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The determinants of capital structure and stock returns (the KOMPAS 100 index)

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Abstract

This research aims to test the influence of capital structure on stock returns and to analyse the factors that affect capital structure and stock returns. The sample includes firms listed on the Kompas 100 index. By using a purposive sampling technique, 64 firms were selected. This study shows that capital structure and all exogenous variables have no significant influence on stock returns. Profitability and growth opportunity have a significant negative influence on capital structure, while tangibility and liquidity have a positive influence on capital structure. Additionally, firm size and volatility do not have a significant influence on capital structure.

Keywords: theory, stock, returns, capital, structure.

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Los determinantes de la estructura de capital y los rendimientos de las acciones (el índice KOMPAS 100)

Resumen

Esta investigación tiene como objetivo probar la influencia de la estructura del capital en el rendimiento de las acciones y analizar los factores que afectan la estructura del capital y el rendimiento de las acciones. La muestra incluye firmas incluidas en el índice Kompas 100. Al usar una técnica de muestreo intencional, se seleccionaron 64 empresas. Este estudio muestra que la estructura de capital y todas las variables exógenas no tienen una influencia significativa en el rendimiento de las acciones. La rentabilidad y la oportunidad de crecimiento tienen una influencia significativamente negativa en la estructura del capital, mientras que la tangibilidad y la liquidez tienen una influencia positiva en la estructura del capital. Además, el tamaño de la empresa y la volatilidad no tienen una influencia significativa en la estructura de capital.

Palabras clave: teoría, stock, devoluciones, capital, estructura.

1. INTRODUCTION

The overseas debt of Indonesia's private firms tends to increase annually. In 2013, these firms' debt was only USD 140.512 billion, which increased to USD 163.592 billion in 2014 then to USD 168.123 billion in 2015. However, it decreased in 2016 to USD 158.124 billion. At the same time, the Jakarta Composite Index tends to experience fluctuation. The index increased from 3703.512 in 2010 to 3821.992 in

2011. Similarly, it again escalated to 4316.687 in 2012. The rising Index was also followed by the increase in debt. However, the Index decreased to 4274.177 in 2013. The second fall happened in 2015 which was from 5226.947 in 2014 to 4593.008 in 2015. On the other hand, the debt of private companies kept increasing in 2015. This indicates an inverse relationship between companies' debt and share price. It was also supported by the fact that the Index rose to 5296.711 in 2016 while the debt experienced a fall. This condition is consistent with the research done by Yang et al. (2010). Research by Yang et al. (2010) on the Taiwan stock market indicated a negative influence of capital structure on stock returns in the year 2005 while data from 2003 and 2004 for the Taiwan stock market indicates a positive relationship. The main objective of this study is to determine whether the same applies to Indonesia's stock market.

Research conducted by Khrawish and Khraiwesh (2010) on Jordanian industrial companies found a relationship between capital structure and firm size, profitability, tangibility and the ratio of short-term debt to total assets. On the other hand, research conducted by AlAni and AlAmri (2015) on Omani listed industrial companies shows a relationship between capital structure and tangibility, the growth rate, profitability and risk. Firm size does not have a significant relationship with capital structure. The research conducted by Ahmad et al. (2013) on the Karachi stock exchange found a relationship between capital structure and profitability, growth and liquidity. Additionally, Ahmad

et al. (2013) found a relationship between stock returns and capital structure, profitability, growth and liquidity.

Hermuningsih (2013) conducted the only research on the factors that affect capital structure and stock returns in Indonesia. In that study, firm value is a peroxide by Tobin's Q, which shows that profitability and growth opportunity affect capital structure. Additionally, firm value is affected by capital structure, profitability and growth opportunity.

Given that the factors that affect the capital structure and stock returns have yet to be extensively studied, we believe it is important to study them. This research will aim to understand and analyze the factors that affect the capital structure and stock returns for firms listed on the Kompas 100.

2. LITERATURE REVIEW

There have been many studies on the determinants of capital structure. The results obtained from each study vary; each result depends on the condition of the company, sector, timing and the country in which the study was conducted. No one theory can explain all the relevant conditions. Frank and Goyal (2009) stated that there are three prominent perspectives on the capital structure theory:

(1) Trade-off theory: a company makes trade-offs between the company's benefits of taking debt, such as tax savings, and agency

problems with the increase in the risk of bankruptcy resulting in the cost of bankruptcy. (2) Pecking order theory: a company prefers to fund its activities using internal rather than external funding. If retained earnings are insufficient, a company prefers to take up debt as the next best alternative. The final choice is to use equity funding. (3) Market timing theory: a company tends to use debt if the cost of debt is lower. On the other hand, if the cost of equity is lower, the company will use equity.

This research will theoretically consider the factors that affect capital structure and stock returns.

2.1 Determinants of stock returns.

Capital structure

Research conducted by Ahmad et al. (2013) on the Karachi stock exchange found a significant negative influence of capital structure on stock returns. Their results indicate that management will focus on using internal funding if there is an increase in stock returns. Hence, there will be a decrease in the use of debt. This result is supported by Yang et al. (2010); Rezaei and Habashi, (2012); Acheampong et al. (2014); Manurung and Nuzula (2014).

Conversely, Bhandari and Chand (1988) found that the relationship between capital structure and stock returns is significantly positive. They also found that, as more capital structure is used, the risk faced by the company increases; thus, investors demand a higher

risk premium, which results in higher expected stock returns. This result is supported by Yang et al. (2010); Hermuningsih (2013); Taghavi et al. (2013).

Keeping in mind the tendency of Indonesia's firms to embrace pecking order theory (Chandra 2015a), the following hypothesis was made:

H_1. *Capital structure has a negative influence on stock returns*.

Profitability

High profitability indicates a company's strong financial position, which raises investors' hopes, and therefore their interest in searching for company shares. As a result, the share price will increase, which will increase stock returns. In this way, profitability has a positive influence of on stock returns. This view is supported by Yang et al. (2010); Ahmad et al. (2013); Hermuningsih (2013); Taghavi et al. (2013); Manurung and Nuzula (2014). Research conducted by Yang et al. (2010) on the Taiwan stock market indeed notes a positive influenceof profitability on stock returns. However, they showed a significant negative influence, specifically for 2005 data.

This study proposes the same hypothesis as in previous research:

H_2. *Profitability has a positive influence on stock returns.*

Firm size

Research conducted by Acheampong et al. (2014) on the Ghana stock exchange found a positive relationship between firm size and stock returns. A decrease in firm size will be followed by a decrease in the firm's stock returns. This finding is supported by the research conducted by Chandra and Idrus (2015).

In contrast, Banz (1981) found that small corporations are able to produce higher stock returns than large corporations, which means that there is a negative influence of firm size on stock returns, as supported by the research conducted by Rezaei and Habashi (2012).

This study proposes the following hypothesis:

H_3. *Firm size has a negative influence on stock returns*.

Growth opportunity

Research conducted by Yang et al. (2010) on the Taiwan stock exchange found a positive relationship between growth and stock returns and that, as the expected growth increases, profitability increases, which will lead to higher stock returns. This result is supported by Olowoniyi and Ojenike (2012); Hermuningsih (2013); Ahmad et al. (2013); Taghavi et al. (2013).

On the other hand, the research conducted by Rezaei and Habashi (2012) on the Tehran stock exchange from 2005 to 2009 found a negative influence of growth opportunity on stock returns.

This study proposes the following hypothesis:

H_4. *Growth opportunity has a positive influence on stock returns.*

Tangibility

Tangibility illustrates the size of fixed assets compared to total assets. A large fixed asset is a burden for a company because it implies a large fixed cost, which can result in a lack of movement and low profitability. Therefore, investors will avoid companies with high tangibility, which will lower stock returns. Olowoniyi and Ojenike (2012) researched Nigerian listed firms and found a negative influence of tangibility on stock returns.

This study proposes the following hypothesis:

H_5. *Tangibility has a negative influence on stock returns*.

Liquidity

Research conducted by Ahmad et al. (2013) on the Karachi stock exchange found a negative influence of liquidity on stock returns that occurs when a company that has a low liquidity produces a higher profit which results in higher stock returns. This result is supported by Yang et al. (2010); Taghavi et al. (2013).

Liquidity has a positive influence on stock returns, as found by Berggren and Bergqvist (2014), who conducted research on Swedish large cap companies for the period 2009 to 2013. That study found that

liquidity tends to be large. During the 2008 financial crisis, many companies experienced a large loss. A large liquidity reserve lowers this risk, which means that the liquidity reserve will be higher in crises and lower during normal conditions, as a large reserve is a burden to a company.

Keeping in mind that economic conditions are stable, the following hypothesis is proposed:

H_6. *Liquidity has a negative influence on stock returns*.

2.2 Determinants of Capital Structure

Profitability

The pecking order theory which was originally postulated by Myers, continues the research conducted by Donaldson in 1961 (Chandra 2015a). Myers explained that there is no optimal capital structure; there are only external and internal sources of funding. Given these conditions, Myers explained that company management prefers internal funding, which is viewed as cheaper and more easily obtained. External sources, such as debt and share issuance, are an option if internal funding is not sufficient.

According to the pecking order theory, profitability has a negative influence on capital structure. Research that points to this negative influence has been conducted by Yang et al. (2010); Khrawish and Khraiwesh (2010); Acaravci (2015); Chandra (2015a).

According to Milton and Raviv (1991), companies with high profitability and a strong financial position to obtain access to debt at cheaper rates, meaning that their cost of debt will be lower. Consequently, these companies will prioritize the use of debt rather than internal funding. Hence, the influence of profitability on capital structure is positive. Research by AlAni and AlAmri (2015) on Omani listed industrial companies found a significant positive influence of profitability on capital structure in the chemical sector, while the food and construction sector has a negative but non-significant influence.

From the above review, the following hypothesis is proposed:

H_7. *Profitability has a negative influence on capital structure*.

Firm size

Previous research has different views about the relationship between firm size and capital structure. According to trade-off theory, large firms tend to diversify to reduce their risk of bankruptcy. Additionally, firms prefer the use of debt to the use of equity in order to have more control; hence, the relationship between firm size and capital structure is positive. Large corporations use more debt than equity, and this positive relationship is in accordance with Khrawish and Khraiwesh (2010); Rezaei and Habashi (2012); Chandra (2015a). AlAni and AlAmri (2015) who researched the firm size and capital structure in Omani listed industrial companies, found a significantly positive influence of firm size on capital structure in the food sector.

Fama and Jensen (1983) found that information asymmetry tends to occur in large firms. The use of debt is associated with negativity, resulting in companies' greater use of equity than debt. Therefore, there is a negative association between firm size and capital structure. Additionally, AlAni and AlAmri (2015) found a significant negative influence of firm size on capital structure in the chemical sector in the Omani stock exchange. This result is supported by Acaravci (2015); Fauzi et al. (2013).

The following hypothesis is proposed:

H_8. *Firm size has a positive influence on capital structure*.

Growth opportunity

Pecking order theory, which was proposed by Myers and Majluf (1984), states that high growth opportunity companies tend to use more equity and less debt. Therefore, the relationship between growth opportunity and capital structure is negative, as supported by Chandra (2015a).

Research conducted by Acaravci (2015) on the Turkish manufacturing sector found a positive influence of growth on capital structure. Manufacturing firms in Turkey embrace the trade-off theory, and high-growth companies reduce their use of debt strong incentives to reject investments that are not profitable and substitute assets, which can produce agency conflicts from stockholders and bondholders. This result is supported by Rezaei and Habashi (2012).

Keeping in mind the research conducted by Chandra (2015a) which found that Indonesia's companies tend to embrace a pecking order theory, the following hypothesis is formulated:

H_9. *Growth opportunity has a negative influence on capital structure*.

Tangibility

Trade-off theory predicts a positive influence of tangibility on capital structure. Highly tangible assets will provide a high collateral value, which can encourage obtaining more debt, as supported by Khrawish and Khraiwesh (2010).

According to the research conducted by Acaravci (2015) on the Turkish manufacturing sector, tangibility has a significant negative influence on capital structure. Additionally, AlAni & AlAmri (2015) supported by Fauzi et al. (2013) found this significant negative influence for the construction and chemical sectors on the Omani stock exchange.

This study proposes the following hypothesis:

H_{10}. *Tangibility has a positive influence on capital structure*.

Liquidity

According to the pecking order theory, high-liquidity companies tend to reduce their use of debt over equity; with greater liquidity, companies will have larger internal inflows, which can be used as a source

of financing. As a result, the influence of liquidity on capital structure is negative; this result is supported by Ahmad et al. (2013).

According to trade-off theory, liquidity has a positive influence on capital structure. High liquidity reflects a firm's strong financial capability, which can be utilized to obtain more debt. This view is supported by Chandra (2015a).

Keeping in mind that firms in Indonesia embrace the pecking order theory, the following hypothesis was formed:

H_{11}. *Liquidity has a negative influence on capital structure*.

Volatility

Research conducted by AlAni and AlAmri (2015) on Omani listed industrial companies found a significantly positive influence of volatility in capital structure. This relationship was also found in the food sector, which shows that high-risk firms tend to use debt compared to equity as the source of funding. This result is supported by Berggren and Bergqvist (2014); Chandra (2014).

According to trade-off theory, firms with high volatility tend to reduce the use of debt because the benefit of the use of debt is offset by a high-risk premium. As a result, a greater use of debt is instead detrimental, which means that volatility has a negative influence on capital structure. Research by AlAni and AlAmri (2015) on the construction sector also found a significant positive influence of volatility on capital structure.

This study proposes the following hypothesis:

H_{12}. *Volatility has a positive influence on capital structure*.

3. METHODOLOGY OF THE STUDY

3.1 Population and sample

The population used in this research includes the companies listed on the Kompas 100 index from 2010 to 2016. The purposive sampling method was used with the following criteria: (1) the company was listed before January 2009; (2) banking corporations were not included due to the perception of capital structure valuation among these companies. Hence, the sample included 64 companies. The analysis period is 7 years and therefore, the total unit of analysis in this research is 448 data.

3.2 Research Variable and Measurement

Endogenous variable

Capital structure (Y_1):

Capital structure is the ratio of a company's long-term debt to its total assets, that is, the LTD/TA ratio. This formula is adopted from Hermuningsih (2013).

$$LTD/TA = \frac{Long\ Term\ Debt}{Total\ Assets} \quad \text{(1)}$$

Stock returns (Y_2):

Stock returns are the returns that an investor earns from investments in the form of shares and are measured as the daily return

of shares for one year. The following formula is adopted from Yang et al. (2010); Ahmad et al. (2013).

$$Stock\ Return = \frac{(Stock\ Price_{_1} - Stock\ Price_{-1})}{Stock\ Price_{-1}} \quad (2)$$

Exogenous variable

Profitability (X_1):

Profitability is a corporation's capability to generate earnings compared to its costs and expenses in one year. The ratio used here is return on assets (ROA) and the following formula is adopted from Chandra (2015a).

$$ROA = \frac{Earning\ after\ tax}{Total\ Assets} \quad (3)$$

Firm size (X_2):

To illustrate the size of companies listed on the Kompas 100 index, the firm size metric is used by taking the natural logarithm of total revenues. The following formula had been used in studies by Yang et al. (2010); Rezaei and Habashi (2012).

$$Firm\ Size = ln\ (Total\ Revenues) \quad (4)$$

Growth opportunity (X_3):

Growth opportunity illustrates a company's future prospects and is measured by the change in total assets. The formula is adopted from the research of Yang et al. (2010); Hermuningsih (2013).

$$GO = \%\ Change\ in\ Total\ Assets \quad (5)$$

Tangibility (X_4):

Tangibility is a variable that illustrates the size of a company's fixed assets measured as the ratio of the total fixed assets to total assets. The following formula is adopted from Olowoniyi and Ojenike (2012); Chandra (2015a).

$$Tang = \frac{Total\ Fixed\ Assets}{Total\ Assets} \quad (6)$$

Liquidity (X_5):

Liquidity illustrates a company's ability to fulfill its short-term obligations. It is the ratio of current assets to current liabilities, as adopted from Chandra (2015a).

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities} \quad (7)$$

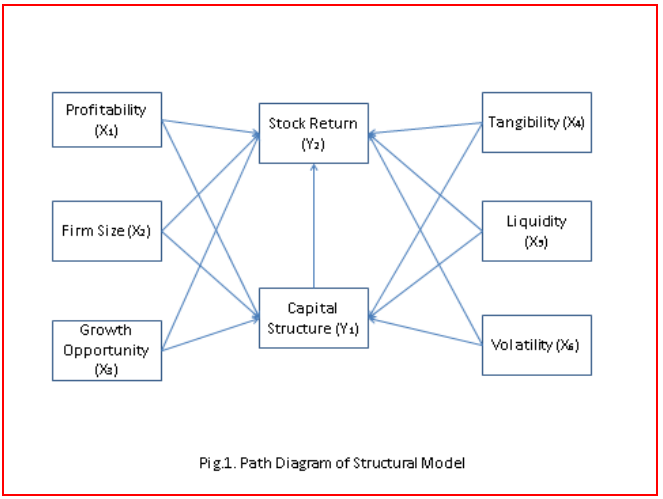
Volatility (X_6):

Volatility is the risk faced by a company due to its income variation. The formula used in this study is the ratio of the standard deviation of earnings after tax (EBIT) to total assets, as used in the research conducted by Yang et al. (2010).

$$Volatility = \frac{Std\ Dev.EBIT}{Total\ Assets} \quad (8)$$

3.3 Data analysis method

The analysis was conducted using the structural equations model; Fig. 1 represents the path diagram of the structural model.



Pig.1. Path Diagram of Structural Model

The structural model for this study is as follows:

$$Y_{CS} = \alpha_0 + \beta_1 X_{Prof} + \beta_2 X_{Size} + \beta_3 X_{GO} + \beta_4 X_{Tang} + \beta_5 X_{Liq} + \beta_6 X_{Vol} + \varepsilon_1$$

$$Y_{SR} = \alpha_0 + \beta_7 Y_{CS} + \beta_8 X_{Prof} + \beta_9 X_{Size} + \beta_{10} X_{GO} + \beta_{11} X_{Tang} + \beta_{12} X_{Liq} + \varepsilon_2$$

Where:

Y_{CS}: Capital Structure

Y_{SR}: Stock returns

α_0: Intercepts

$\beta_1 \ldots \beta_{12}$: Variable Coefficients

X_{Prof}: Profitability

X_{Size}: Firm Size

X_{GO}: Growth Opportunity

X_{Tang}: Tangibility

X_{Liq}: Liquidity

X_{Vol}: Volatility

ε_1.. ε_2: Error Term

4. EMPIRICAL RESULT AND ANALYSIS

The results for the sample are presented in Table 1. Before proceeding, let us examine the underlying assumptions. The result of the Goodness of Fit Indices is presented in Table 2.

Table 1. Final Estimation of Measurement Model Parameters

Endogenous Variable	Exogenous Variable	Hypothesis	Estimate Parameters	t- value	P Value
Stock returns	Capital Structure	-	-0.003	-0.047	0.962
	Profitability	+	0.082	1.586	0.113
	Firm Size	-	-0.072	-1.385	0.166
	Growth Opportunity	+	-0.073	-0.987	0.324
	Tangibility	-	0.014	0.277	0.782
	Liquidity	-	-0.017	-0.312	0.755
Capital Structure	Profitability	-	-0.192	-5.756	0.000
	Firm Size	+	0.031	0.885	0.376
	Growth Opportunity	-	-0.743	-21.743	0.000
	Tangibility	+	0.133	3.855	0.000
	Liquidity	-	0.250	7.493	0.000
	Volatility	+	-0.005	-0.140	0.889

Table 2. The Result of Goodness of Fit Indices

No	Goodness of Fit Index	Suggested Criteria	Results
1	Chi square		
	Probability	≥ 0.01	0.035

2	Chi square/DF	≤ 5	4.422
3	AGFI	≥ 0.90	0.912
4	GFI	≥ 0.90	0.998
5	NFI	≥ 0.90	0.993
6	CFI	≥ 0.90	0.995
7	RMSEA	≤ 0.10	0.087

The results shown in Table 2, indicate that all assumptions are fulfilled; hence, the model is usable.

The results of the parameters in the structural model can be seen in the following table 1.

4.1 Empirical results of common factors

The explanations for this research will be discussed based on the exogenous and endogenous variables (capital structure and stock returns).

Capital structure

Hypothesis 1 stated that the capital structure has a negative influence on stock returns. The estimated parameter obtained was -0.003; this is in line with Yang et al. (2010), who researched the Taiwan stock exchange. Unfortunately, the p-value reached a value of 0.962, which indicates no significant influence. This result means that increases or decreases in the debt of private companies in Indonesia do not influence share prices or stock returns very much. Although in 2016, there was a decrease in the overseas debt of private companies in Indonesia and an increase in the Jakarta Composite Index, there was a positive influence a few years earlier. Thus, investors gave less consideration to the capital structure when making decisions about buying and selling stocks.

Profitability

The results of this research are in line with the pecking order theory. The increase in profitability is not followed by an increase in the capital structure; in contrast, capital structure dropped significantly, as illustrated on the estimate in Table 2 of -0.192 with a p-value of 0.000. This finding indicates a significant negative influence of profitability on capital structure, which is consistent with the research conducted by Yang et al. (2010). Additionally, this empirical result indicates that Indonesia's companies tend to be conservative when making capital structure decisions. Hence, the decrease in private firms' debt in Indonesia is reasonable.

Based on this study's hypothesis, profitability has a positive influence on stock returns. The empirical results give an estimated parameter of 0.082, which is consistent with the hypothesis. However, a p-value of 0.133 indicates a non-significant result. Thus, there is no significant influence of profitability on stock returns, which indicates that when buying and selling stocks, investors give less consideration to firm profitability.

Firm size

According to trade-off theory, firm size has a positive influence on capital structure. This empirical study indicates an estimated parameter of 0.031 which is positive. Unfortunately, the p-value obtained was 0.376, which means that the result is not significant. Hence, firm size is not a very important consideration when making capital structure decisions.

A similar result was obtained for the influence of firm size on stock returns. The result of the estimated parameter obtained was -0.072 with a p-value of 0.166, which indicates that firm size does not

have a significant influence on stock returns. Therefore, investors consider firm size to be important when buying and selling stocks.

Growth opportunity

According to the pecking order theory, a high growth opportunity firm reduces its use of debt and increases its use of internal funding. The estimated parameter obtained in this study is -0.743 with a p-value of 0.000. Hence, there is a significant negative influence of growth opportunity on capital structure, which is in line with both the pecking order theory and the studies conducted by Chandra (2015a). This result reinforces the initial opinion that Indonesia's firms tend to be conservative when taking on debt.

The opposite of the result was obtained for the influence of growth opportunity on stock returns. The result of the estimated parameter obtained was -0.073 with a p-value of 0.324, which indicates a negative influence of growth opportunity on stock returns, but this result is not significant. Therefore, investors are not very concerned about growth opportunity when deciding to buy or sell stocks.

Tangibility

This study shows that the influence of tangibility on capital structure is significantly positive. The empirical results indicate an estimated parameter of 0.133 with a p-value of 0.000, in line with the trade-off theory, which explains that high tangibility will result in a high collateral value and the adoption of greater debt. Again, this result demonstrates firms' conservative behavior when taking on debt since firms in Indonesia take on a larger debt if there is enough collateral support.

With an estimated parameter of 0.014 and a p-value of 0.782, the influence of tangibility on stock returns is positive, but not significant, which indicates the lack of considerations of asset tangibility when deciding to buy or sell stocks.

Liquidity

Pecking order theory states that firms with high liquidity tend to use liquidity not debt as the source of funding. This view is not suitable for Indonesia's firms as indicated in the results, which gave an estimated parameter of 0.250 with a p-value of 0.000 which indicates a significant positive influence of liquidity on capital structure, in contrast to the predicted hypothesis. Again, the trade-off theory applies here; firms with greater liquidity will use it to increase their debt, in line with the research by Chandra (2015a). Liquidity is the second reason why firms increase their debt.

However, the results of this research do not support the influence of liquidity on stock returns, as evident from the estimated parameter of -0.017 and p-value of 0.755. This finding reinforces the view that investors in Indonesia do not consider a firm's liquidity before deciding to buy or sell stocks.

Volatility

The trade-off theory states that volatility has a negative influence on capital structure. The results of this analysis showed an estimate parameter of -0.005 with a p-value of 0.889, which indicates no significant influence of volatility on capital structure. This finding also proves that firms in Indonesia do not fully embrace the trade-off

theory, which means that capital structure decision, firms do not consider volatility or the risks faced by the firm.

5. CONCLUSION

This study examined the influence of capital structure on stock returns and the factors that affect them by analyzing a sample of 64 firms listed on the Kompas 100 index from 2010 to 2016. The results obtained show that capital structure does not have a significant influence on stock returns. Although Indonesian firms' overseas debt decreased in 2016 and the Jakarta Composite Index increased, this was not the case in 2010-2015.

The result of the investigation showed that none of the exogenous variables influence stock returns, which proves that investors in Indonesia do not consider the firm's financial position when deciding whether to buy or sell shares; in other words, they are speculators who play with shares in the short term. External factors such as politics play a greater role in decisions to buy or sell shares, which is in line with the research conducted by Chandra (2013), (2015b); Chandra et al. (2016).

The results indicate that profitability and growth opportunity have a significant negative influence on capital structure. In contrast, tangibility and liquidity have a significant positive influence on capital structure. Firm size and volatility do not have a significant influence on capital structure. If viewed from the point of view of profitability and growth opportunity, Indonesia's firms embrace the pecking order theory. However, from the tangibility and liquidity point of view, these firms embrace the trade-off theory instead. These findings prove that neither the pecking order theory nor the trade-off theory is fully applicable in Indonesia, further reinforcing the conjecture that

Indonesia's firms act conservatively when making capital structure decisions.

Unfortunately, in making these decisions, a company does not consider a firm's risk (volatility), which has potential implication for future bad debt.

Future works can consider a more specific sector based on the phenomenon in this study, as in this study, all sectors except for banking are included in the sample.

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