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Effect of Return on Assets and Asset Structure Against Debt to Equity Ratio Banking Companies on the Indonesia Stock Exchange

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Abstract:- The purpose of this study is to provide empirical evidence of the effect of ROA and Asset Structure on DER. The population in this study are banking companies listed on the Indonesian stock exchange in 2018-2020. The research sample amounted to 90 samples using *non-probability sampling* method in the type of *purposive sampling method* with various criteria and assessments to take part of the population. The test in this study uses the SPSS version 22 program. The results of this study show that the *return on assets variable has a* negative and significant effect on the *debt to equity ratio,* the asset structure variable has a positive and significant effect on the *debt to equity ratio,* and simultaneously the *return on assets variable* and the asset structure has an effect on the *debt to equity ratio* in banking companies listed on the Indonesian stock exchange in 2018-2020.

I. INTRODUCTION

The issue of capital structure that emerged in the public was the monetary crisis that caused the economic crisis in 1997, this situation had a negative impact on companies listed on the IDX. This crisis also hit hard on all capital markets throughout Southeast Asia, including Indonesia. This led to a massive withdrawal of foreign investment. In November 1997, many banks, both private and state- owned companies, began to have their liquidity disrupted which eventually, in liquidation of several banks and many and many banks being unhealthy. The unhealthy bank is partly due to bad credit CAR below 5% and has taken *KLBI* 200%-500%. Furthermore, according to the facts based on Bank Indonesia regulation no. 7/15/PBI/2005 "Regarding the Minimum Amount of Capital for Banking Companies". This regulation requires a mandatory banking capital of at least Rp. 80,000,000,000, - (Eighty billion rupiah). Banks which, at the time of entry into force of these provisions, have not met the minimum core capital as referred to in article two, the bank's directors are required to prepare a plan to fulfill the minimum core capital with the approval of the General Meeting of Shareholders, (Lutfah, 2009).

The results of empirical evidence in the research of Indrajaya and Herlina (2011), Haryoputra (2012) found empirical evidence that the variable profitability (ROE) and asset structure partially tested had a significant effect on capital structure. Meanwhile, Hartati's research (2013) found that the asset structure has a negative but not significant effect and profitability as a proxy for the *Return on equity ratio* shows the results that ROE has an effect on capital structure. In the research of Widyaningrum (2015) and Maryati (2016) found evidence that ROE has a negative and insignificant effect, STR.AK has a positive and significant effect on capital structure in manufacturing companies (consumer goods industry, mining sector and includes companies listed in LQ 45.

The strengthening of the results of this empirical study has attracted the interest of researchers to further explore the development of research in the banking services sector. How is the financial performance and financial management of banking companies in financing the cost of capital structure in banking companies. And using the ratio of *debt to total assets* as the capital structure and reviewing the profitability and asset structure factors to see how big the percentage of the cost of capital is with the comparison of company assets. Based on the background of the problems that have been discussed and the research motive that only develops around manufacturing industrial companies, the researchers hereby want to test (1) Does ROA affect DER? (2) Does Asset Structure affect DER ? (3) Do Profitability and Asset Structure affect DER ?

II. METHOD STUDY

In the data collection method used is the method of documentation. The documentation method is a data collection technique carried out by using and studying journals, books, as well as viewing and retrieving company data and documents in accordance with the required data, obtained from financial statements issued on the IDX obtained from www. idx.co.id. Data from companies that meet the criteria during the observation period will be combined and used as research samples (data *pooling method* or data pooling). The advantage of data collection is the possibility of obtaining a larger sample size which is expected to increase the *power of test* of this study (Kuncoro, 2004). This research is a quantitative research conducted to prove the existence of factors that affect the capital structure ie Profitability and Asset structures. Where the data used is secondary data originating from financial statements (*financial reporting*) published by companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period , where the data can be obtained at the Capital Market Information Center (www.idx.co.id).

III. RESEARCH RESULTS AND DISCUSSION

A. The Effect of Return on Assets (Profitability) on Debt To Equity Ratio (Capital Structures)

The company's profitability variable which is proxied by the calculation of *return on assets* (RO A) shows a negative regression coefficient value of -50.09 with a significant value of 0.000 which is below the significant level of 0.05, it can be concluded that the profitability variable (RO A) has an influence negative and significant to the capital structure, it means that **Hypothesis I is Accepted** . Thus it is proven that profitability using the calculation of *return on assets* (RO A) has an effect on the capital structure of banking companies.

The results of this study are supported by research conducted by (fill in the name, year) who found evidence that the profitability calculated using the *return on equity ratio* found empirical results that had a positive but not significant effect. These findings state that the more stable the company's income (net income) which means a stable level of sales can provide a view that in terms of capital turnover and the ratio of the amount of debt used to finance the company's operations. So the support for this statement states the greater the possibility of companies being financed from high debt financing. Then the direction of the relationship is positive and has no effect. The attention of the management of banking companies is more concerned with the *return on assets* than in assessing the stability of income in terms of the ratio of capital to debt. The higher the *return on equity value* gives the view that the profits earned by the company are not distributed directly to the cost of capital, but the company is more accepting of the availability of high net income to secure conditions for obtaining additional funds from investments and debtors. Stable ROA report information indicates a good image for the company.

So the conclusion that can be made is that profitability proxied by *return on assets* gives an answer that the resulting positive regression coefficient has a directional relationship, where every increase in the level of net income tends to increase the value of the capital structure. So this statement means that the greater the net profit obtained, the greater the use of debt used by management for its operational activities. The high and the stability of the debt-to-equity ratio of the company is very good, the capital structure financed will increase the use of debt in line with how much increase occurs in equity.

B. Effect of Asset Structure on Debt To Equity Ratio (capital structure)

The asset structure variable which is proxied by the calculation of fixed assets divided by total assets shows a regression coefficient value of 30.512 with a significant value of 0.021 which is below the significant level of 0.05, it can be concluded that the asset structure variable (Str . Ak) has a positive influence and significant to the capital structure, it means that **Hypothesis II is accepted** . Thus , it is proven that the asset structure uses the calculation of current assets divided by total assets has an effect on the capital structure of banking companies for the 2016-2020 period.

The results of this study are in line with research conducted by (name, year) which found empirical evidence that Asset Structure has a positive and significant effect. The assumption given is that when the asset structure decreases, this will give a view that the equity used as a source of funding will decrease. Where is the capital structure, it is proven that the asset structure is one of the predictive factors that contribute to the preparation of the capital structure. This is related to the tendency that management will be careful in using and making new debt policies, so that the company's obligations will be smaller. However, when the asset structure increases, when a company with the amount of capital embedded in fixed assets, the need for funds will be prioritized from the large company's own capital. But the direction of the regression coefficient shows a negative effect, which means that companies using debt will incur interest costs that must be borne by the company. Because in this case the company must be careful in financing its assets, rather than using its own capital and will increase the amount of debt.

So the conclusion that can be made is that there is a positive influence between asset structure and capital structure, thus giving rise to the assumption that the company is still able to finance its fixed assets without the need to add additional funds from debt. However, this is in accordance with the assumptions of the *trade off theory* which explains that when the capital structure is composed of a higher equity ratio, it will reduce the use of debt in financing its fixed assets. This means that this will reduce the value of equity and increase the use of debt which will increase.

IV. CONCLUSION

Based on the results of research and discussion, it can be concluded as follows:

1. The variable *return on assets has a* negative and significant effect on the *debt to equity ratio* in banking companies listed on the Indonesia stock exchange 2018-2020 , this is proven by a significant value of 0.000 which is greater than the expected significant level of 0.05, then Ha_{1} is accepted by the company. banks listed on the Indonesian stock exchange in 2018- 2020.
2. The asset structure variable has a positive and significant effect on the *debt to equity ratio* in banking companies listed on the 2018-2020 Indonesian stock exchange . This is evidenced by the significance value of 0.021 which is smaller than the expected 0.05 level of significance. So Ha_{2} is accepted by banking companies listed on the Indonesia Stock Exchange in 2018-2020.
3. The *return on assets and asset structure* variables affect the *debt to equity ratio* then it can be proven by the calculated F_{value} of 17.852 and the $F_{table\ value}$ of 3.11 with a significant value of 0.000 which is smaller than the significant value of 0.05 in banking companies listed on the Indonesian stock exchange in 2016-2020.

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SUGGESTION

Based on the conclusions that have been discussed, some suggestions can be given as follows:

1. For investors

   Investors must be more careful in making decisions when starting to invest and capture signals from earnings managers on the basis of assessing the company's performance.

2. For the next researchers, it is suggested that they can add the number of samples and a longer research time, and can also add variables that can affect the *debt to equity ratio.*

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