The International Journal of Business Management and Technology, Volume 7 Issue 1 January-February 2023
ISSN: 2581-3889

Analysis of the Effect of Capital Structure on Company Profitability

(Empirical Study of FMCG (Fast Moving Consumer Goods) Companies Listed on the Indonesia Stock Exchange in 2018-2020)

Cendana Kusumawardhani[1], Fauzan[2]

1) *Faculty of Economics and Business, University of Muhammadiyah Surakarta, Indonesia*
2) *Faculty of Economics and Business, University of Muhammadiyah Surakarta, Indonesia*

Abstract: The purpose of this research is to analyze and find empirical evidence regarding the effect of capital structure on profitability. The population in this study are Fast Moving Consumer Goods companies listed on the Indonesia Stock Exchange in 2018-2020. By using purposive sampling as the sampling method, a total sample of 105 Fast Moving Consumer Goods companies registered on the IDX was obtained in 2018-2020. Data processing uses multiple linear regression analysis with the help of the SPSS program. Based on these tests, it was found that the Long-term Debt to Assets and Debt to Equity Ratio have an effect on profitability, while the Short-term Debt to Assets and Total Debt to Assets have no effect on profitability.

Keywords: Capital Structure, Profitability, Short-Term Debt To Assets, Long-Term Debt To Assets, Total Debt To Assets, Debt To Equity Ratio

I. INTRODUCTION

The rapid pace of economic growth and increasing globalization mark an increasingly advanced economic development. At present, the competition among economic players is getting tougher. Companies must compete fiercely in order to maintain their economy. Competition in the world economy, especially in the FMCG (Fast Moving Consumer Goods) industry in the 4.0 era, is very tight. FMCG (Fast Moving Consumer Goods) companies are growing and starting to appear everywhere, so they must continue to innovate creatively and develop rapidly if they do not want to be left behind by other FMCG (Fast Moving Consumer Goods) companies. Companies that have gone public aim to increase the prosperity of owners or shareholders through increasing corporate value (Salvatore, 2005).

In setting up a company, especially FMCG, adequate funds are needed to ensure the sustainability of a company. According to Hilmi (2010), funding problems refer to capital, both at the time of establishment, when the company is running normally, or when the company is expanding its business. The company's management is tasked with setting achievement targets for the capital structure supported by funding from the company. A company is said to be successful if its management gets profitability. Brigham (1993:39) in his book "Managerial Finance" suggests profitability as follows: "Profitability is the result of a large number of policies and decisions".

G. Sugiyarso and F. Winarni (2005:118) define profitability as "the company's ability to earn profits in relation to the sale of total assets and equity". Profitability ratios consist of Profit Margin, Basic Earning Power, Return On Assets, and Return On Equity. Profitability ratios will provide an overview of the level of effectiveness of company management. The greater the ratio, the better, because the success of the company owner increases with higher profitability.

Based on research by Gill et al. (2011) profitability ratios are measured by return on equity (ROE) with control variables namely, firm size, sales growth, and total asset turnover. ROE is a financial scale used to estimate the profitability of equity. This scale determines the company's strength in generating net income to return shareholder equity, where the greater the ROE, the better the company's performance.

The author's reason for choosing an FMCG (Fast Moving Consumer Goods) company or is because the company is always growing rapidly and innovating quickly as well as a very broad market expansion when compared to other companies. The Fast Moving Consumer Goods (FMCG) company itself is a company that produces goods that are easy to sell, sell fast, and product prices are relatively affordable.

I. Theoretical Background

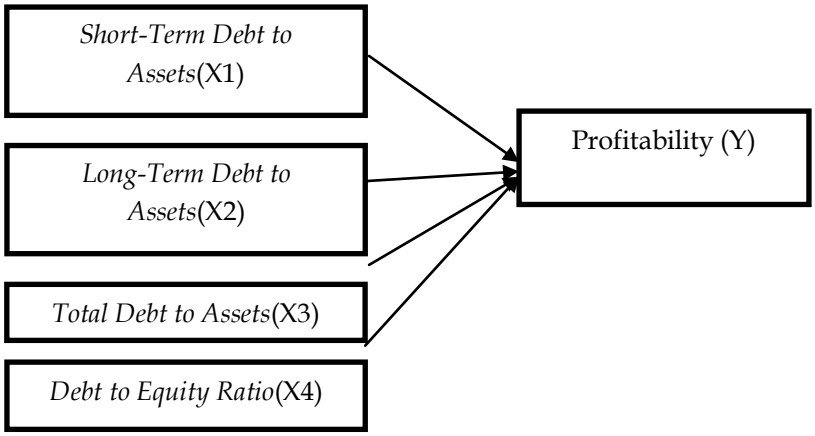
Capital Structure

Frank J Fabozzi and Pamela Peterson (2000) define that capital structure is a combination of debt and equity used to fund company projects. Meanwhile, J. Fred Weston and Thomas E Copeland (1996) state that the capital structure is fixed funding consisting of long-term debt, preferred stock, and shareholder capital. It can be concluded that the capital structure is a combination of debt and equity that is used to fund the operations of a company. This capital structure is very crucial for a company because it contains a combination of debt and equity. The condition of a company's capital structure greatly impacts a company's finances which will affect the company's profitability.

Profitability

According to Kasmir (2016: 196) the profitability ratio is a ratio to assess a company's ability to make a profit. This ratio also provides a measure of the effectiveness of a company's management. This is demonstrated by the profit generated from sales and investment income. The point is the use of this ratio shows the efficiency of the company.

Research Framework



II. Methodology

Types of research

This type of research is descriptive quantitative and hypothesis testing.

Population and Sample

The population in this study namely Fast Moving Consumer Goods (FMCG) companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. In this study, purposive sampling was used as a data collection technique, so that the total sample used was 135 company data during 2018-2020. The sampling criteria in this study are:

a. Companies that publish their annual financial reports (annual reports) for the period 2018 to 2020.

b. Companies with the fulfillment of financial ratios where these ratios become a measure in research.

c. Companies were listed continuously during the study period

d. Has a high company capitalization.

Method of collecting data

The technique used to collect data is the documentation technique, which is a technique for understanding data by combining or collecting company records. The data collected in this study are current assets, total assets, current liabilities, total liabilities and total equity. The data obtained is data that has been published by the Indonesia Stock Exchange and the company's website.

Definition of variables

Profitability

$$Return\ on\ Equity = \frac{\text{Net Profit}}{\text{Equity}} x100\%$$

Short-term Debt to Assets

$$\text{STDs} = \frac{short-term\ \ og\ liability}{Total\ \ Assets}$$

Long-term Debt to Assets

$$\text{LTD} = \frac{Long-term\ \ of\ liability}{Total\ \ Assets}$$

Total Debt to Assets

$$\text{TDA} = \frac{Short-term\ \ of\ liability\ \ +long-term\ \ of\ liability}{Total\ \ Assets}$$

Debt to Equity Ratio

$$\text{DER} = \frac{Liability}{Equity}$$

Data analysis method

The data analysis method used in this study is the Ordinary LeastSquare (OLS) method, withthefollowingresearch model:

ROE = α + STDX1 + LTD X2 + TDA X3+ DER X4+ e

Information:

ROE	:Profitability
STD	:*Short-term Debt to Assets*
LTD	:*Long-term Debt to Assets*
TDAs	:*Total Debt to Assets*
DER	:*Debt to Equity Ratio*
α	: constant
β1,.β2,β3.β4	: Regression coefficient
e	: Standarderror

III. RESULTS

Sampling Table

Information	Amount
Fast Moving Consumer Goods Companies Registered in Bei for the 2018-2020 Period	75
Property and Real Estate Companies That Do Not Present Complete Annual Reports	(30)
Number of Observation years	3
Number of Companies as Research Samples (45*3)	135
Outliers Data	30
Net Sample Amount	105

Source: Processed data, 2022

Based on the acquisition of the sample above, using multiple linear regression analysis as a method of testing data using the SPSS program, the results of the test are carried out with the following results:

Table of Multiple Linear Regression Analysis Results

Model	*Unstandardized Coefficients*		*Standardized Coefficients*	t	Sig.	Information
	B	std. Error	Betas			
(Constant)	0.176	0.014		12.131	0.000	
STD	-0.073	0.045	-0.263	-1,600	0.113	H1 is rejected
LTD	-0.206	0.084	-0.300	-2,464	0.015	H2 is accepted
TDAs	0.012	0.039	0.052	0.295	0.768	H3 is rejected
DER	-0.029	0.014	-0.223	-2,102	0.038	H4 is accepted

Source: Processed data, 2022

The test results are outlined in the table above, the regression equation model can be obtained as follows:
ROE = 0.176 – 0.073STD – 0.026LTD + 0.012TDA – 0.029DER + e

Discussion

Effect of STD on ROE.

The results showed that STD had no significant effect on ROE. Thus hypothesis 1 in this study was rejected. Companies that choose to use short-term debt to meet their funding needs will be faced with possible financial risks. Short-term debt is used to fund needs that support the company's operational activities that are immediate or cannot be postponed and the payment obligation is less than one year. Companies can carry out additional activities to offset income and debt so that short-term debt does not affect the company's profitability. Short-term debt owned by companies has lower loan interest, so the interest expense borne by the company is not too large. This has a small impact on company profits. This research is consistent with research conducted by(Sylvia Nurdianita Aprillia et al., 2021)which shows the result that Short Term Debt has no effect on Return on Equity. Another research that was also conducted by(Qomariah et al., 2021)which shows the results that STD has no effect on company profitability.

The Effect of LTD on ROE.

The results showed that LTD had a significant effect on ROE. Thus hypothesis 2 in this study is accepted. Long-term debt is a company's obligations that have a payment term of more than one year. The use of long-term debt will affect ROE. Debt has loan interest that must be borne by the company. Company management must be wise in choosing to use short-term debt or long-term debt. Long-term debt has a weakness in terms of bankruptcy and interest costs which are charged with greater risk. Companies that have large debts will cause the burden to be borne is also large. then the net profit generated by the company will be eroded which is used to pay off interest expenses and long-term debt so that the company's ROE will have an effect. This research is consistent with the research conducted(Jati & Sudaryanto, 2016)which shows the results that LTD has an effect on ROE.

Effect of TDA on ROE.

The results showed that TDA had no significant effect on ROE. So that hypothesis 3 is rejected. High total debt has an impact on the company's financial risk which causes the possibility that the company is unable to pay its obligations. High corporate debt will have an impact on reducing the trust of interested parties in the company. Companies that have large debts will result in companies facing large financial risks. Companies that have large debts still have the opportunity to generate profits for the company. Owned debt can be used effectively and efficiently for productive activities and expansion by the company. The result is a profit that the company can use to increase its business performance.Management must be motivated to improve the company's performance to increase profits so that the company's debts can be fulfilled.The

large total debt in a company that is used for operations, the use of funds for company performance will also be higher so that it will not affect the company's profitability. This research is not consistent with the research conducted(Purwitasari & Septiani, 2013)which shows the result that Total Debt has a significant effect on profitability.

Effect of DER on ROE

The results of the study show that DER has a significant effect on ROE. Thus hypothesis 4 in this study is accepted. DER is a ratio that describes the ratio of total debt to equity. A low DER means that the company's liabilities are smaller than all of its assets, so that if the company is in a disadvantageous condition, the company can still pay off all of its obligations. Conversely, if the DER is higher, the composition of the debt owned by the company is greater than the net capital owned, this results in a burden for outside parties, the responsibility of outsiders is heavier because this indicates that the company's funding sources rely on external parties. DER provides an overview of the company's capital structure, so that it can be observed to what extent the level of risk of uncollectible debt. Debt arises because of the company's needs that cannot be met by their own capital. Companies that fail to pay all of their obligations will have a negative impact on the company's profitability and financial health. This research is consistent with research conducted by(Rionita & Abundanti, 2018)which shows the results that DER has a negative and significant effect on ROE. Another research conducted by(Monica et al., 2018)DER shows the same results that DER has an effect on ROE.

IV. Conclusion

Based on the results of the tests that have been carried out, it can be concluded that:

1. *Short-term Debt to Assets*(STD) has no significant effect on profitability.
2. *Long-term Debt to Assets*(LTD) has a significant effect on profitability.
3. *Total Debt to Assets*(TDA) has no significant effect on profitability.
4. *Debt to Equity Ratio*(DER) has a significant effect on profitability.
5.

Research Limitations and Suggestions:

1. The sample studied was limited to FMCG companies listed on the IDX in Indonesia.
2. The research is limited in observation time, which is only three years.
3. This research is limited to companies with financial reports using the rupiah currency.

So expected:

1. For future researchers or research, it is expected to examine other variables that can affect capital structure on profitability in addition to long-term debt to total assets (Short-term Debt to Assets), long-term debt to total assets (Long-term Debt to Assets), total debt to total assets (Total Debt to Asset), and the ratio of debt to total assets (Debt to Equity Ratio).
2. For future researchers or research, it is hoped that the span of the research year will be longer so that the data obtained is more varied.
3. For researchers or further research, it is expected to increase the scope of the FMCG (Fast Moving Consumer Goods) company that will be studied, not only in the scope of companies located in Indonesia.
4. For researchers or further research it is expected to use companies with financial statements other than rupiah.

REFERENCES

[1] Ni Made Suastini. 2016. PengaruhKepemilikanManajerial Dan PertumbuhanPerusahaanTerhadap Nilai Perusahaan Pada Perusahaan Manufaktur Di Bursa Efek Indonesia (Struktur Modal sebagaiVariabelModerasi). Bali. Fakultas Ekonomi Dan Bisnis Universitas Udayana.

[2] KadekApriada. Made SadhaSuardikha. 2016. PengaruhStrukturKepemilikan Saham, Struktur Modal Dan Profitabilitas Pada Nilai Perusahaan. Bali.Fakultas Ekonomi Dan Bisnis Universitas Udayana.

[3] Brigham, E. F. dan J. F. Houston. 1998. Fundamentals of Financial Management. 8thed. Harcourt College Publishers. Orlando. Terjemahan H. Wibowo. 2006. ManajemenKeuangan. EdisiKedelapan. Erlangga. Jakarta.

[4] ResiYanuesti.Violita Sri Sulasmiyati. 2017. PengaruhStruktur Modal TerhadapProfitabilitas (Studi Pada Perusahaan Food AndBaverages Yang TerdaftarDi BEI Tahun 2013-2016). Malang. FakultasIlmuAdministrasi. Universitas Brawijaya.

[5] Elisa Purwitasari. 2013. AnalisisPengaruhStruktur Modal terhadapProfitabilitas (StudiEmpiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2009-2011). *Skripsi*. Semarang. Fakultas Ekonomi dan Bisnis. Universitas Diponegoro.

[6] Bernard DhaniPramuna Lala. 2019. AnalisisPengaruhStruktur Modal TerhadapProfitabilitas Perusahaan (StudiEmpiris pada SektorPerbankan yang Listing di Bursa Efek Indonesia). Skripsi. Yogyakarta. Fakultas Ekonomi. Universitas Sanata Dharma.

[7] Amelia YurikeTamba. Parengkuan Tommy. Paulina Van Rate. 2017. AnalisisPengaruhStruktur Modal TerhadapProfitabilitas Pada IndustriPerbankan yang Terdaftar di BEI (PeriodeTahun 2013-2015). Fakultas Ekonomi dan Bisnis. Universitas Sam Ratulangi.

[8] Ni Wayan PradnyanitaSukmayanti. Nyoman Triaryati. 2019. PengaruhStruktur Modal, Likuiditasdan Ukuran Perusahaan TerhadapProfitabilitas Pada Perusahaan *Property* Dan *Real Estate.* Bali.Fakultas Ekonomi dan Bisnis. Universitas Udayana.

[9] SeptyWulan Sari. Imam Hidayat. 2017. PengaruhStruktur Modal, LikuiditasTerhadapProfitabilitas Perusahaan Makanandan Minumandi BEI. Surabaya. Sekolah Tinggi Ilmu Ekonomi Indonesia (STIESIA).

[10] Fendi HudayaRamadhani. AdengPustikaningsih. 2017. Pengaruh Debt To Equity Ratio (DER), Return On Equity (ROE), Dan Net Profit Margin (NPM) Terhadap Harga Saham Perusahaan SektorPertambanganyang Terdaftar Di Bursa Efek Indonesia Periode 2011-2015. Yogyakarta. Prodi Akuntansi Universitas Negeri Yogyakarta.

[11]Jati, A. K., & Sudaryanto, B. (2016). Pengaruh Hutang Jangka Pendek , Hutang Jangka Perusahaan Yang Terdaftar Dalam Indeks LQ-45 Di Bei Periode 2011-2014. Diponegoro Journal of Management, 5, 1–11.

[12] Monica, Sulitryani, L., & Nurdyastuti, T. (2018). Pengaruh Struktur Modal Terhadap Return On Equity Perusahaan Makanan dan Minuman Yang Terdaftar di Bursa Efek Indonesia. Aktual Jurnal of Accounting and Financial, 3(2), 8–17.

[13] Purwitasari, E., & Septiani, A. (2013). ANALISIS PENGARUH STRUKTUR MODAL TERHADAP PROFITABILITAS (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2009-2011). Diponegoro Journal of Accounting, 2(3), 1–11.

[14] Qomariah, N. I., Mahbubah, N., & Ilahi, B. (2021). Pengaruh Hutang Jangka Panjang dan Hutang Jangka Pendek Terhadap Kinerja Perusahaan. Muhasabatuna : Jurnal Akuntansi Syariah, 1(2), 13.

[15] Rionita, K., & Abundanti, N. (2018). Pengaruh Struktur Modal Dan Likuiditas Terhadap Profitabilitas Bank Yang Terdaftar Di Bursa Efek Indonesia. E-Jurnal Manajemen Universitas Udayana, 7(8), 4094.

[16] Sylvia Nurdianita Aprillia, I., Burhanuddin, & Pawenang, S. (2021). Return on Equity ditinjau dari Short Term Debt, Long Term Debt, Total Asset Turnover. Akuntabel,18(2), 2021–2255.