THE INFLUENCE OF COMPANY SIZE AND COMPANY GROWTH ON STUDY CAPITAL STRUCTURE IN MULTINATIONAL COMPANIES IN THE CONSUMPTION GOODS INDUSTRY

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Abstract

Capital structure is a balance between long-term debt and own capital, where capital structure is part of the financial structure. The existence of factors that influence capital structure is important as a basis for determining the composition of a company's optimal capital structure. The aim of this research is to determine or analyze the influence of company size and company growth on the capital structure of multinational consumer goods companies recorded on the IDX for the 2018-2022 period. The population in this study was 19 companies with 95 observations. Data analysis used in this research uses a method consisting of classical assumption tests, hypothesis tests and partial tests. The research results show that partially the company size variable has a positive and insignificant effect on capital structure. Meanwhile, the company growth variable has a negative and insignificant effect on capital structure.

Key words: *capital structure, company size, company growth*

INTRODUCTION

In facing the challenges of increasingly complex globalization and growing economic dynamics, multinational companies, especially those operating in the consumer goods industry sector, encounter various complexities in the management of their financial resources. This phenomenon not only creates operational challenges, but also raises fundamental questions about the relationship between company size, company growth, and capital structure policies of multinational companies in the context of a dynamic consumer goods sector. In addition, companies in the consumer goods industry also tend to have relatively high levels of debt. This may be caused by a strategy to utilize leverage to increase company profits. With low loan interest for a certain period, companies can take advantage of this opportunity to increase their business expansion. However, the impact of this high capital structure can also increase the company's financial risk, especially in unstable market conditions. In times of inflation or rising interest rates, the interest expenses that companies have to pay may increase, affecting their profitability. Research conducted by the Corporate Finance Institute reveals that the consumer goods industry tends to have a unique capital structure compared to other sectors. Most companies in this industry prefer to use a combination of own capital and loans rather than relying completely on one source of funding.

This may be due to the need to expand production capacity and meet fluctuating demand from the consumer market (http://www.corporatefinanceinstitute.com, accessed January 16, 2023). Several studies have found that company size has a positive influence on capital structure (Astakoni, 2020), while research conducted by Taufik (2022) shows that company size has no impact on the company's capital structure. Meanwhile, Astakoni (2020) found a significant positive influence of company size on capital structure, while Tufik (2022) found a negative influence. while research conducted by (Pratiwi et al., 2020; Yunita et al., 2019; , Mulya et al., 2022), stated that company growth has a positive influence on capital structure. This means that companies that experiencing rapid growth tend to use more debt compared to companies experiencing slow growth. Based on the background of the problems and phenomena above, it appears that there is a gap between company size and company growth regarding capital structure. Thus, company size and company growth will have an impact on capital structure.

LITERATURE REVIEW

Trade-Off Theory

Trade-off theory is one of the capital structure theories pioneered by Modigliani and Miller which was called MM theory in 1958. MM theory explains that company value will be maximum ifthe company uses 100% debt and the proportion of debt is increasing will get better (Mutamimah and Rita, 2009). However, in practice 100% use of debt is difficult to find and this is subject to trade-offs theory. In reality, the bigger the debt, the higher the burdenborne by the company due to fixed costs and bankruptcy costs. Trade-off theory explains how companies can achieve the ideal level of capital structure. This theory states that the benefits and sacrifices resulting from the use of debt must be balanced (Nirmala et al, 2016).

Trade off theory in determining the optimal capital structure determines several factors, including: financial distress, agency costs, and taxes. but must maintain the assumptions of market efficiency and symmetric information as considerations and benefits of using debt. The optimal debt level is achieved when the tax shields (tax savings) have reached the maximum amount against the costs of financial difficulties. According to the trade-off theory expressed by Myers (2001), businesses will be indebted to a certain level, and the tax savings from additional debt are equal to the costs of financial distress.

Capital Structure

Capital structure is a balance between foreign capital and capital Alone. In this case, foreign capital is long-term debt and debt short-term. Meanwhile, capital itself is divided into retained earnings and investments company ownership. The capital structure of a company refers to the method the company finances its assets through a combination of equity and debt. This is an important aspect of financial management because it impacts risk, value, and company performance (Sastra, 2019).

Firm Size

A company is a place where people carry out process activities continuous production of goods and services with the aim of obtaining profit or money. One way to find out how big the company has grown is by looking at its size. The company that Large-scale and smaller-scale companies differ in some ways the ability to obtain funds or capital. Large scale company usually more flexible in terms of funding through the capital market, so they find it easier to obtain funds and have sufficient sources of capital more diverse. Costs associated with additional debt and equity also related to company size. Small companies tend to pay the cost of own capital and long-term debt is more expensive than the company big. Due to its lower costs, small companies may prefer it borrowing short-term debt rather than long-term debt.

Firm Growth

The company's ability to get bigger is what called company growth. How far a company goes into in the economic system as a whole or the economic system for industry the same thing, is called growth, according to Machfoedz (2007). Because The company's growth shows the development of many internal parties and externally expect company growth. If a company growing, it shows that the company has features that profitable, because it is considered capable of generating more profits big over time.

METHOD

This research was conducted in the consumer goods sector which has been listed on the Indonesia Stock Exchange (IDX) accessed through the official site www.idx.co.id. The research objects studied are company size and company growth in capital structure. Population used in this research are all consumer goods companies registered in the Indonesian Stock Exchange (IDX), namely 19 companies. Technique sampling using the census method is a sampling technique involving all members of the population. The data analysis method that will be used in this research is Panel Data Regression Analysis. Data analysis used in this research uses a method consisting of classical assumption tests, hypothesis tests and partial tests. This research was processed using eviews version 9 with the following regression equation:

$$Yit = þ0 - +þ1X1_{it} + þ2X2_{it} + v_{it}$$

RESULTS AND DISCUSSION

Results

Partial regression test is used to examine the extent to which the independent variables used in the study individually explain the dependent variable partially. According to Ghozali (2018), the basis for decision-making in partial regression test is when the significant value is less than 0.05 and the t-value is greater than the t-table value. It can be concluded that the independent variable partially influences the dependent variable. The results of the partial regression test in this study are as follows in the table below:

Tabel 1 Results of Partial Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.604636	0.205488	2.942444	0.0041
UP	0.146234	0.085322	1.713913	0.0899
PP	-0.064341	0.268846	-0.239323	0.8114

Source: Eviews Output 9 (2024)

Based on the partial regression test (t-test) results in Table 1 above, the obtained results for the multiple linear regression equation in this study are as follows:

$$SM_{it} = 0.604636 + 0.146234UP_{it} -0.064341PP_{it}$$

Based on the results of the regression equation above, the following results were obtained:

1. The company size variable has a coefficient value of 0.146234, which shows that every increase of 1 unit will increase the capital structure variable by 14.62%.
2. The company growth coefficient value -0.064341 indicates that every 1 unit increase in the company growth variable will reduce the capital structure variable by -6.4%.

The results of the regression equation above show that the company size variable has an effect on capital structure but with a low level of coefficient. This can be caused by errors in returning funding decisions, company management is unable to manage the company's capital structure optimally. This indicates that if the size of the company increases, the capital structure will also decrease. Based on the partial regression test results (t-test) in Table 1 above, the following results are obtained:

1. It can be seen from the data obtained that the firm size variable has a statistical t value of 1.713913, meaning that firm size has a positive and insignificant effect on capital structure. It can be seen from the probability value of 0.0899 > 0.05. Therefore, the hypothesis stating that firm size has a positive and significant effect on capital structure is rejected (H1 is rejected).
2. company growth variable has a t value of -0.239323, meaning that company growth has a negative effect and not significant to capital structure. This can be seen from the probability value 0.8114 > 0.05. Therefore the hypothesis states that the company's growth positive and significant effect on capital structure is rejected (H2 is rejected).

Discussion

The Influence Of Company Size On Capital Structure

Based on the results of the research conducted, it is known that the company size variable has a the significant value is greater than the significance level used and the coefficient obtained positive value. Thus, it can be concluded that company size has a positive and insignificant influence on the capital structure variable. Therefore, the hypothesis which states that company size has a the positive and significant influence on capital structure in multinational companies in the consumer goods sector is rejected (H1 is rejected). The findings of this study are consistent with previous research conducted by Astakoni. (2020) and research conducted by Stevany. (2018), who found that company size has a positive and insignificant effect on capital structure.

The Influence Of Company Growth On Capital Structure

Based on the results of the research conducted, it is known that the company growth variable has a significant value greater than the significance level used and obtains the coefficient negative value. Therefore, it can be concluded that company growth has a negative and insignificant effect on capital structure. Therefore, the hypothesis stating that company growth has a positive and significant effect on capital structure is rejected (H2 is rejected). This shows that it is getting bigger an increase in asset growth will reduce the capital structure. The faster the company's growth, which is reflected in the assets owned by the company, the greater the profits the company will obtain whether it comes from investment activities carried out by investors or comes from operational profits obtained by the company using that profitability rather than having to add levels debt. The higher the asset growth value, the lower the structure capital in the company. This condition shows that there is no asset growth followed by an increase in profits will not have an impact on the capital structure company. The findings of this research are consistent with previous research conducted by Shabira et al., 2020) and Widodo, et al (2018) which stated Company growth does not have a negative and significant effect on capital structure.

CLOSING

Conclusion

The research results show that company size positive and insignificant effect on capital structure. while the company growth variable has a negative and insignificant effect on capital structure.

Suggestions

For Companies periodically evaluate company size and growth company to understand its impact on capital structure company. Make sure to optimize the capital structure accordingly with the needs and conditions of the company. Pay attention to capital market access and higher debt absorption capacity owned by large companies to reduce dependence on capital equity. Conduct a thorough business risk analysis and consider its influence on the company's capital structure. Strive to manage business risks well so that they do not have a negative impact on capital structure.

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