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The Effect of Business Risk, Profitability, and Investment Decisions on Capital Structure

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ABSTRACT

The usage of both foreign and domestic capital is balanced in capital structure. When it comes to managing business finances, capital is crucial. The purpose of this study is to investigate how business risk, profitability, and investment choices affect the capital structure of automobile businesses that are listed between 2019 and 2021 on the Indonesia Stock Exchange (IDX). Purposive sampling, a technique for selecting object samples based on predetermined criteria, is the approach employed. Up to ten automakers are listed on the IDX, which is the number of samples according on the criterion. Multiple regression tests are used by the data analysis tool. The tiny number of automotive businesses in this study is its restriction, which leads to less-than-ideal outcomes.

Keywords: *Business Risk; Profitability; Investment Decisions; Capital Structure*

ABSTRAK

Penggunaan modal asing dan domestik seimbang dalam struktur permodalan. Dalam hal mengelola keuangan bisnis, modal sangat penting. Tujuan dari penelitian ini adalah untuk menyelidiki bagaimana risiko bisnis, profitabilitas, dan pilihan investasi mempengaruhi struktur modal bisnis mobil yang tercatat antara tahun 2019 dan 2021 di Bursa Efek Indonesia (BEI). *Purposive sampling*, teknik untuk memilih sampel objek berdasarkan kriteria yang telah ditentukan, adalah pendekatan yang digunakan. Hingga sepuluh pembuat mobil terdaftar di BEI, yang merupakan jumlah sampel sesuai kriteria. Tes regresi berganda digunakan oleh alat analisis data. Sejumlah kecil bisnis otomotif dalam penelitian ini adalah pembatasannya, yang mengarah pada hasil yang kurang ideal.

Kata kunci: Risiko Bisnis; Profitabilitas; Keputusan Investasi; Struktur Modal

INTRODUCTION

In era of globalization and increasingly fierce competition, companies around the world face complex challenges in managing their finances. One important aspect of financial management is the company's capital structure involves analyzing the proportion of equity funding (money from company owners) and debt funding (capital obtained through loans) (Safira et al., 2024)The optimal capital structure not only affects the company's profitability but also plays it was a big decision to make business risks faced.

Business risk refers to the possibility of losses due to fluctuations in a company's revenue. This risk can be influenced by various external and internal factors, including market conditions, investment decisions, and financial

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performance. Previous research Indicates that operational risks have a significant impact on a company's capital structure decisions (Safira et al., 2024). In addition, profitability, which indicates a The power of a company to create profits, is also a key factor in determining capital structure. More profitable companies tend has stronger flexibility in choosing funding sources.

One of these reasons affect capital structure is business risk. (Dwijayanti & Wijoyo, 2024)stated that business risk arises due to a decrease in the profitability of companies listed on the stock exchange. The most crucial determinant of capital structure is business risk, which is the risk inherent in a company's operations if it does not utilize debt. Companies must be cautious in determining their capital structure when facing high business risks (Qosidah & Romadhon, 2021)

Companies worldwide confront difficult financial management issues in the age of globalization and escalating competition, particularly with regard to capital structure. A company's The capital structure describes the combination of debt and equity used to finance operational activities and the growth of the company. In order to better understand how business risk, profitability, and investment choices affect capital structure, this study will look at automotive issuers listed on the Indonesia Stock Exchange (IDX) between 2019 and 2021. It is intended that this study will help corporate management make the best financial decisions by shedding light on how these factors impact capital structure (Hutabarat, 2022).

LITERATURE REVIEW

Capital Structure

(Hopipah, 2024)capital structure is a major scope for Determining decisions for a company's activities, because if the company makes a mistake in determining its capital structure, it affects the company's fiscal standing negatively. The use of a good asset structure can increase the company's value and success, stating that the capital structure is a proportion of the company's finances. between long-term liabilities and shareholders' equity, which is the company's source of financing.

Gross Profit Margin (GPM)

The Gross Profit Margin serves as an indicator for assessing how effectively companies manage their costs related to selling expenses and production expenditures. This metric reflects a firm's capability to operate efficiently by showing that its revenue exceeds its direct manufacturing and distribution outlays significantly. Consequently, higher Gross Profit Margins signify superior operational performance due to reduced overheads relative to total income generated from product sales (Hurriyati et al., 2020)

$$GPM = \frac{Sales - Cost\ Of\ Good\ Sold}{Sales}$$

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Operating Income Ratio

Operating Income Ratio is a ratio that can be Its use aims to evaluate the company's capabilities generate pre-tax operating profit for every dollar of sales.

Financing to Deposit Ratio (FDR)

FDR is a proxy that shows the level of proficiency of Islamic banks in returning funds to third parties with profits derived from bank financing (Setiarini & Yudiana, 2023)Another term for FDR is a performance ratio that assesses how well Islamic banks can return public funds through profits obtained from mudharabah (Azizah, 2024). The formula used to measure FDR is:

$$\text{Operating Income Ratio} = \frac{\text{Operating Net Profit}}{\text{Revenue}} \times 100\%$$

Net Profit Margin (NPM)

Net Profit Margin Demonstrates the firm's capacity for production profit From a certain business volume, the company's level of efficiency can be interpreted as the net profit margin, how well the company can minimize the level of cost, effectiveness in a company increases as the Net Profit Margin increases the company is in running its operations.

$$\text{NPM} = \frac{\text{Earning After Tax}}{\text{Sales}} \text{ x } 100\%$$

Return on Investment (ROI)

Return on Investment (ROI) serves as an indicator for measuring how effectively companies convert their taxable earnings into usable capital. By comparing these earnings with the entire asset base of the firm, we gauge its ability to yield substantial returns from available resources. Variations within this benchmark often signal potential operational challenges, implying difficulties in maintaining consistent profitability levels (Soetjanto & Thamrin, 2020)

$$\text{ROI} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100\%$$

Hypothesis

H1: The influence of Gross Profit Margin on corporate financing decisions is significant.
H2: Operating Income Ratio plays a crucial role in shaping a company's funding strategies.
H3: Financing-to-deposit ratios are pivotal in determining how firms allocate funds internally versus externally.

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H4: Net Profit Margin influences the way businesses manage their finances and investments.

RESEARCH METHODS

A research design is a structure created especially as a research plan to give explicit guidance for achieving research goals and resolving issues. The purpose of this study is to evaluate how capital structure is affected by business risk, profitability, and investment choices. Quantitative methods are used in a descriptive manner in this inquiry. Sugiyono (2017) claims that quantitative research methods, which have positivist philosophical underpinnings, are employed to examine a specific population or sample. Typically, random sampling techniques are employed, data is gathered using research instruments, and quantitative/statistical data analysis is carried out to test preexisting hypotheses. Explanatory research is the kind of study that is employed, and it uses hypotheses to explain the causal relationship between research variables. Data analysis techniques are the process of finding data, organizing data from field notes, interviews, and documentation in a methodical manner, classifying data, breaking it down into units, synthesizing it, organizing it into patterns, selecting key topics for further research, and drawing conclusions that are understandable to oneself and others (Rosini & Adab, 2023). The method of data analysis This study uses numerical data analysis. The purpose of data analysis in this study is to derive findings or conclusions from the gathered data. Data computation and analysis in In order to support this research, the Statistical Product and Service Solution (SPSS) tool is used to perform the regression above the model that the researcher developed.

RESULTS AND DISCUSSION

Classical Assumption Analysis

Normality Test

Table 1. Multicollinearity Test
Source: Data Analysis Results, 2024

Coefficient [a]			
Model		Collinearity Statistics	
		Tolerance	English: VIF
1	LN_FAST	.331	3.020
	Net profit	.324	3,082
	PER	.966	1,036
a. Dependent Variable: DER			

It is evident from Table 1's processed data that every independent variable has a tolerance value greater than 0.10 and a Variance Inflation Factor (VIF) less than

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10. We may conclude that the variables in this regression model do not have a multicollinearity issue. Consequently, since the multicollinearity test assumptions have been satisfied and multiple linear regression tests may be carried out, this regression model can be utilized for additional investigation.

Table 2. Heteroscedasticity Test
Source: Data Analysis Results, 2024

Coefficient [a]						
Model		Unstandardized Coefficient		Standard Coefficient	T	Signature .
		B	Standard Error	English		
1	(Constant)	595,967	215,482		2,766	.010
	LN_FAST	-64,970	63,174	-.322	-1.028	.313
	Net profit	.324	1,088	.094	.298	.768
	PER	.034	.020	.311	1,691	.103
a. Dependent Variable: ABS_RES1						

The factors from those above business risk, profitability, and investment decisions have a significance value above 5%, according to the data in Table 2. This indicates that the dependent variable of the absolute residual value is not statistically impacted by any of the independent factors. Therefore, it can be inferred from the data in the preceding table that heteroscedasticity is absent from the regression model.

Table 3. Autocorrelation Test
Source: Data Analysis Results, 2024

[b] Summary					
Model	R	R Square	Adjusted R Squared	Standard Error of Estimate	Durbin Watson, a professor at Durbin University,
1	.806 [a]	.650	.610	512.01662	1.986
a. Predictors: (Constant), PER, LN_BRISK, ROA					
b. Dependent Variable: DER					

The Durbin-Watson statistic of 1.986, as seen in Table 3, is between 1.2138 and 2.3502. Therefore, it can be stated that there is no autocorrelation.

Table 4. Normality Test
Source: Data Analysis Results, 2024

One Sample Kolmogorov-Smirnov Test	
	Unstandardized Residues
N	30

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Normal Parameters [a,b]	Means	.0000000
	Standard Deviation	Phone number 484.81017984
The Most Extreme Difference	Absolute	.132
	Positive	.101
	Negative	-.132
Kolmogorov-Smirnov Z		number .725
Asymptomatic Sig. (2-tailed)		.669
a. The test distribution is Normal.		
b. Calculated from data.		

Based on Table 4 above, the asymptotic significance value (2-tailed) of 0.669 has exceeded the threshold value of 0.05 (alpha 5%). Thus, it can be stated that the confounding variable has a normal distribution.

Table 5. Summary of Classical Assumption Test
Source: Data Analysis Results, 2024

NO	Classical Assumption Test	Criteria	Results
1	Multicollinearity Test	VIF < 5	No Multicollinearity Occurs
2	Heteroscedasticity Test	Sig.> 0.05	No Heteroscedasticity Occurs
3	Autocorrelation Test	Sig.> 0.05	No Autocorrelation Occurs
4	Normality Test	Sig.> 0.05	Normally Distributed Data Sample

Table 5 shows that this study has passed the classical assumption test, which shows no problems with multicollinearity, autocorrelation, or heteroscedasticity, and the normality test shows that the data is normally distributed. Thus, the study can proceed to the next stage of analysis, namely multiple linear regression.

Table 6. Multiple Linear Regression Analysis Results
Source: Data Analysis Results, 2024

Coefficient [a]						
Model		Unstandardized Coefficient		Standard Coefficient	T	Signature.
		B	Standard Error	English		
1	(Constant)	4659.657	592.203		7,868	.000
	LN_FAST	-997,793	173,620	-1.159	-5,747	.000
	Net profit	7,379	2,990	.503	2,468	.020

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	PER	.037	.055	.078	.664	.012
a. Dependent Variable: DER						

From Table 6, the multiple linear regression equation obtained between the variables Brisk, Roa, and Investment Decisions on Capital Structure is as follows:

DER = 4659.657 + (-997.79x1) + 7.379x2 + 0.037

This multiple linear regression equation can be interpreted as follows:

1. The constant value of 4659.657 means that if all independent variables are zero, then the purchasing decision (Y) has a value of 4659.657.
2. The regression coefficient for BRISK (-997.793) means that for every unit decrease in brisk, the debt to equity ratio will decrease by -997.793, assuming other variables remain constant.
3. The regression coefficient for Return on Assets (7.379) indicates that for every one unit increase in Return on Assets, the Debt to Equity Ratio will increase by 7.379, assuming other variables remain constant.
4. The regression coefficient for Investment Decision (0.037) indicates that for every one unit increase in Investment Decision, the Debt to Equity Ratio will increase by 0.037, assuming other variables remain constant.

Coefficient of Determination (R^2)

Table 7. Coefficient of Determination (R^2)
Source: Data Analysis Results, 2024

[b] Summary					
Model	R	R Square	Adjusted R Squared	Standard Error of Estimate	Durbin Watson, a professor at Durbin University,
1	.806 [a]	.650	.610	512.01662	1.986
a. Predictors: (Constant), LN_BRISK, ROA, PER					
b. Dependent Variable: DER					

A model's ability to explain the variance of the dependent variable is gauged by its coefficient of determination. The coefficient of determination, or adjusted R square, is 0.650, according to Table 7 above. This indicates that factors including product quality, price, brand image, and lifestyle account for 65% of the variance in purchasing decisions. This degree of importance suggests that these elements have a big influence on people's decisions to buy.

Hypothesis Test Results

F Test

The F test is used to determine whether all independent variables included in the model simultaneously affect the dependent variable (Meiryani, 2021). This test

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helps evaluate whether the model in this study is appropriate. The results of the Simultaneous Test (F Test) are presented in Table 8 as follows:

Table 8. Simultaneous Effects Test (F-test) Results
Source: Data Analysis Results, 2024

(ANOVA)						
Version		Sum of Squares	Df	Mean Square	F	Signature.
1	Regression	12654777.463	3	4218259.154	16,090	.000 million
	Rest	6816186.404	26	262161.016		
	Total	19470963.867	29			
a. Dependent Variable: DER						
b. Predictor: (Constant), LN_BRISK,ROA,PER						

Table 8 shows a significance value of 0.000 <0.05, so it can be concluded that the hypothesis stating that there is a simultaneous influence of business risk, profitability, and investment decisions on capital structure is accepted. These results prove that the model used is feasible to test the dependent variable (Capital Structure). A significance value of 0.000 and a confidence level of 99% strengthen the existence of a simultaneous influence.

Between independent variables and dependent variables. Therefore, the hypothesis stating that business risk, profitability, and investment decisions jointly affect the capital structure of automotive companies approved.

T-Test

The t-test statistic is used to show the extent to which the independent variables (business risk, profitability, and investment decisions) individually influence the dependent variable (capital structure). The partial test results are presented in Table 9 as follows:

Table 9. Partial Effect Test Results (T-Test)
Source: Data Analysis Results, 2024

Coefficient [a]						
Model		Unstandardized Coefficients		Standard Coefficient	T	Signature.
		B	Standard Error	English		
1	(Constant)	4659.657	592.203		7,868	.000
	LN_FAST	-997,793	173,620	-1.159	-5,747	.000
	Net profit	7,379	2,990	.503	2,468	.020
	PER	.037	.055	.078	.664	.012
a. Dependent Variable: DER						

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Second Hypothesis Test Results

The t-test's significant value for the business risk variable is 0.000 <0.05, or 5%, according to the results of the second hypothesis test, which are shown in Table 8. This suggests that the capital structure is somewhat negatively impacted by the business risk variable. In summary, a lower capital structure will result from a higher business risk, while a larger capital structure will result from a lower business risk. The corporation offers more equity to lower foreign debt in order to mitigate excessive risk. For the 2019–2021 timeframe, the second hypothesis—that business risk influences the capital structure of automakers listed on the IDX—is thus accepted.

Third Hypothesis Test Results

On Hypothesis Test Three, as shown in Table 8, we find statistically significant values for the profitability variable at 0.02 < 0.05. This indicates that profitability has a positive partial effect on capital structure. Simply put, the higher a company's profitability is, the higher its capital structure will also be. Conversely, if profitability is low, then the capital structure tends to be lower as well. This aligns with findings by (Savitri et al., 2021) that profitability has a positive effect on capital structure.

Fourth Hypothesis Test Results

The significance value of the t-test for the investment choice variable is 0.012 < 0.05, or 5%, according to the findings of the fourth hypothesis test, which are displayed in Table 8. This indicates that the capital structure is positively impacted by the investment choice variable to a certain extent. In conclusion, the capital structure will rise in tandem with a large investment decision. Therefore, it is possible to accept the fourth hypothesis, which states that investment choices positively impact the capital structure of automakers listed on the IDX.

CONCLUSION AND RECOMMENDATIONS

Based on the results and discussions in the previous chapters, it can be concluded that business risk, profitability, and investment decisions have a significant influence on the capital structure of automotive companies listed on the Indonesia Stock Exchange in 2019-2021. The three are correlated: business risk affects the company's behavior in using debt, profitability strengthens the financial position and increases financing capacity, and investment decisions require additional financing which usually comes from debt. Therefore, understanding the interaction between these variables is very important for company management in formulating an optimal financing strategy, including managing business risk carefully, maximizing profitability, and making wise investment decisions to achieve a balanced and sustainable capital structure. Based on the conclusions above, the author provides the following suggestions: Companies should consider factors influencing their capital composition when making strategic decisions about optimal capital structure, both internally and externally. Further researchers are encouraged to evaluate whether

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previously studied variables have significant effects to streamline future research processes. For other researchers using this study as a reference, careful selection of the dependent variable is crucial, ensuring alignment with the independent variable and support from relevant theories or prior research to prevent errors in formulating hypotheses. Prospective investors should pay close attention to a company's ability to determine capital structure policies, particularly regarding business risk factors, profitability, and investment decisions. Additionally, investors should carefully evaluate high capital structures in automotive and component companies, as these indicate greater reliance on external funds, such as debt, which may pose increased risks.

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