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The Influence Of Profitability, Liquidity, Business Risk, Firm Size, and Sales Growth in The Property and Real Estate Companies Listed in the Idx During 2013 - 2016

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ABSTRACT

This research aims to determine the factors affecting capital structure such as profitability, liquidity, business risk, company size, and sales growth on capital structure of property and real estate firms listed in the Indonesia Stock Exchange year of 2013 - 2016. Population in this research is all property and real estate companies listed in Indonesia Stock Exchange year of 2013 – 2016, amount to 48 companies. Purposive sampling technique is being used as the sampling method in this research, which resulted in 41 companies as the sample. Analytical method used in this research is multiple linier regressions. Data analysis is using IBM SPSS Statistics 23. The result of this research show that partially, profitability has significant negative effect on capital structure and company size has significant positive effect on capital structure, while liquidity, business risk, and sales growth have no significant effect on capital structure. Profitability, liquidity, business risk, company size, and sales growth simultaneously have significant effect on capital structure. The conclusion of this research is capital structure is affected by profitability and company size.

INTRODUCTION

Funding decision is a decision about how much the level of long-term loan usage compared to own capital in financing corporate investment (Amiriyah & Andayani, 2014). Good or not a corporate funding can be seen from the composition of the company's capital structure. Capital structure describes the balance or comparison between long-term debt and own capital (equity) (Sudiyatno, 1997: 17). Decisions about capital structure are decisions about how the source of corporate funds will be obtained, where the company can obtain funds from within and from outside the company. Source of funds from within the company can be obtained from retained earnings, while those from outside the company can be obtained from borrowing debt to third parties, ordinary shares, and from preferred shares.

Brigham and Houston (2013) stated that companies generally study the situation, draw conclusions about the optimal capital structure, and determine a capital structure target. Capital structure measured by leverage is a variable to find out how much the company's assets are financed by corporate debt (Irawati, 2012). When the condition of the company has a debt ratio below the target level, the company will raise capital by issuing debt, while if the debt ratio is above the target, then equity is used. Companies that have a high level of leverage mean that they are highly dependent on external loans to finance their assets. Whereas companies that have a low leverage level more finance their assets with their own capital (Sukmawati, Kusmuriyanto, & Agustina, 2014). Companies can flexibly change the target of capital structure depending on the conditions experienced by the company, as long as the decision will have a good impact on the life sustainability of the company. Optimal capital structure is a capital structure that will maximize its stock price (Brigham and Houston, 2013: 155).

Capital structure management and decisions that are not appropriate, will have a negative impact on the company and the life sustainability of the company. There were several bankruptcy cases that occurred in several property and real estate companies in Indonesia.

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Reporting from www.kabar6.com PT Panca Wiratama Sakti Tbk (PWSI) engaged in the field of property in 2014 has been liquidated due to debt of around Rp. 549 billion to more a number of bank, even since March 20, 2011 PT Panca Wiratama Sakti Tbk was declared bankrupt and the existing assets were confiscated by the state. In addition, PT Bakrieland Development Tbk was sued by the London branch of The Bank of New York Mellon for its Bakrieland subsidiary, BLD Investment Pte, which has a debt of USD 155 million, equivalent to Rp 1.55 trillion. The debt comes from the issuance of equity linked bond amounted to USD 155 million which will mature on March 23, 2015 (www.merdeka.com).

Reporting from the site of www.kabar24.com, PT Danau Winata Indah reportedly bankrupt. The curator noted that PT Danau Winata Indah has a total debt of Rp155 billion to 19 creditors. The company was declared bankrupt since December 5, 2017. The bankruptcy decision was taken because the majority of creditors rejected the peace proposal on the voting agenda on November 29, 2017. Reporting from www.bali.tribunnews.com Gede Hardy's Hardys Holding Group was declared bankrupt in the decision of the Surabaya Commercial Court on November 9, 2017. The bankruptcy occurred because the Hardys Holding Group could not fulfill its obligations to pay debts to creditors which are due. 18 banks with total debt of 2.3 trillion. Hardys Holding Group has 18 maturing debts at the Bank with a total debt of 2.3 trillion.

Bankruptcy cases that occur in property and real estate companies that are caused are unable to pay the debt above, as a proof of the importance of good capital structure decisions for the company. Errors during capital structure decision making can be fatal for the company, namely bankruptcy and even closing company.

In addition to bankruptcy cases in the Property and real estate companies above, there are also several previous studies related to factors that influence corporate capital structure which still reap inconsistencies in the result of the research. Nugroho (2014) and Liang et al.(2014) state that profitability has a positive effect on capital structure, while according to Indriani & Widyarti (2013), Riyantina & Ardiansari (2017), Abdulla (2017), Sheikh & Wang (2011), and Chadha & Sharma (2015) profitability is stated to have a negative effect on capital structure. However, research from Hartoyo et al.(2014) and Naibaho et al.(2015) states that profitability does not have a significant effect on capital structure.

The result of the research conducted by Abdulla (2017) and Primantara & Dewi (2016) states that liquidity has a positive effect on capital structure, while according to Liang et al. (2014), Sheikh & Wang (2011), and Haron (2016) liquidity is stated to have a negative effect on capital structure. However, according to Indriani & Widyarti (2013), Gomez et al.(2014), and Chadha & Sharma (2015) liquidity does not have a significant effect on capital structure.

Research from Chadha & Sharma (2015) states that the risk has a significant positive effect on the capital structure, while according to Haron (2016) business risk has a negative effect on the company's capital structure. Different results are indicated by Riyantina & Ardiansari (2017) and Gomez et al.(2014) which states that business risk has no significant effect on capital structure.

Riyantina & Ardiansari (2017), Abdulla (2017), Liang et al.(2014), Gomez et al.(2014), Sheikh & Wang (2011) states that firm size has a positive effect on capital structure, while according to Chadha & Sharma (2015), Nugroho (2014) and Haron (2016) firm size has a negative effect on capital structure. However, the result of research from Naibaho et al.(2015) and Hartoyo et al. (2014) states that the size of the company does not have a significant effect on the company's capital structure.

The result of Research conducted by Naibaho et al. (2015) and Nugroho (2014) states that sales growth has a significant positive effect on capital structure, while according to Pradana et al. (2013), Indriani & Widyarti (2013), and Riyantina & Ardiansari (2017) states that sales growth does not significantly influence the company's capital structure.

Previous research that still result inconsistencies makes the situation of research gap. Therefore, it becomes the reason for researchers to re-examine about the determinants of capital structure, with independent variables namely profitability, liquidity, business risk, firm size, and growth sales, where in this study, the object of research is the property and real estate companies listed on the Indonesia Stock Exchange in 2013-2016.

Pecking Order Theory suggested that companies would prioritize using internal funding first, rather than using external funding. This funding source is preferred by directors because it is not influenced by information asymmetry, does not have explicit costs, and provides greater margins than corporate expenditure (Gomez et al., 2014). In addition, the risks faced by the company are also small, because when a company uses internal funding, it means that the company will use funding from retained earnings, so that the company is not obliged to make a replacement as in debt loan, or must provide dividends to shareholders.

Trade off Theory states that companies must balance and optimize the use of debt to be profitable for the company. The company balances the benefits of funding from debt by considering higher interest rates and bankruptcy costs (Brigham and Houston, 2001: 34). This means that the company can maximize the use of debt as long as it has a positive impact on the company, meaning that as long as the debt has a higher rate of return than the company's sacrifice due to the use of debt, the company can continue to increase its debt to the maximum.

Profitability is the company's ability to generate profits for a certain period (Wijaya & Murwani, 2011). High profitability can be obtained because of high profits that the company gets in operating. The higher the profit obtained, the higher the assets owned by the company which will lead to higher levels of profitability obtained by the company. Large amounts of assets can be used to the maximum for corporate operations to generate high profits (Karina & Khafid, 2015). According to pecking order theory, companies will tend to make internal funding because it is seen as cheaper than external funding. When companies earn high profits, companies will get a high rate of return which will enable them to finance most of their funding needs with funds generated internally, which means that companies with high profitability will use less funding with debt. Haron (2016) and Gomez et al.(2014) states that profitability has a negative effect on the company's capital structure, while the result of the study is from Naibaho et al.(2015) states that profitability does not have a significant effect on capital structure. Based on the description above, the researcher formulates the hypothesis as follows:

H1: Profitability has a negative effect on the capital structure of property and real estate companies listed on the Indonesia Stock Exchange in 2013-2016.

Liquidity is the company's ability to fulfil its short-term obligations. According to Haron (2016) the higher a company's liquidity, the more internal funds will be available to the company, so the need for debt financing will be minimal. Pecking order theory explains that companies with higher liquidity prefer to use internal funds when making funding. This is because companies with high levels of liquidity have large internal funds, so the company would prefer to use its internal funds first compared to the use of debt. Sheikh & Wang (2011) stated that liquidity has a negative effect on the company's capital structure, while Chadha & Sharma (2015) stated that liquidity does not have a significant effect on the capital structure. Based on the description above, the researcher formulates the hypothesis as follows:

H2: Liquidity has a negative effect on the capital structure of property and real estate companies listed on the Indonesia Stock Exchange in 2013-2016.

Based on trade off theory, companies must balance the benefits and sacrifices when using debt. Where the sacrifice is a risk that will be borne by the company when using debt. Business risk is a future uncertainty that will be experienced by the company. According to Pradana et al. (2013,) the smaller the business risk will cause the capital structure to be more optimal, and conversely the greater the business risk, it will reduce the level of capital structure optimization. When profit from sales which is the corporate main activity is unstable and decreases, this will obviously increase the company's business risk, which the company may not be able to pay off its debt payments. Companies with high levels of income volatility in their operations may face defaults on debt payments, and therefore, must choose to reduce funding using debt (Haron, 2016). Therefore, companies that have a large business risk must reduce the use of their debts. Research conducted by Primantara & Dewi (2016) states that business risk has a negative effect on the company's capital structure, while Riyantina & Ardiansari (2017) in his research stated that business risk does not have a significant effect on capital structure. Based on the description above, the researcher formulated the hypothesis as follows:

H3: Business risk has a negative effect on the capital structure of property and real estate companies listed on the Indonesia Stock Exchange in 2013-2016.

According to trade off theory there must be a positive relationship between firm size and capital structure, because larger companies will have a lower possibility of experiencing financial difficulties, so that it will make it easier for creditors to lend to companies. In addition, the level of information asymmetry for large companies is also smaller, because large companies will display their financial statements to the public which truth can be accounted for by law, so that it will increase creditor trust. Durnev and Kim (2003) in Rahayuningsih (2013) said that companies with a larger size tend to be a public concern than small-scale companies. Management is motivated to provide information because there is asymmetric information between management and stakeholders (Marliyana & Khafid, 2017). Indriani & Widyarti (2013) stated that firm size has a positive effect on capital structure while Hartoyo et al.(2014) stated that the size of the company does not have a significant effect on the company's capital structure. Based on the description above, the researcher formulates the hypothesis as follows:

H4: Firm size has a positive effect on the capital structure of property and real estate companies listed on the Indonesia Stock Exchange in 2013-2016.

According to trade off theory, if retained earnings have a high increase in growth, it is necessary to spend more debt to maintain an objective debt / equity ratio (Gomez et al., 2014). Companies with a high level of sales growth will need more funds to carry out the operational activities of the company, thus requiring external funding to support the operational activities which are increasing. That is, high growth rate in the company results in more cash needs in the future, also the need to maintain more profits (Gomez et al., 2014). Nugroho (2014) stated that sales growth has a positive effect on capital structure, while Riyantina & Ardiansari (2017) stated that sales growth does not have a significant effect on the company's capital structure. Based on the description above, the researchers formulate the following hypothesis:

H5: Sales growth has a positive effect on the capital structure of property and real estate companies listed on the Indonesia Stock Exchange in 2013-2016.

The higher the profitability of the company, the higher the company's profits obtained, which means the company's assets are high. High corporate assets indicates that the company is able to pay off its short-term debt, which means the company is liquid, meaning more profitable and liquid of a company then the use of debt is fewer. Business risk is related to the uncertainty of the company in the future, so the company with a large business risk has a large chance of default, meaning that the use of debt will be suppressed when the company's business risks rise. Large firm size signifies the company has large assets in the company. This will increase creditor trust in borrowing debt, so the larger the firm size, the greater the level of long-term debt. Stable sales growth allows the company to grow bigger, for that, foreign capital in the form of debt is needed so that the company can operate and increase the production level of the company. Based on the description above, the researchers formulate the following hypothesis:

H6: Profitability, Liquidity, Business Risk, Firm Size, and Sales Growth jointly influence the capital structure of property and real estate companies listed on the Indonesia Stock Exchange in 2013-2016.

Based on the description above, the framework developed in this study can be described as follows:

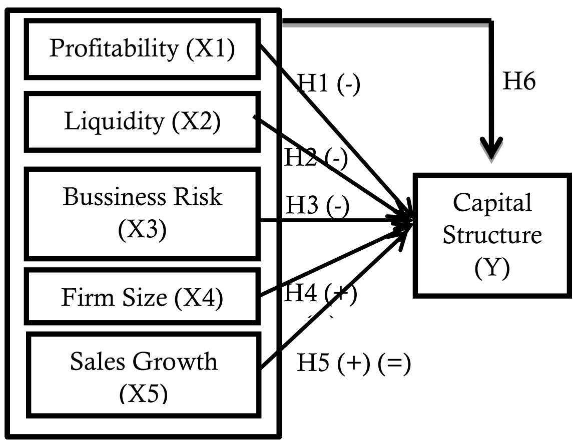

Figure1. Theoretical Framework

RESEARCH METHOD

This study used a quantitative approach. The form of data in this study was secondary data taken from financial reports that have been published and listed on the IDX in 2013 - 2016. Populations in this study were property and real estate companies listed on the Stock Exchange during the period 2013-2016 as many as 48 companies. The sampling technique used purposive sampling. The criteria used were property and real estate companies listed on the Indonesia Stock Exchange in 2013 - 2016 which publish their financial statements completely, and provide complete data needed in this study. The results obtained from the selection of this sample was 41 companies, with a total of 164 units of analysis minus 49 outlier data.

Data analysis tool used IBM SPSS Statistics 23. The data information from research result used descriptive statistics. Hypothesis testing technique used in the research was inferential statistical technique which includes classical assumption tests (normality test, heteroscedasticity test, multicorrelation test, and autocorrelation test) and regression analysis multiple.

RESULTS AND DISCUSSIONS

The variable of capital structure (LTDER) has a minimum value of 0.0015 at PT Gading Development Tbk and a maximum value of 1.0947 at PT Agung Podomoro Land Tbk. Overally, capital structure variable has an average value of 0.314227 and a standard deviation of 0.2530129.

The profitability variable (BEP) has a minimum value of -0.0815 at PT Rista Bintang Mahkota Sejati Tbk and a maximum value of 0.3849 for PT Fortune

Table 1. Variable Operationalization

No	Name of Variables	Explanation	Measurement
1	**Dependent Variable** Capital Structure	Capital structure is calculated by comparing the total long-term debt with the total equity of the company. This refers to the study of Gomez et al.(2014).	LTDER = Total long-term debt/ Total Equity
2	**Independent Variables** Profitability	Profitability can be calculated by dividing profit before interest and tax with total assets. This refers to the study of Chadha & Sharma (2015).	BEP=EBITTotal Asset
	Liquidity	Liquidity is calculated by comparing total current assets with total current debt. This refers to the study conducted by Primantara & Dewi (2016).	CR =Current Assets/ Current Liabilities
	Business Risk	Business risk is calculated by comparing EBIT growth with sales growth. This refers to the study of Pradana et al.(2013).	*BRISK*= EBIT Growth/ Sales Growth
	Firm Size	Firm size is calculated by using the company's total assets natural log. This refers to the study of Haron (2016).	Size = LN Total Asset
	Sales Growth	Sales growth is calculated by reducing sales^{t} with sales^{-1} and compare it with Sales$^{t-1.}$ This refers to research from Pradana et al.(2013).	GS = (Sales^{t} - Sales^{t-}1) / Salest^{-1}

Source: Various Source Processed, 2018

Mate Indonesia Tbk. Overally, profitability variable has an average value of 0.071314 and a standard deviation of 0.0696093.

The liquidity variable (CR) has a minimum value of 0.2077 at PT Bukit Darmo Property Tbk and a maximum value of 6.3460 at PT Kawasan Industri Jababeka Tbk. Overally, liquidity variable has an average value of 2.023275 and a standard deviation of 1.2852083.

The business risk variable (RISK) has a minimum value of -3.8612 at PT Indonesia Prima Property Tbk and a maximum value of 7.5026 at PT Gading Development Tbk. Overally, the business risk variable has an average value of 0.542806 and a standard deviation of 1.4896502.

The firm size variable (SIZE) has a minimum value of 25.7731 at PT Rista Bintang Mahkota Sejati Tbk and a maximum value of 31.4510 at PT Lippo Karawaci Tbk. Overally, the capital structure variable has an average value of 28.937579 and a standard deviation of 1.3743731.

The sales growth variable (GS) has a minimum value of -0.8712 at PT Greenwood Sejahtera Tbk and a maximum value of 2.9871 at PT Bukit Darmo Property Tbk. Overally, the capital structure variable has an average value of 0.196043 and a standard deviation of 0.5122235.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
LTDER	115	.0015	1.0947	.314227	.2530129
BEP	115	-.0815	.3849	.071314	.0696093
CR	115	.2077	6.3460	2.023275	1.2852083
RISK	115	-3.8612	7.5026	.542806	1.4896502
SIZE	115	25.7731	31.4510	28.937579	1.3743731
GS	115	-.8712	2.9871	.196043	.5122235
Valid N (listwise)	115				

Source: Secondary data processed, 2018.

In addition to the result of the descriptive statistics above, the result of the normality test show the Kolmogorov-Smirnov (K-S) value of 0.200 (0.200> 0.05), indicating that the data is normally distributed. The result of heteroscedasticity test by using the scatterplot test shows points that spread randomly. Thus, it can be concluded that there is no heteroscedatisity. The multicorrelation test results show that there are no independent variables that have a tolerance value of less than 0.1 and the VIF value for each variable is less than 10, thus it can be concluded that there is no multicorrelation between independent variables. The autocorrelation test shows the runs test value of 0.111, where in the significance level of 5%, the number is 0.111> 0.05, which means that the data used is quite random so there is no autocorrelation in the regression model.

The test result of multiple regression analysis shows a model of multiple regression analysis between variable X to variable Y can be transformed in the equation model as follows:

LTDER = –2.671 – 0.759 BEP + 0.001 CR – 0.009 BRISK + 0.105 SIZE + 0.047 GS + e

In addition, the result of the F statistical test above obtained a significance value of F of 0.000 (0.000 <0.05) which means that simultaneously the variables of profitability, liquidity, business risk, firm size, and sales growth have a significant effect on capital structure. The score of adjusted R Square (R^2) shows the number 0.305 which means that the influence of profitability, liquidity, business risk, firm size, and sales growth simultaneously on capital structure variable is 30.5% and the amount of other variables that affect the capital structure variable is 69.5%. The hypothesis test results are shown in table 3 as follows:

Table 3. Summary of Hypothesis Testing Results

No	Hypothesis	α	Sig.	Result
1	H1: Profitability has a negative effect on capital structure	0.05	0.020	**Accepted**
2	H2: Liquidity has a negative effect on capital structure	0.05	0.941	Rejected
3	H3: Business risk has a negative effect on capital structure	0.05	0.497	Rejected
4	H4: Firm size has a positive effect on capital structure	0.05	0.000	**Accepted**
5	H5: Sales growth has a positive effect on capital structure	0.05	0.276	Rejected
6	H6: Profitability, liquidity, business risk, firm size, and sales growth simultaneously influence the capital structure	0.05	0.000	**Accepted**

Source: Secondary data processed, 2018

The Effect of Profitability on Capital Structure

The result of the study shows that profitability has a negative and significant effect on the capital structure of the property and real estate companies listed on the Indonesia Stock Exchange in 2013-2016, thus the hypothesis 1 (H1) is accepted. The result of this study is in line with the pecking order theory which states that companies prefer the use of company's internal funds through retained earnings, which means that companies with high profitability have low debt usage rates. Companies with high levels of profitability can reduce the level of debt Gomez et al. (2014). Companies with high retained earnings means having large assets within the company, which can be used as a source of corporate funding for the operational activities with funds generated internally. The result of this study is in line with the research conducted by Haron (2016), Gomez et al. (2014), Abdulla (2017), and Riyantina & Ardiansari (2017) and at the same time rejects the result of research conducted by Naibaho et al. (2015), Hartoyo et al. (2014), Chasanah & Satrio (2017) and Primantara & Dewi (2016).

The Effect of Liquidity on the Capital Structure

The result of the study shows that liquidity does not have a significant effect on the capital structure of the property and real estate companies listed on the IDX in 2013-2016, thus hypothesis 2 (H2) is rejected. The result of the study is not in accordance with the pecking order theory which states that liquidity will affect the capital structure, where when the company's liquidity is high, the company's capital structure will be low. Liquidity does not have a significant effect on the company's capital structure decisions because in calculating corporate liquidity, the company only pays attention to their current assets, regardless of the company's fixed assets, which means the company only pays attention to current assets in determining the company's debt without regard to fixed assets. In fact, aside from current assets, the company must also pay attention to the ownership of the company's fixed assets which can be used as collateral for the company's debt to creditors. The result of this study is in line with the research conducted by Gomez et al. (2014), Indriani & Widyarti (2013) and at the same time rejects the result of research from Haron (2016) and Sheikh & Wang (2011).

The Effects of Business Risk on the Capital Structure

The result of the research shows that business risk does not have a significant effect on the capital structure of the property and real estate companies listed on the BEI in 2013-2016, thus hypothesis 3 (H3) is rejected. The result of this study contradicts the trade off theory, which states that high business risk will reduce the use of corporate debt. Business risk is the uncertainty faced by the company and is difficult to predict (Bhawa & Dewi, 2015). This uncertainty makes the business risks that exist in the company change. Because of these uncertainties, the level of business risk is difficult to be measured or determined exactly, so that it will be difficult to become a benchmark or reference in terms of policy decision making in the company's capital structure. The result of this study is in line with research conducted Seftianne & Handayani (2011) and Riyantina & Ardiansari (2017), while rejects results of research from Haron (2016) and Primantara & Dewi (2016).

The Effect of Firm Size on the Capital Structure

The result of the research shows that firm size has a positive and significant effect on the capital structure of the property and real estate companies listed on the IDX in 2013-2016, thus hypothesis 4 (H4) is accepted. In line with trade off theory, the result of the study shows that firm size has a positive effect on the capital structure, meaning that the larger the size of a company seen from the number of assets, the greater the amount of the company's capital structure. Large-scale companies will find it easier to obtain loans compared to small companies (Risdawaty & Subowo, 2015). Companies with large sizes are considered more capable of managing their finances and have fewer opportunities to go bankrupt. Therefore, large companies are easier to convince creditors and make extra funding. Large-scale companies will find it easier to find investors who want to invest in the company and also in terms of obtaining credit compared to small companies (Seftianne & Handayani, 2011). The result of this studies is in line with the research conducted by Liang et al.(2014), Sheikh & Wang (2011), Primantara & Dewi (2016), Ridloah (2010), Juliantika & Dewi (2016), and at the same time rejects the result of research from Naibaho et al.(2015) and Hartoyo et al. (2014).

The Effect of Sales Growth on the Capital Structure

The result of the research shows that sales growth does not have a significant effect on the capital structure of the property and real estate companies listed on the IDX in 2013-2016, thus hypothesis 5 (H5) is rejected. Indriani & Widyarti (2013) stated that sales growth which is not significant to the capital structure indicates that the corporate managers pay less attention to this variable in funding decisions or capital structure decisions. Changes in the company's sales growth do not become a benchmark for decision making in the company's capital structure. This is due to sales growth experiencing erratic fluctuations. Thus, changes in growth are difficult to become a benchmark for capital structure policy making. The result of this study is in line with research conducted by Indriani & Widyarti (2013), Pradana et al.(2013) and at the same time rejects the result of research from Naibaho et al.(2015).

The Effect of Profitability, Liquidity, Business Risk, Firm Size, and Sales Growth on the Capital Structure

The result of the research shows that simultaneously there were influences of profitability, liquidity, business risk, firm size, and sales growth on the capital structure of the property and real estate companies listed on the Indonesia Stock Exchange in 2013-2016. Thus hypothesis 6 (H6) is received. The higher the company's profitability, the higher the company's profits, which means the company's assets are also high. High corporate assets indicating that the company can pay off its short-term debt, which means the company is liquid, meaning that the more profitable and liquid a company is, the less use of debt. Business risk is related to the uncertainty of the company in the future, so companies with a large business risk have a high chance of default, meaning that the use of debt will be suppressed when the company's business risk rises. The large size of the company signifies that the company has large assets in the company, which will increase creditor trust in borrowing debt, so the greater the size of the company, the greater the level of long-term debt. Stable sales growth allows the company to grow bigger, for that, foreign capital in the form of debt is needed so that the company can operate and increase the level of production.

CONCLUSIONS AND SUGGESTIONS

Profitability and firm size have a significant effect on the capital structure, where profitability has a negative effect and firm size has a positive effect on the capital structure. While the variables of liquidity, business risk, and sales growth have no significant effect on the capital structure of the property and real estate companies listed on the IDX in 2013 2016. Simultaneously, profitability, liquidity, business risk, firm size, and sales growth affect the capital structure of the property and real estate companies listed on the Indonesia Stock Exchange in 2013 - 2016.

Investors should consider profitability ratio and firm size before making investment decisions in the capital market. The corporate management must be able to optimize corporate profitability and size in determining capital structure policies. Further researchers are then advised to replace proxy of business risk variable with other proxies, for example using standard deviations from ROE.

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