Capital Structure Affect Asset Structure, Income Volatility, And Financial Flexibility In Islamic Industrial Sector Companies

Andre Prasetya Willim*, Hadi Santoso2)

1,2 Faculty of Economy and Business, Universitas Widya Dharma Pontianak

*Email correspondence: andre_willim@widyadharma.ac.id

Abstract

The capital structure of every company is a critical concern. Capital structure affects a company’s financial status. Financial flexibility, internal company conditions, market conditions, operating leverage, the perspective of lenders and rating agencies, management perspectives, controls, taxes, profitability (lity, afinancial activity, and sales stability) are some of the variables typically taken into account by perspectives when making decisions about capital structure. The purpose of this study is to ascertain how asset structure, earnings volatility, and financial flexibility impact capital considered companies from the consumer products industry sector listed on the Indonesia Stock Exchange. A population of this study, and 39 companies were chosen as the sample using a purposive sampling technique. Multiple linear regression analysis utilizing the Eviews program was used in this study. The probability value of the asset structure is 0.0107 < 0.05, and its positive directional regression coefficient is 0.169937. A positive direction regression coefficient of 0.074237 and a prob value of 0.84246 > 0.05 are both present for earnings volatility. The b-value for financial flexibility is 0.00326 (less than 0.05), and the positive regression coefficient is 0.259236. In conclusion, while earnings volatility has no influence on capital structure, financial flexibility and asset structure variables have beneficial impacts. By examining these aspects, this research is anticipated to help the decision-making process for the growth of a company.

Keywords: Assets Structure, Earning Volatility, Financial Flexibility, Capital Structure


DOI: http://dx.doi.org/10.29040/jiei.v9i3.10896

1. INTRODUCTION

Debt, equity, and assets are contrasted in capital structures (Novitasari & Sunarto, 2021)(Junieta & Setyawan, 2022). The capital structure of every company is a critical concern. Capital structure affects a company’s financial status. The sustainability of the firm is impacted by errors in capital structure determination, particularly if the company uses excessive amounts of debt, which increases the company's burden. If a corporation is unable to pay interest or return debts, this could increase its financial risk. Debt financing is obtained through loans and capital through the issuance of new shares (Yanti, 2021). According to Brigham et al. (2011), corporations require funds in the form of debt and stock, if they want to expand. The debt-to-equity ratio, which compares total debt to capital, is typically used to determine the capital structure (Husnan et al., 2015).

According to Weston and Brigham (2005), debt usage is typically higher for businesses with rapid sales growth than for those with slow growth. Additionally, sales growth influences lenders' willingness to lend money because companies with strong sales growth are perceived as having promising futures, which lowers risk (Ashry & Fitra, 2019). (AA Ngurah Dharma Adi Putra & I Putu Vivi, 2016)(Nasehah, 2012) state that growth is the company's ability to maintain its business position in economic and industrial developments in the economy in which the company operates. In making investment decisions, apart from external macroeconomic factors, internal company factors are indicators of company value, such as capital structure, profitability, hedging policies, and company size. As it reflects the value of
a company, its value is crucial. Performance, which can influence investors’ perceptions of the business (Susanti et al., 2018). The price-to-book value ratio of stocks is a popular metric for investment decisions (Lestari et al., 2020). From an investor's point of view, company growth is a sign that the company has a profitable aspect, and investors also expect the rate of return on investments to show good development. (Hamzah, 2021). In research conducted by (Isaeni et al., 2021) (Ni Made Novione Purnama Dewi Suweta & Dewi, 2016) it was found that sales growth had a positive and significant effect on capital structure.

In addition to other supporting aspects, the necessity of finance is crucial for creating and maintaining an organization. Every business, whether fixed capital or working capital, needs money, especially if it plans to expand its capital. Therefore, companies must calculate the amount of capital required to operate and fund their firms (Lubis, 2017). If a company’s capital structure is ideal, it will still be able to survive. In practice, choosing the appropriate capital structure for a given spending composition can be challenging for businesses. Because of Indonesia's subpar industrial performance, inflation can hurt the manufacturing industry, which in turn inhibits investment from both domestic and foreign sources. Creating the best corporate decisions is essential for achieving a company’s objectives. The decision about capital structure is one of the crucial decisions for a business (Arifin & Nasution, 2017)(Listiorini & Ika, 2018).

According to (Suciati et al., 2022) explained that Financial flexibility, internal company conditions, market conditions, operating leverage, the perspective of lenders and rating agencies, management perspectives, controls, taxes, profitability, growth rates, asset structure, and sales stability are some of the variables typically taken into account by company management when making decisions about capital structure. One of the key factors affecting a company’s financial health is its capital structure, in which long-term debt and equity are crucial operating principles (Goh et al., 2018).

If a company experiences bankruptcy in fulfilling its obligations, the fixed assets owned can be used as collateral or sold to be converted into cash. This means that the greater the asset structure, the greater the company’s capital structure derived from debt. This is supported by previous research conducted by Touil and Mamogli (2020), who state that asset structure has a positive effect on capital structure. Companies with high risk generally use more internal funding, so the higher the level of company risk, the lower the capital structure, which is supported by previous research conducted by Alipour et al. (2015), who state that earnings volatility has a negative effect on structure. Based on the signal theory approach and pecking order theory, companies with a higher level of financial flexibility use less debt and take advantage of investment opportunities so that the capital structure decreases. This is supported by previous research conducted by Alipour et al. (2015), who state that financial flexibility has a negative effect on capital structure.

H1: Assets Structure has a positive effect on Capital Structure
H2: Earning Volatility has negative effect to Capital Structure
H3: Financial Flexibility has a negative effect on Capital Structure

The novelty of this research is that researchers are trying to determine the effect of asset structure, earnings volatility, and financial flexibility on capital structure for industrial-sector companies listed on the Indonesian stock exchange. This research is expected to contribute to the decision-making process for the development of a company by looking at the factors studied

2. METHODS

In this study, 52 consumer goods industry companies were listed on the Indonesia Stock Exchange (IDX). Purposive sampling was used in this study. The criteria for determining the sample in this study were companies in the consumer goods industry sector that carried out an IPO before 2015 and 39 companies that met the criteria. The data collection technique used is a documentary study, the data used are financial reports obtained through the website www.idx.co.id. The data analysis techniques used in this study were descriptive statistical analysis, classical assumption test, influence analysis using multiple linear regression analysis, coefficient of determination, correlation coefficient, and hypothesis testing, namely the F test and t-test. The data analysis in this study used the EViews application.

The following formula was used to calculate the research data:

a. According to (Kasmir, 2010) The Debt Assets Ratio formula is:
Debt Assets Ratio = \frac{\text{total debt}}{\text{Total Assets}}

b. According to Alipour et al. (2015), the formula for calculating Assets Structure is:

\begin{equation}
\text{Assets Structure} = \frac{\text{Total fixed assets}}{\text{Total Assets}}
\end{equation}

c. According to Alipour et al. (2015), the formula for calculating earnings volatility is:

\begin{equation}
\text{Earning Volatility} = \text{Standard deviation ROA}
\end{equation}

d. According to Alipour et al. (2015), the formula for calculating Financial Flexibility is:

\begin{equation}
\text{Financial Flexibility} = \frac{\text{Retained earning}}{\text{Total Assets}}
\end{equation}

3. RESULTS AND DISCUSSION

As shown in Table 1, 195 data points were used. Capital structure displays a minimum value of 0.070700, maximum value of 1.248600, average value of 0.435419, and standard deviation of 0.208609. The value ranges for assets are as follows: 0.0380700 for the minimum, 1.248600 for the highest, 0.414473 for the average, and 0.150413 for the standard deviation.

Earning volatility has a minimum value of 0.003900, a maximum value of 0.395200, an average value of 0.036200, and a standard deviation of 0.061349. The minimum financial flexibility, financial flexibility is 0.79900, average financial flexibility i 0.360626, and standard deviation were 0.4614, 0.79900, 0.360626, and 0.240475, respectively.

<table>
<thead>
<tr>
<th>Statistic Descriptive analysis</th>
<th>Y_CS</th>
<th>X1_AS</th>
<th>X2_EV</th>
<th>X3_FF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.435419</td>
<td>0.413473</td>
<td>0.036200</td>
<td>0.360626</td>
</tr>
</tbody>
</table>

Table 2: Recapitulation of Multicollinearity Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1_AS</td>
<td>0.092991</td>
<td>0.059278</td>
<td>1.568735</td>
<td>0.1188</td>
</tr>
<tr>
<td>X2_EV</td>
<td>-0.195142</td>
<td>0.210284</td>
<td>-0.927990</td>
<td>0.3549</td>
</tr>
<tr>
<td>X3_FF</td>
<td>-0.053246</td>
<td>0.038335</td>
<td>-1.388968</td>
<td>0.1669</td>
</tr>
<tr>
<td>C</td>
<td>0.157788</td>
<td>0.028355</td>
<td>5.564726</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Based on the table above, we can see that the value of the partial correlation between independent variables does not have a coefficient of more than 0.8. This shows that in this regression model there are no symptoms of multicollinearity.
Based on the above results, each independent variable shows a probability value of > 0.05, so it can be concluded that this regression has passed the classic assumption test of heteroscedasticity.

Table 4: Multiple Linear Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.350</td>
<td>0.058</td>
</tr>
<tr>
<td>ASST</td>
<td>0.097</td>
<td>0.083</td>
</tr>
<tr>
<td>VOLAT</td>
<td>1.019</td>
<td>0.776</td>
</tr>
<tr>
<td>FLEX</td>
<td>-0.257</td>
<td>0.047</td>
</tr>
<tr>
<td>AUR</td>
<td>0.066</td>
<td>0.027</td>
</tr>
</tbody>
</table>

The following is the result of the multiple linear analysis equation: \( Y = 0.350 + 0.097X_1 + 1.019X_2 - 0.257X_3 + 0.066X_4 + e \)

Table 5: Determination Coefficient Test and Correlation Coefficient

<table>
<thead>
<tr>
<th></th>
<th>R-squared</th>
<th>Mean dependent var</th>
<th>0.435419</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R-squared</td>
<td>0.409329</td>
<td>S.D. dependent var</td>
<td>0.208609</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.196876</td>
<td>Akaike info criterion</td>
<td>-0.224281</td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>5.930285</td>
<td>Schwarz criterion</td>
<td>0.480673</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>63.86740</td>
<td>Hannan-Quinn criter.</td>
<td>0.061146</td>
</tr>
<tr>
<td>F-statistic</td>
<td>1.580815</td>
<td>Durbin-Watson stat</td>
<td>2.307924</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.024898</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on Table 5, the coefficient of determination in this study is 0.497564, meaning that the percentage contribution of the independent variable to the dependent variable is 49.7564%, whereas the remaining 50.2436 percent is influenced by other variables not included in this study.

Table 6: F Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.596591</td>
<td>0.050252</td>
<td>11.87190</td>
<td>0.0000</td>
</tr>
<tr>
<td>X1_AS</td>
<td>-0.169937</td>
<td>0.105055</td>
<td>-1.617597</td>
<td>0.1078</td>
</tr>
<tr>
<td>X2_EV</td>
<td>0.074237</td>
<td>0.372678</td>
<td>0.199199</td>
<td>0.8424</td>
</tr>
<tr>
<td>X3_FF</td>
<td>-0.259536</td>
<td>0.067940</td>
<td>-3.820094</td>
<td>0.0002</td>
</tr>
</tbody>
</table>

Based on the above table, it can be concluded that the F-statistic value is 1.580815 and also has a prob value (prop(f-statistic)) of 0.024898 < out of a significant value of 0.05. Thus, it can be concluded that the research model above is feasible to continue testing, meaning that if all independent variables change simultaneously, it will have a significant effect on the dependent variable Y.

Table 7 T Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.596591</td>
<td>0.050252</td>
<td>11.87190</td>
<td>0.0000</td>
</tr>
<tr>
<td>X1_AS</td>
<td>0.169937</td>
<td>0.105055</td>
<td>-1.617597</td>
<td>0.01278</td>
</tr>
<tr>
<td>X2_EV</td>
<td>0.074237</td>
<td>0.372678</td>
<td>0.199199</td>
<td>0.8424</td>
</tr>
<tr>
<td>X3_FF</td>
<td>0.259536</td>
<td>0.067940</td>
<td>-3.820094</td>
<td>0.00326</td>
</tr>
</tbody>
</table>
Effect of asset structure on capital structure  
H1: Assets structure has a positive effect on capital structure

The first hypothesis (H1) is tested to determine the effect of asset structure on capital structure. Based on the results of the tests, it is known that the asset structure influences the capital structure of companies in the consumer goods industry sector on the Indonesia Stock Exchange. The t-test results showed that the asset structure variable had a Prob value of 0.0107 smaller than 0.05 and with a positive direction regression coefficient of 0.169937. Based on these values, it can be stated that asset structure has a positive effect on capital structure; therefore, the first hypothesis in this study is accepted. This means that the addition of fixed assets to companies in the consumer goods industry sector is used as collateral to obtain debt by the company. The results of this study support previous research (Kanita, 2014)(Sari & Haryanto, 2013)(Sabahuddin, 2017), which concludes that asset structure has a positive and significant effect on capital structure.

Effect of earning volatility on capital structure  
H2: Earning volatility has a negative effect on capital structure

The second hypothesis (H2) was tested to determine the effect of earnings volatility on capital structure. Based on the results of tests conducted, it is known that there is no effect of earning volatility on capital structure in companies in the consumer goods industry sector on the Indonesia Stock Exchange. The t-test results show that the earnings volatility variable has a Prob value of 0.84246 greater than 0.05 and with a positive direction regression coefficient of 0.074237. Based on the results of the data processing, it can be concluded that earnings volatility has no effect on capital structure, so the second hypothesis in this study is rejected. This means that fluctuations in company profits in the consumer goods industry are not a determining factor for management in making a decision to apply for debt.

Effect of financial flexibility on capital structure  
H3: Financial flexibility has a negative effect on capital structure

The third hypothesis (H3) was tested to determine the effect of financial flexibility on capital structure. Based on the results of the tests carried out, it is known that financial flexibility affects the capital structure of companies in the consumer goods industry sector on the Indonesian Stock Exchange. The t-test results show that the financial flexibility variable has a Prob value of 0.00326, which is smaller than 0.05, and a positive direction regression coefficient of 0.259236. Based on the results of the data processing, it can be concluded that financial flexibility has a positive effect on capital structure, so the third hypothesis is accepted. This means that companies in the consumer goods industry sector with a high level of financial flexibility indicate that companies to earn high profits tend to use debt in their funding. Companies with high financial flexibility experienced lower impacts during a crisis. A company's business plan includes financial flexibility, which is crucial for decisions regarding its capital structure (Bancel and Mittoo, 2011). Managers' judgments of capital structure can be influenced by their financial flexibility, and these decisions will change depending on the size of the company at each stage. The less freedom the corporation has, the less new debt it will use, because its leverage is larger. Research conducted by Denis (2011) states that companies acquire financial flexibility by controlling liquidity and enforcing payment and capital structure policies. When sales are high and earnings are robust, businesses with high levels of flexibility typically have little trouble raising financing. A corporation has more financial freedom and a lower debt level. Alipour et al. (2015) and Rapp et al. (2014) found that firms with higher financial flexibility have lower levels of debt. Anderson and Carverhill (2012) state that a company will be more adaptable and have less short-term debt if it has a larger amount of long-term debt. The findings (Byoun, 2008) also show that large corporations choose to use internal money to maintain their financial flexibility.

4. CONCLUSION

Based on the results of the tests, it can be concluded that financial flexibility and asset structure variables have a positive effect on capital structure, while earnings volatility does not affect capital structure. The author suggests that if further research considers the use of the same variables, it is expected to use research objects that have stable or increasing asset values and income, so that the asset structure and earnings volatility variables can show significant results and influence. This research is expected to contribute to the decision-making process for the
development of a company by looking at the factors studied

5. REFERENCES


https://Doi.Org/10.1016/J.Jcorpfin.2014.08.004


https://Doi.Org/10.53088/Jikab.Vi1i2.10


