

Effect of Financial Performance and Business Risk on Capital Structure

Farah Nur Azizah^{1*}, Firdayetti^{2*}

^{1,2}Program Studi S1 Akuntansi, Universitas Trisakti

e-mail: farah023001905002@std.trisakti.ac.id¹, firdayetti@trisakti.ac.id²

* Corresponding Author: E-mail: farah023001905002@std.trisakti.ac.id

ARTICLE INFO

Received November 2022

Accepted December 2022

Published December 2022

Keywords: Capital Structure,
Liquidity, Profitability

ABSTRACT

Abstract : The purpose of the following research is to analyze and obtain the results of profitability, cash flow and business losses on company profits and changes in financial structure. The following research is a quantitative analysis research using descriptive method. The following research population is all transportation and logistics companies listed on the Indonesia Stock Exchange for the three period. The sampling method used is purposive sampling and the research method used in the following research is multiple linear analysis, classical hypothesis testing and hypothesis testing using the Statistical Package for Social Sciences (SPSS) version twenty two program to test hypotheses. The following research results show that the effect of debt and business risk/loss has a significant effect on financial planning or is called capital structure, while profit is not so significant.

INTRODUCTION

The growth of the business and economic fields that are increasingly developing in this era of digital technology. When conducting business activities aimed at making a profit and trying to innovate in order to expand its performance in the market. The growing business has an impact on the technology and information sector. Many people are turning to online-based selling and buying. By doing so, it can expand its market share and the logistics and transportation sectors get a large enough profit.

The rise of online applications can make the transportation and logistics sector increase sales through e-commerce. There is also a negative impact, namely that the policy of implementing community restrictions makes the delivery system slow. The following is supported by research conducted by the Center for Intermodal Transportation Research and Development (Puslitbang) which states that the modes of transportation used (trains, planes, ships) experience delays in handling export and import services. In some countries, imported goods and logistics services are related to business-to-business (B to B) transactions. In 2020, the worst impact of the epidemic, namely on transportation and warehousing, decreased by 15.04% [1].

There are many aspects that can have an impact on capital formation decisions, one of which is the use of financial instruments that benefit different stakeholders such as investors, creditors, auditors, accountants, marketers, government and self-government [2]. Companies that use their capital to meet their financing needs come from retained earnings, dividends and the acquisition of securities. Profitability will

have an impact on the amount of debt or capital from outside the company needed for operational needs. Previous research has stated that profitability has a negative or significant effect on capital formation [3]. However, this statement differs from one researcher, and his research says that there is no benefit that has a significant effect on capital formation [4].

There are many aspects that have an impact on capital formation. This research study considers many aspects, namely benefits, costs and risks/losses of business. This theoretical framework discusses the effect of profitability, liquidity and business risk on firm value. While the capital structure variable plays an intervening role because when a company manages its capital structure wisely it will have a good impact on company value. In short, the company can do its job when the level of liquidity in the company is low.

The capital structure can show the level of risk of a company where the higher the ratio of capital structure, the higher the risk of the company because financing from debt is greater than equity, considering that in calculating debt divided by its own capital, this means that if the company's debt is higher than capital itself means the capital ratio structure is above 1, so that the use of funds used for operational activities of the company uses more elements of debt. In conditions of capital structure above 1, the company must bear large capital costs, the risk borne by the company also increases if the investment made by the company does not produce an optimal rate of return [5]. From this it can be concluded that the company's management determines the implementation of a good and effective capital management system which is very important for the purpose of increasing the company's profitability.

Based on the above definition, many studies have discussed the benefits and costs of financial planning. The following matters are better for researchers to examine more deeply and analyze research on the topic of profitability, liquidity and business risk in financial planning because the variables in profitability are strong. In the following research, there are differences between previous researchers, namely researching the transportation and logistics sectors regarding the impact of profitability, liquidity and business risk on capital structure.

The research problem can be formulated, namely whether profitability has a negative effect on capital structure?, Does liquidity have a negative effect on capital structure?, Does business risk have a negative effect on capital structure?

After describing these problems, the researchers can summarize the objectives of the research, namely To find out profitability has a negative effect on capital structure, In order to find out liquidity has a negative effect on capital structure, In order to find out risks/losses in business have a negative influence on structure capital.

RESEARCH METHOD

Subsequent research was carried out using descriptive methods and quantitative data. This type of research is explanatory research, meaning that it emphasizes the relationship between variables by testing hypotheses. Descriptive like describing the independent variable to the dependent variable directly and indirectly (through intervening variables). The unit of analysis in further research is the

transportation and logistics sector which is listed on the Indonesia Stock Exchange. The type of data contained in the following research based on the time dimension is pooled data. The process of collecting and collecting information or data in the following research collects data using the data reporting method. That's why this is prepared by collecting, analyzing and recording some of the data from the annual report. The type of data used in this research is quantitative data. Data obtained from secondary data. The population in this research is the transportation and logistics sector recorded on the IDX for the 2019-2021 period. The total data is 28 companies. There were 6 companies that did not fit the criteria. The research period for the last three years totaled 66. After the regression test was carried out, the data had to be outliers so that they were normally distributed. There are 36 data outliers, the last sample used was 30 companies.

SPSS software version 22 was used in statistical analysis in the following research. The following research uses 2 methods of data analysis, namely descriptive analysis and statistical analysis. Statistical analysis includes (1) classic expectation test, (2) hypothesis test. The idea used in this research is the tail idea, which can be interpreted that the idea is rejected or accepted with guidelines.

Profitabilitas, Profitability can be measured by ROE, ROE shows the company's ability to generate profits from every paid-in capital to the company, therefore if the company's ROE value is high, it will increase investment returns and in the following cases shareholders [6].

$$ROE = \frac{\text{Laba Bersih Setelah Pajak}}{\text{Total Modal Sendiri}}$$

Liquidity is the measure of liquidity is the use of the current ratio. Liquidity (Current Ratio / CR) is used to indicate the level of security of the company against short-term borrowers. If the number of current liabilities is greater than its current assets (current ratio shows a number below 1), then the company is said to have difficulty paying its short-term debt [5].

$$. CR = \frac{\text{Aktiva Lancar}}{\text{Hutang Lancar}}$$

Business Risk is Problems and losses as well as business risks/losses are a condition where the company cannot fulfill its obligations and will have an impact on the company's strength which can be measured using the degree of operating leverage (DOL) [7].

$$DOL = \frac{\text{EBIT}}{\text{Net Sales}}$$

Capital Structure, Capital structure (Y) as measured by DER (debt and equity) is a variable that describes the ratio of the company's capital to loans or credit (Horne & John, 2012) in [8].

$$DER = \frac{\text{Hutang}}{\text{Modal}}$$

RESULT AND DICUSSION

Pecking Order Theory, The pecking order method is used because the company's capital management policy prioritizes the use of internal capital rather than external capital [9]. Selection process theory selects financial sources from sources that have not been used for financial decisions through debt as capital for company development.

Signaling Theory, the signaling system explains that the information provider (organization) will provide relevant information that can be used by the recipient and the recipient of the information will adjust behavior according to the understanding of the information signal [9]. This signal is in the form of information about what the company's management is doing to realize the owner's wishes. The information provided by the company is important, because it has an impact on the investment decisions of other parties outside the company.

Profitabilitas, Profitability is the ability of a company to earn profits in running its business [3]. Profitability is a ratio that measures the level of profit and sales achieved by a company. Companies with high profitability show that they have a lot of cash therefore it has an impact on companies not to use debt to meet their needs [9]. My result be concluded that the capital structure variable partially does not have a significant effect on the profitability variable. For the p-value of $0.013 < 0.05$, therefore the magnitude of the p-value indicates a significant negative effect of liquidity on the capital structure. It is concluded that the second hypothesis is accepted (H_a). The third hypothesis in the following research is not proven and the third hypothesis is accepted (H_a).

Liquidities, The debt ratio is a ratio used to show the company's ability to meet short-term obligations or debts that must be paid immediately [9]. If a company can meet short-term or long-term debt, it is known as liquidation. Result of after processing data conclude have negative significant effect liquidity on the capital structure. The value is negative 0,027.

Business Risk, the business risk discussed in this study is business loss. Loss in business is one of the company's financial risks/losses that the company will face if it uses too much debt due to the company's debt burden [3] and [4]. Therefore, companies with high losses in business reduce the use of debt to avoid bankruptcy [10]. The results of the research on the effect of the business risk/loss variable on the capital structure are negative and significant, the value have negative 0,023. The disadvantage in business is that the company's profits are not enough to pay interest and the company will fail. The following research results support previous research, the fourth hypothesis shows that losses in business have a negative effect on capital formation because companies with high business losses use less debt to avoid bankruptcy.

Capital Structure, the capital structure is the balance of use optimal financial funding in conducting business. The optimal capital structure shows that the amount of own capital is greater than the company's debt. Companies can survive when they are supported by a good company capital structure [9] . The capital structure can be said to be good if there is a set of financial resources used by the company to support

its operations, which can be observed as a set of funds that determine the cost of capital, can and can increase stock prices [2].

This theoretical framework discusses the effect of profitability, liquidity and business risk on capital structure. Companies with a high or stable market share show a positive impact on the company's sustainable income from investors because the company's management views that the search for capital will directly have an impact on the size of their capital and in the end, capital gains will have an impact on maximizing the use of capital structure. In addition, the greater the impact of the company's operations using cash, the greater the business risk.

Effect of profitability on capital structure: The part that is considered the most important for a company is how profits can increase shareholders, not how much money the company makes [4]. Based on this definition, it can be concluded that profitability affects the organization of capital based on the fact that companies with higher profitability reduce their level of dependence on others, because higher profitability makes companies more dependent on retained earnings. According to previous analysts, a high ROE value indicates that the company's operations are increasing to provide net profits and the following can attract shareholders to invest in the company [15].

A negative regression coefficient value means that profitability has a negative effect on financial performance [4]. The following is different from research which on the one hand states that return on equity (ROE) has a significant effect on capital structure [11]. This supports the current conditions that are completely digital and open. Generation Z can be said to be impulsive in shopping online due to the perceived effect that the transportation and logistics sector does more operational work so that it can boost company profitability and reduce the debt capital structure.

H1 = Profitability has a negative effect on capital structure

Effect of liquidity on capital structure: Effect of Liquidity on Capital Formation or Structure Another hypothesis proposed in the following research is "Liquidity has an impact on Capital Formation" [8]. Liquidity has a significant effect on financial planning because the high and low liquidity of the company has an impact on the company in considering financial decisions [9]. Meanwhile, previous researches argued that liquidity had a negative and significant effect on capital structure [12].

H2 = Liquidity has a negative effect on capital structure

Effect of business risk on capital structure: The final elaboration of the third hypothesis test shows that there is no significant or insignificant effect on business risk and financial planning in the following research, this situation supports the research findings [7], [9], [12] and [10]. The capital structure can show the level of loss of a company where the ratio of the capital structure is high, and the company is more at risk/loss because the amount of money received from the debt element is greater than its capital (equity) and the calculation of debt. Divided by own capital, which can be interpreted that if the company's debt is greater than its own capital, it means that the capital structure is above 1, therefore the use of capital for domestic projects uses other things to pay [5]. Business risk that uses a high level of debt has an effect on falling

stock prices because investors will assess these shares to be aggressive. If the use of the capital structure is not carried out wisely, it will result in business losses.

H3 = Business risk has a negative effect on the capital structure.

Descriptive Analysis

Table 1. Descriptive Analysis

	N	Mean	Std. Deviation	Nature of Data
ROE	30	-5,67	2,256	Homogen
CR	30	1,34	1,30	Heterogen
DOL	30	3,90	10,17	Homogen
DER	30	0,88	0,80	Heterogen

This study tested normality, heteroscedasticity, multicollinearity, autocorrelation using ROE, CR, DOL variables on DER. The purpose of descriptive statistics in this study is to provide an overview or description of a data. Descriptive statistics contain variable data that has been processed into average values, medians, standard deviations so that information becomes clearer and easier to understand.

a) Normality Test

Normality test obtained the value of Monte Carlo. Sig (2-tailed) of 0.230 is greater than 0.05 which means the normality test of profitability, liquidity and business losses has passed. This regression model either has a normal or close to normal distribution. Testing the normality of this data was carried out using the one sample Komogrov-Sminov test. Basis for decision sampling namely

1. If the probability value is significant > 0.05, then the data is normally distributed
2. If the significance probability value is <0.05, the data is not normally distributed

b) Table 1.1. Heteroscedasticity Test

Table 2. Heteroscedasticity Test

Variable	Significant	Details
ROE	0,520	There is no indication/sign of heteroscedasticity
CR	0,281	There is no indication/sign of heteroscedasticity
DOL	0,956	There is no indication/sign of heteroscedasticity

Dependent variables: ABRES_1

Source: SPSS 22 since 2022

According to the final elaboration of the heteroscedasticity test, it is known that the significance values of the variables X1 (profitability), X2 (liquidity), X3 (losses in business) have a significance number of 0.520; 0.281; 0.956 is greater than 0.05, therefore it can be concluded that the heteroscedasticity test does not experience indications/signs of heteroscedasticity.

c) Table 1.2. Multicollinearity Test

Table 3. Multicollinearity Test

Variable	Collinearity Statistic		Details
	Tolerance	VIF	
ROE	0,991	1,009	There were no indications/signs of multicollinearity
CR	0,992	1,008	There were no indications/signs of multicollinearity
DOL	0,998	1,002	There were no indications/signs of multicollinearity

Source: SPSS 22 since 2022

The final description of the multicollinearity test in stage 1 is that all independent variables have a VIF number less than 10, which means there is no multicollinearity.

d) Table 1.3. Autocorrelation Test

Table 4. Autocorrelation Test

Durbin-Watson	dU	4-dU	Details
1,499	1,6498	2,3502	No indications/signs of autocorrelation were found

Source: SPSS 22 since 2022

The final description of the autocorrelation test obtained a dw of 1.499 with a total of $n = 30$ and $k = 3$. When observed from the Durbin Watson table, $dL = 1.2138$ and $dU = 1.6498$. Therefore, a conclusion can be drawn after calculating $dU < d < 4-dU$ the value is $1.6498 < 1.499 < 2.3502$ data does not occur autocorrelation.

Table 1.4. Statistic Test F (F-test) ANOVA

Table 5. Statistic Test F (F-test)

Variable	F	Sig.
DOL, ROE, CR	3,510	0,029

Dependent Variable: DER

Source: SPSS 22 since 2022

From the description of the ANOVA graph, there is a significant number that is the result of the F test. The value is $0.029 < 0.05$. Which can be interpreted that together the independent variables are able to have an impact on the dependent variable.

Table 1.5. Statistic Test t (T-test)

Table 6. Statistic Test t (T-test)

Variable	B	Sig.	Impact	Details
ROE	0,076	0,214	Positive	No Significant
CR	- 0,027	0,013	Negative	Significant
DOL	- 0,023	0,000	Negative	Significant

Dependent Variable: DER

Source: SPSS 22 since 2022

The results of the statistical t-test with the variables in the form of profitability, liquidity and losses in the business on the capital structure, the hypothesis one is rejected because the $p\text{-value} > 0.05$. It can be concluded that the capital structure variable partially does not have a significant effect on the profitability variable. For the $p\text{-value}$ of $0.013 < 0.05$, therefore the magnitude of the $p\text{-value}$ indicates a significant negative effect of liquidity on the capital structure. It is concluded that the second hypothesis is accepted (H_a). The third hypothesis in the following research is not proven and the third hypothesis is accepted (H_a). Meanwhile, if observed, the $p\text{-value}$ is $0.000 < 0.05$. It can be interpreted that loss in business has a significant effect and if you test the sign of the coefficient it has a negative effect on the capital structure.

The sign test results end with a positive influence on the capital structure, meaning that the company wants to expand market share or innovate to advance the company in a short time so that the company does it by way of debt. That way the company will gain profits and advance the company's targets.

The sign test results conclude with a negative influence between liquidity and capital structure. Liquid means that the company has assets or assets that can be liquidated to meet the company's operational needs. The higher the use of company assets to generate money, the lower the company uses corporate debt.

The sign test results end with a negative influence between business risk/loss on capital structure. Business risk is projected by measuring the degree of leverage (DOL), which means that if the DOL is high, it indicates that the company's fixed costs exceed its variable costs. Therefore companies that have a high risk may minimize or reduce the use of their debt.

The results obtained from the results of the profitability test on capital structure do not prove the pecking order theory, companies with good financial conditions should prefer to use their internal funds first compared to using external funds. External funding will be used as an alternative if internal funding sources are insufficient. However, the results of this study prove the signal theory because investors can judge that a company is managed properly and efficiently from the way its capital structure is used.

CONCLUSION

The first hypothesis that examines the effect of profitability on financial planning has a positive effect. This means that a company that earns a lot of profit will reduce the amount it receives from others. Companies with high profitability will reduce the use of long-term debt as well as capital formation and reduce their dependence on capital from others in the company, because higher profitability allows the company to generate more income. Money is saved before the company uses other sources of income. external aspects such as debt. The first hypothesis was not proven or deviated from the hypothesis made by the researcher. There is a difference in proving the hypothesis that it can be assumed that companies and the logistics and

transportation industry are companies that are not non-profitable. If the company is a profitable company, then the company uses retained earnings to fund the company's operations, not using debt. Or in the sense that companies like to use funds from old shareholders rather than borrowing funds for a long time or from creditors.

The second hypothesis is accepted because the research results show that liquidity has a negative and significant influence on financial planning. The results of the study support previous researchers who stated that if a company has a large amount of cash at home, therefore it will have an impact on a small level of debt use, a method that is in accordance with the pecking order which states that the company will prefer more money in the first house. external finance (debt).

The results of the research on the effect of the business risk/loss variable on the capital structure are negative and significant. The disadvantage in business is that the company's profits are not enough to pay interest and the company will fail. The following research results support previous research, the fourth hypothesis shows that losses in business have a negative effect on capital formation because companies with high business losses use less debt to avoid bankruptcy. The following is based on business theory which states that the use of other debt will increase the risk/loss of the company.

It is hoped that further research will add variables such as company size or leverage. Distinguishing from this research is the research object. For future researchers, it is hoped that they will take a different sector so that there are not many outlier samples when the test is carried out. There are other factors that have more influence on capital structure but are not included in the study such as asset structure and business risk.

References

- [1] Fauzia, "Penyebab ekonomi RI minus di 2020: Sektor Transportasi serta Pergudangan," *Kompas.com*, 2022.
- [2] Siskawati & Suryono, "Pengaruh Profitabilitas, Struktur Aktiva, Dan Growth Opportunity Terhadap Struktur Modal," *J. Ilmu dan Ris. Akunt.*, 2020.
- [3] Yuwanita et al, "Pengaruh Ukuran Perusahaan, Profitabilitas Dan Growth Opportunity Terhadap Struktur Modal," *J. Akunt.*, vol. 7, no. 2, pp. 162–172, 2020.
- [4] Yanti et al, "Dan Growth Opportunity Terhadap Nilai Perusahaan Dengan Struktur Modal Sebagai Variabel Intervening Pada Perusahaanmanufaktur Sektor Farmasi Yang Terdaftar Di Bursa Efek Indonesia Tahun 2011-2015," *J. Account.*, 2018.
- [5] Nst, "Pengaruh Likuiditas, Risiko Bisnis Dan Profitabilitas Terhadap Struktur Modal Pada Perusahaan Textile Dan Garment Yang Terdaftar Di Bursa Efek Indonesia," *J. Ris. Akunt. Bisnis*, vol. 17, no. 2, 2017.
- [6] R. Faroji and O. Ali, "Pengaruh Profitabilitas Terhadap Nilai Perusahaan (Studi Empiris Pada Perusahaan Sektor Industri Barang Konsumsi Di Bursa Efek Indonesia Tahun 2017-2019)," *J. Neraca Perad.*, vol. 1, p. 2, 2021.
- [7] H. I. Sungkar and T. Deitiana, "Pengaruh Current Ratio , Return On Asset ,

- Risiko Bisnis , Ukuran Perusahaan , Dan Pajak Terhadap Struktur Modal,” *E-Jurnal Manaj. TSM*, vol. 1, no. 1, pp. 37–44, 2021.
- [8] M. Efendi and K. H. Ts, “Pengaruh Profitabilitas , Likuiditas , Struktur Aktiva , Ukuran Perusahaan , Dan Tax Avoidance terhadap Struktur Modal,” *Ekon. J. Econ. Bus.*, vol. 5, no. 1, pp. 168–175, 2021.
- [9] N. Aprillia, “Analisis Pengaruh Ukuran Perusahaan , Likuiditas , Profitabilitas dan Risiko Bisnis Terhadap Struktur Modal,” *PROCEEDING Widyagama Natl. Conf. Econ. Bus. 2022*, no. Wnceb, pp. 228–238, 2021.
- [10] Paramitha & Putra, “Effect of Asset Structure, Liquidity, Sales Growth and Business Risk on Capital Structure,” *J. Akunt.*, pp. 2753–2766, 2020.
- [11] Arini & Fauziah, “Analisis Pengaruh Return On Equity dan Ukuran Perusahaan Terhadap Struktur Modal Pada Bank Syariah di Indonesia,” *Borneo Student Reasearch*, vol. 1, no. 3, pp. 1383–1393, 2020.
- [12] Rahmi & Swandari, “Pengaruh Risiko Bisnis dan Ukuran Perusahaan Terhadap Struktur Modal dan Nilai Perusahaan,” *J. Ris. Inspirasi Manaj. dan Kewirausahaan*, vol. 5, no. 1, 2021.