



## The Influences of Asset Structure and Asset Growth Toward Capital Structure

**Hanifa Nur Fadhillia**  
Universitas Islam Indonesia  
Email: [hanifa.fadhillia@uii.ac.id](mailto:hanifa.fadhillia@uii.ac.id)

---

### ABSTRACT

*This research aims to look at how asset structure and asset growth affect capital structure. The factors that influence the capital structure of real estate and real estate companies are investigated in this study. From 2018 to 2020, he used a sample of 21 companies in sectors listed on the Indonesian Stock Exchange (IDX) for this study. The hypothesis is tested using two models that support factors influencing structure of a capital. According to the findings of this study, one of the two independent variables of asset structure has a positive impact on capital structure. The structural asset hypothesis has gained acceptance. However, another independent variable, asset growth, does not affect capital structure. As a result, the hypothesis is rejected. The t-test statistic produced this outcome.*

---

**Keywords:** Asset structure, Asset growth, Capital structure, Real estate and property companies.

---

Received: 18 February 2023 ;  
Accepted: 4 April 2023 ;  
Published: June 2023.

---

How to Cite:

Fadhillia, H.N. (2023). The Influences of Asset Structure and Asset Growth Toward Capital Structure. *Journal of Business and Behavioural Entrepreneurship*, 7(1), 23-32. <https://doi.org/10.21009/JOBBE.007.1.02>

---

## **INTRODUCTION**

Capital structure is one of the fundamental elements of running a business. Based on Myers' (1984) balance theory, firms are based on determining their optimal capital structure. One of the concerns when managing capital is the scale at which a company can operate and grow its business. The structure of a company's capital is influenced by effective financial management. This boosts operational efficiency. A company's capital structure and value are inextricably linked, as the optimal capital structure generates the most value for the company. A company's funding decisions determine its ability to operate. Businesses also need to pay attention to tax issues. Some experts argued that using excess capital reduces profitability. By using an optimal capital structure, firms can use debt to cover bankruptcy costs and achieve tax savings (Myers, 1984). The use of receivables provides tax incentives and can reduce taxes. So, companies that finance with debt have cheaper taxes compared to equity.

The wrong decision in determining the capital structure of a company can cause financial distress and even bankruptcy. This will happen if the company does not determine the capital structure properly. In addition, if the company pays little attention to making funding decisions, it will incur fixed costs and provide low profitability for the company. The goal of an optimal capital structure is the managers must achieve the lowest minimum cost of capital that must be achieved by the company to remain stable or even increase the value of the company through investment. If so, the company can maximize shareholder wealth. As a result, shareholders will be happier in obtaining more wealth with an optimal capital structure.

Financing issues affect all kinds of businesses. This has become even more important since the financial crisis of 1997, as many companies faced financial difficulties and bankruptcies. There are many problems with non-performing loans, such as the fact that banks have no upper limit on lending and the feasibility of loan approval. Modigliani and Miller's theory of capital structure determination is the most contentious (1958). They promoted the capital structure irrelevance theory. According to the assumptions, there are no taxes, transaction costs, bankruptcy costs, or asymmetric information.

Modigliani and Miller's (1958) theory states that firm value cannot be increased by changes in capital structure. Thus, there is no relationship with the portion of debt financing and equity financing. Financial leverage increases the expected rate of return for shareholders. This would also result in their share risk increasing proportionately. They argue that there is no balance in extra return and extra risk. Also, it does not affect shareholders to be richer or poorer. In addition, according to Brealey et al (2008) sometimes financial managers consider debt as cheap funding because debt transaction costs are explicitly lower than equity transaction costs. However, a higher cost of debt implicitly results in more financial risk and a higher cost of equity. If we consider both, actually the cost of debt is more expensive than the cost of equity.

Many theories have also been developed by researchers who followed Miller and Modigliani. Theory of trade-off, agency theory, pecking order theory, signaling theory, and asymmetric theory are among the various theories. According to Joni and Lina (2010), there are several determinants that influence capital structure. These determinants are asset structure and asset growth. First, the asset structure is a real asset that provides more effective guarantees to creditors in terms of borrowers tending to fixed assets and

total assets of the company. Second, the growth of a company is measured by the growth rate of total assets. Growth opportunities are also influential in determining the capital structure of a company. After financial crisis in 1997, one of the industries facing big effect is real estate and property industry because at that time there were many property companies funded debt of banking institutions. On the other hand, banking institutions also face liquidity crisis. This industry decreases due to many big entrepreneurs borrowed debt from foreign country using the US dollar. Then, financial problems mounted. Decision in defining capital structure will influence value of company. It is reflected on stock price. The shareholder does not want loss in investment competition. It is one of the industries that promise more profit. Hence, many people want to invest in this industry.

Previous research by Mayangsari (2001), Saidi (2004), Susetyo (2006), Joni and Lina (2010), and Indrajaya et al. (2011) indicates structure of an asset has a significant positive impact on capital structure. Furthermore, Saidi (2004) and Joni and Lina (2010) have conducted several studies demonstrating that asset leverage significantly affects growth. On the other hand, previous research by Fadhlil (2010) and Nugraha (2012) shows that asset growth has no effect on capital structure. Mayangsari (2001), Susetyo (2006), Hasan (2011), Indrajaya et al. (2011), and Furi and Saifudin (2012) all argue that size of a firm has a positive effect on capital structure. On the other hand, Joni and Lina (2010) demonstrated that size of a firm has nothing to do with the capital structure.

## **LITERATURE REVIEW**

### **Theory of Modigliani and Miller**

Many studies describe the relationship between organizational behavior decisions and capital structure to determine the most optimal capital structure. According to Musyafikin (2005), capital structure is a mixture of the proportion of external funds, namely long-term debt, and equity. The purpose of capital structure management is to combine long-term debt used by companies to maximize the company's stock price. In 1958, the modern capital structure theory started by Franco Modigliani and Merton H. Miller (MM) stated that the debt ratio is irrelevant and there is no optimal capital structure. The value of the company depends on the cash flow generated by the company and not on the ratio of debt and equity. The essence of this theory is that the debt ratio is not optimal, and the debt ratio does not describe the value of a company. However, this theory is considered less relevant because the reduction of income tax on the use of debt, market conditions with asymmetric information, and transaction costs in the capital market are not included in this theory. The positive side of debt is that it reduces the agency cost of equity. In addition, the use of debt will make the managers of a company more disciplined in using the company's assets properly. The reason is because supervision by creditors is generally much tighter and more effective than supervision by outside shareholders of the company with relatively limited information (Hartono, 2004).

### **Trade-off theory**

The trade-off theory reveals that each company can determine the optimal target debt ratio or leverage. The optimal debt ratio is determined based on the balance between profits and bankruptcy costs due to a company's debt. A company in principle requires new equity funding if the company's debt ratio is above the target. Conversely, a company

needs debt when its debt ratio is below the target. If all funding of a company uses debt or even without debt, the company will not achieve optimal value. Indrawati and Suhendro (2006) state that one way to increase firm value is to regulate the composition of capital and the decisions of financial managers in determining funding sources that will affect a company's stock price.

Siregar (2005) states that debt causes companies to gain tax advantages, while bankruptcy costs are administrative costs, legal fees, agency costs, and monitoring costs in anticipation of a company's bankruptcy. While the optimum value is the value that shows the tax advantage for each additional amount of debt equal to the increase in bankruptcy costs. However, the weakness of the trade-off theory is that it does not pay attention to asymmetric information and the high cost of substitution in the form of debt to equity and vice versa. The trade-off theory assumes that investors and management have the same information. This is unacceptable because it is difficult for investors to obtain the same information as management. Thus, hampering the company's ability to raise funds by relying on the issuance of new shares. In addition to asymmetric information, taxes, and transaction costs of substitution from debt to equity and vice versa also have an impact on the behavior of managers in deciding the capital structure. An increase in new shares leads to an increase in dividend payments by the company. Then, it leads to personal income tax costs and corporate commission fees.

### **Pecking Order Theory**

According to Myers and Majluf (1984), the Pecking Order Theory (POT) states that funding decisions have a hierarchy. A company will tend to use internal funding sources such as retained earnings and depreciation in advance compared to external funding sources. When the company does not have sufficient internal funds, external funding will be selected as an alternative. Siregar (2005) states that whenever external funding is required by companies, companies tend to use debt rather than equity. Mayangsari (2001) applies several assumptions in this theory: First, companies tend to take internal funding, namely retained earnings and depreciation, so the last alternative is external funding such as debt and shares. Second, companies should apply external funding, starting from the safest to the riskiest. For example, the sequence starts from debt, convertible bonds, preferred stock, and finally common stock. Third, a strict dividend policy in which management will determine the amount of dividend payments, a constant target dividend payout ratio (DPR), and a fixed amount of dividend payments within a certain period regardless of the company's profits or losses. Finally, the company will take a good investment portfolio that is available if it experiences a shortage or excess of cash flows caused by dividend policies and fluctuations in returns and investment opportunities. and the amount of dividend payments is fixed in certain periods regardless of the profit or loss of a company. Finally, the company will take a good investment portfolio that is available if it experiences a shortage or excess of cash flows caused by dividend policies and fluctuations in returns and investment opportunities. and the amount of dividend payments is fixed in certain periods regardless of the profit or loss of a company. Finally, the company will take a good investment portfolio that is available if it experiences a shortage or excess of cash flows caused by dividend policies and fluctuations in returns and investment opportunities.

Siregar (2005) suggests four reasons for POT in forecasting companies that prioritize debt over their own equity when external funding is needed. First, the market suffers losses due to asymmetric information between managers and the market. Management tends to issue new shares when the price is too high. Thus, it leads to a depreciation of the share price. Second, debt and stock incur transaction costs for the company. However, the transaction costs of debt are lower than those of stocks. Third, companies gain tax advantages by issuing debentures. This advantage is obtained because the company has interest expenses that can be taken as a deduction from taxable income. Finally, management control.

### **Agency Theory**

Mayangsari (2001) states that agency costs are costs related to management oversight to ensure that management acts consistently in accordance with the company's contractual agreements with creditors and shareholders. According to Wahidahwati (2002), company management is the agent of shareholders as the owner of the company (principal). Shareholders expect their agents to act on their behalf, so they accredit their authority to their agents. Agency costs are costs incurred for supervision carried out by management. Management oversight can be carried out by auditing financial statements and limiting management decision making. There are three ways to minimize agency costs: management increases shareholding. With external funding such as debt, shareholders hope that the costs incurred to supervise management can be reduced. This is because the creditor as a party that provides loans to the management of a company will monitor it so that it can be trusted that a company is able to pay its obligations. We can conclude that debt is able to reduce agency costs.

### **Signal Theory**

Signaling theory is a theory in which there is imperfect and asymmetric information among various corporate partners. There is a conflict of interest between the reasonably knowledgeable manager and other partners. The way to anticipate this is that managers must provide effective signals. According to Leland and Pyle (1977), firm value is positively related to managerial ownership. The higher the managerial ownership of a company, the greater the debt capacity of a company. Ross (1977) argues that managers determine the actual distribution of company returns, but shareholders do not know for sure. Managers can use higher financial leverage in the future. Higher leverage in the capital structure means a good signal of manager optimism.

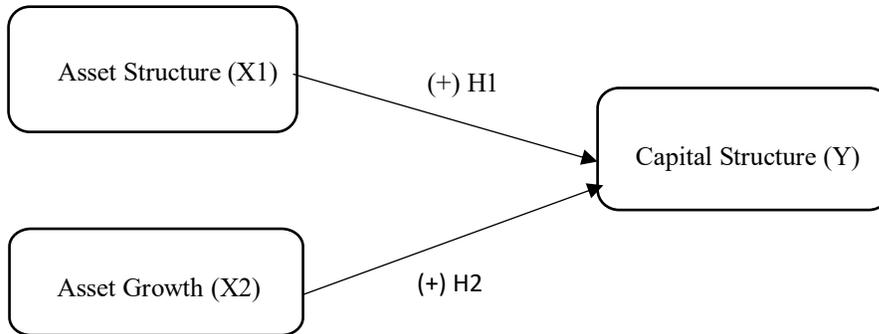
## **RESEARCH METHOD**

This study was completed using multiple regression versions of SPSS. From 2018 to 2020, the observe populace became real estate and real estate groups indexed on the Indonesian Stock Exchange (IDX). Selected random sampling is completed via way of means of focused random sampling. The pattern carries 21 groups. Data sources are secondary facts from economic reports. Some standards for taking samples are:

$$CS = \alpha + \beta_1 AST + \beta_2 AG + \beta_3 SIZE + \varepsilon$$

Where:

- CS : Capital structure
- $\alpha$  : Constant coefficient
- $\beta_1, \beta_2$  : Regression coefficient of each independent variable
- AST : Asset structure
- AG : Asset growth
- SIZE : Size of company (control variable)
- $\varepsilon$  : Standard error



**Figure 1. Research Model**

Source: Author's Tabulation (2021)

- Ho1: Asset structure has no effect on capital structure.
- Ha1: Asset structure influences capital structure positively.
- Ho2: The capital structure is unaffected by asset growth.
- Ha2: Asset growth influences capital structure positively.

## RESULTS AND DISCUSSION

### Classical Assumption Tests

**Table 1**  
**Multicollinearity Test**

Variable	Coefficient Regression (B)	VIF	Information
AST	0.968	1.033	No multicollinearity
AG	0.985	1.015	No multicollinearity
SIZE	0.978	1.022	No multicollinearity

Source: Author's Tabulation (2021)

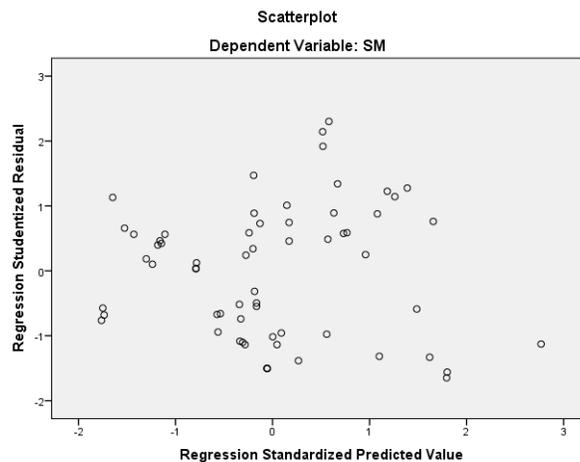
According to table 1 the VIF values for all independent variables, especially asset structure, asset growth, and company size are below 10. Thus, the regression model proposed in this study has no multicollinearity.

**Table 2**  
**Auto-correlation Test**

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate	Durbin Watson
1	386	149	106	117486	1.799

- a. Predictors (Constant), AST, AS, SIZE  
 b. Dependent Variable: CS  
 Source: Author's Tabulation (2021)

In this study, the writer obtained a Durbin-Watson score of 1,799. For the dL value from the Durbin-Watson table ( $\alpha = 0.05$ ;  $k = 3$ ;  $n = 63$ ) = 1.4943 and the du value from the Durbin-Watson table ( $\alpha = 0.05$ ;  $k = 3$ ;  $n = 63$ ) = 1.6932. This suggests that the Durbin-Watson values are  $du = 1.6932$  and  $4-du = 2.3068$ . Thus, there is no auto-correlation.



**Figure 2. Heteroscedasticity Test**

According to the graph above, the points are scattered randomly above and below 0 on the Y axis. Thus, there is no heteroscedasticity.

**Table 3**  
**Hypothesis Testing Result**

Variable	Coefficient Regression (B)	T	Significance	Information
(Constant)	-0.284	-1.531	0.131	
AST	0.452	2.517	0.015	Significant
AG	-0.01	-0.112	0.911	Not Significant

SIZE	0.015	2.322	0.024	Significant
------	-------	-------	-------	-------------

Source: Author's Tabulation (2021)

Multiple linear regression results on factors influencing real estate capital structure and real estate companies listed on the Indonesian Stock Exchange (IDX):

$$CS = -0.284 + 0.452 \text{ AST} - 0.01 \text{ AG} + 0.015 \text{ SIZE} + \varepsilon$$

In this study, the authors used the t-test. A t-test is used to prove the second hypothesis. In this test, the author used her confidence level of 0.1. The asset structure has a t-score of 2.517 with a significant value of 0.015. Therefore, the significance value is less than 0.1 ( $0.015 < 0.1$ ). This means either asset or capital structure have a significant impact. The asset structure regression coefficient is 0.452. As a result, Ha1 recognizes the positive impact of asset structure on the structure of a capital of both real estate and its companies listed on the Indonesian Stock Exchange from 2018 to 2020. This study's findings support former research by Joni and Lina (2010), Indrajaya et al. (2011), Hardiningsih and Oktaviani (2012), and Finky et al. (2013), who discovered that the effect of an asset structure to the capital structure has a positive impact. The greater the proportion of fixed assets owned by the company, the greater the proportion of liabilities, and vice versa. Companies with a higher proportion of fixed assets have more collateral and are thus more likely to borrow.

The t-value for asset growth is -0.112 with a significant value of 0.911. Therefore, the significance value is greater than 0.1. This means that the influence of both asset growth and capital structure is insignificant. As a result, Ho2 acknowledges that asset growth does not impact the capital structure of real estate and companies of real estate listed on the Indonesia Stock Exchange in 2018-2020. The findings of this study agree with those of previous studies, namely Fadhli (2010) and Nugraha (2012). Asset growth reflects changes in the company's total assets and may be an indicator of the company's future development opportunities. The results of this study imply that changes in a firm's assets do not affect management when it comes to funding decisions to meet the firm's funding needs. The small effect of asset growth on capital structure can be explained by a 4% average asset growth and a 16.7% standard deviation of asset growth. As a result, companies do not have enough assets to guarantee if their liabilities are increased. As a result, increasing assets has nothing to do with the capital structure.

The t-value for size is 2.322, and the significance level is 0.024. As a result, these variables have a significant impact. With a regression coefficient of 0.015, size positively correlates to the capital structure. Such a context has a direct relationship between company size and the capital structure. The bigger the company, the bigger the leverage and vice versa. So, these variables clearly have a positive effect. There are several empirical studies published by Fadhli (2010), Hasan (2011), Indrajaya et al. has been published. (2011) and Furi and Saifudin (2012) argue that the firm size positively affects capital structure. Large corporations have more debt than small corporations. Large corporations require a lot of money to run their businesses. Borrowed funds can also be used as borrowed capital if the capital itself is insufficient.

## CONCLUSION

According to the study's findings, asset structure significantly positively impacted the capital structure of real estate and real estate companies listed on the Indonesian Stock Exchange during the study period. The greater proportion of the fixed assets owned, the greater the proportion of liabilities, and vice versa. This is since it provides more guarantees. During the study period, asset growth did not affect the capital structure of real estate and real estate companies at the Indonesia Stock Exchange. As a result, companies do not have enough assets to guarantee if their liabilities are increased.

## REFERENCES

- Brealey, R., Myers, S., & Marcus, A. (2008). *Fundamentals of corporate finance* (6th ed). New York: McGraw-Hill.
- Fadhli, A, W. (2010). *Faktor-faktor yang mempengaruhi struktur modal pada perusahaan manufaktur go public di BEI tahun 2005-2007*. (Skripsi). Retrieved from [http://eprints.undip.ac.id/24463/1/File\\_Skripsi\\_Full\\_Text\\_.pdf](http://eprints.undip.ac.id/24463/1/File_Skripsi_Full_Text_.pdf)
- Finky, U, V., Wijaya, L, I., & Ernawati, E. (2013). Faktor-faktor yang mempengaruhi struktur modal pada industri property dan real estate yang terdaftar di BEI periode 2008-2011. *Jurnal Ilmiah Mahasiswa Universitas Surabaya*, 2(2), 1-13.
- Furi, V, R., & Saifudin. (2012). Faktor-faktor yang mempengaruhi struktur modal (studi empiris pada perusahaan manufaktur yang terdaftar di BEI tahun 2009-2010). *Jurnal Akuntansi*, 1(2), 49-62.
- Hardiningsih, P., & Oktaviani, R.M. (2012). Determinan kebijakan hutang dalam agency theory and pecking order theory. *Dinamika Akuntansi, Keuangan, dan Perbankan*, 1(1), 11-24.
- Hartono. (2004). Pengaruh profitabilitas, kesempatan investasi, dan defisit arus kas terhadap kebijakan pendanaan perusahaan: studi kasus pada perusahaan manufaktur yang tercatat di BEJ. *Perspektif*, 9(2), 171-180.
- Hasan, S. (2011). Faktor-faktor yang mempengaruhi struktur modal pada perusahaan public sektor manufaktur. *Jurnal Bisnis dan Akuntansi*, 13(1), 39-56.
- Indrajaya, G., Herlina., & Setiadi, R. (2011). Pengaruh struktur aktiva, ukuran perusahaan, tingkat pertumbuhan, profitabilitas, dan risiko bisnis terhadap struktur modal: studi empiris pada perusahaan sektor pertambangan yang listing di BEI.
- Indrawati, T., & Suhendro. (2006). Determinasi capital structure pada perusahaan manufaktur di BEJ periode 2000-2004. *Jurnal Akuntansi & Keuangan Indonesia*, 3(1), 77-105
- Joni., & Lina. (2010). Faktor-faktor yang mempengaruhi struktur modal. *Jurnal Bisnis dan Akuntansi*, (4)2, 86-87.
- Leland, H. E., & Pyle, D. L. (1977). Informational asymmetries, financial structure, and financial intermediation. *Journal of Finance*, 32(2), 371-387.
- Mayangsari, S. (2001). Analisis faktor-faktor yang mempengaruhi keputusan pendanaan perusahaan: pengujian pecking order theory hypothesis. *Media Riset Akuntansi, Auditing, dan Informasi*, 1(3), 1-26.
- Modigliani, F., & Miller, M, H. (1958). The cost of capital, corporation finance and the theory of investment. *American Economics Review*, 48(3), 261-297.

- Musyafikin. (2005). Analisis pengaruh profitabilitas, leverage operasi, tingkat pertumbuhan, dan struktur aktiva terhadap struktur modal perusahaan industri properti yang go public di BES. *Jurnal Ekonomi, Bisnis, & Sosial*, 6(1), 42-61.
- Myers, S.C. (1984). The capital structure puzzle. *Journal of Finance*, 39(3), 575-592.
- Nugraha, P. (2012). Pengaruh karakteristik perusahaan terhadap struktur modal (studi perusahaan manufaktur (food & beverage) di BEI periode tahun 2009-2011. *Jurnal Universitas Maritim Raja Ali Haji*. Retrieved from February 8, 2014, from <http://jurnal.umrah.ac.id/?p=1260>.
- Prabansari, Y., & Kusuma, H. (2005). Faktor-faktor yang mempengaruhi struktur modal perusahaan manufaktur go public di BEJ. *Sinergi:Kajian Bisnis dan Manajemen*,1(3), 1-15.
- Ross, S. A. (1977). The determination of financial structure: the incentive-signaling approach. *Bell Journal of Economics*, 8(1), 23-40.
- Saidi. (2004). Faktor-faktor yang mempengaruhi struktur modal pada industri manufaktur go public di BEJ tahun 1997-2002. *Jurnal Bisnis dan Ekonomi*, 11(1), 44-58.
- Siregar, B. (2005). Hubungan antara dividen, leverage keuangan, dan investasi. *Jurnal Akuntansi dan Manajemen*, 16(3), 219-230.
- Susetyo, A. (2006). *Faktor-faktor yang mempengaruhi struktur modal pada perusahaan manufaktur yang go public di BEJ periode 2000-2003*. (Skripsi). Universitas Islam Indonesia, Yogyakarta.
- Wahidahwati. (2002). Pengaruh kepemilikan manajerial dan kepemilikan institusional pada kebijakan hutang perusahaan: sebuah perspektif teori agensi. *Jurnal Riset Akuntansi Indonesia*, 5(1), 1-16.