THESIS

THE INFLUENCE OF CAPITAL STRUCTURE ON THE FINANCIAL PERFORMANCE OF THE FOOD AND BEVERAGE SUB SECTOR MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE PERIOD OF 2015-2019

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MAKASSAR
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complied and submitted by

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to

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is my own research and to the best of my knowledge there is no other scientific works that has been submitted by others to obtain an academic degree in other universities or academic institutions, and there are no works or opinions that have been written or published by others except those cited in the text and mentioned in the bibliography.

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PREFACE

Assalamu'alaikum Warahmatullahi Wabarakatuh

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The purpose of writing this thesis is to fulfill the requirements for obtaining a Bachelor of Economics degree, Faculty of Economics and Business, Hasanuddin University. During the process of writing this thesis, researchers have faced various difficulties. However, thanks to the love and grace of Allah SWT, support, guidance, and assistance from various parties, this thesis can be completed properly.

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The author realizes that the preparation of this thesis is far from perfect, hopefully Allah SWT. give a double reply to all those who have Help the author in completing this thesis writing. Therefore, the author hopes for constructive advice and criticism from the reader. The end of the word, the author hopes that the purpose of making this thesis can be achieved accordingly with the expected.

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Randy Alif Ramadhan

ABSTRACT

This study aims to determine the effect of capital structure on the financial performance of manufacturing companies in the food and beverage sub-sector for the 2015-2019 period. In this study using a qualitative descriptive method and the author uses a non-probability sampling technique, namely purposive sampling. The sample in this study is a manufacturing company in the food and beverage sub-sector. Of the 10 food and beverage companies that have been taken, the authors obtained as many as 50 data on the company's financial statements. This data uses multiple regression analysis. Multiple correlation, T test and F test. The results of this study indicate that Debt to Equity Ratio (DER) and Equity to Assets Ratio (EAR) as variables of capital structure have a positive and significant effect on company profitability as measured by Return on Equity (ROE). Which means that every time there is an increase in the Debt to Equity Ratio (DER) and Equity to Assets Ratio (EAR), the Return on Equity (ROE) will also increase.

Keywords: Capital structure, Company Financial Performance, Debt To Equity Ratio, Equity To Asset Ratio

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PRELIMINARY

1.1 Background

The rapid economic development encourages business competition to be stronger so that managers are required to increase the profitability of their companies. Working capital is the main support for a company to carry out an operational activity so that the company's goals that have been set can be achieved. The company's financial performance is a benchmark for the success of the company's performance (Sufiyati, 2016). The company's financial performance is one of the factors seen by potential investors to determine stock investment. For a company, maintaining and improving financial performance is a must so that the shares still exist and are still in demand by investors. The financial statements published by the company are a description of the company's financial performance (Mahendra, 2012).

For companies that go *public, financial performance is an assessment that becomes a benchmark* investor in determining the sale and purchase of shares. Investor considers that the financial ratios that can be obtained from financial statements are one of the most flexible and simple but able to provide answers about conditions the company. Maintain and improve financial performance become a necessity for companies to maintain their existence company shares to remain in demand by investors (Sufiyati, 2016). In contrast to company performance, company performance has a positive influence on the survival and profitability of the company and is an effective mechanism to maintain or gain competitive advantage with other businessmen (Holiwono, 2016).

Investors in investing will also see the possibility of risk arising in a company. The company's ability to manage debt is one of the at tractors of investors, so it can increase the company's stock price. Interested and interested investors will invest in the company by buying their shares in the capital market (Anangsyah, 2018). Thus, the share price is a measure of the company's performance, namely a measure of the success of management in managing the company on behalf of the shareholders.

Capital structure is a very important actor for the growth and survival of the company. The capital structure has a strategic influence on the achievement of the company's long-term goals (Kristianti, 2018). The company's resilience can be seen from the company's alternative in seeking the most efficient funding from the various alternatives available to meet its funding needs. Efficient funding occurs when the company has an optimal capital structure.

Profitability is the company's ability to earn profit. Profitability is a measure of the performance of a profit-oriented organization. To see its performance, the company can perform internal benchmarks with the previous year's performance or with external benchmarks with industry ratios (Winarno, 2015).

Manufacturing companies are companies with large production scales and have large sales volumes and require large capital or funds to develop their production so that it will affect the capital structure or funding of a company. The manufacturing sector also absorbs the most labor and is an important sector in driving the country's economic growth. Therefore, manufacturing companies also have large and fast capital turnover in the industry (Musabbihan, 2018).

Capital structure and profitability have a relationship that cannot be ignored, where both have a relationship that affects each other. This is because the company needs an increase in profitability in order to survive in the long term and will later affect the value of the company regarding the size of the value issued by the company for the company's social and environmental needs, tax-deductible debt interest payments, and the addition of debt in the capital structure will increase the company's profitability.

The number of companies in the industry, coupled with increasingly difficult economic conditions, creates a fierce competition between manufacturing companies. Competition in the business world, especially in the manufacturing industry, makes several companies improve their performance so that their goals can be achieved (Purwitasari, 2013).

This research was conducted on food and beverage companies listed on the Indonesia Stock Exchange in 2015-2019. The researcher's reason is that this sector operates depending on the season. The food and beverage industry in Indonesia has positive expectations in its development. It is also supported by the increasing number of Indonesian populations. This also increases purchasing power and awareness to consume nutritious products. More than 50% of gross domestic product (GDP) in Indonesia is supported by the industrial sector.

Based on the things above, the writer wants to do research with the title "**The Effect of Capital Structure on the Financial Performance of Companies in the Manufacturing Sector of the Food and Beverage Sub-Sector Listed on the Indonesia Stock Exchange for the 2015-2019 Period”**

1.2 Formulation of the problem

From the explanation of the background of the problem above, the problems for researchers in this study are:

1. Does the Debt to Equity Ratio (DER) variable have a positive and significant effect on the company's performance with the Return On Equity (ROE) variable?

2. Does the Equity to Asset Ratio (EAR) variable have a positive and significant effect on the company's performance with the Return on Equity (ROE) variable?

1.3 Research purposes

The research objectives are as follows:

1. To analyze the effect of Debt to Equity Ratio (DER) on company performance with the Return On Equity (ROE) variable in the food and beverage sub-sector manufacturing companies listed on the IDX.
2. To analyze the effect of Equity to Asset Ratio (EAR) on company performance with the Return on Equity (ROE) variable in the food and beverage sub-sector manufacturing companies listed on the IDX.

1.4 Benefits of research

The uses of this research are as follows:

1. Practical Use The practical benefits of the results of this research are that it can contribute to the development of knowledge through analysis of the effect of capital structure on the financial performance of companies in the food and beverage sub-sector manufacturing sector listed on the IDX. So that the results of this study can be used as input or consideration for manufacturing companies engaged in the food and beverage sector in making policies relating to the capital structure and financial performance of the company in this case the company's profitability.
2. Theoretical Uses To contribute ideas to the development of economic science regarding the analysis of the effect of capital structure variables consisting of Debt to Equity Ratio (DER) and Equity to Asset Ratio (EAR) on company performance variables consisting of Return on Equity (ROE).

CHAPTER II

LITERATURE REVIEW

2.1 Capital Structure

2.1.1 Capital Structure Theory

Capital structure is a major topic in finance, both discussed as a subtopic in corporate finance and in investment decisions. In the company's balance sheet, which consists of the asset side which reflects the structure of wealth and the liability side as a financial structure (Dewi, 2014). The capital structure is also part of the financial structure which can be interpreted as learning that provides a balance between long-term debt and own capital.

Capital structure theory explains whether there is an effect of changes in capital structure on firm value (as seen from the company's stock price), if investment decisions and dividend policies are held constant. In other words, if the company replaces some of its own capital with debt (or vice versa) will the stock price change, if the company does not change other financial decisions (Widyaningrum, 2015). In other words, if the change in capital structure does not change the value of a company, it means that there is no best capital structure. But if by changing the capital structure it turns out that the value of the company changes, then the best capital structure will be obtained. The capital structure that can maximize the value of the company, or stock price, is the best capital structure. The theory of capital structure has been widely discussed by researchers. The following will describe these theories:

1. The theory of Modigliani and Miller (1958) or what is known as the MM theory is the basis of modern financial theory. This theory admits that there is no relationship between funding and investment. Therefore, in funding

investments, using debt or without debt has no effect on changes in company value (Widyaningrum, 2015).

2. Signaling theory is a management step in a company that should provide implicit instructions to investors about how management views the company's prospects. A company with unfavorable prospects will sell shares, which means attracting new investors to share their losses. Companies with very bright prospects prefer to go funding through new share offerings, while companies with poor prospects will choose to go funding with outside equity. If there is an announcement of a stock offering, it will usually be considered as a signal that the company's prospects are not too bright. If the company's prospects are actually bright, this should be the company in normal times,

3. Trade off theory in companies exchanging funding benefits through debt with higher interest rates and bankruptcy costs. The trade off theory provides three important inputs: 1) companies that have high asset variability in profits will have a large probability of financial distress, companies like this must use less debt, 2) typical fixed assets, invisible assets and opportunities. Growth will lose a lot of value in the event of financial distress. Companies that use this kind of assets should use less debt 3) companies that pay high taxes should use more debt than companies that pay low taxes (Atmaja, 2008). Based on this theory too,

2.1.2 Types of Capital

The meaning of the word capital is the source of funds used in a company. Capital includes all components on the liability side of the company's balance sheet except current liabilities. There are two types of capital, namely debt capital and own capital.

1. Foreign Capital/Debt Foreign capital is capital originating from outside the company which is temporarily working in the company and for the company concerned, the capital is a debt that has time to be repaid. According to the time of use, foreign capital or debt can be divided into three, namely (Holiwono, 2016):
   a) Short-term debt capital, namely foreign capital with a maximum period of one year. Most of the short-term debt consists of trade credit, which is the credit needed to be able to run its business.
   b) Medium-term capital, namely debt capital with a term or generally more than one year and less than ten years. The need to finance a business with this type of credit is felt because of the need that cannot be met with short-term credit on the one hand and is also difficult to fulfill with long-term credit on the other.
   c) Long-term debt capital, namely long-term debt generally more than ten years. This long-term debt is usually used to finance the expansion of the company (expansion) or the modernization of the company, because the capital requirements for these purposes use large amounts.
2. Own Capital or Equity, is long-term capital obtained from company owners or shareholders. Own capital is expected to remain in the company for an indefinite period while loan capital has maturity. There are three main sources of own capital, namely (Katu, 2018):
   a) Preferred stock capital is a special form of corporate ownership where dividends are obtained regularly and the payment must take precedence over common stock dividends. Although for the shareholders themselves it is not a permanent investment because at any time the shareholders can sell their shares.

b) Reserves formed from profits earned by the company for some time in the past or from the current year. Not all reserves are included in the definition of own capital. Reserves included in own capital are, expansion reserves, working capital reserves, foreign exchange reserves, and general/unexpected reserves.

c) Earnings on Retained Profits earned by a company can be partially paid out as dividends and partially retained by the company. If the retaining of profits is for a certain purpose, then a reserve is formed as described above. If the company does not have a specific purpose regarding the use of these profits, then these profits are retained profits.

2.1.3 Components of Capital Structure

From the understanding of capital structure, it can be seen that the capital structure consists of permanent short-term debt, long-term debt, preferred stock and shareholder capital. Broadly speaking, they are grouped into two, namely foreign capital and share capital.

1. Long-term debt

The amount of debt in the balance sheet will show the amount of borrowed capital used in the company's operations. Loan capital can also be in the form of short-term debt or long-term debt, but in general, long-term loans are much larger than short-term debt. According to Sundjaja and Barlian, "long-term debt is a form of long-term financing that has maturity of more than one year, usually 5-20 years".

Long-term debt loans can be in the form of term loans (loans used to finance permanent working capital needs, to pay off other debts, or purchase company machinery and equipment) and bond issuances (debt obtained through the sale of bonds, in which the nominal value of the bonds is determined, interest per year, and the repayment period of the bonds.

Some things that are considered by management so that they choose to use debt are as follows (Sari, 2013):

a. The cost of debt is limited, even though the company earns large profits, the amount of interest paid is fixed.
b. The expected yield is lower than that of common stock.
c. There is no change in control over the company if the financing uses debt.
d. Interest payments are a tax-deductible expense.
e. Flexibility in the financial structure can be achieved by including redemption rules in the bond agreement.

2. Owner's equity

Own capital is capital that comes from the owner of the company and is embedded in the company for an indefinite period of time. Own capital in addition to coming from internal sources can also come from within the company itself, namely capital that is generated or formed by itself in the company.

Funding with own capital will cause an opportunity cost. The advantage of owning company shares for the owner or company owner is control over the company. However, the return generated from shares is uncertain and shareholders are the first to bear the company's risk. Own capital or equity is long-term capital obtained from company owners or shareholders. Own capital is expected to remain in the company for an indefinite period while loan capital has maturity. There are 2 (two) main sources of own capital, namely (Sari, 2013):

1. Preferred share capital

Preferred stock gives its shareholders several privileges that make them more senior or have priority over common stockholders. Therefore, the company does not give preference shares in large numbers to shareholders.

2. Ordinary share capital

Company owners are common stockholders who invest their money in the hope of getting returns to the future. Common stockholders are sometimes called residual owners because they only receive the remainder after all claims on income and assets have been satisfied.

2.1.4 Factors Affecting Capital Structure

The company's capital structure is influenced by many factors, Maryati (2016) capital structure is also influenced by several main factors, including:

1. Suitability is a match between the way the funds are fulfilled and the time period for their needs. If what companies need is short-term, if they are financed with debt, bonds or by issuing their own capital, it is not appropriate. On the other hand, the method of fulfilling funds is adjusted to the period of need, meaning that if the need for funds is short-term, short-term funding sources should be met and if long-term funding needs are met, long-term funding sources should be met.
2. Control (Control) Control or supervision of the company is in the hands of the shareholders. The company's management has the duty to carry out the results of shareholder decisions. Usually a company is owned by several shareholders so if additional funds are needed it is necessary to consider whether the supervisory duties of the old owners will not be reduced. Therefore, with these considerations, usually the old owners prefer to issue bonds rather than adding shares.
3. Profit or (Earning per Share) Choosing a source of funds whether from shares or debt, financially should be able to generate greater profits for shareholders.

4. Level of Risk (Riskness) Debt is a source of funds that has a high risk because the interest still has to be paid both when the company makes a profit or in a loss condition. Therefore, the greater the use of funds from debt indicates the company has a greater level of risk.

2.1.5 Capital Structure Measurement

There are several ways to measure the capital structure of a company, in this study, the capital structure is measured using three ratios, including:

1. *Debt To Equity Ratio* (DER)

Debt to equity ratio is a ratio used to measure a bank's ability to cover part or all of its debts, both long-term and short-term, with funds originating from the bank's own capital. In other words, this ratio measures how big the total liabilities consist of the percentage of the bank's own capital compared to the amount of debt (Dendawijaya, 2005). This debt to equity ratio can also provide an overview of the capital structure owned by the company, so that the level of risk of collectible debt can be seen. Debt To Equity Ratio (DER) (Hery, 2015) solvency is the company's ability to meet all company obligations which include short-term debt and long-term debt, whether the company is still running or in a state of liquidity (dissolved), also a ratio to measure the extent to which a company is funded by debt. The formula for the debt to equity ratio is:

$$\boxed{DER = \frac{Total\ Amount\ Of\ Debt}{Total\ Capital}}$$

2. *Equity to Total Assets Ratio* (EAR)

Equity to Total Assets Ratio is a financial indicator used to measure the attachment or motivation of the owner to the business continuity of the bank concerned. This ratio shows the amount of own capital used to fund all company assets. The higher the proportion of own capital, the higher the owner's attachment or motivation for the continuity of his bank's business, so that the higher the owner's role in influencing the management to improve the performance or efficiency of his bank in a more professional manner. On the other hand, the relatively low proportion of own capital can cause owners to feel less disadvantaged if the bank is bankrupt or bankrupt (Widyastuti, 2014). The EAR ratio shows the amount of own capital embedded in the company to meet the company's capital needs. This ratio also shows the availability of capital to maintain liquidity (protective function) and operational continuity to protect capital owners from bankruptcy or bankruptcy (Widyastuti, 2014). The formula for Equity to total asset ratio (EAR) is as follows:

$$\boxed{EAR = \frac{Total\ Equity}{Total\ Assets}}$$

2.2 Company performance

The company's performance shows the company's ability to provide benefits from assets, equity, and debt. Company performance is the company's work performance (Fachruddin, 2011). Performance appraisal is a form of reflection of obligations and responsibilities to report performance, activities and resources that have been used, achieved and carried out. To assess whether the goals that have been set have been achieved is not something that is easy to do. This is because it involves many aspects of management. Therefore, the company's performance can be assessed through various indicators or variables to measure the company's success (Bukhori, 2012). Financial performance can be seen based on an analysis of the company's financial ratios, including: liquidity ratios, leverage ratios,

2.3 Financial Statement Analysis

Financial statements are prepared with the aim of providing financial information of a company to interested parties for consideration in making decisions. Management also needs to know the development of the state of investment in the company and the results achieved during the observed period (Anwar, 2011). In general, the financial statements themselves are from the balance sheet and profit and loss calculations as well as reports on changes in capital, where the balance sheet shows the total assets, debts and capital of a company on a certain date, while the profit and loss shows the results that have been achieved by the company and the costs incurred. Over a certain period.

Financial ratios as a measurement of financial performance in the company's financial statements can be used as a basis for predicting net income and dividends in the future. The method used to support the prediction combines the relationship between one financial component and another. In general, the relationship is seen from the ratio between one financial component to another. In the context of financial management, this analysis is known as financial ratio analysis. The various types of financial ratio analysis are as follows (Sufiyati, 2016):

1. Liquidity Ratio

The liquidity ratio measures the company's ability to meet its short-term obligations. This ratio is important because failure to pay obligations can lead to the bankruptcy of the company. This ratio measures the short-term liquidity ability of the company by looking at the company's current assets relative to its current debt (debt referred to here is the company's liability).

2. Solvency Ratio

The solvency ratio is a ratio that shows how the company is able to manage its debts in order to gain profits and is also able to repay its debts. This ratio measures the company's ability to meet its long-term obligations. A company that is not solvable is a company whose total debt is greater than its total assets. However, it must be understood that it does not mean that the company is insolvent but liquid but cannot carry out its activities. Because with its liquidity capabilities, it is very possible for the company to be able to repay its debts quickly and accurately.

3. Profitability Ratio

Profitability ratios are useful to show the company's success in generating profits or profits. Potential investors will carefully analyze the smooth running of a company and its profitability, because they expect dividends and market prices from its shares. This ratio is intended to measure the efficiency of the use of company assets. This is indicated by the profit generated from sales and investment income. The types of profitability are: profit margin, return on assets, return on equity, earnings per share, growth ratio, and valuation ratio.

4. Asset Ratio

This ratio looks at several assets and then determines the level of activity of these assets at a certain level of activity. Low activity at a certain level of sales will result in greater excess funds embedded in these assets. Some ratios used, for example: total asset turn over ratio, receivable turn over ratio, inventory turn over ratio, and so on (Holiwono, 2016).

2.4 Benefits of Financial Statements

Financial statements are an important tool to obtain information related to financial position and achievements that have been achieved by companies. Financial statements are one source of information that is quite important for making economic decisions. Financial statement analysis includes the application of various analytical tools and techniques to financial statements and financial data in order to obtain meaningful and useful measures and relationships in the decision-making process. Financial report analysis is carried out to achieve the objectives (Katu, 2018):

a. To find out changes in the company's financial position in a certain period, both assets, assets and operating results that have been achieved for several periods
b. To find out the weaknesses and strengths of the company.
c. To find out the corrective steps that need to be taken in the future related to the current period's financial position.
d. To conduct research or evaluate future management performance, whether an attack is needed or not because it is considered successful or failed.

2.5 *Return On Equity* (ROE)

ROE is the ratio used to measure the net profit obtained from the manager of the capital invested by the owner of the company. The higher the ROE number gives an indication to shareholders that the rate of return on investment is getting higher. As is known, shareholders have a residual claim on the profits earned. The profits obtained by the company will first be used to pay interest debt, then preferred shares, and then (if there are still remaining) are given to ordinary shareholders (Sari, 2013). ROE is generally calculated using accounting-based performance measures and is calculated as the company's net income divided by common stockholders' equity. This ROE shows the extent to which the company manages its own capital (net worth) effectively, measurement of the level of profit from investments that have been made by the owners of their own capital or shareholders of the company. ROE shows the profitability of its own capital or what is often referred to as business profitability.

Return on equity is the return on equity ratio which shows how much equity contributes in creating net income. This ratio can be calculated by dividing net income against equity (Wijaya, 2014)

Return on equity measuring the company's ability to obtain profits available to shareholders of the company or to find out the rate of return provided by the company for every rupiah of capital from the owner. This ratio is influenced by the size of the company's debt, if the proportion of debt is greater, this ratio will also be even greater. The calculation formulation of Return on Equity or ROE is as follows:

$$ROE = \frac{\text{Profit After Tax}}{\text{Total Equity}} x\ 100\%$$

2.6 Advance Research

From several previous studies to analyze the effect of capital structure on company performance. Research on the influence between these variables still show mixed results in research results, research objects, and even the analytical tools used.

Table 2.1 Previous Research

No	Researcher	Title	Research result
1	Romadhoni (2017)	The Effect of Capital Structure on the Financial Performance of Manufacturing Companies in the Food and Beverage Sector Listed on the Indonesia Stock Exchange in 2013-2016	Debt Equity Ratio Variable Partially Has Significant Positive Effect on Return on Equity. Variable Debt to Asset Ratio Partially Has No Significant Positive Effect on Return on Equity. Equity To Asset Ratio Variable Partially Has No Significant Positive Effect on Return on Equity. Variables Debt Equity Ratio, Debt to Asset Ratio and Equity to Asset Ratio Simultaneously Have a Positive and Significant

			Effect on Return On Equity
2	Syahrinah Sianipar (2017)	The Effect of Capital Structure and Profitability on Company Value in the Food and Beverage Sector Listed on the Indonesia Stock Exchange	Simultaneous Research Using Statistical Tests That Is Performed Hypothesis Testing F Test or Simultaneous Test Shows That Capital Structure and Profitability Together Show A Significant Effect On Firm Value
3	Monica et al (2017)	Effect Of Capital Structure On Return On Equity Listed Food And Beverage Companies On The Indonesia Stock Exchange Period 2014-2016	Variable DER (Debt to Equity Ratio) and EAR (Equity to Assets Ratio) Significant positive effect on ROE (Return on Equity) to food companies and beverages listed on the Stock Exchange Indonesia in 2014-2016 while DAR (Debt to Assets Ratio) has a significant negative effect on ROE
4	Devi Ferawati (2016)	Effect of Capital Structure on Return on Equity (Roe) on Property and Real Estate Companies Listed on The Indonesia Stock Exchange Period 2009-2013	Simultaneously Equity to Asset Ratio (EAR), Long Term Debt to Asset Ratio (LDAR) and Debt to Total Asset Ratio (DAR) affect return on equity (ROE) in property and real estate companies listed on the

			Indonesia Stock Exchange for the period 2009-2013
5	Andreas Michael Holiwono (2016)	The Effect of Capital Structure on the Financial Performance of Companies in the Manufacturing Sector of the Food and Beverage Sub-Sector Listed on the Stock Exchange (2010-2014 Period)	DER as A Variable Of Capital Structure Has A Negative And Significant Influence On The Profitability Of The Company As Measured By ROE. The DAR variable has a positive and significant effect on the company's profitability as measured by ROE. EAR Variables as A Variable Of Capital Structure Have A Positive Influence On The Company's ROE But Not Significant In other words EAR has no influence on the Company's ROE.
6	Bagas Binangkit (2014)	Effect of Capital Structure on Company Performance and Stock Prices in Manufacturing Companies in Bei	DER and DAR variables have a positive and significant impact on company performance, while ear variables have a negative but not significant impact on company performance.
7	Mumtaz et al (2013)	Capital Structure and Financial Performance: Evidence From Pakistan	Financial Performance Is Significantly Influenced by Capital Structure.

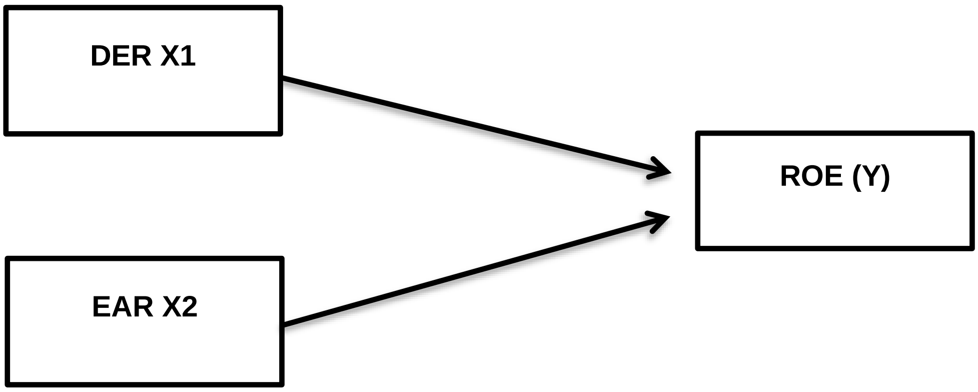
		(Kse 100 Index)	This Capital Structure Is Assessed Negatively With regard to the Market Value and also raises risks related to policies related to the capital structure.
8	Edith Theresa Stein (2012)	Effect of Capital Structure (Debt To Equity Ratio) on Profitability (Return On Equity)	The Capital Structure Variable (DER) Has a Negative And Significant Effect on ROE.
9	Pouraghajan et al (2012)	The Relationship Between Capital Structure And Firm Performance Evaluation Measures: Evidence From The Tehran Stock Exchange	There is a significant negative relationship between the debt ratio and the company's financial performance and there is a significant positive relationship between asset turnover, firm size, asset tangibility ratio, and growth opportunities on financial performance measurement.
10	Puwanenthiren Pratheepkanth (2011)	Capital Structure and Financial Performance: Evidence From Selected Business Companies In Colombo Stock Exchange Sri Lanka	Capital Structure Negatively Affects Financial Performance.

Source: Previous research, prepared by the author 2021

2.7 Research Framework

Based on the background of the problem, formulation of the problem, research objectives, and theoretical basis that have been stated above, the proposed research framework is as follows:

Figure 2.1 Research Framework



2.8 Hypothesis Formulation

Based on the above framework, the hypotheses set out in this study are:

H1: Debt to Equity Ratio (DER) variable has a positive and significant effect on company performance with the Return on Equity (ROE) variable.

H2: Equity to Asset Ratio (EAR) variable has a positive and significant effect on company performance with the Return on Equity (ROE) variable.