to find out the role of capital structure in mediating the relationship between profitability, growth and volatility on firm value. The research was held on 22 manufacturing companies sector of consumer goods industry listed on the Indonesian Stock Exchange period of 2010 to 2014 using path analysis as research data analysis. Research findings suggest that profitability has negative and significant effect on capital structure, whereas growth and volatility has no significant effect on capital structure. In addition, profitability has positive and significant effect on firm value and volatility has negative and significant effect on firm value, whereas growth has no significant effect on firm value. The results of this research indicate that capital structure has no effect in mediating the relationship between profitability, growth and volatility on firm value.*

Keywords: *profitability, sales growth, volatility, capital structure and firm value*

I. Introduction

A sustainable industrial growth is mean to achieve economic progress and prosperity of a country, because some support for industrial growth is very difficult for a country to realize the people's welfare, especially for countries with a population slightly. In Indonesia were a large number of residents who have a solid foundation for the advancement of the manufacturing industry sector due to economies of scale (Basri, 2014). The agricultural sector that became the foundation of life most people in Indonesia has been gained in the early stages of development followed by the development of the manufacturing sector which continues to grow until its role in GDP (Gross Domestic Product) reached by the optimal point. According to Basri (2014) based on the experience of countries that have successfully climbed by the industrialization, when the role of the manufacturing sector in GDP reached about 35 percent, after reaching the optimal point. So, when per capita income and productivity is high, the manufacturing sector growth would be slows and it was role in the GDP was decline and replaced by the services sector.

Role as an industry that contributes significantly to GDP and spearhead the growth of the national economy, the companies included in the manufacturing industry will continue to maintain their existence to continue to grow and develop in accordance with the objectives to be achieved. To achieve its goals, the company will always interacting with the environment, both the general environment such as economics, politics, technology, law, culture and others, and also a special environment such as consumers, suppliers, competitors, technology, labor markets, capital markets, financial institutions and others, that will always affect the development and changes in the company and also the industry. The Company will also include input from the environment in the form of material, energy and information, which further transformed in the company being output and output finally returned to the environment.

In a company that is a legal entity (corporation) there is a clear separation between the owner and manager of the company. The owner in this case is the shareholders who delegate authority to the manager as the manager of the company, where decisions are taken by the manager intended for the benefit of shareholders, as stated by Ross et al. (2008: 12): "The financial manager in a corporation makes decisions for the stockholders of the firm". From the perspective of shareholders aimed at obtaining financial benefits through the purchase of shares of the company, a good manager's decision will increase the value of shares and the reverse bad decisions will decrease the value of the stock.

After deciding to run a viable investment, financial managers must determine the source of the funding required to finance these investments. In general the funding source is divided into two, namely debt and equity. Decision long-term funding is typically used to finance long-term investment. There are three main sources that are preferred source of long-term funding is retained earnings, issuance of bonds and the issuance of new shares.

Funding sourced from retained earnings call with internal financing, while derived from the issuance of bonds and new shares referred to external funding. External funding is part of the company's capital structure policy.

The trade-off theory states that there is an optimal capital structure is determined by a balance between the advantages of debt (tax shield benefits of leverage) and difficulties of cost of financial distress, then agency costs. When a company does not have sufficient funds, debt provides opportunities for companies to carry out investments that generate positive Net Present Value. The advantages of debt by companies will tend to reach the optimal level due to the addition of debt that provide benefits to shareholders in the form of interest expense which reduces the tax burden of companies thereby increasing shareholder wealth. According to Ross et al. (2008: 11) there are some financial goals are possible (possible financial goals) include: survive, avoid financial distress and bankruptcy, beat the competition, maximize sales or market share, minimize costs, maximize profits and maintain steady earnings growth. These objectives incorporated into two parts. The first relates to profitability, which consists of sales, market share, and cost control. The second related to risk control, which consists of avoidance of bankruptcy, stability and security.

II. Methodology

Based on the research objectives, this study includes research into explanatory as it aims to establish a link between financial variables in relation to the capital structure and corporate value. Saunders et al., (2009: 139), states explanatory studies as research that establishes / establish a causal relationship between variables so called explanatory research that emphasizes the situation or problem to explain the relationship between variable and this study using path analysis. The population of this research is all manufacturing sub-sectors of the consumer goods industry that go public and was listed on the Indonesian Stock Exchange (BEI) before 2010 until 2014. The number of listed manufacturing companies began in 2010 as many as 133 companies, in 2011 as many as 135 companies, in 2012 as many as 137 companies, in 2013 as many as 139 companies and in 2014 as many as 142 companies. The total of each year is recorded by successively a company as many as 126 companies. The total samples of companies were as many as twenty-two and the number of years of observation as much as five years, then the total number of observations are 110 observations.

III. Results

Profitability found significant negative effect on the capital structure, meaning that companies have a positive profit margin can determine the choice of funding sources starting from retained earnings first and then the final funding with debt and with new shares. This is in line with the pecking order theory perspective that explains that the company makes cash reserves by withholding some profits, as one form of financial slack. Sales growth was found associated positive but not significant, meaning that sales growth is not a policy reference capital structure in obtaining debt financing for growth cannot be used as collateral. Volatility is found associated positive but not significant, meaning that the use of long-term debt to fund the company's investment was not referring to the profit generated volatility. Despite the lower earnings volatility does not affect funding decisions of the company.

Profitability found significant positive effect on firm value, which means that the profitability of providing information that is valid and reliable to give some information in the market that the profitability is positive indicating good performance so as to provide hope for the return, which benefits both in the form of dividends and share price increase (capital gain). The findings of this study support the signaling theory which states that profitability be a signal to the market (investors) about increased by market expectations for the performance of the company and a major factor that no doubt in determining the value of the company.

Sales Growth found associated positive but not significant, due to lower sales growth resulted in low profit generated so that the rate of sales growth the company is not a reference investors in their investment decisions and this is not information that is quite reliable for the market so that the growth of fluctuating not contain information which mean.

Volatility is found significantly and negatively related to firm value, due to lower earnings volatility which means that the company's risk is also low so the lower the earnings volatility caused increased corporate value and vice versa. This low earnings volatility carries with meaningful information to the market and become an important reference for investors in their investment decisions

The capital structure is found associated negative but not significant to the company's value, meaning that the increase in long-term debt in the capital structure of the company to finance the company's investment does not cause concern and does not affect the market's perception of company performance in the future, the market just gave a positive response to the announcement of the company's profit.

IV. Conclusion

Some companies that have a high level of sales and is able to perform efficient use of resources, it will generate high profits. The company's ability to produce positive cash flow indicates the degree of profitability of

the company. So with a positive profitability payload contains a valid and reliable information and positive response by the market, which means the expectations of shareholders can be realized in the form of rising stock prices, or in the form of dividend payments. Capital structure did not mediate the relationship between profitability with the value of the company. The capital structure policy means that companies manufacturing consumer goods industry sector is not optimal.

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