The Effect of Company Size and Sales Growth on Capital Structure with Profitability As Mediation in Construction And Building Sub-Sector Companies Registered in Indonesia Stock Exchange

Abstract: This study aims to determine the effect of company size and sales growth on capital structure with profitability as mediation in construction and building sub-sector companies listed on the Indonesia Stock Exchange (IDX). The research population is companies in the construction and building sector which are listed on the Indonesia Stock Exchange. The sampling technique used was purposive sampling, namely construction and building companies that published complete financial reports from 2014-2018. The results showed that company size did not have a significant effect on profitability. The sales growth variable does not partially affect profitability. The firm size variable does not partially affect the firm structure. The sales growth variable does not partially affect the company structure. The capital structure variable does not partially affect profitability. The direct effect of firm size on capital structure is 0.266. While the influence of company size through profitability is 0.218 x 0.285 = 0.062. This shows that the direct effect is greater than the indirect effect so that the profitability variable is not a mediating variable because its existence does not increase the effect of firm size on capital structure. Meanwhile, the effect of sales growth on profitability is 0.254. Meanwhile, the effect of sales growth on the capital structure through the profitability variable is 0.325 x 0.285 = 0.0926. This effect is smaller than the direct effect of 0.254. So the profitability variable is not a mediating variable because its existence does not increase the influence of growth on the capital structure.

Keywords: Company Size, Sales Growth, Capital Structure, Profitability.

INTRODUCTION

One of the main needs of a company is the capital needed to finance the company's operations. Capital in the company is very much determining the company's ability to achieve its goals. Capital is the company's assets consisting of assets paid up or from outside the company and assets from the results of the business activities themselves. Capital is the most important thing for companies because the company capital will have the ability to finance the company's needs (Munawir 2006: 19). Companies that are developing need capital that can come from debt or equity (Brigham and Houston 2009: 153). Sources of funds for the company can be obtained from within the company from retained earnings and depreciation, as well as funds from participants who take part in the company which will become their capital. Debt is a component contained in the capital structure used to meet the company's funding needs (Riyanto, 2011: 2). Companies must understand the main components of the capital structure. The optimal capital structure is the company's capital structure that will maximize its share price or which will increase firm value (Keown 2010: 149).

The financial structure is a comparison or the company's long-term balance shown by the comparison of long-term debt to equity (Harjito and Matono 2014: 256). Fulfilling the company's funding needs from its sources of capital comes from share capital, retained earnings, and reserves. If the company funding that comes from its capital is still lacking, it is necessary to consider company funding that comes from outside, namely debt.

The greater the operational coverage of a company, the greater its capital requirements. Fulfillment of these capital needs by companies can be met with external financing in the form of forests or it can also be through internal financing in the form of shares. As is the case with state-owned enterprises (BUMN) engaged in the construction and building sub-sector, they must support government programs, because it requires a very large amount of funding. Therefore, no less than Rp. 409.0 trillion has been budgeted by the government in the 2018 RAPBN to boost infrastructure development. The budget consists of the construction and economic building sub-sector amounting to Rp. 395.1 trillion, the construction and social building sub-sector amounting to Rp. 9 trillion, and support from the construction and building sub-sector amounting to Rp. 4.9 trillion. The number of projects to be completed is quite ambitious. A total of 155 projects must be completed before or in 2019. 118 of them must be completed before or in 2018 (Harian Ekonomi Neraca, 2019). The increase in company funding will automatically increase the size of the company. Firm size is predicted to have a negative relationship with capital structure.

Available Online: https://iarconsortium.org/journal-info/IARJBM
Investors can get more information from large companies than small companies. So that by obtaining funds through the capital market, the proportion of debt becomes smaller in the capital structure. Also, issuing equity to small companies costs more than large companies. In other words, the larger the company size, the cheaper the cost of issuing equity is. The bottom line is that the company must find the most efficient funding. The financial structure can be seen on the company's balance sheet, which is the entire right side (liability) of the balance sheet consisting of short-term debt, long-term debt, and shareholder capital. From the financial structure, it will cover how the capital structure of a company is a source of permanent company financing in the form of long-term debt, shares/shareholder capital. So the capital structure is a condition that describes how the company's capital composition between long-term debt and shareholder capital. The capital structure is part of the financial structure or commonly known as company capitalization.

Growth is how far companies position themselves in the overall economic system or economic systems for the same industry. In general, companies that are growing rapidly have positive results in terms of stabilizing their position in the era of competition, enjoying sales that have increased significantly, and are accompanied by an increase in market share. Fast-growing companies also enjoy the benefits of a positive image that is obtained, but companies must be extra careful because the success obtained makes the company vulnerable to negative issues. Past growth will describe future profitability and future growth (Taswan, 2003). Growth describes the growth of company assets which will affect the profitability of the company which believes that the percentage change in total assets is a better indicator in measuring company growth (Putrakrisnanda, 2009). Research conducted by Sriwardany (2006) examines company growth, changes in stock prices and capital structure policies and the analysis results obtained are that company growth has a positive effect on changes in stock prices, this means that information about the growth.

According to Kasmir (2010: 112) Debt to Equity Ratio (DER) is a balance between the debt owed by a company with its capital. Capital structure is very important to note because the good or bad capital structure of a company will have an impact on the company's finances. Some of the factors that affect the capital structure are profitability, asset structure, asset growth, company size, taxes, company ownership structure, and market conditions (Yusrianti, 2013). Research on capital structure shows different results. Profitability affects capital structure. The results of Wijaya and Utama's (2014) research show that sales growth does not affect capital structure. Meanwhile, according to Zuliani and Asyik (2014) profitability has a significant effect on capital structure, sales growth has no significant effect on capital structure. According to Mahapsari and Taman (2013), there is no positive effect of profitability on capital structure, and there is a positive effect of sales growth on capital structure. In contrast to Hardianti and Gunawan, (2010) partially profitability has a significant negative effect on capital structure, sales growth does not affect capital structure. Meanwhile, Yusrianti H (2013) stated that profitability and asset structure have a significant effect on the company's capital structure. Yoon and Jang (2005) found that firm size has a dominant influence on the profitability of restaurant companies in the US. This study contradicts the research of Fachrudin (2011) who found that company size has a negative and insignificant effect on company performance as indicated by the company's ability to earn profits.

**Literature Review**

1. **Company Size**

Company size is the scale of the company as seen from the company's total assets at the end of the year. Total sales can also be used to measure the size of the company. Companies with a larger size will have wider access to obtain funding sources from various sources so that obtaining loans from financial institutions will be easier because companies with large sizes have greater profitability to win the competition or survive in their industry. On the other hand, small-scale companies are more flexible in dealing with uncertainty, because small companies react more quickly to sudden changes. Therefore, a company with a larger size allows a larger change in the level of its leverage is greater than a small company. Relative large companies tend to use large external funds as well because the funds required are increasing along with the company's growth (Ba-Abbad and Zaluki, 2012). The size of the company affects the company's ability to obtain additional external capital to finance the company's operational activities.

Company size is intended to determine the classification of a company both in terms of assets and from a sales point of view. Company scale is a measure used to reflect the size of the company based on the company's total assets (Suwito and Herawati, 2005). Company size describes the size of the company. The size of the business is viewed from the line of business being run. Determination of the size of the company can be determined based on total sales, total assets, average sales levels (Seftianne, 2011).

Large companies have various advantages over small companies. The first of these advantages is that the size of the company can determine the level of ease with which the company obtains funds from the capital market. Second, firm size determines the bargaining power in financial contracts, and third, there is a
Sales growth is a description of the company's performance where if sales increase, it will increase the company's revenue. The greater the stability of the sales generated by a company will have a positive impact on the company's survival, on the contrary, if sales and profits decrease, it will decrease the company's revenue. This will be the preference of investors to invest in the company (Weston and Copeland; 2008). Sales achieved by the company are an important criterion for assessing the company's profitability and are a major indicator of the company's activities (Andrayani, 2013).

Companies with high growth will require large funds to finance their operational activities. One of the needs for these funds can be met from external sources of funds, namely debt. Although the use of debt will have an impact on the company's fixed expenses, high sales growth will encourage high company profitability as well. Sales growth has a strategic influence on the company because sales growth is marked by an increase in market share which will have an impact on increasing sales of the company so that it will increase the profitability of the company (Pagano and Schivardi, 2003). The positive and significant effect of sales growth on profitability is evidenced by research results (Hastuti 2010).

Sales growth is calculated as the percentage of sales growth in a given year against the previous year (Aditya, 2006). Sales growth can be calculated using the percentage of increase and decrease from one period to the next Warsono (2003) in Zuliani and Asyik, (2014). Meanwhile, Kesuma in Zuliani and Asyik (2014) states that sales growth is an increase in the number of sales from year to year or from time to time.

Sales growth has a strategic influence on the company because sales growth is marked by an increase in market share which will have an impact on increasing sales of the company so that it will increase the profitability of the company (Pagano and Schivardi, 2003). The positive and significant effect of sales growth on profitability is evidenced by the results of research by Hastuti (2010). Thus, sales growth is the percentage increase/decrease in sales from year to year. Its dimensions are previous sales growth and current sales growth.

Brigham and Houston (2001) say that companies with relatively stable sales can be more secure in obtaining more loans and bear higher fixed expenses compared to companies with unstable sales. Research conducted by Vries (2010) found that sales growth has a positive and significant effect on the capital structure of companies listed in the stock exchange industry sector. Serrasqueiro (2011) found that there is a positive relationship between sales growth and short-term debt related to the capital structure of non-financial companies in Portugal. The next research is supported by Javed and Akhtar (2012), who found that sales growth has a significant positive effect on the capital structure of industrial companies in the Karachi Stock Exchange in Pakistan. Research conducted by Mahapsari and Taman (2013) found that the sales growth variable has a positive and significant effect on the capital structure of manufacturing companies on the Indonesia Stock Exchange, Lusangaji (2013) found that there was a positive and significant relationship between sales growth and capital structure in food and beverage companies listed on the IDX in 2005-2011. The same research results were also found by Sulaiman (2013) who found that sales growth had a positive and significant influence on capital structure in manufacturing companies in the Food and Beverage sector listed on the IDX in 2008-2011. Krisnanda and Wilsuana (2015) Brealey and Myers (2003) state that the pecking order theory begins with the presence of asymmetric information. Managers know more about the state of the company than investors. This information influences the choice between internal and external financing. This theory explains that there is an order of company preference in choosing its funding source. Internal sources of funds (retained earnings) are the initial choice for companies in their funding decisions.

Wibowo and Erkaningrum (2002) argue that to avoid this kind of perception, companies use securities that are not valued by the market. Thus, companies will prefer to fund their investments based on the order of risk. Companies with high growth rates are likely to lack the revenue to fund such high growth internally. Relatively stable sales growth can be safer to obtain more loans and bear higher fixed costs compared to companies whose sales are unstable (Saidi 2004). In contrast, companies with low growth rates have relatively small new capital requirements, so that retained earnings can be met (Setyawan and Laksito, 2008). Research conducted by Sartono and Sriharto...
(1999) and Aditya (2006) shows evidence that companies with high growth rates tend to use external sources so that their capital structure is higher. For companies with high growth rates, the tendency to use debt is greater than companies with low growth rates (Halim, 2007). Meanwhile, according to Brigham and Houston (2011), companies with relatively stable sales can be more secure in obtaining more loans and bear higher fixed expenses compared to companies with unstable sales.

3. Profitability

Profitability is the final result of several policies and decisions made by the company. Brigham and Houston (2011) define profitability as a company's ability to generate profits. Munawir (2004) profitability shows the company's ability to generate profits during a certain period. Subramanyam and Wilnd (2010) say that profitability is the rate of return on capital investment which is an important indicator of the long-term strength of the company. According to Fahmi (2014), the profitability ratio measures the effectiveness of management as a whole, which is indicated by the size of the level of profits obtained about sales and investment.

Profitability is the company's ability to return on the company's capital investment to generate profits during a certain period so that profitability is a measure to determine the company's ability to generate profits by using existing resources. Profitability has an important meaning for the company because it is one of the bases for assessing the condition of a company. The level of profitability describes the company's performance as seen from the company's ability to generate profits. The company's ability to get profit shows whether the company has good prospects or not in the future.

4. Capital Structure

According to Brigham and Houston (2011), capital structure is a combination of debt and equity that will be the basis for capital raising by the company. The capital structure is divided into two, namely debt and equity (own capital). The company's capital structure is an important part of funding decisions, this is because the capital structure will be a determining factor for company performance. Thus, the company's goal will be achieved, namely maximizing shareholder wealth. One way to achieve this goal is to determine a capital structure following the conditions of the company. The company's capital structure can be seen from the amount of debt to equity ratio which shows the amount of debt to equity owned by the company. The greater the DER level, the greater the level of risk faced by the company, and vice versa.

Capital structure theory explains whether there is an effect of changes in capital structure on firm value, there is no measure that can be used as a guideline for how much the ratio between debt and equity is a good measure of capital structure. All capital structures are good as long as they can provide an increase in company performance, meaning that by changing the capital structure, the company value changes, then the best capital structure will be obtained, namely the capital structure that maximizes firm value.

According to Home and Wachowicz (2007) capital structure is a company's long-term permanent funding mix consisting of debt, preferred stock, and common stock. The fulfillment of funding needs can be obtained both internally and externally. Internal forms of funding are retained earnings and depreciation. Fulfillment of needs that is done externally can be divided into debt financing and equity financing. Debt financing can be obtained through loans, while its capital is through the issuance of new shares.

Capital structure is permanent expenditure which reflects the balance between long-term debt and equity. According to Sartono (2001), the capital structure is a balance of short-term permanent debt, long-term debt, preferred stock, and common stock. The capital structure is part of the financial structure where the financial structure is how the company finances its assets which can be seen on the entire right of the balance sheet, which consists of short-term debt, long-term debt, and shareholder capital. Each of these sources of capital has different characteristics. So that it has different financial consequences faced by companies. The capital structure relates to a company's long-term spending as measured by the ratio of long-term debt to its capital. Capital structure theory explains whether long-term spending policies can affect firm value, company capital costs, and the company's stock market price (Sudana, 2015). Capital structure theory is used to determine whether a company can increase shareholder prosperity through changes in the capital structure (Sutrisno, 2012).

Spending decisions can affect the company's ability to generate profits and vice versa that high company profitability will open opportunities for companies to increase their capital through retained earnings, or reduce the amount of debt by using company profits. According to Martono and Harjito (2004) capital structure is a comparison or balance of long-term funding to equity. According to Bambang (2008), capital structure is permanent spending which reflects the balance between long-term debt and own capital. From this understanding, it can be concluded that the capital structure is a description of how a company funds its assets or is a comparison between long-term debt and its capital.

**RESEARCH METHODS**

**Object, Time and Location of Research**

The object of this research is companies engaged in infrastructure and listed on the Indonesian...
stock exchange. The research was conducted from November to February 2020. The research location is the Indonesia Stock Exchange (BEI).

**Population and sample**

The population is a generalization area consisting of objects/objects that have certain qualities and characteristics set by researchers to study and then draw conclusions (Sugiyono 2014: 62). The research population is construction and building companies listed on the Indonesia Stock Exchange. A sample is a group of some members of the object under study. The sampling technique used was purposive sampling, judgment sampling type, in which the sample was selected using certain considerations adjusted to the research objectives or the research problem being developed (Ferdinand, 2006). The criteria used in this study are:

a. Construction and building companies listed on the Indonesia Stock Exchange
b. Construction and building companies that publish complete financial reports from 2014-2018
c. Construction and building companies that have financial reports in rupiah.

**Data Source**

The method of data collection used is documentation, namely by collecting, recording, and reviewing secondary data in the form of infrastructure company financial reports published by the IDX. The data in this study is secondary data, namely the company’s financial statement data which is the sample that is then processed into variable data used.

**Research Results and Discussion**

1. **Partial effect of firm size on company profitability**

The results of the analysis of the effect of company size on company profitability partially obtained the t value of 0.807 with a significant of 0.434 or greater than 0.05. This shows that company size has no significant effect on profitability. The value of r squared can be seen that the value of r squared is 0.048. This means that the influence of the company size variable on company profitability is 4.8% and the rest is influenced by other variables that are not included in the equation model.

2. **Partial effect of sales growth on profitability**

The results of the analysis of sales growth on profitability partially show that the t value is 1.239. The significant value is 0.237. This significant value is greater than 0.05. This means that the sales growth variable does not partially affect profitability. The magnitude of the influence of sales growth on profitability can be seen that the value of r squared is 0.106. This means that the influence of the sales growth variable on profitability is 10.6% and the rest is influenced by other variables that are not included in the equation model.

3. **Partial effect of company size on capital structure**

The results of the analysis of the influence of company size on capital structure show that the t value is 0.996. The significant value is 0.338. This significant value is greater than 0.05. This means that the firm size variable does not partially affect the firm structure. The magnitude of the influence of firm size on capital structure is known to be the value of r squared of 0.071. This means that the influence of company size on capital structure is 7.1% and the rest is influenced by other variables that are not included in the equation model.

4. **Partial effect of sales growth on capital structure**

The results of the analysis of the effect of sales growth on capital structure partially show that the t value is 0.945. The significant value is 0.362. This significant value is greater than 0.05. This means that the sales growth variable does not partially affect the company structure. The magnitude of the effect of sales growth on the capital structure is known to be the value of r squared of 0.064. This means that the effect of sales growth on the capital structure is 6.4% and the rest is influenced by other variables that are not included in the equation model.

5. **Partial effect of capital structure on profitability**

The results of the analysis of the effect of capital structure on profitability partially show that the t value is 1.073. The significant value is 0.303. This significant value is greater than 0.05. This means that the capital structure variable does not partially affect profitability. The magnitude of the effect of capital structure on profitability can be seen that the value of r squared is 0.081. This means that the effect of capital structure on profitability is 8.1% and the rest is influenced by other variables that are not included in the equation model.

6. **The effect of company size and sales growth on profitability through the capital structure**

The effect of company size and sales growth on profitability through the capital structure can be described using the previous analysis data.
Information:
X1 = exogenous independent variable Firm size
X2 = exogenous independent variable sales growth
X3 = exogenous independent variable Profitability
Y = endogenous dependent variable of Capital Structure

Based on the basic model of the general structural equation, namely: Endogenous Variable = Exogenous Variable + estimation error, then the general equation can be described in the equation model Firm size (X1) affects profitability (X3) and then sales growth (X2) affects profitability (X3) and profitability (X3) which is influenced by variables X1 and X2 will affect the capital structure (Y), so the structural equations of the three exogenous variables to the endogenous are:
Y = 0.266X1 + e1
Y = 0.254X2 + e2
Y = 0.285X3 + e3

While the multiple linear equation that can be built is
Y = 0.266X1 + 0.254X2 + 0.285X3 + e

The path model that shows a causal relationship from the sequence of events leads to variations in the dependent/endogenous variable, as shown above with the sequence of events X1, X2, and X3 leading to Y

The direct effect of firm size on capital structure is 0.266. While the influence of company size through profitability is 0.218 X 0.285 = 0.062. This shows that the direct effect is greater than the indirect effect so that the profitability variable is not a mediating variable because its existence does not increase the effect of firm size on capital structure.

Meanwhile, the effect of sales growth on profitability is 0.254. Meanwhile, the effect of sales growth on the capital structure through the profitability variable is 0.325 X 0.285 = 0.0926. This effect is smaller than the direct effect of 0.254. So the profitability variable is not a mediating variable because its existence does not increase the influence of growth on the capital structure.

CONCLUSION

The results of the analysis of the effect of company size on company profitability partially obtained the t value of 0.807 with a significant of 0.434 or greater than 0.05. This shows that company size has no significant effect on profitability. The value of r squared can be seen that the value of r squared is 0.048. This means that the influence of the company size variable on company profitability is 4.8% and the rest is influenced by other variables that are not included in the equation model.

The results of the analysis of sales growth on profitability partially show that the t value is 1.239. The significant value is 0.237. This significant value is greater than 0.05. This means that the sales growth variable does not partially affect profitability. The magnitude of the influence of sales growth on profitability can be seen that the value of r squared is 0.106. This means that the influence of the sales growth variable on profitability is 10.6% and the rest is influenced by other variables that are not included in the equation model.

The results of the analysis of the influence of company size on capital structure show that the t value is 0.996. The significant value is 0.338. This significant value is greater than 0.05. This means that the firm size variable does not partially affect the firm structure. The magnitude of the influence of firm size on capital structure is known to be the value of r squared of 0.071. This means that the influence of company size on capital structure is 7.1% and the rest is influenced by other variables that are not included in the equation model.

The results of the analysis of the effect of sales growth on capital structure partially show that the t value is 0.945. The significant value is 0.362. This significant value is greater than 0.05. This means that the sales growth variable does not partially affect the company structure. The magnitude of the effect of sales growth on the capital structure is known to be the value of r squared of 0.064. This means that the effect of sales
growth on the capital structure is 6.4% and the rest is influenced by other variables that are not included in the equation model.

The results of the analysis of the effect of capital structure on profitability partially show that the t value is 1.073. The significant value is 0.303. This significant value is greater than 0.05. This means that the capital structure variable does not partially affect profitability. The magnitude of the effect of capital structure on profitability can be seen that the value of r squared is 0.081. This means that the effect of capital structure on profitability is 8.1% and the rest is influenced by other variables that are not included in the equation model.

The direct effect of firm size on capital structure is 0.266. While the influence of company size through profitability is 0.218 x 0.285 = 0.062. This shows that the direct effect is greater than the indirect effect so that the profitability variable is not a mediating variable because its existence does not increase the effect of firm size on capital structure.

Meanwhile, the effect of sales growth on profitability is 0.254. Meanwhile, the effect of sales growth on the capital structure through the profitability variable is 0.325 x 0.285 = 0.0926. This effect is smaller than the direct effect of 0.254. So the profitability variable is not a mediating variable because its existence does not increase the influence of growth on the capital structure.

**Suggestion**

Company size, sales growth and capital structure affect profitability. Company size can increase profitability, sales growth and capital structure can also increase profitability even though these variables do not have a significant effect on profitability.

To improve the capital structure, it is necessary to pay attention to company size and sales growth. This activity is carried out by increasing the debt but with due regard to the company's ability to repay the debt. Sales also need to be increased by improving a good sales strategy.

Source of funds both from debt and from own capital. However, the two sources of funds to be used also contain risks. Taking funds from debt is risky to pay interest and installments and the capital itself is at risk of interfering with the owner of the funds in making company policies. The measure that can be used is that the ratio of debt and assets should not be more than 0.5 and the equity itself should not be more than 50% of the company's ownership.

**REFERENCES**


27. Pagano, P., & Schivardi, F.


