

Evaluation of the Influence of Sales Growth, Business Risk, and Capital Structure on Stock Prices

Mukri Eri

Universitas Islam Negeri Raden Intan, Indonesia
erisolmania08@gmail.com

Submitted: 02nd Aug 2024 | **Edited:** 17th Oct 2024 | **Issued:** 01st Dec 2024

Cited on: Eri, M. (2024). Evaluation of the Influence of Sales Growth, Business Risk, and Capital Structure on Stock Prices. *KINERJA: Jurnal Manajemen Organisasi dan Industri*, 3(2), 117-127.

ABSTRACT

Stock prices are an important indicator in assessing a company's performance and attracting investor attention. Sales growth, business risk, and capital structure are factors that can influence a company's stock prices. This study aims to evaluate the extent to which sales growth, business risk, and capital structure affect stock prices. The specific objectives are to determine the relationship between these variables and to provide strategic recommendations for company management to enhance stock performance. This research uses a quantitative approach with multiple regression analysis methods. The data used are secondary data obtained from the financial statements of companies listed on the Bursa Efek Indonesia (BEI). The research sample was selected using purposive sampling technique, with a total of 50 companies. Classical assumption tests were conducted to ensure the validity of the regression model. The results show that sales growth has a positive and significant effect on stock prices. Business risk is found to have a negative but not significant effect on stock prices. Capital structure also shows a negative and significant effect on stock prices. These findings indicate that management needs to focus on sales growth strategies and capital structure management to maximize stock prices

Keywords: Sales Growth, Business Risk, Capital Structure, Stock Prices, Company Profit

INTRODUCTION

The changing dynamics of the capital market reflect fluctuations in economic, political, and social environments that can affect a company's performance. The volatile market conditions require companies to be vigilant and responsive in facing emerging challenges and opportunities. This adaptation encompasses various aspects such as product innovation, operational efficiency improvement, and targeted marketing strategies. The formulation of effective strategies aims to enhance the overall value of the company, one measure of which is stock price. Stock prices are a primary indicator used by investors to assess a company's future business prospects.

An increase in stock prices indicates investor confidence in the management's ability to manage the company and execute the established business strategies.

Conversely, a decline in stock prices may indicate investor doubts about the company's prospects (Meilani & Wahyudin, 2021). Therefore, maintaining the stability and growth of stock prices is a primary focus for companies to attract sustainable investments and strengthen their position in the capital market. This also reflects a positive perception of the company's management and strategies, ultimately contributing to the enhancement of the company's value.

Sales growth represents the company's financial and operational health, directly influencing stock prices. An increase in sales indicates that the company's products or services are well-received by the market, reflecting the success of marketing strategies and effective market penetration (Nosit, et al., 2021). When sales increase, the company can generate more revenue, allowing for reinvestment in product innovation, market expansion, and operational efficiency improvement. Moreover, consistent sales growth creates a positive perception among investors about the company's stability and long-term growth potential.

Investors tend to be more inclined to invest in companies that demonstrate the ability to maintain and increase their sales, as this indicates competent management and greater profit opportunities in the future. As a result, demand for the company's shares increases, ultimately driving up the stock price. Therefore, sales growth is not only crucial for business sustainability but also plays a key role in attracting investment and enhancing the company's market value.

Business risk is an essential element that investors must consider when making investment decisions. Business risk encompasses various factors that can affect a company's performance and, ultimately, its stock price. One aspect of business risk is market fluctuations, which can occur due to changes in supply and demand, economic conditions, government policies, or unexpected global events. Industry competition is also a significant risk factor, where companies must continuously innovate and adapt to maintain their competitive edge (Nursyahbani & Sukarno, 2023).

Additionally, global economic uncertainty, such as economic recessions, changes in international trade policies, and currency fluctuations, can affect a company's financial stability. High risk often reduces investor interest as they face a greater potential for loss. Therefore, effective risk management becomes crucial. Good risk management involves identifying, analyzing, and mitigating these risks to reduce their impact on the company.

By implementing solid risk management strategies, companies can maintain stock price stability and attract long-term investment, as investors are more likely to invest in companies that can manage risk effectively.

A company's capital structure is the combination of debt and equity used to finance its operations and investments. The proportion between debt and equity is vital as it can affect the company's financial stability and long-term performance. A balanced capital structure, where the company has the right proportion of debt and equity, can help manage capital costs efficiently (Pratama & Devi, 2021). Debt is often cheaper than equity because interest on debt is tax-deductible; however, excessive use of debt increases the risk of default and bankruptcy.

High financial risk can reduce investor confidence and depress stock prices. Therefore, management must be prudent in determining the optimal capital structure. This involves a thorough analysis of the costs and benefits of using debt and equity, considering market conditions, interest rates, and cash flow projections. With an appropriate capital structure strategy, companies can minimize financial risk, enhance investor confidence, and ultimately maximize company value.

THEORETICAL BASIS

Stock Prices

Stock prices involve several key approaches in explaining the factors that influence a company's stock price in the capital market. The efficient market theory posits that stock prices reflect all available information in the market at any given time. This means that stock prices accurately reflect the intrinsic value of the company based on all publicly available information (Yanti, 2020). Researchers and investors use this concept to analyze whether a company's stock price is overvalued, undervalued, or equivalent to its true value.

Each stock represents a partial ownership in the company, and stock prices are determined by supply and demand in the stock market. When the demand for a company's stock increases, the stock price tends to rise, and vice versa. Stock prices are influenced by various factors, including the company's financial performance, growth prospects, economic news, global market conditions, and investor sentiment. Companies with strong financial performance and good growth prospects tend to have higher stock prices

because investors believe these companies will provide good returns on their investments (Dzikriyah & Sulistyawati, 2020).

For investors, stock prices are an essential tool for making investment decisions. They use various analyses, both fundamental and technical, to predict future stock price movements. Fundamental analysis involves evaluating the company's financial performance and economic conditions, while technical analysis focuses on historical price patterns and trading volumes. Savvy investors monitor stock price movements and related news to determine the right time to buy or sell stocks (Reinaldo, 2022). With a good understanding of the factors influencing stock prices, investors can manage their portfolios more effectively and increase their potential for profit.

Sales Growth

Sales growth is a key indicator in evaluating a company's operational performance and marketing strategies. It refers to the increase in the volume of products or services sold by a company from one period to the next. Consistent and sustainable sales growth is often considered a positive sign that a company can maintain and increase its market share and effectively meet customer demand (Dinayu, et al., 2020). Factors that can drive sales growth include the development of new products, expansion into new markets, effective marketing strategies, and improved customer loyalty.

Operational management theory also plays a role in ensuring operational efficiency and effectiveness that support sales growth. Concepts such as supply chain management, lean manufacturing, and Six Sigma are used to optimize production and distribution processes, which can increase product availability and responsiveness to market demand. The integration of information systems and technology (IT) is also a key factor in enhancing visibility and data management, which is crucial in decision-making related to sales growth (Astuti, et al., 2022).

Companies can adopt various strategies to achieve sales growth, such as product or service innovation, product portfolio diversification, or deeper market penetration. The use of technology and digitalization is also often employed to expand reach and efficiently target a broader audience. However, sales growth does not always translate to increased profits if not accompanied by operational efficiency and good cost management. Companies need to ensure that the sales growth achieved also results in adequate and sustainable net profits.

Business Risk

Business risk management theory also considers strategies for managing risks, including risk mitigation, risk transfer, or risk acceptance within the context of the company's business strategy. Risk mitigation involves steps to reduce the likelihood and negative impact of risks, such as developing business continuity plans or using financial instruments like insurance (Setiawati & Veronica, 2020). Risk transfer can be achieved through insurance contracts or strategic partnerships that share the risk with other parties, while risk acceptance assumes that certain risks are part of the business strategy, accepted with the expectation of greater benefits.

Business risk refers to the possibility of losses or uncertainties in a company's operations that can affect the achievement of its strategic objectives. Every company faces various types of risks that can arise from internal and external factors. Internal risks may include managerial errors, operational failures, or internal financial issues. External risks can stem from changes in economic conditions, government regulations, industry competition, or even unforeseen natural events such as natural disasters. Business risk management is a systematic approach to identifying, evaluating, and managing the risks a company may face. This involves developing strategies to reduce the negative impact of potential risks while capitalizing on available opportunities (Rindiasih & Wulandari, 2023).

Business risk assessment is also important in determining the company's financial policies, including capital structure strategies and liquidity management. Companies often use risk analysis tools such as SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis or scenario analysis to evaluate different scenarios and their potential impact on business performance (Putri, et al., 2021). By understanding business risks well, companies can increase their resilience to external uncertainties and optimize strategic decision-making to achieve their long-term goals.

Capital Structure

A key approach in capital structure theory is the pecking order theory proposed by Myers and Majluf. This theory suggests that companies tend to finance their projects first with internal capital such as retained earnings or cash funds, then with debt, and equity as the last resort (Afiezan, et al., 2022). The rationale behind this theory is to avoid sending negative signals to investors that the company is either overvalued or

undervalued if they issue new shares. This approach emphasizes the importance of efficiency in utilizing existing funds before considering more expensive or risky external funding.

Capital structure is the combination of funding sources used by a company to finance its operations, consisting of equity and debt. The importance of capital structure lies in its impact on the company's cost of capital and the financial risks faced. Choosing the right capital structure can influence the overall value of the company as it is closely related to dividend policy, investment policy, and other financial policies. Generally, the optimal capital structure is one that balances the cost of borrowing (interest on debt) with the tax benefits obtained from debt. Debt is often cheaper than equity because the interest paid can be deducted from the company's taxes (Miswanto, et al., 2022).

Moreover, capital structure affects investor perception of the company's risk. Companies with a stable and diversified capital structure tend to be more attractive to investors as it demonstrates the company's ability to manage financial risks effectively (Nurhayadi, et al., 2021). Strategies in determining capital structure may include the use of financial analysis such as financial ratio analysis, cost of capital analysis, and evaluation of potential returns and risks from certain approaches. By understanding capital structure in-depth, companies can make better financial decisions, supporting long-term growth and operational sustainability.

METHOD

The research methodology used in this study is a quantitative approach with a descriptive and correlational design to evaluate the influence of sales growth, business risk, and capital structure on stock prices. The data used in this research are secondary data obtained from the financial statements of companies listed on the Bursa Efek Indonesia (BEI) during the period 2019-2023. The population in this study consists of 50 companies. The research sample was selected using purposive sampling technique, totaling 15 companies. The dependent variable in this study is the stock price, while the independent variables are sales growth, business risk, and capital structure. Data collection was carried out by accessing the annual reports and financial statements of the companies publicly available on the IDX website and the respective company websites.

The data obtained were then processed and analyzed using statistical methods to

identify the relationships between the variables studied. Multiple regression analysis will be used to evaluate the simultaneous and partial effects of sales growth, business risk, and capital structure on stock prices. Additionally, hypothesis testing will be conducted to determine the significance of the influence of each independent variable on the dependent variable. The R-squared (coefficient of determination) value will be used to measure the extent to which the independent variables can explain the variation in stock prices. The results of this analysis are expected to provide deeper insights into the factors influencing the stock prices of companies and their implications for corporate management and investors in strategic decision-making.

RESULT

The Influence of Sales Growth on Stock Prices

The results of the regression analysis indicate that sales growth has a significant influence on stock prices. This is evidenced by the computed t-value being greater than the tabulated t-value ($6.281 > 1.972$) and a significance level smaller than 0.05 ($0.000 < 0.05$). This means there is strong statistical evidence to state that sales growth is positively associated with stock prices. The coefficient of determination (R Square) of 0.293 indicates that sales growth explains 29.3% of the variation in stock prices. In other words, changes in stock prices can be explained by changes in sales growth by 29.3%. The remaining 70.7%, however, is explained by other factors not included in this regression model.

This explanation shows that while sales growth is a significant factor influencing stock prices, there are many other factors contributing to changes in stock prices. These factors may include business risks, capital structure, macroeconomic conditions, industry performance, investor sentiment, and other potentially significant factors. Therefore, to obtain a more comprehensive understanding of the factors influencing stock prices, further analysis encompassing these other variables is necessary.

The Influence of Business Risk on Stock Prices

The regression analysis results indicate that business risk has a significant influence on stock prices. This is evidenced by the computed t-value being greater than the tabulated t-value ($3.724 > 1.972$) and a significance level smaller than 0.05 ($0.000 < 0.05$). This means there is strong statistical evidence to state that business risk is significantly

associated with stock prices. In other words, changes in a company's business risk significantly affect its stock price. The coefficient of determination (R Square) of 0.413 indicates that business risk explains 41.3% of the variation in stock prices. This means that 41.3% of changes in stock prices can be explained by changes in business risk. The remaining 58.7%, however, is explained by other factors not included in this regression model.

This explanation shows that business risk is an important factor influencing stock prices. When a company faces higher business risk, investors tend to perceive it as a riskier investment, which can lower its stock price. Conversely, companies with lower business risk may be seen as more stable and attractive to investors, potentially increasing their stock price. However, it is important to note that while business risk is a significant factor, there are many other factors influencing stock prices. These factors may include sales growth, capital structure, macroeconomic conditions, industry performance, investor sentiment, and various other variables that may have significant impacts.

The Influence of Capital Structure on Stock Prices

The regression analysis results indicate that capital structure has a significant influence on stock prices. This is evidenced by the computed t-value being greater than the tabulated t-value ($6.723 > 1.972$) and a significance level smaller than 0.05 ($0.000 < 0.05$). Thus, there is strong statistical evidence to assert that capital structure is significantly related to stock prices. In other words, changes in a company's capital structure significantly affect its stock price. The coefficient of determination (R Square) of 0.395 indicates that capital structure explains 39.5% of the variation in stock prices. This means that 39.5% of changes in stock prices can be explained by changes in capital structure. The remaining 60.5%, however, is explained by other factors not included in this regression model.

This explanation shows that capital structure is a critical factor influencing stock prices. A balanced capital structure, which includes an optimal proportion of debt and equity, can help companies manage their cost of capital and financial risk more effectively. A heavily debt-oriented capital structure can increase bankruptcy risk and decrease investor confidence, while an equity-heavy structure may reduce tax benefits and increase capital costs. Therefore, management needs to develop an optimal capital structure strategy to maximize firm value and maintain a stable stock price.

The Influence of Sales Growth, Business Risk, and Capital Structure on Stock Prices

The analysis results indicate that sales growth, business risk, and capital structure simultaneously have a significant influence on stock prices. This is evidenced by the computed F-value being greater than the tabulated F-value ($15.591 > 2.65$) and a significance level smaller than 0.05 ($0.000 < 0.05$). Thus, there is strong statistical evidence to assert that these three variables collectively affect stock prices. The coefficient of determination (R Square) of 0.504 indicates that sales growth, business risk, and capital structure together explain 50.4% of the variation in stock prices. In other words, half of the changes in stock prices can be explained by changes in these three variables. The remaining 49.6%, however, is explained by other factors not included in this research model.

This explanation shows that sales growth, business risk, and capital structure are significant factors influencing a company's stock price. High sales growth reflects strong company performance and future profit prospects, which can enhance stock prices. Lower business risk tends to make a company more attractive to investors, thereby potentially increasing its stock price. An optimal capital structure helps the company manage its cost of capital and financial risks better, which can also boost investor confidence and stock prices. Therefore, to gain a more comprehensive understanding of the factors influencing stock prices, further analysis including other variables is necessary.

CONCLUSION

Based on the research findings outlined, it can be concluded that the variables of sales growth, business risk, and capital structure significantly influence the company's stock price. Regression analysis results indicate that each of these variables has a significant impact on stock prices. Sales growth shows a significant positive influence with a t-value (6.281) greater than the critical t-value (1.972) and a significance level of $0.000 < 0.05$. Similarly, business risk also demonstrates a significant influence with a t-value (3.724) greater than the critical t-value (1.972) and a significance level of $0.000 < 0.05$. Likewise, capital structure exhibits significant influence with a t-value (6.723) greater than the critical t-value (1.972) and a significance level of $0.000 < 0.05$.

Simultaneously, sales growth, business risk, and capital structure collectively have a significant impact on stock prices. This is evidenced by the computed F-value (15.591)

being greater than the tabulated F-value (2.65) and a significance level of $0.000 < 0.05$. The coefficient of determination (R Square) of 0.504 indicates that these three variables together explain 50.4% of the variation in stock prices. This suggests that half of the changes in stock prices can be attributed to changes in sales growth, business risk, and capital structure.

However, it is important to note that 49.6% of the variation in stock prices is explained by other factors not included in this research model. These factors may include macroeconomic conditions, government policies, industry performance, product innovation, and market sentiment. Therefore, further research encompassing additional variables is needed to gain a more comprehensive understanding of the factors influencing company stock prices. In conclusion, company management should effectively monitor and manage sales growth, business risk, and capital structure to maximize corporate value and attract investor interest.

REFERENCES

- Afiezana, A., Melysa, M., Angga, V. J., Lionar, R., & Jesica, J. (2022). Pertumbuhan penjualan, struktur aktiva, ukuran perusahaan, dan harga saham terhadap struktur modal dengan profitabilitas sebagai variabel moderasi. *Journal of Management and Bussines (JOMB)*, 4(1), 277-296.
- Astuti, W., Rinofah, R., & Primasari, P. (2022). Pengaruh Profitabilitas, Struktur Aktiva, Dan Pertumbuhan Penjualan Terhadap Harga Saham Dengan Struktur Modal Sebagai Variabel Intervening Pada Perusahaan Manufaktur Sektor Industri Dasar Dan Kimia Yang Terdaftar Di Bursa Efek Indonesia (BEI) Pada Tahun. *Jurnal Sosial Ekonomi Bisnis*, 2(2), 93-105.
- Dinayu, C., ana Sinaga, D., & Sakuntala, D. (2020). Pengaruh Struktur Modal, Ukuran Perusahaan, Risiko Bisnis terhadap Nilai Perusahaan Sektor Kimia yang di Indonesia. *Fidusia: Jurnal Keuangan dan Perbankan*, 3(1).
- Dzikriyah, D., & Sulistyawati, A. I. (2020). Pengaruh Pertumbuhan Penjualan, Struktur Aktiva, Ukuran Perusahaan Dan Profitabilitas Terhadap Struktur Modal. *Solusi*, 18(3).
- Meilani, U., & Wahyudin, A. (2021). Pengaruh Struktur Aset, Risiko Bisnis, dan Pertumbuhan Penjualan Terhadap Struktur Modal Dengan Profitabilitas Sebagai Variabel Moderating. *Jurnal Akuntansi Bisnis*, 19(1), 46-63.
- Miswanto, M., Setiawan, A. Y., & Santoso, A. (2022). Analisis Pengaruh Pertumbuhan Penjualan, Struktur Aset, dan Profitabilitas terhadap Struktur Modal. *Jurnal Maksipreneur: Manajemen, Koperasi, Dan Entrepreneurship*, 11(2), 212-226.
- Nosit, S., Efni, Y., & Gusnardi, G. (2021). Pengaruh Risiko Bisnis, Likuiditas, Pertumbuhan Penjualan dan Perisai Pajak Non-Utang Terhadap Struktur Modal. *CURRENT: Jurnal Kajian Akuntansi dan Bisnis Terkini*, 2(1), 59-77.

- Nurhayadi, W., Sulistiana, I., Nurkhalishah, S., Salam, A. F., & Abdurrohman, A. (2021). Pengaruh Ukuran Perusahaan, Pertumbuhan Penjualan dan Risiko Bisnis Terhadap Struktur Modal. *Tirtayasa Ekonomika*, 16(1), 97-117.
- Nursyahbani, L., & Sukarno, A. (2023). Likuiditas, Profitabilitas, Dan Pertumbuhan Penjualan Terhadap Struktur Modal. *Jurnal EMA*, 8(1), 43-52.
- Pratama, P. B., & Devi, S. (2021). Pengaruh Struktur Modal, Pertumbuhan Penjualan Dan Manajemen Laba Terhadap Kinerja Keuangan Pada Perusahaan Manufaktur sub Sektor logam Dan Sejenisnya Yang Terdaftar Di Bursa Efek Indonesia Tahun 2016-2018. *JIMAT (Jurnal Ilmiah Mahasiswa Akuntansi) Undiksha*, 12(2), 394-402.
- Putri, A. P., Cheserio, J., Katherine, K., Celine, C., & Jeslin, J. (2021). Pengaruh Pertumbuhan Penjualan, Likuiditas, Risiko Bisnis, Profitabilitas & Struktur Aset Terhadap Struktur Modal Pada Perusahaan Sektor Properti yang terdaftar di Bursa Efek Indonesia. *Owner: Riset dan Jurnal Akuntansi*, 5(1), 60-71.
- Reinaldo, F. (2022). Analisis Pengaruh Struktur Modal, Risiko Bisnis, Pertumbuhan Penjualan terhadap Nilai Perusahaan pada Sub Sektor Perdagangan Besar di Bursa Efek Indonesia. *BIS-MA (Bisnis Manajemen)*, 7(5), 996-1008.
- Rindiasih, R., & Wulandari, R. (2023). PENGARUH RISIKO BISNIS, PERTUMBUHAN PENJUALAN DAN STRUKTUR AKTIVA TERHADAP STRUKTUR MODAL. *Jurnal Maneksi (Management Ekonomi Dan Akuntansi)*, 12(3), 554-563.
- Setiawati, M., & Veronica, E. (2020). Pengaruh Profitabilitas, Struktur Aset, Ukuran Perusahaan, Risiko Bisnis, Pertumbuhan Penjualan, Pertumbuhan Perusahaan, Likuiditas Terhadap Struktur Modal Pada Perusahaan Sektor Jasa Periode 2016-2018. *Jurnal Akuntansi*, 12(2), 294-312.
- Yanti, E. R. (2020). Dampak Struktur Aktiva, Profitabilitas, Rasio Hutang, Pertumbuhan Penjualan Dan Ukuran Perusahaan Terhadap Struktur Modal Dan Harga Saham. *Jurnal Administrasi Kantor*, 8(2), 173-184.