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WORKING CAPITAL MANAGEMENT, LIQUIDITY AND COMPANY SIZE ON CAPITAL STRUCTURE

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Abstract: This research was conducted to examine Working Capital Management, Liquidity and Company Size on Capital Structure in Basic Industrial and Chemical Companies listed on the IDX for the 2014-2017 period. The sample studied was 16 companies. Data were analyzed using Path analysis with the help of the SPSS version 25 computer program. The research results showed that Working Capital Management, Liquidity and Company Size had a significant negative effect on Capital Structure. These results indicate a negative signal for investors because investors consider management to be less effective in managing working capital. Investors also consider the assets used to be less productive assets.

Keywords: Capital Structure, Company Size, Liquidity, Working Capital Management.

INTRODUCTION

Introduction

The company will maximize all the resources it has to generate profits, so that the company's goals can be achieved, namely by maximizing profits in order to maximize shareholder wealth. A company is said to be successful if the company has good management and most of the company's success is measured based on the level of financial success it achieves. In an effort to achieve this goal, the company must be able to operate smoothly and be able to combine all existing resources, so that it can achieve optimal results and profit levels. The survival of the company is influenced by many things, including profitability itself (Farhana et al., 2016).

A company chooses a combination of debt and equity in its capital structure depending on various factors such as company characteristics, economic conditions, managers' perceptions and goals in building a business. The manager's main priority is to evaluate the costs and benefits of using a combination of debt and equity. Management will make decisions on using a combination of debt and capital based on considering benefits and costs and considering all existing financial methods to use the cheapest sources of funds first. If a company only uses debt in its capital structure, it is very risky for the company, especially causing the risk of bankruptcy. The greater the company's use of debt, the higher the risk of bankruptcy.

Companies need to determine an optimal combination of debt and equity that can increase the overall value of the company, so that capital structure decisions can have an impact on the company's success and prosperity in the future. One of the tasks of a financial manager is to determine the ideal fulfillment of funding needs between funding sources originating from debt or own capital. Therefore, it is necessary to set a certain target that can be used as a guideline in meeting these funding needs. Apart from that, it is necessary to know what is taken into consideration in determining the capital structure.

To find out how much working capital the company allocates for company operations, a more liquid ratio can be used without including inventory elements by using the quick ratio.

This shows the company's ability to pay off its short-term liabilities from its immediate assets so that they can be immediately turned into cash. Company size can also increase company value, where a large company size will provide an indication of very rapid development using indicators of the company's total assets.

Working capital management includes management of current assets and short-term liabilities which are used to maximize company value by managing current assets so that the rate of return is equal to or greater than the cost of capital used and monitoring the flow and flow of these current assets (Mardiyana & Murni, 2018) . Working capital efficiency is the accuracy of how to ensure that the available working capital is sufficient.

Quick Ratio is the company's ability to fulfill its short-term obligations without calculating its inventory, because inventory is a current asset that has low liquidity and is feared to be a source of loss. Inventory is not calculated on the Quick Ratio because inventory has a level of liquidity that is considered to create problems (Fadilah et al., 2017). The greater the Quick Ratio value, the faster the company can fulfill all its obligations. On the other hand, if the Quick Ratio value is small, the company will experience obstacles in fulfilling all its obligations, which can cause losses for the company. This can be seen from how much current assets and profits you have. The effect on changes in company profits is that if the current assets owned by the company are high, then the short-term obligations that must be met will be low because the costs used are not too high so that the income earned increases within the company. Companies that are larger in size are considered to have a smaller level of negative risk, because they are considered to have greater access or reach to the capital market with the aim of obtaining funds, but not always small companies do not have good performance or strength (Ardiansyah, 2017) .

This research uses basic industrial and chemical companies which are one of the types of companies referred to in the law, namely companies related to natural resources based on the Environmental Performance Improvement Program (Proper). The basic industry and chemical sectors are sectors that represent the basic elements used in everyday life. Almost all the items we use every day are products of basic industrial and chemical companies. This sector consists of several sub-sectors, namely the cement sub-sector; ceramics, porcelain and glass sub-sector; metals and similar sub-sectors; chemical sub-sector; plastics and packaging sub-sector; animal feed sub-sector; wood and processing sub-sector; as well as the pulp and paper sub-sector.

Basic industrial and chemical companies were chosen because they were considered to have the potential to develop their products more quickly by carrying out innovations that tend to have a wider market share. Basic industrial and chemical companies are also types of business that are growing rapidly and have large scope in carrying out uninterrupted production processes. Apart from that, basic industrial and chemical companies are considered to attract the interest of investors and have an important role in development as one of their assets. Basic industrial and chemical companies are also required to be more effective in publishing their company financial reports in facing the era of free competition.

Research purposes

The objectives of this research are (1) to test the effect of working capital management on capital structure (2) to test the effect of liquidity on capital structure, and (3) to test the effect of company size on capital structure.

LITERATURE REVIEW

1. Signaling Theory

Signaling theory is based on the assumption that the information received by each party is not the same. In other words, signaling theory is related to information asymmetry. Signaling theory shows that there is information asymmetry between company management

and parties with an interest in information. For this reason, managers need to provide information to interested parties through the publication of financial reports (Ira, 2018). In general, signaling theory is closely related to the availability of information. Financial reports can be used to make decisions for investors, financial reports are the most important part of a company's fundamental analysis. The ranking of companies that have gone public is usually based on this financial ratio analysis. This analysis is carried out to facilitate interpretation of the financial reports that have been presented by management.

2. Capital Structure

Capital Structure is a mix of accounts on the right side of the company's balance sheet. Capital structure is the ratio between long-term debt and equity capital. Long-term debt is part of overall debt and equity is capital itself. Capital structure is also the composition of equity and loans in project financing. These two compositions will produce different average costs of capital with different compositions.

In detail, the capital structure can be seen from the right side of the balance sheet, which consists of short-term debt, long-term debt and shareholder capital. So the capital structure of a company is only part of its financial structure. When connected with this understanding, it can be concluded that the company's capital structure is a comparison of long-term debt with its own capital and capital structure is part of the financial structure.

3. Working Capital Management

Working capital management is the ability to manage current assets and current liabilities effectively and efficiently (Makori & Jagongo, 2013). A similar thing was expressed by Moorthy et al. (2014), working capital management is the management of a company's short-term assets and short-term liabilities which is related to asset financing decisions. So, it can be concluded that working capital management is the management of the company's current assets and current liabilities, including financing of current assets effectively and efficiently.

The aim of working capital management is to manage current asset items which include cash, short-term securities, receivables and inventories as well as current liabilities which include trade payables, securities payables and accrued expenses (Suryaputra & Christiawan, 2016). An efficient working capital management system often uses key performance ratios, such as the working capital ratio, inventory turnover ratio and collections ratio. This ratio is useful to help identify areas that require focus in order to maintain liquidity and profitability.

4. Liquidity

Liquidity Ratio is a ratio used to measure a company's ability to fulfill short-term financial obligations in the form of short-term debt (Sujarweni, 2019). Liquidity Ratios are ratios that measure a company's ability to pay off its short-term liabilities including Current Ratio, Quick Ratio, and Cash Ratio (Wijaya, 2017). This ratio is shown by the size of current assets. How quickly (liquid) the company fulfills its financial performance, generally short-term obligations (Sujarweni, 2019). Overall company liquidity means that current assets and current liabilities are viewed as one group (Rohmadini et al., 2018). The liquidity ratio consists of the Current Ratio (Current Ratio), Quick Ratio (Fast Ratio), Cash Ratio (Slow Ratio), and Working Capital to Total Assets Ratio (Sujarweni, 2019).
Widhiari & Merkusiwati (2015) state that liabilities can be covered from the liquid assets owned by the company. To keep the company in a liquid condition and avoid financial

distress, the company must have current funds that are greater than its current liabilities. According to Kasmir (2016), the Quick Ratio is a ratio that shows the company's ability to fulfill or pay obligations or current debt (short-term debt) with current assets without taking into account the value of inventory. This means ignoring the inventory value by subtracting it from total current assets. This is done because inventory is considered to require a relatively longer time to be cashed, if the company needs funds quickly to pay its obligations compared to other current assets.

5. Company Size

Company size is a measure of the size of the assets owned by the company, where large companies generally have large total assets (Suryaputra & Christiawan, 2016). Company size can play an important role in today's world economy. This can be seen in determining the company's relationship with the environment outside the company, for example the growth of multinational companies in the current economy reflects the importance of company size in the business environment. With more and easier access to existing resources, companies can meet their needs such as purchasing assets, making investments, obtaining loans, and so on. Through greater access to existing resources, companies have the opportunity to provide more consumer needs, and even have a wider market share, so that the opportunity to gain profits is greater (Suryaputra & Christiawan, 2016).

According to Safitri (2012), company size can influence corporate social performance because large companies have a more distant view, so they participate more in growing corporate social performance. From this definition, the author concludes that company size is the value of the size of the company as indicated by total assets, total sales, total profits, thus influencing the company's social performance and causing the achievement of company goals.

RESEARCH METHODOLOGY

The type of data collected in this research is quantitative sourced from documentation data obtained via the website www.ticmi.co.id. The sample collection method is a purposive sampling method, namely based on certain criteria. The criteria used in sample selection are as follows:

a. Basic industry and chemical sector companies listed on the Indonesia Stock Exchange for the 2014-2017 period.
b. Basic industry and chemical sector companies that include independent auditor reports along with audited financial reports for the 2014-2017 period.
c. Basic industrial and chemical sector companies that have complete financial data relating to research variables for the 2014-2017 period.
d. Basic industrial and chemical sector companies that had positive profits during the 2014-2017 period.

Based on the sample determination criteria, 27 companies obtained company information that met the sample criteria, sample selection was carried out again by removing outlier company data so that there were 16 companies with a period of 4 years, then the observation data became 64 observation data.

Capital Structure

The capital structure is formulated using financial ratios, the financial ratio used to measure capital structure is the Debt to Equity Ratio (DER). Debt to Equity Ratio is a ratio used to measure the amount of debt to capital. Debt to Equity Ratio (DER) is a comparison between debt and equity in company funding and shows the ability of the company's own capital to fulfill

all its obligations (Sujarweni, 2019). Debt to Equity Ratio (DER) is calculated using the following formula:

$$DER = \frac{Total\ Liability}{Total\ Equity}$$

Working Capital Management

Working capital is a company's investment in the form of current assets. Working capital management is the management of the company's current assets, namely cash, securities, receivables and inventory as well as the funding needed to support the smooth running of assets. Working Capital Management is calculated using the Cash Convention Cycle proxy with the following formula:

$$CCC = AAI + ACP - APP$$

Information:
CCC = Cash Conversion Cycle (cash conversion cycle)
AAI = Average Age of Inventory (inventory turnover period in days)
ACP = Average Collection Period (average period for collecting trade receivables)
APP = Average Payment Period (average period for paying accounts payable)

Liquidity

Liquidity Ratios are ratios used to measure a company's ability to fulfill short-term financial obligations in the form of short-term debts (Sujarweni, 2019). The Quick Ratio is a ratio that shows the company's ability to fulfill or pay current obligations or debt (short-term debt) with current assets without taking into account the value of inventory. The formula for finding the quick ratio can be used as follows:

$$Quick\ Ratio = \frac{Current\ Asset - Inventory}{Current\ Liability}$$

Company Size

Company size is the value of the size of the company as shown by total assets, total sales, total profits, thus influencing the company's social performance and causing the achievement of company goals. Company size is measured using the following formula:

$$Company\ Size = Ln\ (Total\ Assets)$$

RESULTS AND ANALYSIS

Normality test

The normality test aims to test the normality of the distribution of the dependent variable and independent variables. The data normality test in the research was carried out using a normal probability plot graph by looking at the tendency of data distribution towards the regression line. The normal probability plot graph is in the following image.

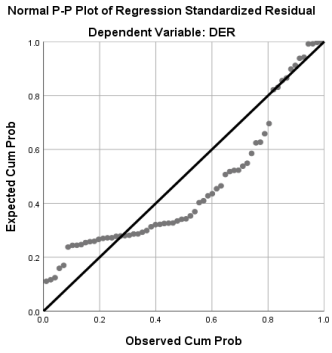

Figure 1
Normality Test Results

Heteroscedasticity Test

A good regression model should not have heteroscedasticity. The following are the results of heteroscedasticity testing using a scatter plot graph as seen in the following image.

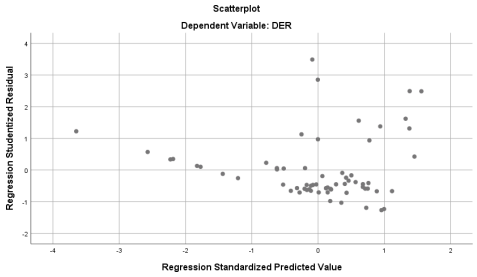

Figure 2
Heteroscedasticity Test Results

The image above shows that the points are spread randomly and are spread both above and below the number 0 on the Y axis. This shows that there is no heteroscedasticity in the first equation model of this research, so the model meets the rules to be continued to the next test.

Autocorrelation Test

The results of the autocorrelation test are shown in the following table.

Table 1
Autocorrelation Test Results

Dependen	***Durbin-Watson***
Struktur Modal	0.628

The Autocorrelation Test Results table shows that the Durbin-Watson value is 0.628. This number is smaller than 2 and greater than -2 (-2 < DW < 2), based on the DW value of 0.628 which is between -2 to 2, the test results show that there is no autocorrelation.

Path Analysis

The data analysis technique used in an effort to answer the problem and achieve the objectives of this research is path statistical analysis. The aim of partial influence testing is to use path statistical analysis to test the influence of Working Capital Management, Liquidity and Company Size on Capital Structure in Basic Industrial and Chemical Companies listed on the Indonesian Stock Exchange. Path analysis testing was carried out with the help of SPSS version 25 software. It can be seen in the partial influence testing table below.

Table 2
Direct Influence Coefficient

Variabel Independen	**DER**	
	Standard Coefficients	***Standard Error***
CCC	-0.506	0.003
QR	-0.433	0.082
SIZE	-0.541	0.278

Based on the direct influence coefficient table above, path analysis can be explained as follows.

DER = -0.506 CCC - 0.433 QR - 0.541 SIZE + Є

Based on equation I of the path analysis, it can be explained that:

a. The Working Capital Management Coefficient (CCC) of -0.506 indicates that every increase in Working Capital Management by one unit will result in a decrease in Capital Structure by a Working Capital Management coefficient value of 0.506.
b. The Liquidity Coefficient (QR) of -0.433 indicates that every one unit increase in Liquidity will result in a decrease in Capital Structure by a Liquidity coefficient value of 0.433.
c. The Company Size Coefficient (SIZE) of -0.541 indicates that every one unit increase in Company Size will result in a decrease in Capital Structure by a Company Size coefficient value of 0.541.

Working Capital Management on Capital Structure

Information related to Working Capital Management is actually considered a negative signal because it is a benchmark for deviations from the management side regarding Capital. This shows that investors lack confidence in company management in managing company funds, so that if working capital management increases, the capital structure will become less effective because its allocation is carried out for inappropriate things. These negative signals also result in decreased investor confidence in the company. The results of this research are relevant to Naibaho (2013) which shows that Working Capital Management has a negative influence on Capital Structure.

Liquidity on Capital Structure

Liquidity is a negative signal for investors because investors think that liquidity represents current assets that are unproductive, or are not used properly to make a profit. This negative signal makes investors withdraw the capital they have invested, which results in a decline in the company's capital structure. The results of this research are relevant to Dewiningrat and Mustanda (2018) who show that liquidity has a negative influence on capital structure.

Company Size on Capital Structure

Increasing company size is considered ineffective because company size does not increase productivity in the company because the company assets presented are not productive assets. Investors see this negative signal as a use of capital that is not on target, because it will only reduce the company's capital, but will not produce the profits that should increase the capital structure. The results of this research are relevant to Bhawa and Dewi (2015) who show that company size has a negative influence on capital structure.

CONCLUSION

Based on the discussion of the research results, the conclusions that can be drawn through this research are as follows;

1. Working Capital Management has a significant negative effect on Capital Structure in Basic Industrial and Chemical companies listed on the Indonesian Stock Exchange.
2. Liquidity has a significant negative effect on the capital structure of basic industrial and chemical companies listed on the Indonesian Stock Exchange.
3. Company size has a significant negative effect on the capital structure of basic industrial and chemical companies listed on the Indonesian Stock Exchange.

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