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## The Influence of Profitability, Liquidity, Company Size, Asset Growth, Asset Structure, and Business Risk on the Capital Structure of Technology Sector Companies

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### ABSTRACT

This study aims to determine the effect of profitability, liquidity, company size, asset growth, asset structure, and business risk on capital structure. The control variables in this study are firm size and leverage. This type of research uses a quantitative approach. The population in this study comprises technology sector companies listed on the IDX for the period from 2021 to 2023, totaling 34 companies. The sampling technique employed in this study utilized a purposive sampling method, involving a sample of 14 technology sector companies and a total of 42 pieces of data. The data were analyzed using multiple linear regression. The data collection used in this study is secondary, derived from financial reports on the Indonesian Stock Exchange for the years 2021 to 2023. The results of this study indicate that profitability, asset growth, asset structure, and business risk do not significantly affect the capital structure. In contrast, liquidity and firm size have a significant positive effect on the capital structure. Profitability, liquidity, firm size, asset growth, asset structure, and business risk simultaneously have a significant impact on capital structure. Firm age does not significantly influence the capital structure, while leverage plays a positive role in controlling capital structure. Then, the management may consider liquidity and firm size when deciding to increase the capital structure.

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## 1. INTRODUCTION

In line with the era of globalization and the ever-growing industrial world, as a consequence of the challenges faced, companies need to expand their networks and refine their strategies for carrying out their activities. Likewise, technology sector companies are listed on the Indonesia Stock Exchange. The technology sector comprises 34 companies, divided into two industries: Software & IT Services, with 27 companies, and Technology Hardware & Equipment, with seven companies. Company managers are responsible for effectively and efficiently managing company operations to achieve the agreed-upon goals. Therefore, companies need to pay attention to all their activities, one of which is managing company finances. Financial management is influenced by financial decisions, including funding or financing decisions (Sheikh & Wang, 2021).

Capital structure is a crucial issue for companies because it directly impacts the company's financial condition, which ultimately affects its value (Brigham & Houston, 2019). In this case, a capital structure policy is necessary to determine the composition of the company's financing. Prospective investors view the capital structure as the primary consideration when investing their funds in a company, which is closely related to the risks and rewards they expect to receive. Brigham & Houston (2019) stated that the optimal capital structure balances return and risk, thereby maximizing the company's stock price. The more leverage used, the greater the risk that the company faces, but the company's expected rate of return is also higher. The company's stock price

tends to fall when its risk is higher due to the use of leverage, but it rises when the company's expected rate of return is higher. The company's financial condition, based on its capital structure, can be predicted from the Debt-to-Equity Ratio (DER). DER is a ratio that calculates the company's debt-to-equity ratio. The lower the DER, the better the capital structure used by the company for its operations (Fudianti & Wijayanto, 2019).

Historical data from 2020 to 2022 indicate that the capital structure varies significantly, with some companies having a capital structure exceeding 100 percent. This means that the company's financial composition is more heavily reliant on external funds, in the form of debt, than on equity. In this regard, the capital structure benchmark can be considered good if it has a value of less than one. The smaller the value of the capital structure, the safer the company's position. For example, the company Multipolar Technology Tbk. (MLPT) has a very high DER value in 2022, which is 2.3 times the total equity. This is certainly very risky because if the company goes bankrupt at some point, it must sacrifice its assets, and its total equity is insufficient to fund its debt. In 2022, the company Elang Mahkota Teknologi Tbk. (EMTK) has a good DER value because its value is below 1, which is 0.11 times, meaning that the company has 0.11 times more debt than total equity. This company can still finance its debt with the capital or total equity it owns.

Previous research results indicate that profitability has a significant positive effect on capital structure, while company size has a positive but insignificant effect on capital structure. Additionally, asset structure does not significantly affect capital structure, while liquidity and business risk have a substantial negative impact on capital structure (Lianto et al., 2022). The study by Astuti & Giovanni (2021) reveals that profitability and company size do not significantly impact capital structure, whereas asset structure and liquidity do. Other findings in Liang & Natsir's (2019) study revealed that profitability has a negative effect on capital structure, liquidity has a negative effect on capital structure, and company size has a positive effect on capital structure. Research by Darmawan et al. (2021) suggests that profitability does not have a significant impact on capital structure. Asset structure and company size have a positive and significant effect on capital structure. Meanwhile, research by Nuridah et al. (2023) proves that profitability and company size have a significant negative effect on capital structure.

This research was conducted on technology sector companies listed on the Indonesian Stock Exchange. According to the Research Director of the Center for Reform on Economics (CORE), economic movements are currently not limited by space or time. This is different from 20 years ago, when financial transactions depended on banking operating hours. The pace of digital economic movement is indeed inseparable from the role of companies engaged in technology (Adikara, 2022). The development of the digital economy is one of the most crucial strategies for transforming the Indonesian economy, aiming to accelerate economic recovery following the COVID-19 pandemic. The positive development of the digital economy is also in line with investment developments. The results of a survey by Google, Temasek, and Bain & Company (2021) showed that Indonesia's digital economic investment value in the first quarter of 2021 was \$4.7 billion, surpassing the highest value in the last four years. This achievement makes Indonesia the most popular investment destination in Southeast Asia, surpassing Singapore (Kementrian Komunikasi dan Informatika, 2022). Problems in the capital structure of technology sector companies during the 2020-2022 period, characterized by both increases and decreases each year. There are even companies with a DER value of more than 1, which indicates that the company is in an unhealthy condition and has a high risk in its capital structure. The purpose of this study is to analyze the effect of Profitability, Liquidity, Firm Size, Asset Growth, Asset Structure, and Business Risk, both partially and simultaneously, on Capital Structure in Technology Sector Companies listed on the Indonesia Stock Exchange in 2021-2023.

## 2. RESEARCH METHOD

### 2.1. Population and Sample

The population of this study consists of 34 technology sector companies listed on the Indonesia Stock Exchange between 2020 and 2022. The sampling technique used in this study was purposive sampling, which

is not based on strata, random selection, or region, but instead on technology sector companies listed consecutively on the Indonesia Stock Exchange (IDX) during the 2020-2022 period. These companies had complete research variable data available during the research period. The company did not experience negative profits during the research period. Based on these criteria, 14 companies were selected as samples. Thus, the number of observations is  $14 \times 3$  research periods, or 42 data points.

## 2.2. Operationalization of Variables

The dependent variable is capital structure. Capital structure refers to the permanent spending that reflects the balance between long-term debt and equity. Referring to research by Betavia (2019), Adhitya and Santioso (2020), and Zahro et al. (2022), the Debt-to-Equity Ratio is used as a proxy to measure capital structure. Independent variables include Profitability, Liquidity, Company Size, Asset Growth, Asset Structure, and Business Risk. Profitability refers to a company's ability to generate a profit within a specified period. Referring to research by Adhitya and Santioso (2020), Umayroh and Irsad (2021), Adhitya and Santioso (2020), Ramadani and Cipta (2021), and Febrianto et al. (2020), the Return on Assets proxy is used to measure profitability. The liquidity ratio measures a company's ability to meet its liabilities, or the amount owed by the company at a given time (Ramadhani & Anwar, 2021). Referring to the research by Afa (2021), Ramadani & Cipta (2021), and Febrianto et al. (2020), the Current Ratio proxy is used to measure liquidity. Firm size refers to the size of a firm, which can impact its capital structure.

The size of a firm is typically measured by its total assets (Nuridah et al., 2023). Referring to the research of Umayroh & Irsad (2021), Nuridah et al. (2023), and Liang & Natsir (2019), firm size is proxied by the Natural Logarithm of Total Assets. Asset growth refers to a change (increase or decrease) in a company's total assets. Asset growth is calculated as the percentage change in assets from one year to the next, compared to the previous year (Amin et al., 2023). Asset structure is a comparison between fixed assets and total assets to determine the amount of funds allocated to each asset, which represents a form of company capital investment (Fudianti & Wijayanto, 2019). Referring to the research by Adhitya & Santioso (2020) and Astuti & Giovanni (2021), the comparison of fixed assets with total assets is used to measure the asset structure. Business risk refers to the uncertainty a company faces in conducting its business activities (Kamela et al., 2023). The high or low business risk is related to the rate of return; high returns tend to be associated with high risk (Soesono, 2019). Referring to the research of Ekinanda et al. (2020) and Zahro et al. (2022), business risk is measured by the proxy Degree of Operating Leverage (DOL).

The control variables used are firm age and leverage. Firm age refers to the duration a company can survive, compete, and capitalize on business opportunities in the economy (Syafi'i, 2013). Mariani (2021) stated that long-established companies have a good reputation that they strive to maintain, and due to their experience, they already possess the skills to minimize costs and improve production quality, thereby enhancing the company's overall performance (Sakdiyah et al., 2020). The leverage ratio is a measure used to assess the extent to which a company utilizes its assets to finance its debts, indicating the proportion of debt to assets (Imaroh et al., 2022; Rahmatin & Kristanti, 2020).

## 2.3. Hypothesis Development

The profitability ratio is used to measure a company's efficiency in utilizing its assets, which is directly related to the sales it has successfully generated. The profitability ratio can be proxied by Return on Assets (ROA), which compares profit after tax to total assets. Return on Assets is one of the profitability ratios used to measure a company's effectiveness in generating profits by utilizing its total assets. Measuring the company's financial performance using ROA provides insight into the ability of the capital invested in all assets to generate profits. In the study by Sjahrudin et al. (2020), it was revealed that profitability has a negative effect on capital structure, as the greater the profitability obtained by the company, the lower its capital structure. Companies with high profits tend to have low debt. Similarities in the effects of profitability on capital structure are observed in studies by Hadiyanto & Widjaja (2018), Nuridah et al. (2023), Liang & Natsir (2019), and Arilyn (2020). Based on the review of theories and previous empirical studies, the following hypothesis is proposed: H1: Profitability has a negative effect on capital structure.

The liquidity ratio is a measure that indicates a company's ability to meet its obligations or pay its short-term debts (Hery, 2016). A company with high liquidity means that it has significant internal funds, so it tends to use these funds before resorting to debt. Research conducted by Ramadani et al. (2021) and Hazmi (2021) proves that liquidity has a negative effect on capital structure. The same results are also supported by the research findings of Sjahrudin et al. (2020), Ramadhani & Anwar (2021), Dewi et al. (2019), Fudianti & Wijayanto (2019), and Liang & Natsir (2019). Based on the review of previous theories and previous empirical studies, the following hypothesis is proposed: H2: Liquidity has a negative effect on capital structure.

Firm size refers to the size of the firm, which can be measured by total assets, sales volume, average sales, and average total assets (Brigham & Houston, 2019). The greater the total assets and sales, the larger the company's size. Large companies generally have more activities, have a greater impact on society, and receive more attention and support from the public compared to small companies, so that company size also determines the value of the company (Utomo et al., 2016). Research conducted by Nuridah et al. (2023) shows that company size has a negative effect on capital structure, contrary to the results of research conducted by Liang & Natsir (2019), Ekinanda et al. (2021), and Lianto et al. (2020), which show that company size has a positive effect on capital structure. Based on the review of previous theories and previous empirical studies, the following hypothesis is proposed: H3: Company size has a positive effect on capital structure.

According to Mardiyah (2020), asset growth is the annual change in total assets. For companies, the opportunity to grow or make investments will increase the need for funds. This means that, in addition to the available internal funds, external funds are also required, including debt (Fiscarina & Paranita, 2023) and Setiawati & Veronica (2020). If a company's initial wealth is fixed in amount, then at a high level of asset growth, the amount of the company's final wealth increases. And vice versa. At a high level of asset growth, if the amount of final wealth is high, it means that the initial wealth is low. Research conducted by Ariyasa et al. (2019) demonstrates that asset growth has a positive impact on capital structure, consistent with the findings of Mulyasari & Subowo (2019). Research by Amin et al. (2023), Dewi & Sudhiarta (2017), and Astuti et al. (2023) yielded different results, demonstrating that asset growth does not affect capital structure. Based on the review of previous theories and previous empirical studies, the following hypothesis is proposed: H4: Asset growth has a positive effect on capital structure.

Brigham and Houston (2011) stated that companies with sufficient assets to serve as collateral for loans tend to use debt. Several studies have shown that asset structure is one of the factors that companies must consider when making decisions that affect their capital structure. The asset structure can impact the timing of financing sources for companies that have fixed assets for an extended period. Secured debt can be utilized if the demand for the company's products is sufficiently attractive. When the company's assets are mainly in the form of receivables and inventory, their value will depend on the stability of the company's profitability. It will tend to rely on short-term financing. Ownership of company assets is important for a company because when borrowing from creditors, the ownership of company assets reflects the extent to which the company has a composition of assets that are worthy of being used as collateral for debt repayment. Research conducted by Adhitya and Santioso (2020) and Rahmawati (2021) indicates that asset structure has a negative impact on capital structure. Research by Martini et al. (2021) and Lianto et al. (2020) reveals that asset structure does not significantly affect capital structure. Based on the review of previous theories and previous empirical studies, the following hypothesis is proposed: H5: Asset structure has a negative effect on capital structure.

Risk is a business risk from a combination (alliance) with long-term business decisions created by the business organizer. The high and low business risk is related to the rate of return, described as high return, high risk, namely a company with a reasonably stable sales level, compared to a company with a high sales level (Soesono, 2019). Research by Arini and Rohyani (2022) suggests that business risk has a positive impact on capital structure. In contrast, research by Amin et al. (2023) and Sungkar & Deitiana (2021) suggests that business risk has no effect on capital structure. Based on the review of previous theories and previous empirical studies, the following hypothesis is proposed: H6: Business risk has a positive effect on capital structure.

To improve company performance, every company needs capital. Capital is one of the key factors required for continuity and ensuring company operations, alongside material resources and other supporting elements. A decision made by a manager regarding spending must be carefully considered, taking into account the nature and cost of the source of funds to be selected, as each source of funds has different financial consequences. This is especially important if the company plans to expand, as it will undoubtedly require a substantial amount of capital. Several factors influence the capital structure in decision-making, including business risk, liquidity, profitability, asset structure, managerial ownership, asset growth, and company size (Afa, 2021). Betavia's research (2019) demonstrates that profitability, liquidity, company growth, and asset structure all simultaneously impact the capital structure. Based on research by Lianto et al. (2020), profitability, company size, asset structure, liquidity, and business risk simultaneously affect the capital structure. Based on the review of previous theories and previous empirical studies, the following hypothesis is proposed: H7: Profitability, liquidity, company size, asset growth, asset structure, and business risk simultaneously influence capital structure.

#### 2.4. Data Analysis Technique

The secondary data used in this study are in the form of annual financial reports, specifically the Balance Sheets and Profit and Loss Statements of technology sector companies listed on the IDX from 2021 to 2023. These reports were obtained from the IDX website at [www.idx.co.id](http://www.idx.co.id).

Descriptive statistical analysis is an analysis used to provide an overview or description that discusses the average (mean), minimum, maximum, and standard deviation values. Descriptive statistics are statistics that describe data into clearer and easier-to-understand information (Ghozali, 2016). The classical assumption tests used include tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. The normality test aims to determine whether a regression model, including independent variables, dependent variables, or both, has a normal distribution (Ghozali, 2016). The normality test can be performed by examining the significance value based on the Kolmogorov-Smirnov test, with the provision that if the significance value is above 0.05, then the residual data is usually distributed, and vice versa. The multicollinearity test aims to determine whether this regression model has identified a correlation between the independent variables. To determine whether multicollinearity exists in the regression model, it can be observed from the tolerance values and VIF values. The indicator shows the absence of multicollinearity if the tolerance value is > 0.10 or the VIF value is <10 (Ghozali, 2016). The heteroscedasticity test aims to determine whether the variance of the residuals in the regression model is unequal from one observation to another. To detect heteroscedasticity, the Glejser test is used. This method involves regressing the independent variables against the absolute value of the residuals. The regression model does not contain heteroscedasticity if the significance value of the independent variables against the absolute value of the statistical residual is above  $\alpha = 0.05$ . The autocorrelation test is conducted to determine whether a variable data model exhibits a correlation between the disturbance errors in period t-1 or earlier. The correlation test used in this study is the Durbin-Watson Value Test, which employs critical points, specifically the lower limit (dl) and the upper limit (du).

#### 2.5. Multiple Linear Regression Analysis

The regression model in this study is formulated with the following equation:

$$Y = \alpha + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 + e$$

Note:

|    |                     |
|----|---------------------|
| Y  | = Capital structure |
| X1 | = Profitability     |
| X2 | = Liquidity         |
| X3 | = Firm Size         |
| X4 | = Assets Growth     |
| X5 | = Assets Structure  |
| X6 | = Business Risk     |
| e  | = Error-term        |

Then, a hypothesis test is conducted to analyse how far the influence of each independent variable on the dependent variable is, assuming the other independent variables are constant (t-Test), and determine whether the independent variables collectively affect the dependent variable (F-Test).

### 3. RESULTS AND DISCUSSIONS

#### 3.1 Descriptive Statistics

The capital structure with a proxy debt-to-equity ratio has a maximum value of 2.3841, indicating that the company utilizes the most significant debt for financing, equivalent to 2.3841 of its capital. In contrast, the minimum value is 0.0876, corresponding to the smallest total debt a company can finance. The average value of the capital structure is 0.7385, and it experiences a deviation in the capital structure value with a standard deviation of 0.6623. Profitability with proxy return on assets has a maximum value of 0.5365, which means that the company has the most significant net profit after tax of 0.5365 of its total assets. In contrast, the minimum value is 0.0036, where the smallest profit of a company is obtained by 0.0036. The average value of profitability is 0.1007, and it experiences a deviation in profitability with a standard deviation of 0.0964. Liquidity, as measured by the proxy current ratio, has a maximum value of 24.0809, indicating that the company utilizes the most significant current assets to meet 24.0809% of its total current liabilities. At the same time, the minimum value is 0.4455, where the smallest total current assets meet the current liabilities of 0.4455 of the total current liabilities. The average liquidity value is 4.1143, and the standard deviation is 4.5884, indicating a deviation of 4.5884 in the liquidity value.

The results of the descriptive statistical analysis are:

**Table 1.** Descriptive Statistics

|                    | <b>N</b> | <b>Min.</b> | <b>Max.</b> | <b>Mean</b> | <b>Std. Deviation</b> |
|--------------------|----------|-------------|-------------|-------------|-----------------------|
| Capital structure  | 42       | .0876       | 2.3841      | .7385       | .6623                 |
| Profitability      | 42       | .0036       | .5365       | .1007       | .0964                 |
| Likuidity          | 42       | .4455       | 24.0809     | 4.1143      | 4.5884                |
| Firm Size          | 42       | 24.9015     | 31.4258     | 27.9482     | 1.4835                |
| Assets Growth      | 42       | -.4963      | 1.5478      | .2827       | .4679                 |
| Assets Structure   | 42       | .0045       | .9038       | .2373       | .2661                 |
| Business Risk      | 42       | -295.28     | 67.8430     | -2.1495     | 48.8096               |
| Firm Age           | 42       | 5           | 47          | 22.07       | 12.706                |
| Leverage           | 42       | .0805       | .7045       | .3555       | .1937                 |
| Valid N (listwise) | 42       |             |             |             |                       |

Source: Output SPSS 26, data processed.

Firm size has a maximum value of 31.4258, which means that the company has the most significant total assets of 31.4258. In contrast, the minimum value is 24.9015, corresponding to the smallest total asset value of a company. The average value is 27.9482, indicating that the average total asset value is 27.9482. The standard deviation is 1.4835, indicating a deviation in the company size value of 1.4835. Asset growth has a maximum value of 1.547, which means that the company's asset growth is 1.547, calculated as the difference between the total assets of the current year and the total assets of the previous year, divided by the total assets of the previous year. In comparison, the minimum value is -0.4963, corresponding to the smallest asset growth of -0.4963. The average value is 0.2827, and the standard deviation is 0.4679, indicating a deviation of 0.4679 in the asset growth value. The asset structure has a maximum value of 0.9038, indicating that the company has fixed assets equivalent to 0.9038 of its total assets. In comparison, the minimum value is 0.0045, corresponding to the smallest asset structure of a company. The average value of the asset structure value is 0.2373, and there is a deviation in the asset structure value with a standard deviation value of 0.2661. Business risk has a maximum value of 67.843, indicating that the company faces the most significant business risk, which accounts for 67.843% of the percentage change in EBIT relative to the percentage change in sales within the company.

In comparison, the minimum value is -295.29, corresponding to the smallest business risk value of the company. The average value is -2.149, and the standard deviation value is 48.809, which means that the business risk value is balanced by 48.809. The age of the company has a maximum value of 47, which means that out of 14 companies, the company that has been established the longest is 47 years old. In comparison, the minimum value is 5, corresponding to the youngest company, which is 5 years old. The average value is 22.07, and the standard deviation value is 12.706, indicating that the company's age values are balanced by 12.706. Leverage has a maximum value of 0.7045, indicating that the company utilizes its most significant assets to finance debt of 0.7045. Meanwhile, the minimum value is 0.0805, the average leverage value is 0.3555, and there is a deviation in the capital structure value with a standard deviation value of 0.1937.

### 3.2 Classical Assumption Test

Table 2 shows the results of the normality test based on the one-sample Kolmogorov-Smirnov Test. Based on the normality test, a significance value of  $0.200 > 0.05$  was obtained, indicating that the data in this study are typically distributed. Therefore, the regression model in this study meets the normality assumption.

**Table 2.** One-Sample Kolmogorov-Smirnov Test

|                                  |                | Unstandardized Residual |
|----------------------------------|----------------|-------------------------|
| N                                |                | 42                      |
| Normal Parameters <sup>a,b</sup> | Mean           | .0000000                |
|                                  | Std. Deviation | .14733697               |
| Most Extreme Differences         | Absolute       | .094                    |
|                                  | Positive       | .094                    |
|                                  | Negative       | -.073                   |
| Test Statistic                   |                | .094                    |
| Asymp. Sig. (2-tailed)           |                | .200 <sup>c,d</sup>     |

Source: Output SPSS 26, data processed.

**Table 3.** Multicollinearity Test

| Model            | Collinearity Statistic | VIF   |
|------------------|------------------------|-------|
| (Constant)       |                        |       |
| Profitability    | .722                   | 1.384 |
| Liquidity        | .426                   | 2.348 |
| Firm Size        | .531                   | 1.884 |
| Assets Growth    | .792                   | 1.262 |
| Assets Structure | .785                   | 1.273 |
| Business Risk    | .852                   | 1.174 |
| Firm Age         | .524                   | 1.907 |
| Leverage         | .428                   | 2.336 |

Source: Output SPSS 26, data processed.

The results of the multicollinearity test are presented in Table 3. The test indicates that all independent variables and control variables have a tolerance value greater than 0.10, which means that there is no correlation between independent variables with a value of more than 95%. The results of the calculation of the variance inflation factor (VIF) value also show that no variables have a VIF value  $< 10$ , so that the regression model in this study does not experience multicollinearity and the regression model is suitable for use.

**Table 4.** Heteroskedastisity Test

|                  | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|------------------|-----------------------------|------------|---------------------------|--------|------|
|                  | B                           | Std. Error | Beta                      |        |      |
| (Constant)       | -.115                       | .159       |                           | -.718  | .478 |
| Profitability    | -.014                       | .073       | -.033                     | -.197  | .845 |
| Liquidity        | .004                        | .002       | .406                      | 1.857  | .072 |
| Firm Size        | .006                        | .006       | .205                      | 1.046  | .303 |
| Assets Growth    | -.013                       | .014       | -.144                     | -.898  | .376 |
| Assets Structure | -.034                       | .026       | -.215                     | -1.336 | .191 |
| Business Risk    | .000                        | .000       | .307                      | 1.985  | .056 |
| Firm Age         | .001                        | .001       | .159                      | .806   | .426 |
| Leverage         | -.021                       | .048       | -.096                     | -.441  | .662 |

Source: Output SPSS 26, data processed.

**Table 5.** Autocorrelation Test

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1     | .977 <sup>a</sup> | .954     | .942              | .12846                     | 1.501         |

Source: Output SPSS 26, data processed.

Based on the Glejser test on Table 4, the significance value indicates that heteroscedasticity was not detected, as it was above 0.05 or 5 percent. Based on Table 5, the Durbin-Watson value is 1.501, so based on decision making,  $du < d < 4 - du$  is  $1.0958 < 1.501 < 2.9042$ . Thus, it can be concluded that the regression model produced from this study is free from autocorrelation.

### 3.3 Multiple Linear Regression Analysis

Based on the multiple linear regression analysis conducted on Table 6, the regression equation can be determined as:

$$Y = -1,819 + 0,165 \text{ Profitability} + 0,030 \text{ Liquidity} + 0,038 \text{ Firm Size} + 0,094 \text{ Assets Growth} + 0,004 \text{ Assets Structure} - 0,001 \text{ Business Risk} - 0,001 \text{ Firm Age} + 3,791 \text{ Leverage}$$

**Table 6.** Multiple Linear Regression Analysis

|                  | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|------------------|-----------------------------|------------|---------------------------|--------|------|
|                  | B                           | Std. Error | Beta                      |        |      |
| (Constant)       | -1.819                      | .679       |                           | -2.680 | .011 |
| Profitability    | .165                        | .313       | .024                      | .527   | .602 |
| Liquidity        | .030                        | .009       | .206                      | 3.469  | .001 |
| Firm Size        | .038                        | .024       | .085                      | 1.601  | .119 |
| Assets Growth    | .094                        | .062       | .067                      | 1.533  | .135 |
| Assets Structure | .004                        | .109       | .002                      | .039   | .969 |
| Business Risk    | -.001                       | .001       | -.049                     | -1.178 | .247 |
| Firm Age         | -.001                       | .003       | -.018                     | -.335  | .740 |
| Leverage         | 3.791                       | .202       | 1.109                     | 18.735 | .000 |

Source: Output SPSS 26, data processed.

The regression coefficient value for profitability is 0.165, indicating that a one-unit increase in the profitability variable, while other variables remain constant, results in a 0.165-unit increase in capital structure. The p-value significance is 0.602, which is greater than 0.05; therefore, profitability does not have a significant effect on the capital structure. Thus, H1 is rejected. The regression coefficient value for liquidity is 0.030, indicating that a one-unit increase in the liquidity variable, while other variables remain constant, results in a 0.030-unit increase in the capital structure. The p-value significance is 0.001 ( $<0.05$ ), indicating that liquidity has a significant positive effect on the capital structure. Thus, H2 is accepted. The regression coefficient for company size is 0.038, indicating that a one-unit increase in the company size variable. In contrast, other variables remain constant, resulting in a 0.038-unit increase in the capital structure. The company size significance value is  $0.119 > 0.05$ , so company size does not have a significant effect on the capital structure. Thus, H3 is rejected. The regression coefficient value for asset growth is 0.094, indicating that a one-unit increase in the asset growth variable. In contrast, other variables remain constant, results in a 0.094-unit increase in capital structure. The significance value of asset growth is 0.135, which is greater than 0.05; therefore, asset growth does not significantly affect the capital structure. Thus, H4 is rejected.

The regression coefficient value for the asset structure is 0.004, indicating that a one-unit increase in the asset structure variable. In contrast, all other variables remain constant, resulting in a 0.004-unit increase in the capital structure. The significance value of the asset structure is 0.969, which is greater than 0.05; therefore, the asset structure does not significantly affect the capital structure. Thus, H5 is rejected. The regression coefficient value for business risk is -0.001, indicating that a one-unit increase in the business risk variable, while all other variables remain constant, results in a decrease in capital structure of 0.001. The significance value of asset growth is 0.247, which is greater than 0.05; therefore, business risk does not significantly affect the capital structure. Thus, H6 is rejected. The regression coefficient value for firm age is -0.001, indicating that a one-unit increase in the company age variable, while other variables remain constant, results in a decrease in capital structure of 0.001. The significance value of the firm age is 0.740, which is greater than 0.05; therefore, the firm age does not have a significant effect on capital structure. The regression coefficient

value for the leverage variable is 3.791, indicating that a one-unit increase in the leverage variable, while all other variables remain constant, will result in a 3.791-unit increase in the capital structure. The significance value of leverage is  $0.000 < 0.05$ , so leverage has a significant positive effect on capital structure.

The results of the F-test are presented in Table 7. From the results of the simultaneous test (F-test), the significance value of  $0.000 < 0.05$  means that all independent variables (profitability, liquidity, firm size, asset growth, asset structure and business risk) and control variables (firm age and leverage) have a significant effect simultaneously on the dependent variable (capital structure) in technology sector companies listed on the Indonesia Stock Exchange from 2021 to 2023.

**Table 7.** Simultaneous Test

|            | Sum of Squares | df | Mean Square | F      | Sig.              |
|------------|----------------|----|-------------|--------|-------------------|
| Regression | 17.095         | 8  | 2.137       | 79.231 | .000 <sup>b</sup> |
| Residual   | .890           | 33 | .027        |        |                   |
| Total      | 17.985         | 41 |             |        |                   |

Source: Output SPSS 26, data processed.

Based on Table 8, the R-squared value is 0.939, indicating that 93.9 percent of the variation in capital structure can be explained by variations in independent variables (profitability, liquidity, company size, asset growth, asset structure, and business risk) and control variables (company age and leverage). In comparison, other variables outside the scope of this study account for 6.1 percent.

**Table 8.** Determination Coefficient Test

| Model | R    | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|------|----------|-------------------|----------------------------|
| 1     | .975 | .951     | .939              | .164227802                 |

Source: Output SPSS 26, data processed.

### 3.4 Discussion

The results of the study show that the company does not consider the amount of profit generated in determining its capital structure. This is because the company has determined its capital structure based on the return and cost of capital resulting from the use of debt to support its operational activities. However, the company also does not entirely ignore profitability, because it is one of the factors in assessing the company's condition and can indicate whether the company will be successful in the future. This is not in line with the pecking order theory, which states that companies prioritize using internal funding sources over external funding sources in meeting their needs. The results of this study support the research of Astuti and Giovanni (2021), which suggests that profitability does not affect capital structure. However, the findings of this study do not align with those of Nuridah et al. (2023), which suggest that profitability does affect capital structure.

Based on the study's results, it can be inferred that liquidity has a positive and significant impact on capital structure. This indicates that a company's liquidity is not a primary consideration for investors when deciding whether to invest their capital. Because every decrease or increase in liquidity does not affect the company's capital structure, some companies with ample liquidity tend to use it to pay off short-term debts, thereby reducing interest costs and ultimately increasing the company's profits. Meanwhile, some investors consider companies with ample liquidity to be less productive in utilizing their funds, so they tend to avoid these companies. The results of this study are not in line with the pecking order theory, which posits that companies tend to prefer using internal funds over external funds, resulting in a negative relationship between liquidity and capital structure. These results support the research of Arini & Rohyani (2022), Fudianti & Wijayanto (2019), and Nasar & Krisnando (2020), which state that the liquidity variable has a significant positive effect on capital structure, but are not in line with the research of Ramadani et al. (2021) and Hazmi (2021), which reveal that liquidity has a negative effect on capital structure.

Company size does not affect capital structure. The results of this study do not support the third hypothesis, that company size has a positive effect on capital structure. These results do not follow the theoretical basis,

which states that a larger company size will guarantee easier access to capital sources by issuing shares. Large companies that have easier access to the capital market compared to small companies are not necessarily able to obtain funds easily in the capital market. This is because investors will buy shares or invest their capital not only considering the size of the company, but also considering other factors, such as the company's prospects, the nature of the company's current management, and so on. Therefore, company size does not affect capital structure. According to this study, company size does not affect capital structure. These results align with the research of Fudianti & Wijayanto (2019), Febrianto et al. (2020), and Ekinanda et al. (2021).

The asset growth variable partially does not affect the capital structure. This indicates that changes in the increase or decrease in an asset obtained by the company at any time will not affect management's ability to make funding decisions to meet the company's funding needs, because managers prioritize company profits over assets owned when making decisions. Management and shareholders tend to agree with companies that have strong investment opportunities. However, for companies that do not have investment opportunities, debt provides agency cost limits, taking into account managerial considerations; the company's growth rate can be measured by examining the investments made by the company. These results align with the research by Amin et al. (2023), Dewi & Sudhiarta (2017), Setiawati & Veronica (2020), and Astuti et al. (2023), which suggests that asset growth does not affect capital structure.

Asset structure does not affect capital structure. The company's assets are not used as collateral to obtain loans; instead, they are utilized in carrying out the company's operational activities. In addition, creditors do not consider the amount of assets a company has when providing loans, but rather examine other factors such as liquidity, stability, and the risks faced by the company, so that the size of the asset structure does not impact the capital structure. The results of this study are in line with the research of Lianto et al. (2020) and Gusni et al. (2020), which prove that the asset structure does not affect the capital structure, but are not in line with the research of Adhitya & Santioso (2020) and Kamela et al. (2023), which prove that the asset structure affects the capital structure.

The size of the business risk experienced by a company does not affect its capital structure, because companies with high risk levels do not necessarily prefer internal funding over external funding and vice versa. Business risk is a risk that arises from a company's operational activities due to the uncertainty of operating income and profit before interest and taxes. High-risk companies generally prioritize internal funding over the use of debt or share issuance. This is because the lower the business risk of a company, the higher its optimal debt ratio, and vice versa. This must also be adjusted to the company's conditions, which may require the use of debt. Moreover, one reason why business risk does not significantly affect the capital structure is that several investors or creditors have a risk-taking nature, so they do not pay close attention to the business risk of a company. The results of this study align with those of Umayroh & Irsad (2021), Amin et al. (2023), and Arini & Rohyani (2022), which found that business risk does not significantly affect the capital structure. Meanwhile, based on the results of research by Fiscarina & Paranita (2023), Fudianti & Wijayanto (2019), and Darmawan et al. (2021), it was found that business risk has a positive effect on the capital structure of technology sector companies listed on the Indonesia Stock Exchange, meaning that when business risk increases, the capital structure will increase.

Simultaneously, the independent variables — namely, profitability, liquidity, company size, asset growth, asset structure, and business risk — have a significant effect on capital structure. Therefore, it can be concluded that the seventh hypothesis is accepted, as profitability, liquidity, company size, asset growth, asset structure, and risk all affect the capital structure of technology sector companies listed on the IDX for the 2021-2023 period. This means that the company pays attention to the six independent variables in determining its capital structure, especially regarding the use of debt as a source of funds. In addition to achieving an optimal capital structure, the company also needs to know the role of each independent variable. The optimal capital structure optimizes the balance between risk and return, thereby maximizing stock prices.

#### 4. CONCLUSION

Based on the analysis and discussion results, it can be concluded that profitability, asset growth, asset structure, and business risk do not significantly affect the capital structure of technology sector companies listed on the Indonesia Stock Exchange from 2021 to 2023. Only liquidity and company size have a significant positive effect on the capital structure of technology sector companies listed on the Indonesia Stock Exchange from 2021 to 2023. However, simultaneously, all variables have a significant positive effect on the capital structure of technology sector companies listed on the Indonesia Stock Exchange from 2021 to 2023.

Based on the study's results and the conclusions drawn, the authors suggest that technology sector companies should prioritize liquidity and leverage variables, as these factors have a significant impact on capital structure. Companies also need to pay attention to the role of each independent variable in order to achieve an optimal capital structure. Investors are advised to carefully consider the company's capital structure before investing in a technology sector company, taking into account both the positive and negative impacts of its capital structure policies. Investors should pay attention to the liquidity and leverage variables, as they have a significant impact on the capital structure. This is a consideration to ensure that the investment made yields the maximum level of profit and minimizes the occurrence of investment risk. For further researchers, it is expected to serve as a reference by adding the number of variables or utilizing other variables that are estimated to influence the capital structure of technology sector companies, thereby enhancing the development of research on capital structure. It is also expected to research other or different objects so that comprehensive results can be obtained and to see how the influence of research variables differs on different objects.

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