The Effect of Sales Growth and Profitability on the Capital Structure of PT Unilever Indonesia TBK, 2010-2021

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Abstract: In this study, we to determine the effect of sales growth (X1) and profitability calculated by Return on Equity / ROE (X2) on capital structure calculated by Debt to Equity Ratio / DER (Y). Multiple linear regression analysis was carried out after processing data on sales growth, ROE, and DER which were sourced from the quarterly financial reports of PT Unilever Indonesia Tbk for 2010 – 2021. The t-test results show that while probability has a positive influence and is important to the capital structure, variable sales growth has a negative and minor impact on it. However, the findings of the coefficient of determination test demonstrate that sales growth and profitability account for 79.1% of the capital structure variable, with an adjusted R square value of 79.1. Other factors not included in this research model account for the remaining 20.1%.

*Keywords: Sales Growth, Profitability, Capital Structure*

I. INTRODUCTION

Competition in today's business world does not only refer to competition between companies with the same consumers or companies with similar products. Competition among businesses is also demonstrated by how they optimise their own worth and work to accomplish their major objectives. Companies are currently doing various ways to develop their companies, such as expanding markets, improving the quality of human resources, conducting research on new product development, and so on.

It is impossible to separate the company's development process from funding. A business may receive capital from both internal and external sources. Internal funding is money that the business raises on its own, such as through profits, reserves, or retained earnings. Meanwhile, external funds are funds obtained from shareholders and foreign spending, for example, funds from banks[1].The decision to choose a source of funding or the composition of the selection of funding is referred to as the capital structure [2]. The capital structure is influenced by a number of variables, including the asset mix, pace of sales expansion, and profitability [3].

PT Unilever Indonesia Tbk is one of the companies in the largest *Fast Moving Consumer Goods category* in Indonesia which has been operating since 1933. PT Unilever Indonesia Tbk has been a listed company selling its shares through the Indonesia Stock Exchange since 1982. according to the financial statements of PT Unilever Indonesia Tbk from 2003 to 2021 it was discovered that PT Unilever Indonesia Tbk only made loans from banks in 2010 in the form of short-term loans. Because debt is a major component of the capital structure of the majority of Indonesian companies, there aren't many that don't have loans [4].

Comparison of the total number of sales in the current year with the total number of sales in the prior year is known as "sales growth" [5]. Previous studies have shown that the sales growth variable significantly improves capital structure. This research was carried out [8]. Research done [10] produced different findings, contradicting the claim that capital structure was unaffected by sales growth.
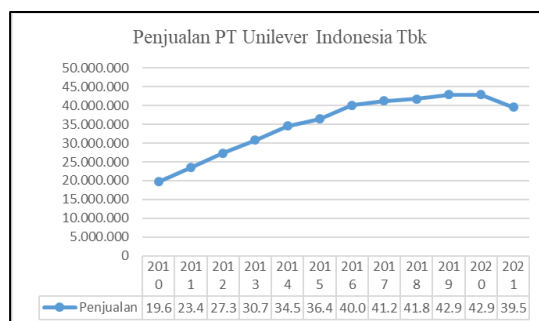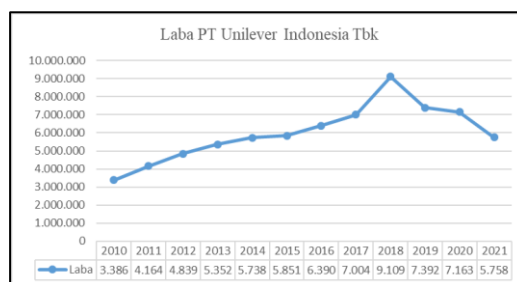
Figure 1. Sales of PT UNILEVER INDONESIA TBK, 2010-2021

Source: Secondary data processed from the quarterly financial reports of PT Unilever Indonesia Tbk 2010-2021 (2022)

The increase in sales occurred quite significantly from 2010-2016. Then from 2016-2020, sales experienced a non-significant increase.

According to the Pecking Order Theory, businesses are more likely to employ internal funding sources than external ones. Sales growth makes the company an internal source of funding that comes from retained earnings. There is an impact from sales growth on a business's capital structure because if the company employs retained earnings as a source of funding, it will result in a reduction in the usage of debt [18].

Figure 2: Profit of PT UNILEVER INDONESIA TBK, 2010-2021

Source: Secondary data processed from the quarterly financial reports of PT Unilever Indonesia Tbk 2010-2021 (2022)

The capital structure of a corporation is impacted by its level of profitability. Businesses that are profitable will offer investors the impression that they can meet their financial responsibilities. Companies will find it simpler to borrow foreign capital in the form of loans to support their operations if they are more profitable [13]. The trade-off argument suggests that growing debt results in tax savings. High-profitability businesses will attempt to lower their taxes by putting more debt on the books. Therefore, profitability affects the company's capital structure.

Research conducted by [17] states that Profitability (ROE) has a significant effect on the higher capital structure. The same thing was also obtained from the research results [20], where the capital structure is significantly impacted by profitability (return on equity). [22] stated different findings, specifically that profitability significantly harmed the capital structure. [13], claims that capital structure is harmed by profitability.

This background makes it clear that the goal of this study is to determine " **The Effect of Sales Growth and Profitability on the Capital Structure of PT Unilever Indonesia Tbk in 2010-2021** "

Formulation of the problem

The problem in this research can be formulated as follows:
   a. How does an increased sale impact the capital structure of PT Unilever Indonesia Tbk?
   b. How does profitability affect the capital structure of PT Unilever Indonesia Tbk?
   c. Which variable has the dominant influence between sales increase and profitability on the capital structure of PT Unilever Indonesia Tbk.

II. MATERIALS AND METHODS

The relationship between one variable and another in a study is reflected in the theoretical framework. [8] says, "The theoretical framework is a container that explains the variables or subject matter contained in the research.". The theoretical framework is presented in the form of a chart or schematic that describes the type and number of problem formulations that need to be answered in a study. The theoretical framework in this study is shown in Figure 3 as follows:
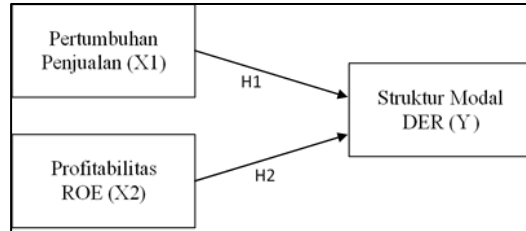
Figure 3: Theoretical Framework
Source: Processed secondary data (2022)

A. Research Hypothesis
In this research, the hypothesis is formulated as follows:

    a) Sales Growth on Capital Structure (DER)
H_{01} : Sales Growth partially has no significant effect on Capital Structure (DER)
H_{a1} : Sales Growth partially has a significant effect on Capital Structure (DER)

    b) Profitability (ROE) to Capital Structure (DER)
H_{02} : Profitability (ROE) partially has no significant effect on Capital Structure (DER)
H_{a2} : Profitability (ROE) partially has a significant effect on Capital Structure (DER)

III. RESULTS AND DISCUSSION

This study uses quantitative methods to explain how the independent factors of profitability and sales growth affect the dependent variable of capital structure.

A. Data collection technique
Documentation is the method used in this study's data collection. Data from the company's financial statements were processed for the research straight from PT Unilever Indonesia Tbk's website, www.unilever.co.id. This study uses time series data, namely PT Unilever Indonesia Tbk's financial report data from 2010 to 2021.

B. Data Type
Secondary data are the type of information used in this study. The PT Unilever Indonesia Tbk quarterly financial reports for the years 2010 through 2021 are the secondary data used.

C. Population and Sample
The data from the quarterly financial report of PT Unilever Indonesia Tbk was utilised as the population in this study. The sample for this study is made up of 12 years' worth of quarterly financial report data from PT Unilever Indonesia Tbk, or 2010 to 2021.

D. Operational Variables
  a) Independent Variable
    1) Sales Growth
        The ratio of the total sales of assets at the end of the quarter to the quarter before is known as sales growth. Percentage units are used to express sales growth. The formula for calculating sales growth:

    2) Profitability
        Profitability is measured by the ROE ratio, namely the comparison between profit after tax and own capital (Ryiadi, 2018). Profitability is measured in this study using Return On Equity (ROE), which uses the following formula:

b) Dependent Variable

Capital structure is measured by the *Debt to Equity ratio* (DER). This ratio is used to compare the overall amount of debt to the entire amount of capital (Ryiadi, 2018).

E. Data analysis

The traditional assumption test, t-test, multiple linear regression, and coefficient of determination with the SPSS 25 application tool are the data analysis techniques used in this study.

### F. Classic assumption test

a) Normality test

Shapiro Wilk test shows that the significance value of the sales growth variable is 0.295, ROE is 0.251 and DER is 0.176. The fact that these three numbers are more than 0.05 indicates that the data is regularly distributed.

b) Linearity Test

The significance values of the *deviation from linearity* of the two variables are 0.980 and 0.680. Given that both numbers are higher than 0.05, it may be said that the research data are linear.

c) Heteroscedasticity Test
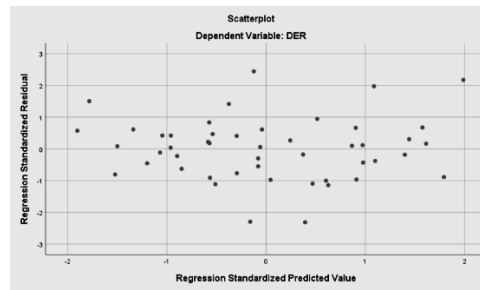
Figure 4: Heteroscedasticity Test Results

Source: Secondary data processed from the quarterly financial reports of PT Unilever Indonesia Tbk 2010-2021 (2022)

Since there are no discernible patterns among the dots in the image and they are dispersed, there is no heteroscedasticity issue.

d) Autocorrelation Test

0.895 , with k=2 and n=48, which means it has a dU of 1.6231 and a dL of 1.4500. Then calculate the 4-dL value, which is 4 - 1.4500 = 2.55. It then calculates 4 - dU, which is 4 - 1.6231 = 2.3769. From these calculations, it can be concluded that the value of d = 0.895 satisfies the condition of $0 < d < dL$, so based on the above test it is stated that there are no autocorrelation symptoms.

e) Multicollinearity Test

Sales growth and profitability (ROE) variables have an acceptable value of 0.951 and a *Variance Inflation Factor* (VIF) value of 1.052. The multicollinearity test results show that the tolerance value of 0.951 for the two independent variables is greater than 0.1 and the VIF value in the table is 1.052, which indicates that there is no VIF value of the two independent variables which is more than 10. Therefore, it can be said that multicollinearity does not exist.

G. T-test

The influence of each independent variable on the dependent variable is examined using the t-statistical test (partial test). The following table shows the test results:

Table 1. T-Test Results

Variable	Sig
Sales Growth (X1)	0.099
ROE (X2)	0.000

Source: Secondary data processed (2022)

Based on the table above, the hypothesis can be tested as follows:

1) Capital Structure on Financial Performance

H_{01} : Sales Growth partially has no significant effect on Capital Structure (DER)

H_{a1} : Sales Growth partially has a significant effect on Capital Structure (DER)

Table 1 shows the sig. sales growth is 0.099 greater than 0.05 or 5%, so H01 is accepted and Ha1 is rejected. Growth in sales has a minimal impact on capital structure.

2) Profitability (ROE) to Capital Structure (DER)
H_{02} : Profitability (ROE) partially has no significant effect on Capital Structure (DER)
H_{a2} : Profitability (ROE) partially has a significant effect on Capital Structure (DER)

Table 1 shows the sig. sales growth is 0.000 less than 0.05 or 5%, so H01 is rejected and Ha1 is accepted. Profitability (ROE) partially has a significant effect on Capital Structure (DER).

H. Determination Coefficient Test

Table 2: Determination Coefficient Test Results

Summary Model [b]			
Model	R	R Square	Adjusted R Square
1	,895 [a]	,800	,791

Source: Processed secondary data (2022)

Based on table 5.10 it can be seen that the value of *Adjusted R Square* is 0.791 It implies that sales growth and profitability can account for 79.1% of the capital structure variable. Other factors not included in this research model account for the remaining (100% - 79.1% = 20.9%).

I. Multiple Linear Test

Based on SPSS calculations, The following is how the multiple regression equation is obtained:

$$Y = -1.368 - 1.500 X1 + 3.067 X2$$

Information:
Y = Capital structure (DER)
X1 = Sales Growth
X2 = Probability (ROE)

Based on the regression can be interpreted as follows:
➢ The constant value of the multiple linear regression equation is -1.368, this shows that if all independent variables are considered constant or do not change, then the capital structure is -1.368.
➢ If sales growth (X1) increases, then the capital structure (Y) decreases by 1,500, and vice versa.
➢ If profitability (X2) increases, the capital structure (Y) increases by 3.067, and vice versa.

IV. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusion
The conclusions of this study are explained as follows:
➢ In this study, the financial statements of PT Unilever Indonesia Tbk for 2010-2021 proved that Growth in revenue has no impact on Capital Structure (Debt to Equity Ratio).
➢ In this study, the financial statements of PT Unilever Indonesia Tbk for 2010-2021 prove that profitability (*Return on Equity*) has a significant effect on Capital Structure (*Debt to Equity Ratio*).
➢ The capital structure is more strongly influenced by the profitability factor. Apart from the fact that, according to the T-test, profitability has a considerable impact whereas sales growth has no discernible impact. profitability has a coefficient value that is farther than 0.

B. Suggestion
Based on the results and conclusions above, the suggestions given in this study are:
➢ Companies need to carefully consider the funding decisions they choose and need to be adjusted to the company's current circumstances. This adjustment needs to be done because the company's condition is not static. Company finances will change dynamically, and this is where financial managers need to be sensitive. In certain circumstances, there may be more need for internal funding from within the company, such as retained earnings, sometimes external funding sources are needed, such as debt from creditors.
➢ Good sales growth will make it easier for companies to use their capital, this will be useful for companies because using their capital can reduce the risk of default or other financial risks. So that the company can try to choose a business strategy that will increase the company's sales. Because in addition to financial risks, external funding will also impact the company which will be influenced by the thinking of outsiders as investors.

> ➢ Profitability has a favourable impact on capital structure, therefore boosting profitability will also improve the likelihood that businesses will use outside funding. High profitability is a lure for investors, whereas with high profitability there is no possibility of default or low risk and high returns for investors. A corporation must pay attention to its profitability aspect, which will be crucial for the appraisal of investors, when it needs external money for its operations in certain situations.

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