

THE EFFECT OF CAPITAL STRUCTURE AND PROFITABILITY ON STOCK PRICE (STUDY OF THE MANUFACTURING SECTOR IN INDONESIA STOCK EXCHANGE) TITLE

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ABSTRACT

Funding decisions for a particular company to get profit is a crucial decision will progress in the future. There are two important alternative in funding decisions. One of them through their own capital is by issuing stock. In addition, the company is important to strengthen its financial stability due to changes in the capital structure could be expected to lead to changes in the value of the company. This study aims to determine: (1) the effect of capital structure and profitability of the stock price, (2) the impact of capital structure on stock prices, (3) the effect of profitability on stock prices, and (4) the impact of capital structure on profitability. (Study of the Manufacturing Sector Company Listed in Indonesia Stock Exchange Period 2010-2013). This research uses a quantitative study of causal. The sample in this study is the company's audited financial statements of the manufacturing sector in 2010-2013 amounted to 68. The sampling technique using purposive sampling. Analysis techniques using path analysis, path analysis is used to measure the magnitude of the contribution or influence of independent variables on the dependent variable, both influence directly or indirectly through relationships with other independent variables. The data used is secondary data obtained through the website www.idx.com. The results showed that (1) the capital structure and profitability affect the share price by 4.4%, (2) capital structure has positive influence on the share price of 12.4%, (3) the profitability of positive influence on the share price of 16.5 %, and (4) the capital structure of the positive effect on the profitability of 11%.

Keywords: capital structure, profitability, stock price

I. Introduction

Funding decisions for a particular company to get profit is a crucial decision will progress in the future. There are two important alternative in funding decisions among others that use their own capital or acquiring debt in running its business. Sources of financing from its own capital can be made through the issuance of shares, while the funding sources of debt carried by issuing bonds, rights issue or debt to the bank. Both of these funding alternatives each have differences between one another. In meeting the financial needs that companies use will certainly give rise to costs, whether visible or not.

Along with the funding decisions for the company in the form of shares, the existence of capital markets is indispensable today as a container to invest in getting dividends for those who be an owner or shareholder. In addition to investing in stocks, investors may as well invest in several instruments that can reduce risk (Astuti, 2010: 5).

Shares are securities as proof's ownership or possession of individuals and institutions issued by a limited liability company. The stock price is a value in rupiah currency which is formed by request bids and purchase of shares by a member on the Stock Exchange (idx.co.id). The stock price is a value in rupiah currency which is formed by the interaction between sellers and buyers of shares in the hope of benefit for the company. If you invest in shares then an investor should always pay attention to the factors that affect the price of shares to be bought, because as one of the capital market instruments that provide a high return rate then invest in stocks also has risks. Investors will invest in companies if the investment can yield a number of benefits or returns. With the capital markets, the company has made a tool for self-reflection about the performance and financial condition of the company. If the financial condition and performance is good then the market will respond positively with an increase in the company's stock price (Apriada, 2013: 1). It is an opinion that underlie why a change in the price of the relevant shares to be used as a basis for assessing the performance of companies that go public.

In addition to stocks, the risk of a company is one of them can be seen also from the capital structure (capital structure) of the company. The higher the level of debt (financial leverage) owned the company then the risk of the company, otherwise the lower rate of return on its debt then the risk-were lower. The capital structure aims to integrate a permanent source of funds used by the company in a way that will maximize the value of the company. For a company so crucial deemed to strengthen its financial stability, due to changes in the capital structure may also cause changes in the value of the company. State of the capital structure will be a direct impact on the financial position of the company thus affecting the performance of the company (Fahmy et al, 2009: 38).

Other important factors are thought to affect the stock price is profitability. The profitability measure the company's ability to generate profits. Without the gain or profit, would be difficult for the company to run usahanya. Companies with a high level of profitability would have the opportunity to expand or develop their business to obtain higher profits again (Putrawan et al,

2015). Profitability itself is the ability of the company to generate profit or income during the year stated in the ratio of operating profit to sales of selected income statement data end of the year. On the other hand, the profitability ratios measure the effectiveness of management based on the returns generated from sales and investment (Nurcahyani, 2014).

There are a number of previous studies of capital structure, profitability and stock prices, among others: research Oktaviani and Malelak (2014) Analysis of the Effect of Profitability, Growth, Asset Structure, and Company Size Decision Against Capital Structure of the Company. The result found that profitability and growth, as measured by the change in total assets did not significantly affect the company's capital structure decisions. While sales growth, asset structure, and the size of the company significantly influence the company's capital structure decisions. Research Nurcahyani (2014) Analysis of the Effect of Capital Structure On Profitability (Study on Manufacturing Company Listed in Indonesia Stock Exchange in the year 2010 to 2012). The results suggest that the variable Debt to Equity Ratio (DER), Debt to Assets Ratio (DAR) has a negative correlation to profitability, while variable Current Assets (CR) was positively related to the profitability of the companies listed on the Indonesian Stock Bura in 2010- 2012. Research Apriada (2013) Influence on Stock Ownership Structure, Capital Structure and Profitability in the Value of the Company. The results suggest that institutional ownership has a positive effect on firm value. Owners manejerial negatively affect the value of the company. The capital structure has a negative effect on firm value. Profitability negatively affect the value of the company. Research Ircham et al (2014) Effect on Capital Structure and Profitability Share Price (Studies in Food and Beverage Company listed on the Indonesia Stock Exchange 2009-2012). The results show that the ROE, EPS, DAR, DER simultaneously have a significant influence on stock prices. Partially DER, DAR and EPS has a positive influence on stock prices, whereas ROE negative effect on stock prices. EPS has a dominant influence on stock prices.

Formulation of the problem

From the background described above can be some formulation of the problem, namely:

1. How does the influence of capital structure and profitability on stock price?
2. How does the influence of capital structure to the stock price?
3. How does the profitability of the stock price?
4. How does the influence of capital structure to profitability?

II. Analysis of literature and hypotheses formulation

2.1. Pecking Order Theory

This theory explains that the company has the sequence of preference in choosing a source of corporate funding (Nurcahyani, 2014: 9). Pecking order theories is a policy adopted by the company to seek additional funds by selling its assets. In the pecking order theories policy means that companies conduct policy by reducing its asset ownership as do the sales policy (Fahmy et al, 2009: 39).

2.2. Signalling Theory

Signal theory to explain the reasons the company to provide information on external financial reports related to the asymmetry of information between the company's management by outsiders and company management to have more information and to find out the company's prospects in the future. Signal theory explains the reason for the company to present information to the public (Wolk et al, 2001: 308).

2.3. Capital Structure

Capital structure refers to the source of corporate funding. Funding can be obtained from a relatively permanent equity capital to short-term funding sources while riskier. When obtaining financing, the company will invest in various asset. The capital structure is an equity and debt financing to a company that is often calculated based on the relative size of the various sources of funding (Subramanyam and Wild, 2011: 262). DER is a ratio that compares the total debt to total equity from shareholders. Meanwhile, according to Siegel and Shim (1999: 128) defines DER as a measure used in analyzing financial statements to show the amount of collateral available to creditors.

2.4. Profitability

Profit has an important role in determining the future of the company. Profitability ratio is the ratio of a group that is a combination of liquidity, asset management, and debt on operating results (Brigham and Houston, 2010: 146). The profitability measure the company's ability to generate profits. It would be difficult for the company to run usahanya without profit. ROA is a profitability ratio that shows the company's ability to earn income from property or assets that were used.

2.5. Stock price

The share price is the stock prices stock market at the appropriate time determined by market participants (Jogiyanto, 2003: 88). The market value is determined by demand and supply of the relevant shares in the stock market. The share price is the price at the real market price of the most easily determined because it is the price of a share in the ongoing market or if the market is closed, then the market price is the closing price (Anoraga and Pakari, 2003: 59). The share price in this study is proxied by the share price at the time of the closing price.

2.6. Hypothesis Formulation

- H₁ : capital structure and profitability affect stock prices.
H₂ :The capital structure affect stock prices.

- H₃ : Profitability effect on stock prices.
- H₄ : Capital structure effect on profitability.

III. Research Methods

3.1. Types and Data research

This type of research is quantitative research causal (causal relationship). In this study using secondary data in the form of annual financial statements of companies listed on the Indonesia Stock Exchange 2010-2013. The technique of collecting data obtained from the documentation and study of literature.

3.2. Research samples

The sampling technique used in this research is purposive sampling, so that samples obtained in this study amounted to 68.

3.3. Operational Definition of Variables

Table 1. Operational definitions of variables

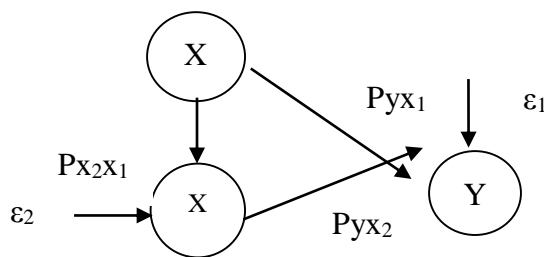
Variable	Variable Concept	Indicator	Scale
Capital Structure (X ₁)	The capital structure is an equity and debt financing to a company that is often calculated based on the relative size of the various sources of funding (Subramanyam dan Wild, 2011: 262)	Debt to Equity Ratio (Riyanto, 2011: 333)	Ratio
Profitability (X ₂)	Profitability ratio is the ratio of a group that is a combination of liquidity, asset management, and debt on operating results (Brigham dan Houston, 2010: 146)	Return On Aset (Horne and Wachowicz, 2013)	Ratio
Stock Price (Y)	Stock Price (Y) on the real market price, the price is most easily determined because it is the price of a share in the ongoing market (Anoraga, 2003:59)	Closing Price (Anoraga and Pakari, 2003:59)	Interval

3.4. Data Analyze Methods

This research used path analysis (path analysis). Path analysis was used to determine the pattern of relationships between three or more variables and can not be used to confirm or reject the hypothesis of causality imaginary (Ghozali, 2011: 249). Schematically, hypothesis testing is described as follows:

- (1) The study hypothesis was first used F test with the following diagram:

Figure 1. Effect of Structure X₁ and X₂ to Y



Equation tracks namely:

1. $y = Py_{x1}.X_1 + Py_{x2}.X_2 + \epsilon_2$
2. $x_2 = Px_{2x1}.X_1 + \epsilon_1$

Statistical hypothesis is formulated as follows.

Ho: $Ry_{x1x2} = 0$, no simultaneous effect of x_1 and x_2 to y .

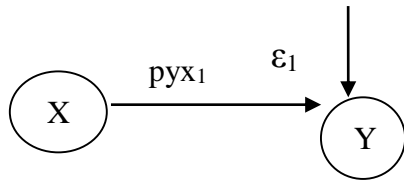
Ha: $Ry_{x1x2} \neq 0$, there is a simultaneous effect of x_1 and x_2 to y .

Testing criteria are as follows.

Ho refused if the p -value $< \alpha = 0:05$ means no simultaneous effect of X_1 and X_2 to Y . Conversely accept Ho if the p -value $> \alpha = 0:05$ means no simultaneous effect X_1 , X_2 and the Y .

- (2) The second research hypothesis using t test with the following picture:

Figure 2 Sub-Structure Influence of X₁ to Y



Statistical hypothesis is formulated as follows:

Ho: $py_{x1} = 0$, no partial effect of x_1 on y .

Ha: $py_{x1} \neq 0$, there is the partial effect of x_1 on y .

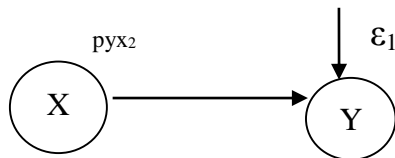
Kreteria testing is as follows.

Ho refused if the p-value $< \alpha = 0:05$ means no partial effect of x_1 on y .

Conversely accept Ho if the p-value $> \alpha = 0:05$ means no partial effect y on x_1

(2) The third research hypothesis using t test with the following picture:

Figure 3. Sub-Structure Influence X_2 to Y



Statistical hypothesis is formulated as follows:

Ho: $pyx_2 = 0$, no partial effect of x_2 to y .

Ha: $pyx_2 \neq 0$, there is the partial effect of x_2 to y .

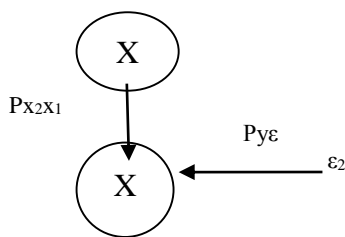
Testing criteria are as follows.

Ho refused if the p-value $< \alpha = 0:05$ means no partial effect of x_2 to y .

Conversely accept Ho if the p-value $> \alpha = 0:05$ means no partial effect on y x_2 .

(3) The fourth research hypothesis using t test with the following picture:

Figure 4. Effect of X_1 to X_2



Sub-Structure

Statistical hypothesis is formulated as follows.

Ho: $Px_{2x1} = 0$, no partial effect from x_1 to x_2 .

Ha: $Px_{2x1} \neq 0$, there is a partial effect from x_1 to x_2 .

Testing criteria are as follows:

Ho refused if the p-value $< \alpha = 0:05$ means no partial effect from x_1 to x_2 .

Conversely accept Ho if the p-value $> \alpha = 0:05$ means no partial effect x_1 to x_2 .

Table 2. Calculating Direct Impact and Indirect Contribution X_1 and X_2 to Y

No	Description	Donation
1	The direct effect of x_1 to Y	$(py_{x1})^2$
2	The indirect effect of x_1 to y through x_2	$(px_{2x1}.py_{x2})$

3	Total effect of x_1 on y	$(py_{x_1})^2 + (px_{2x_1}.py_{x_2})$
4	The direct effect of x_2 to y	$(py_{x_2})^2$
5	Total effect of x_1 and x_2 on y	$R^2_{yx_1x_2}$
6	Another effect on y	$1 - R^2_{yx_1x_2}$

IV. Results

4.1. Result of the Research

Based on the statistical analysis of the results of test calculations lane (Path analysis) with the help of the program Statistical Package for Social Science (SPSS) 18.0 For Windows, the results are shown in Table 3 below:

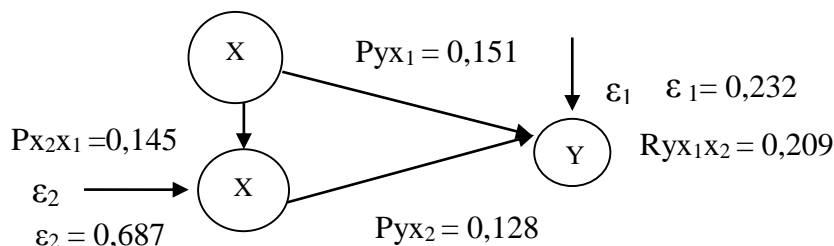
Table 3. Output SPSS Analysis of Effect of X1 and X2 Line Against Y

No	Parameter	Coefficient	p-value	Alpha (α)	Conclusion	Decision
1	$R_{yx_1x_2}$	0,209	0,000	0,05	Rejecting H_0	There is relationship X_1 and X_2 to Y
2	$R^2_{yx_1x_2}$	0,044	0,000	0,05	Rejecting H_0	The effect of X_1 and X_2 to Y is 4,4%
3	P_{yx_1}	0,151	0,019	0,05	Rejecting H_0	There is relationship X_1 to Y
4	$P^2_{yx_1}$	0,124	0,019	0,05	Rejecting H_0	The effect of X_1 to Y is 12,4%
5	P_{yx_2}	0,128	0,027	0,05	Rejecting H_0	There is relationship X_2 to Y
6	$P^2_{yx_2}$	0,165	0,018	0,05	Rejecting H_0	The effect of X_2 to Y is 16,5%
7	$P_{x_2x_1}$	0,145	0,017	0,05	Rejecting H_0	The effect of X_1 to X_2
8	$P^2_{x_2x_1}$	0,110	0,037	0,05	Rejecting H_0	The effect of X_1 to X_2 is 11%
9	ϵ_2	0,89	-	-	-	Another factor effect of X_2 is 89%
10	ϵ_1	0,956	-	-	-	Another factor effect to Y is 95,6%

Source: SPSS output, the data is processed

Based on the analysis (Table 3) that simultaneous effect of capital structure (X_1) and profitability (X_2) have an effect on stock prices (Y) at the company's manufacturing sector. Capital structure (X_1) effect on stock prices (Y), profitability (X_2) have an effect on stock prices (Y), and capital structure (X_1) also affect the profitability (X_2) at the company's manufacturing sector. The influence of each of the variables:

Figure 5. The Effect of Variable X_1 and X_2 on Y



The contribution of direct and indirect influence of X_1 and X_2 to Y in this study can be seen in Table 4 below:

Table 4. Contribution of direct and indirect influence of the capital structure (X_1) and profitability (X_2) on stock prices (Y)

Description	Donation	Percentage
The direct effect of X_1 to Y	0,124	12,4%
The indirect effect of X_1 to Y through X_2	0,145	14,5%
Total effect of X_1 to Y	0,151	15,1%
Total effect of X_2 to Y	0,165	16,5%
Total effect of X_1 and X_2 to Y	0,044	4,4%
Another variable effect on Y	0,956	95,6%
Total	1,000	100%

Source: SPSS Output, the data is processed

V. Discussion

5.1. Effect of Capital Structure and Profitability of the Company's stock price in the manufacturing sector in the Indonesia Stock Exchange.

Based on the statistical analysis of the results of test calculations lane (Path Analysis) in Table 4 shows that the capital structure and profitability jointly affect the price of shares in the company for the manufacturing sector in BEI $R2y1x2$ p-value = 0.000 < 0.05 alpha. This means rejecting H_0 or no effect on the capital structure and profitability of the company's stock price in the manufacturing sector in BEI.

This can be seen in Table 4 that large coefficient of determination $R2y1x2$ amounted to 0,044, these results indicate that the share price of 4.4% in manufacturing companies affected by capital structure and profitability together (simultaneously) while the rest of 0.956 or 95, 6% is influenced by other variables not examined in this study.

5.2. Effect of Capital Structure of the Company's stock price in the manufacturing sector in the Indonesia Stock Exchange.

Based on the statistical analysis of the results of test calculations lane (Path Analysis) in Table 4 shows that the effect on the capital structure of the Company's stock price Manufacturing Sector in the Indonesia Stock Exchange since $Pyx1$ p-value = 0.019 < alpha of 0.05. This means rejecting H_0 or no effect on the capital structure of the stock price. The influence of the capital structure to the stock price $Pyx1$ coefficient of 0.151 and a positive sign, indicating that the relations of capital structure to the stock price is directly proportional, meaning that every increase in capital structure has a role in improving the company's share price on the manufacturing sector. The contribution of the total influence of capital structure to the stock price that is equal to 0.124 or 12.4%, meaning that 12.4% stock price is influenced by capital structure. Through Debt to equity ratio can be seen in the use of funds from the company's capital structure is owned by the company are of long-term debt and equity capital sourced from. Then the investor will see how much capital financed by them to the company's net income. With the high DER indicates that the company's capital structure more use of external funds from the lender to make a profit.

5.3. Profitability influence on stock price of the Company's Manufacturing Sector in Indonesia Stock Exchange

Based on the statistical analysis of the results of test calculations lane (Path Analysis) in Table 4 shows that the effect on the profitability of the company's stock price since the manufacturing sector $Pyx2$ p-value = 0.018 < alpha of 0.05. This means rejecting H_0 or no effect on the profitability of the stock price. The influence of profitability on stock prices with $Pyx2$ coefficient of 0.128 and is positive, it means that the profitability of the relations to the stock price is directly proportional. This means that the increase in profitability role in efforts to improve the company's share price on the manufacturing sector. The amount of the contribution to the total effect on the profitability of the share price that is equal to 0.165 or 16.5%, which means a 16.5% stock price is influenced by the profitability. Based on these results that investors in the capital market very concerned about the company's ability to generate profit (profit). Profitability is the relationship between revenues and expenses generated using company assets, both current assets and fixed assets in production activities. Through profit (profit) obtained, then the company can attract capital sources external to invest in the company, so that the level of profitability of the company increased from year to year is a positive signal for investors and indicates the increase also to value the company, then the increase in profitability is expected to improve Similarly the company's stock price.

5.4. Effect of Capital Structure on Profitability in the Manufacturing Sector Companies in the Indonesia Stock Exchange.

Based on the statistical analysis of the results of test calculations lane (Path Analysis) in Table 4 shows that the effect on the capital structure of the company's profitability in the manufacturing sector because $Px2x1$ p-value = 0.017 < alpha of 0.05. This means rejecting H_0 or no effect on the capital structure on profitability. The relationship of capital structure to profitability with $Px2x1$ coefficient of 0.145, and a positive sign, indicating that the relations of capital structure on profitability is directly proportional, meaning that any increase in capital structure has a role in improving the company's profitability in the manufacturing sector. The contribution of the effect of capital structure on profitability that is equal to 0.110 or 11%, meaning that 11% of profitability is influenced by capital structure. Through the use of high debt would improve the capital structure of companies that positively affects the value of the company. It can be said that the capital structure to improve profitability of the company showed good financial performance. It can provide the level of benefits for the company because it can attract and increase the confidence of investors to continue to invest into the company.

VI. Conclusion

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

1. Hypothesis 1 stated that the capital structure and profitability positive effect on the stock price on the company's manufacturing sector in the IDX is acceptable.
2. Hypothesis 2 stated that the capital structure of the positive effect on the price of shares in the manufacturing sector in the IDX is acceptable.
3. Hypothesis 3 which states that the positive effect on the profitability of the company's stock price the manufacturing sector in the IDX is acceptable.
4. Hypothesis 4 which states that the positive effect on the capital structure of the company's profitability in the manufacturing sector in the IDX is acceptable.

Suggestions

Based on the results of research and discussion of the suggestions put forward, namely: for the management of companies, especially manufacturing companies should pay attention to the ratio of DER and ROA as well as analysis of other ratios for the ratio to be taken into consideration by investors in making the decision to invest in shares (buy shares). Stocks are much in demand by investors of course that will enhance shareholder value (share price) as a source of fund companies in terms of capital, so companies can have sufficient funds to carry out activities of the company to increase profits.

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