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Determination of Debt Use on Capital Structure in Indonesia

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ABSTRACT
The use of debt is a strategic decision of the company. The company must make such decisions for the sustainability of its operations. The study investigates the factors influencing debt use in a company's capital structure. The locus of research was a technology business registered on the Indonesia Stock Exchange. The sampling was of 17 companies selected through the purposive sampling method. The companies selected as research samples were those that routinely reported financial statements during the research period from 2019 to 2023. Multiple regression analysis was employed to analyze the data. The results showed that liquidity strength negatively correlated with debt use, while the Current Ratio (CR) did not show a significant effect. Tangible assets affect the debt-to-equity ratio (DER), and no significant effect was found on the use of STDTA. Return on Asset (ROA) negatively affects short total debt to total assets (STDTA) and positively affects DER. In contrast, Total Asset Turnover (ATO) and Return on Equity (ROE) positively affected STDTA. ATO had a negative impact on DER. Meanwhile, ROE was not found to have a significant effect on DER. The company uses the pecking order theory approach in its capital structure policy. It pays more attention to internal conditions before adopting a policy of using or increasing debt in the capital structure.

Keywords: Debt; Liquidity; Profitability; Tangible assets; Theory of pecking order

INTRODUCTION

The company's operational funding generally comes from debt or capital. The choice of this funding source causes problems within the company (Ngatno et al., 2021). The integration of debt in the capital structure has drawn substantial scrutiny within the realm of operational sustainability. The survival and profitability of a company are influenced by the way the company determines the source of funding operations and investments, either using debt or capital (West et al., 2021). Companies can use debt or equity to finance their assets (Singh & Bagga, 2019). This exhibits the use of debt as an alternative option in corporate funding. This funding decision requires clear consideration to prepare the company for the future. Thus, debt can help companies face competition. Therefore, the company's debt must be well controlled based on strategic considerations.

Debt is something that remains attractive in the company. The repayment of debt in combination with corporate funding remains an important subject in corporate finance (Saif-Alyousfi et al., 2020) and challenging (Abdul Kabeer & Rafique, 2018; Banerjee & De, 2014). Companies conducting business development certainly need additional funding. The decision on funding for the development certainly requires serious consideration. Assess

internal conditions in the capital structure as something very strategic (Isa & Rahmah, 2023). A company's capital structure that is not planned properly can make the company fail to save the use of its funds (Banerjee & De, 2014). This is certainly the company's attention in debt management. The company's confidence in future operations is one of the aspects that causes companies to use debt (Shyu, 2013). This condition does not mean that the company does without special consideration. The repayment of debt in the capital structure business has always been a confusing part of the manager's (Singh & Bagga, 2019). Thus, studies related to the use of debt in companies continue to be carried out. This needs to be done to help managers make decisions.

The determinants of debt in a corporate capital structure have always been a considerable debate (Z. Ahmed & Hla, 2019). This certainly cannot be separated from the importance of the company's funding composition. Company managers strive to maximize the company's resources (funding) in the face of tight competition (N. Ahmed & Afza, 2019). Debt-sourced financing has strict requirements regarding falls and liquidity (Wang & Jin, 2019). The stability of internal conditions puts the company at risk. Thus, this study focuses on exploring internal conditions consisting of liquidity factors, tangible assets, and profitability factors. This is important in determining the model for the use of debt. Current financial models do not provide information about companies' capital expenditures or their changing financial preferences over time (Yıldırım & Çelik, 2021). No hypothesis justifies how to decide on capital structure, even though it has become a prominent concern for financial economists (Saif-Alyousfi et al., 2020). The fundamental problem with the previous model is that it cannot be applied to produce company-specific recommendations regarding capital structure (Kontuš et al., 2023). Accordingly, internal conditions are very important when considering the use of debt.

Prior studies have demonstrated that capital structure and liquidity have a negative relationship (Ahangar, 2021; Czerwonka & Jaworski, 2021). Debt is affected by liquidity (Czerwonka & Jaworski, 2019; Myers & Majluf, 1984). Liquidity is the most important determinant explaining capital structure (Proença et al., 2014). There was no significant relationship between the total debt ratio and liquidity strength (Delikanlı & Kılıç, 2021). The selection of the right capital structure ensures a liquidation policy (Titman, 1984). Leverage and asset tangibility have an adverse connection (Hang et al., 2018; Kuč & Kaličanin, 2021; Moradi & Paulet, 2019). The total debt ratio showed no significant correlation with asset structure (Delikanlı & Kılıç, 2021). Trade-off Theory argues that the utilization of corporate debt is influenced by profitability factors (Kahya et al., 2020). Profitability is positively correlated with the formation of financing policies, and managers choose to use higher amounts of debt at a time when sales volume is consistent and revenue is increased (Abdul Kabeer & Rafique, 2018). High-growth companies (improving performance) have high debt ratios (Saif-Alyousfi et al., 2020). Profitability negatively affects the utilization of debt (Czerwonka & Jaworski, 2021; Rashid et al., 2023; Sohrabi & Movaghari, 2020), and profitability has a negative influence on the use of long-term debt (Delikanlı & Kılıç, 2021). Profitability negatively affects capital structure (Delikanlı & Kılıç, 2021; Nguyen Kim, 2023).

The picture above illustrates that liquidity, tangible assets, and profitability are important factors in determining the use of debt. Research related to these factors is very

important to be carried out given the important role of debt in the capital structure. This research is important because, first, existing models do not yet provide information about financial behavioral preferences in capital expenditure. Second, the current model has not produced a specific recommendation for the utilization of debt within the capital structure. Three, previous studies have shown inconsistent results. This research offers novelty by focusing on technology companies in Indonesia that are listed on the Indonesia Stock Exchange (IDX). The focus on this sector provides a new view of debt behavior and capital structure in companies with data periods during the COVID-19 pandemic. Examining the pecking order theory in the context of technology companies in Indonesia and filling in gaps in the literature on the relevance of the theory in emerging markets. In addition, this study provides in-depth insights into the influence of liquidity, tangible assets, and profitability on each component of debt (Debt to Equity Ratio and Short-Term Debt to Total Assets), something that is rarely studied separately in the literature. This condition shows that research on the use of debt is very important. Thus, the policy on the use of debt provides maximum results, and the Company avoids risks. The results of this study provide good recommendations and serve as a basis for the use of debt. Therefore, this study aims to explore internal factors that become models in the use of debt. These internal factors are liquidity, tangible assets, and profitability.

LITERATURE REVIEW

The primary purpose of strategic management nowadays is to find an adequate capital structure. (Singh & Bagga, 2019). Capital structure can be defined as a quantitative component or a combination of debt and equity capital (Lestari et al., 2021; Ngatno et al., 2021). Exploration of the model of debt used in the company's capital structure in this study uses a pecking order theory approach. According to this theory, there will be a hierarchy in finance, and businesses will favor internal funding sources (Yıldırım & Çelik, 2021). Companies choosing different options when raising external capital are based on the theory of trade-offs and market timing (Dogan et al., 2019). The Company carries out activities by reducing dependence on external parties. To reduce the requirement for outside investment, managers will run their businesses (Kontuš et al., 2023). Thus, managers need to take a good look at models that can help them decide on this, such as by knowing the process of adjusting the company to a combination of company-specific debt and equity targets (West et al., 2021). This study focuses on the internal aspects of exploring managers in determining the use of debt. These internal aspects include: first, the company's liquidity (current ratio and liquidity strength), tangible assets, and profitability ((ROA, ROE, and ATO). This ratio is the result of the company's activities for each period.

Company liquidity is a tool for managing maturing debts (Boateng et al., 2022). Previous research on the relationship between liquidity and debt has found that debt is affected by liquidity (Czerwonka & Jaworski, 2019; Myers & Majluf, 1984). Liquidity and leverage parameters are positively correlated (Kaur et al., 2020; Rani et al., 2020). According to research (Czerwonka & Jaworski, 2021; Kahya et al., 2020; Saif-Alyousfi et al., 2020), capital structure and liquidity are negative relations (Ahangar, 2021). Generally speaking, any business raises the money required for ongoing operations (Delikanlı & Kılıç, 2021). Liquidity is the most crucial factor defining the capital structure of Portuguese SMEs

(Proença et al., 2014). The total debt ratio showed no meaningful association with liquidity strength (Delikanlı & Kılıç, 2021). Based on the description of previous research, the hypothesis in this study is

H1: Liquidity (CR and Lig_STRG) affects capital structure

The company's capital structure may be influenced by the type of assets it owns (Titman & Wessels, 1988). Companies that have tangible assets tend to have higher levels of debt (Harris & Raviv, 1990). The large value of fixed assets increases the lender's chances of making a loan (Rajan & Zingales, 1995). The findings demonstrated an adverse link between leverage and asset tangibility (Moradi & Paulet, 2019) (Hang et al., 2018) (Kuč & Kaličanin, 2021). Asset structure has no significant relationship to the total debt ratio (Delikanlı & Kılıç, 2021). Debt decreased as a result of a rise in fixed assets relative to the total (Czerwonka & Jaworski, 2021). Companies that own more tangible assets tend to use longer-term debt rather than debt that is short-term (Tsolas, 2021). There is a significant link between fixed capital assets and total assets and long-term debt ratio (Czerwonka & Jaworski, 2019). According to the previous statement, the research hypothesis is that the ratio of fixed assets is related to the company's capital structure.

H2: Tangible assets affect the capital structure

Profitability is considered a means of survival of business organizations (Boateng et al., 2022). Trade-off Theory argues that the use of corporate debt is influenced by factors such as tax rates, business risk, profitability, bankruptcy codes, and asset types (Kahya et al., 2020). In comparison, it gives a negative influence between profitability and the use of debt (Czerwonka & Jaworski, 2021; Rashid et al., 2023; Sohrabi & Movaghari, 2020); and profitability negative influence on the use of long-term debt (Delikanlı & Kılıç, 2021; Saif-Alyousfi et al., 2020). Profitability negatively affects capital structure (Delikanlı & Kılıç, 2021; Nguyen Kim, 2023). Profitability is the crucial determinant explaining the capital structure of Portuguese SMEs (Proença et al., 2014). This study's premise is based on the description of the outcomes of earlier research

H3: Profitability (ROA, ROE, and ATO) affects capital structure

RESEARCH METHOD

This explorative research explained the basis for using company debt. The object of the research was the exploration of models of the use of debt in capital structures based on liquidity, fixed assets, and profitability. Also, the secondary data became the main data used to analyze the model. Secondary data was processed from financial statements published by the company regularly. These data were obtained through the Indonesia Stock Exchange (https://www.idx.co.id/id) website. The main locus in the study was technology companies, while the sampling applied a purposive sampling method. Companies selected as research samples were companies that routinely reported financial statements during the research period from 2019 to 2023. The number of research samples was 17 companies. The analysis method was multiple regression analysis with SPSS software, which had previously been carried out using classical assumption tests (multicollinearity). The regression model of this study is

$$STDTA=a+b1CR+b2AS\_Tang+b3ROA+b4ROE+b5ATO+b6Liq\_Strg \quad (1)$$

$$DER=a+b1CR+b2AS\_Tang+b3ROA+b4ROE+b5ATO+b6Liq\_Strg \quad (2)$$

CR = Current ratio, *AS_Tang* = Tangible assets, *ROA* = Return on assets, *ROE* = Return on equity, *ATO* = Total asset turnover, *Liq_Strg* = Liquidity strength, *STDTA* = Short total debt to total assets, *DER* = Debt to equity ratio.

The effect was said to be significant if the value of sig. was smaller than 0.05 and 0.1, with a degree of data validity of 95% and 90%. Independent variables were measured using liquidity, tangible assets, and profitability. Capital structure variables were measured using short total debt to total assets and total debt to equity ratio. The following was the measurement of each research variable, as shown in Table 1.

Table 1. Variables of research

Variable	Abbreviation	Description	References
Capital structure	STDTA	Short total debt to total assets (Short total debt/total assets)	N. Ahmed & Afza (2019); Delikanlı & Kılıç (2021); (El-Sayed Ebaid (2009); Newman et al. (2012); Sheikh & Wang (2013); and Vătavu (2015)
	DER	Debt to equity ratio = Total Debt/total equity ratio	Abor (2007); Chadha and Sharma (2015); De Silva and Banda (2022) Madan (2007); and Shyu (2013)
Liquidity	CR	Current ratio/current liabilities	Z. Ahmed and Hla (2019); Czerwonka and Jaworski (2019); Czerwonka and Jaworski (2021); and Delikanlı and Kılıç (2021)
	Liq_Strg	Liquidity strength = The ratio of net working capital to total assets (Current assets – short-term liabilities)/Total assets	Delikanlı & Kılıç (2021)
Tangible assets	AS_TANG	ln of tangible assets (total fixed assets)	Frank and Goyal (2009) and Tsolas (2021)
Profitability	ROA	The ratio of net income to the average of total assets	Bayraktaroglu et al. (2019)
	ROE	The ratio of net income to total shareholders' equity	Bayraktaroglu et al. (2019)
	ATO	The ratio of total revenue to the average value of total assets	Bayraktaroglu et al. (2019)

Financial statement data was inputted in Microsoft Excel and calculated based on the start of each variable. All research variable data use ratio data. Especially for tangible assets value was calculated using the natural logarithm (ln of tangible assets with the help of formulas in Microsoft Excel.

RESULTS AND DISCUSSION

Results

Table 2 indicates that the tolerance value was greater than 0.1, and the average value of VIF was less than 10. However, this implies that the independent variables do not have significant or strong collinearity.

Table 2. Factor (VIF) technique to detect multicollinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	CR	.667	1.498
	AS_TANG	.852	1.173
	ROA	.246	4.068
	ROE	.322	3.108
	ATO	.709	1.411
	Liq_Strg	.447	2.237

Note: CR = Liquidity, AS_TANG = Tangible assets, ROA = Return on assets, ROE = Return on equity, ATO = Total asset turnover, Liq_Strg = Liquidity strength

The data processing results indicate there was no multicollinearity relationship in the research data. It was identified by a VIF value of less than 10 and a tolerance value of more than 0.1. This indicated that the independent variables in the regression model do not correlate with one another. Additionally, a descriptive analysis of the study variables was also conducted.

Table 3. Description of research results

Variable	Data Obs.	Mean	SD	Min	Max
CR	85	5.0916	7.69965	.16	38.08
AS_TANG	85	22.226824	5.222132	10.38	28.07
STDTA	85	0.3622	.55344	.01	3.71
DER	85	2.7386	9.96344	-4.09	78.61
ROA	85	-0.0496	.53282	-3.76	1.26
ROE	85	-0.0108	1.31143	-11.09	2.95
ATO	85	2.5900	4.245187	.002	26.560
Liq_Strg	85	0.2873	.57190	-2.88	.94

Note: CR = Liquidity, AS_TANG = Tangible assets, ROA = Return on assets, ROE = Return on equity, ATO = Total asset turnover, Liq_Strg = Liquidity strength, STDTA = Short total debt to total assets, DER = Debt to equity ratio; value in decimal form

The results of data processing, as shown in Table 3, show that the average liquidity value for CR was 5.0916 and Liq_Strg is 0.2873. This provides an overview of the level of liquidity and strength of the company's liquidity in the study period. The average value of AS_TANG (fixed assets) is 22.226824. The average STDTA value was 0.3622, and the average DER was 2.7386. This showed that the composition of the use of short-term debt compared to total assets amounted to 36.22%, and the ratio of debt and own capital amounted to 273.86%. The average ROA, ROE, and ATO are -0.0496, -0.0108, and 2.5900, respectively. This showed that the company cannot maximize the ability of fixed assets and capital to generate profits. However, the asset's ability to generate revenue for the company is shown to have a positive value, as marked by the value of the ATO. Next, a regression analysis was performed to ascertain the foundation that financial managers use to decide how much debt to include in the company's capital structure. The following are the regression analysis findings.

The results of regression analysis, as in Table 4, show that CR did not influence capital structure (STDTA and DER). Fixed assets influence DER but not STDTA. ROA had an influence on capital structure (STDTA and DER) but to different significant degrees. ROE affects STDTA but does not apply to DER. The ATO and Liq_Strg influence the capital

structure (STDTA and DER) but to different significant degrees. This illustrates that the use of short-term debt in the company is closely related to the company's performance, such as ROA, ROE, and ATO, as well as the company's ability to maintain the strength of liquidity (Liq_Strg) owned by the company. At the same time, the composition of company debt with its capital is related to tangible assets, ROA, ATO, and Liq_Strg.

Table 4. Regression Results for key factors in debt use

Variable	Formula 1 (STDTA)	Formula 2 (DER)
Constant	0.456	-5.246
CR	-0.005 (0.177)	0.016 (0.927)
Liq_Strg	-0.779 (0.000***)	-6.047 (0.033**)
AS_TANG	0.004 (0.439)	0.507 (0.024**)
ROA	-0.200 (0.028**)	7.240 (0.076*)
ROE	0.078 (0.016**)	-1.922 (0.183)
ATO	0.024 (0.001***)	-0.496 (0.100*)
R^2	0.858	0.109

Note: CR = Current ratio, AS_TANG = Tangible assets, ROA = Return on assets, ROE = Return on equity, ATO = Total asset turnover, Liq_Strg = Liquidity strength, STDTA = Short total debt to total assets, DER = Debt to equity ratio. *** = sig value < 0.01; ** =sig value < 0.05; * = sig value < 0.1; value R2 in decimal form

Discussions

The findings of the study demonstrated that the independent variable effectively supplies data on how corporate debt was used. Liquidity was measured from two main indicators, namely, current ratio and liquidity strength. The current ratio did not show significant results on the use of debt. Meanwhile, liquidity strength had a significant impact on the use of debt. The liquidity strength relationship negatively affects the use of short-term debt and the comparison of debt with one's capital. This gives the idea that the company reduces the use of debt when the company experiences increased liquidity. The liquidity of the company becomes part of the organization used in the settlement of maturing debts (Boateng et al., 2022). The company collects the cash necessary for day-to-day operations (Delikanlı & Kılıç, 2021). The use of debts in the capital structure and the company's liquidation policy are closely related decisions (Titman, 1984). It should be noted that the company's liquidity has been reduced in uncertain conditions (crisis) (Wei & Yue, 2020). This was certainly related to the availability of funds owned by the company that can be maximized to help the company's operations. Therefore, liquidity, especially the company's liquidity strength, is closely related to the company's decision to use debt. Therefore, the higher the value of liquidity strength, the more the company reduces debt and focuses on using internal funds.

According to the study's findings, many earlier investigations, including those carried out by Research done by (Ahangar, 2021; Czerwonka & Jaworski, 2021), demonstrate that the link between capital structure and liquidity was negative. It was discovered that there was no meaningful correlation between the total debt ratio and the liquidity strength (Delikanlı & Kılıç, 2021). In general, debt is affected by liquidity (Czerwonka & Jaworski, 2019; Myers & Majluf, 1984). Liquidity is the most important determinant explaining the capital structure of Portuguese SMEs (Proença et al., 2014). Other research suggests that

different debt instruments can improve liquidity provision (Gomez-Gonzalez, 2019). The description of the results of previous research confirms the importance of providing company liquidity. In addition, the relationship between negative liquidity and an increase in the amount of debt is a form of company policy that maximizes the use of internal funds. This is consistent with the pecking order notion. First put forth by Donaldson in 1961, the theory of pecking order was further explored in 1984 by Stewart C. Myers and Nicholas Majluf. This hypothesis explains why businesses favor using their resources over those obtained from outside sources, the business maximizes its funds. Therefore, a decrease in the usage of debt is indicated by an increase in the value of liquidity, particularly the strength of the company's liquidity.

Tangible assets become an internal part of the company that determines the company's using debt. The relationship between tangible assets and DER was found to be significant and unidirectional. Meanwhile, tangible assets were not found to have any influence on short-term debt (STDTA). This means that tangible assets are part of the policy that determines the company's debt position, especially the composition of debt with one's capital. The agency theory view states that when a company's assets become more tangible, shareholders tend to recite the use of debt (Al-Hunnayan, 2020). Debt tends to be larger in companies with physical assets, which might lower the chance of reorganization and other dangers (Harris & Raviv, 1990). Titman & Wessel (Titman & Wessels, 1988) claimed that the kind of asset a company has is one of the elements influencing the capital structure decision. According to earlier studies, businesses with more physical assets have more long-term liabilities and less short-term debt (Tsolas, 2021). A significant relationship exists between fixed assets and total assets to long-term debt ratio (Czerwonka & Jaworski, 2019). Previous studies that have shown different results include (Czerwonka & Jaworski, 2021). The portion of fixed assets to total assets causes a decrease in debt. There is an inverse influence between tangible assets and company debt (Hang et al., 2018; Kuč & Kaličanin, 2021; Moradi & Paulet, 2019). Thus, the value of the company's tangible assets is a factor in taking a policy of confectionery or increasing debt. As a result, when the value of the business's physical assets rises, the company's debt also rises, making it collateral.

Profitability was the company's ability in its assets to generate income/profit. This condition makes profitability a means of survival for business organizations (Boateng et al., 2022). The results showed that ROA was negatively associated with STDTA and positively with DER. The negative effect of ROA on STDTA is because ROA is an indicator of a company's ability to utilize its assets to generate profits. Companies with high ROA often demonstrate strong operational performance and the ability to generate sufficient cash flow from existing assets. This stable cash flow makes the company more able to finance its operational needs internally, reducing dependence on short-term debt. As a result, there is a negative correlation between ROA and short-term debt, as more profitable companies tend to rely on internal financing rather than external financing (Chen & Strange, 2005) (Margaritis & Psillaki, 2010). The positive effect of ROA on DER is that companies with high ROA often have strong performance, making them more daring to take on debt to scale their operations and generate further profits. A company's high ROA can magnify its profits through additional debt, which reduces the tax burden and magnifies returns for shareholders (Modigliani & Miller, 1963). Greater debt can lead to an increase in DER (Myres, 1984).

ATO has a positive effect on STDTA and a negative on DER. ROE has a negative but not significant effect on DER, but it has a positive and significant effect on STDTA. The effect of ROE on companies often uses short-term debt as additional leverage to increase equity returns (Chen & Strange, 2005). Short-term debt provides financing flexibility for short-term projects or working capital without the need to raise equity (Fama & French, 2002). Additionally, companies can take advantage of investment opportunities or meet liquidity needs, which drives an increase in the use of short-term debt (Frank & Goyal, 2009). The company's ability to maximize its capital allows the company to fund expansion or operations without the need to take on additional debt, which reduces the debt-to-equity ratio (Chen & Strange, 2005). Thus, ROE is not significant to DER.

This shows that the company's ability to generate revenue is a factor in determining the use of debt. Such an increase in ROA decreases the use of short-term debt. However, an increase in the ROA value increases the company's total debt, even the asset turnover rate (ATO). The higher (better) asset turnover, the more short-term debt. However, it decreases the total value of debt to own capital. This ATO condition indicates that companies prefer short-term debt when asset performance shows optimal levels. Good self-capital performance also boosted the value of short-term debt. This is in line with the Trade-off Theory, which states that capital structure is influenced by profitability factors (Kahya et al., 2020). The relationship between ROA and STDTA and the relationship between ROE and ATO is in line with the results of other research (Czerwonka & Jaworski, 2021; Rashid et al., 2023; Sohrabi & Movaghari, 2020), which found that there was a negative relationship between profitability and debt use. Research in line with this found that profitability negatively affects the use of long-term debt (Delikanlı & Kılıç, 2021; M'ng et al., 2017; Saif-Alyousfi et al., 2020). There is an opposite influence between a company's profit and capital structure (Ngatno et al., 2021). Profitability negatively affects capital structure (Nguyen Kim, 2023) (Delikanlı & Kılıç, 2021). Having good performance is essential to creating a market (Zahrah et al., 2022). Thus, the company's performance in generating revenue is a factor that encourages companies to use debt. Short-term debt is determined by the ROA, ROE, and ATO performance. Meanwhile, total debt and capital are determined by ROA and ATO.

The description above provides a real picture of the policy of increasing debt in the company's capital structure. In general, the results of the study show that technology companies use a pecking order theory approach in making these policies. This theoretical approach provides recommendations that companies have "pecking" capital. The portion of the use of funds in the company prioritizes the use of internal funds first and then uses internal funds. Innovative companies often leverage equity and reduce the use of debt (Neville & Lucey, 2022). The corporation uses its retained earnings as the primary source of capital, then it issues debt until all of its available credit is used, then it issues hybrid instruments, and lastly, it raises external stock (Czerwonka & Jaworski, 2021). Therefore, research shows an inverse relationship between ratios that measure company performance, leading to a company's focus on fund allocation. Decrease the value of debt by increasing the strength of liquidity, ROA, ROE, and ATO. Of course, this is due to the availability of internal funds to support the company's operations. Thus, the company's performance becomes an important factor in the decision to increase debt.

CONCLUSION

The company's internal condition concerned policymakers when using external funds. The factor that shows consistency in debt rules is the strength of liquidity. The study results concluded that the current ratio (CR) and tangible assets (AS_TANG) did not show any effect on the short total to total assets (STDTA). Liquidity strength (Liq_Strg) and return on assets (ROA) had a negative effect on STDTA. Return on equity (ROE) and total assets turnover (ATO) positively affected STDTA. CR and ROE did not affect debt to equity ratio (DER). Liq_Strg and ATO had a negative effect on DER. AS_TANG and ROA had a positive effect on DER. This can be seen from the negative and consistent relationship to debt use (STDTA and DER). The company's strong liquidity illustrates that company funds were available to assist operations. Strong company liquidity conditions are used as information for company policymakers to maximize existing funds. The value of tangible assets encourages the use of the company's total debt. The ratio of asset performance to generate profits is inversely proportional to the use of short-term debt. However, this does not apply to the debt composition and own capital (DER). Meanwhile, asset turnover in generating income encourages an increase in short-term debt. However, this is inversely proportional to the composition of debt with own capital (DER). The implication of these results confirms that the use of the pecking order theory is very relevant to the company's conditions, which are performing well. This means that companies that have good performance tend to use the theory of pecking order in capital structure policies. This theory suggests the use of internal funds first. After that, it is recommended that external funds be used. The policy of the theory is very related to the results of research that shows results to maximize the company's internal funds. The first limitation of this research is that the locus of this study is a technology company registered on the Indonesia Stock Exchange. The company certainly has considerable assets in operations. Second, this study is quantitative research using secondary data as the main data. Suggestions for further research are to conduct similar research by adding other factors that may be the basis for the use of company debt, including using different research methods such as data collection and analysis.

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