

# ANALYSIS OF THE EFFECT OF CAPITAL EXPENDITURE, BUSINESS RISK, AND PROFITABILITY ON THE CAPITAL STRUCTURE OF COMPANIES ON PROPERTY INDUSTRY

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**Abstract** – The objective of this research is to test whether capital expenditure, business risks, and profitability will affect a company's capital structure. The company under study runs in the real estate and property industry which listed on Indonesia Stock Exchange in 2013-2019. The purposive sampling method is used in this research. The sampling data involved 30 companies for 7 years consecutively starting from 2013-2019. In this research, there is one dependent variable, i.e., capital structure, while there are three independent variables, i.e., capital expenditure, business risks, and profitability. This research used multiple linear regression data. Besides that, the data samples are already tested by using the classic assumption method, starting from the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Based on the research, the capital expenditure and business risks are not affecting the company capital structure in the real estate and property industry. However, profitability has a significant negative impact on the company's capital structure.

**Keywords:** Business Risk; Capital Expenditure; Capital Structure; Profitability

## 1. INTRODUCTION

### 1.1 Research Background

In carrying out business activities, the company (Limited Liability Company) has two components that make up the company's capital structure, namely capital and debt (Houston, 2020). Capital is a component that is included in the form of share ownership, while debt is a component obtained through various instruments such as bond issuance and loans from banks. In carrying out operations and business expansion, companies can rely on funding sources from within the company and from outside the company.

If the company's internal funding is insufficient or financially burdensome, the company can increase its funding by borrowing or issuing new outstanding shares. If the company chooses to go into debt, then of course the company's risk will increase, given that there is debt that must be repaid within a certain period of time. If the company chooses to issue new outstanding shares, it will reduce the book value per share owned by investors. The issuance of new shares will also reduce other investors' ownership percentage if the addition of the company's outstanding shares is not followed by the addition of an investor's share ownership. Company debt is generally used to finance the company's internal needs that cannot be met

with the company's internal finances such as buying assets, production raw materials, expansion of the company's business lines, and others.

The capital structure serves to maximize existing sources of funds to increase firm value and shareholder wealth (Yuhartil, 2006). Therefore, the capital structure has become a very crucial strategic decision for the company since it was just started until several years running. From the investor's point of view, of course, investors prefer a healthy company with debt that is included in the calculation. According to Benjamin Graham, a value investment guru, in his book "The Intelligent Investor" (Graham, 2006), a good aggressive investor will choose a company with a current debt level that does not exceed 2/3 of its current assets, and debt of no more than 110% of net current assets (for industrial companies).

In several studies studied by researchers, there are some gaps in the results that exist regarding the effect of several variables on capital structure. Profitability has no effect on the capital structure of property and real estate companies listed on the Indonesia Stock Exchange (IDX) in 2011-2013 (Andreas et al., 2015). However, the results of research conducted by Sri (2017) reveal that profitability has a positive effect on the capital structure of companies listed on the IDX in 2011-2015. Furthermore, according to research conducted by Septi (2016), business risk has a positive effect on the capital structure of manufacturing companies in 2009-2012. However, the results of research conducted by Putu (2018) reveal that business risk has a negative effect on the capital structure of companies in the automotive industry listed on the IDX for the period 2014-2016.

With various differences in the results of research from previous studies, and also considering that the researchers are market participants who invest in public companies and want to find out more about the effect on capital structure, the researchers decided to conduct a study that examines the effect of three variables that are the main focus, namely: capital expenditure, business risk, and profitability to capital structure. The research will be conducted with a sample of 30 companies in the property and real estate sector listed on the Indonesia Stock Exchange (IDX) for the period 2013-2019. This research is expected to be a guideline for retail investors to first study a company from upstream to downstream, in this case the research will provide information related to capital structure, considering that the decision to make an investment does not only come from personal feelings, but is closely related to calculations, and careful calculation of the data for the best investment decisions.

## **1.2 Literature Review**

### **1.2.1 Agency Theory**

According to Meckling (2014), agency theory is a relationship contract between one or more shareholders with several other people, namely company agents to provide some services on their behalf which involves the delegation of shareholders to agents. Agents are contracted by shareholders to work to maximize profits for shareholders. Agents in their operations must act in their best and be accountable to shareholders. In this study, agency theory is associated with how appropriately financial management manages the company's debt and capital. This is quite crucial because if the decision is not right, it will lead to a reduction in share ownership by shareholders.

### **1.2.2 Pecking-Order Theory**

According to Majluf (1984) which was further developed by Eda (2008), pecking order theory is a theory that talks about how a company prefers to use internal funds to finance its operations because of the company's growth projections. In the pecking order theory, considerations related to funding decisions are funding with internal funds is preferred by the company. Internal funds are collected from retained earnings by the company. The company

sets a dividend payout ratio so that the company is consistent every year to reinvest the profits it earns. Then, funds for operations sometimes exceed the need for funds for investment due to the dividend payout ratio which tends to remain constant as well as fluctuations in profitability and unexpected investment opportunities. So if operating funds are less than investment needs, the company will sacrifice cash or sell its securities. At last, the company has a priority order in external funding if needed. The company will choose to issue the safest securities, namely bonds, then option securities such as convertible bonds, and the last option for the company if it is not sufficient is to issue new shares (Majluf, 1984).

### **1.2.3 Capital Structure**

According to Houston (2020), capital structure is a variable composed of two components, namely capital and debt. Determination of capital structure is very crucial because it involves the business continuity of a company. Capital structure also affects investors' assessment of whether a company is worth investing in or not. Capital structure decisions are influenced by several factors, namely sales stability, asset structure, operational debt, growth rate, profitability, tax position, control, management attitude, attitude of lenders and rating agencies, market conditions, internal conditions, and financial flexibility (Houston, 2020).

### **1.2.4 Capital Expenditure**

According to Riyanto (2012), capital expenditure is money spent by the company with the aim of being invested in the company's fixed assets. Mathematically, capital expenditure will certainly reduce the amount of cash in a company. Capital expenditures that reduce cash can cause investors to delay or cancel investments in a company, because companies with a lot of cash are considered profitable to invest in (Jensen, 2014). In accordance with the theory of pecking-order, companies will firstly prioritize using internal funds as capital expenditure. If the existing cash is deemed insufficient, the source of capital expenditure funds can be obtained from outside parties, which of course will affect the debt burden. With the increasing debt burden, the capital structure will certainly be affected as well. With the existing theory, the writer can conclude the first hypothesis as follows:

**H<sub>a1</sub>: Capital expenditure has a positive effect on capital structure**

### **1.2.5 Business Risk**

According to Houston (2020) which states that business risk exists because of the high fixed costs of a company. The higher the fixed costs, the higher the risk of a company. Fixed costs consist of various kinds, such as interest on debt, rental costs, promotion costs, and other costs. Other factors that can affect business risk include demand variability, selling price variability, input cost variability, ability to adjust output prices due to changes in input costs, ability to develop new products in a timely and cost-effective manner, foreign risk exposure, and fixed cost. operational. With high business risk, creditors tend to be reluctant to provide debt to the company because they consider the company's ability to pay. In line with agency theory, company management will be very careful managing the fixed costs to maintain shareholder trust. With the existing theory and referring to previous research from Widanaputra (2018), Sari et al. (2019), Mardiah et al. (2020) the author can state the second hypothesis as follows:

**H<sub>a2</sub>: Business risk has a negative effect on capital structure**

### 1.2.6 Profitability

According to Brigham (2005), the company's profitability is influenced by how much sales growth the company had in that period along with the fixed costs that followed, the end result of which was net income. After the net profit is obtained by the company, the company's policy on the net profit also affects the capital structure. If net income is mostly distributed to shareholders, then the money held will also decrease and will burden the company's capital structure. Also in line with the pecking-order theory, if a company's profitability is in a good condition, the company can use internal funds first for its financing. Profitability affects the direction of the company's expansion policy in the future, whether to do new business or stay with the current business. The relationship between profitability and debt is in opposite directions, meaning that the higher the profitability, the less debt is needed. With the existing theory and referring to the results of previous study from Nirmala et al. (2016), Arabella (2018), and Priyagung (2019), the author can conclude the third hypothesis as follows:

**H<sub>a3</sub>: Profitability has a negative effect on capital structure**

## 2. RESEARCH METHODOLOGY

### 2.1 Population, sample, and data collection techniques

On this research, the researcher will conduct research with the population in the form of companies in the property sector and have been listed on the Indonesia Stock Exchange (IDX) during the 2013-2019 period. The researchers took this time frame because it is during this time that the golden cycle of the property starts and ends. Data regarding the company's finances will be collected from the S&P Capital IQ website. The study will use financial data from 30 companies for seven full years of reporting, for a total of 210 data. The sample is determined by purposive sampling method, in which the sample selection will be carried out with certain criteria. The criteria include:

1. Companies in the property and real estate industry on the Indonesia Stock Exchange (IDX). Property and real estate companies in question are residential property developers as well as industrial estate developers
2. Companies that are listed on the Indonesia Stock Exchange from 2013-2019 in full period and publish financial reports that can be studied by the public

### 2.2 Research Empirical Method

The research model will be described as follows:

$$CS = \lambda + \beta_1 \cdot \text{Capex} + \beta_2 \cdot \text{Risk} + \beta_3 \cdot \text{Profit} + \beta_4 \cdot \text{Size} + e$$

Notes :

CS = Capital Structure

$\lambda$  = Fixed constant

$\beta_1$ - $\beta_4$  = Parameter Coefficient

Capex = Capital Expenditure

Risk = Business Risk

Profit = Profitability

Size = Company Size (Control Variable)

$e$  = disturbance's error

## 2.3 Variables Definition

### 2.3.1 Dependent Variable

The dependent variable in this study is the capital structure, where the capital structure will be measured using the Debt to Equity Ratio (DER), which has been used by previous research conducted by Sari (2016). DER will be calculated manually by researchers with data obtained from financial statements, with the following formula:

$$\text{DER} = \frac{\text{Total Amount of Debt}}{\text{Total capital}}$$

Total debt is the entire amount of debt owned by a company. Total debt is every debt owned by the company in certain period, both short-term, long-term, or any other payments. Meanwhile, total capital is the amount of internal capital owned by a company. Capital is composed of two components, namely capital shares and retained earnings. Using DER calculations, investors can notice how risky and how healthy is the capital structure of a company that they want to invest their capital in.

### 2.3.2 Independent Variables

#### 1. Capital Expenditure

In this study, researchers will measure the amount of capital expenditure with a ratio involving the number of fixed assets in that year (t) and the previous year (t-1). The calculation formula for measuring capital expenditure is as follows (Sartono, 2012): In this study, researchers will measure the amount of capital expenditure with a ratio involving the number of fixed assets in that year (t) and the previous year (t-1). The calculation formula for measuring capital expenditure is as follows:

$$\text{Capital Expenditure} = \frac{\text{Fixed Assets}_t - \text{Fixed Assets}_{t-1}}{\text{Total Assets}}$$

The company's fixed assets consist of property, plant, and equipment. Assets are still involved in the calculation of the capital expenditure ratio because capital spending is carried out as a treatment for fixed assets. Whereas, the total assets is the number of assets owned by the company in a certain period, both current assets and non-current ones.

#### 2. Business Risk

To measure business risk, the calculation will follow the variable size that has previously been used by Arabella (2018). This measure uses the standard deviation of the operating income to sales ratio for the last three years, namely t-2 to t. Calculations will be carried out by following the following formula:

$$\text{Business Risk} = \sigma \frac{\text{EBIT}}{\text{Sales}}$$

Earning Before Interest taxes (EBIT) is the company's operating profit at a certain period. Operating profit figures can be seen in the available company's financial

statements. The bigger the number from the calculation result using this formula, the business risk will be even greater

### 3. Profitability

Profitability is calculated by the formula for calculating the return on assets as used by previous researchers, namely Priyagung (2019). The calculation formula is as follows:

$$\text{ROA} = \frac{\text{Earning After Tax}}{\text{Total assets}}$$

The company's net profit is attributable profit to the owner of the parent entity. While total assets is the number of assets owned company in a certain period, both current assets and non-current assets. With the return on assets ratio, we can notice how profitable a company's assets are.

#### 2.3.3 Control Variable

In this study there are control variables. According to Sugiyono (2017) control variables are variables that are regulated by researchers so that the influence of independent variables on the dependent variable is not influenced by external factors that are not examined. Company size is measured by the natural logarithm of the company's total assets.

## 3. RESULTS AND DISCUSSION

### 3.1 Descriptive statistics

**Table 1. Descriptive Statistics Before Data Transformation**

	N	Minimum	Maximum	Mean	Std. Deviation
DER	210	.01	2.69	.4290	.31986
CAPEX	210	-.96	.66	.0035	.11992
RISK	210	.00	2.26	.1171	.25642
PROFIT	210	-.07	.36	.0469	.06040
SIZE	210	5.56	7.74	6.7212	.57447
Valid N (listwise)	210				

Source: Data Result

Statistics show that the dependent variable, namely DER, has a maximum value of 2.69 and a minimum of 0.01. DER has a mean of 0.4290 and a standard deviation of 0.31986. Then on the first independent variable, CAPEX, there is a maximum value of 0.66 and a minimum of -0.96. CAPEX has a mean of 0.0035 and a standard deviation of 0.11992. Furthermore, in the second independent variable, RISK, there is a maximum value of 2.26 and a minimum of 0.00. RISK has a mean of 0.1171 and a standard deviation of 0.25642. The third independent variable is PROFIT, there is a maximum value of 0.36 and a minimum of -0.07. PROFIT has a mean of 0.0469 and a standard deviation of 0.06040. In this study, one control variable is used, namely SIZE, which has a maximum value of 7.74 and a minimum value of 5.56. SIZE has a mean of 6.7212 and a standard deviation of 0.57447.

### 3.2 Problem with Research Data

The initial data in this study amounted to 210 data. However, the existing data have descriptive statistics that are not very good and do not pass the classical assumption test,

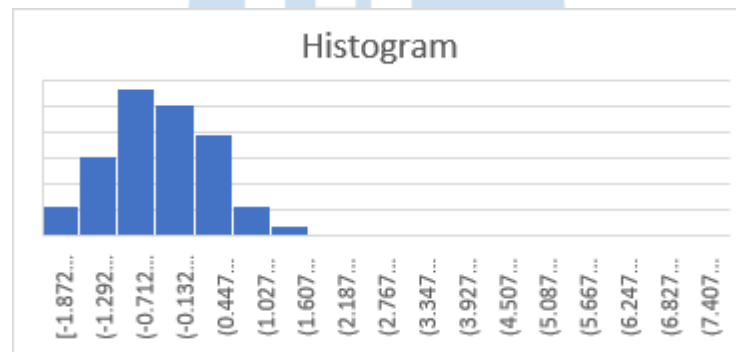
namely the normality test and the heteroscedasticity test. The following is a further explanation of the problems that exist in the initial data of the study.

**Table 2. Distribution of Descriptive Statistics**

	N Statistic	Skewness		Kurtosis	
		Statistic	Std. Error	Statistic	Std. Error
DER	210	2.072	.168	10.786	.334
CAPEX	210	-4.320	.168	44.427	.334
RISK	210	6.487	.168	48.378	.334
PROFIT	210	1.590	.168	4.677	.334
SIZE	210	-.229	.168	-1.060	.334
Valid N (listwise)	210				

Source: Data Result

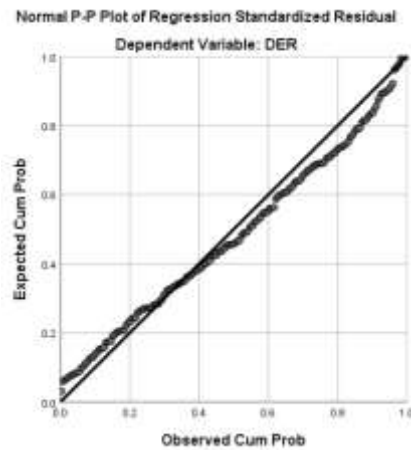
Table 2 shows that the distribution of descriptive statistics shows that the range of minimum and maximum values is too far. Through the value of statistical skewness and statistics kurtosis, it can also be seen that the initial data of this study were not normally distributed. According to Ghozali (2018), research data is normally distributed if the value of statistical skewness and statistics kurtosis is in the range of -1.96 to 1.96.



**Figure 1. Histogram before Data Transformation**

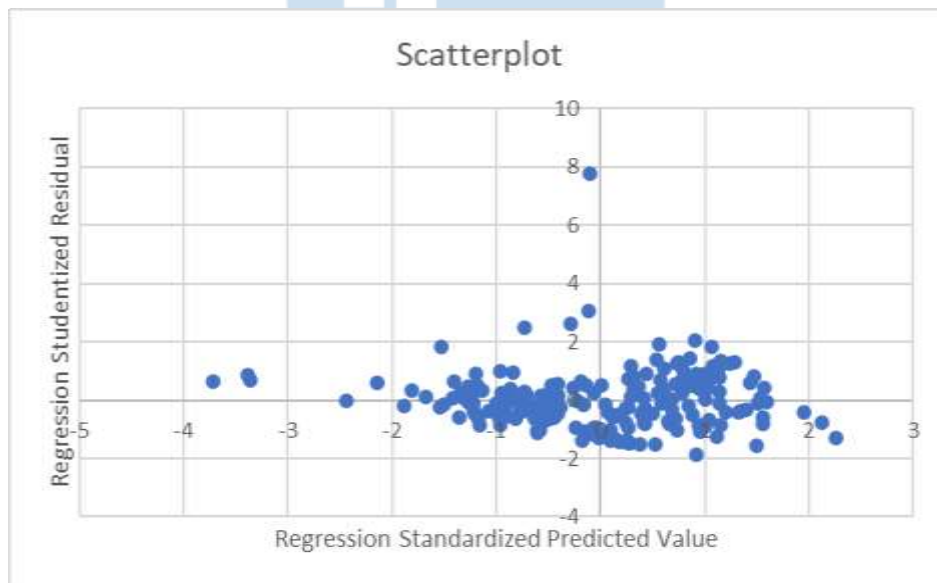
Source: Data Result

Through the histogram image, we can see that the shape of the histogram graph is skewed to the left. According to Ghozali (2018), research data that are normally distributed should be in the middle, not skewed to the right or to the left. So through the histogram graph, it can be said that the data is not normally distributed.



**Figure 2. Normal Probability Plot before Data Transformation**  
 Source: Data Result

Through the following Normal Probability Plot image, we can see on the normal probability plot graph that there are plots that deviate slightly from the straight line. According to Ghozali (2018), normal research data should follow an existing straight line and should not be too far from that line. So it can be said that the initial data of this study are slightly not normally distributed



**Figure 3. Scatterplot Before Data Transformation**  
 Source: Data Result

Through the scatterplot image, we can see on the scatterplot graph that the plots are located close to each other and are not evenly distributed. According to Ghozali (2018), data that has plots that are evenly spread up and down the zero point of the Y axis does not have heteroscedasticity. So it can be said that in this study there is heteroscedasticity. For the problems that exist in the data of this study, the researchers decided to perform data transformation. The data transformation causes the data to be reduced to 117 data. The next data processing process will be carried out with the transformed data. Hereby, the author decided to transform the data with the  $\sqrt{x}$  formula. This formula was chosen because



the initial data has a histogram graph in the form of Moderate Positive Skewness, which is skewed to the right. A good data has a flat histogram graph in the center, taking after a “bell” shape (Ghozali, 2018).

### 3.3 Classic assumption test

**Table 3. Normality Test**

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		117
Normal Parameters <sup>a,b</sup>	Mean	0.0000000
	Std. Deviation	.19329671
Most Extreme Differences	Absolute	.062
	Positive	.054
	Negative	-.062
Test Statistic		.062
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

Source: Data Result

To perform the normality test, this study used the One-Sample Kolmogorov-Smirnov Test method. With this method, a research sample can be said to be normally distributed if Sig 0.05. In this study, it can be seen in the table that the Asymp value. Sig. of 0.2. With these results we can interpret that in this study the data sample is normally distributed, because the calculation results of sig 0.05.

**Table 4. Multicollinearity Test**

Coefficients <sup>a</sup>			
Model		Colinearity Tolerance	Statistics VIF
1	SQRT_CAPEX	.967	1.035
	SQRT_RISK	.893	1.120
	SQRT_PROFIT	.925	1.081
	SQRT_SIZE	.917	1.090

Source: Data Result

To test whether this research has multicollinearity, it is necessary to see the value of tolerance and VIF. This study does not have multicollinearity if the tolerance value is 0.1 and  $VIF \leq 10$ . In this study, it can be concluded that there is no multicollinearity because the SPSS output results show a value that exceeds the requirements as mentioned above.

**Table 5. Autocorrelation Test**

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error Of the Estimate	Durbin-Watson
1	.535 <sup>a</sup>	.286	.260	.19672	2.357

Source: Data Result

In this study, the autocorrelation test was measured using the Durbin-Watson method. As can be seen in table 5, the Durbin-Watson value in this study was 2.357. The sample data can be said to have no autocorrelation if the Durbin-Watson value is between dU and (4-dU). In this study, there are 117 valid N and 4 independent variables, so the dU value is 1.75124, which means the Durbin-Watson value must be between 1.75125-2.24876. Therefore, it can be concluded that the sample data in this study has autocorrelation because the Durbin-Watson value is not within the range of the supposed value. However, this research can be resumed as appropriate, as according to Ghozali (2018), in the case of time series research data, it's natural to have an autocorrelation in the process due to the disruption in a data that tends to affect disturbances in the same data in the next period.

**Table 6. Heteroscedasticity Test**

Coefficients <sup>a</sup>					
Model	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	.075	.279		.268	.789
SQRT_CAPEX	-.137	.090	-.143	-1.528	.129
SQRT_RISK	.108	.064	.165	1.687	.094
SQRT_PROFIT	.137	.111	.118	1.235	.219
SQRT_SIZE	.014	.105	.013	.135	.893

Source: Data Result

To determine the presence or absence of heteroscedasticity in this study, the Glejser test was used. A research data is said to have no heteroscedasticity if the significance value is >5%. In this study, as can be seen in table 6, the SPSS output results, the independent variables SQRT\_CAPEX, SQRT\_RISK, and SQRT\_PROFIT have significance values of 12.9%, 9.4%, 21.9%, respectively. With these results, it can be concluded that there is no data in this study there is no heteroscedasticity because the significance value exceeds the mandatory limit.

### 3.4 Hypothesis testing

**Table 7 . Coefficient of Determination Test**

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.535 <sup>a</sup>	.286	.260	.19672

Source: Data Result

In this study, as shown in table 7, that this study had an R Square of 28.6%. This means that the independent variables in this study, namely capital expenditure, business risk, and profitability, can explain the dependent variable, namely the capital structure of 28.6%. There is a remaining 71.4% that cannot be explained by the independent variable and is explained by other variables not found in this study.

**Table 8 . Simultaneous Significant Test**

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.736	.434	11.212	.000 <sup>b</sup>
	Residual	4.334	.039		
	Total	6.070			

Source: Data Result

Simultaneous significant test was conducted to determine the effect of the dependent variable on the independent variable in a study. Based on table 8, it can be seen that this study has an F value of 11,212 and a significance value of 0.000 ( $\alpha=1\%$ ). This means that the independent variable has a simultaneous effect on the dependent variable, and this research can be said to be feasible to continue and the results can be trusted.

**Table 9. Partial Regression Test**

Coefficients <sup>a</sup>						
Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-1.511	.467		-3.233	.002
	SQRT_CAPEX	-.106	.150	-.057	-.706	.482
	SQRT_RISK	-.083	.107	-.065	-.769	.444
	SQRT_PROFIT	-.760	.186	-.340	-4.094	.000
	SQRT_SIZE	.892	.175	.424	5.086	.000

Source: Data Result

Partial regression test was conducted to test the effect of the independent variable on the dependent variable partially. The independent variable can be said to have a significant effect if the significance value is  $<5\%$ . Considering that this research is a research that has a direction, then the significance value is divided into two. It can be seen in table 9, that in this study, the independent variables SQRT\_CAPEX and SQRT\_RISK did not significantly affect the dependent variable. The variable SQRT\_PROFIT has a significant negative effect on the dependent variable, and the control variable in this study, SQRT\_SIZE, has a significant positive effect on the dependent variable.

### 3.5 DISCUSSION

#### 3.5.1 Effect of Capital Expenditure on Capital Structure

Based on table 9, it can be seen that the independent variable that represents capital expenditure, namely SQRT\_CAPEX has a significance value of 0.241 and an unstandardized beta value of -0.106. With this value, we can interpret that capital expenditure has no significant effect on capital structure because the significance value is  $10\%$  ( $\alpha=10\%$ ). With these results, it can be concluded that  $H_{a1}$  in this study which says that capital expenditure has a positive effect on capital structure has been rejected.

Capital expenditure is basically the amount of capital that was spent to treat fixed assets (property, plan, equipment) of a company. The more dependent a company's operations on its fixed assets, the greater the capital expenditure will be incurred by the company. In this study, the research sample only takes public companies in the property and real estate industry.

Companies in the property industry own fixed assets with the largest proportion of buildings and infrastructure. This fixed assets structure is very different from companies in the industry of manufacturing, for instance, the largest proportion of their fixed assets is in machinery and equipment. Due to the cost of machinery and equipment which are not inexpensive, the capital expenditure will be greater. In this condition, the capital expenditures issued by companies in the property industry on each period are not as big as those issued by the company in the manufacturing industry.

This fact is in line with the outcome of this study which shows that capital expenditure had no significant effect on the capital structure of companies in the property industry. The result of this study is in line with the previous research conducted by Indah (2019) which states that capital expenditure does not significantly effect the capital structure.

### **3.5.2 Effect of Business Risk on Capital Structure**

Based on table 9, it can be seen that the variable that represents business risk in this study, namely SQRT\_RISK has a significance value of 0.222 and an unstandardized beta value of -0.083. With this value, we can interpret that business risk has no significant effect on capital structure because the significance value is 10% ( $\alpha=10\%$ ). With these results, it can be concluded that  $H_{a2}$  in this study which says that business risk has a negative effect on capital structure has been rejected.

Business risk is the risk that arises as a result of fixed costs on the company's operations are too large. Whereas the fixed costs are costs that always exist even if the company records zero revenue. The large fixed costs will certainly reduce the company's revenue significantly, which in turn also reduces the net profit which can be distributed as dividends or retained by the company as retained earnings. Companies in the property industry tend to have lower fixed costs than those in other industries. For instance the mining industry which has an average EBIT Margin ratio of 17%, consumer goods industry by 15%, and manufacturing industry which only has an average EBIT margin of 6%. Property industry with an average EBIT Margin of 20% can be classified as industry with a fairly low business risk. This research is in line with the previous study conducted by Arabella (2018) and Nugraha (2018) which concludes that business risk has no significant effect on the capital structure.

### **3.5.3 Effect of Profitability on Capital Structure**

Based on table 9, it can be seen that the variable that represents business risk in this study, namely SQRT\_PROFIT has a significance value of 0.000 and an unstandardized beta value of -0.076. With this value, we can interpret that profitability has a significant negative effect on capital structure because the significance value is 1%. With these results, it can be concluded that  $H_{a3}$  in this study says that it is accepted. The results of this study prove the pecking order theory, that the higher the profitability, the lower the level of debt usage because management prefers to use their internal funds. Profitability which is negatively related to capital structure also erodes the relationship between agents and principals, which proves the agency theory that company management as an agent works as well as possible to maximize the use of internal funds and reduce excessive use of debt to provide maximum benefits to shareholders as principals.

Profitability is about how much profit is generated by a company, which the profit is obtained by maximizing the company's existing assets. How much profit is generated by the company will impact how much money can be retained by the company as retained earnings. The more earnings retained, the stronger the capital structure will be. Probability will be a big problem for the company in a few years if it continues to get loss so that the company does not have the ability to finance their own operations and must owe or issue new shares. That means, the probability and capital structure move unidirectionally.

The result of this study is supported by the previous research conducted by Priyagung (2019) and Arabella (2018) which shows that profitability has a significant negative effect on capital structure.

## 4. CONCLUSION AND SUGGESTION

### 4.1 Conclusion

Capital expenditure as measured by changes in fixed assets has no significant effect on capital structure. This means that high capital expenditures cannot be said to be a burden on the capital structure of a company in the property and real estate industry. In the other hand, business risk as measured by the standard deviation of EBIT Margin has no significant effect on capital structure. This means that high business risk cannot be said to be burdensome to the capital structure of a company in the property and real estate industry. However, profitability as measured by the rate of return of an asset (Return On Assets) has a significant negative effect on the capital structure. That is, the higher the profitability, the lighter the capital structure of a company in the property and real estate industry

This study explains that the property and real estate industry is an industry with relatively low capital expenditures and business risks, followed by profitability which eases the capital structure. Retail investors can invest more in companies in this industry.

### 4.2 Suggestion

Further research can add to the industrial sector so that the research sample population becomes wider and can add relevant research variables such as interest rates or others

### 4.3 Limitation

The researcher has several limitations in this study, such as this study involves the company's financial report for seven consecutive years (2013-2019) and data calculation requires financial statements data from 2011-2019. However, not all companies report their financial statements in that period. Apart from that, this research consists of many outlier data, therefore the researcher must perform data transformation, in order to process the research data furthermore.

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