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THE INFLUENCE OF PROFITABILITY AND COMPANY SIZE ON CAPITAL STRUCTURE: STUDY EMPIRICAL THE CABLE MANUFACTURING INDUSTRY

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ABSTRACT

The goal of this research is to see if profitability and business size have an impact on capital structure. Profitability, firm size, and capital structure are the variables considered. The data used spans the years 2015 through 2020. This study used a sample of six cable companies. Data collecting using secondary data using a sampling methodology that uses a purposeful sampling method. Multiple regression was employed in the data analysis procedure. According to the findings of the study, profitability has a considerable negative impact on capital structure, whereas company size has a positive impact.

Keywords : Profitability, Company Size, Capital Structure

INTRODUCTION

According to capital structure theory, if the capital structure's position is above the ideal aim, every rise in debt reduces the company's value. One of the key goals of the company's management is to determine the appropriate target capital structure. According to Brigham & Houston (2010); Abbas, et al., (2021), the optimal capital structure is one that maximizes the price of the company's shares. As a result, management determines the capital structure in a flexible manner that is tailored to the company's circumstances, allowing management to achieve its goal of maximising shareholder wealth. The capital structure refers to the amount of money raised through corporate debt (debt financing). A financial manager must continually keep an eye on the company's leverage ratio, which is roughly 58 percent higher than the secure loan point of 40 percent for cable manufacturing companies (Fahmi, 2012). The capital structure of a corporation includes debt. Capital structure is the key to increasing corporate productivity and profitability, as well as boosting company performance and allowing it to continue to grow.

The manufacturing industry in Indonesia that manufactures conducting wires for electrical and telecoms energy is currently increasing quickly, which is fascinating to study because it is a capital-intensive enterprise with a capital structure policy. When considered from the development of cable producers in Indonesia in the 1970s to the present day, the Indonesian homeland industry is still thriving. Because the capital structure used by the company is one of the factors that helps it survive and compete in the long run, the decision on the sources of funds used to strengthen the company's capital structure is not a simple one, but it has significant implications for what will happen in the future. The stock market's performance has a significant impact on capital structure. The stock market has given every company the ability to diversify its funding sources. It is reflected in the capital structure when choosing funding between debt and equity. As a developing country, cable

manufacturing businesses in Indonesia exhibit an intriguing phenomenon, in which the company's management chose to use debt facilities for corporate financing, resulting in a high level of debt on cable companies in Indonesia.

Share capital, retained earnings, and debt held by the company in financing its assets make up the capital structure of the cable manufacturing industry. The capital structure depicts the shape of the company's financial proportion, which is the source of cable manufacturing finance. From 2015 to 2020, the following are the average profitability, size, and capital structure of cable manufacturing companies in table 1

Table 1
A CABLE MANUFACTURING COMPANY'S AVERAGE ANNUAL PROFITABILITY, SIZE, AND CAPITAL STRUCTURE

Description	2015	2016	2017	2018	2019	2020
Profitabilityy (%)	7	14	9	9	9	3
Capital Structure (%)	127	109	101	99	83	67

Resources: Financial Report, BEI

The exchange rate of the rupiah against the US dollar began to weaken at a time when economic conditions began to deteriorate, such as at the start of the Covid-19 Pandemic in Indonesia in early 2020, especially when coupled with activity restrictions (PPKM), high inflation and interest rates, weakening the investment climate and decreasing trading on the Indonesia Stock Exchange. The crisis impacted all areas of the economy, including Indonesia's cable business. Apart from the economic crisis, political stability is another issue that impacts the economy's crumbling wheels. It turns out that the debt composition of the cable manufacturing firm's debt from 2015 to 2020 is still around 100%, implying that the company is funding its activities more through debt, which, of course, increases the financial risk. The occurrence of rupiah depreciation will almost certainly have an impact on the occurrence of economic exposure, whereby if a company uses a capital structure that is greater than its own capital, it will have an impact on decreasing profitability, which will, in turn, affect investor acceptance of the company's share price. If investors are pessimistic, this will have an effect on the company's value, which is currently declining.

RESEARCH METHOD

This study examines the effect of profitability and firm size on capital structure and was conducted with the goal of explaining the relationship between variables through hypothesis testing based on the company's financial statements that became the subject of research on the Indonesia Stock Exchange. Because the research data is in the form of numbers, it is characterized as quantitative research. The participants in this study are cable manufacturing companies that are listed on the Indonesia Stock Exchange and have submitted audited and publicly available annual financial reports for the years 2015 to 2020.

RESULT

The following table shows the outcomes of testing the research variables:

Table 2
RESULT OF HIPOTESIS TEST

Variable	B	Std. Error	t	Sig	Tolerance	VIF
C	54.456	32.931	1.654	0.109		

Profit	-7.155	2.588	-2.765	0.010	0.878	1.139
Firm Size	7.150	1.943	3.680	0.001	0.878	1.139
R		0.603[a]				
R Square		0.364				
Adjusted R Square		0.319				
F-statistic		8.015				
Sig F.		0. 002[a]				

Source: Data processed by SPSS 25.0

Table 2 shows the test findings, which can be explained as follows. The constant is 54,456, which means that if the company's profitability and size are both 0, the capital structure Y' value will be 54,456. The profitability variable's regression coefficient is then (7.155), which means that if the independent variable has a fixed value and profitability has improved by 1%, the capital structure (Y) will fall by 7.155. The coefficient is negative, indicating that profitability and capital structure have a negative connection; the higher the profitability, the lower the capital structure. And the firm size variable (X2) has a regression coefficient of 7,150, which means that if the other independent variables remain constant and the company size increases by 1%, the capital structure (Y) will increase by 7,150. The positive coefficient indicates that business size and capital structure have a favorable association.

The next section discusses the model's feasibility results. The hypothesis testing is shown in table 3 in f statistics and sig f to evaluate if the model in this study is valid and relevant based on the interaction between profitability and firm size on capital structure. In table 1, it is stated that the F-test will be used to test this hypothesis, with the calculation results generated by Fcount being compared with Ftable from the F-Distribution for=5% with degree of freedom (df=n-k-1). According to the findings of the simultaneous test, Fcount=8,015 is greater than F table=3.34 at a significant level of 95 percent (= 5%) and degree of freedom (df 31-2-1), thus Ho is accepted and Ha is denied. Profitability and business size have a considerable impact on capital structure, according to the results of simultaneous testing.

The Multiple Correlation analysis comes next. Multiple correlation analysis (R) is a statistical technique for determining the association between two or more independent variables (X1, X2,...Xn) and the Y variable at the same time. This coefficient indicates the strength of the association between the independent and dependent variables. R has a value that runs from 0 to 1, with a value closer to 1 indicating a stronger association, and a value closer to 0 indicating a weaker relationship. The R number is 0.738, according to table 3. This demonstrates that profitability, business size, and capital structure all have a strong link.

Then there's the Determination Analysis (R^2). The independent variable impacts the dividend variable, according to the results of the computation of the value of R^2 of 0.364 or 36%. This shows that the independent variable's (profitability and size) influence on the dependent variable (capital structure) accounts for 36% of the total. Alternatively, variation in the model's independent variables (profitability and size) can explain 36% of the variation in the dependent variable (capital structure), whereas the remaining 64% is impacted or explained by variables not included in this study.

Table 3
SUMMARY OF RESEARCH HYPOTHESES RESULTS

Hyp	Tittled Hyp	Significant	Result
1.	Profitability has a negative and significant effect on capital structure	t-statistic -2.765 Sig. 0.010	Accepted

2.	Company size has a positive and significant effect on capital structure	t-statistic 3.680 Sig. 0.001	Accepted

Source: Data processed by SPSS 25.0

DISCUSSION

Table 3 shows the regression testing utilized in this study to assess the effect of Profitability and Firm Size on the Capital Structure variable.

The Profitability Decrease Capital Sreucture

The capital structure is tested in the partial test of the ROA variable to assess the impact of individual profitability on the capital structure, and a p value of 0.010 is achieved. This number indicates a p value of -7.155, which indicates that the profitability variable has a considerable impact on the capital structure.

The t table value of the t-Distribution for=5 percent with a degree of freedom (df=2:31) with two-sided testing will be compared with the t count value of the t-Distribution for=5 percent with a degree of freedom (df=2:31). According to the test requirements, the profitability variable on the capital structure in this study received the results t count -2.765 and t table - 2.045. H0 is permitted if -t table t1 count t table, but H0 is rejected if t1 count>t table. As a result, -2.765>t table 2.045 indicates that profitability and capital structure have a negative and substantial relationship. This is because the covid-19 epidemic has attacked the cable business in Indonesia in 2019-2020, causing many companies to be unable to operate as usual, and many companies that are not strong enough to deal with the situation to go bankrupt. As a result, this contradicts the trade-off theory, which was applied in this study. These findings are consistent with research by Huang & Song (2002); Pathak (2010), which found a significant effect of profitability on capital structure, as well as Damayanti (2003); Wiwit Apit Susilowati, who found a significant effect of profitability on capital structure. As a result, the lower the level of profitability, the lower the cable industry's capital structure.

Company Size Increase Capital Sreucture

Partially evaluating the impact of a company's size on its capital structure. The capital structure is tested in the partial test of the Firm Size variable to assess the influence of the individual firm size on the capital structure, and a value of p=0.001 is found. This figure suggests that the firm size variable has a significant effect on the capital structure of 7.150, as indicated by the p value.

The t table value of the t-Distribution for=5 percent with a degree of freedom (df=2:31) with two-sided testing will be compared with the t count value of the t-Distribution for=5 percent with a degree of freedom (df=2:31). According to the test requirements, the variable Firm Size on Capital Structure in this study received t count 3.680 and t table 2.045 findings from the partial test results. H0 is acceptable if -t table t1 count t table, while H0 is refused if t count> t table. According to the partial test results, there was a substantial relationship between business size and capital structure. This suggests that only enterprises with huge asset holdings will be able to withstand the COVID-19 epidemic, since only they can guarantee the quantity of debt funding. This is supported by statistical analyses that show the t-count has a favorable impact on capital structure. These findings are consistent with Huang & Song's (2002) findings, which showed that business size has a major impact on capital structure, as well as Damayanti's findings (2003); Abbas, et al., (2021). However, it contradicts the findings of studies undertaken by Frydenberg (2004); Pathak (2010), which indicated that firm size had

no effect on capital structure. This outcome is due to the firm's size, which does not guarantee the amount of loan finance, despite the fact that companies in the same industry have roughly similar company sizes. The profitability of the capital structure can be used to explain the size of the capital structure.

CONCLUSION

Two conclusions can be drawn based on the results of statistical tests that have been carried out by researchers based on the feasibility processes for statistical testing based on earlier references. There are two types of findings that can be drawn: first, profitability and capital structure have a negative and significant relationship. This is because the covid-19 epidemic has attacked the cable business in Indonesia in 2019-2020, causing many companies to be unable to operate as usual, and many companies that are not strong enough to deal with the situation to go bankrupt. As a result, this contradicts the trade-off theory, which was applied in this study. Second, this means that only enterprises with huge asset holdings will be able to withstand the COVID-19 epidemic, since only they will be able to guarantee the amount of debt funding.

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