

THE INFLUENCE OF COMPANY SIZE, PROFITABILITY AND LIQUIDITY ON CAPITAL STRUCTURE IN FOOD AND BEVERAGE COMPANIES ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

This research was conducted to develop previous research, considering the importance of information regarding the factors that influence the amount of debt owned by a company, the problem in this research is to know and analyze the influence of company size, profitability and liquidity. Simultaneously or partially influence the capital structure of food and beverage companies on the Indonesia Stock Exchange, and the results obtained show that, simultaneously or partially, company size, profitability and liquidity influence the capital structure of food and beverage industry companies listed on the Indonesia Stock Exchange.

Keywords: company size, profitability, liquidity and capital structure

INTRODUCTION

In an optimal capital structure, managers should choose a capital structure that will maximize the company's share price and minimize average capital, to achieve a balance between risk and return on capital (Ni Putu Deshinta Damayanti and I Made Dana, 2017). The food and beverage industry is one of the sectors closest to society and is one of the business sectors that will continue to experience growth. Along with the increasing population growth in Indonesia, consumer demand for food and drinks will continue to increase (Arini, 2014). Increased growth in the food and beverage sector will increase competition. Companies must adopt a policy to increase sales volume and other policies to maintain the continuity of company operations (Lusangadji, 2012).

The high development of manufacturing companies in Indonesia can be seen from the increasing number of companies registered on the IDX from

period to period (Devi Esa Putri, 2016). Company size describes the size of a company which can be expressed by the total assets owned. Where if the company has large assets, then the company management has more freedom in using the assets to carry out the company's operational activities (Arini, 2014). Companies with large assets will find it easier to enter the capital market. This ease is obtained from the view that companies that have large assets have a more secure ability to bear business risks (Dewi and Airy, 2013).

The ideal level of liquidity is a condition desired by every company. Where liquidity is the ability of an asset or instrument to change form into cash or cash equivalents. The different composition of each current asset and current debt will have quite a large influence on the actual level of liquidity (Randa, et al, 2018).

The company's goal is to obtain maximum sales results and an optimal

amount of assets in running the company. The size of the company's assets greatly determines the size of the company. Company size as proxied by the natural log of total assets (Fahmi, 2012). Company size (size) is a description of the size of a company. The size of the company can be seen from the business field it is running (Irza, 2015).

Profitability is the company's ability to earn profits through its business operations using asset funds owned by the company. Another definition also states that profitability shows the company's ability to generate profits and measures the level of operational efficiency and efficiency in using assets owned (Ni Putu Deshinta Damayanti and I Made Dana, 2017).

The liquidity ratio is used to measure a company's ability to meet its short-term obligations, the short-term (or current) resources available to fulfill these obligations (Dian Kusumawati and Muhammad Safiq, 2019). One of the liquidity ratios that will be used in this research is the current ratio. The current ratio is the ratio between current assets and current liabilities. The liquidity ratio shows the company's ability to pay its short-term obligations using its current assets. Usually, current assets consist of cash, marketable securities, receivables, and inventory; while current liabilities consist of cash, securities, receivables and inventories; while current liabilities consist of short-term bank debt or other debt with a maturity of less than one year (Nurapiah, 2020).

The capital structure is the balance or comparison between foreign capital (long term) and own capital. Capital structure theory explains the influence of changes in capital structure on company value, If investment decisions and dividend policies

are held constant. The company's internal funding sources come from retained earnings and depreciation. Funds obtained from external sources are funds from creditors and owners, participants or taking part in the company (Dela Khoiriyah and Rosyeni Rasyid, 2020).

This research discusses the influence of financial ratios of company size, liquidity and profitability on capital structure. The independent variables are financial ratios in the form of Company Size Liquidity and Profitability ratios which are proxied by Company Size, Return On Assets (ROA) and Current Ratio (CR), and the dependent variable in this research is capital structure, so the aim of this research is to determine and analyze the influence of company size, profitability and liquidity on the capital structure of food and beverage companies on the Indonesia Stock Exchange, both simultaneously and partially

METHOD

The research method used is the verifiable research method. The verification method is a research method that aims to determine the quality relationship between variables through hypothesis testing and through statistical calculations to obtain evidentiary results that show the hypothesis is rejected or accepted (Ghozali, 2012). This research was conducted on food and beverage companies listed on the Indonesian Stock Exchange (BEI). The objects of this research are company size, profitability and liquidity.

This research uses quantitative data, namely data obtained through document studies in the form of financial reports of food and beverage companies listed on the Indonesia Stock Exchange (BEI). In obtaining data that is related to this

research, The author uses documentation techniques, namely data collection by collecting documents or annual financial reports and other data that are considered to be closely related to this research.

According to Sugiyono, the definition of the population is a generalized area consisting of objects/subjects that have certain qualities and characteristics determined by researchers to be studied and conclusions drawn (Widarjono, 2013). The population in this research is all 18 food and beverage industry companies listed on the Indonesia Stock Exchange (BEI). Sample selection was carried out using the purposive sampling method with the aim of obtaining a representative sample according to the specified criteria. The criteria used in this research and companies that meet the criteria are:

1. Food and beverage industry companies listed on the Indonesia Stock Exchange (BEI).
2. Food and beverage industry companies that have published complete financial reports as of December 31 for consecutive financial years.
3. The company has positive profits
4. The company has data, according to needs and related to this research.

In panel data regression analysis, there are several types of data available for statistical analysis, including time series data, cross-section data. Panel data is a combination of time series and cross section data. Panel data is also often called pooled data (pooling time series and cross-section), micropanel data, longitudinal data, event history analysis, and chord analysis. All of these terms have the meaning of movement over time of cross-sectional units. In simple terms, panel data can be defined as a data set (dataset) in which the behavior of cross-sectional units is observed over time. (Ghozali; 2012).

The regression model in this research was carried out using an analysis tool,

namely Eviews 8. Panel data technique (Iqbal, et al, 2022), namely by combining cross-section and time series data types, provides several advantages, namely: By combining time series and cross-section data, panel data provides data that is more informative, more varied, has a lower level of collinearity between variables, a greater degree of freedom and is more efficient.

By analyzing cross-section data over several periods, panel data is appropriate for use in dynamic change research (Iqbal, et al, 2022). This research uses a panel data regression test with a random effect model. The equation used in a panel data multiple regression with the random effect model is as follows:

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \alpha_i + u_{it}$$

Information :

Y : Capital structure
a : Constant
b : Regression Coefficients
X1 : Company size
X2 : profitability
X3 : Liquidity
 α_i : Random Effect on the I-thi-th observation
uit : Standard Error

RESULTS AND DISCUSSION

The average company size calculation for all issuers has increased every year. One of the benchmarks that shows the size of the company is the size of the company's assets. Companies that have large total assets indicate that the company has reached the maturity stage where at this stage the company's cash flow is positive and is considered to have good prospects in a relatively long period of time (Nurapiah, 2019).

Profitability (ROA) shows that the company uses more assets to finance its company operations. The average profitability (ROA) calculation for all issuers decreases every year, This shows

that the company's profitability (ROA) tends to be low every year, which means the company's ability to generate profits is also low.

The calculation of the average Liquidity (CR) for all issuers has increased every year, this shows that the higher the current ratio, the greater the company's ability to meet short-term financial obligations. Debt to equity ratio (DER) is a ratio that compares total debt with equity. This ratio measures how far the company is financed by debt, where the higher this ratio reflects unfavorable symptoms for the company.

The calculation of the average DER for all issuers continues to change from year to year, thus the DER value fluctuates every year. The greater this ratio, the greater the obligation and vice versa. This increase in debt will affect the level of net income available to shareholders, this means that the company's high liabilities will further reduce the company's ability to pay dividends.

Regression with panel data requires choosing several of the most appropriate approach models for estimating panel data, namely the Common Effect, Fixed Effect model approaches, and Random Effect Approach with the Common Effect model is the simplest approach for estimating panel data. Where the approach ignores the time and space dimensions of panel data. The method used to estimate with an approach like this is the biased OLS regression method so it is often called pooled OLS or common OLS model (Ghozali; 2012).

The fixed effect model approach assumes that there are differences between objects even though the same regressor coefficients are used. Fixed effect here means that one object has a constant magnitude that remains for various periods

of time, Likewise with the regression coefficient (Widarjono; 2013). This random effects approach uses various variations of the Least-Squared Dummy Variable (LSDV) or Fixed Effect Model (FEM) models. Even though it is easy and directly applicable, however, it is considered that it still has various shortcomings and problems, especially in the degree of freedom if we have a cross-sectional unit. Therefore, the approach offered to answer this is the Error Component model (ECM) or Random effect model (REM).

The regression results use the common effect and fixed effect approach models. The regression results from the two models have different results. The fixed effect approach has a larger adjusted R-square compared to the adjusted R-square of the common effect approach. The Durbin-Watson value in the common effect approach model is smaller than using the fixed effect approach. To determine a better approach model, Fixed effect tests must be carried out. Test the fixed effect test by looking at the significant F value.

If the F value is significant, then it means the fixed effect model is better than the common effect model or in other words the fixed effect model provides significant added value compared to the common effect. The fixed effect model shows the magnitude of the adjusted R-squared value, which means the magnitude of the simultaneous contribution of the four independent variables to the capital structure of the food and beverage industry listed on the Indonesian stock exchange.

The first hypothesis in this research is that company size, profitability and liquidity simultaneously have a significant effect on the capital structure of food and beverage companies on the Indonesian

Stock Exchange. So the first hypothesis is accepted.

The second hypothesis in this research is that company size has a significant effect on the capital structure of the food and beverage industry listed on the Indonesian stock exchange (BEI). thus proving that company size has no significant effect on the capital structure of the food and beverage industry listed on the Indonesian Stock Exchange (BEI) so that hypothesis two is rejected.

The third hypothesis in this research is that profitability has a significant effect on the capital structure of the food and beverage industry listed on the Indonesian Stock Exchange (BEI). Thus proving that profitability has no significant effect on the capital structure of the food and beverage industry listed on the Indonesian stock exchange. So the third hypothesis is rejected.

The fourth hypothesis in this research is that liquidity has a significant effect on the capital structure of the food and beverage industry listed on the Indonesian Stock Exchange (BEI). Thus proving that liquidity has no significant effect on the capital structure of the food and beverage industry listed on the Indonesian stock exchange. So the fourth hypothesis is rejected.

Companies with high liquidity have large internal funds, so these companies will use their internal funds first to finance their investments before using external financing through debt (Nurapiah, 2014). According to the Pecking Order Theory, companies that have high liquidity will tend not to use debt financing. This is because companies with a high level of liquidity have large internal funds so that the company will use its internal funds first to finance investments before using

external financing through debt (Arini, 2014).

Liquidity has no effect on capital structure. This is because the higher the company's ability to pay off its short-term obligations, this can indicate that the company is in a healthy condition, explained in the pecking order theory where companies rely more on internal funds first to finance investments so that if there is a shortage then external funding is sought (Nurapiah, 2015).

CONCLUSION

Simultaneously, company size, profitability and liquidity have a significant effect on capital structure in food and beverage industry companies listed on the Indonesian Stock Exchange (BEI). Partially, company size has no significant effect on capital structure in food and beverage industry companies listed on the Indonesia Stock Exchange (BEI). Partially, Profitability has an insignificant effect on the capital structure of food and beverage industry companies listed on the Indonesia Stock Exchange (BEI) and partially Liquidity has an insignificant effect on the capital structure of food and beverage industry companies listed on the Indonesia Stock Exchange (BEI).

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