

# The Effect of Business Risk, Company Growth and Company Size on Capital Structure and Company Value in Hospitality Companies Listed on The IDX Year 2018 – 2021

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**Abstract.** The purpose of this research is to know 1) the influence of business risk on capital structure, 2) the influence of company growth on capital structure; 3) The influence of company size on capital structure; 4) The influence of business risk on company value; 5) The influence of company growth on firm value; 6) The influence of firm size on firm value; 7) The influence of capital structure on firm value; 8) Influence of business risk on firm value with capital structure as a mediator; 9) The influence of company growth on firm value with the capital structure as a mediator; 10). The influence of firm size on firm value with capital structure as a mediator. The population in this study are all hotel companies listed on the Indonesia Stock Exchange in 2018-2021, totaling 30 companies. The sampling technique used by researchers in this study is purposive sampling. The technique used to collect data in this study is documentation. The data analysis method of this research is descriptive statistics and partial least square analysis.

**Keywords:** Business Risk, Company Growth, Company Size, Capital Structure, Company Value

## 1. Introduction

The main objective of forming a company is basically its business continuity (going concern). Another goal is to increase the wealth of shareholders by increasing the value of the company [1]. Corporate value is a certain condition for a company to achieve and reflect public trust in the company. The company value is considered crucial because it reflects the company's performance and can influence investors' perceptions of the company [2].

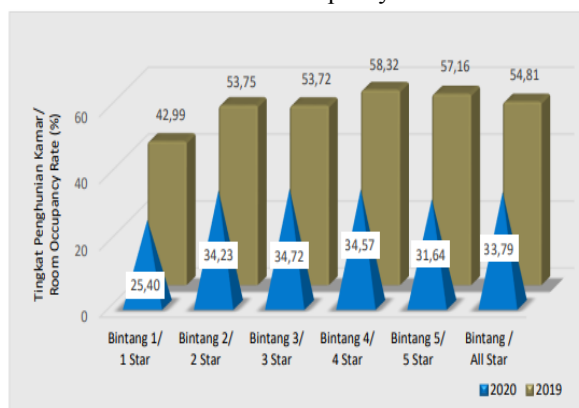
The value of a company is considered a valuable asset that will be paid by investors if the company is sold. One of the determinants of company value is capital structure. The capital structure is a balance of permanent short-term debt, long-term debt, preferred stock and common stock [3]. A special capital structure is designed to analyze the impact of using debt on the value and cost of the company's capital. Every company faces risks that come with doing business. Business risk is related to the type of business chosen and the economic conditions faced [4]. Companies with high business risk arise because they are in a lot of debt. Business risk arises when a company does not have sufficient funds to finance its business operations (labor wages, advances for purchase of raw materials, electricity bills). This is due to the uncertainty of returns or cash inflows from the products produced [5]. In general, fast-growing companies have achieved positive results in an era of fierce competition, consolidating their positions, increasing sales volumes and increasing market share.

Fast-growing companies also enjoy the benefits of a positive image, but companies must be extra careful because success can make the company vulnerable to negative rumors [6].

Large company size indicates that the company is growing, investors respond positively, and the company's value increases. Relative market share indicates that the company is more competitive than its main competitors [7]. Investors will respond positively thereby increasing the value of the company. Large companies have more control over market conditions, so they are able to face economic competition, which makes them less vulnerable to economic fluctuations [8]. This study will be conducted in the hotel industry to examine the determinants of corporate value of a hotel company [9]. Even though the hotel industry's performance is currently starting to show positive changes amid the economic recovery, the hotel industry is the industry that has been most affected by the pandemic in Indonesia. The following is data on hotels affected by the outbreak in Indonesia

Due to poor occupancy rates and a decline in the number of attendees at hotel-hosted meetings, many hotels had to be liquidated. The Covid-19 epidemic has prompted 1,642 hotels in Indonesia to close, according to the Indonesian Hotel and Restaurant Association. According to the president of the Indonesian Hotel and Restaurant Association (PHRI), out of the 1,642 hotels, 304 were shuttered in West Java, 170 in Bali, 98 in Yogyakarta, and 90 in Jakarta. The tourism sector runs the risk of losing tens of trillions of dollars in income if these hotels close. While there could be Rp. 30 trillion worth of possible revenue from foreign visitors staying in hotels, there could be Rp. 60 trillion worth of potential losses from international tourism.

An indicator that can be used to track the evolution of the financial performance of lodging/hotel providers over time is the room occupancy rate (TPK). The TPK for star hotels in all of Indonesia reached 33.79 percent during the 2020 pandemic. This indicates that, on average, 33.79 percent of the rooms available in all-star hotels in Indonesia will be occupied each night in 2020. When compared to 2019, this number is 21.02 points lower (54.81 percent). These statistics show how the room occupancy rate will decline in 2020.



**Figure 1.** Data on Declining Room Occupancy Rate (TPK) Due to the Pandemic

Compared to the previous year (2019), there was a decrease in TPK (Tourism Accommodation Capacity) across all hotel classes. The 3-star hotel class experienced the highest Rate of Return (ROR) at 34.72%, while the 1-star hotel class had the lowest ROR at 25.40%. Some hotels have witnessed a decline in their company value due to deteriorating performance, which is reflected in the share prices in the capital market. Out of the 15 hotel stocks observed, only four stocks showed positive performance, while three stocks were

considered inactive and five stocks were in the negative zone. The following data presents the

	Emiten	Kode Saham	Harga Terakhir (Rp)	% Sebulan	% Year to Date
1	Hotel Filtra International	FITT	128	36.17	50.59
2	Sunter Lakeside Hotel	SNLK*	765	64.16	-
3	Eastparc Hotel	EAST	70	10.26	16.67
4	Surya Permata Andalain	NATO	595	6.25	1.71
5	Hotel Sahid Jaya International	SHID	2,480	4.64	-4.62
6	Menteng Heritage Realty	HRME	54	-14.29	3.85
7	Mas Murni Indonesia	MAMI	50	0.00	0.00
8	Red Planet Indonesia	PSKT	50	0.00	0.00
9	Saraswati Griya Lestari	HOTL	50	0.00	0.00
10	Hotel Mandarine Regency	HOME	50	0.00	0.00
11	Jakarta International Hotel & Dev.	JIHD	438	-1.79	-1.79
12	Dafam Property Indonesia	DFAM	154	-10.98	-25.24
13	Citra Putra Realty	CLAY	805	-8.00	-39.70
14	Pudjiadi And Sons	PNSE	454	-28.50	-57.57
15	Planet Properindo Jaya	PLAN	30	-11.76	-70.00

decline in hotel stock prices in 2021.

**Figure 2.** Data on Decreasing Hospitality Share Prices in 2021

Company value is described as market value because company value can provide maximum shareholder prosperity if the company's stock price increases [10]. The fundamental performance of hotel management issuers has been hit hard due to the pandemic which has caused a decline in the value of the company's shares. One of them is Hotel Sahid Jaya Internasional's shares, which experienced a price drop of up to 4.62%. Jakarta International Hotels also decreased by 1.79%, Dafam property Indonesia decreased by 25.24%; Citra Putra Realty decreased by 39.70%; Pudjiadi and Sons experienced a decline in share price of up to 57.57% and the worst was Planet Properindo Jaya which experienced a decline of up to 70%.

Based on the explanation of the background of the problems above, it is interesting to conduct further research regarding the determinants of company value with the title "The Influence of Business Risk, Company Growth and Company Size on Capital Structure and Company Value in Hospitality Companies Listed on the IDX in 2018-2021".

## 2. Method

The study will look at the cause-and-effect link between the independent variable and the dependent variable, making it a causality study, or one that is constructed to look at the possibility of a causal relationship between variables. The population of this study consists of 30 hotels that were all listed on the Indonesia Stock Exchange between 2018 and 2021. Purposive sampling was the method of sampling employed by the researchers in this study.

## 3. Result and Discussion

Descriptive statistics is a statistical approach used to summarize and describe collected data without making general conclusions or generalizations. It includes techniques such as calculating the sample mean, maximum and minimum values, and standard deviation.

Partial Least Squares (PLS) is a variant-based Structural Equation Modeling (SEM) model that differs from the traditional covariance-based SEM approach. While covariance-based SEM focuses on testing causality and theory, PLS is primarily used as a predictive model.

The inner model, also known as the structural model, describes the relationships between latent variables based on substantive theory. The evaluation of the structural model involves assessing the R-square test for the dependent construct, the Stone-Geisser Q-square test for predictive relevance, t-tests, and the significance of the structural path parameter coefficients. The R-square value for each dependent latent variable is important in evaluating the PLS model, indicating the extent of the impact of a set of independent latent variables on the dependent latent variable. The Q-square value is also considered for assessing the predictive relevance of the model, measuring the agreement between parameter estimations and observed values. The structural model testing, which examines the R-square value, is a goodness-of-fit model test. It involves analyzing the connection between latent variables based on an equation model.

$$\eta = \beta_0 + \beta\eta + \Gamma\xi + \zeta$$

$$\eta = \sum_i \beta_{ji}\eta_i + \sum_i \gamma_{jb}\xi_b + \zeta_j$$

$\eta$  = menggambarkan vektor endogen ( dependen ) variabel laten

$\xi$  = vektor variabel laten eksogen ( independen )

$\zeta$  = vektor variabel residual ( *unexplained variance* )

To test the proposed hypothesis, a test is carried out on the influence of the latent variables. The results can be known by assessing the output of data processing with PLS on the result for inner weight. The statistical T limit for rejecting and accepting the proposed hypothesis is 1.96 (t table significance 5% = 1.96).

The Measurement Model, also known as the Outer Model, evaluates the convergent validity of the measurement model using the indicator reflective model. This assessment is based on the correlation between the item score or component score and the construct score calculated by PLS. In the reflective measure, a high level of validity is indicated when it correlates above 0.70 with the intended construct. However, in research that is in the early stages of developing a measurement scale, a loading value between 0.5 and 0.60 is considered acceptable or sufficient.

#### 4. Conclusion

Business development continues to grow, resulting in an increasingly competitive business world and poses an existential threat to companies, especially manufacturing companies. Companies are required to increase product excellence through various methods and strategies, thereby increasing competitiveness and productivity. The main objective of establishing a company is basically the continuity of its business (going concern). Another goal is to increase the prosperity of shareholders by increasing the value of the company. Firm value is a certain condition that is achieved by the company as a reflection of public trust in the company, company value is considered crucial, because it reflects the company's performance and can influence investors' perceptions of the company. The higher the value of the company, the greater the benefits for share holders and the success of the company. The company's goal is to prosper share holders in order to attract investors to continue investing their shares in the company. The value of a company becomes seen as a valuable asset that

will be paid by investors when the company is sold. One of the determinants of company value is business risk, company growth and company size on the capital structure and company value.

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