



Determinants of Capital Structure of Consumer Goods Industry Sector Companies: Evidence from the Indonesian Stock Exchange

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Abstract

This research is motivated by the discrepancies and inconsistencies observed in prior investigations. This study aims to investigate the factors that influence the capital structure of firms in Indonesia. We employed the purposive sampling strategy to acquire 36 companies. The employed analytical technique is multiple linear regression with SmartPLS 4. This study reveals an inverse correlation between capital structure and profitability, as well as asset growth, the current ratio, and GDP. Conversely, capital structure exhibits a positive correlation with earnings volatility, asset tangibility, firm age, firm size, asset composition, inflation rate, and interest rate. We anticipate that future research will reassess the application of the same variables and those that exert no influence in our study. This research is limited to the consumer goods sector, and it is hoped that future research will consider other sectors. We advise prospective authors to use a 5% significance level and increase the sample size, whereas this study employs a 10% significance level. The findings of this study contribute to the accounting literature, particularly in the area of capital structure, and can serve as a reference for firm management to identify factors influencing capital structure. The results will enable firm management to enhance organisational performance and secure the company's viability.

Keywords: Capital Structure, Manufacturing, Consumer Goods Industry, Macroeconomic Variable, Indonesian Stock Exchange

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INTRODUCTION

Capital structure is a crucial aspect for the majority of firms. Non-financial companies require capital primarily for investment purposes, such as acquiring property and constructing or purchasing production facilities and equipment for expanding into new business sectors. In the era of globalisation, the business sector is seeing heightened competition, necessitating companies to consistently produce with efficiency to maintain a competitive edge. As economic entities, companies aim to maximise profit, enhance their value, and benefit their owners (Napa I & Muljadi, 1995). To accomplish these objectives, companies develop strategic and tactical plans. The capital structure is a vital component of corporate finance. Capital structure refers to the ideal amalgamation of long-term debt and equity that a firm should possess. This corporate policy significantly impacts numerous firm activities, encompassing both debt and equity (Vo, 2017). The capital structure theory was initially proposed by (Modigliani & Miller, 1958). At present, no theory exists that offers a through explanation for establishing the optimal capital structure, despite it being a significant area of inquiry among financial economists for many years.

Essentially, the issue of spending pertains to the financial equilibrium of the organization. Spending involves maintaining a balance between the necessary assets and liabilities, as well as optimizing the arrangement of these assets and liabilities. The selection of asset mix determines the company's wealth structure. The choice of the quantitative composition of the liabilities has a crucial role in determining the financial structure and capital structure. The choice to allocate funds involves identifying the source of cash, establishing an appropriate spending balance, and choosing the most effective capital structure. When making fund fulfillment decisions, companies must choose whether to use internal or external sources of funding, such as debt or bond issuances, or by issuing new shares.

Various factors can influence a company's financing decisions, and each of the capital structure theories we shall discuss has its own set of assumptions that cannot comprehensively account for all financing decisions. According to (Modigliani & Miller, 1958), a company's capital structure has no impact on its value, as long as the markets are flawless and there are no transaction costs. Furthermore, the prevailing belief is that the level of a company's debt does not impact its market worth. This theory is predicated on the following assumptions: The efficiency of capital markets is posited, along with the assumption that all relevant information is universally accessible, both within and outside the business. It is further postulated that costs associated with transactions or bankruptcy are negligible, and the choice between debt and equity financing is inconsequential. Furthermore, their theory regards capital structure as primarily influenced by financial issues, taxation, and growth. Subsequent research by (Modigliani & Miller, 1963) incorporated tax advantages as a factor influencing capital structure. They concluded that firms use debt financing to exploit tax benefits and enhance their market value. Consequently, increasing the proportion of debt in the capital structure is recommended to maximize the firm's market value.

Next, (Jensen & Meckling, 1976) introduced the Theory of Compromise (TOT). This theory posits that there is an optimal method for a company to structure its capital, which can be determined by balancing factors such as tax implications, agency costs, bankruptcy costs, and other considerations. The study posits that agent costs exert a significant influence on the optimal capital structure of a firm. To mitigate agent costs, it is imperative to ascertain the optimal ownership and debt structure. Their research suggested a positive correlation between capital structure and profit, size, and growth. This is due to the fact that they function as indicators of the tax benefits associated with high debt and the diminished bankruptcy costs tied to low debt. The findings of Jensen and Meckling's research suggest that agency relationship costs may have a significant impact on the capital structure of corporations. To mitigate agent

fees, it is imperative to ascertain the optimal ownership and debt structure (Jensen & Meckling, 1976). However, the research illustrates a distinct association between corporate debt ratios and the value of their secured assets. To address the issue of information asymmetry between managers and investors, scholars such as (Howe, 1997) have developed a signalling theory. This theory posits that the use of debt financing by a company serves as a signal to investors regarding the company's cash flows. Managers may strategically adjust the firm's capital structure to convey information regarding the firm's risk and profitability to external stakeholders.

(M. Baker & Wurgler, 2002) advanced a novel theory of capital structure, termed "the market timing theory of capital structure". This theory posits that a company's capital structure anticipates fluctuations in stock prices and that no singular optimal capital structure exists. The market timing theory suggests that corporations issue debt and equity securities solely when their market value is advantageous and repurchase shares when the value declines. However, it is important to note that none of these theories independently determines a firm's capital structure, as each theory emphasises a specific feature.

Pecking Order Theory offers an alternative perspective to the trade-off model by asserting that there is a negative correlation between a company's performance and its funding choices. The pecking order theory, established by (Myers & Majluf, 1984), suggests two rules: (1) prioritize internal financing, and (2) prioritize the issuance of safer securities. To clarify, the order of priority for financial instrument choices should be as follows: domestically generated money, debt, and equity. The main reason for this structure usually comes from the problem of different people having different levels of knowledge. (Myers & Majluf, 1984) incorporated the concept of information asymmetry into the theory, whereas (Jensen & Meckling, 1976) were the first to add the idea of debt-related agency costs, specifically bankruptcy costs. (Jensen, 1986) advocates for the utilization of debt to enhance cash flow, even though it may lead to financial difficulties as suggested by the free cash flow hypothesis. Alternatively, (M. P. Baker & Wurgler, 2002) argue that the decision to use debt or equity is contingent upon the prevailing market conditions. If investors are enthusiastic and actively participating in the capital market, the firm would select for equity issuance. Conversely, if investor sentiment is pessimistic and there is a lack of interest in the market, the firm will pick debt.

(Ross, 1977) proposed signaling theory, which suggests that a company's decision on its debt to equity ratio is not based on the idea of an optimal ratio, but rather on its intention to convey a particular message to investors. Profitable companies may occasionally attempt to increase their stock prices by significantly increasing their debt beyond the appropriate level and deceiving the market into believing in potential future growth prospects. Indeed, it is believed that the added expenses associated with borrowing money will deter less lucrative companies from capitalizing on increased debt levels, as contrasted to more successful enterprises, notwithstanding the attempts of managers to mislead the public.

Researchers have presented empirical evidence on different aspects of capital structure, including the factors that determine it. Furthermore, macroeconomic factors can influence decisions about capital structure (Kahya et al., 2020). Additionally, Companies with a profit-maximization objective will assess macroeconomics conditions to determine whether or not to expand their firm. Optimal macroeconomic conditions can enable organizations to enhance their revenue through the strategic utilization of leverage. Nevertheless, in the absence of profitable macroeconomic conditions, leverage might become a liability for the organization. Nevertheless, this study focuses exclusively on manufacturing enterprises within the consumer goods industry. The results are anticipated to assist executives in the consumer products industry subsector in generating value for shareholders by utilizing an ideal combination of financing methods and taking into account specific criteria that impact the selection of an appropriate capital structure.

The findings of this study enhance the existing knowledge in the subject of accounting, particularly with regards to capital structure. The findings of this study can serve as a valuable resource for company management in identifying and assessing the elements that impact the capital structure. By doing so, company management can effectively ensure the firm's sustainability and enhance its overall performance.

Despite the presence of various theories with varying focuses, it remains challenging to define a definitive optimal capital structure. However, there are certain finance patterns that can be considered conditionally optimal. The literature suggests that several key factors can influence a company's capital structure. These factors include profitability, earnings volatility, tangibility, asset growth, liquidity, firm age, firm size, asset structure, and macroeconomic conditions. This study includes additional control factors. The first aspect to consider is the level of Gross Domestic Product (GDP), as discussed by (Khan et al., 2021). (Kahya et al., 2020) aim to oversee and regulate economic circumstances. The pecking order theory posits that during periods of economic growth, leverage should decline due to the availability of sufficient finances from internal sources. Furthermore, in order to manage the unpredictability of the economic climate, it is advisable to utilise the inflation rate as determined by the consumer price index (Khan et al., 2021).

METHOD

The purpose of this section is to construct a model that will be used to investigate the factors that influence the decisions of corporate capital structures in Indonesia. This enquiry focuses on manufacturing businesses in the consumer goods industry. The criteria for sample selection in this study are established by the availability of comprehensive financial statement data for the required period of 2017–2022, as well as having an IPO (initial public offering) on the IDX before January 1, 2017. We used a total of 36 companies as samples. In aggregate, the study consisted of 216 observations. We collected data from yearly financial reports published on the official website of the Indonesia Stock Exchange. The control variables, such as GDP and the inflation rate, are derived from observations made through the official website of Indonesia's Badan Pusat Statistik. The official website of Bank Indonesia provides the interest rate data. Table 1 displays the operationalization of variables in this study. We conducted data analysis in this study using Smart PLS 4 and multiple regression analysis. Smart PLS performs both simple linear regression and multiple linear regression. We use the regression analysis feature to test both the outer and inner models. The t-statistic value and probability value provide evidence for hypothesis testing (Husein et al., 2019). Hypothesis testing in this study uses a significance level of 10%, and t-statistic value used is 1.96 (Rafiee & Neghabi, 2013). To analyse factors that influence capital structure, this study establishes the relationship between capital structure and firm-specific and macroeconomic parameters related to the firm. This study combines variable definitions from the literature of several prior studies. This study includes additional control variables, such as GDP growth, inflation, and interest rates. An explanation of these variables is presented in Table 1.

Table 1. Variable Defenition

Variables	Proxy	Description	Variables
Dependent variables:			
Leverage	LEV	Total Liabilities divided Total Assets	(Su, 2010; Viviani, 2008).
Independent Variables:			
Profitability	ROA	EBIT divided Total Assets	(Chandra, 2014)
Earnings Volatility	EVO	Ratio of (EAT t - EAT t-1) divided EAT t-1	(Khan et al., 2021).
Tangibility	TAN	Fixed Assets divided Total Assets	(Gharaibeh & Saqer, 2020).

Variables	Proxy	Description	Variables
Growth Assets	GA	(Total Assets t – Total Assets $t-1$) divided Total Assets $t-1$	(Chaudry et al., 2015).
Firm Age	AGE	The term refers to the period during which the company was listed on the Indonesian Stock Exchange.	(Christy & Sufiyati, 2023);
Liquidity	CR	Current Assets divided Current Liabilities	(Alipour et al., 2015)
Firm Size	SIZE	The natural logarithm of total assets.	(Harris & Roark, 2019)
Assets Structure	AS	Fix assets divided by total assets	(Sheikh & Wang, 2011)
Control Variables:			
GDP	GDP	Annual gross domestic product growth rate	(Kahya et al., 2020)
Inflation rate	INF	The Consumer Price Index	(Khan et al., 2021).
Interest rate	INT	Annual Interest rate	(Saif-Alyousfi et al., 2020).

RESULTS AND DISCUSSION

Descriptive Statistical and Correlation Matrix

Table 2 displays the descriptive statistics for the dependent, independent, and control variables. The utilised dataset comprises 216 entries. The median leverage is 0.427, with a minimum of 0.002, a maximum of 9.715, and a standard deviation of 1.200. The average leverage is 0.688. The median return on assets is 0.090, with a minimum of -0.239, a maximum of 0.427, and a standard deviation of 1.200; the mean is 0.349. The median earning volatility is 0.058, with a minimum of -6.362, a maximum of 8.080, and a standard deviation of 1.683. The average value is 0.356. The median tangibility value is 5.849, with a minimum of -23.694, a high of 9.994, and a standard deviation of 51.446. The average value of tangibility is 0.575. The median value of growth assets is 0.393, with a minimum of -23.694, a maximum of 33.193, and a standard deviation of 11.060. The average value is 5.084. The mean age of firms is 23.880, with a median of 25.000, a minimum of 2.000, a maximum of 67.000, and a standard deviation of 12.352. The median of the current ratio is 2.059, with a minimum of 0.081, a maximum of 9.954, and a standard deviation of 1.897. The mean is 2.521, with a median of 23.647, a minimum of 9.206, a maximum of 32.943, and a standard deviation of 6.303. The average firm size is 22.261. The asset structure exhibits a mean of 1.413, a median of 0.785, a minimum of 0.000, a maximum of 68.937, and a standard deviation of 4.904. The GDP rate exhibits a mean of 3.700, a median of 5.050, a minimum of -2.100, a maximum of 5.300, and a standard deviation of 2.649. The inflation rate exhibits a mean of 2.943, a median of 3.025, a minimum of 1.560, a maximum of 4.200, and a standard deviation of 0.920. The interest rate exhibits a mean of 103.638, a median of 103.865, a minimum of 96.700, a maximum of 111.060, and a standard deviation of 4.628.

Table 2. Descriptive Statistics 2017–2022

Variable	Obs.	Mean	Median	SD	Min	Max	Kurtosis	Skewness
LEV	216	0.688	0.427	1.200	0.002	9.715	37.738	5.781
ROA	216	0.349	0.090	1.472	-0.239	14.958	63.206	7.670
EVO	216	0.356	0.058	1.683	-6.362	8.080	9.067	1.919
TAN	216	0.575	0.393	1.187	0.006	9.994	51.446	7.071
GA	216	5.084	5.849	11.060	-23.694	33.193	0.248	-0.002
AGE	216	23.880	25.000	12.352	2.000	67.000	1.938	0.843
CR	216	2.521	2.059	1.897	0.081	9.954	2.397	1.520
SIZE	216	22.261	23.647	6.303	9.206	32.943	-1.450	-0.239
AS	216	1.413	0.785	4.904	0.000	68.937	167.605	12.329
GDP	216	3.700	5.050	2.649	-2.100	5.300	0.942	-1.650

Variable	Obs.	Mean	Median	SD	Min	Max	Kurtosis	Skewness
INF	216	2.943	3.025	0.920	1.560	4.200	-1.280	-0.161
INT	216	103.63	103.865	4.628	96.700	111.060	-0.945	0.075

Source: output Smart PLS 4. Regression is significant at the 10% level of significance

Table 3 displays the correlation results among the variables. The correlation results indicate that tangibility, growth assets, and interest rates exhibit the highest negative association with other factors. Nonetheless, tangibility exhibits a robust and positive association with leverage, return on assets (ROA), and asset structure characteristics. Moreover, asset structure exhibits a strong positive association with leverage and return on assets (ROA), while inflation indicators have a substantial positive link with gross domestic product (GDP).

Table 3. Correlation Matrix

	GDP	CR	INT	TAN	GA	INF	LEV	ROA	AS	EVO	AGE	SIZE
GDP	1	0.025	-0.162	-0.025	0.048	0.595	-0.089	0.060	0.046	-0.066	-0.014	0.007
CR	0.025	1	-0.093	-0.051	0.072	0.007	-0.199	0.055	-0.042	0.015	0.069	0.087
INT	-0.162	-0.093	1	-0.111	-0.078	-0.086	-0.009	-0.092	-0.133	0.101	0.152	0.051
TAN	-0.025	-0.051	-0.111	1	-0.055	0.024	0.558	0.616	0.618	-0.053	-0.091	-0.162
GA	0.048	0.072	-0.078	-0.055	1	0.035	-0.135	-0.039	0.004	-0.057	0.228	0.093
INF	0.595	0.007	-0.086	0.024	0.035	1	0.027	0.026	0.058	-0.107	-0.017	0.013
LEV	-0.089	-0.199	-0.009	0.558	-0.135	0.027	1	0.424	0.576	0.043	0.042	-0.075
ROA	0.060	0.055	-0.092	0.616	-0.039	0.026	0.424	1	0.749	0.105	0.095	-0.225
AS	0.046	-0.042	-0.133	0.618	0.004	0.058	0.576	0.749	1	0.003	0.000	-0.124
EVO	-0.066	0.015	0.101	-0.053	-0.057	-0.107	0.043	0.105	0.003	1	0.176	-0.062
AGE	-0.014	0.069	0.152	-0.091	0.228	-0.017	0.042	0.095	0.000	0.176	1	0.156
SIZE	0.007	0.087	0.051	-0.162	0.093	0.013	-0.075	-0.225	-0.124	-0.062	0.156	1

Source: output Smart PLS 4

Multicollinearity Test

Based on the test results presented in the table below, the VIF values of each variable are < 10, indicating that multicollinearity does not occur.

Table 4. Multicollinearity Test Results

	VIF
ROA	2.872
EVO	1.090
TAN	1.874
GA	1.095
AGE	1.209
CR	1.054
SIZE	1.119
AS	2.605
GDP	1.605
INF	1.569
INT	1.102

Source: output Smart PLS 4

Determination Coefficient

Dalam linear regression, the coefficient of determination, or r-squared, is used to measure the ability of the linear regression model to fit or adjust the data. The coefficient of determination (R^2) is known to be 0.769, which means the independent variable can explain 76.9% of the variance in variable Y, while other factors explain the remaining 23.1%.

Table 5. Determination Coefficient Test Results

	LEV
R-square	0.769
R-square adjusted	0.761
Durbin-Watson test	2.535

Source: output Smart PLS 4

Simultaneous Influence Significance Test (F Test)

Table 6. Summary Annova

	Sum square	df	Mean square	F	P value
Total	310.881	215	0.000	0.000	0.000
Error	164.133	204	0.805	0.000	0.000
Regression	146.748	11	13.341	16.581	0.000

Source: output Smart PLS 4

Based on the table, the P value is $0.000 < 0.10$, so the independent variables simultaneously have a significant effect on leverage at the 0.10 significance level.

Significance Test Partial Influence (T Test)

Table 7. Regression Model Results

Variables	Unstandardized coefficients	Standardized coefficients	SE	T value	P value
ROA	-0.120	-0.147	0.070	1.711	0.089
EVO	0.036	0.051	0.038	0.962	0.337
TAN	0.365	0.361	0.070	5.184	0.000
GA	-0.014	-0.133	0.006	2.494	0.013
AGE	0.011	0.115	0.005	2.056	0.041
CR	-0.095	-0.150	0.033	2.867	0.005
SIZE	0.003	0.018	0.010	0.327	0.744
INT	0.005	0.018	0.014	0.335	0.738
AS	0.113	0.463	0.020	5.634	0.000
GDP	-0.056	-0.124	0.029	1.923	0.056
INF	0.108	0.083	0.083	1.304	0.194
Intercept	-0.275	0.000	1.467	0.187	0.852

Source: output Smart PLS 4

The regression findings of this investigation are displayed in Table 4. The findings of this analysis indicate that capital structure has a negative association. This finding aligns with previous studies undertaken by (Sheikh & Qureshi, 2017). The results of this study correspond

with the predictions of the pecking order hypothesis. Increased profits result in a rise in internal funding. Companies in the profitable consumer products sector accumulate internal reserves, hence reducing dependence on external financing. Profitable firms may enjoy improved access to external finance; but, the need for debt financing can be mitigated if new projects are funded through retained earnings. This study corroborates the pecking order theory, which posits that financially successful firms prefer utilizing internal capital above external financing sources. Conversely, (Amidu, 2007) found that profitability is inversely correlated with both the total debt ratio and the short-term debt ratio, while it is positively correlated with the long-term debt ratio. (Gropp & Heider, 2010) further confirmed an unfavorable link between profitability and both book leverage and market leverage.

Earnings volatility (EVO) does not influence the capital structure within Indonesia's consumer goods sector. This finding stands in contrast to the trade-off theory, which posits a negative correlation between debt and earnings volatility, particularly for non-financial firms. The findings of this study are consistent with the research conducted by (Shoab & Yasushi, 2016), which determined that earnings volatility does not affect capital structure. (Alipour et al., 2015) say that changes in earnings volatility and capital structure are related in a bad way. However, this study shows that changes in corporate profits in the consumer goods sector are not the most important factor for management when deciding on capital structure. The study's findings demonstrate that fluctuations in business earnings do not significantly influence the company's selection of funding sources. In addition, companies do not modify their capital structure in reaction to fluctuations in profits. Furthermore, (Setiawati & Wahidahwati, 2018) indicate that the profits produced by companies in the consumer products industry demonstrate volatility.

The results of this study indicate that Tangibility has a positive effect on capital structure. This finding is consistent with the findings of previous studies, including those by (Kumar et al., 2017). In particular, (Kumar et al., 2017) emphasise that asset tangibility exerts a substantial influence on the capital structure of all sectors, with the exception of the chemical sector in the goods and consumer industries. Companies in these industries utilise debt- asset financing in proportion to the rise in tangible asset value. The findings of this study contradict the trade-off theory, which posits that tangible assets can serve as collateral to secure additional borrowing. The study's findings demonstrate a negative and significant relationship between growth assets and capital structure. This relationship is further substantiated by the pecking order theory, which posits that enterprises with projected growth opportunities tend to borrow less. In addition, (Sheikh & Qureshi, 2017) discovered a negative correlation between capital structure and asset growth. In contrast, Mohammed (Amidu, 2007) discovered that capital structure has a positive correlation with growth. Additionally, (Amidu, 2007) asserted that a company that is expanding requires a greater amount of external funding than it generates internally. Consequently, organizations that exhibit a comparatively high growth rate will prioritize short-term debt for financing their expansion, followed by more secure long-term debt.

Firm age has a positive and significant relationship with capital structure. Established companies possess a reputation that they strive to uphold, leveraging their experience to reduce costs and enhance production quality, thereby improving their capacity to generate profits (Yunietha & Palupi, 2017). The study determines the company's age based on its establishment duration and its ability to maintain operations on the Indonesia Stock Exchange. Established, profitable companies at maturity find it significantly easier to utilize their resources rather than resorting to loans (Berger et al., 1994). Therefore, it is considered that there is a positive relationship between age and debt variables. Company age is an indicator of the length of time a company can survive and operate since it went public or its shares were listed on the Indonesia Stock Exchange (IDX) (Susanti & Restiana, 2018). In addition, company age is also a factor that

can increase investor confidence in investing in the company (Septiana & Gustyana, 2021). This is because a company that has been public for a long time is perceived to have more experience and capabilities, making it less likely to experience bankruptcy than a company that has just gone public.

The relationship between liquidity and capital structure is negative and statistically significant. (Eldomiaty, 2008) has provided evidence that the current ratio, which is a measure of liquidity, is inversely related to the debt ratio. This observation corresponds with the hypothesis of pecking order theory (POT). (Sheikh & Wang, 2011) also proposed a comparable inverse correlation between liquidity ratio and debt ratio. In contrast to the findings of (Alipour et al., 2015), it was revealed that the liquidity variable, specifically the current ratio, has a positive association with the short-term debt ratio but a negative correlation with the long-term debt ratio. Several empirical studies in Indonesia have found that company size does not significantly affect capital structure, meaning that whether large or small, the tendency to determine the proportion of debt and equity does not differ statistically (Kusherlinawati & Ardini, 2019). We can explain the lack of influence of company size on capital structure. Although large companies generally find it easier to access external funding sources, in practice, many large companies prefer to use internal funds (retained earnings), so they do not always increase external debt or equity (Suciati et al., 2022). The influence of company size on capital structure can vary depending on industry characteristics, regulations, or capital market conditions in the country. Other more dominant factors include profitability, asset structure, liquidity, and business risk, which often have a greater influence on capital structure decisions compared to the size of the company itself (Putri, 2022). However, (Amidu, 2007) found a statistically significant relationship between firm size and capital structure.

The asset structure demonstrates a positive and significant correlation with the capital structure. This finding corresponds with the research by Willim (2023), which demonstrates a correlation between asset structure and capital structure in firms within the consumer products sector listed on the Indonesia Stock Exchange. (Aulia et al., 2019) have presented evidence indicating that asset structure positively influences capital structure. In the context of the consumer goods sector, companies often use fixed assets as collateral to secure financing. When a company has a favourable asset structure, it tends to use debt to finance its operations. Furthermore, posit that the use of corporate debt escalates in proportion to the enhancement of a company's fixed assets. This claim is supported by the fact that companies with strong fixed asset structures often have easier access to loans or financing from outside sources, since they can use these assets as collateral to pay back their debts.

GDP in this study refers to the measure of economic growth in Indonesia. The coefficient value of GDP is negative, suggesting that an increase in GDP, under all conditions, will result in a decrease in the value of corporate leverage. The gross domestic product (GDP) has a pronounced adverse impact on life expectancy at birth, such that an increase in economic growth leads to a reduction in reliance on debt relative to equity. The findings of this study align with the research hypothesis based on market timing theory. Enhanced economic growth signifies improved economic circumstances. Favourable economic conditions can stimulate improved stock market performance and mitigate risk, which in turn bolsters corporations' confidence in raising capital through share offerings in the stock market (Bayrakdaroglu et al., 2013). (Graham et al., 2015) also obtained comparable findings for the chemical, construction, consumer goods, food and agriculture, and transportation industries. The results of this study indicate that inflation has no significant effect on capital structure. The adverse effects of inflation may cause investors to reconsider allocating their capital to companies in countries experiencing it. Serious inflation tends to reduce productive investment. These changes will slow down the company's growth and certainly have a significant impact on the company's ability to

control debt in the long run. So, the company no longer takes inflation into account and prefers to finance it internally first or reduce some of its debt rather than increase it. The results of this study are also in line with (Candra & Ambarwati, 2023). The result of this study indicates that interest has no significant effect on capital structure. This finding is in line with (Mufidah, 2012). It is because the company prefers to use internal funding rather than debt. In contrast, (Budiono & Septiani, 2017) found that interest rates have a positive but not insignificant effect on the company's capital structure.

CONCLUSION

In conclusion, this study builds on a previous one that looked at what factors affect Indonesia's capital structure by using asset structure characteristics, financial flexibility, and earnings volatility as the only variables that were not controlled for. The research analysed alternative funding mixes utilising data from 36 firms listed on the Indonesian Stock Exchange from 2017 to 2022. The research results indicated that enterprises in the consumer products sector had relatively little leverage, as demonstrated in Table 1. This suggests that these companies did not display significant leverage. The test results demonstrate an inverse correlation between profitability and capital structure. Companies in lucrative goods and consumer sectors amass internal reserves, thereby diminishing their reliance on external financing. Nevertheless, the capital structure of Indonesia's consumer goods sector remains impervious to earnings volatility (EVO). This variable possesses a statistically significant positive coefficient. Tangibility exhibits a strong and positive correlation with the capital structure. Development Assets have a negative and substantial correlation with capital structure. There is a strong and positive relationship between the company's age and its capital structure. Nonetheless, liquidity exhibits a strong negative correlation with capital structure. The size of the firm in this study exhibits a positive correlation but lacks significant impact. The asset structure exhibits a positive and strong correlation with the capital structure. This study defines GDP as the rate of economic growth in Indonesia. The gross domestic product exhibits an inverse correlation with capital structure. Inflation exerts no substantial influence on capital structure. Interest exerts no substantial impact on capital structure. The author proposes that future studies should not focus on this factor. Return when employing variables that exert no influence in this study; furthermore, later writers, utilising the identical variable as this research, are anticipated to select organisations with a positive ratio to ascertain any differences. The study employed a 10% significance threshold; it is anticipated that subsequent researchers would adopt a 5% significance level while expanding the number of organisations polled. This research is limited to 5 years, it is recommended to use a longer time interval in future studies to obtain more accurate results. The population in this study is also limited to the consumer goods sector, and it is hoped that future research will consider other sectors.

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