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Determinants of Capital Structure in Retail Companies Listed on The Indonesian Stock Exchange

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ABSTRACT

The determinant of the capital structure of retail companies listed on the Indonesia Stock Exchange (IDX) is the factors that influence how companies in this sector decide to finance their operations, including how they incorporate debt and equity into their capital structure. The capital structure is the comparison between debt and equity used by companies to finance their activities. This research aims to construct a concept and model and analyze the determinants of capital structure in retail companies in Indonesia using a Panel Data Regression approach. The research population includes all retail sector companies in Indonesia listed on the Indonesia Stock Exchange from 2017 to 2022. The capital structure is proxied by Debt Equity Ratio (DER). Meanwhile, the determinants of capital structure in this study consist of Profitability, Size, Growth, Liquidity, and Distance From Bankruptcy (DFB). The research shows that Profitability, Size, Growth, Liquidity, and Distance From Bankruptcy (DFB) significantly influence the capital structure policy. The results of this research can assist companies in making more informed financial decisions and can serve as a foundation for the development of policies that support the growth of the retail sector in the Indonesian capital market.

Keywords: capital structure, retail sector, panel regression

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INTRODUCTION

The ultimate goal of successful corporate financial management is to ensure long-term financial stability and high profitability for the business or, collectively, to enhance the company's value. In the context of modern business, decision- making related to capital structure plays a crucial role in the sustainability and growth of the company. Capital structure refers to the proportion of equity and debt used by a company to finance its operational and investment activities. Decisions on how a company chooses to finance itself can impact financial stability, company value, and their ability to conduct day-to-day operations as well as respond to changes in the economic environment (Eriotis et al., 2007).

In Indonesia, the retail sector has undergone significant development in recent years (Sumarni, 2020). Sustained economic growth, increased purchasing power, and digital transformation have altered the way consumers interact with retail companies (Nasution et al., 2020). Furthermore, the presence of retail companies listed on the Indonesian Stock Exchange (IDX) adds complexity to decision-making regarding capital structure. Retail businesses often have substantial working capital needs to finance inventory, store leases, and other daily operations. Due to seasonal fluctuations and rapid changes in consumer trends, retail companies may face financial pressures distinct from other sectors. Therefore, it is crucial to understand how specific factors influence the choice of capital structure in this context. In this context, research on the determinants of capital structure in retail companies listed on the IDX is highly relevant and beneficial (Riyani, Y., et.al, 2023).

However, despite the importance of capital structure decision-making, many questions remain unanswered in the context of the Indonesian retail sector. What factors influence retail companies in choosing between equity and debt? How do external factors such as financial market conditions and internal factors such as company size, profitability, and growth play a role in these decisions? Through this research, we aim to provide deeper insights into the factors influencing capital structure decisions in the unique context of the Indonesian retail sector (Tristanto, T. A., et. Al, 2023)

This study aims to identify and analyze the determinants of the capital structure of retail companies listed on the Indonesian Stock Exchange (IDX). Capital structure, which represents the ratio of debt to equity in financing a company, plays a key role in financial management. The research explores the background of factors influencing companies' decisions in determining their capital structure in the IDX retail sector.

The profitability level of a company can affect its decisions regarding capital structure. More profitable companies may be more inclined to use internal equity to fund their growth, while companies with lower profitability may have to rely more on debt (Naddienalifa, D., et.al, 2021, Damayanty, P., et.al, 2022). Company size can also play a

role in determining capital structure. Larger companies may have more access to capital markets and may find it easier to obtain equity financing. On the other hand, smaller companies may have to rely more on debt on a larger scale. The growth rate of a company is a crucial factor in determining capital structure. Companies planning aggressive growth may tend to use more debt to finance their investments (Sandopart, D. P. Y. A. L., 2021).

A company's ability to generate cash flow from its operations can also affect its capital structure. Companies with sufficient internal resources may be more inclined to use equity to avoid high-interest expenses. Companies with a high risk of bankruptcy may be more cautious about using debt in their capital structure. Therefore, the bankruptcy risk level is also a critical factor in capital structure analysis.

Research on the determinants of the capital structure of retail companies on the IDX, using the dependent variable Debt to Equity Ratio (DER) and independent variables such as profitability, company size, company growth, liquidity, and bankruptcy distance, will provide valuable insights into how companies in this sector manage their financial policies in the context of the Indonesian capital market. The results of this research can guide company management and investors in making better decisions regarding capital structure and financial risk in the retail sector. Additionally, this research can assist the government and regulators in designing more effective policies to support the growth and stability of the retail sector on the IDX (Hasibuan, A. N., Fatoni, A., & Harisman, H. ,2022)..

The outcomes of this research can have practical and theoretical benefits. For practitioners and company decision-makers, the results can offer better guidance in managing their capital structure, optimizing funding sources, and addressing challenges in a continually evolving business environment. For academics and researchers, this research can contribute to our understanding of the dynamics of financial decisions in the context of the Indonesian retail sector.

LITERATURE REVIEW

The study of capital structure seeks to explain the combination of securities and funding sources used by companies to finance real investments (Myers, 2001). A company's capital structure can directly determine the combination of its risk and cost of capital. The source of capital, which has significant consequences for a company, affects its value and thus the wealth of shareholders. For instance, while debt is the cheapest form of external capital, the risks of default, earnings volatility per share, and the return on company equity increase with its borrowing. With increased leverage, the benefits of lower debt costs diminish due to heightened financial risk and the potential for higher financial difficulties and bankruptcy. A risk-return trade-off is thus involved in capital structure decisions (Baker & Martin, 2011).

Capital structure can enhance business value if it has a high cost of capital. The lowest cost of capital is achieved through optimizing the structure (Nita Septiani & Suaryana, 2018). The growing total debt of a company will result in lower tax rates but also increase the likelihood of bankruptcy (Herdiyanto, 2015). Profitability is defined as a company's ability to generate profits from the capital it uses (Harjito & Martono, 2014). When comparing pre-interest and tax profits to total assets, profitability is defined as the difference between the two (Haron & Ibrahim, 2012, Arafat, M. Y., Warokka, A., & Suryasaputra, R, 2014).

Thus, profitability can be considered a ratio that measures a company's ability to generate earnings. Yildirim, Masih, & Bacha (2018) found that profitability has a significant negative correlation with structured capital. Youssef & El-Ghonamie (2015) found that profitability has a significant negative relationship with the level of debt.

The term "company size" refers to total business assets, total sales, and average sales (Riyanto, 2011, Rahmadi, Z. T., 2020). Business size is defined as the natural logarithm of its total assets (Alnori & Alqahtani, 2019). Yildirim, Masih, and Bacha (2018) found a significant positive correlation between company size and capital structure. According to Frank & Goyal (2009), the larger the company, the higher its debt level. This can be understood considering that larger companies have less fluctuating cash flows (Titman & Wessels, 1988). Alnori & Alqahtani (2019) and Damayanty, P., Ayuningtyas, M., & Oktaviyanti, O. (2022) also found significant positive results.

Company growth can influence its capital structure decisions. High growth often requires additional funds to finance expansion, investments, and business development (Veronisa et al., 2023). Companies may be inclined to take on debt to fund these growth projects, especially if they have high potential returns (Leonard & Farida, 2014). At the same time, high growth can also increase the need for liquidity and funding, thereby stimulating the use of debt (Ferdiansya, 2013).

Liquidity refers to how quickly a company's assets can be converted into cash or cash equivalents. High liquidity can provide additional protection against bankruptcy risk and help the company pay off debt if needed (Rahmadi, Z. T., Wahyudi, M. A., & Widjanarko, W. , 2023). Higher liquidity can give the company more flexibility in choosing its capital structure, including allowing it to use less debt and more equity (Darmawi, 2011).

The concept of bankruptcy distance refers to how far a company is from the point where its asset value equals its debt value. The greater the bankruptcy distance, the safer the company's financial position. A greater distance from bankruptcy can instill more confidence in creditors and investors, potentially reducing the company's debt costs. Companies with a larger bankruptcy distance are likely more comfortable using debt in their capital structure (Chusnitah & Retnani, 2017).

In the context of the retail sector, the relationship between growth, liquidity, and bankruptcy distance with capital structure can vary depending on company characteristics, market situations, and business strategies (Damayanti, n.d.). Comprehensive empirical analysis and appropriate statistical methods are required to delve deeper into how these variables interact and influence the capital structure of retail companies listed on the Indonesian Stock Exchange.

Based on relevant research, the hypotheses in this study are as follows:

Hypothesis 1: Company profitability has a positive influence on the use of equity in the capital structure. More profitable companies may be more inclined to rely on internal funding, such as equity, to avoid interest payments on debt.
Hypothesis 2: Company size has a positive relationship with the use of debt in the capital structure. Larger companies may have better access to capital markets and loans, thus tending to use more debt.

Hypothesis 3: Company growth is positively related to the use of debt in the capital structure. This is due to the company's need to finance expansion projects or growth through external funding sources.
Hypothesis 4: Company liquidity has a positive influence on the use of equity in the capital structure. Companies with higher liquidity may be more inclined to use internal funding, such as equity, to avoid the risk of interest payments on debt.
Hypothesis 5: Distance from bankruptcy has a negative influence on the use of debt in the capital structure. Companies with a greater distance from the bankruptcy point may be more inclined to use equity to take advantage of greater protection against the risk of bankruptcy.

RESEARCH METHOD

The population of this study encompasses all retail sector companies in Indonesia listed on the Indonesian Stock Exchange from 2017 to 2022. Capital structure is proxied by the Debt Equity Ratio (DER). The determinants of capital structure in this study consist of Profitability, Size, Growth, Liquidity, and Distance From Bankruptcy (DFB). www.idx.co.id and www.financialmodelingprep.com are used as data sources. Secondary data extraction is conducted using purposive sampling with an annual time interval. Data processing is carried out using Stata. The formulation of research variables can be seen in Table 1 as follows.

Table 1. Research Variable Formulation

Variable	Formulation
DER	$\frac{Total\ Liabilities}{Total\ Equity}$
Company Size (SIZE)'	Log natural Total Asset
Profitability (PROF)	$\frac{EBIT}{Total\ Asset}$
Growth Oppotunity (GROW)	$\frac{Total\ Asset_t - Total\ Asset_{t-1}}{Total\ Asset_{t-1}}$
Likuidity (LIQ)	$(\frac{Current\ Asset_{ij}}{Current\ Liability_{ij}})$
Distance from bankcruptcy (DFB)	Altman Z skor $Z_{tij} = 1.2A_{tij} + 1.4B_{tij} + 3.3C_{tij} + 0.6D_{tij} + 1.0E_{tij}$ $A_{tij} = \frac{Working\ Capital\ Ratio_{tij}}{Total\ Asset_{tij}}$ $B_{tij} = \frac{Current\ Ratio_{tij}}{Total\ Asset_{tij}}$ $C_{tij} = \frac{Operating\ Profit\ Margin_{tij}}{Total\ Asset_{tij}}$ $D_{tij} = \frac{Market\ Value\ of\ Equity_{tij}}{Total\ Liability_{tij}}$ $E_{tij} = \frac{sales\ to\ sales\ ratio_{tij}}{Total\ Asset_{tij}}$

Source: data processed by the researcher

The equation model is developed based on a literature review as follows:

$$DER_t = \theta_0 + \theta_1\, Prof_t + \theta_2\, Size_t + \theta_3\, Growth_t + \theta_4\, LIQ_t + \theta_5\, DFB_t + \mu_t$$

Notes :

DER_t	= The Debt Equity Ratio serves as a proxy for the capital structure in the t year
$Prof_t$	= Profitability in the t year
$Size_t$	= Size in the t year
$Growth_t$	= Growth in the t year
LIQ_t	= Liquidity in the t year
DFB_t	= Distance from Bankruptcy in the t year

RESULTS AND DISCUSSION

Data Description

In this study, we examine the determinants of capital structure in retail companies listed on the Indonesia Stock Exchange. We analyze panel data from a number of retail companies over the period from 2010 to 2022. The analysis aims to identify the factors influencing companies' choices in using debt or equity as a source of financing. This research employs a panel data approach to provide a more comprehensive understanding of the factors affecting the choice of capital structure in the retail sector in Indonesia.

The data used in this study were obtained from the public financial reports of retail sector companies listed on the Indonesia Stock Exchange. The main data sources include annual financial statements, income statements, cash flow statements, as well as notes to financial statements available through verified and recognized financial databases. The selected sample of retail companies includes:"

1. Ace Hardware Indonesia Tbk (ACES).
2. Global Mediacom Tbk (BMTR)
3. Indo Kordsa Tbk (BRAM)
4. Catur Sentosa Adiprana Tbk (CSAP)
5. Gajah Tunggal Tbk (GJTL)
6. Greenwood Sejahtera Tbk (GWSA)
7. Indomobil Sukses Internasional (IMAS)
8. Indo-Rama Synthetics Tbk (INDR)
9. Indospring Tbk (INDS)
10. Mitra Adiperkasa Tbk (MAPI)
11. Multistrada Arah Sarana Tbk (MASA)
12. Media Nusantara Citra Tbk (MNCN)
13. Mitra Pinasthika Mustika Tbk (MPMX)
14. Astra Otoparts Tbk (AUTO)

Based on Appendix 1, it is found that the average Debt Equity Ratio (DER) is 0.129823 with a standard deviation of 0.110270. The average Profitability is 0.078505 with a standard deviation of 0.076406. The average Size of the company is 27.35891 with a standard deviation of 4.141457. The average Growth Opportunity is 0.4052762 with a standard deviation of 1.738078. The average Liquidity is 2.782359 with a standard deviation of 2.977842. The average Distance from Bankruptcy is 8.791699 with a standard deviation of 9.3114488

Result

The panel data was analyzed using the panel regression method to identify the relationship between independent variables and the capital structure of companies. Testing the panel regression model with the Chow, Hausman, and LM tests resulted in finding that the Random Effect Model (REM) is the best-fitting model. Further tests for multicollinearity and heteroskedasticity have been conducted, and the results indicate that the model is free from multicollinearity and does not exhibit heteroskedasticity.

The panel regression model is generated as follows:

$DERt = -0{,}071926 - 0{,}346550\ Proft + 0{,}009201\ Sizet + 4{,}72E$
$- 06\ Growtht +$
(0,4989) (0,0015) (0,0181) (0,0059)
$0{,}007468\ LIQt - 0{,}006370\ DFBt + \mu it$
(0,0146) (0,0000)

Discussion

1. Impact of Profitability on Capital Structure

The analysis indicates that the profitability variable has a significant influence on the capital structure of companies in the retail sector. This suggests a strong relationship between a company's profitability level and how it chooses to finance its operations. In this context, several things may occur:

a. Profitability Affects Capital Structure:
This implies that when a company's profitability increases, the company tends to use less debt to finance its operations. This could be due to the company's ability to generate more cash from its operations, reducing its dependence on debt.
b. Profitability Enhances Access to Equity Capital
More profitable companies tend to find it easier to obtain equity capital (e.g., by issuing shares) rather than relying on debt. Investors may be more inclined to invest in a company that generates good profits.
c. Companies may intentionally choose to have a more conservative capital structure (with less debt) if they have high profitability. This could be a strategy to reduce financial risks associated with debt.
d. High profitability in a period may lead to changes in the capital structure in line with changes in the business cycle.When a company is highly profitable, it may choose to reduce debt or develop different long-term financing plans.

2. Impact of Company Size (SIZE) on Capital Structure

The size of the company has a significant influence on the capital structure, indicating that the company's size has a noteworthy effect on how it chooses to finance its operations. In this context, several things may occur:

a. Company Size Affects the Ability to Obtain Capital. Larger companies have more access to various sources of financing, including equity, debt, and internal financing

(e.g., retained earnings). They may have more choices regarding the capital structure because they can raise capital more easily.

b. Larger companies may leverage economies of scale in their operations, leading to a larger cash flow. This can help them more easily repay debt and maintain a higher level of debt in their capital structure.
c. Larger companies may have a more diverse business portfolio, helping them manage risks better. This can influence their decisions in choosing the capital structure, such as using more debt in stable businesses and relying on equity in riskier ventures.
d. Larger companies may attract more attention from the capital markets and have more opportunities to obtain capital from investors or issuing stocks and bonds in the capital market. Sometimes, larger companies may tend to use more debt as they are perceived as more stable and less risky by creditors.

3. Impact of Growth Opportunity on Capital Structure

If growth opportunities significantly impact the capital structure, it means that companies give strong consideration to the growth opportunities available when making decisions about how to finance their operations. In this context, several things may occur:

a. If a company sees significant growth opportunities, they may be more inclined to use additional debt or equity to finance investment projects supporting that growth.This could involve taking on more external debt or issuing additional shares to obtain equity capital.
b. Decisions about the capital structure are often influenced by risk and return considerations. If growth opportunities have the potential for high returns, the company may be willing to take on more debt to leverage them, even though this can also increase financial risk. Conversely, if growth opportunities are considered riskier, the company may prefer using safer equity capital.
c. Significant growth opportunities in business may be related to business cycles. Companies may make decisions about their capital structure according to changes in these cycles. They may be more inclined to use debt when the economy is growing and shift to equity or a more conservative capital structure when the economy is in decline.
d. Significant growth can also impact the available sources of funds.If a company has strong growth opportunities, they may find it easier to secure loans or attract investors interested in investing in their business.
e. Decisions about the capital structure can also be part of the company's growth strategy. Some companies may choose to take on more debt to acquire other companies or expand their operations aggressively.

4. Impact of Liquidity on Capital Structure

Significant liquidity has a substantial impact on the capital structure, indicating that the level of a company's liquidity strongly influences how the company chooses to finance its operations. In this context, several things may occur:

a. If a company has a high level of liquidity, it means they have many liquid assets that can be used to pay obligations or for additional investments. In such a situation, the

company may tend to use less debt because they have the financial capability to finance their operations independently without relying on debt.

b. High liquidity levels can provide financial flexibility to the company. This allows them to face emergencies or investment opportunities without relying on debt, which might require significant interest payments.
c. If a company prioritizes high liquidity levels, they may choose to have a more conservative capital structure with less debt. This can help them avoid financial risks associated with high levels of debt.
d. Conversely, if a company has significant growth opportunities but low liquidity, they may be forced to take on debt to finance their growth projects. In this case, they might sacrifice current liquidity for future growth opportunities.
e. Some companies may attempt to strike a balance between having sufficient liquidity to address short-term needs and using debt wisely to generate greater income from investments.

5. Impact of Distance From Bankruptcy on Capital Structure

The significant impact of the distance from bankruptcy (often referred to as "financial distress costs") on the capital structure indicates that the level of financial risk faced by the company strongly influences how the company chooses to finance its operations through the capital structure. This can be explained as follows:

a. Importance of Avoiding Bankruptcy. Companies aim to avoid the risk of bankruptcy in various ways. Bankruptcy can have serious consequences such as the loss of assets, damage to reputation, and operational disruptions. Distance from bankruptcy measures the extent to which a company can shield itself from these risks.
b. Influence on Debt Usage. A greater distance from bankruptcy (meaning the company has more financial reserves) may make the company more comfortable using more debt in its capital structure. This is because they have more "protection" or financial reserves to address unexpected financial issues.
c. Structural Choices. Significant distance from bankruptcy can influence a company's decisions about how to combine debt and equity in its capital structure. The company may be more inclined to use more debt if they feel secure from the risk of bankruptcy.
d. Additional Financial Costs. Conversely, if the company perceives a high risk of bankruptcy, they may choose to have a more conservative capital structure with less debt, even though this may incur additional financial costs, such as higher equity capital costs.
e. Dividend Policies. Distance from bankruptcy can also influence the company's dividend policies. The company may be more inclined to retain more earnings as reserves if they perceive a high risk of bankruptcy, rather than paying high dividends to shareholders.

CONCLUSION

Through regression analysis of panel data on factors influencing the capital structure decisions of retail sector companies listed on the Indonesia Stock Exchange, it can be concluded that:

1. Profitability of retail companies significantly influences the capital structure. More profitable companies tend to have more options regarding their capital structure and may choose to use less debt.
2. Company size also plays a crucial role in determining the capital structure. Larger retail companies have more access to various sources of financing and can use additional debt or equity as needed.
3. Significant growth opportunities can affect the capital structure of companies. Companies seeing growth opportunities may be more inclined to use more debt to finance investments in their expansion.
4. The distance from the risk of bankruptcy influences the company's decisions about its capital structure. Companies with a greater distance from the risk of bankruptcy may be more comfortable using more debt in their capital structure.
5. The liquidity level of the company can affect its capital structure policy.Companies with high liquidity may be more inclined to avoid debt in their capital structure and rely more on equity.

Suggestions

1. Handling Endogeneity Issues
In panel data regression, endogeneity issues often arise, where unobserved variables may influence observed variables. If important unobserved variables are not included in the model, panel regression results may lead to undesirable parameter bias. This can be addressed by employing GMM (Generalized Method of Moments).
2. Consideration of Alternative Capital Structure Proxies
It is advisable to consider alternative proxies for capital structure in addition to DER. Possible alternatives include long-term debt, Short Term Debt Ratio, Total Debt Ratio, Interest Coverage Ratio, Market-to-Book Ratio, Asset Tangibility, Liquidity Ratio, Cash Flow to Debt Ratio, ROA (Return on Assets), or ROE (Return on Equity).
3. Diverse Approaches in Capital Structure Decision-Making
While the current results indicate that certain factors do not significantly impact the capital structure of retail sector companies on the Indonesia Stock Exchange, it is essential to remember that capital structure decision- making is a complex process influenced by many variables. As a suggestion, retail sector companies may adopt diverse approaches in their capital structure decision-making. Decisions should be considered based on the financial conditions and long-term goals of the company. Even if the examined factors do not show significant influence, there is no one-size-fits-all approach. It is crucial to consider individual context, strategic goals, and market conditions that may change over time.
4. Continuous Monitoring of Market Trends and Financial Decision Evaluation
Given the complexity and dynamics involved in capital structure decision- making, retail sector companies are advised to continually monitor market trends, maintain flexibility in financing, and consistently evaluate their financial decisions to achieve sustainable growth and financial stability in the long term.

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