Volume 1 Nomor 10 October 2024
E-ISSN: 3032-1301

https://e-journal.antispublisher.id/index.php/IJEIRC

BUSINESS RISK, DIVIDEND POLICY, CAPITAL STRUCTURE ON FINANCIAL PERFORMANCE: A STUDY IN INDONESIAN PHARMACEUTICAL COMPANIES

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Article Info

Article history:
Received Sep 30, 2024
Revised Sep 12, 2024
Accepted Oct 18, 2024

Keywords:
Business risk,
Dividend policy,
Capital structure,
Financial performance

ABSTRACT

General Background: Financial performance is a key determinant of a company's success and sustainability, particularly in the pharmaceutical industry, which faces unique challenges such as regulatory requirements, innovation costs, and market competition. **Specific Background:** In Indonesia, the pharmaceutical sector has shown significant growth, but companies face risks related to business dynamics, financial decision-making, and investment strategies. Factors such as business risk, dividend policy, and capital structure are critical in shaping financial outcomes. **Knowledge Gap:** Despite extensive studies on financial performance determinants, limited research focuses on how these factors interact specifically within the Indonesian pharmaceutical context, particularly over recent years. **Aims:** This study aims to analyze the effects of business risk, dividend policy, and capital structure on financial performance in Indonesian pharmaceutical companies during the 2017–2023 period. **Results:** The findings reveal that business risk significantly impacts financial performance, highlighting the importance of risk management in operational and strategic planning. Similarly, dividend policy influences financial performance, underscoring the role of payout strategies in shareholder value creation. Capital structure also affects financial performance, indicating the critical balance required between debt and equity financing. **Novelty:** This research offers new insights into the interplay of these factors in the pharmaceutical sector, using a focused dataset of eight companies, and provides empirical evidence specific to the Indonesian market. **Implications:** The study suggests that pharmaceutical companies must adopt comprehensive financial management practices to mitigate risks, optimize capital structures, and design effective dividend policies. Policymakers and industry stakeholders can use these findings to develop frameworks that support sustainable growth in the pharmaceutical sector. Further research could expand on this foundation to explore other factors influencing financial performance across different industries and regions.

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DOI: https://doi.org/10.61796/ijeirc.v1i10.275

INTRODUCTION

The main purpose of establishing a company is to seek profit by maximizing earnings so that its survival can be sustained. To achieve the expected profit, the company needs to conduct a financial performance analysis. Financial performance is a depiction of the state of a company, which is analyzed using financial analysis tools, allowing us to understand the company's condition that reflects its performance over a specific period [1].

Generally, financial statements are used to report the activities that have been carried out by the company over several periods and then evaluate the success of the strategy to ensure whether the company's objectives have been achieved or not. The company's financial statements are used by investors, potential investors, and company management to make decisions. Financial statements are one of the references in analyzing and evaluating a company's financial performance. Financial statements are a means of informing stakeholders about the company's financial condition. According to [2], The company's financial performance is a reflection of the achievement of the company's work plan that has been implemented by the management, allowing the company's performance to be evaluated and improved in the following year.

The economic phenomenon of 2024 shows significant uncertainty. High global inflation, rising interest rates, and the potential for recession in several developed countries are forcing companies to conduct in-depth evaluations of their financial performance. Data from the International Monetary Fund (IMF) shows that the majority of companies are facing unprecedented liquidity pressure, with an average profit margin decline of 15-20% compared to the previous period. In the context of Indonesia, digital transformation and the implementation of the new Tax Law in 2024 increasingly complicate corporate financial management. This new regulation encourages companies to be more transparent in debt management, capital structure, and dividend policies. The Ministry of Finance noted that at least 60% of listed companies on the Indonesia Stock Exchange are under pressure to optimize their capital structure due to regulatory changes and global economic dynamics. There are several factors that influence Financial Performance, namely Business Risk. Business risk will describe a company's failure that results in unexpected losses and the management's failure to ensure returns to the company [3]. Some management teams avoid external funding because the risks are high. However, business risks can be reduced if management is able to control and manage the company well. The company needs to compare its growth over a certain period to plan and evaluate its operational activities.

The phenomenon related to financial performance is the valuation of PT Food Sejahtera Tbk (AISA) shares, which are currently around Rp 140/share, representing a cheap investment opportunity compared to their price at the end of December 2020, which reached Rp 442/share. On the other hand, AISA's share price has dropped 68% since December 2020, but it is still traded at more than 150 times its earnings. AISA's financial condition experienced pressure in 2022 as the company recorded a net loss of Rp 62.36

billion. However, in the first three months of 2023, AISA's financial condition began to improve, albeit not significantly. At the end of March 2023, the company recorded a net profit of Rp 2.10 billion, down from a net loss of Rp 13.30 billion [4].

The second factor is the Dividend Policy. The dividend policy concerns the use of profits that belong to the shareholders. Basically, the profits earned by the company can be distributed as dividends or retained for reinvestment. Thus, the question arises about when the profits will be distributed or when the profits will be retained, while still considering the company's goal of increasing the company's value. According to the signaling hypothesis theory, there is empirical evidence that an increase in dividends is often followed by an increase in stock prices. Conversely, a decrease in dividends generally causes stock prices to fall. This phenomenon can be considered evidence that investors prefer dividends over capital gains. But [5] argue that an increase in dividends is usually a signal to investors that the company's management forecasts good earnings in the future. Conversely, a decrease in dividends is believed by investors to be a signal that the company is facing difficult times ahead.

The third factor is the Capital Structure. The capital structure of a company refers to the percentage of its expenditure needs that are met through a combination of long-term funding sources, which primarily come from both internal and external sources. When considering external sources of funding, creditors view this ratio as a reflection of the company's performance, thereby increasing their level of confidence in the company's ability to repay its loans. Furthermore, this is important information that shareholders need to pay attention to because they will be investing their money in a business with reliable and strong financial performance. This financial performance is important to study because it has the power to influence the decisions of many parties [6].

There have been many studies examining financial performance, including [2] Researching the Influence of Capital Intensity, Leverage, Liquidity, Tax to Book Ratio, and Business Risk on Financial Performance (Empirical Study on Property and Real Estate Companies Listed on the Indonesia Stock Exchange from 2020-2022). Based on the previous analysis and discussion, it can be concluded that: Capital Intensity has a significant effect on Financial Performance in Property and Real Estate companies listed on the Indonesia Stock Exchange from 2019-2022. Leverage has a significant effect on Financial Performance in Property and Real Estate companies listed on the Indonesia Stock Exchange from 2019-2022. Liquidity has a significant effect on Financial Performance in Property and Real Estate companies listed on the Indonesia Stock Exchange from 2019-2022. The Tax to Book Ratio does not have a significant effect on Financial Performance in Property and Real Estate companies listed on the Indonesia Stock Exchange from 2020-2022.

[3] researching on "The Influence of Business Risk, Financial Literacy, and Financial Inclusion on Financial Performance and Business Sustainability in the Micro, Small, and Medium Enterprises Sector in Palopo City." The results of this study indicate that: (1) Business risk has a significant positive effect on financial performance; (2)

Financial literacy has a significant positive effect on financial performance; (3) Financial inclusion has a significant positive effect on financial performance; (4) Business risk has a significant positive effect on business sustainability; (5) Financial literacy has a significant positive effect on business sustainability; (6) Financial inclusion has an insignificant positive effect on business sustainability; (7) Financial performance has a significant positive effect on business sustainability; (8) Business risk has an insignificant positive effect on business sustainability through financial performance; (9) Financial literacy has a significant positive effect on business sustainability through financial performance; and (10) Financial inclusion has a significant positive effect on business sustainability through financial performance in the micro, small, and medium enterprises sector in Palopo City.

[4] researching on "The Impact of Dividend Policy on Company Financial Performance: Literature Review". The analysis results and related reference tracing explain that the implementation of the dividend policy by the company has a positive impact on the company's financial performance. The presence of good or positive financial performance in the company also has a positive impact on the company's value. The value of a good company will influence the stock market to attract investor interest in the company.

[7] researching on "The Influence of Environmental Performance, Environmental Costs, Public Share Ownership, Green Accounting, and Capital Structure on Financial Performance." The findings of this study prove that financial performance is not influenced by environmental performance, environmental costs, public share ownership, and green accounting. There are related and impactful variables, namely capital structure, which affects financial performance.

[8] researching on "The Influence of Debt Management, Operating Cash Flow, Capital Structure, and Dividend Policy on the Financial Performance of PT Sumber Alfaria Trijaya Tbk". The research results show that although the independent variables are not significant in partial terms, they have a significant simultaneous effect on financial performance. This finding underscores the complexity of the relationships between financial variables and the need for a comprehensive approach in analysis. The research recommends exploring additional variables and alternative methods such as Structural Equation Modeling for future studies.

Further research is needed to understand the findings when applied to different environmental conditions and times, as the above phenomenon and even previous studies have produced inconsistent results. Therefore, this research will identify the factors that influence profitability by using a different time period and objects compared to previous studies, resulting in different research outcomes.

The purpose of this research is to examine the influence of Business Risk, Dividend Policy, and Capital Structure on Financial Performance (in Pharmaceutical Companies Listed on the IDX from 2017-2023). Further research is needed to

complement previous studies on Financial Performance that have been conducted in Indonesia.

In this study, the object of research is pharmaceutical companies because pharmaceutical companies in Indonesia experienced a growth slowdown throughout 2014, decreasing by 8 percent with a transaction value of around Rp 56 trillion, due to the low access of the public to pharmaceutical products and healthcare services. At the time the researcher collected data from the Indonesia Stock Exchange, the financial statements presented by the pharmaceutical companies had good data quality from 2010 to 2014, as evidenced by the substantial capital owned by each company. So the researchers are interested in assessing the financial performance of the pharmaceutical company. Researchers use financial statements over five years because analyzing financial statements for a minimum of five years, and the more financial statements used, the better it is, allows investors to compare their financial performance with previous years [9].

Relationship Between Variables

1. ***Business Risk Berpengaruh Terhadap Financial Performance***

   Companies with high risk tend to avoid debt or external funding because the risk might increase. The higher the business risk, the more the company experiences difficulties in its operational activities, leading to a decline in financial performance. Business risk will depict a company's failure that results in unexpected losses for the company, there is a positive correlation between risk and the level of profit. This means that the higher the risk, the higher the expected profit for the company. The positive relationship indicates that if business risk is high, financial performance can improve. Business risk is significantly and positively related to financial performance [3].

   H1 : *Business Risk Berpengaruh Terhadap Financial Performance*

2. **Dividend Policy Affects Financial Performance**

   The company will continue to grow and develop if it earns profits or gains. These profits consist of retained earnings and distributed profits, minimizing the break-even point. In the next stage, retained earnings mean one of the most crucial sources for financing the company's growth. The larger the company's financing derived from retained earnings plus depreciation of fixed assets, the stronger the company's financial position. From the profit earned by the company, part of it is distributed to shareholders in the form of dividends. The determination of the amount of dividends distributed is the dividend policy set by the company's management [10]. Research results [11] about the impact of financial performance on dividend policy explains that profitability affects dividend policy. This is in line with the research conducted [12] which reveals that profitability has an impact on dividend policy. The higher the profit earned, the higher the dividend that will be distributed.

   H2 : Dividend Policy Affects Financial Performance

3. ***Capital Structure Berpengaruh Terhadap Financial Performance***

Capital Structure Modal structure is a combination of equity capital and debt capital. The proportion of debt and equity in the capital structure is highly variable, both in terms of inter-company proportions and over time [13]. Capital structure can be described by how the decisions made by the company regarding its financing are examined from the value of its equity and the value of its debt that will be used in its operations. One effective way is to use debt financing as a preventive measure to avoid excessive company expenditures [14]. Debt is needed as additional funds to boost the company's financial performance. A company cannot rely solely on its capital or equity. This can make it difficult for the company to expand its business, as it needs additional funds to maximize its profits. This is in line with the research [15] which states that the debt to equity ratio has a positive effect on financial performance.

H3 : ***Capital Structure Berpengaruh Terhadap Financial Performance***

METHODS

Research Approach

This research uses quantitative data, which is data in the form of numbers that are analyzed using statistics [16]. The data used in this research is secondary data. The secondary data in this research was obtained from the capital market database, the Indonesia Stock Exchange (IDX) gallery from 2017-2023, and the official IDX website www.idx.co.id.

Operational Definition

1) ***Business Risk (X1)***

According to [3] business risk is one of the company's assets that the company will face if the company uses too much debt due to the burden of loan costs incurred by the company. Another opinion was expressed by [1], Business risk is the risk faced by a company when it is unable to cover its operational costs and is influenced by the stability of its revenue and expenses. Companies with high business risk tend to avoid financing through debt compared to companies with lower business risk. From these opinions, it can be concluded that business risk is a company's risk because it is unable to cover its operational costs. Business risk is the uncertainty faced by a company in conducting its business, which can be measured by the variability of operating profit (earnings before interest and taxes, EBIT) generated by the company's asset portfolio and product market activities [1]. According to [3] business risk can be calculated using the following formula:

$$\textbf{Business Risk} = \frac{\textbf{a Earning Before Interest and Tax (EBIT)}}{\textbf{Total Asset}}$$

Source : [3]

2) Dividend Policy (X2)

Dividend policy is determining how much profit will be distributed to shareholders [4]. The profits that will be obtained by the shareholders will determine the welfare of the shareholders, which is the main objective of the company. The larger the dividends distributed to shareholders, the better the performance of the issuer or company will be perceived, and ultimately, a company with good managerial performance will be considered profitable. Consequently, the assessment of the company will also improve, which is usually reflected in the company's stock price. According to [13] dividend policy is closely related to the determination of the dividend payout ratio, which is the percentage of net profit after tax distributed as dividends to shareholders. This dividend decision is part of the company's financing decision, particularly concerning the company's internal financing. The dividend policy is measured using the dividend payout ratio (DPR) with the following formula:

$$\textbf{dividend payout ratio} = \frac{\boldsymbol{Dividend\ Per\ Share}}{\boldsymbol{Earning\ Per\ Share}}$$

Source : [12]

3) *Capital Structure* (X3)

Capital structure is the proportion in determining the fulfillment of the company's spending needs, where the funds obtained use a combination or guideline of sources derived from long-term funds consisting of two main sources, namely those from within and outside the company [17]. According to [18], the capital structure is a balance between the use of borrowed capital, which consists of permanent short-term debt, long-term debt, and equity, which consists of preferred shares and common shares. In this study, the capital structure is measured using the debt to equity ratio (DER). The debt to equity ratio (DER) is a ratio used to assess debt against equity. This ratio can be calculated by comparing total debt divided by total equity. DER can be useful for determining the amount of funds provided by the borrower (creditor) to the company owner. In other words, this ratio is used to determine how much of the own capital is used as collateral for debt [19]. The formula for the debt to equity ratio is:

$$\boldsymbol{Debt\ Equity\ Ratio} = \frac{\boldsymbol{Total\ Liabilities}}{\boldsymbol{Total\ Shareholder's\ Equity}}$$

Source : [19]

4) *Financial Performance* (Y)

One way to determine whether a company is operating in accordance with its established goals is by using performance measurement [20]. Performance measurement is used by companies to improve their operational activities to be more effective and efficient. According to [21] financial performance is the determination

of certain metrics that can measure the success of an organization or a company in generating profit. The financial performance of a company in the capital market is an achievement that illustrates the financial condition from the company's operating results and is usually measured by financial ratios. Financial performance is also one of the benchmarks for evaluation and control for the company. For investors, information regarding the company's performance can be used to see whether they will maintain their investment in the company or seek other alternatives. In addition, measurements are also conducted to show investors, customers, or the general public that the company has good credibility [22].

Financial performance can be defined as a depiction of a company's achievements resulting from the efficiency of its operational activities, culminating in revenue recognition and the matching of expenses to generate profit in each period. Revenue recognition and the matching of expenses serve to ensure that all income generated in a period has been recognized and that the expenses recorded in the period are only those related to that period. Financial performance is an aspect of evaluating the achievements of a company's performance in its business activities in terms of financial accomplishments. Financial performance provides information, an overview of achievements, and the company's prospects to external parties regarding the company's financial condition from the business activities conducted. The greater the profitability obtained, the greater the funds available for shareholders. Thus, the increase in ROE indicates a high likelihood for the company to pay high dividends and settle its debts, thereby reducing the risk of financial difficulties [18].

The increase in the company's ROE ratio from year to year indicates that the company's profits have increased. The rise in net profit can be used as one indication that the company's value has also increased, because an increase in a company's net profit will lead to an increase in its stock price, which also means an increase in the company's value [23]. The growth of ROE indicates that the company's prospects are improving, and it will be perceived by investors as a positive signal, which will subsequently make it easier for the company's management to attract capital in the form of shares. If there is an increase in demand for a company's shares, then indirectly will raise the stock price in the capital market [24]. The financial performance formula used by the researcher is:

$$\textbf{\textit{Return On Equity}} = \frac{\textbf{\textit{Earning After Interest and Tax}}}{\textbf{\textit{Equity}}}$$

Source : [25]

Population and Sample

a. Population

In this study, the population data used are all pharmaceutical companies listed on the Indonesia Stock Exchange. The observation period conducted from 2017 to 2023.

b. Sample

The companies that are the sample for this research were selected using the purposive sampling method [26], where the sample is selected based on certain considerations or specific characteristics.

The criteria for sample selection are as follows:

1. Pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) from 2017-2023
2. Presenting complete financial statements for the period from 2017-2023
3. Companies that did not incur losses during the period from 2017-2023

There are companies used as samples, as follows:

Table 1. Research criteria

No	Sample Criteria	Number of Companies
1.	Pharmaceutical Companies listed on the Indonesia Stock Exchange (IDX) for the period 2017-2023	10
2.	Companies that do not provide complete data for the period 2017-2023	(2)
3.	Companies that did not disclose their financial reports on the web for the period 2017-2023	(0)
4.	The number of companies studied	8
5.	The number of observations is 8 x 7 years.	56

Data Source: data processed by the researcher (2024)

Data Collection Techniques

The data collection method explains how the research data is collected. The data collection method in this study is [27]:

a. The documentation study method is a method conducted by extracting data in the form of the company's annual reports from 2017-2023. The data can be obtained from the Indonesia Stock Exchange (IDX).
b. The literature study method involves the collection of data as a theoretical foundation and previous research. In this case, the data is obtained from journals, articles, books, previous research, and other written sources related to the required information.

Analysis Techniques

The statistical analysis technique in this study uses multiple linear regression to explain the influence between different dependent and independent variables. Multiple Linear Regression is a regression used to test whether the profitability of a dependent variable can be predicted by its independent variables [26]. In this study, the researcher

used SPSS (Statistical Package for Social Science) as a data analysis tool. This analysis begins with descriptive statistics and classical assumption tests. These classical assumption tests consist of multicollinearity tests, normality tests, heteroscedasticity tests, and autocorrelation tests. Next, the collected data were subjected to multiple regression analysis and hypothesis testing in the form of the coefficient of determination (R2), correlation coefficient (R), and t-test.

1) Descriptive Statistics

Descriptive statistics are used to describe various characteristics of data originating from a sample. Descriptive statistics such as mean, median, mode, percentiles, deciles, and quartiles are presented in the form of numerical analysis or charts/diagrams. In this descriptive statistics, the data is processed per variable.

2) Classic Assumption Test

The multiple linear regression model is used in hypothesis testing to meet the classical hypothesis test in the conducted research. This is done to avoid biased estimates because not all data can use the regression model.

a. Normality Test

The one-sided Kolmogorov-Smirnov test can also test for data normality. Finding the significance value in research requires the ability to draw conclusions to determine whether the data follows a normal distribution or not. If the significance is > 0.05, then the variable is normally distributed, and conversely, if the significance is < 0.05, then the variable is not normally distributed [27].

b. Multicollinearity Test

The method used to test for the presence of multicollinearity can be seen from the tolerance value or variance inflation factor (VIF). The threshold determined to indicate the presence of multicollinearity is a tolerance value < 0.10 or a VIF value > 10.

c. Heteroscedasticity Test

To determine the presence or absence of heteroscedasticity in this study, the research is tested by examining the scatterplot graph between the predicted values of the dependent variable (ZPRED) and the residuals. (SRESID). The basis of the analysis used to test for the presence or absence of heteroscedasticity is as follows (Ghozali, 2016):

1. If in a certain pattern, such as points forming a specific pattern regularly (wavy, spreading, then narrowing), it indicates that heteroscedasticity has occurred.
2. If there is no clear pattern, and points are scattered above and below the number 0 on the Y-axis, it can be concluded that heteroscedasticity has not occurred.

d. Autocorrelation Test

In regression model research that is free from autocorrelation, it is considered a good regression model. One way to detect the presence or absence of autocorrelation is by using the Durbin-Watson Test. Decision-making on the presence or absence of autocorrelation (Ghozali, 2016) **DW values between 1.55 and 2.46: no autocorrelation.**

3) Hypothesis Testing

1. Correlation Coefficient Test

If the value of R approaches 1, it means that the independent variable has a strong influence on the dependent variable. Conversely, if the value of R is far from 1, it means that the influence of the independent variable on the dependent variable is still weak.

2. Coefficient of Determination (R2)

The coefficient of determination (R2) is a coefficient that indicates the percentage of influence each independent variable has on the dependent variable. This percentage shows how much the independent variable can explain the dependent variable. The higher the coefficient of determination or the closer the R2 value is to 100%, the better the independent variable is at explaining the dependent variable. It means that the resulting regression equation is good for estimating the value of the dependent variable.

3. Multiple Linear Regression Analysis

Multiple Linear Regression Analysis is an approach used to explain the linear relationship between two or more predictor (independent) variables and one response variable. (dependen). Where there are 3 independent variables and 1 dependent variable. Namely: Business Risk (X1), Dividend Policy (X2), and Capital Structure (X3) as independent variables, and one dependent variable, which is Financial Performance. (Y1). Where the model to be used is as follows:

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e}$$

Where:

Y	: *Financial Performance* (Y_1)
α	: Constant
β	: The regression coefficients of the independent variables X_1, X_2, X_3
X_1	: *Business Risk*
X_2	: Dividend Policy
X_3	: *Capital Structure*
e	: Disturbing Variable or Error

4. T-test (Uji parsial)

The t-statistic test essentially shows how far the influence of an individual variable or independent variable explains the variation in the dependent variable [28].

1) If the significance is greater than 0.05, then the hypothesis is rejected (the regression coefficient is not significant), which means that individually, the independent variables do not have a significant influence on the dependent variable.
2) If the significance is less than 0.05, then the hypothesis is accepted (the regression coefficient is significant), which means that individually, the independent variables have an influence on the dependent variable.

RESULTS AND DISCUSSION

Analysis Results

a. Descriptive Statistical Analysis

Descriptive statistical tests aim to provide an overview or depiction of the data, including the sample size, minimum value, maximum value, mean, and standard deviation of each research variable.

Tabel 2. ***Descriptive Statistics***

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Business Risk	56	1.09	9.10	3.3046	1.79088
Dividend Policy	56	0.00	99.50	18.8580	9.67666
Capital Struktur	56	0.08	298.15	50.7212	7.72792
Financial Performance	56	-0.22	224.46	16.4532	9.38504
Valid N (listwise)	56				

Source: SPSS version 27 Output Results (processed)

Based on the data obtained, the results are as follows:

1. Financial Performance (Y_1)

Financial Performance has a minimum value of -0.22, a maximum value of 224.46, while the average value (mean) is 16.4532 with a standard deviation of 9.38504, indicating that the data dispersion is smaller compared to the average value, thus showing that the Financial Performance variable data is already acceptable.

2. **Business Risk (X_1)**

   Business Risk has a minimum value of 1.09, with a maximum value of 9.10, while the average value (mean) is 3.3046 with a standard deviation of 1.79088, indicating that the data dispersion is smaller than the average value, thus showing that the Business Risk variable data is already acceptable.

3. **Dividend Policy (X_2)**

   The Dividend Policy has a minimum value of 0.08 and a maximum value of 298.15, while the mean value is 18.8580 with a standard deviation of 9.67666, indicating that the data dispersion is smaller than the mean value, thus showing that the Dividend Policy variable data is normal.

4. ***Capital Struktur*** **(X_3)**

   Effective Tax Rate having a minimum value of 0.10, with a maximum value of 3.75, while the average value (mean) is 50.7212 with a standard deviation of 7.72792, indicating that the data dispersion is smaller compared to the average value, thus showing that the Effective Tax Rate variable data is normal.

b. Classic Assumption Test

Classical hypothesis testing is the initial step before performing regression calculations to determine the effect of independent variables on the dependent variable.

1) Normality Test

To test the normality of the data, this study uses the Kolmogorov Smirnov Test. Assessing the significance value in research must be able to draw conclusions to determine whether a data set follows a normal distribution or not. If the significance is > 0.05, then the variable is normally distributed, and conversely, if the significance is < 0.05, then the variable is not normally distributed. (Ghozali, 2016).

Tabel 3. Results of the Normality Test

One-Sample Kolmogorov-Smirnov Test			
		Business Risk	**Dividend Policy**
N		56	56
Normal Parameters[a,b]	Mean	3.3046	18.8580
	Std. Deviation	1.79088	29.67666
Most Extreme Differences	Absolute	.198	.338
	Positive	.198	.338
	Negative	-.108	-.263
Test Statistic		.198	.338
Asymp. Sig. (2-tailed)[c]		**.760**	**.300**

Monte Carlo Sig. (2-tailed)[d]	Sig.		.000	.000
	99% Confidence Interval	Lower Bound	.000	.000
		Upper Bound	.000	.000

One-Sample Kolmogorov-Smirnov Test				
			Capital Struktur	**Financial Performance**
N			56	56
Normal Parameters[a,b]	Mean		50.7213	16.4532
	Std. Deviation		67.72792	29.38504
Most Extreme Differences	Absolute		.246	.313
	Positive		.246	.313
	Negative		-.227	-.285
Test Statistic			.246	.313
Asymp. Sig. (2-tailed)[c]			**.230**	**.660**
Monte Carlo Sig. (2-tailed)[d]	Sig.		.000	.000
	99% Confidence Interval	Lower Bound	.000	.000
		Upper Bound	.000	.000
a. Test distribution is Normal.				
b. Calculated from data.				
c. Lilliefors Significance Correction.				
d. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 2000000.				

Source: SPSS version 27 Output Results (processed)

Based on the results of the One-Sample Kolmogorov-Smirnov Test, the significance values of each variable are greater than 0.05, indicating that the regression model meets the normality assumption and can proceed to the next test.

2) Multicollinearity Test

How to see if a model has multicollinearity or not (Ghozali, 2018) can be seen in the values of Tolerance and Variance Inflation Factor (VIF). Tolerance measures the degree of variability of a selected independent variable that cannot be explained by other independent variables. The commonly used tolerance threshold values are > 10 and VIP < 10. If this happens, it means there is no multicollinearity in the regression model.

Table 4. Results of the Multicollinearity Test

Coefficients[a]			
		Collinearity Statistics	
Model		**Tolerance**	**VIF**
1	(Constant)		
	Business Risk	.945	1.058
	Dividend Policy	.933	1.071
	Capital Struktur	.987	1.013
a. Dependent Variable: Financial Performance			

Source: SPSS version 27 Output Results (processed)

Based on the table above, the results of the multicollinearity test show that the tolerance values of each independent variable are > 0.10 while the VIF values are < 10. Therefore, the results of the multicollinearity test in this study indicate that there is no multicollinearity in the regression model.

3) Autocorrelation Test

The autocorrelation test is used to determine whether there is a deviation from the classical assumption of autocorrelation, which is the correlation that occurs between the residuals of one observation and another in the regression model. If such a correlation exists, it is referred to as an autocorrelation problem. With the following provisions:

1. Nilai DW < 1,10; there is autocorrelation
2. Nilai DW antara 1,10 s/d 1,54; without conclusion
3. Nilai DW antara 1,55 s/d 2,46; there is no autocorrelation
4. Nilai DW antara 2,47 s/d 2,90 ; without conclusion
5. Nilai DW > 2,91 ; there is autocorrelation

The results of the autocorrelation test can be seen in the table below:

Table 5. Autocorrelation Test Results

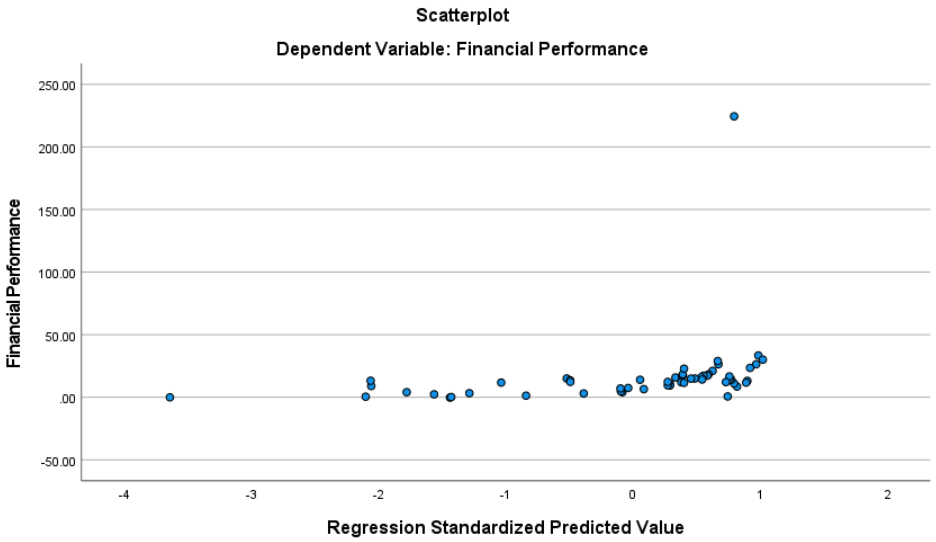
Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.972[a]	.874	.820	29.08261	1.991

Source: SPSS version 27 Output Results (processed)

Based on the results of the autocorrelation test, the Durbin-Watson value is 1.991. Therefore, the DW value is between 1.55 and 2.46. This indicates that there is no autocorrelation.

4) Heteroscedasticity Test

To test for the presence or absence of heteroscedasticity, a scatter plot is examined to see if the residuals are spread out or form a specific pattern. If the points do not spread out and form a pattern, then heteroscedasticity is present.



Source: SPSS version 27 Output Results (processed)

Figure 1. Heteroskedasticity Test Results

From the scatter plot in Figure 1, the points are spread randomly and there is no tendency to form a specific pattern, so there is no sign of heteroscedasticity.

c. Multiple Linear Regression Analysis

The calculations were carried out using SPSS version 27, and the results were obtained as follows:

Table 6. Results of Multiple Linear Regression Analysis

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	21.213	9.834		2.157	.036
	Business Risk	4.534	2.252	3.033	3.237	.003
	Dividend Policy	3.029	3.137	3.029	3.212	.003
	Capital Struktur	4.118	3.058	3.272	2.022	.008

Source: SPSS version 27 Output Results (processed)

In the table regarding the SPSS processing results, a multiple regression equation can be formulated as follows:

$$\mathbf{Y = 21.213 + 4.534X_1 + 3.029X_2 + 4.118X_3}$$

The multiple linear regression equation above can be interpreted as :

1. The constant is 21.213. This means that if not influenced by Business Risk, Dividend Policy, and Capital Structure, the Financial Performance would be 21.213.
2. The coefficient of the Business Risk variable is 4.534. This means that if there is an increase in Business Risk by one unit, Financial Performance will also increase by 4.534, assuming that other factors remain constant.
3. The coefficient of the Dividend Policy variable is 3.029. This means that if there is an increase in the Dividend Policy by one unit, the Financial Performance will also increase by 3.029, assuming that other factors remain constant or unchanged.
4. The coefficient of the Capital Structure variable is 4.118. This means that if there is an increase in Capital Structure by one unit, Financial Performance will also increase by 4.118, assuming that other factors remain constant.

d. Hypothesis Testing

1) Coefficient of Determination Test (R^2)

Test (R^2) used to calculate the degree of correlation between independent and dependent variables. The results of the SPSS calculations regarding the analysis are presented in the table below:

Table 7. R Square Test Results

Model Summary[b]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	**.972[a]**	**.874**	.820	29.08261	1.991

Source: SPSS version 27 Output Results (processed)

In the table above, it is known that the correlation coefficient R is 0.972 or close to 1. This means there is a relationship (correlation) the strong relationship between independent variables including Business Risk, Dividend Policy, Capital Structure and the dependent variable, which is Financial Performance.

As for the multiple determination analysis, from the table above, it is known that the percentage of the influence of the independent variables on the dependent variable indicated by the R square value is 0.884, so the multiple determination coefficient is 0.874 x 100% = 87.4%, and the remaining 100% - 87.4% = 12.6%. This means that the rise and fall of the dependent variable,

namely Financial Performance, is influenced by the independent variables, namely Business Risk, Dividend Policy, and Capital Structure by 87.4%. Meanwhile, the remaining 12.6% is influenced by other variables not examined in this study.

b. T-test (Partial test)

The results of the SPSS version 27 calculations regarding the t-test analysis (partial test) shown by the table below :

Table 8. Partial Test Results (T-test)

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	21.213	9.834		2.157	.036
	Business Risk	4.534	2.252	3.033	3.237	.003
	Dividend Policy	3.029	3.137	3.029	3.212	.003
	Capital Struktur	4.118	3.058	3.272	2.022	.008

Source: SPSS version 27 Output Results (processed)

1. The data processing test on the hypothesis that Business Risk Affects Financial Performance shows a significance value of 0.003, which is less than 0.05. Because the significance level of 0.003 < 0.05, H1, which states that the Business Risk variable Affects Financial Performance, is accepted.
2. The data processing test on the hypothesis that Dividend Policy Affects Financial Performance shows a significance value of 0.003, which is less than 0.05. Because the significance level of 0.003 < 0.05, H2, which states that the Dividend Policy variable Affects Financial Performance, is accepted.
3. Data processing tests on the hypothesis that Capital Structure Affects Financial Performance show a significance value of 0.008, which is less than 0.05. Because the significance level of 0.008 < 0.05, H3, which states that the variable Capital Structure Affects Financial Performance, is accepted.

Table 9. Hypothesis Testing Results

No.	Description	Result	Explanation
1	H1 : *Business Risk* Influential on *Financial Performance*	Accepted	0,003 < 0,05
2	H2 : Dividend Policy Affects *Financial Performance*	Accepted	0,003 < 0,05

3	H3 : *Capital Structure* Influential on *Financial Performance*	Accepted	0,008 < 0,05

Source: data processed by the researcher (2024)

Discussion

1) *Business Risk* Berpengaruh Terhadap *Financial Performance*

If business risk is high, then financial performance increases. High business risk due to having to pay high interest costs on increasing debt. Because real estate and property companies prefer to use external funds rather than internal funds for making an investment. That does not cause financial performance to decline because when aiming for a high return, one faces high business risks. The return generated will be greater and can cover the high interest costs on the company's debt. Real estate and property companies do not overlook their business risks. Minimizing business risk can be done by identifying, calculating, and anticipating potential business risks, thereby reducing risk and optimizing financial performance. This supports the research findings conducted by [1] which states that business risk affects financial performance.

2) Dividend Policy Affects *Financial Performance*

The results of the data analysis showed a significance value < 0.05, therefore the second hypothesis is accepted. It means that the Dividend Policy has a positive impact on the financial performance of pharmaceutical companies in Indonesia. This result is in line with the research. [5] which states that dividend policy affects financial performance. In line with the research [29] stating that the dividend policy has a positive effect on financial performance. This finding is supported by statistical data where the average dividend policy is greater than other variables at 25.45%, which may influence financial performance.

The dividend policy determines how much profit will be obtained by the shareholders. The profit that shareholders will receive will determine the welfare of the shareholders, which is the main objective of the company. The larger the dividend distributed to shareholders, the better the performance of the issuer or the company will be considered, and ultimately, a company with good managerial performance is deemed profitable. Consequently, the assessment of the company will also improve, which is usually reflected in the company's stock price. This is in line with the opinion [30] which considers that dividends seem to have or contain information (Information content of dividend) or serve as a signal of the Company's prospects [30]. The dividend policy theory examines the impact of determining the allocation of profits on dividends and retained earnings on the prevailing market value of stocks. This means investors are faced with two choices: whether the dividend returns are given in cash or in the form of capital growth (capital again), so investors receive capital gain because the stock value increases.

3) *Capital Structure* Influential on *Financial Performance*

Debt and funds (ekuitas) forming the company's capital structure. Short-term and long-term debts form liabilities, while shares and retained earnings form equity. The use of debt in a business is expected to improve performance; in this case, debt is used to support. When determining how much money a corporation needs to meet its expenditure requirements, the capital structure refers to the ratio of external funding to internal funding. Long-term funds mainly come from two sources: internal company sources and external sources. From the creditor's perspective, the better the corporate performance, the more confident they are in lending the money needed for the bank to operate. The findings of the above research indicate that a company's financial performance will decline along with the growth of its capital structure. This is because the estimated value of the capital structure variable is negative, meaning that every influence will have the opposite effect. The findings of this study support previous research. [31] which found that capital structure has a negative impact on business performance.

CONCLUSION

Fundamental Finding: This study reveals that business risk, dividend policy, and capital structure significantly influence the financial performance of pharmaceutical companies in Indonesia. These factors play a crucial role in shaping the overall financial outcomes and sustainability of firms in this sector. **Implication:** The findings suggest that pharmaceutical companies should carefully manage business risks, optimize dividend policies, and maintain an appropriate capital structure to enhance their financial performance. These insights can help managers and policymakers develop strategies to improve financial stability and growth within the industry. **Limitation:** The limitations of this research include the focus on only three independent variables and one dependent variable, the limited research period of 2017-2023, and the exclusion of other potentially influencing factors. **Future Research:** Future studies could expand the scope by incorporating additional independent variables such as Good Corporate Governance, stock returns, liquidity, and other financial ratios. It is also recommended to extend the research period to include data from 2024 and explore the effects of moderating and mediating variables to provide a more comprehensive understanding of financial performance dynamics in the pharmaceutical industry.

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