

WHAT FACTORS DETERMINING OF CAPITAL STRUCTURE IN HOTEL AND RESTAURANT INDUSTRY

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ABSTRACT

The purpose of this research was to examine what factors determinant for capital structure in hotel, restaurant and tourism sub-sector companies listed on the Indonesia Stock Exchange for the period 2013 – 2017. Independent variables for this research are profitability, liquidity, asset structure and firm size, Dependent variable is capital structure. Samples are taken using purposive sampling. The total samples used was 13 companies. The data processing program used in this research is E-views version 9. The relationship between variables is explained using the panel data regression method. The result showed that simultaneous profitability, liquidity, asset structure and firm size variables had a significant effect on capital structure. While partially, firm size variables have a significant effect on capital structure, while profitability, liquidity and asset structure variables do not affect the capital structure.

Keywords : : Profitability, Liquidity, Asset Structure, Firm Size

1. INTRODUCTION

Travelling and leisure become secondary needs for everyone, especially for millennials. These generations, millennials, want to feel the experience. They do not want to invest in fixed assets too much, which are very different compared to older generations who wish to invest in real estate, gold, and shares. Based on Kompas news in 2017 as a famous Indonesian newspaper, cited from the Indonesian Ministry of tourism and economic creative, Mari Elka Pangestu released data for fast-growing tourism in Indonesia from 2013 to 2016 number of tourism increase steadily Asdhiana, (2014). The number of people who came into Indonesia as a tourist was 9.2million people in 2013 and gradually increased to 10.7 million people in 2014. Steady increasing until 2017 was about 14.2 million tourists. This increasing number of tourists make foreign exchange currency come

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in Indonesia and invested in many real estates such as hotels, resorts, villas, and restaurants.

These tourist trends are still up-going in 2018. But on the other hand, economic growth started decreasing in 2017. The tourist industry was not so busy in 2017 compared to the previous year 2016 and before. Businesses must be kept ongoing even though the economy and tourism fell down. All businesses related to tourism must be careful to manage their cash flow and profits. Everyone knows business is profit-oriented. Profit is left over from revenues minus costs. Costs consist of the cost of goods sold, operational expenses, and non-operational expenses. Most businesses use debts for their leverage. These debts do not come free. Each month company must allocate interest expenses to be paid off.

According to Widayanti (2016) one of the decisions that must be taken by managers to maximize company performance is the decision to finance its operational activities. Based on Riyanto (2015) company can use internal and external funding to finance its operations. Internal funding is funding from Retain Earning and external funding is from debts or issue shares. All companies have these two kinds of funding but the question is how much optimal capital structure and factors influence capital structure for a company.

Using the background above about the fast-growing business in tourism but in 2017, started slowing down. Profit is also down in an economic downturn, but interest expense cannot be reduced fast because interest expense comes from debts. The company used these debts to make investments mostly build new hotels, new villas, a new resort, and new restaurants. These debts can change at some time, and each change will make capital structure is also changing. There are many previous studies on the capital structure but not many investigations on sub-sector hotels and restaurants. The result of this paper will contribute to capital structure on sub-sector hotels and restaurants to see what factor impact on capital structure. This study will conduct analysis capital structure determinants sub-sector hotels and restaurant companies listed in the Indonesian Stock Exchange from 2013 to 2017. The determinants are profitability, liquidity, assets structure, and firm size. The focus of this study is on financial statements sub-sector hotel

restaurant published at the Indonesian Stock Exchange. The research questions for this study are:

1. Does profitability affect capital structures?
2. Does liquidity affect capital structures?
3. Does asset structure affect capital structures?
4. Does firm size affect capital structures?

2. LITERATURE REVIEW

Capital Structure is the composition of debts and equity in the balance sheet to finance a company activity and growth Gitman (2014). Debts come from issue obligation and Equity comes from issue stock. Debts in this capital structure usually refer to long-term debt by issuing obligation. Sometimes in calculation capital structure, it can be combined all short and long-term debts. Internal Funding means the company uses its Retain Earning and External Funding means the company used debts at first and if it is not enough it can be followed by equity. Many factors determine Capital Structure such as profitability, liquidity, assets structure, firm size, growth, tax, age of the company, market condition, financial distress, and ownership Alzomaia (2014).

Capital structure theory was introduced first time by Modigliani and Miller (MM's) (1958). Many researchers kept continued their study in capital structures to develop new theory on capital structures using MM's assumptions. New theory comes in progress from Kraus & Litzenberger (1973) as proposed Trade-Off Theory and from Myers (1984) as known as Peking Order Theory.

MM's showed some proof of their famous MM irrelevance proposition. MM showed that in the absence of bankruptcy cost, corporate income taxation, or other market imperfections, the firm value is independent of its financial structure in competitive capital markets. MM's study said debt to equity ratio has no impact on the total value of the firm. Starting with MM's theory, other big theories come from the Pecking Order Theory and Trade-Off Theory. These two new theories after MM's tried to explain the reasons behind the choice between debts and equity structure.

Trade-Off Theory Jensen and Meckling (1976) said that the company should maximize the percentage of use internal funding and external funding with considerable cost and benefit for company whereas Pecking-Order Theory Myers (1984) said that company should use its internal funding first followed by debts then equity.

Profitability

A company with a lot of profit has a significant advantage because it has more flexibility to finance its operational Widayanti (2016). There is no need to use debts while the company has more profit. High profit will be a good signal for investors, and in return, the value of the company will increase Bringham (2009). The company with top benefits can pay all the debts on time and be able to pay on-time will reduce financial distress. Be prepared to pay debts on time, the company does not need to borrow money, has more significant flexibility in paying its debts. With this situation company may lower its debt and can accumulate more equities. This situation will agree with Peking Order Theory Jensen and Meckling (1976). In general, the company which has a high return on the asset has lower debts. The measurement of profitability in this research is the return on assets. Using that though, the proposed hypothesis is

H1: Return on Asset influence on Capital Structure

Liquidity

A company that has high liquidity means has more assets than liabilities. The implication of more assets is lower debts. There is no need to have more debts if the company has plenty of assets. Liquidity means the company can pay its short-term debt on-time and reduce financial distress, and it will impact profitability and capital structure in the long run. Investors will give good responses to the company if the company can pay short-term debt on-time. The company has more assets is also less risky in business. Bringham (2009) the measurement of Liquidity in this research is the Current Ratio.

H2: Current ratio influence on Capital Structure

Asset Structure

Assets structures are reflected in Fixed Assets. The company can invest fixed assets using its profit or by additional debts. Fixed Assets can be used as collateral in a bank Damayanti (2013). Growth of the company can be measured with its Asset Structure because growing assets can reduce debts, and it will reduce the debt ratio in the long run. the measurement of Asset Structure in this research is the Assets Structure Ratio.

H3: Asset Structure influence on Capital Structure

Firm Size

Firm size is reflected by the total asset of the company. The small company usually have lower total assets and need to use a lot of debts in financing its activity because the cost of debts is cheaper than issuing stocks for this small company Damayanti (2013). The big company usually has big total assets and prefer to issuing stocks through Initial Public Offering because IPO is cheaper than borrow money for big companies. The size of the firm is the total value of the company's assets. The measurement of firm size in this research is natural logarithm total assets.

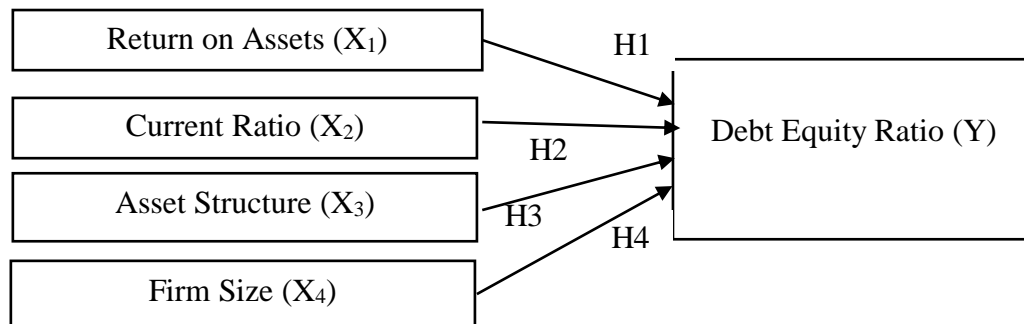
H4: Firm Size influence Capital Structure

3. RESEARCH METHOD

The purpose of this research is to examine factors determining Capital Structure therefore Capital Structure is dependent variable and independent variables consist of Return on Assets, Current Ratio, Assets Structures, and Firm Size. This research is using panel data with the help of E-Views 9.0. Samples are taken from sub-sector hotels and restaurants listed in Indonesia Stock Exchange (www.idx.co.id) for the year 2013-2017. With total number of 25 companies, only 13 companies meet criteria and 3 years of observation makes total 35 data. Criteria sets as companies reported their audited financial statements did not have any loss in Income Statements, not delisted during observation. To test whether

independent variables jointly or simultaneously have a significant effect on the dependent variable, I propose the theoretical framework as follow:

Picture 1. Framework of this research



Here is operational variables for this research showing independent and dependent variable used for this study.

Table 1. Operational Variables

No.	Variable	Indicator	Scale
1.	Capital Structure (Y)	$Debt\ Equity\ Ratio = \frac{Total\ Liability}{Total\ Equity} \cdot 100\%$	Ratio
2.	Profitability (X1)	$ROA = \frac{EBIT}{Total\ Asset} \cdot 100\%$	Ratio
3.	Liquidity (X2)	$Current\ Ratio = \frac{Current\ Asset}{Current\ Liability} \cdot 100\%$	Ratio
4.	Asset Structure (X3)	$Asset\ Structure = \frac{Total\ Fixed\ Asset}{Total\ Asset} \cdot 100\%$	Ratio
5.	Firm Size (X4)	$Firm\ Size = Ln(Total\ Asset)$	Ratio

Source: Data collected from textbooks

4. RESULT AND DISCUSSION

The purpose of this research is to examine whether Capital Structure is influenced by Return on Assets, Current Ratio, Assets Structure, and Firm Size. Data is taken from sub-sector hotels and restaurants listed in Indonesia Stock Exchange for the year 2013-2017 (3 years) using purposive sampling with statistical tools E-Views version 9. Regression is using regression analysis.

Statistic Descriptive

Table 1 gives information about statistic descriptive for this research

Table 2. Statistic Descriptive

	DER	ROA	CR	AS	FS
Mean	0.685692	0.058587	1.879349	0.399777	27.22069
Median	0.600000	0.046453	1.609696	0.322446	27.19178
Maximum	2.300000	0.400254	6.872032	0.925063	30.36065
Minimum	0.140000	6.32E-05	0.731294	0.019774	22.58950
Std. Dev.	0.433489	0.066047	1.141987	0.272579	1.944312
Observations	65	65	65	65	65

Source: Data processed with *E-views 9*

Classic Assumption Test

Classic assumption test consists of normality, multicollinearity, heteroscedasticity, and autocorrelation were done and the result is within range agree with the rules.

Test Model Panel Data

Choosing the right test for panel data needs to be done in E-Views 9. First using the Chow Test and followed by the Hausman Test and those tests suggest the writer use the Fixed Effect Model for testing the regression.

Regression Result for Panel Data using Fixed Effect Model

Table 3. Regression Result for Panel Data using Fixed Effect Model

<i>Variable</i>	<i>Predic t.</i>	<i>Coefficient</i>	<i>Prob</i>	<i>t-Statistic</i>	<i>Results</i>
C		7.379838	0.0151	2.521475	
ROA	-	-0.312832	0.4916	-0.693127	H1 rejected
CR	-	-0.018421	0.5874	-0.546254	H2 rejected
AS	+	0.169921	0.6122	0.510278	H3 rejected
FS	-	-0.246472	0.0226	-2.356384	H4 accepted
<i>R-squared</i>		0.890699			
<i>Adjusted R-squared</i>		0.854265			
<i>F-statistic</i>		24.44703			
<i>Prob (F-Statistic)</i>		0			
<i>Observation</i>		65			

*Significant at a level of 5%

Source: Data processed with *Eviews 9*

From Table 3 regression equation is as followed:

$$Y = 7.379838 - 0.312832 \text{ ROA} - 0.018421 \text{ CR} + 0.169921 \text{ AS} - 0.246472 \text{ FS} + \epsilon$$

Hypotheses Explanation

Here is an explanation of hypotheses based on the result of the regression equation. From the Table 3, only Firm Size has a significant value 0.0226 which is lower than 0, 05 as a threshold for significance. The explanation for all independent variables are as follow:

The Influence of ROA on Capital Structure

Profitability is measured using proxy Return on Assets. Hypothesis testing results denote that the regression coefficients of -0.312832 with a significant value of 0.4916 which more than 0.05, means Return On Assets does not affect Capital Structure. Return on Assets has to value negative means if Return on Assets decreases 1% then Capital Structure increases 0,312832. This hypothesis agrees with Pecking Order Theory which said there is a negative correlation between profitability and leverage because high profit tends to lower leverage because the company used its retained earnings for the first time. The company has high profitability prefer using internal financing by using retained earnings and for a company that has low profitability prefer using leverage reflected increasing in debts. This result agrees with the study from Widayanti (2016) which said profitability is not influenced capital structure because the company is focused on the optimal cost of capital from debts and equity without put so much consideration on profitability earned from operational activities. Studied done by Herciu and Ogreaan (2017) showed ROA has negative influence toward the capital structure,

The Influence of Current Ratio on Capital Structure

Liquidity is measured using proxy Current Ratio. Hypothesis testing results denote that the regression coefficients of -0.018421 with a significant value of -0, 5874 which more than 0, 05, means the Current Ratio does not affect Capital Structure. The current Ratio has negative value means if the Current Ratio decrease 1% then Capital Structure increases 0,018421. This result can be

explained as liquidity formula is current assets divided by current liabilities. Based on the formula current ratio should more than 100% mean the company has more current assets than current liabilities. Current Ratio decrease probably company has more current liabilities than current assets. Current Liabilities usually come from account payable, short-term debts, or unearned income. This type of liabilities is paid off from cash and no interest expense. There is a possibility company delay liabilities payment or has special treatment in term of payment. There is a possibility the company does not have enough cash to pay its current liabilities and creating more debts which is increasing its capital structure.

Or the company defer its liabilities payment makes Debt to Equity increase. Relation with Capital Structure is additional debts incurred to finance operation. This illustration agrees with Pecking Order Theory which said company with high liquidity tends to have fewer debts because the company has a lot of assets to finance its operation. This result is agreed with Claude (2016) who said liquidity does not influence capital structure because liquidity is not part of capital structure when the manager sets up a capital structure for the company.

The Influence of Assets Structure on Capital Structure

Assets structure is measured using proxy Fixed Asset to Total Asset Ratio. Hypothesis testing results denote that the regression coefficients of 0.169921 with a significant value of 0.6122 which more than 0.05, means Assets Structure does not affect Capital Structure. Assets structure has to value positive means if asset structure increases 1% then Capital Structure increase 0.169921. This situation can be explained as additional fixed assets are purchased using debts which can be proved by additional debts showing in debt to equity ratio. Hotel and Restaurant industry are putting a lot of money in fixed assets: buildings and equipment. There is a possibility adding fixed assets will be used in collateral debts. This result can be explained from the regression equation above that asset structure has a positive coefficient and move in the same direction with capital structure. This hypothesis agrees with Pecking Order Theory which said the company has a lot of assets, will have a lot of debts because fixed assets were purchased with issuing debts. On the other hand, increasing debts will be lowering the cost of capital, in this way the

company can get cheaper interest expenses. This result agrees with Deviani (2018) and Ningsih (2016) said capital structure is not significant to capital structure.

The Influence of Firm Size on Capital Structure

Firm Size is measured using the natural logarithm of Total Asset. Hypothesis testing results denote that the regression coefficients of -0.246472 with a significant value of 0.0226 which less than 0.05 , means firm size affects Capital Structure. Firm Size has to value negative means if Firm Size decreases 1% then Capital Structure increase 0.246472 . Trade-Off theory said bigger firms tend more diversified, less risky, less prone to bankruptcy. The company prefers to use debt than equity to finance its operation because of a cheaper and less risky situation. From the equation above firm, size has a negative correlation with capital structure means decreasing firm size will adding more debts to equity ratio on the company. Capital structure decrease can be lowering debts. Or we can say if a firm's size increases then the capital structure will decrease. The bigger companies are not depend-on debts but they can use their profit to finance their operations. Big companies usually attract more investors so big size-company can get external funding easily through capital market. This situation can decrease capital structure.

5. CONCLUSION

This study tried to examine the determinants of the capital structure of a sample of 65 listed firm Indonesia Stock Exchange sub-sector hotels and restaurants. Sample period for the year 2013-2017. Using Return on Assets, Current Ratio, Asset Structure, and Firm Size as independent variables and Debt Equity Ratio as dependent variables with help of E-Views 9. Pecking Order Theory and Trade-Off Theory are used to explain the result. Pecking Order Theory said the company prefers to use internal finance to external financing. Trade-Off Theory said the company should use an optimal capital structure that is a trade-off between net tax benefit of debt financing and bankruptcy costs. The result is Firm Size has an

influence on capital structure with opposite direction between regression coefficient and significant value. A big company is experiencing growth and attract investors, investors respond positively and will increase its value through shares traded in the capital market.

The implication for this research about capital structure is company faces uncertainty when doing the business. Theories may be different with the actual world. Theories can be used as guidelines but the reality may be different. This research is only used 5 years and limited scope to sub-sector hotel and restaurant. Not all companies under these sub-sectors have complete data. Independent variables used in this research are not complete in term of factors determinant for capital structures. Suggestion for future research is using all factors determinant for a capital structure such as growth, tax, age of the company, market condition, financial distress and ownership.

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