Analysis Of Factors Affecting Capital Structure

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Abstract. The intent of carrying out this research is to measure the influence of sales growth, corporation size, profitability, and structure of assets on the capital structure. The study's population comprises property and real estate enterprises that are accessible through the Indonesia Stock Exchange (IDX) from 2017 until 2020. This study employs a quantitative approach. The data utilized is secondary data obtained by accessing IDX's website. The sampling approach employed was purposive sampling. Over four years, a cumulative number of fourteen firms contributed a total of 56 observations. The employed methodology entails the utilization of multiple linear regression analysis through the SPSS software. The findings of the F-test imply that the research model employed in this investigation is viable. The outcomes of this research reveal that capital structure is affected by corporation size (2). Profitability does not correlate with capital structure. (3) The composition of a company's capital is affected positively by its assets. (4) The sales increase is affected positively by the capital structure.

Keywords: sales growth, company size, profitability, asset structure, composition of capital

1 Introduction

The increasingly fierce business competition will require companies to be able to maximize company performance by developing and expanding their business. This is done by the company to survive in business competition. Capital is required for the development and expansion of the business as well as its operational activities. Company managers are required to be able to develop companies by utilizing their capital effectively and efficiently, to be able to prosper the owners [4]. Capital can be sourced internally or externally. Internal sources refer to funds generated within the organization, whereas external sources involve acquiring the company's funds from outside.

Equity and debt comprise the company's capital, both short-term debt (current debt) that must be paid in less than a year, and long-term debt, specifically commitments that must be paid in more than a year [10]. Internal sources of funds include the company's reserve profits and retained earnings, while shareholders' and institutions' contributions are examples of external funding sources. [2].

Capital structure refers to the mix of different financing sources, such as external (debt) and internal (equity), used by a company to fund its operations and investments. Managers must

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exercise caution when determining the optimal composition of funding sources and capital structure [12]. According to Brigham and Houston, 2011: 171 An optimal capital structure refers to the state in which a corporation can effectively manage and distribute risk and return so that it can maximize stock prices [19]. A company's financial situation is affected by its capital structure, whether it's good or bad and it affects the value of the company.

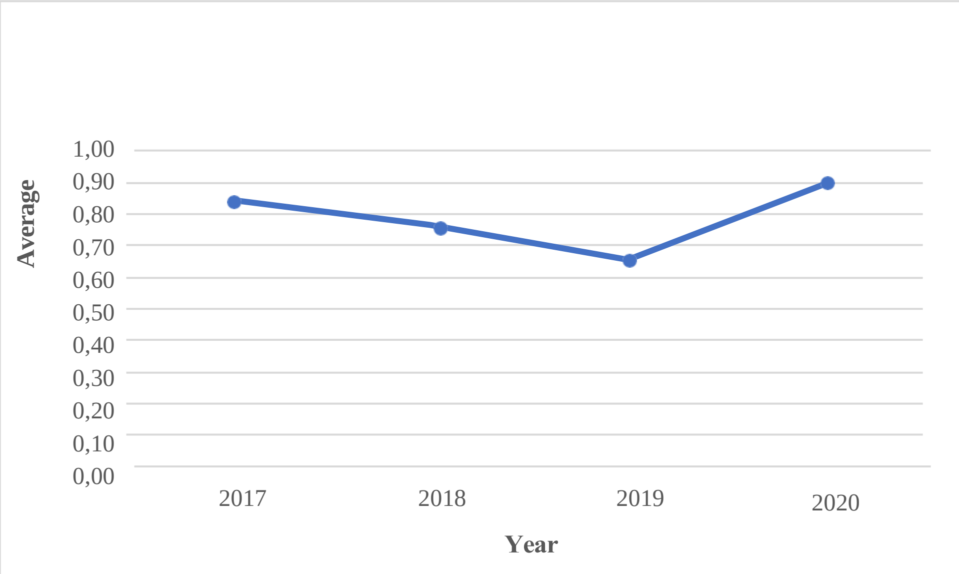

Fig 1. A look at the capital structure development between 2017 and 2020

Figure 1 is a representation of the figures provided by the IDX regarding the development of the capital structure in the companies that are listed in the property and real estate industries. It is clear from the graph that the capital structure development has fluctuated. When the company has a greater capital structure, the money proportion coming from outside sources will be greater and the proportion coming from inside will be lower [19].

Capital structure can be affected by a multitude of elements. The first factor affecting the capital structure is company size. Total assets, growth of sales, and average amount of assets overall indicate a company's size [17]. The corporation's size is proxied by the natural log. The size of a corporation can influence the quantity of capital used to finance its operational activities. Large companies tend to need large funds, so companies choose to use large external funding sources to support company activities, if internal capital sources are insufficient, they can use external capital sources [4]. Large companies can generate large profits, this can reflect a company having outstanding execution in the future [15].

Sales growth, profitability, and asset structure are other elements that affect capital structure. Profitability indicates that the company has made a considerable amount of money. [2]. One of the variables influencing capital structure is profitability. Companies that have strong returns will use a limited amount of debt. The high degree of profitability means that the company has significant profits, and because the company has large profits, it will require less debt [4].

The connection that exists between a company's total assets and its fixed assets is what comprises the asset structure of the company. Because organizations with substantial fixed assets find it easier to raise cash from outside sources. Because of the asset structure, the corporation has a high liquidity value [2]. If the company is liquidated, the creditor is entitled to the borrowed funds. Thus, the greater the company's asset structure, the greater the incentive for creditors to agree to make loans.

The revenue growth generated by a company over a specific period is called sales growth [3]. The faster the rate of expansion, the bigger external capital is the company's source of funds. Companies with stable sales growth can be more confident and bear a greater burden than unstable sales growth companies [17]. When sales are unstable, large sums of debt should not be used to finance a firm because doing so can involve the possibility of defaulting on the debt [6]

2 Literature Review

Pecking Order Theory

The Pecking Order idea, introduced by Myers in 1984, states that "companies with high levels of profitability have low levels of debt because companies that have high levels of profitability have abundant internal funding sources" (Sulindawati et al. 2018: 116). According to the Pecking Order Theory, a corporation prefers to employ internal funding sources above external funds [13]. This is done so that the company does not have a lot of debt, which puts the company at risk.

Trade Off Theory

Myers (2001: 81), "Companies will owe up to a certain level of debt, where the tax savings (tax shields) from additional debt equal the cost of financial distress (financial distress)". The expense of bankruptcy is the expense of financial trouble, and increasing agency costs are caused by a decrease in a company's credibility [19]. Myers' Trade-Off Theory, proposed in 1982, proposed that the ideal debt ratio is derived by balancing the benefits and drawbacks of using debt [7]. Essentially, corporations can still incur extra debt (tolerated) as long as the advantages given continue to outweigh the expenses paid by the debt, and the additional debt can be deferred as long as fixed assets are available as collateral. However, if borrowing costs are excessive, the corporation should not incur additional debt to prevent unnecessary risks.

The Influence of Company Size on Capital Structure

Companies with higher scales will find securing loans easier than smaller ones. Bigger company size makes the company easier to access debt-based external funding. The size of the company increases creditor trust in enterprises that can repay debts promptly.

Huge corporations require enormous sums of money to sustain their operational activities, and if their internal capital is insufficient, the company will seek external financing [2]. According to the trade-off theory, huge corporations tend to employ a lot of debt. This is because larger enterprises find it easier to obtain debts from third sources. [4], [2], and [15] found that firm size

positively affects capital structure. The hypothesis can be stated as follows based on this description:
H_1: Firm size positively affects the capital structure

The influence of profitability on the composition of capital
The ability of the business to turn a profit is known as profitability. Retained earnings are typically used by businesses to pay down debt since profitable organizations have high levels of both retained earnings and debt repayment [1]. According to the pecking order idea, businesses with large profits typically rely on internal funding sources to support their ongoing operations.

Research conducted by [17], [6], and [4], states that profitability negatively affects capital structure. By this description, the following is the hypothesis that can be formulated:
H_2: Profitability negatively affects capital structure

The influence of Asset Structure on the composition of capital
Asset structure refers to the comparison between fixed assets and total assets [14]. The more assets a company has, the greater its capital structure, and vice versa. As a result, it will be easier for companies to obtain debt funds from outside parties because assets can be used as collateral for debts and loans can be used as collateral for debts. solve business financial problems. Therefore, companies must be careful to avoid losses by considering the amount of interest that must be paid and the maturity date. This is in line with the trade-off theory which says that companies must achieve an ideal capital structure by balancing the use of debt and the costs of using debt [2].

Research conducted by [17], [4], [2] gave the result that asset structure positively affects capital structure. By this description, the following is the hypothesis that can be formulated:
H3 = Asset structure positively affects capital structure

The Influence of sales growth on capital structure
Growth in sales is a term that refers to a rise in sales from one year to the next. Companies can see income and profits when they have continuous sales [14]. Businesses that have consistent sales have a healthy cash flow, which allows them to accurately reflect income and has the potential to impact a company's earnings. The higher the level of sales, the larger the profit that the firm receives. This makes it possible for the firm to grow based on the profits that it generates, which eliminates the requirement for the company to seek financing from other sources in the form of loans or other forms of debt [20]. This is consistent with the pecking order theory, which states that businesses that have large amounts of sales are more likely to rely on internal funding sources than they are on external funding sources.

Research conducted by [5], [6], and [16], states that sales growth negatively affects capital structure. Based on this description, the hypothesis can be formulated as follows:
H4 = Sales growth negatively affects capital structure.

3 Research Methods

The manufacturing companies listed on the Indonesia Stock Exchange comprise the property and real estate subsector. This study focuses on the property and real estate industry accessed on IDX period 2017 until 2020. Purposive sampling was the approach employed for sampling. The criteria for this study include property and real estate companies that published consecutive annual financial reports from 2017 to 2020 and were listed on the IDX. 2) All the data needed for this research is provided by business actors in the property and real estate sectors listed on the Indonesia Stock Exchange between 2017 and 2020. 3) Companies involved in real estate and property that benefit from trades on the DX between 2017 and 2020

The dependent variable and the independent variable are the variables in this study. Capital structure is the dependent variable in this study. Furthermore, characteristics investigated include sales growth, company size, profitability, and asset structure.

4 Results

Descriptive Statistical Analysis

The results of the descriptive statistical test analysis are as follows:

Table 1. Descriptive Statistical Test Results

N		Minimum	Maximum	Mean	Std. Deviation
Size	54	23,87	31,74	29,47	1,98
Profitability	54	0,00	0,24	0,79	0,56
Asset Structure	54	0,00	0,21	0,61	0,58
Sales Growth	54	-0,67	0,57	-0,24	0,21
Capital Structure	54	0,04	3,09	0,87	0,62
Valid N (Listwise)	54		54		

Table 2. Classical Assumption Test Results

Test	Results	Standard	Conclusion
One – Sample KS	Asymptotic significance= 0,200	>0,05	Normal Distributed
Multicolinearity - VIF	Size = 1,184 Profitability= 1,457 Asset Structure= 1,096 Sales Growth	<10	Multicolinearity free
Durbin - Watson	d = 2,097	Du<d<4-du	Autocorrelation Free

Table 3. Statistical Evaluation of the Outcomes of Multiple Linear Analysis

	Value	β	T	Sig.
F	11,073			
R Square	0,475			
Constant	-1,369			
Size		0,080	2,260	0,028
Profitability		-3,570	-2,770	0,008
Asset Structure		3,294	2,863	0,006
Sales Growth		1,090	2,925	0,005

It is determined that the value of the determination coefficient (R2) is 4,322. It is clear from this that the growth of sales, the size of the company, the profitability of the business, and the asset structure all affect 43.2% of the capital structure variable variables. Whereas the remaining 56,8% is impacted by factors that were not considered during this investigation.

The F value is 11,073 and the significance is 0,000, with a F table value of 2,54 or a F value (11,073) > F table (2,54) and Sig. 0,000 < 0,05. As a result of this, the regression equation model that was utilized in this research can be utilized to make predictions regarding the impact that factors such as sales growth, firm size, profitability, and asset structure have on capital structure.

The link between the independent variables of sales growth, company size, profitability, asset structure, and the dependent variable, capital structure, was determined using multiple linear regression analysis as follows:

$$SM = -1{,}369 + 0{,}080UP - 3{,}570PROF + 3{,}294SA + 1{,}090PP + e$$

The multiple linear regression equation provided can serve as an illustration. The constant value is -1,369, suggesting that if the variables firm size, profitability, asset structure, and sales growth are assumed to be constant or fixed, then the dependent variable, has a value of -1,369. For business size, the regression coefficient is 0.080. That is, if the company's size increases by one unit and the others remain constant, there will be a 0.080 boost to the composition value of capital.

The profitability regression coefficient has a value of -3,570. To put it another way, if the profitability value increases by one unit while the other values remain the same, the value of the capital structure will fall by 3,570. The asset structure regression coefficient has a value of 3,294. That is, if the value of the asset structure increases by one unit while the others remain constant, the value of the capital structure will increase by 3,294.

The regression coefficient for sales growth is 1,090. That is, if the value of sales growth grows by one unit while the others remain constant, the value of the capital structure will increase by 1,090.

5 Discussion

The Influence of Company Size on Capital Structure

According to the findings of the t-test, the variable representing the size of the company has a coefficient value of 0.080, which is positive, and a value of 0.028, which is significant. This variable has a significant value below 0.05 with a coefficient value that has a positive direction, so the first hypothesis in this study which states that company size has a positive effect on capital structure is accepted.

The mean value of the company size variable is equal to 29,4736 with a minimum value of 23,87 and a maximum value of 31,74. PT. Summarecon Agung Tbk. 2017 has a high company size variable value of 30,71 with a capital structure of 1,59 which is above the average value of the capital structure of 0,8684. This shows that the size of the company proxied by Ln (total assets) shows that the company’s size has an impact on the capital structure because it can increase creditor confidence in companies that can immediately repay debts [2]. The research results align with the trade-off theory which declares that large companies tend to use large debt. This is because large companies find it easier to get loans from external parties [2]. The results of this research are in line with prior research conducted by [4], [2], and [15] that yielded the result that company size positively affects capital structure.

The Influence of Profitability on Capital Structure

According to the t-test results, the profitability has a negative coefficient value. The coefficient value is -3,570 and the significance value is 0,008. Because the profitability variable has a significant value which less than 0,05 and the coefficient is skewed in the negative direction, the second hypothesis in this study is accepted.

With a profitability variable mean value of 0,0789, a minimum value of 0,00, and a maximum value of 0,24. PT. Puradelta Lestari Tbk. 2020 has a capital structure variable value of 0,22 and a high profitability variable value of 0,24, which is lower than the average capital structure variable value of 0,8684. This demonstrates that the company's capability to produce returns does not tend to raise the amount of debt because the profits can finance the company's operational demands. As per the pecking order idea, highly profitable firms tend to have minimal levels of debt., hence they choose internal funding sources (Pertiwi and Darmayanti, 2018). These findings align with prior studies [17], [6], and [4], which found that profitability negatively affects capital structure.

The Influence of Asset Structure on Capital Structure

According to the findings of the t-test, the asset structure possesses a coefficient value that is inside the positive range, with a coefficient value of 3,294 and a significance level of 0,006. In this particular investigation has been determined that the third hypothesis, which asserts that the asset structure has a beneficial influence on the capital structure, is valid. This is because the value of the coefficient is positive and the value of the asset structure variable is less than 0.05 percentage points.

With an asset structure variable average value (mean) of 0,0609, the lowest possible level of 0,00, and a maximum value of 0,21. PT. Jababeka Industrial Estate Tbk. 2017 has a high asset structure variable value of 0,21 and a capital structure value of 0,91, both of which are lower than the average capital structure variable value of 0.8684. A close approximation of the asset structure can be obtained through the utilization of the Fixed Asset Ratio (FAR), which is computed by comparing the total assets to the total fixed assets. The higher the asset structure owned by the company, the easier it will be to obtain capital sources from external parties because fixed assets can be used as collateral for credit. The larger the guarantee granted to creditors, the more debt the company receives [4]. Based on the trade-off theory, which claims that to attain the optimal capital structure, this seems consistent with the theory, enterprises must balance the usage of debt and the costs of debt [2]. The results of this investigation match the requirements of the findings of prior studies [17], [4], and [2], which show that Evidence demonstrates that the composition of assets positively influences the composition of capital.

The Influence of Sales Growth on Capital Structure

It could be done to draw the conclusion that the variable that is represented by sales growth has a positive coefficient value of 1,090 and a significance level of 0.05 based on the findings of the t-test. This variable has a significant value of less than 0,05 and a positive coefficient value. The fourth hypothesis that was tested in this inquiry, which asserted that a rise in sales had a negative effect on capital structure, was shown to be false as a result of this investigation.
The findings of this research are supported by descriptive statistical data in Table 1, which reveals that the mean value of the sales growth variable is -0,243, with a minimum of -0,67 and a maximum of 0,57. PT. Agung Podomoro Land Tbk. 2020 has a sales growth variable value of 0,31 and a capital structure of 1,68, both of which are greater than the average capital structure variable value of 0,8684. According to the results of this test, sales growth positively affects capital structure. This is because the faster the rate of sales growth, the more capital comes from external debt sources [17]. High or constant sales levels companies find it easier to get external finance in the debt form. In line with the trade-off theory, which asserts that for organizations to attain an optimal capital structure, they need to strike a balance between the use of debt and the expenses that come from the utilization of debt. [2].

Many of the inferences of this research are in alignment with the findings of the prior study [17], which discovered that the raising in sales positively impacts the capital structure.

6 Conclusion

The following conclusions have been taken from this study: (1) Company size positively affects the capital structure (2) The capital structure is negatively affected by profitability. (3) The capital structure is significantly affected by their asset structure. (4) The capital structure is positively affected by sales growth. The following suggestions are available: (1) It is preferable for investors to explore additional aspects that may affect the capital structure. (2) Companies are expected to be able to take it into account when making funding decisions so that the funds can be used to satisfy the company's demands and achieve an optimal capital structure. (3) In the future, it seems likely that the scope of this research will be enlarged, similarly in nature to how it is with additional enterprises that have been listed on the IDX. This is expected to happen by encompassing independent factors that have a chance to change the capital structure and by prolonging the observation period.

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