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The Influence of Company Size, Profitability and Business Risk on Capital Structure in Indonesia

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Abstract

This research aims to examine company size, profitability, and business risk on the capital structure of property and real estate companies listed on the Indonesia Stock Exchange during 2020-2022. This type of research is quantitative research. The population in this study are all property and real estate companies listed on the Indonesia Stock Exchange during 2020-2022. The sample in this research was obtained using a purposive sampling method. The data analysis technique used in this research is the multiple regression analysis method using the Statistical Product and Service Solution (SPSS) program. The results of this study indicate that company size has a positive and insignificant effect on capital structure. Profitability has an insignificant negative effect on capital structure and business risk has an insignificant negative effect on capital structure.

INTRODUCTION

The increasingly stringent development of the business world has created competitive competition between companies. The company's development can be seen from economic actors, both domestic and foreign, who do not hesitate to carry out business activities in the face of competition. Companies are required to have competitive advantages both in terms of products produced, human resources and technology. The company's ability to finance operations and investments is not only financed from internal funding sources. Companies must also be careful and thorough in finding sources of funds used, so companies need to pay attention to policies relating to capital structure (Dumilah et al, 2021).

According to Fahmi (2020) capital structure is a description of the financial proportions of a company, namely between the capital it owns which comes from long-term liabilities and its own capital (shareholders' equity). Good funding will help the company produce optimal output from the available funds. The aim of capital structure is to optimize company value, so capital structure is very important for decision making. In the research that will be conducted, capital structure is influenced by company size (Sulistiyawan and Riharjo, 2022; Saragih and Hariani, 2023; Putri and Ardiansyah, 2023; Ibrahim and Sudirgo, 2023), profitability (Sulistiyawan and Riharjo, 2022; Calesta, et al. 2023; Sinaga, et al. 2022), and business risks (Brona, et al. 2022; Calesta, et al. 2023; Hanbo and Zulaikha, 2022; Putri and Huda, 2022).

Company size can be used to represent the company's financial characteristics. Large companies that are well stabilized will find it easier to obtain capital in the capital market compared to small companies. Because this ease of access means that large companies have greater flexibility. Research conducted by Sulistiyawan & Riharjo (2022) shows that company size has an insignificant negative effect on capital structure, research by Saragih and Hariani (2023) shows that company size has a significant negative effect on capital structure, research Ibrahim and Sudirgo (2023) found that company size has a significant positive effect on capital structure, whereas research by Putri & Ardiansyah (2023) shows that company size has an insignificant positive effect on capital structure.

According to Kasmir (2016) profitability ratio is a ratio to assess a company's ability to generate profits or profits in a certain period. Profitability is very important for companies in order to maintain business continuity in the long term, this is because profitability shows whether the company has good prospects or not in the future. Research by Sulistiyawan & Riharjo (2022) shows that profitability has an insignificant negative effect on capital structure, research by Calesta, et al (2023) shows that profitability has a significant negative effect on capital structure, while research by Sinaga, et al (2022) shows that profitability has a significant positive effect on capital structure.

According to Ratri and Ari in Brona, et al (2023) business risk is the risk of a company when it is unable to cover operational costs which are influenced by the stability of income and costs. Companies with high business risk tend to avoid

funding using debt compared to companies with lower business risk. Research by Calesta, et al (2023) shows that business risk has an insignificant positive effect on capital structure, while according to Brona, et al (2023) business risk has a significant negative effect on capital structure, research by Hanbo and Zulaikha (2022) shows that business risk has an insignificant negative effect on capital structure. capital structure, research by Putri and Huda (2022) shows that business risk has a significant positive effect on capital structure.

The object of research to be carried out is property and real-estate companies. Property and real estate companies are industries engaged in the construction of public facility buildings which produce products in the form of housing, offices, factories, and shopping centers. Property and real estate are the increasing birth rate causing an increase in the population who need a place to live as a basic need. The high demand for boards as a necessity continuously increases demand for property products. The imbalance between high population growth rates and limited land availability has caused property product prices to experience a sharp increase (Mahardika, 2017).

METHODS

A framework is a conceptual model that shows how a theory relates to various factors identified as important issues. The conceptual framework of this study is as follows:

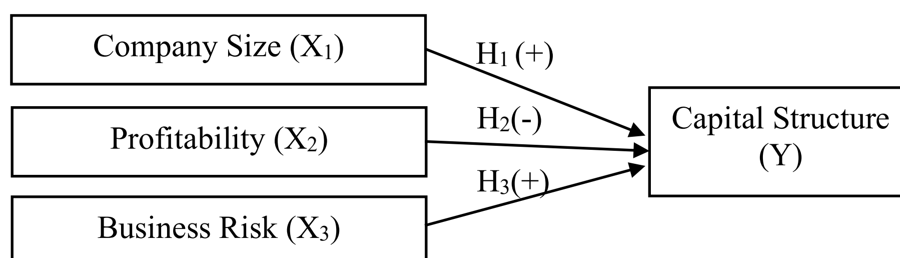

Figure 1. Research Model

The population in the research that will be conducted is all property and real estate companies registered on the IDX. The sampling method used is the purposive sampling method, namely a sample determination technique based on certain criteria. The data collection procedures carried out by the researcher are based on online website such as Indonesia Stock Exchange, Bank Indonesia, Yahoo Finance, accurate latest news, and various other literature related to the

research topic.

The stages of data analysis in this study are as follows:

Capital Structure

Capital structure is important for an organization because whether the capital structure is good or bad will affect the financial condition of the organization, especially if the existence of very large debt will create a heavy burden for the company. Measuring capital structure uses the Debt-to-Equity Ratio (DER) ratio which compares total debt with capital (Siskawati and Suryono, 2022).

$$\text{DER} = \frac{\text{Total debt}}{\text{Total equity}}$$

Company Size

Company size is measured using the natural logarithm which is used to measure the value of company assets. Company size according to (Natsir, 2021).

Company Size = Ln (Total Assets)

Profitability

According to Kasmir (2019) the profitability ratio is a ratio to assess a company's ability to seek profit or profits in a certain period. The formula used is by comparing net profit after tax with total assets:

$$\text{ROA} = \frac{\text{Net profit after tax}}{\text{total assets}} \text{x } 100\%$$

Business Risk

Profit before tax is the profit obtained by the company before deducting the tax burden. Business risk measurement uses the Degree of Operating Leverage (DOL) ratio comparing the percentage change in EBIT and the percentage change in sales (Subagio and Manalu, 2017).

$$\text{DOL} = \frac{\textit{Percentage change in EBIT}}{\text{Percentage change in sales}}$$

RESULTS AND DISCUSSION

Classic Assumption Test

Classic assumption test is necessary to test several classical assumptions used, namely normality, multicollinearity, autocorrelation, and heteroscedasticity which in detail can be explained as follows:

Normality Test

The normality test aims to test whether in the regression model, confounding or residual variables have a normal distribution (Ghozali, 2021). The normality test in this study used the non-parametric Kolmogorov Smirnov (KS) statistical test with a significant value of >0.05. The results of the normality test can be seen in Table 1 below:

Table 1. Normality Test

N	141
Kolmogorov-Smirnov	1,075
Asymp. Sig. (2-tailed)	,198

Source: Secondary data processed, 2023

Based on Table 1, the normality test shows that the Asymp. Sig. (2-tailed) is .198 where the value is greater than 0.05 so it can be concluded that the regression model used is normally distributed

Multicollinearity Test

The results of the multicollinearity test in the research carried out can be seen below:

Table 2. Multicollinearity Test Results

Variable	*Tolerance*	VIF	Decision
SIZE	,997	1,003	Multicollinearity does not occur
ROA	,997	1,003	Multicollinearity does not occur
DOL	,997	1,003	Multicollinearity does not occur

Source: Secondary data processed, 2023

Based on Table 2, the results of the multicollinearity test in the research that has been carried out show that multicollinearity does not occur in all independent variables. This is shown by all values of the independent variables SIZE, ROA, and DOL being ≥ 0.10 and VIF values ≤ 10.

Heteroscedasticity Test

The results of the heteroscedasticity test in the research carried out can be seen below:

Table 3. Heteroscedasticity Test Results

Variable	Sig	Information
SIZE	0,273	Multicollinearity does not occur
DER	0,150	Multicollinearity does not occur
PER	0,993	Multicollinearity does not occur

Source: Secondary data processed, 2023

Based on Table 3, it shows that all independent variables have a significant value of > 0.05, so it can be concluded that in the research conducted there was no heteroscedasticity.

Autocorrelation Test

Table 4. Autocorrelation Test Results

	Unstandardized Residual
Asymp. Sig (2-tailed)	,077

Source: Secondary data processed, 2023

Based on Table 4, autocorrelation shows that the asymp. sig. (2-tailed) of .077 which is greater than 0.05. This means that the regression model in the research conducted did not occur autocorrelation.

Hypothesis Test Results

Table 5. Partial Test

Variable	B	Sig	Decision
(Constanta)	-4,666	,349	
SIZE	1,197	,398	H_1 Rejected
ROA	-,196	,059	H_2 Rejected
DOL	,079	,474	H_3 Rejected

Based on the results of the hypothesis test in Table 5, it can be explained as follows:

1. The first hypothesis test is used to test the effect of company size (SIZE) on capital structure. To carry out hypothesis testing, the t test is used which looks at the significance value. From Table 1, a sig value of .398 is obtained with a positive coefficient sign, so it can be concluded that H1 is rejected. This shows that company size has a positive and insignificant effect on

capital structure. Larger companies find it easier to obtain debt because the company has higher credibility than creditors, so company size influences the company's capital structure. This is because the larger the company size, the larger the debt used will be. The relationship between company size and agency theory is that the larger the company size, the greater the agency costs incurred. The larger the company size, the greater the total assets the company owns. Large companies require large amounts of funds to support their operations, so one alternative to fulfill this is through debt. Companies are considered riskier if they have a large proportion of debt in their capital structure.

2. The second hypothesis test is used to test the effect of profitability (ROA) on capital structure. To carry out hypothesis testing, the t test is used which looks at the significance value. From Table 1, a sig value of .059 is obtained with a negative coefficient sign, so it can be concluded that H2 is rejected. This shows that profitability has a negative and insignificant effect on capital structure. High profitability will attract investors to invest their funds in the company because investors have the assumption that the returns generated will also be large. Funds obtained from profitability will influence the amount of debt or capital from outside the company needed for operational needs. The relationship between profitability and agency theory is that the greater the profitability, the greater the company's ability to generate profits. The greater the profit, the better the manager's performance, thus attracting investors to invest capital in the company.
3. The third hypothesis test is used to test the influence of business risk (DOL) on capital structure. To carry out hypothesis testing, the t test is used which looks at the significance value. From Table 1, a sig value of .474 is obtained with a positive coefficient sign, so it can be concluded that H3 is rejected. This shows that business risk has a positive and insignificant effect on capital structure. Business risk is one of the risks a company faces when carrying out operational activities, namely the possibility of the company's inability to fund operational activities. The relationship between business risk and agency theory is that business risk influences managers' decisions in determining the company's capital structure. Companies with high business risk show poor performance of managers by shareholders. Managers are more likely to

dislike risk because it involves a degree of uncertainty. The increasing risk of a company's business causes an increase in debt, so that a company's capital structure that has a lot of debt results in an increased risk of bankruptcy

CONCLUSION

Based on the results of the research conducted in chapter V, the following conclusions can be drawn:

1. The company size variable has a positive and insignificant effect on the capital structure.
2. The profitability variable has an insignificant negative effect on the capital structure.
3. The business risk variable has a positive and insignificant effect on the capital structure.

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