

The Effect of Profitability, Asset Structure, Asset Growth, and Sales Growth on Capital Structure of Companies Registered at IDX Jakarta Islamic Index 2020-2022

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Abstract: The purpose of this study is to know the effect of profitability, asset structure, growth of assets, and growth of sales on capital structure at companies listed in the JII IDX for the period 2020 to 2022. This study uses a simultaneous test (F test) and a partial test (t test). Based on research and data analysis that used regression shows that profitability, asset structure, growth of assets, and growth of sales simultaneously affect the capital structure. Variable profitability, asset structure, and asset growth and sales growth partially significant positive effect on capital structure, at 10% level of significance. Adjusted R² shows a value of 0.363 indicating that 36.3% of the variable capital structure is influenced by the profitability, asset structure, growth of assets, and growth of sales. This research is expected to provide adequate information to investors who will invest their funds. In addition, it can help investors to assess company performance as reflected in the capital structure by considering profitability, asset structure and growth factors asset.

Keywords: Profitability, Asset Structure, Asset Growth, Sales Growth, Capital Structure, JII IDX.

Introduction

Increasingly fierce competition in the business world requires companies to be more careful in handling funding issues. Funding decisions will greatly determine the company's ability to carry out its business activities so that it can influence the profit or profits that the company will obtain and ultimately affect the value of the company. Meeting the company's funding needs can come from within the company (internal financing) or outside the company (external financing). The greater the fulfillment of funding needs that come from internal companies, the greater the company's dependence on external parties will be reduced (Orlova et al., 2020; Rabinovich, 2023; Rehan et al., 2023). However, with the increasing scale of the company's business, internal financing sources are often insufficient, so companies are required to look for sources of financing other than those originating from within the company. This is the Pecking Order Theory which states that companies

tend to prefer to fulfill their funding needs internally rather than externally (Chen et al., 2013; Yıldırım & Çelik, 2021). The use of internal funds takes priority over the use of funds sourced from external sources. The sequence proposed by this theory in terms of funding is first retained earnings followed by the use of debt and finally the issuance of new equity (Artikis et al., 2022; Fernández, 2002; Wang et al., 2020).

Capital structure is a balance or comparison between long-term debt and own capital. Meeting the company's funding needs from its capital sources comes from share capital, retained earnings, and reserves. In meeting funding needs, companies must look for efficient funding alternatives (Orlova et al., 2020; Rehan et al., 2023). Efficient funding will occur if the company has an optimal capital structure. An optimal capital structure is a capital structure that optimizes the balance between risk and rate of return so that it can maximize the company's share price. This definition is based on the Trade-Off Theory which

states that companies balance the benefits of funding with debt with higher interest rates and bankruptcy costs (de Jong et al., 2011; Yıldırım & Çelik, 2021). Additional debt can increase the company's risk but also increase the expected level of return. The higher risk due to increasing debt tends to lower stock prices, but increasing the expected rate of return will increase the stock price. For this reason, in determining the capital structure of a company it is necessary to consider various variables that influence it (Lim et al., 2020; Orlova et al., 2020; Rehan et al., 2023). Knowing what and how factors most influence capital structure, can help company managers in making decisions about how to fulfill the company's funding needs. Objective of the study is to know the significant influence of profitability, structure assets, growth assets, and growth sales in a way simultaneous to company capital structure at companies listed at JII IDX.

Literature Review

If we look at several previous studies, there are differences in research results regarding capital structure. Some research conducted on property companies show that profitability harms capital structure. Meanwhile, company growth (assets) has a positive effect on capital structure. Asset structure does not affect capital structure (Lim et al., 2020; Orlova et al., 2020; Rehan et al., 2023).

The Trade Off Model Theory states that a company balances benefits from funding with debt (treatment tax profitable corporation) with ethnic group interest and fees more bankruptcies_high. The reality is that an interesting load that can be deducted results in debt being cheaper than share normal or share preferred (de Jong et al., 2011; Yıldırım & Çelik, 2021). As a result, the government pays part of sourced capital costs from debt, or in other words, debt gives benefit protection tax. The result uses debt result enhancement portion profit operation company (EBIT) flows to investors. So, increasingly big debt companies, are increasingly tall its value and shares. The Trade Off model cannot determine precisely the optimal capital structure because it is

difficult to determine precisely the present value of financial distress costs and the present value of agency costs (de Jong et al., 2011).

The Pecking Order Theory is theory explains why companies will determine the most preferred hierarchy of funding sources. This theory is based on asymmetric information, a term that indicates that management has more information (about the company's prospects, risks, and value) than public investors (Chen et al., 2013; Yıldırım & Çelik, 2021).

Asymmetric information is a condition where a party has information more than other parties. Because of asymmetric information, company management knows more about the company than investors in the capital market (Koutmos, 1997). If company management wants to maximize value for current shareholders, not new shareholders, then the tendency is that: 1) if the company has bright prospects, management will not issue new shares but use retained earnings (so that the bright prospects can be enjoyed by current stockholders); and 2) if the prospects are not good, management issues new shares to obtain funds. This will benefit current stockholders because their responsibilities are reduced. Due to the existence of asymmetric information, companies prefer to use funds in the following order: 1) Retained earnings and funds from depreciation; 2) Debt; and 3) Sale of new shares.

Profitability is the final result of several policies and decisions carried out by the company. Profitability is the company's ability to utilize its assets to generate profits. Profitability can provide useful clues in assessing the effectiveness of a company's operations, showing the combined effects of liquidity, asset management, and debt on results operation (Bagna et al., 2021; Fernández, 2002).

Asset structure is a comparison between fixed assets and total assets. Fixed assets are long-lasting assets, which do not or are gradually used up in the production process, such as factory buildings, vehicles, and equipment, and for this group depreciation is carried out, as achievements used in the production process during the period certain (Fernández, 2002; Lim et al., 2020).

Companies that grow rapidly are forced to rely more on external capital. Therefore, companies that

grow rapidly tend to use more debt than companies that grow slowly. Sales growth is related to the stability of sales increases in the future. By increasing sales, the company can increase its ability to obtain company revenue and profits, with this increase in income, the company can cover the costs incurred for company operations (Artikis et al., 2022; Fernández, 2002; Rabinovich, 2023; Wang et al., 2020).

Research Methods

This research is a study empirical on companies listed JII IDX. The population in this research are 34 companies listed on the JII IDX in 2020-2022. The sampling method used was the Purposive Sampling method. Variable measurements are as follows:

Profitability (X₁)

Companies with a high rate of return on their investment, tend to use relatively small debt. Proxies used to measure profitability are Return to Assets (ROA), namely the comparison between earnings before interest and tax to total assets in the previous year.

Asset Structure (X₂)

Companies where the majority of their capital is invested in fixed assets will prioritize fulfilling their capital from capital. which is permanent, namely capital itself while debt is complementary. The way to measure asset structure in this research is by comparing the number of fixed assets with the total number of assets.

Asset Growth (X₂)

The **asset growth** shows how quickly a company has been growing its assets. The higher the growth the rate the better, though the figure should not be viewed in isolation. An increasing asset value due to, say, excessive borrowing would not be considered beneficial for shareholders. It is calculated as a percentage change in assets over a given period. As this equation only considers the asset side of the balance sheet, it does not take into account any corresponding change in liabilities.

Growth Sales (X₄)

Growth Sale (Sales growth) relating to how to happen stability increases in future sales. With improvements the income, so company can close costs which was issued For company operations. Method growth measurement sales in this research are with compares changes in sales in a certain year against the previous year.

Capital Structure (Y)

Capital structure is related to determining the type of capital sources that will be used in carrying out company financing activities. The way to measure capital structure in this research is by comparing long-term debt with equity or own capital.

Analysis Techniques

The data analysis technique in this research uses descriptive quantitative analysis and multiple regression analysis. In this regression model there is one dependent variable which is related to four independent variables so the analysis used is multiple regression analysis.

Results and Discussion

Based on the results of the multiple linear regression test, the following regression equation can be formed :

$$Y = 0.846 - 2.156X_1 - 0.993X_2 - 0.194X_3 - 0.032X_4$$

Testing Hypothesis Study

1. Testing Hypothesis First based on the results calculation with level error (α) = 0.05 is obtained $F_{\text{calculated}}$ value amounting to 9,993 whereas F_{table} value of 2.53. Because of the $F_{\text{calculated}}$ (9.993) > F_{table} (2.53) H_0 is rejected and H_a is accepted. Thus, hypothesis First which states that profitability, asset structure, asset growth, and growth sales in a way simultaneous significant effect on capital structure, is **Accepted**.
2. Testing Hypothesis Second based on results calculation with level error (α) = 0.05/2, the obtained mark t_{count} amounts to - 2,902 whereas the mark t_{table} of 2.0010. Because t_{count} (-2.902) < t_{table} (- 2.0010), then H_0 rejected. With thereby

hypothesis both stated – that profitability influential significant to capital structure, **Accepted.**

3. Testing Hypothesis Third based on results calculation with level error $(\alpha) = 0.05/2$, obtained mark t_{count} is amounting to - 4,988 whereas mark t_{table} of 2.0010. Because $t_{\text{count}} (-4.988) < - t_{\text{table}} (-2.0010)$, then H_0 rejected. With thereby hypothesis third which states that structure asset influential significant to capital structure, **Accepted.**
4. Testing Hypothesis Fourth based on results calculation with level error $(\alpha) = 0.05/2$, obtained mark t_{count} is amounting to - 3,069 whereas mark t_{table} of 2.0010. Because $t_{\text{count}} (-3,069) < - t_{\text{table}} (-2.0010)$, then H_0 rejected. With thereby hypothesis the fourth stated that growth asset influential significant to capital structure, **Accepted.**
5. Testing Hypothesis Fifth based on results calculation with level error $(\alpha) = 0.05/2$, obtained mark t_{count} amounts to - 1.284 whereas mark t_{table} at 2.0010. Because $- t_{\text{table}} (-2.0010) \leq t_{\text{count}} (-1.284) \leq t_{\text{table}} (2.0010)$, then H_0 accepted. With thereby hypothesis, the fifth stated that growth sales are influential and significant to capital structure, **Rejected.**

Discussion

In testing of the first hypothesis, the results showed that profitability, asset structure, asset growth, and sales growth simultaneously had a significant effect on the capital structure of companies listed on the JII IDX. This means that there is a relationship between the dependent variable capital structure and the independent variables, namely profitability, asset structure, asset growth and sales growth. The results of this research are consistent with previous research which has proven that simultaneously profitability, asset structure, and sales growth influence the capital structure of companies listed JII IDX. Hypothesis testing of the profitability variable obtained results that profitability has a significant negative effect on the JII IDX companies. This means that if the profitability variable increases, the capital structure will decrease and vice versa.

The results of this research are in accordance with previous research which states that companies with a high rate of return on investment use relatively little debt (Bagna et al., 2021; Fernández, 2002). The high rate of return allows the company to finance most of its funding needs with internally generated funds. In line with the Pecking Order Theory which states that companies tend to prefer meeting funding needs internally rather than externally. Based on the research results, it can also be seen that the average profitability is 5.92%, while the average loan interest is above 10%. This results in company managers prioritizing meeting funding needs that come from profits generated rather than using debt, because the costs incurred on loans are higher than the profits generated. The results of this research are in line with the results of previous studies, which stated that profitability has a negative effect on capital structure (Lim et al., 2020; Rehan et al., 2023).

Hypothesis testing of the asset structure variable showed that asset structure had a significant negative effect on capital structure in companies listed on the JII IDX. This means that if the asset structure variable increases, the capital structure will decrease and vice versa. The results of this study are appropriate result states that most companies where the majority of their capital is invested in fixed assets will prioritize the fulfillment of their capital from permanent capital, namely their capital, while debt is complementary. This can be related to the existence of a horizontally conservative financial structure rule which states that the amount of capital itself should at least be able to cover the amount of fixed assets plus other assets that are harvesters. And companies, where the majority of their assets consist of current assets, will prioritize their funding needs with debt. It means that the asset structure influences the capital structure. With the measurement of asset structure based on the ratio between total fixed assets and total assets, theoretically, there is a negative relationship between asset structure and capital structure. The higher the asset structure (which means the greater the number of fixed assets), the higher the use of own capital (which means the use of foreign capital

is less) or the lower the capital structure and vice versa (Artikis et al., 2022; Rabinovich, 2023).

In line with this statement, it is known that in the JII IDX companies studied, the composition of fixed assets is only a small portion of their total assets. Most of the assets were in the form of inventories which were current assets, not fixed assets. Based on these circumstances, company managers still consider using debt in addition to meeting funding needs with the own capital. Results of this research in line with the results of previous studies, which show that asset structure has a negative effect on capital structure (Lim et al., 2020; Orlova et al., 2020; Rehan et al., 2023).

Hypothesis testing of the asset growth variable showed that asset growth had a significant negative effect on the capital structure of JII IDX companies listed on the Indonesia Stock Exchange. This means that if the asset growth variable increases, the capital structure will decrease and vice versa. The results of this research are in line with the statement which states that companies that grow rapidly are forced to rely more on external capital (Artikis et al., 2022; Lim et al., 2020). But at the same time, these companies often face greater uncertainty, which tends to reduce their willingness to use debt. Therefore, the company also continues to prioritize meeting funds with its own capital, either by using retained earnings or by continuing to publish share.

Samples had an average capital structure of 48.52%, which means that their long-term debt has a smaller ratio compared to equity (own capital). Thus, it can be seen that meeting the funding needs for asset growth in the JII IDX companies studied is met by own capital, such as from profits generated by the company or by issuing shares, not from long-term debt. This is in accordance with the explanation explained above regarding the asset structure that in JII IDX companies fixed assets can be used as collateral for borrowing a small amount of debt so the alternative is to increase equity. Therefore, the higher the asset growth, the higher the use of own capital (which means the use of foreign capital is less) or the lower the capital structure. The results of this research are in line with the results of previous research, which shows

that asset growth has a negative effect on capital structure (Bagna et al., 2021; Rehan et al., 2023).

Hypothesis testing of the sales growth variable showed that sales growth did not have a significant effect on the capital structure of JII IDX companies listed on the Indonesia Stock Exchange. This could have happened due to the global financial crisis in 2020 caused by Covid-19 pandemic spread throughout the world, including Indonesia. The results of this research are in line with the results of previous studies, which show that sales growth has no effect on the structure of sales capital (Orlova et al., 2020; Rabinovich, 2023).

Conclusions

From the results of the data research that has been carried out, the following conclusions can be drawn, 1) profitability, structure assets, asset growth, and sales growth simultaneously have a significant effect on the capital structure of JII IDX listed companies; 2) profitability has a significant negative effect on the capital structure of JII IDX listed companies; 3) asset structure has a significant negative effect on the capital structure of JII IDX listed companies; 4) asset growth has a significant negative effect on the capital structure of JII IDX listed companies; and 5) sales growth does not have a significant effect on the JII IDX listed companies.

This research can help company financial managers, in making funding decisions. To achieve an optimal capital structure, companies need to consider the factors of profitability, asset structure and asset growth which have been proven to influence capital structure in research This. This research is expected to provide adequate information to investors who will invest their funds. In addition, it can help investors to assess company performance as reflected in the capital structure by considering profitability, asset structure and growth factors asset. This research analyzes the factors that influence capital structure, namely profitability, asset structure, asset growth and sales growth over a four years research period. It is hoped that further research can consider other variables that influence capital structure such as

business risk, operating leverage and taxes, as well as increasing the research period.

Conflict of Interest: There is no conflict of interest in this article.

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