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THE INFLUENCE OF SIZE, BUSINESS RISK, WORKING CAPITAL TURNOVER, AND PROFITABILITY TO CAPITAL STRUCTURE LISTED IN INDONESIAN STOCK EXCHANGE 2012 - 2014

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Abstract

This study is aimed toanalyze the influence of size, business risk, working capital turnover and profitability to capital structure of Manufacturers listed in Indonesian Stock Exchange.

The sample of this study is 180 companies listedinIndonesian Stock Exchange in 2012-2014. The sample in taken using purposive sampling method with multiple linearregressionanalysis.

The result of analysis shows that business risk and working capital turnover significantly positively influence capital structure.While size and profitability do not influence capital structure of manufacturerslisted in Indonesian Stock Exchange.

Keywords: Capital Structure, Size, Business Risk, Working Capital Turnover, Profitability

Introduction

Every company established has particular goal in order to add activity and improve company's value. In achieving the goal, funding decision is one of important factors to conduct operational activities. In making decision on funding, it is important to know exactlyhow much fund needed and the source. In addition, capital structure also holds an important role in operational funding.

Capital structure policy includes funding decision consisting of internal or external source of fund. By considering cost of capital in making decision, the company has to decide to choice internal or external source of fund.

According to Martialin (2012), size, profitability and working capital turnover do not influence capital structure.While business risk positively significantly influences capital structure.

According to Kartika (2009), business risk does not influence capital structure, asset structure and size positively significantly influence capital structure, and profitability negatively significantly influences capital structure.

According to Joni and Lina (2010) asset growth, asset structure influence capital structure. While business risk, deviden does not influence capital structure, and profitability negatively significantly influence capital structure.

According to Elsa (2012) stated that profitability does not influence capital structure. While asset structure and size positively significantly influence capital structure..

The previous studies mentioned above show inconsistent result inspiring this study to test about the influenceof size, business risk, working capital turnover, and profitability to capita lstructure. The contribution of this study is developing the study of martialin (2012) by adding one independent variable. It is expected that determinant coefficient has greater percentage. The sample chosen by this study is manufacturing industries listed in Indonesian Stock Exchange.

Hypothesis Development

The Influence of Size to Capital Structure

Size illustrates financial stage in particular period. Big size of company indicates high risk for investors, but its good financial condition enables the company to fulfill its obligation and provide great amount of return. It is supported by Putri et.al (2012) and Kartika(2009) that size positively significantly influences capital structure. Based on the explanation above, hypothesis 1 is arranged :

H_1 : Size positively influences capital structure

The Influence of Business Risk to Capital Structure

Brigham (2006) explained that risk is defined as probability for unexpected happening. Business Risk is uncertainty in business activities. Business Risk consists of intrinsic business risk, financial leverage risk, and operating leverage risk. Business risk is stimulated by great amount of loan. It also results in bankrupcy. It is supported by Martialini

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(2012) that business risk positively influences capital structure. Based on the explanation above, hypothesis 2 is arranged :

H_2 : Business Risk positively influences Capital Structure

The Influence of Working Capital Turnover to Capital Structure

Bambang (1997) stated that working capitalkeeps turning over as long as the company is operating. Working capital turnover includes downpayment for basic material, account receivable,production process,quality control, and storage. Longer working capital turnover makes greater amount of working capital. Based on the explanation above, hypothesis 3 is arranged:

H_3 : Working Capital Turnover positively influences capital structure

The Influence of Profitability to Capital Structure

Profitability Ratio is to measure the ability of company in earning profit. Myers (1984) stated that profitability negatively influencescapital structure. Based on the explanation above, hypothesis 4 is arranged:

H_4 : Profitability negatively influences capital structure

Empiric Model

Penelitian ini menggunakan variabel dependen struktur modal dan variabel independen yaitu ukuran perusahaan, resiko bisnis, perputaran modal kerja dan profitabilitas.

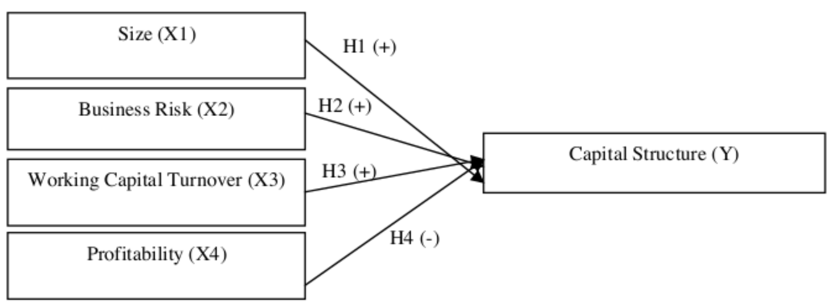

Figure 1

Methods

Sample and Data

The sample chosen by this study is all manufacturing companies listed in Indonesian Stock Exchange 2012 – 2014 using purposive sampling with criteria : the company earned profit in 2012 – 2014 and published financial statement in 2012-2014 with completed data as needed by this study. There are 180 companies as the sample,

Operational definition

Capital Structure = Debt Equity Ratio = $\frac{Long\ term\ loan}{Total\ Equity}$

Size = *ln* (total asset)

Business Risk $= \frac{Interest\ Cost}{Net\ Sales}$

Working Capital Turnover $= \frac{\text{Sales}}{\text{WorkingCapital}}$

Profitability $= \frac{\text{EAT}}{\text{Total Equity}} \text{X}100\%$

Data Analysis Method

Hypothesis test in the study is conducted by using multiple linear regression. This method is to test the influence of independent variable to dependent variable. Before doing this method, normality test and classic assumption test. Classic assuption test consists of Multicolinearity, Heteroskedastisity, and Autocorellation Test.

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Result and Discussion

Normality Test

Based on the first normality test, it is shown that 180 companies are not distributed normally. The second normality test conducted on 85 companies as the rest of outlier process shows zskewnes $= \frac{0.386}{\sqrt{6/85}} = 1.46$and zkurtosis $= \frac{0.150}{\sqrt{24/85}} = 0.282$. Skewness value is 1.46 < 1.96 and kurtosisvalue is 0.282 < 1.96. As the conclusion, regression model has been normally distributed.

The next step of analysis is classic assumption test consisting of of Multicolinearity, Heteroskedastisity, and Autocorellation Test which result is free from classic assumption problem.

Model Goodness of fit shows that Size, Business Risk, Working Capital Turnover and Profitability simultaneously influences capital structure. While r^2 test shows that Size, Business Risk, Working Capital Turnover and Profitability are able to explain 73.8% of Capital Structure. The rest 26.2% is explained by other variables.

Regression Equation DER= 0.070 + 0.000SIZE + 0.286RISK + 7.998WCT + 0.031ROE + e

The Result of hypotheesis test is:

SIZE has $\beta 1= 0.000$ and significancevalue $0.735 > 0.05$. It means that SIZE does not influence capital structure, therefore **$H_1$is rejected.** Theoretically, size positively significantly influences capital structure. It implies that big company needs more fund and one of funding sources is external source. It means that bigger companytends to have greater amount of loan than the smaller one. On the other hand, big company also has greater capital. It makes the company does not need external funding source. The result of this study is supported by Mertialin (2012) that size does not influence capital structure.

Business Risk has $\beta 2= 0{,}286$ and significance value $0.000 < 0.005$. It means that Business Risk positively significantly influences capital structure, therefore**H_2 is accepted.** This study suggests that investors prefer high business risk due to high return. The result of this study is supported by Mertialin (2012) that business risk positively significantly influences capital structure.

Working Capital Turnover has$\beta 3= 7.998$ and significance value $0.008 < 0.05$. It means that Working Capital Turnover positively significantly influences capital structure, therefore**H_3 is accepted**

Profitability has$\beta 4= 0{,}031$ and significance value $0{,}000 < 0{,}05$. It means that profitability positively significantly influences capital structure, therefore **H_4 is accepted.** The company with high return on investment has smaller amount of loan. High return enables the company to cover all kinds of operational expenses. High return provides great amount of internal fund in form of retained earning.The result of this study is supported by Widodo (2014) that profitability positively significantly influences capital structure.

Conclusion

This study analyzes whether size, business risk, working capital turnover, and profitability influence capital structure. It is done on manufacturing company listed in Indonesian Stock Exchange in 2012 – 2014. It is concluded that size does not influence capital structure. While business risk, working capital turnover, and profitability influence capital structure of manufacturing companies.

Implication

For company management, it is suggested to pay more attention to business risk in making decision about capital structure. It is expected to make optimal capital structure policy. For investor, it is also suggested to pay more attention to business risk in making decision about investment by considering capital structure.

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