

The Dynamism of Capital Structure for Financial Industry in Indonesia

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ABSTRACT

This paper examines various conditional theories of capital structure to formulate testable hypotheses in relation to the determinants of capital structure in Indonesia's financial industry. Using panel econometric techniques such as fixed effects and random effects, this study investigates the most influential factors on the capital structure choice of the Indonesia Stock Exchange-listed financial industry. According to the findings of the study, variables such as asset structure, profitability, debt, inventory, tax shield, and non-tax shield influence all measures of the capital structure of the Indonesian financial industry. Asset structure debt is a significant source of financing for the financial industry in Indonesia. The results demonstrate that the five discussed theories have given effects on the emerging markets. Due to the negative relationship between profitability and capital structure, investors in the financial industry must consider capital structure before making investment decisions. This study provides the groundwork for a more in-depth examination of the determinants of the capital structure. The empirical findings will aid managers in the financial industry in making optimal decisions regarding capital structure.

Keywords: *capital structure; profitability; financial industry*



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INTRODUCTION

The objective of capital structure theory is to offer a theoretical basis in understanding the most advantageous capital structure. Funding sources inside an organisation can be categorised into two distinct groups: internal funding sources and external funding sources. Internal funding sources can be derived from the retention of earnings and the depreciation of fixed assets, whilst external funding sources can be acquired from creditors, commonly referred to as debt financing (Ahmadimousaabad et al., 2013; Barton & Gordon, 1988; Ngatemin et al., 2018; Prasetyo, 2011).

The capital structure of a firm is a crucial determinant of its development. The determination of a company's capital structure is influenced by the spending policy implemented by financial managers, who are consistently confronted with the considerations posed by agency theory. Hence, it is imperative for managers to carefully deliberate the appropriate allocation of financial resources in order to facilitate the efficient functioning of the organisation and optimise financial returns for both shareholders and stakeholders (Canarella et al., 2014; Dusuki, 2009; Parsons & Titman, 2009).

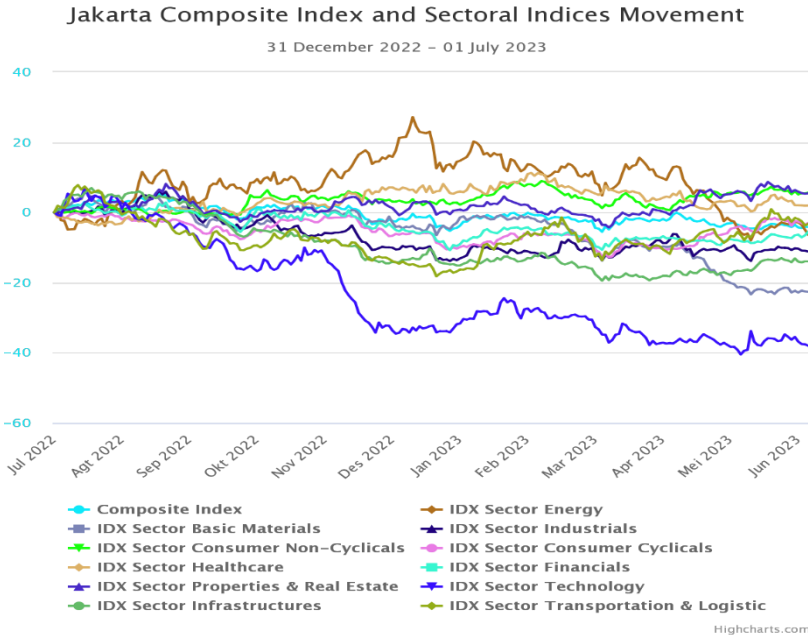
The management assumes a role that necessitates the consideration of the capital structure to sustain the generation of efficient capital, rather than solely focusing on the company's profits. When discussing capital structure, the focus lies on optimising tax benefits through the reduction of costs associated with debt operations, as well as anticipating costs that may develop during financial distress and evaluating other financial risks associated with debt activities (Alipour et al., 2015; Frank & Goyal, 2003).

The use of debt by firms incurs associated costs, which have the potential to diminish the profitability of these organisations. The presence of substantial capital costs suggests that corporate management may not effectively make capital structure decisions or finance decisions. Nevertheless, the implementation of a sound debt policy has the potential to facilitate substantial corporate growth, hence leading to anticipated long-term improvements in the company's financial performance. Subsequently, the concept of favourable indebtedness will be relevant to the (L.-J. Chen & Chen, 2011; Wald, 1999).

The process of determining capital structure decisions necessitates optimal and selective approaches, as each capital source entails distinct levels of risk and expense over time. There exists a positive correlation between the capital structure of a firm and its associated risk, as a larger capital structure necessitates the assumption of more debt expenses in order to sustain the company's operational activities. The optimal capital structure conditions occur when a firm effectively integrates debt and equity, hence achieving a balance between the company's value and the cost of its capital structure.

The pecking order hypothesis remains pertinent in contemporary discourse on capital structure. According to this theory, when a firm requires external financing, it will prioritise the utilisation of secure debt, followed by risky debt, and as a last resort, the issuance of public shares in the event of inadequate cash. Another theoretical framework that is present in the literature is the trade-off theory (Ardalan, 2017).

Figure 1
Jakarta Composite Index and Sectoral Indices Movement



The financial industry experiences ups and downs as a result of a variety of economic and market dynamics-influencing factors. These factors can be classified broadly as macroeconomic, market-specific, and psychological. The financial industry is significantly influenced by macroeconomic factors such as GDP growth, inflation, interest rates, and employment levels. Changes in these indicators can affect investor sentiment, borrowing costs, and consumer purchasing patterns, causing volatility in the financial markets. Internet is the commerce philosophy and psychology while financial market fluctuations are heavily influenced by investor psychology and market sentiment. Emotions such as fear, greed, and uncertainty can result in irrational behaviour and abrupt shifts in purchasing and selling patterns, resulting in market volatility.

Figure 1. shows the performances of financial industry in Indonesia Stock Exchange. The figure showed that there are ups and down of the financial industry performances. However, the manner in which a company finances its operations through a combination of equity (ownership) and debt (borrowed funds) can have an effect on the performance of its stock. The capital structure has both direct and indirect effects on the stock performance of a company. Risk and potential return are influenced and affected by the capital structure. Interest payments and the obligation to repay principal can increase financial risk associated with debt financing. A company with a greater proportion of debt may be riskier to invest in because it has a greater number of financial obligations to meet. Consequently, the investors may require higher returns to mitigate the increased risk. This can have an effect on the company's cost of capital and, as a result, the stock price.

Capital structure can also impact the performance of stocks in the financial sector by amplifying the leverage effect where changes in operating income impact earnings per share (EPS). The use of debt can magnify the increase in earnings available to equity shareholders when a company performs well. Nonetheless, if the company's performance declines, the leverage effect can amplify the decline in EPS, which can give a negative effect on the stock prices.

This theory elucidates the intricate interplay of taxes, bankruptcy risk, and the utilisation of debt, all of which stem from the capital structure decisions made by firms. Based on the two prevailing ideas, it can be

inferred that the judicious utilisation of debt can yield advantages for a firm, encompassing both financial support and the potential for tax deductions within the company's income statement as the interest on certain debts is a tax-deductible expense, incurring qualifying debt can serve as a tax shield. A tax-efficient investment strategy is fundamental for high-income individuals and corporations, whose annual tax liability can be substantial (Setiadharna & Machali, 2017).

This study attempts to determine how the structure of assets, debt, debt tax shield, non-debt tax shield, company size, and company age influence capital structure. This study demonstrates for the first time that the financial and non-financial industries that are required to operate responsibly and comply with the regulations, can be exposed to the concerns regarding the impact of the six variables listed above on their capital structure. This research also seeks to examine another aspect of Modigliani and Miller's theory, which examines how corporations obtain tax exemptions on bank loans. No one, however, has observed how banks obtain a tax exemption for the external debt they acquire. It is crucial for the financial and non-financial industries to have a solid capital structure in order to establish an industry that is prudent and compliant (Al-Khouri, 2005).

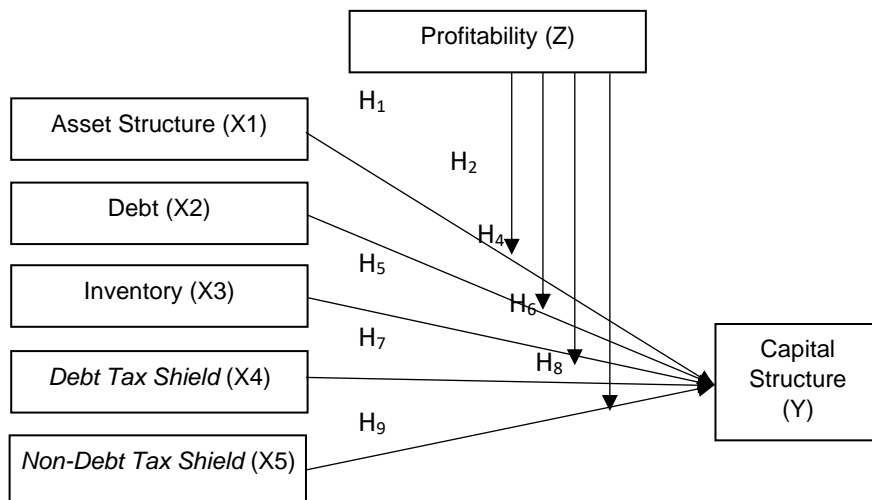
LITERATURE REVIEW

The individual who first conducted empirical research to examine the impact of capital structure on business value is Mokhova and Zinecker (2013). In an idealised capital market, the firm's value remains unaffected by its capital structure. The idea of capital structure irrelevance posits that the valuation of a firm is contingent upon the capacity of its assets to generate value, irrespective of whether these assets are financed by internal or external capital sources. Companies possess a comparative advantage in utilising debt as opposed to internal capital due to the potential tax shelter afforded by debt. The use of loan capital by corporations in lieu of relying solely on equity enables them to avail a tax shield, hence resulting in reduced tax obligations. The capital structure describes the combination of several types of capital that a firm employs to finance its activities in the financial industry, as it does in any other industry. Critics contend that the financial industry disproportionate reliance on debt increases systemic risk. Highly

leveraged institutions may have trouble making their loan payments during financial crises, which can cause cascading failures that endanger the stability of the entire financial system (J. Chen et al., 2009; Hermuningsih, 2013) .

As a result, excessive reliance on debt rises. The trade-off hypothesis, which analyses the relationship between a company's financial health, the danger of bankruptcy, and the costs associated with agency conflicts and taxes coming from the use of debt, can be used to reduce systemic risk. The direct charges that appear when a company is about to default are referred to as bankruptcy costs. Additionally, bankruptcy can cause moral hazard, in which financial organisations take unwarranted risks in anticipation of receiving government or central bank support in times of crisis. Market distortions and careless risk-taking can result from this behaviour (J. Chen et al., 2009; Hovakimian et al., 2012; Malini, 2020).

Figure 2
Research Conceptual Framework



However, an excessive reliance on short-term debt might put financial institutions at danger for liquidity. They might find it difficult to refinance their short-term debt, creating a liquidity crisis, if there is an abrupt decline in confidence in the institution or a wider credit crunch. The pecking order theory asserts that the organisations follow a specific

hierarchy when distributing resources for their business finance needs because of this. The fundamental reason of this occurrence is the existence of knowledge asymmetry between the company and potential investors. Retained earnings are frequently preferred by businesses over debt, short-term debt is preferred over long-term debt, and debt is frequently preferred over equity. Companies may use debt as a tactical technique to reduce the negative impacts of information asymmetry and stop the sale of shares at low prices (Brusov et al., 2014; Campbell & Kelly, 1994; Sardo & Serrasqueiro, 2017).

RESEARCH METHOD

This study makes use of secondary data and documentation studies. The documentation study is comprised of the data collection utilising extant and published data. In this study, the secondary data were obtained from the Indonesia Stock Exchange website, and data collection was also conducted through literature studies of the previous research.

Population and Sample

There are a total of 94 companies in the financial sector sector that are listed in the Indonesia Stock Exchange for the period between 2018 to 2022. This study utilised non-probability sampling with the technique of purposive sampling.

The regression equations in this study are as follow:

First Regression Equation:

$$Y = a + b_1DTS + b_2NDTS + b_3SAKT + b_4PIU + b_5PSDN + E$$

Second Regression Equation:

$$Y = a + b_1DTS + b_2NDTS + b_3SAKT + b_4PIU + b_5PSDN + b_6UKP + b_7UMP + E$$

Third Regression Equation:

$$Y = a + b_1DTSPRO + b_2NDTSPRO + b_3SAKTPRO + b_4PIUPRO + b_5PSDNPRO + E$$

Where,

DTS	=	<i>Debt Tax Shield</i>
NDTS	=	<i>Non-debt Tax Shield</i>
SAKT	=	Asset Structure
PIU	=	Debt
PSDN	=	Inventory
DTSPRO	=	<i>Debt Tax Shield * Profitability</i>
NDTSPRO	=	<i>Non-debt Tax Shield * Profitability</i>
PIUPRO	=	Debt * Profitability
PSDNPRO	=	Inventory * Profitability
SAKTPRO	=	Asset Structure * Profitability

RESULTS

This study's independent variables include the debt tax shield, which is estimated by dividing interest payments by profit before taxes and interest, and the non-debt tax shield, which is estimated by dividing depreciation by total assets, receivables projected by receivables turnover, inventory projected by inventory turnover, and the projected asset structure with fixed assets divided by total assets. The moderating variable is profitability measured by net profit after taxes as a percentage of total sales. Profit equals to revenues minus expenses for a business. Profitability affects a company's ability to obtain bank financing, attracts the investors to finance its operations, and expand its operations. The dependent variable is the projected capital structure with DAR, while the control variables are the firm's size and age.

According to the descriptive statistical analysis presented in Table 1, a total of 223 samples were analysed for each variable. It is known that the minimum value of the debt tax shield variable for issuers with the BBKA code (Bank BCA) in 2020 was -132,435 and the maximum value was 11.2357 for issuers with the BBKP code (Bank Bukopin). The mean is 0.012240 and the standard deviation is 10.469141 for a given value. Standard deviation is a measure of how much an asset's return deviates from its average return over a given period of time, but it is not a measure of volatility. Consequently, this demonstrates that although the standard deviation value is high, this does not necessarily imply that the companies experience a significant decrease and increase in the tax value they earn.

Table 1
The Result of Statistic Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Debt_Tax_Shield	223	-132.435	11.2357	.012240	10.469141
Non-Debt Tax Shield	223	.0014	.1756	.067547	.055856
Debt	223	-23.6643	2353.3270	73.345911	154.1323045
Inventory	223	.0004	176.175	7.57525	24.871721
Asset Structure	223	.0013	0.0000	.746723	.643957
Profitability	223	-3.1405	4.7643	.0081423	.7747464
Capital Structure	223	2.0146	0.1074	.33633	.35313
Valid N (listwise)	223				

Sumber: Data Output SPSS 26.0, 2023

In the non-debt tax shield variable, issuers with the BBHI code (Bank Harda Internasional Tbk) experienced a minimum value of .0014 in 2017, while issuers with the ASBI code (Asuransi Bintang Tbk) experienced a maximum value of .1756 in 2017, having a mean of .067547 and a standard deviation of .055856. As the standard deviation of interest on particular debts is a tax-deductible expense, incurring such debts can provide tax sanctuaries. High-net-worth individuals and corporations, whose annual tax costs can be substantial, rely significantly on tax-efficient investment strategies.

In the receivable's variable, the minimum value recorded by issuers with the READ code (Bank Capital Indonesia) in 2021 is -23.6643 and the maximum value recorded by issuers with the AMAR code (Bank Amar Tbk) is 2353.3270. The average value is 73.345911, while the standard deviation is 1,153.13000. The standard deviation of the receivable's variable suggests that the volatility of receivables will have a significant impact on the company's profitability and tax shield.

In the inventory variable, it is known that issuers with the code APIC (Pacific Strategic Financial Tbk) experienced the minimum value of 0.0004 in 2019 and the maximum data was 176,175 for issuers with the code BSIM (Bank Sinarmas Tbk) in 2017. Having a mean value of 7.5752 and a standard deviation of 24.871721. The inventory standard deviation

represents the average time required to restock, taking into account the variance in the actual time required to receive inventory.

In the asset structure variable, it is known that the minimum value of .0013 is experienced by issuers with the code BNGA (Bank CIMB Niaga Tbk) in 2021, and the maximum data is 0.0000 experienced by issuers with the code BSIM (Bank Sinar mas Tbk) in 2018 and 2019, issuers with code BKSL (Sentul City Tbk) in 2017, issuers with code JRPT (Jaya Real Property Tbk) in 2017. With a mean of .746723 and a standard deviation of .2405. The definition of standard deviation is the price movement of a structure of assets. The larger the asset structure volatility, the greater the company's reliance on the asset structure.

In the profitability variable, it is known that the issuers with the code GSMF (Equity Development Investment) will experience a minimum value of -3.1405 in 2021, while the issuers with the code FUJI (Fuji Finance Indonesia Tbk) will experience a maximum value of 4.7643. The mean of a given value is 0.0081423, and the standard deviation is .7747464. The investors prefer profits with a high degree of volatility because there are more opportunities for significant entry and exit swings over relatively brief periods of time. Long-term buy-and-hold investors, on the other hand, typically favour low volatility and consistent, incremental gains over time.

In the capital structure variable, the issuers with the code MAYA (B) will experience the minimum value of 2.0146 in 2021, while the issuers with the code MEGA (Bank Mega Tbk) will experience the maximum value of 0.1074 in 2020, having a mean of 0.33633 and a standard deviation of 0.35313. The standard deviation of the capital structure indicates that the greater the demand for a company's shares, which can directly influence its share price, the more optimal the capital structure or the lower the average cost of capital will be.

Regression Analysis

This analysis is conducted to ascertain the impact on capital structure of debt tax shield, non-debt tax shield, accounts receivable, inventory, and asset structure variables. The followings are the first model's regression results.

Table 2
Capital Structure Regression Outcomes of Debt Tax Shield, Non-Debt Tax Shield, Receivables, Inventory, and Asset Structure

Model		Coefficients ^a			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-.324	.473		-44.654	.000
	LN_DTS	.130	.042	.847	1.34	.101
	LN_NDTS	.067	.076	.234	3.464	.075
	LN_DEBT	.002	.035	.043	.44	.876
	LN_IN	.043	.047	.575	2.430	.133
	LN_AS		.453	-.321	-3.421	.543

a. Dependent Variable: LN_SM
Source: Data Output SPSS 26.0, 2023

Based on the initial regression analysis, specifically as follows:

$$Y = a + b_1DTS + b_2NDTS + b_3SAKT + b_4PIU + b_5PSDN + E$$

$$Y = -0.906 + 0.140DTS + 0.074NDTS + 0.004SAKT + 0.031PIU - 0.334 PSDN + E$$

Where,

- Y = Capital Structure
- DTS = *Debt Tax Shield*
- NDTS = *Non-debt Tax Shield*
- SAKT = Asset Structure
- PIU = Debt
- PSDN = Inventory

Based on the calculation results from the first regression model in Table 2, it can be concluded that the debt tax shield and asset structure have an impact on the capital structure because the significance value of the debt tax shield is -.324 and the asset structure is worth -.3,421 in which these values are below the significance value of 0.05 or 5%. The significance value for the non-debt tax shield variable is .067, receivables are worth .45, and inventories are worth 0.43. Notably, it is a difficult task to optimise the asset structure of the financial industry because it is a multi-factor and multi-

objective problem. The financial industry, as demonstrated in the literature, is susceptible to a range of agency problems and heavily reliant on both the macroeconomic environment and the regulatory framework (especially via capital and liquidity constraints). The latter is linked to the different creditors' (depositors') and shareholders' (shareholders') interests in the financial industry. Furthermore, financial firms have a high level of debt, and the government backs part of that debt.

Table 3
Results of the Regression of the Capital Structure on Receivables, Inventories, Asset Structure, Company Size, and Company Age

Model		Coefficients ^a			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-.345	2.365		-.453	.764
	LN_DTS	.213	.365	.432	1.432	.654
	LN_NDTS	.047	.050	.076	.675	.362
	LN_PIU	-.434	.047	-.023	-.12	.653
	LN_INV	.033	.017	.209	3.117	.116
	LN_AS	-.342	.342	-.765	-1.657	.013

a. Dependent Variable: LN_SM
 Source: Data Output SPSS 26.0, 2023

Based on the second regression modelling, namely as follows:

$$Y = a + b_1DTS + b_2NDTS + b_3SAKT + b_4PIU + b_5PSDN + b_6UKP + b_7UMP + E$$

$$Y = -0.495 + 0.137DTS + 0.037NDTS - 0.004PIU + 0.033PSDN - 0.333SA - 0.303UKP + 0.157UMP + E$$

Where,

- Y = Capital Structure
- DTS = *Debt Tax Shield*
- NDTS = *Non-debt Tax Shield*
- SAKT = Asset Structure
- PIU = Debt
- PSDN = Inventory

Based on the results obtained from the second regression model presented in Table 3, it is evident that the significance value for the debt tax shield variable is 0.654, while the asset structure variable has a significance value of 0.013. Notably, both of these values fall below the predetermined significance level of 0.05 or 5%. Consequently, it can be concluded that the debt tax shield and asset structure variables have a statistically significant influence on the capital structure.

Table 4
Regression Results (Debt Tax Shield, Non-Debt Tax Shield, Receivables, Inventory, Moderated Asset Structure Profitability), Company Size and Company Age on Capital Structure

Model	Coefficients ^a			t	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
1 (Constant)	-.270	1.010		-.267	.790
LN_DTSPRO	.130	.029	.351	4.518	.000
LN_NDTSPRO	.052	.045	.130	1.163	.247
LN_PIUPRO	.010	.028	.045	.363	.717
LN_PSDNPRO	.027	.027	.097	.982	.328
LN_SAPRO	-.271	.070	-.521	-3.894	.000
LN_UK	-.341	.277	-.090	-1.231	.220
LN_US	.113	.112	.082	1.006	.316

a. Dependent Variable: LN_SM
Source: Data Output SPSS 26.0, 2023

Based on the third regression modelling, namely as follows:

$$Y = a + b_1DTSPRO + b_2NDTSPRO + b_3SAKTPRO + b_4PIUPRO + b_5PSDNPRO + E$$

$$Y = -0.270 + 0.130DTSPRO + 0.052NDTSPRO + 0.010PIUPRO + 0.027PSDNPRO - 0.271SAPRO - 0.341UKP + 0.113USP + E$$

Where,

Y = Capital Structure
DTSPRO = Debt Tax Shield * Profitability

NDTSPRO	=	<i>Non-debt Tax Shield</i> * Profitability
PIUPRO	=	Debt * Profitability
PSDNPRO	=	Inventory * Profitability
SAKTPRO	=	Asset Structure * Profitability

Based on the calculation results from the third regression model, it shows that the significance value of the debt tax shield which has been moderated by profitability worth 0.000, and the asset structure which has been moderated by profitability with the worth of 0.000, and this value is below the significant value of 0.05 or 5%. Thus, assumably there is the influence of the debt tax shield and the structure of assets that have been moderated by the profitability on the capital structure. The significant value for the non-debt tax shield variable that has been moderated by profitability is 0.247, and the receivables have been moderated by profitability by 0.717. As for the inventories, they have been moderated by profitability by 0.328, and the control variable is in the form of the company's size of 0.220 and the company's age of 0.316 which can be said to give no effect to non-debt tax shield, receivables, and inventories that have been moderated by profitability, as well as the controlled variables such as the company size and age on capital structure.

DISCUSSION

The asset structure reflects the composition of the company's assets, which consist of land, properties under development, properties under lease, properties that are available for sale, and other assets. This composition can impact the decisions regarding capital structure. For instance, if a company owns a large number of property assets that generate stable cash flows from rentals, it may prefer to employ a greater proportion of debt in its capital structure to capitalise on these stable cash flows. According to the trade-off theory, the companies will evaluate the advantages and disadvantages of using debt in their capital structure. In the context of the financial industry, such companies have long-term assets that are high in value and cash flows, such as rental-producing land and properties. These assets can be used as the collateral for lower-interest loans. Therefore, the companies may utilise debt in their capital structure to capitalise on this advantage.

The asset replacement effect states that the use of debt in the capital structure can encourage the management to assume greater risk by using borrowed funds to invest in assets with a higher rate of return. In the context of the financial industry, the companies can use the debt to develop new properties or expand their property portfolio in an attempt to increase their income. In this situation, an asset structure comprised of high-quality and potentially profitable properties can influence a company's decision to increase its debt levels.

Typically, a financial institution's debt comprises of the funds borrowed from various sources, such as other financial institutions, governments, corporations, and even individuals. Banks may borrow money to finance their operations, expand their lending activities, or satisfy regulatory capital requirements. Besides, the banks can provide loans and credit to customers, generating interest income. Then, they may borrow funds at reduced interest rates to finance these loans and investments. A source of revenue for the financial industry is the discrepancy between the interest they earn on their loans and the interest they pay on their borrowings. Importantly, regulatory authorities closely monitor the financial health and stability of banks in order to ensure that they maintain adequate capital to cover their liabilities, including their debt obligations. This helps to preserve confidence in the financial system and reduce the likelihood of bank failure.

The companies with a large quantity of receivables typically have a greater proportion of debt in their capital structure as the accounts receivable are current assets that can be used to secure additional loans. By using accounts receivable as collateral, the businesses are able to borrow additional funds for operations or long-term investments.

Effective management of accounts receivable can help businesses optimise their capital structure. The companies can reduce the risk of uncollectible receivables and increase their liquidity by reducing collection time and enhancing credit policies. In this circumstance, businesses can rely less on debt and more on equity or internal funding to finance their operations. Typically, the businesses in the financial sector require substantial capital investments, such as land purchases, construction projects, and property acquisitions. Long-term financing decisions, such as long-term loans, issuance of bonds, or own capital, tend to have a greater

impact on the capital structure of the company in this situation. Receivables may not play a significant role in determining the long-term financing sources required for these large undertakings. In the financial industry, inventories are typically third-party funds owned by corporations. If the value of the company's inventory is very high, the company may need to obtain additional loans to finance the inventory.

Consequently, this can enhance the company's proportion of debt in its capital structure. In the banking context, the third-party funds refer to funds received by the banks from parties other than the bank. This consists of funds from consumers or individuals, businesses, other financial institutions, and governments. Banks collect these third-party funds via a variety of products and services, including savings deposits, time deposits, certificates of deposit, and other investment products. The significance of third-party funds in the banking industry is that they help the institutions maintain adequate liquidity and capitalization. However, there are risks for the bank in the event of a customer's unexpected large withdrawal of funds or market volatility.

CONCLUSIONS

This study aims to examine the composition of the company's capital structure, considering both the tax shield and non-tax shield perspectives. Frequently, the organisations encounter the decision of whether to go for debt financing or not. If the decision is made to choose for debt financing, the company will incur interest expenses while also benefiting from tax deductions. In the event that the corporation opts against utilising debt, it will consequently experience a limitation in its ability to exercise financial discretion.

The findings of this study suggest that there is a significant relationship between the asset structure and the capital structure. The study elucidates those enterprises with greater asset holdings and thus, it will be more convenient to engage in funding activities, as these assets can be utilised as collateral or guarantees when seeking financial support from creditors. Ultimately, this has implications for the company's capital structure. While receivables may not directly impact a company's capital structure, this study elucidates that the growth of companies, particularly in

the financial sector, is frequently associated with regulatory compliance and the need to conduct business prudently. Consequently, funding decisions are more influenced by the imperative to adhere to government regulations, particularly those pertaining to capital adequacy ratios and liquidity. The impact of the inventory on a company's capital structure is not found to be direct, as indicated by the findings of this study.

Specifically, the study focuses on the financial sector organisations that primarily hold assets in the form of deposits from depositors, which are readily withdrawable. Hence, the stability of financial sector enterprises' supply is very vulnerable and responsive to the regulatory measures and fluctuations in economic circumstances.

The Debt Tax Shield has a significant impact on the capital structure. Notably, the findings of this study reveal that employing appropriate levels of debt, within specified bounds to avoid surpassing the cost of capital, can provide advantages for the company's capital structure. It can be inferred that the corporations have a preference for reducing their tax liabilities by incorporating higher levels of debt within their capital framework.

The Non-Debt Tax Shield does not exert a direct influence on the capital structure of a company. The findings of this study elucidate that in relation to the asset structure of the company, the costs associated with asset depreciation can be classified as the expenses that have the potential to decrease the company's tax burden. However, given the presence of other variables in the composition of the non-debt tax shield, it is plausible that other expenses may impact the capital structure of the company.

The asset structure refers to the configuration or makeup of the assets held by a corporation. In the realm of financial sector companies, it is imperative to consider various factors when formulating an asset structure depository policy. This policy plays a crucial role in effectively diversifying the portfolio within the financial industry. It encompasses the inclusion of diverse types, locations, and classes of assets, which aids in mitigating risks and enhancing income stability. Additionally, it is essential to closely monitor the financial cycle market pertaining to the financial industry and consistently evaluate the quality of the company's assets. This underscores the importance of the financial sector's awareness on the interdependence

between the real and financial sectors, hence emphasising the need for equilibrium in the factors of debt, inventory, and asset composition.

The companies that maintain a robust capital structure are more likely to secure financing from financial institutions, such as banks or the bond market. This can facilitate corporations in securing the requisite capital for engaging in new property development, acquiring assets, or pursuing other expansion endeavours. An optimal capital structure can effectively mitigate financial risks. The mitigation of risks related to market swings, interest rate changes, and cash flow volatility can be achieved by the diversification of financing sources and the appropriate utilisation of debt and equity. This has the potential to enhance long-term financial stability.

The implementation of an effective capital structure has the potential to mitigate a company's cost of capital. Companies can optimise their financial structure by strategically utilising a blend of debt and equity, as well as capitalising on the advantages offered by the debt tax shield while simultaneously minimising the burden of interest expenses. This has the potential to enhance corporate profitability and augment shareholder value.

A robust capital structure has the potential to demonstrate the firm's stability and long-term viability and therefore, enhancing the investors' perceptions and bolstering trust. The investors would exhibit a greater inclination towards the organisations that possess a favourable capital structure, as it serves as an indicator of proficient management and the company's adeptness in effectively mitigating financial risks. This has the potential to facilitate more external funding opportunities and foster future collaborations.

CONTRIBUTIONS OF AUTHORS

The author hereby affirms that there is only one author for this paper.

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CONFLICT OF INTEREST

The author declares that there is no conflict of interest.

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