Financial Performance Viewed From the Capital Structure and Firm Size in the LQ45 Company

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ABSTRACT

The company's financial performance is a picture of the economic results that can be achieved by the company at a certain time through the company's activities. This study aims to determine the effect of Capital Structure using the Debt to Asset Ratio (DAR) calculation, and Firm Size using the Ln Total Assets calculation on the company's Financial Performance as measured by Return on Assets (ROA). The population in this study were LQ45 companies listed on the Indonesia Stock Exchange (IDX) for 2018-2021 which were selected using the purposive sampling method and 21 LQ45 companies were obtained in 4 years so that 84 samples were observed. The data analysis method used in this study is the panel data regression model. Based on the results of hypothesis testing, that capital structure and Firm Size have a negative effect on financial performance.

INTRODUCTION

The development of the world economy is currently growing rapidly followed by intense competition. Competition causes every company that is established to have a goal so that the company can continue to operate in the long term. The ultimate goal achieved by a company is to maximize profits by targeting maximum profits, companies can make new investments in the welfare of owners, employees, and improve product quality (Ariansya & Isynuwardhana, 2020).

Companies must grow and develop and must be endeavored to continue to operate or be active. Information and knowledge are capital to face current and future competition. The application of technology itself can help improve the company's financial performance in the future. One of the things done by the company in improving and achieving a good performance and being able to continue to innovate is that the company must develop reliable technology based on standard targets and predetermined criteria. Increasingly fierce business competition requires companies to excel and become an inspiration for other companies so that investors are interested and want to invest in these companies (Astuti et al., 2021).

Based on the company's financial statements, investors can find out the company's financial performance and the company's ability to obtain profits, because for investors, companies that are able to generate high returns on what has been invested are a special attraction for investors. One indicator that can be used by investors in the analysis process is financial ratios. Investors of course will invest their shares in companies that have good performance which can bring good prospects to the issuer company. Evaluation of the company can be used as a reference for investors to assess the quality of the company and whether good management rules have been implemented by looking at financial performance / Risna (Risna and Putra 2021).

Financial performance is a description of the economic results that can be achieved by a company through its activities at a certain point in time. In addition, whether the company's financial condition is healthy or not, net profit is one component to measure the company's financial performance. The financial performance of a company can be measured by looking at changes in the company's financial condition and the company's potential in managing company assets, which are called financial ratios. The ability to generate profits by utilizing the resources owned will enable the company to achieve corporate goals both short and long term. The company's financial performance can be caused by several factors such as capital structure and Firm Size (Ariansya and Isynuwardhana 2020).

The instability of the company's financial performance is an interesting topic to study related to the performance problem itself. One of the cases that occurred in the LQ45 Index on the Indonesia Stock Exchange was PT Wijaya Karya Tbk (WIKA), where the company's constituents scored dissatisfied performance. The publisher PT Wijaya Karya Tbk (WIKA) posted a decrease in net profit of up to 36.6% Rp.
Companies can obtain funding through debt and equity. The company's capital structure reflects the composition of the use of debt and equity. In this case, the use of debt is known as financial leverage. The debt in question is company funds and is not always the same as bills (debt). Debt gives rise to tax-saving interest payments. This means that interest expenses can be deducted from income, so that profit before tax is smaller and consequently taxes are smaller, and if the funds use equity, then nothing reduces the company's tax burden (Labodu, 2018).

Capital structure is a very important factor for the growth and resilience of a company. The capital structure has a strategic impact on the achievement of a company's long-term goals. But on the other hand, the decision to finance a company is a very complex process, so that there are various stages of the state of the company in the future. The capital structure is the combination of equity and debt that the company uses for its financing. If the financial manager makes an irrational decision to raise funds through debt financing, it can be costly for the company because the cost of capital can increase, which in turn can reduce the value of the company. Therefore, the irrational decisions of financial managers can affect the stability and survival of the business (Ullah and Pinglu, 2020).

Research by Kristianti (2018), Martini et al (2019), Liando (2021), and Yuliani (2021) capital structure has a positive effect on a company's financial performance. Based on research, if the management of the capital structure is managed properly, it will improve the company's financial performance. In this case, optimal capital structure management will be able to increase the overall profitability and financial performance of the company.

The capital structure variable has a negative relationship to financial performance by Ariansya & Isnyuwardhana (2020), and Ullah & Pinglu (2020). This is because the capital structure shows that the higher the composition of total debt, both short term and long term, the higher the risk of decreased profits due to the burden on the company. If a company does not manage its debt properly and optimally, it will have a negative impact on the health and financial performance of the company.

H2: Firm Size Has a Positive Influence on Financial Performance

Firm Size is the size of the company which is determined by the total assets of the company. A company with large resources can reflect its creation, because the size of the company is fixed, the more funds it manages, the more complex the management and the higher the company's risk, so that large companies always tend to maintain the stability and health of the company. The way to maintain stability and conditions is that the company will certainly try to maintain and continue to improve its performance. (Setiadi, 2021)

The Firm Size studied by Martini et al (2019), Setiadi (2021), Yudha (2021), and Agustini (2021) say that Firm Size has a positive effect on the company's financial performance. The larger the size of the company will improve the company's financial performance and large-scale companies are better able to show better financial performance, the greater their ability to obtain sources of funds, carry out product diversification, conduct research, and so on.

Firm Size can be seen from the total assets owned by the company which are used for the company's operational activities, whereas according to (Ariansya and Isnyuwardhana 2020) and Risna and Putra (2021)say that Firm Size has a negative effect on the company's financial performance. This shows that if the value of Firm Size decreases, the company's profitability can still increase due to the existence of resources that can manage the company so that the company continues to experience profits. If every increase in the size of the company will reduce the financial performance of the company which can be caused by the large costs for maintaining large assets and the large scope of company operations, because the increase in assets is not matched by the amount of profit earned in the company, which means the company's lack of effectiveness in managing its assets to increase profitability.

H2: Firm Size Has a Positive Influence on Financial Performance

RESEARCH METHODS

This type of research used quantitative methods. The data type uses panel data. The population used for research is LQ45 companies that are registered and listed on the Indonesia Stock Exchange in 2018 – 2021, with sample selection using purposeful sampling, namely by selecting based on criteria such as 1) LQ45 companies listed on the Indonesian stock exchange in the 2018-2021 period. 2) LQ45 companies that

are not consistently in LQ45 companies during the 2018-2021 period. 3) LQ45 companies that do not present financial statements using the rupiah currency. 4) LQ45 companies that do not present complete financial statements. 5) LQ45 companies that experienced losses from 2018-2021. Based on the selection of samples that match the criteria, there are 21 companies.

**Data analysis technique**

Data processing in the study was carried out using the help of the *Eviews program* with analysis using a panel data regression model which can be formulated as follows:

\[ Y_{it} = \alpha + \beta_{1} X_{1it} + \beta_{2} X_{2it} + \varepsilon_{it} \]

Information:
- \( \alpha \) = Constant
- \( Y_{it} \) = Company Financial Performance
- \( \beta_{1} \) = Regression coefficient of independent variables
- \( X_{1it} \) = Capital Structure Ratio
- \( X_{2it} \) = Firm Size Ratio
- \( \varepsilon_{it} \) = Confounding variable (Residual Error)

**Hypothesis test**

According to Ghozali (2016) the *t-test* is used to test constants that are suspected to estimate equations that can explain the effect of independent variables on the dependent variable. The basis for decision making used in the t test is if the significance probability value is > 0.05, then the hypothesis is rejected. The rejected hypothesis means that the independent variable has no significant effect on the dependent variable. If the significance probability value is <0.05, then the hypothesis is accepted. The hypothesis cannot be rejected which means that the independent variable has a significant effect on the dependent variable.

The coefficient of determination expresses the modification of the effect between the independent variables on the dependent variable. Linear regression is useful for estimating and measuring the level of certainty. There is more than one independent variable in this study, so *Adjusted R Square is used*. The value of the *Adjusted Square* is between the numbers 0 to 1. The *Adjusted R Square value* is said to be greater when it approaches number one (Ghozali 2016).

**RESULTS AND DISCUSSION**

**Panel Data Regression Model Analysis**

This test aims to examine between two variables, namely, the independent variable (capital structure and Firm Size) to the dependent variable (financial performance).

**Table 1 Panel Data Regression Test Results**

<table>
<thead>
<tr>
<th>Variables</th>
<th>coefficient</th>
<th>t-Statistics</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>2.496755</td>
<td>3.750655</td>
<td>0.0003</td>
</tr>
<tr>
<td>Structure Logs</td>
<td>-1.093449</td>
<td>-3.819030</td>
<td>0.0003</td>
</tr>
<tr>
<td>Company</td>
<td>-0.082865</td>
<td>-2.769180</td>
<td>0.0070</td>
</tr>
</tbody>
</table>

*Source: eviews data processing 8, 2023*

Based on the above results, the following equation is obtained:

\[ Y = 2.496 - 1.093 X_{1it} - 0.082 X_{2it} \]

The results of the above equation show that a constant has a positive value of 2.496, which means that if the capital structure and Firm Size increase by 1%, the financial performance of the LQ45 company will increase by 2.496 if the capital structure and Firm Size are considered constant or equal to 0.

The regression coefficient of the capital structure variable is negative by 1.093, meaning that if the company's capital structure increases by 1%, the LQ45 company's financial performance will decrease by 1.093 if the other independent variables have a fixed or constant value.

The regression coefficient of the variable Firm Size is negative by 0.082, meaning that if the size of the company has increased by 1%, the financial performance of the LQ45 company has decreased by 0.082 if the other independent variables have a fixed or constant value.
The Effect of Capital Structure on Financial Performance

Based on the results of the partial regression test, it shows that capital structure has a negative and significant effect on financial performance in LQ45 companies, this shows that an increase in capital structure is not followed by the increasing capital structure of a company, the company's financial performance decreases. The capital structure ratio shows how much a company's debt is compared to the assets owned by the company or its shareholders.

These results are in line with the results of research conducted by Ariansya & Isynuwardhana (2020), and Ullah & Pinglu (2020) which explain that capital structure has a negative effect on financial performance. This is because the capital structure shows that the higher the composition of total debt, both short term and long term, the higher the risk of decreased profits due to the burden on the company. If a company does not manage its debt properly and optimally, it will have a negative impact on the health and financial performance of the company.

The capital structure as measured using a low debt asset ratio (DAR) indicates that a company's debts/liabilities are smaller than all of its assets, so that in an undesirable condition (eg bankruptcy), the company can still pay off all of its debts/liabilities. The higher the DAR shows the composition of the total debt (short term and long term) compared to the total assets themselves, the greater the company's burden on outsiders. Capital structure decisions are very important to face a competitive environment because of the need to maximize returns and because these decisions have an impact on the financial condition and stability of the company Ullah & Pinglu (2020).

The Covid 19 pandemic that hit Indonesia has had a direct impact on a number of LQ45 companies. The company's management is trying to keep the company stable and able to survive in this difficult time so that the company requires large enough funds to finance the company's operational activities which have increased since the covid 19 pandemic so that the allocation of funds for financial performance has decreased. The decline in the company's financial performance is caused by the high debt of the company to third parties or banks, the higher the risk of decreased profits due to the burden on the company.

The Effect of Firm Size on Financial Performance

Based on the partial regression test results, it shows that Firm Size has a negative and significant effect on financial performance. Because the increase in assets is not matched by the amount of profit earned in the company, which means the company's lack of effectiveness in managing its assets to increase profitability.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-Statistics</th>
<th>t-Table</th>
<th>Prob.</th>
<th>Alpha</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Structure</td>
<td>-1.093449</td>
<td>-3.819030</td>
<td>1.66388</td>
<td>0.0003</td>
<td>0.05</td>
<td>H1 Accepted</td>
</tr>
<tr>
<td>Firm Size</td>
<td>-0.082865</td>
<td>-2.769180</td>
<td>1.66388</td>
<td>0.0070</td>
<td>0.05</td>
<td>H2 Accepted</td>
</tr>
</tbody>
</table>

**Table 2 Partial Regression Coefficient Test Results (T Test)**

Judging from the partial test table above, it can be seen the variables capital structure obtained mark t statistics equal to -3.819 < t table 1.663 and the probability value with an error rate of 0.05 is 0.0003 < 0.05 then H 1 is accepted H 0 is rejected. These results can be concluded that partially the capital structure variable has a negative and significant effect on the financial performance of LQ45 companies listed on the Indonesia Stock Exchange in 2018-2021.

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**Determination Coefficient Test (R²)**

Based on the table above, the Adjusted R-squared value is 0.205, this means that the capital structure and Firm Size variables contribute 20.59% in explaining financial performance, while the remaining 79.41% (100% - 20.59%) explained by other variables not included in the model or explained by other indicators outside of this study.

**Discussion**

**Effect of Capital Structure on Financial Performance**

The capital structure as measured using a low debt asset ratio (DAR) indicates that a company's debts/liabilities are smaller than all of its assets, so that in an undesirable condition (eg bankruptcy), the company can still pay off all of its debts/liabilities. The higher the DAR shows the composition of the total debt (short term and long term) compared to the total assets themselves, the greater the company's burden on outsiders. Capital structure decisions are very important to face a competitive environment because of the need to maximize returns and because these decisions have an impact on the financial condition and stability of the company Ullah & Pinglu (2020).

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**The Effect of Firm Size on Financial Performance**

Based on the partial regression test results, it shows that Firm Size has a negative and significant effect on financial performance. Because the increase in assets is not matched by the amount of profit earned in the company, which means the company's lack of effectiveness in managing its assets to increase profitability.
This result is in line with the results of research conducted by Ariansya & Isynuwardhana (2020) and Risna & Putra (2021) which explain that a larger Firm Size will be able to make broader disclosures more easily and can finance the disclosure of useful information for the company’s internal needs. In addition, the large number of assets owned by the company will make it easier for the company to obtain loans or debt from banks or other parties, because these assets can be used as collateral.

A negative coefficient means that any increase in Firm Size will reduce the company’s financial performance, because the increase in assets is not matched by the amount of profit earned by the company, which means the company’s lack of effectiveness in managing its assets to increase profitability in this study to measure financial performance. Large companies will attract investors to invest in these companies because the level of risk of company uncertainty is very small and large companies will find it easier to obtain funds from outsiders because they have great trust from the community.

**CONCLUSION**

Based on results study Which has done about influence of capital structure and Firm Size on financial performance in LQ45 companies that are listed on the IDX 2018-2021. From analysis data, testing hypothesis, And discussion so from study this can be concluded as follows 1) The results of this study indicate that capital structure has a negative and significant effect on financial performance in LQ45 companies registered in IDX Year 2018-2021. 2) The results of this study indicate that Firm Size has a negative and significant effect on financial performance in companies with LQ45 registered in IDX Year 2018-2021.

**REFERENCES**


