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Comparison of Capital Structure Between Multinational and Domestic Company in The Fast-Moving Consumer Goods Sector For The Period 2020-2022

Erlangga Drunart [1]; Intan Nauli [2]

erlanggadrunart65@gmail.com, Universitas Mercu Buana, Indonesia

ABSTRACT

This study aims to analyze the capital structure and capital budgeting of two companies, namely UNVR and INDF, in the context of investment decisions during the period 2020-2022. The analysis methods used include normality tests, homogeneity tests, and t-tests to compare financial variables, namely Debt to Equity Ratio (DER), Debt Ratio (DR), Equity Ratio (ER), and Dividend Yield (DY). The normality test results show that all variables are normally distributed. The homogeneity test indicates that the variances between groups are homogeneous. The t-test results indicate that there are significant differences between the DER, DR, and ER of the two companies, with UNVR having higher DER and DR, while INDF has a better ER. However, there is no significant difference for DY, despite INDF's higher dividend yield. These findings offer substantial assistance to investors in considering investment decisions based on the capital structure and dividend policies of both companies.

***Keywords**: Investment Decisions; Capital Structure; Capital Budgeting; T-Test, UNVR, INDF*

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INTRODUCTION

Multinational companies have become key players in the global economy. With their activities in various countries, multinational companies not only contribute to economic growth but also influence political and social policies in the countries where they operate. This article will review the contributions of PM to the global economy, the challenges they face, and the impacts they have on host countries. Multinational companies must consider the impact of cross-border monetary policies when formulating long-term investment strategies. Changes in global monetary conditions can alter the profitability, risk, and competitiveness of companies in international markets. Therefore, a deep understanding of the transmission mechanisms of global monetary policies and their implications for the strategic investments of multinational companies is becoming increasingly important.

Domestic companies are business activities that operate solely within the domestic sphere. Many domestic or local businesses continue to maintain their operations solely within the domestic sphere to avoid the challenges of entering the international market and its various risks. Such as trade barriers and customs tariffs, differences in legislation, language and cultural differences, and several other factors. Domestic only relies on the purchasing power of the local

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community. As we know, Indonesia is a developing country, so its purchasing power is not as rapid as that of developed countries. Although there are still some companies whose markets are in developing countries, when compared to the exchange rate in Indonesia, these countries indeed have a higher exchange rate, creating a higher purchasing power compared to the local population. These countries include Malaysia, Thailand, Brunei, among others.

Capital structure is the determination of the composition of capital with the comparison between debt and equity, or in other words, capital structure is the result or consequence of financing decisions (financing decision), which essentially involves choosing between debt or equity to finance the company's operations (Palup, et. al., 2017). The variable of the capital structure ratio used is the debt-to-equity ratio because capital structure is the composition and proportion of debt and equity to generate profit (Hidayat, 2019).

The difference between UNVR vs INDF

Year 2022	*INDF*	*UNVR*
Debt To Equity Ratio (DER)	*0.927*	*3.528*
Debt ratio (DR)	*0.481*	*0.782*
Equity Ratio (ER)	*0.519*	*0.218*

The difference between capital building UNVR vs INDF

Year 2022	*INDF*	*UNVR*
Deviden Yield	*4.10%*	*3.83%*

The basis of the author's research and the topic discussed is the difference in capital structure and capital budgeting between Unilever & Indofood companies and its impact on investment decisions. The determination of capital structure is conducted using the Debt to Equity Ratio (DER), Debt to Asset Ratio (DAR), and Equity Ratio (ER).

Debt to Equity Ratio (DER) is the comparison between debt and equity in company financing and indicates the ability of equity capital. DER can be calculated as follows.

$$DER = \frac{\text{Debt Total}}{\text{Shareholder Equity}}$$

Debt to assets the debt ratio is a financial ratio that shows the percentage of a company's wealth financed by debt, and the debt ratio can be calculated as follows.

$$DAR = \frac{\text{Debt Total}}{\text{Asset Total}}$$

Equity Ratio (ER) is a ratio that measures the proportion of equity in a company's total assets. This ratio is used to show the extent to which a company finances its assets with equity rather than debt, thereby providing an overview of the company's financial independence. The equity ratio can be calculated as follows:

$$ER = \frac{\text{Equity Total}}{\text{Asset Total}}$$

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And the determination of capital budgeting in this study uses dividend yield.

Dividend yield is a financial ratio that shows the amount of dividend payments a company makes each year.

$$DY = \frac{\text{Dividend per-Share}}{\text{Stock Price}}$$

Pusr Nabila and Rahmawati (2023) state that a company's capital structure is funding derived from short-term and long-term debt.

Nurcahyani & Situngkir (2021) The solvency ratio is used to measure the company's ability to meet all its obligations, both short-term and long-term.

METHOD

The type of research used is quantitative research. This research emphasizes hypothesis testing based on models, and the results are then elaborated or described for the research purpose, which is to find differences in capital structure and capital budgeting between multinational and domestic companies. This research also aims to identify and analyze the relationship between capital structure and capital budgeting with the company's financial performance, as well as to see the extent of the influence of each component of capital structure (equity and debt) on performance. Additionally, it aims to evaluate the company's financial performance based on certain financial ratios, such as Debt Equity Ratio (DER), Debt to Assets Ratio (DAR), Equity Ratio (ER) in Capital Structure, and Dividend Yield (DY) in Capital Budgeting, to provide recommendations as an investor.

Population

By understanding the entire population, investors can make more accurate decisions based on data that encompasses the whole picture. This is important for strategic planning and risk assessment. Using the entire population can help in making more accurate projections. For example, to determine the average return on investment in a market, it is better to use the entire population rather than a sample.

With population analysis, risks can be managed better because the available information is more complete and reflects the reality of the entire relevant group.

Data Collection Technique

The data collection technique used in this research is the documentation method. The documentation method involves collecting secondary data in the form of financial reports.

Type And Source Of Data

The type of data used in this research is secondary data. The secondary data in this research consists of financial statements from UNILEVER and INDOFOOD on the Indonesia Stock Exchange during the research period of 2020-2022.

The type of variable used in this study is capital structure, which is the proportion of long-term use with equity and capital budgeting, where the focus of this research is on dividend distribution measured using a formula.

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Data Analysis Technique

With a focus on the comparison between two companies (UNLV vs INDF) during the years 2020-2022, an independent samples t-test will be used, which is employed to compare two independent groups.

For the difference test of decision-making criteria at a significance level of 5%, if the probability is greater than 0.05, then H0 is accepted, which means there is no difference in the average capital structure among the groups compared in this study. Conversely, if the probability is less than 0.05, then H0 is rejected, indicating a difference in the average capital structure among the groups compared in this study.

In formulating the null hypothesis (H_0) and the alternative hypothesis (H_1) for the t-test: Null Hypothesis (H_0): There is no significant difference between UNILEVER and Indofood in terms of capital structure or capital budgeting in 2022.

Alternative Hypothesis (H_1): There is a significant difference between UNILEVER and Indofood in terms of capital structure or capital budgeting in 2022.

Normality Test

The normality test is used to examine whether, in the regression model, the independent variable and the dependent variable, or both, have a normal distribution or not. A good regression model has a normal or nearly normal data distribution. The normality test used in this study is the Kolmogorov-Smirnov test with the following hypotheses (Ghozali, 2009: 113):

Ho: residuals are normally distributed
Ha: residuals are not normally distributed.

The condition for the significance test of the Kolmogorov-Smirnov test is that if the significance level is greater than 0.05, then Ho is accepted; conversely, if the significance level is less than 0.05, then Ho is rejected.

Homogeneity Test

The homogeneity test is used to determine whether several population variances are the same or not. This test is conducted as a prerequisite in the analysis of independent sample t-test and ANOVA. If the p-value > 0.05, the assumption is met (homogeneous variance), and you can proceed to the regular t-test.

If the p-value < 0.05, then the variance between groups is not homogeneous, and you should use Welch's t-test (a modification of the independent t-test that is more robust to variance irregularities).

T-TEST

The t-test is a statistical method used to compare the means of two groups of data. This method is very useful in research to determine whether the observed differences between the groups are statistically significant. The t-test is divided into several types, each with different purposes and applications. The type of t-test used is an independent t-test. UNVR and INDF are two different companies and do not have a direct relationship in terms of their capital structure and capital budgeting processes. Therefore, the information collected from these two companies is separate and used to find out if there is a meaningful difference in their capital structure (like the debt-to-equity ratio) and capital budgeting (such as the methods used to evaluate investments) by creating these hypotheses: H0 = there is no difference in the average

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between the compared groups. H1 = there is a difference in the average between the compared groups.

H0: There is no difference in the average between the compared groups.
H1: There is a difference in the average between the compared groups

Then the next step is to calculate the significance level, which is usually set at α = 0.05 or 0.01, and calculate the value.

$$t = \frac{\bar{x}1 - \bar{x}2}{\sqrt{s^2_1/n1 + s^2/_2 n2}}$$

RESULTS AND DISCUSSION

This research consists of two stages before conducting the t-test, namely the normality test and the homogeneity test, to determine the differences in capital structure and capital budgeting between UNVR and INDF to determine investments based on dividend receipts.

Normality Test

The normality test is conducted using the Shapiro-Wilk Test, which is one of the most common methods for testing normality. This test is suitable for small to medium sample sizes and provides a favorable indication of whether the data follows a normal distribution.

Hypotheses being tested:
H0 (Null Hypothesis): The data is normally distributed.
H1 (Alternative Hypothesis): The data is not normally distributed

Based on the results of the normality test for DER, DR, EY, and DY using the Shapiro-Wilk statistic, if $p < 0.05$, then all variables are normally distributed. However, if the p-value is less than 0.05, it indicates a significant difference between INDF and UNVR.

For both companies, UNVR and INDF, both have a p-value of > 0.05 for DER, DR, ER, and DY, with the details of the p-value test results for all variables being greater than 0.05, indicating that the data for each variable is normally distributed:
DER: p-value INDF (0.106) and UNVR (0.783)
DR: p-value INDF (0.099) and UNVR (0.733)
ER: p-value INDF (0.099) and UNVR (0.733)
DY: p-value INDF (0.308) and UNVR (0.959)

The p-value is greater than 0.05 for all Shapiro-Wilk tests, so the null hypothesis is not rejected, which allows us to conclude that the data for DER, DR, ER, and DY for both companies (INDF and UNVR) are normally distributed.

Homogeneity Test

After the data is normally distributed, a homogeneity test will be conducted. In this study, the homogeneity of variances test is conducted using Levene's Test. This test is highly sensitive to violations of the normality assumption and is used to test whether the variances of the two

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groups (in this case, the companies INDF and UNVR) are the same. Hypothesis being tested:

H0 (Null Hypothesis): The variances between groups are the same (homogeneous). H1 (Alternative Hypothesis): The variances between groups are not the same (not homogeneous). Based on the results of the Levene's Test conducted, here are the results for each variable:

Debt-to-Equity Ratio (DER)
F = 1.943, p = 0.236
Interpretation: Because p > 0.05, the null hypothesis is not rejected, indicating that the variance for DER between INDF and UNVR is homogeneous.

Debt Ratio (DR)
F = 2.208, p = 0.211
Interpretation: p > 0.05, so the variance for DR is also considered homogeneous.

Ratio Equity (ER)
F = 2.208, p = 0.211
Interpretation: p > 0.05, indicating that the variance for ER is homogeneous.

Dividend Yield (DY)
F = 3.954, p = 0.118
Interpretation: p > 0.05, so the variance for DY is also homogeneous.

The results of the Levene test show that the variances between groups (INDF and UNVR) are homogeneous for all the tested variables (DER, DR, ER, DY). Therefore, the assumptions required to proceed with the t-test analysis have been met. With the variances considered homogeneous, further analysis using the t-test can be conducted with higher validity.

T-test

Next, to compare the means of two independent groups, in this case, the companies INDF and UNVR. This test helps determine whether there is a significant difference in capital structure and capital budgeting based on the variables studied, namely Debt to Equity Ratio (DER), Debt Ratio (DR), Equity Ratio (ER), and Dividend Yield (DY). Hypotheses Tested:

H0 (Null Hypothesis): There is no significant difference between the means of the two groups (INDF and UNVR).

H1 (Alternative Hypothesis): There is a significant difference between the means of the two groups.

The results of the t-test analysis for each variable are as follows:
Debt to Equity Ratio (DER)
Levene's Test: p = 0.236, indicating that the variance between groups is homogeneous.

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t-test: t(4) = -17.985, p = 0.000. There is a significant difference between the average DER of INDF and UNVR ($p < 0.05$), where UNVR has a higher DER compared to INDF.

Debt Ratio (DR)
Levene's Test: p = 0.211, indicating homogeneity of variances.
t-test: t(4) = -20.084, p = 0.000. A significant difference between the average DR of INDF and UNVR ($p < 0.05$) indicates that UNVR has a higher DR.

Equity Ratio (ER)
Uji Levene: p = 0.211, indicating homogeneity of variances.
t-test: t(4) = 20.084, p = 0.000. There is a significant difference between the average ER of INDF and UNVR ($p < 0.05$), with INDF having a higher ER.

Dividend Yield (DY)
Levene's Test: p = 0.118, indicating that the variances are homogeneous.
t-test: t(4) = 2.392, p = 0.075. The p-value is close to the significance threshold, indicating that there is no significant difference between the average DY of INDF and UNVR, although INDF has a higher DY.

CONCLUSION

Conclusion

For the DY variable, although no significant difference was found (p = 0.075), the existing difference indicates that INDF has a better dividend policy. The t-test shows that there are significant differences in the capital structure between INDF and UNVR, particularly in the DER, DR, and ER variables. The result indicates that the two companies have different financial strategies. Meanwhile, for dividend yield, although there is no significant difference, the results still reveal information about each company's dividend policy. Thus, this analysis provides a strong foundation for further comparison of the financial aspects of INDF and UNVR.

Suggestion

For future research, a long-term study can be conducted to analyze changes in capital structure and financial performance of both companies year by year. The research can also include other similar companies to gain insights into trends and patterns that may not be visible in a limited cross-sectional analysis.

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