**Capital Structure: Do Size And Profitability Of A Company Highly Affect Capital Structure?**

**Sukma Irdiana**

Department of Management, Institut Teknologi dan Bisnis Widya Gama Lumajang

Email: [sukmapasah@gmail.com](mailto:sukmapasah@gmail.com)

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| ARTICLE INFO | |  | ABSTRACT |
|  | |  | The capital structure is a description of the form of the company's financial proportion. In realizing the optimal capital structure, financial managers must consider the factors that affect the capital structure. With the many factors that can affect the capital structure, the purpose of this study is to determine and analyze the size of the company against the capital structure with profitability as an intervening variable. The sampling technique used was purposive sampling, with a total sample size of 100 companies that met the criteria. The data analysis technique used is path analysis. The results of this study indicate that there is no direct relationship between company size and profitability. Meanwhile, company size and capital structure have a direct relationship. Likewise, profitability with capital structure has a direct relationship.  Keywords: Company Size, Profitability, Capital Structure |
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**INTRODUCTION**

In this era of globalization, many companies have grown and developed in their respective business fields. This has led to the emergence of competition in the business world. Where the company is required to be better and superior in the field that the company is in. Various ways have been done by the company, one of which is to make a decision made by a manager, especially the financial manager. The financial manager is a manager who has an important role in making financial decisions in this case is the capital structure. The capital structure is an illustration of the form of the company's financial proportion, namely between the capital owned by long-term liabilities and equity (shareholders' equity) which is a source of financing for a company (Fahmi, 2015). A manager must be able to balance the use of debt and equity to achieve an optimal capital structure. In realizing the optimal capital structure, financial managers must consider the factors that affect the capital structure. Several factors that influence the capital structure include company size, liquidity, profitability, and asset structure.

Based on the factors that influence the capital structure, company size is one of the factors that influence the capital structure. Company size in general can be interpreted as a comparison of the size or size of an object. The size of the company can be judged from several aspects. The size of a company can be based on the total asset value, total sales, market capitalization, the number of workers and so on. Basically, the size of the company is only divided into four categories, namely large companies (large firms), medium companies (medium firms), small companies (small firms)

and micro companies. So it can be concluded that company size is an indicator that can show a condition or characteristic of an organization or company where there are several parameters that can be used to determine the size (size and size) of a company, such as the number of employees used in the company to carry out operational activities. the company, the number of assets owned by the company, the total sales achieved by the company in a period, and the number of shares outstanding (Fahmi, 2015).

Profitability is also one of the factors that affect the company's capital structure. Profitability is a tool to see how well a company's financial performance is, which is also a reflection of the value of a company. Without profit, it is impossible for the company to get capital from external parties (Gitman, 2006). According to (Kasmir, 2014) the profitability ratio is a ratio to assess a company's ability to seek profit. This ratio also provides a measure of the level of management effectiveness of a company. This is indicated by the profit generated from sales and investment income. The point is that the use of this ratio shows the efficiency of the company.

From previous research identifying the occurrence of gab research (Umam & Mahfud, 2016), (Karyawati et al., 2017), (Astuti & Hotima, 2016) suggest that company size has a significant positive effect on capital structure. However, in contrast to research results (Arsadena, 2020), company size does not have a significant positive effect on capital structure. (Umam & Mahfud, 2016), (Karyawati et al., 2017), (Astuti & Hotima, 2016), (Arsadena, 2020), which suggest that company size has a positive and insignificant effect on profitability. (Umam & Mahfud, 2016), suggest that profitability has a significant negative effect on capital structure, but (Karyawati et al., 2017), (Astuti & Hotima, 2016), (Irdiana, 2016) suggest that profitability has a positive effect on the company's capital structure. . meanwhile (Arsadena, 2020), argues that profitability does not have a positive effect on the company's capital structure.

Based on the research gap above, the purpose of this study is to determine and analyze company size on capital structure with profitability as an intervening variable.

**METHODS**

This research uses a quantitative approach, with the data source used is secondary data. In the form of documentation from financial reports published by the IDX on the official IDX website and literature studies in the form of scientific articles and literature. Population and Sample The population used was all blue chip companies listed on the IDX for the 2014-2019 period. The sampling technique used was purposive sampling, with a sample size of 100 companies that met the criteria. The following two criteria must be met, namely: The company issues financial reports for the period 2014-2019 in a row and the data in the report must be complete according to the needs related to the variables studied in the 2014-2019 period. The data analysis technique used is path analysis.

**RESULTS AND DISCUSSION**

Descriptive statistics

Table 1. Descriptive Statistics

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Descriptive Statistics** | | | | | |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| SIZE | 90 | 4.26 | 9.80 | 6.7410 | 1.52339 |
| DER | 90 | .02 | .79 | .2761 | .20590 |
| ROA | 90 | .02 | .35 | .1274 | .08306 |
| Valid N (listwise) | 90 |  |  |  |  |

Source: Data processed using SPSS version 21

Based on the calculation table above, it can be concluded that: 1) In the firm size variable, the minimum value is 4.26 and the maximum is 9.80 with a mean of 6.7410 and a standard deviation of 1.52339. 2) In the Capital Structure variable (DER), the minimum value is 0.02 and the maximum value is 0.79 with a mean of 0.2761 and a standard deviation of 0.20590. 3) For the Profitability variable (ROA), the minimum value is 0.02 and the maximum is 0.35 with a mean of 0.1274 and a standard deviation of 0.08306.

In this study, the normality test, heteroscedasticity test, multicollinearity test and autocorrelation test were declared to have met the predetermined requirements. Following are the results of the path analysis test between the variables of Company Size, Capital Structure (DER) and Profitability (ROA).

Table 2. Path Analysis Test Results

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Hypothesis** | **Endogenous Variables** | **Exogenous Variables** | **Beta** | **thitung** | **Probability** | **Information** |
| H1 | Company Size | Profitability | 0,087 | 0,817 | 0,416 | Not significant |
| H2 | Company Size | Capital Structure | 0,364 | 3,669 | 0,000 | Significant |
| H3 | Profitability | Capital Structure | -0,295 | -2,900 | 0,005 | Significant |

Source: Author 2020

**H1: Firm size has no significant effect on profitability.**

Based on table 2, the results of the path analysis test show that there is no relationship between the variable company size and profitability, indicating the beta coefficient is 0.087. The result of the t-test obtained is 0.817 with a probability of 0.416 (p <0.05), then the decision is H0 accepted. In the sense that there is no significant direct relationship of the firm size variable to profitability.

**H2: Firm size has a significant effect on capital structure.**

Based on table 2, the results of the path analysis test show a relationship between the variable size of the company and the capital structure, indicating the beta coefficient is 0.364. The result of the t-test is 3.669 with a probability of 0.000 (p <0.05), then the decision is that H0 is rejected. In the sense that there is a significant direct relationship of the firm size variable to the capital structure.

**H3: Profitability has a significant effect on capital structure.**

Based on table 2, the results of the path analysis test show a relationship between the profitability variable and the capital structure, indicating the beta coefficient is -0.295. The result of the t-test is -2,900 with a probability of 0.005 (p <0.05), then the decision is that H0 is rejected. In the sense that there is a significant direct relationship of the profitability variable to the capital structure.

**Determinant Coefficient (R Square)**

The amount of contribution (contribution) of company size to profitability can be seen from the value of R Square, which is 8.7%. This means that 8.7% of the firm size variable will be influenced by the profitability variable. While the remaining 91.3% of the profitability variable will be influenced by other variables.

The size of the contribution (contribution) of the company size to the capital structure can be seen from the value of R Square, which is 36.4%. This means that 36.4% of the firm size

variable will be influenced by the capital structure variable. While the remaining 63.6% of the capital structure variable will be influenced by other variables.

The amount of contribution (contribution) of profitability to the capital structure can be seen from the value of R Square, which is 29.5%. This means that 29.5% of the profitability variable will be influenced by the capital structure variable. While the remaining 70.5% of the capital structure variable will be influenced by other variables.

**Discussion**

The results of this study indicate that there is no direct relationship between company size and profitability. This explains that the size of the company is not a guarantee that the company has the ability to generate good profits. This insignificant effect is caused by the larger the size of a company, the company will require greater costs to carry out its operational activities such as labor costs, general and administrative costs as well as maintenance costs for buildings, machines, vehicles and equipment so that it will be able to reduce profitability. company.

The results of this study are in line with research (Putra & Badjra, 2015), (Fachrudin, 2011), (Ayu & Setiadewi, 2012), (Novyanny & Turangan, 2017), which stated that the large size of the company was not supported by good management. by the company on the company's resources, such as total assets, technology, intellectual property as factors that determine the size of the company.

However, this research contradicts research (Wibisana et al., 2018), (Rifai et al., 2015), (Juliana & Melisa, 2019), large companies have a broader path in obtaining financing sources. That way, debt from creditors is easier to obtain, because large companies usually have a large probability. This results in large companies being able to win competitive competitions or survive in industrial competition. The size of the company's profitability, one reason is the rate of sales growth. A high sales growth rate will result in a large profit.

The results of this study indicate that there is a direct relationship between company size and capital structure. This explains that the greater the value of the size of the company, the greater the capital structure of the company. (Hanafi, 2004) that large companies tend to be diversified, thereby reducing the risk of bankruptcy. Company size is often used as an indicator for the possibility of bankruptcy for a company, where a company with a larger size is seen as more capable of dealing with crises in running its business. This will make it easier for companies with large sizes to obtain loans from creditors

This research is in line with research (Irdiana, 2016), (Liang & Natsir, 2019), (Niu, 2009), (Sari & Haryanto, 2013), which states that the larger the size of a company, the greater the capital the company needs. for operations. The larger the size of the company, the greater the total assets owned by the company. The larger the company, the greater the tendency to use external funds. This is because large companies have large funding needs and one of the fulfillment of the funds needed is by using external funds (Titman & Wessels, 1988).

However, this research is not in line with research (Armelia & Ruzikna, 2016), (Krisnanda & Wiksuana, 2015), (Tangiduk et al., 2017), which states that large, established companies will find it easier to obtain capital in the capital market compared to Small companies, because the ease of access means large companies have greater flexibility (Sjahrial, 2008), because companies with larger sizes have greater confidence in obtaining sources of funds, so that it will be easier to get credit from outside parties. Therefore, a large company size is a positive signal for creditors to provide loans. So that company size has a positive influence on capital structure.

The results of this study indicate that there is a direct relationship between company size and capital structure. This explains that the greater the profitability value, the greater the capital structure will be. Profitability itself shows the ability to earn a company's profit. With higher profits, it is possible to offer higher debt, because the level of creditor trust in the company is getting bigger.

This research is in line with research (Marfuah & Nurlaela, 2017), (Armelia & Ruzikna, 2016), (Sari & Haryanto, 2013), (Liang & Natsir, 2019). Often observations show that companies with high returns on investment use debt is relatively small and does not require much debt financing. Its high rate of return enables them to finance most of their funding needs with

internally generated funds (Brigham & Houston, 2001). So it can be said that there is a negative influence on the profitability variable on the capital structure.

However, this study is not in line with research (Zulkarnain, 2020), which states that the higher the profit generated, the greater the capital structure will be. The size of the capital structure is sometimes obtained from the profitability that the company does not share. Profitability is not shared with shareholders because the company wants to develop the company to be bigger.

**CONCLUSION**

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

1. There is a direct relationship between company size and profitability. This explains that the size of the company is not a guarantee of a company that has the ability to generate good profits.
2. There is a direct relationship between company size and capital structure. This explains that the greater the size of the company, the greater the capital structure of the company.
3. There is a direct relationship between profitability and capital structure. This explains that the greater the profitability value, the greater the capital structure will be.

**Research Limitations**

Based on the research that has been done, there are several limitations in the study, so suggestions are given for future research directions, namely:

1. Investors should pay attention and consider in the selection of issuers to purchase shares and observe the company's fundamentals and technicalities.
2. For further research, it is better to increase the scope of the research, both in terms of the research object, the variables and the years used so that the results of the research can represent an accurate assessment of the capital structure and consider the use of other variables to determine how it affects the capital structure.
3. This study only uses 2 variables, it is hoped that in the future the next researcher can add other variables to be studied and increase the length of time of observation and research on other subsectors on the Indonesia Stock Exchange.

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