Analysis of Capital Structure and Debt Ratio to Company Financial Performance

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ABSTRACT

Sources of funding that can be used by companies include equity and debt. Companies that have high leverage in their capital structure may be more vulnerable to financial problems if interest rates rise or if company revenues decline. The purpose of this study is to analyze the effect of capital structure and debt ratio on financial performance in food and beverage companies listed on the IDX in 2019-2023. The method used in this study is a quantitative method. The analysis technique is multiple linear regression with the help of SPSS version 29. Sampling in this study used purposive sampling of 26 companies in the 2019-2023 period and produced 130 observation data. The results of this study are that Debt toEquity Ratio (DER) partially has a positive and significant effect on financial performance (ROA), Long Term to Debt Equity Ratio (LTDER) partially has a positive and significant effect on financial performance (ROA), and Debt to Assets Ratio (DAR) partially has a negative and insignificant effect on financial performance (ROA).

***Keywords**: Capital Structure, Debt Ratio, ROA, Financial Performance*

ABSTRAK

Sumber pendanaan yang dapat digunakan perusahaan, diantaranya ekuitas dan hutang. Perusahaan yang memiliki leverage yang tinggi dalam struktur modalnya mungkin lebih rentan terhadap masalah keuangan jika terdapat suku bunga naik atau jika pendapatan perusahaan menurun. Tujuan dari penelitian untuk menganalisis pengaruh antara struktur modal dan rasio hutang terhadap kinerja keuangan pada perusahaan makanan dan minuman yang terdaftar di BEI tahun 2019-2023. Metode yang digunakan dalam penelitian ini adalah metode kuantitatif. Teknik analisis yang regresi linear berganda dengan bantuan SPSS versi 29. Pengambilan sampel dalam penelitian ini menggunakan purposive sampling sebanyak 26 perusahaan pada periode 2019-2023 dan menghasilkan 130 data observasi. Hasil dari penelitian ini adalah Debt to Equity Ratio (DER) secara parsial berpengaruh positif dan signifikan terhadap kinerja keuangan (ROA), Long Term to Debt Equity Ratio (LTDER) secara parsial berpengaruh positif dan signifikan terhadap kinerja keuangan (ROA), dan Debt to Assets Ratio (DAR) parsial berpengaruh negatif dan tidak signifikan terhadap kinerja keuangan (ROA).

***Kata kunci**: Struktur Modal, Rasio Utang, ROA, Kinerja Keuangan*

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INTRODUCTION

In this era of globalization, food and beverage companies are one of the most vital, dynamic, and competitive sectors in a country, including in Indonesia. This industry has a variety of products and services that are a place for consumers to fulfill various tastes and preferences (Din et al., 2022; Pudjianto et al., 2023). Food and beverage companies can also make a significant contribution to national economic growth and overall national development where investors, analysts, and regulators monitor the performance of this industry. Along with economic development and increasing population growth and changes in people's lifestyles, there has been an increase in consumer purchasing power demand for food and beverage products continuously. To meet consumer demand and in facing the challenges in this industry, namely increasingly tight business competition, food and beverage companies must have a strategy in managing the right finances to improve the company's financial performance. An important financial strategy to be carried out is to pay attention to the level of capital structure related to the use of internal funding sources and external funding sources to finance the company's operational activities and the level of debt ratio, both of which can be used as indicators of the company's financial performance (Khotimah & Harahap, 2024). Financial performance is a view used to analyze the company's financial condition. One way for management to assess financial performance is to fulfill shareholder obligations and to achieve company goals (Harsono & Pamungkas, 2020; Iswandi, 2022). Financial performance can be said to be good if it shows that the company manages finances well and is able to generate profits for investors (Putri, 2020; Arsita, 2020).

Capital structure is a component of capital used by the company to fund operational activities. Capital structure is an important factor for investors in considering an investment because of the relationship between risk and income received (Murniati, 2016; Yuliani, 2021; Munjiah & Rifa'i, 2024). In carrying out operational activities, food and beverage companies require sufficient capital to fund their various business activities. Sources of capital that the company can use include equity and debt (Al Ashry & Fitra, 2019; Inayah 2022). Companies that have a high leverage component in their capital structure may be more vulnerable to financial problems if interest rates rise or if the company's income decreases. On the other hand, companies that have a high component of their own capital (equity) are likely to be more resistant to financial problems and may have limited growth opportunities (Anggraini & Sa'diyah, 2023; Reski & Masdupi, 2024). The explanation of the background above, there are research problem formulations including: a) does the Debt-to-Equity Ratio (DER) have a significant effect on financial performance, namely Return on Asset (ROA)? b) does the Long-Term Debt to Equity Ratio (LTDER) have a significant effect on financial performance, namely Return on Asset (ROA)? c) does the Debt to Asset Ratio (DAR) have a significant effect on financial performance, namely Return on Asset (ROA)? The study entitled Analysis of Capital Structure and Debt Ratio to Financial Performance in Food and Beverage Companies Listed on the IDX is important to conduct because there is inconsistency in several previous studies, resulting in inaccurate research results and conclusions regarding whether or not it has a significant effect on financial performance. Therefore, this study was conducted in order to produce important findings that are accurate and useful for the development of science.

This study aims to analyze the effect of capital structure and debt ratio on financial performance in food and beverage manufacturing companies listed on the IDX in 2019-2023. There are several previous studies on research results, including research conducted by Khotimah & Harahap (2024), proving that the capital structure measured using DER has a negative and significant effect on financial performance. Meanwhile, research conducted by Rahman (2020); Arifin (2021), explains that the capital structure measured using DER has a positive and significant effect on financial performance. Research conducted by Azis et al. (2017); Amalia & Khuzaini (2021), proves that the capital structure measured using LTDER has no effect on financial performance. Meanwhile, research conducted by Harsono & Pamungkas (2020), shows that the capital structure

measured using LTDER has a negative effect on financial performance. Furthermore, research conducted by Ritonga et al. (2021), proves that the debt ratio measured using DAR has a positive and significant effect on financial performance. Meanwhile, research conducted by Mawarsih et al. (2020), shows that the debt ratio measured using DAR has a negative and significant effect on financial performance. This study is expected to provide useful contributions for experts in the field of corporate finance in formulating more effective financial strategies, especially in food and beverage companies. This study is also expected to help investors in making more appropriate investment decisions in the food and beverage sector. In addition, this study can be used as input for policy makers in formulating regulations that can provide growth and stability for food and beverage companies in Indonesia. Then, for researchers it can be used as a reference for further research.

LITERATURE REVIEW

The trade-off theory explains that the capital structure at an optimal level can be obtained by aligning tax incentives and the costs of financial distress caused by additional money so that the costs and benefits of additional debt will be a burden on each other. There is an aim to explain the fact that companies can be financed with a combination of partly with debt and partly with their own capital (equity). This states that there are advantages to financing with debt, namely savings on taxes that must be compared to the bankruptcy costs of the company's debt (Megawati et al., 2021). The Trade Off theory assumes that the capital structure of a company financed with debt can provide benefits in improving company performance, but does not exceed the optimal point of the company's debt so that there is no decline in company performance (Haryono et al., 2017). This theory also describes that there is a sacrifice made to get something else such as losing cash flow used to pay for costs arising from debt financing. Conversely, the benefits of debt financing are something that is obtained or that can be exchanged for the sacrifice. The Trade Off Theory states that there is a relationship between capital structure and company value that has an optimal level of leverage (Umdiana & Claudia, 2020). According to this theory, the optimal capital structure is achieved if the present value of the debt tax shield is the same as the present value of the debt bankruptcy. In terms of the use of debt in the form of a tax shield and the cost of using this debt, there are benefits such as debt interest expenses, bankruptcy costs, and agency costs (Azis et al., 2017).

Therefore, the existence of debt financing has greater benefits than the costs incurred. Companies that have higher leverage in their capital structure will produce higher company performance. Based on the Pecking Order theory, the main source of company capital must first come from sufficient business results to finance the profitable investment project, so the company can increase its capital by seeking funds from debt and then from its own capital or equity. In the Pecking Order model, it is argued that this theory exists because there is information asymmetry regarding the use of external funds between company management and shareholders towards the company (Ahmad & Pongoliu, 2021). Therefore, the emergence of a hierarchical structure of corporate funding from internal to external starting from funds sourced from retained earnings which have low information asymmetry costs, then followed by debt, and finally arriving at external funding sources, namely equity or own capital which has high information asymmetry costs. This Pecking Order Theory is consistent with the goal, so that managers are able to increase the prosperity of the company's shareholders. The Pecking Order Theory also assumes that companies tend to use internal funding sources to fund the company's operational activities which can seek to improve the company's capital structure (Azis et al., 2017). If internal funding sources are greater, the company will use them to pay off the company's debt or invest in securities. Conversely, the company will reduce its cash balance or sell securities if the company experiences a deficit (Anwar, 2019).

The company's financial performance is information about the company's financial condition that can be assessed as healthy or conversely the financial condition of a company that can indicate a work achievement in a certain period (Husaeni, 2018;

Ferriswara et al., 2022). In this study, the Return on Assets financial ratio will be used to measure a company's ability to make a profit by utilizing the total assets owned, where the greater the Return on Assets (ROA) value means the company's performance can be said to be better in making a profit (Sanjaya & Sipahutar, 2019; Mawarsih et al., 2020). Capital structure is a comparison of equity with the use of borrowed capital (debt) where it can be said that the capital structure owned by a company is optimal, which can be seen from how much equity and debt are used (Ritonga et al., 2021). In this study, two indicators will be used, namely Debt to Equity Ratio (DER), which is a ratio used to measure the level of a company using debt compared to equity. The higher the total Debt to Equity Ratio (DER), the greater the company's debt compared to its own capital (equity) and the LongTerm Debt to Equity Ratio (LTDER) theory, is a ratio that measures the level of use of the company's long-term debt with the company's own capital (equity). The debt ratio (leverage ratio) is a financial ratio used to measure the company's debt component compared to its own capital (equity) or total assets. A high debt to equity ratio can be said that the company has excessive leverage and may be at risk of financial difficulties. On the other hand, a high debt to equity ratio can indicate the company's ability to pay its debt obligations. In this study, the measuring instrument used for the debt ratio is the Debt to Asset Ratio (DAR). Debt to Asset Ratio (DAR) is a ratio used to measure the level of the company's assets financed by the company's debt. The greater the total Debt to Asset Ratio (DAR), the greater the company's debt compared to its total assets.

Capital structure is a combination of a company's long-term funding sources in financing its operational activities, consisting of equity and foreign capital (debt). In the capital structure, the higher the level of use of equity, the higher the company's financial performance. Conversely, the higher the level of use of foreign capital (debt), the lower the company's financial performance.

H1: Capital structure has significant effect on financial performance.

The debt ratio is a financial ratio used to measure the level of debt use in carrying out the company's operational activities. If the debt ratio is optimal, it can improve the company's financial performance, while too high a debt ratio can reduce the company's net profit which has a negative impact on the company's financial performance.

H2: The debt ratio has significant effect on financial performance.

METHODS

The type of research in this study was conducted quantitatively based on theory testing by measuring research variables numerically and analyzing data statistically. This study uses secondary data in the form of figures in the financial statements of food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. This study uses the financial statements of companies that are available on the Indonesia Stock Exchange (IDX) by visiting the IDX (Indonesian Stock Exchange) website at https://www.idx.co.id/ and the websites of companies included in the sample criteria. The expected results of this study are to identify the influence between independent variables on dependent variables. The population in this study was taken from all food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The number of companies listed was 95 companies. In this study, the sampling technique used purposive sampling by setting sample criteria or requirements, including: a) food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) consistently from 2019-2023, b) companies that consistently publish financial reports for five years, namely 2019, 2020, 2021, 2022, and 2023, c) companies that have positive net profit for five consecutive years, namely 2019, 2021, 2022, and 2023. In this study, there were 26 companies as samples. The analysis techniques used include: a) descriptive statistical analysis, consisting of the name of the variable studied, average

(mean), standard deviation (standard deviation), maximum and minimum. b) classical assumption test, namely normality test, multicollinearity test. c) multiple regression analysis. d) hypothesis test, namely the coefficient of determination (R2) and T test.

RESULTS

Descriptive statistical analysis can be used to test data by identifying the observed data. The variables used in this study include independent variables, namely capital structure (DER & LTDER), debt ratio (DAR) and dependent variables, namely financial performance (Return on Assets).

Table 1. Descriptive Statistics

	DER	LTDER	DAR	ROA
Mean	1.0306	0.4215	0.3967	0.0916
Maximum	15.29	4.76	0.87	0.41
Minimum	0.10	0.00	0.09	0.00
Std. Dev.	1.83545	0.63988	0.18215	0.06412
Observations	130	130	130	130

Descriptive statistical analysis testing in Table 1 above proves that the number of observation data obtained is 130 data obtained from food and beverage manufacturing companies for the period 2019 to 2023. Table 1 also illustrates that. The capital structure variable (DER) has a minimum value of 0.10 and a maximum value of 15.29 with an average value (mean) of 1.0306 and a standard deviation value of 1.83545. The minimum value of the capital structure variable (LTDER) was obtained at 0.00 and a maximum value of 4.76 with an average value of 0.4215 and a standard deviation value of 0.63988. The debt ratio variable (DAR) has a minimum value of 0.09 and a maximum value of 0.87 with an average value of 0.3967 and a standard deviation value of 0.18215. d) The financial performance variable (ROA) has a minimum value of 0.00 and a maximum value of 0.41, with an average value of 0.0916 and a standard deviation value of 0.06412. The classical assumption test aims to test whether a model is included in the feasible category or not for use in research (Hasibuan et al., 2023). The testing method of the classical assumption test used is as follows. This normality test is conducted to test whether the data approaches a normal distribution. If the significance or probability value is > α = 0.05, it means that the data can be said to be normally distributed.

Table 2. Normality Test

N			**130**
Normal Parameters [a,b]	Mean		0.0000000
	Std. Deviation		0.05487317
Most Extreme Differences	Absolute		0.074
	Positive		0.074
	Negative		-0.056
Test Statistic			0.074
Asymp. Sig. (2-tailed) [c]			0.081
Monte Carlo Sig. (2-tailed) [d]	Sig.		0.087
	99% Confidence Interval	Lower Bound	0.079
		Upper Bound	0.094

The results of the normality test in Table 2 above prove that the residual value obtained a significance value of 0.81 > 0.05, which means that it can be identified that this regression model is normally distributed. The multicollinearity test is used to test the correlation coefficient between independent variables, namely by knowing the VIF (Variance Inflation Factor) value and the TOL (Tolerance) value where if the VIF value is more than 10.00 and the TOL value is less than 0.10, it means that multicollinearity occurs (Romadhoni & Hadi Sunaryo, 2017).

Table 3. Multicollinearity Test

Variable	Collinearity Tolerance	Statistics VIF
DER	0.155	6.432
LTDER	0.134	7.438
DAR	0.691	1.447

The results of the multicollinearity test in table 3 above prove that the independent variables DER, LTDER, and DAR each have tolerance values of 0.155; 0.134; and 0.691 which are more than 0.10. Meanwhile, the VIF values of the independent variables DER, LTDER, and DAR are 6.432; 7.438; and 1.447 which are less than 10.00. This means that the regression equation being tested does not experience multicollinearity. This heteroscedasticity test aims to see whether, in the regression model, there is an inequality in the variance of the residuals from one observation to another (Amalia & Khuzaini, 2021).

Table 4. Heteroscedasticity Test

			Un-std Coefficients		Std Coefficients		
Before	**Model**		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
	1	(Constant)	0.026	0.007		3.498	<.001
		DER	0.018	0.004	0.930	4.549	<.001
		LTDER	-0.065	0.013	-1.143	-5.201	<.001
		DAR	0.060	0.019	0.298	3.075	.003
After	1	(Constant)	0.468	0.123		3.804	<.001
		DER	0.074	0.094	0.181	0.781	0.436
		LTDER	-0.070	0.049	-0.236	-1.424	0.157
		DAR	0.082	0.134	0.118	0.607	.0545

The results of the heteroscedasticity test above, the previous significance value was obtained at 0.001 for the DER variable, 0.001 for the LTDER variable, and 0.003 for the DAR variable. The significance value of the three independent (free) variables showed that they were smaller than the value of $\alpha = 0.05$ so that overall, there were symptoms of heteroscedasticity. However, after being treated, the significance value was obtained at 0.436 for the DER variable; 0.157 for the LTDER variable; and 0.545 for the DAR variable. The significance value of the three independent (free) variables showed that they were greater than the value of $\alpha = 0.05$ so overall, there were no symptoms of heteroscedasticity

The autocorrelation test aims to assess whether there is a correlation between members of a series in observations that can be described according to time (time-series) or space (cross section) (Suliyanto, 2011) in (Amalia & Khuzaini, 2021). The results of the autocorrelation test using the Durbin-Watson method can be proven in Table 5 as follows.

Table 5. Autocorrelation Test

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.517[a]	0.268	0.250	0.05552	1.847

The results of the autocorrelation test in table 6 above, it shows the value of Durbin Watson of 1.847, then the DW value will be compared with the value of the 5% significant table, the number of samples is 130 and the number of independent variables is 3 (K = 3), then the value of dU = 1.7610 is obtained. The DW value of 1.847 is greater than the upper limit value (dU), which is 1.7610, and less than (4 - dU) = 4 - 1.7610 = 2.239. This indicates that the processed data does not occur or experience autocorrelation because the value is between <2 to> 2.

Multiple linear regression analysis aims to test the relationship of the influence of independent variables consisting of two or more on the dependent variable. In this study, the influence of capital structure and debt ratio on financial performance will be examined.

Table 6. Multiple Linear Regression Analysis

Unstandardized Coefficients			Standardized Coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	0.113	0.012		9.260	<.001
DER	0.030	0.007	0.866	4.480	<.001
LTDER	-0.115	0.021	-1.152	-5.542	<.001
DAR	-0.009	0.032	-0.026	-0.288	0.773

The constant value of 0.113 means that if X1 (DER), X2 (LTDER), and X3 (DAR) are considered constant or zero, then Y (ROA) is 0.113. The regression coefficient of variable X1 (DER) is 0.030, meaning that if the DER variable experiences an increase of 1 unit, then ROA (Y) will increase by 0.030, assuming that other variables are constant. The magnitude of the change given is determined by the magnitude of the positive or negative regression coefficient value, if the greater the value of the regression coefficient, the greater the change and vice versa. The regression coefficient of variable X2 (LTDER) is -0.115, meaning that if the DER variable experiences an increase of 1 unit, then ROA (Y) will decrease by 0.115, assuming that other variables are constant. The magnitude of the change given is determined by the magnitude of the positive or negative regression coefficient value, if the greater the value of the regression coefficient, the greater the change and vice versa. The regression coefficient of variable X3 (DAR) is -0.009, meaning that if the DAR variable experiences an increase of 1 unit, then ROA (Y) experiences a decrease of 0.009 assuming other variables are constant. The magnitude of the change given is determined by the magnitude of the positive or negative regression coefficient value, if the greater the value of the regression coefficient, the greater the change and vice versa.

The coefficient of determination (R2) is used to describe the coefficient of variation of independent variables that can explain the variation of dependent variables. If the R2 value (coefficient of determination) almost reaches a value of 1, it means that the dependent variable, namely financial performance, is getting better. The results of the coefficient of determination test can be seen in table 7 as follows.

Table 7. Test of Determination Coefficient

R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
0.517[a]	0.268	0.250	0.05552

The results of the determination coefficient test in Table 7 show an R-value of 0.517. This means that the correlation between capital structure variables (DER, LTDER), and debt ratio (DAR) is said to be quite strong. With an Adjusted R Square value of 0.250 or 25% which proves that the financial performance variable (ROA) can be influenced by capital structure variables (DER, LTDER), and debt ratio (DAR) by 25% while the remaining 75% is explained or influenced by other variables outside the model.

The partial test or t-test is used to test the significance of the relationship or influence of each independent variable (free variable) on the dependent variable arranged in the model. To determine the influence or vice versa between the independent variable and the dependent variable, it can be seen from the significance value of the 0.05 level (a = 5%) (Amalia & Khuzaini, 2021). The results of the t-test can be proven in Table 8 as follows.

Table 8. Partial Test

		Un-std Coefficients		Std Coefficients		
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	0.113	0.012		9.260	<0.001
	DER	0.030	0.007	0.866	4.480	<0.001
	LTDER	-0.115	0.021	-1.152	-5.542	<0.001
	DAR	-0.009	0.032	-0.026	-0.288	0.773

The results of the t-test in table 8, can be interpreted as the results of the partial test, namely the t-value for the capital structure variable (DER) of 4.480. Furthermore, the significance value of the capital structure variable (DER) is 0.001 or 0.001 <0.05, indicating that the capital structure (DER) has a positive and significant effect on financial performance (ROA). The t-value for the capital structure variable (LTDER) is -5.542. Furthermore, the significance value of the capital structure variable (LTDER) is 0.001 or 0.001 <0.05, it can be said that the capital structure (LTDER) has a positive and significant effect on financial performance (ROA). The t-value for the debt ratio variable (DAR) is -0.288. Furthermore, the significance value of the debt ratio variable (DAR) is 0.001 or 0.773> 0.05, this means that the debt ratio (DAR) has a negative and insignificant effect on financial performance (ROA).

The descriptive results of the Effect of Capital Structure on the Financial Performance of Food and Beverage Companies Listed on the IDX in 2019-2023 show that the DER ratio has the lowest value of 0.10. While the highest value is 15.29. The average DER and its standard deviation are 1.0306 and 1.83545, respectively. The regression results show that DER has a positive and significant effect on financial performance (ROA). A positive t value indicates that the higher the DER value, the higher the financial performance (ROA) value, meaning that it has a direct relationship with financial performance. In other words, the more effective the company is in financing its operations by using more debt (high DER), the higher its profit and profitability (ROA) will be. Furthermore, the descriptive results show that the LTDER ratio has the lowest value of 0.00. While the highest value is 4.76. The average (mean) LTDER value and its standard deviation are 0.4215 and 0.63988, respectively. The regression results show that LT DER has a significant positive effect on financial performance (ROA). The negative t value proves that the higher the LTDER value, the lower the financial performance (ROA) value, meaning that there is a relationship that is not in the same direction as financial performance. It can be said that the more companies use long-term debt, the financial risk can increase.

The descriptive results of the Influence of Debt Ratio on the Financial Performance of Food and Beverage Companies Listed on the IDX in 2019-2023 show that the DAR ratio has the lowest value of 0.09. While the highest value is 0.87. The average DAR and its standard deviation are 0.3967 and 0.18215, respectively. The regression results show that DAR has a negative and insignificant effect on financial performance (ROA). A positive t value indicates that the higher the DAR value, the higher the risk of default on the company's debt, meaning that DAR has a direct relationship with financial performance. In other words, companies can assess the balance between equity and loan capital if they know the proportion of the company's debt and assets.

CONCLUSION

Give your comment here as a closing statement. This can be the conclusion that the Debt-to-Equity Ratio (DER) partially has a significant and positive effect on financial performance (ROA). Long Term to Debt Equity Ratio (LTDER) partially has a significant and positive effect on financial performance (ROA). Debt to Assets Ratio (DAR) partially has a negative and insignificant effect on financial performance (ROA). Companies should pay attention to the amount of debt with the company's total assets in order to improve good financial performance and reduce the impact of suboptimal debt use. Further researchers are expected to select a large number of company samples in order to obtain research results that can provide the expected impact. Further researchers are expected to add alternative variables other than those in this study that can more strongly influence the company's value to be more optimal in refining further research.

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