IDEA (International Development of Economics and Administration Journal)

ISSN (print) : 2963-5896 & ISSN (online) & 2964-0482

Vol. 3 • No. 2 • December 2024
Pege (*Hal.*) : **145 – 153**

ISSN (*online*) : 2963-5896
ISSN (*print*) : 2964-0482

DOI NO : 10.70001/idea.v3i2.260
website. : http://jurnal.ideanusantara.skom.id/index.php/idea

Article info : *Received:* Sept 2024; *Revised* : Oct 2024; *Accepted*: Nov 2024

The Influence of Profitability, Liquidity and Business Risk on Capital Structure

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Abstract. *The purpose of this study is to analyze the effect of profitability, liquidity, and business risk on the capital structure of property and real estate sub-sector companies listed on the Indonesia Stock Exchange during the 2018-2022 period. Profitability is measured using Return on Assets (ROA), liquidity is measured using the Current Ratio (CR), business risk is measured using the Basic Earning Power Ratio (BEPR) and Capital Structure using Dept to Equity (DER). The method used in this study is quantitative with multiple linear regression analysis techniques to test the hypothesis. The results showed that ROA had a significant effect on DER, CR had an insignificant effect on DER, and BEPR had a significant effect on DER. Simultaneously, ROA, CR and BEPR had an effect on DER. The coefficient of determination obtained showed that the influence of ROA, CR and BEPR was 49.9% and the remaining 50.1% was influenced by other factors..*

Keywords: ROA; CR; BEPR; DER

A. INTRODUCTION

The current development of the Indonesian economy has resulted in quite tight competition between industries in the business world. So companies are required to maintain their existence to optimize production, marketing and strategy so they can compete with other companies. Therefore, companies need large capital to finance their operational activities to improve the quality and quality of the company (Denziana & Yunggo, 2017). One of the important factors in establishing a company is the provision of capital, because capital is a measure of the company's financial condition. The company's capital needs are met through internal capital sources (internal financing), namely capital generated from retained earnings and depreciation, external capital (external financing), namely capital generated from creditors, debt and stakeholders.

The phenomenon regarding capital structure occurs in the property and real estate industry. The property and real estate industry is a business that deals in the field of public facilities. in the form of buildings and other facilities. This business aims to meet the needs of housing and offices which are the main needs of every community. In line with the development of economic growth dynamics, several analyzes reveal that the property and

ISSN (print) : 2963-5896 & ISSN (online) & 2964-0482

real estate sector has shown a weakening in share prices in the last 5 years, namely in 2018-2022. Studies and research carried out in the property and real estate sector have increased due to the decline in demand in recent years.

This has been observed since 2018, when the property sector experienced the lowest decline compared to previous years, which also experienced a slowdown in growth, which also had an impact on poor company value due to economic uncertainty and a decrease in purchasing power. Since the first quarter of 2020, the stock index for the property, real estate and building construction sectors recorded a significant decline, namely 19.69% year to date. Of the 97 shares that are members of the business, 58 shares experienced a decline, 24 experienced an increase, and 15 experienced stagnation. Despite experiencing a fairly drastic decline, according to Sucor securities analysis, Joey Faustian stated that property shares due to marketing sales from property issuers had recovered from the downturn caused by the Covid-19 pandemic that occurred in 2020, this news was quoted from kontan.id (2020).

When financing investments, companies need to pay attention to their capital structure, this is due to weak growth in terms of the real estate and property sectors. This company requires quite a large amount of capital because it invests heavily in certain activities such as land and buildings. So it is important for companies to create a maximum and optimal capital structure.

From table 1, it can be seen that if you look at the picture in 2018, the average capital structure of property and real estate companies was 0.82 and experienced an increase in 2019, because that year showed the average capital structure increased to 0.95. Many capital structures will experience a decrease in 2022, namely 0.40. This can be seen when the capital structure has experienced quite a large increase, as in 2020 and 2021.

In 2021, property and real estate companies' average capital structure will increase, to 2.32. From table 1 it can be concluded that the capital structure from 2018-2021 predominantly experienced an increase, the capital structure experienced a slight decrease in property and real estate companies and was not as stable as in 2022 which experienced a fairly high decrease.

Property prices continue to increase, and the property and real estate business is currently considered to have promising potential. This increase was caused by supply and demand factors, population growth and inflation. Based on the stable growth rate in Indonesia, property and real estate companies require sufficient capital to carry out business activities and strive to improve the quality of the company and the value of the owner's wealth. Causes that can affect capital structure include profitability (Erdian Ade P, 2021), Liquidity (Hartina, 2024), and business risk (Setiawati, 2020).

Tabel 1 Dept To Equity (DER)
Property and Real Estate Industry Capital Structure Data Table for the 2018 – 2022 Period

No.	code	DER					Average
		2018	2019	2020	2021	2022	
1	BCIP	1.09	1.02	1.08	1.01	0.93	1.03
2	BIKA	6.37	7.02	10.26	21.06	0.01	8.94
3	BIPP	1.14	1.29	1.48	1.04	1.40	1.27
4	BKDP	0.65	0.62	0.64	0.73	0.83	0.69
5	CSIS	1.67	2.28	2.94	2.59	2.44	2.38
6	DUTI	0.42	0.37	0.62	0.67	0.69	0.55
7	EMDE	1.61	1.78	3.50	1.21	1.32	1.88
8	FMII	0.43	0.42	0.39	0.37	0.16	0.35
9	GMTD	0.64	0.60	0.69	0.93	1.05	0.78
10	INPP	0.70	0.29	0.47	0.58	0.76	0.56

ISSN (print) : 2963-5896 & ISSN (online) & 2964-0482

11	LPLI	0.30	0.26	0.27	0.01	0.01	0.17
12	MKPI	0.34	0.32	0.36	0.37	0.27	0.33
13	MMLP	0.20	0.27	0.24	0.23	0.79	0.35
14	MTSM	0.20	0.43	0.62	0.64	0.70	0.52
15	OMRE	0.11	0.12	0.17	0.21	0.27	0.18
16	RODA	0.52	0.73	0.90	0.68	0.73	0.71
17	SMDM	0.35	0.33	0.79	0.74	0.66	0.57
Average		0.82	0.95	1.44	2.32	0.40	1.11

Source : www.idx.co.id

B. LITERATURE REVIEW

Financial Management

According to Kiki et al (2023: 2), financial management is an activity where organizational resources in the form of finance are planned, organized, directed and controlled to achieve company goals. Financial management is also a part of the production and HR field.

According to Nur Ika et al (2022: 1), financial management can be interpreted as a combination of science and art from a financial perspective. It is said to be a science, because the sequence of financial management functions starts from planning, ordering, organizing, and controlling and organizing.

So it can be concluded that financial management is a branch of management science which functions to regulate, plan, organize and supervise the financial performance of a company.

Financial Report

According to Anik and Putu (2019: 19), financial reports are the final result of the recording and calculation process which contains a summary of financial transactions during a certain period.

Financial reports are to provide financial information about a business entity that will be used by interested parties as material for consideration in making economic decisions.

Retrun On Asset (ROA)

According to Pirmatua Sirait (2017:142) Return on Assets (ROA) is the ratio of returns on assets (earning power ratio), describing the company's ability to generate profits from available resources (assets).

According to Kasmir (2017:201) Return on Assets is a ratio that shows the return on the number of assets used in the company. Apart from that, Return On Assets (ROA) provides a better measure of company profitability because it shows management's effectiveness in using assets to obtain income.

Current Ratio (CR)

According to Agnes Sawir (2017:8) Current Ratio is the most commonly used measure to determine the ability to fulfill short-term obligations because this ratio shows how far short-term creditor demands are met by assets that are expected to become cash in the same period as the debt maturity.

Meanwhile, according to Kasmir (2018:143), the current ratio or Current Ratio is a ratio that measures a company's ability to pay short-term obligations or debts that are immediately due when they are collected in full.

Basic Earning Power Ratio (BEPR)

According to Brigham and Houston (2019) Basic Earning power ratio (BEPR) is defined as a measure of a company's ability to generate operating profit (EBIT) from total assets owned without considering the influence of taxes and the company's financial structure.

Dept to Equity (DER)

According to Hery (2021:76) the debt to capital ratio (Dept to Equity) is a ratio used to measure the proportion of debt to capital. This ratio is calculated as the quotient between total debt and capital.

Apart from that, according to Fitriati (2021), Dept to Equity (DER) is part of the solvency ratio which aims to show the company's ability to pay long-term and short-term obligations.

C. RESEARCH METHODOLOGY

In this research, the type of research used is quantitative research. This research aims to test hypotheses about the influence of one or several variables (independent) on other variables (dependent). This research was conducted on property and real estate sector companies listed on the IDX in the 2018-2022 period. Financial report data is obtained by accessing the official website of the Indonesian

Stock Exchange at www.idx.co.id Sample selection uses purposive sampling. Sugiyono (2017) believes that this method is a sample determination by determining and considering certain criteria.

Sample members were obtained through several criteria including:

Tabel 2 Sample Selection Criteria

No	*Criteria*	*Amount*
1	*Property and real estate sub-sector company listed on the Indonesia Stock Exchange.*	*(86)*
2	*Companies that have only entered the IDX in the last 5 years or so.*	*(34)*
3	*Companies that do not meet the main board requirements.*	*(28)*
4	*Companies that do not report financial reports.*	*(7)*
5	*Number of samples that meet the criteria.*	*17*

Source: Data processed by researchers (2023)

Data was obtained from financial reports, companies that met the criteria based on purposive sampling were 17 companies during the 5 years of research so that the observations in this study were 85 observations.

Tabel 3 List of companies

No.	***code***	***company name***
1	*BCIP*	*Bumi Citra Permai Tbk.*
2	*BIKA*	*Binakarya Jaya Abadi Tbk.*
3	*BIPP*	*Bhuwanatala Indah Permai Tbk.*
4	*BKDP*	*Bukit Darmo Properti Tbk*
5	*CSIS*	*Cahayasakti Investindo Sukses*
6	*DUTI*	*Duta Pertiwi Tbk*
7	*EMDE*	*Megapolitan Developments Tbk.*

No.	code	company name
8	FMII	Fortune Mate Indonesia Tbk
9	GMTD	Gowa Makassar Tourism Developm
10	INPP	Indonesian Paradise Properti T
11	LPLI	Star Pacific Tbk
12	MKPI	Metropolitan Kentjana Tbk.
13	MMLP	Mega Manunggal Properti Tbk.
14	MTSM	Metro Realty Tbk.
15	MORE	Indonesia Prima Properti Tbk
16	RODA	Pikko Land Development Tbk.
17	SMDM	Suryamas Dutamakmur Tbk.

Source : www.idx.co.id (2023)

D. RESULTS AND DISCUSSION

Tabel 4 Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.318845	0.152653	2.088685	0.0399
ROA	-11.59324	1.370587	-8.458596	0.0000
CR	-0.009828	0.007679	-1.279895	0.2042
BEPR	5.607220	2.415314	2.321529	0.0228
	Effects Specification			
			S.D.	Rho
Cross-section random			0.441278	0.4085
Idiosyncratic random			0.531054	0.5915
	Weighted Statistics			
Root MSE	0.529262	R-squared		0.517391
Mean dependent var	-1.04E-17	Adjusted R-squared		0.499517
S.D. dependent var	0.766378	S.E. of regression		0.542173
Sum squared resid	23.81007	F-statistic		28.94596
Durbin-Watson stat	1.642490	Prob(F-statistic)		0.000000
	Unweighted Statistics			
R-squared	0.487555	Mean dependent var		1.99E-17
Sum squared resid	41.99588	Durbin-Watson stat		0.931230

The Influence of ROA on DER

The test results in this study show that ROA has no influence on DER. So it can be proven by the t-statistic value of -8.458956 and a significance value of 0.00000 < 0.05. This means that ROA has a significant effect on DER. So it can be seen that the value of a company's capital structure is determined by the level of the company's ability to maximize its profitability. Companies that have good or high profitability values are considered to have

IDEA (International Development of Economics and Administration Journal)
ISSN (print) : 2963-5896 & ISSN (online) & 2964-0482

good performance for investors. However, it is not certain that companies that have high profitability will have an impact on reducing their capital structure.

H1: Probability < alpha 0.05 then Ho is rejected, Ha is accepted.

This is consistently done by Desty Widya Nanda & Endang Dwi Retnani (2017) who say that it shows that ROA has a significant effect on DER. However, judging from previous research. This is contrary to research by Melinda Rubiyana & Farida Titik Kristanti (2020) which states that ROA has no significant effect on DER.

The influence of CR on DER

CR based on the test results in this study shows that it has no influence on DER. These results prove that the t-statistic value is -1.279895, the significance value reaches 0.2042 > 0.05. Which means that there is no influence from CR on DER.

This shows that the value of a company's capital structure is not determined by the level of the company's ability to fulfill its short-term obligations. Companies that have good or high liquidity values are considered to have good performance for investors. However, it is not certain that companies that have high liquidity will have an impact on reducing their capital structure.

H2: Probability > alpha 0.05 then Ho is accepted, Ha is rejected.

This is consistent with Oki Oktaviana et al (2020) where in his research he said that CR has no effect on DER. However, judging from previous research, this contradicts Setiawati M & Veronica's (2020) research which says that CR has a significant effect on DER.

The Influence of BEPR on DER

The test results in this study show that BEPR has an influence on DER. This is proven by the t-statistic value of 2.985634, significance 0.0228 < 0.05. This means that BEPR has a significant effect on DER.

H3: Probability < alpha 0.05 then Ho is rejected, Ha is accepted.

This is in line with research by Desty Widya Nanda & Endang Dwi Retnani (2017) that BEPR has a significant influence on DER. However, judging from previous research, this is in contrast to research by Melinda Rubiyana & Farida Titik Kristanti (2020) which states that BEPR has no significant effect on DER.

The Influence of ROA, CR, and BEPR on DER

The results of the F test show that ROA, CR and BEPR have a simultaneous effect. This is shown by the calculated f value of 28.94596 and the prob value. 0.00000 < 0.05. This means that ROA, CR and BEPR influence DER.

H4: Probability < alpha 0.05 then H0 is rejected, Ha is accepted.

This is in line with research by Setiawati, M., & Veronica, E., (2020) which states that ROA, CR, and BEPR simultaneously influence DER. However, this is different from the research of Erdian Ade Putra (2021) which states that ROA, CR and BEPR do not have a simultaneous effect.

E. CONCLUSIONS AND SUGGESTIONS

ROA has a significant effect on DER. The research results show that the t-statistic value is -8.458596 with prob. A value of 0.0000 < 0.05 means that ROA has a significant effect on DER.

CR has no significant effect on DER. The research results show that the t-statistic value is -1.279895 with a prob value. A value of 0.2024 > 0.05 means that CR has no significant effect on DER.

BEPR has a significant effect on DER. The research results show that the t-statistic value is 2.321529 with a prob value. A value of 0.0228 < 0.05 means that BEPR has a significant effect on DER.

ISSN (print) : 2963-5896 & ISSN (online) & 2964-0482

The results of the F test research show that ROA, CR and BEPR have a simultaneous effect. This is indicated by the f-statistic value of 28.94596 and the prob value. 0.00000 < 0.05. This means that ROA, CR and BEPR have a significant effect on DER. Based on the coefficient of determination test for ROA, CR, BEPR, it influences DER by 49.9% and the remaining 50.1% is influenced by other factors.

Suggestion, for companies : before determining its capital structure policy, a company needs to pay attention to its profitability and business risks. By considering these two factors, companies can achieve a balance between growth and stability, allowing the company to develop over the long term and meet emerging challenges.

For Investors, when investing, it is hoped that you will pay attention to profitability and business risk because this affects the capital structure. A balanced capital structure between debt and equity can help ensure that the company has the financial flexibility to survive and develop in various economic conditions.

For future research, market Value Asset to Book Value Assets Ratio, Current Asset to Total Asset Ratio, Capital Expenditure to Book Value Assets, etc. are several measuring tools that have not been widely studied by other research. So it is hoped that this research will be able to become a source and new material for other research and subsequent research.

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