INFLUENCE OF CAPITAL STRUCTURE AND COMPANY SIZE ON THE COMPANY'S GROWTH IN PT. EMPRESS SIAM GROUP

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Abstract:

This study aims to examine the relationship and influence of capital structure and company size on company growth within the service sector. The research employs a quantitative methodology, utilizing Partial Least Squares (PLS) regression analysis. The study analyzes secondary data from 2021-2023, focusing on capital, assets, debt, and the number of employees. Respectively, signifying a large effect on company growth. Both Capital Structure and Company Size were found to have a significant positive influence on company growth. The novelty of this study lies in its focused exploration of the service sector, particularly the under-researched area of how capital structure and company size contribute to growth in this sector. The findings provide valuable insights for strategic financial management, offering a robust empirical basis for decision-making in the service industry.

Keywords:

Capital Structure; Company Size; Company Growth; Service Sector; Financial Performance

Introduction

The establishment of a company must have a clear goal, one of the goals to be achieved is to achieve maximum profits, for the prosperity of the company owner and also to create jobs. Along with the development of the times, business competitiveness with increasing intensity. Therefore, the Company must consider solutions to continue operating in order to survive in the face of increasingly fierce competition. A company is said to be successful if it is able to achieve the goals that have been set. However, to maximize business value, financial managers must be able to effectively supervise and manage the company's finances in order to obtain these benefits.

The financial success of a company is greatly influenced by its size. Compared to small businesses, large companies have a greater influence on the interests of the community. As a company grows, complexity and risk increase, especially for those in the financial sector. Therefore, in an effort to account for its activities, the corporation continues to improve its financial performance. The percentage change in assets from one year to the next is used to calculate the growth of a company Asset growth also often leads to improved operational performance, which will affect the company's ability to win the hearts of external stakeholders. The change (increase or decrease) in the total assets held by a company over a period of time, for example one year, is known as the growth of the company. A company's assets are always correlated with its growth.

Capital structure is a funding that is carried out with long-term debt, preferred shares and shareholder (investor) capital. The increase in capital structure will have an impact on increasing the value of the company. The results of previous research according to Hirdinis M (2019), Oktawiati and Nurhayati (2020), Nurhidayah (2021) concluded that capital structure has a significant positive influence on the value of companies. Meanwhile, according to Isabella and Utama (2017), Hidayah and Rahmawati (2019), Oktaviani and Srimindarti (2019) and Andini et al. (2021) explained that the capital structure does not affect and negatively affect the company's value.

The size of the company is able to affect the value of the company because the larger the size and scale of the company, the easier it will be to get funding sources both from inside and outside the company. In previous research, Oktaviani and Srimindarti (2019), Andini et al. (2021) argued that company size has a significant positive influence on company value, but this opinion is best compared to research conducted by Lumoly et al. (2018), Juhandi et al. (2019), Hirdinis M (2019), Hertina et al. (2019), Reschiawati (2020), Afinindy (2021) argue that company size has no effect and is not significant to company value.

PT. Maharani Syam Group is a company engaged in Security Services since 2003. as a company engaged in security services, PT. Maharani was coached directly by the Regional Police and the National Police Headquarters and registered as a member of the Indonesia Security Professional Association (APSI) and the Association of Indonesia Security Services Business Entities (ABUJAPI). Until now, PT. Maharani is still active in providing security services in several companies, especially companies in the mining sector, namely PT. Vale Indonesia Tbk and PT. United Tractors Tbk which is located in Soroko, East Luwu Regency.
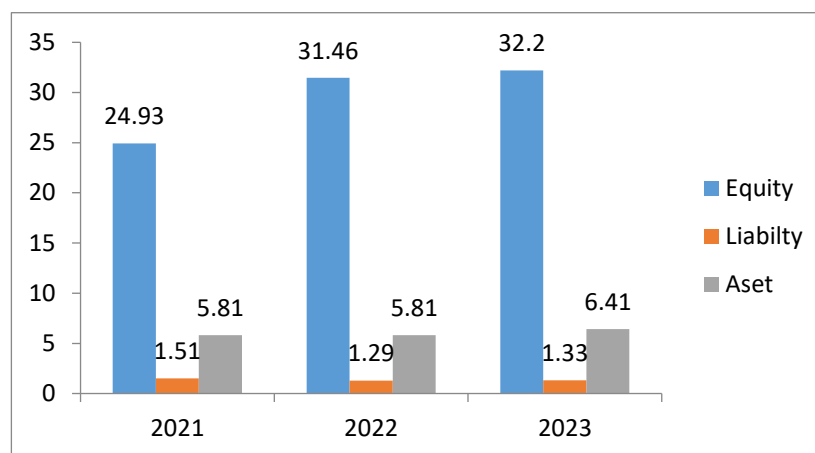
Figure 1: Equity, Liability dan Aset PT. Maharani Syam Grup
2021-2023

Literature Review

Capital Structure
Capital structure refers to the balance or comparison between foreign capital (debt) and own capital (equity) within a company's financial framework. It represents the proportion of funding derived from long-term liabilities and shareholders' equity, which are essential for financing a company's operations and growth. The composition of a company's capital structure is crucial as it directly influences the financial performance and stability of the organization (Bella, 2021).

Decisions regarding the distribution of debt and equity within the capital structure are of paramount importance for all firms. A rational balance between debt and equity can enhance organizational performance, while an imbalance may lead to financial distress or even bankruptcy. According to modern financial theories, particularly the trade-off theory and the pecking order theory, companies must carefully evaluate the costs and benefits associated with different forms of capital to achieve an optimal capital structure (Qayyum & Noreen, 2019). The trade-off theory posits that firms should strive to balance the tax benefits of debt against the bankruptcy costs associated with high leverage, aiming for a capital structure that maximizes firm value (Aminy & Sauqi, 2020).

Subramanyam (2017) elaborates on the concept by describing capital structure as the proportion of a company's financing sourced from long-term debt and shareholders' equity. This mix of funding sources is critical as it determines the overall cost of capital and the risk profile of the company. Van Horne and Wachowicz (2007) further emphasize that an optimal capital structure is one that minimizes the company's cost of capital while maximizing its market value, achieved by an ideal combination of debt and equity.

Capital structure is typically measured using several key indicators, including leverage, the debt-to-equity ratio, and collateralizable assets. Leverage, in particular, reflects the extent to which a company utilizes long-term debt to finance its assets, which introduces a fixed financial obligation in the form of interest payments. The debt-to-equity ratio is a critical measure that

indicates the relative proportion of debt to equity, while collateralizable assets represent the portion of a company's assets that can be used as security for debt (Sugeng, 2009).

Recent studies have expanded on these traditional measures, incorporating more nuanced analyses that take into account industry-specific factors and macroeconomic conditions. For instance, Aminy and Sauqi (2020) highlight the importance of considering market conditions when determining the optimal capital structure, suggesting that companies in volatile markets may benefit from lower leverage to reduce financial risk. Similarly, Qayyum and Noreen (2019) argue that firms in emerging markets should prioritize equity financing to maintain financial flexibility and avoid the pitfalls of excessive debt.

Company Growth
Company growth refers to the extent to which a firm positions itself within the broader economic system or within its specific industry. Growth is an essential indicator of a company's success and sustainability. As firms expand, they require their human resources to perform at optimal levels to support and sustain this growth. However, rapid growth can lead to challenges, particularly in controlling costs. Effective growth management requires robust operational controls, with a strong emphasis on cost management to ensure that growth does not lead to inefficiencies or financial instability (Kallapur & Trombley, 2019; Arum, 2022).

The growth of a company can be measured through various financial metrics, which reflect its ability to enhance its size and market position over time. Key indicators include the Price/Earnings ratio (P/E ratio), which compares the market price per share to the earnings per share, and the Price/Cash Flow ratio, which relates the market price per share to cash flow per share. Additionally, the Market/Book ratio, which compares the market price per share to the book value per share, provides insights into how well the company is leveraging its assets to generate market value. Other measures, such as Tobin's Q ratio and the ratio of development expenses (R&D) to total sales, further highlight the company's growth potential and its capacity for innovation (Qayyum & Noreen, 2020; Aminy & Sauqi, 2020).

Hypotheses
Based on the description above, the hypotheses in this study are:

1. There is a significant influence of the implementation of the Capital Structure on the growth of the company in PT. Maharani Syam Group. (H1)
2. There is a significant influence of company size on company growth in PT. Maharani Syam Group. (H2)

Conceptual Framework
Based on the hypothesis, the relationship between variables to other variables is analyzed, where the independent variables in this study are Capital Structure (X1) and Company Size (X2) to the dependent variable, namely Company Growth (Y). So the conceptual framework in this study is as follows:
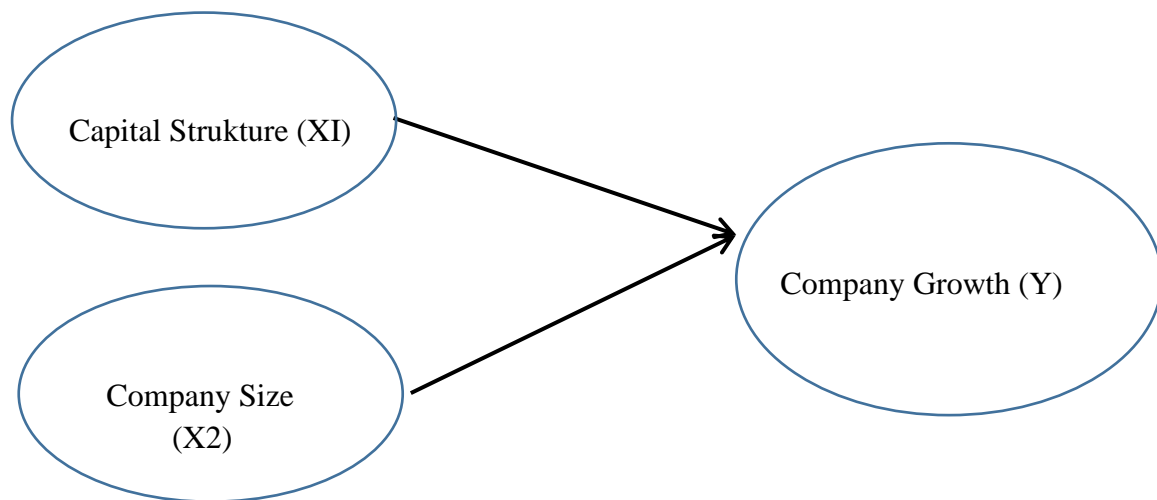
Figure 2: Conseptual Framework

Methodology

The approach in this study uses quantitative research with an associative approach, according to Sugiyono (2007) Associative research is a research that aims to determine the relationship between two or more variables. In this study, the researcher wants to find out and analyze the Influence of Capital Structure and Company Size on Company Growth in PT. Maharani Syam Group. The data collection technique uses secondary data and literature review. The population used in this study is the resources within the scope of PT. PT. Maharani Syam Group includes Equity, Liabilities and Assets in 2021-2023. This study uses data analysis using SmartPLS software, which is run with computer media. PLS (Partial Least Square) is a variant-based structural equation analysis (SEM) that can simultaneously test the measurement scale model of the Structural model.

Result

The data to be analyzed are the variables of Capital Structure (X1) and Company Size (X2), Company Growth (Y) using SmartPLS.

Outor Model Analysis (Validity and Reality Test)
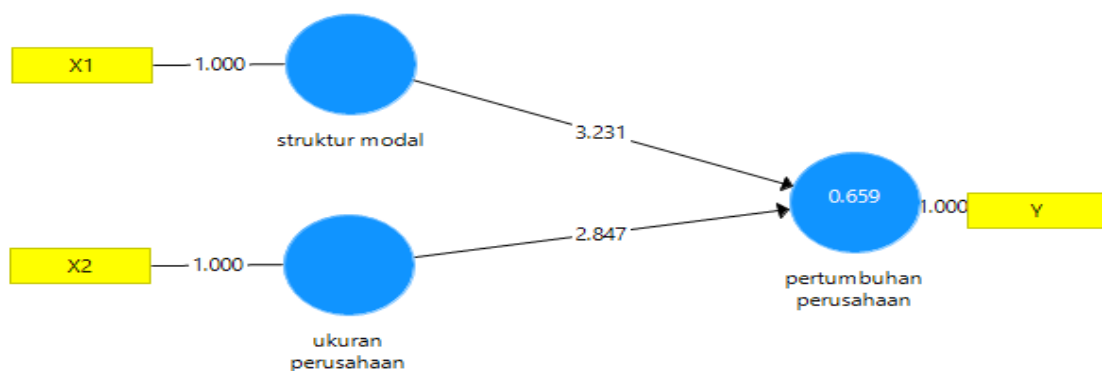
Figure 3: Outor Model Analysis

Ghozali (2016), a reliable research instrument if the Cronbach's Alpha value is above 0.60, then it can be said to be very reliable. Chin (1998), if Cronbach's Alpha should be greater than the value of 0.70.

Tabel 1: Cronbach's Alpha dan Composite Reliability

Variabel	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Company Growth	1,000	1,000	1,000
Capital Structure	1,000	1,000	1,000
Company Size	1,000	1,000	1,000

Source: Data processed 2024

Based on Table 1 above, Croncbach's Alpa and Composite Reliability are above (>) 0.70, and the Average Variance Extracted (AVE) is also above 0.70 which means that all the estimated constructs meet the criteria. This shows that all variables with reflective indicators in this study have good reliability and are very reliable for each construct with a value of 1,000 or >0.70

Discriminant Validity

Discriminant validity refers to the degree to which a construct is truly distinct from other constructs within a model. It ensures that each latent variable is unique and not merely a reflection of other variables. Validity testing is crucial for determining how accurately a measuring instrument captures the intended construct. In the context of structural equation modeling, particularly when using SmartPLS, discriminant validity is typically assessed through the Fornell-Larcker criterion and cross-loading analyses (Ghozali, 2019).

According to the Fornell-Larcker criterion, discriminant validity is considered good if the square root of the Average Variance Extracted (AVE) for a construct is greater than the correlation between that construct and any other latent variable in the model. This indicates that the construct shares more variance with its indicators than with other variables. In cross-loading tests, discriminant validity is affirmed if each construct's indicator loads more strongly on its respective construct than on any other construct (Sekaran & Bougie, 2020).

A more recent and robust method for assessing discriminant validity is the Heterotrait-Monotrait Ratio (HTMT). The HTMT value is a measure of similarity between constructs. If the HTMT value is less than 0.90, the construct is considered to have good discriminant validity, meaning it is sufficiently different from other constructs in the model (Juliandi, 2020). This method is increasingly favored for its reliability and effectiveness in ensuring the distinctiveness of constructs in complex models.

Tabel 2: Heretoroit-Monotoroit Ratio (HTMT)

Variabel	pertumbuhan perusahaan
Capital Structure_	0,463
Company Size	0,294

Source: Data processed

From table 2 above, it can be concluded that the Heteroit-Monotrait Ratio (HTMT) test is as follows:
1. The Company's Capital Structure to Growth has a Heteroit-Monotroit Ratio of 0.463 < 0.90, which means that the company is discriminant.
1. The Company's Size to Company Growth has a Heteroit – Monotroit Ratio of 0.294 < 0.90 which means good discriminant.

Inner Model Analysis (Structural Model Analysis)

The inner model, or structural model analysis, assesses the relationships between latent variables within a model. The strength of the influence exerted by an exogenous (independent) variable on an endogenous (dependent) variable is measured by the R Square (R^2) value. The R^2 value represents the proportion of variance in the dependent variable that is explained by the independent variables, ranging from 0 to 1. In this context, R^2 values are typically interpreted as follows: 0.67 indicates a strong effect, 0.33 indicates a moderate effect, and 0.19 indicates a weak effect (Chin, 2019; Ghozali, 2020).

To further assess the impact of specific independent latent variables on dependent latent variables, the F-Square (f^2) effect size is calculated. This metric provides insight into the relative contribution of each exogenous variable to the explanation of variance in the endogenous variable. F^2 values are categorized as follows: 0.02 indicates a weak effect, 0.15 indicates a medium effect, and 0.35 indicates a large effect (Chin, 2019). This analysis allows researchers to determine not only the overall fit of the model but also the significance of individual paths within the structural model.

The combined use of R^2 and f^2 values in inner model analysis ensures a comprehensive understanding of the strength and significance of relationships within the model, providing valuable insights for both theoretical development and practical application.

Tabel 3: R Square and F Square

VARIABLE	R Square	F Square
Pertumbuhan Perusahaan	0,659	
Struktur Modal		1,679
Ukuran Perusahaan		1,304

Based on Table 3 above, it can be explained that the Independent Variable, namely Capital Structure and Company Size, has a strong effect on the dependent variable, namely Company Growth with an *R Square* value of 0.659. As for the measurement of F Square Capital Structure for Company Growth has an F2 value of 1.679 which means it has a large size and the size of the company to the Company Growth has an F2 value of 1.304 which also means it has a large size.

Direct Effect

The criteria for testing the direct effect hypothesis are as seen in the section below. First, path coefficient: (a) If the value of the path coefficient is positive, then the influence of one variable on other variables is unidirectional, if the value of a variable increases/increases, then the value of other variables also increases/increases; and (b) If the value of the path coefficient is negative, then the influence of one variable on another variable is in the opposite direction, if the value of one variable increases/increases, then the value of other variables will decrease/decrease. Second, the probability/significance value (P-Value): (1) If the P-Values value < 0.05, then significant; and (2) If the P-Values value > 0.05, then it is not significant (Juliandi, 2018).

Tabel 4: Dirrect Effect

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
modal_ structure -> the company's growth	3,231	3,386	0,842	3,839	0,000
Company size -> the company's growth	2,847	2,970	0,919	3,097	0,002

Based on Table 4 above, it can be explained that the Capital Structure Variable has a direct and significant effect on the company's growth with a P-Velue value of 0.00 or <0.05. The size of the company also has a direct and significant effect on the company's growth with a P Velue value of 0.002 or < 0.05

Discussion

The findings of this study highlight the crucial role that capital structure plays in influencing company growth. Capital structure, defined as the financial resources allocated to a company's debt, is a significant determinant of a firm's ability to meet its funding needs and drive business expansion. The empirical evidence from this study reveals that capital structure has a significant positive effect on the growth of PT. Maharani Syam Group, as indicated by the original sample value of 3.231, t-statistics of 3.839, and a p-value of 0.000. These results are consistent with previous research by Arum (2022), which also found that a well-optimized

capital structure contributes to robust company growth. The continuous increase in equity and assets over the years further substantiates the positive impact of capital structure on the company's expansion efforts.

Large businesses typically require substantial financial resources to sustain growth and meet their strategic objectives. Companies with advanced levels of business development are often better positioned to attract investment from external sources, which is essential for fueling further growth. The positive relationship between capital structure and company growth suggests that businesses with a balanced and strategic approach to managing their debt and equity are more likely to achieve higher profitability and deliver greater returns to investors. This aligns with the findings of Aminy and Sauqi (2020), who emphasized the importance of capital structure in optimizing financial performance and supporting long-term growth.

In addition to capital structure, the size of the company is another critical factor influencing growth. The results of this study demonstrate that company size has a significant effect on the growth of PT. Maharani Syam Group, with an original sample value of 2.847, t-statistics of 3.097, and a p-value of 0.002. This finding is in line with the notion that larger companies, due to their greater resources and operational capacities, are better equipped to manage their assets and liabilities effectively, thereby enhancing profitability (Qayyum & Noreen, 2020). Larger firms tend to have better access to capital markets, enabling them to secure the necessary funding to support expansion initiatives.

The size of a company is not only a reflection of its current performance but also an indicator of its future growth potential. Parameters such as the number of employees and the continuous growth of assets and capital are indicative of a company's operational efficiency and strategic management capabilities. As supported by Niresh and Velnampy (2019), larger companies are often more resilient to market fluctuations and are better able to leverage economies of scale, which further drives growth and profitability.

Conclusion

This study has comprehensively evaluated the impact of capital structure and company size on the growth of PT. Maharani Syam Group. Using a quantitative approach and Partial Least Square (PLS) technique, the analysis revealed that both independent variables—capital structure and company size—significantly influence company growth. The capital structure showed a significant positive effect on company growth, evidenced by an original sample value of 3.231, t-statistics of 3.839, and a p-value of 0.000. Similarly, company size also significantly influenced growth, with an original sample value of 2.847, t-statistics of 3.097, and a p-value of 0.002.

The novelty of this research lies in its holistic approach to linking capital structure and company size with company growth in the security services sector, an area that has not been extensively explored in prior literature. While previous studies have discussed the role of capital structure and company size in more general contexts, this research contributes new insights by specifically highlighting how these factors influence the growth of companies in the service sector, particularly within the security industry. Furthermore, this study underscores the importance of strategic management in optimizing capital structure and leveraging company size to support sustainable growth. Considering the unique dynamics and complexities of

companies in the security services sector, this research offers new perspectives that can guide managers in developing more effective and efficient financial strategies.

Overall, the findings of this study enrich the existing literature by providing strong empirical evidence on the critical role of capital structure and company size in determining a company's growth trajectory. These insights are not only relevant to PT. Maharani Syam Group but also have broader implications for other companies in similar industries seeking to enhance their growth and long-term sustainability.

Acknowledgment

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