

# THE EFFECT OF PROFITABILITY AND FIRM SIZE ON CAPITAL STRUCTURE

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## Kata kunci:

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## Abstrak

Penelitian ini bertujuan untuk menguji pengaruh profitabilitas dan ukuran perusahaan terhadap struktur modal perusahaan. Penelitian ini dilakukan pada perusahaan manufaktur terdaftar di Bursa Efek Indonesia sebanyak 209 observasi. Penelitian ini tergolong penelitian kuantitatif. Data penelitian yang digunakan berupa informasi data-data laporan keuangan dan laporan tahunan perusahaan manufaktur terdaftar di Bursa Efek Indonesia pada periode 2017-2021. Teknik analisis data menggunakan analisis regresi linier berganda. Dalam menilai struktur modal perusahaan menggunakan *debt to equity ratio*, profitabilitas menggunakan rasio *return on asset* dan ukuran perusahaan menggunakan log total aset. Hasil penelitian menunjukkan bahwa profitabilitas berpengaruh negatif signifikan terhadap struktur modal. Perusahaan yang mampu menghasilkan profit maka dalam kegiatan operasionalnya akan menggunakan saldo laba daripada menambah utang perusahaan. Sedangkan, ukuran perusahaan memiliki pengaruh signifikan dengan arah positif terhadap struktur modal. Hal ini menunjukkan bahwa semakin besar ukuran perusahaan maka semakin besar pula kebutuhan operasional perusahaan yang pendanaannya bisa berasal dari utang.

## Abstract

*This study aims to examine the effect of profitability and firm size on the company's capital structure. This research was conducted on 209 observation listed on the Indonesia Stock Exchange. This research is classified as a quantitative research. The research data used is in the form of information on financial report data and annual reports of manufacturing companies listed on the Indonesia Stock Exchange in the period 2017 to 2021. The data analysis technique uses multiple linear regression analysis. In assessing the company's capital structure using the Debt to Equity Ratio, profitability using the Return on Assets ratio and company size using the log of total assets. The results showed that profitability had a significant negative effect on capital structure. Companies that are able to generate profits in their operational activities will use retained earnings rather than increasing the company's debt. Meanwhile, firm size has a significant positive effect on capital structure. This shows that the larger the size of the company, the greater the operational needs of companies whose funding can come from debt.*

## Key word:

*capital structure,  
profitability, firm size.*

## INTRODUCTION

Increasingly competitive business competition makes companies adapt and immediately find new business ideas so they can survive in the industry. The industry that continues to be in the midst of intense competition is manufacturing companies. Manufacturing companies carry out operational activities to process raw materials into ready-to-use goods. The big challenge faced is how the company can continue to survive and grow. Companies in developing their business need a good and controlled capital structure. In this case the company is expected to be able to explore existing business opportunities and continue to improve the quality of production, so that the products produced are able to create more added value for consumers. The important role of the existence of a capital structure is that it can affect the quality of the company, this is an important consideration for managers to make decisions in determining the company's capital structure. Sudana (2015) stated that the capital structure is related to the long-term expenditure of a company as measured by the ratio of long-term debt to its own capital.

Sulistiyawan and Riharjo (2022) stated that the selection of funding sources can influence the choice of capital structure decisions, sources of funds come from external and internal. The company's internal funding sources can come from depreciation and retained earnings. Meanwhile, the company's

external funding sources come from company owners and creditors. The source of company funds originating from creditors is debt for the company. Meanwhile, company funds obtained from owners can be sourced from their own capital. Basically, companies will prefer to use capital that comes from within the company to be used as permanent capital, and capital that comes from outside the company will only be used as a supplement if the funds needed are insufficient. Therefore, in determining the capital structure, companies need to pay attention to several variables that can affect capital structure. Mukaromah and Suwarti (2022) explain that liquidity has a negative effect on capital structure, while profitability has no effect on capital structure. Firm size moderates the effect of liquidity and asset structure on capital structure, but firm size does not moderate the effect of profitability on capital structure. The results of research by Poetri and Sugijanto (2022) show that asset structure has an effect on capital structure, while sales growth and profitability have no effect on capital structure. Another study by Miswanto et al. (2022) proved that sales growth and asset structure had a significant and positive effect on capital structure, while profitability had a significant and negative effect on capital structure. The results of Kurniati and Yulianan's research (2022) prove that sales growth has a negative and insignificant effect on capital structure, sales growth has a positive and insignificant effect on profitability, profitability has a negative and significant effect on capital structure and profitability is unable to mediate the effect of sales growth on capital structure. Siskawati and Suryono (2022) states that profitability and sales growth have a positive effect on capital structure.

There are several variables that are proven to influence in determining the capital structure of the company, namely profitability and company size. Profitability is defined as a company's expertise to gain profit. Usually used to assess or benchmark the company in achieving profits. Company size is defined as the size of the company as seen from the total assets it owns. A company with a large scale means that the operational activities carried out are also large, in carrying out these activities it requires a lot of funds, one of which is debt. This study aims to analyze and examine the effect of profitability and firm size on the company's capital structure. These two variables need to be examined because the results of previous studies still have gaps in research results. This research was conducted at manufacturing companies listed on the Indonesia Stock Exchange in the period 2017 to 2021.

## **LITERATURE REVIEW**

### **Pecking Order Theory**

The Pecking Order Theory states that companies prefer financing that comes from the company's operating results such as retained earnings, if funding from outside the company is needed, then the company will issue the safest securities first by issuing bonds, then with securities with certain characteristics. Options, then finally the issuance of new shares (Juwono et al., 2013). All companies always need capital, one way to obtain capital is through debt or loans. Meanwhile, it is not always easy for companies to get loans, because they must first analyze whether the decision to take out debt is right. If sources from within the company, such as retained earnings or own capital, are still lacking, then the company can decide to make a loan. If the company needs outside funding, managers will prefer the safest securities (Sudana, 2015: 176). Based on pecking order theory, the source of the use of funds is internal funds, then debt, and finally equity (Kaaro, 2003). Companies that have a high level of profitability tend to use low loan (debt) funds (Husnan, 2010). This is because the need for funds is sufficient from the use of internal funding sources, namely retained earnings. Meanwhile, companies with small profitability will choose to use larger debt.

### **Profitability**

Profitability shows the company's ability to earn profit or profit on daily activities carried out in the accounting period (Brigham and Houston, 2011). If the company's profit obtained has increased, it is said that the company has been able to fulfill the wishes of the shareholders. Companies with high profits also indicate higher returns and are distributed to shareholders in the form of dividends. Sulistiyawan and Riharjo (2022) state that profitability describes the ability of the capital invested in all assets to generate profits for investors. Profitability is one of the factors considered in determining the company's capital structure. This is because companies that have high profitability will choose to use relatively

small debt because high retained earnings are sufficient to finance most of their funding needs. The greater the level of profitability, the better the management in managing the company (Sutrisno, 2009).

### **Company Size**

Company size shows the size of a company. According to Brigham and Houston (2011) company size is the average of total net sales for the year concerned up to several other years. One of the benchmarks that shows the size of a company is the size of the company's assets. Companies that have large total assets indicate that the company has reached the maturity stage where in this stage the company's cash flow is positive and is considered to have good prospects in a relatively long period of time, while also reflecting that the company is relatively more stable and more able to generate profits. Compared to companies with small total assets (Daniati and Suhairi, 2006). Assets are a measure of the size or scale of a company. Usually large companies have assets that are also of great value. Theoretically, larger companies have greater certainty than small companies so that it will reduce the level of uncertainty about the company's future prospects. This can help investors predict the risks that might occur if they invest in the company.

### **Capital Structure**

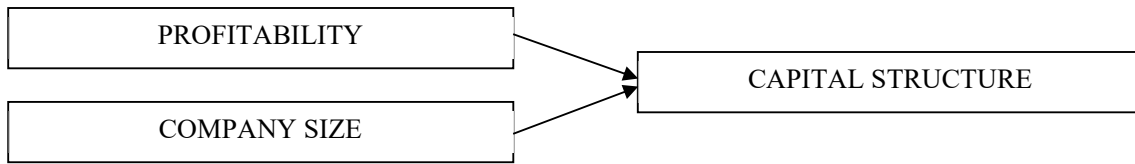
The capital structure is a balance of permanent short-term debt, debt, preferred stock and common stock. According to Brigham and Houston (2011), each company analyzes a number of factors, and then determines a targeted funding structure. This target always changes according to changing conditions, but at any time in the mind of the company's management there is an image of the targeted fund structure. If the actual debt level is below the target, it may be necessary to expand by making loans, while if the debt ratio has exceeded the target, perhaps the shares owned need to be sold. Policy regarding capital structure involves a trade-off between risk and the rate of return-increasing debt increases the expected rate of return. Higher risk as a result of increasing debt tends to lower stock prices, but increasing the expected rate of return will increase the stock price. The optimal funding structure is a capital structure that optimizes the balance between risk and return so as to maximize stock prices.

According to Husnan (2010), capital structure theory explains whether there is an effect of changes in capital structure on firm value, if investment decisions and dividend policies are held constant. In other words, if the company replaces some of its own capital with debt or vice versa, will the share price change? But if by changing the fund structure it turns out that the value of the company changes, then the best funding structure will be obtained. A funding structure that can maximize company value or share price is the best fund structure. Each funding decision requires the financial manager to be able to weigh the benefits and costs of the selected funding sources because each funding source has different financial consequences.

The capital structure is the balance or comparison of debt with own capital. Capital structure decisions related to the selection of sources of funds both from within and from outside, greatly affect the value of the company. Sources of funding within a company are divided into two categories, namely internal funding and external funding. Internal funding can be obtained from sources of retained earnings and depreciation, while external funding can be obtained from creditors or what is known as debt from owners, or participants in the company or what is known as capital. The proportion or mix of the use of own capital and debt in meeting the company's funding needs is called the company's capital structure. In this spending decision an optimal balance will be determined from the various sources of funds to be used. What is meant by the funding structure is the balance between debt and own capital (shares). Various factors affect the capital structure, namely companies that follow the balanced theory and companies that follow the pecking order theory.

### **Conceptual Framework**

This study aims to examine the profitability and size of the company on the company's capital structure in manufacturing companies in Indonesia. The conceptual framework is presented in the figure 1.



**Figure 1**  
**Conceptual Framework**

Source: processed data, 2023

### Research Hypothesis

#### The Effect of Profitability on Capital Structure

Profitability shows the company's ability to earn profits from its operational results. Managers work effectively and efficiently to reduce the cost of capital and minimize risk, which can ultimately result in increased profitability. Companies that have large profits will depend on retained earnings as corporate funding rather than using external funds (Abdulla, 2017). This is in accordance with the pecking order theory where the higher the profitability of a company, the company tends not to use debt to finance its operational activities (Nirmala et al., 2016). Therefore companies prefer to use retained earnings. Based on this explanation, it can be concluded that the higher the company's profitability, the less debt it uses. Research on the effect of profitability on capital structure has been carried out by Novwedayaningayu and Hirawati (2020), Hutauruk (2020), Dewi and Fachrurrozie (2021), Sulistyawan and Riharjo (2022), Miswanto et al. (2022) which states that Return on Assets (ROA) has a negative and significant effect on capital structure. Development of the hypothesis as follows:

H<sub>1</sub>: Profitability has a negative effect on capital structure.

#### The Effect of Company Size on Capital Structure

Company size is a scale that classifies the size of a company according to various ways, including total assets, stock market value, log size, and others. Large companies can use more debt because the risk of bankruptcy for large companies is lower due to having a lot of capital. Companies that have a large size are easier to get debt because companies have higher credibility than creditors. Therefore, company size also influences the company's capital structure. This is because the larger the size of the company, the greater the debt used. To explain this relationship the theory used is packing order theory. Myers (in Ambarsari and Hermanto, 2020) states that large companies tend to use their internal funds first, and if they are insufficient, the next alternative is to use debt. This is because the larger the size of the company, the more it will require large funds to support its operations. Research conducted by Zuhro (2016) found that company size has a positive effect on capital structure. These results are in line with research conducted by Lisiana and Widyarti (2020) which also proves that company size has a significant positive effect on capital structure. Development of the hypothesis as follows:

H<sub>2</sub>: Company size has a positive effect on capital structure.

## RESEARCH METHODS

### Types of Research

This research includes quantitative research, namely research by looking at the influence of independent variables, namely profitability and company size on the dependent variable, namely the capital structure of the object to be studied which is causal in nature. The objects to be studied are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the period 2017 to 2021.

### Data Types and Data Sources

The research data used is quantitative data with secondary data sources obtained from the Indonesia Stock Exchange website at [www.idx.co.id](http://www.idx.co.id). Secondary data is in the form of information on financial report data and annual reports of manufacturing companies listed on the Indonesia Stock Exchange in the period 2017 to 2021.

### **Population and Sample**

The research population is a manufacturing company listed on the Indonesia Stock Exchange from 2017 to 2021. The sample selected in this study used a purposive sampling technique, the criteria used were as follows: 1) The company is classified as a manufacturing industry listed on the Indonesia Stock Exchange for the period 2017 to 2021. 2) The company publishes financial reports for the period 2017 to 2021 consecutively. 3) The company does not carry out business merger activities or transfer of business types. 4) The company has financial information, the complete data needed includes data on profitability, company size and capital structure.

The number of samples used in this study obtained a total of 209 observation during the period 2017 to 2021.

### **Data Collection Technique**

Data collection is in the form of financial information by tracing the company's financial report data and annual reports through the Indonesia Stock Exchange and the entities concerned.

### **Research Variables and Measurements**

#### **Capital Structure**

Leverage has a relationship with the composition of funding originating from debt. Leverage is calculated using the Debt to Equity Ratio (DER). The following is the formula for DER:

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

#### **Profitability**

Profitability is a ratio that describes a company's ability to generate profits in a period. The ratio used in assessing profitability is the ratio of Return on Assets (ROA). The following is the formula for ROA:

$$ROA = \frac{\text{Net profit after tax}}{\text{Total Assets}}$$

#### **Company Size**

Company size is the size (size) of the company which can be seen from the number of assets owned. The use of assets by the company as well as good asset management are expected to generate income for the company which will then be beneficial in the company's capital structure. Measurements used to assess the size of the company with the following formula:

$$\text{Company Size} = \ln \text{Total Asset}$$

### **Data Analysis Technique**

Analysis of the data used in this study using multiple regression analysis to determine whether or not there is an effect of profitability and company size on the company's capital structure.

#### **Classic Assumption Test**

In the multiple linear regression test, there are conditions that must be met, namely conducting the classical assumption test first to produce an unbiased linear estimator with minimum variance or in other words it must be a Best Linear Unbiased Estimator (BLUE). The classic assumption test in this study is the normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

#### **Normality Test**

The normal distribution is the theoretical distribution of continuous random variables. The curve that describes the normal distribution is a normal curve that has a symmetrical shape. To test whether the research sample is a type of normal distribution, the Kolmogorov-Smirnov Goodness of Fit Test is used for the residual model (Ghozali, 2006). The decision is made as follows. a) If probability > 0.05 it

can be said that the model is normal (data normally distributed). b) If the probability < 0.05 it can be said that the model is not normal (data not normally distributed).

### Multicollinearity Test

The multicollinearity test was carried out to test whether the regression model found a relationship that occurred between the independent or independent variables used in the model. A good regression model should not have a correlation between the independent variables. To detect whether there is multicollinearity in the regression model using the Variance Inflation Factor (VIF) value. The basis for decision making is as follows. a) If the VIF value < 10, it can be concluded that there is no relationship between the independent variables. b) If the VIF value > 10, it can be concluded that there is a relationship between the independent variables.

### Heteroscedasticity Test

The heteroscedasticity test was carried out to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. If the residual variance from one observation to another observation remains, it can be said to be homoscedasticity, if the variance is different, it can be said to be heteroscedasticity. Of course, a good regression model is non-heteroscedastic because it expects a small residual value. To detect whether there is heteroscedasticity by looking at the graph plot between the predicted value of the dependent variable, namely ZPRED, and the residual SRESID. Basic analysis as follows. a) If there is a certain pattern, such as dots that form a certain regular pattern (widens then narrows, wavy), then this indicates heteroscedasticity. b) If there is no clear pattern, and the points spread above and below the number 0 on the Y axis, then there is no heteroscedasticity.

### Autocorrelation Test

The autocorrelation test was carried out to determine the correlation between disturbances in period t with errors in period t-1 or earlier because it uses time series data. Autocorrelation arises because successive observations over time are related to one another. A good regression model is one that does not have autocorrelation. The autocorrelation test was carried out using the Durbin Watson (DW) test value.

### Hypothesis testing

Test the hypothesis in this study using a multiple linear regression model. Multiple regression analysis was conducted to determine whether there is an effect of profitability and company size on the company's capital structure. The multiple regression model is as follows.

$$DER = \alpha + \beta_1 ROA + \beta_2 SIZE + \varepsilon$$

Notes: DER = capital structure  
 $\alpha$  = constant  
 ROA = profitability  
 SIZE = company size  
 $\varepsilon$  = error

Hypothesis testing is done by finding the calculated significance value and comparing it with the table significance value whether profitability and company size have an influence on the company's capital structure. The criteria for accepting or rejecting the hypothesis are based on significance, the basis for making a decision is as follows. a) If the significance < 0.05 then there is influence between the independent variables on the dependent variable. b) If the significance > 0.05 then there is no influence between the independent variables on the dependent variable.

### Determination Coefficient Test (R<sup>2</sup>)

The coefficient of determination (R<sup>2</sup>) is used to test the feasibility of the regression model whether there is or is not an effect of profitability and company size on the capital structure of manufacturing companies.

**Individual Parameter Significance Test (t test)**

The t test is used to measure the ability of the independent variables individually to explain changes that occur in the capital structure variable. The t test was performed by comparing the t-value with a significance level of 0.05. a) If the t-count value is  $< 0.05$ , then the independent variable has a significant influence on the dependent variable partially. b) If the t-count value is  $> 0.05$ , then the independent variable has no significant effect on the dependent variable partially.

**ANALYSIS AND DISCUSSION****Descriptive Statistics**

The sample companies in this study were 209 company data obtained. Table 1 below presents descriptive statistics for all variables used in the study in the form of minimum values, maximum values, average values and standard deviations.

**Table 1**  
**Descriptive Statistics**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
DER	209	0,00	5,44	0,8145	0,74305
ROA	209	0,03	25,75	6,5007	5,41960
SIZE	209	25,95	30,96	28,3568	1,16497
Valid N (listwise)	209				

*Source: processed data, 2023*

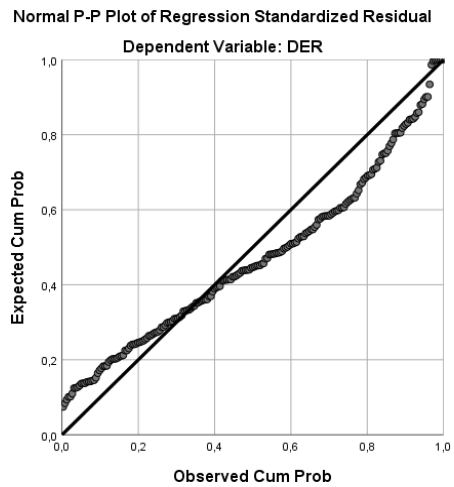
Based on table 1 presents a descriptive statistical analysis with a total of (N) 209 companies. Capital Structure (DER) has an average value of 0.8145 with a standard deviation value of 0.74305. The minimum value of the capital structure is 0.000, while the maximum value is 5.44. The standard deviation value which is smaller than the average indicates that the distribution of capital structure data is even, meaning that there is no high difference between one data and another.

Profitability (ROA) has an average value of 6.5007 with a standard deviation value of 5.41960. The minimum value of profitability is 0.03, while the maximum value is 25.75. A standard deviation value that is greater than the average indicates that the distribution of profitability data is uneven, meaning that there is a high difference between one data and another. Company Size (SIZE) has an average value of 28.3568 with a standard deviation of 1.16497. The minimum value of company size is 25.95, while the maximum value is 30.96. A standard deviation value that is smaller than the average indicates that the distribution of company size data is even, meaning that there is no high difference between one data and another.

**Normality Test Results**

The normality test in this study was carried out using the normal plot test. The regression model is said to meet the assumption of normality if the data is spread around the diagonal line. In the following, the results of the analysis of the normality test chart for the normal plot are presented.

Based on figure 2 above, it can be seen that the normal plot graph shows that the data is spread around the diagonal and the distribution follows the direction of the diagonal line. This shows that the regression model meets the normality assumption and is said to be suitable for use to determine the dependent variable, namely the company's capital structure.



**Figure 2**  
**Normality Test Result**

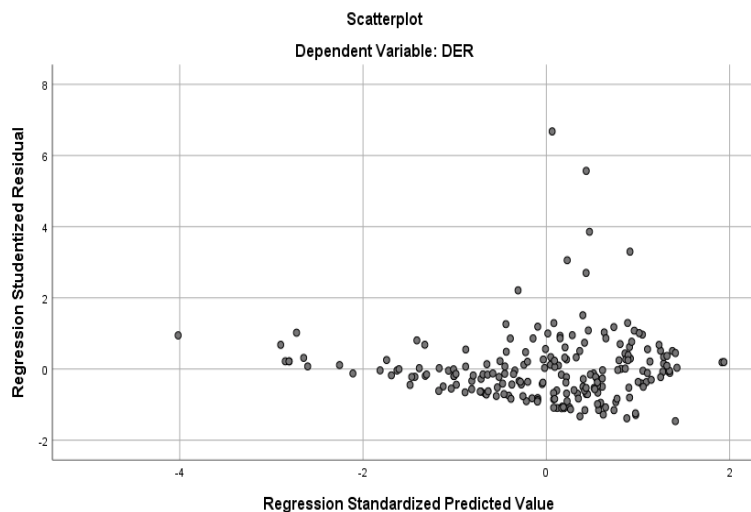
Source: processed data, 2023

### Multicollinearity Test Results

The multicollinearity test is used to see whether there is a relationship between the independent variables. To detect multicollinearity, it is done by looking at the tolerance value or the Variance Inflation Factor (VIF) value of each independent variable. Based on the results of data processing, it is known that the tolerance value is greater than 0.1 and the VIF value is less than 10, so there is no multicollinearity in the regression model.

### Heteroscedasticity Test Results

Heteroscedasticity test to test whether in the regression model there is an inequality of variance from one residual observation to another. The heteroscedasticity test can be carried out using the scatter plot's method, namely by looking for the presence or absence of certain patterns. If there is a certain pattern with a regular shape (wavy, widened, then narrowed), then heteroscedasticity has occurred. If there is no specific pattern, and the points spread above and below zero (0) on the Y axis, then there is no heteroscedasticity. In the following, the results of the heteroscedasticity test are presented.



**Figure 3**  
**Heteroscedasticity Test Results**

Source: processed data, 2023



Based on figure 3, it can be seen that there is no clear pattern formation, and the points spread above and below zero (0) on the Y axis. This shows that there is no heteroscedasticity, so the regression model can be said to be feasible to use.

#### Autocorrelation Test Results

The autocorrelation test was carried out to find out whether the regression model has autocorrelation symptoms. To detect whether there is autocorrelation using the Durbin-Watson (DW) test value. The following describes the results of the autocorrelation test.

**Table 2**  
**Autocorrelation Test Result**

Model	Durbin-Watson
1	1,913

*Source: processed data, 2023*

Based on table 2 above, the results of the autocorrelation test show that the DW value meets the criteria ( $-2 < DW < +2$ ). This shows that the regression model meets the assumption that there is no autocorrelation.

#### F Test Results (Goodness of Fit)

The F test indicates whether the model to be used in testing the hypothesis has been assessed as feasible. The results of the F test can be seen in table 3 below.

Based on table 3 above, the significance value is  $<0.05$ , it is said that the model in this study is feasible for use in hypothesis testing.

**Table 3**  
**F Test Results**

Model	F	Sig.
1 Regression	16,296	0,000 <sup>b</sup>

*Source: processed data, 2023*

#### Determination Coefficient Test Results (R<sup>2</sup>)

The magnitude of Adjusted R<sup>2</sup> shows the percentage of influence of all independent variables on the dependent variable, where the closer to the value of 1, the greater the influence of all independent variables on the dependent variable. The test results for the coefficient of determination (R<sup>2</sup>) can be seen in Table 4 below.

**Table 4**  
**Determination Coefficient Test Results (R<sup>2</sup>)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,370 <sup>a</sup>	0,137	0,128	0,69378

*Source: processed data, 2023.*

Based on table 4 above, it can be seen that the Adjusted R<sup>2</sup> value in the first regression model is 0.128. This shows that 12.8% of changes that occur in the capital structure are influenced by the variables of profitability and firm size while the remaining 87.2% are influenced by other factors. The standard error of estimates in the regression model is 0.69378. The smaller the Standard Error of Estimates, the more appropriate the regression model will be.

**Hypothesis Testing Results**

The research hypothesis in this study is that profitability and company size have a significant effect on the company's capital structure. The results of hypothesis testing can be seen in Table 5 below.

Based on table 5 above, the following regression equation is formulated.

$$DER = -1,868 - 0,047 ROA + 0,105 SIZE$$

From the above equation, it can be explained that the constant value is -1.868, meaning that if the profitability and company size variables are equal to 0 then the capital structure variable is 1.868. The regression coefficient value of the profitability variable is -0.047, meaning that if profitability increases by one percent, then the size of the capital structure will decrease by 0.047 assuming other variables are constant or do not change. The regression coefficient value of the company size variable is 0.105, meaning that if the company size increases by one percent, the size of the capital structure will increase by 0.105 assuming other variables are constant or do not change. The significance value for the variable profitability (0.000) and firm size (0.012) is significant at the 5% level.

**Table 5**  
**Hypotesis Test Results**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1,868	1,172		-1,594	0,113
ROA	-0,047	0,009	-0,343	-5,290	0,000
SIZE	0,105	0,041	0,165	2,545	0,012

*a. Dependent Variable: DER*

*Source: processed data, 2023*

**Discussion**

**The Effect of Profitability on Capital Structure**

Based on Table 5 it is known that the profitability variable shows a significance value of 0.000 <0.05 with a t-value of -5.290. This means that profitability has an influence on capital structure, so the first hypothesis which states that profitability has a negative effect on capital structure is accepted. This is because companies that generate profits or losses in their operations will not necessarily use the profits to be used as funding or operating capital for the company. Especially companies that plan to invest in the future, or it is possible that the results of profits are used as retained earnings to pay dividends. The results of the study prove empirically that profitability has a significant negative effect on capital structure. The research results support the research of Sulistyawan and Riharjo (2022), Miswanto et al. (2022), Kurniati and Yuliana (2022). This is in line with the pecking order theory which explains that the higher the profitability of a company, the company tends not to use debt to finance its operational activities. However, the results of this study do not support the research of Poetri and Sugijanto (2022), and Mukaromah and Suwarti (2022) which state that profitability has no effect on capital structure.

**The Effect of Company Size on Capital Structure**

Based on Table 5 it is known that the company size variable shows a t-count value of 2.545 with a significance value of 0.012 <0.05 so it can be concluded that company size has a significant positive effect on capital structure. This proves that the hypothesis that firm size has a positive influence on capital structure is accepted. The results of this study found that the size of the company is able to influence the company in obtaining financing or capital from outsiders (external), especially using debt. The size of a large company as measured by the log of total assets shows that the wealth of assets it owns is also large, so that they do not really need the use of outside capital (debt) because they can finance their own operational activities. This is in line with the Pecking Order Theory which reveals that companies with high levels of company size tend to use internal funds that are owned first to meet the needs of their operational activities before choosing external financing using debt as an alternative financing. The results of this study are in line with research conducted by Lisiana and Widarti (2020) which states that company size has a significant positive effect on capital structure, which means that

the larger the size of the company, the more funds it requires for its operational activities and has a great opportunity to make loans. to finance its operational activities because the company has goodwill. However, the research results are not in line with the research of Sulistiyawan and Riharjo (2022) which proves that company size does not have a significant effect on capital structure.

## CONCLUSIONS AND SUGGESTIONS

Based on the tests and analyzes that have been carried out, it can be concluded that profitability has a negative effect on capital structure. Companies with the ability to generate profits will finance their operational activities using retained earnings (not coming from debt). Meanwhile, firm size has a positive effect on capital structure. Companies with a large scale will need financing that can come from debt. Companies need a good and optimal capital structure. A healthy company's financial condition will make it easier to obtain capital from certain parties. This is because the lender will see the company's ability to pay off its debts in the future so that they are not due.

As for the researcher's suggestions for future researchers, namely that future researchers can add a period of years and use samples with other sector companies besides manufacturing companies. Future research is also expected to add other variables such as managerial ownership, asset structure, company growth, liquidity, and other variables.

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