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Analysis Of Affecting Factor to Capital Structure Company

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Abstract

The purpose of the research is to know the affecting factor of a capital structure company and to determine what factors can affect the company's capital structure. All companies certainly have a desire for their capital structure to run according to the goals set by the company. Therefore, companies need a capital structure to regulate all capital that goes in and out of the company. This research used a qualitative method with a descriptive approach. Moreover, data analysis was used to explain what is the capital structure, the choice of capital structure for the company, what factors can affect the capital structure, and what is the appropriate way for the company to run well. The results of this study show that a capital structure has a considerable influence on the company. This is happening because it can affect the smooth running of the company. A company that has high liquidity and profitability will not be subject to long-term debt but short-term debt, and if a company can hold its liquidity to keep running smoothly, a company will not easily fall and lose. Instead, the company will further develop because liquidity is well maintained.

Keyword: Capital structure company, liquidity, profitability, analysis

INTRODUCTION

The business world, which is entering the era of globalization, has resulted in the increasingly sharp competition so that every company is required to produce efficiently if it wants to remain competitive. Capital structure is a fixed cost consisting of preferred stock, shareholder capital, and long-term debt (Rossi, 2014; Fosu, 2013; Vijaykumar & Karunaiathal,

2014). Many companies whose sources of funds are only in the form of capital from themselves but are also sometimes lacking. Inadequate funding will result in debt, where the nature of the debt is not permanent, but if the company borrows the funds from creditors, inevitably, the company must pay creditors' bills on time and according to the agreement.

Eight factors influence the choice of a company's capital structure, namely the collateral value of assets, tax savings other than debt, growth, uniqueness, and type of industry, size of the firm, earnings volatility, and profit (profitability). The research states that size, growth opportunity, profitability, and non-debt tax shield harm the capital structure (Handoo & Sharma, 2014). This capital structure is very influential on the continuity of firm value. If the capital structure is chaotic, then the company's value will not match the company's wishes (Serghiescu & Văidean, 2014).

Many pieces of research discuss the factors that influence the capital structure have been conducted. However, several previous researchers had inconsistencies in their results, where is a factor that is proven to influence other studies. The company size, net income, asset structure, and working capital changes are proven to affect the capital structure significantly. It is still contrary to previous studies' results, which states that asset structure does not affect. On the capital structure, it is necessary to do further research. It also needs to be developed to increase the profitability variable (especially Return on Assets (ROA)) because ROA theoretically harms debt ratio. Assets, size, and Price Earnings Ratio (PER) proved to significantly affect capital structure debt to equity ratio (DER). Meanwhile, operating leverage is stated to be insignificant, but it is significant towards DER (Sharif et al., 2015). The capital structure's resources consist of long-term debt, short-term debt, preferred stock, common stock, and earned surplus.

Profitability is also a variable that affects capital structure. Companies with a high return on assets generally use relatively small amounts of debt. However, the company's net profit must be high, so if the company uses large debt, it will not affect the capital structure because the company's ability to pay fixed interest is also high. However, no matter what the company's debt is, there will only be a creditor who is in charge of collecting these debts because before the company wants to borrow funds or go into debt, the creditor has given time when the company must return the loan because the company and creditors have made an agreement when the loan is will be returned (Acaravci, 2015; Ejupi & Ferati, 2010). The research aims to know the affecting factor of a capital structure company and determine what factors can affect its capital structure

RESEARCH METHOD

This research used a qualitative method with a descriptive approach. Descriptive research is the problem solving that is investigated by depicting or illustrating and analyzing differences in subjects and objects of research based on the facts. This qualitative descriptive study aims to obtain and find explanations of the facts related to the research. The research was taken data analysis and theory. This research used data analysis to explain what the capital structure is, the choice of capital structure for the company, what factors can affect the capital structure, and what kind of way is appropriate for the company to run well.

RESEARCH RESULTS AND DISCUSSION

This research used correlational research. Correlational research is research that aims to identify variables in certain situations that affect a phenomenon that is being reviewed (Rossi, 2014). The research model of the factors that affect the capital structure is shown in the following Figure 1.

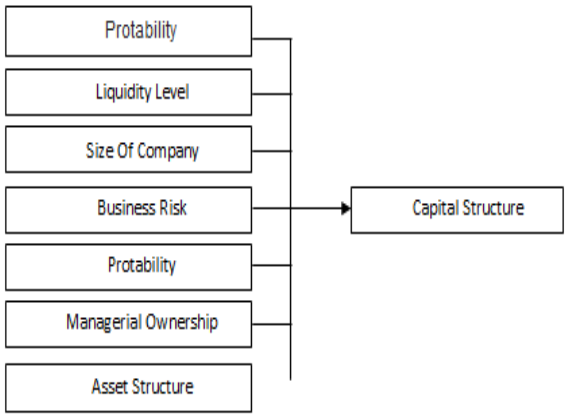

Figure 1. Factors that affect capital structure

This research used the capital structure, the choice of capital structure for the company, what factors can affect the capital structure, and what kind of way is appropriate for the company to run well. Here a sample from a Ghanaian company where this company is charged with a number of debts, but the debt here is short-term debt, which means the company is having difficulty accessing long-term credit from a financial institution (see Table 1). How to measure capital structure in percent (%) can be seen:

$$Capital\ Structure = \frac{\text{Long Term Debt}}{\text{Equity}} \text{X}100\%$$

Table 1. A summary of the independent and bound variables from the company

	Mean		SD	Minimum	
Median	**Maximum**				
ROE	0.3694	0.5186	- 1.0433	0.2836	3.8300
SDA	0.4876	0.2296	0.0934	0.4547	1.1018
LDA	0.0985	0.1803	0.0000	0.0186	0.7665
DA	0.5861	0.2032	0.2054	0.5571	1.1018
SIZE	18.2124	1.6495	14.1875	18.2361	22.0995
SG	0.3288	0.3457	- 0.7500	0.2561	1.3597

Table 1 summarises the descriptive statistics of the independent and bound variables for the sample from the company. It shows the average variable indicator calculated from the financial statements. ROE measures the rate of return, revealed an average of 36.94 percent with a median of 28.4 percent.

This figure shows good performance during the period studied. REO measures the contribution of net income per cedi (local currency) invested by shareholder firms, with a measure of the efficiency of the owners of invested capital. The SDA variable measures the ratio of short-term Debt to total capital. The average value of this variable is 0.4876, with a median of 0.4547. a value of 0.4547 indicates that 45 percent of total assets are represented by short-term Debt, proving that Ghanaian companies are mainly dependent on short-term Debt

for business financing due to difficulties in accessing long-term credit from financial institutions.

Another reason is due to the undeveloped nature of Ghana's long-term debt market. The ratio of total Long-Term Debt to Total Assets (LDA) is also on average at 0.0985. The ratio of total Debt to Total Capital (DA) also shows an average of 0.5861. It shows that about 58% of total assets are financed by debt capital, and financially, the company uses a large percentage of total short-term Debt. The relationship between profitability and Debt is negative, which in Chinese, the company supports the pecking order model. However, after that, there may be other reasons for the negative relationship proposed by the pecking order hypothesis to avoid under-investment problems and new projects. Banks are willing to provide long-term loans to several listed companies because they influence credit policies; capital is a tremendous resource. In this management, we prefer debt financing because it is free and has no ties.

Capital structure concerns the responsibility of a company. This is a relative of several sources of financing contained in total liabilities. This is an important analysis because it is the level of financial leverage. In addition, each source also has a specific cost and a significant rate of return. The capital structure will not have an influence on the market value of a company if it is treated very perfectly. Where perfect markets are those that pay without intermediaries, and it is possible for investors to get financing at the same rate as that of the company and also that the company's debt is risk-free (Alipour et al., 2015; Jacque, 2019).

Then there is liquidity, it is an important economic category, and even when examined by microeconomics, this liquidity has a smooth functioning of financial markets and a long term existence. Lack of liquidity will create a form of friction against the system, and a lack of liquidity is very dangerous for the asset value of a company. The main cause of a lack of liquidity in a company is the financial market crisis, and this occurs because the company's capital structure is not running smoothly as the company's main objective (Fosu, 2013; Vijaykumar & Karunaiathal, 2014).

To examine the relationship between the variable level of debt with the econometric method, a private company tends to assess the highest average growth and has more assets than public companies. These results indicate that a private company has a high level of debt. Profitability and firm size are negatively related to long-term debt. Private companies can develop with higher fixed assets, which tends to use much short-term debt rather than long-term debt (Acaravci, 2015).

The capital structure of a company varies widely in different developing countries. Some of these developing countries analyze important factors for carrying out a capital structure such as assets and profitability that flow to developing countries. The choice of capital structure is influenced by 3 significant factors, including the tax environment, capital market development, and creditor rights. The tax environment is a law that affects financial managers to make decisions. Then the development of the capital market is an activity where buyers and sellers interact with each other, exchange money, and so on. This is called capital market development so that each company can develop with existing market capital so that the company can progress and develop. Then the creditor's rights are ownership rights that must be collected at maturity and according to the time promised to the collector or creditor. Underdeveloped capital markets or underdeveloped lender rights may also represent the disadvantages of very high local cost borrowing. The large loan fees will replace three-quarters of the external borrowing and are mitigated by weak local capital market conditions (Rossi, 2014; Fosu, 2013; Vijaykumar & Karunaiathal, 2014; Handoo & Sharma, 2014).

The relationship between ownership structure and capital structure is significant because it supports the relationship between corporate governance and company performance. If the manager can freely adjust the debt for the benefit of his own company, the company will run smoothly as the company wishes. But if investors are absent, the company will tend to have a

high debt risk, at least to the point where the risk of bankruptcy can lead to lower debt. Managers act as much as possible so that the value of the company remains responsible and performs well with the type of debt and managerial limits after the performance is poor (Handoo & Sharma, 2014; Serghiescu & Văidean, 2014).

Choosing the capital structure for the company is about changes in capital structure. High debt associations are positive and significant when interacting with debt variables. This interaction effect explains how important it is to consider market structures in explaining changes in effects in capital structures. Companies are more likely to increase their investment when they have high debt competitors (Rossi, 2014; Fosu, 2013). Here I try to test the cost of the company's financial hypothesis where leverage reduces the cost of equity and increases firm value by encouraging managers to act wisely so that the company can run smoothly according to the goals that have been adjusted and set by the company. Because the company has goals and desires that the company can run according to its portion, the capital structure must also be considered so that incoming and outgoing capital can be controlled by the financial manager or by the company itself.

CONCLUSION

The estimation method used a Ghanaian company. It shows that a company with high liquidity and profitability will not be subject to long-term debt but short-term debt, and if a company can hold its liquidity to keep running smoothly, a company will not easily fall and lose. Instead, the company will further develop. Liquidity is well maintained because liquidity is one of the essential things for the company's progress and the capital structure of a company.

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