Business Risk and Sales on the Value of Manufacture Companies With Capital Structure as Intervening Variables in Stock Exchange

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Article history:	**Abstract**
	This study aimed to determine the effect of business risk, sales growth on firm value with capital structure as an intervening variable in manufacturing companies listed on the Indonesia Stock Exchange. To be able to understand this aim, we have reviewed 20 company's profiles and report from 2015 to 2018 with a purposive sampling technique. After collected the needed data, then analyzed data using the technique of panel data regression and path analysis. Finally, we obtained that the capital structure has a significant positive effect on firm value, business risk. While sales growth does not affect firm value and business risk does not affect capital structure. Sales growth has a significant negative effect on capital structure. The capital structure is only able to mediate the effect of sales growth on the value of the company. This study has its validity and reliability and therefore, it can be useful insights to support infrastructure business and other policymakers as well as academic projects working on similar issues.

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1 Introduction

Capital structure decisions are important because capital structure determines the average cost of capital, which is the minimum required rate of return on company investment (Pattweekongka *et al.,* 2014; Knechel, 2007; Curtis & Turley, 2007). If the company wants to grow, the company needs capital, where the capital is in the form of debt and equity (Brigham & Houston, 2016; Brigham & Houston, 2012). Likewise, in optimizing company value, it is necessary to make the right decisions for funding purposes. The company's financial funding decisions affect the company's activities. Company management must determine the amount of capital needed to fulfill/finance the company. Errors in determining the capital structure will affect the sustainability of the company.

Sales growth is one of the factors that influence company value. Because this is an indicator of demand and competitiveness in a company. The sales growth also reflects the success of investment in the past period which can be used as a prediction for future growth (Barton *et al.,* 1989; Donaldson & Preston, 1995). In this study, the dependent variable firm value will be peroxided by price-to-book value (PBV), the intervening variable of capital structure is proxied by debt to equity ratio (DER), while degree operating leverage is a proxy for business risk.

Various literature reviews, the authors found gaps in these various results. This is indicated by the results of research by Simu & Pangaribuan (2020) and Ha & Tai (2017) which state that capital structure does not affect firm value. Meanwhile, different results were shown by Dao & Ta (2020) and Dang et al. (2019) which shows that there is a negative effect of capital structure on firm value. Different results are shown by Yunita & Mayliza (2019), Burhanuddin et al. (2019), and Aggarwal & Padhan (2017) who found that capital structure has a positive and significant effect on firm value. The difference in research results on the effect of business risk on firm value is also shown from research conducted by Laghari (2017) that business risk has a positive effect on firm value. The results are supported by Ensar et al. (2016) which also shows that business risk has a significant effect on firm value. Meanwhile, Firmansyah (2017) found that business risk has no significant effect on firm value.

Thomsen & Pedersen (2000), Rasyid (2015) states that sales growth affects firm value whereas Viona et al. (2019) states that sales growth does not affect increasing firm value. With the inconsistency of the results of these various studies, researchers are interested in re-understanding the relationship between business risk and sales growth on firm value with capital structure as an intervening variable in manufacturing business on the Indonesian stock exchange.

Literature Review

According to Brigham & Houston (2012) signal theory is a theory that provides information/clues to investors about what management has done to realize the wishes of company owners. This information can indicate the company's prospects so that it affects investment decisions from outside the company. This is important for consideration by investors and business people as long as the information presented is complete, relevant, accurate, and timely. Trade-off theory states that there is an optimal capital structure that maximizes firm value in balancing the costs and benefits of additional debt units, characterized as a trade-off model (Ghazouani, 2013; Perrott, 2007; Drew *et al.,* 2006). In this theory, it explains that company debt will provide benefits until it reaches its optimal limit. Many researchers support this theory and emphasize the role of optimizing debt levels (Hovakimian, 2004; Hovakimian *et al.,* 2004; Ghazouani, 2013; Shepherd *et al.*, 2000; Haar *et al.,* 1988).

Capital structure is one of the factors that influence firm value, namely the balance between the amount of debt and the company's capital. Burhanuddin et al. (2019) and Aggarwal & Padhan (2017) found that capital structure has a positive effect on firm value. Because the information provided by management on investment decisions plays an important role in giving signals to investors that the company is performing well. Signals of greater use of debt are a sign that the company has an advantage and is willing to take on debt risks. Burhanuddin et al. (2019) said that additional debt can increase company value at a certain point and if that point has been passed, additional debt will reduce company value. According to him, the excessive use of debt will make investors anxious about the company's bankruptcy because the majority of funds come from debt.

Business risk is one of the variables that must be considered by the company. High risk tends to make profits unstable and unstable profits are not preferred by investors. Wulandari (2019) stated that corporate risk management is needed by integrating all types of risk to reduce the risk of business uncertainty. Chakraborty (2015) argues that low business risk will lead to high cash flow. High cash flow will be a good signal in the market and will increase company value. Rasyid (2015) explains that sales growth affects firm value positively, which means that increased sales will give an impression to the company and will increase company value. Sales growth provides a good signal from the company to investors. The increase in company sales gives the impression that the company is performing well.

Companies that face high risk tend to maintain a portion of their debt level so as not to threaten the company's position. Alnajjar (2015) found that business risk has a negative effect on capital structure. He also argued that developing countries are more prone to bankruptcy risk than developed countries. Based on what has been explained previously, the framework in this study is as follows:
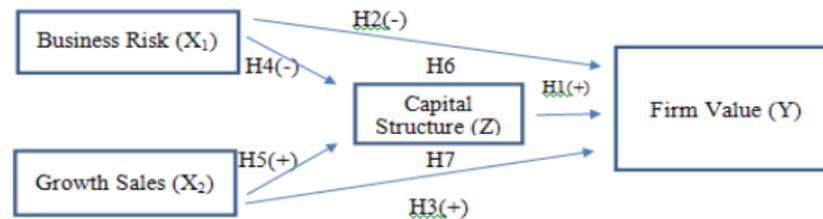

Figure 1. Framework Model

Based on the framework and the influence between variables, the following hypothesis can be made:
1) Capital structure has a positive effect on firm value.
2) Business risk has a negative effect on firm value.
3) Sales growth has a positive effect on firm value.
4) Business risk has a negative effect on the company's structure.
5) Sales growth has a positive effect on capital structure.
6) Business risk indirectly affects firm value through the capital structure.
7) Sales growth indirectly affects firm value through capital structure.

2 Materials and Methods

The data used are secondary. Secondary data is data obtained indirectly or through intermediaries from various sources and has been available in various media. The data source is obtained from the official Indonesia Stock Exchange website, namely www.idx.co.id. The population of this research is all companies in the manufacturing sector which are listed on the Indonesia Stock Exchange. The samples obtained were 20 companies and used a sampling technique, namely purposive sampling. The variables used in this study are as follows:
1) The dependent variable, the dependent variable in this study is the firm value measured using price-to-book value (PBV). PBV is the ratio comparing stock prices in the market with their book value (Brigham & Houston, 2012). Price-to-book value (PBV) is calculated by: Price-to-book value (PBV) = share price/book value per share.
2) Independent variable, the independent variable in this study is a business risk and sales growth. Business risk is measured using degree operating leverage (DOL). DOL is a leverage ratio which means the percentage change in operating income to changes in sales (Brigham & Houston, 2012).
DOL = change in EBIT / change in sales
Meanwhile, sales growth can be calculated by:
Sales growth = (current sales - previous sales) / previous sales
3) The intervening variable, the intervening variable in this study is the capital structure as measured by the debt to equity ratio (DER). DER is the ratio of debt to equity ratio. DER can be calculated as follows:
Debt to equity ratio (DER) = total debt / total equity

Data analysis technique

Descriptive statistical analysis provides a description or description of data seen from the mean, standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness of the distribution. Ferdinand (2011) explains that descriptive analysis is used to provide an overview of the data presented in the study. Panel data regression is a regression technique that combines time-series data. There are several methods commonly used in estimating regression models using panel data, namely pooling least square (Common Effect), fixed effects approach (Fixed Effect), and random effects approach (Random Effect). Determination of the best model between the common effect,

fixed effect, and random effect using two model estimation techniques. These two techniques are used in panel data regression to obtain the right model for estimating panel data regression. Two tests can be used, the first Chow test is used to choose between a common effect or fixed-effect models. Second, the Hausman test is used to choose between the best-fixed effect or random effect model in estimating panel data regression.

The panel data regression equation used in this study is as follows:

$$DER = \beta0 + \beta1 \ DOL + \beta2 \ Sales \ Growth + ei$$
$$PBV = \beta0 + \beta1 \ DOL + \beta2 \ Sales \ Growth + \beta3 \ DER + e1$$

Path analysis is an analysis to determine the effect of variables indirectly. In this study, using a single test to determine whether the independent variable indirectly affects the dependent variable through the intervening variable. Sobel test is calculated manually with the following formula:

$$Z = \frac{ab}{\sqrt{(b^2 SE_a^2) + (a^2 SE_b^2)}}$$

Where:

a = independent variable regression coefficient on the mediating variable
b = regression coefficient of the mediating variable on the dependent variable
    = standard error of estimation of the effect of the independent variable on the mediating variable
    = standard error of estimation of the effect of mediation on the dependent variable

The result of Z count will be compared with the table value. If the calculated value is greater than the table value, it is found that the independent variable indirectly affects the dependent variable.

3   Results and Discussions

Descriptive Analysis Results

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DOL	80	-164.77	489.19	6.2416	58.32759
Sales Growth	80	-.47	.29	.0890	.09165
DER	80	.16	2.65	.9689	.58411
PBV	80	.20	82.44	5.5229	12.78862

Source: processed data

The table above shows the DOL variable focuses on the mean value of 6.2416 and the std deviation is 58.32759. The average value is smaller than the std deviation which indicates that the DOL value distribution on the data is not good enough. The average value of the sales growth variable is 0.089 which also means that the majority of sales growth values focus on this value. The standard deviation value at the output above shows a value of 0.091. The sales growth variable has an average value that is slightly smaller than the standard deviation value, namely 0.089 <0.091, which also means that the distribution of the sales growth value is slightly less good. Based on the output above, it can be seen that the DER data is centralized and generally lies at an average value of 0.9689, while the standard deviation value of DER is 0.58411. The average value is greater than the standard deviation value, namely 0.9689> 0.58411, which indicates that the distribution of DER sample data in this study has a good distribution. The mean value of the PBV variable was 5.5229 and the standard deviation value was 12.78862. The average value is known to be smaller than the standard deviation, which means that the distribution of PBV data values in the sample of this study is not good.

F-Test

The F test is a test to see how the independent variables simultaneously influence the dependent variable. If the F probability value is less than 5%, the variable has an effect.

Table 2
Results of the F Test for Equation 1

Value	Coefisien
F_{count}	6,073
F_{table}	3,12
Sig	0,003

Source: the results of Eviews output data processing

The table above shows the results of the F test of equation 1. The table shows that the significance value (sig) is 0.003 which is smaller than the significance level used, namely 0.05 or 5%. Based on the results, it can be concluded that DOL and sales growth together have an effect on DER. The results of the F test in equation 2 are shown in table 5 below:

Table 3
Result of f-test for Equation 2

Value	Coefisien
F_{count}	2,595
F_{table}	2,72
Sig	0,058

Source: the results of Eviews output data processing

The results of table 3 show that F_{count} is smaller than F_{table} 2.595 <2.72 and the significance value (sig) is greater than the level, namely 0.058> 0.05. The results show that DOL, sales growth, and DER collectively have no effect on PBV.

Individual Parameter Signification Test Results (t-test)

Table 4
Results of the Individual Parameter Signification Test of Equation 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.067173	0.127458	8.372766	0.0000
DOL	-0.000484	0.000478	-1.012165	0.3146
GROWTH	-1.070561	0.317473	-3.372132	0.0012

Source: Data processing results (Eviews output)

Based on table 4 above shows that the probability value of less than 0.05 is only sales growth. The results show that the DOL variable has no effect on DER, so H4 is rejected. The growth variable has a significant effect but the direction shown is negative, so H5 is also rejected.

The regression equation that can be made from the table above is as follows:

YDER = 1.067 - 0.004DOL - 1.07 Sales Growth + ui + ei

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Table 5
Output Coefficient of Equation 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.733062	3.455881	-0.212120	0.8326
DOL	0.001717	0.008483	0.202464	0.8401
GROWTH	7.235257	6.035531	1.198777	0.2343
DER	5.781220	2.083032	2.775387	0.0069

Source: Data processing results (Eviews output)

Based on table 5, only DER has a probability value less than 0.05, while DOL and growth have a value above 0.05. The results show that DER has a significant positive effect on PBV, so H1 is accepted. Hypotheses 1 and 2 are rejected because DOL and sales growth have no effect on firm value. Based on the table above, the following regression equation can be made:

YPBV = -0.773 + 0.0017DOL + 7.2352 Sales growth + 5.7812DER + Ui + ei

Path Analysis

In this study, the Sobel test was used to determine whether the intervening variable was able to mediate the effect of the independent variable on the dependent variable. The DOL equation path analysis model can be described as follows:
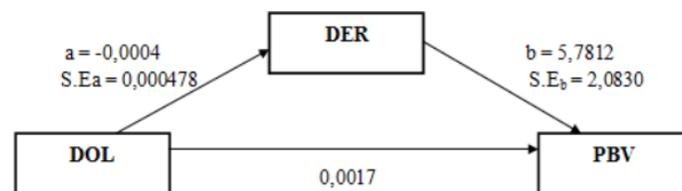

Figure 2. Path Analysis DOL (Source: processed data [Eviews output])

To find out the magnitude of the mediating power level of the effect of DOL on PBV, it can be done by calculating the single test below:

Z =
Z = -0.00231 / 0.002886
Z = -0.80119

By looking at the results of the above calculations, the Sobel test value is -0.080119. The Sobel test value is smaller than the t table value of 1.96, so we can conclude that DER does not mediate the relationship or influence on PBV, so H6 is rejected. Figure 3 shows the direct and indirect effect of the sales growth variable on PBV through DER.
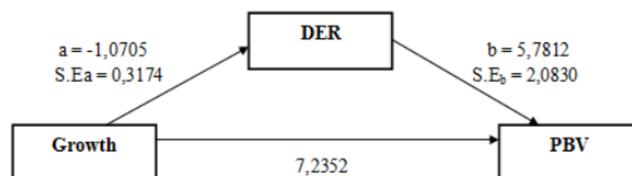

Figure 3. Path Analysis Sales Growth (Source: processed data [Eviews output])

The amount of the mediation rate can be calculated by means of a single test like the previous calculation, which is as follows:

$$Z = \frac{-1,0705 x 5,7812}{\sqrt{(5,7812^2 0,31743_a^2) + (-1,0705^2 2,0830_b^2)}}$$

Z = -2,14

The results of the above calculations indicate that the value of the single test results shows that DER can mediate the effect of sales growth on PBV, so H7 is accepted. The negative result shows the opposite indirect effect, which means that in this case sales growth increases, DER will tend to fall and will have an impact on PBV.

Discussion

Based on these results, we can conclude that the capital structure has a significant positive effect on firm value. The results described above are in line with what is hypothesized by this study. The results of this study are in line with the results of research conducted by Yunita & Mayliza (2019), Burhanuddin et al. (2019), and Aggarwal & Padhan (2017) where their research shows that capital structure has a positive effect on firm value.

This result may imply that an increase or increase in debt by a company to develop its business will increase the value of the company. Based on Modigliani Miller's theory, additional debt will increase the firm value if the capital structure is below or has not reached its optimum point. Determining the level of capital structure is very important for company management. Capital structure is a very important ratio to determine the level of company productivity.

These results also show that business risk (DOL) has no effect on firm value. The results of this study are not in line with what is hypothesized in this study. The results of this study are the same as Arifin (2017) which states that business risk has no influence on firm value. The company's business risk will be high if the variability of the company's income is also high so that the profits generated tend to fluctuate. Profits that are too fluctuating tend to reduce investor interest in investing so that the impact of stock prices or company value will decrease.

Table 4 shows that sales growth does not have a significant effect on firm value (PBV). This result means that sales growth has no effect on firm value in the manufacturing sector in Indonesia. This result is in line with the research of Paradila et al. (2019) and Mandalika (2016) which found that sales growth did not have a significant effect on firm value. These results suggest that an increase in sales is not able to increase firm value because company growth only sees sales that have not been reduced by costs. An increase in sales does not necessarily mean that profits will also increase because costs may also increase even greater than the previous year.

Based on the signaling theory that there are signals or indicators that investors are interested in investing. The results show that sales growth is a variable that investors do not consider, while profit can be a strong signal to attract investors.

Table 5 shows that business risk (DOL) does not have a significant effect on capital structure. In the previous explanation, companies that have high-income variability will have a high business risk and revenue is likely to be volatile or volatile. Companies that have high risk tend to use low debt ratios because the uncertainty of fluctuating profit levels makes companies consider their ability to repay their debts.

The results in table 6 show that sales growth has a significant negative effect on capital structure. The results contradict what has been hypothesized that sales growth will have a positive effect on capital structure. These results are the same as the results of research by Alipour et al. (2015) which found that sales growth has a negative effect on capital structure. This result may be caused by a higher or higher sales rate and the company does not increase debt as a source of funds but uses the company's profits. This condition is also possible because companies whose sales increase will reduce their costs, such as paying the long-term debt.

Based on these results, it can be seen that DER cannot mediate the effect of DOL on PBV so hypothesis 6 (H6) that has been proposed is rejected. This result is not in line with the signaling theory which states that investors will react when management releases information. These results also indicate that the increase in company risk will not have any impact on firm value, either directly or indirectly.

Based on these results it can be seen that DER can mediate the effect of sales growth on PBV, so hypothesis 7 (H7) that has been proposed is accepted. The negative Sobel test value -2.14 indicates that the indirect effect of sales growth is in different directions. Table 6 shows the direct effect of sales growth on DER where the regression coefficient shows a negative direction. Based on the results it can be said that a decrease in sales will increase DER and with an increase in DER will increase the PBV. The results described are not in accordance with the theories previously described such as signal theory which shows that sales growth should have a positive effect on DER and PBV.

4 Conclusion

After discussing the results of the study, it can be concluded that the capital structure has a significant positive effect on the value of the manufacturing sector companies listed on the IDX in 2015-2018. Business risk has no influence on the value of the manufacturing sector companies listed on the IDX. Sales growth has no influence on the value of the manufacturing sector companies listed on the IDX. Business risk has no influence on the capital structure of the manufacturing sector listed on the IDX for the period mentioned above. Sales growth has a negative effect on the capital structure of the manufacturing sector listed on the IDX. The capital structure is unable to mediate the effect of business risk on the value of the manufacturing sector companies listed on the IDX. Capital structure is not able to mediate the effect of sales growth on the value of the manufacturing sector companies listed on the IDX.

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