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Pattern Of Relationship Between Macro Economics, Capital Structure, Profitability, And Firm Value of Manufacturing Companies

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Introduction

The main objective of establishing a company or business is to maximize the value of the firm, so that it can be used to create welfare for its stakeholders. From the high sales results, the company will get increased profits. The amount of profit earned regularly is one of the important factors to assess profitability. The profitability factor is very important because it shows the extent to which the business's ability to generate profits. Profitability is the company's ability to generate profits in relation to sales, total assets and its own capital which is often used to measure the efficiency of the use of company capital by comparing profits with capital used in operations, therefore large profits do not guarantee the company can continue its operations in a sustainable manner.

Riyanto (2005: 29) argues that most companies in responding to the problem of profitability are more important than profits, this is because large profits do not mean the company is working efficiently. Companies that carry out their operational activities in a new efficiency can be identified by comparing the profits obtained with the wealth or capital that generate these profits, therefore the reflection of efficiency can be seen from the value of profitability. Companies must pay attention not only to increasing profits but also to know the extent of profitability through the efficiency of the company's capital structure by taking into account current macroeconomic conditions. All companies or corporations are trying to get the maximum possible profit and increase asset value effectively and efficiently. Automatically, the company will explore each of the ways of financing, namely by optimizing the company's financial structure, maximizing profitability and asset value in the present or future (Misu, 2010; McGuigan et al, 2011).

Based on the results of previous research, it shows that the company value is the economic value of the entire company which is very useful for shareholders or investors to determine investment decisions in the company through compan[illegible] performance. Firm value is an alternative in determining the success of a business, especially in developing a company (Bruchey, 2001; Birchall and Tovstiga, 2005; Besley and Brigham 2005). In general, company value is very useful for measuring company performance by not only paying attention to the owners or shareholders of the company but all parties related to the company. The principle in establishing corporate value is to always work with high quality standards, proactively, creatively and innovatively to get the best results in order to improve company performance. Creating firm value by investing capital that is obtained by investors so that it can generate future cash flows with results that exceed the cost of capital. And if the faster the income of a company increases, the more it will spread and be known by the wider community. This is an added value for them. The increase in firm value which is supported by many parties, both from companies and investors, can be useful as a tool to improve the economy. (Keller et al. 2010: 4; Besley and Brigham 2005).

Considering that the development of the Indonesian economic sector is very supportive of the smooth running of world economic activities, especially in the manufacturing sector in Indonesia, this is very interesting to study. A manufacturing company is none other than a company that has several sectors that are in great demand by investors. Business people will increasingly look to this business because more and more people are interested in investing in this manufacturing sector and seeing from previous research, the purpose of this study is to model macroeconomics, capital structure, profitability and firm value in manufacturing companies listed on the IDX for the 2014-2018 period.

I.Stock Exchange

In general, the stock market has a means of meeting the supply and demand of financial instruments in the long term, generally more than one year. The capital market is a meeting between parties who have excess funds for those who need funds by trading on the stock market. Thus, the stock market can also be defined as a market for stock exchange trading, which generally has stocks and bonds for more than one year (Alan and Schwartz, 2013).

Davis, Pagano, and Schwartz (2007) state that the capital market is a market in which trading in various long-term, tradable financial instruments, such as stocks (equity / investment), bonds (debt securities), mutual funds, or other instruments. The capital market is also a means of funding for companies and government agencies, as well as a means for people to carry out investment activities (Alan and Schwartz, 2013).

The stock market is a place or forum to facilitate the buying and selling of securities and other related activities. Furthermore, Davis, Pagano, and Schwartz (2007) stated that the capital futures market can also be interpreted as trading financial instruments including stocks, bonds, public authorities and the private sector. Based on some of the explanations above, it can be concluded that the stock market is a place where various financial instruments are traded long-term, in dealing with excess funds or those requiring funds from financial instruments or securities.

In fact, the capital market has an important role for economic progress in the country, with the aim of obtaining funds from the public. The proceeds from the capital market can be used for business development, debt payments and working capital. Besides having a function for investors (investors), the capital market is also useful for people who intend to invest by buying financial products such as stocks, bonds, mutual funds. Therefore, the stock market is the meaning of physical capital. In our country, Indonesia, the Indonesia Stock Exchange was founded in 2007, the Jakarta Stock Exchange (BEJ) and the Surabaya Stock Exchange (BES) merged and changed their name to the Indonesia Stock Exchange (BEI). Alan and Schwartz (2013) state that there are several functions contained in the implementation of the capital market. The functions of the capital market are as follows:

1. As a facility to collect public funds which are used for productive activities.
2. Easy, cheap and fast sources of financing for business and national development.
3. Encouraging the creation of employment levels.
4. Increase the efficiency of the allocation of production resources.
5. The financial market operation mechanism in managing the monetary system, because the stock market can be a means of "open market operations" at any time required by the Central Bank.
6. Hit a high interest rate against a reasonable "rate".
7. As an alternative for investors.

In addition, the stock market can also function as an intermediary institution (intermediary). This function shows the important role of the capital market in supporting the economy because the capital market can connect those who need funds to those who have surplus funds. Thus, the stock market can encourage efficient allocation of funds, where investors can choose investment alternatives that provide the most optimal returns.

II.Firm Value

Firm value is about investors' perceptions regarding the company's success rate as seen from the stock price. Basically, the main objective of the company in accordance with the theory of firm value is to obtain maximum wealth or to achieve firm value by understanding business performance processes as a storehouse of knowledge and capabilities about the company (Birchall and Tovstiga, 2005: 44). The existence of firm value is to estimate the present value of the company's current and future profits.

Firm value is also defined as a representation of the economic value of the entire company. Company value is very useful for knowing the weaknesses of a company. In the capital market, company value plays an important role in measuring the level of success that can be measured from share ownership. (Bruchey, 2001: 3)

In addition, firm value can increase the leverage value due to tax deductions from interest payments at the corporate level. In the last 30 years, enormous efforts have been made in identifying the costs associated with debt financing. Companies may be against tax benefits. Although the cost of bankruptcy is small, this factor is potentially very important because including taxes can be a consideration in building corporate value (Modigliani and Mill, 1963). From this definition it can be concluded that firm value is a reflection of the overall business process that is correlated with the goal of obtaining maximum wealth and refers to the stock price (Antwi et al, 2012: 106; Scene 2009: 3).

In terms of trading and investment, investors will always have high expectations of the value generated. Therefore, company value is used to measure how much profit will be obtained from the issued capital.

Bisley & Bringham (2009: 181) also contribute to the reason that the measurement of firm value is needed because:

1. The value of any investment, such as stocks, is based on the amount of cash flow as an asset it is expected to generate over time.
2. Investors prefer to receive cash flows earlier than later.
3. Investors are generally risk averse, which means that they are willing to pay more for investments with definite future cash flows than for investments with uncertain, or risky, cash flows.

Company performance is influenced by operational performance, financing, investment and dividend policy to determine the resulting cash flow. Investors' decisions can be seen from their income, age, interest rate and preference for risk. Thus, the value of a company is formed.

III.Capital Structure on Profitability

A condition where the economic profitability is greater than the interest rate will encourage an increase in the profitability of own capital which is greater than if there is no financial leverage, so that the use of debt in this condition will be profitable, because the use of debt generates income greater than the interest expense arising from the use of the debt. and this condition will be beneficial for shareholders (Harahap, 2003). Research by Velnampy and Niresh (2012) states that the greater the use of debt in the capital structure, the greater the return on equity in the profitability of a company, this study is in line with the research of Chisti et al. (2013).
H1: Capital Structure Affects Profitability

IV.Macroeconomics on Profitability

When viewed from an investor's point of view, inflation causes a decrease in the value of the currency or an increase in prices which affects public consumption. Under these conditions investors do not want to invest in the real sector, whereas in general the funds for investment are mostly funded by banks. This made it difficult for banks to channel funds and bear the costs of existing capital. Increased inflation will cause the real value of savings to decline because people will use their assets to meet expenses due to rising prices, which will affect bank profitability (Sukirno, 2004). Several studies have shown evidence of a negative relationship between inflation and profitability. Rachmawati (2012), in her research states that rising inflation has an effect on decreasing company profitability.

The economic growth (GDP) of a country is closely related to the welfare and prosperity that can be felt by the population of that country. The level of income as measured by GDP will affect a person's saving pattern, the greater the GDP, the higher the profitability of the bank. This theory is strengthened by the results of research conducted by (Ali, et al, 2011) conducted at commercial banks and Islamic banks in Pakistan, where the results of the research conclude that the Gross Domestic product (GDP) has a significant positive relationship with the amount of savings collected by Banks in Pakistan are continuing to increase bank income and profitability.
H2: Macroeconomics Affects Profitability

V.Capital structure on firm value

The capital structure is very influential on the company's finances which will ultimately affect the company's value. For this reason, companies need to make optimal capital structure decisions. The optimal capital structure is a capital structure that can minimize average capital costs and maximize firm value. MM theory states that an increase in debt can increase firm value if it has not reached its optimal point, this is reinforced by the trade-off theory which explains that the use of debt can reduce the tax burden and agency costs of companies (Brigham and Houston, 2001). Research by Masulis (1983) concludes that capital structure has a significant positive effect on firm value, this statement is confirmed by Chowdhury (2010), as well as research by Antwi et al. (2012) and Fernandes Moniaga (2013) found that capital structure affects firm value
H3: Capital Structure has an effect on Firm Value

VI.Profitability on firm value

The better the profitability growth, the better the company's prospects in the future, meaning the better the company's value in the eyes of investors. If the company's ability to generate profits increases, the share price will also increase (Husnan, 2001: 317). The increased share price reflects good corporate value for investors. Martalina (2011) states that shareholder value will increase if the company value increases, which is indicated by a high return on investment to shareholders. The rate of return on investment to shareholders depends on the profit generated by the company. Lifessy (2011) also states that the high level of profit generated means that the prospect of the company to carry out its operations in the future is also high so that the company's value as reflected in the company's stock price will also increase. Profitability is the company's ability to generate profit or profit during one year which is expressed in the ratio of operating profit to sales from year-end profit and loss report data. Based on research by Morenly Welley and Victoria Untu (2015) in their research, it proves that profitability has a positive and significant effect on firm value. Meanwhile, Fernandes Moniaga's research (2013) shows that profitability has no effect on firm value
H4: Profitability Affects Company Value

VII.Research Methods

This research is a type of quantitative research, to determine the pattern of the relationship between profitability, macroeconomics, capital structure and company value in manufacturing companies listed on the Stock Exchange for the 2014-2018 period. The unit of analysis in this study is financial reports, while the population is all manufacturing companies. of this population, the sample in this study were manufacturing companies listed on the IDX in 2014-2018 in accordance with the characteristics of the sample that the researchers expected (purposive sampling). The sampling criteria included manufacturing companies that were active on the Indonesia Stock Exchange in 2014-2018. The type of data in this study is secondary data in the form of financial reports for 2014-2018, while the source of data in this study is secondary data obtained

from the IDX website www.idx.co.id, ICMD 2010-2014, Indonesian bank, central agency. statistics and search for companies based on the purposive sample above. Data collection was carried out using literature study and documentation methods. Literature study is carried out by processing literature, journals, articles and other written media related to this research, while documentation is carried out by collecting documentary data sources, namely financial reports. The endogenous variable in this study is firm value, while the company value can be measured PER, EPS and the closing price. The analytical method used in this research is the SEM-PLS method, where the data analysis uses SEM-PLS si divided into two stages, namely, the outer model and the inner model. The outer model is used to see the validity and reliability of each indicator against its latent variables, while the inner model is to test the hypotheses that have been formed. The method of analysis in this study in processing data is assisted by the SMART-PLS software.

VIII.Results and Discussion

The exogenous constructs in this study are macroeconomics and capital structure. Macroeconomic constructs are measured by three indicators, namely exchange rates, inflation and economic growth. Capital structure construction is measured using three indicators, namely, DAR, DER and LTD. Profitability constructs are measured using three indicators, namely, ROA, ROE and NPM. The construct of company value is measured using three indicators, namely, PER, EPS and CP

The structural equation model formed from SEM-PLS processing with the help of SMART-PLS software is as follows:

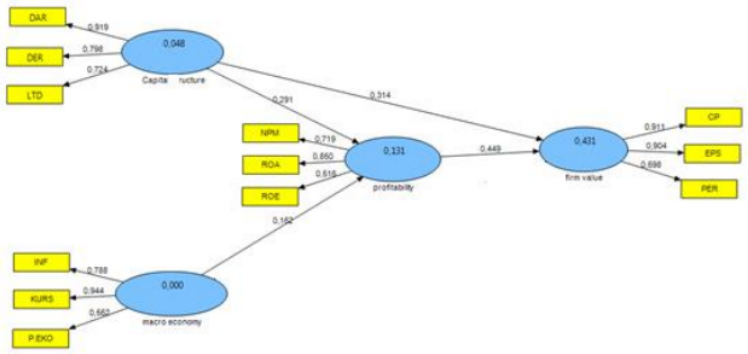

Figure 1. Structural Research Model

IX.Outer Model Evaluation

In the data analysis process, the research was carried out using the SMART PLS 2.0 program and the results can be described as follows: A construct that has only one indicator does not require testing of the loading factor value. If a construct has more than one indicator, the loading factor test is carried out between the exogenous and endogenous constructs for each indicator and the results can be described as follows:

Convergent Validity - Capital Structure

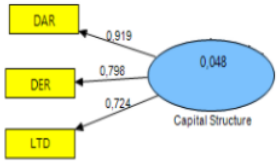

Figure 2. CV Capital Structure

Judging from the picture above, it appears that the indicator that has the highest loading factor is the DAR indicator, which is 0.919. While the smallest loading factor value is owned by the LTD indicator, which is 0.724. The results of calculating the loading factor and complete statistical value for the capital structure ratio construct can be seen in the following table 1.

Table 1. Convergent Validity - Capital Structure

	Loading Factor	T Stat.	Info.
DAR <- CS	0,9190	6,0144	Influence
DER <- CS	0,7977	5,5881	Influence
LTD <- CS	0,7237	4,6109	Influence

Based on the figure and table above, it is known that the capital structure ratio has indicators that meet the requirements of the loading factor value (p> 0.5) with the support of statistics> 1.96.

Convergent Validity - Macro economics

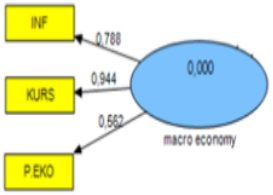

Figure 3. CV Macro economics

Judging from the picture above, it appears that the indicator that has the highest loading factor is the exchange rate indicator, which is 0.944. Meanwhile, the smallest loading factor value is owned by the economic growth indicator, which is 0.562. The results of calculating the loading factor and complete statistical value for the capital structure ratio construct can be seen in the following table 2.

Table 2. Convergent Validity - Macro economics

	Loading Factor	T Stat.	Info.
INF <- ME	0,7883	10,2218	Influence
KURS <- ME	0,9443	23,3920	Influence
P.EKO <- ME	0,5623	5,0141	Influence

Based on the figure and table above, it is known that the capital structure ratio has indicators that meet the requirements of the loading factor value (p> 0.5) with the support of statistics> 1.96.

Convergent Validity - Profitability

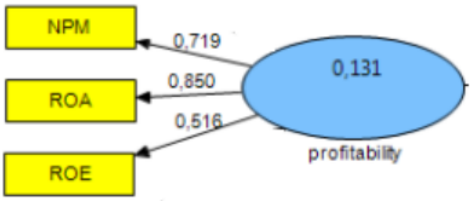

Figure 3. CV Profitability

Judging from the picture above, it appears that the indicator that has the highest loading factor is the ROA indicator, which is equal to 0.850. While the smallest loading factor value is owned by the ROE indicator, which is 0.516. The results of calculating the loading factor and complete statistical value for the capital structure ratio construct can be seen in the following table 3.

Table 3. Convergent Validity - Profitability

	Loading Factor	T Stat.	Info.
NPM <- Proft.	0,7185	5,6497	Influence
ROA <- Proft.	0,8497	7,4402	Influence
ROE <- Proft.	0,5160	3,0729	Influence

Based on the figure and table above, it is known that the capital structure ratio has indicators that fulfill the loading factor value (p> 0.5) with the support of statistics> 1.96.

Convergent Validity – Firm Value

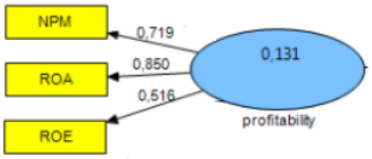

Figure 4. CV Firm Value

Judging from the picture above, it appears that the indicator that has the highest loading factor is the EPS indicator, which is 0.904. While the smallest loading factor value is owned by the LTD indicator, which is 0.698. The results of calculating the loading factor and complete statistical value for the capital structure ratio construct can be seen in the following table 4.

Table 4. Convergent Validity – Firm Value

	Loading Factor	T Stat.	Info.
CP <- FV	0,9108	16,7914	Influence
EPS <- FV	0,9039	16,7133	Influence
PER <- FV	0,6976	5,3045	Influence

Based on the figure and table above, it is known that the capital structure ratio has indicators that meet the requirements of the loading factor value (p> 0.5) with the support of statistics> 1.96.

X.Discriminate Validity

Discriminant Validity can be seen from the cross loading value. The correlation value of the indicator against its construct must be greater than the value of other constructs. Thus it can be seen in the table below:

Table 5. Discriminate Validity

	CS	ME	Proft.	FV
DAR	0,9190	0,1809	0,2434	0,4500
DER	0,7977	0,1118	0,2032	0,3093
LTD	0,7237	0,2236	0,3308	0,3908
INF	0,1583	0,7883	0,1845	0,1486
KURS	0,2264	0,9443	0,2068	0,2724
P.EKO	0,1088	0,5623	0,1305	0,1672
NPM	0,0954	0,1535	0,7185	0,2038
ROA	0,3439	0,1731	0,8497	0,4850
ROE	0,1570	0,1464	0,5160	0,4114
CP	0,5230	0,2532	0,5014	0,9108
EPS	0,3421	0,2802	0,5734	0,9039
PER	0,3379	0,0917	0,3474	0,6976

The table above shows discriminat validity in that the correlation of the capital structure construct with its indicators is higher than the correlation of the capital structure construct with other indicators. This shows that the latent construct predicts other block indicators, so it can be said that all variables are valid.

XI.Composite Reliability

To measure a variable has a Conposite Variable, which is good in the indicator group can be seen from the value of Composite Reliability> 0.7. The Composite Reliabilty value can be seen in the table as follows:

Table 6. Composite Reliability

	Composite Reliability	Information
CS	0,8568	Reliabel
FV	0,8792	Reliabel
ME	0,8181	Reliabel
Proft.	0,7439	Reliabel

The table above shows composite reliability> 0.7 which means that all variables have met the required composite reliability and have met a satisfactory value.

Average Variance Extracted Value

The average extracted (AVE) value of each variable can be seen in the following table 6.

Table 6. AVE Value

	AVE	Information
CS	0,6682	> 0.05
FV	0,7111	> 0.05
ME	0,6097	> 0.05
Proft.	0,5015	> 0.05

The results of the table above show that all constructs have AVE values above 0.5 so that all constructs form a good model.

R-Squared value

The value of R-Square> 0 indicates that the observed value is generated by the model and the parameter estimation is good, preferably if the R-square value ≤ 0 indicates that the observed value generated by the model and the parameter estimation is not good.

Table 7. Goodness of Fit

	R Square	Information
FV	0,431157	> 0.00
ME		
Proft.	0,131452	> 0.00

The table above shows all R-square values> 0, which means that the observed values generated by the model and its parameter estimates meet the requirements or in other words, have met good Goodness of Fit.

Hypothesis Testing

Based on data analysis using the PLS method, this study obtained the following relationships between constructs:

Table 8. Hypothesis Testing

Hypothesis	Variable	Path Coeficient	T Statistics	Tttable	Information
H1	ME -> Proft.	0,1620	2,1326	1.96	Significant
H2	CS -> Proft.	0,2907	3,4610	1.96	Significant
H3	CS -> FV	0,3142	1,9653	1.96	Significant
H4	Proft. -> FV	0,4492	3,9399	1.96	Significant

Capital structure on profitability.

The first hypothesis of this study is proven because the results of data analysis found that the capital structure has an effect of 0.290733 and has a statistic = 3.461046> Tkritic = 1.96 which means that the macro economy has a significant effect on the capital structure.

A condition where the economic profitability is greater than the interest rate will encourage an increase in the profitability of own capital which is greater than if there is no financial leverage, so that the use of debt in this condition will be profitable, because the use of debt generates income greater than the interest expense arising from the use of the debt. and this condition will be beneficial for shareholders (Harahap, 2003). Research by Velnampy and Niresh (2012) states that the greater the use of debt in the capital structure, the greater the return on equity in the profitability of a company, this study is in line with the research of Chisti et al. (2013).

Macroeconomics affects profitability

The second hypothesis of this study is proven because the results of data analysis found that the macro economy has an effect of 0.161958 and has a Tstatistik = 2.132610> Tkritic = 1.96, which means that the macro economy has a significant effect on profitability.

When viewed from an investor's point of view, inflation causes a decrease in the value of the currency or an increase in prices which affects public consumption. Under these conditions investors do not want to invest in the real sector, whereas in general the funds for investment are mostly funded by banks. This made it difficult for banks to channel funds and bear the costs of existing capital. Increased inflation will cause the real value of savings to decline because people will use their assets to meet expenses due to rising prices, which will affect bank profitability (Sukirno, 2004). Several studies have shown evidence of a negative relationship between inflation and profitability. Rachmawati (2012), in her research states that rising inflation has an effect on decreasing company profitability.

The economic growth (GDP) of a country is closely related to the welfare and prosperity that can be felt by the population of that country. The level of income as measured by GDP will affect a person's saving pattern, the greater the GDP, the higher the profitability of the bank. This theory is strengthened by the results of research conducted by (Ali, et al, 2011) conducted at commercial banks and Islamic banks in Pakistan, where the results of the research conclude that the Gross Domestic product (GDP) has a significant positive relationship with the amount of savings collected by Banks in Pakistan are continuing to increase bank income and profitability.

Capital structure affects firm value.

The third hypothesis of this study is proven because the results of data analysis found that the capital structure has an effect of 0.314157 and has a statistic = 1.865315 <Tkritic = 1.96, which means that the capital structure has a significant effect on firm value.

The capital structure is very influential on the company's finances which will ultimately affect the company's value. For this reason, companies need to make optimal capital structure decisions. The optimal capital structure is a capital structure that can minimize average capital costs and maximize firm value. MM theory states that an increase in debt can increase firm value if it has not reached its optimal point, this is reinforced by the trade-off theory which explains that the use of debt can reduce the tax burden and agency costs of companies (Brigham and Houston, 2001). Research by Masulis (1983) concluded that capital structure has a significant positive effect on firm value, this statement is reinforced by Chowdhury (2010), as well as research by Antwi et al. (2012) and Fernandes Moniaga (2013) found that capital structure affects firm value.

Profitability affects firm value.

The fourth hypothesis of this study is proven because the results of data analysis found that the macro economy has an effect of 0.449167 and has a statistic = 3.939937> critical = 1.96, which means that profitability has a significant effect on firm value.

The better the profitability growth, the better the company's prospects in the future, meaning the better the company's value in the eyes of investors. If the company's ability to generate profits increases, the share price will also increase (Husnan, 2001: 317). The increased share price reflects good corporate value for investors. Martalina (2011) states that shareholder value will increase if the company value increases, which is indicated by a high return on investment to shareholders. The rate of return on investment to shareholders depends on the profit generated by the company. Lifessy (2011) also states that the high level of profit generated means that the prospect of the company to carry out its operations in the future is also high so that the company's value as reflected in the company's stock price will also increase. Profitability is the company's ability to generate profit or profit during one year which is expressed in the ratio of operating profit to sales from year-end profit and loss report data. Based on research by Morenly Welley and Victoria Untu (2015) in their research, it proves that profitability

has a positive and significant effect on firm value. Meanwhile, Fernandes Moniaga's research (2013) shows that profitability has no effect on firm value

XII.Conclusion

Profitability has a significant impact on the company value of manufacturing companies listed on the Indonesia Stock Exchange for the 2014-2018 period, an indicator that has a big impact in building company value is ROA. The results of this study indicate that the profitability ratio of Return on Assets (ROA) has the most potential to influence firm value as measured by the company's ability to respond to investor expectations. ROA has a significant effect on firm value, ROA shows the efficiency of the company's asset management, and is also a positive measure of firm value. ROA is a profitability ratio that is used to measure a company's ability to generate profits. Return on assets is one of the most widely used measures of profitability because it reflects profit margins and asset turnover. This means, in general, investors pay more attention to the return on capital or assets in company performance. Investors will focus more on the profit generated by the company, so that the results on capital or assets that they can spend according to the investment desires and can be used to describe the future performance of the Integration. The capital structure does not have a significant impact on the firm value of the Manufacturing Industry Listed on the Indonesia Stock Exchange for the 2014-2018 period, the indicator that has a big impact on firm value is DR. When a company's debt will exceed costs, but as debt rises, costs will also increase rapidly. Therefore, debt generally has a negative effect on firm value. When calculating the debt ratio, some managers and analysts use capital in the denominator in place of total assets. According to the trade-off theory this ratio attempts to create a balance between profit and loss from the use of debt in the company. Therefore, the debt ratio is used by the company as a signal related to leverage which should imply a high risk of bankruptcy.

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