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INCREASING COMPANY VALUE: THE ROLE OF PROFITABILITY AND CAPITAL STRUCTURE AND TAX AVOIDANCE AS MEDIATION

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Abstract: Firm value is an important factor in the view of investors as well as a form of success for managers in managing the company. In addition to success for managers, company value can also have an impact on increasing stock prices. The purpose of this study is to see how the influence of capital structure, profitability and tax avoidance on firm value. The samples selected in this study were 59 technology sector companies listed on the Stock Exchange and the Singapore Stock Exchange for the period 2017 to 2022. The sampling technique used in this study was to use side non-probability using a purposive sampling method. Data analysis in this study uses path analysis with the help of Smart-PLS software to test the proposed model. The results of this study indicate that the three variables consisting of capital structure, profitability and tax avoidance have a significant positive effect on firm value. Likewise, the role of tax avoidance was found to be a variable that mediates between capital structure and profitability on firm value.
Keywords: Capital structure, Profitability, Tax avoidance, Firm value

INTRODUCTION

Firm value is an investor's perception of the level of success of managers in managing company resources that are entrusted and associated with the value of the stock price (Wijaya et al., 2021). As said by Yuniningsih et al. (2019) that every company when established has long term and short term goals. Corporate value is a long-term goal to maximize stakeholder wealth if the assets managed by management produce results.(Yuniningsih et al., 2019) states that when the value of the company increases, the stock price will also increase. Thus, one of the goals of entrepreneurs is to maximize the welfare of shareholders or investors by maximizing the value of the company and obtaining maximum profits. Wijaya et al. (2021) stated that when a company has high growth potential and opportunities to create innovative products or services, profits will increase thereby impacting tax payments. In general, in business practices, entrepreneurs identify paying taxes as a burden so they will try to minimize and optimize profits (Zulfahmy et al., 2021).

Growing technology companies are often able to achieve great influence within their industry and control a significant market share (Dang, 2019; Hirdinis, 2019). This motivation involves aspirations to become market leaders as well as influence industry trends or create new standards within their industry. When the company earns large profits, the higher the interest of investors to keep their shares. Likewise, Hirdinis (2019) which states that the higher the interest of investors in a stock, the share price will increase because the number of shares circulating in the community is limited (Jouida, 2018). Research on profitability, capital structure, and firm value has been extensively researched in the focus on corporate finance which can lead to a company's ability to generate

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significant profits, and increase investor return expectations so that it leads to firm value (Chang, 2019; Qayyum, 2019). But on the other hand, capital structure is also known to have an influence on firm value. The capital pecking order theory (Myers, 1984) and the trade-off theory (Modigliani & Miller, 1958) stated that the composition of a company's debt and equity can affect the value of the company itself. In general, an increase in debt can reduce the cost of capital, while an increase in equity can increase investor confidence (Abeywardhana, 2017). Therefore, the relationship between capital structure and firm value has become a concern in corporate finance research.

Several studies have shown that companies that adopt effective tax avoidance practices can reduce the tax burden and increase net profits which in turn can have a positive impact on firm value (Habrosh, 2017; Vaicondam, 2017). However, the study from Wijaya et al. (2021) shows that tax avoidance can reflect actions that are questionable or affect a company's reputation so as to have a negative effect. This gap is caused by the difference between the amount of tax to be paid and the actual amount paid (Otekunrin, 2017). In addition, Habibniya (2022) stated that capital structure was also found to have an impact on firm value. The value of the company itself is the perception of investors towards the company which is often associated with the stock price (Rahayu, 2020). Otekunrin (2018) stated that firm value can be interpreted as market value because firm value can provide maximum shareholder prosperity if the company's share price increases.

Thus, this study aims to determine how far the influence of profitability and capital structure on firm value by looking at tax avoidance as a mediating variable. In addition, it is important for companies to pay attention to these variables as a factor in assessing the company's future prospects so as to attract investors. According to Ngatemin (2018), investors will be interested in a company when it has good profitability. In general, for companies the role of profitability is important besides the problem of profit. Yuniningsih et al. (2019) stated that a large profit is not necessarily a measure that a company has worked efficiently. The company can be said to be efficient if the profits obtained with the capital used can increase the company's profitability. The better the profitability growth means that the company's future prospects are considered to be getting better too, meaning that the company's value is getting better in the eyes of investors. Therefore, apart from profitability, this study also tries to determine the role of solvency and tax avoidance as predictors in measuring firm value.

METHODS

This research adopts quantitative research and a descriptive survey research design to validate the hypotheses formulated. The samples in this study are technology companies listed on the Indonesia Stock Exchange and Singapore Exchange Limited (SGX) for the 2017-2022 period as many as 59 companies using a purposive sampling approach. The data analysis technique in this study used path analysis with the help of Smart-PLS software with the aim of measuring the proposed research model based on the theories and concepts in previous studies. The models in this study are as follows:

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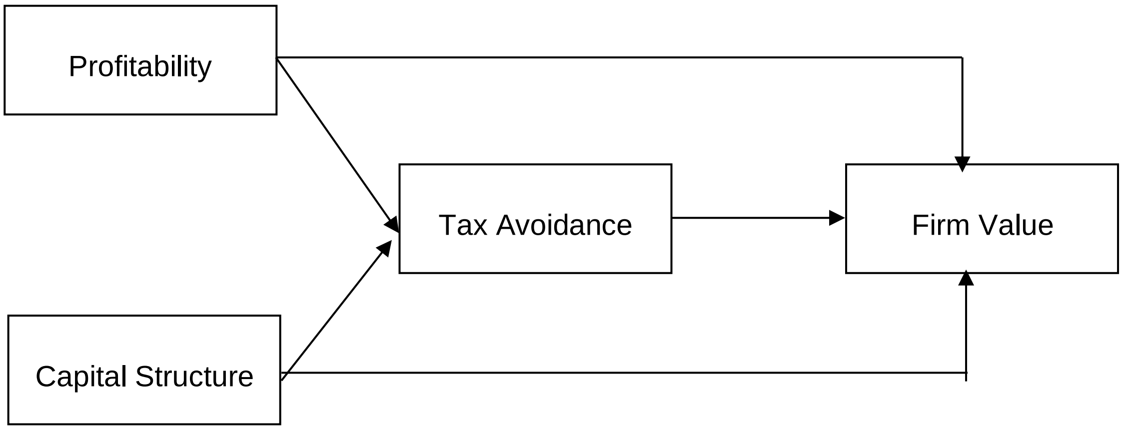

Figure 1. Conceptual framework
Source: Author (2023)

RESULTS AND DISCUSSION

Discriminant validity is the ability of a construct or variable to differentiate itself from other constructs or variables in the conceptual framework used in research by comparing the square root value of AVE with the correlation of each construct. As in Table 2, all AVE square root values are greater than their correlation with the other constructs (Fornell & Larcker, 1981). An alternative approach to testing discriminant validity can also be done by testing the HTMT correlation ratio (Henseler et al., 2014). All HTMT results presented in Table 2 are below the threshold of 0.85, indicating satisfactory discriminant validity of the measurement model.

Table 1. Discriminant Validity

	Fornell-Larcker Criterion					Heterotrait-Monotrait Ratio (HTMT)			
	Y	X1	X2	Z		Y	X1	X2	Z
Y	1.000				Y				
X1	0.267	1.000			X1	0.267			
X2	0.743	0.378	1.000		X2	0.743	0.378		
Z	0.405	0.395	0.343	1.000	Z	0.405	0.395	0.343	

Information:
Y: Firm value
X1: Capital structure
X2: Profitability
Z: Tax Avoidance

Source: Processed Data (2023)

Model Structure

The measurement model of the study can be seen in Figure 1. The predictive power of the model can be evaluated by the R-Square score, which is 0.582 for firm value and 0.200 for tax avoidance.

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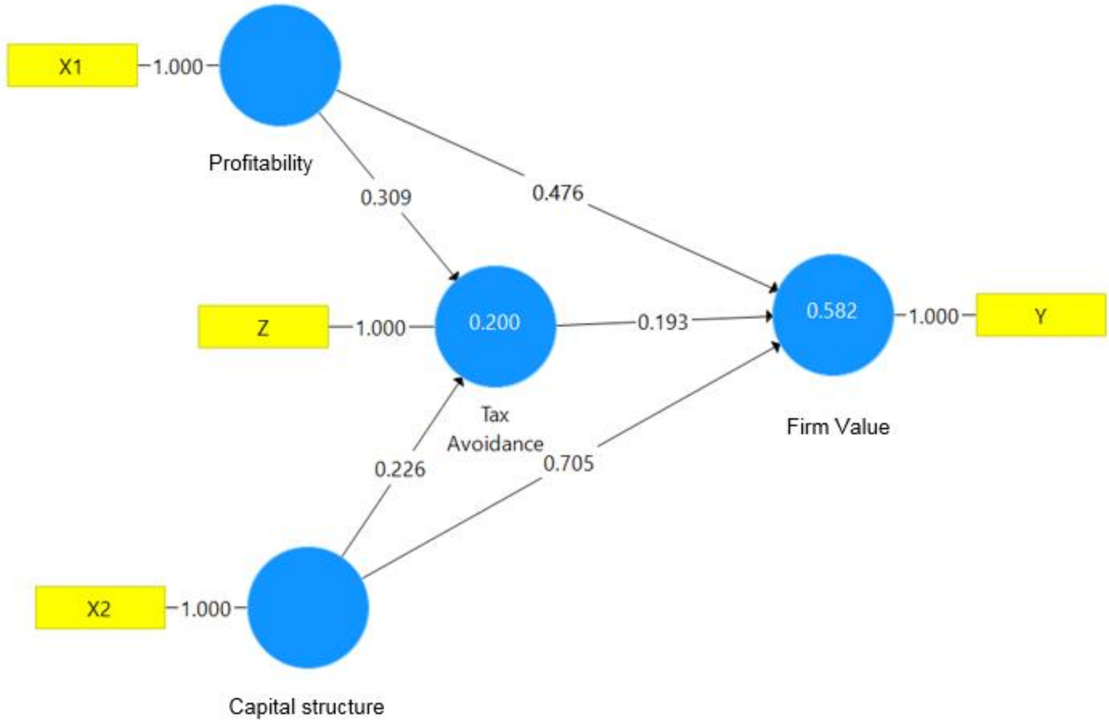

Figure 2. Path Coefficient Model
Source: Processed Data (2023)

Model Causality Test

Bootstrapping technique with a subsample of 500 which aims to measure the significance of the path coefficient. Table 3 provides information about the values of the path coefficients. Path coefficients are tested to check the magnitude of the effect and test the hypothesis from H1 to H7. Profitability (β = 0.476; t = 9.450; p-values = 0.000), has a positive and significant effect on firm value, which supports hypothesis 1. Capital structure (β = 0.705; t = 13.402; p-values = 0.000), has a positive effect and significant to firm value, which supports hypothesis 2. Profitability (β = 0.309; t = 3.616; p-values = 0.000), has a positive and significant effect on tax avoidance, which supports hypothesis 3. Capital structure (β = 0.226; t = 2.774; p-values = 0.006), has a positive and significant effect on tax avoidance, which supports hypothesis 4. Tax avoidance (β = 0.193; t = 3.278; p-values = 0.001), has a positive and significant effect on firm value, which supports hypothesis 5. Tax avoidance (β = 0.560; t = 4.519; p-values = 0.000) as a mediator variable has a positive and significant effect on the relationship between capital structure and firm value, which supports hypothesis 6. Tax avoidance (β = 0.444; t = 4,843; p-values = 0,000) as a mediator variable has a positive and significant effect on the relationship between profitability and firm value, which supports hypothesis 7.

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Table 2. Path analysis

	Original Sample	Sample Mean	Std. Deviation	T Statistics	P Values	Support
X1 → Y (H1)	0.476	0.476	0.050	9.450	0.000	Yes
X2 → Y (H2)	0.705	0.703	0.053	13.402	0.000	Yes
X1 → Z (H3)	0.309	0.307	0.085	3.616	0.000	Yes
X2 → Z (H4)	0.226	0.217	0.082	2.774	0.006	Yes
Z → Y (H5)	0.193	0.192	0.059	3.278	0.001	Yes
X1 → Z → Y (H6)	0.560	0.559	0.124	4.519	0.000	Yes
X2 → Z → Y (H7)	0.444	0.442	0.092	4.843	0.000	Yes

Source: Processed Data (2023)

Discussion

In this study, the variables of profitability, solvency, and tax avoidance are predictors in explaining how firm value can be increased in the context of technology companies listed on the Indonesian stick exchange. The results of the causality model provide information that based on the path coefficient of the first hypothesis, namely profitability on firm value has a positive and significant effect on firm value. This study found that the capital structure factor was also found to have a positive and significant influence on firm value. The capital structure theory described by (Abeywardhana, 2017) explains the impact of changes in capital composition on firm value. In addition, capital structure can also be interpreted as the proportion of long-term funding from debt, preferred stock and common equity. When this capital structure increases, the value of the company can increase (h1 is accepted). (Hirdinis, 2019) states that the capital structure of a company refers to the way it finances its operations through a combination of debt and equity. Thus the capital structure decision is very important for the company because it directly impacts the value and financial performance of the company. In addition to firm value, capital structure is also found to have an influence on tax avoidance. As stated by (Ezeani et al., 2022) that many researchers have explored various theories and empirical evidence to understand how differences in capital structure affect tax avoidance. The theory of trade-off and pecking orders has found for these two relationships. On the one hand, tax avoidance refers to the legal strategies used by companies to minimize their tax obligations. The relationship between these two variables is a complex relationship because there are many factors that need to be considered (h3 is accepted). Basically the capital structure can create incentives for companies to increase debt levels and optimize the capital structure to maximize tax savings. Therefore, tax avoidance is also found to be a factor that mediates between capital structure and firm value (h5 and h6 are accepted).

Then, this study also found that profitability has an influence on firm value. As stated by one of the important factors for investors in assessing a company's prospects in the future is to see how far the existing company's profitability has grown. For companies, profitability is an important thing in addition to profit problems, because large profits are not yet a measure that the company has worked efficiently. Thus, if the value of profitability increases (O'Connell, 2023) the value of the company will increase so that it can have an impact on investors (h2 is accepted). Profitability and tax avoidance are two different concepts and can have an impact on company performance. (Mansikkamäki, 2023) states that profitability refers to a company's ability to generate profits. In a comprehensive response, these two variables have a mutually influencing relationship. On the one hand,

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tax avoidance can affect the level of profitability. However, under certain conditions, the level of profitability can affect tax avoidance (h4 and h7 are accepted).

CONCLUSION

This study aims to find out how company value can be increased so that it can attract investors by looking at the role of capital structure, profitability and tax avoidance as predictors. The findings from the study indicate that all the hypotheses proposed are acceptable and this is also supported by previous studies. The partial least squares approach is used to generate findings on variable relationships. Thus, firm value which is one of the important factors in investor perceptions can be increased if the company pays attention to the variables that have been proposed. Firm value is very important because an increase in firm value will be followed by an increase in share price so that it reflects the welfare of shareholders. This research also contributes to the literature on firm value and can be a reference for exploring it. In addition, this research can also be an input for the company as a strategy to increase company value. Because company value can have an impact on share prices and shareholder wealth, it is important to know what factors can influence it. This research is also not free from limitations. First, this research only focuses on one particular type of industry, namely the technology industry. Second, this study limits only certain factors, namely by looking at the role of capital structure, profitability and tax avoidance. It is possible that there are still many other factors that can influence it, for example (solvency, internal audit or earnings quality).

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