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Capital Structure and Asset Structure Decisions: Strategies for Improving Company Performance for Sustainable Business

Juli Meliza
Sekolah Tinggi Ilmu Manajemen Sukma
newjuli07@gmail.com

Muliyani
Sekolah Tinggi Ilmu Manajemen Sukma
diajeng.mulyani@gmail.com

Vidya Fathimah
Sekolah Tinggi Ilmu Manajemen Sukma
vidyafath@gmail.com

Syahrani Devi
Sekolah Tinggi Ilmu Manajemen Sukma
syahranikayarasa@gmail.com

Syahrida Khairani
Universitas Sumatera Utara
syahridakhairani01@gmail.com

Abstract

This study aims to evaluate the impact of capital structure and asset structure decisions on the performance of PT. Summarecon Agung Tbk and PT. Agung Semesta Sejahtera Tbk. This research is descriptive quantitative and uses secondary data from the companies' websites, from 2019 to 2023. A panel least square approach is used to estimate the effect of capital structure and asset structure decisions on company performance. The results show that capital structure and asset structure decisions significantly influence company performance (ROA). The relationship between asset structure and equity return can vary depending on different contexts and industries, and the findings indicate that asset structure does not affect ROE. This supports the idea that while asset structure may impact return on assets, its effect on return on equity may be minimal. The results obtained will assist investors and potential investors in making financing policies that maximize performance. Similarly, the government and other policymakers review capital market performance. Companies that can effectively manage their capital and assets can not only enhance their financial and operational performance but also ensure long-term sustainability and competitiveness in an increasingly competitive market. This study contributes to the formulation of corporate financing policies and corporate finance literature, particularly in the property sector.

Keywords
Asset Structure, Capital Structure, Panel Least Square, Company Performance

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1. Introduction

Decisions on capital structure and asset structure are fundamental aspects of corporate financial management that play a crucial role in determining long-term performance and business sustainability. This study aims to evaluate the impact of capital structure and asset structure decisions on the performance of PT. Summarecon Agung Tbk and PT. Agung Semesta Sejahtera Tbk. Companies face dilemmas in their operations regarding the appropriate proportion between equity and debt, as well as how to effectively allocate assets to support growth and stability. This gap arises when companies fail to balance the risks and benefits of their financial decisions, which can result in higher capital costs, limited liquidity, and a decline in company value.

PT. Summarecon Agung Tbk and PT. Agung Semesta Sejahtera Tbk are two leading companies in Indonesia engaged in the property and real estate development sector. PT. Summarecon Agung Tbk is known for its large-scale projects that integrate housing, commercial, and recreational facilities, significantly contributing to urban development in Indonesia. Meanwhile, PT. Agung Semesta Sejahtera Tbk also has a strong reputation in the property industry, focusing on the construction of high-quality housing and supporting infrastructure. Both companies demonstrate a strong commitment to improving the quality of life through the development of sustainable and innovative environments, continually striving to meet the growing market demands.

Companies operating in the property development and real estate sector often face challenges in balancing equity and debt in their financial decisions and effectively allocating assets to drive growth and stability. These challenges stem from the need to manage the risks and benefits associated with financial choices, as failure to do so can lead to increased capital costs, limited liquidity, and a decline in company value.

Research conducted by Brounen & Eichholtz (2005) examined the different real estate ownership patterns among various companies and countries, highlighting the complexity of corporate real estate ownership. Sa-Aadu et al. (2010) emphasized the unique characteristics of real estate as an asset class compared to stocks or bonds, underscoring the importance of understanding its property portfolio. Pagliari (2016) stated that the optimal allocation of real estate in a mixed-asset portfolio typically ranges from 10-15%, indicating a potential upper limit for most investors.

Furthermore, research by Mackinnon & Zaman (2009) and Ametefe et al. (2019) explored how the predictability of real estate returns impacts risk and optimal allocation, as well as the benefits of formal optimization techniques in enhancing returns from mixed real estate portfolios. Additionally, Nappi-Choulet et al. (2009) found that a higher proportion of real estate assets in total tangible assets correlated with lower Economic Value Added (EVA) and Market Value Added (MVA), highlighting the impact of real estate intensity on company performance.

This article explores the strategies employed by companies in managing their capital structure and assets to improve company performance and achieve sustainable business practices. Through this case study, readers will gain in-depth insights into how these two leading property companies in Indonesia structure and optimize their financial resources to support growth, stability, and competitiveness in the dynamic property industry. By understanding the approaches implemented, it is hoped that other companies can adopt these best practices to achieve an optimal balance between risk and benefit, which is essential for long-term sustainability. This paper aims to contribute to the formulation of corporate financing policies and corporate finance literature, particularly in the property sector.

2. Literature Review

2.1. Asset Stucture

Asset structure refers to the composition of a company's assets, typically categorized into various types such as current assets, fixed assets, and intangible assets. In the context of companies in the property development and real estate sector, asset structure plays a crucial role in determining their financial performance. The asset structure formula is calculated by dividing a specific type of asset by the company's total assets. This ratio provides insight into the proportion of the company's assets allocated to real estate ownership (Denziana & Yunggo, 2017).

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Companies with higher real estate intensity, meaning a larger proportion of property in their total tangible assets, tend to show lower EVA and MVA. Additionally, an increase in the proportion of real estate assets to total assets is negatively related to EVA for companies in service industries with low real estate intensity (Kowalski & Kazak, 2020).

In the property development and real estate sector, the relationship between asset structure and financial performance metrics such as Return on Assets (ROA) and Return on Equity (ROE) is very important. Research has shown that asset structure, along with factors such as profitability and company size, affects the capital structure decisions of real estate companies (Basana et al., 2020). Moreover, the collateral value of assets, including real estate assets, influences the capital structure of property and real estate companies (Morri et al., 2020).

Furthermore, the presence of environmentally friendly real estate assets in a company's portfolio is associated with higher ROA and operating margins, indicating a positive relationship between green real estate ownership and financial performance (Park & Glascock, 2010). Real estate ownership, when effectively managed within a company's overall financial structure, can impact various financial parameters such as the cost of equity, debt, leverage, risk, and the market-to-book value ratio.

The asset structure of companies in the property development and real estate sector, particularly the proportion of real estate assets in their total asset base, plays a key role in influencing financial performance metrics such as ROA, ROE, EVA, and MVA. Therefore, it can be stated that there is an impact of asset structure on financial performance metrics like ROA and ROE in companies within the property development and real estate sector.

2.2. Modal Structure

Research on the relationship between capital structure and financial performance indicators such as ROA and ROE in the property development and real estate sector has been conducted by Yao (2023). He highlighted that there is a significant relationship between capital structure and company performance in the real estate sector. This indicates that how companies in this sector finance their operations impacts their overall performance metrics.

Additionally, Aini et al. (2022) found that profitability, company size, and growth opportunities significantly affect the capital structure of property and real estate companies. This indicates that the financial health and characteristics of these companies play an important role in determining their capital structure decisions. Furthermore, Bardhan et al. (2008) discussed the impact of global financial integration on the security benefits of real estate, emphasizing the interconnection between financial markets and real estate investment.

Moreover, Feng et al. (2020) stated that state ownership and company profitability have an inverse influence on the capital structure of publicly listed real estate companies in China. This implies that ownership structure and financial performance factors can shape how companies in the real estate sector structure their capital. Additionally, research conducted by Sharma (2018) aimed to identify the factors influencing financial leverage in real estate development companies listed on the BSE and explained the determinants of capital structure in this specific market.

Therefore, it can be stated that there is an impact of capital structure on financial performance metrics such as ROA and ROE in companies within the property development and real estate sector.

2.3. Company Performance

In the property and real estate sector, a company's financial performance is closely related to its capital structure and asset structure. Several studies provide insights into how ROA and ROE are influenced by these factors. Non-debt tax shields, asset structure, size, and profitability play important roles in determining a company's capital structure (Özkan, 2001). This indicates that the composition of assets and their efficiency in generating revenue can affect how companies choose to finance their operations.

Additionally, it is emphasized that sustainability practices positively impact financial performance, including ROA and ROE, highlighting the importance of considering broader environmental and social factors in financial outcomes (Kiliç et al., 2022).

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Triwardani et al. (2022) specifically examined the impact of ROA and ROE on firm value in property and real estate companies, underscoring the relevance of these financial performance indicators in assessing firm value (Triwardani et al., 2022).

A comprehensive understanding of the relationship between capital structure, asset structure, and financial performance metrics such as ROA and ROE in the context of property and real estate companies is expected to help companies make informed decisions to optimize their financial performance.

3. Methods

3.1.Methodology and Sample Selection

This study is descriptive quantitative and uses secondary data from the websites of PT. Summarecon Agung Tbk and PT. Agung Semesta Sejahtera Tbk, from 2019 to 2023. A panel least square approach is used to estimate the effect of capital structure and asset structure decisions on company performance. The analysis techniques include panel unit root test, descriptive statistics, panel least square, and cointegration statistics at a 5% significance level.

The study employs panel data analysis, which combines time series and cross-sectional data. Data from different entities over several periods is referred to as panel data (Blundell and Matyas, 1992; Hsiao, 2007). Panel data can be used to analyze non-stationary time series data in some cases (Hsiao, 2007).

3.2.Model Specification

According to Arellano and Bond (1991), the use of lagged variables as regressors handles dynamic parameters and unobserved specific effects. Here, the lagged dependent variables become part of the explanatory variables related to the model's random disturbance terms to explain dynamic effects (Altaf, 2020).
The table of definitions, descriptions, and variable measurements provides a summary of the research variable measurements derived from empirical and theoretical literature.

Table 1. Definitions, Descriptions, and Variable Measurements

Variables	Description	Sources
Performance (Y)	It is dependent variable that measures how efficiency the firm uses its assets	Simon et al. (2017)
LN ROA (Y_1)	LN ROA = LN (ProfitBeforeTax : TotalAssets)	
LN ROE(Y_2)	It is dependent variable that measures how efficiency the firm uses shareholders' fund LN ROE = LN (ProfitBeforeTax : TotalAssets)	Simon et al. (2017)
Capital structure (X)	It is independent variable defined as the natural logarithm of shortterm debt ratio.	Akoto et al.(2013)
LN TDR (X_2)	Log Natural of total debt ratio = LN(TotalLiabilities : TotalAssets)	
Assets' structure (X)	It is independent variable defined as the natural logarithm of the ratio between tangible assets to total assets.	Kayani et al.(2019)
LNTA (X_1)	Struktur aset yaitu penentuan seberapa besar jumlah alokasi untuk masing–masing komponen aset, baik aset tetap maupun aset lancar. Logarithm Natural of Fixed Asset = (Fixed assets : total assets)	Syamsuddin(2007:9).

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3.3.Regression Equations

Our models' regression equations are as follows:

LNROA it = β0 + β1 (LN TDRit) + β2 (LNTAit) +αi + εit

Model (1)

LNROE it = β0 + β1 (LNLTDRit) + β2 (LNTAit) +αi + εit

Model (2)

Information:

Company performance = proxied by the natural logarithm of ROA (LNROA) and the natural logarithm of ROE (LNROE);

n = number of companies

t = 2019–2023

β = independent variable coefficient,

β0 = intercept,

ε = error

α = unobserved company-specific impact on company i.

i = ith entity

t = t-th period

4. Results and Discussion

Table 2. Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Y1(-1)	0.157647	0.221364	0.712164	0.5278
C	15.10028	3.872471	3.899392	0.0299
X1	3.095303	0.529351	5.847353	0.0100
X2	1.099687	0.291947	3.766742	0.0327

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Y2(-1)	-0.068005	0.042458	-1.601703	0.2075
C	3.22E+09	4.19E+08	7.691675	0.0046
X1	-1.57E+08	98022564	-1.602520	0.2074
X2	2.80E+08	47431316	5.908801	0.0097

Source(s): Author's E-views 10 computations

ROA = β0 + 3.095303 X1 + 1.099687X2

ROE= β0 -1.57e X1 + 2.80e X2

Table 2 shows significant cointegration for various test statistics at the 5% level, with significance values smaller than α (0.0000 < 0.05), thereby rejecting H0 and accepting Ha, except for the variable of capital structure decisions to ROE, where H0 is accepted. Based on the results, it is concluded that there is indeed a significant positive impact of capital structure decisions and asset structure on ROA, and there is a significant positive impact of capital structure on ROE, except for the decision on asset structure to ROE, which shows no effect.

The study results indicate that capital structure and asset structure decisions significantly influence the company's ROA. This finding is supported by the following studies. Nafi'Ah et al. (2022) found that variables such as cash turnover, debt-to-equity ratio, inventory turnover, asset growth, and total asset turnover positively and significantly impact ROA (Nurlaela et al., 2019). Similarly, Utami & Manda (2021) showed that factors such as the debt-to-equity ratio, current ratio, and asset turnover significantly impact financial performance, including ROA (Utami & Manda, 2021). Additionally, Suharna & Kurniasih (2022) demonstrated that capital structure can mediate the relationship between liquidity and activity on profitability, particularly ROA (Suharna

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& Kurniasih, 2022). Furthermore, Justine & Firdausy (2023) affirmed that both capital structure and working capital turnover partially influence ROA in contractor companies (Justine & Firdausy, 2023).

The relationship between asset structure and return on equity (ROE) can vary depending on the context and different industries. The finding that asset structure does not affect ROE is supported by the following studies. Omari (2021) emphasized that in Jordanian commercial banks, capital structure does not impact return on equity (ROE), suggesting that asset structure may not significantly influence equity returns in this specific situation. Similarly, Jaishi (2020) discussed how, in Nepalese insurance companies, there is no significant relationship between capital structure and return on equity, further supporting the idea that asset structure may not directly affect equity returns in certain industries. Additionally, Rohaizan et al. (2021) explored Shariah-compliant companies in Malaysia and found that tangible assets and the debt-to-equity ratio have a positive relationship with return on assets (ROA) but have an insignificant negative relationship with return on equity (ROE). This means that while asset structure may impact return on assets, its effect on return on equity may be minimal. Conversely, Zelalem (2020) presented research on commercial banks in Ethiopia, where the debt ratio (DR) has an insignificant negative effect on return on equity (ROE). This indicates that in this particular context, asset structure does not significantly influence equity returns.

The results of this study suggest that companies in the property development and real estate sector should carefully manage the balance between equity and debt and the allocation of assets to mitigate risks and maximize returns. Understanding the unique nature of real estate as an asset class, optimizing portfolio allocation, and considering the impact of real estate intensity on performance are crucial factors for companies aiming to improve financial decision-making in this sector. Investors and potential investors should be able to decide on financing policies that maximize performance. Similarly, governments and other policymakers should review capital market performance. Companies that can effectively manage their capital and assets can not only enhance their financial and operational performance but also ensure long-term sustainability and competitiveness in an increasingly competitive market.

5. Conclusion

The research results show that capital structure and asset structure decisions greatly influence the company's ROA performance. The relationship between asset structure and return on equity can vary based on different contexts and industries and research results show that asset structure has no effect on ROE. This supports the idea that although asset structure may have an impact on return on assets, its impact on return on equity may be minimal.

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Biographies

Juli Meliza, is a lecturer at the Sukma School of Management, Medan, Indonesia. She holds a Master of Science from the Faculty of Economics, University of Sumatera Utara, in 2013. She is currently working as a lecturer at the Sukma School of Management. She research interests are Management, Finance, Business, SMEs, Financial Accounting, Human Resource Management, Marketing, Operational Management.

Mulyani is a lecturer at the Sukma School of Management, Medan, Indonesia. She is currently working as a lecturer at the Sukma School of Management. She research interests are Accounting, Financial Accounting, Public Accounting.

Mulyani is a lecturer at the Sukma School of Management, Medan, Indonesia. She is currently working as a lecturer at the Sukma School of Management. She research interests are Accounting, Financial Accounting, Public Accounting.

Vidya Fathimah is a lecturer at the Sukma School of Management, Medan, Indonesia. She is currently working as a lecturer at the Sukma School of Management. She research interests are Management, Bussiness, Marketing, Islamic Economics.

Syahrani Devi is a lecturer at the Sukma of Management, Medan, Indonesia. She holds a Magister of Communication from the University of Dharma Agung, Medan, North Sumatra in 2018. She is currently working as a lecturer at the Sukma School of Management. She research interests are entrepreneurship, business communication marketing and human resources management.

Syahrida khairani. I am an employee at STIM Sukma in the position of secretary. I am currently continuing my master's studies at the University of Sumatera Utara. I am interested in conducting research in the field of marketing.