COMPANY'S CAPITAL STRUCTURE MODELS

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ABSTRACT

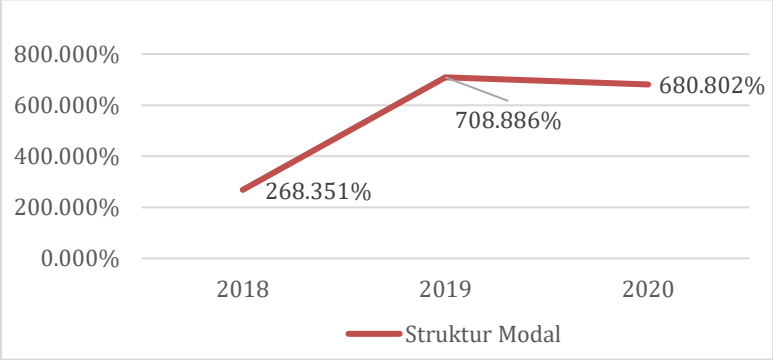
The purpose of this study is to analyze the factors that influence the capital structure and to determine how much influence the independent variables (liquidity, business risk, tangibility assets, non-debt tax shield and asset growth) on the capital structure. To achieve the research objectives, it used listing companies on retail industry of the Indonesia Stock Exchange for period 2018-2020 and 18 companies were selected as samples using purposive sampling technique. Type of research is applied research. This study uses panel data regression to determine the effect of each independent variable on the capital structure. The results show that non-debt tax shield, tangibility assets, and asset growth affect the capital structure. Meanwhile, liquidity and business risk has no effect on capital structure. The results of the study are expected to be information for the company in determining the capital structure and to be considering the factors that affect on capital structure.

KeyWords*:* Liquidity, Business Risk, Tangibility Assets, Non-Debt Tax Shield, Asset Growth

Introduction

Capital structure is an important issue for companies, because until now there has been no definite mathematical formula calculation related to the use of a good capital structure in the company. The use of high debt in the capital structure will provide high additional costs and increase the company's risk of not paying interest which is also high. On the other hand, according to the theory of [1] that debt can be used to save taxes so that the optimal capital structure is a company with maximum use of debt according to the company's needs. A good capital structure is one that can optimize the risks and benefits of using debt according to the company's needs effectively and efficiently to increase company profits. The sample in this study are retail trading sub-sector companies or retail companies listed on the Indonesia Stock Exchange in 2018-2020. Retail trade is an interesting sector, because in this sector there is a long chain of products being sold, starting from producers, distributed through distributors with various sizes of distributor companies, displayed in an outlet until the product is

purchased by consumers. The growth of the retail sector is also one of the benchmarks for the high contribution of public consumption indicators that support economic growth. However, in recent times, the sales of retail trading companies in Indonesia have also fluctuated. With various factors, below is a graph of the growth of retail trade sales for the period 2018-2020.



Source: Data Processing Results (2021)

Figure 1 Development of Company Capital Structure in Retail Trade Sector 2018-2020 Period

Figure 1 above shows that the capital structure of companies in the retail trade sector has fluctuated. In 2019 there was an increase of 164.2%, then followed by a decrease in capital structure by 3.96% in 2020 because the company used funds from internal companies so as not to use a lot of debt for the company's operating expenses [2] suggest that the optimal capital structure is a capital structure that maximizes the price of the company's shares, and this usually requires a lower debt ratio than the ratio that maximizes the expected EPS. Although there are many variables that can affect the company's capital structure, the variables that will be used in this study are limited to only five variables, namely, liquidity, business risk, tangibility, non-debt tax shield, and growth. Liquidity and capital structure have an influence on capital choice [3]. Companies that have high liquidity mean that the company has internal financing that will be used enough to pay its obligations so that the capital structure is also reduced. The following figure shows the development of the company's liquidity and capital structure in the retail trading sector for the 2018-2020 period. Business risk can also affect the determination of capital structure. Business risk is the risk posed by the company's operational activities, when the company has no debt [4]. The company's business risk affects the survival of the company and the company's ability to pay its debts. The level of the company's business risk also affects the interest of investors to invest in the company and affects the company's ability to obtain funds in carrying out its operational activities. Companies that have high business risk tend to reduce the use of debt to avoid bankruptcy. This is in accordance with the trade-off theory which explains that the use of more debt will further increase the risk borne by the company. The following figure shows the development of business risk and the company's capital structure in the trading sector for the 2018-2020 period. Tangibility is the most widely accepted source to be used as collateral for loans or debts, so as to reduce risk for lenders [5]. This indicates that the asset structure of a company plays an important role in determining the company's capital structure. [6] stated that the more tangible assets owned by the company, the more guaranteed assets that can be used to obtain external sources of funds in the form of internal debt [7]. The increase in tangibility every year is not followed by an increase in the capital structure every year. This is not in accordance with the theory because it is said that a high tangibility value will increase the company's capital structure. Research conducted by [8] found that tangibility has a positive effect on capital structure. In contrast to [9] results, tangibility has a significant negative effect on capital structure. Non-debt tax shield is also a factor that

can affect the capital structure, namely the determinant of capital structure not from debt, but in the form of charging depreciation costs to total assets. Companies rely heavily on depreciation and debt to enjoy large benefits from the tax shield [10]. The higher the depreciation of the company, the higher the fixed assets owned by the company, so the company will find it easier to get debt from outside parties by pledging assets from the company ([11]. However, research conducted [12] stated that Non-Debt Tax Shield had a negative effect on capital structure. Assets are assets used in carrying out the operational activities of a company. The greater the assets, the greater the results or output of the company's operational activities. In the pecking order theory, it is stated that companies that have high corporate growth rates will increase capital by using external funds in the form of debt [7]. An increase in assets followed by an increase in operating results will lead to increased trust from outsiders or external parties to the company so that the proportion of debt will be greater than its own capital.However, research conducted by [13]) shows that asset growth has a negative effect on capital structure. The following figure shows the development of growth and the company's capital structure in the retail trade sub-sector for the 2018-2020 period. The company's growth in the retail trade sub-sector fluctuated. In 2019 there was a decrease of 101.38%, the decrease in asset growth was due to a deficiency of own capital due to a decrease in value so that the value was lower than the purchase price. Then continued the increase in 2020 by 57%. The gap occurred in 2020 where growth experienced an increase but the capital structure decreased by 3.96%. Conditions in 2019 to 2020 increased growth followed by an increase in the company's capital structure, this is contrary to research conducted by [13] that asset growth has a negative effect on capital structure.

Formulation of the Problem

1. Does the liquidity variable affect the company's capital structure in the retail trade sub-sector listed on the Indonesia Stock Exchange for the 2018-2020 period?
2. Does the business risk variable affect the company's capital structure in the retail trade sub-sector listed on the Indonesia Stock Exchange for the 2018-2020 period?
3. Does the tangibility variable affect the company's capital structure in the retail trade sub-sector listed on the Indonesia Stock Exchange for the 2018-2020 period?
4. Does the non-debt tax shield variable affect the company's capital structure in the retail trade sub-sector listed on the Indonesia Stock Exchange for the 2018-2020 period?
5. Does the growth variable affect the company's capital structure in the retail trade sub-sector listed on the Indonesia Stock Exchange for the 2018-2020 period?

LITERATURE REVIEW

Effect of Liquidity on Capital Structure

The liquidity ratio is used to measure the company's ability to meet its short-term obligations. Companies whose liquidity increases, prefer not to use loans. This condition is in accordance with the pecking order theory which explains that companies that have high liquidity will tend not to use debt financing, because companies with high liquidity have large internal funds so that the company will prefer to use its internal funds first to finance its operations before using financing external. In addition, [6]stated that, companies with excess cash will use the cash to reduce debt [14]. This shows that companies with high liquidity will make the company pay its debts, so that it will affect the decline in the capital structure. Research by [15]and [16] states that liquidity has a negative effect on capital structure. to the capital structure.

Effect of Business Risk on Capital Structure

Business risk is the uncertainty faced by the company in running its business. The use of debt as capital to increase assets or run company operations is not taken carelessly by taking into account the business risks borne by the company. Companies that have a high risk will make creditors hesitate to provide credit, because it is likely that the company will not be able to repay its debts and go bankrupt. Companies that have high business risk tend to reduce the use of debt to avoid bankruptcy. This is in accordance with the trade off theory which explains that the use of more debt will further increase the risk borne by the company. [6] stated that companies with high risk should use less debt to avoid bankruptcy [4]. This is supported by research conducted by [15, 17]who found a negative relationship between business risk and debt. In line with research conducted by [1] which states that business risk has a negative and significant effect on capital structure. This condition occurs because the greater the company's business risk, the use of large debt will make it difficult for the company to repay the debt so that creditors are hesitant to provide debt. [18] state that business risk has a positive and significant effect on capital structure. This result contradicts the research conducted by [19]which states that business risk has no effect on capital structure.

The Effect of Tangibility on Capital Structure

Tangible assets are the most widely accepted source of collateral for loans or debts, thereby reducing risk for lenders. This condition indicates that the asset structure of a company plays an important role in determining the company's capital structure. Most studies observe a positive relationship between tangibility and capital structure such as research conducted by [20]showing that tangibility has a positive effect on capital structure. Similarly, research conducted by [9] says that there is a significant positive relationship between tangibility and leverage of a company which is observed from the regression results. In line with what [17] say that the tangibility variable is significant, where the coefficient of the variable is positive. The study shows that a higher proportion of fixed assets in total assets will reduce the problem of asymmetric information and companies will use more debt.

Effect of Non-Debt Tax Shield on Capital Structure

Non-debt tax shields that are not sourced from debt are tax savings that do not come from the interest paid on loans. According to [17] the non-debt tax shield is in the form of depreciation of fixed assets, the higher the depreciation of a company, the higher the fixed assets owned by the company, so the company will find it easier to get debt from outside parties by pledging assets from the company . Research conducted by [21]shows that there is a significant effect between the non-debt tax shield and the capital structure, this means that the company determines the capital structure policy by considering the non-debt tax shield, so that the increase or decrease in non-debt tax shield will affect the company's capital structure. The results of research conducted [22], found that the non-debt tax shield variable had a positive and significant effect on capital structure. In line with the research conducted by Bayrakdaroglu et al. (2013) found that the non-debt tax shield variable has a significant positive relationship with the capital structure (leverage) of companies in Turkey. These results are supported by research conducted by [18], which found that the non-debt tax shield variable has a positive and significant effect on the capital structure of 37 tax payer stock companies registered in Ethiopia.

The Effect of Company Growth on Capital Structure

[1, 23], states that companies with high growth rates will depend on funds from outside the company because funds from within the company are not sufficient to support high growth rates. According to [24], companies with high cash growth rates will experience a lack of income to fund the high growth internally. Meanwhile, to issue new shares requires high costs. Companies with high growth rates will use debt more as a source of funding than companies with low growth rates. In line with research conducted by [3]; [21] found that asset growth has a positive effect on capital structure. Therefore, if it is assumed that the company's assets are experiencing growth while other factors are considered constant, then the increase in assets will trigger an increase in leverage [25]

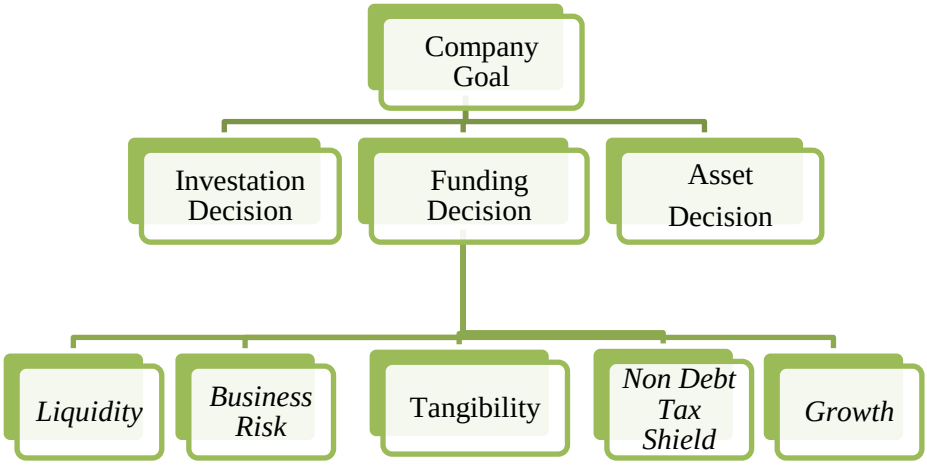


Figure 1 Thinking Framework

HYPOTHESIS

H1: Liquidity affects the capital structure
H2: Business Risk affects the capital structure
H3: Tangibility affects the capital structure
H4: Non-debt Tax Shield affects the capital structure
H5: Growth affects the capital structure

RESEARCH METHODS

This research uses purposive sampling technique. This type of research is applied research, using panel data regression to determine the effect of each independent variable on capital structure.The population in this study are retail trading sub-sector companies listed on the Indonesia Stock Exchange during the 2018-2020 period with a population of 27 companies. In this study, sample selection was carried out using the purposive sampling method.

The criteria for determining the sample used in this study:

1. Companies listed in the retail trade sub-sector on the Indonesia Stock Exchange for the 2018-2020 period, respectively.
2. Have complete annual financial reports for 3 years, namely the 2018-2020 period.

3. The presentation of the annual financial statements is presented as of December 31
4. The company's annual sales are more than zero.

RESEARCH RESULTS AND DISCUSSION

RESEARCH RESULT

Table 1

Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LIQU	1.226307	1.901385	0.644955	0.5237
BRISK	-0.003315	0.006133	-0.540564	0.5927
TANG	-50.99980	12.14126	-4.200535	0.0002
NDTS	348.3676	78.64535	4.429602	0.0001
GROW	24.30105	8.548003	2.842892	0.0078
C	-3.609260	4.336930	-0.832215	0.4117

Source: Results of data processing (2021

Research Panel Data Regression Model

Y = -3.609260 + 1.226307 X1 – 0.003315 X2 – 50.99980 X3 + 348.3676 X4 + 24.30105 X5 + e

1. The constant in the regression model above is -3.609260 which shows that when liquidity, business risk, tangibility, non-debt tax shield and growth occur, the company's capital structure decreases by -3.609260.
2. The liquidity regression coefficient value is 1.226307, indicating that if liquidity increases by one unit, the company's capital structure will increase by 1.226307.
3. The business risk regression coefficient value is -0.003315 indicating that if business risk increases by one unit, the company's capital structure will decrease by -0.003315.
4. Tangibility regression coefficient value of – 50.99980 indicates that if the tangibility increases by one unit, then the company's capital structure will decrease by – 50.99980.
5. The non-debt tax shield regression coefficient value of 348.3676 shows that if the tangibility increases by one unit, the company's capital structure will increase by 348.3676.
6. The growth regression coefficient value of 24.30105 indicates that if growth increases by one unit, the company's capital structure will increase by 24.30105.

Research Discussion

Effect of Liquidity on Capital Structure

The first hypothesis in this study is that liquidity has a negative effect on capital structure in retail trading sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period. The results showed that liquidity has no influence on the capital structure, so the hypothesis is rejected. This condition shows that the size of the company's liquidity level does not affect the size of the capital structure. The higher the company's ability to pay off its short-term obligations, it can indicate the company is in a healthy condition. Decision making is the determination of the best decision from

a number of alternatives in order to minimize risk, according to the pecking order theory where companies rely more on their internal funds for investment financing so that if there is a shortage, they will only use external funding. In contrast to Modigliani and Miller's theory with taxes which state that the company's optimal capital structure is 100 percent debt, but in the retail trading industry, the pecking order theory has an anomaly because this industry has quite promising potential because its products are consumed by many people, especially for daily needs. because under any circumstances the public will need this commodity, the company should not be afraid to use external funds because sales in this sector tend to be stable, but the company's funding decision will be determined by the personal factors of the company's financial manager. Basically there are 3 types of investor nature, namely risk averse, risk neutral, risk taker, managers with risk averse nature will tend to use their internal funds more because they will have low risk.

Effect of Business Risk on Capital Structure

The second hypothesis in this study is that business risk has a negative effect on the company's capital structure in the retail trade sub-sector listed on the Indonesia Stock Exchange for the 2018-2020 period. The results showed that business risk or business risk had no effect on capital structure, so the hypothesis was rejected. This condition shows that the large or small level of business risk does not affect the size of the capital structure. All business or business activities must have risks and can never be eliminated. Even so, any level of risk can be managed so that risk can be minimized. The level of the company's business risk affects the interest of investors to invest in the company and affects the company's ability to obtain funds in carrying out its operations. External funding sources are not only obtained from banks, they can also be obtained by issuing securities in the form of bonds. To attract investors, the rate of return on the bonds offered will be adjusted to the level of risk, the higher the risk, the higher the rate of return and vice versa. Whatever the level of risk, the company can get external funding from bonds according to its needs, so that business risk does not affect the company's capital structure. The results of this study are in line with the research conducted by [3, 4, 13] which state that business risk has no effect on capital structure. However, the results of this study are different from the research conducted by [26]which states that the results that business risk has a negative effect on capital structure. The results of this study also contradict the pecking order theory, companies with high business risk tend to avoid financing by using debt compared to companies with lower business risk.

The Effect of Tangibility on Capital Structure

The third hypothesis in this study is that tangibility has a positive effect on the capital structure of retail trade sub-sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period. The results showed that tangibility had a negative effect on capital structure, so the hypothesis was rejected. This condition shows that the size of the structure of tangible assets does not affect the size of the capital structure. The structure of tangible assets is indeed more suitable as collateral for loans, this is seen as a way to reduce creditor risk. This condition can apply when the company obtains external funds from banks. In contrast to the case, external funding sourced from securities or bonds does not need a guarantee in the form of tangible assets. In this study, the company prioritizes external funding by issuing securities in the form of bonds so that it does not consider the amount of tangible assets as collateral for external funding which results in tangibility not affecting the capital structure. The results of this study are in line with the research conducted by [18, 19, 22] who found that tangibility had no effect on capital structure, in contrast to research conducted by [7, 17, 20] found that tangibility had a positive effect on capital structure.

However, the results of this study are different from those of [14]) which stated that tangibility had a negative effect on capital structure.

Effect of Non-debt Tax Shield on Capital Structure

The fourth hypothesis in this study is that the non-debt tax shield has a positive effect on the company's capital structure in the retail trade sub-sector listed on the Indonesia Stock Exchange for the 2018-2020 period. The results showed that the non-debt tax shield had a positive effect on capital structure, so the hypothesis was accepted. This condition shows that the greater the non-debt tax protection of the company, the greater the company's capital structure, which means the greater the use of debt. Tax deductions in the form of depreciation or depreciation expense can be used as a substitute for the role of borrowing interest costs. The reduction is very high value for companies that are exposed to high tax rates, the greater the cost of depreciation, the greater the benefit or gain from the tax reduction. Substantially, the benefits of depreciation as a tax deduction are seen by companies as an opportunity to increase debt so that the use of depreciation and interest costs together can reduce tax rates even more with a limit to how much the benefits of tax deductions can cover the risk of financial distress due to debt. The results of this study are in line with research conducted by [8] whose results state that non-debt tax shields have a positive effect on capital structure. However, the results of this study are different from research conducted by [27] who found the result that non-debt tax shield had no effect on capital structure

Effect of Growth on Capital Structure

The fifth hypothesis in this study is that growth has a positive effect on the company's capital structure in the retail trade sub-sector listed on the Indonesia Stock Exchange for the 2018-2020 period. The results showed that growth had an effect on capital structure, so the hypothesis was accepted. This condition shows that the high or low growth of the company's assets has an influence on the company's capital structure. The company's growth is one of the signs in assessing the company's ability to pay debts and the company's ease of obtaining external funding. Although the company's growth is high, the level of debt is adjusted to the adequacy of internal funds to meet the company's needs. When the company's growth is low, the company's external funding is done by issuing securities in the form of bonds to meet its needs. Then the growth of the company's assets cannot show for sure its influence on the determination of the company's capital structureThe results of this study are in line with the research conducted by [17, 20]which states that asset growth has no effect on capital structure. However, the results of this study are different from research conducted by [1]which states that asset growth has a positive effect on capital structure, while the results of research conducted by [8]show that asset growth has a negative effect on capital structure.

CONCLUSION

1. Liquidity has no influence on the capital structure of retail trading sub-sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period.
2. Business risk or business risk does not affect the capital structure of retail trading sub-sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period.
3. Tangibility affects the capital structure of retail trading sub-sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period.

4. The non-debt tax shield has an effect on the capital structure of retail trading sub-sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period.

5. Growth has an effect on the capital structure of retail trading sub-sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period.

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