

Research Article

How Financial Factors Shape the Capital Structure of Manufacturing Companies in the Basic Chemical Industry

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Abstract: This study examines the influence of financial factors on the capital structure of basic chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The sample selection method used is purposive sampling, with specific criteria resulting in a sample of 51 companies and a total of 255 data points. After data processing, 80 outliers were identified, reducing the final sample to 175 company data points. This research adopts a quantitative approach, utilizing multiple linear regression analysis with SPSS version 25. The findings reveal that profitability, asset structure, company size, and business risk have a significant impact on capital structure. In contrast, sales growth and dividend policy do not show a significant contribution to capital structure. Based on these findings, it is recommended that companies in the basic chemical manufacturing sector focus on improving profitability, optimizing asset structure, and managing business risks effectively to strengthen their capital structure. Additionally, company size should be considered when making financing decisions. Since sales growth and dividend policy were not significant factors, firms might prioritize internal financial management and risk control over aggressive sales expansion or dividend adjustments when aiming to optimize their capital structure. Future research could explore other potential factors or use alternative methodologies to deepen understanding in this area.

Keywords: Asset Structure; Business Risk; Company Size; Dividend Policy; Profitability

1. Introduction

Capital structure plays a crucial role in helping companies determine the right financing decisions to support all business activities and growth, whether through internal or external funding sources. According to Ismoyo and Aprinanto (2020), capital structure is the comparison between equity and debt. This aspect is a critical factor that every company must pay attention to, as it reflects the overall financial condition of the company (Lestari & Oktaviani, 2024). Poor decisions in determining capital structure can negatively impact business sustainability, including for manufacturing companies in the basic and chemical industry sectors. Companies in these sectors generally operate on a large production scale, requiring significant funding, which ultimately influences decisions regarding capital structure. An optimal capital structure is achieved by efficiently gathering the right proportion of funds. However, companies often face difficulties in deciding the appropriate mix of external and internal funds, which can lead to excessive debt usage that is not balanced with internal funds. This challenge arises because companies struggle to identify which financial factors influence their capital structure. If capital structure is neglected, it can have fatal consequences for the company, including bankruptcy.

Cases of suboptimal capital structure due to poor financing decisions have occurred in several major companies. For example, PT Tridominan Performance Materials Tbk (TDPM)

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experienced a default on its debt obligations. The company failed to provide the necessary funds to pay off MTN I 2017 in May 2021, MTN II 2018 on April 27, 2021, and Bond II 2019 on June 28, 2022. In 2019, TDPM issued bonds worth IDR 400 billion, securing all its assets as collateral. However, by 2021, TDPM defaulted on both MTN I and II. The company also had uncollectible receivables amounting to US\$49 million due to previous sales growth, but was unable to secure bank loans and instead relied on affiliated debt. This situation led to further defaults on its 2019 bonds. Another case occurred at PT Waskita Beton Precast Tbk (WSBP), which faced debt payment postponement lawsuits from several companies. According to its 2020 financial report, WSBP had third-party trade payables of IDR 3.35 trillion, including IDR 18.10 billion owed to PT Hartono Naga Persada. WSBP also auctioned assets worth IDR 11.23 billion to pay 75% of its debts to creditors. In 2019, WSBP distributed dividends even when it needed working capital, reducing its internal funds, and in 2021, it did not distribute dividends due to ongoing losses. Similar issues were faced by PT HK Metals (HKMU).

Another example is PT Kertas Basuki Rachmat Indonesia Tbk, which faced the threat of delisting from the IDX due to capital problems that forced it to halt production after a bank withdrew its commitment to provide a US\$10 million working capital loan. These cases show that even large companies can suffer from poor debt management, leading to a deteriorating capital structure. One way to minimize such cases is by carefully analyzing and managing the financial factors that influence capital structure effectively and efficiently. In this study, the variables are limited to Profitability, Asset Structure, Company Size, Business Risk, Sales Growth, and Dividend Policy.

Profitability is an indicator used to assess a company's ability to generate profits over a certain period (Hartina et al., 2024). High profitability allows companies to have greater internal funding sources, which in turn can influence capital structure decisions. High profitability also sends a positive signal to creditors, indicating the company's ability to meet its debt obligations and thus improving access to external financing. Research by Zahro et al. (2022) shows that profitability has a positive and significant effect on capital structure. However, Hossin and Mia (2020) found a significant negative effect, while Suyono et al. (2024) stated that profitability (ROA) does not significantly affect capital structure.

The second factor is asset structure, which facilitates companies in obtaining loans by using assets—especially fixed assets—as collateral. The composition of these assets also determines the amount of long-term debt a company can bear, thus affecting its capital structure (Lestari & Oktaviani, 2024). Companies with a high proportion of assets generally find it easier to obtain loans, as they are considered to have better repayment capabilities. Zahro et al. (2022) found a positive and significant effect of asset structure on capital structure, while Pamungkas (2023) found a significant negative effect, and Lestari and Oktaviani (2024) found no significant effect.

The third factor is company size, which reflects the total assets owned. Larger companies generally have a lower risk of bankruptcy due to their greater asset base, making it easier to obtain external loans (Arviani & Sundari, 2023). This finding aligns with the trade-off theory, which states that highly profitable companies tend to use more debt, as they have the ability to meet obligations and gain creditor trust. Lestari and Oktaviani (2024) found a significant positive effect of company size on capital structure, while Pamungkas (2023) found a significant negative effect, and Suhardjo et al. (2022) found no significant effect.

The fourth factor is business risk, which reflects the level of uncertainty faced by a company in its operations. High debt levels increase business risk (Suyono et al., 2024). As the proportion of debt rises, so do interest payments and obligations, increasing the potential risks (Purnasari et al., 2020). Zahro et al. (2022) found a positive and significant effect of

business risk on capital structure, while Hartina et al. (2024) found a significant negative effect, and Suyono et al. (2024) found no significant effect.

The fifth factor is sales growth. High sales growth is achieved with sufficient capital, making it easier for companies to access financing. Companies with stable sales tend to have more debt, using it to preserve internal funds for urgent needs. Companies with rapid sales growth are more confident in taking on debt due to profit prospects. Arviani and Sundari (2023) found a significant positive effect of sales growth on capital structure, while Rachmawati and Faisal (2024) found a significant negative effect, and Suyono et al. (2024) found no significant effect.

The final factor is dividend policy, which refers to management's decision regarding the distribution of profits to shareholders or retaining earnings as retained earnings (Ismoyo & Aprinanto, 2020). If a company chooses not to distribute profits as dividends, retained earnings will increase the company's equity. Izkha and Muniroh (2022) found a positive and significant effect of dividend policy on capital structure, while Angela and Rasyid (2022) found a significant negative effect, and Lestari and Oktaviani (2024) found no significant effect.

Based on these realities and the inconsistencies in previous research findings, further study on capital structure is necessary. Therefore, this research is titled: "The Influence of Financial Factors on the Capital Structure of Manufacturing Companies in the Basic Chemical Industry Listed on the IDX for the 2019–2023 Period."

2. Literature Review

Signaling Theory

Signaling theory was introduced by Michael Spence in 1973. A signal is an action taken by company management that conveys information to investors regarding the company's performance and the management's policies concerning the company's future (Brigham & Houston, 2019, as cited in Ismoyo & Aprinanto, 2020). This theory posits that companies will provide signals related to their condition to information recipients, as there is information known to the company but not to investors (Lestari & Oktaviani, 2024). These signals can be positive (good) or negative (bad). Signaling theory can reduce information asymmetry and enhance capital structure.

Pecking Order Theory

Pecking order theory was proposed by Myers and Majluf in 1984. This theory explains the hierarchy in corporate financing and indicates a company's preference for using internal resources to finance investments (Ismoyo & Aprinanto, 2020). In this context, funding is primarily sourced from the company's internal resources, such as retained earnings, due to their lower risk. When internal funds are insufficient to cover financing needs, companies have the option to use external funds, such as debt or issuing equity instruments, which carry higher risks compared to internal funds.

Trade-off Theory

Trade-off theory was introduced by Modigliani and Miller in 1963. This theory essentially balances the benefits and sacrifices of using debt. It allows companies to use debt if there is a balance between the benefits and costs. In other words, if the benefits gained by the company exceed the costs incurred, the company is permitted to increase its debt, and vice versa (Ismoyo & Aprinanto, 2020). According to Brigham and Houston (2019, as cited in Robbaniy and Ardini, 2024), the core of trade-off theory assumes that the right proportion of debt can yield tax benefits for the company, but it cannot excessively use debt if the risk of bankruptcy is high.

Profitability and Capital Structure

Profitability is an indicator that measures how well a company can generate profits. A high level of profitability indicates that the company has sufficient earnings, leading it to prefer using its internal funds before resorting to debt (Wiguna et al., 2022). Companies with high profitability tend to increase their use of debt. When a company chooses to distribute its profits to shareholders, it reduces its internal funds, thus increasing its reliance on debt (Mujiatun et al., 2021). From a signaling theory perspective, high profitability is viewed as a positive signal reflecting the company's ability to fund operations without relying on debt. If the company does use debt, it sends a positive signal indicating that it can repay its obligations, thereby alleviating external concerns. Based on this explanation, profitability influences capital structure (DER).

H1: Profitability significantly affects capital structure.

Asset Structure and Capital Structure

Asset structure refers to the total assets owned by a company that can be used as collateral to obtain loans, particularly fixed assets due to their long-term nature (Raisa et al., 2024). Companies with substantial fixed assets tend to have higher levels of debt (Zahro et al., 2022). However, the risk of default related to debt may lead companies to reduce their debt levels (Pamungkas, 2023). This caution arises from the need to manage new debt carefully. Companies with significant fixed assets are also likely to have sufficient funds. According to signaling theory, a high asset structure can provide a positive signal that the company can meet its debt obligations, thereby increasing external confidence. Additionally, a high asset structure signals that the company is confident in its prospects and internal funds to meet needs without increasing repayment risks. Based on this explanation, asset structure influences capital structure (DER).

H2: Asset structure significantly affects capital structure.

Company Size and Capital Structure

Company size refers to the scale of a company's assets. As company size increases, the need for funding also rises, necessitating debt. Larger companies find it easier to obtain loans due to their higher chances of succeeding in competition (Arviani & Sundari, 2023). Large companies typically have substantial assets, allowing for greater internal funds and the ability to repay debts (Raisa et al., 2024). Larger companies generally have a strong reputation, reducing their reliance on debt financing. According to signaling theory, larger companies that are willing to increase their debt levels are perceived as confident in their business prospects and their ability to meet debt obligations. Furthermore, larger companies can demonstrate that they have adequate internal funding sources to finance their operations. This action also serves as a strategy to avoid market misunderstandings regarding their financial condition. Thus, company size influences capital structure.

H3: Company size significantly affects capital structure.

Business Risk and Capital Structure

Business risk reflects the uncertainty faced by a company in the future (Suyono et al., 2024). High business risk occurs when a company has substantial debt due to the need to service that debt. Companies with high business risk tend to use less debt. However, if income is unstable and business risk is high, but the company's profits are substantial, it may still utilize debt (Triyono et al., 2019). The use of debt is seen as a strategy to generate profits.

Additionally, companies can benefit from tax savings. According to signaling theory, the decision to reduce debt in times of high risk can be viewed as a positive signal that the company is managing its risks wisely. Conversely, if a company takes on high-risk debt, it also sends a positive signal indicating confidence in its prospects and its ability to meet obligations. Based on this explanation, business risk influences capital structure (DER).

H4: Business risk significantly affects capital structure.

Sales Growth and Capital Structure

Sales growth refers to the total increase in sales (Suyono et al., 2024). Business entities that show rapid sales growth will incur higher costs to realize their efforts, thus requiring debt (Arviani & Sundari, 2023). Additionally, high sales growth can lead to substantial profits, which can serve as additional capital (Raisa et al., 2024). Consequently, companies tend to have significant cash flows, enabling them to finance operations from high profits (Rachmawati & Faisal, 2024). According to signaling theory, sales growth provides a positive signal due to its promising prospects for profits, influencing capital structure and instilling confidence in investors and creditors. Furthermore, high sales growth sends a positive signal to external parties that the company's sales growth generates strong funds to meet needs. Based on this explanation, sales growth influences capital structure (DER).

H5: Sales growth significantly affects capital structure.

Dividend Policy and Capital Structure

Dividend policy refers to management's decision regarding the distribution of profits to shareholders or retaining earnings (Ismoyo & Aprinanto, 2020). If a company's dividend distribution leads to a decrease in retained earnings, it may face limitations in internal funds, necessitating debt (Izkha & Muniroh, 2022). However, companies can still utilize their internal funds even after distributing dividends, as those that distribute dividends tend to have sufficient internal funds (Angela & Rasyid, 2022). According to signaling theory, retaining earnings indicates a positive outlook for the entity's prospects, assuring information recipients of potential profits (Angela & Rasyid, 2022). Conversely, if a company decides to distribute dividends, it reduces internal funds and may require debt, but the welfare of shareholders remains assured, thus still sending a positive signal (Izkha & Muniroh, 2022). Based on this explanation, dividend policy significantly influences capital structure.

H6: Dividend policy significantly affects capital structure.

3. Proposed Method

Research Design

This study employs a quantitative approach, which is commonly used to analyze populations or samples using statistical or numerical data to test hypotheses. The population in this research consists of manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. The data used are annual financial reports obtained from the official IDX website (www.idx.co.id).

Sampling Technique

The sampling technique applied is purposive sampling, which involves selecting samples based on specific criteria. According to Sugiyono (2020), purposive sampling is a method

of sample selection based on certain considerations. In this study, the criteria include: Manufacturing companies in the basic and chemical industry sectors that have conducted an IPO, Distributed dividends, and Have complete data during the observation period.

Based on these criteria, 51 companies were selected, resulting in a total of 255 observations. After data processing, 80 outlier data points were identified, so the final sample analyzed consisted of 175 company data points.

Variable Operationalization and Measurement

- a. Capital Structure (DER): According to Suyono et al. (2024), capital structure is the composition or balance between funds sourced from debt (external capital) and funds from the owners (internal capital) used to finance company operations.
- b. Profitability (ROA): Profitability measures the extent to which a company can generate profit within a certain period (Hartina et al., 2022). ROA is calculated by dividing net income after tax (EAT) by total assets.
- c. Asset Structure: Asset structure reflects the company's ability to bear long-term debt, ultimately affecting the composition of capital structure (Lestari & Oktaviani, 2024). It is typically calculated as the proportion of fixed assets to total assets.
- d. Company Size: Company size serves as an indicator to assess the financial structure based on the total assets owned and as a basis for comparing asset values between companies (Arviani & Sundari, 2023). It is usually measured using the natural logarithm of total assets.
- e. Business Risk: Business risk describes the level of uncertainty faced by a company in covering operational costs during its business activities (Suyono et al., 2024). It can be measured using the variability of earnings before interest and taxes (EBIT) or other relevant ratios.
- f. Sales Growth: Sales growth illustrates the increase in a company's sales from one period to the next (Arviani & Sundari, 2023). It is calculated as the percentage change in sales over the previous period.
- g. Dividend Policy (DPR): Dividend policy refers to the decision to distribute profits to shareholders or retain earnings for future investment (Ismoyo & Aprinanto, 2020). The Dividend Payout Ratio (DPR) is used to measure this policy, calculated as the proportion of dividends paid to net income.

Data Analysis

The study uses multiple linear regression analysis to examine the effect of the independent variables on capital structure, utilizing SPSS version 25 for data processing.

4. Results and Discussion

Results

Descriptive Statistics Test

Table 1. Descriptive Statistics Results.

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	175	-0.03	0.21	0.0538	0.04161
Asset Structure	175	0.03	0.81	0.4182	0.20986
Company Size	175	25.05	32.68	29.1202	1.58870
Business Risk	175	0.00	0.15	0.0303	0.02650
Sales Growth	175	-0.30	0.99	0.0878	0.21032
Dividend Policy	175	0.00	2.38	0.2770	0.33541
Capital Structure	175	0.07	2.87	0.8005	0.57270

Source: Processed SPSS Data Version 25, 2025.

Based on Table 1, after outlier processing, 175 company data points were analyzed. The average profitability is 5.38%, indicating that, on average, companies in the sample generate a net profit of 5.38% of their total assets. The negative minimum value shows that some companies experienced losses during the study period. The relatively small standard deviation suggests that profitability variation among companies is not too large.

The average asset structure is 0.4182 (41.82%), meaning about 42% of total company assets are fixed assets. This reflects that most companies in the sample have a substantial proportion of fixed assets, typically used as collateral for loans. The relatively high standard deviation (0.20986) indicates considerable variation in asset structure among companies.

Company size, measured by the natural logarithm of total assets, averages 29.12, suggesting that the sample consists of medium to large companies. The wide range indicates significant variation between small and large companies in the population.

The average business risk is 0.0303 (3.03%), showing that the level of income uncertainty faced by companies is relatively low. The low maximum value further supports that business risk in this industry tends to be stable and manageable.

Average sales growth is 8.78%, indicating annual sales increases for most companies. However, the negative minimum (-30%) shows that some companies experienced sales declines. The relatively large standard deviation (0.21032) suggests high fluctuation in sales growth among companies.

The average dividend policy ratio is 0.2770, meaning companies, on average, distribute 27.7% of their net profit as dividends to shareholders. A minimum value of 0 indicates some companies did not distribute dividends, while the maximum of 2.38 suggests some companies paid dividends exceeding their net profit, possibly from retained earnings.

The average capital structure (debt-to-equity ratio) is 0.8005, indicating that companies have an average debt-to-equity ratio of 80.05%. This means most companies use a mix of equity and debt financing. The high maximum (2.87) shows some companies have high leverage, while the minimum (0.07) indicates low debt dependence.

Classical Assumption Test

a. Normality Test

Table 2. Normality Test Results.

One-Sample Kolmogorov-Smirnov Test	Unstandardized Residual
N	175
Mean	0.0000000
Std. Deviation	0.47683970
Most Extreme Differences	
Absolute	0.064
Positive	0.064
Negative	-0.047
Test Statistic	0.064
Asymp. Sig (2-tailed)	0.081

Source: Processed SPSS Data Version 25, 2025.

Based on the normality test results in Table 2, using the One-Sample Kolmogorov-Smirnov Test, the Asymp. Sig value is 0.081. Since this value is greater than 0.05, it can be concluded that the data in this study are normally distributed after testing.

Multicollinearity Test**Table 3.** Multicollinearity Test Results.

Variable	Tolerance	VIF
Profitability	0.791	1.264
Asset Structure	0.818	1.222
Company Size	0.936	1.069
Business Risk	0.853	1.172
Sales Growth	0.917	1.090
Dividend Policy	0.989	1.011

Source: Processed SPSS Data Version 25, 2025.

Based on Table 3, all independent variables in this study have tolerance values greater than 0.10 and VIF values less than 10. This indicates that the regression model does not exhibit multicollinearity. Thus, the relationships among the independent variables are within acceptable limits, and the model is considered reliable in this aspect.

Heteroscedasticity Test (White Test)**Table 4.** White Heteroscedasticity Test Results.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.464	0.215	0.071	0.39840

Source: Processed SPSS Data Version 25, 2025.

The White test results in Table 4 show an R-Square value of 0.215, resulting in a calculated chi-square (χ^2) value of 37.625 ($N \times R^2$). The table chi-square value, with 27 degrees of freedom and $\alpha = 0.05$, is 40.113. Since $37.625 < 40.113$ (χ^2 calculated $< \chi^2$ table), it can be concluded that there is no heteroscedasticity in the regression model. This means the variance of the residuals is constant, fulfilling another classical assumption for regression analysis.

Autocorrelation Test**Table 5.** Autocorrelation Test Results.

Model	Durbin-Watson
1	1.828

Source: Processed SPSS Data Version 25, 2025.

Based on Table 5, the Durbin-Watson (DW) value is 1.828. With a sample size (n) of 175 and six independent variables ($k = 6$), the upper bound (dU) is 1.8240. Since the DW value falls within the range $1.8240 < 1.828 < 2.1760$ (where 2.1760 is calculated as $4 - 1.8240$), it can be concluded that the regression model does not exhibit autocorrelation. This means the residuals are independent, fulfilling another classical assumption for regression analysis.

Coefficient of Determination**Table 6.** Coefficient of Determination Results.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.554	0.307	0.282	0.48528	1.828

Source: Processed SPSS Data Version 25, 2025.

Based on Table 6, the Adjusted R Square value is 0.282. This means that 28.2% of the variation in capital structure can be explained by the six independent variables: profitability,

asset structure, company size, business risk, sales growth, and dividend policy. The remaining 71.8% is influenced by other factors not included in this research model.

Hypothesis Testing

a. t-Test (Partial Test)

Table 7. t-Test Results.

Variable	t-value	Sig.	Interpretation
Profitability	-7.713	0.000	Significant
Asset Structure	-3.941	0.000	Significant
Company Size	1.980	0.049	Significant
Business Risk	3.139	0.002	Significant
Sales Growth	1.360	0.176	Not Significant
Dividend Policy	-1.195	0.234	Not Significant

Source: Processed SPSS Data Version 25, 2025

Interpretation of t-Test Results:

- Profitability: The t-value is -7.713 (absolute value 7.713) > 1.974 , with a significance value of $0.000 < 0.05$. This means profitability has a significant effect on capital structure. Thus, H_0 is rejected and H_a is accepted.
- Asset Structure: The t-value is -3.941 (absolute value 3.941) > 1.974 , with a significance value of $0.000 < 0.05$. This indicates asset structure significantly affects capital structure. H_0 is rejected and H_a is accepted.
- Company Size: The t-value is 1.980 > 1.974 , with a significance value of $0.049 < 0.05$. This shows company size has a significant effect on capital structure. H_0 is rejected and H_a is accepted.
- Business Risk: The t-value is 3.139 > 1.974 , with a significance value of $0.002 < 0.05$. This means business risk significantly affects capital structure. H_0 is rejected and H_a is accepted.
- Sales Growth: The t-value is 1.360 < 1.974 , with a significance value of $0.176 > 0.05$. This means sales growth does not have a significant effect on capital structure. H_0 is accepted and H_a is rejected.
- Dividend Policy: The t-value is -1.195 (absolute value 1.195) < 1.974 , with a significance value of $0.234 > 0.05$. This means dividend policy does not have a significant effect on capital structure. H_0 is accepted and H_a is rejected.

Summary, profitability, asset structure, company size, and business risk have a significant effect on capital structure. Sales growth and dividend policy do not have a significant effect on capital structure.

5. Discussion

The results of hypothesis testing indicate that H1, H2, H3, and H4 are accepted, while H5 and H6 are rejected. This means that profitability, asset structure, company size, and business risk have a significant effect on capital structure, while sales growth and dividend policy do not (Pratiwi et al., 2024; Lestari & Oktaviani, 2024; Wiguna et al., 2022; Zahro et al., 2022).

Profitability (H1), measured by Return on Assets, is proven to significantly affect capital structure. This finding aligns with the pecking order theory, which states that companies tend to prioritize the use of internal funds, such as retained earnings, to finance operations before turning to external sources like debt (Myers & Majluf, 1984; Pratiwi et al., 2024). Using debt can reduce net profit due to interest obligations. Additionally, according to signaling theory,

high profitability sends a positive signal that the company is capable of self-financing its operations without relying on debt (Spence, 1973; Wiguna et al., 2022).

Asset Structure (H2), measured by the Fixed Asset Ratio, also significantly affects capital structure. Companies with a higher proportion of fixed assets generally have greater internal funding capacity. Since fixed assets are not easily liquidated to cover short-term liabilities, these companies tend to limit debt usage to avoid default risk (Pamungkas, 2023; Zahro et al., 2022). This result also supports signaling theory, where companies confident in their prospects and internal funding send a positive signal to external parties regarding their financial stability and credibility (Spence, 1973; Lestari & Oktaviani, 2024).

Company Size (H3) is found to significantly influence capital structure. Larger companies typically have higher operational costs and thus require more external funding. They also have easier access to external financing and are more willing to take on debt due to promising prospects (Lestari & Oktaviani, 2024; Zahro et al., 2022). Large companies have strong reputations and extensive networks, which attract investors and increase external trust. In line with signaling theory, large company size sends a positive signal to creditors that the company has sufficient assets to bear default risk, making it easier for them to obtain loans and improve their capital structure (Arviani & Sundari, 2023; Spence, 1973).

Business Risk (H4) also shows a significant effect on capital structure. Business risk reflects the uncertainty companies face regarding future income. High business risk leads to profit fluctuations due to unstable revenues. However, in the basic and chemical manufacturing sector, business risk is relatively low (average 3.03% over five years), allowing companies to continue using debt in their financing (Triyono et al., 2019; Pratiwi et al., 2024). According to signaling theory, using debt in companies with relatively high business risk can send a positive signal to external parties that the company has good prospects and the ability to meet its financial obligations, making them confident in taking on debt (Spence, 1973; Wiguna et al., 2022).

Sales Growth (H5) is found to have no significant effect on capital structure. Although theoretically, companies with high sales growth may be more confident in increasing debt because higher sales are expected to strengthen future cash flows, in reality, sales growth does not always lead to increased profits (Suwita & Dewi, 2024; Pratiwi et al., 2024). Therefore, this factor is not necessarily a primary consideration in determining optimal capital structure. If sales growth is not accompanied by increased efficiency in capital use, operational costs may rise, and net profit may not meet expectations. In the basic and chemical industry sector, most sales are made on credit, resulting in receivables, so creditors do not use sales growth as a reference for lending decisions (Melananda & Ode Irma Sari, 2024).

Dividend Policy (H6) also does not significantly affect capital structure. Dividend policy is a management decision regarding whether profits will be retained or distributed as dividends. The findings show that changes in dividend distribution levels are not always followed by changes in company debt levels, as capital structure is more influenced by other factors such as profitability (Wiguna et al., 2022; Lestari & Oktaviani, 2024). This indicates that companies can still pay high dividends and finance their investments without relying on external funding. This supports the pecking order theory, which states that companies will prioritize internal funds before turning to external sources (Myers & Majluf, 1984; Triyono et al., 2019).

6. Conclusion And Suggestions

Conclusion

Based on the results of this study, it can be concluded that the financial factors of profitability, asset structure, company size, and business risk have a significant effect on capital structure. Meanwhile, sales growth and dividend policy do not have a significant effect on

capital structure. Simultaneously, all variables—profitability, asset structure, company size, business risk, sales growth, and dividend policy—show a significant influence on capital structure as a whole.

These findings are in line with several previous studies, although there are differences in results depending on the sector and period studied. For example, some research in other sectors found that profitability and business risk do not always significantly affect capital structure, while in this study, these variables are significant for the basic and chemical industry sector. The results also reinforce the importance of considering company-specific characteristics when analyzing capital structure decisions.

Limitations

This research has several limitations, including the use of only six financial variables and a focus solely on capital structure as the dependent variable. Other factors such as liquidity, macroeconomic conditions, or managerial ownership were not included and may also play a role in determining capital structure.

Suggestions

Despite these limitations, this study provides important insights into the financial factors influencing capital structure, especially for companies in the basic and chemical industry sector. For future research, it is recommended to include additional relevant variables such as liquidity, market conditions, or corporate governance, which have been shown to significantly impact financial performance and firm behavior. Employing a variety of analytical methods—including multiple regression analysis, panel data models, generalized method of moments (GMM), and nonparametric tests—can deepen and broaden the understanding of capital structure determinants by capturing different dimensions and dynamics across firms and industries. Furthermore, expanding the research scope to include other sectors or conducting cross-industry comparisons enhances the generalizability of findings and helps identify persistent determinants that may vary by context, thereby providing richer insights for both theory and practice. These steps are expected to enhance the relevance and applicability of research findings for both academics and practitioners in the field of corporate finance.

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