



Antecedent of Capital Structure for MNC

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ABSTRACT

Multinational companies are companies that carry out business activities internationally in many countries and have subsidiaries in more than one country. This study aims to analyze whether there is an influence of the firm size (size), asset growth (GP), Return on Asset (ROA), Current Ratio (CR), Fix Assets Ratio (FAR), Sales Growth (TP) on Capital Structure (DER). This study uses a quantitative method with the 2013-2022 observation year in 23 multinational companies. The analysis technique used is multiple regression analysis. From the results of the study showed that 1. ROA and SIZE have a negative and significant effect on DER, 2. FAR and CR have a positive and significant effect on ROA, 3. whereas TP and GP have a positive and not significant effect on DER.

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1. Introduction

Multinational companies are companies that carry out business activities internationally in many countries and have subsidiaries in more than one country, while domestic companies are companies that carry out bisnsis activities only in one country. Multinational company capital decisions include capital funding for the operational needs of all subsidiaries. As a result, the entire capital structure consists of the capital structure of all subsidiaries of the company (Madura, 2009).

Because they have subsidiaries in several countries, multinational companies (MNC) may have a high level of profitability. MNC chose equity in their capital structure because they will use the revenue detained to support their investment. According to pecking order theory, organizations with a high level of profitability will use a little debt because they prefer to use their own funding sources.

A company funding decision can be seen from its capital structure. Najmuddin (2011) states that the capital structure is to determine a certain percentage of the total capital needed by a company, which is funded by debt and equity. In this context, the capital structure refers to the way the company finances its assets and investments, namely the composition of financing from equity and debt capital. Decisions about financing are very important for the company, because it will have an impact on determining its value. It should be noted that the decision regarding the choice between alternative financing must always focus on maximizing the value of the company.

The ratio between third party funding sources and debts describing the company's capital structure is called der (debt to equity ratio). The der ratio shows the level of risk of a company where the higher the der ratio, the higher the company's risk. According to Brigham, Eugene F. Houston (2011), Investors are more interested in a certain der level with a ratio of less than 1 (one), because the company's DER value greater than 1 (one) means the debt coefficient in the company is higher than the amount of own capital.

Most of the studies conducted to identify the factors that determine the capital structure, mainly based on trade-offs and pecking orders (Voulgaris et al., 2004; Tong and Green, 2005; Fama and French, 2005; Frank and Goyal, 2006, and Pindado et al., 2006). In this section we present the main concepts and models of capital structure, including trade-off models and pecking orders, models based on bankruptcy and agency and asymmetrical information. These models continue to be used to explain the behavior of company capital structures (Shyam-Sunder and Myers, 1999, Frank and Goyal, 2006, Fama and French, 2002; and Kayhan and Titman, 2007

According to Kasmir (2010) states debt to equity is a ratio used to assess debt and equity. According to Riyanto (2010) states that the capital structure is a comparison or balance of the company's long-term funding indicated by the ratio of long-term debt to their own capital. The capital structure model in the scope of the Balancing Theories (Myers, 1984) is called the Balance theory which is to balance the composition of debt and own capital. Pecking order theory (Myers, 1984 Ogden et al, 2003) menyatakan bahwa ada semacam tata urutan (pecking order) bagi perusahaan dalam menggunakan modal. Trade off theory (Myers, 1984) yang mempunyai asumsi bahwa struktur modal perusahaan merupakan keseimbangan antara keuntungan penggunaan hutang dengan biaya financial distress (kesulitan keuangan) dan agency cost (biaya keagenan).

Profitability measures the level of profit generated by the company. In addition to determining the ability of a company in generating profits over a certain period of time, the ratio is also designed to measure the level of management effectiveness in company operations (Hery, 2015). ROA shows the ability of a company to generate profits from the assets used (Horne and Wachowicz, 2009). According to Hery (2015), liquidity is the description of the company's ability to fulfill short-term obligations that will soon end. According to Kasmir (2010), liquidity ratio is a ratio related to the company's ability to fulfill financial obligations that must be fulfilled immediately.

The size of the company (size) refers to how much it is or how much money it has. Because all asset values owned by the company have large nominal numbers, the company's size is proxied by natural logarithms (LN) of total assets. Because the total assets are longer than income, they are used as a marker of company size (Khan, 2010). Increasing the number of sales from year to year or from time to time is referred to as sales growth (Habibah and Andayani, 2015). Companies with profit-based profits have a higher degree of revenue. In a company, revenue is quite consistent and always rising, give the company the ability to borrow external capital or loans to expand operations.

Annual changes in total assets are referred to as asset growth. The growth of assets, followed by an increase in the results of operations, will increase the trust of outsiders in the organization. By increasing the beliefs of outsiders (creditors) in the company. This is based on creditors' confidence in cash invested in the company, which is guaranteed by the value of company assets (Martono and Harjito, 2013). The asset structure, according to (Devi et al., 2017), is a comparison between fixed assets and total assets owned by companies that can show the amount of cash allocated for each component of assets.

This paper examines the main determinants of the capital structure, namely, determining and analyzing the relationship between Return on Assets (ROA), Fixed Asset Ratio (FAR), Asset Growth (GP), Firm Size (Size), Current Ratio (CR), Sales Growth (TP) on the capital structure (DER) of multinational companies in the 2013 to 2022 period.

2. Methods

The population, according to (Sugiyono, 2019), is a 'generalization area consisting of matters or people with certain features and attributes determined by researchers to be investigated and then concluded.' In this study, the population consisted of 23 international companies from 2013 to 2012. In

this study, the type of data used was quantitative data with statistical techniques. Quantitative data, according to (Sugiyono, 2019), is 'research data in the form of numbers and examined using statistics.' Multinational company financial statements in the form of statement of financial position (balance sheet) and income statement are used to compile data for this research, which includes 2013 to 2022. Secondary data, according to (Sugiyono, 2019), is a 'data source that indirectly sends data to data collectors, because the data in this study is received from the financial statements of international companies, which will be analyzed by researchers.' The analysis technique used is multiple regression analysis.

3. Results And Discussions

3.1 Chow Test

Chow test is a test used to select between the Common Effect Model or Fixed Effect Model, in the selection the P value is used, if the value of $P <$, then H_0 will be rejected, which means the best model is Fixed Effect Model, whereas if the value of $P >$ then the best model is the best model used is the common effect model.

Table 3.1 Chow Test

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.726410	(22,178)	0.0000
Cross-section Chi-square	110.782615	22	0.0000

Based on the chow test results above, the two probability values of cross-section f and chi square are smaller than alpha, 0.05 so that they reject the null hypothesis. The best model used is Fixed Effect Model.

3.2 Fixed Effect Model (FEM) Test

Table 3.2 presents the results of the fixed effect model

Table 3.2 FEM Test

Dependent Variable: DER				
Method: Panel Least Squares				
Date: 06/05/22 Time: 14:33				
Sample: 2013 2021				
Periods included: 9				
Cross-sections included: 23				
Total panel (balanced) observations: 207				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.717641	0.717669	-0.999961	0.3187
ROA	-1.488885	0.523706	-2.842980	0.0050
FAR	6.207321	0.785981	7.897544	0.0000
GP	0.586917	0.360453	1.628273	0.1052
SIZE	-0.049806	0.023654	-2.105638	0.0366
TP	0.137864	0.322380	0.427646	0.6694
CR	0.178526	0.059858	2.982498	0.0033
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.491763	Mean dependent var	0.381932	
Adjusted R-squared	0.411816	S.D. dependent var	1.043066	
S.E. of regression	0.799960	Akaike info criterion	2.520749	
Sum squared resid	113.9087	Schwarz criterion	2.987652	
Log likelihood	-231.8975	Hannan-Quinn criter.	2.709561	
F-statistic	6.151092	Durbin-Watson stat	1.178633	
Prob(F-statistic)	0.000000			

Based on the results of the Fixed Effect Model (FEM) it is known that the regression equation is $y = -0.71 + 1.48$, the ROA variable has a negative and significant effect on DER, the FAR variable has a positive and significant effect on DER, the GP variable has a positive and not significant effect on DER,

variable size negative and significant effect on DER, the TP variable has a positive and not significant effect on DER and CR variables have a positive and significant effect on DER.

3.3 Discussions

Effect on DER, with a Sig value of $0.00 < 0.05$. This shows that organizations with high ROAs can invest using retained income. According to the theory of power order, ROA has a negative impact on DER because the greater the company's ROA, the less likely to use debt to fund its investment. This is a number because companies with high ROA have large internal funds. This is in accordance with research (Khan, 2010) which shows ROA has a negative effect on DER.

Based on the results of the CR variable analysis test, a positive and significant effect on DER, with a sig value of $0.00 < 0.05$. This shows that the company is able to meet short-term obligations with its current assets. Companies with high CRs can use their current assets to fulfill short-term obligations, so the greater the company's CR, it will reduce the total debt of the company so that the capital increases and will reduce the value of DER.

Based on the results of the analysis shows that there is a positive and significant influence between FAR and DER, with a Sig value of $0.00 < 0.05$. This shows that the company uses a lot of fixed assets as a guarantee in obtaining debt, thus the company with high fixed assets has a great opportunity in getting long-term debt. In accordance with the DER theory, the trade off theory which states that the company must balance the benefits of using debt and the costs incurred from the use of debt to achieve optimal DER.

Based on the results of the analysis shows that there is a negative and significant effect on DER, with the value of sig $0.03 < 0.05$. This shows that the larger company where the shares will dare to issue new shares in meeting the need to finance its sales growth. So that the greater the company the tendency to use external funds is also the greater. This is in line with the theory of pecking orders which states that if the use of internal funds is not sufficient, then the second alternative is used using debt. When the company's size is proxied with the total assets that are owned, the company can easily get a guarantee with the assumption that the lender believes that the company has a sufficient level of liquidity.

Based on the results of the analysis shows that there is no positive and insignificant influence between TP and DER, with a value of sig $0.66 > 0.05$. This research is not in line with the results of the study (Heriyani, 2011; Damayanti, 2013) which states that increasing the growth of the translator will result in the company needs to add capital to support the development of the company. Companies with an increase in sales growth choose to use more relatively small equity and debt to finance new investment opportunities. This supports the simple version of the pecking order theory that suggests companies that grow using internal funds to fulfill their financing, in line with the results of research (Shah and Tahir, 2011; Masnoon and Anwar, 2012; Alipur et al. 2015).

Asset growth is a change in total assets owned by the company. Based on the results of the analysis shows that positive and insignificant between GP and DER, with a value of Sig $0.10 > 0.05$. This indicates that changes in the increase and decline in an asset obtained by the company every time will not affect management in making funding decisions. The results of this study are in accordance with research conducted by Utami (2009) that asset growth does not affect the capital structure.

4. Conclusion

In accordance with the description of the analysis and discussion of the results of hypothesis testing, the researcher submitted several important conclusions which were the answers to the problems discussed in this study namely: 1. There is an influence of ROA on the DER of multinational companies. 2. There is an influence of FAR on the DER of multinational companies. 3. There is no GP influence on the DER of multinational companies. 4. There is an influence on SIZE on the DER of multinational companies. 5. There is an influence of CR on DER multinational company.

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