CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In the condition of the global economy that continues to advance at this time which is supported by science and technology creates various kinds of human needs for goods and services that result in very tight business competition. This will encourage company managers to increase the productivity of the company's production, marketing and strategy activities. This activity is related to the company's efforts to maximize profits amid tight global economic competition. The impact of these developments has encouraged the emergence of various business sectors in human life.

One sector that develops and plays an important role in development is the property, real estate, and building construction sector. The property, real estate and building construction industries are industries that have great potential for the future by looking at Indonesia's population. Later in the development of the property industry, real estate and building construction is closely related to the element of capital structure in it. It can be seen from the high prices of shops, housing, hospitality and others for now and so on, because the property, real estate and building construction industries are very promising to get enormous profits in the long term (Aji, 2014). According to Ariani and Wiagustini (2017), property, real estate and building construction are considered as one of the right investment choices, because property, real estate and building construction is one business choice that guarantees certainty of profit to investors.

Every company founded basically always strives to achieve goals set by the company, both short-term goals, and long-term goals. To achieve this goal, the company must pay attention to matters relating to corporate

funding issues. In principle, every company needs funds to develop its business. Therefore financial managers will continue to pay attention to the cost of capital so they need to determine the capital structure in an effort to determine whether the company's funding needs are met with their own capital or filled with foreign capital (Ira and Zumrotul, 2018).

The company's capital structure is a combination of short-term debt, long-term debt, and equity (Acaravci, 2015). Capital structure is an important problem for every company because bad or good of capital structure of the company will have a direct effect on its financial position. Joni and Lina (2010) in their research stated that corporate funding could come from internal parties or external parties. Internal funding can come from the company's retained earnings, while the company's external funding can come from creditors, debt holders and company shareholders. Funds originating from the owner constitute capital for the company while those from the debt holders and creditors are debts for the company.

If a company in meeting its funding needs prioritizes sources from within the company, it will greatly reduce its dependence on external parties. If the funding needs have increased because of the growth of the company, and all funds from internal sources have been used, then there is no other choice but to use funds originating from outside the company either from debt or by issuing new shares in meeting their funding needs (Ira and Zumrotul, 2018).

The magnitude of the comparison of funds used between the equity and debt from creditors or holders of debt securities is important because it will greatly determine the ability of the company to carry out its operational activities besides it also affects the risk of the company itself.

Lippo Cikarang Tbk, PT. Alam Sutera Realty Tbk. and PT. Agung Podomoro Land Tbk. are some samples of companies engaged in the property and real estate sector. Lippo Cikarang Tbk, PT. Alam Sutera Realty

Tbk. and PT. Agung Podomoro Land Tbk. use various sources of funds that aim to maximize profits and maintain the company in the competition of the property business with other similar companies. Capital structure policy is a matter that needs to be considered by the company. By processing the optimal capital structure will reflect the performance carried out by the company. In addition, the processing of capital structure by the company can maximize the value of the company. There is total debt equity ratio (capital structure) of Lippo Cikarang Tbk, PT. Alam Sutera Realty Tbk. and PT. Agung Podomoro Land Tbk. is as follows:

Table 1.1

Debt to Equity Ratio of Lippo Cikarang Tbk, PT. Alam Sutera Realty Tbk, and PT. Agung Podomoro Land Tbk. for the Period 2013 to 2017

Lippo Cikarang Tbk.			
Year	Debt	Equity	DER
2017	Rp4.657.491	Rp7.720.736	0,603244432
2016	Rp1.410.461	Rp4.242.691	0,332444903
2015	Rp1.843.461	Rp3.633.296	0,507379801
2014	Rp1.712.352	Rp2.678.146	0,639379631
2013	Rp2.030.669	Rp1.823.497	1,113612471

PT. Alam Sutera Realty Tbk.			
Year	Debt	Equity	DER
2017	Rp12.155.738	Rp8.572.691	1,417960591
2016	Rp12.998.285	Rp7.187.845	1,808370242
2015	Rp12.107.460	Rp6.602.409	1,833794301
2014	Rp10.553.173	Rp6.371.193	1,656388843
2013	Rp9.096.297	Rp5.331.784	1,706051295

PT. Agung Podomoro Land Tbk.			
Year	Debt	Equity	DER
2017	Rp17.293.138	Rp11.496.977	1,504146525
2016	Rp15.741.190	Rp9.970.762	1,578734905
2015	Rp15.486.506	Rp9.072.668	1,706940671
2014	Rp15.256.157	Rp8.429.580	1,809835959
2013	Rp12.467.225	Rp7.212.683	1,728514202

Source: Prepared by Writer from Financial Statements 2013 to 2017 (2019)

Based on the data above, it can be seen that Lippo Cikarang Tbk. is one company that has a good capital structure policy. From the publication of its financial statements, Lippo Cikarang Tbk. is known to have company capital that does not only come from its ownership capital but also comes from loan capital. During the period of 2013 to 2017, the average equity is 53% and the average loan capital is 47%. From these data, it can be concluded that Lippo Cikarang Tbk. more uses their ownership capital than loan capital. While at PT. Alam Sutera Realty Tbk. and PT. Agung Podomoro Land Tbk. it can be seen that in the period 2013 to 2017 the average loan capital was 100%. It can be concluded that PT. Alam Sutera Realty Tbk. and PT. Agung Podomoro Land Tbk. more use of loan capital.

Actually, in determining the capital structure the management has its own considerations. If the equity is greater than the loan capital, the company can more easily repay the loan. Meanwhile, if the loan capital is greater than the equity, the company will have difficulty paying the loan. Based on these considerations the management must carefully compile the company's capital structure. Because companies with good capital structures will have low capital costs and is able to increase profits.

In determining the optimal capital structure there are various kinds of factors that influence it. Theoretically and empirically the factors that can influence capital structure decisions are profitability, non-debt tax shields, company size, asset structure, and opportunities growth (Ariani and Wiagustini, 2017).The factors used in this research are profitability and asset structure.

Profitability is the level of net profit achieved by the company when carrying out its activities. Profitability reflects the company's ability to generate profits on the management of company assets which is a comparison between profit after tax and total assets (Fahmi, 2017).

Asset structure is the number of assets that can be made collateral measured by comparing fixed assets with total assets. The asset structure determines how much funds are allocated for each component of current assets and fixed assets (Fahmi, 2017).

In Table 1.2 below, it can be seen the data of profitability (ROA), and asset structure on the capital structure of Lippo Cikarang Tbk., PT. Alam Sutera Realty Tbk., and PT. Agung Podomoro Land Tbk for the period 2013 to 2017.

Table 1.2

DER, ROA and Asset Structure on the Capital Structure of Lippo Cikarang Tbk, PT. Alam Sutera Realty Tbk, and PT. Agung Podomoro Land Tbk. for the Period 2013 to 2017

Lippo Cikarang Tbk.			
Year	DER	ROA	Asset Structure
2017	0.603	0.029	0.008
2016	0.332	0.095	0.015
2015	0.507	0.167	0.014
2014	0.639	0.192	0.012
2013	1.113	0.153	0.013

PT. Alam Sutera Realty Tbk.			
Year	DER	ROA	Asset Structure
2017	1.417	0.066	0.059
2016	1.808	0.025	0.056
2015	1.833	0.036	0.058
2014	1.656	0.069	0.056
2013	1.706	0.061	0.055

PT. Agung Podomoro Land Tbk.			
Year	DER	ROA	Asset Structure
2017	1.504	0.065	0.139
2016	1.578	0.036	0.157
2015	1.706	0.045	0.147
2014	1.809	0.041	0.133
2013	1.728	0.047	0.140

Source: Prepared by Writer from Financial Statements 2013 to 2017 (2019)

From the data above, it can be seen that Lippo Cikarang Tbk., PT. Alam Sutera Realty Tbk., And PT. Agung Podomoro Land Tbk. experienced an increase and decrease in return on assets which fluctuated with the capital structure. Lippo Cikarang Tbk in 2015 to 2016 the return on assets declined from 0.167 to 0.095, but the capital structure also declined from 0.507 to 0.332. PT. Alam Sutera Realty Tbk. in 2016 to 2017 the return on assets increased from 0.025 to 0.066, but the capital structure declined from 1.808 to 1.417. PT. Agung Podomoro Land Tbk. in 2016 to 2017 the return on assets increased from 0.036 to 0.065, but the capital structure declined from 1.578 to 1.504. The phenomenon of the gap in this variable occurs at Lippo Cikarang Tbk. in 2016, the decline experienced by company profitability did not affect the company in increasing debt (DER). This shows that the company continues to minimize the use of debt when the company's profits decline.

From the data above shows that Lippo Cikarang Tbk., PT. Alam Sutera Realty Tbk., And PT. Agung Podomoro Land Tbk. experienced an increase and decrease in fluctuating asset structure. Lippo Cikarang Tbk. in 2014 to 2015 experienced an increase in its asset structure from 0.012 to 0.014, but its capital structure decreased from 0.639 to 0.507. PT. Alam Sutera Realty Tbk. from 2013 to 2014 the asset structure increased from 0.055 to 0.056, but the capital structure also declined from 1.706 to 1.656. PT. Agung Podomoro Land Tbk. in 2014 to 2015 the asset structure increased from 0.133 to 0.147, but its asset structure decreased from 1.809 to 1.706. From this description, it can be seen that the asset structure has increased when the company minimizes the use of debt (DER).

Research on capital structure has been done a lot before. As Ari Widyawati (2018), Ira Mayanita (2018), Nanda et al. (2015), etc which examines the factors that affect the capital structure of companies listed in Indonesia Stock Exchange. The differences in this research are in the measurement of the independent variables, which only uses profitability and

asset structure. Different in the research objects, namely property, real estate, and building construction companies with the research period that is 2013 to 2017, and only use one theory as the grand theory in this research which is Pecking-Order Theory.

From the various differences found in this study and previous studies that have been explained in the background above, further research needs to be carried out with the title "The effect of profitability and asset structure on capital structure in the property, real estate, and building construction companies listed in Indonesia Stock Exchange".

1.2 PROBLEM LIMITATION

The author is aware of the limitations of this study. These limitations may affect the results of the study. As for the limitations of this study include:

1. The research period is limited only 5 years, starting from 2013 to 2017.
2. The research samples used are limited only to Property, Real Estate and Building Construction Companies listed in Indonesia Stock Exchange so that the results of this research cannot be generalized to other company types.
3. Due to time constraints, this research only uses two variables there are profitability and asset structure.
4. The author proxies Debt to Equity Ratio (DER) as the capital structure and Return on Asset (ROA) as profitability.

1.3 PROBLEM FORMULATION

Based on the background that has been mentioned above, the writer formulates the problem as follows:

1. Does profitability partially affects the capital structure in the Property, Real Estate and Building Construction Companies listed in IDX for the period 2013 to 2017?

2. Does asset structure partially affects the capital structure in the Property, Real Estate and Building Construction Companies listed in IDX for the period 2013 to 2017?

3. Do profitability and asset structure simultaneously affect the capital structure in the Property, Real Estate and Building Construction Companies listed in IDX for the period 2013 to 2017?

1.4 THE OBJECTIVE OF THE RESEARCH

In accordance with the formulation of research problems, the objective of this study is to:

1. To analyze empirical evidence on the partially affects of profitability on capital structure in the Property, Real Estate and Building Construction Companies listed in IDX for the period 2013 to 2017.

2. To analyze empirical evidence on the partially affects of asset structure on capital structure in the Property, Real Estate and Building Construction Companies listed in IDX for the period 2013 to 2017.

3. To analyze empirical evidence on the affects of profitability and asset structure on the capital structure simultaneously in the Property, Real Estate and Building Construction Companies listed in IDX for the period 2013 to 2017.

1.5 BENEFIT OF THE RESEARCH

The benefits of research are the impact of achieving research objectives. This research is expected to provide benefits to the parties as follows:

1. Theoretical Benefit

   From the theoretical aspect, this research is expected to be useful to contribute to the development of accounting science regarding the factors that influence the capital structure of the property, real estate and building construction sector companies in Indonesia. In addition, this research is also expected to be used as material for theoretical studies and references to conduct further research.

2. Practical Benefit

   a. For companies, research can provide input on factors that influence capital structure. Thus, the management of property, real estate and building construction companies in Indonesia can make decisions regarding corporate funding and the right capital structure.

   b. For investors and creditors, this research can be used as a consideration in making investment decisions and lending by assessing the condition of property companies, real estate and building construction that exist in Indonesia.

1.6 SYSTEMS OF WRITING

The preparation of this research can be explained in a broad outline with the writing systematic as follows:

CHAPTER I INTRODUCTION

This chapter contains the research background, research problems, objectives and benefits of research, and systematic of writing to provide a brief description for the readers regarding the overall discussion of research. The background of the study is about the effect of profitability and asset

structure on capital structure in the company. Problem limitations limit the ROA, Asset Structure and DER in Property, Real Estate and Building Construction Companies for 2013 to 2017. Problem formulation consists of does Profitability and Asset Structure affects the capital structure. The research objective is to analyze empirical evidence of Profitability and Asset Structure on capital structure. Benefit of this research is divided into two such as theoretical and practical benefit, and also system of writing that provide overview on introduction, literature review, and hypothesis development, research method, and data analysis.

CHAPTER II THEORETICAL FRAMEWORK AND DEVELOPMENT OF HYPOTHESIS

In this chapter, the writer describes about theoretical background, previous research, hypothesis development, research model and framework of thinking. Theoretical review consists of profitability, asset structure and capital structure. This research is using Pecking Order theory. This research is using is using eight previous research. In hypothesis development, there are three different hypotheses are developed form the background of study, research problem, literature review, and prior research. This research consists of profitability and asset structure as independent variable and capital structure as dependent variable in the research model. Framework of thinking appearance the process of the research form the background of study, research problem, the grand theories and hypothesis development.

CHAPTER III RESEARCH METHOD

In this chapter, the writer describes about research design, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method. The research is using quantitative research with the population of Property, Real Estate and Building Construction Companies listed in Indonesia Stock Exchange for the year 2013 to 2017. The purposive sampling is the sample that   using   in

this study. The data used in this research is secondary data which is obtained from Indonesia Stock Exchange. Data analysis method use in this research includes descriptive statistic method, classical assumption test, and hypothesis testing by using multiple regression analysis.

CHAPTER IV ANALYSIS AND DISCUSSION

In this chapter, the writer describes about general view of the research object, data analysis, and discussion. Research object describes general information about Property and Real Estate, and Building Construction. Data analysis using Statistical Package Social Science (SPSS) version 25. It shows the SPSS result of descriptive statistic method, classical assumption test, and hypothesis testing by using multiple regression analysis. Discussion describes more clearly the results obtained from SPSS results.

CHAPTER V CONCLUSION AND RECOMMENDATION

In this chapter is a section that contains the results of research from the discussion in chapter IV. This chapter consists of conclusions, implication, and recommendations for further research.