

Analysis of Capital Structure's Impact on Financial Performance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange for the Years 2017-2021

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Abstract

This study aims to understand the Analysis of Capital Structure on Financial Performance. The independent variable (X) examined is Capital Structure (X), with the dependent variable (Y) being Financial Performance (Y). Several previous studies on company value have shown varying results. Therefore, further research is needed to retest the theory regarding financial performance. The population used in this study consists of Property and Real Estate Companies Listed on the Indonesia Stock Exchange from 2017 to 2021. Sample selection utilized purposive sampling techniques, resulting in a sample size of 20 samples. The data analysis technique employed in this research is simple linear regression analysis. Hypothesis testing is done using the coefficient of determination and partial (t) tests. Based on the test results, it can be concluded that financial performance does not have a significant impact on financial performance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange from 2017 to 2021. According to the research findings, the researcher suggests that companies continue to enhance and improve financial performance to enhance the company's ability to generate profit and attract investor attention. Advice for investors is to carefully consider a company's performance level and other influencing factors on financial performance before deciding to invest capital. For future researchers, it is recommended to include other variables that influence company value, extend the research period, or incorporate more recent data. Additionally, for the government, a high-interest rate leads to reduced consumer property purchases, causing a decline in demand and property prices. Hence, government intervention is necessary to lower interest rates and boost consumer purchasing power.

Keywords: Capital Structure, Financial Performance

INTRODUCTION

Property and real estate business is an activity or enterprise carried out by individuals or companies operating in the field of property ownership that can be considered an asset, including land, buildings, and all facilities and infrastructure within them as a single entity. This property business can be understood as a business involved in buying, selling, or renting land and various aspects including designing and developing land. Activities falling within this category include

buying and selling or leasing buildings and their associated facilities, encompassing various types of property products available in the market.

The property and real estate sector is one of the most significant sectors in a country. It can serve as an indicator to analyze the economic health of a nation. According to Santoso (2009), the property and real estate industry is one of the sectors that signals the rise or fall of a country's economy. This suggests that an increasing number of companies operating in the property and real estate sector indicates the development of the economy in Indonesia. Investments in property and real estate are generally long-term in nature and are expected to grow in line with economic growth, making them promising investments.

Property and real estate business is known for its volatile, fiercely competitive, persistent, and complex characteristics. The increase in property prices is driven by the tendency for land prices to rise and the growing supply of land due to population growth and the increasing demand for housing, offices, shopping centers, amusement parks, and more. Developers can benefit significantly from these property price increases, improving their financial performance and ultimately raising stock prices.

Recent phenomena in the global and regional property and real estate business environment that are worth noting include:

1. Decreased property prices and weakened purchasing power, as well as the impact of Covid-19 pandemic on property and real estate development in Indonesia.
2. Increased property sales due to the Covid-19 pandemic.
3. The property and real estate industry is recognized as a business with a rapidly changing, persistent, and complex cycle.

Based on the above description, it's one of the reasons the author chose Property and Real Estate as the research subject listed on the Indonesia Stock Exchange (BEI). This sector is considered by the government because advancements in this sector have a significant impact on the Indonesian economy. Government support for the property and real estate sector is crucial, as policies and regulations can help keep this sector vibrant.

Capital structure is a critical factor for company growth and resilience. It has a strategic influence on achieving the company's long-term goals. However, financing decisions are complex processes. There are various stages, variations, and funding options that can impact a company's future conditions.

Choosing the right source of funding is key to optimizing a company's capital structure. The capital structure significantly affects the burden and availability of capital, thus influencing a company's performance. Meanwhile, an suboptimal capital structure affects financial performance and increases business failure risks. Companies need an optimal capital structure to maximize profits and maintain their ability to compete in a competitive environment.

LITERATUR REVIEW

Financial Performance

Financial performance is a depiction of a company's financial condition during a specific period, encompassing aspects of fund collection and fund allocation, usually measured by indicators such as capital adequacy, liquidity, and profitability (Jumingan, 2006:239).

Financial performance provides an overview of a company's achievements, reflecting the outcomes attained from various conducted activities. It can be explained that financial performance is an analysis conducted to assess to what extent a company has operated using sound and proper financial principles (Fahmi, 2012:2).

Financial Performance Ratios

According to Fahmi (2011), the ratios used to assess financial performance are as follows:

1. Return on Asset (ROA)

It represents a company's ability to generate profit at the level of asset sales and a certain ratio of equity capital, or a ratio indicating a company's capability to generate profit during a specific period. Thus, a company's profitability can be determined by comparing the earnings obtained in a period with the total assets or total equity of the company.

2. Return on Equity (ROE)

Also known as earnings on equity. In some references, it's referred to as the total asset turnover ratio. This ratio assesses how effectively a company utilizes its resources to generate earnings on its equity.

Based on definitions provided by various experts, the research utilizes financial performance indicators Return on Asset (ROA) and Return On Equity. ROA indicates the ratio of net profit to total assets and helps gauge the level of profit a company derives from its assets. Meanwhile, ROE indicates the ratio of net profit to total equity and helps assess the return for shareholders on their invested capital (Subramanyam and Wild, 2010).

Capital Structure

According to Irham Fahmi (2017: 179), capital structure can be defined as: "Capital structure represents the financial proportion between owned capital derived from long-term liabilities and shareholders' equity, which serve as sources of a company's financing."

I Made Sudana (2015: 164) states that capital structure is related to the long-term financing of a company, measured by the comparison between long-term liabilities and equity capital.

Bambang Riyanto (2011: 22) defines capital structure as the permanent financing that reflects the balance between long-term debt and equity capital.

Handono Mardiyanto (2009: 116) defines capital structure as the composition and proportion of long-term debt and equity (preferred and common shares) set by a company.

Agus Harjito and Martono (2010: 240) also mention that capital structure refers to the proportion or balance of long-term funding within a company, indicated by the comparison of long-term debt to equity capital.

Capital Structure Ratios

According to Sjahrial and Purba (2013), capital structure ratios include:

1. Debt to Equity Ratio (DER)

This ratio is used to measure the balance between a company's liabilities and its equity. It can also represent the company's ability to meet its debt obligations with its equity as collateral.

2. Debt to Total Assets Ratio (DAR)

This ratio is used to measure how much of a company's assets are financed by debt. A higher ratio indicates that a larger portion of loaned capital is used to invest in assets to generate profits for the company.

RESEARCH METHODS

Research Design

The type of research used in this study is quantitative research, which involves analyzing numerical data. The data used are time series data collected from the period 2017-2021, gathered over time to depict the development (Kuntjojo, 2009, p. 11).

Location and Research Period

The research is conducted at property and real estate companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. Data for this study were obtained from <http://www.idx.co.id> as secondary data in the form of financial reports.

Operational Definition of Research Variables

Operational definition is a description of the limitations of the variables in question or what is measured by the variables. There are two variables used in this study: the dependent variable and the independent variable. In this research, the dependent variable (Y) is financial performance, while the independent variable (X) is capital structure.

1. Return on Asset (ROA)

$$ROA = \frac{\text{Net Profit after tax}}{\text{Total assets}} \times 100\%$$

2. Return On Equity (ROE)

$$ROE = \frac{\text{Net profit after tax}}{\text{Total equity}} \times 100\%$$

3. Debt to Equity Ratio (DER)

$$DER = \frac{\text{Total debt}}{\text{Total equity}} \times 100\%$$

4. Debt to Total Assets Ratio (DAR)

$$DAR = \frac{\text{Total debt}}{\text{Total assets}} \times 100\%$$

Population and Sample

The population for this research consists of all property and real estate companies listed on the Indonesia Stock Exchange. There are a total of 35 such companies.

According to Sugiyono (2019:127), a sample is a portion of the quantity and characteristics of the population. The sampling procedure used in this research is nonprobability sampling with purposive sampling technique. Purposive sampling is a sampling method where the selection of samples is based on specific criteria. The criteria used are as follows:

1. Property and real estate companies listed on the Indonesia Stock Exchange (BEI) continuously from 2013 to 2017.
2. Companies that regularly submit financial reports for December 31 for 5 years corresponding to the research period (2017, 2018, 2019, 2020, and 2021) and have their financial reports audited.
3. Companies that have not undergone mergers and acquisitions.

Based on these criteria, 20 companies were selected as the sample from the total population of 35 companies, covering a 5-year research period (2017-2021).

Data Type and Source

The data used in this research are secondary data. Secondary data is data obtained indirectly through an intermediary or collected and recorded by others. The data source for this study is financial reports of companies, including balance sheets, income statements, and comprehensive income statements. These data were standardized for property and real estate sub-sector companies listed on the Indonesia Stock Exchange, obtained from the website www.idx.co.id, and other relevant literature sources related to this research, both in print and electronic media.

Data Collection Technique

The technique used to collect data in this research is documentation. The documentation method involves collecting and examining books, papers, business journals, and other readings on the internet, as well as examining philosophical aspects related to financial statement analysis that have been collected and published.

Data Analysis Technique

There are three steps in the hypothesis testing analysis in this study. First, descriptive statistical analysis is performed. Next, simple regression analysis is conducted, followed by hypothesis testing using the coefficient of determination and t-test.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis aims to depict data, which can be seen through mean, standard deviation, and the distribution's skewness. This is the process of analyzing population data by describing it. Good data is data that is reasonable. It is considered reasonable when the data is greater than the standard deviation. Here are the results of the descriptive statistical analysis of the research variables from the 20 sampled companies:

Tabel 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DER	100	20	3700	758.70	750.065
DAR	100	20	790	355.30	199.279
ROA	100	-380	260	27.58	68.460
ROE	100	-550	320	40.34	97.366
Valid N (listwise)	100				

Simple Regression Analysis

4.2.1 t-Test and Coefficient of Determination (R²) Test

The partial effect of capital structure on financial performance in property and real estate companies listed on the Indonesia Stock Exchange for the period 2017-2021 can be described as follows:

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.044 ^a	.002	-.008	163.477

a. Predictors: (Constant), STRUKTUR_MODAL

Table 3. Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	76.407	25.512		2.995	.003
	STRUKTUR_MODAL	-.008	.018	-.044	-.437	.663

a. Dependent Variable: KINERJA_KEUANGAN

From the regression equation results, the values of a and b can be interpreted as follows:

$$Y = \alpha + \beta x_1 + e_i$$

$$Y = 76.407 + (-0.008) X_1 + e_i$$

$$R^2 = 0.002$$

$$T\text{-statistic} = -0.437$$

$$T\text{-table } (n-1) = 1.661$$

Based on the simple regression analysis above, it is known that the constant value of capital structure on financial performance is 76.407. This means that if there is an increase in the frequency of capital structure by 1%, it will result in a 35.759% increase in financial performance. This can be explained that

financial performance will decrease if there is no capital structure. The capital structure has a regression coefficient value of -0.008, which means that if the capital structure decreases by 1 unit, financial performance will decrease by 0.008 units, assuming other variables remain constant and constant, then the capital structure is 0.8%. This means that if the percentage of capital structure increases, financial performance will increase by 0.008.

The coefficient of determination yields an R value of 0.044 or 4.4%, indicating that the correlation between the dependent variables, Return on assets and Return on equity (Financial Performance), with capital structure measured by Debt to equity ratio (DER) and Debt to asset ratio (DAR) is not very strong. Meanwhile, the R² value is 0.002, which is 0.2% in percentage terms. These results indicate that the capital structure variable partially affects financial performance by 0.2%, and the remaining 99.8% is influenced by other factors.

Hypothesis Testing

Based on the results of the analysis of the capital structure regression model on financial performance above, it can be seen that the calculated t-value is -0.437 with a significance level of 0.663. This means that the calculated t-value < t-table (-0.437 < 1.661) and the capital structure < significance level (0.663 > 0.05), indicating that the capital structure variable does not significantly affect financial performance in property and real estate companies listed on the Indonesia Stock Exchange for the period 2017-2021. Based on the t-test calculation, the applicable hypothesis is that H₀ is accepted and H_a is rejected, which means that capital structure does not have a significant effect on the financial performance of property and real estate companies listed on the Indonesia Stock Exchange for the period 2017-2021.

Discussion

Based on the research results, it has been shown that capital structure does not significantly affect financial performance. This is because the profit or income of the company is very low, and some even incur losses or negatives because the low profit is not enough to cover all operational or financial costs. The low income is influenced by the company's ability to generate profit, which is low sales performed by property and real estate companies listed on the Indonesia Stock Exchange for the period 2017-2021. This research does not have a significant effect because of the unstable profit from sales, followed by a decrease in total asset turnover, and the unstable profit even becomes a loss. This is due to the low sales volume, followed by relatively high financial expenses, resulting in low net profit, or even losses. The unstable profit from sales makes investors uninterested and afraid to invest in property and real estate companies listed on the Indonesia Stock Exchange for the period 2017-2021.

Capital structure does not affect financial performance because not all companies with high profits will have high debts. Conversely, not all companies with low profits will have low debts. Companies can generate profits if they can sell their goods or services to potential consumers, where consumers do not consider the company's debt when purchasing goods or services. Unlike investors, they will look at the company's financial performance to invest, including the company's ability to generate profits, as a company with low net profit or low

profit indicates poor profit generation ability. This factor makes investors reluctant to invest in property and real estate companies listed on the Indonesia Stock Exchange for the period 2017-2021, which is likely the reason why the capital structure variable does not have a significant effect on financial performance.

Implications of the Research Findings

The research findings reveal a new insight that capital structure does not have a significant impact on the financial performance of property and real estate companies. This finding can contribute to property and real estate companies by emphasizing the need to increase their profitability in each period or the importance of maintaining stable profits consistently. The profitability of the twenty companies studied in this research was very low, and in some cases, even negative. A financially healthy company with consistent profitability is more likely to attract investors to invest in it. As investor interest grows, it can enhance the company's value and create better business prospects for the future.

Limitations of the Research

This study has certain limitations, as it only tested one variable, which is capital structure, to predict financial performance. There are other variables outside the scope of this research that can influence financial performance. Additionally, the research utilized a relatively short time period of five years, from 2017 to 2021. Therefore, the data used may not fully represent long-term conditions or trends in the industry.

CONCLUSION AND Recommendations

Conclusion

Based on the data analysis conducted in this research, the following conclusions can be drawn:

The capital structure measured using indicators Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR) does not have a significant impact on financial performance, as measured by Return on Assets (ROA) and Return on Equity (ROE), in property and real estate companies listed on the Indonesia Stock Exchange from 2017 to 2021.

Recommendations

For Investors:

Before deciding to invest in a company, investors should pay attention to the company's capital structure. Capital structure can be a consideration for investors to strategically assess a company's total long-term debt.

For Companies:

Companies are advised to improve their financial performance indicators, specifically Return on Assets (ROA) and Return on Equity (ROE). The average values of these two indicators are below one. To achieve this, companies should increase profit margins, maintain asset turnover, and enhance total equity and net income in property and real estate companies listed on the Indonesia Stock Exchange from 2017 to 2021.

For the Government:

High interest rates can discourage consumers from buying properties, leading to reduced demand and lower property prices. Therefore, government intervention may be needed to lower interest rates and boost consumer purchasing power.

For Future Researchers:

Future researchers are recommended to consider adding other variables that may affect financial performance, such as company size, total asset turnover, institutional ownership, solvency, liquidity, asset growth, and more. Additionally, future research could expand the study to include longer time periods or more recent periods beyond the scope of this study.

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