Effect of Company Size, Asset Growth, and Profitability Against the Capital Structure in Automotive Companies

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ABSTRACT

This study aims to determine the effect of company size, asset growth, and profitability variables on the capital structure of automotive companies on the Indonesia Stock Exchange for the 2016-2020 period. The sample in this study was 30 from 12 automotive companies listed on the Indonesia Stock Exchange and selected using purposive sampling. Linear regression analysis and significance tests are used to prove the hypothesis with the help of SPSS version 26. The research data used is data sourced from financial reports of automotive companies listed on the Indonesia Stock Exchange (BEI). The results of this study show that company size, asset growth, and profitability have no significant effect on capital structure.

Keywords: Company Size, Asset Growth, Profitability, Capital Structure

INTRODUCTION

The increasingly rapid development of the business and economic world has created increasingly sharp competition between companies. Conditions like this require companies to manage their various management functions well, especially management functions in the financial sector. In this case, management is responsible for all activities related to company finances. A company needs to develop its business in economic activities, especially its capital structure. In this condition, competition between companies in managing capital structure is expected to be able to prosper shareholders and employees. Therefore, managers need to look at the conditions regarding company value from the company's capital structure.(Mayanti, 2020).

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The issue of capital structure is an important issue for every company, because the level of capital structure will reflect the financial position of a company. So that companies are required to be able to create an optimal capital structure by raising funds both from within and outside the company. Management must consider whether the company's funding decision is good or bad using foreign capital (debt) or its own capital (share capital, retained earnings, and reserves), where both options have their respective advantages and risks. Companies that use funds from outside parties must be careful because they have a debt risk, namely the company has to pay interest expenses. Interest expenses that are too large will reduce the operating profit in the company so that it will result in a decrease in net profit. Companies that choose their own capital also have constraints, namely the funds available for business are limited so that the impact on the results obtained is also limited. The company's advantage when borrowing from outsiders or using debt is that it does not have to pay taxes from tax savings, this is the profit that the company gets will be greater than companies that do not use debt.(MB, 2016).

Research conducted by Lorenza et al., (2020)states that if a company uses debt that is too large in its operational activities, it will be at high risk in paying interest expenses. Based on this statement, a good capital structure is a positive signal for creditors to provide corporate loans. The choice of capital structure as a variable was carried out with the argument that capital structure is a very important part of company decision making in operational activities, because if the company is wrong in determining its capital structure it will have a negative impact on the company's financial condition, the source of funds used in the company's operational activities. company comes from debt or company capital that the company uses to gain profit.(Tambunan, 2018).

The results of many studies conclude that company size is an important factor in determining capital structure, and many studies find that large companies use more debt than small companies. This is because the bigger the company, the more stable cash flow it has, which can reduce the risk of using debt. Apart from that, large companies have a lower default risk and have a lower probability of bankruptcy than small companies, so according to the trade-off theory hypothesis, the bigger the company, the company can use more debt, this is related to the lower risk of large companies.(Rahayu, 2021).

The low risk of the company will also cause the debt costs of large companies to be lower than small companies, thereby encouraging companies to use more debt. The second factor is asset growth. Asset growth shows the decisions made by managers in investing their funds in various

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fixed assets. This decision was driven by various things, one of which was to improve the production process. The assumption of pecking order theory to meet funding needs is based on the cost of capital where the cost of retained earnings as an internal funding source is lower compared to other funding sources (Sari, 2016).

However, if internal funding sources are not able to afford it, it is preferable to choose debt due to lower emission costs. This shows that companies with high asset growth tend to choose external sources from debt. The third factor is profitability. profitability measurement using Return on Equity (ROE). ROE is used to measure profit after tax with the capital owned by the company. Companies that have a high level of profitability reflect that the company is able to utilize its capital well to generate profits. High profitability is a positive signal for market reactions so that it can increase a company's stock price (Fajrida & Purba, 2020).

According to research conducted Rahayu, (2021)states that company size has a significant effect on capital structure. Different from research conducted by Lorenza et al., (2020) which states that company size has no significant effect on capital structure. Research conducted by Fajrida & Purba, (2020) states that asset growth has a significant effect on capital structure. Meanwhile, in research conducted by Lorenza et al., (2020) states that asset growth has no significant effect on capital structure. Research conducted by fatimah. MB, (2016) states that profitability has a significant effect on capital structure. Meanwhile in research Sari, (2016)states that profitability has no significant effect on capital structure.

1.   Literature review

Capital Structure

Capital structure is a comparison or balance of the company's long-term funding shown by the ratio of long-term debt to equity(Lorenza et al., 2020). Elements of Capital Structure There are two elements of capital structure, namely foreign capital (debt) and own capital. Foreign capital (debt) is debt that has a long term, generally more than ten years. Meanwhile, own capital is capital that comes from the owner of the company and is embedded in the company for an indefinite period of time. The capital itself comes from internal and external sources. Internal sources come from profits generated by the company, while external sources come from the company owner(MB, 2016).

Company Size

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P Companies that have a strong position have a level of ease in obtaining funds from the capital market and the value of the company's net sales for a certain year because the company's net sales value is quite large, so the measurement is converted in natural logarithms. Large companies tend to diversify their business more than small companies. Therefore, the possibility of failure in running a business or bankruptcy will be smaller. Company size is often used as an indicator for companies. Where companies of a larger size are seen as more capable of facing crises in running their business(Lorenza et al., 2020).

Asset Growth

Assets are assets that are used for the company's operational activities. The greater the expected assets, the greater the operational results generated by the company. Asset growth is defined as the annual change of total assets. An increase in assets followed by an increase in operating results will further add to the trust of outsiders in the company. With increasing trust from outside parties (creditors) in the company, the proportion of debt funding sources is increasingly greater than own capital. This is based on creditors' confidence that the funds invested in the company are guaranteed by the size of the company's assets (Fajrida & Purba, 2020).

Profitability

The profitability ratio is a ratio to measure a company's ability to generate profits at a certain level of sales, assets and share capital. A company that has a high level of profitability will tend to finance the company with its own capital, namely retained earnings and shares. This is due to a high level of profitability; the value of shares will increase and this will be used by the company to obtain additional funds by selling shares whose value has increased. Companies with high profitability certainly have more internal funds than companies with low profitability. Companies with high rates of return on investment use relatively little debt(Prastika & Candradewi, 2019).

Based on the explanation above, the conceptual framework formed can be seen in Figure 1.

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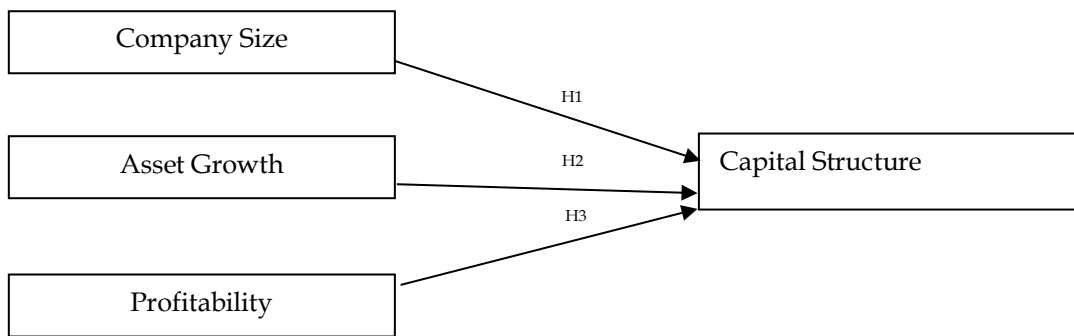
Figure 1. Conceptual Framework

Several research results show that there is no influence of company size, asset growth and profitability on capital structure. research conducted by Lorenza et al., (2020)which states that company size has no significant effect on capital structure. Research conducted by Lorenza et al., (2020)states that asset growth has no significant effect on capital structure. Research conducted Sari, (2016)states that profitability has no significant effect on capital structure.

Based on the description above, the hypothesis in this research is as follows:

H1: Company size has no significant effect on capital structure

H2: Asset growth has no significant effect on capital structure

H3: Profitability has no effect on capital structure

RESEARCH METHODS

The approach in this research uses a quantitative approach using secondary data. The quantitative approach is a systematic scientific research method with mathematical models, theories and hypotheses related to phenomena, both in parts and in their relationships. This study uses automotive company objects listed on the Indonesia Stock Exchange for the 2016-2020 period. The data used in this study is in the form of financial statements of automotive companies that have been processed and presented on the Indonesian stock exchange. The number of companies used were 12 automotive companies with 30 samples. The sample selection method in this research is the purposive sampling method which is a non-probability sampling technique in accordance with the research objectives.

RESULTS AND DISCUSSION

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EFFECT OF COMPANY SIZE, ASSET GROWTH, AND PROFITABILITY AGAINST THE CAPITAL STRUCTURE IN AUTOMOTIVE COMPANIES

In this study, the object of research used by researchers was automotive companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. The data used in this study were secondary signs in the form of financial reports obtained at www.idx.co.id. The sample selection process is based on the criteria that have been determined as follows:

Table 1. Sample Selection Criteria

No	Criteria	Number of Companies
1	Automotive companies listed on the Indonesian Stock Exchange in 2016-2020.	12
2	Automotive companies that do not have complete data regarding information relating to variables in research on the Indonesian Stock Exchange in 2016-2020.	12
3	Automotive companies that experienced losses in financial reports during 2016-2020.	2
4	Automotive companies that do not publish financial reports in Rupiah so that the criteria for measuring the value of the currency are the same on the Indonesian Stock Exchange in 2016-2020	2
	Final sample size	6
	Year of Observation	5 years
	Number of observations	30

Source: Processed data, 2022

Descriptive Statistical Analysis

The results of descriptive statistics in this research are as follows:

Table 2. Variable Descriptive Statistics

N		Minimum	Maximum	Mean	std. Deviation
X1	30	25.45	31.08	27.7320	1.62324
X2	30	.98	.23	.3557	.45437

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X3	30	.04	.07	.0141	.02591
Y	30	.03	6.71	.9051	1.26510
Valid N (list wise)					

Based on the table above, the results of descriptive statistical testing from 30 data during the observation period are as follows: First, the results of testing the company size variable have a minimum value of 25.45, the maximum value is 31.08, the average value is equal to27.7320and the standard deviation is1.62324. Second,The test results for the company size variable have a minimum value of 0.98, the maximum value is 0.23, the average value is 0.3557and the standard deviation is 0.45437.Third, the test results for the company size variable have a minimum value of 0.04, the maximum value is 0.07, the average value is 0.0141 and the standard deviation is .02591. Fourth, **P** The results of testing the company size variable have a minimum value of 0.03, the maximum value is6.71, the average value is 0.9051,and the standard deviation is1.26510.

CLASSIC ASSUMPTION TEST

Normality test

Normality in this study was tested using the Kolmogorov-Smirnov (KS) statistical test. If the significant value is > 0.05, the residual data is normally distributed. Conversely, if the significant value is <0.05 then the residual data is not normally distributed. The results of the Kolmogorov-Smirnov (KS) statistical test in this study are as follows:

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Y
N		30
Normal Parameters, b	Mean	.9051
	Std. Deviation	1.26510
Most Extreme Differences	Absolute	,243

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	Positive	,216
	Negative	-.243
Test Statistics		,243
Exact Sig. (2-tailed)		,048

Based on the table it can be seen that the Kolmogorov-Smirnov value is 0.048. The Kolmogorov-Smirnov significance value above shows a value of 0.048 which means it is greater than 0.05, so the data is declared normally distributed.

Multicollinearity Test

To detect whether there is multicollinearity in the regression model, you need to look at the tolerance value and Variance Inflation Factor (VIF). The results of the multicollinearity test are presented as follows:

Table 4. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Company Size	,959	1,043
	Asset Growth	,969	1,032
	Profitability	,953	1050
Dependent Variable: Capital Structure			

Based on table 4, it is known that there is no multicollinearity between the independent variables, because the results of calculating the Tolerance value show that there is no independent variable that is less than 0.10. The results of calculating the Variance Inflation Factor (VIF) value also show the same thing, where none of the independent variables has a VIF value of more than 10. So it can be concluded that there is no multicollinearity between the independent variables in this regression model.

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Autocorrelation Test

The test used in this research used Durbin-Watson with the following results:

Table 5. Autocorrelation Test Results

Model Summary b					
Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	.486a	,236	.148	1.16800	1896
a.		Predictors: (Constant), Profitability, Asset Growth, Company Size			
b.		Dependent Variable: Capital Structure			

Based on the table, it is known that the Durbin Watson value is 1.896. In the Durbin-Watson (DW) table, with k = 3 and n = 31. Shows a dL value of 1.2292 and a Du value of 1.6500, then 4 – dU = 4 – 1.6500 = 2.35. The resulting d value lies between dU < d < (4 – dU) = 1.6500 < 1.896 < 2.35, so it can be concluded that in this study there was no autocorrelation.

Heteroscedasticity Test

The heteroscedasticity test in this study used the Glejser test. Glejser test results are presented as follows:

Table 6. Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	-.551	2,328		-.237	,815
	Company Size	,053	084	.104	.629	,535
	Asset Growth	-.179	.298	-.099	-.603	,552
	Profitability	-17,370	5,264	-.549	-3,300	003

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Based on table 6, it is known that the sig value of all independent variables is greater than 0.05, so it can be concluded that there are no symptoms of heteroscedasticity in this study.

Multiple Linear Regression Analysis

Multiple linear regression analysis in this research was used to test the variables of company size, asset growth and profitability on capital structure. The results of multiple linear regression analysis are as follows:

Table 7. Multiple Linear Regression Analysis Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Betas		
1	(Constant)	1819	3,794		.479	,636
	Company Size	-.015	.136	-.020	-.112	,911
	Asset Growth	.448	,485	,161	.924	.364
	Profitability	-23,387	8,578	-.479	-2,726	.011

Y = -3.165 + 0.158 UP + 0.006 PA– 4.071 P + e

The above equation can be explained as follows:

a.   The Company Size variable shows a regression coefficient value of 0.911. This shows that for every one-unit increase in profitability, the dependent variable will increase by 0.911% assuming that the independent variables in the regression model are fixed.

b.   The Asset Growth Variable shows a positive number of 0.364, this means that Asset Growth has a positive influence on Capital Structure, or in other words when Asset Growth increases by 0.364%, this can increase Capital Structure.

c.   The profitability variable shows a regression coefficient value of 0.011. This shows that for every one-unit increase in profitability, the dependent variable will increase by 0.011% assuming that the independent variables in the regression model remain constant.

HYPOTHESIS TESTING

Individual Parameter Significance Test (t test)

The results of the t test in this study are as follows:

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Table 8. t test results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	1819	3,794		.479	,636
	Company Size	-.015	.136	-.020	-.112	,911
	Asset Growth	.448	,485	,161	.924	.364
	Profitability	-23,387	8,578	-.479	-2,726	.011

Based on the table above, it can be concluded that the calculated t value for each variable:

a. The Effect of Company Size on Capital Structure The results of the first hypothesis obtained from the T statistical test results show that the significant value is $0.911 > 0.05$. Based on the test results it can be concluded that H1 is Rejected.

b. The Effect of Asset Growth on Capital Structure The results of the second hypothesis obtained from the T statistical test results show that the significant value is $0.364 > 0.05$. Based on the test results it can be concluded that H2 is Rejected.

c. The Effect of Profitability on Capital Structure The results of the third hypothesis obtained from the T statistical test results show that the significant value is $0.011 > 0.05$. Based on the test results it can be concluded that H3 is Rejected.

Simultaneous Significance Test (F Test)

The F test is carried out by looking at the significance value in the regression results with a significance value of 0.05. The results of the F significance test are presented as follows:

Table 9. F Test Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10,944	3	3,648	2,674	.068b
	Residual	35,470	26	1,364		
	Total	46,414	29			

Based on the test results in the table above, it is known that the significance value is 0.440. In the F Distribution table with k = 3 and n = 30 then F count = F (k; n–k) = F (3; 30 – 3) = F (3; 27) = 2.86 then the significance value is $0.068 > 0.005$ and the calculated F value is $0.2674 >$

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0.005 so it can be concluded that company size, asset growth and profitability have an influence on capital structure.

Determination Coefficient Test (R2 Test)

The coefficient of determination and this model is shown by the size of the Adjusted R Square. The results of the R2 test are presented as follows:

Table 10. R2 Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.486a	,236	.148	1.16800	1896

Based on the test results in the table above, the coefficient of determination test results shown by Adjusted R Square is 0.148. This result means that the variable firm size, asset growth, and profitability are able to explain the dependent variable, namely the capital structure of 14.8%, while the remaining 85.2% is influenced by other variables outside of this study.

DISCUSSION

The Influence of Company Size on Capital Structure

Based on the results of testing the first hypothesis (H1), it shows that company size has no effect on capital structure. Company size is measured using LN (Natural Logarithm) of the average total assets of the company. The use of total assets is based on the consideration that total assets reflect the size of the company and do not affect the capital structure.

This research is in line with research conducted byLorenza et al., (2020)which states that company size has no significant effect on capital structure. In contrast to the research conductedRahayu, (2021)states that company size has a significant effect on capital structure.

The Effect of Asset Growth on Capital Structure

Based on the results of testing the second hypothesis (H2), it shows that asset growth has an effect on capital structure. Asset growth is measured using Asset Growth (AG), which is to measure the change in total assets in a certain month compared to the previous month. This research is in line with research conducted byLorenza et al., (2020)states that asset growth has no significant effect on capital structure. Meanwhile, in research conducted byFajrida & Purba, (2020)states that asset growth has a significant effect on capital structure.

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Effect of Profitability on Capital Structure

Based on the results of testing the third hypothesis (H3), it shows that profitability has no effect on capital structure. Profitability is measured using ROE (Return On Equity). Research goes hand in hand with researchSari, (2016)states that profitability has no significant effect on capital structure. While research conducted byfatimah.MB, (2016)states that profitability has a significant effect on capital structure.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of discussing data analysis through proving the hypothesis of the issues raised regarding the effect of company size, asset growth, profitability on the capital structure of automotive companies listed on the Indonesia Stock Exchange in 2016-2020, it can be concluded that company size, asset growth and profitability has no significant effect on capital structure.

Based on the conclusions above, suggestions for further research are as follows: first, future researchers are expected to use more independent variables in conducting research, so that the independent variables are able to explain the dependent variable which is thought to have an influence on capital structure. Second, for company management, it can be a consideration in making capital decisions so that capital management can be carried out well.

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