The Effect of Capital Structure and Liquidity on Business Growth and Profit Ability at the Balo' Toraja Savings and Loan Cooperative (Ksp Balo'ta)

Lai' Manga' Paledung, Otto.R.Payangan , Fauzi.R.Rahim
Master in Management Science, Faculty of Economics and Business,
Hasanuddin University

Abstract:- This research aims to examine the relationship between capital structure and liquidity with business growth and profitability at the Balo' Toraja Savings and Loans Cooperative (KSP Balo'ta) in 2013-2020. The financial statements from 2013 to 2020 were used as the sample, and the design was descriptive quantitative, with data analysis utilizing numbers in the ratio analysis formula and partial hypothesis testing (t-test). The t-test was used to determine the effect of each independent variable on the dependent variable using quantitative data in the form of financial statements (balance sheet and profit and loss). The results show that (1) Capital structure has a significant effect on profitability (2) Liquidity has no significant effect on profitability (3) Capital structure has no significant effect on business growth (4) Liquidity has no significant effect on Business Growth (5) Profitability has no significant effect on Business Growth.

Keywords:- Capital Structure, Liquidity, Profitability, Business Growth.

I. INTRODUCTION

Cooperatives are one of the drivers of economic growth based on a people's economy. Therefore, its position is significant, especially in the Indonesian economic system. As a pillar of economics, it has an essential role in people's economic growth and realizing democracy as the nature of togetherness and cooperation. Cooperative development strategies aim to increase their position and function balanced with other national enterprises, allowing them to become instructors of the national economy. In addition, the development is aimed at the growth of culture and a positive image as well as the strengthening of cooperative institutionsto advance the development of the people's economy and act as a forum for community activities. Law No. 25 of 1992 states that a cooperative is a business entity consisting of a person or a legal entity based on principles and a people's economic movement based on kinship. It is required to have a competitive advantage to improve its performance and obtain Remaining Operating Results (SHU).

Therefore, management should be carried out efficiently to compete with other business entities in achieving these objectives.The Balo' Toraja Savings and Loans Cooperative (KSP Balo'ta) is one of the large cooperatives engaged in the savings and loan business with 40,248 members and 46 branches in 5 provinces consisting of South Sulawesi, Southeast Sulawesi, Central Sulawesi, East Kalimantan, and North Kalimantan. It includes a savings and loan unit business service; therefore, it is projected to benefit the people of the local community. Furthermore,the Balo' Toraja Savings and Loans Cooperative made the list of 100 large cooperatives in 2017, and in terms of assets and business units, it is the largest in Tana Toraja Regency.

Profitability is the capacity of a corporation to create Remaining Operating Results (SHU) at a particular moment in a given timeframe. The ability to produce SHU will show the effectiveness of the management of the cooperative. Good profitability indicates that a company's capacity to fund its operations improves. The ability to generate profits shows the effectiveness of managing cooperatives, and the profitability ratio shows how efficient a company is or its ability to provide benefits for the capital invested by its members (Hendar, 2010:202).

According to Satmoko and Sudarman (2011), the company's funding policy is determined by analyzing the composition between debt and own capital. Meanwhile, the capital structure or company capitalization is permanent financing of long-term debt, preferred stock, and shareholder capital (Weston & Copeland, 1999:19). Therefore, it can also be interpreted as a balance or comparison between long-term debt and own capital. Capital structure is an essential issue for companies because the good or bad will directly affect the company's financial position, which will affect the company's value.

Business growth (assets) is a change (decrease or increase) in total assets, and according to Taswan (2013), it is expressed as the growth of total assets previously described as profitability. However, according to Beaver, Ketter, and Scholes (2012), growth is defined as the annual change in total assets.

II. METHODS

A. Study Location and Design
This study was conducted in the Balo' Toraja Savings and Loans Cooperative (KSP Balo'ta) using financial statements from 2013 - 2020.

B. Population and Sample
The population is the financial statements of the Balo'

Toraja Savings and Loans Cooperative (KSP Balo'ta) for 2013-2020. The sample is obtained by saturation sampling, as stated by Sugiyono (2013: 122): "Saturation sampling employs all people in the population as samples." This technique is used because the population is relatively small, less than 30.

C. Data Collection Method

Interview and Documentation data collection techniques were used.

D. Data Analysis

The technical analysis of the data employed in this study is a quantitative approach, which consists of data analysis utilizing numbers placed into the ratio analysis formula. Furthermore, the analysis used to test the proposed hypothesis is a partial regression test (t-test). The t-test was used to determine the effect of each independent variable on the dependent variable. SPSS was used to run the Independent Sample T-Test, while classical assumption tests were performed using normality, multicollinearity, and autocorrelation tests to avoid extreme data, reduce bias in results, and ensure normal distribution of data.

III. RESULTS

A. ROA (Return On Assets)

From 2013 to 2020, KSP Balo'ta's Return on Assets (ROA) status typically exhibits moderate ups and downs. However, in 2020, it decreased by 15% due to the pandemic conditions that make it difficult for members to pay their obligations. According to Kasmir (2012, p. 208), a good or satisfactory ROA measure for companies, in general, is 30%. Therefore, the ROA value of Balo'ta KSP from 2013 to 2020 is good, where the average is all above 30%. This shows that KSP Balo'ta is in a good position, increasing management performance in generating profits.

B. Business Growth

The KSP Balo'ta Business Growth Condition from 2013 to 2020 experienced ups and downs, expressed in percentage terms. It climbed significantly between 2013 and 2015, increasing by 1.85 percent between 2013 and 2014, 8.31 percent between 2014 and 2015, 9,78 percent between 2015 and 2016, and then reaching up by 2.41 percent in 2017. It increased by 3.73 percent in 2018 and 0.54 percent in 2019 but decreased in 2020 by 2.54%. Business growth expressed in terms of assets is defined as the annual change in fixed assets. The company's assets are expanding due to increased asset growth and the number of assets owned.

C. Current Ratio

The condition of the Balo'ta KSP Current Ratio from 2013 to 2020 has experienced ups and downs. Suppose the ratio is above 1 in the liquidity ratio; it means that the company is safe to pay its current liabilities using its current assets.

On the other hand, the business may have trouble meeting its debt obligations to creditors on schedule when the ratio is less than one. The current ratio values of KSP Balo'ta from 2013 to 2020 are all above 1, and even in 2015-2017, the current ratio value is >2. This shows that KSP Balo'ta is

safe to settle its short-term obligations.

D. DER (Debt to Equity Ratio)

The DER (Debt to Equity Ratio) condition of KSP Balo'ta from 2013 to 2020 fluctuated. From 2013 to 2014, there was an increase of 8%, and from 2014 to 2015, there was an increase of 23%. From 2015 to 2016, the DER of KSP Balo'ta had decreased by 2%, but from 2016 to 2020, it increased by 54%. The higher the DER value, the greater the KSP Balo'ta uses debt than the capital owned, and the DER values of KSP Balo'ta from 2013 to 2020 are all > 1 or greater than 100%. This shows that it is insecure due to the extensive use of debt.

E. Classic Assumption Test

A classical assumption test was performed using regression analysis on the independent, dependent, and intervening variables. In this study, the independent variables are capital structure (X1) and liquidity (X2), the intervening variable is profitability (Y1), and the dependent variable is business growth (Y2). There are two equations for the classical assumption test: equation 1: variable X1, X2 to Y1, and equation 2: variable X1, X2, Y1, and Y2.

		Unstandardized Residual
N		8
Normal Parameters [a,b]	Mean	0.0000000
	Std. Deviation	0.04663322
Most Extreme Differences	Absolute	0.139
	Positive	0.119
	Negative	-0.139
Test Statistic		0.139
Asymp. Sig. (2-Tailed)		,200[c,d]

Table 1: Normality Test

Source: SPSS Output, 2021

The results of the validity test above show the K-S Asymp value. Sig. (2-tailed) of 0.200 significant > 0.05 means that the data studied are typically distributed.

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Capital Structure	0.831	1.204
	Liquidity	0.831	1.204

Table 2: Multicollinearity Test of Equation 1

Source: Data Processed, 2021

Equation 1 shows a VIF value of 1.204 < 10 for each variable from the multicollinearity test. These results indicate that there is no multicollinearity in the variables studied.

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Capital Structure	0.385	2.596
	Liquidity	0.775	1.290
	Profitability	0.456	2.193

Table 3: Multicollinearity Test of Equation 2

Source: Data Processed, 2021

From the multicollinearity test, equation 2 shows VIF values of 2.596, 1.290, 2.193 < 10 for each variable. These results indicate that there is no multicollinearity in the variables studied.

	Unstandardized Residual
Test Value[a]	-0.00666
Cases < Test Value	4
Cases >= Test Value	4
Total Cases	8
Number of Runs	5
Z	0.000
Asymp. Sig. (2-tailed)	1.000

Table 4: Autocorrelation Test with Run Test on the Equation

Source: Data Processed, 2021

Based on the SPSS output in the Run Test of Equation 1 above, the value of Asymp. Sig (2-tailed) is 1,000 greater than 0.05, and it can be concluded that there are no symptoms

	Unstandardized Residual
Test Value[a]	0.18520
Cases < Test Value	4
Cases >= Test Value	4
Total Cases	8
Number of Runs	5
Z	0.000
Asymp. Sig. (2-tailed)	1.000

Table 5: Autocorrelation Test with Run Test on Equation 2

Source: Data Processed, 2021

Based on the SPSS output in the Run Test in equation 2 above, the value of Asymp. Sig (2-tailed) is 1,000 greater than 0.05; therefore, it can be concluded that there are no symptoms or problems with autocorrelation.

F. T-test

Model				Standardized Coefficients	t	Sig.
				Beta		
1	(Constant)	0.824	0.152		5.428	0.002
	Capital Structure	-0.184	0.073	-0.715	-2.506	0.046

Table 6: T-test results on the effect of X1 on Y1

Source: Data Processed, 2021

The t-table value is one-tailed with df 7 = 1.895; therefore, the t count value in the table above is -2.506. Using just integers (ignoring negative symbols), t count = 2,506, which applies to the 1-sided test. For this reason, Ho was rejected, and Ha accepted, where the capital structure variable (X1) considerably influences the profitability variable (Y1). (Y1).

Model				Standardized Coefficients	t	Sig.
				Beta		
1	(Constant)	0.344	0.320		1.073	0.324
	Liquidity	0.053	0.164	0.130	0.321	0.759

Table 7: T-test results on the impact of X2 on Y1

Source: Data Processed, 2021

Based on table 7, the significance value for the liquidity variable (X2) is 0.759 > 0.05, with t-count value of 0.321 < t-table of 1.895. The results of testing the influence of liquidity (X2) on profitability (Y1) show a significance value > 0.05 and the t count value < t table. Therefore, Ho is accepted, and Ha is rejected where the liquidity variable (X2) has no significant effect on the profitability variable (Y1).

Model				Standardized Coefficients	t	Sig.
				Beta		
1	(Constant)	4.969	9.806		1.073	0.630
	Capital Structure	6.431	4.745	0.484	0.321	0.224

Table 8: T-test results about the effect of X1 on Y2

Source: Data Processed, 2021

Based on table 8, the significance value for the capital structure variable (X1) is 0.224 > 0.05, with t-count value of 1.355 < t-table of 1.895. The results of testing the effect of capital structure (X1) on business growth (Y2) show a significance value > 0.05 and the t count < t table value. Therefore, Ho is accepted, and Ha is rejected where the capital structure variable (X1) does not significantly affect the business growth variable (Y2).

Model				Standardized Coefficients	t	Sig.
				Beta		
1	(Constant)	16.955	16.670		1.017	0.348
	Liquidity	0.619	8.536	0.030	0.073	0.945

Table 9: T-test results on the impact of X2 on Y2

Source: Data Processed, 2021

Based on table 9, the significance value for the liquidity variable (X2) is 0.945 > 0.05, with the value of t count 0.073 < t table 1.895. The results of the liquidity test (X2) on business growth (Y2) show a significance value > 0.05 and the t count < t table value. Therefore, Ho is accepted, and Ha is rejected where the liquidity variable (X2) has no significant effect on the business growth variable (Y2).

Model				Standardized Coefficients	t	Sig.
				Beta		
1	(Constant)	22.222	9.351		2.377	0.055
	Profitability	-9.102	20.738	-0.176	-0.439	0.676

Table 10: T-test results about the effect of Y1 on Y2

Source: Data Processed, 2021

Based on table 10, the significance value for the profitability variable (Y1) is 0.676 > 0.05, and the t count value

in the table above is -0.439. Only the numbers are required (ignore the negative symbols); therefore, the t count becomes = 0.439, with the value of 0.439 < t table of 1.895. The results of the profitability test (Y1) on business growth (Y2) show a significance value > 0.05 and the t count < t table value. Therefore, the Ho is accepted, and Ha is rejected where the profitability variable (Y1) has no significant effect on the business growth variable (Y2).

IV. DISCUSSION

A. Effect of Capital Structure (X1) on Profitability (Y1)

The first hypothesis examines the effect of capital structure on profitability disclosure, where the results show the value of Sig. is 0.046 < 0.05 and the t count value is 2.506 > t table of 1.895. Furthermore, Ha is accepted where the capital structure significantly affects profitability since the lower the company's debt, the higher the profitability or vice versa. This study found that the high DER KSP Balo'ta caused profitability to decrease.

B. Effect of Liquidity (X2) on Profitability (Y1)

The second hypothesis examines the effect of liquidity on profitability disclosure. The results show the value of Sig. is 0.759 > 0.05 and the t count value of 0.321 < t table of 1.895. Furthermore, H0 is accepted where liquidity has no significant effect on profitability. This means that KSP Balo'ta's ability to pay its short-term debt does not affect its ability to generate profits.

C. Effect of Capital Structure (X1) on Business Growth(Y2)

The third hypothesis examines the effect of capital structure on business growth, where the results show the value of Sig. is 0.224 > 0.05 and the t count value 1.355 < t table 1.895. In addition, H0 is accepted where the capital structure has no significant effect on business growth, which is not under the pecking order theory. Supposedly, the company's capital structure is low, and business growth increases because the availability of high internal funds will suppress smaller debt. This study found a high capital structure but also increased business growth. KSP Balo'ta is a cooperative that is constantly expanding through establishing branches all over the place. Therefore, companies with high business growth will desire to grow by using funds from outside parties in the form of debt.

D. Effect of Liquidity (X2) on Business Growth (Y2)

The fourth hypothesis examines the effect of liquidity on business growth, where the results show the Sig. value of 0.945 > 0.05 and the t count 0.073 < t table 1.895; therefore, H0 is accepted where liquidity has no significant effect on business growth. The results illustrate that the level of liquidity does not affect business growth. This is because the total current assets are higher than short-term debt; however, the utilization of current assets is not efficient.

E. The Effect of Profitability (Y1) on Business Growth (Y2)

The fifth hypothesis examines the effect of profitability on business growth, where the results show the Sig. value of 0.676 > 0.05 and the t count 0.43 < t table 1.895; therefore, H0 is accepted where profitability has no significant effect on business growth. The results indicate

that profitability has no significant impact, which means that the size of the profitability level is not always followed by an increase or decrease in business growth. In this study, the profitability of KSP Balo'ta shows a good number where the average profitability level is above 30% with fluctuating business due to the growth of its assets which also fluctuates annually. Furthermore, current assets have a more significant level of receivables. However, when the receivables have issues, the uncollectible accounts would impede the company's operations, incur expenses in handling, and impact profitability.

V. CONCLUSIONS ANDSUGGESTIONS

Based on the results and discussion above, several conclusions were drawn. Firstly, debt to Equity Ratio (DER) has a significant effect on profitability at KSP Balo Toraja for 2013 – 2020. Therefore, companies with high levels of debt use will decrease their profitability. Secondly, current Ratio has no significant effect on profitability at KSP Balo'ta, and these results indicate that companies with high CR but the level of profit is not directly proportional to identifying idle funds. Thirdly, debt to Equity Ratio (DER) has no significant effect on business growth in KSP Balo'ta. These results indicate that debt is used to expand by opening branches. This is due to good business growth, which causes the level of trust from external parties to increase. Fourthly, Current Ratio has no significant effect on business growth in KSP Balo'ta. These findings demonstrate that the corporation is often deemed liquid since it can pay its long-term commitments, but this does not necessarily influence its business development. This is due to its total current assets, which are higher than its short-term debt but the inefficient utilization of the current assets. Fifthly, ROA has no significant effect on business growth in KSP Balo'ta; therefore, companies that generate profits will not necessarily expand or invest in assets to increase business growth.

Based on this study, when the DER is high, profitability decreases. Furthermore, the greater the DER, the higher the proportion of total debt (short and long term) relative to total equity, indicating that the company's reliance on external parties (creditors) is increasing. As a result, the company's use of debt should be reasonable since it poses a significant risk.

Companies concerning business growth when going to expand are expected to maximize the use of internal funds only compared to external funds. Also, there are many risks when deciding to use more external funding. Subsequently, when a business generates a high profit, it can satisfy its obligations and decrease its debt. Therefore, maintaining a high net profit year after year helps minimize and suppress debt, since a healthy firm should have less debt by maximizing earnings.

Receivables are components of working capital directly related to the company's operating activities. It occurs when a corporation offers things on credit to improve sales and profits and increases receivables expenses. Hence, companies should check due receivables for consumers to always pay on time. Additionally, they need to pay attention to the collection period of receivables. Subsequently, when the

collecting time lengthens, the firm should pay closer attention.

REFERENCES

[1.]Hendar. 2010. Manajemen Perusahaan Koperasi. Jarata : Erlangga.

[2.]Satmoko, Agung dan Sudarman. 2011.Impact of Personal Taxes on Corporate Dividend Policy and capital Structure Decisions, Finance Management. Financial Management Association. 19 (2), pp. 21-31.

[3.]Weston, J. Fred; Thomas E. Copeland, 1999, Manajemen Keuangan, Edisi Kesembilan, Jilid 2, Jakarta: Binarupa Aksara.

[4.]Brigham dan Houston. 2001. Manajemen Keuangan (Edisi 8). Jakarta: Erlangga.

[5.]Petronila T.A dan Mukhlasin. 2003. Pengaruh Profitabilitas Perusahaan Terhadap Ketepatan Waktu Pelaporan Keuangan dengan Opini Audit Sebagai Moderating Variabel, Jurnal Ekonomi dan Bisnis PP. 17-26 pp. 1-32.

[6.]Kasmir. 2008. Analisis Laporan Keuangan. Jakarta : Rajawali Pers.

[7.]Kasmir. (2012), Analisis Laporan Keuangan. Jakarta : PT. Raja Grafindo Persada.