The Effect Of Capital Structure, Liquidity, And Growth On Corporate Performance Classified As Small Capitalization Companies On Indonesia Stock Exchange Period 2011-2016

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Abstract: The purpose of this research was to know and analyze the effect of capital structure, liquidity, and growth both partially and simultaneously toward corporate performance. The object of the research is a small capitalization company on Indonesia Stock Exchange Period 2011-2016. This research design used explanative method with causality study. The populations are companies that included small capitalization companies on Indonesia Stock Exchange period 2011-2016. The small capitalization companies are represented by Pefindo 25 Index amount to 25 companies. To determine the amount of sample, the researcher used non probability sampling method by using purposive sampling technique in order to get representative sample in accordance with the criteria determined, so that determined as many as 24 companies that can be used as samples in this study. The type of data used secondary data sourced from Indonesia Stock Exchange. The data analysis technique used multiple regression analysis and Hypothesis with SPSS program. The result of this research concludes that the capital structure, liquidity, and growth have a significant effect on the corporate performance that included small capitalization on Indonesia Stock Exchange period 2011-2016 either partially or simultaneously.

Index Terms: Capital Structure, Liquidity, Growth, Corporate Performance

1 INTRODUCTION

The size of the firm is a scale to classify the size of a company in various ways, including: total cost, sales, market value, is that highly correlated with firm size. The greater the total cost, sales, and market capitalization, the greater the size of the firm. The company size is divided into three categories: big companies, medium companies, and small companies (Ferry and Jones, 1979; Panjaitan, 2004).The size of a company will affect the capital structure, where the bigger the company will be the bigger the funds needed by the company to invest (Ariyanto, 2002). The larger the size of a company, the tendency to use foreign capital is also greater. This is because large companies need large funds to support their operations and one of the alternative fulfillment is with foreign capital if the capital itself is not sufficient (Halim, 2007). Furthermore, explained by Dewi (2014) that the current business world depends on funding issues. Where the business world suffered a setback due to the many financial institutions that experienced financial difficulties as a credit squeeze in the business world without taking into account the credit limit in the past by the banking and creditworthiness issues approved (Safrida, 2008). Efforts to anticipate these conditions, the company's financial managers must be careful in determining the capital structure of the company, with the careful planning in determining the capital structure is expected to increase corporate value and superior in the face of business competition. Several studies have been conducted on capital structure, among others, Dawar (2014) found that capital structure has a negative effect on financial performance. Akeem (2014) also found the same result that there is a negative relationship between capital structure and company performance.

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Furthermore, Wachilonga (2013) examines the effect of capital structure on firm performance on small and medium companies in Kenya. The results of the study found that there was no difference in funding structure between small and medium enterprises. Liquidity is one factor that can encourage the improvement of company performance. Asiah Research (2011), Manyo (2013) and Salehi (2012) stated that liquidity has a positive and significant effect on return on assets when the management of the company manages it as working capital optimally. In addition to capital structure and liquidity, the company's growth can also affect the company's performance. Companies that have high sales growth indicate that the company has good growth prospects in the future, so the company has the ability to provide high returns to investors. The positive and significant impact of sales growth on profitability is evidenced by the results of research conducted by Hastuti (2010), Jang and Park (2011), Hansen and Juniarti (2014) and Iqbal and Zhuquan (2015). Based on the background exposure, this study intends to examine the effect of capital structure, liquidity, and growth on the company performance included small capitalization companies on Indonesia Stock Exchange Period 2011-2016.The capital structure as one of the ratios of financial statements that need to be noticed by companies. Generally a combination of debt-to-equity levels used to finance long-term corporate debt (Saleemetl.al., 2013). There are various factors that can affect the level of a company's capital structure in determining the best financing. Where the capital structure can be measured by the ratio of gearing or leverage ratio. Meanwhile, other researchers such as Brigham and Houston (2002, p.6) mentioned that there are four factors that can influence the decision of capital structure, among others: Business risk or risk level contained in the company's operations if the company does not use the debt. The company's tax position, if a substantial proportion of the company's revenue has been spared from taxes due to depreciation calculations, interest on current outstanding debt or compensated forward tax losses, the additional debt does not provide as much benefits as the company feels with effective tax rates higher. Financial flexibility, in difficult economic times or when firms face operational difficulties, capital owners prefer to invest in firms with good balance sheet positions. Liquidity is the ratio obtained from the comparison between the amount of cash and current assets to current liabilities which is used to require the use of a cash budget and analysis of this ratio can be quickly and easily show the size of the upper level of liquidity of a company. Meanwhile, the opinion to measure the liquidity ratio can also use two measurements by using the measurement of the current ratio and quick ratio (Sundjaja and Barlian, 2010).Measurement using current ratio can be calculated by dividing current assets with current liabilities. Thus if a company experiencing financial difficulties debt repayment business will be slow, loans to the bank will be more, and so forth. However, if current liabilities grow faster than current assets, the current ratio will decline and this can certainly jeopardize the company's financial condition because the current ratio is the only best indicator showing the extent to which current liabilities can be updated with current assets, then this ratio most commonly used as a measure of short-term solvency. Measurement of liquidity by using quick ratio that is by reducing current assets with inventory and then dividing the rest with current liabilities. This is because inventory is generally the least liquid asset. Therefore, in case of liquidation, the assets may experience a greater loss condition when compared with other current assets. Company growth generally shows the growth rate of assets owned by a company in which the asset is one of the features of the assets used by the company for the operational activities of the company. This condition indicates that companies with large assets can carry out larger operational activities that will ultimately impact on improvement by the company's operational results. The growth of the company as a benchmark of company's success is also expressed by Sunarto and Budi (2009) which mentioned that the success of a company can be used as a benchmark of corporate investment to increase future growth. Referring to research conducted by Smith and Watts (1992) explained in the research journal Afza and Hussain (2011) that there is a negative relationship between leverage and growth of the company. This is because growth as an important factor that affect the ratio of debt equity in the company based on regression results using trade-off theory and pecking order theory. According to Van Horne and Wachowicz (2012) profitability ratio is the ratio used to measure the ability of companies in obtaining profit or profit. The profitability of an enterprise embodies the comparison between profit and the asset or capital that generates the profit. Based on the theory that has been explained by the experts, then the company's performance in this study will be measured by internal performance that is seen from company profitability ratio.

3 THEORETICAL FRAMEWORK

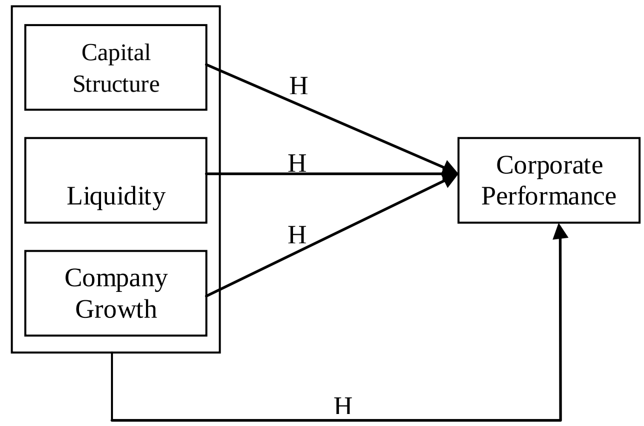

FIGURE 1. *THEORETICAL FRAMEWORK*

Debt to equity ratio is a ratio that measures the rate of use of debt to total equity owned by the company.

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Furthermore, debt has a bad effect on the company performance, because the higher the debt rate means the interest burden will be greater which means less profit. Where the higher the DER (Debt to Equity Ratio) of a company then it can be sure the greater the burden of the company against outsiders. This condition is very possible to reduce the company's performance, because the level of dependence with outsiders is getting higher. Thus the relationship between DER and ROA is expected to be negative. Based on the theory and results of previous research, the hypothesis proposed is

Hypothesis 1: Capital structure effect on corporate performance. High liquidity without the use of value owned to generate profits for the company will be a burden because it can be said idle cash or idle funds, the number of receivables that are not collectible and low short term loans.

$$\text{CR} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

The results of research conducted by Asiah (2011) on textile industry listed on the BEI period 2003-2007 found that current ratio has a positive and significant effect on the profitability of the company. Salehi (2012) conducted a study on 120 manufacturing companies listed on Tehran Stock Exchange period 2006-2010 stated CR has a positive and significant influence on ROA when the company's management manage it as working capital well. Based on the theory and the results of previous research, the hypothesis proposed is Hypothesis 2 **:**Liquidity affects corporate performance. Net profit margin (NPM) shows the ability to earn a profit from each sale created by the company while asset turnover shows how far the company is able to create sales of assets owned by measurement using NPM and asset turnover is used to measure return on assets. Bambang (2001) asserts that by multiplication of NPM with asset turnover indicates that the size of profit margin and asset turnover of a company is determined by net sales. Research conducted by Sari (2012) states partially total assets have a significant positive effect on ROA. Based on the theory and results of previous research, the hypothesis proposed in this study is Hypothesis3 **:** Company growth affects corporate performance Hypothesis4 : Capital structure, liquidity, and company growth simultaneously affect corporate performance.

4 RESEARCH METHODOLOGY

This research used causal research method, is a study to explain the causal relationship between one variable affecting other variables (Cooper and Schiner, 2011) through hypothesis testing, which in this study aims to determine the influence of independent variables (capital structure, liquidity, and growth) on the dependent variable (corporate performance). The population in this study is companiesinclude small capitalization company on Indonesia Stock Exchange period 2011-2016.The small capitalization companies are represented by Index Pefindo 25. To determine the amount of sample used, the researcher used non probability sampling method. Sampling technique using purposive in order to get representative sample in accordance with the criteria determined so that determined as many as 24 companies that can be used as samples in this study. The type of data used in this study used secondary data. The secondary data sourced from Indonesia Stock Exchange. The data analysis technique used multiple regression analysis and Hypothesis with SPSS program version 20.00. At first testing classical assumption before the multiple regression analysis.

5 RESULT AND DISCUSSION

Before conducting multiple regression testing and hypothesis. The researcher first tested the classical assumptions. Here are the results of classical assumption test:

Table1. *Normality Test* One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		123
Normal Parameters[a,,b]	Mean	0,0000000
	Std, Deviation	0,09732330
Most Extreme Differences	Absolute	0,060
	Positive	0,057
	Negative	-0,060
Kolmogorov-Smirnov Z		0,664
Asymp. Sig. (2-tailed)		0,771

a. Test distribution is Normal.
b. Calculated from data.

The result of normality test with Kolmogorov-Smirnov shows that normality test is fulfilled because significant value obtained is greater than 0,05 meaning that data have been distributed normally.

Table 2. *Multicollinearity Test*

Model	Collinearity Statistics	
	Tolerance	VIF
DER	0,712	1,405.00
CR	0,687	1,455.00
GROWTH	0,960	1,042.00

Dependent Variable: ROA The test results show that between the capital structure (DER), liquidity (CR), and firm growth (GROWTH) are not correlated or multicollinearity does not occur in the regression model because it obtains VIF <10 and Tolerance> 0.1.

Table 3.*Heteroscedasticity Test*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,123	0,028		4,383	0,000
DER	-0,023	0,009	-0,264	-2,495	0,014
CR	-0,010	0,014	-0,079	-0,736	0,463
GROWTH	-0,008	0,024	-0,032	-0,347	0,729

a. Dependent Variable: ABS_RES

The result of test shows that the three variables are free from Heteroscedasticity problem, because the independent variables are capital structure (DER), liquidity (CR), and company growth (GROWTH) has significant value> 0,05.

Table 4. *Autocorrelation Test*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,599[a]	0,359	0,343	0,09854	0,722

a. Predictors: (Constant), GROWTH, DER, CR
b. Dependent Variable: ROA

The results of the autocorrelation test indicate that the observational data in this study have autocorrelation. This is shown by obtaining a DW value of 0.722 <from DL of 1.6561.

Table 5. *Multiple Regression Test*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,214	0,053		4,011	0,000
DER	-0,084	0,018	-0,412	-4,729	0,000
CR	0,068	0,027	0,227	2,560	0,012
GROWTH	0,169	0,046	0,276	3,684	0,000

a. Dependent Variable: ROA

Based on the above test results, it can be made regression equation as follows:

ROA = 0,214 – 0,084 DER + 0,068 CR + 0,169 GROWTH + e

The result of the regression equation on the significance of the coefficient and the interpretation of the regression equation is as follows: The results of the test in Table 5, informed that the capital structure (DER), liquidity (CR) and company growth (GROWTH) partially significant effect on corporate performance proxy with ROA. This result also shows that the variable of capital structure (DER) is the most dominant variable influence on corporate performance, it is supported by beta coefficient value of 0,412 (41,2%) bigger than CR and GROWTH. Meanwhile, liquidity (CR) is the least influence variable on the corporate performance by beta coefficient value of 0,227 (22,7%). Hypothesis testing is conducted to test whether there is capital structure, liquidity, and company growth affect corporate performance. This hypothesis testing is divided into three parts as follows: Basic decision-making based on the value of significance, if the significant value is smaller than the error rate of 5% (sig. <0.05) then Ho is rejected. The results of the tests are summarized in Table 6 below :

Table 6. *Hypothesis Testing (Partial Test)*

No	Variable	t-statistic	Sig.
1	DER	-4,729	0,000
2	CR	2,560	0,012
3	GROWTH	3,684	0,000

Based on Table 6 it can be explained about the results of the t test hypothesis as follows. The first hypothesis examines the effect of capital structure on corporate performance of companies include small capitalization on Indonesia Stock Exchange period 2011-2016. The hypothesis is presented as follows.

Ho1 = Capital structure has no significant effect on corporate performance

Ha1 = Capital structure has significant effect on corporate performance

Based on Table 6 result of hypothesis test of capital structure (DER) on corporate performance (ROA) obtained t value count of -4,729 and significant value of 0,000. Thus, Ho1 was rejected and Ha1 was accepted, so it can be concluded that the capital structure has significantly effect on corporate performance include small capitalization on Indonesia Stock Exchange period 2011-2016. The second hypothesis examines the effect of liquidity on corporate performance include small capitalization on Indonesia Stock Exchange period 2011-2016. The hypothesis is presented as follows.

Ho2 = Liquidity has no significant effect on corporate performance

Ha2 = Liquidity has significant effect on corporate performance

Based on Table 6 result of hypothesis test of liquidity (CR) on corporate performance (ROA) obtained t value count of 2.560 and significant value of 0.012. Thus, Ho2 was rejected and Ha2 was accepted, so it can be concluded that the liquidity has significant effect on corporate performance include small capitalization on the Indonesia Stock Exchange period 2011-2016. The third hypothesis examines the effect of company growth on corporate performance in companies that belong to small capitalization in Indonesia Stock Exchange period 2011-2016. The hypothesis is presented as follows.

Ho3 = Company Growth has no significant effect on corporate performance

Ha3 = Company Growth has significant effect on corporate performance

Based on Table 6 result of hypothesis test of growth on corporate performance (ROA) obtained t value count of 3.684 and a significant value of 0.000. Thus, Ho3 was rejected and Ha3 was accepted, so it can be concluded that the company growth has significant effect on corporate performance include small capitalization on the Indonesia Stock Exchange period 2011-2016. The results of simultaneous test or F test are used to test whether all independent variables have an influence on the dependent variable. Basic decision-making based on the value of significance, if the F-statistic value is greater than F-table or significantly smaller than the error rate of 5% (sig. <0.05) then Ho is rejected.

The hypothesis is presented as follows.

Ho4 = The capital structure, liquidity, and company growth simultaneously have no significant effect on corporate performance.

Ha4 = The capital structure, liquidity, and company growth simultaneously have significant effect on corporate performance.

Table 7. *F Test*

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0,646	3	0,215	22,189	0,000[a]
Residual	1,156	119	0,010		
Total	1,802	122	-		

a. Dependent Variable: ROA
b. Predictors: (Constant), GROWTH, CR, DER

Based on Table 7 above, the results of the simultaneous hypothesis test obtained F value of 22.189> F-table (2.68) and a significant value of 0.000 less than 0.05. Thus, Ho4 was rejected and Ha4 was accepted. This means that the variable of capital structure, liquidity, and company growth simultaneously have significant effect on corporate performance. The test results of the determination coefficient in this study can be seen at Table 8

Table 8 .*Coefficient of Determination Test*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,599[a]	0,359	0,343	0,09854

Based on the test results of determination coefficient obtained Adjusted R-Square value of 0.343 or 34.3%. This means that the variable of capital structure, liquidity, and company growth simultaneously give an effect of 34.3% on the corporate performance classified as small capitalization on Indonesia Stock Exchange period 2011-2016. While the remaining 65.7% influenced by other variables outside the research model. Pertaining to the results the hypothesis test, so it can be conducted discussion of research results as follows :

a. Capital Structure Affects Corporate Performance

Results the first hypothesis showed that the capital structure has a significant influence on the corporate performance classified as small capitalization on the Indonesia Stock Exchange period 2011 to 2016. Meanwhile, the relationship between capital structure and the company's performance is negative, it means that the higher the capital structure then the company's performance will decrease. The results was supported by Dawar (2014) found that the capital structure has a negative influence on corporate performance. The result is reinforced by the Akeem et.al. (2014) which explain the debt that is not managed optimally will cause adverse impact on the company performance. Akeem et.al. (2014) also asserted that the improper use of debt can also impact the bankruptcy of the company.

b. Liquidity Affects Corporate Performance

Testing on the second hypothesis showed that liquidity have a significant effect on the corporate performance classified as small capitalization on Indonesia Stock Exchange period 2011 to 2016. The result showed that there was relationships positive between liquidity and the company's performance, it means that the higher the liquidity the better the company's performance. The findings of this study are in line with the results of research conducted by Asiah (2011) and Ristantiet. al. (2015) where liquidity have a significant and positive influence on return on assets.

c. Company Growth Affects Corporate Performance

The third hypothesis showed that company growth has a significant effect on corporate performance classified as small capitalization on Indonesia Stock Exchange period 2011-2016. The result showed that there was relationships positive between growth and the company's performance, it means that the higher the company's growth the better the company's performance. The company's growth measured by the difference between the year t and t-1 sales divided by the year t-1 sales has proven to play a role in determining the ups and downs of the company's performance. This is in line with the findings of research conducted by Hansen and Juniarti (2014), Iqbal and Zhiqian (2015) in which the study also found that the growth has a significant and positive influence on company performance.

d. The Capital Structure, Liquidity, And Company Growth Simultaneously Affect Corporate Performance.

The result of the fourth hypothesis showed that capital structure, liquidity, and company growth simultaneously have a significant effect on corporate performance classified as small capitalization on Indonesia Stock Exchange period 2011-2016. This is proven based on F test results obtained F-statistic value of 22.189 and a significant value of 0.000 smaller than 0.05 with a magnitude of influence of 34.3%.

5 Conclusion

The conclusions of this study are:(1) Capital structure have a significant effect on corporate performance classified as small capitalization on Indonesia Stock Exchange period 2011-2016. (2) Liquidity have a significant effect on corporate performance classified as small capitalization on Indonesia Stock Exchange period 2011-2016. (3) Company growth have a significant effect on corporate performance classified as small capitalization on Indonesia Stock Exchange period 2011-2016. (4) The capital structure, liquidity, and company growth simultaneously have significant effect on corporate performance classified as small capitalization on Indonesia Stock Exchange period 2011-2016. Suggestions that can be given by researchers, as follows:

(1) Company managers need to consider funding policies for small capitalization companies because DER has a negative impact on ROA, so it is recommended for small capitalization companies to control the amount of debt in order to increase ROA. In addition, companies can use larger sources of external financing (debt) to finance companies, however to avoid the risk of bankruptcy then the allocation of loan funds should be on a profitable project only.
(2) Liquidity affects the ROA on small capitalization companies. The higher the CR, the more funds the company will have the more liquid, the small capitalization company needs to increase sales activity through rapid turnover, this is able to provide high profits for the company.
(3) The higher the growth of the company (sales growth) the higher the level of profits derived from sales activities, so that ROA gained will increase. Therefore, small capitalization companies should be able to increase sales by expanding market share in order to increase ROA.

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