

Determinants Capital Structure of Small and Medium Enterprises in Indonesia



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ABSTRACT: This research aims to analyze the determinants of capital structure. The independent variables in this study are corporate taxes, company size, tangible assets, corporate risk, profitability, non-debt tax protection, and liquidity. While the dependent variable is short-term debt, long-term debt, and total debt. The sample of this study uses 61 Small and Medium Enterprises companies listed on the Pefindo Index for the period of 2019-2021. The sampling technique uses purposive sampling and the analysis method uses panel data regression. The results explained that corporate taxes, tangible assets, and non-debt tax shields do not affect capital structure. Company size does not affect short-term debt and total debt. However, it has a significant negative effect on long-term debt. Company risk and liquidity significantly negatively affect short-term debt and total debt. However, it does not affect long-term debt. Profitability has a significant positive effect on short-term debt and a significant negative effect on long-term debt. The implication of the research that has been done is to provide direction for financial managers regarding the optimal use of capital structure to achieve the company's goal of increasing the welfare of shareholders. As for investors, investors should choose companies that have high company size, low risk, and high liquidity.

KEYWORDS: Company size, corporate tax, Leverage, Liquidity, Profitability

I. INTRODUCTION

Every company must have a goal to maximize the company's value, which can be reflected in the shareholders' welfare. To achieve this goal, a financial manager must make three major decisions: funding, dividend, and investment. Funding decisions come from internal and external sources. Internal funding sources are funds generated from the company, such as profits and depreciation, while external funding sources are sources of funds obtained from outside the company, such as debt. Funding decisions are related to capital structure which is one of the crucial decisions for a company that must be considered carefully with various appropriate considerations because the good or bad capital structure will have a direct impact on the company's financial position. The capital structure consists of debt (short-term debt & long-term debt) and company equity (Njo & Jonnardi, 2022).

The financial manager of a company is responsible for making the right funding decisions by determining the optimal capital structure. The optimal capital structure is obtained when the cost of capital is as minimal as possible, and the dividends are as maximal as possible to achieve shareholder welfare and increase company value. However, conflicts often occur between managers and shareholders because company managers often prioritize personal interests over the interests of shareholders (Kamil & Krisnando, 2021).

The findings of the previous literature say that corporate tax is significantly negatively related to a capital structure, so a low tax rate will increase leverage. Meanwhile, tangibility, risk, profitability, and non-debt tax shields are significantly positively related to leverage. In this study, liquidity has a significant negative relationship with leverage (Ali et al., 2022)

The Pefindo index consists of shares of Small and Medium Enterprises (SMEs). Based on data from the Ministry of Kementrian Koperasi dan Usaha Kecil dan Menengah (Kemenkop UKM) in 2021, the number of MSMEs in Indonesia reached 64.2 million with a contribution to the Gross Domestic Product (GDP) of 61.07% or Rp. 8,573.89 trillion. The Covid-19 pandemic in Indonesia resulted in most MSMEs experiencing difficulties in the capital. During the pandemic, many MSMEs experienced losses making it difficult to continue their business. The capital difficulties experienced by MSMEs in Indonesia need to be linked to the company's capital structure decisions because the sustainability of a company will require both internal and external sources of funds where sources of debt funds can be used as an alternative company by taking into account the balance between debt and company equity.

The limitation of the problem in this study where is meant by Small and Medium Enterprises in this study are companies listed on the Pefindo Index for the 2019-2021 period. The purpose of this research is to see the influence of the determinants of capital structure. One of them is the effect of corporate tax on leverage.

II. LITERATURE REVIEW

A. Capital Structure

Capital structure can be said as a comparison between own capital and foreign capital (Njo & Jonnardi, 2022), where own capital is retained earnings and company ownership, while foreign capital is in the form of debt, both long-term debt and short-term debt. Capital structure decisions are crucial for a company because an optimal capital structure can prevent risks that might occur, for example, the risk of bankruptcy. The optimal capital structure is a capital structure that includes a balance between internal and external funding sources.

B. Effective Tax Rate

Tax is one of the company's obligations that must be paid by the net profit earned. The taxes paid by companies will benefit the state because state revenues increase. However, the amount of tax for the company as a taxpayer will reduce the net profit earned by the company. Therefore the company seeks to streamline its tax burden to prosper shareholders (Siregar, 2016). Corporate taxes directly impact a capital structure where companies prefer equity over debt if the corporate tax rate is high. Research conducted by Ali et al. (2022) using UK and US multinational companies during 2011-2019 showed that corporate taxes did not affect leverage. This means that the size of the company's tax burden will not affect the source of funding for the company. The same result was also found in the study by Widayanti et al. (2016), who said corporate taxes do not affect capital structure.

C. Firm Size

Ali et al. (2022) stated that company size does not affect leverage. This means that SMEs do not depend on funding sources from debt even though they have considerable assets. However, according to Yuliana & Yuyetta (2017), large companies have more internal funding sources than small companies, so firm size significantly negatively affects leverage. In contrast, Lim (2012) said that large companies prefer to use external sources of funds from debt, so firm size has a significant positive effect on leverage. This is because large companies are more stable and able to generate higher profits than small ones.

D. Asset Tangibility

Ali et al. (2022) concluded that asset tangibility hurts short-term debt. This means that the greater the value of tangible assets, the smaller the leverage value. According to Onofrei et al. (2015), tangible assets can be used as collateral for bank loans. SMEs have fewer assets to be used as bank guarantees, so asset tangibility hurts leverage. Unlike the case of Mirnawati et al. (2020), who said that tangibility increases or decreases do not affect the capital structure because company profits fund company assets.

E. Risk

According to Ali et al. (2022) multinational companies can reduce business risk through international portfolio diversification and are willing to take more significant risks in the hope of getting a higher rate of return, so that risk has a significant positive effect on leverage. This is different from the research by Juliantika & Dewi (2016), which shows that business risk significantly negatively affects leverage. Therefore, according to the pecking order theory, companies with a high-risk level will use less debt.

F. Profitability

Ali et al. (2022) show that profitability positively affects long-term and total debt. SMEs with high profitability tend to use debt because it can overcome agency problems. Unlike the case of Onofrei et al. (2015), companies with high profitability levels tend to prefer funding from internal funding sources, namely retained earnings, rather than using debt and equity so that profitability hurts leverage. In accordance with the pecking order theory, companies are more likely to use internal funds to carry out company activities. Companies with a high rate of return on investment will use a small amount of debt (Pohan et al., 2020).

G. Non-Debt Tax Shields

Ali et al. (2022) showed a significant positive effect between non-debt tax shields on long-term and total debt. Where SMEs in Indonesia invest more in fixed assets resulting in high levels of depreciation and amortization, the high depreciation and amortization will cause SMEs to fund their operational activities through debt. In contrast, Nizam et al. (2020) research shows a significant negative effect on the debt ratio. Companies tend to prefer short-term debt when they have high non-debt tax shields, so non-debt tax shields hurt leverage (Lim, 2012). The high level of non-debt tax shields means that companies will use low debt because the cash flow that becomes the company's capital will be used to carry out the company's operational activities (Kamil & Krisnando, 2021).

H. Liquidity

According to Ali et al. (2022) and Yuliana & Yuyetta (2017) liquidity significantly negatively affects leverage. Companies with high liquidity mean having significant current assets. Reflecting that companies with high liquidity can fund their operational activities from internal sources of funds so that they do not need external sources. Following the pecking order theory, which says that a company has a high level of liquidity, the debt tends to be lower.

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CONCEPTUAL FRAMEWORK

Previous research by Ali et al. (2022) saw no effect of corporate tax on leverage. Firm size from the results of Lim (2012) research shows a significant positive effect on leverage. Asset tangibility from the results of Onofrei et al. (2015) showed a negative effect on leverage. The risk from the research results of Juliantika & Dewi (2016) shows a significant adverse effect on leverage. Profitability from the results of Onofrei et al. (2015) showed a negative effect on leverage. Non-debt tax shields from the research results by Nizam et al. (2020) show a significant negative effect on the debt ratio. Yuliana & Yuyetta (2017) explained that liquidity significantly negatively affects leverage. Therefore, based on the explanation above, the conceptual framework in this study is described as follows:

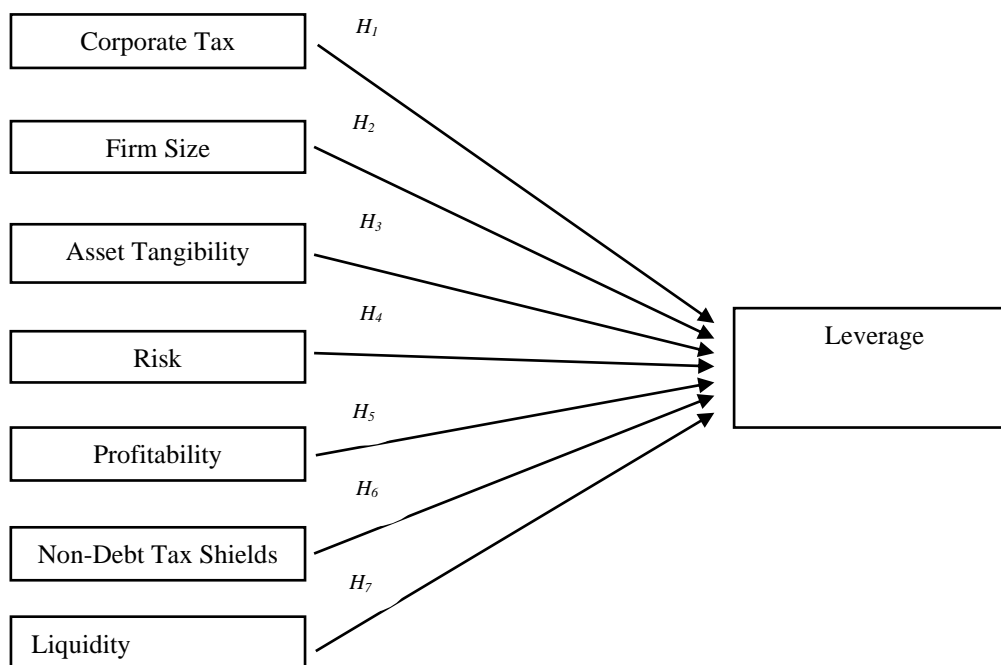


Figure 1. Conceptual Framework

HYPOTHESIS DEVELOPMENT

Corporate tax from the results of research by Ali et al. (2022) showed a significant negative effect on short-term and total debt. Meanwhile, Primantara & Dewi (2016) and Sudarmika & Sudirman (2015) showshow that taxes significantly positively affect capital structure. Based on this, the first hypothesis is formulated as follows:

H₁: There is an influence between corporate taxes on leverage.

The larger the size of the company, the more outstanding the debt used by the company; conversely, the smaller the company's size, the smaller the debt used. According to research by penelitian Mirnawati et al. (2022), Lim (2012) and Pramitasari (2021) said that company size has a positive effect on leverage. However, it is different from the research of Onofrei et al. (2015) and Milansari et al. (2020), which says that company size has a negative effect on leverage. Based on this, the second hypothesis is formulated as follows:

H₂: There is an effect of firm size on leverage.

The research results of Fernandes & Sumiati (2019) and Onofrei et al. (2015) showed a significant negative effect on leverage. Meanwhile, Khairani et al. (2020) research shows that asset tangibility significantly affects leverage. Based on this, the third hypothesis is formulated as follows:

H₃: There is an influence between asset tangibility on leverage.

The results of research by Astuti (2018) and Wiagustini & Pertamawati (2015) show that there is a positive influence on capital structure. Meanwhile, research by Primantara & Dewi (2016) and Oktavina & Manalu (2018) shows that company risk significantly negatively affects capital structure. Based on this, the fourth hypothesis is formulated as follows :

H₄: There is an influence between risk on leverage.

Profitability from the research results of Fuadiantoni et al. (2019) and Pohan et al. (2020) show a significant influence on a capital structure, so companies with high returns on investment will use a small amount of debt. Meanwhile, Putri & Basuki (2020) shows that profitability significantly negatively affects leverage. Based on this, the fifth hypothesis is formulated as follows :

H₅: There is an influence between profitability on leverage.

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The research results of Nizam et al. (2020) show a significant negative effect on the debt ratio. Meanwhile, the research by Hossain & Ali (2012) and Kamil & Krisnando (2021), non-debt tax shields have a significant positive effect on leverage. Based on this, the sixth hypothesis is formulated as follows:

H₆: There is an influence between non-debt tax shields on leverage.

Liquidity from the research results of Fuadiantoni et al. (2019) and Mirnawati et al. (2022) show that there is a significant influence on capital structure, which means that companies with high liquidity ratios will support higher debt ratios because the company's ability to fulfill its obligations is more extraordinary. Unlike the research by Fernandes & Sumiati (2019) and Yuliana & Yuyetta (2017), which shows a significant negative effect on leverage. Based on this, the seventh hypothesis is formulated as follows:

H₇: There is an influence between liquidity on leverage.

III. METHODS

A. Variable and Variable Measurement

The variables and measurements used in this study intend to determine the relationship between the independent variables and the dependent variable, each of which is measured as follows:

Table 1. Identification and Measurement of Variables

	Variable	Measurement	Reference
Dependent Variable	Short term Debt	Short term debt divided by total assets	Ali et al. (2022)
	Long term Debt	Long term debt divided by total assets	Ali et al. (2022)
	Total Debt	Total debt divided by total assets	Ali et al. (2022)
Independent Variable	Effective Tax Rate	Total income tax expense divided by profit before income tax	Putri & Lautania (2016)
	Firm Size	Ln total assets	Ali et al. (2022)
	Asset Tangibility	Fixed assets divided by total assets	Ali et al. (2022)
	Risk	Earnings before interest and taxes divided by sales	Susilo et al. (2018)
	Profitability	Earnings before interest and taxes divided by total assets	Ali et al. (2022)
	Non-debt Tax Shields	Total annual depreciation expense divided by total assets	Deitiana & Anggraini (2014)
	Liquidity	Current assets divided by current liabilities	Ali et al. (2022)

B. Sampling Method

The sampling method used for this research is purposive sampling. The data collection method used is the secondary data collection method, obtained from sources that have published the data. The data sources for this study were obtained from the Pefindo Index website (<https://pefindo.com>), the Indonesia Stock Exchange (<https://www.idx.co.id>) and each company's website was sampled. Observational data was taken from 61 companies listed on the Pefindo Index with the 2019-2021 observation period, so the total number of observations was 183.

There are stages in testing the regression model in this study which is described as follows:

a. Chow Test

The results of the chow test have two options that must be determined, namely, the common effect or the fixed effect. In this study, the chow test is helpful to determine which model is better and more appropriate. The chow test is based on the null hypothesis, where there is no individual heterogeneity, and the alternative hypothesis, where heterogeneity exists in the cross-section.

b. Hausman Test

The results of the Hausman test have two options that must be determined, namely, the random effect or the fixed effect. In this study, the Hausman test is helpful in determining which model is better and more appropriate.

Based on table 3, the chow test and Hausman test, the results show that the profitability value of the Chi-square cross section in the three models is $0.0000 < 0.05$, so the decision obtained is that H₀ is rejected, so the model used is the fixed effect. If the selected model is a fixed effect model, further testing is required using the Hausman test to test whether to use a fixed effect or random effect model. The results of model 1 and model 3 show that the random cross-section probability values are $0.0001 < 0.05$

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and $0.0499 < 0.05$, so the decision that can be taken is that H_0 is rejected, so the model used is the fixed effect model. While model 2 has a probability of $0.1864 > 0.05$, the decision that can be taken is that H_0 fails to be rejected, so the model used is the random effect model.

Table 3. Chow Test and Hausman Test Results

	Test Summary	Statistic	Prob	Decision
Model 1 STD	Cross-section Chi-square	470.421881	0.0000	Fixed Effect
	Cross-section random	31.101381	0.0001	Fixed Effect
Model 2 LTD	Cross-section Chi-square	377.419120	0.0000	Fixed Effect
	Cross-section random	10.038512	0.1864	Random Effect
Model 3 TD	Cross-section Chi-square	435.261841	0.0000	Fixed Effect
	Cross-section random	14.073402	0.0499	Fixed Effect

Source: Output Panel Data Regression E-views

c. Goodness of Fit (R^2)

This test aims to see how much influence the independent variables have in explaining the dependent variable. This analysis test uses the adjusted R^2 value because the number of independent variables is more than one. If the adjusted R^2 value shows a value close to 1, the independent variable can explain the dependent variable.

Based on the goodness of fit test results, the adjusted r-square value for the short-term debt variable is 0.914020. This means that the independent variables, namely corporate taxes, firm size, asset tangibility, risk, profitability, non-debt tax shields, and liquidity, can explain variations in the capital structure of 91.4020% and the remaining 8.5980% explain that capital structure can be influenced by other factors that are not found in this model. The adjusted r-square value for the long-term debt variable is 0.852670. This means that the independent variables, namely corporate taxes, firm size, asset tangibility, risk, profitability, non-debt tax shields, and liquidity, can explain variations in the capital structure of 85.2670% and the remaining 14.7330% explain that capital structure can be influenced by other factors that are not found in this model. Meanwhile, the adjusted r-square value for the total debt variable is 0.897747. This means that the independent variables, namely corporate taxes, firm size, asset tangibility, risk, profitability, non-debt tax shields, and liquidity, can explain variations in the capital structure of 89.7747% and the remaining 10.2253% explain that capital structure can be influenced by other factors that are not found in this model.

Table 4. Goodness of Fit Test

	Test Summary	Coefficient
Model 1 (STD)	Adjusted R-squared	0.914020
Model 2 (LTD)	Adjusted R-squared	0.852670
Model 3 (TD)	Adjusted R-squared	0.897747

Source: Output Panel Data Regression E-views

d. F-test

This test was conducted to test whether the independent variables simultaneously significantly influence the dependent variable. Based on the simultaneous test results, the probability of the F-statistic yields a value of $0.000000 < 0.05$. Thus the results of the analysis in this study show that there is at least one independent variable, namely corporate taxes, firm size, asset tangibility, risk, profitability, non-debt tax shields, and liquidity which influence leverage so that the regression model is feasible to use in this study.

IV. RESULTS

A. Descriptive Statistic

This study discusses the determinants of capital structure with the majority of the sample, namely Small and Medium Enterprises in Indonesia, which are listed on the Pefindo index. The most significant number of small and medium businesses is in the cyclical consumer sector, totaling 14 companies with a percentage of 22.95%. The second largest number of small and medium businesses is in the consumer non-cyclical sector, totaling ten companies with a percentage of 16.39%. Moreover, the third largest number of small and medium businesses, namely the basic materials sector, totaling seven companies with a percentage of 11.48%.

Table 5. Small and Medium Enterprises

Industry Classification	Number of Companies	Percentage
Consumer Cyclical	14	22.95%
Consumer Non-Cyclical	10	16.39%
Basic Materials	7	11.48%

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Industry Classification	Number of Companies	Percentage
Energy	6	9.84%
Healthcare	5	8.20%
Industrials	5	8.20%
Infrastructures	5	8.20%
Properties & Real Estate	4	6.56%
Financials	2	3.28%
Technology	2	3.28%
Transportation & Logistic	1	1.64%
Jumlah	61	100%

Short-term debt (STD) has an average value of 0.248335, a median of 0.215302, and a standard deviation of 0.148663. The maximum value of STD is 0.652654, which PT Unilever Indonesia Tbk owns, and the minimum value is 0.018020, which PT Pool Advista Indonesia Tbk owns. Long-term debt (LTD) has an average value of 0.164541, a median of 0.120728, and a standard deviation of 0.143817. The maximum value of LTD is 0.563816, which PT Surya Esa Perkasa Tbk owns, and the minimum value is 0.000435, which PT Agung Semesta Sejahtera Tbk owns.

Total debt (TD) has an average value of 0.412876, a median of 0.404195, and a standard deviation of 0.196498. The maximum value of TD is 0.908037, which PT Matahari Department Store Tbk owns, and the minimum value is 0.020773, which PT Agung Semesta Sejahtera Tbk owns. The effective tax rate (ETR) has an average value of 0.166628, a median of 0.210538, and a standard deviation of 0.296969. The maximum value of the ETR is 2.940805, which PT Malindo Feedmill Tbk owns, and the minimum value is -1.051156, which PT Surya Esa Perkasa Tbk owns.

Size has an average value of 23.13931, a median of 23.27083, and a standard deviation of 5.788873. The maximum value of SIZE is 30.87621, which PT Kalbe Farma Tbk owns, and the minimum value is 13.96275, which PT Indo Tambangraya Megah Tbk owns. Tangibility has an average value of 0.327817, a median of 0.283086, and a standard deviation of 0.235614. The maximum value of tangibility is 0.922731, which PT Sarana Meditama Metropolitan Tbk owns, and the minimum value is 0.0001099, owned by PT Agung Semesta Sejahtera Tbk.

Risk has an average value of 0.153083, a median of 0.133488, and a standard deviation of 0.398230. The maximum risk value is 2.789359, which PT Pool Advista Indonesia Tbk owns, and the minimum value is -2.621164, owned by PT Pool Advista Indonesia Tbk. Profitability has an average value of 0.088804, a median of 0.084154, and a standard deviation of 0.131091. The maximum profitability value is 0.490131, which PT Unilever Indonesia Tbk owns, and the minimum value is -0.668564, which PT Pool Advista Indonesia Tbk owns.

Non-Debt Tax Shields (NTDS) have an average value of 0.220231, a median of 0.188994, and a standard deviation of 0.177832. The maximum value of NTDS is 0.671317, which PT Gajah Tunggal Tbk owns, and the minimum value is 0.002230, which PT Agung Semesta Sejahtera Tbk owns. Liquidity has an average value of 2.844604, a median of 1.766888, and a standard deviation of 3.444203. The maximum value of liquidity is 39.66226, which PT Pool Advista Indonesia Tbk owns, and the minimum value is 0.257147, which PT Agung Semesta Sejahtera Tbk owns.

Table 6. Descriptive Statistic

Variable	Mean	Median	Maximum	Minimum	Std. Dev
STD	0.248335	0.215302	0.652654	0.018020	0.148663
LTD	0.164541	0.120728	0.563816	0.000435	0.143817
TD	0.412876	0.404195	0.908037	0.020773	0.196498
ETR	0.166628	0.210538	2.940805	-1.051156	0.296969
SIZE	23.13931	23.27083	30.87621	13.96275	5.788873
TANGIBILITY	0.327817	0.283086	0.922731	0.0001099	0.235614
RISK	0.153083	0.133488	2.789359	-2.621164	0.398230
PROFITABILITY	0.088804	0.084154	0.490131	-0.668564	0.131091
NTDS	0.220231	0.188994	0.671317	0.002230	0.177832
LIQUIDITY	2.844604	1.766888	39.66226	0.257147	3.444203

Source: Output Panel Data Regression E-views

B. T-test

H₁: There is an influence between corporate taxes on leverage.

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Effective tax rate (ETR) on a short-term debt has a probability value of $0.6855 > 0.05$, Effective tax rate (ETR) on a long-term debt has a probability value of $0.4585 > 0.05$, Effective tax rate (ETR) on a total debt has a probability value of $0.2906 > 0.05$ which indicates no effect. The results of this study conclude that there is no significant effect between the Effective tax rate on leverage. This study's results align with the research of Ali et al. (2022) and Widayanti et al. (2016), which state that corporate taxes do not affect capital structure. Where companies with high or low tax rates will not affect the capital structure, the company will not use debt that is too large in its operational activities to save taxes, and the use of loans will cause the company's image to decline.

H₂: There is an influence of firm size on leverage.

Firm size to short-term debt has a probability value of $0.9608 > 0.05$, and Firm size to total debt has a probability value of $0.2649 > 0.05$, which shows no effect. Meanwhile, Firm size on a long-term debt has a probability value of $0.0154 < 0.05$, which shows a significant effect. The magnitude of the coefficient is -0.089502 . The results of this study conclude that there is a significant negative effect between firm size and long-term debt. This study's results align with the research of Cahyo (2014) and Yuliana & Yuyetta (2017), who found that firm size has a significant negative effect on capital structure. It can be said that the larger the size of the company, the smaller the use of debt. Every company will use a secure funding source, namely internal funding sources such as retained earnings. However, SMEs tend to generate small profits, using external funding sources such as debt to carry out their operational activities.

H₃: There is an influence between asset tangibility on leverage.

Asset tangibility to short-term debt has a probability value of $0.0704 > 0.05$, asset tangibility to long-term debt has a probability value of $0.9526 > 0.05$, and asset tangibility to total debt has a probability value of $0.1153 > 0.05$, which indicates an insignificant effect. The results of this study conclude that there is no significant effect between asset tangibility on leverage. This study's results align with Mirnawati et al. (2022) research, which shows that tangibility has no effect on capital structure. The company's assets are funded by the company's profits so that if the tangibility decreases or increases, the capital structure will not be affected. SMEs generally have limited asset tangibility, so there are not too many tangible assets that can become company collateral. Therefore, the size of asset tangibility does not affect the use of both long-term and short-term debt, following the pecking order theory, which states that companies will use sources of funds originating from the company first, for example, funding from retained earnings.

H₄: There is an influence between risk and leverage.

The risk of long-term debt has a probability value of $0.3791 > 0.05$, which indicates an insignificant effect. The results of this study conclude that there is no significant effect between risk and long-term debt. The risk of short-term debt has a probability value of $0.0000 < 0.05$, and the risk of total debt has a probability value of $0.0004 < 0.05$ which indicates a significant effect. The coefficient of short-term debt is -0.086144 , and the total debt is -0.092108 . The results of this study conclude that there is a significant negative effect between risk on short-term debt and total debt. The results of this study are in line with the research of Oktavina & Manalu (2018), which shows that business risk has a significant negative effect on capital structure. It can be said that the higher the business risk, the lower the capital structure, where SMEs with high business risk tend to avoid funding obtained from debt because profits tend to be uncertain, and this uncertainty will determine how capable the company is to repay its debts (Primantara & Dewi, 2016).

H₅: There is an influence between profitability on leverage.

Profitability to total debt has a probability value of $0.0863 > 0.05$, which indicates an insignificant effect. The results of this study concluded that there is no significant effect between profitability on total debt. Profitability on a short-term debt has a probability value of $0.0150 < 0.05$, and profitability on a long-term debt has a probability value of $0.0056 < 0.05$ which shows a significant effect. The coefficient of short-term debt is 0.129006 , and long-term debt is -0.218385 . The results of this study conclude that profitability has a significant positive effect on short-term debt. The results of this study are in line with Cahyo (2014), which states that profitability has a significant positive effect on capital structure, which means that the greater the profitability of SMEs, the greater the debt. Therefore SMEs tend to use funding sources derived from debt. Profitability also has a significant negative effect on long-term debt. This research is in line with Kamil & Krisnando (2021) which states that profitability has a negative effect on capital structure, which means that if profitability increases, the capital structure will decrease. Where SMEs will use internal funds such as retained earnings before external funds, this is following the pecking order theory.

H₆: There is an influence between non-debt tax shields on leverage.

Non-debt tax shields on short-term debt have a probability value of $0.8449 > 0.05$, non-debt tax shields on long-term debt have a probability value of $0.0783 > 0.05$, non-debt tax shields on total debt have a probability value of $0.4195 > 0.05$ which shows no

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significant effect. The results of this study conclude that there is no significant effect between non-debt tax shields on leverage. The results of this study are in line with the research of Fukuludin et al. (2021), which states that non-debt tax shields do not affect capital structure. It can be said that if the non-debt tax shields experience an increase or decrease, the capital structure will not be affected. Non-debt tax shields show the amount of tax reduction due to uses other than debt, namely depreciation and amortization. Where SMEs have fixed assets that tend to be small, so the non-debt tax shield they have is also small and is not counted as a tax deduction (Kamil & Krisnando, 2021).

H₇: There is an influence between liquidity and leverage.

Liquidity to long-term debt has a probability value of $0.6404 > 0.05$. This study concluded that there was no significant influence between liquidity and long-term debt. Liquidity to short-term debt has a probability value of $0.0000 < 0.05$, and liquidity to total debt has a probability value of $0.0001 < 0.05$, which shows a significant effect. The magnitude of the STD coefficient is -0.019036 , and the TD is -0.017304 . The results of this study conclude that there is a significant negative effect between liquidity on short-term debt and total debt. This study's results align with the research of Yuliana & Yuyetta (2017), which states that liquidity has a significant negative effect on leverage. It can be said that the higher the level of liquidity, the lower the level of capital structure. Liquidity reflects the company's ability to fulfill its obligations, a company that can fulfill its obligations at maturity can be said that the company is liquid. The company's high liquidity reflects the company's ability to fund operational activities using internal funds so that the use of external funds such as debt is no longer necessary. SMEs with a high level of liquidity have high internal funds, which encourages SMEs to prioritize the use of internal funds as a source of corporate funding.

Table 7. T-test

Independent Variable	Dependent Variable						Decision
	Short Term Debt		Long Term Debt		Total Debt		
	Koefisien	Probabilitas	Koefisien	Probabilitas	Koefisien	Probabilitas	
Konstanta	0.336386	-	2.315100	-	-0.653790	-	-
Effective Tax Rate	-0.006114	0.6855	-0.014624	0.4585	-0.023759	0.2906	Not Significant
Firm Size	0.000140	0.9608	-0.089502	0.0154	0.046421	0.2649	Negative Significant to long term debt
Tangibility	-0.114895	0.0704	0.010149	0.9526	0.307955	0.1153	Not Significant
Risk	-0.086144	0.0000	-0.019396	0.3791	-0.092108	0.0004	Negative Significant to short term debt and total debt
Profitability	0.129006	0.0150	-0.218385	0.0056	-0.152479	0.0863	Positive Significant to short term debt and Negative Significant to long term debt
Non-debt Tax Shields	0.014854	0.8449	-0.241609	0.0783	-0.125410	0.4195	Not Significant
Liquidity	-0.019036	0.0000	-0.001710	0.6404	-0.017304	0.0001	Negative Significant to short term debt and total debt

Source: Output Panel Data Regression E-views

CONCLUSIONS

Based on the results of the tests performed, the following conclusions were obtained:

1. The firm size variable significantly negatively affects long-term debt. However, it does not affect short-term debt and total debt.
2. The risk variable has a significant negative effect on short-term debt and total debt. However, it does not affect long-term debt.
3. The variable profitability has a significant positive effect on short-term debt and a significant negative effect on long-term debt. However, it does not affect the total debt.
4. The liquidity variable significantly negatively affects short-term debt and total debt. However, it does not affect long-term debt.

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5. Effective tax rates, asset tangibility, and non-debt tax shields do not affect leverage.

IMPLICATIONS

Based on the results of the research that has been done, there are benefits to be gained as implications for financial managers and investors, which are taken into consideration in making decisions. Some of the implications obtained are as follows:

a. For Finance Managers

This research is expected to provide information for financial managers regarding capital structure decisions which can be seen from firm size, risk, profitability, and liquidity on leverage. So by paying attention to these variables, financial managers can decide on capital structure policies by looking at the balance between debt and equity to optimize the capital structure. With an optimal capital structure, shareholder welfare will also be achieved, which can be reflected in an issuer's share price. Financial managers should increase total assets so that profitability can increase along with additional expansions made by the company to increase the operating profit that the company will later use as a source of funds to carry out its operational activities. SMEs must also increase their total assets to increase their liquidity.

b. For Investors

This research is expected to provide information for investors regarding a company's capital structure to assess the company as a consideration for investing their funds to obtain future profits. Therefore, investors can choose companies with high firm size, low risk, and high liquidity because this affects the company's capital structure.

FURTHER RESEARCH

Based on the results of the research that has been done, several limitations can be taken into consideration for related parties, including company managers need to consider factors that can affect the company's capital structure such as firm size, risk, profitability, and liquidity because this can create an optimum capital structure for the company. For future researchers, if they are going to carry out the same research, it is advisable to research other sectors for a more extended period. It is expected to add other variables so that they can show other factors that can affect capital structure. Variables that can be added include the dividend policy of Mirnawati et al. (2020) and the volatility of Wijaya et al. (2021).

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