Company Type, Asset Structure and Capital Structure Listed on LQ-45 Index

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This study aims to determine the relationship between company type, asset structure and capital structure for companies listed in the LQ-45 index on the Indonesia Stock Exchange (IDX) for the period 2014–16. The relationship between property and asset structure, and capital structure, is determined using multiple linear regression. Hypothesis testing uses SPSS21. The results show that SOEs have a significant effect on capital structure and that asset structure also has a significant effect on capital structure. The results of the study provide evidence related to the company's capital structure so that it can be used as a basis for investors and management when making decisions.

Keywords: *Company type, Asset structure, Profitability, Company size, Liquidity, Capital structure*

Introduction

The development of companies in the current era of globalisation has become more stringent. The development itself is intended to anticipate fierce competition that occurs in both large and small companies. Indonesia is currently making extensive developments in various sectors, especially in the business development sector, where each company is required to be able to carry out its production activities efficiently and effectively if it wants to retain its competitive advantage (Setiawati, 2013).

Several obstacles must be faced by the company in order to increase its value. One is the problem of funding. Funding problems faced by companies include the company's ability to meet its funding needs to carry out operations and develop its business. Funding for a company can be obtained both from internal company funds and external sources. Internal sources refer to profits generated by the company, while external sources include capital that comes from company owners (Riyanto & Nurrohim, 2008).

There are two types of companies in Indonesia: state-owned enterprises (SOEs) and private companies. An SOE is a form of government investment that manages the livelihoods of many people and is defined as a business entity that is wholly or mostly funded by capital owned by the state through direct participation from the separated state assets. The main purpose of a limited liability company (*Persero*) is to pursue profits. Its capital is divided into shares and at least 51% of shares are owned by the state. Extensive research into SOEs has been undertaken in Indonesia (Pradana et al., 2019; Suraatmaja, Hubaib & Muda, 2019; Hamid, 2018; Young, 2017; Lubis, Rustam & Muda, 2017).

Policy-making regarding the company's capital structure needs to consider various factors in order to generate a level of capital structure that can maximise the value of the company. One factor that can affect the capital structure is the asset structure, which is a balance or comparison between fixed and total assets. Asset structure illustrates the amount of assets that can be used as collateral (Brigham & Houston, 2006). Companies with assets that are suitable as collateral for loans tend to use more debt, which means that the higher the structure of the company's assets, the higher the use of liabilities and vice versa. Tangibility is the relative composition of fixed assets owned by the company. The tangibility (asset structure) is an important factor in corporate funding decisions, because tangibles assets act as collateral and provide guarantees for lenders in the event of financial difficulties and also provide a comparison between fixed assets and total assets (Mai, 2006: 232).

Companies that want to achieve optimal conditions need to consider the variables that can affect the company's capital structure. In a study conducted by Alipour et al. (2015), the factors affecting a company's capital structure were shown to be effective tax rates, company size, liquidity, financial flexibility, stock performance, asset structure, growth rates, risks, profitability, asset utilisation and government ownership structure. Research from Kesuma (2009), Wijaya and Hadianto (2014) and Setiawati (2013) revealed that factors affecting capital structure consisted of sales growth, asset structure, profitability, liquidity and company size. Other research states that the factors affecting capital structure are asset structure, company size and profitability (Hadianto, 2010). Meanwhile, according to Prahalathan's (2010) research in Sri Lanka, the factors that influence capital structure consist of leverage ratio, tax size, company size, growth, market conditions and inflation rates.

Based on several previous studies, this research was conducted to examine the relationship between the type of company (SOE) variable and the asset structure, and the company's capital structure. The theory being examined is pecking order theory, which explains the funding hierarchy, which is the sequence of funds that can be used as a preference for meeting the needs of funds by a company.

The research sample comprise companies listed in the LQ-45 index on the Indonesia Stock Exchange (IDX). Companies listed on LQ-45 have good liquidity, so the company is able to properly finance each of its operations based on capital owned. The period 2014–16 was selected because www.kompas.com stated that the performance of SOE companies declined in that period while SOE companies remained the foundation of the government.

The results showed that SOE has a significant relationship with the capital structure of the company. The asset structure was also found to have a significant relationship with the capital structure of companies listed on the LQ-45 Index on the IDX for the period 2014–16. The results of this study have contributed to the development of literature related to the structure of the company model. They can also be used as a basis for companies to be able to evaluate, improve and optimise their capital structure in the future. Investors can also consider their investments by paying attention and analysing the factors that affect their capital structure.

The structure of this paper is as follows: Part 2 presents a literature review and development of hypotheses; Part 3 provides the sample description and research variables; Part 4 focuses on results and discussion; and Part 5 presents the conclusions, limitations and suggestions for further research.

Literature Review
Pecking Order Theory

Pecking order theory was first introduced by Donaldson in 1961. This theory shows that, in the sequence of funding, the company prefers internal financing. It will try to adjust the risk of dividend distribution with investment opportunities faced and not make changes in dividend payments that are too large. Dividend payments tend to be constant and fluctuations in profits obtained result in internal funds sometimes over- or under-investing. If external funding is needed, the company will issue the safest securities first (Myers, 1984).

Myers (1984) states that with asymmetric information, investors will usually interpret bad news if the issuer funds the investment by issuing equity, so that the company's shares will be valued more highly (over-valued) if the issuance of new equity is done by managers. Pecking order theory predicts that external debt funding is based on internal funding deficits. Companies prefer to use internal rather than external funding. Internal funds are obtained from retained earnings generated from the company's operational activities. If external funding is needed, the company will start from the safest securities, namely the debt with the lowest risk, moving down to debt that is riskier, hybrid securities such as convertible bonds, preferred shares and finally ordinary shares (Firnanti, 2011). There is a constant dividend policy, whereby the company will set a constant amount of dividend financing, regardless of

the extent to which the company is profitable or making a loss. This is intended to anticipate cash supply shortages due to a constant dividend policy and fluctuations in profitability and opportunity.

State-Owned Enterprises (SOE)

The type of company used in this research is the state-owned enterprise (SOE), which is a form of government investment that manages the livelihoods of many people and is defined as a business entity that is wholly or mostly owned by the state through direct participation from separated state assets. The main purpose of a limited liability company (*Persero*) is to pursue profits. Its capital is divided into shares. SOE companies consist of various sectors: Accommodation, Food and Beverage; Manufacturing, Information and Telecommunications; Financial and Insurance Services; Professional and Technical Services; Construction; Water and Recycling; Gas and Steam Procurement; Wholesale and Retail Trade; Mining and Quarrying; Forestry Agriculture and Advertising; Real Estate; Transportation and Warehousing; Minority Joint Ventures; and Used.

The mission of SOEs concerns micro and macro aspects. The micro aspect is the creation of value through the steps of restructuring and privatisation, so that at a certain point in time the value of SOEs far exceeds the current value. The macro aspects of SOEs make a major contribution to the state budget in the form of privatisation, dividends and taxes. According to Su (2010), the government has a great influence on the selection of managers of state-owned companies. Thus, companies owned by the government are assumed to be able to control managers and tend to diversify in their use of debt funding.

According to Su, (2010) the government has considerable influence on the selection of managers as managers of state-owned companies. Therefore, companies owned by the government are assumed to be able to control managers and tend to diversify-relate to using debt funding. A company that has a bad capital structure and has a very large debt will put a heavy burden on the company concerned (Bambang, 2011). According to Phung and Le (2013) and Ganguli (2013), company owners have the authority to control operating companies, such as in determining capital policies used by companies, as companies tend to be conservative in forming capital structure. Therefore, companies owned by the state tend to use interest-bearing debt with caution (Garcia-Teruel & Martinez-Solano, 2010). According to Li et al. (2011) and Jamal Abadi et al. (2013), companies controlled by the state tend to have higher debt levels than other companies, while according to Okuda and Nhung (2012), companies controlled by the state have an advantageous position in terms of reducing agency costs accompanying the debt-acquisition process. This is because publicly controlled companies have the privilege of borrowing from state-owned banks, even after companies have been privatised and listed on the stock exchange.

Hypothesis Development
Company Type and Capital Structure

The influence of SOEs with a capital structure is based on previous research (e.g. Farah and Kamida, 2016). The relationship between SOE ownership and capital structure is based on the fact that SOE is basically a source of government revenue to increase the country's foreign exchange. As a government company, it is hoped that the SOE can generate income for the state for development purposes.

With this goal, the government tries to pressure SOE companies to achieve the highest profit, and the profit is sought as retained capital that the government will receive in the form of dividends. When the company needs investment, SOE companies will be encouraged to use funds from debt. The use of investment originating from debt will maximise the retained capital to be distributed in the form of dividends received by the government and at the same time be an additional means of oversight for the director of the SOE. By funding from debt, the creditor will try to oversee the performance of its management. This will bring benefits for the government as well as for shareholders, so the higher the ownership of SOE shares, the greater the debt structure will be. There is thus a positive relationship between government ownership and capital structure. Based on the above research, the following hypothesis can be formulated:

H1: Company type has a relationship with capital structure.

Asset Structure and Capital Structure

Asset structure is an important factor in determining capital structure. Titman and Wessels (1988) state that the structure of assets represents a portion of the amount of assets that can be used as collateral (collateral value of assets). In general, companies that have collateral for debt will be easier to get debt than companies that do not have collateral for debt. The creditor's consideration in terms of providing debt is related to what collateral can be given by the company, because the creditor does not want to be exposed to the risks that the company will later incur. Most of the company's assets are tangible assets, in the form of fixed assets, and have a liquidity value that can be sold. Companies with large fixed assets will easily get debt, because the assets are considered as collateral for creditors by the company. Companies that have a greater proportion of assets make asset valuation easier so that the problem of information asymmetry is lower. Thus, the company can reduce its debt when tangible assets increase (Hadianto, 2010).

Asset structure using a proportion of total fixed assets from total assets will show the company's assets to be valued by interested parties. Hadianto (2010) shows that a large

structure will facilitate the valuation of assets that are easier. However, Wijaya and Hadianto (2014) demonstrate that asset structure has a negative influence, because the company will find it easier to assess its assets so that the information asymmetry problem is lower, reducing the use of debt when the proportion of tangible assets increases. The following hypothesis results:

H2: Asset structure has a relationship with capital structure.

Research Design
Sample and Data Source

This study uses population obtained from all companies listed on the Indonesia Stock Exchange (IDX) for three periods from the years 2014–16. Data were obtained from the company's financial statements registered in LQ-45 2014–16. Sources of research data were obtained from the Indonesia Stock Exchange (IDX) for 2014–16, list of LQ 45 companies.

Operational Definition and Variable Measurement

The dependent variable used in this study is capital structure, which is a comparison between the amount of own capital with capital that comes from an external company or debt. Funding decisions greatly affect the capital structure where the company will use funding from internal and external companies. The capital structure variable in this study is proxied by the debt-to-equity ratio (DER). DER is a ratio used to measure the use of total debt to total shareholder equity.

The independent variables in this study are the type of company and asset structure. SOE variables in this study were measured using the dummy method. The dummy ownership factor consists of dummy coded as 1 for state ownership (state-owned company) and 0 for non-state ownership (Arif & Noer, 2013). The asset structure describes a portion of the amount of assets that can be used as collateral. Brigham and Houston (2006) state that companies with assets that are suitable as collateral for loans tend to use more debt, meaning the higher the structure of the company's assets, the higher the use of liabilities and vice versa. Asset structure variables are proxied by fixed assets ratio (FAR), judged from the total fixed assets compared with total assets.

The control variables are profitability, company size and liquidity. The profitability variable was measured using the ratio of ROA, comparing net income after tax with total assets (Harymawan, Nasih & Noeraini, 2019; Soewarno & Mahrani, 2018; Harymawan, 2017). The size of the company can be determined based on total sales, average sales levels, total assets and average total assets. Company size is measured using the natural logarithm (ln) of total

assets (Widyaningsih et al., 2019; Nantyah & Laila, 2017). In this study, liquidity is calculated by the current ratio (CR) because CR shows the extent to which short-term bills from creditors can be met with assets that are expected to be converted into cash in the near future.

Methodology

This study uses multiple linear regression analysis techniques with the help of SPSS20. It also conducted a classic assumption test consisting of a normality test, a multicollinearity test, a heteroskedasticity test and an autocorrelation test. This regression equation is used to test a hypothesis whose formula is as follows:

$$DER = \alpha + \beta_1 SOE + \beta_2 FAR + \beta_3 SIZE + \beta_4 ROA + \beta_5 CR + e$$

Results and Discussion
Descriptive Statistics

Table 1 shows that N or the amount of data on each valid variable amounted to 87 samples. The average value of DER is 1.167239 and the standard deviation is 0.9630969.

Table 1: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DER	87	0.1331	5.3743	1.167239	.9630969
SOE	87	0	1	.31	.465
FAR	87	0.0165	.6975	.260443	.1837285
SIZE	87	12.9373	14.4181	13.486337	.3421316
ROA	87	0.0113	.4018	.089947	.0710379
CR	87	0.4943	9.7176	2.109497	1.5610859
Valid N (listwise)	87				

Company Type and Capital Structure

Based on Table 2, it can be seen that the value of R^2 is 0.535 or 53.5% and the value of Adjusted R^2 is 0.506 or 50.6%. Because two variables are used, the value used in this research is the Adjusted R^2 value that is equal to 0.506 or 50.6%. The value of 50.6% itself means that the dependent variable of capital structure is explained by 50.6% by the independent variables DOWN and FAR and the control variables ROA, SIZE and CR, while the remaining 0.504 or 50.4% is explained by other variables not examined in this study.

The results of testing the types of company variables on the capital structure in the partial test produce a coefficient value ($\beta 1$) of 0.939 and a significance value of 0.000 at α 5%. The partial test results explain that this type of company has a relationship with the capital structure. Hypothesis 1, which states that the type of company has a capital structure relationship, is therefore accepted. The results of this study support previous research conducted by Farah and Hamidah (2016), which states that SOEs have a significant effect on capital structure.

Table 2: Coefficient of determination

Model	R	R Square	Adjusted R Square
1	.731ᵃ	0.535	0.506

Table 3: Multiple linear regression

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. error	Beta		
(Constant)	8.048	3.014		2.670	0.009
SOE	0.939	0.167	0.454	5.619	0.000
FAR	-2.803	0.498	-0.535	-5.631	0.000
SIZE	-0.471	0.223	-0.167	-2.115	0.037
ROA	2.626	1.300	0.194	2.020	0.047
CR	-0.154	-0.049	-0.250	-3.148	0.002

Based on the above description, it can be concluded that the type of company has a significant relationship with the capital structure, because SOE companies tend to choose funding decisions by fulfilling funds prioritised in internal funding as the main source of funding and if there is a shortage then it will be fulfilled with external funding sources. This is in line with pecking order theory, which explains that the funding decision is one of the financial decisions related to the existence of funds and sources of funds that may be utilised by the company. The company's own funding can be obtained from internal funding sources (internal financing) or from within the company itself, which comes from the company's operations in the form of retained earnings.

Asset Structure and Capital Structure

Testing the asset structure variable on the capital structure in the partial test resulted in a coefficient value ($\beta 2$) of –2.803 and a significance of 0.000 at α 5%. The partial test results explain that asset structure is significantly related to capital structure. Therefore Hypothesis 2, which states that the structure of assets has a relationship with the capital

structure, is accepted. The results of this study support previous research conducted by Hadianto (2010) that asset structure has a significant relationship with capital structure.

It can therefore be interpreted that the asset structure is significantly related to the capital structure. This explains why companies with large asset structures have easier debt procurement because the asset structure can be used as collateral. This accords with pecking order theory, where companies will be more likely to use profits from these conditions by making debt the first alternative to obtain external funds.

The result of the static t test in Table 3 shows that the control variable for company size (SIZE) has a significance value of 0.037. This shows that the firm size control variable (SIZE) is not significant at the 5% level. Furthermore, the firm size control variable (SIZE) has a negative relationship with capital structure. The control variable for profitability (ROA) has a significance value of 0.047. This shows that the profitability control variable (ROA) has a significant relationship at the 5% level. Thus profitability (ROA) has a negative relationship with capital structure. The control variable for liquidity (CR) has a significance value of 0.002. This shows that the liquidity control variable (CR) is significant at the 5% level. Thus profitability (ROA) has a positive relationship with capital structure.

Conclusion

This study aimed to determine the relationship between company type, asset structure and capital structure for companies listed in the LQ-45 index on the Indonesia Stock Exchange (IDX) for the period 2014–16. Based on the results of tests and discussions that have been carried out, it can be concluded that SOEs have a significant relationship with the capital structure of the company. In addition, the asset structure was also found to have a significant relationship with the capital structure of companies listed on the LQ-45 Index on the Indonesia Stock Exchange (IDX) for the period 2014–16.

The limitation in this study is that it used only a limited sample of companies listed in the LQ-45 index. Further research should multiply the research sample, increase the period of research and add other independent variables in order to obtain a comprehensive picture of the decision-making of the company's capital structure. Companies can evaluate, improve and optimise their capital structure to be useful in the future. Investors could consider their investments more by paying attention and analysing the factors related to their capital structure.

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