DETERMINANTS OF CAPITAL STRUCTURE (CASE STUDY OF A COMPANY GOING PUBLIC IN INDONESIA)

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Keywords:
Capital Structure, liquidity, Asset, Profitability

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Abstract: Capital structure plays an important role in an entity's financial management. The entity's capital composition reflected in the capital structure will also reflect the character of the manager. Choosing the right composition of an entity's capital structure will have an impact on increasing or decreasing the value of the company. A company experiencing a decline in value is certainly not what shareholders (principals) want. Meanwhile, managers who act as agents also have personal interests outside of achieving the entity's goals, namely the welfare of shareholders. This research is a qualitative descriptive study that reviews and summarizes research that has been conducted by several researchers regarding Capital Structure. Capital structure plays an important role, especially for companies going public. The right decision on the composition of a company's capital structure will have an impact on capital funding costs, such as interest costs and shareholder dividends. Based on the results of the review, it is known that liquidity, profitability, asset structure, asset growth, sales growth and Non-Debt Tax-Shield influence the capital structure of companies listed on the Indonesia Stock Exchange.

INTRODUCTION

Capital structure is a balanced ratio of debt to equity. The composition between the two is spread out like slices of cake, known as the TAR CAKE concept. a composition of 60% capital and 40% debt or actually 60% debt and 40% capital could be the alternative chosen by the entity. Whatever the composition of the two components of equity, the capital structure will have an impact on company value. The more precisely the composition chosen, the more the company value will increase. A company with good value will be able to fulfill the entity's objectives, namely the prosperity of capital owners, and can attract new investors. However, it is not easy to determine the composition of the two components of the capital structure because this is influenced by various factors. In addition, the composition of the capital structure chosen will have an impact on the costs that will arise which are the entity's obligations.

There are several theories underlying the selection or factors that trigger an increase in company value. Sjahrial (2014) revealed that there are two types of capital structure, namely the traditional capital structure theory and the modern capital structure theory. Traditional capital structure theory includes three approaches, namely the net profit approach, the operating profit approach and the traditional approach. The traditional approach focuses on the ratio between the cost of debt and the cost of capital. Meanwhile, modern capital structure theory has included tax factors, the entity's liquidity conditions and the need for accessible financial information.

Capital structure topics can also use the basis of pecking order theory and trade off theory. Most research refers to these two concepts. Even Sumarni, et al (2020) studied the relevance of using these two theories in companies going public in Indonesia. The research results of Sumarni, et al (2020) reveal that companies must reduce capital costs, the chance of bankruptcy and agency costs by balancing funding between what is desired by the agent and the principal. Agents and principals have interests that are sometimes different but can be in line with the main goals of the company. These differences in interests and access to information will later influence agents in determining the composition of the funding sources used.

RESEARCH METHODS

This research is a qualitative descriptive study that describes theoretical studies and the results of research by researchers to obtain an overview of the factors that can influence capital structure. This research examines the results of research using a sample of public companies on the IDX. variables studied include liquidity, profitability, asset structure, asset growth, sales growth, non-debt tax-shield.

RESULTS AND DISCUSSION

a) Liquidity and Capitral Structure

The research results of Dwija and Rusmala (2015), Eviani (2015), Primantara and Rusmala (2018), Novianti and Ayu (2018) state that liquidity has a significant positive effect on capital structure. Because, the level of liquidity of a company affects the size of the capital structure of that company. If a company has a high level of liquidity, this reflects that the company's current assets are greater than the debts that must be met.

With these large current assets, the company is able to meet investment needs and can pay its obligations on time. So increasing liquidity in a company will reduce the amount of capital structure. Meanwhile, the results of research by Mega and Ari (2017), Nita and Agung (2018), Nilam (2017), Widayanti, Triaryati and Abundanti (2016), Luh Ayu and Rusmala (2016), Hamidah, Diana and Umi (2016) state that liquidity negative effect on capital structure. Because companies with high liquidity have greater internal funds. Companies will prefer to use their internal funds first before using external financing or debt to carry out the company's operational activities. The liquidity ratio influences the profitability ratio obtained because the greater the liquidity ratio, the greater the level of profitability so that manufacturing companies have sufficient internal funds to pay their short-term obligations. The results of this study support the pecking order theory.

b) Profitability and Capital Structure

Research results of Ida Bagus and Rusmala (2015), Mega and Ari (2017), Nita and Agung (2018), Nilam (2017), Anggrita and Eilien (2017), Anggelita, Harijanto, and Victorina (2018), Widayanti, Triaryati and Abundanti (2016), Luh Ayu and Rusmala (2016), Hamidah, Diana and Umi (2016) state that profitability has a negative and significant effect on capital structure. Because, a company with a high level of profitability will reduce dependence on capital from outside parties, because a high level of profit allows the company to obtain most of the funding generated internally in the form of retained earnings before the company uses debt. This is in line with the pecking order theory where companies prefer to use internal funding rather than external funding. Profitability can reflect good prospects in the future, the higher the level of profitability, the more guaranteed the company's survival.

Meanwhile, research results from Fatimatuz (2017), Nilam (2017), Anantia (2015), Safitri and Siti (2017), Maryanti (2016) state that profitability has a positive and significant effect on capital structure. Because, companies that have a high level of profitability will reduce dependence on capital from external parties, because a high level of profit allows the company to obtain most of its internally generated funding in the form of retained earnings before the company uses external funding sources such as debt. This can be caused by the higher the profits obtained by the company, the more funds it will obtain as a source of funds so that the use of debt will be less and this will have an influence on determining the composition of its capital structure. The pecking order theory states that companies are more likely to prioritize using internal funding sources (internal financing) first in financing or funding the company's operational and investment activities. This theory encourages companies that have large profits to use their internal funds first to fund company activities.

And the research results of Ditya and Rusmala (2016), Novianti and Ayu (2018), and Rika (2018) state that profitability has a negative and insignificant effect on capital structure. Because companies with high levels of profitability actually have low levels of debt, because companies with high profitability have abundant internal funding sources. According to pecking order theory, companies prefer to use internal funding sources or internal funding rather than external funding. These internal funds are obtained from retained earnings generated from the company's operational activities.

c) Asset Structure and Capital Structure

The research results of Anggrita and Eilien (2017), Anggelita, Harijanto, and Victorina (2018), Novione and Rusmala (2016), Novianti and Ayu (2018), and Nilam (2017) state that asset structure has a positive and significant effect on capital structure. This means that companies that have more assets will find it easier to obtain external funding because these assets can be used as collateral if the company cannot pay off its obligations. The greater the assets owned by the company, the greater the loan the company can obtain based on the collateral provided to creditors. This result is in accordance with the theory put forward by Brigham and Houston (2006) which states that companies whose assets are suitable as collateral for loans tend to use more debt and are also in accordance with the pecking order theory which makes debt an alternative to external financing. Meanwhile, research results from Nita and Agung (2018), Hamidah, Diana and Umi (2016), Anantia (2015), Maryanti (2016), and Rika (2018) state that asset structure does not have a significant influence on capital structure. This means that not all companies use assets to guarantee debt.

d) Asset Growth and Capital Structure

The research results of Safitri and Siti (2017) and Fatimatuz (2017) state that asset growth has no significant effect on capital structure. Because asset growth that is not followed by an increase in profits will not have an impact on the company's capital structure. This condition shows that companies with high assets tend to utilize these assets to carry out company operations. According to the pecking order theory which states that companies with high growth rates will expand by using external funds in the form of debt. An increase in assets followed by an increase in operating results will further increase external parties' confidence in the company. As the trust of outside parties (creditors) increases in the company, the proportion of debt will be greater than its own capital. This is based on creditors' confidence that the funds invested in the company are guaranteed by the size of the assets owned by the company.

Meanwhile, the research results of Novione and Rusmala (2016) state that asset growth has a positive and insignificant effect on capital structure. Because, a company with a high growth rate will use more internal funds in its capital structure, than a company with a low company growth rate. The greater the assets, the greater the operational results produced by the company. This statement is in accordance with the Pecking order theory which states that companies that have high profitability will use small amounts of borrowed funds, because funding needs are met by using internal funding sources, namely retained earnings. This is not significant in this research because when the economy is not yet conducive to the business world, companies find it difficult to achieve company growth rates.

e) Sales Growth and Capital Structure

The research results of Mega and Ari (2017), Safitri and Siti (2017) state that sales growth has a negative effect on capital structure. Because high or stable sales growth is interrelated with company profits. A high or stable sales growth rate can affect the company's profits so that it becomes a consideration for the company in determining the capital structure, this affects the debt the company has, the company can meet some needs with company profits. So it can be concluded that the higher the sales growth, the lower the capital structure in the company. Meanwhile, research results from Anantia (2015), Maryanti (2016), Yuliana and Vivi (2015), Novione and Rusmala (2016), Hamidah, Diana, and Umi (2016) state that sales growth has a positive and significant effect on capital structure. Because increasing sales growth encourages management to use or increase debt. This additional debt can be seen as increasing public confidence, especially investors, in the company. Even though the consequence of additional debt is an increase in risk for the company, investors believe that management will be able to manage this debt well, so that the impact of using debt or increasing risk does not have a negative effect on the company. Therefore, the results of this research support and are in

P.Issn : 2808-859X
E.Issn : 2809-0853

accordance with the concepts of asymmetric information and signaling theory.

And the research results of Hary and Bagus (2015) state that sales growth has a positive and insignificant influence on capital structure. Because high sales growth will increase the company's tendency to take on debt and increase the value of its capital structure. The consequence of high sales levels is that companies are required to meet increasingly higher sales figures in line with market demand. Every increase in the value of the sales growth rate is not always followed by an increase in the Capital Structure value.

f) Non-Debt tax-shield and Capital Structure

The research results of Hary and Bagus (2015) state that non-debt tax-shield has a positive and significant effect on capital structure. This shows that the greater the non-debt tax shield or tax savings in the form of depreciation of fixed assets, the greater the capital structure that comes from the company's use of debt. The greater the depreciation of a company, the greater the fixed assets the company has, so it will be easier for the company to obtain debt from outside parties. Companies that have a high number of fixed assets will gain more tax benefits, namely in the form of depreciation or depreciation costs which can be deducted in calculating the amount of tax payable.

CONCLUSION

The strategy used in company management, whether assets, sales, depreciation of fixed assets, will have an impact on the composition of the capital structure because it is related to the decision on the funding source to be used. The entity's financial management can also later determine whether the entity will use external funding, issue ordinary shares and preferred shares. The company's ability to use and manage assets can have an impact on increasing sales and the amount of current assets as a determinant of the entity's liquidity capability. And ultimately the composition of the optimal capital structure will be determined in order to increase the value of the company and determine the continuity of the entity in the years to come.

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