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Determinants of Capital Structure : Evidence from N on-Financial Companies Listed on the Ind onesia Stock Exchange

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Abstract

This research is aimed at analyzing the effect of effective tax rate, firm size, liquidity, financial flexibility, asset structure, growth opportunities, risk, profitability, asset utilization ratio, and ownership structure on capital structure. The theory used in this research is trade-off theory and pecking order theory. The data source in this research is the annual financial reports of non-financial companies listed on the Indonesia Stock Exchange (IDX) for the period 2017-2020. The sample was selected using purposive sampling method. The results of this research indicate that the effective tax rate has a negative and insignificant effect on capital structure. Firm size, asset structure, and growth opportunities have a significant positive effect on capital structure. Liquidity, financial flexibility, profitability, and electoral structure have a significant negative effect on capital structure. Risk and asset utilization ratio have positive and insignificant effect on capital structure.

1. INTRODUCTION

Capital structure describes the proportion of a company's finances consisting of long-term capital which can be proxied as debt, preferred shares and common equity with its own capital. Internal sources of funds originate or are generated from within the company, while external sources of funds are obtained from parties outside the company. The origin of the company's funding must be considered so that there is a balance in determining the capital structure.

The capital structure will encourage management to make the right decisions. Making the right decisions creates the right capital structure because there is a balance in the use of funds. A capital structure that encourages appropriate funding decisions will be able to meet the funding needs that the company will use (Deviani & Sudjarni, 2018). All aspects of company operational financing are obtained from the capital structure, so that the company can maximize its performance to get optimal results and will have an impact on the company's subsequent activities.

In optimizing its work, companies need appropriate decisions that are seen from several factors that influence capital structure, namely effective tax rates, company size, liquidity, financial flexibility, asset structure, growth opportunities, risk, profitability, asset utilization ratio, and ownership structure (Alipour et al . al ., 2015). The effective tax rate is the actual tax burden imposed on taxpayers on their income which is calculated based on a comparison between the tax burden paid by the company and income before tax. The corporate income tax rate in Indonesia is a proportional rate which is charged in accordance with regulations.

Companies with high tax rates will cause companies to use large debts. Larger external funding will increase interest expenses which reduce taxable income so that the amount of taxable income becomes smaller (Karadeniz et al., 2009). Companies use greater debt to save on paying taxable income. This is in line with the research results of Uddin (2015) which found that effective tax rates have an effect on capital structure but is different from the research results of Chen & Strange (2005) which found that there was no effect of effective tax rates on capital structure.

Company size describes the company's measurement scale in obtaining funds either in the form of share capital or debt. Large companies have stable cash flows so that companies are more able to obtain debt

(Alzomaia, 2014). Small companies tend to be considered new companies that have unstable cash flows making it difficult to obtain debt. This is supported by the results of research by Alipour et al. (2015) and Andika & Sedana (2019) that company size influences a company's access to debt financing but this is contrary to the results of research by Pramukti (2019) which states that company size does not have a significant effect on capital structure.

Kartika & Dana (2015) state that liquidity is a company's ability to meet its debt obligations. Companies with a high level of liquidity mean the use of debt will be low (Widayanti et al., 2016). Companies with high liquidity are able to pay short-term debt smoothly. The company pays short-term debt using internal funds because the company has sufficient internal funds. The results of research by Dimitri & Sumani (2014) found that liquidity has an effect on capital structure. Research by Deesomsak et al. (2004) concluded that there is a negative relationship between liquidity and capital structure because companies with high liquidity use more internal funds than external funds.

Financial flexibility can be linked to a company's cash flow. Companies with a high level of financial flexibility are able to make decisions about unexpected possibilities so as to avoid major risks. According to Alipour et al. (2015), increasing sales or income causes high financial flexibility so that it can reduce the use of debt. A low level of financial flexibility will lead to increased use of debt. The results of research by Graham & Harvey (2001) found that financial flexibility influences capital structure because there is a balance between results and decisions taken regarding the use of debt.

The asset structure consists of current assets and fixed assets. According to Aurelia & Setijaningsih (2020), a large asset structure can lead to greater use of debt because company operations are also high, resulting in greater use of funds. Companies with a large asset structure can easily obtain external funding because the assets they own are also large so they can be used as collateral for debt. In line with the results of research by Batubara et al. (2017) stated that asset structure influences capital structure. The results of research by Deviani & Sudjarni (2018) state that on the contrary, asset structure has no effect on capital structure.

The optimal capital structure can also be seen from the company's future growth opportunities. Companies that are in a period of growth require large funds and fixed assets must also be increased. This condition makes companies hold back income and use external funds, namely debt, to finance expansion. If the growth opportunities are large, then the use of debt will also increase in order to create good company performance. Based on the results of research by Cassar & Holmes (2003), it is stated that growth opportunities have a positive effect on the debt ratio, but this is different from the results of research by Amidu (2007) which states that growth opportunities do not have a significant effect on the debt ratio.

Every company has risks that it will face so that risk can be used as a determinant of optimal capital structure. Business risk is something that may occur in company activities so it needs to be anticipated. The fatal consequences of failure to face risks can cause the company to go bankrupt. Chandra (2014) states that business risks arise due to profit volatility or uncertain returns faced by companies. Business risk can be calculated by the volatility of company profits. Companies with a large level of volatility in earnings are more likely to go bankrupt because the company is unable to pay interest and debt when due (Khémiri & Noubbigh, 2018). Large profit volatility causes companies to have low credit worthiness (Alipour et al., 2015). Large volatility causes a high level of risk causing companies to avoid using greater external funds. The results of research by Ezeoha (2011) state that risk does not have a significant relationship with debt ratios. Heshmati's research (2001) shows that there is a negative relationship between risk and capital structure.

Profitability is a benchmark for a company's condition, such as the company's strengths and weaknesses. Companies with a

high level of profitability tend to use internal funds, namely retained earnings and shares, so that with high profitability, companies tend to use less debt (Mohammadzadeh et al ., 2013). Research by Abor (2005) states that profitability is positively related to short-term debt ratios but negatively related to long-term debt ratios. Zulkarnain (2020) states that profitability is not significantly related to capital structure.

The next determining factor for optimal capital structure is the asset utilization ratio. Eldomiaty & Azim (2008) found that the higher the asset utilization ratio, the more efficient the manager is in utilizing assets. This ratio is expected to be higher and places greater emphasis on cost reduction and operational efficiency (Jermias, 2008). Companies with a high asset utilization ratio can reduce the use of debt because it measures the manager's efficiency in using company assets. Reducing external funds due to debt can bind the company so that the company tends to pay in cash. Based on the results of research by Jamaludin (2020), it is stated that the asset utilization ratio has no effect on capital structure. Research by Wardhana & Mawardi (2016) states that the asset utilization ratio has a significant effect on capital structure.

A company's ownership structure is not only determined by the amount of debt and equity, but is also determined by the percentage of ownership by managers and institutional investors (Wahidahwati, 2002). One of the important roles of institutional ownership is to pressure managers to use company debt so as to create conditions for good company financial management and avoid problems that cause losses. The results of research by Yeniatie & Destriana (2010) found that institutional ownership structure influences capital structure. High institutional ownership is more careful in using its funding sources because it is risky in paying off the debt. This is in line with research by Ananto (2015) which states that institutional ownership structure does not have a significant effect on capital structure.

This study replicates the results of research by Alipour et al . (2015) with differences in variables, research place, research time, and research sample. This research examines non-financial companies listed on the Indonesia Stock Exchange for the latest period, namely 2017-2020. This research also differs in the stock price performance and ownership structure variables by considering stock price performance which influences risk and institutional ownership has a better ability to regulate management policies in making optimal decisions. This research was carried out because we had not found the determining factors for optimal capital structure. This research was also carried out because quite a few companies in Indonesia still use external funding to a greater extent than internal funding. High leverage will cause high risks when bad economic conditions occur.

2. CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1. Conceptual Framework

The capital structure shows that the company's funding comes from internal and external sources. Internal funds are funds that come from parties within the company and external funds are funds that come from parties outside the company. External funds are temporary and internal funds have an unlimited term. Company funding sourced from external funds is in line with trade-off theory . This theory explains a balanced relationship between the benefits resulting from the use of debt and the consequences that occur as a result of the use of the debt. Debt funding will be permitted if the benefits to be generated are greater. It can be said that external funds will be used when the benefits of using debt will benefit the company.

A high effective tax rate makes companies use greater debt financing. The company will benefit from debt financing which will reduce financial burdens. Large companies have more stable cash flows compared to small companies. The stability of cash flow causes the company to

have little risk so that the company obtains debt funding.

The asset structure is used as collateral to obtain funding from external parties. Companies with a larger tangible asset structure will require greater debt funding. Debt funding is greater because the company's operational costs are also high. Companies that have a high level of growth opportunities will require high levels of fixed assets as well. Companies with high growth opportunities will maintain their profits so the company requires large funds.

On the other hand, there are those who focus more on choosing internal funding sources which is in line with the pecking order theory . More company funding comes from internal sources because the company has sufficient internal funds to fund the company. Companies that use funding from internal funds have greater retained earnings. The company will use internal funds first before using external funds. External funds will be used if the company needs additional funds. The company will issue riskless bonds then risky bonds and finally issue new shares.

The level of liquidity is measured by the current ratio, the high level of a company's ability to pay short-term debt can be seen from the size of the current ratio. The company is considered capable of fulfilling its obligations with internal funding if the level of liquidity is high. Companies with a high level of flexibility will use greater internal funds for company needs because the company is more focused on increasing its flexibility. This can be seen from the company's cash flow, a company with increasing sales or income will cause high financial flexibility.

Companies with a high level of risk tend to reduce their funding from debt. High use of debt causes payment failure so the possibility of experiencing bankruptcy is also high. High company profitability can reduce the use of debt. Companies with large profits will provide greater retained earnings so companies will choose internal funding first.

The asset utilization ratio influences the manager's efficiency in utilizing company assets. Efficient use of company assets will increase the company's cash flow so that the company does not need external funds. A high institutional ownership structure can cause a decrease in the proportion of debt. The decrease in debt occurred because institutional ownership could monitor managers using large amounts of debt.

Based on the description above, the research framework is described as follows:

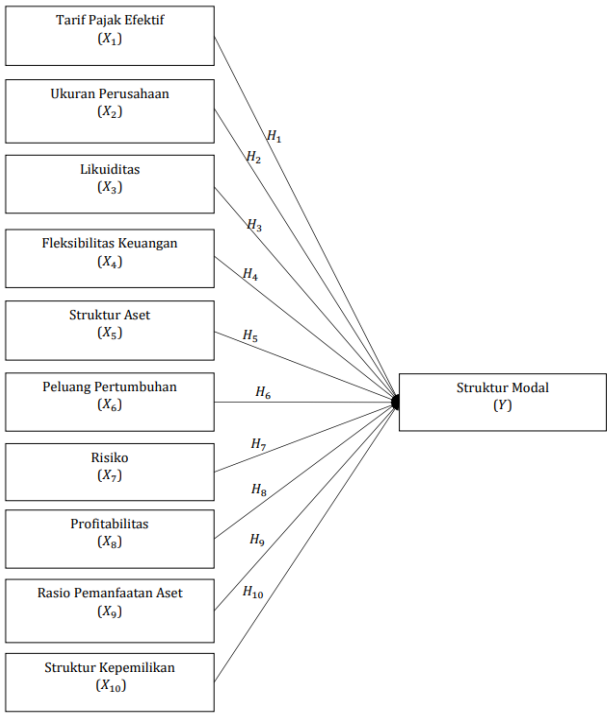

Figure 1.
conceptual framework

2.2 Hypothesis Development

2.2.1 Effect of Effective Tax Rates on Capital Structure

Trade Off Theory , equality of taxes and bankruptcy costs can create an optimal capital structure. Alfandia (2018) argues that there is a positive relationship where companies that are subject to lower corporate tax rates will use less debt in the company's capital structure. Tax deductions for depreciation and investment tax credits are considered substitutes for tax benefits on debt.

Based on research by Akhmadi et al. (2018) found a significant positive relationship

between a company's effective tax rate and its long-term debt ratio and taxes influencing funding decisions. However, research by Antoniou et al. (2008) conclude that there is a negative relationship between effective tax rates and debt ratios due to differences in tax rate regulations in each country.

Effective tax rates can have an effect on reducing the cost of debt, thereby leading to a reduction in financial burden. The benefits of debt financing will increase as tax rates increase.

H_1: Effective tax rates have a positive effect on capital structure.

2.2.2 Effect of Company Size on Capital Structure

trade off theory , company size has a positive relationship with debt because large companies tend to tolerate high debt ratios (Castanias, 1983; Titman & Wessels, 1988). Larger companies will be more diversified and have a lower likelihood of experiencing financial difficulties.

Research by Bevan & Danbolt (2002) states that company size is positively related to capital structure because larger companies have lower bankruptcy costs so companies can take advantage of leverage. Nugroho's (2014) research states that company size is negatively related to capital structure so that company size variables still have to be considered in the company's capital structure.

Company size is used to state the company's financial condition. Large size companies have better quality than small size companies. This causes large companies to easily obtain debt.

H_2: Company size has a positive effect on capital structure.

2.2.3 Effect of Liquidity on Capital Structure

Pecking Order Theory , liquidity is negatively related to capital structure because companies that have high enough liquidity cause external creditors to limit the amount of debt financing available to the company (Myers & Rajan, 1998). Companies with high liquidity use more internal funds than external funds so they have less debt.

The results of research conducted by Sari & Oetomo (2016) show that liquidity has a negative influence on capital structure, because high levels of liquidity can cause a decrease in capital structure because companies with high levels of liquidity have large internal funds so that the debt used is relatively low. Widayanti et al. (2016) also stated that liquidity has a negative effect on capital structure.

Liquidity is used to measure a company's ability to fulfill its obligations in whole or in part when they fall due. Some companies have situations where the company cannot pay its obligations when they fall due because they do not have sufficient funds to pay their debts. This condition can cause the company's relationship with creditors to become strained due to a lack of creditors' trust in the company. Companies that have a high level of liquidity prefer to use internal funds first before using debt, because the internal funds owned by these companies tend to be larger.

H_3: Liquidity has a negative effect on capital structure.

2.2.4 Effect of Financial Flexibility on Capital Structure

In accordance with the pecking order theory , managers prefer internal financing compared to external financing. Financial flexibility determines the use of debt as well as financial deficiencies and excesses in the following period. Greater financial flexibility means the company has less debt because the company focuses more on increasing the company's flexibility rather than using external funds for the company's needs.

Margaretha & Ginting (2016) also argue that companies will avoid using external funding needs by increasing financial flexibility. Research conducted by Alipour et al . (2015) results that financial flexibility has a significant negative relationship with capital structure. Research by Rapp et al . (2014) also produced research related to financial flexibility which is negatively related to capital structure.

Financial flexibility relates to a company's ability to respond quickly or respond to unexpected financial-related circumstances. Companies that have a high level of financial flexibility will focus on continuing to increase their financial flexibility so that the company reduces the value of its debt. If something unexpected happens, the company can overcome the worst consequences because it is easy to get funding.

H_4: Financial flexibility has a negative effect on capital structure.

2.2.5 Influence of Asset Structure on Capital Structure

According to Brigham and Houston (2019), the asset structure is used as collateral to obtain loans from external parties. In accordance with trade-off theory , companies with a larger tangible asset structure require greater debt because the company's high operational costs cause large funding requirements as well.

Research by Munafi'ah et al. (2017) found that asset structure has a positive and significant effect on capital structure because large fixed assets can use large amounts of liabilities. However, research by Deviani & Sudjarni (2018) states that asset structure does not have a significant influence on capital structure.

Some companies place more of their own fixed capital into fixed assets because debt capital is a non-fixed complement. Sofat & Singh (2017) stated that companies with large tangible assets find it easier to obtain external funding sources, because large tangible assets can be used as collateral for debt. Companies that have a high asset structure find it easier to obtain external funding because the possibility of bankruptcy is small compared to companies that have a low asset structure.

H_5: Asset structure has a positive effect on capital structure.

2.2.6 Effect of Growth Opportunities on Capital Structure

The company's growth opportunities are used to develop the company in the market. According to the trade-off theory , companies with high growth opportunities will require large funds. The large need for funds is due to the company having to increase its fixed assets and maintain company profits (Meutia, 2016).

The results of research conducted by Nasir et al. (2014) stated that growth opportunities have a positive effect on capital structure. However, research by Huang & Song (2006) concluded that there is a negative relationship between growth opportunities and debt ratios.

Companies with relatively higher growth opportunities have more leverage (Viviani, 2008). This happens because companies with rapid growth will need more funds and are able to borrow more external funds. Seftianne & Handayani (2011) stated that the company will look at the prospects that will be obtained in the future, by looking at the company's growth opportunities, growth opportunities within the company will cause the company to continue to develop its business which requires a lot of funds, so that in order to seize opportunities, the company will loans from outside parties to fund the company.

H_6: Growth opportunities have a positive effect on capital structure.

2.2.7 Effect of Risk on Capital Structure

Pecking Order Theory , companies with high risk will reduce their use of debt. Risky companies or companies that have a high probability of default are more likely to experience bankruptcy. Companies with high risk occur because the company is unable to meet the funds the company needs for its operations. According to this theory, risk has a negative effect on capital structure.

Research conducted by Alipour et al. (2015) stated that business risk has a significant negative effect on capital structure because companies with higher risk tend to avoid external funding to prevent bankruptcy.

However, research conducted by Ezeoha (2011) stated that business risk does not have a significant relationship with debt ratios.

Risk is a consequence that will definitely occur if there is an error in decision making in the capital structure. Stability in company operations makes the risk level smaller. Increasing business risks in companies cause companies to avoid using large debts. Business risks can have fatal consequences, namely bankruptcy.

H_7: Risk has a negative effect on capital structure.

2.2.8 Effect of Profitability on Capital Structure

Pecking Order Theory , companies with higher profitability will choose to use internal funds before using external funds. This happens because the company is able to generate profits using its internal funds. A high level of profitability causes higher profits to be generated. High profits make companies provide more retained earnings, thereby reducing the use of debt.

Research by Bouallegui (2006) and Gharaibeh (2015) found that profitability has a negative effect on capital structure. In research by Widayanti et al. (2016) stated that profitability has no influence on the debt ratio.

Profitability provides a measure of the effectiveness of a company's management based on the profits the company obtains from both sales and investments. Companies with high profitability can reduce the use of debt because they use more internal funds than external funds. If the profits generated are high, the company will also provide more retained earnings.

H_8: Profitability has a negative effect on capital structure.

2.2.9 Effect of Asset Utilization Ratio on Capital Structure

Pecking Order Theory , high asset utilization does not use debt as a source of funding. Effective use of assets can increase sales so that the company uses more internal funds. The level of asset utilization ratio will also influence the manager's efficiency in utilizing company assets. If the asset utilization ratio is high, the more efficient the manager will be in utilizing the company's assets.

Noviandini & Welas (2017) stated that the level of asset utilization ratio should be negatively related to debt because high asset utilization can reduce the company's use of debt. Companies with higher asset utilization use funding from internal parties because the use of company assets is more effective in generating profits. Research by Wardhana & Mawardi (2016) also shows that the asset utilization ratio has a significant effect on capital structure.

The asset utilization ratio is a ratio used to measure a company's ability to utilize the assets owned by the company. A company with a higher asset utilization ratio means that the company's assets are used effectively. The effective use of assets makes the company generate large profits so that the company does not use large debts because the company has sufficient internal funds.

H_9: The asset utilization ratio is negatively related to capital structure.

2.2.10 Influence of Ownership Structure on Capital Structure

Ownership structure has a big influence on capital structure, in the case of institutional ownership. Institutional investors can supervise managers in making decisions on funding sources so that companies can avoid using large amounts of debt. Based on the pecking order theory , debt funding is more important than stock funding due to information asymmetry (Myers & Majluf, 1984).

Companies with high institutional ownership can reduce the proportion of debt because institutional investors will reduce information asymmetry. Information asymmetry is a situation where one party has more control over information. Information asymmetry occurs due to managers having more control over information about the company's conditions than other parties, so that

this condition can benefit the party who has more control over the information. Managers may make wrong funding decisions to gain personal gain.

Large institutional ownership can reduce the use of debt. This is supported by research conducted by Fitriyah & Hidayat (2011) with the results that institutional ownership structure has a negative influence on capital structure.

H_{10}: Ownership structure has a negative effect on capital structure.

3. RESEARCH METHODS

3.1 Population and Sample

The population of this research is all non-financial companies listed on the Indonesia Stock Exchange for the 2017-2020 period. The sampling technique in this research used purposive sampling .

Table 1.
Sample Selection Criteria

Sample Selection Process	Amount
Total non-financial companies listed on the Indonesian Stock Exchange for the 2017-2020 period.	469
Non-financial companies that do not publish complete annual financial reports for the 2017-2020 period.	(13)
Non-financial companies that experienced losses in the 2017-2020 period.	(2 62)
Companies that do not use the rupiah currency in presenting financial reports.	(91)
Number of companies in the sample	**103**
Total company data (103 x 4 years)	**412**
Outliers	(89)
Total research data	**323**

3.2 Data Types and Sources

The type of data in this research is documentary data originating from the financial reports of non-financial companies listed on the Indonesia Stock Exchange for the 2017-2020 period. The data source for this research is secondary data obtained from the official website of the Indonesian Stock Exchange, namely www.idx.co.id.

3.3 Operational Definition and Variable Measurement

3.3.1 Capital Structure

Capital structure is proxied by debt to equity ratio (DER). Kasmir (2014) found that the debt to equity ratio is a ratio used to assess debt versus equity and by comparing all debt with all equity. Companies that have a high DER value can be concluded that the company uses external funding more than internal funding and vice versa. Research by Sofat & Singh (2017) calculates the DER value using the following formula:

DER = Total Debt/Total Equity

3.3.2 Effective Tax Rate

The effective tax rate is a percentage of the ideal rate in a company which is based on the financial information produced (Aunalal, 2011). The tax rate determines the amount of debt a company has to obtain tax benefits on the interest expenses generated. According to Alipour et al . (2015), the calculation of the effective tax rate variable is calculated using the following formula:

Effective Tax Rate=Tax/Profit Before Tax

3.3.3 Company Size

Company size can be seen from assets, sales and market . Company size can be interpreted as the size of the assets owned by the company. Large size companies have large amounts of assets. Company size can be calculated by total company assets. The use of the total assets proxy is because asset values are relatively more stable compared to market capitalization and sales values (Rahman & Siregar, 2012). Company size can be calculated using the formula:

Company Size = Ln (Total Assets)

3.3.4 Liquidity

Liquidity is the company's ability to fulfill its financial obligations which must be fulfilled immediately or the company's ability to fulfill its financial obligations when they are billed (Munawir, 2010). Liquidity calculations can be done by measuring the current ratio. The greater the current ratio, the higher the

company's ability to pay short-term debt, but if the current ratio is low, the company's ability to pay short-term debt is also low. Based on research by Eldomiaty (2007), the current ratio is calculated by:

Current Ratio = Current Assets/Current Liabilities

3.3.5 Financial Flexibility

Byoun (2008) argues that financial flexibility is a condition of a company's capacity and speed to be able to manage its financial resources or take preventive, reactive and exploitative actions. Measurement of financial flexibility can be measured by the cash coverage ratio indicator where this ratio provides results regarding the company's ability to pay its obligations with net cash provided by operating activities without having to liquidate assets used in operations (Murti et al., 2016) . Calculation of financial flexibility using the formula:

Financial Flexibility = Net cash from operating activities/Average total liabilities

3.3.6 Asset Structure

Asset structure is the assets or assets owned by the company, both at a certain time and for a certain period (Kasmir, 2014). Companies with high tangible fixed assets will find it easier to obtain debt loans because they have something that can be used as collateral, but companies with low tangible fixed assets will find it more difficult to obtain additional capital with debt loans because the assets they own are not enough to be used as collateral for their debts. Based on research by Sofat & Singh (2017) and Alipour et al. (2015), asset structure calculations are carried out using the formula:

Asset Structure = Fixed Assets/Total Assets

3.3.7 Growth Opportunities

Growth opportunities are opportunities for companies to develop in the future (Dewi & Dana, 2017). The funds needed are in accordance with the company's growth opportunities, if the opportunities are greater then the funds needed will also be greater, but if the growth opportunities are small then the funding requirements will also be small. Growth opportunities can also cause changes to a company's total assets. Alipour et al. (2015) calculate growth opportunities using the formula:

Growth Opportunities = $(TAt - TA_{t-1})/TA_{t-1}$

3.3.8 Risks

Business risk is the possibility that the company will not be able to fund the company's operations (Gitman & Zutter, 2015). Business risk is influenced by the level of debt to meet funding needs. Business risk measurement can be calculated using the degree of operating leverage formula because this ratio measures the sensitivity of earnings before interest and taxes (EBIT) to sales for future asset returns. Based on research by Primantara & Dewi (2016), the formula for calculating risk which is proxied by the degree of operating leverage is:

Business Risk = (% Change in EBIT) /(%Change in Sales)

3.3.9 Profitability

Sutrisno (2012) states that profitability is a company's ability to generate profits with all the capital working in it. Profitability is proxied by return on assets (ROA) to measure the rate of return on total assets after interest and tax. In line with research by Wijayannti & Nurlaela (2018), ROA is calculated using the formula:

Return on Assets = Net profit /(Total Tax

3.3.10 Asset Utilization Ratio

The asset utilization ratio is a ratio to assess the level of effectiveness of assets in generating company sales (Wild & Subramanyam, 2009). The asset utilization ratio is proxied by total asset turnover to measure income generated from sales using assets owned by the company. Alipour et al . (2015) calculates the asset utilization ratio with the formula:

Asset Utilization Ratio = Sales /(Total Assets)

3.3.11 Ownership Structure

Ownership structure, especially institutional ownership structure, is ownership

of company shares owned by institutions or institutions such as insurance, banks, investment companies, and ownership of other institutions or other financial institutions (Tarjo, 2008). Based on research by Wimelda & Marlinah (2013), the amount of institutional ownership can be calculated using the formula: Institutional Ownership = (Number of shares owned by institutions) /(Number of shares outstanding).

4. RESULTS AND DISCUSSION

4.1 Research Results

Descriptive statistical analysis which provides an overview of the research variables in the form of minimum, maximum, average (mean) and standard deviation values is presented in table 2.

Table 2 .
Descriptive Statistical Test

	N	Min	Max _	Mean	Std. Dev
Y	323	0.081	2.81 8	0.839	0.59 5
X1	323	-0.1 70	0.962	0.22 2	0.13 5
X2	323	25,470	33.49 5	29.27	1,618
X3	323	0.149	208.4 5	3.3 20	11,718
X4	323	-0.917	1.89 6	0.33 9	0.425
X5	323	0.00 5	0.89 3	0.353	0.214
X6	323	-0.32 9	0.69 6	0.09 5	0.143
X7	323	-35.3 8	16.27	0.674	5.47 8
X8	323	0.00 1	0.29 4	0.07 3	0.05 4
X9	323	0.005	3,404	0.843	0.522
X10	323	0.06 6	1,000	0.723	0.200

Source: Data processing results (2022)

The results of multiple regression analysis used to determine the magnitude of the influence of the independent variables, namely effective tax rates, company size, liquidity, financial flexibility, asset structure, growth opportunities, risk, profitability, asset utilization ratio, and ownership structure to capital structure are presented in table 3 .

Table 3 .
Multiple Linear Regression Test

	B	Std. Error	t	Sig
X1	-0.298	0.220	-1,352	0.177
X2	0.093	0.017	5,353	0,000
X3	-0.005	0.002	-1,977	0.049
X4	-0.431	0.090	-4,766	0,000
X5	0.317	0.137	2,320	0.021
X6	0.410	0.197	2,084	0.038
X7	0.003	0.005	0.604	0.546
X8	-3,117	0.755	-4,130	0,000
X9	0.079	0.060	1,321	0.187
X10	-0.301	0.137	-2,192	0.029
R^2	0.383			
F Count	19,367			

Source: Data processing results (2022)

4.2 Research Discussion n

4.2.1 Effect of Effective Tax Rates on Capital Structure

The results of this study are not consistent with the hypothesis which states that the effective tax rate has a positive effect on capital structure to obtain a reduction in the company's tax burden from loan interest. The pecking order theory states that companies with a large effective tax rate will use less debt. This happens because many companies do not use larger debt to fund their company just to save on tax burden. Companies do not use larger debts because bankruptcy costs are higher compared to the tax burden savings obtained, besides that the company's liquidity level also decreases.

The results of the research conducted were inconsistent with the research of Akhmadi et al. (2018) who found that effective tax rates are positively related to capital structure. This study is consistent with Antoniou et al. (2008) who concluded that there is a negative relationship between effective tax rates and debt ratios.

4.2.2 Effect of Company Size on Capital Structure

The positive influence on the relationship between large company size causes increased use of debt. The positive relationship between company size and debt means that large companies tend to use larger debts for company funding. Small-sized companies tend to use less debt for company funding. This happens because large companies have a high level of debt financing and have larger assets that can be used as collateral. Large companies have improved financial performance so they are able to finance their debt.

In line with the trade-off theory , it states that larger companies use more debt because the needs required to carry out the company's activities are also greater. Large companies also tend to find it easier to get loans because they are more diversified and the possibility of financial difficulties is lower.

The results of this research are consistent with research by Castanias (1983), Titman & Wessels (1988) and Bevan & Danbolt (2002) which found that company size is positively related to capital structure. Apart from that, this research is inconsistent with research by Nugroho (2014) which found a negative relationship between company size and capital structure.

4.2.3 Effect of Liquidity on Capital Structure

This research proves that companies tend to be liquid, causing their use of debt to be lower. Companies that have high liquidity tend to choose to use internal company funds first before using external funds. In line with the pecking order theory , companies with high liquidity use greater internal funds than external funds so they have less debt. Internal funds owned by companies with a high level of liquidity tend to be a greater source of company funds. Large internal funds can enable a company to continue operational activities even though the company's obligations have been paid off because repayment can reduce the company's operational funds.

The results of this study are consistent with research by Myers & Rajan (1998), Sari & Oetomo (2016), and Widayanti et al. (2016) which states that liquidity has a negative effect on capital structure because high levels of liquidity can cause a decline in capital structure because companies with high levels of liquidity have large internal funds so that the debt used is relatively low.

4.2.4 Effect of Financial Flexibility on Capital Structure

High financial flexibility will reduce the use of debt because the company reduces the need for external financing. This is because the company does not want to reduce its level of flexibility because it uses large debt. Companies that use more debt for funding have a lower level of financial flexibility. In this research, companies with high flexibility scores have low debt. For example, the company PT Delta Djakarta Tbk in 2017 and 2018 each had debts of IDR 196,197,372 and IDR 239,353,356. In 2017, the company's debt was lower than in 2018 so that in 2017 the level of company flexibility was higher than in 2018, namely 1.7934 and 1.5727 respectively. In accordance with the pecking order theory , managers will choose internal financing before external financing.

High financial flexibility can overcome company financial problems that occur unexpectedly because high flexibility allows the company to increase the cash used to fund the company's unexpected funding needs. The results of this study support research conducted by Rapp et al . (2014), Alipour et al. (2015), and Margaretha & Ginting (2016) who state that financial flexibility has a negative effect on capital structure.

4. 2 .5 Influence of Asset Structure on Capital Structure

Companies with a large tangible asset structure tend to use more debt because the need for funds for company operations increases so that they require larger funds as well. In line with the trade-off theory which states that the greater the asset structure owned by a company, the greater the use of debt. A larger asset structure is also easier to obtain external funds because it has assets that will be used as collateral.

The results of this study are consistent with research by Munafi'ah et al. (2017) which states that asset structure has a positive effect on capital structure. This research is not in line with research by Deviani & Sudjarni (2018) which found that asset structure has no effect on capital structure.

4. 2 .6 Effect of Growth Opportunities on Capital Structure

High growth opportunities can increase the use of debt. Companies with high growth opportunities will require increasingly large external funds to fund their growth. External funds will be used to fund company growth with a high level of growth opportunities because the company's internal funds are limited.

This research is in accordance with the trade-off theory which states that the higher the company's growth opportunities, the greater the funds needed, causing the use of debt to increase. High growth opportunities must maintain the company's profits and increase its fixed assets, therefore the company requires large funds.

This research is in line with research by Nasir et al. (2014) found that growth opportunities have a positive effect on capital structure. This research is not in line with research by Ooi (1999) and Huang & Song (2006) which found that growth opportunities had a negative effect on asset structure.

4. 2 .7 Effect of Risk on Capital Structure

The results of this study are not consistent with the hypothesis which states that risk has a positive effect on capital structure. This research is consistent with the trade-off theory , high business risk causes increased debt because it has an impact on reducing corporate taxes so that companies will try to reduce their taxes. Companies with high income variability also cause high business risks so that company profits tend to fluctuate. Companies with high business risk tend not to reduce the use of debt, but continue to use debt as a source of funding.

Risk does not have a significant effect on capital structure. This research is not consistent with research by Alipour et al. (2015) which states that risk is negatively related to capital structure and Ezeoha (2011) who states that risk has no relationship to capital structure.

4. 2 .8 Effect of Profitability on Capital Structure

A high profitability value will reduce the use of debt. The level of efficient use of company assets can be seen from the company's profitability value. A company with high profitability means using assets efficiently to generate profits for the company so that the company has sufficient internal funds to fund its activities.

In line with the pecking order theory which states that companies prefer to use internal funds first before using external funds. The company wants to increase its profitability by avoiding the use of funds from external funds. High company profitability can also cause the profits generated to be higher because profitability measures the company's efficiency in generating profits. The results of this research are consistent with research by Bouallegui (2006) and Gharaibeh (2015) who found that profitability has a negative effect on capital structure.

4. 2 .9 Effect of Asset Utilization Ratio on Capital Structure

A high asset utilization ratio means that the company's assets are used effectively to generate profits. This research is not in line with the pecking order theory which states that the higher the utilization of company assets emphasizes the use of debt to finance the company because it produces sufficient internal funds to fund the company. This research is in line with the trade-off theory which states that the higher the utilization of company assets, the higher the external funds needed. This happens because the more effectively a company uses its assets, the company's sales also increase so that the company requires greater funds to carry out its activities. Companies with a high asset utilization ratio will continue to increase company profits, with increasing profits making the company want to increase the number of assets so that it requires greater funds. Internal funds are limited in amount so companies also choose to use external funds to meet their funding needs.

This research is not consistent with research by Noviandini & Welas (2017) which states that the level of asset utilization ratio should be negatively related to debt because the

company is able to generate greater profits to fund the company.

4. 2 .10 Influence of Ownership Structure on Capital Structure

This research data states that a higher ownership structure tends to result in lower debt use. This occurs because of institutional supervision of management's performance in using large debts because large debts will increase the risk of bankruptcy due to the company failing to pay its obligations. The existence of institutional supervision makes management more careful in making funding decisions.

In line with the pecking order theory which states that institutional ownership structure has a negative effect on capital structure. The negative relationship is because institutional parties will supervise management's work in using external funds even though institutional parties are not directly involved in making funding decisions. The results of this research are in line with research by Fitriyah & Hidayat (2011) which states that institutional ownership structure has a negative effect on capital structure.

5. CLOSING

The results of this research support the trade-off theory and pecking order theory . The trade-off theory states that increasing the variables of company size, asset structure, growth opportunities, risk, and asset utilization ratio can increase the use of debt. Large amounts of debt will be used because the benefits received from using debt will be greater than the sacrifices from using debt.

pecking order theory states that increasing the variables of effective tax rates, liquidity, financial flexibility, profitability, and ownership structure can reduce the use of debt. The company chooses to use internal funding first before using external funding because the company has sufficient internal funds to fund the company.

The research conducted is limited to the non-financial sector listed on the Indonesia Stock Exchange, so the results of this research cannot yet be generalized to the financial sector listed on the Indonesia Stock Exchange. This research period uses research data from 2017-2020 where the data is relatively short, namely only 3 years. Further research can conduct research on the financial sector listed on the Indonesian Stock Exchange so that the results of this research can be generalized to the financial sector listed on the Indonesian Stock Exchange. It is also hoped that further research can extend or increase the observation period.

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