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Effect of Current Ratio, Return on Equity, Managerial Ownership, Sales Growth, and Asset Structure on Capital Structure in Retail Trade Companies Listed on the Indonesia Stock Exchange for the 2016-2020 Period

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Abstract

The purpose of this test and analysis is to determine effect of current ratio, return on equity, managerial ownership, sales growth, and asset structure on capital structure in Retail Trade Companies listed on the Indonesia Stock Exchange for the 2016-2020 period. The method used is a quantitative approach. This population chose the Retail Trade Companies listed on the Indonesia Stock Exchange for the 2016-2020 period. In order to obtain the sample to be studied, purposive sampling technique was used. The total number of samples obtained were 7 issuers of the Retail Trade Companies listed on the Indonesia Stock Exchange for the 2016-2020 period. This research strategy uses multiple linear regression technique. Multiple linear regression technique consists of partial test (t), simultaneous test (F), and coefficient of determination test (R2). The results of partial test (t) show that current ratio and return on equity have a significant effect on capital structure. Meanwhile, managerial ownership, sales growth, asset structure have no a significant effect on capital structure. Simultaneous test results (F) show that current ratio, return on equity, managerial ownership, sales growth, and asset structure have a significant effect on capital structure. The results of the coefficient of determination test (R2) show that adjusted r square value of 0.820 means that capital structure is explained through the independent variables of 82 percent and the remaining 18 percent of capital structure is explained from other variables that are not included in this regression.

Keywords
current ratio; return on equity; managerial ownership; sales growth; asset structure; capital structure

I. Introduction

Now the economy in Indonesia has a big problem due to global economic pressure due to the large number of foreign investors fleeing from the Indonesian state, causing the stock market to experience a setback and corporate wealth to decline drastically in various sectors, especially the retail sector. In order to reduce concerns about the company's development, a large amount of funding is needed so that the company can earn big profits. One form of funding can be met, namely by carrying out a capital policy through a debt to equity ratio. The existence of a capital structure certainly adds to the enthusiasm of company managers to get maximum funding for their business.

This selection was carried out at retail trade issuers listed on the Indonesia Stock Exchange for the 2016-2020 period. The selection of this object was due to this sub-sector as one of the trading businesses selling products in retail so it was considered to have a good capital structure, especially in generating profits every year. This attracts attention for

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further research by paying attention to the variables which are considered to have an effect on the capital structure of retail trade companies listed on the Indonesia Stock Exchange for the 2016-2020 period.

The phenomenon described in the previous data, namely current ratio as measured by current asset at PT. Ace Hardware Indonesia Tbk (ACES) in 2018 increased by 21.98% compared to 2017, while capital structure as measured by total debt in 2018 increased by 18.22% compared to 2017.

Return on equity as measured by profit after tax at PT. Catur Sentosa Adiprana Tbk (CSAP) increased by 19.27% in 2017 compared to 2016, while capital structure as measured by total debt increased by 27.71% in 2017 compared to 2016.

The management share of PT. Ramayana Lestari Sentosa Tbk (RALS) grew by 116.35% in 2017 compared to 2016, although capital structure as measured by total debt increased by 6.72% in 2017 compared to 2016.

Sales growth of PT. Ace Hardware Indonesia Tbk (ACES) in 2018 increased by 21.91% compared to 2017, but total debt capital structure increased by 18.22% compared to 2017.

The asset structure measured by PT. Catur Sentosa Adiprana Tbk (CSAP) in 2017 increased by 37.85% from 2016, but capital structure as measured by total debt increased by 27.71% from 2016.

II. Review of Literature

2.1 Effect of Current Ratio on Capital Structure

According to Paramitha and Putra (2020), when a company has more liquidity, it uses less external funds, in the form of loans, thereby reducing its capital structure. In addition, organizations with strong liquidity are more likely to rely on internal funding sources, in the form of retained earnings, compared to external funding sources, in the form of debt or the issuance of additional shares.

Noviandini and Welas (2017), high liquidity in the company shows high internal funds so that companies tend to prefer to use internal funds before using debt financing.

Effendi (2018) explains that issuers with large liquidity choose not to use debt because these issuers have internal funds which cause companies to choose internal funds rather than external funds from debt.

From the discussion above, it can be stated that the greater the liquidity of a company, the greater the tendency to avoid the use of debt.

2.2 Effect of Return on Equity on Capital Structure

Batubara (2017) says profitability has an effect on capital structure, because organizations with high profitability reduce their dependence on external parties because they can get most of their funding from retained earnings.

Sunhaji (2019) says that for each currency that investors invest in the company, how much the company pays annually. Higher profits mean lower demand for external funds (debt) and therefore a lower capital structure.

According to Novitasari (2017), organizations with high profitability actually have low levels of debt because they have abundant sources of internal capital.

According to the previous view, organizations with very high levels of profitability will have less debt for their operations.

2.3 Effect of Managerial Ownership on Capital Structure

This management, according to Thesarani (2017), prefers a capital structure with own capital rather than using debt, with owned shares, because the risks associated with taking debt are quite high.

Prasetyo and Hadiprajitno (2019) noted that management maintains shares with lower debt levels because managers who own shares with shareholders do not want to receive lower dividends, which may be due to the expenditure of interest on the debt itself.

According to Miraza and Muniruddin (2017), the less debt the company uses, the greater the manager's share ownership. Managers do not like funding from liabilities because it exposes them to more risk.

Based on the previous perspective, it can be said that strong management share ownership will reduce the company's debt, thus generating considerable profits for managerial shareholders.

2.4 Effect of Sales Growth on Capital Structure

According to Awaluddin (2019), organizations in rapidly growing sectors must provide sufficient capital to support their business. Fast-growing firms are more likely to use debt to fund their operations than moderate-growth firms.

Carnevela (2017) says that the company's revenue includes the rate of sales growth. In order to influence the rate of sales growth, businesses must be able to concentrate on the elements that drive sales. With profit growth, the company's capital also grows.

According to Wijaya (2020), if a company wants business growth, it will most likely expand the quantity of assets to support business expansion; thus, capital is needed to achieve this goal.

Based on the above perspective, it can be said that a rising company with strong sales growth must have a large capital structure.

2.5 Effect of Asset Structure on Capital Structure

According to Melodie and Ruslim (2019), the asset structure is consistent with the trade-off theory, where companies try to balance profits and costs in order to achieve an optimal capital structure. This means that creditors will provide loans to debtors who have a fairly large number of fixed assets of the company.

According to Prastika and Candradewi (2019), a large number of fixed assets can be used as collateral for company financing, and businesses with a high number of fixed assets have a good chance of obtaining long-term loans.

According to Andika and Sedana (2019), the asset structure also determines the liquidation value of the company, therefore the more asset structures, the greater the incentive for creditors to recognize the amount of credit obligations.

The explanation confirms that the greater the value of the issuer's fixed assets, the greater the desire of creditors to authorize the level of credit debt, thereby increasing the value of the capital structure.

III. Research Method

The method used is a quantitative approach that focuses on descriptive research that emphasizes quantitative data in the form of numbers in financial statements using statistics (Octiva, 2018; Pandiangan, 2015; Pandiangan et al., 2018).

This population chose the Retail Trade Companies listed on the Indonesia Stock Exchange for the 2016-2020 period. In order to obtain the sample to be studied, purposive sampling technique was used. Purposive sampling is a sampling technique with certain considerations (Asyraini et al., 2022; Octiva et al., 2018; Pandiangan, 2022). The reason for using this purposive sampling technique is because it is suitable for use for quantitative research, or research that does not generalize (Octiva et al., 2021; Pandia et al., 2018; Pandiangan et al., 2021). The total number of samples obtained were 7 issuers of the Retail Trade Companies listed on the Indonesia Stock Exchange for the 2016-2020 period.

Document collection approach for data collection. This approach consists of historical records documented in electronic documents in the form of data archives (Pandia et al., 2018; Pandiangan et al., 2022). All types of data and data sources used are secondary data, basically research data is collected indirectly through intermediary media in the form of the Indonesia Stock Exchange website www.idx.co.id.

This research strategy uses multiple linear regression technique. This approach can be used to see how much influence the independent variable has on the dependent variable (Pandiangan, 2018; Tobing et al., 2018). Multiple linear regression technique consists of partial test (t), simultaneous test (F), and coefficient of determination test (R^2).

IV. Results and Discussion

4.1 Descriptive Statistics Results

This descriptive statistic results contains data related to the variables of this study, namely:

Table 1. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
Current Ratio	35	.5637	8.0764	2.205751	2.1397566
Return on Equity	35	.0166	1.5026	.239880	.3268560
Managerial Ownership	35	.000003427	.079270011	.01902272883	.025767372044
Sales Growth	35	-.5483	.4339	.053371	.1761430
Asset Structure	35	.0437	.3724	.204526	.0963881
Capital Structure	35	.2238	9.8740	1.959691	1.8057044
Valid N (listwise)	35				

From the description of descriptive statistics above, it shows that there are three variables whose standard deviation values are higher than the mean, which means the wider the range of variation of the data and the other three variables, the standard deviation values are lower, so that they are closer to the average.

4.2 Partial Test (t) Results

This statistic shows that each independent variable has a substantial (significant) relationship with the dependent variable.

Table 2. Partial Test (t) Results

	Model	t	Sig.
1	(Constant)	9.930	.000
	Inverse Current Ratio	-10.328	.000
	Inverse Return on Equity	-2.107	.045
	Inverse Managerial Ownership	1.742	.093
	Inverse Sales Growth	-1.650	.111
	Inverse Asset Structure	-1.070	.295

The results of partial test (t) show that current ratio and return on equity have a significant effect on capital structure. Meanwhile, managerial ownership, sales growth, asset structure have no a significant effect on capital structure.

Testing this hypothesis explains that the current ratio has a negative and significant effect on capital structure in retail trade companies and the results of this study are in line with the results of Effendi's research (2018). This is because most retail trade companies have high liquidity, which means that the internal funds they have tend to use internal funds to carry out company activities rather than using external funds in the form of debt financing from creditors.

Return on equity has a large and negative effect on capital structure in retail trading companies, as shown by the findings of this study, which is in accordance with Batubara’s research (2017) because most retail companies are able to generate large profits, the use of debt is minimal. It can be seen that the significant profits obtained by retail trading companies can increase the amount of retained earnings, so that in carrying out business operations, the company only needs a small amount of debt to build its capital, thereby increasing the possibility of profit growth.

The findings of this study are in line with the findings of Prasetyo and Hadiprajitno (2019) who found that managerial ownership does not have a substantial effect on the capital structure of retail trading companies. This is because the retail trade sub-sector with significant management shares tends to prioritize sales profits over dividend payments to shareholders. This is because they do not want to tamper with the company's capital financing, so that the activities carried out by management are not in line with the actions of shareholders and management is indifferent to the company's profits or losses.

The findings of this study are in line with the findings of the Carnevela’s research (2017) which shows that sales growth has a small and insignificant effect on the capital structure of retail trading companies. This is because retail trade issuers that experience good growth will still use debt for funding rather than sales profits. Every time there is an increase in sales, of course, there will be additional internal funds from the sales proceeds, but because the operational activities of the retail trade company have bright prospects in order to get large profits, so that annual sales growth is not an important factor in reducing the use of debt as financing for its operational activities.

The results of testing this hypothesis show that the asset structure has a small and insignificant effect on the capital structure of retail trading companies, according to the findings of Melodie and Ruslim (2019). This can be seen from the large number of fixed assets in the retail trade sub-sector, there is no guarantee for creditors to provide debt. This is an assumption that companies that use internal or non-permanent funding get a greater risk in operational activities so that the amount of fixed assets owned by retail trade companies has not become the main factor in guaranteeing debt for operational activities because owners are more likely to use their capital than debt.

4.3 Simultaneous Test (F) Results

The purpose of this statistic is to determine the combined effect of the independent factors on the dependent variable.

Table 3. Simultaneous Test (F) Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	47.726	5	9.545	29.190	.000[b]
	Residual	8.502	26	.327		
	Total	56.228	31			

Simultaneous test results (F) show that current ratio, return on equity, managerial ownership, sales growth, and asset structure have a significant effect on capital structure.

4.4 Coefficient of Determination Test (R^2) Results

The coefficient of determination test is intended to determine how well the model can explain the dependent variable. If the coefficient of determination is close to 1, the relationship is strong, and if it is close to 0, the relationship is weak.

Table 4. Coefficient of Determination Test (R^2) Results

Model	R	RSquare	Adjusted R Square	Std.Errorof the Estimate
1	.921[a]	.849	.820	.5718401

The results of the coefficient of determination test (R^2) show that adjusted r square value of 0.820 means that capital structure is explained through the independent variables of 82 percent and the remaining 18 percent of capital structure is explained from other variables that are not included in this regression.

V. Conclusion

The results of partial test (t) show that current ratio and return on equity have a significant effect on capital structure. Meanwhile, managerial ownership, sales growth, asset structure have no a significant effect on capital structure. Simultaneous test results (F) show that current ratio, return on equity, managerial ownership, sales growth, and asset structure have a significant effect on capital structure. The results of the coefficient of determination test (R2) show that adjusted r square value of 0.820 means that capital structure is explained through the independent variables of 82 percent and the remaining 18 percent of capital structure is explained from other variables that are not included in this regression.

Some of the suggestions for this research include:

1. For investors, it is recommended to provide new ideas or additional information on capital structure policy making. This is because investors are still unsure about the company's profitability in the future.
2. For further researchers, it is recommended to add other things, namely the size of the company and the activity ratio, as well as multiply the research sample by adding the number of periods or replacing the object of research.

3. For companies, it is advisable to be able to make the right funding decisions in the form of capital and debt. Because this can give confidence to investors so that they can invest their capital to finance company activities so that sales and other ratios can increase.

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