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ADJUSTMENT SPEED OF THE CAPITAL STRUCTURE IN THE TELECOMMUNICATION INDUSTRY IN INDONESIA YEAR 2013-2018

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ABSTRACT

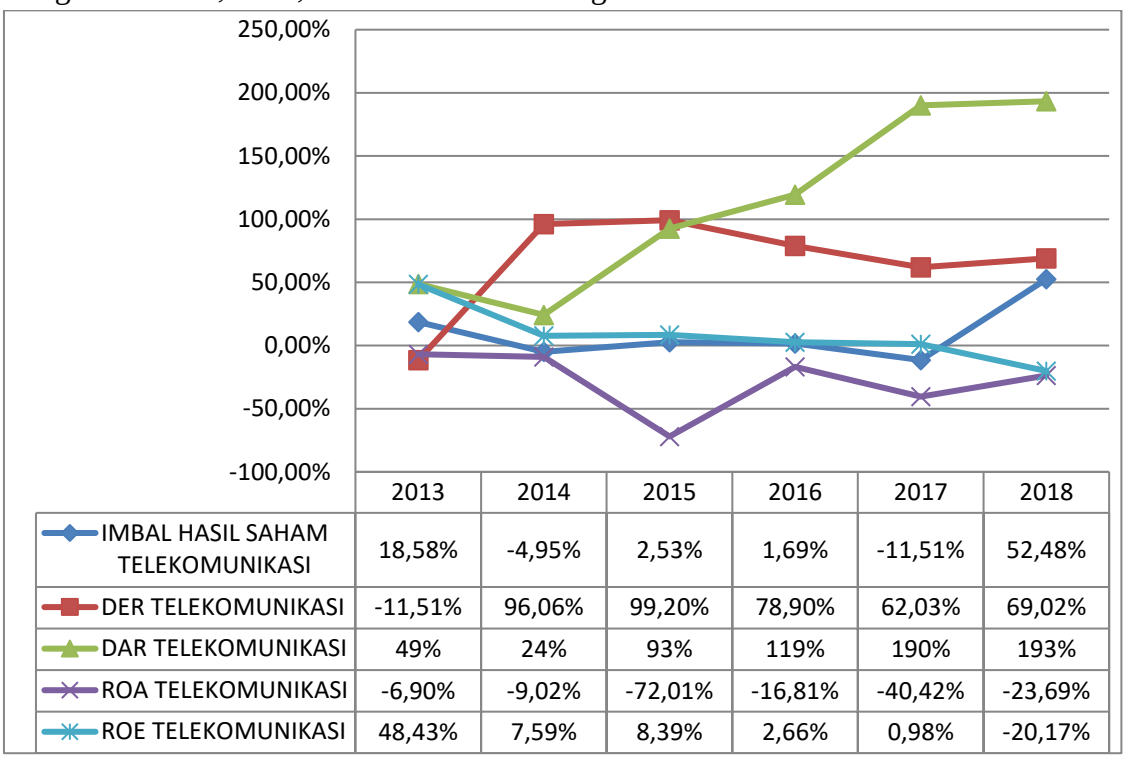
In 2013, telecommunications companies in Indonesia relied significantly on debt loans as a source of funding, with an average capital structure of -11.51%. The highest increase was observed in 2015, reaching an impressive 99.20%. Given this fluctuation, it becomes imperative to conduct research focusing on the adjustment speed of the capital structure in telecommunications companies during the period from 2013 to 2018. The research findings indicate varying rates of adjustment in capital structure, particularly in terms of Debt Equity Ratio (DER). The fastest adjustment was seen in XL Axiata at -19.14% and Indosat at -1.62%, while Telkom Indonesia exhibited a slower adjustment rate at 36.72%, and Smartfren Telecom had the slowest adjustment at 51.96%. Similarly, when considering the Debt Asset Ratio (DAR), XL Axiata displayed the swiftest adjustment at -17.63%, followed by Telkom Indonesia at -9.05%, and Indosat at -3.11%. In contrast, Smartfren Telecom had the most gradual adjustment, with a notable value of 71.70%. These findings underscore the dynamic nature of capital structure in the Indonesian telecommunications sector during the specified period. The varying speeds of adjustment in debt ratios reflect the strategic financial decisions made by these companies in response to market conditions and internal factors. Further analysis is essential to comprehend the factors influencing these diverse adjustment rates and their implications for the industry's financial stability.

Keywords: *Speed of Adjustment capital structure Debt Equity Ratio (DER), Speed of Adjustment capital structure Debt Asset Ratio (DAR), Telecommunications companies*

INTRODUCTION

A company's funding can be decided with capital structure theory. Capital structure according to Weston & Brigham (1985) is permanent financing consisting of long-term debt, preferred shares, and shareholder capital. Increase and decrease in stock returns is influenced by several factors, one of which is profitability. According to Riyanto (2010), every company can generate profits for a certain period. Then according to Wijaya (2019), the level of profitability of a company can be seen using the ratio of Return On Assets. Then, Kasmir, (2016) stated that the Debt to Equity Ratio is a ratio to measure the ratio with equity. In the capital structure, a company can use the ratio of Debt to Equity Ratio and the ratio of Debt to Asset Ratio. The following is the average value of stock returns, Return On Assets (ROA), Return On Equity (ROE), Debt to Asset Ratio (DAR), and Debt to Equity Ratio (DER) in the telecommunications industry sector in Indonesia in 6 years (2013-2018).

Figure 1. ROA, ROE, DER and DAR Average value of the telecommunications sector



	2013	2014	2015	2016	2017	2018
IMBAL HASIL SAHAM TELEKOMUNIKASI	18,58%	-4,95%	2,53%	1,69%	-11,51%	52,48%
DER TELEKOMUNIKASI	-11,51%	96,06%	99,20%	78,90%	62,03%	69,02%
DAR TELEKOMUNIKASI	49%	24%	93%	119%	190%	193%
ROA TELEKOMUNIKASI	-6,90%	-9,02%	-72,01%	-16,81%	-40,42%	-23,69%
ROE TELEKOMUNIKASI	48,43%	7,59%	8,39%	2,66%	0,98%	-20,17%

(Source: www.indopremier.com (processed data))

Figure 1. shows the average value of stock returns, Debt Equity Ratio, Debt Asset Ratio, Return On Asset, and Return On Equity of telecommunications companies in 2013 - 2018. The average of the largest share yield in 2018 was 52.48%. The average of the largest Debt Equity Ratio in 2014 was 96.06%. This shows that companies in the telecommunications sector have a composition of capital structure using loans rather than the company's capital. The average of the largest Debt Asset Ratio in 2018 is 193%. The average of the largest Return on Assets in 2013 was -6.90%. The average of the largest Return On Equity in 2013 was 48.43%.

Research by Huang & Ritter (2009) titled "Testing Theories of Capital Structure and Estimating the Speed of Adjustment" examines the time series patterns of external financing decisions by showing that US companies that are publicly traded fund a much greater proportion of deficits financing them with external equity when the cost of equity capital is low. The historical value of the cost of equity capital has a long-term effect on the company's capital structure through its effect on the company's historical financing decisions. Huang and Ritter also introduced a new econometric technique in handling the estimated speed of adjustment toward the company's average target. Huang and Ritter found the company adjusted to the average speed target, with a time of 3.7 years for the average bookkeeping, even after controlling for the traditional determination of the capital structure and the effect of the company (Winarto, 2015).

Subsequent research put forward by Reinhard & Li (2010)entitled "A note on capital structure target adjustment - Indonesian evidence." identifies whether the company is adjusting capital structure towards specific targets and whether economic and financial fluctuations in market changes are behind changes in the identified capital structure. This is an identification of the reasons for changes in capital structure and has important implications for the validity

of various capital structure theories, especially trade-offs and pecking orders. First, the problem of simultaneity between the company's current capital and target structure ratio is usually ignored in most studies of capital structure targets. Second, the problem of regression results for independent variables included in the regression model that is targeted is not directly by that of previous capital structure studies (Salim & Firdaus, 2020).

The next research was carried out by Wulandari & Yunita (2016) the main objective of this study is to investigate and evaluate the effect of the application of Activity-Based Costing (ABC) techniques on the profitability of manufacturing companies in Jordan. This study obtained results that showed that four financial ratios, namely the ratio of OM, ROS, ROA, and ROE increased and improved after the application of ABC techniques. The OM and ROA ratio was recorded as the highest ratio for 58.33% of the companies in the sample, while the ROS and ROE ratio increased by 50% for the companies in the sample. GP ratios show that most ratios decrease after the ABC technique.

Subsequent research was conducted by (Mahakud & Mukherjee 2011) and has the title "Determinants of Adjustment Speed to Target Capital Structure: Evidence from Indian Manufacturing Firms". The purpose of this study is to identify the determinants of speed of adjustment to target capital structure in 891 Indian manufacturing companies during the period 1993-94 to 2007-2008. Using dynamic panel data analysis and more specifically the moment technique generalization method, they found that financial constraints, external financing costs, distress costs, ownership, and macroeconomic conditions influence the speed of adjustment to target capital structures significantly (Hasbi, 2015). This paper has implications for company managers in India, for example, to consider various adjustment costs while changing company financing decisions with other variables such as manager flexibility, and direct costs of debt and equity (Sofat & Singh, 2017).

Further research conducted by Hermuningsih (2014) entitled "Profitability, Growth Opportunity, Capital Structure, and Firm Value" shows that profitability with the ratio of ROA and ROE, Growth Opportunity, and Capital Structure with DAR and DER significantly influence Firm Value with the Tobin'Q method as a ratio and a positive effect on company value.

Research conducted by Hendrawan & Nugraha (2015) entitled "Test of Speed of Adjustment Towards the Capital Structure in Indonesia Telecommunication Industry" has the aim of testing whether the pecking order theory occurs in the telecommunications industry in Indonesia and also in the speed of its adjustment. The findings from this study indicate that the pecking order theory is not applied in the telecommunications industry in Indonesia and it is very different from the findings of Huang & Ritter (2011) that public companies traded in the US are adjusted to their target leverage at medium speeds with a period of 3.9 years. The fastest growth in speed adjustment was shown by XL Axiata with -493.96% per year, and then Bakrie Telecom with -65.62%. Indosat and Telkom Indonesia show different behavior with Indosat's slower adjustment speed of 13.22%, and Telkom Indonesia with 274.14% slower

METHOD

This study uses descriptive and verification research by forming causality relationships. Causal relationships are relationship that has the cause and effect reason (Sugiyono. ; 2018, 2018). Descriptive research is research that is designed with questions about the existence of

independent variables, whether only on one or more variables. While Sekaran (2006) explains that a variable is something that can distinguish or bring variation to values.

The capital structure speed adjustment is about the speed of adjustment time needed by the company to adjust the target average according to Huang and Ritter (2009). In research from Tayo (2012), the speed adjustment is formulated as follows:

$$SOA = \frac{LEV^{*}_{it} - LEV_{it-1}}{LEV_{it} - LEV_{it-1}}$$

Where:

SOA = *Speed of Adjustment*

LEV* = *Target Leverage*

LEV_{it} = *Leverage of firm* (i) *at time* (t)

RESULTS AND DISCUSSION

The following descriptive analysis is in the form of data in the 2013-2018 quarter in the form of minimum, maximum, average, and standard deviation. The following are the descriptive results of each variable.

Table 1. Descriptive Result of Independent Variable - Quarter

Statistics	**Rev**	**NI**	**ROE (%)**	**ROA (%)**
TLKM				
min	19,547,000,000,000	4,985,000,000,000	6.06	3.76
max	130,784,000,000,000	32,701,000,000,000	29.16	16.48
stdev	34,073,171,217,845	8,021,718,583,710	7.31	4.33
mean	67,027,666,666,667	16,186,916,666,667	17.26	9.87
XL				
min	5,021,758,000,000.00	- 3,296,890,000,000.00	- 17.97	- 5.72
max	23,460,015,000,000.00	1,032,817,000,000.00	6.75	2.56
stdev	6,435,415,156,947.34	860,070,018,311.50	5.16	1.61
mean	13,811,287,125,000.00	- 119,866,541,667	- 0.88	- 0.09
ISAT				
min	5,692,420,000,000.00	- 2,666,459,000,000.00	-17.18	- 4.89
max	29,926,098,000,000.00	1,301,929,000,000.00	9.00	2.59
stdev	7,822,018,002,148.87	1,136,408,919,374.35	7.84	2.17
mean	16,102,441,166,666.70	- 366,191,750,000	- 2.51	- 0.65
FREN				
min	556,968,610,619.00	- 3,552,834,007,240.00	- 83.10	- 15.97
max	5,490,311,128,559.00	1,105,813,937.00	0.04	0.01
stdev	1,320,530,493,254.85	938,288,533,420.11	18.46	4.16
mean	2,196,069,546,110.67	-1,369,192,108,325.79	- 24.94	- 6.64

Table 1 shows the highest average income that is equal to Rp. 67,027,666,666,667,- at the company PT Telkom Indonesia. While the average value of the lowest income is equal to Rp.

2,196,069,546,110.67 at the company Smartfren Telecom. Likewise, the highest Net Income average is PT Telkom Indonesia with a Net Income value of Rp 16,186,916,666,667,-. The lowest net income value is Smartfren Telecom with a value Rp -1,369,192,108,326-. The highest average Return of Equity value of 18.89% is Telkom Indonesia. While the lowest average Return of Equity is -24.94%, Smartfren Telecom. The highest average return of assets is 10.87%. namely Telkom Indonesia. While the lowest average return of assets is -6.64%, namely Smartfren Telecom.

Table 2. Descriptive Result of Independent Variable - Quarter

Statistics	**DER (%)**	**DAR (%)**	**SOADER (%)**	**SOADAR (%)**
TLKM				
min	58.10	36.75	- 12.21	- 139.99
max	105.49	51.34	407.48	2.65
stdev	12.27	3.74	107.63	32.15
mean	75.86	42.89	36.72	- 9.05
XL				
min	75.78	43.11	- 312.65	- 330.95
max	381.24	79.22	74.09	82.82
stdev	93.86	9.21	93.11	100.67
mean	222.83	66.54	- 19.14	- 17.63
ISAT				
min	100.00	63.81	- 135.12	- 227.68
max	331.79	76.84	105.65	172.15
stdev	49.50	3.22	39.59	66.18
mean	245.83	71.23	- 1.62	- 3.11
FREN				
min	160.84	61.66	- 105.25	- 202.85
max	420.22	80.78	1,349.29	1,853.30
stdev	89.32	6.23	277.54	383.56
mean	288.52	72.91	51.96	71.70

Table 2 shows the average value of the highest Debt Equity Ratio variable of 288.52%, namely Smartfren Telecom. While the lowest average value of the Debt Equity Ratio variable is 75.86%, namely Telkom Indonesia. Then for the Debt Asset Ratio variable the highest average value is 72.91%, namely Smartfren Telecom. While the lowest average value of 42.89% is Telkom Indonesia. The highest average Speed of Adjusment - Debt Equity Ratio value is 51.96%, namely Smartfren Telecom. While the lowest average value of the variable Speed of Adjusment - Debt Equity Ratio is -19.14%, namely the XL Axiata company. The highest average Speed of Adjusment - Debt Asset Ratio value is 71.70%, namely Smartfren Telecom. While the lowest average value of the Speed of Adjusment - Debt Asset Ratio variable is -17.63%, namely XL Axiata company.

Table 3. Multiple Regression Speed of Adjustment (SOA) – Debt Asset Ratio (DAR)

Variable	Coefficient	t-Stat	Prob.	Annotation
Revenue	-203.41	-0.824	0.412	Insignificant
Net Income	1084.10	1.072	0.287	Insignificant
Return of Equity	-1248.07	-1.227	0.223	Insignificant
Return of Asset	171.28	0.604	0.548	Insignificant
Constant	3093.9955			
F calc; Sig.	0.700 ; 0.594			
R Square = 0.030				

In Table 3, the R square value is 0.030 and can be interpreted jointly that the variable Revenue, Net Income (NI), Return of Equity (ROE), and Return of Assets (ROA) can affect Speed of Adjustment (SOA) - Debt Asset Ratio (DAR) of 0.30% and the rest is influenced by other variables.

In Table 3, the F test shows a significance value of 0.594 so this value is greater than 0.05 and it can be said that simultaneously there is no significant effect of the Revenue, Net Income (NI), Return of Equity (ROE), and Return variables of Asset (ROA) can affect Speed of Adjustment (SOA) to Speed of Adjustment (SOA) - Debt Asset Ratio (DAR). Likewise, the Revenue, Net Income (NI), Return on Equity (ROE), and Return on Asset (ROA) variables have no significant effect on the Speed of Adjustment (SOA) - Debt Asset Ratio (DAR). This is proven by the probability value greater than 0.05.

Table 4. Multiple Regression Speed of Adjustment (SOA) – Debt Equity Ratio (DER)

Variable	Coefficient	t-Stat	Prob.	Annotation
Revenue	-129.91	-0.672	0.503	Insignificant
Net Income	493.16	0.623	0.535	Insignificant
Return of Equity	519.19	0.652	0.516	Insignificant
Return of Asset	-207.54	-0.934	0.353	Insignificant
Constant	2169.5404			
F calc; Sig.	0.428 ; 0.788			
R Square = 0.018				

In Table 4, the R square value of 0.018 can be interpreted jointly that the variable Revenue, Net Income (NI), Return of Equity (ROE), and Return of Assets (ROA) can affect the Speed of Adjustment (SOA) - Debt Equity Ratio (DER) of 0.18% and the rest is influenced by other variables.

In Table 4, the F test obtained a significance value of 0.788 so this value is greater than 0.05 and it can be said that simultaneously there is no significant effect of the Revenue, Net Income (NI), Return of Equity (ROE), and Return variables of Asset (ROA) can affect Speed of Adjustment (SOA) to Speed of Adjustment (SOA) - Debt Equity Ratio (DER). Likewise, the Revenue, Net Income (NI), Return on Equity (ROE), and Return on Asset (ROA) variables have no significant effect on the Speed of Adjustment (SOA) - Debt Equity Ratio (DER). This is evidenced by the significance value greater than 0.05

Table 4. Speed of Adjustment (SOA) – Debt Asset Ratio (DAR) of Sample Telecommunication Companies in Indonesia

SOA DAR	TLKM	XL	ISAT	FREN
2013	-52.62	-89.23	-10.16	-7.51
2014	-0.30	-4.81	-56.91	46.16
2015	0.01	28.12	-23.86	459.37
2016	0.08	28.14	8.12	-59.35
2017	-0.01	-70.49	29.22	-0.74
2018	1.05	0.90	32.81	-3.94
AVG	-8.63	-17.90	-3.47	72.33
Q12013	103.96%	74.06%	67.16%	64.51%
Q22013	-7055.41%	-460.90%	-2106.63%	-2225.07%
Q32013	-98.07%	-33095.44%	-741.89%	-365.10%
Q42013	-13998.86%	-2210.94%	-1284.26%	-480.08%
Q12014	-122.82%	-135.27%	2435.91%	15214.40%
Q22014	108.41%	-2246.47%	-963.51%	6524.11%
Q32014	-54.87%	1950.70%	-22768.19%	-4503.98%
Q42014	-50.55%	-1492.24%	-1467.75%	1229.38%
Q12015	-461.70%	-3105.22%	-7620.42%	-1306.98%
Q22015	56.44%	8282.12%	-997.15%	214.39%
Q32015	237.02%	1872.03%	1692.23%	-491.17%
Q42015	173.96%	4199.33%	-2619.93%	185330.16%
Q12016	-103.09%	2176.89%	1649.01%	-1395.67%
Q22016	135.75%	307.84%	2272.81%	-1229.29%
Q32016	47.27%	810.20%	1731.98%	-829.00%
Q42016	-48.91%	7961.78%	-2407.55%	-20285.08%
Q12017	-136.60%	4058.11%	2644.38%	-896.66%
Q22017	108.70%	- 32736.90%	8903.47%	893.40%
Q32017	-33.39%	1314.37%	1391.33%	-495.34%
Q42017	58.00%	-833.38%	-1250.95%	201.89%
Q12018	39.18%	-3219.00%	17214.66%	-633.52%
Q22018	10.65%	4910.38%	-1297.63%	-576.99%
Q32018	265.00%	-803.92%	-1417.53%	-498.72%
Q42018	105.06%	-528.64%	-1376.63%	133.95%

Table 5 presents the Speed of Adjustment (SOA) - Debt Asset Ratio (DAR) data from four telecommunications companies in Indonesia in the period 2013 - 2018. The fastest Speed of Adjustment (SOA) - Debt Asset Ratio (DAR) is XL Axiata (-17.90) and the late one is Smartfren Telecom (72.33).

Table 5. Speed of Adjustment (SOA) – Debt Equity Ratio(DER) of Sample Telecommunication Companies in Indonesia

SOA DER	TLKM	XL	ISAT	FREN
Q12013	61.10%	31.20%	24.23%	21.65%
Q22013	40748.43%	-475.10%	-1844.53%	-1596.81%
Q32013	573.31%	-31264.97%	-541.77%	-204.48%
Q42013	34426.92%	-2041.51%	-842.74%	-185.84%
Q12014	312.72%	-76.94%	1615.87%	5667.11%
Q22014	-98.54%	-993.73%	-592.86%	2506.38%
Q32014	1197.68%	920.73%	-13511.90%	-1665.79%
Q42014	380.10%	-649.07%	-810.71%	524.68%
Q12015	910.56%	-1258.20%	-4063.86%	-502.18%
Q22015	-71.15%	3398.14%	-467.24%	152.73%
Q32015	825.91%	840.23%	838.61%	-381.07%
Q42015	970.28%	1979.78%	-1256.66%	134928.79%
Q12016	-1220.83%	1098.95%	848.41%	-959.04%
Q22016	889.81%	221.10%	1253.34%	-769.80%
Q32016	1088.79%	711.69%	1028.88%	-447.93%
Q42016	951.26%	7408.65%	-1398.12%	-10525.29%
Q12017	811.63%	3840.53%	1576.59%	-401.35%
Q22017	-319.19%	-31258.38%	5430.54%	456.48%
Q32017	1557.20%	1297.65%	909.77%	-199.02%
Q42017	-623.99%	-808.65%	-782.73%	148.72%
Q12018	676.64%	-2932.91%	10564.55%	-538.95%
Q22018	-87.01%	4465.08%	-739.83%	-414.21%
Q32018	494.79%	-691.68%	-728.83%	-283.52%
Q42018	293.75%	-385.72%	-629.71%	134.07%
2013	189.52	-84.38	-8.01	-4.91
2014	4.48	-2.00	-33.25	17.58
2015	6.59	12.40	-12.37	335.50
2016	4.27	23.60	4.33	-31.76
2017	3.56	-67.32	17.84	0.01
2018	3.45	1.14	21.17	-2.76
AVG	35.31	-19.43	-1.72	52.28

Table 5 presents the Speed of Adjustment (SOA) - Debt Equity Ratio (DER) data from four telecommunications companies in Indonesia in the period 2013 - 2018. The fastest Speed of Adjustment (SOA) - Debt Equity Ratio (DER) is XL Axiata (-19.43) and the late one is Smartfren Telecom (52.28).

There is no influence of Revenue, Net Income (NI), Return of Equity (ROE), and Return of Assets (ROA) on Speed of Adjustment (SOA) - Debt Asset Ratio (DAR). This is proven by the significance value greater than 0.05 with a significance value of Revenue 0.412, Net Income (NI) 0.287, Return of Equity (ROE) 0.223, and Return of Assets (ROA) 0.548. There is no influence of Revenue, Net Income (NI), Return of Equity (ROE), and Return of Assets (ROA)

on Speed of Adjustment (SOA) - Debt Equity Ratio (DER). This is proven by the significance value greater than 0.05 with a significance value of Revenue 0.503, Net Income (NI) 0.535, Return of Equity (ROE) 0.516, and Return of Assets (ROA) 0.353.

The average quarterly results of Speed of Adjustment (SOA) - Debt Asset Ratio (DAR) of four telecommunications companies in Indonesia from 2013 to 2018 were -9.05% for Telkom Indonesia, -17.63% for XL Axiata, -3.11% for Indosat, and 71.70% for Smartfren Telecom. The average quarterly results of Speed of Adjustment (SOA) - Debt Equity Ratio (DER) of four telecommunications companies in Indonesia from 2013 to 2018 were 36.72% for Telkom Indonesia,-19.14% for XL Axiata, -1.62 % for Indosat, and 51.96% for Smartfren Telecom.

CONCLUSION

The quarterly average results of Speed of Adjustment (SOA) - Debt Asset Ratio (DAR) of telecommunications companies show that there is no influence from Revenue, Net Income (NI), Return of Equity (ROE), and Return of Assets (ROA). Speed of Adjustment (SOA) - Debt Asset Ratio (DAR) of four telecommunications companies in Indonesia from 2013 to 2018, namely: Telkom Indonesia (-9.05%), XL Axiata (-17.63%), Indosat (-3.11%), Smartfren Telecom (71.70%). From the results of Speed of Adjustment (SOA) - Debt Asset Ratio (DAR), it can be determined that the capital structure through the company's internal is Telkom Indonesia and Indosat.

The quarterly average results of Speed of Adjustment (SOA) - Debt Equity Ratio (DER) of telecommunications companies show that there is no influence from Revenue, Net Income (NI), Return of Equity (ROE), and Return of Assets (ROA). Speed of Adjustment (SOA) - Debt Equity Ratio (DER) of four telecommunications companies in Indonesia from 2013 to 2018 were Telkom Indonesia at (36.72%), XL Axiata (-19.14%), Indosat (-1.62%), and Smartfren Telecom (51.96%). From the results of the Speed of Adjustment (SOA) - Debt Equity Ratio (DER), it can be determined that the capital structure through external companies is XL Axiata and Smartfren Telecom.

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