

The Effect of Profitability, *Operating Leverage*, and Company Size on the Capital Structure of *Property and Real Estate* Companies Listed on the Indonesia Stock Exchange in 2021-2024

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ABSTRACT

This research investigates how profitability, operational leverage, and firm size impact the capital structure of property and real estate companies traded on the IDX over the 2021-2024 period. Employing a quantitative approach and purposive sampling, it selected 27 firms out of 92. Data were analyzed via multiple linear regression using IBM SPSS 26 software. Findings reveal that profitability and firm size significantly influence capital structure, whereas operational leverage shows no notable effect.

INTRODUCTION

Economic expansion serves as a vital measure of a nation's progress. Lately, Indonesia's economy has maintained steady growth amid global and local hurdles, as reflected in Gross Domestic Product (GDP) – the aggregate value of goods and services produced in a specific timeframe. Stable economic growth reflects the success of development and the improvement of the overall well-being of the community. Some of the main sectors that contribute to economic growth include the manufacturing, trade, financial services, and property and real estate sectors.

Along with the development of the Indonesian economy, people's needs for housing and various types of commercial buildings continue to increase. Massive infrastructure development in various regions has helped to boost the growth of the construction sector and strengthen the contribution of the property and real estate sector to the national economy. This sector has a strategic role because it not only meets the basic needs of the community for housing and business space, but also becomes a driver for various other supporting sectors such as the construction industry, banking, and financial services.

According to data from the Central Statistics Agency, Indonesia's GDP grew by 3.70% in 2021 and rose to 5.31% in 2022, driven by post-pandemic economic recovery. Growth remained stable in 2023 and 2024 at 5.05% and 5.03%, respectively. However, the real estate sector showed fluctuating performance during this period. Growth reached 2.78% in 2021, declined to 1.72% in 2022, further slowed to 1.43% in 2023, and then increased again to 2.50% in 2024. This indicates that the sector has not fully recovered compared to others such as transportation, accommodation, and information and communication, which experienced faster growth.

These fluctuations are influenced by both internal and external factors, including economic adjustments during the recovery phase, rising borrowing costs, and increased construction material prices. For instance, Bank Indonesia reported that mortgage interest rates reached approximately 10.2% in 2023, raising financing costs for companies relying on debt. Additionally, construction material prices surged by around 15% in 2022, increasing production costs. These conditions directly affect corporate decisions regarding optimal capital structure.

Capital structure refers to the proportion between equity and debt used to finance company operations. It is a crucial decision, as it determines a firm's ability to fund its activities and manage financial risk. Poor capital structure decisions may increase financial risk and potentially lead to financial distress. Therefore, companies must carefully consider various influencing factors.

This study focuses on profitability, operating leverage, and firm size as key determinants of capital structure. Profitability reflects a company's ability to generate earnings, with more profitable firms typically relying on internal funding sources. Operating leverage indicates the extent of fixed cost usage, which affects risk levels in financing decisions. Meanwhile, firm size, often measured by total assets, reflects a company's scale and its access to external financing.

Previous studies have produced mixed findings regarding the impact of these variables on capital structure. Some indicate a negative relationship between profitability and capital structure, while others report positive or insignificant results. Similarly, findings related to operating leverage and firm size are inconsistent, highlighting a research gap that requires further investigation.

Based on these considerations, examining the determinants of capital structure in property and real estate companies is essential, particularly during the 2021–2024 period, which represents post-pandemic recovery and monetary policy transition. Therefore, this study seeks to analyze the effect of profitability, operating leverage, and firm size on the capital structure of companies listed on the Indonesia Stock Exchange within this timeframe.

THEORETICAL REVIEW

Pecking Order Theory

The Pecking Order Theory originally proposed by Donaldson (1961) and later developed by Myers and Majluf (1984), describes how firms prioritize their financing decisions. Companies generally prefer to rely on internally generated funds before turning to external sources. When internal funds are insufficient, debt is typically chosen, while issuing new equity is considered the least preferred option.

This hierarchy is mainly driven by information asymmetry, where managers possess more detailed knowledge about the company's condition than external parties. As a result, internal financing is viewed as less risky compared to external funding. In terms of capital structure, firms with higher profitability are more likely to depend on retained earnings, which reduces their reliance on debt.

Trade-Off Theory

The Trade-Off Theory, introduced by Modigliani and Miller (1963), explains that companies aim to achieve an optimal balance between the advantages and disadvantages of debt financing. One key benefit of debt is the tax shield, as interest payments can lower taxable income.

However, using debt can also create the risk of financial difficulties. Therefore, firms must carefully balance the benefits of tax savings against the potential risks associated with higher debt levels.

According to this theory, companies with larger asset bases and stronger financial stability are more likely to access external financing. This implies that firm size plays an important role in shaping capital structure decisions.

Profitability

Profitability reflects a company's ability to generate earnings from its operations by efficiently utilizing its resources. It reflects how effectively management uses assets and equity to produce profits.

Commonly used profitability ratios include Return on Assets (ROA), Return on Equity (ROE), and various profit margin ratios. Return on Assets

(ROA) measures a company's ability to generate net profit by using all its assets, while while ROE measures the returns generated for shareholders.

In the context of capital structure, firms with higher profitability levels tend to depend more on internal financing, such as retained earnings. This aligns with the Pecking Order Theory, which prioritizes internal funds over external sources. Therefore, profitability is considered a key factor influencing capital structure decisions.

Operating Leverage

Operating leverage refers to the extent to which a company utilizes fixed costs in its operational structure. Firms with a high degree of operating leverage have a larger proportion of fixed expenses relative to variable costs.

This condition means that small changes in sales can lead to significant fluctuations in operating profit. While it can enhance profit potential during periods of increased sales, it also increases operational risk when sales decline.

In relation to capital structures, companies with high operating leverage tend to be more cautious in using debt because large fixed cost burdens can increase the company's financial risk. Therefore, operating leverage can influence the company's decision in determining the capital structure used.

Company Size

The size of a company describes the size or size of a company which is usually measured by the total assets owned. The size of the company is often used as an indicator of the company's ability to obtain funding sources.

Companies that have a large size usually have easier access to external funding sources than small companies. This is because large companies are considered to have better financial stability and have greater ability to manage risks.

In addition, companies that have a large size also tend to need larger funds to support operational activities and business expansion. Therefore, firm size is considered an important factor in shaping capital structure decisions.

Capital Structure

Capital structure refers to the proportion of internal equity and external debt utilized by a company to finance its operations and investments. It reflects how firms combine different funding sources to support their activities.

Determining the optimal capital structure is very important for companies as it relates to the level of risk and the expected rate of return. The use of debt can provide benefits in the form of tax savings, but it can also increase financial risks if the company is unable to meet its debt payment obligations.

Therefore, companies need to consider various factors such as profitability, operating leverage, and company size in determining the capital structure that best suits the company's conditions. The right capital structure will help the company maintain financial stability as well as improve the company's overall performance.

RESULTS

Statistics Descriptive

Descriptive analysis was conducted to provide a general overview of the research data. The dataset includes property and real estate companies listed on the Indonesia Stock Exchange during the 2021–2024 period, consisting of 27 firms with a total of 108 observations.

The results of descriptive statistics show the variation in values of each research variable, namely profitability, operating leverage, company size, and capital structure. The mean value, maximum value, minimum value, and standard deviation are used to describe the general condition of the research data. The variation in the value of each variable showed that there were differences in financial conditions between companies in the property and real estate sectors during the study period.

Classic Assumption Test

Normality Test

The results indicate that, after data transformation and removal of outliers, the significance value exceeds 0.05. This confirms that the data meet the normality assumption.

Multicollinearity Test

The results show that all tolerance values are above 0.10 and VIF values are below 10, indicating that no multicollinearity problem exists in the model.

Heteroscedasticity Test

The findings reveal that all variables have significance values above 0.05, suggesting that the model does not suffer from heteroscedasticity.

Autocorrelation Test

Based on the Durbin-Watson statistic, the values fall within the acceptable range, indicating that no autocorrelation problem exists.

Analysis of the Regresi Linier Berganda

Multiple linear regression analysis was used to determine the influence of independent variables, namely profitability, operating leverage, and company size on dependent variables, namely capital structure. The regression model used in this study can be formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

where: Y = Modal Structure X₁ = Profitability X₂ = Operating Leverage X₃ = Company Size

The results indicate that profitability and firm size significantly influence capital structure, whereas operating leverage does not show a significant effect.

Uji Hypothesis

T test (Partial)

The t-test is used to evaluate the individual effect of each independent variable.. The findings reveal that:

1. **Profitability affects the capital structure.** This shows that a company's ability to generate profits can influence the company's decision in determining funding sources.

2. **Operating leverage has no effect on the capital structure.** This shows that the level of use of fixed costs in the company's operational activities does not directly affect the company's decision in determining the capital structure.
3. **The size of the company affects the capital structure.** This shows that companies with larger sizes tend to have easier access to external funding sources so that can affect the company's capital structure.

Coefficient of Determination Test (R^2)

The results indicate that profitability, operating leverage, and firm size collectively explain a portion of the variation in capital structure, while the remaining portion is influenced by other factors not included in the model.

FURTHER STUDY

This study investigates the relationship between profitability, operating leverage, firm size, and capital structure in property and real estate companies listed on the Indonesia Stock Exchange from 2021 to 2024. The results show that profitability and firm size have a significant impact, while operating leverage does not.

Despite these findings, several limitations provide directions for future research:

First, the study only includes three independent variables. Future research could incorporate additional variables such as liquidity, business risk, growth opportunities, asset structure, and dividend policy to provide a more comprehensive analysis.

Second, the research is limited to a single sector. Expanding the scope to other industries, such as manufacturing or services, could enhance the generalizability of the findings.

Third, the observation period is relatively short. Extending the time frame or examining different economic conditions could provide deeper insights into capital structure behavior.

Future studies that address these limitations are expected to contribute more comprehensive findings and enrich the literature on corporate financing decisions.

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