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THE EFFECT OF LIQUIDITY , GROWTH, PROFITABILITY, AND COMPANY SIZE ON CAPITAL STRUCTURE IN CONSUMER GOODS COMPANIES ON THE INDONESIA STOCK EXCHANGE FOR THE 2016-2020

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ABSTRACT

This study aims to examine whether there is an effect of liquidity, growth, profitability, company size on the capital structure of consumer goods companies listed on the Indonesia Stock Exchange (IDX) in 2016-2020. In this study, the population used was consumer goods companies listed on the IDX for the 2016-2020 period. The selection of samples was carried out using purposive sampling and obtained 42 companies as samples. The analytical method used in this research is by using multiple regression analysis model with panel data. The results showed that liquidity and profitability had a significant and negative effect on capital structure. Meanwhile, company size and growth have a significant and positive effect on capital structure.

1. INTRODUSTION

The success of a company is very dependent on the funding/capital that is done. Funding can be classified according to its source, including internal and external funding. Company operations or commonly known as retained earnings are a source of internal funding. Meanwhile, external funding is obtained from creditors (debt) and company shareholders (equity). Whichever funding source to choose has different implications between companies. Therefore, companies are required to be able to collect funds efficiently so that they can make decisions in determining the optimal composition of capital (Natalia, 2015).

Capital structure is an important issue for companies because capital structure generates risks that must be borne by company owners in addition to creating a certain rate of return (Mujiatun, 2021). Good or bad capital structure greatly affects the company's financial position. Capital structure can be explained using the debt to equity ratio (DER). DER is a financial ratio that can measure the health of a company. This ratio compares total debt to total capital/equity of the company (Masodah & Mustikaningrum, 2009). There are factors that can affect capital structure as measured by DER, namely liquidity, growth, profitability, company size, company age and asset tangibility (Anuar & Chin, 2016). According to Kennedy et al. (2011), factors that can affect capital structure are ownership structure, profitability, sales growth, asset structure, tax rate, and company size.

Liquidity is the company's ability to meet its short-term financial obligations by sacrificing its current funds, such as payment of wages, short-term debt and operational costs (Wiagustini, 2010). Companies with high liquidity indicate that companies can fulfill obligations (debt) (Setyawan, 2016).

Growth (growth), namely the ratio to measure how far the company places itself in the economy as a whole (Machfuedz, 1996). Companies with high growth mean that the company is growing (Natalia, 2016). Growing companies tend to need more capital.

According to Maulita et al., (2018), a company's profitability can be measured using a profitability ratio. In this study, the profitability ratio used is return on assets (ROA) by comparing how much profit is with the total assets owned by the company. In considering the capital structure policy, profitability is one of the main factors. Supported by the statement of Collis (2013), that profitability is also a determining factor in a company's ability to pay debts. The final variable used in this study is company size. This variable shows the size of a company. The larger the size of the company, the easier it is for companies to obtain external funds (Safitri, 2015).

This research uses signaling theory and pecking order theory. According to Myers and Majluf (1984) regarding the pecking order theory, the company will follow a certain pecking order in the choice

of its capital structure, in that case, the company will rely on internal funds first and when external sources are used, indicating that the company prefers to use debt compared to equity. According to Spence (1973) signaling theory is a signal or information for making decisions. It is assumed that managers have prior information compared to outsiders (investors). Therefore, when managers provide information about the state of the company, external parties first analyze whether the information is a good or bad signal before making a decision.

Previous research conducted by Bhawa and Dewi (2015), Halim and Widanaputra (2018), Zulkarnain (2020), Mujiatun (2021) produced liquidity, growth, profitability, and company size which had a significant positive effect on capital structure. In contrast to the results of research conducted by Setyawan (2016), Armelia (2016), Dewi and Fachrurrozie (2021) that liquidity, growth, profitability, and company size have a significant negative effect on capital structure.

The current research has a research gap with previous studies, namely using liquidity, growth, profitability, and firm size as independent variables. Also the sample used is a consumer goods company that has financial data for 2016 to 2020 and also in this study using the panel regression analysis method. Consumer goods companies are used as research objects because companies in this sector have good financial prospects, and there are also many companies that are strong in surviving crisis situation.

2. METHODS

Research Design and Variable Measurement

This observation uses a comparative causal approach or a causal relationship approach between the variables. This study uses quantitative data obtained from the financial reports of consumer goods companies listed on the Indonesia Stock Exchange (IDX) for 2016-2020. The main reason researchers chose consumer goods companies as research objects is because companies in this sector provide daily needs and have good financial prospects, as well as many companies that are strong enough to survive a crisis.

This study uses secondary data that can be obtained from the IDN Financials website (idnfinancials.com) and the official IDX website (www.idx.co.id). The technique used in sampling is purposive sampling technique which is contained in the company's secondary data. It aims to obtain results according to the needs of this research. The criteria for selecting the sample for this study were: 1) Consumer goods companies listed on the IDX for the 2016-2020 period, 2) Consumer goods companies that provided complete financial reports for the 2016-2020 period, 3) Consumer goods companies that had positive profits in 2016 to 2020. Based on these criteria, a sample that met the criteria was 42 companies with a five-year data period.

The dependent variable in this study is the capital structure which is calculated by the debt to equity ratio. DER is calculated from total liabilities divided by total equity. The variables that influence the change in the dependent variable in this study are liquidity (X1), growth (X2), profitability (X3), firm size (X4). The first independent variable is liquidity. This variable uses the current ratio by dividing current assets by current liabilities. The second independent variable is growth by comparing current total assets with previous total assets. The third independent variable is profitability. This variable uses return on assets by comparing net income with total assets owned by the company. The fourth variable is company size which can be calculated by providing the natural logarithm of total assets.

Hypothesis testing uses multiple regression analysis with the OLS method. According to the model, the data is tested on classical assumptions. If it passes the classical assumption test, the regression estimate used can be BLUE. The classical assumption test that was carried out consisted of a normality test, multicollinearity test and heteroscedasticity test (Miswanto et al., 2022).

Analysis Techniques

The analysis technique aims to analyze the best model and will be used to test panel data. In selecting this panel model, the approach used is the common effect model, fixed effect model, random effect model. To test the most appropriate model can be done with the Chow test, Hausman test, and Lagrange test. The chow test aims to determine whether the CEM or FEM is the best model. The Hausman test aims to determine whether FEM or REM is the best model. Lagrange test aims to test whether CEM or REM is the best model.

After selecting the model, the next step is to do the F test. The F test aims to find out whether the model is a good model or not. In this study, the panel model test was carried out, so the F test was no longer carried out. To complete the test, a coefficient of determination test was carried out which aims to assess the variation ability of the independent variables in explaining the dependent variable.

Hypothesis testing is done by t test (partial test). The t test aims to determine how far the independent variable partially influences the dependent variable. In this study, the significance used was 5%. If the probability value is <0.05 then the independent variable affects the dependent variable. Conversely, if the probability value is > 0.05, the independent variable has no effect on the dependent variable.

3. RESULTS AND DISCUSSION

The results of this study indicate that the first hypothesis is supported, namely liquidity has a significant negative effect on capital structure. Companies with high liquidity have a low capital structure. This is because the company is more focused on using internal funds compared to external funds. The results of this study are in accordance with the pecking order theory which states that companies prefer to use operating funds compared to outside funds.

After testing this research, it was found that the liquidity variable can affect the capital structure of consumer goods companies for the 2016-2020 period. The liquidity hypothesis has a negative effect on the supported capital structure. This study strengthens research conducted by Febriyanti (2017), Lasut et al. (2018), Dewiningrat and Mustanda (2018), which state that liquidity has a negative and significant effect on capital structure.Furthermore, the second hypothesis is supported. Growth has a significant positive effect on capital structure. Companies with high growth have a high capital structure. The more the company grows, the easier it will be for the company to get funding (external). This is because companies with large growth will give a positive signal to investors and creditors to invest or lend funds. In accordance with the signal theory, the company will give a signal to creditors that the company is experiencing growth and causes creditors to believe in lending funds.

After testing this research, it was found that the growth variable was able to influence the capital structure of consumer goods companies for the 2016-2020 period. The results of this study reinforce research that has been conducted by Setyawan (2016), Selfiana (2016), Halim and Widanaputra (2018) which state that company growth can have a positive effect on capital structure. Furthermore, the third hypothesis is supported. Profitability has a significant negative effect on capital structure. It can be concluded that companies with high profitability have a low capital structure. This is because the company is more focused on using its profits or internal funds to finance funding. The results of this study are in accordance with the pecking order theory which states that companies prefer to use operating funds compared to outside funds. After testing this research, the results show that the profitability ratio can influence the capital structure of consumer goods companies for the 2016-2020 period. The results of this study reinforce research that has been conducted by Ratri and Christianti (2017), Kusna and Setijani (2018), Kurniasari (2021), namely profitability has a negative and significant effect on capital structure. Furthermore, the fourth hypothesis is supported. Firm size has a significant positive effect on capital structure. It can be concluded that a company with a large size has a high capital structure. The larger the size of the company, the easier it will be for the company to get funding. In accordance with the signal theory, namely the manager will give a signal to creditors, one of which is regarding the size of the company. if the company is large, it tends to get funding more easily because creditors are more confident that the company can pay off its debts.

This study shows the results that the variable company size can affect the capital structure of consumer goods companies in the 2016-2020 period. The results of this study reinforce research that has been conducted by Ismail (2015), Lasut et al. (2018), Andika and Sedana (2019) which state that company size has a significant and positive influence on capital structure.

4. CONCLUSION

This study examines consumer goods companies on the IDX for the 2016-2020 period. Based on research that has been done using panel data with the help of eviews as data processing software, the findings are obtained: liquidity has a negative effect on capital structure, growth has a positive effect on capital structure, profitability has a negative effect on capital structure and Firm size has a positive effect on capital structure. The theoretical implication of this research is that this research is expected to provide insight that liquidity, growth, profitability, and company size have a significant effect on the capital structure of consumer goods companies. The practical implication is that research findings are expected to be used as a reference for companies when making decisions regarding capital structure. The limitation in this study is the limited sample of consumer goods companies listed on the IDX in 2016-2020. The total sample used was 42 companies out of 84 companies, because many companies did not meet the requirements in this study.

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