JAFM: Journal of Accounting and Finance Management
E-ISSN: 2721-3013
P-ISSN: 2721-3005
https://dinastires.org/JAFM dinasti.info@gmail.com +62 811 7404 455
DOI: https://doi.org/10.38035/jafm.v5i6
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Factors Influencing Capital Structure and Its Impact Toward Profitability in Consumer Goods Manufacturing Companies Listed in the IDX for the 2019-2023 Period

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Abstract: This research aims to analyze the influence of non-debt tax shield (NDTS), business risk, and company size on capital structure and its impact on profitability. The research adopts a quantitative method with a sample of 46 manufacturing companies in the consumer goods sector. The analysis was conducted using multiple regression analysis processed with SPSS. The results reveal that NDTS has a significant negative effect on capital structure. Tax savings from depreciation replace the tax benefits of interest, leading companies with high NDTS to reduce debt usage. Business risk also has a significant negative effect on capital structure. Companies with high business risk prefer a conservative capital structure, relying on equity or internal funds to mitigate default risk. Conversely, company size has a significant positive effect on capital structure. Capital structure significantly negatively affects profitability. While debt can enhance profitability if managed properly, a high debt proportion increases interest burdens, thereby reducing profits.

Keyword: Non-Debt Tax Shield, Business Risk, Company Size, Capital Structure, Profitability

INTRODUCTION

One of the essential aspects that companies need to oversee is the management of their capital structure (Lisiana & Widyarti, 2020;Mardianto, 2021). This is because a company's growth heavily depends on its capital, but external funding sources (loans) incur additional interest costs, which become a burden for the company. Therefore, to achieve their desired objectives, companies must consider prevailing conditions when determining the type of capital required (Kasenda, 2020). In general, companies tend to prioritize internal sources for financing their operations, followed by debt acquisition, and then equity issuance, which aligns with the pecking order theory (Brealey et al., 2020). Alternatively, the use of debt can provide greater tax savings for companies as it reduces Earnings Before Interest and Taxes (EBIT) due to interest expenses. This is based on the trade-off theory, which highlights the advantages and disadvantages of borrowing. On the other hand, utilizing internal resources creates opportunity costs due to the use of equity capital. Consequently, unhealthy financial

decision-making can lead to increased capital costs and thus reduce profitability. Companies often face challenges due to an imbalance between debt and equity composition in their capital structure (Brigham & Ehrhardt, 2019). If the capital structure is not optimal, with a high proportion of debt and significant debt burden, it can place a heavy strain on the company. Therefore, it is crucial to carefully examine the elements that influence the capital structure (Muhani et al., 2022).

The ability of a company or business entity to generate profits from its operations can be assessed through its profitability ratios (Harahap, 2018). Companies capable of generating reliable profits are more likely to secure loans with lower interest rates and favorable repayment terms (Permana & Agustina, 2021). High profitability is considered to enable companies to bear higher business risks by utilizing substantial internal capital, thereby reducing their reliance on debt. Conversely, companies with low profitability may be more inclined to use debt to finance their operations, although this can increase financial risk (Suhardjo et al., 2022).

Table 1. Losses of Food and Beverage Companies Listed on the IDX for the 2019-2023 Period (in Millions)

Year	PT Tri Banyan Tirta Tbk (ALTO)	PT Sentra Food Indonesia Tbk (FOOD)	PT Prima Cakrawala Abadi Tbk (PCAR)	PT Prashida Aneka Niaga Tbk (PSDN)
2019	(Rp7,361,733,188)	Rp 1,372,317,773	(Rp 10,257,599,104)	(Rp 47,358,222,370)
2020	(Rp 10,480,232,395)	(Rp 15,212,260,240)	(Rp 15,957,991,606)	(Rp 62,014,895,501)
2021	(Rp 8,899,454,736)	(Rp 12,755,174,366)	Rp 1,278,343,380	(Rp 87,778,640,514)
2022	(Rp 16,052,018,788)	(Rp 19,003,772,141)	Rp 4,932,611,284	(Rp 41,283,890,371)
2023	(Rp 25,150,269,837)	(Rp 14,174,868,154)	Rp 9,203,977,250	Rp 143,397,423,734

Source: idx.go.id (2024)

The financial performance of issuers ALTO, FOOD, PCAR, and PSDN during the 2019-2023 period. Issuers ALTO and FOOD experienced continuous losses each year, with ALTO's losses increasing from IDR 7.36 billion in 2019 to IDR 25.15 billion in 2023. Meanwhile, FOOD also recorded growing losses, from IDR 1.37 billion in 2019 to IDR 14.17 billion in 2023. On the other hand, PCAR showed significant improvement after incurring losses in 2019 and 2020, achieving a net profit of IDR 9.20 billion in 2023 following profitable years in 2021 and 2022. Meanwhile, PSDN suffered considerable losses up to 2022 but managed to post a significant profit of IDR 143.40 billion in 2023.

Table 2. Debt Changes of Food and Beverage Companies for the 2019-2023 Period (in Millions)

No	Emiten	Year	Total Debt (Rp)	Debt Change (%)
1	ALTO	2019	722,719,563,550	-
		2020	732,991,334,916	1.42%
		2021	725,373,304,291	-1.04%
		2022	674,407,148,602	-7.03%
		2023	659,522,257,663	-2.21%
2	FOOD	2019	44,535,029,072	-
		2020	56,950,719,933	27.86%
		2021	62,754,664,235	10.19%
		2022	60,641,748,902	-3.37%
		2023	29,567,169,865	-51.26%
3	PCAR	2019	40,503,414,153	-
		2020	39,680,888,888	-2.03%
		2021	43,973,622,627	10.81%
		2022	41,631,404,260	-5.32%
		2023	37,720,639,233	-9.39%
4	PSDN	2019	587,528,831,446	-

No	Emiten	Year	Total Debt (Rp)	Debt Change (%)
		2020	645,223,998,886	9.81%
		2021	651,665,157,642	1.00%
		2022	666,499,450,770	2.27%
		2023	85,891,241,704	-87.11%

Source: idx.go.id (2024)

The debt trends of food and beverage companies listed on the IDX for the 2019-2023 period show varying fluctuations. PT Tri Banyan Tirta Tbk (ALTO) experienced a 1.42% increase in debt in 2020, followed by a gradual decline until 2023 (-2.21%), with losses significantly decreasing to IDR 10.99 billion in 2023. PT Sentra Food Indonesia Tbk (FOOD) recorded a sharp rise in debt during 2020-2021, but it dropped drastically in 2023 (-51.26%). However, the company's losses increased to IDR 12.73 billion, indicating that reducing debt does not always lower losses. PT Prima Cakrawala Abadi Tbk (PCAR) saw fluctuating debt, with a 10.81% increase in 2021 accompanied by losses of IDR 12.47 billion. A debt reduction in 2023 (-9.39%) successfully lowered losses to IDR 4.11 billion. Meanwhile, PT. Prasidha Aneka Niaga Tbk (PSDN) experienced rising debt until 2022, followed by a sharp decline in 2023 (-87.11%), but losses surged significantly to IDR 105.63 billion. This data indicates that changes in debt do not always correlate directly with changes in losses.

Several factors influence a company's capital structure, including the non-debt tax shield. The non-debt tax shield refers to tax savings derived from sources other than debt, such as amortization and depreciation. A study by Damayanti & Pinem (2023) shows that the value of the non-debt tax shield in the form of amortization indicates a reduction in the tax benefits of interest from debt financing. Furthermore, incorporating additional elements beyond depreciation can reduce the incentive for managers to increase debt usage. Previous research has shown that the non-debt tax shield does not have a significant effect on a company's capital structure (Fachri & Adiyanto, 2019; Mardiyanto et al., 2022; Wulandari & Januari, 2020). However, other studies have produced different findings, indicating that the non-debt tax shield significantly affects capital structure (Ula & Setiavati, 2019). While debt usage offers tax savings and business expansion opportunities, non-debt tax shields such as depreciation serve as tax reducers unrelated to debt and can influence a company's preference for debt financing (Fachri & Adiyanto, 2019).

The decision to use debt is also influenced by business risk, which is related to the uncertainty of future asset returns. A company's business risk is considered low if product demand is stable with fixed prices, and the company can quickly adapt when prices increase (Ariwangsa, 2021). Business risk refers to the likelihood of unexpected changes in the business environment that may affect a company's performance and success (Mowen et al., 2018). This reflects how sensitive a company's EBIT is to fluctuations in sales, which in turn affects the level of business risk (Nofialdi & Yumna, 2021). Previous research indicates that business risk affects capital structure. Companies with high levels of risk tend to avoid debt as a source of capital, especially foreign capital, compared to companies with low risk, as using debt could increase the risk of bankruptcy (Supriyono et al., 2020). Studies by Fazhri & Adiyanto (2019) and Yanti et al. (2022) show different results, suggesting that business risk does not affect capital structure. This applies to companies that have an effective risk management system in place, which enables them to mitigate the impact of risk by controlling it.

Another factor that can influence capital structure is company size. Company size refers to the criteria used to classify companies as small, medium, or large entities. Previous research shows that company size has a positive effect on capital structure; generally, larger companies have easier access to loans compared to smaller companies (Nurul Aini et al., 2022). These findings align with other studies that explain that company size is one of the

most relevant factors for access to debt, particularly long-term debt (Serrasqueiro, 2021). However, a study by Indriani et al. (2021) presents a different result, showing that company size does not affect capital structure.

Despite the risks, companies that can effectively use debt can enhance profitability (Anita et al., 2024). In general, when related to a company's profitability, capital structure plays a crucial role in determining how the company finances its operations and investments, as well as its impact on profits. The right capital structure can maximize profitability, while poor funding decisions can burden the company's performance (Putra et al., 2021). Previous research has shown that capital structure has an effect on profitability. Empirically, it is explained that there is a positive relationship between the use of debt and the company's ability to maximize profits (Nguyen et al., 2023). These findings are supported by research from Adhan et al. (2024), which indicates that capital structure influences a company's profitability. Capital structure affects profitability, and the leverage ratio is a common measure of a company's ability to generate profits, making the use of debt in the capital structure significant for the company's profitability (Anita et al., 2024). Anita et al. (2024) further added that, especially for manufacturing companies that require large capital for their operations and face rapidly changing market conditions, the impact of capital structure on profitability becomes even more significant.

Research on capital structure and the factors influencing it has been widely conducted. However, this study offers novelty by incorporating non-debt tax shield, business risk, and company size as independent variables to analyze their impact on capital structure. The novelty of this research lies in further examining how capital structure affects a company's profitability. This study is expected to provide a new perspective on the role of capital structure, not only as a result of certain factors but also as a key element that can drive the company's profitability performance. The focus of this research will be on manufacturing companies in the consumer goods sector during the 2019-2023 period, as manufacturing companies tend to have stable business operations with consistent demand, especially for essential goods or industrial products.

The Influence of Non-Debt Tax Shield on Capital Structure

Funding decisions are critical for a company's survival in a competitive environment. Non-Debt Tax Shield (NDTS) substitutes interest expenses, reducing the company's taxable income (Supriyono et al., 2020). NDTS refers to tax benefits obtained without incurring debt, which has been found to negatively impact capital structure. Companies with high NDTS tend to use less debt in their capital composition (Fachri & Adiyanto, 2019). According to the trade-off theory, companies with significant NDTS, such as depreciation and fiscal losses, should prioritize balancing tax benefits with funding choices between debt and equity (Alalmai et al., 2020). NDTS incentivizes companies to reduce debt dependency, leveraging tax savings from depreciation and amortization instead (Susilawaty, 2021). NDTS is effective when it reduces tax obligations through depreciation savings, increasing post-tax profits. **Hypothesis 1: Non-Debt Tax Shield negatively influences the company's capital structure.**

The Influence of Business risk on Capital Structure

Business risk poses challenges to companies in seeking external funding and significantly impacts capital structure. Higher debt-related costs exacerbate business risks, including financial distress, bankruptcy costs, reorganization expenses, underinvestment, and asset replacement issues (Yanti et al., 2022). Business risk negatively affects capital structure, meaning companies with higher risks tend to reduce debt usage. This is due to concerns that excessive debt may amplify existing risks, such as financial distress or bankruptcy. Companies may opt for internal or equity financing to manage high business risks and maintain stability

(Fachri & Adiyanto, 2019). High business risk increases the likelihood of financial difficulties, including default and bankruptcy. To address this, companies must carefully design their capital structure, as excessive debt can escalate financial risks (Alalmai et al., 2020). Companies with higher risks prefer avoiding foreign funding, reducing bankruptcy chances compared to lower-risk firms (Nurul Aini et al., 2022). **Hypothesis 2: Business risk negatively influences capital structure.**

The Influence of Firm Size on Capital Structure

Firm size is a key factor reflecting a company's financial capability, directly linked to its assets. Firm size can also be assessed by total sales, average sales, and total assets (Yanti et al., 2022). A positive relationship between firm size and capital structure indicates that larger firms tend to use more debt in their capital composition. This may be due to easier access to external funding, higher creditor trust, or better risk-bearing capacity associated with larger companies (Putra et al., 2021). Larger firms can leverage economies of scale and operational efficiency to manage debt risks effectively (Fachri & Adiyanto, 2019). Although all firms face business risks, larger firms are generally better equipped to handle financial risks, such as interest rate and market risks. Consequently, they may utilize debt to benefit from tax shields and enhance shareholder returns (Liang et al., 2020). **Hypothesis 3: Firm size positively influences capital structure.**

Capital Structure and Its Influence on Company Profitability

Capital structure refers to the balance or ratio between external and internal capital. External capital includes long-term and short-term debt, while internal capital consists of retained earnings and ownership equity in the company (Dede Hertina et al., 2020). Capital structure significantly impacts profitability. Companies with a high proportion of debt may face increased interest expenses, which can suppress net income (Amare, 2021). On the other hand, debt usage can be advantageous if the returns from investments exceed the cost of debt. Overall, a higher leverage ratio tends to negatively impact a company's profitability, as increased debt is associated with a decline in return on assets (ROA) (Ahmed & Bhuyan, 2020). Companies that rely heavily on various forms of debt to finance their operations may experience significant dependency, which negatively affects their profitability (Nashikh et al., 2022). However, when debt is used appropriately, it can positively influence profitability by enabling companies to use third-party funds for investments or operations without diluting owner equity (Kim & Kim, 2021). **Hypothesis 4: Capital structure negatively influences company profitability.**

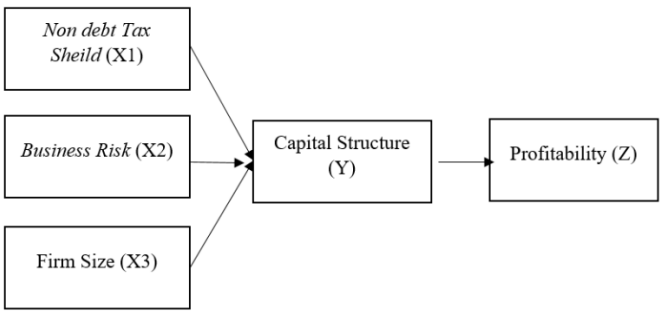

Figure 1. Conceptual Framework

METHOD

The research method to be used in this study is the quantitative method. The quantitative method is a research approach that utilizes numerical measurement and statistical analysis to collect, analyze, and interpret data. The research will analyze 46 manufacturing companies in

the consumer goods sector. The analysis will be conducted using multiple regression analysis, processed using SPSS.

RESULTS AND DISCUSSION

Results

Table 3. Statistics Descriptive Test

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Non Debt Tax Sheild	230	0.0000009	0.0652260	0.005654508	0.0092974621
Business Risk	230	0.0100000	56.7600000	5.530304348	8.7447796227
Ukuran Perusahaan	230	23.2800000	32.8600000	27.995260870	1.9576181213
Struktur Modal	230	0.020000	13.210000	1.09708696	1.215241181
Profitabilitas	230	-0.48	8.170000	0.23482609	0.749225927
Valid N (listwise)	230				

Source: output spss, (2024)

1. Non-Debt Tax Shield has a minimum value of 0.0000009, for the company with the ticker code DLTA in 2019, and a maximum value of 0.0652260, for the company with the ticker code CAMP in 2019. The mean value is 0.005654508, with a standard deviation of 0.0092974621.
2. Business Risk has a minimum value of 0.01, for the company with the ticker code KICI in 2020, and a maximum value of 56.76, for the company with the ticker code PSGo in 2020. The mean value is 5.530304348, with a standard deviation of 8.7447796227.
3. Company Size has a minimum value of 23.28, for the company with the ticker code KPAS in 2019, and a maximum value of 32.86, for the company with the ticker code INDF in 2023. The mean value is 27.995260870, with a standard deviation of 1.9576181213.
4. Capital Structure has a minimum value of 0.02, for the company with the ticker code CAMP in 2022, and a maximum value of 13.21, for the company with the ticker code PSDN in 2020. The mean value is 1.09708696, with a standard deviation of 1.215241181.
5. Profitability has a minimum value of -0.48, for the company with the ticker code FOOD in 2023, and a maximum value of 8.17, for the company with the ticker code CAMP in 2022. The mean value is 0.23482609, with a standard deviation of 0.749225927.

Table 4. Classical Assumtion Test Equation I

Test	Variable	Result
Normality Test (One-Sample Kolmogorov-Smirnov Test)	Asymp. Sig. (2-tailed)	0.093[c]
Heteroscedasticity Test	Non Debt Tax Sheild	0.713
	Business Risk	0.982
	Firm size	0.060
Multicollinearity Test	Non Debt Tax Sheild	VIF: 1.211
	Business Risk	VIF: 1.017
	Firm size	VIF: 1.225
Autocorrelation (durbin watson)		2.356

Source: output spss, (2024)

1. Normality Test (One-Sample Kolmogorov-Smirnov Test)
   The p-value of 0.093 is greater than the significance level of 0.05, indicating that the residuals are not significantly different from a normal distribution. This suggests that the normality assumption is not violated, and the data can be considered to have a normal distribution.

2. Heteroscedasticity Test
   For Non-Debt Tax Shield, Business Risk and Firm Size, the p-values are greater than 0.05, indicating no significant evidence of heteroscedasticity for these variables.
3. Multicollinearity Test (Variance Inflation Factor - VIF)
   The VIF values are all below 10, which indicates no significant multicollinearity issues between the independent variables. VIF values below 10 suggest that the independent variables are not highly correlated, and therefore, the multicollinearity assumption is satisfied.
4. Autocorrelation (Durbin-Watson Test)
   The Durbin-Watson statistic of 2.356 is close to 2. No autocorrelation in the residuals.

Table 5. Classical Assumtion Test Equation II

Test	Variable	Result
Normality Test (One-Sample Kolmogorov-Smirnov Test)	Asymp. Sig. (2-tailed)	.200[c,d]
Heteroscedasticity Test	Profitability	0.471
Multicollinearity Test	Profitability	VIF: 1.000
Autocorrelation (durbin watson)		1.933

Source: output spss, (2024)

1. Normality Test (One-Sample Kolmogorov-Smirnov Test)
   The p-value of 0.200 is greater than the significance level of 0.05, indicating that the residuals are normally distributed
2. Heteroscedasticity Test
   The p-value of 0.471 is greater than 0.05, which indicates that there is no significant evidence of heteroscedasticity in the residuals for the profitability variable.
3. Multicollinearity Test (Variance Inflation Factor - VIF)
   The VIF value of 1.000 indicates no multicollinearity issues with the profitability variable. VIF values close to 1 suggest that there is no significant correlation between the independent variables
4. Autocorrelation (Durbin-Watson Test)
   The Durbin-Watson statistic of 1.933 is close to 2, suggesting that there is no significant autocorrelation in the residuals.

Table 6. Regression Test Equation I

Coefficients[a]						
Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-4.273	0.979		-4.365	0.000
	Non Debt Tax Sheild	-0.029	0.021	0.099	1.403	0.016
	Business Risk	-0.089	0.050	0.115	1.777	0.007
	Ffirm Size	0.145	0.037	0.281	3.964	0.000
a. Dependent Variable: Capital Structure						

Source: output spss, (2024)

$$\mathbf{Y= -4.273 - 0.029X1 - 0.089X2 + 0.145\ X3 + e}$$

Y : Capital Structure
X1: non debt tax sheild
X2: business risk
X3: firm size

β0 = Konstanta (intersep)
β1, β2, β3= Regression coefficients
ε = Error
c= Koefisien

1. Constant (-4.273):
   If all independent variables (Non-debt Tax Shield, Business Risk, and Firm Size) are zero, the value of the Capital Structure (Y) is estimated to be -4.273.
2. Non-debt Tax Shield Coefficient (X1 = -0.029)
   For every 1-unit increase in Non-debt Tax Shield, the Capital Structure is expected to decrease by 0.029, assuming other variables remain constant. The negative coefficient indicates a negative relationship between Non-debt Tax Shield and Capital Structure.
3. Business Risk Coefficient (X2 = -0.089)
   For every 1-unit increase in Business Risk, the Capital Structure is expected to decrease by 0.089, assuming other variables remain constant. The negative relationship indicates that as business risk increases, the company's capital structure decreases.
4. Firm Size Coefficient (X3 = 0.145)
   For every 1-unit increase in Firm Size, the Capital Structure is expected to increase by 0.145, assuming other variables remain constant. The positive relationship indicates that larger companies tend to have a higher capital structure.

Table 7. Regression Test Equation II

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.118	0.130		-23.966	0.000
	Struktur modal	-0.728	0.122	-0.367	-5.963	0.000
a. Dependent Variable: Profitabilitas						

Source: output spss, (2024)

$$\mathbf{Z = -3.118 -0.728Y + \varepsilon}$$

Y : Capital Structure β0 = Konstanta (intersep)
Z : Profotability β = Regression coefficients
ε = Error c= Koefisien

1. Constant (-3.118)
   If the independent variable of capital structure is zero, the value of profitability (Z) is estimated to be -3.118.
2. Capital Structure Coefficient (Y = -0.728)
   For every 1-unit increase in Capital Structure, profitability is expected to decrease by 0.728. The negative coefficient indicates a negative relationship between capital structure and profitability.

Table 8. *Coefficient of Determination*

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Durbin-Watson
Model I (Dependent: Struktur Modal)	0.922	0.850	0.820	0.37351	2.356
Model II (Dependent: Profitability)	0.367	0.135	0.131	1.86669	1.933

Source: output spss, (2024)

1. Model I: The Adjusted R^2 of 0.820 indicates that 82% of the variation in capital structure can be explained by the independent variables (Non-Debt Tax Shield, Business Risk, and Firm Size). his means that the remaining 18% is influenced by factors outside the model

that were not included in the analysis.

2. Model II: The R^2 of 0.135 indicates that 13.5% of the variability in profitability is explained by the capital structure. the remaining **86.5%** of the variability in profitability is due to other factors not captured by this model.

Table 9. Hypothesis Testing Model I

Variable	T Statistic	Sig.	Description
Non Debt Tax Shield	1.403	0.016	H0 is rejected, H1 is accepted
Business Risk	1.777	0.007	H0 is rejected, H2 is accepted
Firm Size	3.964	0.000	H0 is rejected, H3 is accepted

Source: output spss, (2024)

1. Non-Debt Tax Shield on Capital Structure: The t-statistic value of 1.403 with a significance value (Sig.) of 0.016 (< 0.05) indicates that the non-debt tax shield has a significant effect on capital structure. H0 is rejected and H1 is accepted, meaning Non-Debt Tax Shield affects capital structure.
2. Business Risk on Capital Structure: The t-statistic value of 1.777 with a significance value (Sig.) of 0.007 (< 0.05) indicates that business risk also has a significant effect on capital structure. H0 is rejected and H2 is accepted, meaning business risk affects the company's capital structure.
3. Firm Size on Capital Structure: The t-statistic value of 3.964 with a significance value (Sig.) of 0.000 (< 0.05) indicates that firm size has the most significant effect on capital structure among the three independent variables. H0 is rejected and H3 is accepted, meaning firm size affects capital structure.

Table 10. Hypothesis Testing Model I

Variable	T Statistic	Sig.	Description
Capital Structure	-5.963	0.000	H0 is rejected, H4 is accepted

Source: output spss, (2024)

t-statistic value of -5.963 with a significance value (Sig.) of 0.000 (< 0.05). H0 is rejected and H4 is accepted, meaning that capital structure has a significant impact on profitability.

Discussion

The Influence Of Non-Debt Tax Shield on Capital Structure

Based on the Trade-Off Theory, companies tend to weigh the tax benefits of interest on debt (tax shield) against the bankruptcy risks caused by excessive debt usage (Kedzior et al., 2020). If a company has a high NDTS, such as depreciation, it can gain equivalent tax benefits without incurring debt. This means that NDTS serves as a substitute for the tax shield from debt, allowing the company to reduce its reliance on debt financing. Companies with high NDTS tend to have lower levels of debt in their capital structure, as they are able to leverage tax savings from depreciation and amortization, reducing the incentive to take on debt for the purpose of obtaining a tax shield from interest (Amalia & Hidayati, 2020).

A company’s ability to save or reduce tax burden (tax shield) can create balance in managing capital structure. Tax shield can serve as a measurement tool in capital structure management, aiming to legally reduce the company's tax burden by taking advantage of opportunities available in debt taxation regulations (Wulandari & Januari, 2020). This aligns with previous research, which explains that a high non-debt tax shield will reduce the company's tax burden, making income taxes lower and after-tax profits higher compared to companies that do not have a non-debt tax shield. With the presence of a non-debt tax shield

and high company profits, firms tend to use less debt to avoid financial difficulties. In other words, non-debt tax shield has a negative effect on capital structure (Suryani & Sari, 2020).

Non-debt tax shield has a significant negative impact on capital structure. This occurs because high depreciation values reflect the amount of fixed assets owned by the company. The greater the investment in fixed assets, the higher the depreciation recognized, which increases the tax reduction benefits for the company. This condition increases the availability of funds, enabling the company to minimize its need for debt in its capital structure (Putu & Wulandari, 2019). In line with this study's findings, Indriani et al. (2021) explain that depreciation can be a factor that reduces the company's need for borrowing. This is because high non-debt tax shields, such as depreciation on fixed assets, can help reduce the company's tax burden. By owning substantial assets, a company can use depreciation to reduce taxes without relying on loans to pay interest or other tax obligations. The larger the fixed assets owned, the higher the depreciation value, allowing the company to reduce its tax burden and avoid using large amounts of debt.

The Influence Of Business Risk on Capital Structure

Business risk reflects the uncertainty in a company's operating income resulting from market fluctuations, competition, or economic conditions. When business risk is high, the company's income becomes unstable, reducing its ability to meet debt interest obligations. To avoid the possibility of default, companies tend to reduce their use of debt. This study shows that business risk negatively affects capital structure. Business risk plays a crucial role in capital structure, encompassing various cost components inherent in a company's operational activities. High business risk can decrease the company's ability to generate profits due to expenses incurred to mitigate such risks. Additionally, when business risk increases, the capital structure decreases because creditors are reluctant to lend to companies with high business risk, making it difficult for such companies to repay loans (Putra et al., 2021).

This study supports the view of Brigham and Houston (2019) that business risk stems from operational uncertainty. To mitigate the impact of this risk, companies tend to adopt a more conservative capital structure, such as reducing debt usage. Furthermore, the decline in capital structure due to high business risk aligns with the uncertainty in operating income (EBIT), prompting companies to avoid using debt. With high business risk, a company's income becomes unstable, and adding debt further increases the risk of default. Companies with high business risk are often perceived as having a lower ability to repay loans. Consequently, they are charged higher interest rates to compensate for this risk. This makes debt financing more expensive, prompting companies to prefer equity or internal funding sources (Ariwangsa, 2021; Supriyono et al., 2020).

The Influence of Firm Size on Capital Structure

According to the capital structure theory by Modigliani and Miller (1958), larger companies tend to have easier access to external funding sources, including debt. This is because large companies are typically perceived as more stable and capable of generating consistent cash flows to meet their debt obligations. The results of this study align with the theory, indicating that larger companies tend to use more debt in their capital structure. Creditors have greater confidence in larger companies, as these firms are perceived to have more stable income and substantial assets. This makes them more likely to be deemed creditworthy by lenders, making it easier for them to secure loans (Fachri & Adiyanto, 2019).

The findings of this study also support previous research, which explains that larger companies often have good reputations, leading banks or financial institutions to trust them more with loans. This allows large companies to utilize debt more frequently to support their operations and growth. Additionally, large companies often have diverse business units, which

spreads and reduces their business risk. This enables them to use debt more freely without significant concerns about default (Deitiana & Robin, 2023).

Moreover, large companies tend to have stable profitability due to their extensive resources and better ability to manage risks effectively. Debt becomes a safer option for them, as they possess a stronger capacity to meet interest and principal payments on schedule. This allows them to maximize the use of external funds without jeopardizing their financial health (Zaid et al., 2020).

The Influence of Capital Structure on Profitability

The optimal capital structure balances risk and return to maximize the company's stock price. It includes the proportion of short-term debt, long-term debt, and equity used to finance the company's needs (Dede Hertina et al., 2020). The results of this study indicate that capital structure negatively impacts the company's profitability. This means that debt utilization in the capital structure can increase profitability, particularly if the company effectively manages its debt. By using debt, companies can finance projects or expansions without solely relying on equity. However, a higher proportion of debt increases the interest burden, which can reduce profitability. If a company can generate returns greater than the cost of debt, its profitability can improve (Wardani & Dewi, 2024).

The findings reinforce previous research that companies with higher reliance on debt (high leverage) may face greater financial risks. These risks stem from obligations to pay interest and principal, which can strain cash flow and reduce profitability. Conversely, companies relying more on equity may experience lower financial risk but potentially incur higher capital costs, which can also affect profitability (Nashikh et al., 2022).

The significant influence of capital structure on profitability demonstrates its tangible impact on a company's financial performance. Analysis shows that increasing debt within the capital structure can significantly enhance total assets, equity, and sales. The most influential ratio on profitability is Return on Assets (ROA), which reflects a company's ability to generate profit from its investments. ROA also indicates management's effectiveness in managing investments (Wardani & Subowo, 2020).

A balanced capital structure between equity and debt allows a company to leverage the lower cost of debt capital while maintaining financial stability. When debt is used efficiently, companies can increase profits without incurring excessive risk, leading to improved profitability (Nguyen et al., 2023).

CONCLUSION

Based on the analysis and discussion, the following conclusions can be drawn:

1. Non-Debt Tax Shield (NDTS) has a significant negative effect on capital structure. Companies with high NDTS levels, such as tax savings from asset depreciation, tend to reduce their reliance on debt in their capital structure. This occurs because tax savings from depreciation are sufficient to lower the company's tax burden, reducing the need to rely on the tax benefits of debt interest. Therefore, NDTS can substitute the role of debt as a tax-saving tool.
2. Business Risk has a significant negative effect on capital structure. High business risk reflects the instability of the company's operating income. Companies with high business risk tend to adopt a more conservative capital structure to avoid the obligations of interest payments, which could increase the risk of default. These companies rely more on equity or internal funding, offering flexibility and reducing the debt burden.
3. Firm Size has a significant positive effect on capital structure. Larger companies have better reputations, stable income, and substantial assets, making them more capable of meeting debt repayment obligations. This enhances creditor confidence and makes it easier for large

companies to obtain loans. The findings support the theory that larger companies are more likely to use debt due to creditors' trust in their financial stability.

4. Capital Structure has a significant negative effect on profitability. Using debt in the capital structure can enhance profitability if managed efficiently, such as by financing projects that yield returns higher than the cost of debt. However, if the proportion of debt becomes too high, the increased interest expense can reduce net profit, thereby decreasing profitability. With proper debt management, companies can leverage debt to support growth without compromising financial stability.

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