

THE EFFECT OF PROFITABILITY, ASSET GROWTH AND OPERATING LEVERAGE ON CAPITAL STRUCTURE WITH COMPANY SIZE AS A MODERATING VARIABLE

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ABSTRACT

Capital structure plays an important role in maintaining the survival of the Company. The better the capital structure owned by the Company, the better the Company will be in financing the Company's operations, even more able to survive in the event of an economic shock. The purpose of this research is to obtain empirical evidence of the effect of Profitability, Asset Growth, and Operating Leverage on Capital Structure with Company Size as a moderating variable. This study uses purposive sampling as its sampling technique and uses primary consumer sector companies as research samples. The data used in this study comes from the Financial Statements of companies listed on the Indonesia Stock Exchange. Data processing in this study used the Smart PLS program. The results showed that the independent variables of Profitability, Asset Growth, Operating Leverage had no significant positive effect on the Company's Capital Structure. But when the profitability variable is moderated by company size, it produces a significant influence on the capital structure, while for the Asset Growth variable moderated by company size, although it has increased, it still does not significantly affect the Company's Capital Structure. From the result above, it can be concluded that the use of profitability is the key of all independent variables in influencing the capital structure. Companies that use internal funds will be better at financing the Company's operations, increasing assets, assessing the size of the company, namely utilizing the Company's retained earnings to increase the growth and survival of the Company.

Keywords: Profitability, Asset Growth, Operating Leverage, Capital Structure, Company Size

1. INTRODUCTION

In the face of this competitive environment, decisions in capital structure are very important for any business organization. Wirianata and Wijoyo (2020) state that a company has two sources of funding, namely internal and external funding. Internal funding comes from shareholders and external funding comes from creditor funds in the form of debt which will incur a capital cost equal to the interest costs charged by creditors. Companies that have a high capital structure ratio by showing greater debt than their own capital, the higher the risk in a company. With the high risk in a company, it can cause creditors to set high interest rates on loans made by the company (Mettalina and Dewi, 2020).

Profitability itself is a ratio that can be used to determine the company's ability to generate profits during a certain period (Septiana, 2019). In addition, from the profitability of the company can also measure and know the amount of profit that can be obtained by the company in a certain period. This shows that the capital structure of the company is highly dependent on the increase and decrease in *profits* which will have an impact on its capital structure. Based on one of the existing theories, namely *pecking order theory*, it suggests that a high level of profitability in a company will allow the company to avoid the use of debt because most of the income earned is *retained earnings*. Cristie and Fuad (2015) found that asset growth has a positive effect on capital structure, meaning that an increase in asset growth affects the capital structure because companies prefer to use external capital rather than internal capital to meet

their needs. In addition, company size is able to moderate the effect of asset growth on capital structure, meaning that the larger the company, the greater its asset growth, in this case the company chooses external capital through loans to finance its operations.

Operating leverage is the funds used by the company for its operational needs arising from *fixed costs*. *Operating leverage* affects the capital structure because the use of *operating leverage* will have an impact on increasing sales which will make it easier for companies to obtain additional funds from debt, and this will affect the capital structure of a company.

Based on the above background, the researcher intends to obtain empirical evidence by conducting research on the Effect of Profitability, Asset Growth and Operating Leverage on Capital Structure with Company Size as a Moderating Variable where Does profitability have a significant effect on capital structure, Does asset growth have a significant effect on capital structure, Does *operating leverage* have a significant effect on capital structure, Does company size have a significant effect on capital structure, Can company size moderate the relationship between profitability on capital structure, Can company size moderate the relationship between asset growth on capital structure?

2. RESEARCH METHOD

This theory is called *trade off* because it assumes that the optimal capital structure is determined by the *trade off* between the *tax shield of leverage with the cost of financial distress and agency cost of leverage* (Myers & Majluf, 1984). According to *trade off theory*, the optimal capital structure is achieved by balancing the benefits and costs of using debt (Brigham, E. F., & Houston, J. F., 2019). *Trade off theory* applies that debt consists of two sides, namely the negative side and the positive side. The positive side of debt is that interest payments can reduce taxable income, this tax savings can increase the basic value of the company, debt profiles the company because of interest and *dividend* payments. According to this theory, the greater the profit (EBIT) earned by the company, the greater the level of debt so that the tax paid is reduced. However, the amount of debt is limited by the amount of bankruptcy *costs* and the cost of financial *distress* that arises before the company goes bankrupt (*cost of financial distress*). (Najmudin, 2011)

Pecking order theory suggests that companies have a preference in choosing funding sources by considering the lowest cost and least risk. Alternative funding starts from the least risky, namely retained earnings, debt, then issuing new shares. Some retained earnings research is essentially a meeting place for balance sheet accounts and income statement accounts (Skousen, C. J., K. R. Smith, and C. J. Wright. 2009), The use of debt will always be more profitable when compared to the use of own capital, especially by borrowing from banks (Modigliani and Miller, 1963), Most of the aggregate investment is financed with internal cash flow which includes depreciation and retained earnings, and only about 20% of investment is financed from external sources (Myers, 2001), A profitable company will use less debt, because the company only uses external funds after internal funds are insufficient (Brealey, et al., 2001, p. 445),(2001, p. 445), Titman (2014, p. 586) states that *pecking order theory* is as: "*Pecking order theory is a hierarchy of financing that begins with retained earnings, which is followed by debt financing and finally external equity financing*". In line with Angkawidjaja and Rasjid's research (2019) which reveals that there is an order of sources of funds in making corporate funding decisions that come from three sources in the *financing hierarchy*, namely internal financing (retained earnings), issuing debt, and issuing equity. Funding from equity is highly avoided because it is considered to have

very expensive financing due to the *asymmetrix information of the company* (Gitman and Zutter, 2015, p. 586).

Agency theory is a theory that explains the conflict between management and shareholders. Jensen and Meckling (1976, in Sugiarto, 2009, p. 53) argue that the company is a legal partner that acts as an agency relationship as a contract mechanism between capital providers and agents. The contract made between owners and managers is expected to minimize the conflict between the two interests Indahningrum and Handayani (2009 in Mikrawardhana, 2015).

Fahmi (2016) explains that the capital structure is a description of the form of the company's financial proportion consisting of owned capital sourced from *long-term debt (long-term liabilities)* and own capital (*shareholder's equity*) which is the source of financing for a company. Horne and Wachowicz (2012 in Wahyuni, 2017) capital structure is the company's long-term permanent funding represented by debt, preferred stock, common stock equity, so that the good and bad capital structure will have a direct effect on the company's financial position.

Septiana (2019) profitability ratio aims to determine the company's ability to generate profits in a certain period. Halim (2007, in Effendy Eka Susanto, A. B., 2019) suggests that profitability is the company's ability to generate profits in the future. Vista (2022) suggests that profitability is the company's capacity to create profits, which come from its business activities with a series of procedures and company provisions within a limited time span. Suwardika, I. N., & Mustanda, I. K. (2017) argues that profitability plays an important role in all aspects of business because it can show the efficiency and reflection of company performance. In addition, profitability also shows whether the company will share greater profits with investors. Kieso, *et al.* (2018) argue that profitability is a ratio that measures the success and failure of a company for a period in achieving profit.

Asset growth is the annual growth rate or change that occurs in a company from the company's total assets in the previous year to the total assets in the following year. Asset growth according to Safitri and Akhmadi (2017). Fachri and Adiyanto (2019) asset growth is a company that has the opportunity or opportunity to make profitable investments.

According to Lelly (2022), operating *leverage* is the ratio between the percentage change in earnings before interest and taxes as a result of percentage changes in sales or *degree of operating leverage* (DOL). Sudana (2015), *operating leverage* arises if the company in its operations uses fixed assets but will give rise to fixed expenses in the form of depreciation. Hanafi (2016, in Oktaviana and Taqwa, 2021) describes *operating leverage* as how much the company uses fixed expenses, its operations which come from depreciation costs, production costs and marketing costs. Hartono (2009, in Susanto, 2019) this operating leverage aims so that the company can calculate the costs that will come out in its operational activities in order to increase the percentage of profit that the company will get. Agus Sartono (2008, p.260) states that operating leverage if the company has fixed operating costs or fixed capital costs, it is said that the company uses *leverage* by expecting that changes in sales will result in greater changes in earnings before interest and taxes.

According to Liang and Natsir (2019), the scale that states the size of a company in various ways, namely by total assets, *logsize*, stock market value, total *sales*, and others. Meanwhile, according to Taslim and Susanto (2021) company size is the size of a company which is assessed by total assets, total sales, total profit, or tax burden. According to Brigham and Houston (2019):

465) states that "Company size states that the average total net sales of the company in a certain period to several years to come".

Pecking order theory states that "Companies with high profitability levels have low debt levels, because companies with high profitability have abundant internal sources of funds". In this *pecking order theory* there is no optimal capital structure. In choosing the source of funding between companies prefer to use the source of funds from within or internal funding rather than external funding. The internal fund is obtained from retained earnings generated from the company's operational activities. If external funding is needed, then the company will first choose from the safest securities, namely the lowest risk debt, down to more risky debt, *hybrid* securities such as convertible bonds, preferred stock, and finally common stock.

Vista, *et al.* (2021) argue that profitability has a negative influence on capital structure. This is because the test results show that high and low profitability does not affect the company's capital structure. Heni Tri Mahanani, Andi Kartika (2022), argue that profitability has a positive influence on capital structure. This is because the higher the company's ability to earn profit, the less likely the company is to use debt.

Asset growth is a growth rate calculated through the comparison of total assets in the previous year with total assets in the current year in order to provide opportunities for companies to develop their business. Companies that are growing rapidly tend to rely more on external funding because the number of assets needed to support business development has increased. So that companies with high growth rates tend to use more external funds, namely debt with relatively large amounts than companies with lower growth rates.

This is consistent with *Pecking Order Theory*, where if the use of own capital is deemed insufficient for operating needs, debt becomes the next alternative. The results of this study are in accordance with research by Cristie and Fuad (2015) & Safitri and Akhmadi (2017), that asset growth has a positive effect on capital structure. increasing asset growth will have an impact on capital structure.

The trade off theory proposed by Brigham & Houston (2011) is referred to as the *operating leverage* exchange theory which states that companies exchange the tax benefits of debt funding for the problems posed by potential bankruptcy.

Lelly (2022) *Operating Leverage* is the ratio between the percentage change in earnings before interest and taxes as a result of the percentage change in sales or *degree of operating leverage* (DOL). Myers (2001) suggests that companies will go into debt up to a certain level of debt, where the *tax shields* from additional debt are equal to the cost of *financial distress*.

Debi Maizia Syafira, Zaida Rizqi Zainul (2021) argue that *Operating Leverage* has a negative influence on capital structure, where companies with smaller *operating leverage* tend to be better able to increase financial *leverage* because they will have less business risk, that *operating leverage* has no significant effect on capital structure. This is possible because the company minimizes the fixed cost as much as possible. Oktaviana and Taqwa (2021) argue that DOL has a positive effect on capital structure, where the higher the level of *operating leverage* will increase or raise the level of capital structure in the company. Meanwhile, if the level of *operating leverage* is low, the level of capital structure will also decrease.

The size of the company explains the size of a company, in determining the size of a company can be assessed from the company's total assets and the average total assets owned by the company. Large companies are more risky than small companies. However, the larger the size of the company, the easier it is for the company to raise external capital. This is because a large company requires a large amount of funds to compensate for the size of the company. To meet these needs, in addition to using internal funding, the next alternative is to use external funding. So that with the larger the size of the company, it will make it easier for the company to do debt because the size of a large company can increase the level of trust of third parties to provide loans to the company.

In line with *Pecking Order Theory*, if debt becomes the second choice when the use of internal funds is insufficient. This research is in accordance with the results of previous research by Abdulla (2017) & Taslim and Susanto (2021) that company size has a positive effect on capital structure. the larger the size of a company, the greater the capital structure required.

Companies with high profitability will use their profits as internal reserves to reduce the use of debt from creditors. Total assets can be used as a benchmark to determine the size of the company. A large number of assets and with their optimal use for operational activities can generate maximum profits. Operational activities at a large company size will be financed by retained earnings owned by the company. Large companies with high profitability indicate that the company can fund all commitments and operational activities using its internal funds. *Pecking Order Theory* is the basis of this research where internal funds are more withdrawn by companies in financing their operational activities. The research is in accordance with the research of Safitri and Akhmadi (2017) & Cristie and Fuad (2015) who said that company size is able to moderate the impact of profitability on capital structure.

Companies with high growth potential allow companies to use more external funding. The size of the company also shows that the company is experiencing rapid growth. The company will develop its business by increasing the number of assets owned by the company. However, to support this growth, the company needs additional commitment and capital to run its operations. Therefore, a larger company is believed to have a relatively lower bankruptcy rate, so the company uses company size as a guarantee to creditors to obtain additional capital. In line with *Pecking Order Theory* that external funding is an alternative when the use of internal funds is considered insufficient to fulfill the company's obligations and operational activities. This research is in accordance with research conducted by Cristie and Fuad (2015) & Safitri and Akhmadi (2017) that company size is able to moderate the effect of asset growth on capital structure.

Profitability is a ratio used by companies to determine how much the company can generate profits from the assets owned by the company. The increasing profitability ratio shows the security of good company funds and shows the greater the profit that can be obtained by the company. The greater the profit earned by the company, it will indirectly affect the capital structure of the company. In *trade off theory*, it is discussed that companies with a high level of profitability will certainly try to reduce their tax burden by increasing their debt ratio. The concept of *pecking order theory* distinguishes equity generated from retained earnings and the issuance of new shares due to the priority of funding sources maintaining retained earnings and issuing new shares. Based on the explanation that has been described, the first hypothesis for this study is as follows:

H₁: Profitability has a significant positive effect on the company's Capital Structure.

In general, a company with high growth prefers to use external funding. This is because the company will tend to increase the number of assets owned to support its business development. Therefore, external funding in the form of debt is needed to support business development as additional capital. From this description, the hypothesis that can be proposed is as follows:

H₂: Asset growth has a positive significant influence on capital structure.

Operating leverage is an analysis that aims to determine how sensitive operating profit is to changes in sales results and how many minimum sales the company must get in order not to experience losses. In a company, the determination of operating leverage is determined by the asset structure owned by the company. The greater the proportion of fixed assets to total assets, the greater the *operating leverage*. The simple conclusion is that the higher the *operating leverage*, the higher the financial structure. According to *pecking order theory*, the greater the assets owned by the company, the company does not need external funds because internal funds are considered sufficient to finance the company's operations. While the *trade off theory* states that the greater the assets owned by the company, it can be used as collateral in obtaining loans. Based on the explanation that has been described, the third hypothesis for this study is prepared as follows:

H₃: Operating Leverage has a significant positive effect on Capital Structure Company.

The size of the company also affects the company's capital structure. In other words, the larger the size of the company, the greater the level of corporate debt. This is because larger companies definitely require capital needs commensurate with the size of the company, therefore, external funding in the form of debt becomes the next alternative that can be used by companies when the internal funds they have are insufficient to meet the needs of the company. However, the large size of a company can actually make it easier for companies to borrow from creditors. Based on the description above, the hypothesis that can be proposed is as follows:

H₄ : Firm size has a positive significant influence on capital structure.

The bigger the company, the more *profitable it is*. Which can be interpreted that the value of the company's profitability is increasing. High profitability has a small amount of debt because it reduces the use of debt. Therefore, large companies must have large assets. This means that the company is able to finance all of its operations using maximum internal funding rather than using external funding. In addition, using large internal funds has a relatively small risk. Based on this description, the hypothesis that can be proposed is as follows:

H₅ : Company size is able to moderate the effect of profitability on capital structure.

The size of the company will have an impact on capital structure decision making. The larger the size of the company, the more creditors trust the company because according to them the company uses the size of the company to serve as collateral to creditors in order to obtain additional capital. funds from the loan proceeds can be used by the company to finance high company growth. Based on this description, the hypothesis that can be proposed is as follows:

H₆ : Firm size is able to moderate the effect of asset growth on capital structure.

The research design used in this study is a descriptive research design. Sekaran and Bougie (2016, p.279) explain that descriptive research is a study used to describe the characteristics of a particular object and event. The independent variables used in this study are Profitability, Asset Growth, and *Operating Leverage* while the dependent variable used in this study is Capital Structure. The Moderating Variable used is Company Size. This research uses secondary data obtained from the Indonesia Stock Exchange website (www.idx.co.id).

According to Sekaran and Bougie (2016, p.394) Population can be defined as the whole group of people, events, or other things that researchers want to investigate further. The population chosen to be the subject of this research is primary consumption companies listed on the Indonesia Stock Exchange for the period 2019 to 2021.

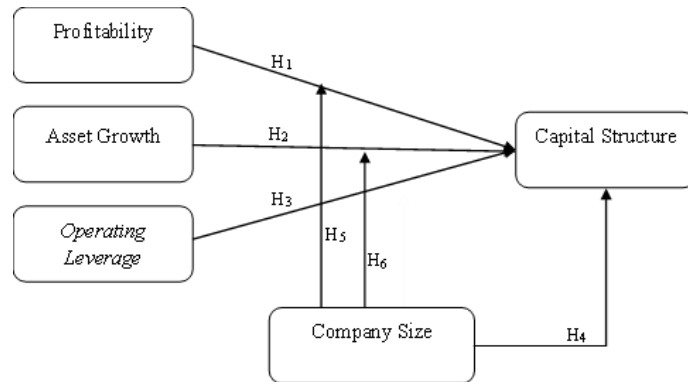


Figure 1. Framework of Thought

The sample selection method in this study is the *non-probability sampling* method. According to Sekaran and Bougie (2016, p.252) *non-probability sampling* method is a sampling method that does not provide equal opportunities or opportunities for the population to be selected as samples. The appropriate sample selection technique in this study is *purposive sampling technique*, which is a technique in which the sample selection sees a target that matches the intended criteria for obtaining the required data and information. The following are the characteristics and criteria of the company to be studied, namely:

1. Primary consumption companies listed on the IDX in 2019-2021 consecutively.
2. Primary consumption companies that publish financial statements using Rupiah.
3. Consumer companies that publish financial statements every December 31.

Variable operationalization is an explanation of the method used to determine the value of the variables to be studied. This study examines one dependent variable, three independent variables and one moderating variable, namely capital structure as the dependent variable, as well as Profitability, Asset Growth and *Operating Leverage* as independent variables, and Company Size as a moderating variable.

Table 1. Variable Operationalization
 Source: Results of Data Processing by Researchers

No.	Variable Name	Proxy	Scale
<i>Dependent Variable</i>			
1	Capital Structure (<i>DER</i>) Horne and Wachowicz (2012)	$DER = \frac{\text{Total Liability}}{\text{Total Equity}}$	Ratio
<i>Independent Variable</i>			
1	Profitability (<i>ROA</i>) Vista (2022)	$ROA = \frac{\text{Net Profit}}{\text{Total Asset}}$	Ratio
2	Asset Growth (<i>GROWTH</i>) Safitri and Akhmadi (2017)	$GROWTH = \frac{\text{Total Aset}_t - \text{Total Aset}_{t-1}}{\text{Total Aset}_{t-1}}$	Ratio
3	<i>Operating Leverage (DOL)</i> Brigham and Houston (2014)	$DOL = \frac{\% \text{ change in EBIT}}{\% \text{ change in sales}}$	Ratio
<i>Moderating Variable</i>			
1	Company Size (<i>SIZE</i>) Taslim and Susanto (2021)	$SIZE = \ln \text{ Total Aset}$	Ratio

This study uses *structural equation modeling* (SEM) analysis to test the hypotheses in Chapter II. This SEM analysis technique is divided into two types, namely the *covariance-based approach* (CB-SEM) and *variance-based partial least squares* (PLS-SEM) methods. In this study, researchers used PLS-SEM SmartPLS 3 *software* to answer the existing problem formulation.

3. RESULTS AND DISCUSSIONS

The research subjects used by the authors in this study are companies in the primary consumer sector listed on the Indonesia Stock Exchange (IDX) in 2019-2021. *purposive sampling* was used as a sampling method in this study. There are several criteria set by the author to determine the research sample. The following are the criteria for determining the sample.

Table 2. Sample Selection Criteria
 Source: Data processed by the author (2023)

No.	Sample Selection Criteria	Total
1.	Primary consumer sector companies listed on the IDX during 2019-2021	98
2.	Primary consumer sector companies that experienced IPO, <i>delisting</i> and <i>relisting</i> during 2019-2021	(27)
3.	Companies in the primary consumer sector that do not use Rupiah in their financial statements	(2)
4.	Primary consumer sector companies that did not publish financial reports during 2019-2021	(5)
5.	Primary consumer sector companies that do not have complete data during 2019-2021	(11)
	Number of Companies	53
	Year of research	3
	Number of research samples before <i>outliers</i> during 2019-2021	159
	Number of <i>outlier</i> data	(87)
	Number of research samples from 2019-2021	72

The research object in this study consists of three independent variables, one dependent variable & one moderating variable. The independent variables used in this study are Profitability, Asset Growth and *Operating Leverage*. The dependent variable used in this research is capital structure. While the moderating variable used in this research is company size. Data processing in this study was carried out with the SmartPLS 3.0 program.

In this study, after testing the *outer model*, the data that must be analyzed next is the *inner model*. This *inner model analysis* includes several tests such as *coefficient of determination* (R^2), *path coefficients*, and *effect size* (f^2). R^2 is used in research to determine how much the Taxpayer Compliance variable can be explained by Understanding of Tax Regulations, Tax Sanctions, Tax Official Services. Based on the results of the R^2 analysis before moderation and after moderation in table 3 shows.

Table 3. *Coefficient of Determination*

	R Square	R Square Adjusted
Capital Structure	0.304	0.240

The result of R^2 analysis is 24% of Capital Structure variable can be explained by Profitability, Asset Growth, *Operating Asset* and Company Size variables and the remaining 76% is explained by other variables outside the above variables.

Path Coefficients are used to explain the relationship between the hypothesized Profitability, Asset Growth, *Operating Assets*, Company Size and Capital Structure variables. The following figure 1 shows the results of PLS *Algorithm* and *Bootstrapping* using SmartPLS 3:

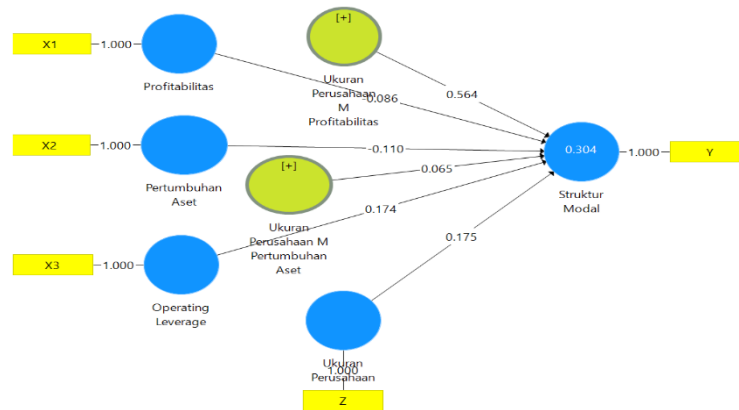


Figure 2. PLS Algorithm Results

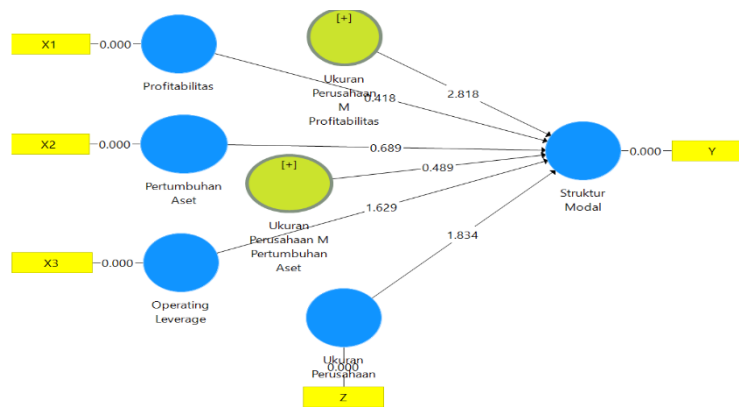


Figure 3. Bootstrapping Results

The following table 4 explains the results of *Bootstrapping*

Table 4 *Bootstrapping* Results
 Source: smart pls processing results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Operating Leverage -> Capital Structure	0.174	0.150	0.107	1.629	0.104
Asset Growth -> Capital Structure	-0.110	-0.110	0.159	0.689	0.491
Profitability -> Capital Structure	-0.086	-0.136	0.205	0.418	0.676
Company Size -> Capital Structure	0.175	0.186	0.095	1.834	0.067
Company Size -> Asset Growth -> Capital Structure	0.065	0.028	0.134	0.489	0.625
Company Size -> Profitability -> Capital Structure	0.564	0.532	0.200	2.818	0.005

From the results of the *bootstrapping* data above, the equation can be made, namely $MP = a - 0.086X_1 - 0.110 X_2 + 0.174 X_3 + 0.175Z + 0.564 Z \cdot X_1 + 0.065 Z \cdot X_2 + error$. In the Capital Structure variable, the Profitability variable contributes with *path coefficients* of -0.086, Asset Growth contributes with *path coefficients* of -0.110, Operating Leverage contributes with *path coefficients* of 0.174, followed by Company Size which contributes with *path coefficients* of

0.175. Meanwhile, Company Size variable that moderates Profitability toward Capital Structure produces *path coefficients* of 0.564 and Company Size variable that moderates Asset Growth toward Capital Structure produces *path coefficients* of 0.065. Thus, it can be concluded that Operating Leverage, Company Size variables only have positive relationship direction with Capital Structure, while Profitability and Asset Growth variables have negative relationship. *Effect size* is used to see how much power the variable Profitability, Asset Growth, Operating Leverage, Company Size explains the Capital Structure variable.

Table 5. *Effect Size* Testing Results
 Source: smart pls processing results

Variables	Effect Size
Profitability -> Capital Structure	-0.086
Asset Growth -> Capital Structure	-0.110
Operating Leverage -> Capital Structure	0.174
Company Size -> Capital Structure	0.175
Company Size -> Asset Growth -> Capital Structure	0.065
Company Size -> Profitability -> Capital Structure	0.564

Based on table 4.5 above, the Profitability variable has a value of f^2 -0.086 (meaningless), Asset Growth has a value of f^2 -0.110 (meaningless), Operating Leverage has a value of f^2 0.174 (medium), Company Size has a value of f^2 0.175 (medium), and Company Size moderates Profitability has a value of f^2 0.065 (small), Company Size moderates Asset Growth has a value of f^2 0.564 (large). From each result of the value of f^2 generated where the variable Profitability, Asset Growth and Company Size moderates Profitability has an effect that does not explain the Capital Structure variable because it is below 0.15 (Hair et al., 2014), while the Operating Leverage variable, Company Size has a moderate effect to explain the Capital Structure variable because it is above 0.15, finally the variable Company Size moderates Asset Growth has a relatively strong effect to explain the Capital Structure variable because it is above 0.35 (Hair et al., 2014).

Hypothesis testing is conducted to determine whether the variables of Profitability, Asset Growth, Operating Leverage, Company Size partially explain the Capital Structure variable significantly. This test has criteria if the *t statistics value* is above 1.96 and the *p value* is below 0.05 then the hypothesis is not rejected. In testing this hypothesis, it can be seen in Figure 4.2 which is the result of *bootstrapping* or Table 4.4 where :

1. Profitability variable where the *t statistics value* is 0.418 and the *p value* is 0.676 meaning that the *t statistics value* is below 1.96 and the *p value* is above 0.05 which can be concluded that H_1 is rejected, Profitability has a positive but insignificant relationship to Capital Structure.
2. The Asset Growth variable where the *t statistics value* is 0.689 and the *p value* is 0.491 means that the *t statistics value* is below 1.96 and the *p value* is above 0.05 which can be concluded that H_2 is rejected, Asset Growth has a positive but insignificant relationship to Capital Structure.
3. Operating Leverage variable where the *t statistics value* is 1.629 and the *p value* is 0.104, meaning that the *t statistics value* is below 1.96 and the *p value* is above 0.05, which can be concluded that H_3 is rejected, Operating Leverage has a positive but insignificant relationship with Capital Structure.
4. The Company Size variable where the *t statistics value* is 1.834 and the *p value* is 0.067 means that the *t statistics value* is below 1.96 and the *p value* is above 0.05 which can be

- concluded that H4 is rejected, Company Size has a positive but insignificant relationship to Capital Structure.
5. Company Size variable as moderating variable that moderates Profitability toward Capital Structure has *t statistics* value of 2.818 and *p* value of 0.005 where *t statistics value* is above 1.96 and *p value* is below 0.05 which can be concluded that H₅ is not rejected, Profitability variable that is moderated by Company Size has positive and significant relationship toward Capital Structure.
 6. The variable of Company Size as a moderating variable that moderates Asset Growth on Capital Structure is not statistically significant because the *t statistics* value of 0.489 is below 1.96 and the *p* value is 0.625 which is above 0.05 which can be concluded that H₆ is rejected, the variable of Asset Growth moderated by Company Size has a positive and insignificant relationship to Capital Structure.

In this study, the effect of Company Size as moderation on the variables Profitability and Asset growth can be concluded:

Table 6. *Bootstrapping path coefficients* results
 Source: smart pls processing results

Variables	Before Moderation	After Moderation	Moderation
Company Size M Profitability -> Capital Structure (Z*X) ₁	-0.110	0.564	Amplify
Company Size M Asset Growth -> Capital Structure (Z*X) ₂	-0.086	0.065	Amplify

Based on the table above, it can be concluded that before moderation H₁ and H₂ are rejected so that Profitability and Asset Growth variables on Capital Structure cannot predict positively to Capital Structure. After moderation, H₁ and H₂ strengthen and have a positive influence on Capital Structure, meaning that the variable Company Size is statistically proven to moderate.

The statistical test tool in this study uses SmartPLS 3 and forms an equation from the *bootstrapping* results. This equation is formed by the value of the *path coefficients* so that it can show how the relationship between one variable and another. In this study is the variable variable Profitability, Asset Growth, *Operating Assets*, Company Size and Capital Structure . The resulting equation is $MP = a - 0.086X_1 - 0.110 X_2 + 0.174 X_3 + 0.175Z + 0.564 Z*X_1 + 0.065 Z*X_2 + error$. To find out how much strength effect given by variable variable variable Profitability, Asset Growth, *Operating Assets*, Company Size and Capital Structure then do the *effect size* test above.

The research results contained in table 4.4 where the *p value* test result is 0.676 and *effect size* - 0.086 table 4.5 means that the *p value* is above 0.05, it can be concluded that the Profitability variable has a negative and insignificant effect on Capital Structure so that H₁ : Profitability has a significant positive effect on the company's Capital Structure is rejected.

In accordance with the *Agency Theory* where there is a conflict of interest between shareholders and managers. The cause of conflict between shareholders and management includes decision making related to funding activities. In general, if the company gets a large profit, the managers demand to get a large bonus and salary so that the managers for personal interests are competing to increase bonuses and salaries. This can be seen in state-owned companies, although they hold trade monopoly rights or get large projects from the government but still the Capital Structure

does not increase and some are even minus. The results of this study are consistent with the results of previous research by Abdulla (2017) & Dewi and Fachrurrozie (2021) that profitability has a negative effect on capital structure. However, the results of this study are inconsistent with the results of previous research by Safitri and Akhmadi (2017) which found that profitability has a positive and significant effect on capital structure where companies in the primary consumption and non-primary consumption sectors have most of their assets in the form of fixed assets which allows when the profit generated from the total assets they have is greater, making their capital structure lower.

The research results contained in table 4.4 where the *p value* test result is 0.491 and *effect size* - 0.110 table 4.5 means that the *p value* is above 0.05, it can be concluded that the Asset Growth variable has a negative and insignificant effect on Capital Structure so that H_2 : Asset growth has a significant positive effect on capital structure is rejected.

Asset growth is the growth rate that can be calculated through the comparison of the total assets of the current year which is reduced by the total assets of the previous year and divided by the total assets of the previous year. Asset growth has no positive effect on capital structure, therefore an increase in asset growth does not affect the capital structure of the company. This indicates that changes in the increase in assets flowing into the company at any time cannot affect the company's financial decisions. If the increase in assets is not followed by an increase in profit, it does not have an impact on the capital structure of the company. This condition illustrates that companies with large assets prefer to use those assets to manage the company's operations. *Pecking order theory* states that companies with a large increase in assets expand by using external funds in the form of debt. External trust increases if the increase in assets and the increase in operating profit are getting bigger. Creditor confidence in the company is increasing, the debt ratio is even greater than equity. This is based on the creditor's belief that the funds invested in the company are guaranteed by the level of asset wealth of the company.

The results of this study are consistent with the results of previous research by Sari, Sumiati, Zulaihati (2020), namely asset growth has a negative influence on capital structure. Meanwhile, research conducted by Ni Kadek Tika Sukma Dewi, I Made Dana. (2017) is inconsistent, where *growth opportunity* has a significant negative effect on *capital structure*.

The research results contained in table 4.4 where the *p value* test result is 0.104 and the *effect size* is 1.174 table 4.5 means that the *p value* is above 0.05, it can be concluded that the *Operating Leverage* variable has a positive but insignificant effect on Capital Structure so that H_3 : *Operating Leverage* has a significant positive effect on the company's Capital Structure is rejected.

This is because operating leverage is a fixed cost carried out in the company's operations so that *operating leverage* has a negative relationship to *capital structure*, which means that the higher the *operating leverage*, the lower the level of corporate debt. The level of business risk of manufacturing companies in the primary consumption and non-primary consumption sectors is low, so that in determining the use of debt, business risk is less considered. Manufacturing companies in the primary consumption and non-primary consumption sectors are one of the industries that support the largest economy in Indonesia.

The results of previous research by Abdulla (2017) are consistent with the results of this study, asset growth does not have a positive influence on capital structure. However, the results of the

study are inconsistent with the results of previous research by Sari, Sumiati and Zulaihati (2020), namely that asset growth has a negative influence on capital structure.

The research results contained in table 4.4 where the *p value* test result is 0.067 and the *effect size* is 1.175 table 4.5 means that the *p value* is above 0.05, it can be concluded that the Company Size variable has a positive but insignificant effect on Capital Structure so that H_4 : Company size has a significant positive influence on capital structure is rejected.

Determination of company size can be assessed using the company's total assets and the average total assets of the company. Often large companies raise capital from external sources to meet operational needs in addition to internal funds. If the company looks big but the origin of the debt then it does not affect the Capital Structure of the Company, because the debt must be returned and must pay interest expense. This is what happens in the business world, where shareholders only put their capital in small amounts and rely more on debt with consideration: If the company experiences a loss/bankruptcy then the level of shareholder losses is small, For tax purposes where interest expense can be charged as a cost so that profits become smaller and tax savings are obtained by the Company. This is in accordance with *Trade-off theory* in determining the optimal capital structure because it includes several factors including taxes, agency costs and costs of financial difficulties, but still maintains the assumptions of market efficiency and *symmetric information* as a balance and benefits of using debt. The optimal level of debt is reached when *tax shields* reach the maximum amount against the *costs of financial distress*.

The results of this study are consistent with the results of previous research conducted by Komalasari, Lestari and Fathony (2020) & Cahyani and Handayani (2017) that company size has a negative effect on capital structure. However, the results of this study are inconsistent with the results of previous research conducted by Abdulla (2017) & Taslim and Susanto (2021) that company size has a positive effect on capital structure.

The research results contained in table 4.4 where the test results *p value* of 0.005 and *effect size* 0.564 table 4.5 means that the *p value* is above 0.05, it can be concluded that the size of the company moderates the variable Profitability has a positive and significant effect on Capital Structure so that H_5 : Company size is able to moderate the effect of profitability on capital structure is accepted.

The larger the company, the more *profitable* the company, this is possible because in general large companies already have a wider distribution network and are supported by infrastructure and high human resources. If the company gets high profitability, it can utilize internal resources through profitability and of course the company will reduce or not need the use of debt. Large and highly profitable companies will certainly have large assets, meaning that the company can finance its operations with internal financing that is more optimal than external financing. In addition, companies with high internal funds tend to have relatively lower risks. Therefore, in accordance with the *pecking order theory*, where companies prefer to use internal funds to finance their operations.

This research is consistent with the results of previous research by Safitri and Akhmadi (2017) & Cristie and Fuad (2015), that company size is able to moderate the relationship between profitability on capital structure. However, the results of this study are inconsistent or contradictory with the results of previous research, namely, by Dewi and Fachrurrozie (2021) which found that company size does not moderate the effect of profitability on capital structure.

The research results contained in table 4.4 where the *p value* test result is 0.625 and the *effect size* is 0.065 table 4.5 means that the *p value* is above 0.05, it can be concluded that Company Size moderates the Asset Growth variable has a positive but insignificant effect on Capital Structure so that H_6 : Company size is able to moderate the effect of asset growth on capital structure is rejected.

Companies with high growth potential and large size allow companies to use more external funding. But it does not rule out the possibility for a company that has high growth potential with a large size to still use internal funding for its operational costs. Small or large company size does not necessarily affect the capital structure decision, because company size cannot provide any information about whether the company is growing rapidly or not. Company size is not a determining factor in the increase of assets obtained by the Company, because it depends on the vision and mission or management decision. If the company consistently invests to increase asset growth, the size of the company will increase and will certainly affect the capital structure. Maybe because in 2020-2021 the company experienced a decrease in activity (the impact of the co-19 pandemic), when viewed from the processing results above, has a positive direction and strengthens compared to before moderation but the size of the company that is moderated by the size of the company cannot strengthen significantly.

The results of this study are consistent with research conducted by Astuti (2017) which states that *growth opportunity* has no significant effect on *capital structure*. However, the results of this study are inconsistent with the results of previous research by Safitri and Akhmadi (2017) & Cristie and Fuad (2015) that company size is able to moderate the relationship between asset growth on capital structure.

4. CONCLUSIONS AND SUGGESTIONS

Based on the research discussed in chapter IV, the following empirical evidence is obtained:

1. H_1 : Profitability has a significant positive effect on the Company's Capital Structure rejected means that not necessarily the company that gets profit always pay attention to the capital structure, because it is returned to the purpose of the Company whether the profit is used for investment and strengthen financing derived from internal funds of the Company (retained earnings) or otherwise the profit is used by management to increase salaries or bonuses or dividends without regard to the capital structure of the company and more likely to rely on external funds such as loans to finance the company's operations. So the conclusion that can be drawn from the test results, the company uses profits not for the benefit of the capital structure but for personal and investor interests.
2. H_2 : Asset Growth has a positive significant influence on Capital Structure rejected, meaning that the company's good asset growth should come from the use of the company's internal funds. Conversely, if the Company's asset growth is carried out using external funds or debt, even though it looks large, the asset growth will increase the risk for the Company where the Company's burden will increase in paying loan interest. So here it must be seen whether asset growth does show the company is growing and developing well or false growth, if the increase in assets is not followed by an increase in profits, it does not have an impact on the company's capital structure.
3. H_3 : *Operating Leverage* has a significant positive effect on Capital Structure The company is rejected, meaning that the higher the level of *operating leverage of the company*, the higher the capital structure. The company will use *operating leverage* which will result in increasing the company's sales so that the company's profit can increase.

Conversely, *operating leverage* is a fixed cost carried out in the company's operations so that *operating leverage* has a negative relationship to *capital structure*.

4. H₄ : Company size has a positive significant influence on Capital Structure

Rejected means that company size can be assessed using the company's total assets and the average total assets of the company. The bigger the company, the bigger the capital structure of the company, here of course the capital structure comes from internal funds. The next alternative is to use external funds to meet operational needs in addition to internal funds. Investors can also use a large company size when considering investing in a company, because it means that the company can survive for a long time. So if the company is large but comes from external funds or debt, it does not affect the company's Capital Structure, because debt must be returned and must pay interest expenses.

5. H₅ : Company size is able to moderate the effect of profitability on structure

Capital is not rejected, meaning that the larger the company, the profitability obtained by the company will be large or the value of the company's profitability will increase. The high profit value in the company reduces the use of debt, so that the use of debt is reduced, so that the company can finance its operations with internal financing that is more optimal than external financing. In addition, companies with high internal funds tend to have relatively lower risks.

6. H₆ : Company size is able to moderate the effect of asset growth on

Capital Structure is rejected meaning that companies with high growth potential and large size allow companies to use more external funding. But it does not rule out the possibility for companies that have high growth potential with large size to still use internal funding for their operational costs. So the results above show that the Company's asset growth comes from debt so that it does not affect the capital structure.

This study has inherent limitations that must be modified or further developed in future research. The limitations of this study are:

- a. The 2019-2021 sampling year where the business world experienced a very large shock so that the level of profitability and asset growth was not maximized.
- b. The sector used in this study only uses companies in the primary consumer sector.
- c. This study only uses three independent variables, namely profitability, asset growth and *operating leverage* and company size as a moderating variable, there are still many other factors that influence, for example, company liquidity, sales growth, financial flexibility, business risk, asset structure, managerial ownership and so on.

Based on the conclusions and limitations of this study, suggestions for further research can be made, namely:

- a. Samples taken during a fairly stable or reasonable economic situation above 2022
- b. Can add other sectors, such as the non-primary consumer sector, industrial sector and so on so that the resulting research results can describe the real situation and are more comprehensive.
- c. Adding other independent variables that are thought to affect the capital structure.

The implication of this study are :

- a. The existence of definite and firm regulations from the authorities, especially for companies listed on the Indonesian stock exchange regarding the ownership of a solid capital structure that comes from within the Company, so that the Company can minimize the risk in the event of an economic shock.
- b. There are definite and firm rules relating to salaries, bonuses or facilities for the management of public companies, because share ownership is partly owned by the general public or small

investors. Often public companies get small profits and even huge losses due to the actions of management (*agency theory*).

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