Profitability Determinant and the Effect of Capital Structure

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ABSTRACT

The purpose of this study is to verify the effect of company growth, sales growth, company size and profitability towards capital structure. The population uses manufacturing companies with purposive sampling technique and obtained a sample of 30 companies. The result of the research indicates that the variable of Company Growth and Company Size have not effect significantly towards profitability. Whereas Sales Growth variable have effect significantly towards profitability. Profitability, sales growth, and company size variables have not effect towards capital structure whereas the growth of the company have effect to the capital structure.
INTRODUCTION

Competition in the business world is getting tighter because a lot of new companies joining in industry. Those circumstance constrains company to look for the opportunities in order to improve company’s performance and being excellence in the competition. The company whose growing faster will get positive image and position among the competitors in this industry. The company must be able to maintain this position by keeping watch or improving product quality so it fits to customer expectation. According to Fauzi and Suhadak (2015) “The high of company growth is a reflection of the breadth of the company's reach”. The increasing of company growth can be assumed as company performance increasing, because either company’s assets or sales have the same as well. Company performance can be measured by company profitability.

Maintaining and improving product quality in order to fulfill customer’s expectation will increase the company’s sales growth. Customer satisfaction will make them loyal to company’s products. It also will effect to company sales growth as well as its profitability. Some factors may influence company profitability. According to Rifa’i (2015), company size have effect significantly to profitability, in the other hand have not effect significantly to company growth. According to Putri (2015), Setiadewi and Purbawangsa (2014) company size have not effect significantly towards profitability. But according to Sunarto and Budi (2009) it have effect significantly towards profitability. Putra and Badjra (2015) said that sales growth and company size have negative effect significantly towards profitability.

The fund is needed by each company to run their activity and expand the company at the same time. Company has to determine how much money to fulfill all of the company’s need. Funding issue is an important problem for them because if it isn’t managed well by the company will impact to financial company position. Zuliani and Asyik (2014) said that profitability significantly impact to capital structure. Brigham and Houston (2006) mentioned that the company who has highest investment rate of return should use lower debt then others. With regards to above definition, five questions were developed to explore more about this research:

1. Does company growth have effect to company profitability?
2. Does sales growth have effect to company profitability?
3. Does company size have effect to company profitability?
4. Does company profitability have effect to capital structure?
5. Does company growth, sales growth and company size have effect to capital structure?

LITERATURE REVIEW

We expected this research would give some advantages to the theory as well as practitioners. Theoretical advantage can provide an understanding company profitability factors and its effect to capital structure as the consideration of company decision making by practitioners.

Pecking Order Theory

According to Fauzi and Suhadak (2015) this theory explained that company will concern to use retained profit, debts and stocks as their last choice.

Trade-Off Theory

Defending Binangkit and Raharjo (2014) said that trade-off capital structure theory shows tax calculation can be reduced by the interest of debts.

Capital Stucture

According to Riyanto (2001) capital structure means as comparison between total long term debts and capital.

Profitability

Zuliani and Asyik (2014) said that profitability is a factor which is considered in determining company capital structure, because that company who has highest profitability will use retained profit to fulfill company’s budget and tend to use less debts.
Company Growth

Fauzi and Sudahak (2015) said that company will try to increase their growth every year, because by its growth means that they are developing.

Sales Growth

Sales growth is about up and down sales rate every year. Increasing the sales will impact to increasing the company profit as well. Rudianto (2009:56) said that sales growth is the amount of sales in the coming years.

Company Size

A large company usually have more impulse to increase their profitability than the small ones (Munawir: 2007).

There’s a lot of researches talked about financial performance and capital structure before, but it hasn’t showed the consistent result. As the following result, we have an aim to choose dominant factor that influencing financial performance and capital structure as well. Here are the hypothesis of this research as follows:

**H1: Company Growth Towards Profitability**

Company growth is the company ability to increase their size in line with increasing of assets.

Sunarto and Budi (2009) said that company growth have not effect to profitability. But based on Kouse et al (2012) dan Memon et al (2012) research stated that company growth have effect positively and significantly to profitability.

**H2: Company Size Towards Financial Performance**

Sunarto and Budi (2009) stated that company size affected to profitability. According to Meidiyusti (2016) stated that company size have negative effect significantly to profitability. Nadzirah Yudiaatmadja dan Cipta (2016) said that company size have positive effect significantly to profitability. But Ratnasari (2016) mentioned that company size have not affect significantly to profitability.

**H3: Sales Growth Towards Financial Performance**

According to Meidiyusti (2016) said that sales growth have not affect to profitability. Putra and Badjra (2015) said that sales growth have not negative effect significantly to profitability.

**H4: Profitability Towards Capital Structure**

Nadzirah Yudiaatmadja and Cipta (2016) said that profitability have negative effect significantly to capital structure. According to Rahmiati, Tasman, and Melda (2015) mentioned that profitability have negative effect significantly to capital structure.

**H5: Company Growth, Company Size, and Sales Growth effects to Capital Structure**

Khariry and Yusniar (2016) said that company growth effected to capital structure. Along with Nadzirah, Yuliaatmadja dan Cipta (2016) research, mentioned that company size have positive effect to capital structure. Suweta and Dewi (2016) stated that sales growth effected to capital structure.

**METHOD**

This research was quantitative by using secondary data from Bursa Efek Indonesia i.e financial statement which was listed during 2015 to 2018. The object of this research was “go public” (Tbk) company as listed in Bursa Efek Indonesia. The population of this research is consumer goods manufacturing company that has been listed in Bursa Efek Indonesia during 2015 to 2018. We used purposive sampling method that has some criteria as follows:

1. Consumer goods manufacturing company that has been listed in Bursa Efek Indonesia during 2015 – 2018.
2. Those companies published their audited financial report as 31 December, every year during 2015 – 2018.

We used secondary data in this research i.e financial report from consumer goods manufacturing company that has been listed in Bursa Efek Indonesia during 2015 – 2018.

**Data Analysis Technic**

Hypothesis test used double linear regression. We tested the impact of independent variable (X) towards dependent variable (Y) by using double linear formula as follows:
PR = $b_1$CG + $b_2$SG + $b_3$CZ + e.

PR : Profitability
CG : Company Growth
SG : Sales Growth
CZ : Company Size
$b_1, b_2, b_3$ : Regression Coefficient
e : Standard Error

CS = $b_4$PR + $b_5$CG + $b_6$SG + $b_7$CZ + e

CS : Capital Structure
PR : Profitability
CG : Company Growth
SG : Sales Growth
CZ : Company Size
$b_4, b_5, b_6, b_7$ : Regression Coefficient
e : Standard Error

But we also need to test linear regression including: Normality test and Classic Assumption test that consist of multicolenierity test, heterocedasticity test, and auto correlation test.

RESULT AND DISCUSSION

Normality Test
To detect whether there is or not heteroskedastisitas can done by the presence or absence of certain patterns on the scatterplot graph (Ghozali, 2011). Result of non-heteroscedasticity test in this research as shown below:

Figure 1. Normality Test Result

The results of normality test data is located and spread around diagonal line of bias means that data from this research have fulfilled requirement of normality. Normality test results in this study can be seen in the picture below:

Figure 2. Non-Heteroscedasticity Test Results
The result of the scatterplot test produces an image of randomly distributed points that are either above or below from the zero on the Y axis. The plot diagram plot as in figure 2 can be interpreted that the regression model of this study has been free from the problem of heteroscedasticity.

Non-Autocorrelation Test

Whether there is or not autocorrelation can be analyzed by looking at the Durbin-Watson value, shown in table 1 below:

**Table 1. Non-Autocorrelation Test**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.348*</td>
<td>2.152</td>
</tr>
</tbody>
</table>

Dependent: Profitability

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.535*</td>
<td>1.951</td>
</tr>
</tbody>
</table>

Dependent: Capital Structure

Based on table 1 the Durbin-Watson values for all models are above -2 and are under 2 according to Santoso (2001) that all regression models in this study are regardless of autocorrelation problems.

Hypotheses Testing

**Table 2. Hypothesis Test**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.613</td>
</tr>
<tr>
<td>Profitabilitas</td>
<td>.086</td>
</tr>
<tr>
<td>Pertumbuhan Perusahaan</td>
<td>.000</td>
</tr>
<tr>
<td>Pertumbuhan Penjualan</td>
<td>.718</td>
</tr>
<tr>
<td>Ukuran perusahaan</td>
<td>.266</td>
</tr>
</tbody>
</table>

Independent: Capital Structure

**Hypothesis 1**

Variable X (Company Growth) has significance value 0.091 greater than standard error (α) 5% or 0.05, so it indicates that variable X1 (Company Growth) partially have not effect significantly to profitability. This result aligned with Sunarto and Budi (2009) research, but different with Kouser et al (2012) and Meon et al (2012) which stated that company growth have positive effect significantly to profitability.

**Hypothesis 2**

Variable X2 (Company Size) has significance value 0.867 greater than standard error (α) 5% or 0.05. It indicates variable X2 (Company Size) partially have not effect significantly to profitability. This result aligned with Ratnasari (2016) researched which also stated company size have not effect significantly to profitability. But Nadzirah, Yudiaatmaja and Cipta (2016) who has different result that stated company size have positive effect significantly to profitability. This result indicated that company assets can’t guarantee the ability of company in earning profit.

**Hypothesis 3**

Variable X3 (Sales Growth) have significance value 0.002 less than standard error (α) 5% or 0.05. It indicates variable X3 (Sales Growth) have effect significantly to profitability. This result aligned with Farhana dkk (2016) that stated sales growth have affect to profitability.

**Hypothesis 4**

Variable Y (Profitability) have significance value 0.086 greater than standard error 5% or 0.05. It indicates that variable Y (Profitability) have not effect significantly to capital structure. This research showed different result with Nadzirah Yudiaatmaja and Cipta (2016) who stated that profitability have negative effect significantly to capital structure.

**Hypothesis 5**

Variable X1 (Company Growth) have 0.000 less than standard error (α) 5% or 0.05. It indicates that
variable X1 (Company Growth) have effect partially to capital structure. According to Maryanti (2016) statement that high growth rate will increase the company’s asset needs so they have to spend more fund to fulfill it. That result aligned with Mayanti’s research (2016).

Variable X2 (Company Size) have significance value 0.266 greater than standard error (α) 5% or 0.05. It means that variable X2 (Company Size) have not affect to capital structure. This result different with Nadizrah, Yudiaatmaja, and Cipta (2016) also Ichwan and Widyawati (2015) research that stated company size have positive effect to capital structure.

Variable X3 (Sales Growth) have significance value 0.718 greater than standard error (α) 5% or 0.05. It means Variable X3 (Sales Growth) have not effect to capital structure.

CONCLUSION

This study shows that company growth and company size variables have not effect significantly to profitability. But sales growth have effect significantly to profitability. Profitability, sales growth, and company size variable have not effect to capital structure. In the other hand company growth have effect to capital structure.

REFERENCES


