

EXAMINING THE DETERMINANTS OF CAPITAL STRUCTURE OF BLUE-CHIP NON-FINANCIAL COMPANIES ON THE IDX

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Abstract

This study aims to examine the effect of the variables Financial Deficit, Diversification, Institutional Ownership, and Asset Structure on Capital Structure in Non-Financial Blue Chip companies listed on the Indonesia Stock Exchange in 2020-2022. The population in this study is 125 manufacturing companies listed on the Indonesia Stock Exchange in 2020 – 2022. The sampling technique used was purposive sampling and a sample of 52 companies was obtained. The data analysis technique used is multiple linear regression analysis. The results of this study indicate: (1) the financial deficit has no effect on capital structure, as evidenced by the test results of the calculated t value of 1.091 and a significance level of 0.277 so that H1 is rejected; (2) Diversification has a significant positive effect on Capital Structure as evidenced by the t-value of 3.081 with a significance level of 0.002 so that H2 is accepted; (3) Institutional Ownership has a significant negative effect on Capital Structure as evidenced by the t-value of -3.542 with a significance level of 0.001 so that H3 is accepted; (4) Asset Structure has a significant positive effect on Capital Structure as evidenced by the t value of 3.660 with a significance level of 0.000 so that H4 is accepted. Adjusted R Square value of 0.156 indicates that Capital Structure is influenced by Financial Deficits, Diversification, Institutional Ownership, and Asset Structure of 15.6% while the remaining 84.6% is influenced by other factors not examined in this study.

Keywords: *Assets, Capital, Financial, Diversification*

1. INTRODUCTION

Advances in technology and globalization have triggered the level of competition of companies in Indonesia to become increasingly fierce. Not only on a national scale, the existence of free trade also makes companies in Indonesia must be able to compete on an international scale. The number of companies that are able to compete and survive makes the country's economy better. Along with the development of the business world, in addition to increasing business competitiveness, managers are also required to maximize shareholder welfare. Thus the

task of financial managers who originally only provided funds also helped increase the value of the company to maximize shareholder welfare. Today, financial managers have three main functions that can help increase firm value, namely investment decisions, funding decisions, and dividend policy. In meeting its funding needs, these funds come from internal sources (internal sources) and from external sources (external sources). Internal funding sources can be obtained through funds formed or generated by the company itself or retained earnings, while external funding sources are obtained through debt and the issuance of new shares of both common and preferred shares. The funding decision is closely related to the capital structure. In this comparison, short-term debt is not included because short-term debt is considered a spontaneous debt (maximum period of one period). Meanwhile, long-term debt is fixed debt and has a relatively long term (more than one period), so the level of long-term debt needs to be considered in deciding the funding composition. Optimal capital structure is a capital structure that minimizes the company's cost of capital and therefore maximizes value.

Capital structure decisions taken by managers will affect financial risk. If the funding involves high debt, then the interest paid on the debt is able to be a tax deduction thus lowering the relative cost of debt. However, it also makes the company's default risk level increase. When the company's operating profit is unable to pay debt interest and shareholders are unable to cover the shortfall, the company will experience bankruptcy. Conversely, the use of high equity sources can also lead to excessive control from shareholders over management (Masyitah et al., 2022). In addition to affecting financial risk, capital structure decisions will also affect the size of the return obtained by shareholders. The various consequences arising from these funding choices require managers to make the right decisions about their capital structure. However, the many factors that influence capital structure decisions make it difficult for financial managers to determine and analyze the factors that have the most influence on the company's capital structure (Hidayat, 2019).

In companies that have developed and have a fairly strong internal funding condition coupled with the entry of investors will also strengthen the company's internal financial condition (Sari et al., 2021). However, for companies that are just growing, it will be difficult not to use external funding. For this reason, some companies will use debt as one of their sources of funds in the hope of being able to obtain a low cost of capital so as to increase operating profit and pay debts to creditors (Darmawan, 2017). Pecking order theory states that under normal conditions it is advisable to prioritize internal sources of funds before using debt or equity sources of funds. Based on this theory, when the company experiences a financial deficit, the shortage will be met by issuing new shares or debt. Meanwhile, when the company experiences a surplus, the excess will be used to reduce debt. One of the company strategies that affect the capital structure is diversification. Diversification is a company strategy to expand in different sectors from the original company (Aisyah, 2012). Diversification can reduce the company's operational risk so that diversification can create greater debt capacity for the company. In addition, creditors prefer diversified companies over concentrated companies because when bankruptcy occurs, the liquidation value of diversified assets is higher (Suriadi & Widjaja, 2019). The next factor that can affect the capital structure is the ownership structure of the company. Ownership structure is the percentage composition of the company's shareholders (Thaib & Dewantoro, 2017).

According to the IDX, the company's ownership structure is divided into three major groups, namely managerial, institutional, and public ownership structures. The existence of different interests in running the company, especially between management and shareholders, will lead to agency conflicts. Institutional ownership as an independent party is able to reduce agency conflicts that occur because institutional ownership is able to supervise financial managers in using funding, especially external funding (debt) (Guna & Sampurno, 2018).

2. RESEARCH METHOD

This research based on the level of explanation is classified as causal associative research. According to Sugiyono (2017), causal associative research is research that aims to determine whether or not there is an influence or relationship between the independent variable and the dependent variable and if there is how strong the influence or relationship is and whether or not the influence or relationship is meaningful. Based on the type of data, this research is categorized as quantitative research (Creswell, 2012). Quantitative research aims to test theories, build facts, show relationships between variables, provide statistical descriptions, predict and know the results (Sugiyono, 2015).

The type of data used in this study is quantitative data. (Nugroho, 2015) defines quantitative data as data in the form of numbers. The data comes from secondary data obtained through the financial statements of companies that meet the sample criteria that have been published on the Indonesia Stock Exchange database. Multiple linear regression testing is carried out after the model of this study meets the requirements, namely passing the classical assumption test, including:

a. Normality Test

The normality test aims to test whether in regression, confounding or residual variables have a normal distribution (Novandalina & Marnoto, 2022). In this study, normality testing used Kolmogorov-Smornov (K-S) test statistical analysis.

b. Multicollinearity Test Results.

The multicollinearity test aims to test for correlation between independent variables in the regression model. The multicollinearity test is carried out by looking at the tolerance value and variance inflation factor (VIF). If the Tolerance value ≥ 0.1 and the VIF value ≤ 10 , it can be concluded that the regression model in the study does not occur multicollinearity and the regression model is suitable for use.

c. Heteroscedasticity Test Results

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. The test is carried out with the white test, namely by regressing the squared residuals with the dependent variable and the dependent variable squared.

3. RESULTS AND DISCUSSION

Normality Test Results

The results of the normality test of the research variables show that the residuals have an Asymp. Sig. (2-tailed) 0.076. These results can be concluded that the residual data in this regression model is normally distributed because the Asymp. Sig. (2-tailed) above 0.05.

Multicollinearity Test Results.

Based on the multicollinearity test, the calculation shows that all independent variables have a Tolerance value ≥ 0.1 and a VIF value ≤ 10 , so it can be concluded that the regression model in this study does not occur multicollinearity and the regression model is suitable for use.

Heteroscedasticity Test Results

The heteroscedasticity test results show an R^2 value of 0.098 so that the $c2$ value = $156 \times 0.098 = 15.288$. These results show that the calculated $c2$ value is smaller than the $c2$ table, namely $15.288 < 15.510$, so it is concluded that there is no heteroscedasticity problem.

T test

Partial hypothesis testing in this study using the t test. The t test is a test to show the effect of individual independent variables in the model on related variables.

1. Effect of Financial Deficit on Capital Structure (LDER)

The result of statistical analysis of financial deficit variable has t count of 1,091 with significance level of $0,277 > 0,05$ so it can be concluded that financial deficit has no effect on capital structure (LDER). This means that this study has not been able to prove the first hypothesis which states "Financial deficit has a positive effect on capital structure." This result is not in accordance with the theoretical basis which states that when the company experiences a high financial deficit condition, it will make the company take alternative debt funding which makes the company's debt level higher. The possibility that can occur from the results of this study is that the observation data shows that the standard deviation value of the high financial deficit variable is $362,794,981,384.14510 >$ from the mean value of $49,923,816,788,5128$. This indicates that the distribution of financial deficit (DEF) values is not good. In addition, in some observations there is a dividend value equal to zero. Thus, when the dividend value is equal to zero, it means that it will increase the level of retained earnings so as to reduce the use of debt. Another possibility is that companies with a high level of financial deficit do not increase debt due to difficulties in obtaining external funds. This is because creditors are less interested in companies whose financial deficit level is too high so that the possibility of default will increase. In addition, there is a possibility that the company does not fully follow the pecking order theory but also the trade off model where both replace each other according to the timing or situation.

2. Effect of Diversification (DIV) on Capital Structure (LDER)

The result of statistical analysis of diversification variable (DIV) obtained t count of 3.081 with significance level of 0.002. The significance value is smaller than 0.05 so it can be concluded that diversification (DIV) has a positive and significant effect on capital structure (LDER), so the second hypothesis is accepted. Companies that have a high level of diversification will have easier access to debt funding sources so as to increase the amount of corporate debt. These findings support Coinssurance Effect Theory which states that a diversified company is able to create greater debt capacity than a company that only operates in one segment. The higher the level of company diversification, the higher the level of debt. This is because companies that diversify may have their own cash flows that are not perfectly correlated with each other so as to reduce profit variability. In addition, companies that diversify will have lower operational risk so that they can increase their debt capacity, so diversification has a positive effect on capital structure.

3. Effect of Institutional Ownership (IO) on Capital Structure (LDER)

The result of statistical analysis of institutional ownership variable (KI) obtained t value of -3.542 with significance of 0.001. The significance value is smaller than 0.05 so it can be concluded that institutional ownership (IO) has a negative and significant effect on capital structure (LDER), so the third hypothesis is accepted. Companies with a high level of institutional ownership will prefer to use funding from internal sources rather than external sources, namely debt. This result supports Agency Theory where institutional parties become independent monitoring parties. The existence of high institutional ownership will increase more optimal supervision of manager performance so that managers will be more careful in using debt. The importance of institutional investors as supervisory agents is determined by their sizable equity investment in the stock market. Thus, increasing institutional share ownership will reduce share ownership by management and replace the role of debt to reduce agency problems so as to minimize agency costs.

4. Effect of Asset Structure (FATA) on Capital Structure (LDER)

The result of statistical analysis of asset structure variable (FATA) obtained t value of 3.660 with significance of 0.000. The significance value is smaller than 0.05 so it can be concluded that the asset structure (FATA) has a negative and significant effect on the capital structure (LDER), so the fourth hypothesis is accepted. Asset structure reflects some amount of assets that can be used as collateral (collateral value of assets), so that the composition of assets will affect the company's financing. The higher the asset structure, the higher the debt utilization. Investors will be more interested in companies that have a high asset structure because a high asset structure means that the company has sufficient collateral (Awulle et al., 2018). Investors consider that the company is able to guarantee that any debt given will be guaranteed by the company's assets. high creditor confidence in the company will increase the company's debt capacity and easier access to external funding, especially debt. This research is consistent with the research of Nugroho & Arifin

(2022) which states that asset structure has a positive and significant effect on capital structure.

4. CONCLUSION

1. Financial Deficit (DEF) does not positively influence the capital structure represented by Long Term Debt to Equity Ratio (LDER). The test result proves that the t value of financial deficit is 1,091 with significance level of $0,277 > 0,05$.
2. Diversification (DIV) has positive and significant influence on capital structure represented by Long Term Debt to Equity Ratio (LDER). The test results prove that the t value of diversification is 3.081 with a significance level of $0.002 < 0.05$.
3. Institutional Ownership (IO) has a negative and significant influence on the capital structure represented by Long Term Debt to Equity Ratio (LDER). The test results prove that the t value of institutional ownership is -3.542 with a significance level of $0.001 < 0.05$.
4. Asset Structure (FATA) has positive and significant influence on capital structure represented by Long Term Debt to Equity Ratio (LDER). The test result proves that the t value of asset structure is 3.660 with significance level of $0.000 < 0.05$.

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