

## FACTORS INFLUENCING CAPITAL STRUCTURE IN THE FIRST YEAR OF THE COVID-19 PANDEMIC

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### ABSTRACT

Previous studies on the factors influencing the capital structure of manufacturing companies listed on the Indonesia Stock Exchange have found significant correlations. However, the onset of the Covid-19 pandemic has introduced substantial shifts in the economy, including disruptions to global supply chains and reduced foreign investment in Indonesia. Factors affecting a manufacturing company's capital structure during the pandemic may differ significantly from pre-pandemic conditions. Initially, this study encompassed 193 manufacturing companies, with 23 companies later excluded due to data outliers. The independent variables examined include profitability, liquidity, asset structure, and company size, with capital structure serving as the dependent variable. The data will undergo analysis using multiple regression analysis at a significance level of 5%. Results indicate that profitability exhibits a significant negative effect on capital structure. While firm size and liquidity have a negative impact on capital structure individually, these effects are not statistically significant. Asset structure demonstrates a positive effect on capital structure, though it is not significant. When considered together, profitability, liquidity, asset structure, and company size collectively exert a significant influence on capital structure

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## 1. INTRODUCTION

Undoubtedly, the Covid-19 pandemic has inflicted a severe toll on the Indonesian economy, profoundly impacting people's welfare. The widespread disruption caused by the pandemic was widely anticipated, given the scale of its impact. In response to the threat of transmission and heightened uncertainty surrounding the outbreak, stringent social restrictions and lockdown measures became imperative from the outset. Metropolitan areas like Jakarta, typically bustling with activity, suddenly fell silent as people transitioned to remote work, online learning, and virtual religious practices. Once-thriving tourism sectors dwindled, leaving businesses in turmoil. Online transportation services faced dwindling customer demand, while shops, markets, and malls either shuttered or operated on reduced schedules. [1]

The rapid spread of the Covid-19 virus has fundamentally altered societal norms and interpersonal dynamics. Public health guidelines advocating for mask-wearing, social distancing, and avoidance of large gatherings have directly impeded economic activities. Production, distribution, and marketing processes worldwide have been disrupted, unraveling the intricate web of the global supply chain. The pandemic's ramifications extend beyond localized production disruptions; it has upended the global supply chain, leading to factory closures and logistical bottlenecks caused by lockdowns and regional restrictions, including those in Indonesia. Essentially, the pandemic has decelerated entire cycles within the global supply chains. Consequently, the Indonesian economy has experienced a significant impact, ranging from shifts in global supply chains to a reduction in foreign investment. [2].

During the COVID-19 pandemic in 2020-2021, global capital markets encountered significant instability. Initially, at the onset of the pandemic, many markets witnessed steep declines and heightened volatility as investors grappled with concerns regarding the pandemic's long-term economic repercussions. Stock markets across several nations experienced notable downturns. However, as time progressed, numerous capital markets commenced a recovery trajectory, surpassing pre-pandemic levels in some cases.

Public statistical data released by the Indonesian Central Securities Depository (KSEI) in January 2021 revealed a significant surge in the number of capital market investors. From the end of 2018 to the end of 2019, the number of investors increased from 1,619,372 to 2,484,354, marking a 53.41% rise. However, this growth rate was surpassed from the end of 2019 to 2020, with the number of investors reaching 3,880,753 by the end of 2020, despite the ongoing pandemic. This trend suggests that amidst the challenges posed by the pandemic and the implementation of Large-Scale Social Restrictions (LSSR) by the Indonesian government, investing in the capital market has become increasingly popular among the public compared to traditional businesses, which have been adversely affected.

During the COVID-19 pandemic in 2020-2021, manufacturing companies underwent significant changes in production, sales, and operational management. Some of the key impacts experienced by manufacturing companies during this period include: (1) disruption in the supply of raw materials: Production and transportation activities were halted in many countries and regions, leading to disruptions in the supply of raw materials. This hindered the smooth production and sales of manufacturing companies, (2) decrease in demand: The pandemic resulted in a decrease in demand for manufacturing companies' products, particularly in the consumption sector. This decline in demand directly affected companies' revenue and profitability., (3) operational adjustments: Manufacturing companies were required to adjust their operations to comply with health and safety protocols mandated during the pandemic. This involved adapting production capacity, ensuring employee safety, and implementing stricter cleaning procedures, (4) changes in product demand: Some manufacturing companies experienced shifts in product demand during the pandemic. For instance, there was a surge in demand for health and sanitary products, while demand for entertainment and fashion items declined and (4) increased demand for online products: With many consumers shifting to online shopping during the pandemic, manufacturing companies had to adapt their sales strategies to cater to the growing demand in the online market.

In response to the challenges posed by the COVID-19 pandemic, manufacturing companies can implement various strategies to mitigate the impact. Some of these actions include adjusting operations, maintaining relationships with suppliers and customers, increasing production efficiency, leveraging digital technology and adjusting capital structure

According to Brigham and Houston (2011: 155), the optimal capital structure is one that strikes a balance between returns and risks, ultimately maximizing the company's stock price. Increased debt usage elevates the company's risk profile, but it also enhances expected returns. Consequently, a higher debt load tends to depress the company's stock price due to heightened risks. Conversely, if the company's anticipated returns outweigh the risks associated with debt, its stock price is likely to rise.[3].

Previous studies on the capital structure of manufacturing companies listed on the Indonesia Stock Exchange have identified several significant factors influencing capital structure decisions. These factors include profitability, company size, liquidity, asset structure, times earned interest, asset growth, company growth, non-debt tax shields, sales growth, business risk, operating leverage, growth opportunity, institutional ownership, growth rate, and tangibility. However, it is crucial to recognize that the onset of the Covid-19 pandemic may have altered the relevance and impact of these factors on capital structure decisions. The pandemic likely introduced new challenges and uncertainties that could have reshaped companies' financial strategies and priorities. Therefore, understanding how manufacturing companies adapt their capital structure decisions amidst the pandemic requires careful examination and analysis, considering the evolving economic landscape and business environment

The aim of this research is to gather empirical evidence regarding the impact of profitability, liquidity, asset structure, and company size on the capital structure of manufacturing companies listed on the Indonesia Stock Exchange during the first year of the Covid-19 pandemic, both individually and collectively. Given the significant changes experienced by manufacturing companies during the pandemic, factors influencing their capital structure decisions may differ from pre-pandemic circumstances. This study seeks to explore how these key financial indicators affect capital structure decisions amidst the unique challenges posed by the pandemic. By analyzing the relationships between profitability, liquidity, asset structure, and company size with capital structure, the research aims to provide valuable insights into the financial strategies adopted by manufacturing companies during the initial phase of the Covid-19 pandemic. The findings from this study can inform decision-makers and stakeholders about the factors influencing capital structure decisions in times of crisis, aiding in the formulation of effective financial management strategies.

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## 2. LITERATURE REVIEW

### Pecking order theory

Companies typically prioritize internal financing, utilizing funds generated from their operational activities, such as retained earnings. However, when external financing becomes necessary, companies tend to follow a hierarchical approach, beginning with the issuance of the safest securities. This often involves issuing bonds, followed by securities with option characteristics, such as convertible bonds. If additional funding is still required, companies may resort to issuing new shares. This sequential approach allows companies to minimize risk while securing necessary external funding. [4]. According to Prabansari and Kusuma (2005) external funds in the form of debt are often preferred due to considerations regarding emission costs. The cost of issuing bonds is typically lower than the cost of issuing new shares. [5]. Pecking orders prioritize the use of internal funds within a company to the greatest extent possible. [6]. Companies typically prioritize funding from internal sources, including cash flow, retained earnings, and depreciation. According to Saidi (2004), the pecking order theory suggests a sequence of funding sources, starting with internal funds, followed by debt, and finally equity. [4]. Internal funds are generally preferred over external funds because they enable companies to avoid opening themselves to outside investors. The pecking order theory suggests that companies with rapid growth rates are more likely to rely on external capital. [5]. Less profitable companies often accumulate larger debts due to insufficient internal funds. [7].

### Trade off theory

According to the trade-off theory, a company cannot achieve optimal value if all funding is financed solely by debt or if no debt is used at all to finance company activities. Therefore, company managers must exercise caution and precision in managing the composition of the company's capital. [7]. Companies can calculate the optimal capital structure by weighing the potential increase in company value against the costs that may arise. [5]. The optimal debt ratio is determined based on the balance between the benefits and costs associated with debt, particularly considering the risk of bankruptcy. [8]. According to Farisa & Widati (2017), The trade-off theory posits that companies will maintain a certain level of corporate debt as long as the benefits derived from the debt outweigh the associated risks. [6]. According to Hartono (2003), the trade-off model posits that a company's capital structure arises from a trade-off between the tax advantages gained from using debt and the costs incurred as a result of leveraging that debt. The essence of the trade-off theory in capital structure is to strike a balance between the benefits and sacrifices associated with debt utilization. [9].

### Profitability and capital structure

Companies with high levels of profitability typically prefer to utilize funds generated from retained earnings before seeking funding from external sources. [10]. This aligns with the principles of the pecking order theory, which suggests that companies prioritize internal funding. When a company is highly profitable, it tends to minimize its reliance on external financing. [6]. When a large company generates significant profits, it typically leans towards utilizing internal funding or its own capital since it can fulfill its financial needs internally. Conversely, if a company experiences low profitability and lacks adequate funding, this may lead to an increase in the company's debt levels. [11]. As a company's profitability increases, there is typically a greater availability of internal funds for investment purposes, leading to a reduced reliance on debt. Therefore, higher profitability tends to result in a decrease in the company's utilization of debt. [12]. Companies that can generate substantial profits with slow growth rates tend to maintain a low level of debt ratio compared to the industry average. Conversely, companies with significant profitability within the same industry often exhibit a relatively high level of debt ratio. [4]. Companies with exceptionally high profitability typically utilize relatively little debt. Ellen and Olawale (2010) argue that higher profits enable companies to access more internal equity. Similarly, according to Michael and Stevie (2012), highly profitable companies opt for internal funds as they are cheaper than external borrowing. Research by Mouna and Hedi (2015) reveals that profitability negatively affects the use of external funding sources. Imran and Akram (2015) also find their research results align with the pecking order theory, suggesting that companies prioritize internal funds over debt in their capital structure. [13]. Astuti and Hotima (2016) posit that the relationship between profitability and capital structure is negative. They argue that high company profitability decreases the need for external financing, leading to a reduction in the amount of loans. This perspective is supported by Utami and Widanaputra (2017), who contend that profitability negatively impacts capital structure. [14]. The findings indicate a statistically significant negative relationship between profitability and total debt. [15]. The study has established that return on investment, return on

assets, and current ratios negatively affect the leverage ratio. [16]. According to our model, corporate profitability exhibits a negative correlation with the debt ratio, tax ratio, and intangible assets. [17]. The results suggest a negative relationship between profitability, tangibility, and liquidity concerning corporate indebtedness. [18]. Empirical evidence also indicates a significant negative relationship between return on assets (ROA) and leverage, as well as a significant positive relationship between size and leverage. [19]. The findings indicate that profitability and liquidity are negatively and significantly related to capital structure. [20].

### **Liquidity and capital structure**

According to the pecking order theory, companies with high liquidity are less likely to resort to debt financing as they possess ample internal funds for financing. Ramlall (2009) asserts that liquidity diminishes the reliance on debt. [21]. According to Bandyopadhyay and Barua (2016), when a company has high liquidity, it tends to rely more on internal funding and may choose to decrease its long-term debt levels. [6]. According to Wimelda and Marlinah (2013), liquidity level describes the availability of liquid funds or a company's capability to repay short-term debts without requiring external funding. [22]. A liquid company signifies that its financial health is robust, devoid of any financial issues. The external funding acquired by the company can be repaid, instilling confidence in external parties to continue lending to the company. [11]. A higher current asset ratio implies a larger amount of equity invested in the company, leading to greater capital (assuming no additional debt during the same period). An increase in the current ratio enhances investor confidence in the company's liquidity, facilitating management's ability to secure more debt. This, in turn, makes it easier for the company to acquire long-term obligations from external sources. [23]. The results suggest a negative relationship between profitability, tangibility, and liquidity concerning corporate indebtedness. [18]. Liquidity shows a positive association with long-term debt, but it demonstrates a negative relationship with short-term debt. [24]. The findings suggest that profitability and liquidity have a negative and significant relationship with capital structure. [20].

### **Asset structure and capital structure**

Asset structure can be understood operationally, as it categorizes assets in a particular proportion for the company's primary operational requirements. This involves two aspects: assets needed for current operations during the accounting period and assets required for overall company operations. Current assets represent assets necessary for ongoing operations, while fixed assets are those required for the company's operation overall. Companies with flexible asset structures typically employ higher leverage compared to those with rigid asset structures. [25]. Farisa and Widati (2017) suggest that a high asset structure signifies that the company possesses ample wealth to fulfill its obligations. This high asset structure also implies a high level of trust from lenders, as the company demonstrates its ability to cover its debts. [6]. Companies with significant asset structures typically exhibit lower bankruptcy risks compared to those with smaller asset structures. This is because a larger asset base provides a cushion against financial distress and enhances the company's ability to meet its obligations. [23]. According to the trade-off theory, companies with higher levels of fixed assets can typically secure more debt because these assets serve as collateral or guarantee for lenders. This increased collateral provides lenders with greater assurance that their loans will be repaid, allowing companies to access more debt financing. [6]. Companies with high asset structures, especially those with significant fixed assets, often find it easier to secure debt financing compared to companies with low asset structures [26]. Companies with large fixed assets, such as manufacturing facilities, real estate, or heavy machinery, may require substantial external funding to finance the acquisition, maintenance, or expansion of these assets. [11]. Larger companies often have more assets that can serve as collateral, providing lenders with greater assurance that their loans will be repaid. [24].

### **Firm size and capital structure**

Larger companies often have more extensive operations and ambitious growth plans, which require substantial funding. Therefore, larger companies tend to rely more on external sources of funding, such as debt or equity financing, to support their expansion and investment initiatives. [4]. Mardiana (2005) indicates that larger companies find it easier to secure loans than smaller ones. [21]. According to Juliantika and Dewi (2016), larger companies have a better chance of securing loans due to their strong reputations. [6]. Large companies have lower bankruptcy risk, making it easier for them to obtain loans. [11]. Large enterprises typically have the resources for self-funded investments, making it easier for them to secure loans when needed. [22]. Large-scale companies have a competitive advantage and greater survival prospects in the industry [7]. Asymmetric information theory suggests that small companies perceive sharing information with lenders or investors as costly, leading them to rely more on equity capital and less on external funding. [5]. Large companies have an easier time attracting investors and obtaining credit compared to small businesses. This is in line with research of Nadzirah, Fridayana Yudiaatmaja and Wayan Cipta (2016) refers to the theory stating that company size positively and significantly impacts capital structure. [27]. According to Najmudin

(2011), large-scale companies typically have easier access to debt compared to small companies due to higher levels of creditors' trust. They are also more diversified and less prone to bankruptcy risk. The leverage ratio tends to be positively correlated with company size, with larger companies having higher leverage ratios. However, growing companies often maintain lower leverage ratios to manage risk. [28]. Empirical evidence shows a significant negative relationship between ROA and leverage and a significant positive relationship between SIZE and leverage. [19]. Greater size and higher collateral are crucial for accessing long-term debt. [24].

Based on the above discussions, it is therefore, hypothesized that:

H<sub>1</sub> : Profitability significantly affect the capital structure

H<sub>2</sub> : Liquidity significantly affect the capital structure

H<sub>3</sub> : Asset structure significantly affect the capital structure

H<sub>4</sub> : Firm size significantly affect the capital structure

### 3. RESEARCH METHOD

Initially, the study included 193 manufacturing companies, but 23 were excluded due to data outliers. Data for profitability, liquidity, asset structure, and company size are from 2020, while data for capital structure are from 2021.

The independent variables in this research are profitability, liquidity, asset structure, and company size, while the dependent variable is capital structure. Table 2 provides the description and formula for each variable. The data will be analyzed using multiple regression analysis at a 5% significance level. The regression equation is as follows:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Description :

Y = Capital structure

a = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$  = Regression coefficient

X<sub>1</sub> = Asset structure

X<sub>2</sub> = Firm size

X<sub>3</sub> = Liquidity

X<sub>4</sub> = Profitability

$\epsilon$  = Error term

**Table 1. Description of Variables**

Variables	Description	Formula
Profitability	the company's ability to earn profits and measure its performance at various levels of sales, assets, and share capital is crucial for attracting investors..	profitability is proxied by Return on Assets which can be calculated by dividing net profit after tax by total assets
Liquidity	a company's ability to meet debt and other short-term obligations demonstrates its financial health and indicates there are no issues..	liquidity is proxied by the Current Ratio which can be calculated by dividing current assets by current liabilities
Asset structure	a method to categorize and display a company's assets, typically based on liquidity, which indicates how easily and quickly they can be converted into cash.	asset structure is proxied by the Fixed Assets Ratio which can be calculated by dividing fixed assets by total assets
Firm size	the size or magnitude of a company's assets, which can attract investors.	company size is proxied by the normal logarithm of total assets
Capital structure	balancing permanent short-term debt, long-term debt, preferred shares, and ordinary shares to assess the company's ability to meet its debt obligations with available capital.	capital structure is proxied by the Debt to Equity Ratio which can be calculated by dividing total debt by total equity

Data analysis involved two types of testing: classical assumption testing and multiple regression testing. Classical assumption tests evaluate the underlying assumptions of statistical analysis, crucial for accurate results. These tests

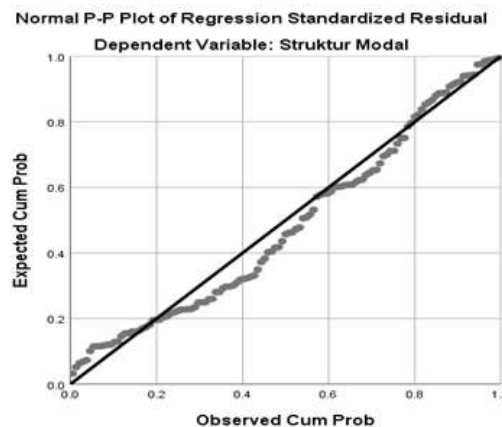


include data normality, multicollinearity, heteroscedasticity, and autocorrelation. Multiple regression analysis includes the t-test and F-test, each described in Table 2.

**Table 2. Description of Test**

Test	Objectives	Method
Data normality test	to test data for normal distribution.	Normal probability plot test
Multicollinearity test	to test for strong relationship between independent variables in regression model.	Variance Inflation Factor (VIF) value and tolerance value
Heteroscedasticity test	to evaluate residual variation significance across independent variable values in regression model.	Scatterplot test
Autocorrelation test.	to test for correlation between residual errors in linear regression model across periods t and t-1.	Durbin Watson value
t test	to determine if each independent variable (X) has a partial effect on the dependent variable (Y) individually.	Multiple regression analysis
F test	to assess the combined influence of variable X on variable Y simultaneously.	Multiple regression analysis

#### 4. FINDING AND DISCUSSION



**Figure 1. Normal Probability Plot Test Results**

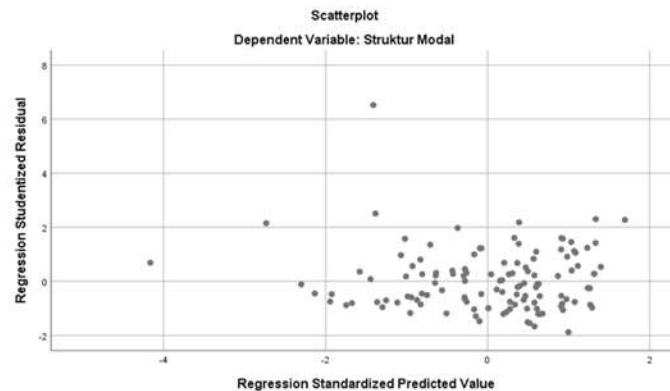
The plotted points consistently follow and approach the diagonal line in the graph, indicating that the residual values are normally distributed.

**Table 3. Multicollinearity Test Results**

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
(Constant)	1.178	.202		5.278	.000		
Asset structure	.134	.212	.016	.876	.499	.921	1.069
Firm size	-.011	.007	-.124	-1.491	.195	.987	1.032
Liquidity	-.011	.081	-0.65	-.621	.524	.849	1.191
Profitability	-2.038	.589	-.320	-3.448	.001	.949	1.060

Dependent variable : capital structure

The regression model exhibits no symptoms of multicollinearity as all tolerance values exceed 0.10 and VIF values are below 10 for all dependent variables.



**Figure 2. Heteroscedasticity Test Results**

The figure illustrates that (1) data points are distributed around the number 0, (2) there is no clustering solely at the top or bottom, (3) no discernible widening and narrowing pattern exists, and (4) there is no evident pattern in the distribution of data points. Thus, the regression model shows no signs of heteroscedasticity.

**Table 4. Autocorrelation Test Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.364 <sup>a</sup>	.191	.090	.42312456	1.873

a. Predictors : (constant), profitability, firm size, asset structure, liquidity

b. Dependent variable : capital structure

Table 4 indicates that the Durbin-Watson value (1.873) falls between dU (1.7733) and 4-dU (2.2267), indicating the absence of autocorrelation.

### Multiple Regression Analysis

Based on the data processing results, the following regression equation is obtained:

$$Y = 1,178 + 0,134 X_1 - 0,011 X_2 - 0,011 X_3 - 2,038 X_4 + e$$

Asset structure positively affects capital structure, while firm size and liquidity negatively affect capital structure. Additionally, profitability positively influences capital structure.

**Table 5. T-test Results**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.178	.202		5.278	.000
Asset structure	.134	.212	.016	.876	.499
Firm size	-.011	.007	-.124	-1.491	.195
Liquidity	-.011	.081	-0.65	-.621	.524
Profitability	-2.038	.589	-.320	-3.448	.001

Dependent variable : capital structure

While asset structure has a positive effect on capital structure, it is not statistically significant, leading to the rejection of hypothesis 1. Mayangsari (2001) suggests that companies with a higher proportion of fixed assets may have a debt composition dominated by long-term debt. Such companies are perceived to have better collateral assets,

making it easier for them to borrow from external parties. [8]. According to Rajan and Zingales (1995) in Attiya and Qaisar (2012), Companies with fixed assets find it easier to secure external funding at lower costs by using these assets as collateral for debt. According to Turki (2014), companies with a high asset structure tend to be more dependent on debt financing [13]. Large companies with significant fixed assets can leverage more debt due to their scale, making it easier for them to access funding sources compared to smaller companies. The substantial amount of fixed assets can serve as collateral for the company's debt. [29]. According to Lukas SetiaAtmaja (1999), companies with assets suitable for collateral tend to utilize larger amounts of debt. [30]. The study findings suggest that firm size, profitability, and asset structure can be regarded as explanatory variables of capital structure. [31]. Larger size and increased collateral are crucial factors in accessing long-term debt. [24].

Although firm size has a negative effect on capital structure, it is not statistically significant, leading to the rejection of hypothesis 2. According to Wahidahwati (2002), large companies can access the capital market more easily and possess greater flexibility and capability to obtain funds.[8]. As per Rahmansyah and Djumahir (2018), larger total assets enable greater management flexibility and ease in handling assets. Moreover, they provide a practical opportunity for obtaining external funding through the capital market. [32]. Large companies with widely distributed shares are more inclined to issue new shares to finance sales growth compared to small companies.[30]. In a large company with widely distributed shares, each expansion of stock capital has minimal impact on the risk of loss or control shifting compared to a small company with shares concentrated in a small area. Consequently, large companies are more inclined to issue new shares to finance sales growth than small companies.[25]. The study suggests that firm size, profitability, and asset structure are explanatory variables of capital structure. Moreover, profitability and firm size exhibit a stronger impact on capital structure within non-electronic industries. [31].

Hypothesis 3 is rejected as liquidity's negative impact on capital structure is not significant. According to the pecking order theory, companies with high liquidity prefer internal funds for investments over external debt financing.[33]. Per the pecking order theory, as a company's liquidity improves, it tends to avoid debt financing, leading to a decrease in the company's capital structure. [32]. Liquidity reflects the company's capacity to fulfill short-term obligations with current assets. Per the pecking order theory, liquidity negatively correlates with capital structure. High liquidity prompts greater reliance on internal funds, leading to reduced long-term debt levels. (Bandyopadhyay&Barua, 2016) in [6]. The current ratio has a negative correlation with leverage. [34].

Hypothesis 4 is accepted, indicating a significant negative impact of profitability on capital structure. When a company earns substantial profits, it tends to rely on internal funding, whereas low profitability may lead to increased debt to meet funding needs.[11]. Mayangsari (2001) suggests that companies with a high rate of return often utilize a smaller proportion of debt. This is attributed to the substantial internal funds generated from high returns, typically accumulated as retained earnings. [8]. High rates of return enable financing most funding needs with internally generated funds. [35]. Highly profitable companies often rely less on debt financing, as their substantial profits allow them to finance most funding needs through retained earnings. [30]. Sartono (2001) suggests that companies with significant retained earnings prefer using them before resorting to debt. This aligns with the pecking order theory, where managers prioritize financing in the order of retained earnings, debt, and then the sale of new shares. [29]. Empirical evidence indicates a significant negative relationship between ROA and leverage, as well as a significant positive relationship between SIZE and leverage. [19]. The findings suggest that profitability and liquidity are significantly and negatively related to capital structure. [20].

**Table 6. F-test Results**

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.798	4	.774	3.999	.004b
	Residual	22.053	181	.178		
	Total	25.022	122			

a. Dependent variable : capital structure

b. Predictors : (constant), profitability, firm size, asset structure, liquidity

Collectively, profitability, liquidity, asset structure, and company size significantly influence capital structure. As per Lukas Setia Atmaja (1999), companies with assets suitable for collateral tend to utilize large amounts of debt, while those with high profits tend to rely less on debt, using retained earnings for funding. [30]. According to Bambang Riyanto (1995), large companies with widely distributed shares are more inclined to issue new shares to finance sales growth compared to small companies. [30]. High liquidity prompts companies to rely more on internal funding and often leads to a decision to reduce long-term debt levels. (Bandyopadhyay&Barua, 2016) in [6]. The research results are not consistent with the research results by Çekrezi (2013). This study found that tangibility (ratio of fixed assets to



total assets), liquidity (ratio of current assets to current liabilities), profitability (ratio of earnings after taxes to total assets), and size (natural logarithm of total assets) significantly impact leverage.[19].

## **5. CONCLUSION**

The profound implications of the Covid-19 pandemic are evident in Indonesia's economic growth, which has suffered negative growth, mirroring global trends. All components, including public consumption, have experienced declines, reflecting pressure on both demand and supply sides. Vulnerable households and the informal sector face income loss, hindering their ability to meet basic needs. Purchasing power and consumption have declined, threatening increased unemployment and poverty. Economic disruption affects industries from production to consumption, particularly manufacturing, trade, transportation, accommodation, restaurants, and hotels. This disruption leads to cash flow problems, decreased business performance, layoffs, and potential bankruptcy for companies.[1].

During the first year of the Covid-19 pandemic in Indonesia, manufacturing companies focused on survival. The factors influencing capital structure remained consistent with pre-pandemic times. Adhering to the pecking order theory, companies prioritize internal funding sources like retained earnings and depreciation before seeking external funds. Debt is preferred over equity if internal funds are insufficient. Companies aim to reduce debt levels, even though larger companies have easier access to debt, as high debt can worsen financial conditions and hinder survival. Companies with a high proportion of fixed assets find it easier to obtain debt when faced with production demands and capital shortages. Future research could broaden the scope and duration, and include additional independent variables such as interest coverage ratio, asset and company growth, non-debt tax shields, sales and business risk, operating leverage, growth opportunities, institutional ownership, growth rate, and tangibility.

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