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The Influence of Company Characteristics, External Factors and Capital Structure on Company Financial Performance Automotive Companies at the BEI Jakarta

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Abstract:- This study aims to determine and measure the effect of company characteristics, external factors and capital structure on financial company on automotive companies listed on the Jakarta Stock Exchange. "This research uses an explanatory research type, the data collection method is in the form of literature study with documentation techniques. Methods of data analysis used in this research, namely financial ratio analysis, descriptive analysis, and inferential analysis. The data has been input on SPSS Statistic"s for further statistical analysis, regression and then path analysis were used to determine the effect variable.

The results process of statistical analysis, "research and hypothesis testing prove that company characteristics have a significant effect on capital structure, then external factors in the company also have a significant effect on the capital structure. Also company characteristics have a significant influence on financial performance, then external factors in the company also have a significant influence expected on financial performance". So that this research contributes to overcoming problems that exist in the company and formulating future policies.

Finally, company characteristics and external factors have a significant influence on financial performance through capital structure. As a common thread of the research implementation, the company must really pay attention to external factors, considering that it has an impact on financial conditions which is for the company's long-term goals.

Keywords:- *Characteristics of the Company, External Factors, Capital Structure, Financial Performance.*

I. INTRODUCTION

In line with the increasingly rapid development of the economy, it will have an impact on the level of competition between companies that is increasingly free, so that the survival and opportunities for company development are strongly influenced by the availability of funds owned or available in the company. Identified company characteristics as a factor affecting capital structure.

Company characteristics are operationalized into independent variables consisting of : "company size, company liquidity, coverage ratio, company growth and a dummy variable that connects them. Capital structure as the dependent variable and measured using a debt ratio. Based on empirical studies on the results of previous studies, in this study operationalized into independent variables consisting of: company size, sales growth and asset growth". (Nikolaos, 2007).

External factors have a big influence on company performance. External factors have a big influence on funding policies, so that in the end they will also affect the company's financial performance. According to Apergis and Eleftheriou (2002), "interest rates, inflation, and stock prices are external factors that influence each other. The results of his research show evidence that supports a significant relationship between stock prices and inflation. Based on empirical studies on the results of previous studies, in this study external factors are operationalized into independent variables consisting of: interest rates and inflation rates". The interest rate referred to is the interest rate on Bank Indonesia Certificates (SBI) issued by Bank Indonesia (BI) as the Central bank in Indonesia.

Capital structure policy is part of a company funding decision which is the main decision in financial management besides investment decisions and dividend policy. Karadeniz's research, et al (2009), "states that capital structure can be measured by the Debt Ratio. The results of his research find evidence that tax rates, tangibility of assets, and return on assets are negatively related to the debt ratio, while free cash flow, non-debt tax shields, growth opportunities, net commercial credit position, and firm size are not related to the debt ratio".

Based on empirical studies on the results of previous studies, in this study the characteristics of the company are operationalized into the dependent variable consisting of : "company size, sales growth and asset growth, influencing capital structure as measured by using debt to equity ratio and debt ratio".

Financial performance is the determination of certain measures that can measure the success of a company in generating profits (Sucipto, 2003). There ware abor's research (2007), "operationalized financial performance into the dependent variable consisting of GPM (Gross profit Margin) and ROA (Return on Assets). The results of his research show a negative and significant relationship between all measures of capital structure on ROA". Based on empirical studies on the results of previous studies, in this study financial performance is operationalized into the dependent variable consisting of ROI and ROE.

From the problems that have been formulated above, the objectives to be achieved in this study are : "1). To describe, test and explain the effect of company characteristics on capital structure; 2). To describe, test and explain the effect of company characteristics on financial performance; 3). To describe, test and explain the influence of external factors on the capital structure; 4). To describe, test and explain the influence of external factors on financial performance, and 5). To describe, test and explain the effect of capital structure on financial performance".

These variations result in the conclusion that there must be certain internal and external factors more closely related to each firm that must be considered when financing decisions are made. With the support of previous theoretical and empirical research, six internal factors and three external factors will be identified to better explain the financing decisions of firms (Annalien de Vries, 2010). Each of these factors will be discussed in more detail with regard to the effect they might have on capital structures. This information might shed some light on the continuous debate of the existence of an optimal capital structure and it might provide an answer to the question on how firms choose their combination of debt and equity (Young, 2008).

II. LITERATURE REVIEW

Basically, company characteristics reflect the fundamental condition of the company. Nikolaos, et al (2007), "defines firm characteristics as factors that influence capital structure". According to Chang, et al (2008), company characteristics are growth, firm size, profitability, asset tangibility, volatility, non-debt tax shield, industry uniqueness and others. Factors that influence company characteristics include: company size, sales growth, and asset growth.

External factors have a big influence on company performance. "External factors have a big influence on funding policies, so that in the end they will also affect the company's financial performance. External factors in this study include the interest rate and the inflation rate". The interest rate is an external factor that affects the capital structure (Hampton, 2001). Interest can also be interpreted as the price that must be paid to customers (who have savings) and must be paid by customers who obtain loans from banks (Sudarma, 2003). The inflation rate is the percentage of the speed at which prices are hit in a certain year, usually used as a measure to show the extent to which the economic problems faced (Sukirno, 2006).

Capital structure theory related to capital structure is taken from the theory of Pecking Order Theory Myers and Majluf (1984) and Modigliani Miller (1998). Capital structure theory explains whether there is an effect of capital on firm value, if investment decisions and dividend policy are held constant. Traditional Theory, "those who adhere to the traditional approach argue that in a perfect, tax-free capital market, firm value (or the cost of firm capital) can be changed by changing its capital structure". The Modigliani – Miller (MM) model without tax, "the theory of the modern capital structure began in 1958, when professor Franco Modigliani and professor Merton Miller (hereinafter referred to as MM), MM argued that the greater the debt used in the capital structure will not increase the value. company, this is due to the benefits obtained from the use of debt offset by an increase in the cost of own capital".

The Modigliani-Miller model with taxes, in a tax state, MM argues that funding decisions are relevant (Vries, 2010). This is due to the fact, "that the interest paid (because it uses debt) can be used to reduce the taxable income (tax deductible). Trade-Off theory illustrates that the optimal capital structure can be determined by balancing the benefits of using debt (tax shield benefit of leverage) with the cost of financial distress and agency problems". The trade-off theory emphasizes the problems of taxes, financial distress costs and agency, where debt gives companies the opportunity to carry out investments that provide a positive NPV (Ewing and Payne, 2005).

Pecking Order Theory, Myers and Majluf (1984) and Myers (1984), "formulated a capital structure theory called the pecking order theory, which explains that the company will determine the hierarchy of the most preferred source of funds. As a basis for asymmetric information, which shows that management has more information (about prospects, risks and company value) than public investors". Financial performance is the determination of certain measures that can measure the success of a company in generating profits (Sucipto, 2003). Brigham and Houston (2006), "state that profitability is the net result of a series of policies and decisions, while according to Sartono (1996) in Harahap (2003) argues that profitability is the company"s ability to earn profits in relation to sales, total assets and own capital.

III. MODELS : CONCEPT AND HYPOTHESES

The conceptual model in this study consists of 4 (four) main concepts which can be (seen in figure 1). Acording Annalien de Vries (2010), "the effects of these firm characteristics and economic factors on capital structures have been researched in various countries. Various South African studies have been conducted on the topic of capital structures; however, limited research was found where both the firm characteristics and economic factors were included in the same study".

The majority of the South African studies furthermore either focused on a specific industry on the Johannesburg Securities Exchange Limited (JSE) or their focus was predominantly on the theory of capital structure applied by South African firms.

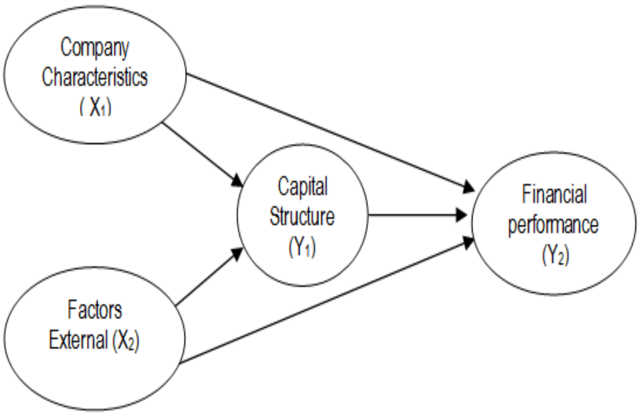

Fig 1. Model Concept

Based on the concept model presented in this figure, a model for the hypothesis can be prepared as follows.

- H_1: It is assumed that company characteristics have a significant effect on capital structure
- H_2: It is assumed that external factors in the company also have a significant effect on the capital structure
- H_3: It is assumed that firm company characteristics have a significant influence on financial performance
- H_4: It is assumed that external factors in the company also have a significant influence on financial performance
- H_5: It is assumed that company characteristics and external factors have a significant influence on financial performance through capital structure

IV. METHODOLOGY

The type of research in this study is explanatory, namely research that aims to explain the position of the variables studied and the relationship between one variable and another (Sugiyono, 2017). The independent variables in this study are company"s characteristics and external factors. The dependent variable is the company's capital structure and financial performance. This study uses path analysis which explains the recursive effect of company characteristics, external factors and capital structure on the company's financial performance"s.

The research location is the corner of the Indonesia Stock Exchange, Faculty of Economics, Brawijaya University. Determination of location on the Indonesia Stock Exchange. "The population in this study are all Automotive companies listed on the Indonesia Stock Exchange (IDX) with an observation period from 2006 to 2010. The sample collection method used is non-probability sampling, to be precise the purposive sampling method used is judgment sampling". The data collection method is in the form of literature study with documentation techniques with the type of pooled data as much as 10 x 5 = 50 observations obtained from the number of years of research multiplied by the number of companies as research objects.

Source of Research Variable Data used in this research is secondary data, "which is obtained from the Indonesian Stock Exchange (IDX) which is sourced from the Indonesian Capital Market Directory (ICMD), the official website of the IDX, namely www.idx.co.id and Bank Indonesia official website www. .bi.go.id. The type of data collected is the company's financial statement data".

There are three methods of data analysis used in this research, namely financial ratio analysis, descriptive analysis, and inferential analysis. The data has been input on SPSS Statistics for further statistical analysis, regression and then path analysis were used to determine the effect variable.

V. RESULTS AND DISCUSSION

The analysis of financial ratio data descriptions of the ten companies that were the research samples during this five-year period reflects the size of each variable which is varied as presented in the following figure.

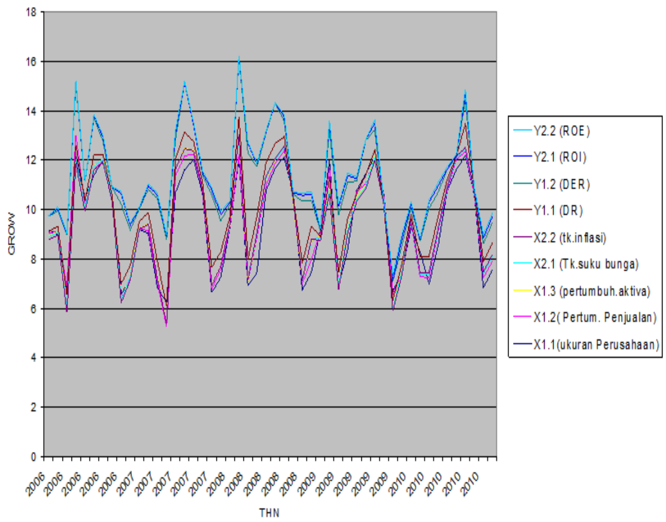

Fig 2:- Analysis of the description of the research variables

The estimation of the path coefficient in this analysis uses the Ordinary Least Squar"s method. The application of this method will produce a good assessment if all the assumptions that apply in the analysis can be fulfilled. The following is an explanation of the results of testing the assumptions in the path analysis. The test result"s show that the significance values (sig.Z) in the first and second equations are 0.408 and 0.628, both of these values are greater than the value of $\alpha = 0.05$, which means the normality assumption is fulfilled.

The results of the linearity test, there are 3 paths, have a p-value that is smaller"s than 0.05, so it can be concluded that the assumption of linearity is only fulfilled by 3 lines, so it is assumed that in these two paths, the results of the path coefficient test are not significant. The correlation between the residuals of the two regression equations carried out to estimate all path coefficient"s is expected to be insignificant. The results of the analysis obtained a correlation coefficient of 0.000 with p-value = 1,000, so it can be concluded that there is an insignificant correlation between the first and second residuals.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.370	.560		14.945	.000
	X1 - Y1	.721	.179	.417	4.028	.000
	X2 - Y1	.652	.158	.366	4.126	.000
2	X1 – Y2	.576	.181	.258	3.178	.001
	X2 – Y2	.980	.184	.597	5.330	.000
	X1 - X2 – Y1 – Y2	.825	.178	.493	4.627	.000

a. Dependent Variable: Y2

Table 1:- Results of the regression statistical analysis of the study

So the assumption that the path analysis does not contain a correlation between the two residuals is fulfilled. Path Coefficient of Influence of Company Characteristics and External Factors on Capital Structure as presented in the following (see figure 3.)

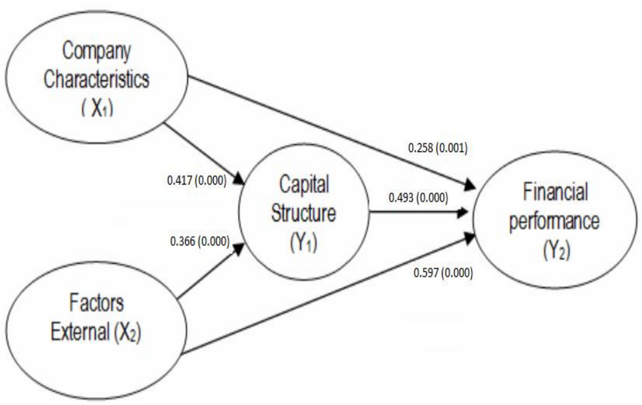

Fig 2:- Results of statistical analysis and hypotheses

Based on the results of statistical analysis presented in this study, the hypothesis of this study proves that :

For the first hypothesis or H1 that it is assumed that company"s characteristics have a significant effect on capital structure, has a Beta value of 0.417 with sig 0.000 <0.05 so that there is a significant influence and at the same time proves the research hypothesis is accepted. For the second hypothesis or H2, it is assumed that external factor"s in the company also have a significant effect on the capital structure has a Beta value of 0.366 with sig 0.000 <0.05 so that there is a significant effect and at the same time proves the research hypothesis is accepted.

For a hypothesis or H3, "that it is assumed that the firm company characteristic"s have a significant influence on financial performance has a Beta value of 0.258 with sig 0.001 <0.05 so that there is a significant effect and at the same time proves the research hypothesis is accepted".

For the fourth hypothesis or H4, it is assumed that external factor"s in the company also have a significant influence on financial performance has a Beta value of 0.597 with sig 0.000 <0.05 so that there is a significant influence and at the same time proves the research hypothesis is accepted. For the fifth hypothesis or H5, it is assumed that company characteristic"s and external factors have a significant influence on financial performance through capital structure, which has a Beta value of 0.493 with sig 0.000 <0.05 so that there is a significant influence and at the same time proves the research hypothesis is accepted.

The characteristics of the company"s capital structure and leverage the most appropriate level for a company that can be used to produce better decision-making regarding the source offunds of the company compared only based on rules of thumb. c. For further research, the results of this study can be used as a reference to further deepen research in the field of financial management"s, particularly the issue of capital structure (Handoko, 2016). "The capital structure of the company is a combination of different shares both ordinary and preferred shares, or a mix of all sources of long-term financing both equity and debt used by the company.Companies can obtain funds to finance its operations and expansion of the company".

Funds can be obtained from internal and external sources, "the funds obtained from external sources is the proceeds of creditors and investors, funds from creditors an external capital is a debt to the company, while funds from the investor's own capital (Handoko, 2016). Profitability is a picture of the performance of management in managing the company". Size of company profitability can be assessed by various kinds such as operating income, net income, return on invetasi / assets, and the rate of return on owner's equity. Robert (1997) revealed that the ratio of profitability or profitability ratio shows the company's success in generating profits.

The study also konsiten with the results of research by Bhaduri. Total assets chosen as a measure of growth taking into account the value of assets was relatively stable compared capitalized market value and sales (Shudarmadji, 2007). Research conducted by Sriwardany (2006) proved that the growth of assets negatively affect the financial performance and proved that the growth of assets not significant effect on financial performance (Kusumasari, 2009).

VI. CONCLUSIONS

Based on the results of the statistical analysis of the research and the hypothesis presented, “the fourth hypothesis has a greater value, namely external factors in the company that have a significant influence on financial performance. The common thread that can be taken in the analysis and testing of this research is that companies should not ignore external factors that have a big impact on financial performance”. This is very important, because if external factors cannot be controlled properly, there will be a failure in sales and an impact on company profits and the company's survival will also have an effect on these external conditions.

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