

Capital Structure Analysis The Company : Empirical Evidence In The Retail Trade Sector In Indonesia Stock Exchange

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ABSTRAK

The funding policy is one thing that must be considered by the company because it is related to many parties such as creditors, shareholders and company management. The funding policy is closely related to determining the proportion of debt and capital of a company, known as capital structure. Therefore, the purpose of this research is to find out and analyze the effect of profitability, business risk, asset structure and sales growth as factors considered by the company towards capital structure decision making of retail trade sub-sectors listed on the Indonesia Stock Exchange period 2015-2018 . The population used in this study is the retail trade sub-sector companies listed on the Indonesia Stock Exchange totaling 26 companies. The sampling method in this study was purposive sampling with the sample in this study were 16 companies. The method used in this research is multiple linear regression analysis. The results of this study indicate that the independent variables, namely profitability, business risk and sales growth can contribute in determining the capital structure of retail trade sub sector companies. While the asset structure cannot contribute to the determination of the capital structure of the retail trade sub sector company.

Keywords: Profitability, Business Risk, Asset Structure, Sales Growth, Capital Structure

Jell Classification : D23, D24

INTRODUCTION

In the face of increasingly fierce competition in the business world, companies are required to be able to maintain or even improve competitiveness in terms of products, human resources, technology, and business expansion. The company will do various ways to be able to survive and develop its business, which of course will require funds used to finance the company's operations for the future.

The company must be able to maintain the proper availability of funds within the company to support the company's operational activities as well as the company's investment

activities. Considering the importance of funding source needs, the funding decisions made by the company must be made as well as possible so that in the future the company can run and develop properly. One important thing that must be considered in the funding decision is the decision regarding capital structure.

According to Horne and Wachowicz (2012) capital structure is a mix (proportion) of the company's long-term permanent funding as indicated by debt, preferred stock equity and common stock. The company's capital structure shows how much the composition of debt and equity owned by a company. The right composition in

the selection of selected capital will be able to produce an optimal capital structure that is expected to be able to be a strong foundation for the company to carry out the company's operational activities, and can bring optimal profits for the company.

Capital structure is an important aspect because it relates to corporate funding sources that discuss the combination of foreign capital with own capital. In this case, foreign capital is capital sourced from external companies in the form of debt that is only temporary in a company. Meanwhile, own capital is capital sourced from internal companies which can be in the form of share capital consisting of ordinary share capital and preferred stock capital and retained earnings that are expected to be in a company for an unlimited period of time. Funding or capital structure of the company if not managed optimally, it can cause the impact of financial difficulties for the company.

Retail Trade Company is one of the many sub-sectors of companies listed on the Indonesia Stock Exchange (IDX). With the dynamic market conditions in Indonesia becoming a stimulus for various companies to develop their businesses, especially retail trade retail companies because if it is associated with public consumption, then the company that has more role is the retail trade company because it deals directly or directly serves the needs of the end consumer.

By using a Retail Trade company listed on the Indonesia Stock Exchange (IDX) as the object of research due to the increasing economic activity that is reflected in the increase in trading activities both at large and retail levels. Trade growth is related to the increasing performance of imports and public consumption as well as increased purchasing power of the people where demand for consumer goods both domestically and abroad is also

increasing. The increasing trading activities of the Retail Trade companies have caused interest to be investigated more deeply about what causes this phenomenon to occur.

Several factors influence capital structure decision making such as sales stability, asset structure, operating leverage, growth rates, profitability, taxes, controls, management attitudes, lenders' attitudes, market conditions, company internal conditions, and financial flexibility (Brigham and Houston, 2011).

Based on the background of the above problems, this study was conducted with the aim of empirically proving "The Effect of Profitability, Business Risk, Asset Structure and Growth of Company Sales on Capital Structures in Retail Trade Companies Listed on the Indonesia Stock Exchange in the 2015-2018 period".

LITERATURE REVIEW

According to Horne and Wachowicz (2012) capital structure is a mix (proportion) of the company's long-term permanent funding as indicated by debt, preferred stock equity and common stock.

Bambang Riyanto (2010) states that profitability shows the comparison between earnings and assets or capital of a profitability is the final result of a number of policies and decisions made by the company.

According to Brigham and Houston (2011), business risk, or risk inherent with operating risk if the company does not use debt.

Asset structure is a balance or comparison both in absolute terms and in the relative sense between current assets and fixed assets, what is meant by absolute terms is a comparison in nominal terms, while relative definition is a comparison in the form of a percentage (Riyanto, 2010).

Sales growth is the difference from total sales in one year to the next year, which is calculated from the ratio

between accumulated sales this year less sales accumulated in the previous year then divided by sales accumulation in the previous year (Guna and Sampurno, 2018).

According to Bambang Riyanto (2010) states that profitability shows the ratio between earnings with assets or capital of a company that generates profits. Companies that have a very high rate of return on investment will tend to use relatively little debt. High returns allow a company to do most of the funding internally Brigham and Houston (2011). In a study conducted by Ratri and Christianti (2018) states that profitability has a significant negative effect on capital structure. Because profitable companies tend to have smaller debt compared to unprofitable companies because profitable companies tend to use retained earnings to fund the company's operations rather than use debt. Based on the theory and research shows that profitability contributes to capital structure.

Brigham and Houston (2011), business risk, or risk inherent in operating risk if the company does not use debt. The higher the business risk of the company, the lower the optimal debt ratio. Companies with high business risk tend to avoid funding using debt compared to companies with lower business risk. Research conducted by Ratri and Christianti (2018) states that business risk has a significant negative effect on capital structure because companies with high business risk tend to avoid funding using debt compared to companies with lower business risk. Based on the theory and research shows that business risk contributes to capital structure.

Asset Structure is a determination of how much the allocation of funds for each component of assets, both current assets and fixed assets (Syamsuddin,

2011). Companies that have greater long-term fixed assets, the company will use a lot of long-term debt, with the hope that these assets can be used by companies to cover their bills (Brigham and Houston, 2011). Research conducted by Denziana and Yunggo (2017) states that asset structure has a positive and significant effect on capital structure. This is based on the fact that a company which has a large amount of fixed assets shows that the company has a large scale. Companies with large scale will be easier to get access to sources of funds compared to small scale companies because they have collateral assets when making loans to creditors. Based on the theory and research shows that the structure of assets contribute to the structure of capital.

Sales growth is the difference from total sales in one year to the next, which is calculated from the ratio between accumulated sales this year less sales accumulated in the previous year then divided by accumulated sales in the previous year (Guna and Sampurno, 2018).

According to Brigham and Houston (2011) defines that companies with relatively stable sales can be more secure to obtain more loans and bear a higher fixed burden than companies with unstable sales. Companies with good sales growth will have good profit levels. That way, the company will have the desire to get even better profits. Research conducted by Halim and Widanaputra (2018) states that sales growth has a positive effect on capital structure. It is based that companies with good sales growth will be able to improve the assessment of investors and creditors towards the company so that it will improve the company's capital structure.

Based on the theory and research shows that sales growth contributes to the capital structure.

METHOD

Capital Structure

The scale of measurement of capital structure in this study is by using DER (Debt to Equity Ratio). DER (Debt to Equity Ratio) is a ratio to measure the balance between the obligations of the company and its own capital (Sjahrial and Purba, 2013).

$$DER = \frac{\text{Total Debt}}{\text{Equity}} \times 100\%$$

Profitability

Profitability is a company's ability to generate profits. Profitability ratios in this study are proxied by ROE (Return On Equity). ROE (Return On Equity) shows the company's ability to generate profits after tax using the company's own capital (Sudana, 2011).

$$ROE = \frac{\text{Earning After Tax}}{\text{Total Equity}} \times 100\%$$

Business Risk

Business risk is the level of risk associated with operating a company when conducting its business and the risk if the company does not use debt. According to Dhani Ichsanuddin Nur (2003) business risk can be measured using the following formula:

$$\text{Risk} = \text{Std} \frac{\text{NOI}}{\text{TA}}$$

Keterangan :

NOI = Net Operating Income

Std = Standar Deviasi

TA = Total Asset

Asset Structure

Asset Structure is a determination of how much the allocation of funds for each component of assets, both current assets and fixed assets in a company (Ningsih and Kartika, 2016).

$$\text{Struktur Aktiva} = \frac{\text{Aktiva Tetap}}{\text{Total Aktiva}} \times 100\%$$

Sales Growth

Sales growth is a comparison of changes (increase or decrease) in the total number of sales in a given year against

the previous year (Guna and Sampurno, 2018).

$$PP = \frac{\text{Sales}^t - \text{Sales}^{t-1}}{\text{Sales}^{t-1}} \times 100\%$$

Keterangan :

PP = Growth sales

Population and Sample

The population used is all retail trade sub sector companies listed on the Indonesia Stock Exchange (IDX), amounting to 26 companies. In this study there are criteria for determining the sample that is the retail trade sub-sector companies listed on the Indonesia Stock Exchange (BEI) for the 2015-2018 period and published a complete financial report. So that, determined the sample in this study were 16 companies with observational data for 4 years.

Data analysis technique

The data analysis technique used is Multiple Linear Regression Analysis. This analysis technique is used to find the regression equation or influence between profitability (X1), business risk (X2), asset structure (X3) and sales growth (X4) on capital structure (Y). The formulas used are:

$$Y = \alpha + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + \mu_i$$

Wherein :

Y = Capital Structure

α = Constant

B_1, B_2, B_3, B_4 = coefficient estimation

X_1 = Profitability

X_2 = Business Risk

X_3 = Asset Structure

X_4 = Sales Growth

μ_i = Disruptive Component

RESULTS AND DISCUSSION

To answer a predetermined hypothesis, multiple linear regression analysis will be performed. The results of the test of multiple linear regression analysis of the analysis of the effect of profitability, business risk, asset structure and sales growth on capital structure are as follows:

Tabel 1 Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.
		B	Std. Error			
1	(Constant)					
	ROE (X1)	250,810	49,153		5,103	,000
	Risiko Bisnis (X2)	-7,072	2,248	-1,277	-3,145	,003
	Struktur Aktiva (X3)	15758,111	6038,185	1,029	2,610	,012
	Pertumbuhan Penjualan (X4)	-1,842	1,079	-,210	-1,707	,094

a. Dependent Variable: DER (Y)

Source: SPSS Data Process Results

So that the form of regression equation table 1 in this study is as follows:

$$Y = 250,810 - 7,072 X_1 + 15758,111 X_2 - 1,842 X_3 + 3,744 X_4 + \mu_i$$

1. A constant value of 250.810 states that if the variable Profitability (X1), Business Risk (X2), Asset Structure (X3) and Sales Growth (X4) is equal to zero, then the Capital Structure (Y) increases by 250.810.
2. The coefficient value B1 = -7,072 indicates that there is a negative influence between the profitability variable (X1) and the capital structure (Y). This shows that if profitability rises by 1 unit, then the capital structure will decrease by 7.072. With a note that other variables are constant.
3. The coefficient value B2 = 15758,111 shows that there is a positive influence between the business risk variable (X2) and the capital structure (Y). This shows that if business risk increases by 1 unit, the capital structure will

increase by 15758,111. With a note that other variables are constant.

4. The coefficient value B3 = -1.842 shows that there is a negative influence between the asset structure variable (X3) and the capital structure (Y). This shows that if the asset structure increases by 1 unit, the capital structure will decrease by 1,842. With a note that other variables are constant.
5. The coefficient value B4 = 3,744 shows that there is a positive influence between the variable sales growth (X4) with the capital structure (Y). This shows that if sales growth increased by 1 unit, the capital structure would increase by 3,744. With a note that other variables are constant.

DISCUSSION

Effect of Profitability (X1) on Capital Structure

Based on the test results show that profitability (X1) which is proxied by ROE has a significant negative effect on the capital structure of

retail trade sub-sector companies listed on the IDX, so the profitability hypothesis has a negative effect on capital structure can be accepted. If profitability is higher the capital structure will be lower. Vice versa, when profitability is lower the capital structure will be higher. From the profitability data (ROE) and capital structure (DER) of the retail trade sub sector which is the research sample, it can be seen that the ups and downs of profitability (ROE) owned by the company will affect the ups and downs of the company's capital structure. The results of this study are consistent with research conducted by Ratri and Christianti (2017) and Denziana and Yunggo (2017) which state that profitability has a negative influence on capital structure. In this study revealed that profitability has a significant negative effect, meaning that profitability has the opposite effect on capital structure, meaning that when a company has high profitability, the company gets high profits which in turn increases the amount of retained earnings and internal capital so that companies that have high internal capital are more choose to use their own capital instead of using capital from debt. A decrease in the level of debt causes a decrease in capital structure.

Effect of Business Risk (X2) on Capital Structure

Based on the test results show that business risk (X2) has a significant positive effect on the capital structure of retail trade sub-sectors listed on the IDX, so the business risk hypothesis has a negative effect on capital structure that cannot be accepted. If business risk increases, the capital structure will also increase. Similarly, if business risk decreases, capital structure will also decrease. The results of this study are consistent with research conducted by Fitriani et al., (2015) which states that business risk

positively influences capital structure. The intended business risk is the risk associated with the company's operational costs. Companies that have high business risk means that they will need large funds to meet their needs, where one of the fulfillment of funds is to use external funds. The business risk variable has a significant positive effect on the capital structure of the retail trade sub-sector companies because the retail trade sub-sector company is a company that serves end-level consumers and at the moment their products are in demand by consumers so the company requires higher costs for the costs of its operational activities. The higher operational costs, the business risk of a company will be higher. Despite having high-risk companies the retail trade sub-sector will also continue to use external funds to meet the company's funding needs for the company's operational activities.

Effect of Asset Structure (X3) on Capital Structure

Based on the test results show that the structure of assets (X3) has a negative and insignificant influence on the capital structure of retail trade sub-sector companies listed on the IDX, so that the asset structure hypothesis positively influences the capital structure can not be accepted. Asset structure has a negative and insignificant effect indicating that the lower the asset structure of the company, is not always followed by the higher use of debt and vice versa. When assets owned by a company increase, it is not always followed by the use of debt which decreases. The results of this study indicate that the structure of assets has a negative but not significant effect. In the retail trade sub sector company shows that the structure of assets owned by the company is low so that for the use of debt, the company tends not to consider the structure of the assets to

be used as collateral for debt and consequently has no effect on determining the capital structure of the retail trade sub sector company. The results of this study support the results of research conducted by Devi et al., (2017) which states that the structure of assets has a negative and not significant effect on the capital structure of manufacturing companies in the period 2013-2015.

Effect of Sales Growth (X4) on Capital Structure

Based on the test results show that sales growth (X4) has a significant positive effect on the capital structure of retail trade sub-sector companies listed on the IDX, so the sales growth hypothesis has a positive effect on capital structure can be accepted. If sales growth increases, the capital structure will also increase. Likewise, if sales growth decreases, capital structure will also decrease. The results of this study support the results of research conducted by Halim and Widanaputra (2018) stating that sales growth has a positive effect on capital structure. It is based that companies with good sales growth will be able to improve the assessment of investors and creditors towards the company so that it will improve the company's capital structure. Companies that have good sales growth rates will have good profit levels. With a good profit level, there will be a desire of the company to get better profits from year to year. Along with the emergence of the company's desire to enlarge the company's profits, the funds needed by the company will be directly proportional to the desires of the company.

CONCLUSION

Based on the analysis and discussion described, the following conclusions can be drawn:

1. Profitability can contribute to determining the capital structure of retail trade sub-sector companies listed on the IDX. Means the high or low profitability of the company will affect the decision to determine the company's capital structure.
2. Business risk can contribute to the determination of the capital structure of retail trade sub-sector companies listed on the IDX. It means that the high or low risk of a company's business will influence the decision to determine the company's capital structure.
3. The asset structure cannot contribute to the determination of the capital structure of the retail trade sub-sector companies listed on the IDX. It means that the high or low structure of a company's assets will not influence the decision to determine the company's capital structure.
4. Sales growth can contribute to determining the capital structure of retail trade sub-sector companies listed on the IDX. It means that the high or low growth of a company's sales will affect the decision to determine the company's capital structure.

RECOMMENDATION

Based on the results of research, discussion and conclusions, the suggestions that researchers can submit are as follows:

1. The company should improve its asset structure, because the results of the study show that the asset structure has no effect on the determination of the capital structure of the retail trade sub-sector listed on the IDX. The company can improve its asset structure by increasing

investment in fixed assets in the form of land, buildings, vehicles and machinery owned by the company in order to support the company's operational activities.

2. This study has shortcomings and limitations that need to be corrected in further research. This study only uses 4 factors, namely profitability, business risk, asset structure and sales growth that affect the capital structure of many and factors that can affect the capital structure. In this study also only limited to 4 years the study period. So that suggestions for further researchers should add variables and a longer research period.

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