

THE RELATIONSHIP OF GCG, COMPANY SIZE, LIQUIDITY, CAPITAL STRUCTURE, AND PROFITABILITY WITH SEM-PLS

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ABSTRACT

This study aims to investigate the patterns of relationship among GCG, company size, liquidity, capital structure and profitability. Profitability is measured by ROA (Return on Assets), ROE (Return on Equity) and NPM (Net Profit Margin). Capital structure is measured by DER (Debt to Equity Ratio), DAR (Debt to Asset Ratio) and LTD (Long Term Debt). Liquidity is measured by CR (Current Ratio), QR (Quick Ratio) and CTR (Cash Turnover Ratio). The size of the company is measured by Ln (total of assets) and Ln (total of sales). Good Corporate Governance (GCG) is measured by corporate governance disclosure index (CGDI). The sample method was used a purposive sampling technique. The Partial Least Square (PLS) method was used to analyze the data. The results of this study indicate that in the GCG variable there is no Confirmatory Factor Analysis because GCG is measured by one indicator. The results of the Confirmatory Factor Analysis on liquidity variables, company size and profitability indicate that each indicator is valid and reliable. Hypothesis test results show that there was significant relationship between this variables, namely GCG on capital structure (H1 is accepted), firm size on capital structure (H2 is accepted), liquidity on capital structure (H3 is accepted), and capital structure on profitability (H4 is accepted). The results of the coefficient of determination indicate that the effect of liquidity, firm size and GCG on the capital structure was quite strong.

Keywords: GCG, Company Size, Liquidity, Capital Structure, Profitability

INTRODUCTION

A company always needs capital both for business opening and business development. Capital or funding has various problems, one of the funding problems is how much the company's ability to meet the funding needs that will be used to operate and develop its business. Brigham and Houston (2011) state that developing companies need capital that can come from debt or equity. According to Keown (2010) companies must understand the main components of the capital structure. The optimal capital structure is the capital structure of the company that will maximize its stock price. Too much debt can hamper the development of the company, which will also make shareholders think twice about continuing to invest their capital.

Own capital structure is the proportion of use between debt and equity. Management as a company manager must certainly be able to balance the use of debt and equity to achieve an optimal capital structure. In realizing optimal capital structure, financial managers must consider many things that affect the capital structure. Several factors that influence the capital structure include company size, liquidity, profitability, and asset structure. This study uses multiple linear regression models with manufacturing companies listed on the Indonesia Stock Exchange as the object of research.

At this time the business world is experiencing increasingly intense business competition between companies, therefore every company must be able to perform important functions that exist in the company such as marketing functions, sales functions, financial functions, personnel functions, production functions and accounting functions effective and efficient, so the company can be superior in the competition faced. This is done to achieve the company's goals which are basically maximizing the welfare of shareholders through investment, funding and dividend decisions or policies.

In implementing these functions, the aspects that need to be considered are the aspects of funding. The funding source can come from the company's internal self, namely by using retained earnings, issuing shares or originating from external companies, one of which is through debt policy. This policy is very closely related to the company's capital structure. According to Sartono (2001), what is meant by capital structure is the balance of the amount of permanent short-term debt, long-term debt, preferred stock and ordinary shares. Companies are required to carry out appropriate funding strategies in determining the most optimal capital structure, a condition where companies can use an ideal combination between debt and company capital by calculating the cost of capital that appears. The optimal capital structure of the company the cost of capital to be borne will also be smaller.

The company's capital structure is influenced by many factors. From several previous studies, there are several factors that influence the capital structure, including profitability, business risk, insider ownership, growth opportunity, company size, asset structure, liquidity and so on. Supporting theories about capital structure include agency theory, trade off theory, and pecking order theory. The variables used in this study are company size, profitability, asset structure, and liquidity which are tested for their effect on capital structure.

Company size describes the size of a company. Large companies will easily diversify and tend to have a smaller bankruptcy rate. In large companies with a lot of assets, many would be more courageous to use capital from loans in buying all assets, compared to companies that are smaller in size.

Corporate governance is very influential with the acquisition of company capital. If the corporate governance is good, the capital that will be obtained automatically will be very optimal. Not only that, good corporate governance can improve the economic stability of the company itself. Everything can run smoothly if the corporate governance is successful. Corporate governance also has a major influence on sustainable development and economic growth, which specifically adds strength from the corporate sector and understands more ability to attract capital to lubricate the economy (Shleifer and Vishny, 1997)

Liquidity is how much the company's ability to fulfill its short-term obligations. Liquidity is one of them measured by the debt ratio which is a ratio that measures the percentage of capital requirements spent with debt (Brigham and Houston, 2006). In accordance with the pecking order theory, companies will prioritize using internal funds. Companies with high liquidity will reduce their external funding because the source of internal funds is high. Profitability is the company's revenue which has been reduced by costs. According to Gitman (2003), profitability is the relationship between income and costs generated by using company assets, both smoothly and permanently, in production activities. The company wants a high level of profitability. From the existing profit the company can allocate it into retained earnings or business expansion. In accordance with the Pecking order theory, companies that have high profitability will tend to use funding through internal sources, namely using profits, the higher the company's profitability, the smaller the proportion of debt usage.

Research on factors that influence capital structure has been done a lot before. Research conducted by Wimelda and Marlinah (2013) and Adiyana's research (2014), suggested the results that company size had a positive and significant effect on capital structure. Firnanti (2011) examines the factors that influence the capital structure which results in the conclusion that profitability has a negative influence on capital structure. Other research conducted by Liwang (2011) which proves that asset structure variables have a positive and significant effect on capital structure, whereas research conducted by Hadiano (2010), shows the results that the asset structure has a negative and significant effect on capital structure. In the study of Dwilestari (2010) concluded that liquidity has a negative effect on capital structure.

Manufacturing companies are used in this study because the company is a company with a large scale of production or has a large trading volume and requires large capital or funds to develop its products so that it will affect the capital structure or funding of a company. From the background above and the inconsistent results from previous studies, the authors are interested in re-examining these variables with the title of research: Influence of Company Size, Liquidity, Profitability, and GCG on Capital Structure in Registered Manufacturing Companies on the Indonesia Stock Exchange

LITERATURE REVIEW

Liquidity to Capital Structure

Liquidity is a ratio used to measure a company's ability to pay short-term obligations (Van Horne and Wachowicz, 2007). According to the Pecking order theory, companies that have high liquidity will tend not to use debt financing because they have large funds for internal funding. The use of alternative funding starts from the least risky securities, namely retained earnings, debt, and the issuance of new shares. Retained earnings are reinvested in the hope of increasing corporate profits in the coming year. Ozkan (2016) says that companies with large liquid assets can use these assets to invest.

A high asset liquidity ratio can be considered by investors to be a positive signal because it indicates that the company can fulfill its current obligations and is faced with a low risk of bankruptcy. With large retained earnings, companies will prefer to use retained earnings for company operations before using debt or issuing new shares.

Profits that are not distributed as dividends will be used for expansion which usually means the purchase of assets. This is in accordance with the pecking order theory which says that managers prefer to use financing with the first order retained earnings, then debt and the last sale of new shares. Another consideration is that the direct costs of financing from within are those that are detained cheaper than the cost of capital originating from the issuance of

new shares (Dermawan Sjahrial, 2008). Companies that have high liquidity means they have the ability to pay debts. From this explanation, it can be concluded that Liquidity has a negative effect on Capital Structure.

H1: Liquidity to Capital Structure

GCG To Capital Structure

According to Law No. 40 of 2007 concerning the company, in general the director has the task of leading the company by issuing company policies, selecting, stipulating, supervising the duties of employees and section heads (managers), approving the company's annual budget, submitting reports to shareholders on the company's performance. The company will choose a funding policy through debt because it has a lower risk of the company than issuing shares and to prevent moral hazard. Research conducted by Serghiescu (2014) concluded that the size of the board of directors influences the capital structure

An independent commissioner is a person appointed based on a GMS decision from an unaffiliated party with a major shareholder, member of the board of directors and / or other members of the board of commissioners. An independent commissioner is an outside company that assesses the performance of the company and makes decisions for the progress of the company, not for personal or group interests. The stronger the independent commissioner, the greater the funding of capital, because it affects the decisions taken. Companies will choose debt to be used as a source of funding for company capital because they have a smaller risk and to prevent the occurrence of moral hazard. In addition, independent commissioners also consider if issuing shares, the interests of shareholders will increase. The independent commissioner will provide the best advice and policies for the company such as the selection of capital.

Managerial ownership is share ownership by company management. Agency problems will decrease because they are in harmony between the interests of shareholders and company management. Managers have a large amount of information because they are within the operational scope. The manager wants profits for the company as the manager itself and profits as shareholders. Managers will choose debt to be used as a source of capital funding because it has a smaller company risk and benefits managers as shareholders who are seen based on the value of share ownership that is not reduced. The research conducted by Ismiyati (2004) concluded that managerial ownership influences the capital structure. Based on this, the hypothesis proposed is as follows:

H2: GCG to Capital Structure

Company Size to Capital Structure

Companies that experience high growth will need large capital. This is because large companies have large funding needs and one alternative is to use funds from external funds. On the contrary, the company in low sales growth, the need for capital is also small.

According to Mas'ud (2008) the larger the size of the company that is indicated by total assets, the company will use large amounts of debt as well. The larger the size of the company indicates that the company has a higher number of assets. Companies that are relatively large in size will tend to use increasingly large external funds. This is because the funding needs also increase along with the growth of the company. In addition to internal funding, the next alternative is external funding. This is in line with the pecking order theory which states that, if the use of internal funds is insufficient, the second alternative is to use debt. The results of this study are supported by Seftianne and Handayani (2011), Verena and Mulyo (2013) indicating the size of the company influences the capital structure. Different results from the Firmanti (2011) study show that the size does not affect the capital structure. Based on this, the hypothesis proposed is as follows:

H3: Company Size to Capital Structure

Capital Structure to Profitability

Profitability is the level of net profit that the company can achieve when carrying out its operations. Profitability reflects the company's ability to generate profits on the management of company assets which is a comparison between earnings after tax and total assets. Profitability can be interpreted as a return on capital investment. Companies with high rate of return tend to use relatively small debt proportions. Because with a high rate of return, funding needs can be obtained from retained earnings. Companies with high profitability will have more internal funds than companies with low profitability. The higher profitability shows that the profits obtained by the company are also high. If the company's profits are high, the company has a substantial source of funds from within, so the company requires less debt. Besides that, if retained earnings increase, the debt ratio will naturally decrease, assuming that the company does not add debt. Therefore, profitability has a negative effect on capital structure. The results of this study are supported by Verena and Mulyo (2013), Seftianne and Handayani (2011).

H4: Profitability affects the capital structure.

RESEARCH METHODOLOGY

This research uses quantitative research methods, which means that the study analyzes data in the form of numbers or statistics with the aim of testing the predetermined hypotheses. The population used in this study is a manufacturing company listed on the Stock Exchange in the period 2015 - 2017 .. The selection of samples in this study using purposive sampling technique. The data collection technique used in this study is documentation. The variables used in this research consist of 2 variables, namely, endogenous variables and exogenous variables. The endogenous variable in this study is Profitability measured using ROA (Return on Assets), ROE (Return on Equity) and NPM (Net Profit Margin). While intervening endogenous variables in this study are capital structures measured using DER (Debt to Equity Ratio), DAR (Debt to Asset Ratio) and LTD (Long Term Debt). The Exogenous variable in this study consisted of Liquidity, GCG and Company Size. Liquidity is measured using CR (Current Ratio), QR (Quick Ratio) and CTR (Cash Turnover Ratio). The size of the company is measured using \ln (total assets) and \ln (total sales). Good corporate governance (GCG) is measured using corporate governance disclosure criteria in the company's annual report. This determination of disclosure index is based on information disclosed by the company in their annual report to stakeholders. The disclosure items used in this study are based on the Decree of the Chairperson of Bapepam and LK Number: Kep-134 / BL / 2006 concerning the Obligation to Submit Annual Reports to Issuers and Public Companies. So, in this study, there were 26 items of corporate governance disclosure. The method used to assess corporate governance disclosure index (CGDI) is the value of 1 for items that are disclosed and the value of 0 for items that are not disclosed.

The data analysis technique used in this study is the Partial Least Square (PLS) method. Partial Least Square is a model of Structural Equation Modeling (SEM) based on variance or component. Testing using the PLS method basically consists of 2 types of testing, namely the measurement model (outer model) and structural models (inner models). Outer models used in this study used the confirmatory factor analysis (CFA) method to measure validity and reliability provided that the value of loading factors above 0.4 provided the AVE value > 0.5 and the composite reliability value > 0.7 . The inner model in this study is used to see the significance of the path between latent variables and answer the research hypothesis by looking at statistical values. A path coefficient is said to be significant if the Tstatistic value is > 1.96 or the significance value / pvalue < 0.05 with an error tolerance of 5%.

ANALYSIS AND DISCUSSION

SEM-PLS analysis in this study is divided into 2 stages, namely, Outer model and inner model. Outer model is used to see the relationship between indicators to latent variables, indicators are able to measure variables well if criteria of validity and reliability are met while Inner model is used to see the relationship between latent variables.

OUTER MODELS

Outer models in this study used the Confirmatory Factor Analysis method. Confirmatory Factor Analysis is used in latent variables that are reflective and have more than one indicator. Confirmatory Factor Analysis is divided into 2 stages, namely validity and reliability. The validity criteria are fulfilled if the loading value is more than 0.4 and the value of Average Variance Extracted (AVE) is more than 0.5 while the reliability criteria are fulfilled if the composite reliability value is more than 0.7

Tabel 1. Nilai Factor Loading

| Variabel Laten | Indicator | Factor Loading | AVE | CR |
|---------------------------------|--|----------------|-------|-------|
| GCG (Good Corporate Governance) | Corporate Governance Disclosure Index (CGDI) | 1 | 1 | 1 |
| Capital Structure | DER (Debt to Equity Ratio), | 0.876 | 0,675 | 0.787 |
| | DAR (Debt to Asset Ratio) | 0.776 | | |
| | LTD (Long Term Debt) | 0.812 | | |
| Liquidty | CR (Current Ratio), | 0.678 | 0,578 | 0.840 |
| | QR (Quick Ratio) | 0.775 | | |
| | CTR (Cash Turnover Ratio) | 0.756 | | |
| Profitability | ROA (Return on Asset) | 0.786 | 0.654 | 0.761 |
| | ROE (Return on Ekuitas) | 0.886 | | |
| | NPM (Net Profit Margin). | 0.790 | | |

Table 1 informs that all values of the indicator loading factors of IGCG variables, liquidity, capital structure and profitability are greater than 0.4 with AVE values > 0.5. so that it can be concluded that each valid indicator measures its latent variables and criteria for the validity of an indicator against its latent variables. Table 1 shows that all composite reliability values of more than 0.7 percent indicate that reliable indicators measure their latent variables and criteria for the reliability of an indicator against its latent variables are met. The results of validity and reliability above can be concluded that each indicator can measure its latent variables well. Next, an inner model analysis will be carried out to determine the significance of each path between the latent variables of the fund to answer the research hypothesis

Inner Model

The inner model describes the relationship between latent variables. Inner model is divided into 2 stages, namely hypothesis testing and coefficient of determination. In the hypothesis test, the relationship of the variable is said to be significant if the value of P value $\alpha = 0.05$ while the coefficient of determination is divided into three criteria, namely, the influence between latent variables is strong if the $R^2 > 0.67$, moderate if the value is $0.33 < R^2 \leq 0.67$, weak if the value is $0.19 < R^2 \leq 0.33$ and is very weak if the value of $R^2 \leq 0.19$. The results of the SEM-PLS using Warp-PLS are as follows:

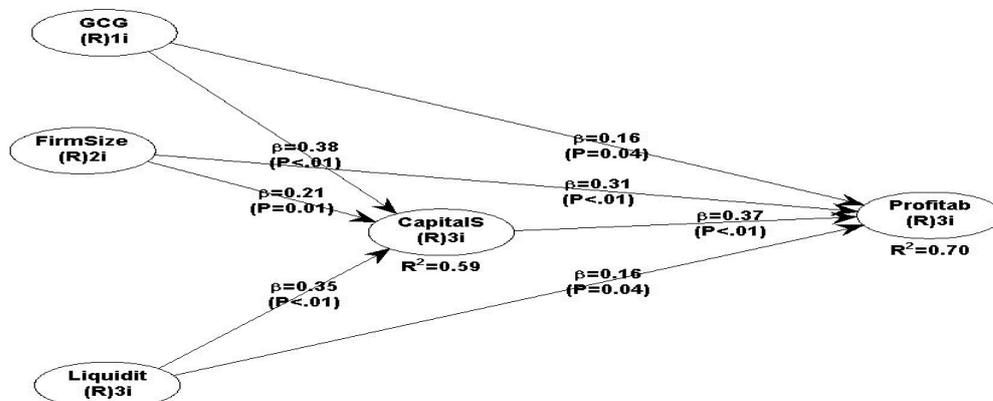


Figure 2. Bootstrapping SEM-PLS

Table 2. Path Coefficient & P Values

| | Path Coefficient | P values | Information |
|-----------------------------------|------------------|----------|-------------|
| GCG → Capital Structure | 0.375 | < 0.001 | Significant |
| Company Size → Capital Structure | 0.206 | 0.011 | Significant |
| Liquidity → Capital Structure | 0.350 | < 0.001 | Significant |
| GCG → Profitability | 0.162 | 0.038 | Significant |
| Company Size → Profitability | 0.311 | < 0.001 | Significant |
| Liquidity → Profitability | 0.160 | 0.039 | Significant |
| Capital Structure → Profitability | 0.366 | < 0.001 | Significant |

H1: GCG to Capital Structure

The results of testing the first hypothesis indicate that the relationship between the variables of Good Corporate Governance (GCG) and capital structure shows the path coefficient value of 0.375 with P value = <0.001 smaller than $\alpha = 0.05$. These results indicate that Good Corporate Governance significantly influences the capital structure (Hypothesis 1 is accepted) and the relationship of Good Corporate Governance to a positive capital structure which means that any change in improvement in Good Corporate Governance will affect changes in the increase in capital structure and vice versa.

According to Law No. 40 of 2007 concerning the company, in general the director has the task of leading the company by issuing company policies, selecting, stipulating, supervising the duties of employees and section heads (managers), approving the company's annual budget, submitting reports to shareholders on the company's performance. The company will choose a funding policy through debt because it has a lower risk of the company than issuing shares and to prevent moral hazard. Research conducted by Serghiescu (2014) concluded that the size of the board of directors influences the capital structure

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Managerial ownership is share ownership by company management. Agency problems will decrease because they are in harmony between the interests of shareholders and company management. Managers have a large amount of information because they are within the operational scope. The manager wants profits for the company as the manager itself and profits as shareholders. Managers will choose debt to be used as a source of capital funding because it has a smaller company risk and benefits managers as shareholders who are seen based on the value of share ownership that is not reduced. The research conducted by Ismiyati (2004) concluded that managerial ownership influences the capital structure

H2: Company size of capital structure

The results of testing the second hypothesis indicate that the relationship of variables The size of the company influences the capital structure shows the path coefficient value of 0.206 with a value of 0.011 smaller than $\alpha = 0.05$. These results indicate that the size of the company has a significant effect on capital structure (Hypothesis 2 is accepted) and the relationship of firm size to positive capital structure which means that any change in the increase in company size will affect changes in the increase in capital structure and vice versa.

Companies that experience high growth will need large capital. This is because large companies have large funding needs and one alternative is to use funds from external funds. On the contrary, the company in low sales growth, the need for capital is also small.

According to Mas'ud (2008) the larger the size of the company that is indicated by total assets, the company will use large amounts of debt as well. The larger the size of the company indicates that the company has a higher number of assets. Companies that are relatively large in size will tend to use increasingly large external funds. This is because the funding needs also increase along with the growth of the company. In addition to internal funding, the next alternative is external funding. This is in line with the pecking order theory which states that, if the use of internal funds is insufficient, the second alternative is to use debt. The results of this study are supported by Seftianne and Handayani (2011), Verena and Mulyo (2013) indicating the size of the company influences the capital structure. Different results from the Firnanti (2011) study show that the size does not affect the capital structure.

H3: Liquidity to apital Structure

The results of testing the third hypothesis show that the relationship of variable liquidity with capital structure shows the path coefficient value of 0.350 with P value <0.001 smaller than $\alpha = 0.05$. These results indicate that liquidity is significantly to the capital structure (Hypothesis 3 is accepted) and the relationship of liquidity to a positive capital structure which means that any change in the increase in liquidity will affect changes in the increase in capital structure and vice versa.

Liquidity is a ratio used to measure a company's ability to pay short-term obligations (Van Horne and Wachowicz, 2007). According to the Pecking order theory, companies that have high liquidity will tend not to use debt financing because they have large funds for internal funding. The use of alternative funding starts from the least risky securities, namely retained earnings, debt, and the issuance of new shares. Retained earnings are reinvested in the hope of increasing corporate profits in the coming year. Ozkan (2016) says that companies with large liquid assets can use these assets to invest.

A high asset liquidity ratio can be considered by investors to be a positive signal because it indicates that the company can fulfill its current obligations and is faced with a low risk of bankruptcy. With large retained earnings, companies will prefer to use retained earnings for company operations before using debt or issuing new shares.

Profits that are not distributed as dividends will be used for expansion which usually means the purchase of assets. This is in accordance with the pecking order theory which says that managers prefer to use financing with the first order retained earnings, then debt and the last sale of new shares. Another consideration is that the direct costs of financing from within are those that are detained cheaper than the cost of capital originating from the issuance of new shares (Dermawan Sjahrial, 2008). Companies that have high liquidity means they have the ability to pay debts.

H4: Capital Structure to Proitability

The results of testing the third hypothesis indicate that the relationship of capital structure variables with profitability shows the path coefficient value of 0.366 with P value <0.001 smaller than $\alpha = 0.05$. These results indicate that the capital structure has a significant effect on profitability (Hypothesis 4 is accepted) and the relationship of capital structure to positive profitability, which means that any changes in the increase in capital structure will affect changes in increased profitability and vice versa.

Profitability is the level of net profit that the company can achieve when carrying out its operations. Profitability reflects the company's ability to generate profits on the management of company assets which is a comparison between earnings after tax and total assets. Profitability can be interpreted as a return on capital investment. Companies with high rate of return tend to use relatively small debt proportions. Because with a high rate of return, funding needs can be obtained from retained earnings. Companies with high profitability will have more internal funds than companies with low profitability. The higher profitability shows that the profits obtained by the company are also high. If the company's profits are high, the company has a substantial source of funds from within, so the company requires less debt. Besides that, if retained earnings increase, the debt ratio will naturally decrease, assuming that the company does not add debt.

CONCLUSIONS AND SUGGESTION

The results of this study indicate that in the GCG variable there is no Confirmatory Factor Analysis because GCG is measured by one indicator. The results of the Confirmatory Factor Analysis on liquidity variables, company size and profitability indicate that each indicator is able to measure well the variables measured (valid and reliable). Hypothesis test results show that the relationship of influence between significant variables namely, GCG on capital structure (H1 is accepted), firm size on capital structure (H2 accepted) and liquidity on capital structure (H3 accepted) and capital structure on profitability (H4 accepted). The results of the coefficient of determination indicate that the effect of liquidity, firm size and GCG on the capital structure is quite strong. Subsequent research can use other companies so that it can be a comparison to other company sector conditions

and can review the mediation of capital structures on the relationship of liquidity, GCG and company size to profitability.

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