ANALYSIS OF CAPITAL STRUCTURE AND DEBT RATIO TO COMPANY FINANCIAL PERFORMANCE

THESIS

To Fulfill the Requirements

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ANALYSIS OF CAPITAL STRUCTURE AND DEBT RATIO TO COMPANY FINANCIAL PERFORMANCE

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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

ANALYSIS OF CAPITAL STRUCTURE AND DEBT RATIO TO COMPANY FINANCIAL PERFORMANCE

SUMMARY

1. Background

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 (Arsita, 2020; Putri, 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 (Munjiah & Rifa, 2024; Murniati, 2016; Yuliani, 2021). 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 (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).

2. Research Problem

1. Does the Debt-to-Equity Ratio (DER) have a significant effect on financial performance, namely Return on Asset (ROA)?
2. Does the Long-Term Debt to Equity Ratio (LTDER) have a significant effect on financial performance, namely Return on Asset (ROA)?
3. Does the Debt to Asset Ratio (DAR) have a significant effect on financial performance, namely Return on Asset (ROA)?

3. Research Objective

Based on the identified research problems, 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.

4. Research Method

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 (R^2) and T test.

5. Findings and Discussion

a. 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.

b. The regression results show that LTDER 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.

c. 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.

6. Conclusion and Recommendation

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.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDIX

CHAPTER I
INTRODUCTION

1.1 Background

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.

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1.2 Research Gap

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.

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 Arifin (2021); Rahman (2020), explains that the capital structure measured using DER has a positive and significant effect on financial performance. Research conducted by Amalia & Khuzaini (2021); Azis et al. (2017), 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.

1.3 Research Problem

The explanation of the background above, there are research problem formulations including:

4. Does the Debt-to-Equity Ratio (DER) have a significant effect on financial performance, namely Return on Asset (ROA)?
5. Does the Long-Term Debt to Equity Ratio (LTDER) have a significant effect on financial performance, namely Return on Asset (ROA)?
6. Does the Debt to Asset Ratio (DAR) have a significant effect on financial performance, namely Return on Asset (ROA)?

1.4 Research Objective

Based on the identified research problems, 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.

1.5 Research Contribution

1.5.1 Theoretical Contribution

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.

1.5.2 Practical Contribution

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.