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PROFITABILITY, LIQUIDITY, AND ASSETS: HOW FIRM SIZE SHAPES CAPITAL STRUCTURE IN INDONESIAN MANUFACTURING

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ABSTRAK

This study explores the intricate relationships between profitability, liquidity, and asset structure, with firm size as a moderating variable, in shaping the capital structure of manufacturing firms listed on the Indonesia Stock Exchange from 2019 to 2023. A sample of 66 companies, selected through purposive sampling, was analyzed using multiple linear regression models. Unlike previous research, this study provides a comprehensive evaluation of how firm size not only moderates but also amplifies or diminishes the effects of the aforementioned variables on capital structure. Findings reveal that while profitability and liquidity positively influence capital structure, asset structure has a negative impact. However, firm size weakens the relationship between profitability and capital structure, as well as between liquidity and capital structure, but strengthens the link between asset structure and capital structure. These results highlight the critical role of firm size in moderating financing decisions and offer a nuanced understanding of capital structure determinants in a dynamic market. This research deepens the current discourse by emphasizing how varying company sizes influence the strategic balance between internal and external funding sources, providing valuable insights for both academic and practical applications.

Keywords: *Profitability, Liquidity, Asset Structure, Company Size, and Capital Structure.*

INTRODUCTION

Globalization refers to the deepening and expanding economic, political, social, and cultural integration among countries worldwide. The advancement of communication, transportation, and trade technology has accelerated global interactions, changing the nature of international business competition. Information technology has transformed business structures (Mukaromah & Suwarti, 2022). International corporations can now regulate the market share of a country. As a result of the increasing intensity of global competition, business managers need to enhance productivity and devise strategies to maximize their organization's profits (Mukaromah & Suwarti, 2022).

Companies must adopt various approaches and winning strategies to ensure their competitive advantage in facing increasingly tight competition and continuously evolving business dynamics. Producing high-quality products and superior operations is critical to business success in global competition. Organizations face significant challenges in running their operations due to intense competition, necessitating various strategies to excel. Business actors must focus on product quality and operational excellence. To remain competitive, they must also be able to manage their finances well (Dewi et al., 2019).

The flow of capital is vital for more significant economic expansion that results from successful and long-lasting companies. A profitable business requires additional capital from shareholders and cash flow management strategies to minimize risk. A company's capital structure includes debt and equity, with external funding from shares, bonds, bank loans, and owner capital increases. An optimal capital structure

balances risk and reward to maximize stock prices (Khaki & Akin, 2020; Mukaromah & Suwarti, 2022).

In terms of industrial operational funding, capital structure is fundamental. The capital structure is determined by the sources of funding from loans and equity, which include paid-up capital, share premiums, retained earnings, and current profits. Management must optimize financial resources for operational balance and financial responsibility. Internal capital comes from retained earnings, while external capital comes from investors and creditors. An optimal capital structure is vital for the growth and sustainability of a business (Nasar & Krisnando, 2020; Zulkarnain, 2020).

Businesses must consider profitability, liquidity, and asset structure as they affect capital structure; the relationship between these characteristics and capital structure is moderated by company size. Profitability influences the capital structure, which reflects the business's ability to generate money. Effective management reduces capital costs and risks, thereby increasing profitability. Companies with high profit margins rely more on retained earnings than external investments. The relationship between capital structure and profitability must be considered, as tax-deductible interest payments on debt can enhance profitability. This relationship is vital for accurately assessing capital structure (Mukaromah & Suwarti, 2022; Widyawati & Iswara, 2023).

Liquidity is the second factor that influences capital structure. Liquidity is the ability of a business to meet its financial obligations. A company's capacity to operate after paying off debts is measured by its current assets. Businesses with high liquidity tend to use internal funds rather than taking on debt or issuing shares. High liquidity helps meet short-term obligations, reduce debt, and streamline the capital structure. It increases investor confidence and the business's ability to repay debt (Dewi & Fachrurrozie, 2021; Mukaromah & Suwarti, 2022; Salam & Sunarto, 2022).

Asset structure is the third component that influences capital structure. Asset structure refers to allocating a certain amount of money to each element of an asset, including fixed assets and current assets (Nasar & Krisnando, 2020). Businesses with assets that can be used as loan collateral typically have more enormous debts. One way to measure asset structure is by looking at the percentage of the company's total assets that are fixed assets. Asset structure affects capital structure because a company's managers can use their fixed assets as collateral to obtain loans from other sources if the company cannot finance its operations (Mukaromah & Suwarti, 2022). Corporations will take on more debt if their asset structure is higher; therefore, if fixed assets increase, the company's use of debt will also rise. In addition, the amount of debt that creditors can offer the company increases along with the level of collateral that the company provides.

The size of the company is the fourth factor that influences capital structure. Company size is a moderating variable in this study because it can affect the relationship between profitability, liquidity, asset structure, and capital structure. Large and small companies have different access to funding and characteristics, leading them to choose different capital structures. The size of a company, measured by total assets, reflects business maturity, positive cash flow, and promising prospects (Alber & Youssef, 2020; Nasar & Krisnando, 2020). Large companies tend to be more profitable and stable, using less debt because they can finance their operations with more considerable internal assets.

Based on the background presented, it is understood that globalization and technology enhance global competition, requiring companies to adopt competitive strategies. The optimal capital structure, influenced by profitability, liquidity, and asset structure, is vital for business growth. The company's size moderates this relationship, with larger companies being more stable and using less debt. Managing these factors is important to maximize profits and reduce risks.

LITERATURE REVIEW

Pecking Order Theory

Professor Donaldson discovered the pecking order theory in 1961. Then, in 1984, Myers and Majluf developed the Pecking Order Theory. In its simplest form, the pecking order theory states that a hierarchy determines a company's funding decisions. Instead of initially utilizing external funding, companies typically use their resources. Businesses will turn to external funding sources if their internal resources need to be increased. When company management needs money, they usually prefer to use their own or internal resources. If this alternative is unavailable, the company will seek external funding, issuing debt, convertible bonds, and common stock (Dewi & Fachrurrozie, 2021)

Meanwhile, the pecking order theory is a capital structure theory tested over the past thirty years in various economies. According to this idea, if a company needs funds, it will prioritize internal sources over external sources and anticipate a hierarchy of funding (Yıldırım & Çelik, 2020). According to the pecking order theory, retained earnings, debt, and equity are sources of funding ranked by a preference for the company's internal resources or, when necessary, external sources to finance the company's performance. The pecking order theory explains why loans are smaller for more profitable businesses and clarifies why debt constitutes the most significant part of external financing (Alber & Youssef, 2020). In addition, regardless of the company's size, managers prefer to use internal funds before resorting to external financing for investment purposes. If managers have more retained earnings than they need for investments, they will pay down their debts to prevent outside forces from imposing themselves on their company. If external funding is still needed, external equity will be the last option after the impact of debt has been considered (Mohammadi et al., 2020).

The pecking order theory is a capital structure theory that asserts there is no ideal capital structure and that each company has a hierarchy of preferences regarding funding decisions. It also implies that internal funding is usually preferred over external funding. However, external funding becomes necessary when all internal assets are utilized (Dewi & Fachrurrozie, 2021).

Capital Structure

The capital structure is determined by comparing total debt with total assets, which indicates the amount of financing through debt, including current and long-term debt, against total assets (Nasar & Krisnando, 2020). In other words, the capital structure is the balance of preferred stock, common stock, long-term debt, and permanent short-term debt.

A good or bad capital structure will directly impact a company's financial situation, so it is vital to pay attention to the capital structure (Aslah, 2020). Although there is no exact formula for the amount of capital invested in each business, capital

structure regulations should generally focus on ensuring the company's survival and building financial stability (Aslah, 2020).

The capital structure of a business indicates how it finances its assets and operational activities. Because it reflects the state of the company's assets, the total liabilities on the balance sheet indicate the financial structure. The financial structure also balances total foreign capital (short-term and long-term) and the capital itself (Nasar & Krisnando, 2020; Riyanto, 2010).

Profitability

Profitability indicates how well a company can generate money from its operations. Reducing capital costs and minimizing risks are all outcomes of good management. Due to the large profit margins, the company will rely more on retained earnings rather than external funding. The less debt a company uses to finance its operations, the greater its profits. Therefore, the company prefers to use retained earnings rather than generated profits (Mukaromah & Suwarti, 2022).

Conversely, profitability is critical because it determines the interest of investors, lenders, and shareholders in a company (Mukaromah & Suwarti, 2022). Widyawati & Iswara (2023) state that profitable companies have financial flexibility, while unprofitable companies have limited internal funds, indicating financial instability, and are shifting.

Liquidity

Liquidity is the ability of a company to meet its obligations. This ability demonstrates that the business can still operate even while having to pay off its debts, which will reduce its working capital. It is calculated based on the amount of current assets it possesses (Dewi & Fachrurrozie, 2021). Instead of borrowing or issuing new shares, companies with ample funds will use their resources. Therefore, companies with high liquidity usually use internal cash to support their operations. Liquidity, however, refers to an organization's ability to pay all debts that have matured or can be redeemed immediately. Specifically, liquidity indicates the company's ability to pay off all its debts (Nasar & Krisnando, 2020).

In addition, the amount of current assets and the company's ability to settle short-term debts was indicated by liquidity. The liquidity ratio indicates the speed at which an organization can convert its assets into cash or how well it can settle its short-term obligations. It determines whether the company can pay all its short-term obligations with its current assets. This ratio is larger when the company is more liquid (Novwedayaningayu & Hirawati, 2020).

Asset Structure

Asset structuring allocates a specific amount of money to each aspect of an asset, including both fixed and current assets. Assets that can be used as loan collateral typically have more outstanding debt (Nasar & Krisnando, 2020). One way to measure asset structure is by comparing the company's total assets with its long-term debt. Another way to assess asset structure is by examining the company's fixed assets percentage. The wealth of a company can also be considered as financial resources or wealth that have been previously acquired and are projected to provide benefits in the future. It includes assets such as property or power of attorney. Asset structure includes

a portion of all assets available to be used as collateral (Panggabean et al., 2019). Assets that can be used as collateral for debt usually have more significant debts. Businesses with valuable assets as collateral for loans typically have more significant debts. Good collateral can be in the form of general-purpose assets beneficial for many companies or specific-purpose assets.

Moreover, the presence of large fixed assets can serve as collateral for debt, enabling the company to secure additional funds. This indicates that the company's financial standing is such that it cannot obtain more money through debt (Aslah, 2020).

Firm Size

The company's size is one of the moderating variables in this study. The size of the company is used to determine how large or small a company is. Small, medium, and giant companies are the three types of companies available. A significant amount of assets indicates that a company has reached the necessary level of maturity to have positive cash flow and is considered to have promising prospects for a considerable period. Furthermore, this shows the company is more profitable and stable than companies with only primary assets (Nasar & Krisnando, 2020).

The size of the company is a key determinant of its value. Each company's size is unique, with larger investments in various business types resulting in a larger company. The larger the company, the easier it is to secure funding for business operations. Large companies, due to their ability to raise more funds and their flexibility, can easily access the capital market (Salam & Sunarto, 2022).

Research Hypothesis

This hypothesis is based on studies that assess the effects of asset structure, liquidity, and profitability on capital structure as a function of firm size:

Hypothesis 1: Profitability and capital structure have a beneficial influence.
Hypothesis 2: Liquidity and capital structure have a beneficial influence.
Hypothesis 3: Asset structure and capital structure have a beneficial influence.
Hypothesis 4: The relationship between capital structure and profitability can be moderated by firm size.
Hypothesis 5: The relationship between capital structure and liquidity can be moderated by firm size.
Hypothesis 6: The relationship between capital structure and asset structure can be moderated by firm size.
Hypothesis 7: The factors of capital structure that affect profitability, liquidity, and asset structure all work synergistically.

RESEARCH METHOD

During 2019–2023, this research utilized a population of 177 manufacturing companies listed on the Indonesia Stock Exchange (BEI). The purpose of the purposive sampling method is to collect a representative sample according to the established criteria. The research sample includes 66 companies. This study examines three criteria:

1. Manufacturing enterprises that were listed on the Indonesia Stock Exchange between 2019 and 2023.
2. Manufacturing companies that have submitted comprehensive and consecutive financial statements from 2019 to 2023.
3. Manufacturing enterprises that report their financial statements in Rupiah from

2019 to 2023.

The quantitative data employed in this study is sourced from the Indonesia Stock Exchange (IDX) website, including www.idx.co.id, as well as other pertinent sources. This study utilizes descriptive statistical analysis, classical assumption tests, multiple linear regression analysis, moderated regression analysis, and hypothesis testing for the examination of quantitative data. This study employs SPSS version 26 to evaluate the hypothesis.

This research employs five variables. The capital structure indicated by the debt-to-equity ratio functions as the dependent variable, determined by dividing total debt by total equity. The company size, serving as a moderating variable, is quantified by the natural logarithm of total assets. Additionally, the independent factors comprise profitability, liquidity, and asset structure. Profitability is assessed by dividing net income by total assets; liquidity is determined using the current ratio, which is current assets divided by current liabilities, and asset structure is computed by dividing fixed assets by total assets. This is the theoretical structure for this research:

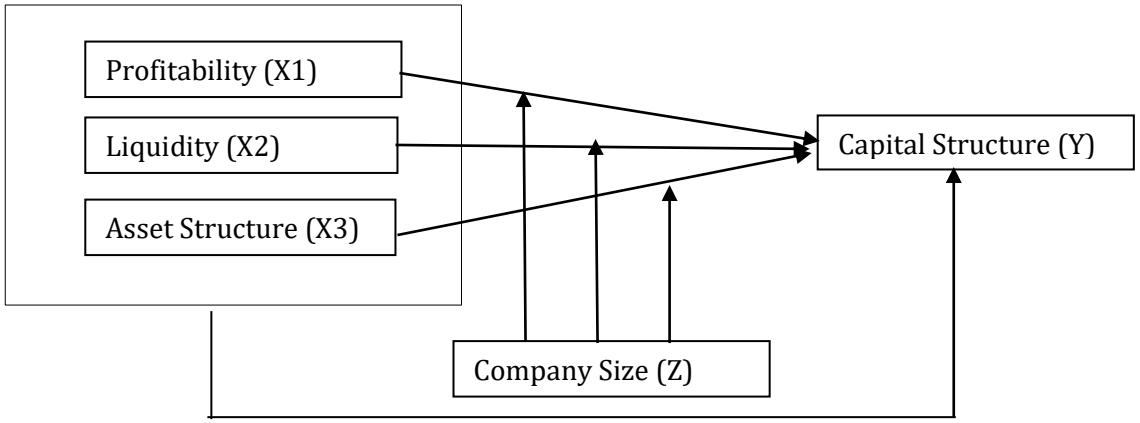

Figure 1. Framework of Thinking

This study employs moderate regression analysis. The data sample is characterized by descriptive statistics to elucidate its presence. This research also employs classical assumption tests, such as those for normality, multicollinearity, autocorrelation, and heteroscedasticity. Model feasibility testing encompasses the coefficient of determination test, the F-test, and the t-test.

RESULT AND DISCUSSION

Descriptive Statistic

The overall sample in this study is 330, as indicated in Table 1. The profitability variable exhibits an average value of 0.08 or 8%, indicating that the average return on

Table 1. Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	330	0.0013	0.4163	0.088075	0.0805712
Liquidity	330	0.0021	1.6285	0.481377	0.2989263
Asset Structure	330	0.0001	3.0164	0.354630	0.2591557
Firm Size	330	25.0488	33.7306	29.049061	1.7741376
Capital Structure	330	0.0302	4.7716	0.685650	0.5442332

assets (ROA) is deemed highly favorable. The average liquidity value is 0.481, or 48.1%, indicating that the liquidity of the studied companies is satisfactory. The asset structure averages 0.35 or 35%, suggesting a relatively low level of debt among the enterprises. The average firm size is 29.05, suggesting that the tested companies range from medium to big scale. The capital structure exhibits an average value of 0.685, indicating that the sampled enterprises effectively manage their capital.

Classic Assumption Test

Table 2. Classic Assumption Test

Explanation	Value	Test Name	Conclusion
Asymp. Sig. (2 tailed)	0.061	Normality Test	The data is normal
Profitability (X1)	1.010	Multicolinearity Test using VIF	No multicolinearity
Liquidity (X2)	1.150	Multicolinearity Test using VIF	No multicolinearity
Asset Structure (X3)	1.160	Multicolinearity Test using VIF	No multicolinearity
Durbin Watson	1.839	Autocorrelation Test	No autocorrelation

The total sample size in this study is 330, as shown in Table 1. The profitability variable has an average value of 0.08 or 8%, signifying that the average return on assets (ROA) is considered highly advantageous. The average liquidity ratio is 0.481, or 48.1%, signifying that the liquidity of the analyzed companies is adequate. The asset structure averages 0.35, or 35%, indicating a comparatively low debt level among the firms. The average firm size is 29.05, indicating that the examined companies vary from medium to large scale. The capital structure demonstrates an average value of 0.685, signifying that the tested firms proficiently handle their capital.

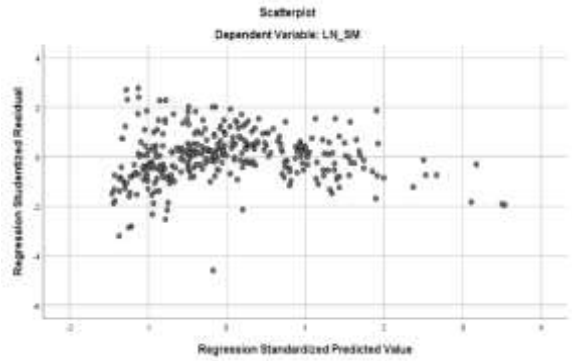

Figure 2. Scatterplot Graph

Goodness of Fit Model

This study's model feasibility assessment comprises the coefficient of determination test, the F-test, and the t-test. Table 3 illustrates the outcomes of the coefficient of determination test and the F test. The t-test is displayed in Tables 4 and 5.

Table 3. Goodness of Fit Test Result

Explanation	Value
Adjusted R^2	0.595
F test	116.059 (sig. 0.000)

Table 3 indicates that the rationale for the coefficient of determination test is the value of the corrected R square coefficient, which is 0.595 or 59.5%. This figure indicates that the factors of profitability, liquidity, asset structure, and the interaction of firm size collectively influence the capital structure variable (Y) by 59.5%. The remaining 40.5% is affected by variables external to this regression equation or those not examined.

The F test value is 116.059, with a significance level of 0.000, as detailed in Table 3. Given that the significance value of 0.000 is below 0.005, the variables of profitability, liquidity, and asset structure together affect the capital structure.

Multiple Regression Analysis

Multiple linear regression analysis is employed to assess the degree of impact of independent variables—Profitability, Liquidity, and Asset Structure—on Capital Structure, with Company Size serving as a moderating variable. This study presents two linear regression equation models. The first equation model analyzes the link between independent and dependent variables, whereas the second equation model investigates this relationship in the context of a moderating variable. The outcomes of the regression analysis for the initial equation model are presented in Table 3 below.

Table 4. First Multiple Regression Result

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.786	0.100		-17.792	0.000
	Profitability	1.518	0.311	1.873	4.882	0.000
	Liquidity	11.810	1.724	4.175	6.850	0.000
	Asset Structure	-8.435	2.721	-2.585	-3.099	0.002

a. Dependent Variable: Capital Structure

Looking at the test results of the first multiple linear regression equation, all independent variables were proven to have an effect on the capital structure. This is reinforced by the significance levels of the three independent variables being below the value of 0.05 (0.000; 0.000 and 0.002). Therefore, the first linear regression equation is as follows.

$$CS = \alpha + \beta 1.ROA + \beta 2.CR + \beta 3.SA + \varepsilon$$
$$CS = -1{,}786 + 1.518.ROA + 11{,}810.CR - 8{,}435.SA + \varepsilon$$

Table 5. Second Multiple Regression Result

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-1.786	0.100		-17.792	0.000
	Profitability (X1)	1.518	0.311	1.873	4.882	0.000
	Liquidity (X2)	11.810	1.724	4.175	6.850	0.000
	Asset Structure (X3)	-8.435	2.721	-2.585	-3.099	0.002
	X1*Firm Size	-0.057	0.011	-2.024	-5.284	0.000
	X2*Firm Size	-0.338	0.059	-3.584	-5.718	0.000
	X3*Firm Size	0.268	0.094	2.406	2.845	0.005

a. Dependent Variable: Capital Structure

Looking at the results from Table 3 related to the second equation of multiple regression with company size as a moderating variable, it can be concluded that company value is able to moderate the variables of profitability, liquidity, and asset structure on capital structure. The profitability value shows -5.284 with a significance of 0.000, and since the direction is negative, it indicates that the presence of company size actually weakens the relationship between profitability and capital structure. The liquidity value shows -5.718 with a significance of 0.000, thus concluding that the presence of company size weakens the relationship between liquidity and capital structure. Lastly, the asset structure value shows 2.485 with a significance of 0.005, proving that company size strengthens the relationship between asset structure and capital structure. According to Table 5, the second linear regression equation is as follows.

$$CS = \alpha + \beta1.ROA + \beta2.CR + \beta3.SA + \beta4.UP*ROA + \beta5.UP*CR + \beta6.UP*SA + \varepsilon$$

$$CS = \alpha + \beta1.ROA + \beta2.CR + \beta3.SA - 0.057.\ SIZE*ROA - 0.338.SIZE*CR + 0.268.SIZE*SA + \varepsilon$$

Explanation:
α : Constanta
CS : Capital Structure
ROA : Profitability
CR : Liquidity
SA : Asset Structure
SIZE : Firm Size
ε : Error Standard

DISCUSSION

The Influence of Profitability on Capital Structure

H1 is acceptable since, according to the results of the profitability variable's statistical analysis, a t-value of 4.882 was obtained with a significance level of 0.000, which is lower than <0.05. The study's findings demonstrate that capital structure is positively and significantly affected by profitability. This bodes well for the company's capital structure in the event of highly profitable situations.

The capacity to tap into internal resources like retained earnings and avoid taking out loans is a direct result of a company's profitability. In contrast, a greater reliance on outside investors is warranted in the event of poor profitability. To sum up,

a company's finance strategy and future risks are initially informed by the relationship between capital structure and profitability. A more profitable firm has more leeway to choose the most effective and long-term sources of capital to fuel its expansion and ensure its continued viability (Mukaromah & Suwarti, 2022; Nasar & Krisnando, 2020).

According to the pecking order theory, a company's finance approach determines the correlation between the theory and profitability. Companies that are already doing well financially often choose to raise capital from inside, rather than seeking outside investors. On the flip side, businesses that aren't making a lot of money usually have to resort to borrowing money to cover their expenses. Companies will often prioritize internal finance before exploring external possibilities, as per the pecking order theory, which can be impacted by the amount of profitability (Widyawati & Iswara, 2023).

The Influence of Liquidity on Capital Structure

The statistical analysis results show that H2 is acceptable because the liquidity variable had a t-value of 6.850 and a significance level of 0.000, which is less than <0.05. According to the study's findings, liquidity significantly and positively affects capital structure. Finally, the company's capital structure will be enhanced by a state of high liquidity.

A company's liquidity is determined by its capacity to pay its bills shortly. To lower their reliance on the often more-costly short-term debt, companies with strong liquidity levels are better equipped to raise capital from internal sources like cash and short-term investments. Companies that are not able to quickly access funds either take on more short-term debt or go for a riskier capital structure, both of which might raise their financial risk. Determining the right funding strategy and the level of financial risk faced by the firm is thus heavily dependent on the link between liquidity and the company's capital structure. If a firm has a lot of cash on hand, it can more easily choose the best capital structure to help it stay in business and grow (Dewi & Fachrurrozie, 2021; Gitman & McDaniel, 2022; Nasar & Krisnando, 2020).

A company's financing decisions are heavily influenced by liquidity, according to the pecking order idea. Before looking into external finance, which could be less liquid, companies usually go for more liquid sources of funding like cash and retained earnings. By doing so, businesses can safeguard their operations and stay away from the dangers of relying on less liquid external funding sources.

The Influence of Asset Structure on Capital Structure

A t-value of 3.099 was found with a significance level of 0.002, which is lower than < 0.05, in the statistical analysis of the asset structure variable. Consequently, H3 is rejected. According to the study's findings, asset structure significantly and negatively affects capital structure. Thus, it is reasonable to assume that a smaller capital structure will be associated with a lower asset structure.

Fixed assets, such factories and equipment, make up a higher portion of a company's asset structure. To finance these investments, long-term debt is typically used more, which increases the capital structure. In contrast, a lighter capital structure is indicative of a company that has more readily available cash and short-term investments rather than a heavy reliance on debt. Thus, the connection between the two reveals how the mix of a company's assets impacts its financing choices in pursuit of a well-balanced capital structure. The works cited include those of (Gitman & McDaniel, 2022; Mukaromah & Suwarti, 2022; Nasar & Krisnando, 2020).

According to the pecking order principle, businesses usually go to external funding sources like banks and investors before turning to internal resources like cash and retained earnings. If the company has enough internal resources, they can minimize the share of debt in their capital structure, which can lead to a more equity-dominated capital structure with relatively low debt. Capital structure and the pecking order theory are interdependent, which shows how debt and equity are allocated in a company's financing based on the decision-making process.

The Influence of Company Size in Moderating the Relationship between Profitability and Capital Structure

Due to the statistical analysis, H4 is acceptable because the t-value of 5.284 for the variable Company Size*Profitability is less than 0.05 and the significance value is 0.000. A company's size can mitigate the effect of profitability on its capital structure, according to the study's findings. This suggests that a better capital structure is possible as a result of a larger corporation as a result of higher profits.

Companies with a larger market capitalization and greater leeway to choose their funding sources are more susceptible to the effect of profitability on their capital structure. Profitability may have less of an effect on the capital structure of smaller businesses because these entities may depend more on internal financing or debt due to a lack of access to capital markets. As a result, the correlation between capital structure and profitability may be weaker for smaller businesses than for bigger ones, and vice versa (Nasar & Krisnando, 2020).

The pecking order idea states that businesses will use their own resources first before turning to debt or other forms of external finance. When considering the pecking order hypothesis in relation to firm size, bigger companies may have greater internal resources and easier access to financial markets. But smaller businesses often have a harder time getting their hands on funds and end up relying more on debt. Thus, the pecking order theory predicts that bigger firms will keep a more conservative capital structure, and that smaller companies may see profitability have a bigger impact on the capital structure (Alber & Youssef, 2020). This suggests that company size can moderate the effect of profitability on funding decisions and capital structure.

The Influence of Company Size in Moderating the Relationship between Liquidity and Capital Structure

According to the statistical analysis, H5 is approved because the variable Company Size*Liquidity has a t-value of 5.718 and a significance value of 0.000, which is less than <0.05. To sum up, a better capital structure is one benefit of expanding a business, which can be achieved through more liquidity.

Companies with a larger market capitalization and greater internal resources may be better able to manage their liquidity and choose the best capital structure for their needs. On the flip side, liquidity can have a more significant impact on the capital structure of smaller companies due to their potentially restricted resources and access to financial markets. According to Nasar & Krisnando (2020), a company's size can modify the relationship between liquidity and capital structure. Generally speaking, larger organizations have a more moderate relationship than smaller ones.

Companies, by the pecking order principle, would rather have sufficient cash to cover investment or operating expenses or employ internal resources before turning to outside funding. Larger organizations are better equipped to retain sufficient liquidity

and adhere to the pecking order concept because they have greater access to internal resources and financial markets. As a result, this connection can be moderated by the size of the company. Conversely, smaller businesses can be more susceptible to changes in liquidity and are more likely to use debt as a source of funding. So, a company's ability to stick to the pecking order concept while making finance decisions is affected by its size, which in turn modifies the relationship between liquidity and capital structure.

The Influence of Company Size in Moderating the Relationship between Asset Structure and Capital Structure

It can be gathered that H6 is accepted because the statistical analysis showed that the variable Company Size*Asset Structure has a t-value of 2.845 and a significance value of 0.005, which is less than <0.05. The findings demonstrate that the effect of asset structure on capital structure can be mitigated by adjusting the size of the company. In other words, a more robust capital structure is one outcome of a larger asset structure, which can be induced by a larger firm.

The capital structure of a larger company can be better matched to the qualities of its assets because of the greater leeway larger organizations have in managing their assets and choosing their funding sources. Since bigger businesses have greater leeway to maneuver with their assets and money, they are better able to tailor their capital structure to the make-up of their holdings, making firm size a moderating factor here. However, smaller businesses may not have as much leeway to match their capital structure with their asset structure due to internal resource constraints and restricted access to financial markets. In turn, the capacity of a larger firm to efficiently manage its assets and financial resources is a key factor that moderates the association between asset structure and capital structure (Nasar & Krisnando, 2020).

On the basis of the pecking order principle, organizations usually look within before going outside for capital. Consequently, the way their assets are structured might impact their financing choices. Because bigger businesses may tap into more internal resources and capital markets, they can keep their preference for internal resources and get a capital structure that matches their asset structure, which helps to control this relationship. On the flip side, smaller businesses may have a harder time adapting their capital structure to their assets since they lack the internal resources and access to the financial markets. This makes them more reliant on outside funding. According to the pecking order principle, financing decisions should be aligned with the firm's asset mix, and company size is a major factor in this alignment (Mukaromah & Suwarti, 2022).

Profitability, Liquidity, and Asset Structure Simultaneously Affect Capital Structure

The significance value is determined to be 0.000 according to the F-Test results. The capital structure is modified by the combination of profitability, liquidity, and asset structure. The reason for this is that H7 is accepted because the calculated F value is more than the table F value (116.059 > 2.250), or because the significance level is 0.000 > 0.05.

Business enterprises can reduce their reliance on debt when they have high profitability and can use retained earnings as financing. This aligns with the pecking order theory, which claims that corporations prefer internal funding sources over external ones. A low need for outside funding is an indication of strong liquidity, which

means the company can quickly turn its assets into cash. Financing choices are impacted by the asset structure, which includes both fixed and current assets. Financing that is long-term in nature is typically necessary for assets with a large fixed asset value. All things considered, these facts lend credence to the pecking order theory since they demonstrate that the firm would rather use its resources and cash on hand than seek outside finance (Dewi & Fachrurrozie, 2021).

CONCLUSION

The capital structure of manufacturing sector companies listed on the Indonesia Stock Exchange from 2019 to 2023 is positively and significantly affected by profitability and liquidity, according to this study. It also suggests that capital structures, specifically debt-to-equity ratios, are better for enterprises with greater profitability and liquidity. To the reverse, capital structure is negatively and significantly affected by asset structure. This means that businesses with a larger share of fixed assets are more likely to have conservative capital structures, meaning they have lower amounts of debt. Theoretically, high-value fixed assets can serve as security for loans, but in practice, businesses often fund these assets with equity in order to keep their financial options open.

The consequence of liquidity, profitability, and asset structure on capital structure is moderated by the company's size. Larger businesses are able to mitigate the correlation between capital structure and liquidity, asset structure and capital structure, and profitability, according to this study. Because of this, larger organizations are better able to reach an ideal capital structure through the management and utilization of their resources. During the study period, manufacturing companies in Indonesia considered profitability, liquidity, and asset structure to be the three most important elements in setting their capital structure policy. Together, these three criteria had a major impact on capital structure.

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