Growth Opportunity, Profitability And Company Size Capital Structure of Healthcare Companies

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ABSTRACT

This study explores the influence of growth opportunity, profitability and company size on capital structure of healthcare companies. The primary objective is to ascertain the healthcare companies is sound during covid-19 as determined by the factors studied. The research employs a quantitative methodology, analyzing a dataset comprising financial performance of the company. The analytical approach focuses on finding the relationship between variables such as growth opportunities, profitability and firm size on capital structure. Smart PLS 3.0 is utilized in the study. The findings reveal that there is significant relationship between profitability and capital structure at 10% significant level. The study also show that firm size and capital structure has a significant relationship at 1% significant level. However, growth opportunity reveals no significant relationship with capital structure. The findings suggest that capital structure can be beneficial for the company especially during economic downturn, a larger firm with appropriate capital structure allows them to leverage their size for better financing terms, enhancing their capacity for growth and investment while managing risks effectively.

Keywords: growth opportunity, profitability, size, capital structure.

INTRODUCTION

During the COVID-19 pandemic, healthcare companies in Indonesia played a crucial role in bolstering the nation's health infrastructure and response capabilities (Widodo et al, 2024). They were instrumental in the production and distribution of essential medical supplies, such as personal protective equipment (PPE), ventilators, and testing kits, which were vital in managing the surge of cases. Additionally, these companies facilitated the establishment of temporary healthcare facilities and enhanced existing hospitals to accommodate the influx of patients, ensuring that the healthcare system could cope with the unprecedented demand.

Moreover, healthcare companies contributed significantly to vaccine development and distribution efforts. They not only collaborated with international firms to produce vaccines locally but also managed logistics to ensure equitable access across Indonesia's diverse archipelago (Sutrisni et al, 2023). Alongside these efforts, they engaged in public health communication to combat misinformation and promote awareness about preventive measures. By leveraging technology through telehealth services, they provided essential medical consultations remotely, helping to reduce virus transmission. Overall, the proactive involvement of healthcare companies was vital in safeguarding public health and mitigating the pandemic's impact on Indonesian society.

During the COVID-19 pandemic, healthcare companies in Indonesia faced unprecedented challenges that necessitated a reevaluation of their capital structure to ensure sustainability and performance (Widodo et al, 2024). The urgent demand for medical supplies, PPE, and testing capabilities required significant investments, compelling companies to explore various financing options. Many sought to strengthen their capital base through equity financing, partnerships, and government support, enabling them to scale operations rapidly and maintain liquidity. This strategic focus on capital structure not only facilitated immediate responses to the crisis but also positioned these companies for future growth as they adapted to a rapidly changing healthcare landscape.

Additionally, the pandemic highlighted the importance of robust financial management and investment in innovation within the healthcare sector. Companies that effectively balanced debt and equity financing were better equipped to invest in research and development for vaccines and treatments, as well as in digital health technologies. By enhancing their operational efficiency and exploring new revenue streams, such as telehealth services, healthcare firms could improve their performance metrics even amid economic uncertainty. Ultimately, the ability to navigate capital structure challenges not only supported immediate pandemic responses but also laid the groundwork for long-term resilience and growth in Indonesia's healthcare industry.

The negative impact of COVID-19 on the financial markets has resulted in significant and prolonged losses for companies (Rahmwati & Sembiring, 2022). The COVID-19 pandemic has adversely affected corporate performance (Kumalasari & Parluhutan, 2023). During the pandemic, many businesses across various sectors of trade and industry experienced disruptions in their business chains and ultimately had to close down (Elia et al, 2023). Many companies faced financial difficulties and experienced bankruptcy due to operational disruptions during the COVID-19 pandemic (Kumalasari & Parluhutan, 2023). Putri & Prasetio (2023) and Rahmwati & Sembiring (2022) particularly studied the financial health of healthcare companies pre and during covid-19.

In this study, the researcher will discuss Growth Opportunity, Profitability And Company Size On Capital Structure of Healthcare Companies.

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LITERATURE REVIEW

Capital Structure

Capital structure refers to the mix of debt and equity that a company uses to finance its operations and growth. The optimal capital structure balances the cost of financing with the need for funds, allowing companies to maximize their value while minimizing financial risk. Benefits of a well-managed capital structure include improved financial flexibility, as it enables firms to access funding for investments and expansion while managing interest obligations and shareholder returns effectively. Additionally, an appropriate capital structure can enhance a company's creditworthiness, lower the cost of capital, and provide a buffer during economic downturns, ultimately contributing to greater stability and long-term profitability (Brigham & Houston, 2011).

Growth Opportunities

Growth opportunities refer to the potential avenues for a company to expand its operations, increase revenue, and enhance market share. These opportunities can arise from various sources, such as entering new markets, developing innovative products, forming strategic partnerships, or leveraging technology. The benefits for companies pursuing growth opportunities include improved profitability, enhanced competitive advantage, and increased brand recognition. By capitalizing on these opportunities, companies can diversify their revenue streams, reduce reliance on existing markets, and foster long-term sustainability, ultimately positioning themselves for greater resilience in dynamic business environments. Growth Opportunity is a ratio to shows how a firm is able to improve its owner's value. The study using asset growth for growth opportunities proxies. Previous studies stated that there is no significant relationship between Growth Opportunities and Capital Structure (Kusna & Setijani, 2018). On the other hand, another study stated that there is a relationship between Growth Opportunity and Capital Structure (Amin et al, 2023; Meutia, 2016).

H1: Growth Opportunity and Capital Structure has significant relationship

Profitability refers to a company's ability to generate more revenue than its expenses over a specific period, resulting in a positive financial return. It is a key indicator of financial health and operational efficiency, allowing businesses to assess their performance and make informed strategic decisions. The benefits of profitability include the ability to reinvest in the business for growth, attract investors, and provide returns to shareholders. Additionally, a profitable company is better positioned to withstand economic downturns, fund research and development, and enhance its competitive edge, ultimately contributing to long-term sustainability and success in the marketplace. According to Brigham & Houston (2011), profitability is also wrong one factor that is thought to affect capital structure. This study is using return on asset for profitability ratio. Previous studies stated that there is no significant relationship between Profitability and Struktur Modal (Alamsyah, Agus Rahman, 2011) On the other hand, other study stated that there is a between Profitability and Capital Structure (Amin et al, 2023; Meutia, 2016).

H2: Profitability and Capital Structure has significant relationship

Firm size refers to the scale of a company, often measured by metrics such as revenue, number of employees, or total assets. Larger firms typically benefit from economies of scale, allowing them to reduce per-unit costs through mass production and more efficient resource utilization. This scale can enhance negotiating power with suppliers, improve access to capital, and enable more substantial investments in technology and innovation. Additionally, larger firms often have greater brand recognition and customer trust, which can lead to increased market share and competitiveness. Overall, firm size can significantly influence a company's operational capabilities and growth potential, contributing to its long-term success. According to Brigham and Houston (2011) company size is often referred to as a benchmark for the size of a company valued from total assets, equity, or sales of a company The size of a company is often referred to as a measure of the size of a company valued by a company's total assets, equity, or sales. One of the factors considered to determine how much the funding decision policy (capital structure) in meeting the size of the company's assets is the size of the company. Large companies will also issue increasingly large funds, both from their own capital and debt policy. Previous studies stated that there is significant relationship between Firm Size and Capital Structure (Meutia, Tuti 2016; Santoso, 2016; Andriani, 2023). On the other hand, research by Kusna & Setijani (2018) revealed there is no significant relationship between firm size and capital structure.

H3: Firm Size and Capital Structure has significant relationship

METHODS

This research is quantitative and uses a descriptive research design. The data used consists of financial and annual reports of companies, which can be accessed through the company websites, the Indonesia Stock Exchange, and investing.com. SmartPLS version 3.0 software is used for processing the necessary research data. This study selects companies listed in the Healthcare sector as the research population. The sector was created by Indonesian Stock Exchange which shows several different type of business in the healthcare area in the Indonesia Stock Exchange and focuses on pharmaceutical, hospital, laboratory, and other healthcare areas.

In this study, the Healthcare sector is used as a tool to categorize the companies that make up the research population. The study samples financial and annual reports of companies listed in the Healthcare sector from the year 2018 to 2021. These reports are selected using purposive sampling, a technique for sample selection based on specific criteria. The criterion used is that the companies must have consistently issued the required reports during the 2018-2021 period. All companies in the Healthcare sector consistently issued the required reports from 2018-2022, allowing all 17 companies to be included as samples in this research.

The variables studied are divided into independent and dependent variables. The independent variables, also known as free variables and denoted by X, include growth opportunities (X1), profitability (X2) and firm size (X3). On the other hand, the dependent variable, also known as the bound variable, is capital structure, measured using the debt to equity ratio and denoted by Y.

RESULTS AND DISCUSSION

After all the data has been collected, data processing can be carried out to test the data in the research. Below is the model diagram after data testing has been conducted using SmartPLS version 3.0.

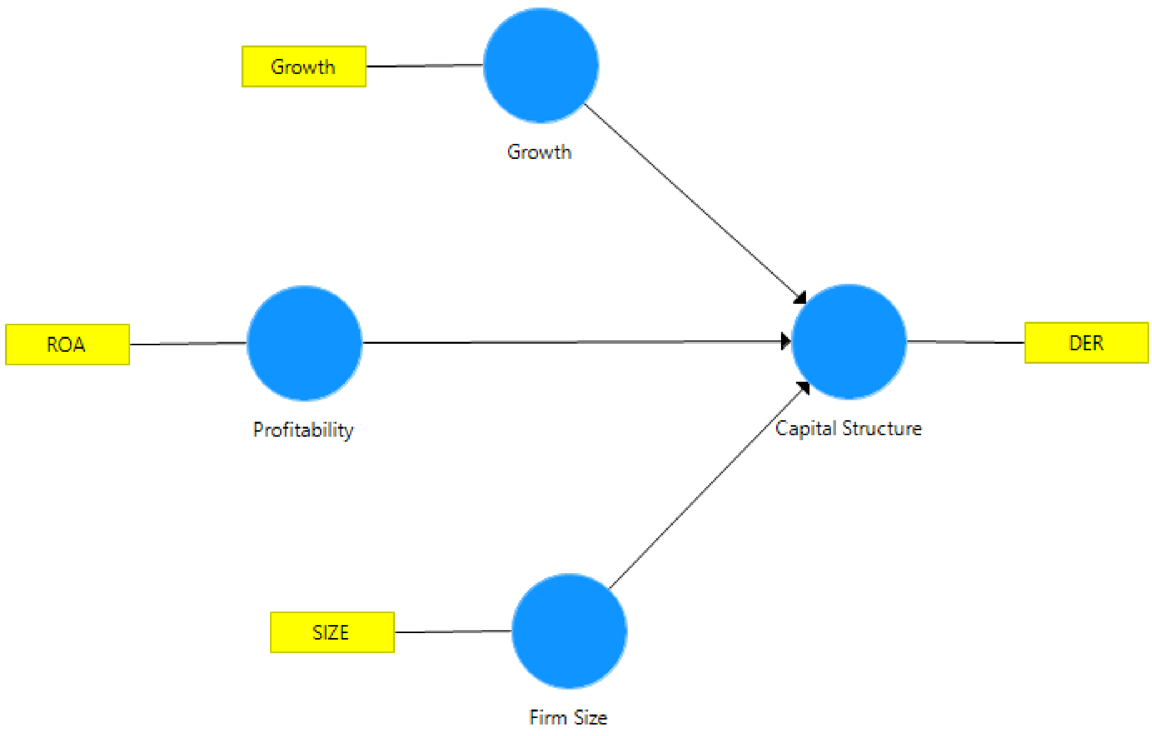

Figure 1. Research Diagram

Source: Smart PLS 3.0

Table 1
Discriminant Validity

Variable	Loadings (1)	Result (2)
Growth Opportunities	1.000	Valid

Profitability	1.000	Valid
Firm Size	1.000	Valid
N	68	68

Discriminant Validity: Loadings > 0.7 = Valid.
Source: Calculated by Authors

The analysis output shown in the table indicates that all the studied indicators have an outer loading result of 1.000, which exceeds the standard value of 0.70. This result demonstrates that all the constructs' indicators examined have been proven valid for use as measurement tools.

Table 2
HTMT

Variable	(1)	(2)	(3)	(4)
Capital Structure				
Firm Size	0.161			
Growth Opportunities	0.399	0.319		
Profitability	0.418	0.037	0.074	

Source: Calculated by Authors

Based on the calculations performed, there are no HTMT values exceeding 0.9, which means that all constructs meet the discriminant validity requirements according to the HTMT standard. The results of this discriminant validity test indicate that the outer PLS model can be used in the research and proceed to the next analysis stage

Table 3
Hypothesis Testing

Variable	T-Stat (1)	P-Value (2)
FS -> CS	0.823	0.411
GO -> CS	1.673	0.095***

P -> CS	4.618	0.000*
N	68	68

*At the 10%, 5%, and 1% levels, respectively, the regression coefficient is significantly different from zero, as indicated by the t statistics in parenthesis *** $p < 0.10$, ** $p < 0.05$, and * $p < 0.01$.*
Source: Calculated by Authors

The hypothesis test results presented in the table above show that firm size has no significant impact on capital structure. This is evidenced by a p-value of 0.411, which is more than 0.10, and a t-statistic value of 0.823, with a 10% significance level. Therefore, H1 is rejected. Additionally, the results reveal that growth opportunities has a significant effect on capital structure. With a 10% significance level, the p-value of 0.095 is less than 0.10, and the t-statistic value of 1.673, indicating that H2 is accepted. Furthermore, profitability is also found to have a significant impact on capital structure, with p-value of 0.000, which is greater than 0.001, and a t-statistic value of 4.618, with a 1% significance level. Thus, H3 is accepted.

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This study aims to determine the effect of Growth Opportunity, Profitability and Company Size on Capital Structure in the Healthcare sub-sector listed on the Indonesia Stock Exchange in 2018-2021. Based on the results of the study, conclusions can be made that the there is no significant relationship between growth opportunity and capital structure. On the other hand, the results show profitability and capital structure has a significant relationship. The same result shows that firm size and capital structure also has a significant relationship. The findings suggest that capital structure can be beneficial for the company especially during economic downturn, a larger firm with appropriate capital structure allows them to leverage their size for better financing terms, enhancing their capacity for growth and investment while managing risks effectively. The study however, is limited to Healthcare companies in Indonesia stock exchange, and particularly using Asset growth ratios for growth opportunities whereas there are other ratios that can be a proxy of growth opportunities such as Price Earnings Ratio. For profitability, the study also limited with using return on asset, whereas for other researcher can also explore profitability ratios such as return on equity, basic earning power net profit margin and ROIC.

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