



The Effect of Financial Performance on The Speed Adjustment of Capital Structure in Times of Crisis

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Abstract

The capital structure is an important part of the company because it is closely related to the composition of the funding, errors in the composition of the funding have an impact on the company's failure to achieve the company's target and the risk of bankruptcy. The capital structure also indicates the importance of the portion of independent capital as well as from loans to run the company. Corporate bankruptcy often occurs due to being trapped by disproportionate debt, the impact of which is that the company is unable to pay for the forest, then sells the assets. Understanding theoretically that the composition of the capital structure needs to consider the company's financial performance, because by understanding the company's financial performance, managers can make decisions on the use of optimal capital structure for the company. Interestingly, various studies have begun to move towards research on the speed of capital structure, this is very important to study so that companies can empirically optimize their capital structure. The results showed that there were differences in the influence of financial performance factors on the speed of capital structure adjustment. This research indicates the need for company managers to be able to manage financial performance well, in order to obtain an ideal capital structure composition for company development.

Keywords: Financial Performance; Adjustment Speed; Capital Structure; Crisis.

Introduction

Previous research found that the capital structure of a company is influenced not only by company-specific factors but also by country-specific factors (Bancel and Mittoo, 2004; De Jong et al., 2008). Single-country studies usually try to use firm-specific factors to explain differences in capital structure. International studies, on the other hand, compare differences in capital structure

between firms from different countries, and try to use company and country-specific factors to provide an explanation. The general conclusion is that company and country specific factors have significant explanatory power on the formation of capital structure.

Frank and Goyal (2008) conducted a study using a large number of potential factors in choosing capital structure, based on previous research. These factors are:

market-to-book ratio, tangible assets, company profitability, company size and expected inflation. Since these determinants were identified, they have been used to some degree by much of the capital structure literature, including Alipour et al. (2015), Koksall and Orman (2015), Paredes Gomez et al. (2016), Vo (2017), Khemiri and Noubbigh (2018), Li and Islam (2019), Moradi and Paulet (2019). There is evidence that other factors may also have an influence on capital structure decisions.

Vo (2017) found that the determinants of capital structure are different for long-term and short-term indicators, indicating that large companies tend to use long-term debt while small companies use short-term debt to finance their investments. This may be because larger firms do not take advantage of the bargaining power of creditors or bankers compared to smaller firms for long-term borrowing; also, liquidity problems limit companies from borrowing long-term, and liquidity management is an important issue for success. Harris and Roark (2019) find that companies with higher cash flow volatility have higher debt levels, but this positive relationship is only for companies with the weakest financial performance as measured by operating cash flow. When companies are ranked based on operating cash flow, those in the bottom half increase their use of leverage in the face of increased cash flow risk. For companies with operating cash flows that are above the fold, the relationship between the cash flow risk faced by the company and the use of leverage is not statistically significant.

Over the last decade, capital structure studies have become increasingly popular for comparing different countries

(Acedo-Ramirez and Ruiz-Cabestre, 2014). Several studies implicitly assume that the effect of firm-specific factors on firm leverage is the same in every country (Booth et al., 2001; Giannetti, 2003). More recently, studies covering the United States and European countries have argued that the environment of state institutions and international operations influences the behavior of financial managers as well as their financial policies (Bancel and Mittoo, 2004; Brounen et al., 2006). De Jong et al. (2008) reported that firm leverage should be analyzed appropriately because they found that the determinants of capital structure had significant direct and indirect outcomes for 42 countries. They also found that some of the attributes were not the same across countries. In addition, the study of De Angelo and Roll (2015) found that capital structure stability is an action, not a rule. In addition, research by Campbell and Rogers (2018) states that companies with a high volatile capital structure tend to earn less profit and lead to a tighter dividend policy compared to companies with a stable capital structure. Empirically, previous research has found that a company's capital structure is influenced not only by company-specific factors but also by country-specific factors (Li and Islam, 2019).

Most of the empirical studies are in developed countries, especially the United States (Bradley et al., 1984; Titman and Wessels, 1988). Similarly, Rajan and Zingales (1995) show that firm-specific determinants correlate with debt ratios for US non-financial firms. These results are very similar to those obtained by other G7 countries. Based on this research, an increasing number of studies are focusing on international comparisons to analyze the determinants of leverage (eg, Wald,

1999; De Jong et al., 2008). In addition, several empirical studies have investigated the determinants of capital structure in developed countries (Kremp and Stoss, 2001; Chen, 2004; and Gaud et al., 2005). However, since the mid-1990s, a number of studies have examined the determinants of leverage in developing countries (Wiwattanakantang, 1999; Pandey, 2004; Huang and Song, 2006; Qureshi, 2009; Koksai and Orman, 2015; Paredes Gomez et al., 2016). In this context, the pioneering study by Booth et al. (2001) show that the financial factors influencing financing choices in developing countries are similar to those in developed countries. However, the observed differences emerge at the level of country-specific macroeconomic factors. Of course, the empirical literature has used several contexts (developed and developing countries).

The development of capital structure studies also points to the direction of research that links current phenomena to the state of capital structure. Research conducted by Jiang, et.al (2021) in China during the 2012-2018 period investigated the speed of dynamic capital structure adjustment in relation to China's economic policy reforms called supply-side structural reform (SSSR). Empirical analysis provides evidence that SSSR demonstrates its effectiveness in reducing transaction costs associated with capital structure adjustments. This study shows that the implementation of SSSR does not directly reduce the company's leverage; on the contrary, it effectively increases the speed of adjustment towards optimal debt ratios.

Jiang's, et.al (2021) indicates that there is an adjustment in the capital structure in response to the company's internal conditions. This research focuses

on health sector companies regarding capital structure adjustments in the pre-covid era and during the 2020 covid period. In the context of corporate microeconomics, Saif-Alyousfi, et.al (2020) uses profitability, growth opportunities, collateral, corporate tax, tax shields, non-debt tax shields, liquidity, earning volatility, and cash flow volatility in analyzing the impact on capital structure. The results of the research by Saif-Alyousfi, et.al became the basis for researchers in forming a microeconomic research model of capital structure.

Dasman, et.al (2021) tested the effect of company-specific microeconomic fluctuations on raw material prices on the speed of adjustment through a dynamic targeting capital structure in textile companies listed on the Indonesia Stock Exchange during 2012 and the second quarter of 2020. Factors that determine structure Target capital includes company size, tangibles, liquidity and growth opportunities, asset utilization and retained earnings. On the other hand, factors that contribute to the speed of adjustment include company size, growth opportunities, profit volatility, asset utilization, retained earnings, distance from targets, and economic growth. Other factors that also affect the speed of adjustment include fluctuations in the prices of cotton and crude oil.

Amjed & Shah (2016) empirical results support the existence of a dynamic capital structure target in Pakistan for the five industry groups. The speed of capital structure adjustment varies significantly across industrial sectors and from time to time. Companies in Pakistan adjust their capital structure towards a dynamic target ranging from 23% to 46% per annum depending on the country's

macroeconomic conditions such as banking sector performance, economic growth and interest rates. Deviations from the target capital structure also play an important role in the speed of adjustment of the capital structure. However, empirical results fail to validate the effect of inflation and market capitalization on the speed of capital structure adjustment. The Granger causality test results show that causality is one-way from the speed of capital structure adjustment to financial performance.

De Haas & Peeters (2006) examines the dynamics of the capital structure of Central and Eastern European companies to gain a better understanding of the quantitative and qualitative developments of the financial system in this region. The dynamic model used homogenizes the target leverage and adjustment speed. This is applied to microeconomic data for ten countries. We find that during the transition process, firms generally increase their leverage, decreasing the gap between actual and target leverage. Profitability and age are the strongest determinants of target capital structure. Although the development of the banking system in general has enabled companies to get closer to their leverage targets, the information asymmetry between companies and banks is still relatively large. As a result, companies prefer internal finance over bank debt and adjust leverage only slowly.

Drobtz & Wanzenried (2006) dynamic adjustment model and panel methodology were used to investigate the time-varying determinants of target capital structure. Because firms may temporarily deviate from their target capital structure in the presence of adjustment costs, the adjustment process is also endogenous. In

particular, we analyze the impact of firm-specific characteristics as well as macroeconomic factors on the speed of adjustment of the target debt ratio. The sample consists of a panel of 90 Swiss companies over the years 1991-2001. We document that firms that are growing faster and those that are far from an optimal capital structure adjust more easily. The results also reveal an interesting link between the speed of adjustment and well-known business cycle variables. Most importantly, the speed of adjustment is higher when the term spread is higher and when the economic outlook is good.

Based on these previous studies, it also shows that there is a trend in capital structure research that is associated with phenomena that occur in the country. Indonesia has experienced three crises, namely 1998, 2008 and 2020. The three crises had different characteristics. The main factor causing the 1998 crisis was the Asian regional financial crisis due to massive maturing private debts. There was a rush of money due to market and business distrust. The causes of the 2008 global recession lay in the US subprime mortgage crisis and skyrocketing world oil prices. The increase in the price of oil per barrel reached a record high in July 2008 (US\$147.50 in London and US\$147.27 in New York). The drastic rise in world crude oil prices has serious implications for the State Budget's burden of bearing energy subsidies. The two crises seem to have nothing to do with the health sector, whereas in 2020 the crisis is closely related to health aspects which involve stimulus from the government for health sector companies.

In the Indonesian context, there is an interesting phenomenon when there is a national health insurance program and the

Covid-19 pandemic where company shares in the health sector show a significant increase. Medicines that are products of the company are needed not only when sick (curative in nature) but also in good health (preventive in nature) and during recovery after illness (rehabilitative in nature). By owning shares in a health company, it is expected that the benefits will be many compared to the losses.

In principle, health sector companies, like other companies, also have a funding system, both internal and external to the company. Funds obtained either from internal companies or from external companies will be used for company management. Funds originating from internal companies (capital from company owners and retained earnings), this method of meeting the need for funds originating from internal companies is known as the equity financing method. In addition, there are also sources of funds that come from external parties (sales of shares, issuance of bonds, sales of securities or loans from banks).

Although health sector companies do not really dominate the companies listed on the Indonesia Stock Exchange, their existence plays a very important role in creating the health status of the Indonesian people. Health services are inseparable from the existence of drugs that function to prevent and rehabilitate a disease. In order to realize the ideals of the Indonesian people towards an all-coverage Indonesia, which means that all Indonesian citizens are covered by the state's health financing in accordance with the mandate of the 1945 Constitution which is reflected in the National Health Insurance (JKN) program. As an applicable form and operational implementation of the National Health Insurance program (JKN) is the

Health Social Security Administration Agency (BPJS).

After the implementation of the Health Insurance Administration Agency policy on January 1, 2014, it triggered the stretching of health sector companies or drug factories in carrying out their operations. Why not, because the need for medicine is increasing because people's interest in caring for health is increasing marked by increased patient visits to hospitals, this encourages the health industry to always increase its productivity.

At the beginning of 2020, the health industry was recorded as continuing to develop its business and even expand. The Covid-19 outbreak that hit the world is suspected to be an opportunity for this business sector where the demand for medical devices and multivitamins has increased. Health companies, such as PT Kalbe Farma Tbk (KLBF) are continuing with the company's capital expenditure (capex) budget plan that was set earlier this year. The absorption is for the relocation and construction of new factories, the details of which are the construction of new factory relocations from subsidiaries PT Bintang Toedjoe and PT Saka Farma to Cikarang, as well as construction of warehouses for subsidiaries Enseval Putera Mega Trading and Global Chemindo Megatrading.

Meanwhile, in terms of existing production capacity, there are currently no plans to add more, because there is still sufficient capacity space to support production activities. The demand for several of Kalbe's multivitamin products on the market is acknowledged by management to have doubled when the pandemic was announced in Indonesia last March. In addition, sales of herbal

products such as Bejo Jahe Merah, produced by its subsidiary, PT Bintang Toedjo, are expected to increase by 10-15 percent.

PT Phapros Tbk (PEHA) also feels the demand for multivitamins that are in demand. The state-owned company even plans to produce up to 1 million boxes of Becefort brand multivitamins in 2020. Previously, the company was reported to have used a joint financing facility with its parent company, PT Kimia Farma Tbk (KAEF) of IDR 1.35 trillion. In 2020, KAEF focuses on supporting the government in dealing with Covid-19 in the logistics of drugs, medical devices and health services, this is a positive opportunity for the company. As for this year, KAEF is known to target this year's net income of IDR 11.7 trillion, up 24% compared to last year's net income of IDR 9.4 trillion.

Changes in the capital structure are empirically influenced by microeconomic factors, based on previous studies indicating that there are factors of profitability, growth opportunities, corporate tax, liquidity, cash flow volatility. flow volatility), and income volatility (cash flow volatility).

Theoretically and empirically, the relationship between profitability and capital structure shows a difference (Friend and Lang, 1988; Harris and Raviv, 1991; Rajan and Zingales, 1995; Booth et al., 2001; Sbeti and Moosa, 2012; Vo, 2017). More specifically, Modigliani and Miller (1963) suggest that firms may choose debt to take advantage of tax protection. In addition, there is a positive relationship between profitability and the presence of free cash flow problems and under these circumstances' debt can act as a management tool to ensure that managers

do not pursue individual goals (Jensen, 1986). Rajan and Zingales (1995) argue that creditors prefer to provide loans to companies with high cash flows. In addition, La Rocca et al. (2009) argue that more profitable firms are more likely to borrow more to benefit from tax shields (Frank and Goyal, 2008). Vo (2017) found that profitable companies tend to borrow long-term while reducing short-term debt.

According to La Rocca et al. (2009), there is a negative relationship between growth opportunities and leverage because to borrow more money, companies must maintain financial flexibility, especially if they have high growth opportunities. Companies with high growth opportunities are unlikely to issue debt financing because intangible assets lose value when they go bankrupt. However, according to the pecking order theory, it is also possible that growth opportunities have a positive relationship with leverage. According to Myers (1984), companies with high growth opportunities will prioritize their financing needs by using internal funds. However, because their internal funds are insufficient to finance all their investment needs, they must raise external funds. As a result, many companies choose debt as the first choice to fund projects and create higher leverage (Vo, 2017).

According to the trade-off theory, there is a positive relationship between corporate taxes and capital structure because companies can use debt to reduce tax payments when corporate tax rates are high. High tax rates imposed on companies will make companies more willing to buy fixed assets using debt (De Angelo and Masulis, 1980). In addition, Modigliani and Miller (1958) and Bradley et al. (1984) argued that the higher corporate taxes, the

more debt companies use to gain tax advantage (Modigliani and Miller, 1958; Bradley et al., 1984).

There are two recently documented financial trends that influence how companies make capital structure decisions. First, there is evidence that increased cash flow volatility (Bates et al., 2009) can lead to cash shortages. Second, given the fact that increased cash flow risk may create more cash requirements to fund operations or increase the likelihood of a company running out of cash during any given fiscal year, companies are more likely to issue debt in response. Unexpected negative changes in cash flow or the continuous inability to generate positive operating cash flow can result in companies not generating sufficient cash flow to cover their cash needs to maintain and grow their business (Harris and Roark, 2019).

Theoretically, this study uses theory within the scope of capital structure, namely the trade-off theory that managers tend to choose a mix of debt and equity that achieves a balance between the tax advantages of debt and the various costs of using financial leverage. Besley and Brigham (2003) point out that modern capital structure theory began in 1958, when Franco Modigliani and Merton Miller published what many consider to be the most influential finance article ever written. As late as 2005, Pagano (2005) still credits the work of Modigliani and Miller as a 'financial cornerstone'. Modigliani and Miller (1958) show that under certain tight assumptions, a firm's overall cost of capital, and therefore its value, is not affected by its capital structure.

In addition to the trade-off theory, this research also uses the pecking order

theory, as explained by Correia et al. (2006) and Smart et al. (2004), assumes no target capital structure. This theory has been a strong challenger to the trade-off theory over the past two decades. It is based on the premise that managers know more about investment opportunities for their companies than outside investors. This information asymmetry causes managers to increase finances in a particular order, or pecking order. The order in which funds are raised is retained earnings first, then debt, then convertible debt and preference shares and finally, new equity issues.

There are many empirical studies on the determinants of capital structure. Determining the factors associated with debt ratios relies on the two opposing theories outlined above: the trade-off theory and the pecking order theory. However, Frank and Goyal (2008) and Harris and Roark (2019) provide reasons why, even with these two dominating theories, capital structure theory does not have a single model to help identify the determinants of capital structure choice.

New equity issues to finance investment opportunities, due to negative signal effects. Companies that adhere to the pecking order theory will tend to maintain a lower debt: equity ratio than indicated by the trade-off theory, in order to take advantage of new investment opportunities without having to issue new shares. These companies will also maintain surplus cash balances and reserve borrowing capacity to take advantage of new investment opportunities.

In the case of pecking order theory, signalling theory also assumes that managers know more about a firm's future investment opportunities than do investors (Besley & Brigham 2003: 544; Ehrhardt &

Brigham 2003: 491; Smart et al. 2004: 419). According to Smart et al. (2004: 420), investors tend to assign 'average' ratings for each company if there is no evidence to the contrary. A manager who knows that his company is worth a lot more than investors think is appropriate communicates that information to the market. Usually, managers of companies that are less valuable also want to convince investors that their companies are undervalued. As a result, investors will remain sceptical about what managers say.

The rationale behind signal theory includes the contention that the only way in which managers of undervalued companies can convince investors of the 'true' value of a company is by sending out expensive signals. This signal must have been difficult for less valuable corporate managers to imitate. Issuing a debt is such a signal. Investors will react to an increase in debt by bidding on share prices, thereby increasing the value of the company.

The urgency of conducting research in the context of capital structure, because there are various theories that discuss capital structure, there are also many studies that show the effect of financial performance on the company's capital structure. The focus on conducting research on one of the economic sectors is an effort to provide clarity on the effect of financial performance on the company's capital structure.

Method

This analysis is primarily aimed at evaluating profitability, growth opportunities, corporate tax, liquidity, cash flow volatility, cash flow volatility and the speed of capital structure adjustment. Researchers used two techniques, namely descriptive and causal methods according

to the research objectives. The method used focuses on collected scientific evidence trying to characterize the objective factual description of the object being examined. Even though causality analysis is a research technique that aims to clarify the causal relationship of the variables studied. This research was conducted to determine the differences in the effect of profitability, growth opportunities, corporate tax, liquidity, cash flow volatility, cash flow volatility on capital structure before and during the Covid-19 outbreak, as well as to conduct an analysis by comparing it with emerging market countries and developing market countries.

The population in this study are health companies that have gone public on the Indonesia Stock Exchange (IDX) during 2010-2020. The sample used in this study is a saturated sample, which means that the entire population is used as a research sample with the qualifications of having complete financial reports. Researchers use the main data sources to be processed in this analysis such as financial reports issued by the IDX and supervised by the OJK. In addition, data from each paper is selected based on the needs of the study and then submitted as raw data to the table. Data analysis used the classical assumption test and multiple linear regression using the e-views9 application.

Results and Discussion

The classical assumption test is an important step in conducting data analysis using multiple linear regression, because the data obtained is known to be valid or not using the classical assumption test. The classic assumption test in this study uses normality, heteroscedasticity,

multicollinearity, autocorrelation, and linearity tests.

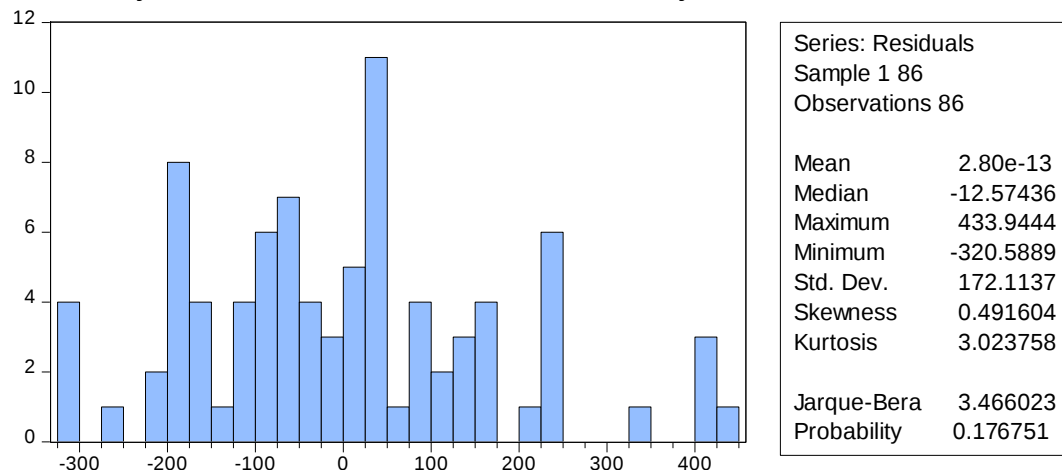


Figure 1. Normality Test

By comparing the estimated probability value of JB (Jarque-Bera) with an alpha level of 0.05 (5%), it is easy to determine whether the residuals are normally distributed or not. If the number is smaller, then there is not enough evidence to conclude that the residuals are

normally distributed. Conversely, if Prob. JB count is greater than 0.05, it can be stated that the residuals are normally distributed. The results show that the classical assumptions regarding normality have been met, according to JB count $0.176751 > 0.05$.

Table 1. Heteroscedasticity Test

F-statistic	3.907863	Prob. F(6,96)	0.1433
Obs*R-squared	20.21864	Prob. Chi-Square(6)	0.1254
Scaled explained SS	39.55352	Prob. Chi-Square(6)	0.3152

The decision whether or not heteroscedasticity occurs in the linear regression model is by looking at the Prob Value. F-statistic (F count). If the Prob. F count is greater than the alpha level of 0.05 (5%) then H_0 is accepted which means there is no heteroscedasticity, whereas if the Prob. F count is smaller than the alpha

level of 0.05 (5%) then H_0 is rejected which means there is heteroscedasticity. Prob Value F count of 0.1433 is greater than the alpha level of 0.05 (5%) so that, based on the hypothesis test, H_0 is accepted, which means there is no heteroscedasticity.

Table 2. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	39.67395	1.979122	NA
PROF	3.48E-06	2.050494	1.739259
GROW	85.83763	1.315581	1.048455
TAX	0.005847	3.611092	2.286028

LIQUID	1.65E-07	1.871858	1.502161
CASHFLOW	6.78E-08	1.017081	1.004169
EARNINGS	7.06E-07	1.039767	1.009041

The results of the multicollinearity test can be seen in the Centered VIF column table. VIF values for all variables are not more than 5, so it can be said that there is no multicollinearity in the two

independent variables. Based on the classical assumptions of linear regression with OLS, a good linear regression model is free from multicollinearity. Thus, the above model is free from multicollinearity.

Table 3. Autocorrelation Test

F-statistic	6.489749	Prob. F(2,94)	0.2423
Obs*R-squared	12.49668	Prob. Chi-Square(2)	0.2119

Prob Value F(2.94) of 0.2423 can also be referred to as the calculated F probability value. Prob Value F count is greater than the alpha level of 0.05 (5%)

so, based on the hypothesis test, H0 is accepted, which means that there is no autocorrelation.

Table 4. Linearity Test

	Value	df	Probability
t-statistic	0.688645	95	0.4927
F-statistic	0.474232	(1, 95)	0.4927
Likelihood ratio	0.512888	1	0.4739

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	984.5687	1	984.5687
Restricted SSR	198217.1	96	2064.762
Unrestricted SSR	197232.6	95	2076.132

LR test summary:

	Value
Restricted LogL	-535.6137
Unrestricted LogL	-535.3573

If the Prob. F count is greater than the alpha level of 0.05 (5%) then the regression model meets the assumption of linearity and vice versa, if the value of Prob. F count is less than 0.05, so the model does not meet the assumption of

linearity. Prob Value F count can be seen in the F-statistic row of the Probability column. In this case the value of 0.4927 is greater than 0.05 so it can be concluded that the regression model meets the assumption of linearity.

Table 6. Dynamic Data Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Y(-1)	0.461912	14.47094	0.584752	0.0015
PROF	0.000268	0.001865	0.143733	0.0360
GROW	-10.19717	9.264860	-1.100629	0.0238
TAX	-3.009895	0.076465	-0.129403	0.1973
LIQUID	-43.00287	0.000407	-0.704477	0.0028
CASHFLOW	-545.0392	0.000260	-1.506168	0.0443
EARNINGS	-3.040309	0.000840	-0.368215	0.0535
D_KRISIS	32.03044	22.45313	0.432842	0.0352
Effect Specification				
Cross-section fixed (first differences)				
Mean dependent var	0.526429	S.D. dependent var	58.83321	
S.E. of regression	60.73111	Sum squared resid	177036.8	
J-statistic	0.516589	Instrument rank	23	
Prob(F-statistic)	0.000043			

Based on the results of the study, it shows that profitability has a positive effect on the speed of adjustment of the capital structure, meaning that the higher the profitability of the company, the faster the speed of adjustment of the capital structure. Growth opportunities have a negative effect on the speed of adjustment of the capital structure, meaning that the lower the growth opportunities, the faster the speed of adjustment of the capital structure. Corporate tax has no effect on the speed of adjustment of the capital structure, meaning that an increase or decrease in corporate tax has no impact on the speed of adjustment of the capital structure. Liquidity has a negative effect on the speed of adjustment of the capital structure, meaning that the lower the liquidity, the faster the speed of adjustment of the capital structure. Cash flow volatility has a negative effect on the speed of adjustment of the capital structure,

meaning that the lower the cash flow volatility, the higher the speed of adjustment of the capital structure. Earnings volatility has a negative effect on the speed of adjustment of the capital structure, meaning that the lower the earnings volatility, the faster the speed of adjustment of the capital structure.

The research conducted shows that the capital structure is an important part that is influenced by the factors contained in financial performance. Masnoon and Saeed (2014) state that capital structure decisions are one of the keys to financial decisions in financing assets and increasing business capital. Funding decisions are decisions about how to use debt compared to equity for investment financing (Sheikh and Wang, 2011).

Companies that use debt funding will reduce tax costs and can increase returns for shareholders, but by using debt as a source of company funding, these

companies will increase financial risk, where companies must be able to pay interest on loans from these debts and pay them off when they fall due. tempo (Dewi and Dana, 2017). Decisions regarding the determination of the capital structure used by the company must be considered carefully, because wrongly determining the capital structure results in financial difficulties that may be experienced by the company, it can even lead to bankruptcy, so determining the optimal capital structure decision is a very difficult task for financial managers. because the impact will involve the prosperity of the company and the people in it, the managers in charge must find the right proportion of the use of funds for the company.

Empirically, there is previous research which shows the determinants of capital structure in developing countries, emerging countries and in Indonesia, namely profitability, corporate growth opportunities, corporate taxes, liquidity, cash flow volatility and income volatility.

Zhang (2010) states that profitability, firm size, firm age, and tangible assets have a positive effect on capital structure, while growth has a negative effect on capital structure. In Bayrakdaroglu's study, et al. (2013) stated that taxes, growth, and non-debt tax shields have a positive effect on capital structure. Asset structure, inflation, company size, economic development, and profitability have a negative effect on capital structure. Furthermore, according to Sheikh, et al. (2011) stated that company size has a positive effect on capital structure. Profitability, non-debt tax shield, asset structure, growth, income volatility, and liquidity have a negative effect on capital structure.

Growth opportunity is a growth opportunity owned by the company in the future to develop the company. Companies can see the prospects that will be obtained in the future by looking at the opportunities for this growth. Brigham and Houston (2011) state that, companies with fast growth rates face a high level of uncertainty, so companies are more likely to reduce the use of debt (external capital). The sustainable growth rate is the success rate of the company's performance in a certain period. Research put forward by Li and Shun (2011), Yahdi and Puji (2014), and Yadav (2014) shows that growth opportunity has a positive and significant effect on capital structure.

Research conducted by Vries (2010) found that sales growth had a positive and significant effect on the capital structure of companies listed on the industrial sector of the Johannesburg Stock Exchange. Subsequent research is supported by Javed and Akhtar (2012), who found that sales growth has a significant positive effect on the capital structure of industrial sector companies in the Karachi Stock Exchange in Pakistan. Research conducted by Mahapsari and Taman (2013), found that the variable sales growth 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 effect on the capital structure of manufacturing companies in the Food and Beverage sector listed on the IDX in 2008-2011.

Previous studies regarding the effect of growth rates, showed different or inconsistent results. The results of research conducted by Khairin and Harto (2014), and Yadav (2014) show that the growth rate has a significant positive effect on capital structure. There are different results stated by Alipour et al. (2015), Setyawan et al. (2016), and Dewi and Dana (2017) who found that the growth rate has a negative and significant effect on capital structure.

There are several studies regarding the effect of company profitability on capital structure. The results of research from Khairin and Harto (2014) state that profitability has a significant positive effect on capital structure. The results of this study are supported by the results of research conducted by Setyawan et al. (2016), as well as other research conducted by Hadiananto and Tayana (2010) show that profitability has a positive and significant effect on capital structure. There are differences in research results in several other studies. Pattweekongka and Napompech (2014), Juliantika and Dewi (2016) found that profitability has a negative and significant effect on the company's capital structure. The results of research conducted by Wimelda (2013) and Yudhanta (2010) also state that profitability has a significant and negative effect on capital structure.

Dewi & Badjra (2014) aims to determine the effects of liquidity, profitability, tangibility assets, company size and taxes on capital structure. The research was conducted on property and real estate companies listed on the Indonesia Stock Exchange (IDX) in the period 2008 to 2012 with 20 companies used as samples. The results of the analysis show that liquidity and

profitability have a negative and significant effect on capital structure, while tangibility assets, company size and taxes have a positive and significant effect on capital structure.

Rostami & Akbarpour (2012) state that taxes are one of the most important economic infrastructures in playing a key role in the permanent growth of social justice through redistribution of income and wealth and optimal allocation for all groups of society. Taxes are contributions paid by the people to the state treasury (Agoes and Trisnawati, 2009). The results of research by Owolabi and Inyang (2012), Rostami and Akbarpour (2012) and Setiawati (2011) show that taxes have a positive effect on capital structure.

According to Brigham and Houston (2011), capital structure policy involves an exchange between risk and return, namely: 1) The use of more debt will increase the risk borne by shareholders. 2) The use of greater debt will usually lead to expectations of a higher rate of return on equity.

Higher risk tends to lower stock prices, but expectations of higher returns tend to increase stock prices. Therefore, the optimal capital structure must achieve a balance between risk and return so as to maximize the company's stock price. Thus, the capital structure is only a part of the financial structure. The financial structure reflects the balance both in absolute and relative terms between all foreign capital (both short term and long term) with the amount of own capital.

The implication of this theory is that companies should use as much debt as possible. In practice, no company has such a large debt, because the higher the debt level of a company, the higher the probability of bankruptcy. This is the

background of the modern capital structure theory, which says that companies should use as much debt as possible, because the modern capital structure ignores bankruptcy.

The capital structure trade off theory assumes that the company's capital structure is a balance between the use of debt and the costs of financial difficulties (financial difficulties) and agency costs (agency costs). The trade off theory is a model based on the exchange between the advantages and disadvantages of using debt. Debt interest expense that can be from taxes. Interest expense can be deducted from income so that profit before tax becomes smaller. Thus the tax is also getting smaller. Increasing use will lead to financial difficulties or bankruptcy.

According to the static trade-off theory, more profitable companies use higher leverage because of greater tax protection and because profitable companies have a lower risk of bankruptcy. According to the pecking order theory, companies prefer internal funding over debt and issuance of new equity, so according to this theory companies that are more profitable will use lower leverage (Frank and Goyal, 2009). In this study, before covid-19 profitability had a positive effect on the speed of adjustment of capital structure and when covid profitability had a positive effect on the speed of adjustment of capital structure, the results of this study showed similarities with the research of Warmana & Widnyana (2016) that profitability is measured by Return on Assets (ROA) is predicted to have a positive effect on leverage.

Static trade off theory predicts a negative relationship between growth opportunities and capital structure.

Companies with high growth opportunities lose more value when experiencing financial difficulties. Pecking order theory, on the other hand, predicts a positive effect between growth opportunities and capital structure, because growing companies require more external funding sources (Frank and Goyal, 2009).

By using debt, companies get the benefit of tax reduction with taxshield obtained from loan interest, in addition to getting additional funds that can be used for company operational purposes. The value of companies with higher leverage, than the value of companies without leverage. From the view of the trade-off theory, companies that are liquid will use more debt because they have more ability to meet their obligations. From the pecking order theory view, liquid companies actually use less debt because liquid companies can use internal sources to fund new investments (Sheikh and Wang, 2011). Liquidity is measured by the current ratio, namely current assets divided by current liabilities. The higher the current ratio means the higher the company's ability to settle its current liabilities by multiplying its current assets. Liquidity is predicted to have a positive effect on leverage.

The high or low receivable turnover has a direct effect on the size of the capital invested in receivables. The higher the turnover, means the faster the turnover, which means the shorter the time that capital is tied up in receivables, so to maintain a certain net credit sales, with an increase in turnover, a smaller amount of capital is needed to be invested in accounts receivable. The financial of icer is more concerned with the "cash flows" than the sales transaction itself. In credit sales when the delivery of goods or when sales do not

coincide with the time of "cash inflows". "Cash inflows" that occur due to credit sales can be planned by preparing a "receivables collection budget". In this study, before Covid-19 Cash Flow Volatility had a negative effect on the speed of adjustment of capital structure and during Covid-19 Cash Flow Volatility had a negative effect on the speed of adjustment of capital structure.

Conclusion

Based on the results of the study, it shows that profitability has a positive effect on the speed of adjustment of the capital structure, meaning that the higher the profitability of the company, the faster the speed of adjustment of the capital structure. Growth opportunities have a negative effect on the speed of adjustment of the capital structure, meaning that the lower the growth opportunities, the faster the speed of adjustment of the capital structure. Corporate tax has no effect on the speed of adjustment of the capital structure, meaning that an increase or decrease in corporate tax has no impact on the speed of adjustment of the capital structure. Liquidity has a negative effect on the speed of adjustment of the capital structure, meaning that the lower the liquidity, the faster the speed of adjustment of the capital structure. Cash flow volatility has a negative effect on the speed of adjustment of the capital structure, meaning that the lower the cash flow volatility, the higher the speed of adjustment of the capital structure. Earnings volatility has a negative effect on the speed of adjustment of the capital structure, meaning that the lower the earnings volatility, the faster the speed of adjustment of the capital structure. These results indicate that the capital structure is

influenced by various factors of financial performance, so that in supporting the achievement of capital structure it is necessary to adjust the state of financial performance.

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