CHAPTER 1
INTRODUCTION

1.1 Introduction

The enterprise's capital structure is one of the fundamental factors for the operation of the enterprise. The capital structure is determined by the financing policy of the financial manager, who is constantly confronted with qualitative and quantitative considerations. The capital structure comprises three crucial elements: the first is the obligation to pay a remuneration to the financier for the use of the capital, or the nature of the obligation to pay the cost of capital. The second is the extent of the funder's authority and intervention in the management of the enterprise, and the third is the risk to which the enterprise is exposed. Determining the relationship between debt and equity as a source of corporate finance is closely related to the concept of capital structure.

The capital structure of a company is permanent financing consisting of long-term debt, preferred stock, and shareholder capital. According to (Copeland, Thomas E., J Fred Weston. 1997), financial structure is the way a company finances its assets and can be seen on the entire right side of the balance sheet, which consists of short-term debt and long-term debt or shareholder capital. Therefore, a company's capital structure is only one part of its financial structure. Many factors influence the manager's decision to determine the capital structure of the company.

1.2 Background of study

One speaks of a global economic crisis when all sectors of the world market economy collapse and affect other sectors throughout the world. The global financial crisis arises from market economic problems worldwide that cannot be avoided due to bankruptcies or the chaotic economic situation. In 2008, a global economic crisis began in the United States and then spread to other countries worldwide, including Indonesia. The global crisis also affected Indonesia, namely the increase in the price of imported raw materials, especially in the manufacturing industry, due to the weakening of the rupiah's exchange rate against the US dollar.

All companies in Indonesia are affected, both companies listed on the Indonesian Stock Exchange and unlisted companies. Based on data from the Indonesia Stock Exchange, the total number of companies listed in Indonesia in 2022 is 780 companies. However, this research will focus on 522 companies for which complete data is available.

Table 1.1
Sector Company Listed in Bursa Efek Indonesia

No	Sector	Total
Manufacturer Sector		
1.	Consumer goods	43
2.	Basic industry and chemicals	63
3.	Miscellaneous Industry	40
Raw Material Producing Sector		
4.	Agricultural	17
5.	Mining	43
Services Sector		
6.	Financial	82
7.	Infrastructure, utility, and transportstation	54
8.	Property, real estate and construction	60
9.	Trading, services and investment	120
	Total	**522**

Source : Bursa Efek Indonesia

(Brigham, E, Houston, J. 2011) state that the company needs additional capital in the form of debt and equity to develop its business. The amount of capital needed for the business can determine the capital structure of the business. According to (Horne, Van Wachowicz. 2007), capital structure is the proportion of long-term financing that consists of debt and equity. Companies need to balance the use of debt and equity to achieve an optimal capital structure. According to (Riyanto, B. 2010), the optimal capital structure of a company is one that can minimise the cost of capital. (Brigham, E., Houston, J. 2011) state that the capital structure is optimal when risk and return are balanced and share prices can be maximised.

Companies must make the right financing decisions to determine the optimal capital structure. Financing decisions must minimise the cost of capital borne by the firm and maximise share prices. It can be concluded that the cost of capital borne by the company is negligible if the capital structure is more optimal. The cost of capital arising from the sources of financing has different direct effects, so it is necessary to consider the proportion of debt and equity used.

The source of capital chosen will affect the value of the business. Therefore, the business needs to know the cost required to raise these funds. The cost of capital incurred when a company incurs debt is the interest cost charged by creditors. On the other hand, if the company uses internal funds, there is an opportunity cost for the funds used or the equity capital, which corresponds to the return required by shareholders on the equity capital derived from retained earnings. Therefore, a financial manager must be careful in determining the capital structure of his company.

In light of the above issues, this study examines some of the primary factors affecting companies' capital structure in Indonesia's industries listed on the Indonesia Stock Exchange. These factors are sales growth, tangibility, market-to-book ratio, GDP, inflation and profitability. The problem in this study is, therefore, how the influence of sales growth, asset structure and profitability on the capital structure.

1.3 Research issues and problem statement

Since 1983, the financial market in Indonesia has removed regulations that may hinder certain economic activities, or it can be called deregulation, as there were many weaknesses and deficiencies in corporate finance. In 1988, reforms were again implemented, with domestic private and foreign banks maintaining the status quo with state-owned banks for loans at market rates. There is much empirical evidence to show the research findings on corporate capital structure. However, each study has different and varying results - problems in capital structure, especially in financing choice, which is reflected in inconsistent empirical results.

Solving the problem of capital structure in financing has inconsistent empirical results.

1. 4 Research objective

This paper examines the firm-specific determinants of leverage of Indonesian firms. This study aims to determine whether tangible assets, size, profitability, market-to-book ratio and macroeconomic factors such as GDP and inflation affect the capital structure decisions of listed firms.

Specifically, however the study examines the following:

1. To examine tangibility between leverage
2. To examine size between leverage
3. To examine profitability between leverage
4. To examine market to book ratio between leverage
5. To examine GDP ratio between leverage
6. To examine inflation ratio between leverage

1.5 Research questions

There are challenges in developing the various industry sector in the future. One of the main ones is the relatively limited sources of financing.

RQ1 : Does tangibility influence to capital structure?

RQ2 : Does profitability influence to capital structure?

RQ3 : Does size influence to capital structure?

RQ4 : Does market to book ratio influence to capital structure?

RQ5 : Does GDP influence to capital structure ?

RQ6 : Does Inflation influence to capital structure ?

1.6 Significance of study

The capital structure is essential for the sustainability of a company's operations because the company's activities and development begin with the presence of capital. The core problem of capital structure theory is to find a balance between the benefits and costs of using debt capital. Meanwhile, a sound capital structure can minimise the cost of capital and maximise the firm's value, which reflects a company's share price and the well-being of shareholders. The decision on debt or equity in investment financing rests solely with the finance manager. Here, the financial manager plays a significant role in determining the proportion of the use of the appropriate investment funds for the company. This is to determine the value and minimise the significant risks associated with the use of debt.

This study contributes to stakeholders. First, shareholders and external investors will better understand the determinants of capital structure and maximise their role in investment decisions. Disadvantages. Both managers use financing strategies to facilitate wise investment decisions. Third, lenders can evaluate the company's performance based on these variables to reduce the risk of default.

1.7 Scope of Study

This study focuses only on how tangible assets, size, profitability, market-to-book ratio, GDP growth and inflation affect leverage. This study uses a data sample of all Indonesian companies listed on the Indonesia Stock Exchange from 2008 to 2016. All listed companies consist of three main sectors and have nine sub-sectors. Based on the Indonesia Stock Exchange data, the total number of companies in Indonesia in 2016 was 537. But after we do cleaning data or we just use the firm that have completed data. The final sample that we use is 279 firms.

1.8 Summary of the chapter

The introduction tells about the research topic and what it is about, including the author's opinion about the topic of the research. It is about explaining to the reader what is important about this research. The research background contains an overview of the research topic and an introduction to the ideas used in the research. This includes an overview of the research area, studies on the problem and supporting research to underpin the research.

This study aims to determine whether tangibility, size, profitability, market to book value ratio with the macroeconomic factors such as GDP and inflation influence the capital structure decisions of listed companies. The scope of the research refers to the elements to be addressed in a research project. This defines the boundaries of the research. The sample for this research includes all companies registered in Indonesia that have complete data for 2008-2016 to be process.