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JL.Surya Kencana No.1 Pamulang, Tangerang Selatan – Banten
Telp. (021) 7412566, Fax (021) 7412491
Email : humanisproccedings@gmail.com

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The Influence Of Company Size, Growth Oppurtunity, And Business Risk On Capital Structure

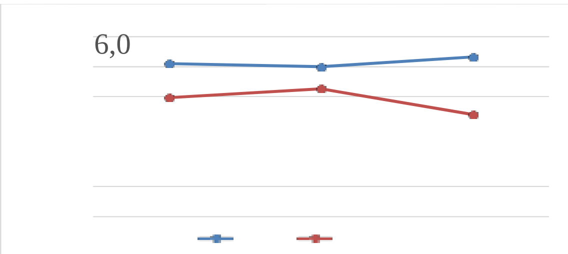
(Emperical Study of Food and Beverage Sub-Sector Manufacturing Companies Listed on the Indonesian Stock Exchange for the 2015-2020 Period)

Dwinofeli Agustiawan [1), Sugiyanto [2)
[12] Master of Management Study Program, Pamulang University - Indonesia
a) dwinofeliagustiawan97@gmail.com, b) dosen00495@unpam.ac.id

Abstract: This research aims to provide empirical evidence on the influence of company size, growth opportunities, and business risk on capital structure. The study focuses on manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange from 2015 to 2020. Hypothesis testing is conducted using the Eviews. 9.0 application. Six company samples were selected through purposive sampling based on specific research criteria. The results reveal that company size, growth opportunities, and business risk collectively have a significant impact on stock returns. However, individually, company size, growth opportunities, and business risk do not affect capital structure.
Keywords: Company Size, Growth Opportunity, Business Risk.

INTRODUCTION

In the current era of globalization, the competition among companies is intensifying, evident in the increasing number of manufacturing companies that grow each year. Companies formulate appropriate strategies to thrive and endure in this competition. The primary goal of capital structure management is to create a blend or combination of permanent funding sources in such a way as to maximize the company's stock price. Capital structure compares or balances the long-term financing of a company, as indicated by the ratio of long-term debt to equity. It is crucial for a company because the quality of its capital structure directly impacts the financial position, ultimately affecting the company's value. Effective capital structure planning maximizes the company's value. An increase in a company's capital structure attracts investors, encouraging them to invest in the company.



Graph of Debt and Equity at PT Tiga Pilar Sejahtera Food Tbk from 2015 to 2017

The graph above indicates fluctuations between debt and equity from 2015 to 2017. Particularly in 2017, following the rice crisis affecting AISA, there was a significant decrease in AISA's equity. The primary cause was PT Tiga Pilar Corpora reducing its share ownership in AISA. As of the end of July 2017, Tiga Pilar Corpora still held 29.1% of AISA's shares, totaling 936.55 million shares. In August 2017, Tiga Pilar Corpora's ownership dropped to 28.8%. The following month, they released 63.72 million AISA shares, reducing their ownership to 26.1%. In October 2017, Tiga Pilar Corpora's ownership of AISA shares remained unchanged. In November 2017, they further divested 8.47 million AISA shares. This AISA case highlights the crucial role of capital structure in a company's stability, especially when facing increasing debt, which escalates the risk of bankruptcy. Capital structure involves financing from both equity and debt (Subramanyam, 2014). Debt financing includes short-term and long-term debts, while equity financing comprises retained earnings and shareholder equity, consisting of common and preferred stocks.

The increasing business risk level of a company implies a higher risk of bankruptcy, leading the company to reduce debt usage in its capital structure (Setyawan, Topowijono, Nuzula, 2016). The value of a company with high business risk due to its financing decisions will decline in the eyes of investors during bankruptcy risks. Consequently, most company assets may be sold to repay substantial debts rather than restoring the embedded value of investor shares. Business risk represents uncertainty in a company's projections of future returns or profits (Andika and Fitria, 2016). In this study, business risk is proxied by the standard deviation of earnings before interest and taxes (EBIT) compared to net sales. Standard deviation typically uses the mean of the distribution as a reference point, measuring variability by considering the distance at each score from the mean (Gravetter, et al, 2014).

Based on the theoretical framework and previous research, this study is titled "The Influence of Company Size, Growth Opportunity, and Business Risk on Capital Structure: An Empirical Study of Manufacturing Companies in the Food and Beverage Subsector from 2015 to 2020."

Problem Formulation

1. Does Company Size influence Capital Structure?
2. Does Growth Opportunity influence Capital Structure?
3. Does Business Risk influence Capital Structure?
4. Do Company Size, Growth Opportunity, and Business Risk collectively influence CapitalStructure?

Research Objectives

1. To understand and test the influence of Company Size on Capital Structure.
2. To comprehend and examine the influence of Growth Opportunity on Capital Structure.
3. To determine and test the impact of Business Risk on Capital Structure.
4. To investigate and test the simultaneous effects of Company Size, Growth Opportunity, andBusiness Risk on Capital Structure.

Research Benefits

1. For future researchers, the findings aim to enhance insights and knowledge, strengthen previousresearch, and contribute to the development of literature and research in the field of accounting.
2. For the beloved institution, the research outcomes are expected to contribute by providingadditional information and knowledge for all stakeholders at Universitas Pamulang.

LITERATURE REVIEW

Theoretical Framework

Signal theory indicates the existence of information asymmetry between company management and stakeholders, discussing how companies should signal financial information to usersof financial reports (Siregar & Nurmala, 2018).

Capital structure is the balance or comparison between foreign and equity capital. Foreign

capital, in this context, includes both long-term and short-term debts, while equity capital can be divided into retained earnings and ownership participation in the company (Kusna & Setijani, 2018). state that the size of a company is a crucial factor in enhancing its value.
Putu Ayu and Gerianta (2018) suggest that the size of a company is a scale that can classify the company's magnitude, measured by total assets, sales, stock value, and so on. Growth opportunity is the potential growth of a company in the future, considering changes in total assets or sales owned by the company from the previous year (Mai, 2006) cited in Arum (2018). Brigham and Houston (2017) state that business risk refers to the uncertainty regarding the projected returns on invested capital in a company.

RESEARCH METHOD

The type of research employed in this study is quantitative, which examines the interrelation between variables with the aim of making estimates regarding the correlation among variables based on secondary data.

Location and Time of Research

This research examines the Influence of Company Size, Growth Opportunity, and Business Risk on Capital Structure. Utilizing secondary data from manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange from 2015 to 2019. Conducted at the Indonesia Stock Exchange Building, Tower 1, Jl. Jendral Sudirman Kav 52-23, South Jakarta 12190, Indonesia. The data for this study consists of financial reports accessible through the Indonesia Stock Exchange website, www.idx.co.id.

Population and Sample

The population used in this research consists of Manufacturing companies in the Food and Beverage Sub-Sector listed on the Indonesia Stock Exchange (IDX) during the period 2016-2020, totaling 26. The sampling technique employed in this study is based on the following criteria:

5. Manufacturing companies in the sub-sector of consumer goods listed on the Indonesia Stock Exchange during the period 2015-2020.
6. Companies that present consecutive financial report data for the years 2015-2020.

RESEARCH RESULTS AND DISCUSSION

Autocorrelation Test

Based on the test results, the chi-square probability value of 0.2527 is greater than the significance level of 0.05. Therefore, with a chi-square probability of 0.2527 > 0.05, it can be concluded that there is no autocorrelation problem.

Coefficient of Determination Test Results

The common effect model of the panel data regression equation in Table 4.14 shows an Adjusted R-squared value of 0.380009. This indicates the percentage of the independent variables' influence on the dependent variable. The Adjusted R-squared value of 38.09% suggests that the company size, growth opportunity, and business risk collectively contribute 38.09% to the capital structure. The remaining 61.1% is explained by other variables not included in this research model.

Statistical Test F

Based on the test results, the ANOVA (Analysis of Variance) or F-test indicates that the calculated F-value is 3.689155 with a significance level of 0.005047. Searching for the F-table with data points (n) 36; number of variables (k) = 4; significance level α = 0.05; df1 = k-1 = 4-1 = 3; and df2 = n-k = 36-4 = 32, systematically yields an F-table value of 2.90. The calculated F-value 3.689155
> F-table 2.90, and systematically the significance value is 0.005047. The significance value 0.005047is less than the significance level 0.05 or (0.005047 < 0.05).
This result indicates that H1 is accepted. Based on these findings, it can be concluded that the size of the company, growth opportunity, and business risk simultaneously influence the capital structure of food and beverage manufacturing sub-sector companies listed on the

Indonesia Stock Exchange from 2015 to 2020. This result suggests that the panel data regression model is valid for testing the research.

DISCUSSION OF RESEARCH

The Impact of Company Size on Capital Structure

The first hypothesis in this study suggests that company size has a positive effect on the capital structure. However, the results indicate that the probability value of company size is 0.5644 > 0.05, meaning that the company size variable does not significantly influence the capital structure. This aligns with Yunita's (2018) research, stating that company size does not affect the capital structure. Larger companies may opt for alternative methods, such as issuing new shares, instead of relying on debt when in need of funds. This study does not support the trade-off theory, where relatively larger companies are expected to use more debt due to lower risk compared to larger companies.

The Impact of Growth Opportunity on Capital Structure

The second hypothesis posits that growth opportunity has a positive impact on the capital structure. However, the results show that the probability value of growth opportunity is 0.4037 > 0.05, indicating that the growth opportunity variable does not significantly affect the capital structure. This is consistent with Santi Yunita's (2018) research, suggesting that there is no influence of growth opportunity on the capital structure. The study implies that changes in sales growth do not impact the capital structure, indicating that companies do not base their capital structure decisions solely on sales levels. This research contradicts the trade-off theory, as it suggests that companies in a growth phase requiring substantial funds for business expansion may not necessarily choose debt to avoid high issuance costs associated with stocks.

The Influence of Business Risk on Capital Structure

The third hypothesis in this study suggests that business risk affects capital structure. The results indicate that the probability value of business risk is 0.3655, which is greater than 0.05. This means that the business risk variable does not influence the capital structure. The statistical test results reject hypothesis 3, indicating that the business risk variable does not affect the capital structure.

The tem business risk here refers to the uncertainty faced by companies in conducting their business activities. One reason why business risk does not influence the capital structure is the presence of investors or creditors with a risk-taking nature, who may not pay much attention to a company's business risk. Some are even comfortable with high risks, as they see opportunities for greater returns from the company (Seftianne and Handayani, 2011, cited in Septiani and Suaryana, 2018). These research findings align with studies by Erosvitha (2016), Septiani, and Suaryana (2018), indicating that business risk does not impact the capital structure.

The influence of Company Size, Growth Opportunity, and Business Risk on Capital Structure.

In the fourth hypothesis testing, the researcher chose the fixed effect model. The simultaneous F-test results showed a probability value of 0.005047, which is smaller than the predetermined significance level of 0.05 (0.005047 < 0.05). Therefore, it can be concluded that the independent variables, namely company size, growth opportunity, and business risk, have a simultaneous and significant effect on the dependent variable, namely capital structure.

This finding aligns with research conducted by Tuti Muetia (2016), Kusna and Setijani (2018), Lianto et al. (2020), and Santi Yunita (2018), stating that company size, growth opportunity, and business risk collectively influence capital structure.

CONCLUSION AND RECOMMENDATIONS Conclusion:

1. Empirically, company size partially does not influence capital structure.
2. Empirically, growth opportunity partially does not influence capital structure.
3. Empirically, business risk partially does not influence capital structure.

Recommendations:

1. 1. For future researchers, it is suggested to include additional variables that may affect capitalstructure to explore influences beyond those used in this study.
2. For companies, attention should be given to actions or decisions that may impact the companyand the country positively, avoiding detrimental effects.

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