Capital Structure, Business Risk and Corporate Performance: The Case of Consumer Goods Companies on the Indonesia Stock Exchange

Sutrisno Sutrisno[1]

[1]Universitas Islam Indonesia, Faculty of Business and Economics, Condongcatur, Yogyakarta, Indonesia

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Abstract

One of the company's goals is the company's survival, where to maintain survival, the company must be able to generate profits. The purpose of this study is to examine the factors that influence profitability. Factors that are suspected of influencing profitability are capital structure, business risk, asset structure, firm size and sales growth. Profitability is measured by return on assets (ROA), capital structure is measured by debt to equity ratio (DER), business risk is measured by degree of operating leverage (DOL), firm size is measured by total assets, and company growth is measured by sales growth. The population in this study were consumer goods sector companies listed on the Indonesia Stock Exchange, with a sample of 33 companies with an observation period of 3 years. Hypothesis testing using multiple regression. The results showed that capital structure, firm size and sales growth had a significant negative effect on profitability. Asset structure had a significant positive effect and business risk had an effect on profitability.

Keywords: profitability, capital structure, business risk, assets structure, firm growth

1. Introduction

A great company is a company that can grow and develop over time. In order to grow and develop, a company must be able to generate optimal profitability in order to finance its growth (Singh and Bagga 2019). Profitability is the company's ability to generate profits both with all assets (return on assets) and with its own capital (return on equity) (Nguyen et al. 2023). High profitability indicates the health of the company which can later be used to develop its business (Gill, Biger, and Mathur 2011). Shareholders also want high profitability, because it will be able to increase the value of the company (Shubita and Alsawalhah 2012). Thus, profitability can be a very important foundation for the sustainability and growth of a business in the long term. There are several factors that affect profitability, including capital structure, asset structure, business risk, company growth and firm size. Capital structure is the result of the policy of selecting sources of funds used by the company. The company's sources of funds can come from the owner in the form of equity, and can come from external funds in the form of debt (Sanica et al. 2023). The comparison between the amount of debt and equity is called the capital structure (Rosario and Chavali 2019). Debt is a source of funds from creditors that imposes a fixed burden in the form of interest that must be paid whether the company makes a profit or suffers a loss (Xu 2012). Therefore, debt is a source of funds with high risk because the company must pay interest regularly. The higher the capital structure indicates the higher the debt, and the higher the company's risk (Jouida 2018). However, Modigliani and Miller (1958) said that the higher the capital structure will increase the value of the Company. Research from Mansikkamaki (2023) and Novitasari and Sunarto (2021) shows a positive effect between capital structure and profitability. On the other hand, the results of research from (Irawan et al. 2022), (Shubita and Alsawalhah 2012), and (Manurung, Suhandak, and Nuzula 2014) actually found a negative effect between capital structure and profitability.

One of the vital functions in a manufacturing company is fixed assets used to produce goods. The higher the fixed assets, the greater the company's ability to produce goods (Priatna, Anggraini, and Ananda 2023). The high fixed assets can be seen from the asset structure which is the ratio of fixed assets to total assets. Thus, the higher the asset structure, the greater the company's ability to produce goods (Al-Slehat 2019). The results of research from Buana and Khafid (2018), Al-Slehat (2019) and (Priatna, Anggraini, and Ananda 2023) found a significant positive effect between asset structure and profitability. While some researchers found that asset structure had no effect on company performance (Julius, Ighoroje, and James 2021 and Grediani and Dianingsih., 2022). Every business that is run, regardless of the business sector, must have risks where the size of the risk depends on the business sector (Nugroho and Halik 2020). There are two types of risks faced by companies, namely business risk and financial risk. Business risk is related to the survival of the company, where the company must be able to generate sales to cover operating costs. This business risk is often measured by the degree of operating leverage, namely the company's ability to cover all its operating costs Buana and Khafid (2018). The results of research on business risk and corporate performance are still not strong (robust), because Al-Slehat (2019) and (Suharti, Hakin, and Akbar 2023) found a positive effect of asset structure on corporate performance, while Nugroho and Halik (2020) did not find an effect between asset structure and corporate performance, even Buana and Khafid (2018) found that business risk had a negative effect on financial performance. Corporate performance is also influenced by the size of the company. Large companies have much greater resources and have a better ability to gain market share (Bolívar, Duran, and Lozano-Vivas 2023). The size of the company is often referred to as the size of the company which is measured by total assets, meaning that the larger the company's total assets, the larger the size of the company. Large companies usually also have a good business reputation so that they are widely known by consumers so that they are able to generate high sales (Shubita and Alsawalhah 2012). Thus, firm size will be able to improve corporate performance such as the results of research from Mansikkamaki (2023), (Wijaya, Harjono, and Mahadwartha 2022) and (Shubita and Alsawalhah 2012) which found a positive effect between firm size and corporate performance. However, with increasing assets, management must be careful because large asset burdens will actually burden profitability, because profitability as measured by return on assets (ROA) can decrease due to high asset burdens. Therefore, several researchers found a negative effect between firm size and corporate performance (Thailab 2014, Novitasari and Sunarto., 2021, Yadav, Pahi, and Gangakhedkar., 2022, Rahmiyati, 2022, and Irawan et al,. 2022)

One of the main goals of a company is to be able to grow and develop well in order to survive longer (Rahmiyati, 2022). Management strives for company growth as measured by sales growth to always increase so that the profits obtained can also increase (Wijaya et.al., 2022). Therefore, company growth will be able to increase profits which will ultimately improve corporate performance. Mansikkamaki (2023), Yadav et.al (2021), Jaisinghani and Kanjilal., (2017), and (Rahmiyati, 2022) found that sales growth had a significant positive effect on financial performance. However, Sanica et al. (2023), Irawan et al., (2022), Nugroho and Halik (2020), and Novitasari and Sunarto (2021) actually found a negative effect between sales growth and profitability.

2. Theoretical Review and Hypotheses Development

Corporate Performance

Company management is elected by shareholders through the General Meeting of Shareholders (GMS) to run the company in order to improve the company's performance (Bolívar, Duran, and Lozano-Vivas 2023). The company's main performance can be measured by the company's ability to generate profits or profitability (Lim et al. 2024). Profitability can be measured by various proxies such as return on assets, return on equity, return on investment, profit margin and several other profitability measures. According to Suharti, Hakin, and Akbar (2023), return on assets (ROA) is the company's ability to generate profits with all assets owned by the company, so that ROA is formulated by dividing profit before interest and taxes by total assets. While return on equity (ROE) is the company's ability to generate profits with the equity owned, so that the ROE formulation is profit after tax divided by total equity (Nguyen et al. 2023). Return on investment is the company's ability to generate profits with all invested funds.

Profitability can also be measured by comparing the profit obtained with sales, so that there is a profit margin, net profit margin, namely the company's ability to earn profit before interest and tax (profit margin) or profit after tax (net profit margin) compared to its sales (Wijaya, Harjono, and Mahadwartha 2022). The main financial performance is the company's ability to generate profit.

Capital structure and corporate performance

Capital structure occurs because the company in operating uses financing sources from external sources in the form of debt. The proportion of debt to equity is what is called the capital structure which is measured by the debt to equity ratio (DER) (Xu 2012). There is not a single company that does not use debt to support its operations. Therefore, in order for the company to grow faster, the company must use sources of funds from debt. Indeed, sources of funds from debt have a high risk because the company must bear a fixed burden in the form of interest. Interest is a cost burden from debt that must be borne and becomes a cost, therefore the greater the debt will reduce profits (Manurung, Suhandak, and Nuzula 2014). Research results from Irawan et al. (2022), Shubita and Alsawalhah (2012) and Jouida (2018) found that capital structure has a negative effect on financial performance. Therefore, the hypothesis proposed is:

H_1: Capital structure has a negative effect on corporate performance

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Asset structure and corporate performance

Asset structure is a comparison between fixed assets and total assets, meaning that the higher the asset structure, the greater the fixed assets. These fixed assets are used to produce products, meaning that the larger the asset structure, the greater the company's production and the higher the sales (Grediani and Dianingsih 2022). Profit is obtained from the difference between sales and costs, so that the higher the sales, the greater the profit obtained. Therefore, the asset structure will improve financial performance. The results of research from Buana and Khafid (2018), Al-Slehat (2019), Priatna, Anggraini, and Ananda,. (2023) found that the asset structure as measured by fixed assets to total assets (FTA) has a positive effect on corporate performance. Thus the hypothesis proposed is:

H_2: Asset structure has a positive effect on corporate performance

Business risk and corporate performance

Every business must have risks, both financial risks and business risks, because risks cannot be avoided but can be controlled. Business risk measured by the degree of operating leverage (DOL) is a risk caused by a company using large fixed assets so that it must bear fixed costs. Business risk if not managed properly will reduce profitability. Makkawi (2021) who conducted research in Romania found a negative effect between business risk and company performance. Likewise, Buana and Khafid (2018) who conducted research in Indonesia also found a negative effect of business risk on financial performance. Thus, the third hypothesis proposed is:

H_3: Business risk has a negative effect on corporate performance

Firm size and corporate performance

Firm size is the size of a company which is usually measured by its total assets. Companies with large sizes usually have good economies of scale and have market control, so they are able to sell their products well. A large firm size also allows for business diversification (Prasetiawati and Sudana 2019). Therefore, a large firm size can increase its profitability. Several research results such as Mansikkamaki (2023), Bolívar, Duran, and Lozano-Vivas (2023), and Shubita and Alsawalhah (2012) found a positive effect of firm size on profitability. Thus, the following hypothesis can be made:

H_4: Firm size has a positive effect on corporate performance

Company growth and corporate performance

A company that has good prospects is a company that always experiences growth. The better the company's growth, the more opportunities it has to develop well. Company growth is measured by sales growth, if the company can control costs, the company will be able to increase its profitability. This means that the higher the company's growth, the higher its profitability. Research results from Santoso and Hersugondo (2023), Rahmiyati (2022), Fuertes-Callén and Cuellar-Fernández (2019), Yadav, Pahi, and Gangakhedkar (2022), and Wijaya, Harjono, and Mahadwartha (2022) found that company growth has a positive effect on company profitability. Therefore, the hypothesis proposed is:

H_5: Company growth has a positive effect on corporate performance.

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Research conceptual framework

The influence of capital structure, asset structure, business risk, firm size and company growth can be described in the following research conceptual framework:

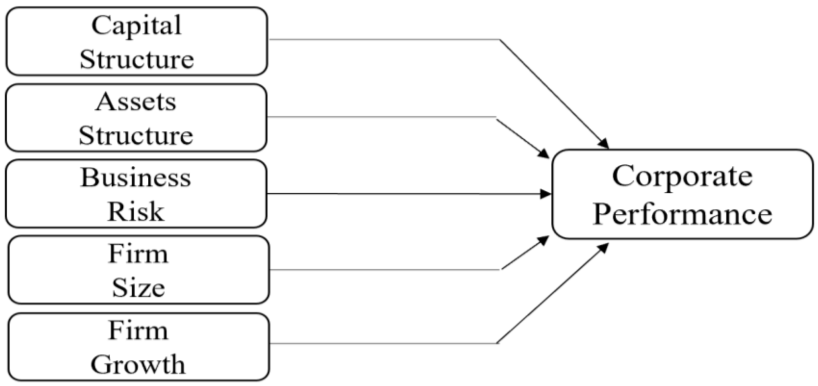

Figure 1: Research Framework Concept

3. Method

Population and Sample

The population in this study were companies engaged in the consumer goods industry and listed on the Indonesia Stock Exchange (IDX) totaling 57 companies. The sample taken was 33 companies using the purposive sampling technique. The observation period was 3 years, so that 99 observation data were collected. The research data were taken from the sample company website and from the Financial Services Authority (OJK) website.

Research variables

In this study, there is one dependent variable, namely corporate performance as measured by return on assets (ROA) and five independent variables consisting of capital structure as measured by debt to equity ratio (DER), asset structure as measured by fixed assets to total assets (FTA), business risk as measured by degree of operating leverage (DOL), firm size, and company growth as measured by sales growth. The following table is the measurement of each variable:

Table 1: Variable Measurement

No	Variable	Notation	Measurement
1	Capital structure	DER	Total debt/Total equity
2	Asset structure	FTA	Fixed assets/Total assets
3	Corp Performance	ROA	Earning After Tax/Total assets
4	Busniess risk	DOL	% Δ EBIT/% Δ Sales
5	Firm size	SIZE	Ln Total assets
6	Sales growth	GRW	$(Sales_t - Sales_{t-1})/Sales_t$

Data Analysis

To test the hypothesis, this study will use multiple regression analysis with a significance level of 0.05, with the provision that if the t-test produces a significance value <0.05, then the hypothesis is accepted, and if the significance value> 0.05 then the hypothesis is rejected. The following is the multiple regression equation:

$$ROA = \alpha + \beta_1 DER + \beta_2 FTA + \beta_3 DOL + \beta_4 SIZ + \beta_5 GRW + \varepsilon$$

where:

ROA = corporate performance
DER = capital structure
FTA = asset structure
SIZ = firm size
GRW = firm growth

4. Results and Dicussion

Descriptive statistics

Based on the data that has been collected and tabulated, a data description for each variable can be provided as follows:

Table 2: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	99	-1.37	8.30	.1719	.91304
DER	99	-2.13	13.55	1.0737	1.63664
FTA	99	.06	1.61	.4025	.25162
DOL	99	-4.23	43.58	.8763	5.25931
SIZ	99	8.83	19.01	14.1800	1.90155
GRW	99	-1.00	2.47	.0378	.42566
Valid N (listwise)	99				

Source: Data diproses

Table 2 shows that corporate performance as measured by return on assets (ROA) is relatively low because it has an average value of 0.1719% with a maximum value of 8.30% and a minimum of -1.37%. The capital structure as measured by the debt to equity ratio (DER) shows 1.07 times or 107% of its equity value with a maximum value of 13.55 times and a minimum of -2.12 times. The asset structure as measured by fixed assets to total assets (FTA) shows an average value of 0.40 times, meaning that its fixed assets are an average of 40% of its total assets with a maximum value of 1.61 times and a minimum of 0.06 times. Meanwhile, business risk as measured by the degree of operating leverage (DOL) has an average value of 0.876 with a maximum value of 4.58 and a minimum (-4.23). Company growth as measured by sales growth shows an average value of 3.78% with a maximum value of 247% and a minimum of 100%.

Hypothesis Test Results

Hypothesis testing using multiple regression and processed using SPSS, produces a t-test with the results in table 3 below:

Tabel 3: Hypotheses Result Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.689	0.681		2.481	0.015
	DER	-0.109	0.052	-0.195	-2.075	0.041
	FTA	0.611	0.357	0.168	1.709	0.091
	DOL	-0.013	0.016	-0.075	-0.799	0.427
	SIZ	-0.114	0.046	-0.238	-2.505	0.014
	GRW	-0.375	0.209	-0.175	-1.791	0.077

a. Dependent Variable: ROA

Source: Data diproses

Based on table 3 above, the capital structure variable (DER) produces a significance value of 0.041 with a negative coefficient, less than 0.05. Thus, the hypothesis that states that capital structure has a negative effect on corporate performance is proven, meaning that the higher the capital structure, the lower the corporate performance. This is understandable, because a high capital structure indicates high debt and high debt has the consequence of a fixed burden in the form of high interest costs. This high interest expense will reduce the company's profits, because interest costs reduce income and cause a decrease in profits. This result is in accordance with the research results of Irawan et al. (2022) which found that capital structure has a negative effect on profitability. Likewise, the research of Shubita and Alsawalhah (2012) and Manurung, Suhandak, and Nuzula (2014) which examined companies in Indonesia also found a negative effect between DER and ROA. The second hypothesis test found that the asset structure variable as measured by the fixed assets to total assets ratio (FTA) produced a significance value of 0.091, which is greater than 0.05, so it can be concluded that the hypothesis is rejected. Thus, the asset structure has no effect on corporate performance. These results indicate that the company is less efficient in managing its fixed assets. As found by Buana and Khafid (2018) that if the company is able to use assets efficiently, the asset structure will have a positive effect on profitability. This result also contradicts the research results (Al-Slehat 2019) and Priatna, Anggraini, and Ananda (2023) which found that FTA had a significant positive effect on company performance. However, these results support the research results of Julius, Ighoroje, and James (2021) and Grediani and Dianingsih (2022) which found that the asset structure had no effect on corporate performance. The results of the third hypothesis test stating that business risk as measured by the degree of operating leverage (DOL) has a negative effect on corporate performance, produces a significance value of 0.427 which is greater than 0.05, so it can be concluded that the hypothesis is rejected, meaning that business risk does not affect corporate performance. Business risk cannot be avoided, so company management must be able to identify risks and mitigate risks. Kristina and Wijaya (2017) stated that the risk of the food and beverage business is small if it can be controlled properly. If the risk can be controlled properly, it will not affect the company's profitability. This result is also in line with the results of research from Nugroho and Halik (2020) which found that business risk had no effect on corporate performance. This result is not in accordance with research from (Buana and Khafid 2018) and Prasetiawati and Sudana (2019) which found a negative effect between business risk and profitability. On the other hand, Al-Slehat (2019) found that business risk had a positive effect on financial performance.

The results of the fourth hypothesis test which states that firm size has a positive effect on corporate performance, produces a significance value of 0.014 which is smaller than 0.05 with a negative coefficient. Thus, it can be concluded that the hypothesis is rejected, because the direction of the influence is actually negative. This result is inconsistent with the logic that the larger the company has a reputation in the eyes of the public, the more it can increase sales and profits. However, the increase in profit obtained as a proxy for corporate performance is not comparable to the increase in assets as a proxy for firm size. Return on assets (ROA) is measured by comparing profit after tax with total assets, so if the assets are too large it will reduce profits. This is in line with the results of research from Santoso and Hersugondo (2023), Rahmiyati et al. (2023), Irawan et al. (2022), Yadav, Pahi and Gangakhedkar (2022), Novitasari and Sunarto (2021), Thailab (2014), Jaisinghani and Kanjilal (2017) who found a negative effect between firm size and corporate performance. The results of the fifth hypothesis test stating that sales growth has a positive effect on corporate performance were not proven, because the results of the statistical test produced a significance value of 0.077> 0.05, meaning that sales growth does not have a significant effect on corporate performance. This result contradicts the theory that states that sales growth will cause profit growth. This is possible if sales growth is also followed by higher cost growth, so that profits decline or stagnate. These results are in accordance with research from Sanica et al. (2023), Irawan et al. (2022), Nugroho and Halik (2020), and Novitasari and Sunarto (2021) which found that sales growth had no effect on financial performance.

5. Conclusions

Based on the results of the hypothesis test and discussion, it can be concluded that only one hypothesis is proven, namely that capital structure has a significant negative effect on corporate performance. Meanwhile, asset structure, business risk and sales growth do not affect corporate performance. While firm size actually significantly affects corporate performance, but the direction of the influence is negative and does not match the hypothesis proposed, so the conclusion is also rejected.

This research is expected to be utilized by several parties such as the management of consumer goods industry companies, especially related to the determinants of corporate performance. It can also be utilized by academics as an additional reference on the topic of capital structure and company performance. This research also still has many shortcomings, so that further researchers can develop it further by adding variables that affect financial performance.

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