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Capital Structure, Firm Size, to Financial Performances in Indonesian property and real estate companies

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Abstract

The main goal of this study is to examine the impact of capital structure, the size of the company to financial performance. This study uses data from property and real estate companies listed on the Indonesia Stock Exchange between 2022 and 2023. The dependent variable used is the return on Equity (ROE). The independent variables are Debt to assets (DAR), debt to equity ratio (DER), and company size (FS). This study uses purposive sampling as the sampling technique. This study had 68 samples that met the sample criteria determined by the researchers. The data analysis method used is the regression analysis method. The results showed: (a) DAR Variable may have financial performance of real estate and subsector companies for real estate listed on the Indonesia Stock Exchange between 2022-2023. (b) This variable may have a positive and significant impact on the financial performance of real estate and real estate subsector companies listed in 2022-2023. (c) FS variables have a positive and significant impact on the financial performance of real estate and subsector companies for real estate listed between 2022 and 2023.
Keywords: Capital Structure,Debt to Asset Ratio (DAR),Debt to Equity Ratio (DER),Firm Size,Return on Equity

Introductiom

The property and real estate business has fast-changing characteristics, so the competition is tight. Many people invest their capital in the property and real estate industry because the price of land and property in Indonesia tends to rise. This can happen because the supply of land is not comparable to the demand for land which continues to increase along with population growth. Data on the number of Indonesian residents in 2023projected to reach 278,696 million people based on inter-census population survey (BPS, 2024). From year to year, the population of Indonesia continues to increase.

TABLE 1
Population Projection of Indonesia from 2019-2023

Year	Total population
2019	268,075 Million
2020	270,204 Million
2021	272, 682 Million
2022	275,774 Million
2023	278,696 Million

Source:https://www.bps.go.id/, 2024

Indonesia's population growth also means there is a need to increase apartments, offices and other property and real estate. For this reason, real estate and real estate companies are developing and building, so many companies are increasing their debt and needing additional funds from outside the company.

Many measures are needed to develop and advance a company. Companies can obtain funds from within and outside the company. Funds from the company can come from depreciation and profit reserves. On the other hand, funds from outside the company, such as stock funding, risk capital, credit loans, investments, etc. (Ningsih, 2019). According to Townniyanti and Elfina (2015), the company must be able to combine the use of internal and external sources of funding when selecting the most profitable source of funding. The decision of equity between long-term debt and capital as a source of funding for a company has a close relationship with the capital structure.

The capital structure of a company is a mixture of debt and equity that the company uses to improve its business. Therefore, our particular strategy must refer to the appropriate combination of debt and equity in order to fund the company's assets. Management financial decisions are extremely important to determine the optimal capital structure. Company management must arrange the company's capital structure in a way that maximizes the company's value.

Solvency relationships can be used to find the optimal capital structure. According to Cashmere (2014), the Solvency quota is the ratio in which a company measures the amount funded in debt. The higher the solvency rate, the higher the financial risk the company supports. Therefore, if there is a ratio of debt to assets or liability shares, there is a higher risk that the company will not be able to cover fixed payment costs or will repay capital obligations, so that the company's terms will deteriorate and lead to bankruptcy. According to Halim (2015), there are three solvency rates. That is, the total debt ratio, the total liability of the equity ratio, and the long-term debt of the equity ratio.

According to Nurcahayani and Daljono (2014), debt-To-Assets-Ratio (DAR) helps to measure a company's ability to meet the amount of a company that is loaned with total debt. The higher one, the greater the number of loans used to achieve the profits of the company.

Total Debt to Total Equity Ratio (DER) is a ratio that explains the ability of a company to meet its fairness commitment. According to Nurcahayani and Daljono (2014), overall long-term debt is higher compared to the overall composition and total value of the short-term debt. This can lead to a burden on the company of external parties.

One factor that considers investors when deciding on an investment decision is the financial performance of the company. To see the current status of your company, you can analyze your financial performance with ROE. ROE (Return on Equity) describes the profit level based on the company's fairness. If the total assets used in the business work of the company can make a profit, then we can draw the conclusion that the ROE is positive. Negative ROE indicates that the total assets used do not achieve the organization or company's profits.

Company Size (FS) can be measured by the natural logarithm of the company's total assets. As the company grows in size, the company's financial performance will improve. This can occur because large companies can achieve scale effects. Therefore, companies have the advantage that they incur production costs when companies produce large quantities with the same resources (Arisadi et al., 2013).

There are various theories explaining the impact of capital structure on the financial performance of a company. However, many studies examining the impact of capital structure guidelines on financial performance, although highly conducted both domestically and internationally, have led a variety of conclusions. Revelation (2016), capital structure in the form of STD and TD has a significant impact on the financial performance of a company, whereas Ltd has no significant impact on financial performance. In the meantime, there is a negative link to corporate performance measured by ROA, ROE and EPS, according to capital structures from STD, Ltd and TD.

This study was conducted in the conduct of future reviews as a reference material for stakeholders and as a source of information for Indonesian banking companies. Furthermore, this study will also help to enhance knowledge in relation to the influence of capital structure and liquidity on the profitability of Indonesian banking companies. As well as reference materials for related parties and subsequent researchers. As well as reference materials for future researchers.

Research Method

This study uses a quantitative approach to analyse financial statement data from property and real estate companies listed on the Indonesia Stock Exchange during the 2022-2023 period with a total sample of 68 samples after the outlier test. The data analysis technique used in this research is regression analysis using SPSS software. To ensure that the data under study is valid, unbiased, and consistent, classical assumptions are carried out before testing the regression hypothesis. The classical assumption test includes normality test, multicollinearity test, and heteroscedasticity test

Result and Discussion

Table 2 Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.098	.053		-1.868	.067
	X1 (DAR)	-.051	.029	-.538	-1.747	.086
	X2 (DER)	.017	.007	.664	2.308	.025
	FS	-.004	.002	.305	2.293	.026

a. Dependent Variable: ROE

Source: SPSS Data Processing Result,2024

The regression equation obtained from the calculation above is as follows: ROE= α+ β_1 DAR+β_2 DER+ β_3 FS+ e

ROE = -0.098 -0.051DAR +0,017 +0.004FS+ e

Based on the regression above, it can be interpreted as follows:

The constant value is -0.098 where the value is negative, if it is assumed that the value of the DAR (X1), DER (X2) and FS (X3) systems has changed, then profitability will change.

It is known that the regression coefficient value of DAR (X1) is -0.051 here the value is negative, meaning that if DAR decreases, it will reduce financial performances (Y).

It is known that the regression coefficient value of DER (X2) is 0.017 where the value is positive, meaning that if DER is getting better, it will increase financial performances (Y).

It is known that the regression coefficient value of Firm Size (X3) is 0.004 where the value is positive, meaning that if FS is getting better, it will increase financial performances (Y).

Source: SPSS Data Processing Results Specification

Hypothesis Testing

R Square Determination Test

The Coefficient of Determination (R^2) test determines how far the model's ability to apply variations in the dependent variable. A small (R^2) value indicates that the independent variables do not have much ability to explain variations in the dependent variable.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999	.997	.997	.003460

Source: SPSS Data Processing Results,2024

The table shows that the R Square value in model 1 is 0.999 or 10%. This means that the ability of the DAR, DER and Firm Size variables to influence company profitability is 10% and the rest is influenced by other variables.

F Test

Table F Test Results

ANOVA						
Model		Sum of Square	Df	Mean Square	F	Sig
1	Regression	.005	3	.001	5.20	.001b
	Residual	.014	58	.000		
	Total	.020	61			

Source SPSS Data Processing Results,2024

The F test shows that the calculated F value 5.20 is at a level of 0.001 (sig). Therefore, we can draw a conclusion that the significance value of 0.001 is smaller than the probability value of 0.005. This proves to have a significant impact between DAR, DER, and Size Company variables on ROE. Alternatively, it can be said that the asset variables ranging from liabilities to assets, liabilities rates and company size (simultaneous) influence the dependent variables of the company's financial performance pursued by the ROE.

T test

Beginning, The significant value of the independent variable DAR is 0.086, exceeding 0.05. The calculated t value for DAR is -1,747, which is smaller than the T-table value of 2.00247. This indicates that it has a negative but not significant effect on financial performance as it is being attacked by the ROE. Second, the DER variables have a significant positive impact on the financial performance of a company. Independent variable DER has a significance value of 0.025, which is smaller than 0.05.The calculated T value of 2.308 is greater than the T table value of 2.00247. This shows that as ROE is exposed to the storm, it has a positive and significant impact on financial performance. Third, the significant value for the independent variable FS is 0.026, less than 0.05. The calculated FS value 2.293 is greater than the T-table value of 2.00247. This indicates that FS is being exchanged by ROE and therefore has a positive and significant impact on financial performance.

Effect of DAR on Financial Performances

The results of the statistical analysis show that the DAR has a negative but insignificant effect on the company's financial performance. Based on Table 2, the significance of the independent variable-DAR is 0.086, exceeding 0.05. The calculated t value for DAR is -1,747, which is smaller than the T-table value of 2.00247. This indicates that it has a negative but not significant effect on financial performance as it is being attacked by the ROE. This study is not consistent with the proposed hypothesis, and therefore it can be said that the initial hypothesis was rejected. The results of this study were as follows: Astuti et al. (2019).

The negative impact on the debt to asset ratio (DAR) means that the higher the ratio, the greater the financial risk. The increased risk of problem is the possibility of failure as there are too many assets from debt. The risk of failure increases the costs that the company must incur to overcome this problem. The lower it is, the higher the ability to pay all the obligations of the company. In other words, only a small portion of the company's assets are funded by debt. As an increase in balance sheet assets is higher than an increase in debt, there can be a decrease in DAR, which reduces the debt burden, leading to an increase in ROE. The results of this study are in accordance with the Pecking Order theory because companies prefer funding from within the company, namely retained earnings, compared to funding from outside the company, namely debt.

Property and real estate subsector companies have insignificant impacts as they have high debt and high profits. However, some companies have high debt and low profits. Therefore, the company's high or lowest will not affect the financial performance of the company as adapted by the ROE. On the other hand, this is expensive because there are large debt sources of use in the company's business to improve financial services. In the specified analysis, very high results in a company's financial performance degradation. This can be done due to increased interest costs and risk of failure. However, if DAR increases properly, the company's operating financing skills can help improve financial services.

Effect of DER on Financial Performances

The results of the statistical analysis show that DER variable HAS a significant impact on the financial performance of companies. Based on Table 2, the significance of the independent variable is below 0.025 and below 0.05. The calculated T value of 2.308 is greater than the T table value of 2.00247. This shows that as ROE is exposed to the storm, it has a positive and significant impact on financial performance. This study is consistent with the proposed hypothesis, which means that the second hypothesis is accepted. The findings of this study correspond to a study conducted by Dewika (2017) and Fadhilah (2012) in which liability liabilities on equity have a significant positive impact on financial performance. A significant positive impact on value indicates that ROE increases as value increases. That is, companies have a large debt and a large capital in this research test. A large debt value that harmonizes with large capital will achieve a large net profit as ROE improves and improves financial performance. The increase actually depends on the economic situation. If the economic situation is good, the use of larger debts will improve financial performance, and if the economic situation deteriorates, this can lead to a decline in financial performance. As a rule, companies should be aware that when the value is high, the value of their ROE does not decrease or change.

The results of the statistical analysis show that the stock fee obligation variables have a significant impact on the financial performance of (OF) companies. Based on Table 2, the significance of the independent variable is below 0.025 and below 0.05. The calculated T value of 2.308 is greater than the T table value of 2.00247. This shows that as ROE is exposed to the storm, it has a positive and significant impact on financial performance. This study is consistent with the proposed hypothesis, which means that the second hypothesis is accepted. The findings of this study correspond to a study conducted by Dewika (2017) and Fadhilah (2012) in which liability liabilities on equity have a significant positive impact on financial performance. A significant positive impact on value indicates that ROE increases as value increases. That is, companies have a large debt and a large capital in this research test. A large debt value that harmonizes with large capital will achieve a large net profit as ROE improves and improves financial performance. The increase actually depends on the economic situation. If the economic situation is good, the use of larger debts will improve financial performance, and if the economic situation deteriorates, this can lead to a decline in financial performance. As a rule, companies should be aware that when the value is high, the value of their ROE does not decrease or change.

Effect of Firm Size (FS) on Financial Performances

The results of the statistical analysis show that the company size (FS) variable has a significant positive impact on the company's financial performance. Based on Table 2, the significance of the independent variable FS is less than 0.026 and less than 0.05. The calculated FS value 2.293 is greater than the T-table value of 2.00247. This indicates that FS is being exchanged by ROE and therefore has a positive and significant impact on financial performance. This study is consistent with the proposed hypothesis, and therefore the third hypothesis is accepted. This study is in harmony with Setiawan et al. (2020), the size of the company or the size of the company has a significant impact on the financial performance of the company.

The results of this study show that company size (FS) has a significant positive impact on financial performance. In other words, an increase in the size of the company will improve the financial performance of the company (profit). An increase in the number of assets in a company indicates an increase in the size of the company, which means that large, ordinary companies are funding both in the capital market and in the banking business to lend investments and increase profits. Large companies are more flexible to obtain the urgently needed funds to implement profitable investment opportunities.

Conclusion

Based on the results of multiple linear regression analyses, we can conclude as follows: DAR has a negative and insignificant effect on the financial performance of ownership and real estate sector companies listed on the Indonesia Stock Exchange from 2022-2023. (b) DER have several positive and significant impacts on the financial performance of real estate and subsector companies for real estate listed on the Indonesia Stock Exchange (at) between 2022 and 2023. (c) The company size (FS) variable has a positive and significant impact on the financial performance of real estate and subsector companies for real estate listed on the Indonesia Stock Exchange between 2022 and 2023.

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