How Infrastructure, Transportation and Utilities Companies in Indonesia Control Their Capital Structure Along Their Life Cycle?

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Abstract

Having a company is not only able to generate high profits but also able to survive in any conditions. The strength of a company to be able to have a sustainable company is to carry out financial management optimally in the company's operational processes. The purpose of this study was to examine and analyze the effect of liquidity, profitability, and firm size on the capital structure of 26 companies from the results of sample selection using the purposive sampling method on infrastructure, transportation, and utilities listed on the Indonesia Stock Exchange in 2018-2020. The analytical method used in this research is multiple linear regression. The results of this study indicate that liquidity (CR), profitability (ROA) and firm size simultaneously and partially affect the capital structure (DER). Companies with effective capital management show that in conditions of profit, the company will use its capital to finance its obligations. The results of this study are following the pecking order theory. The more a company can meet the needs of its company, the financial condition is considered to survive and be sustainable and create prosperity.

Keywords

liquidity, profitability, size, capital structure and infrastructure.

1. Introduction

The most basic thing that needs to be ascertained to develop a business is how much capital the business owners have. ADB (2017) state that with the size of the amount of capital owned, the company prepares what is needed to start operations or can also plan to expand its business. The relationship between capital and company performance encourages companies to optimally manage the company's assets and liabilities. Transportation, electricity, telecommunications, and water supply and sanitation is the type of infrastructure that critical to development. Infrastructure plays an important role in the production of goods and services to increase productivity, which means encouraging opportunities to trade, generate innovation and help discover new products, processes, and markets.ADB (2017); Duffield, Peng and Wilson (2019) said that with a population that continues to grow and increase, urbanization, as well as global climate change, the demand for infrastructure development is increasing. Inefficiency and high costs arising from poor connectivity present a major limitation good for the development of many industries and for attracting foreign investment. The emergence of innovation as an important part of sustainability has a role in economic and infrastructure development. The existence of global issues related to climate change, pollution, and other environmental factors requires a direction of achievement that is no longer only talking about the economy but also the sustainability of the earth as part of humans themselves. In ADB (2020) explain that infrastructure is also a key driver for achieving the Sustainable Development Goals (SDGs). Sustainable Development Goals (SDGs) is a global action plan agreed by world leaders, including Indonesia, reducing protection, and protecting the environment.

One of the most significant and pressing issues for Indonesia is how the state will finance, finance, and provide the infrastructure needed to support economic growth and reform strategies for the country (Duffield, Peng and Wilson, 2019). The state cannot walk alone in realizing good infrastructure for the community, it is necessary for the private sector to jointly build infrastructure in Indonesia. This is also an opportunity for the private sector to gain profits because Indonesia is in the process of achieving economic sustainability supported by infrastructure as a social nexus. Companies engaged in the infrastructure sector, one of which, requires a certain amount of capital for large operational activities. In the Ministry of Finance (2020) it is known that under President Jokowi's administration, the infrastructure budget in 2020 was the largest during President Jokowi's tenure, reaching IDR 423,3 trillion focuses on developing a connection, construction of new airports, dams, construction and rehabilitation of bridges, construction/completion of railroads, housing for low-income communities and special houses. President Jokowi believes that centralized infrastructure development is the driving force for the future economy. Salim and Negara (2018) explain that Indonesia with a large population and an archipelago that requires infrastructure development to connect various regions and create a good social economy. Having good infrastructure leads to better living conditions and sustainable and inclusive growth. From 2018 to 2020, the addition of nine companies listed on the IDX, this indicates that several companies are taking this great opportunity with strong capital readiness to take part in the infrastructure sector, both in the construction and telecommunications sectors.

Management as the key holder of business success needs to manage capital appropriately, namely by maintaining optimal conditions for total capital received with a high expected rate of return for shareholders. However, not many use the traditional theory that puts forward the dominant capital structure. According to Basti and Bayyurt (2019), the traditional approach emphasizes optimizing the capital structure of debt and equity by minimizing the weighted average cost of capital to produce maximum firm value. The process can be explained as follows: since debt is a cheaper source, by increasing its weight it is possible to reduce the weight of the average cost of capital. Discounting expected future cash flows to debt and equity holders, at a lower weighted average cost of capital, can increase firm value.

Capital structure is a comparison between total debt and total company capital (Gitman and Zutter, 2015). In managing capital and liabilities, companies need the right policies in deciding which funding sources to choose to maintain business continuity and generate maximum profits. Sources of funding for a company can be obtained from internal funding and external funding. Internal funding sources are obtained from shareholder capital as well as operating results while external funding sources are obtained in the form of external party loans or share issuance to raise fresh funds from potential investors. Funding in the form of debt and additional capital, namely issuing new shares, is a careful consideration as seen from the company's obligations for interest costs to be issued in the future or dividends for shareholders who demand a maximum rate of return on the paid-up capital.

Factors that can affect the capital structure include liquidity, profitability, and company size. Profitability is the profit or profit generated by the company from business activities or company operations (Ariyani, Pengestuti and Rajarjoo, 2018). High profitability is usually used as a way to increase the value of shares owned by shareholders. Shareholders demand or expect the company to generate high profitability so that it can provide high returns to shareholders. Companies that obtain high profitability will generally take advantage of tax savings (tax shield) that can be felt or received by increasing debt. Liquidity reflects the company's ability to meet current liabilities or short-term liabilities which generally must be met within one year using current assets or short-term assets (Lasut, Rate and Raintung, 2018). If a company with good liquidity shows that the company is able to pay its short-term obligations without the need for financing from external companies. Company size is a size of a company measured by the number of assets owned by a company (Iswarini, Ardiansari, 2018). Company size can be used as an indicator that shows that the company is in good condition, especially in the financial aspect (Alarussi and Alhaderi, 2018). But in other way, companies with profitable and bigger company size will choose to lend some money first to fulfill the obligation (Joni and Lina, 2010). The results of the study Joni and Lina (2010) stated company size has no effect on capital structure that large companies have the flexibility to access the capital market to obtain external funds. In accordance with the Pecking order theory, the company will tend to prioritize external funds in the form of debt (Joni and Lina, 2010), Seftianne and Handayani (2011) explained that profitability and liquidity have no effect on capital structure.

Remaining to the infrastructure development acceleration program that is currently being carried out is an opportunity for infrastructure companies to be able to compete and improve the company's ability to increase profits. The capital structure that one of the important decisions in the continuity of the company, it is necessary to further understand the factors that can affect the capital structure in the company; especially infrastructure sector companies on the IDX from 2018 to 2020. Based on the background and previous research, The current infrastructure development acceleration program is an opportunity for infrastructure companies to be able to compete and improve the company's ability to increase profits

2. Literature Review

2.1 Theoretical Framework

2.1.1 Pecking Order Theory

This theory was first put forward by Gordon Donaldson in 1961 to explain the order or hierarchy of preferred funding sources or the company's preferences. Gitman and Zutter (2015) state that the financing hierarchy of a company will start with retained earnings, followed by financing through debt and finally financing by issuing new equity. According to Gitman and Zutter (2015), pecking order theory arises due to asymmetric information between company managers and external stakeholders. Asymmetric information is a condition where company managers will have more information about the value of the company, the state of the company's business and the company's future prospects, than other parties, including shareholders or investors. If a company has a profitable investment opportunity that requires financing and the manager submits the information to investors, investors respond with skepticism because investors have limitations in verifying the information received. Therefore, when the company does not have sufficient finance to finance profitable investment opportunities, managers will tend to choose external financing by issuing debt rather than equity.

2.2 Capital Structure

Capital structure is a comparison between external funding sources used by the company, namely debt and capital. Capital structure is an indicator that can be used by investors to determine the rate of return and investment risk in a company. Decisions regarding capital structure are important for company managers because the decisions taken will affect the profitability and financial risk of the company in the future. According to Gitman and Zutter (2015), revealed that when a company makes decisions about capital structure, financial managers must understand how to measure and evaluate the use of loans to increase the rate of return on investment. The more debt problems a company has, the higher the cost of paying its debts. Utami (2019) also revealed that if the company chooses to use debt as a source of funding, there will be interest costs on the debt that must be paid by the company. If the interest expense paid is higher than the percentage increase in profit generated by the addition of debt, then the additional debt is an unfavorable thing from the perspective of shareholders.

2.3 Liquidity

Liquidity is the company's ability to meet its short-term obligations (Birt, et al, 2017). Some ratios can be calculated to determine an entity’s liquidity. To measure liquidity, this ratio will focus on current assets and current liabilities, which means how to meet short-term obligations with current assets. The excess from current assets and current liabilities is referred to as an entity’s working capital. Working capital represents the net amount of a company’s relatively liquid resources. That is, it is the liquidity buffer available to meet the financial demands of the operating cycle (Kieso, Weygandt and Warfield, 2020) .

2.4 Profitability

Profit is the current year’s profit available for distribution to the owners. Profitability is defined as the entity’s ability to generate profits from the available resources. Assessing the entity’s past profitability will shape an investor’s expectations as to the entity’s future profitability (Kieso, Weygandt and Warfield, 2020). An entity’s ability to generate profits and return on investment is one of the prime indicators of its financial health. In measuring profitability, there are several ratios that can be used, namely return on equity, return on assets, and profit margin ratios. In this study the researchers chose to use return on assets. Return on asset is profitability ratio that compares an entity’s profit to the assets available to generate the profits. Effectively, the ratio reflects the entity's ability to turn revenue into profit, and its ability to generate income from investing its assets (Birt, et al, 2017).

2.5 Company Size

Company size is a size of a company measured by the number of assets owned by a company (Iswarini and Ardiansari, 2018). Company size can be used as an indicator that shows that the company is in good condition, especially in the financial aspect (Alarussi and Alhaderi, 2018). The size of a company can also be an attraction for investors and creditors. Investors are more attracted to bear companies because large companies are generally more stable and have better prospects in generating profits and are related to the continuity of the company in the future. Creditors prefer to provide additional debt to large companies compared to small companies because large companies generally have a better reputation in the eyes of the public and are considered capable of paying off the debts they have taken (Lasut, Rate and Raintung, 2018).

2.2 Hypothesis Development

2.2.1 Liquidity and Capital Structure

According to [10] explaining that company liquidity is used to assess a company's ability to meet its short-term obligations as they mature. In times of low or declining liquidity, this ratio provides an early sign of problems with future cash flows. Shareholders do not want to invest excessively in the company's liquidity, therefore companies need to balance the need and safe position of current assets to meet short-term obligations in the future against the rate of return generated for investors. Results of research by Muslimah, Suhendro and Masitoh (2020), Suharsono and Setiadi 2020) show that the current ratio has a significant effect on capital structure with the understanding that the higher the liquidity, the lower the debt. If this is related to the pecking order theory, the company is considered to used internal funds as investment funding. If the company's liquidity increases, the company has a lot of funds so it can reduce the risk of using long-term debt and will also reduce the amount of its capital structure. Thus, profitability is hypothesized as follows:
H1: Liquidity has a significant effect on capital structure.

2.2.2 Profitability and Capital Structure

Profitability is the profit or profit generated by the company from business activities or company operations (Ariani, Pengestuti. One of the ultimate goals that are important for a company is to maximize shareholder wealth which can be achieved by increasing the value of the shares it owns. Profitability can be used as one of the main indicators for shareholders to assess their shares. Shareholders of the company demand or expect the company to generate high profits so that they can provide high returns to shareholders. Profitability is one of the factors that are considered affected the capital structure because companies generally will use funding sources that come from profits first. After that, if they still need funds, the new company will use external funding sources. If the company earns high profits, then the company will have more internal sources of funds that come from profits or profits that can be used to fund business activities or company operations so that the company will use fewer external funding sources in the form of debt. Based on the pecking order theory, the company will use funding sources from the company's profits first, then use debt and finally the company will issue new shares. Based on research conducted by Nguyen and Tran (2020), Joni and Lina (2010), profitability has a negative and significant effect on capital structure. This is in line with the pecking order theory which says that internal funding in the form of retained earnings is a priority. Thus, profitability is hypothesized as follows:
H2: Profitability has a significant effect on capital structure.

2.2.3 Company Size and Capital Structure

Company size is a measure measured by the number of assets owned by a company (Iswarini and Ardiansari, 2018). Company size can be used as an indicator that shows that the company is in good condition, especially in the financial aspect (Alarussi and Alhaderi, 2018). The size of the company can also be an attraction for investors because investors generally view large companies as more stable companies and have better prospects in terms of the profits to be generated and the continuity of the company in the future. In addition, Nasution, Siregar and Ismail (2017) explain that large companies have access to sources of funding from various parties because large companies have the possibility to win the competition in the market compared to small companies that will face uncertainty. Based on the pecking order theory, the order of funding preferences made by the company is retained earnings, followed by debt and the last is additional capital. With this theory, large companies whose funding is not sufficient if only using internal funding will choose to use funding sources from debt first and then use additional capital. This is also in line with research conducted by Nguyen and Tran (2020), Ariyani, Pangestuti and Rajarjo (2018), in which the study concluded that firm size has a positive effect on capital structure. Thus, firm size is hypothesized as follows:
H3: Firm size has a significant effect on capital structure**.**
The research model of the factors that affect the capital structure can be described as follows in Figure 1:

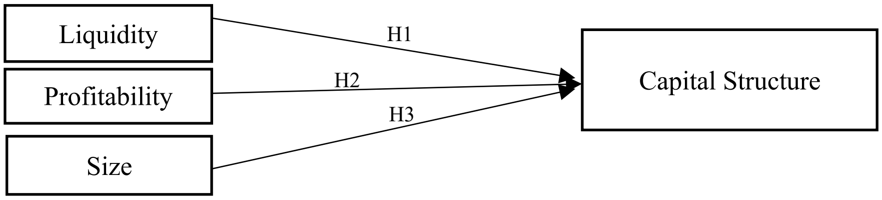

Figure 1. Research Model

3. Methods

This study aims to examine and analyze the effect of liquidity, profitability, and firm size on capital structure. This research method is a quantitative research method using multiple linear regression analysis with SPSS statistical test. Data was mainly collected from secondary sources. As the study needs historical financial data, which are from corporate reports, accessing publicly available data is assumed as the suitable method for the accuracy of the data. The population that is the object of the research is the infrastructure, transportation and utility sector companies that are listed on the IDX and have accessible financial reports for 2018-2020. Determination of the sample in this study will use purposive sampling method. The results of the sample selection can be seen in Table 1 below:

Table 1. Research Sample Selection Result

No	Criteria	Companies
1	IDX-listed infrastructure, transportation and utility sector companies	84
2	Infrastructure, transportation and utility sector companies that did not issue financial reports in 2018-2020	(23)
3	Infrastructure, transportation and utility sector companies that did not make profits in 2018-2020	(32)
4	Infrastructure, transportation and utility sector companies that do not use Rupiah in their financial statements.	(3)
	Total Sample	26

The following is a Table 2 of operationalization of this research variable:

Table 2. Operational Variable

Variable	**Proxy**
Capital Structure (DER)	$DER = \frac{Total\ Debt}{Total\ \ Equity}$
Liquidity (CR)	$Current\ Ratio = \frac{Current\ Asset}{Current\ Liabilities}$
Profitability (ROA)	$ROA = \frac{Earning\ After\ Tax}{Total\ Assets}$
Company Size (SIZE)	$SIZE = Ln\ (Total\ Assets)$

4. Data Collection

The population that is the object of the research is the infrastructure, transportation and utility sector companies that are listed on the IDX and have accessible financial reports for 2018-2020. Determination of the sample in this study will use purposive sampling method. The results of the sample selection can be seen in Table 3 below:

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4	Infrastructure, transportation and utility sector companies that do not use Rupiah in their financial statements.	(3)
	Total Sample	26

5. Results and Discussion

This study meets all the criteria for testing the classical assumption. The following are the details of the classic assumption test results:

5.1 Normality Test Result

Table 4. Normality Test Result

Variable	Asym Sig.	Std	Result
Unstandardized Residual	0.261	> 0,05	Normal distributed data

Based on the results of the normality test below with Kolmogorov Smirnov, a significance value of 0.261> 0.05 was obtained and it can be concluded that the research data is normally distributed (Table 4).

5.2 Multicollinearity Test Result

Table 5. Multicollinearity Test Result

Variable	Tolerance	Std	VIF	Std	Result
Liquidity	0.854	> 0.10	1.170	< 10	There is no multicollinearity
Profitability	0.969	> 0.10	1.032	< 10	There is no multicollinearity
Size	0.880	> 0.10	1.137	< 10	There is no multicollinearity

Based on the multicollinearity test table above (Table 5), it shows that for each independent variable the tolerance value obtained during the study is more than 0.10 and for each independent variable the research value for the VIF value is below 10. Thus, the results of the study are free of multicollinearity, thus passing the multicollinearity test for regression. good to use.

5.3 Heteroscedasticity Test Result

The heteroscedasticity test aims to test whether the linear regression model there is an inequality of variance from the residual of one observation to another observation other Ghozali (2018). The Figure 2 is the results of the heteroscedasticity test:

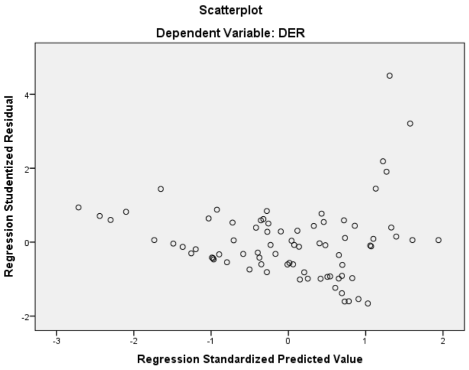

Figure 2. Heteroscedasticity Test Results

Based on the results of the heteroscedasticity test in the Figure 2, it can be seen, that there are points that spread randomly above or below the number 0, then there is no heteroscedasticity problem.

5.4 Autocorrelation Test Result

Table 6. Autocorrelation Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	0.639	0.408	0.385	99.24341	1.901

Based on Table 6 the autocorrelation test with Durbin Watson value, it can be seen that DW value smaller than the value of Du, as it is known that the initial sample is 26, k (independent variable) = 3, the value of du 1.7129, the value of 4-du = 2.2871. the condition that there is no autocorrelation is du < dw < 4-du can be written 1.7129 < 1.901 < 2.2871, so that it is stated that there is no autocorrelation.

5.5 F Test Result

Table 7. F Test Result

Model	Sum of Squares	Df	Mean Square	F	Sig	Result
Regression	503338.379	3	167779.460	17.035	0.000	Accepted
Residual	728844.860	74	9849.255			
Total	1232183.239	77				

From the table 7, it is known that the sig value obtained in the F test is 0.000 <0.05, it can be concluded that liquidity, profitability, and size simultaneously had significancy effect on capital structure.

5.6 Hypothesis Test Result

The result of normality test and heteroscedasticity test shows that this regression model is between liquidity, profitability, and firm size as a good dependent variable in this study. The following are the results of multiple regression analysis (Table 8):

Table 8. Hypothesis Test Result

Model	Unstandardized Coefficients B	t	Sig.
Constant	-582.337	-2.784	0.007
CR	-0.183	-2.067	0.042
ROA	-12.111	-3.974	0.000
SIZE	28.056	4.021	0.000

In hypothesis 1, the significance value < the conditional value (0.05) is 0.042 <0.05, it can be concluded that H1 is accepted, so liquidity has a significant effect on the capital structure. Liquidity is used by the company to measure the company's ability to pay off its short-term obligations as they fall due. The results of this study indicate that companies with a high level of liquidity prefer to use internal funds in financing investments so that companies do not do funding from external parties which makes the company's liabilities decrease. The more short-term assets a company uses, the more internal cash flow it can generate to finance business and investments. Businesses with high solvency tend to use less debt. This is in accordance with the pecking order theory that there are considerations in choosing a tiered source of funding by prioritizing the company's internal capabilities with minimal risk to finance the company's operational activities. The results of this study are in line with the research of Alyousfi, et al (2020), Muslimah, Suhendro and Masitoh (2020), Cipto, Choerudin and Suryanti (2019) but are not in line with the research of Seftianne and Handayani (2011), Kaliman dan Wibowo (2017).

In hypothesis 2 the significance value > the conditional value (0.05) which is 0.000 > 0.05, it can be concluded that H2 is accepted, so Profitability has significant and negative effect on capital structure. Companies that are profitable tend to use their own capital to operate due to the adequacy of funds to finance their operational costs. The higher the company's profitability, the higher the retained earnings will be. For certain conditions such as investments or retained earnings that require funding, the company will use the retained earnings funds first compared to financing either issuing debt securities or financing financial services. Mele, nonprofitable companies will seek financing from outside because their own capital is not sufficient to finance their operational activities. Apabila profitabilitas perusahaan meningkat dipengaruhi adanya manajemen yang efektif dalam pengaturan struktur modal perusahaan (Spitsin, et al, 2020). The results of this study in line with the pecking order theory which explains that companies that have high profitability will have high retained earnings and smaller company leverage. In addition, companies with low profitability will choose to increase financing from the debt side so that the level of leverage is higher. The results of this study are in line with the results of research by Liang and Natsir (2019), Nguyen and Tran (2020), Alyousfi, et al

(2020), Suharsono and Setiadi (2020), but not in line with the result by Seftianne and Handayani (2011), Kaliman and Wibowo (2017).

In hypothesis 3 the significance value < the conditional value (0.05) is 0.000 < 0.05, it can be concluded that H3 is accepted, so Size has a significant and positive effect on capital structure. Large-scale companies have easy access to funding in the form of loans. With the company's large needs, the company prefers to fund externally rather than issue new shares. The decision to make funding in the form of long-term loans will increase debt and affect the capital structure. Particularly, infrastructure, transportation, and utility companies in their operational activities based on tenders or contracts with a gradual or terminated funding system require large funds at the beginning to be able to quickly complete their projects. For this reason, external financing is needed, both in the form of debt securities financing and financial services financing. With a large company size, the lender will see the value of the company's assets as collateral to protect the funder from the risk of default. The larger the size of the company as measured by total assets, it will affect the company's capital structure where companies with large assets will tend to seek funds from debt securities or financing financial services. This is still in line with the pecking order theory which shows that there is a funding sequence if the company has insufficient capital to finance the company's needs. The results of this study are in line with the research of Liang and Natsir (2019), Nguyen and Tran (2020), Seftianne and Handayani (2011), Suharsono and Setiadi (2020), but not in line with the results of research by Joni and Lina (2010).

6. Conclusion

Based on the results of the study, it was concluded that liquidity profitability and size had a significant effect on the capital structure of the infrastructure, transportation and utility sector companies listed on the IDX from 2018 to 2020. Because the results of this study indicate that there is a significant effect of profitability, liquidity and size on capital structure, it is hoped that companies engaged in infrastructure, transportation and utilities, can optimize the company's profitability, the company must be able to maximize all its wealth for operating activities in order to generate the highest profit and prevent companies from using debt. Companies that use their own capital in company activities mean the company is to pay all its own expenses. Controlling the fulfillment of short-term obligations on time to control the collection receivable from customer, controlling cash availability for short term payments and optimizing the use of assets to generate profits will show that the company's management of capital is effective. Infrastructure, transportation, and utility companies require strong fund management considering that the payment system from the customer depends on the settlement period. If the infrastructure company experiences an error in calculating costs in carrying out the project, the company needs to be mentally prepared to wait for the next payment. The risk of capital if company do not have a strong capability to pay will affect the company's performance and ultimately to the company's reputation. Costs need to be considered in determining the use of debt. In the end, with the use of debt that is greater than the benefits and in bad economic conditions, the company will not last long because it has to pay interest and principal payments on the loan. This research takes an observation period of 2018-2020, in which 2020 the emergence of Covid conditions that have an impact on the economy that is not profitable for business.

The existence of investor confidence in the size of the company, namely the larger the size of the company is expected to be able to manage assets optimally to obtain stable profits. The level of assets considered to guarantee for investors in the event of liquidity, investors can obtain funds for the funds obtained. But investors expect the company to have a long life in earning profits in difficult conditions such as the Covid-19, some infrastructures company survive and able to fulfill their obligations to stakeholders. The strength of a company able to create the sustainable company condition and to carry out financial management to the maximum extent possible in the company's operational processes with controlling the capital structure.

In this study, contras with the theory that it can be seen that in 14 of the 26 companies with a DER level above 100%, which means the higher the DER, the worse the company is because the risk of the company is getting bigger, but the company is able to generate profitability during Covid-19 in 2020. This shows that if a company with high profitability will affect the capital structure in which the company chooses to obtain debt, it becomes a funding tool that can encourage the company to survive in difficult situations provided that the company has the ability to pay so that it can avoid default in difficult times. If the company chooses to obtain funding to increase revenue, the company must be able to manage the use of debt efficiently so that the company can obtain a cost of capital or other types of debt with risk. Make sure the benefits are greater than debt financing and if the cost of debt is greater than the company is advised not to add debt.

The suggestions to be conveyed from the results of this study are also provide advice for the government. If the government wants to accelerate infrastructure development in Indonesia, there is cooperation with private sector companies. The form of cooperation can be in the form of a cooperation agreement or the provision of credit facilities that can support the sector, especially during this pandemic. One of the problems in this sector is the lack of profit generated so that government assistance is needed so that this sector can move and have business sustainability. For further researchers using a cash flow ratio variable using the cash flow generated during the reporting period compared to the current ratio at a certain time. In addition, the researcher uses a liquidity proxy variable with a current ratio proxy, while the infrastructure sector needs to look at its long-term obligations and cash flow in fulfil their obligations.

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