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THE DRIVERS OF COMPANY CAPITAL STRUCTURE

Melati[1], Elwisam[2], Suadi Sapta Putra[3], Kumba Digdowiseiso[4], Yulita[5]

[1,2,3,4] Faculty of Economics and Business, Universitas Nasional, Jakarta
[5.] Faculty of Business, Economics and Social Development, Universiti Malaysia Terengganu
Corresponding E-mail: melati@civitas.unas.ac.id

Abstract

Companies have a demand to comprehend the factors that impact their choice between equity and debt capital. The objective of this research is to condense and combine existing discoveries pertaining to the factors that influence a company's capital structure. The study employed the Systematic Literature Review (SLR) method, which facilitates meticulous, discerning, and well-documented searches of literature to obtain more precise and all-encompassing insights. The research findings indicate that business risk, profitability, company size, and company growth exert a substantial influence on the capital structure policy. Nevertheless, certain factors, such as asset structure, non-debt tax shield, and uniqueness, do not consistently demonstrate an influence. The discussion emphasizes the intricacy of the connections between these variables and the necessity of adopting a contextual approach when managing capital structure. To achieve long-term financial goals, it is crucial to have a comprehensive comprehension of the business context and company characteristics when making decisions about capital structure.

Keywords: ***Determinants, Capital, Company, and Structure***

1. INTRODUCTION

Capital management is an essential component of a company's financial strategy, encompassing the careful allocation and utilization of capital to optimize company worth. This process entails making strategic determinations regarding the acquisition of capital, specifically through equity and debt, as well as the comprehensive management of risk and finances. When managing their capital, companies need to take into account various factors (Handa Sari et al., 2020). Businesses must assess their operational vulnerabilities. When facing a significant level of risk, a company may need to depend more on equity in order to prevent excessive financial burdens resulting from interest payments on debt. Nevertheless, this policy can also diminish potential earnings. Furthermore, companies must take into consideration tax policies that necessitate careful attention. Utilizing debt can yield tax advantages as the interest on debt is eligible for deduction from taxable income. Excessive debt, as indicated by Febriani and Kristanti (2020), can heighten financial vulnerabilities.

Expanding firms may opt for equity as a means to facilitate investment and expansion, while avoiding the financial strain of elevated interest payments. Conversely, well-established companies may opt to utilize debt in order to capitalize on a more streamlined and effective cost framework. Common challenges in capital management frequently stem from an asymmetry between risk and profitability. Opting for an unsuitable capital structure relative to the company's risk profile can lead to financial hardships, particularly in the presence of market fluctuations or alterations in tax policies. Excessive debt can expose a company to risks associated with interest rate changes and payment challenges, whereas an excess of equity can diminish the company's financial leverage (Novitayanti & Rahyuda, 2019). When it comes to capital management, companies must also carefully consider the equilibrium between the concerns of shareholders and creditors. An imbalanced capital policy can have negative consequences for one party, therefore companies must take into account the concerns of all stakeholders. Effective capital management is a multifaceted undertaking that necessitates meticulous consideration of numerous factors. Poor allocation of capital can exert a substantial influence on a company's fiscal well-being and the value of its shareholders' investments. Companies must conduct meticulous analysis and regularly

reassess their capital structure to ensure it aligns with market conditions and the company's objectives (Wardita & Astakoni, 2018).

The issue of ascertaining a company's capital structure entails several difficulties that necessitate focused consideration. One of these uncertainties pertains to the risks associated with business. Companies must make a decision between equity and debt capital based on their risk exposure. Failure to accurately evaluate these risks can lead to capital structure decisions that are ill-suited to the company's risk profile, potentially jeopardizing the company's financial well-being and value. Zulvia (2018). There is an immediate requirement for research on the factors that determine a company's capital structure. This research aims to enhance comprehension regarding the specific factors that influence a company's decision in selecting between equity and debt. Furthermore, this research can aid in the identification of industry patterns or trends that could potentially impact the capital structure. This research is necessary because capital structure decisions have a significant impact on the long-term financial performance of the company.

Research can determine whether adopted capital policies have a favorable or unfavorable effect on profitability, growth, and company valuation. By gaining a deeper comprehension of the determinants that drive capital structure choices, companies can make more knowledgeable decisions to enhance operational effectiveness and financial well-being. This research can offer a more comprehensive understanding of market dynamics and financial regulations that can impact decisions regarding capital structure. By gaining a more profound comprehension of these factors, companies can flexibly modify their strategies in response to shifting market conditions. Hence, studying the factors that influence a firm's capital structure not only offers understanding of the firm's decision-making process, but also serves as a foundation for devising more intelligent and adaptable financial strategies in response to shifts in the business landscape. This research is crucial for assisting companies in mitigating risk, enhancing company worth, and attaining long-term financial objectives.

2. IMPLEMENTATION METHOD

The Systematic Literature Review (SLR) method is a rigorous and organized approach to examining and condensing information from scientific literature pertaining to a specific research subject (Qiu et al., 2023). During the process of Systematic Literature Review (SLR), researchers meticulously conduct a comprehensive and well-documented search to identify scientific literature that is pertinent to their research questions. After gathering the literature, a thorough process of selection and evaluation was conducted to ensure that only studies that met the specified criteria were included in the analysis. This methodical approach aids in mitigating selection bias and guarantees the inclusiveness of the literature obtained. By employing the SLR (Systematic Literature Review) approach, researchers are able to compile a comprehensive amalgamation of current research, pinpoint deficiencies in existing studies, and establish overarching findings or conclusions. The benefits of this approach encompass a notable degree of dependability and accuracy, as each stage of the research procedure can be elucidated comprehensively and replicated by other researchers. Furthermore, systematic literature review (SLR) enables researchers to effectively document the range of results and the degree of agreement found in the existing body of research (Qiu et al., 2023).

3. RESULTS AND DISCUSSION

Based on the SLR results of 7 journals that match the searched keywords, namely Determinants, Capital, Company and Structure, the following results were obtained:

No.	Article Title	Writer	Research Findings/Results
1	Determinants of Capital Structure and Its Impact on	(Handa Sari et al., 2020)	This research proves that there is a relationship between profitability and company size and capital structure. However, no relationship was

	Company Value (Study of Food and Beverage Companies on the Indonesian Stock Exchange)		found between growth, asset structure, and non-debt tax shield on capital structure. In addition, research findings show a correlation between capital structure and company value.
2	Determinants of Capital Structure of Infrastructure, Utilities and Transportation Companies	(Febriani & Kristanti, 2020)	Research findings show that company growth and company size significantly negatively impact capital structure. On the other hand, profitability, asset structure, non-debt tax shield, and business risk do not have a significant influence on capital structure.
3	Determinants of Capital Structure in Manufacturing Companies on the Indonesian Stock Exchange	(Zulvia, 2018)	Companies that face high business risks tend to reduce their dependence on debt in their capital composition.
4	Determinants of Capital Structure: Studies in Southeast Asia	(Murhadi, 2019)	Research findings show that debt policy is influenced by profitability, company size, level of asset tangibility, and growth rate.
5	Determinants of Capital Structure in the Perspective of Pecking Order Theory and Agency Theory	(Novitayanti & Rahyuda, 2019)	Pecking Order Theory shows a negative relationship between company size and capital structure. Therefore, it can be concluded that the larger the company size, the lower the capital structure will be.
6	Determinants of Capital Structure in Efforts to Increase the Profitability of Manufacturing Companies in Indonesia	(Management & Finance, 2020)	The findings from the research state that company size and level of tangibility do not have a significant impact on capital structure. Meanwhile, uniqueness has a significant positive influence on capital structure, and capital structure itself has a significant negative influence on profitability.
7	Determinants of Capital Structure in Property and Real Estate Companies in Indonesia	(Byusi & Achyani, 2019)	Research findings show that profitability does not have a significant impact on capital structure. However, the asset structure and company growth influence the capital structure positively and significantly.

The choice between equity and debt capital for a company is influenced by several factors that require careful deliberation. The magnitude of business risk is a significant determinant. Companies are more likely to utilize greater amounts of equity capital when their business carries a significant level of risk. This is because equity does not necessitate fixed interest payments and offers greater financial adaptability. Conversely, companies that are more financially secure may be more likely to opt for debt as a means of financing, as the interest on debt can offer tax advantages.

Companies that consistently generate substantial and reliable profits typically have greater flexibility in determining their capital structure. Companies with substantial profits can easily allocate funds to cover debt interest payments, whereas companies with meager profits are more likely to depend on equity financing (Nugroho et al., 2019). Start-up or rapidly expanding companies may opt to utilize equity as a means to facilitate investment and growth. In contrast, well-established companies that do not require extra funds for significant expansion may opt to utilize debt in order to benefit from a more affordable cost of capital. Certain industries may exhibit a higher inclination towards utilizing debt due to their specific business attributes, such as substantial asset levels or significant capital needs (Sumardika & Artini, 2020).

A company's capital structure is determined by a multitude of intricate and interconnected factors. The assessment of business risk is crucial in determining the optimal capital structure. Companies typically opt for a combination of equity and debt capital based on the degree of business risk they encounter. Companies facing significant risk may opt to increase their reliance on equity capital as a means to avoid the financial burden of fixed interest payments during uncertain business circumstances (Kartika Sari et al., 2022). Moreover, companies that generate substantial profits are likely to have greater capacity to utilize equity capital for funding, as they possess larger profits that can be allocated towards supporting operations and investments. Conversely, companies with low profitability may need to depend more on borrowing, which can potentially heighten financial risks. Companies may be incentivized to utilize debt when interest rates are low due to the reduced cost of capital. Conversely, challenging conditions in the capital market can restrict a company's ability to obtain equity capital (Febrianty et al., 2020).

The determination of capital structure is also affected by tax considerations. Debt selection offers tax advantages as the interest on debt can be subtracted from taxable income. Therefore, in specific tax environments, a company may choose to utilize debt. Additional factors encompass the stage of the company's life cycle. Emerging or developing firms may opt for equity as a means to facilitate growth, whereas well-established firms may find it more favorable to utilize debt in order to capitalize on reduced capital expenses. The factors that determine a company's capital structure are the outcome of an intricate equilibrium between the various elements involved. The selection of an appropriate capital structure is crucial for effectively managing risk, enhancing profitability, and optimizing the overall value of a company (Rizqy Ramadhan, 2019). By comprehending these factors, companies can make more knowledgeable and situational decisions regarding their capital structure. This research offers a comprehensive analysis of the company's financial dynamics and strategy, enabling management to optimize its capital structure in order to attain its long-term financial objectives. This research serves as the foundation for making adaptive and responsive decisions in light of the evolving business environment and capital markets (Manajemen & Keuangan, 2020).

The findings of the review on the influence of companies' capital policies on profitability, growth, and company value have substantial ramifications. This study offers a comprehensive analysis of the impact of capital structure on a company's financial performance. Research indicates that implementing intelligent capital policies can have a positive impact on a company's profitability, particularly when considering the financial aspect. Appropriate utilization of equity or debt can enhance financial efficacy, optimize cost frameworks, and consequently, augment net profit. Nevertheless, these favorable outcomes may entail potential hazards, particularly when a company excessively depends on debt, leading to amplified interest expenses and detrimental effects on net profit margins (Murhadi, 2019). Research indicates that capital structure decisions have a significant impact on a company's ability to grow and progress. Companies that can utilize equity capital for investment have more flexibility in supporting growth initiatives, such as expanding into new markets, conducting research and development, and making acquisitions. Conversely, a company that is heavily burdened by debt may encounter financial restrictions that curtail its capacity for growth (Zulvia, 2018).

The research findings indicate that a well-suited capital structure can significantly enhance the value of a company. Optimal utilization of capital can enhance the value of a company by implementing financial strategies that favor both shareholders and creditors. Nevertheless, it is imperative to evaluate these findings within the framework of risk, as excessive debt can escalate the likelihood of insolvency and diminish the company's worth (Febriani & Kristanti, 2020). Therefore, this study enhances comprehension of the correlation between capital policy and corporate financial performance. The findings can be utilized by company management to enhance their capital structure, aligning it with objectives and dynamic market conditions. This research serves as a foundation for making more informed decisions and can assist companies in developing financial strategies that preserve or enhance profitability, growth, and company value.

4. CONCLUSION

The findings of a literature review on the characteristics of a company's capital structure provide a thorough overview of the factors that impact a company's choice between equity and debt financing. Multiple studies indicate that business risk, profitability, company size, level of asset tangibility, and company growth significantly influence capital structure. The impacts of these factors differ and, as a whole, a company's decision in selecting its capital structure cannot be simplified to a single standardized approach. Hence, possessing a profound comprehension of the business context and company attributes is crucial for effectively managing the capital structure to attain enduring financial objectives. Companies must persist in conducting thorough research and analysis in order to effectively adjust their financial strategies and deliver enhanced value for shareholders and other stakeholders.

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