

The Effect of Capital Structure on Return on Equity in Astra Group Companies Listed on the Indonesia Stock Exchange

Dinda Chairani Siagian^{1*}

¹Faculty of Economics and Business, Universitas Muhammadiyah Sumatera Utara
Jl. Kapten Mukhtar Basri No. 3 Medan, Sumatera Utara, Indonesia

***Email:** dindachairanisiagian@gmail.com

ABSTRACT

This study aims to determine the effect of Debt to Asset Ratio and Debt to Equity Ratio on Return On Equity in 2016-2020. This research is an associative research with a quantitative approach. The population in this study are all Astra Group Companies listed on the Indonesia Stock Exchange as many as 6 companies. The sampling technique used in this study is Nonprobability Sampling with a Saturated Sampling approach, so that the sample in this study amounted to 6 companies. This research uses documentation data collection techniques using secondary data. The data analysis technique used in this study is Multiple Linear Regression Analysis, Classical Assumption Test, Hypothesis Testing, and Coefficient of Determination using the SPSS version 25.0 application. The results of the study partially show that Debt to Asset Ratio has an effect on Return On Equity in Astra Group Companies listed on the Indonesia Stock Exchange, Debt to Equity Ratio has no effect on Return On Equity in Astra Group Companies listed on the Indonesia Stock Exchange, and Debt to Equity Ratio Asset Ratio and Debt to Equity Ratio simultaneously have a significant positive effect on Return On Equity in Astra Group Companies listed on the Indonesia Stock Exchange.

Keywords: Debt to Asset Ratio, Debt to Equity Ratio, Return On Equity

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INTRODUCTION

In all aspects of investment decisions, capital structure decisions are important because of the effect of these decisions on the profitability of a company. One of the factors that make a company competitive in the long term is the strong capital structure it has. So that the decision on the sources of funds used to strengthen the capital structure of a company cannot be seen as a simple decision but has strong implications in the future (Nimalathasan, 2010). The capital structure is a balance or comparison between capital and debt, the greater the use of debt in the company's capital structure will increase the payment of installments and interest which are the company's obligations, and will increase the risk of the company's cash flow inability to meet these obligations (Monica, et al, 2016). According to Ross (1977) explains the signaling theory in which the capital structure is a signal conveyed by the manager to the market if the manager has confidence that the company's prospects are good with the aim of increasing stock prices, then the information is communicated to investors. Managers can use more debt as a credible signal, because companies that increase debt can be viewed as companies in the future. Investors are expected to catch the signal where the signal shows that the company has good prospects. Thus, when the company's capital structure changes, it will have an impact on the value of the company (Ayuningrum, 2017).

The relationship between capital structure and financial performance is one of concern in the financial literature. How important is the control for Return On Equity (ROE) and the effect of capital structure or Return On Equity (ROE), will help to identify potential problems in the performance of capital structure (Pratheepkanth, 2011). Meanwhile, according to Khan (2012) that the relationship between capital structure decisions and the company's Return On Equity (ROE) is ownership (shareholders) and control (management) the company has different resources for most companies. Managers for that reason, become unmotivated to apply maximum effort and are more interested in personal gain or policies that are in their own interests and result in loss of value for the company and harm to shareholders.

In the above conditions, debt acts as a controlling tool to limit opportunistic behavior in the interests of managers for personal gain. This opportunistic action is carried out by reducing the free cash flow of the company to pay fixed interest and forcing managers to avoid negative investments and work in the interests of shareholders. Whereas Return on Equity (ROE) in the company shows the company's ability to provide benefits from assets, equity and debt for shareholders (Fahmi, 2011). The size of the company's profitability in general uses the ROE (Return On Equity) measure. ROE is the ratio between profit after tax to total own capital (Equity) originating from the owner's capital deposit. The higher the Return On Equity, the more efficient the company in managing its own capital to generate profits/net income. This ratio is used to measure the company's rate of return or the company's effectiveness in generating profits by utilizing the equity owned by the company (Alpi, 2018). Meanwhile, according to Harahap (2015), Return On Equity shows what percentage of net profit is obtained when measured by owner's capital, the bigger the better.

LITERATURE REVIEW**Return On Equity**

Return On Equity is a ratio to measure net profit after tax with own capital. This ratio focuses on how the efficiency of the company's operations is transacted into profits for the owners of the company. Experts have different meanings or definitions and each has their

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own perception in conveying the meaning of Return On Equity (ROE). The understanding of Return On Equity (ROE) according to experts is as follows:

According to (Hani, 2012) argues that Return On Equity shows the ability of the company's equity (generally ordinary shares) to generate profits. The higher the ROE, the better the results. Because it shows that the capital position of the owner of the company will be getting stronger, meaning that the profitability of own capital will be getting better. Meanwhile, according to (Sartono, 2010) states that Return on Equity is to measure the company's ability to obtain the rate of return or profit available to shareholders. This ratio is also influenced by the size of the debt. If the company's debt proportion is getting bigger then this ratio will also be bigger. Meanwhile, according to (Fahmi, 2016) states that Return On Equity is also called return on Equity. This ratio examines the extent to which a company uses its resources to be able to provide a return on equity. Return On Equity (ROE) is one of the profitability ratios. Which profitability ratio is useful for measuring the effectiveness of the overall management which is indicated by the size of the level of profits obtained in relation to sales and investment. The better the profitability ratio, the better it will describe the ability of the company to earn high profits.

Based on the opinion of the experts above, it can be concluded that Return On Equity (ROE) is a comparison between net income after tax with own capital. Return On Equity is a measure of the company's income available to company owners for the capital they have invested. The formula used to calculate this ratio is:

$$\text{Return On Equity} = \frac{\text{Net Profit After Tax}}{\text{Equity}} \times 100 \%$$

The measurement results can be used as a tool for evaluating management performance so far, whether they have worked effectively or not. If they have succeeded in achieving the predetermined target, they are said to have succeeded in achieving the target for a period or several periods and vice versa. If it fails, this failure must be investigated where the fault lies and also weaknesses so that the incident does not happen again. Then the failure or success can be used as a reference for future profit planning. Therefore, the solvency ratio is often referred to as a measure of management performance.

Capital Structure

Capital structure is a reflection of a company's way of financing its assets which is a composition of capital sources consisting of short-term debt, long-term debt and shareholder capital. Capital structure theory studies the effect of financial leverage on the overall cost of capital and must be borne by the company and the value of its shares. The target capital structure of a company is defined as a structure that will maximize the company's stock price. Based on the above definition, the researcher concludes that the capital structure is the components that make up a capital both from within the company (own capital) and from outside the company (foreign capital). In simple terms it can be said that capital structure is a comparison or balance of foreign capital with own capital.

Debt to Asset Ratio (DAR)

Debt to Asset Ratio (DAR) is a debt ratio used to measure the ratio between total debt and total assets. In other words, how much the company's assets are financed by debt or how much the company's debt affects asset management. According to Sutrisno (2012)

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the Debt to Asset Ratio is the ratio of debt to total assets called the debt ratio, measuring the percentage of funds originating from debt. What is meant by debt is all debt owned by the company, both long-term debt and short-term debt. Creditors prefer a lower Debt to Asset Ratio because the level of security of funds is getting better. Meanwhile, according to Fahmi (2016), the Debt to Asset Ratio is also referred to as a ratio that looks at the company's debt comparison, which is obtained from a comparison of company debt, which is obtained from a comparison of total debt divided by total assets.

Meanwhile, according to Hanafi and Halim (2012) explain the Debt to Asset Ratio is the debt ratio used to measure the company's debt ratio, which is obtained from the comparison of total debt with total assets. In other words, how much the company's debt affects asset management. This ratio is a comparison between current liabilities and long-term debt and the total assets are known. This ratio shows some part of the company's total assets that are spent with debt. In practice, if the company's calculation results turn out to have a high solvency ratio, this will result in a greater risk of loss, but there is also an opportunity to earn a large profit. Conversely, if the company has a lower solvency ratio, it certainly has a smaller risk of loss, especially the low rate of return when the economy is high. Therefore, manager financial institutions are required to manage solvency ratios properly so that they are able to balance high returns with the level of risk they face. It should be noted that the size of this ratio is very dependent on the loans owned by the company, in addition to its assets (equity). From some of the expert opinions above, it can be concluded that the Debt to Asset Ratio (DAR) is a financial ratio used to measure how much company assets are funded by debt or how much company debt affects asset management. The formula used to calculate this ratio is:

$$\text{Debt to Asset Ratio} = \frac{\text{Total Liability}}{\text{Total Assets}} \times 100 \%$$

From the formula above, it can be seen that the Debt to Asset Ratio (DAR) is a way to measure the share of assets used to guarantee the company's overall liabilities or debts.

Debt to Equity Ratio (DER)

Debt to Equity Ratio (DER) is one of the Leverage ratios or also Solvency ratios. Solvency Ratio is a ratio to determine the company's ability to pay its obligations if the company is liquidated. This ratio is also known as the leverage ratio, which is to assess the company's limits on borrowing money. The DER of each company is certainly different, depending on the characteristics of the business and the diversity of its cash flows. Companies with stable cash flows usually have higher ratios than less stable cash ratios. The formula used to calculate this ratio is:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liability}}{\text{Total Equity}} \times 100 \%$$

This ratio is sought by comparing all debt, including current debt with all equity. This ratio states that the higher this ratio, it means that the own capital is less than the debt.

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Conceptual framework**The Effect of Debt to Asset Ratio on Return On Equity**

Debt to Asset Ratio (DAR) is the ratio of debt to total assets whose value can be determined by dividing the total amount of the company's debt by the company's total assets to get the value of the DAR within the company. If the DAR increases, the company's ROE will decrease. DAR is a financial ratio used to measure how much the company's assets are funded by debt or how much the company's debt affects asset management. A high DAR value results in the company's inability to pay all of its obligations (debt), because if the DAR is high, it means that there is more debt funding. According to Kasmir (2012) states that if from the calculation results, the company turns out to have a high solvency ratio, this will have an impact on the emergence of a greater risk of loss. Conversely, if the company has a lower solvency ratio, it certainly has a smaller risk of loss, especially when the economy is declining. This impact also results in a low rate of return when the economy is high. Based on previous research, namely Ashari and Djoko (2017), it was found that DAR had a positive and significant effect on ROE. This ratio is used to measure how much assets are financed with debt. The lower the debt ratio (DAR), the better the condition of a company. If the funds borrowed by the company (debt) obtain greater results than the debt, then the income or profit earned by the company will increase. Based on the descriptions above, it can be assumed that the Debt to Asset Ratio has an effect on Return On Equity.

The Effect of Debt to Equity Ratio on Return On Equity

Debt to Equity Ratio is a ratio that shows the relationship between total liabilities and total equity provided by the owner of the company. The higher the DER indicates the greater the company's liabilities compared to the company's equity. The higher the DER tends to reduce stock returns, because the higher the debt level, the higher the interest expense of the company and reduce profits.

According to Kasmir (2012) Debt to Equity Ratio (DER) is the ratio used to assess debt to equity. In other words, this ratio serves to determine each rupiah of own capital used for debt guarantees, this Debt to Equity Ratio looks at the financial structure company by relating the amount of liabilities to the amount of owner's equity. Based on previous research, Jihan Salim (2015) concluded that the Debt to Equity Ratio (DER) has a positive effect on Return On Equity (ROE). The high and low DER will affect the level of ROE achieved by the company. If the costs incurred by the loan are less than the cost of own capital, then the source of funds originating from loans or debt will be more effective in generating profits, and vice versa. Companies with growing profits will strengthen the relationship between DER and profitability, namely where profitability increases along with a low DER. Based on the descriptions above, it can be assumed that the Debt to Equity Ratio has an effect on Return On Equity.

The Effect of Debt to Asset Ratio and Debt to Equity Ratio on Return On Equity

Debt to Asset Ratio (DAR) is a comparison between total liabilities and the total known assets. This ratio shows how much of the total assets are spent by debt. Debt to Equity Ratio (DER) is a debt ratio that shows the relationship between the number of loans granted by creditors and the amount of own capital provided by the owner of the company. DER and DAR are analytical tools of Financial Leverage. Financial Leverage is considered profitable if the profit earned by the company is greater than the fixed expenses arising from the use of the debt. According to Sartono (2010), financial leverage is the use of sources of funds that

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have a fixed burden with the hope that that it will provide additional profits that are greater than the fixed costs so that it will increase the profits available to shareholders. DAR and DER will have a positive effect on ROE if the ROE value increases along with the increasing DAR and DER values or the ROE value decreases along with the decreasing DAR and DER values. DAR and DER have a negative effect if the ROE value increases while the DAR and DER values decrease or the ROE value decreases while the DAR and DER values increase. Based on the description above, it can be assumed that the Debt to Asset Ratio and Debt to Equity Ratio have an effect on Return On Equity. From the description of the conceptual framework associated with the opinions of the experts above regarding the effect of Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) on Return On Equity (ROE), the following is the conceptual framework used in this study:

METHOD**Research Approach**

This research is associative which aims to determine the effect between two or more variables. This study uses secondary empirical data, where data is obtained from documents by browsing on the official website of the Indonesia Stock Exchange. While the research approach used is a quantitative approach, where this approach is based on testing and analyzing theories compiled from various variables, measurements involving numbers, and analyzed using statistical procedures.

Operational Definition

Based on the problems and hypotheses to be tested, the variables to be examined in this study are the Independent Variables or Independent Variables (X) and Dependent Variables (Y).

Return On Equity (ROE) The Return On Equity (ROE) ratio is also known as return on equity. This ratio examines the extent to which a company uses its resources to be able to provide a return on equity. (Fahmi, 2016).

Capital Structure

According to Riyanto (2008), capital structure is a balance or comparison between foreign capital (long term) and own capital. The capital structure is a reflection of the company's policy in determining the type of securities specified.

Debt to Asset Ratio

Debt to Asset Ratio (DAR) is a ratio that measures the ratio of the funds provided by the owner to the funds borrowed from the company's creditors according to Darsono and Ashari (2010). Debt to Total Assets or Debt Ratio is also referred to as a ratio that looks at the company's debt comparison, which is obtained from the comparison of total debt divided by total assets ".

Debt to Equity Ratio

Debt to Equity Ratio (DER) is one of the ratios of leverage or solvency according to Darsono and Ashari (2010). Debt to Equity Ratio (DER) as a measure used in analyzing financial statements to show the amount of collateral available to creditors.

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RESULT AND DISCUSSION

Research results are scientific writings containing information or information regarding a situation or activity related to the object of research. The results of the multiple linear regression test obtained from SPSS version 25.0 are as follows:

Table 1. Multiple Linear Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3,830	1,756		-2,181	,039
	Sqrt_X1	1,794	,423	1,611	4,242	,000
	Sqrt_X2	-4,985	1,189	-1,592	-4,192	,000

From the results of the data based on the table above, the following regression equation is obtained:

$$Y = +\beta_1 X_1 + \beta_2 X_2 + e$$

$$Y = (-3.830) + 1.794X_1 + (-4.985)X_2 + e$$

From the multiple linear regression equation above, it can be concluded as follows:

1. The multiple regression equation above shows a constant value of -3.830 with a negative sign. This shows that if the Debt to Asset Ratio (X1) and Debt to Equity Ratio (X2) are constant or not changing (equal to zero) then the Return On Equity (Y) is -3.830.
2. The regression coefficient of Debt to Asset Ratio (X1) is 1.794, this shows that every 1% increase in Debt to Asset Ratio will affect the decrease in Return On Equity of 1.794.
3. The regression coefficient of Debt to Equity Ratio (X2) is -4.985, this indicates that every 1% increase in Debt to Equity Ratio will affect the decline in stock prices by -4.985.

Table 2. t test results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3,830	1,756		-2,181	,039
	Sqrt_X1	1,794	,423	1,611	4,242	,000
	Sqrt_X2	-4,985	1,189	-1,592	-4,192	,000

If the value of $t_{\text{count}} > t_{\text{table}}$, it means that the independent variable (X) partially affects the dependent variable (Y).

The formula for finding $t_{\text{table}} = (\alpha/2 ; n-k)$.

$$t_{\text{table}} = (0.05/2 ; 28-2)$$

$$= (0.025 ; 26)$$

$$= 2.055$$

The Effect of Debt to Asset Ratio on Return On Equity

Based on the data above, it is known that the value of Sig. = 0.039. Value of Sig. then compared the value of 0.05 so that $0.039 > 0.05$. And when viewed from the value of $t_{\text{count}} = 4.242$ and $t_{\text{table}} = 2.055$ then the value of $t_{\text{count}} > t_{\text{table}}$, means that H_0 is rejected and H_a is accepted because t_{count} is greater than t_{table} . so that the variable Debt to Asset

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Ratio has a significant positive effect on Return On Equity because the value of Sig. > of 0.05 and the value of tcount > ttable whose value is in the positive direction.

The Effect of Debt to Equity Ratio on Return On Equity

Based on the data above, it is known that the value of Sig. = 0.039 Value of Sig. then compared the value of 0.05 so that $0.039 > 0.05$. And if it is seen from the value of tcount = -4.192 and ttable = 2.055 then the value of tcount ttable, it means that H_0 is accepted and H_a is rejected. So the variable Debt to Equity Ratio has no effect on Return On Equity because the value of Sig. > from 0.05 and the value of tcount < ttable.

Table 3. F Test Results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14,944	2	7,472	9,283	,001 ^b
	Residual	20,122	25	,805		
	Total	35,066	27			

a. Dependent Variable: Sqrt_Y

b. Predictors: (Constant), Sqrt_DER, Sqrt_DAR

Based on the data above, it is known that the value of Sig. = 0.001 Value of Sig. then compared with the value of 0.05 so that $0.001 > 0.05$. And if it is seen from the value of Fcount = 9.283 and Ftable = 3.42 then the value of Fcount > Ftable so that the variables Debt to Asset Ratio and Debt to Equity Ratio together have a significant positive effect on Return On Equity due to the value of Sig. < of 0.05 and the value of Fcount > Ftable whose value is in the positive direction.

Table 4. Results of the Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,653 ^a	,426	,380	,89716	1,569

a. Predictors: (Constant), Sqrt_X2, Sqrt_X1

b. Dependent Variable: Sqrt_Y

Based on the results of the determination test in the table above, it shows that the value of R Square is 0.653. So to find out the extent of the influence of the Debt to Asset Ratio and Debt to Equity Ratio can be known through the coefficient of determination test as follows:

$$D = R^2 \times 100\%$$

$$D = 0.653 \times 100\%$$

$$D = 65.3\%$$

The value of R Square above is 65.3%, this means that 65.3% of the variance in the Return On Equity value is determined by the role of the variance in the Debt to Asset Ratio and Debt to Equity Ratio values. In other words, the contribution of Debt to Asset Ratio and Debt to Equity Ratio to Return On Equity is 65.3% while the remaining 34.7% is influenced by other variables not examined.

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DISCUSSION**The Effect of Debt to Asset Ratio on Return On Equity**

Based on the above research on the effect of Debt to Asset Ratio on Return On Equity in Astra Group Companies listed on the Indonesia Stock Exchange.

Partial test results show that the value of Sig. = 0.039. Value of Sig. then compared with the value of 0.05 so that $0.039 > 0.05$. And if viewed from the value of $t_{count} = 4.242$ and $t_{table} = 2.055$ then the value of $t_{count} > t_{table}$, means that H_0 is rejected and H_a is accepted because t_{count} is greater than t_{table} . so that the variable Debt to Asset Ratio has a significant effect on Return On Equity because the value of Sig. $>$ of 0.05 and the value of $t_{count} > t_{table}$ whose value is in the positive direction. This shows a tendency to increase the Debt to Asset Ratio of Astra Group companies listed on the Indonesia Stock Exchange. In general, if the value of the Debt to Asset Ratio has increased, it means that the greater the amount of loan capital used for investment in assets in order to generate profits for the company. On the other hand, if the value of the Debt to Asset Ratio decreases, it means the greater the guarantee for creditors when liquidation occurs. Because basically creditors tend to choose a low Debt to Asset Ratio.

The results of the Debt to Asset Ratio research have an effect on Return On Equity, indicating that the company's ability to pay off its debts. The greater the value of the Debt to Asset Ratio indicates the number of assets obtained from debt financing and vice versa, the more risky it is nor can the company pay its debts to creditors. If the Debt to Asset Ratio is large, creditors will be more careful to approve a company's credit application.

The Effect of Debt to Equity Ratio on Return On Equity

Based on the above research on the effect of Debt to Equity Ratio on Return On Equity in Astra Group Companies listed on the Indonesia Stock Exchange. Partial test results show that the value of Sig. = 0.039 Value of Sig. then compared the value of 0.05 so that $0.039 > 0.05$. And if it is seen from the value of $t_{count} = -4.192$ and $t_{table} = 2.055$ then the value of $t_{count} < t_{table}$, it means that H_0 is accepted and H_a is rejected. So the variable Debt to Equity Ratio has no significant effect on Return On Equity, because the value of Sig. $>$ than 0.05 and the value of $t_{count} < t_{table}$. This shows the tendency of increasing Debt to Equity Ratio is not followed by an increase in Return On Equity in Astra Group Companies listed on the Indonesia Stock Exchange.

The results of the Debt to Equity Ratio research have no effect on Return On Equity, indicating that there are several parts of each rupiah of own capital in the company that are used as collateral for the entire debt. The higher this ratio means the higher the amount of external funds that must be guaranteed by the amount of own capital.

CONCLUSION

Based on the results of the research and discussion that have been stated, conclusions can be drawn from research on the effect of Capital Structure on Return On Equity in Astra Group Companies listed on the Indonesia Stock Exchange for the 2016-2020 period are The results of the study partially prove that the Debt to Asset Ratio has a significant positive effect on Return On Equity in Astra Group Companies Listed on the Indonesia Stock Exchange for the 2016-2020 period. The results of the study partially prove that the Debt to Equity Ratio has no effect on Return On Equity in Astra Group companies listed on the Indonesia Stock Exchange for the 2016-2020 period. The results of the study simultaneously

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prove that the Debt to Asset Ratio and Debt to Equity Ratio have a significant effect on Return On Equity in Astra Group Companies Listed on the Indonesia Stock Exchange for the 2016-2020 period.

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