



EFFECT OF CAPITAL STRUCTURE ON THE PROFITABILITY OF MANUFACTURING COMPANIES

Jholant Bringg Luck Amelia Br Sinaga¹, Edward², Pipin Desria Marpaung³
Universitas Prima Indonesia, Medan^{1,2,3}
email: pipindesria95unpri@gmail.com

Abstract

This examination has the goal to see the impact of Capital Design, Working Capital Turnover, Stock Turnover, Records Receivable Turnover and Resource Development on Benefit. This populace was done in all different modern area organizations, the example was chosen through purposive inspecting method and acquired upwards of 12 example organizations. The strategy utilized is different straight relapse. The outcomes showed that functioning capital turnover, capital construction and stock turnover affected benefit. Then, Resource Development and Records Receivable Turnover have no impact on Benefit. What's more, Capital Design, Records Receivable Turnover, Working Capital Turnover, Stock Turnover and Resource Development have no energizer impact on benefit. The measure of assurance is 42.2% while the excess 57.8% of productivity is clarified by different factors which are not examined in this study. So it very well may be reasoned that solitary the Capital Construction, Stock Turnover, and Working Capital Turnover affect Benefit in assembling organizations.

Keywords: Capital Structure, Working Capital Turnover, Accounts Receivable Turnover, Inventory Turnover, Asset Growth, and Profitability

INTRODUCTION

The economic situation in the first quarter to the second quarter of 2020 is experiencing a decline due to the Covid 19 pandemic situation[1]. Various corporate sectors in Indonesia have reduced their economic activity in order to survive which has caused profitability in every corporate sector, especially manufacturing companies in various industrial sectors to decline throughout 2020. Before entering 2020, which is throughout 2019, manufacturing companies in various industrial sectors also experienced a decline in profitability

due to sluggish public buying interest in the manufacturing industry in various industrial sectors[2]. In other words, the reduced profitability of manufacturing companies in various industrial sectors also resulted in reduced sources of state income because manufacturing companies in various industrial sectors are one of the pillars of the Indonesian economy[3].

Through profit, the company can understand the results of all the policies implemented by the company, including the results of increased company management efficiency. This is because profitability provides added value for





investors who want to invest[4]. High profitability indicates the better condition of the company because the company can generate large profits, while low profitability indicates that the condition of the company is getting worse because the company is not able to provide large profits or it can be said that the company is experiencing losses. Because through this information it can be seen that the company has good opportunities in the future[5].

Capital structure is the ratio that manages debt as an operational fund for profit. If the capital structure is large, it means that there is a large risk of bankruptcy that can occur so that this reduces the company's efforts to gain profitability. Working Capital Turnover as the ratio of earning income from working capital. High working capital turnover means that the flow of funds to the company will be smoother, because current assets are greater than current liabilities so that the profitability obtained can be even greater[6]. Accounts Receivable Turnover as a ratio uses accounts receivable as a tool to earn profit. If the Accounts Receivable Turnover is high, it means that the company's situation is improving because it quickly turns receivables into cash so that it can increase profits[7].

Inventory Turnover reflects the turnover of inventories obtained from sales. High inventory turnover means good inventory management efficiency

and increased sales so that profitability can also increase[8].

Asset growth is the development of assets every year. High asset growth means an increase in operating results so that the proportion of use of external funds will be large so that the greater the profitability[9]. Companies that have funding using high debt tend to have a greater risk of their financial difficulties, so that the rate of return on investment (profitability) is low[10]. The greater the capital used by the company to run its business, the less likely it is to borrow, so that the interest expense paid to the company is also less, which in turn can increase the company's profitability[11].

METHOD

This research uses a quantitative approach. Quantitative research is a type of research that will obtain findings obtained through the use of statistical procedures or other forms of quantitative (measurement). This type of research is descriptive research. Descriptive research is research conducted to determine the value of each variable, the variable is independent by not forming comparisons or relationships with other variables. The research conducted has an explanatory nature. Explanatory level research is intended to inform the location of the variables studied and the relationship between variables. This population is located in various various industrial sector companies listed on the IDX with a total of 46 companies. This study used





purposive sampling with predetermined criteria. This study uses secondary data.

RESULTS AND DISCUSSION

Classic assumption test

Normality Test

This test identifies the distribution of this regression model is normal or not. The test is carried out in two ways, namely graphical analysis and statistical tests.

Multicollinearity Test

This test proves whether there is a correlation between the independent variables by observing the VIF and tolerance values.

Autocorrelation Test

This test intends to determine whether there is a correlation or confounding error in this regression model in this period with the error of the previous period and is seen in the Durbin Watson (DW) test.

Heteroscedasticity Test

This test intends to find out the residual differences or similarities from one observation to another. The method used is through the Scatterplot chart and other methods can be used with the Park test.

The research method uses multiple linear regression with the equation the formula is:

$$Y = a - b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Information :

Table 1. Information Of Content

Y	= Profitabilitas (ROA)
a	= konstanta
X ₁	= Struktur Modal (DER)
X ₂	= Perputaran Modal Kerja
X ₃	= Perputaran Piutang
X ₄	= Perputaran Persediaan
X ₅	= Pertumbuhan Aset
b _{1,...} b ₅	= koefisien regresi
e	= error (tingkat kesalahan)

Hypothesis Determination Coefficient

This coefficient of determination wants to prove when evaluating the regression model the level of the relationship between the independent variable and the dependent variable.

Simultaneous Test (Test F)

According to Sujarweni (2015), this test takes into account the influence of all independent variables with the dependent variable where the error level used is 5%. If F count > F table it is stated that the hypothesis is accepted, likewise if F count





$<F$ table it is stated that the hypothesis is

Partial Test (t test)

This test wants to show the effect of the independent variable on the dependent variable and the criteria is if $t \text{ count} > t$ table is declared the hypothesis is accepted and if $t \text{ count} < t$ table is declared the hypothesis is rejected.

Classic assumption test

This test is a statistical requirement based on ordinary least square (OLS) before analyzing multiple linear regression. In order to obtain better results, this study performs data transformation on one of the variables. This is because in the test before the transformation of the heteroscedasticity test data statistically cannot meet the requirements of the classical assumption test (SPSS data can be observed in Appendix 8) and the following are the results of the classical assumption test in this study:

Normality test

This test can be analyzed using two methods, namely graphical analysis and statistical analysis, which are tested as follows:

The statistics above prove that the significance value seen in Asymp. Sig. (2tailed) > 0.05 so that it can be concluded that the normality test with this statistical

rejected.

analysis has a data pattern that is normally distributed.

Based on the two graphical analyzes, it shows that the histogram graph data and the normal P-Plot graph are normally distributed due to the scattered data patterns that follow diagonal lines or approach diagonal lines or bell-shaped curves. From these two graphical analyzes, it can be concluded that the data pattern has a normal distribution and is sufficient for the normality test assumption rules.

Multicollinearity Test

This test analysis has a requirement that the Tolerance value must exceed 0.1 and the VIF value < 10 .

The output statistics above prove that multicollinearity does not occur because each independent variable, namely Capital Structure, Accounts Receivable Turnover, Working Capital Turnover, Inventory Turnover, Asset Growth and Profitability have a VIF value < 10 or Tolerance > 0.10 .

Autocorrelation Test

This test uses the Watson Durbin and the following test results are:

The test results show that the Durbin-Watson (d) value is 2.088 and the $d_l = 1.3167$ value and the $d_u = 1.7725$ value, thus the Durbin-Watson value is between d_u to $4 - d_u$ ($1.7725 < 2.088 < 2, 2275$)





which indicates that there is no autocorrelation in this regression model.

Heteroscedasticity Test

This test consists of two ways, namely the Scatterplot chart analysis and the Park test and the test results can be noted below:

The image on the scatterplot graph shows the data that is scattered and uneven so that it does not form a regular pattern. This means that the data does not have heteroscedasticity.

The Glejser test on the results of the SSPS above shows that each independent variable, namely Capital Structure, Working Capital Turnover, Inventory Turnover, Accounts Receivable Turnover, and Asset Growth show a significance > 0.05, thus it does not have a heteroscedasticity problem.

The SPSS results above get the multiple linear regression equation formula, namely:

$$\text{Profitability} = -4,281 - 0,744 \text{ Capital Structure} + 0.083 \text{ Working Capital Turnover} + 0.029 \text{ Accounts Receivable Turnover} + 0.174 \text{ Inventory Turnover} + 0.573 \text{ Asset Growth}$$

This test can be seen in the Adjusted R Square column as shown in the output below. The coefficient of determination proves that only 42.2% of profitability can be described as independent variables which are divided into Capital Structure,

Working Capital Turnover, Inventory Turnover, Accounts Receivable Turnover, and Asset Growth and the remaining 57.8% is explained by other variables not included in the research model. Based on Table 10, it is known that the F value count is 7.857 and also the F table value (0.05, 5, 31) is 2.44, > F table is 7.857 with a significance of 0.001 < 0.05. The results show that Capital Structure, Accounts Receivable Turnover, Inventory Turnover, Asset Growth, and Working Capital Turnover have an effect on Profitability. The t-test statistic proves that only the variables of Capital Structure, Inventory Turnover, and Working Capital Turnover have a tcount > 2.018 ttable value and a significant value < 0.05, which indicates that Capital Structure, Working Capital Turnover, and Inventory Turnover have an effect on profitability. Meanwhile, other variables, namely Accounts Receivable Turnover and Asset Growth, have no effect on profitability.

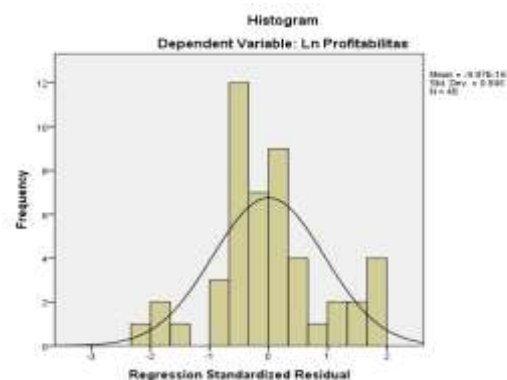


Figure 1. Histogram



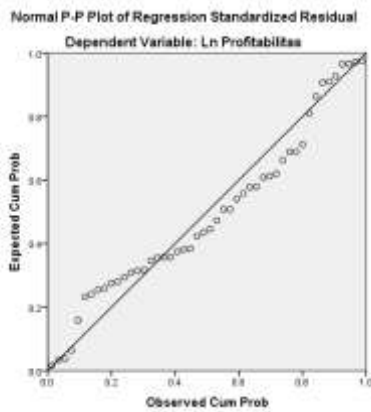


Figure 2. PP Plot

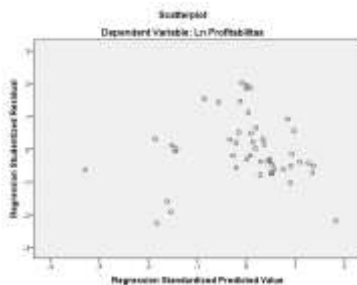


Figure 3. Scatterplot

CONCLUSION

The first hypothesis shows that capital structure has a significant effect on profitability because $t_{count} 2.596 > t_{table} 2.018$ with a significance of $0.013 < 0.05$. The second hypothesis shows that Working Capital Turnover has a significant effect on profitability because $t_{count} 2.859 > t_{table} 2.018$ with a significance of $0.007 < 0.05$. The third hypothesis shows that Accounts

Receivable Turnover has no and insignificant effect on profitability because $t_{count} 1,210 < t_{table} 2,018$ with a significance of $0.233 > 0.05$. The fourth hypothesis shows that Inventory Turnover has a significant effect on profitability because $t_{count} 2.479 > t_{table} 2.018$ with a significance of $0.017 < 0.05$. The fifth hypothesis shows that Asset Growth has no and insignificant effect on profitability because $t_{count} 0.881 < t_{table} 2.018$ with a significance $0.383 > 0.05$. The sixth hypothesis shows that Capital Structure, Working Capital Turnover, Accounts Receivable Turnover, Inventory Turnover and Asset Growth have an effect and are significant on Profitability because $F_{count} 7,857 > F_{table} 2.44$ with a significance of $0.000 < 0.05$.

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