



THE EFFECT OF COMPANY PROFITABILITY AND SIZE ON CAPITAL STRUCTURE IN PHARMACEUTICAL SUBSECTOR MANUFACTURING COMPANIES IN THE INDONESIA

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Abstract This study aims to determine the effect of profitability by using the calculation of return on assets and firm size by using the calculation of firm size on the capital structure by using the calculation of debt to equity ratio in manufacturing companies in the pharmaceutical sub-sector on the Indonesia Stock Exchange in 2017-2019. Meanwhile, the sample to be tested is in accordance with the research criteria that have been determined and the sampling technique is purposive sampling, and the companies that meet the sampling criteria are 8 companies. The data used in this study are secondary data from the annual financial statements of pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2017-2019 which were obtained from www.IDX.co.id. The data management method uses multiple linear regression analysis with the help of the SPSS 23 analysis tool. The results show that the profitability variable (return on assets) has a significant effect on the capital structure, while the firm size variable does not have a significant effect on the company's capital structure. pharmaceutical manufacturing sub-sector on the Indonesia Stock Exchange in 2017-2019.

Keywords: Profitability, Firm Size, Capital Structure

Introduction

Manufacturing companies in Indonesia are experiencing rapid development followed by the growth and the very large population of Indonesia. This is a promising market share for companies to market their products (Dj et al., 2012). Manufacturing companies are companies whose business activities are managing raw materials from semi-finished products to finished products that are ready to be marketed. Currently, there are many manufacturing companies that can be found and listed on the Indonesia Stock Exchange or Go Public, one of which is a manufacturing company in the pharmaceutical sub-sector (Pebriyanti et al., 2020). Indonesia has a great opportunity in the pharmaceutical industry to continue to grow. But on the other hand, with a fairly rapid rate of development, it must also be supported by the level of consumption of domestic drugs. Indonesia's per capita drug consumption rate is the lowest among Southeast Asian countries. According to data from Basic Health Research (Syafri & Fahmi, 2021), the low consumption of drugs per capita in Indonesia is due to the different consumption patterns of people in Indonesia from other Southeast Asian countries in addition to the low purchasing power of the Indonesian people. The pattern of public drug consumption in Malaysia is more towards patented drugs and the price of patented drugs is much more expensive than the price of branded generic drugs (Singh & Bagga, 2019).

The pharmaceutical industry in Indonesia continues to record total sales that increase from year to year (Andayani & Satibi, 2016). The share of the pharmaceutical industry in Indonesia is much larger than that of PMA/MNC (Multi National Company). It is predicted that around 75% of the national industrial market share in 2005, while the remaining 25% of MNCs. Meanwhile, the market share of products/MNCs in Malaysia and the Philippines is more than 50% compared to the national market share (Singh & Bagga, 2019).

Every company definitely needs a fund to face every competition and to finance its operational activities. Company funds can come from own capital (inside the company) or from foreign capital (outside the company). There are several companies that use the source of providing funds from their own capital, there are times when the funds they have are deemed insufficient because a healthy company will describe the accuracy of the company's performance and become the main thing to be able to compete with other companies in terms of its capital (Singh & Bagga, 2019). A company's operational activities will be related to the most important part, namely the problem of providing funds which will involve various parties, namely shareholders and company management. The provision of internal funds comes from share capital, retained earnings, and reserves while the provision of external funds comes from debt (Martono, 2017). Capital structure can show good decision making of the company.

Capital structure is the correlation between own capital and long-term down payment, in this way capital design is important for company structure. The large proportion of capital structure indicates that there are more or less long-term advances than own capital that incorporate resources into fixed resources used to obtain employment benefits (Brigham & Houston, 2021).

The company's capital structure is one of the key elements in the company's work. The company's capital is not completely fixed on the spending strategy of the company's directors who are constantly faced with quantitative and qualitative reflection (Takhumova et al., 2018). Many variables affect the choice of directors in deciding the composition of the company's capital. Moreover, the elements that influence the choice of capital structure are transaction strength, resource structure, employment influence, development level, benefits, costs, control, executive disposition, borrowing mentality, economic situation, the internal state of the company, and monetary adaptability (Brigham & Houston, 2021).

Based on (Riswan & Sari, 2015), it is known that the elements that can affect the organizational capital structure are profitability and firm size. Profitability is the company's capacity to create profit over a certain period (Indriaswari & Nita, 2018). Size or company size is a picture of the company's monetary capacity in a period, a certain company size can be used as a pointer that describes the level of danger for investors to enter resources into the company.

Method

Pharmaceutical sub-sector manufacturing companies are companies whose business activities are researching, developing, and distributing medicines in the health sector, by managing raw materials into semi-finished products to finished pharmaceutical products that are ready to be marketed. This research was conducted on pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) using financial statements from 2017-2019.

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The population of this study is the pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange, totaling 10 companies. The number of samples obtained were 8 manufacturing companies in the pharmaceutical sub-sector with a period of 3 years so that the number of data studied was 24, which was obtained from 8×3 (which is the multiplication between the sample and the number of years in the study).

In analyzing the data using the Classical Assumption Test (Normality Test, Multicollinearity Test, Autocorrelation Test, Heteroscedasticity Test), Multiple Linear Regression Analysis, Coefficient of Determination (R²), Hypothesis Testing (t Test, F Test).

Results and Discussion

A. Results

1. Return On Assets (X 1) to Capital Structure (Y)

The results of the partial test of the t-count value of -2.240 less than the t-table value of 2.080 ($-2.240 < 2.080$). The significance value is 0.036 which is smaller than 0.05 ($0.036 < 0.05$). This means that Return On Assets (X 1) has a partial effect on the capital structure (DER). So that the hypothesis which states that Return On Assets has a partial effect on the capital structure (DER) is accepted (H₁ is accepted).

2. Firm Size (X 2) to Capital Structure (Y)

The results of the partial test with t count of -1.425 are smaller than the t table value of 2.080 ($-1.425 < 2.080$). The significance value is 0.169 which is greater than 0.05 ($0.169 > 0.05$). This means that Firm Size (X 2) has no partial effect on capital structure (DER) is rejected (H₀ is accepted)

3. Return On Assets (X 1) and Firm Size (X 2) Against Capital Structure (Y)

From the results of simultaneous testing if $\alpha = 0.05$ then the calculated F value is 3.375 less than the F table value of 3.44 and a significance level of 0.054 is greater than 0.05 ($0.054 > 0.05$), which means that H₀ is accepted. If $\alpha = 0.10$ then the calculated F value is 3.375 more than the F table value is 3.26 and the significance level is 0.054 which is smaller than 0.10 ($0.054 < 0.10$) which means rejecting H₀. So it can be concluded that Return On Assets and Firm Size simultaneously affect the Capital Structure (DER).

B. Discussion

1. Effect of Profitability (Return On Assets) on Capital Structure

From the research results obtained regarding the effect of Return On Assets on the Capital Structure of Manufacturing Companies in the Pharmaceutical Sub-sector listed on the Indonesia Stock Exchange. The results of partial hypothesis testing show that the variable X 1 (ROA). This variable has a t count of $-2.240 < t$ table of 2.080 or a significant profitability value of 0.036 which is smaller than the alpha of 0.05. This means that the variable X 1 Profitability (ROA) has a partial effect on the capital structure. The results of this study are in line with research conducted by (Juliantika & Dewi, 2016), Made (Pebriyanti et al., 2020) who found that partially profitability proxied by Return On Assets (ROA) had a negative and significant effect on capital structure (DER) (Juliantika & Dewi, 2016).

This means that the higher the profitability or ROA of the company, the less the proportion of debt used in its capital structure or the smaller the percentage of its capital structure. In theory, a company with high profitability means that the company's ability to earn profits is also high, so it tends to use retained earnings or own capital as a source of funding and reduce the use of debt in the capital structure. This is also consistent with the pecking order theory predicting a negative relationship between profitability and capital structure. According to pecking order theory, more profitable companies prefer to use internal funds rather than external funds (Gwatidzo et al., 2016). This is because internal funds contain fewer costs and risks than external funds or debt.

Based on the results of research conducted by the author as well as theories, opinions, and previous studies that have been stated above regarding the effect of profitability (ROA) on capital structure (DER). So the author can conclude that there is a match between the results of the study with theories, opinions, and previous research, namely that there is a significant effect of Return On Assets to Capital Structure (DER) in Manufacturing Companies in the Pharmaceutical Subsector on the Indonesia Stock Exchange for the 2017-2019 period.

2. Effect of Firm Size (Firm Size) to Capital Structure

From the research results obtained regarding the effect of Firm Size on the Capital Structure of Manufacturing Companies in the Pharmaceutical Sub-sector that are listed on the Indonesia Stock Exchange. The results of the partial hypothesis test show that the variable X 2 (Firm Size). This variable has a t-count of -1.425 which is smaller than the t-table value of 2.080 ($-1.425 < 2.080$) or the value of firm size whose significance is 0.169 which is greater than the alpha of 0.05. This means that the variable X 2 Firm Size (Firm Size) has no partial effect on the Capital Structure (DER), because it has a firm size value of greater significance than alpha, while a variable can be said to have a positive and significant effect, namely by having a higher firm size value. smaller than alpha. The results of this study are in line with research conducted by (Sari & Oetomo, 2016) which found that partially the size of the company has a positive and insignificant effect on capital structure.

Size variable has a partially significant effect on the capital structure (DER) is not proven true. So testing the hypothesis regarding the effect of firm size on the capital structure (DER) got the final result, namely H2 in this study was rejected.

3. Effect of Profitability (Return on Assets) and Firm Size (Firm Size) on Capital Structure simultaneously

The results obtained regarding the effect of profitability and firm size on the capital structure of manufacturing companies in the pharmaceutical subsector simultaneously are: shows that there is no effect between profitability (Return on Assets) and Firm Size (Firm Size) on the capital structure (Ping & Shieunt-Han, 2021). This is evidenced by the calculated F value of 3.375 which is greater than the F table value of 3.26 and the significance level of 0.054 is smaller than 0.10 ($0.054 < 0.10$) which means it has a simultaneous influence on the capital structure of the Manufacturing Company. The Pharmaceutical Subsector on the Indonesia Stock Exchange for the 2017-2019 period simultaneously (Saputri et al., 2020).

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The hypothesis which states that the profitability variable (Return on Assets) and firm size (Firm Size) have a simultaneous effect on the Capital Structure is proven to be true. So, testing the hypothesis about the effect of profitability (Return On Assets) and firm size (Firm Size) on the capital structure (DER) to get the final result, namely H3 in this study is accepted. So it can be concluded that profitability (Return On Assets) and firm size (Firm Size) simultaneously affect the capital structure.

This is because the variables of profitability (ROA) and firm size (Firm Size) are factors that can be used as a basis for making investment decisions, if each of these variables increases, it can reflect a good capital structure, and vice versa.

Conclusion

Based on the results of the research and discussion that have been stated previously, conclusions can be drawn from research on the Effect of Profitability and Company Size on Capital Structure in Manufacturing Companies in the Pharmaceutical Subsector on the Indonesia Stock Exchange in 2017-2019 as follows Partially, the Profitability (Return On Assets) (X1) variable has a significant effect on the Capital Structure (DER) (Y) of Manufacturing Companies in the Pharmaceutical Subsector on the Indonesia Stock Exchange in 2017-2019. Partially, the Firm Size (X2) variable has no significant effect on the Capital Structure (DER) (Y) of the Pharmaceutical Subsector Manufacturing Companies on the Indonesia Stock Exchange in 2017-2019. Simultaneously, the variables of Profitability (Return On Assets) and Firm Size (Firm Size) have a significant effect on the Capital Structure (DER) of Manufacturing Companies in the Pharmaceutical Subsector on the Indonesia Stock Exchange. Based on the coefficient of determination test (R²), it can be concluded that Profitability (Return On Assets) and Firm Size (Firm Size) simultaneously on the Capital Structure

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