

THE INFLUENCE OF PROFITABILITY, SALES GROWTH, FIRM SIZE, AND BUSINESS RISK ON CAPITAL STRUCTURE

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Abstract. Capital structure plays a crucial role in a company's financial framework, as it can significantly influence the firm's financial condition and stock price. Several factors may affect capital structure, including profitability, sales growth, firm size, and business risk. This study aims to analyze the influence of profitability, sales growth, firm size, and business risk on the capital structure of companies in the chemical, pharmaceutical, and medicine sub-sectors listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023. The research employs both descriptive and inferential analysis methods, using multiple linear regression tests. The study population consists of 11 companies, with 8 companies selected as samples through purposive sampling. The data used are secondary data obtained from annual financial reports accessed via the official IDX website (www.idx.co.id). The results indicate that profitability has a significant negative effect on capital structure, sales growth has a significant positive effect, firm size has not significant effect, and business risk has a significant negative effect on capital structure.

Keywords: capital structure, profitability, sales growth, firm size, business risk.

BACKGROUND

Financial managers play a crucial role in organizing and making financial decisions to achieve corporate goals and maximize firm value. In maximizing firm value, financial managers must determine investment decisions, financing decisions, and dividend policies. Investment decisions refer to financial decisions related to investment activities in various forms, both short-term and long-term. Dividend policy involves financial activities related to the distribution of profits earned by the company. Financing decisions pertain to determining the composition of funding sources to finance the company's operations (Wiagustini, 2010:207).

In financing decisions, financial managers must carefully consider and analyze the combination of capital or sources of funds that are most beneficial for meeting the company's investment needs and operational activities. Capital is a vital instrument for sustaining the company's existence. It refers to the funds used to finance asset acquisition and operations. Sources of capital can come from internal sources—funds

generated within the company—or from external sources, i.e., funds originating outside the company (Pusparini and Dewi, 2020).

According to Irham Fahmi (2015:184), capital structure describes the financial proportion of a company, specifically the ratio between long-term debt (long-term liabilities) and shareholders' equity used as the company's financing source. The capital structure comprises external capital (debt) and internal capital (equity). Wiagustini (2010:214) explains that debt, or external capital, originates from outside the company and includes three types: short-term debt (repayable within one year), medium-term debt (repayable in more than one year), and long-term debt (repayable over a period exceeding ten years). Internal capital, or equity, consists of share capital, retained earnings, and reserve funds.

Capital structure is highly important, as it influences a company's financial condition and may impact the company's stock price. Financial managers must be able to determine the optimal capital structure by considering whether the company's funding needs should be met through internal or external sources. The aim is to minimize capital costs and maximize firm value.

Capital costs arise as a direct consequence of financial decisions related to capital structure. Debt financing requires interest payments as part of the loan agreement with creditors, which can increase the company's risk, especially if it fails to meet its debt obligations. Companies that do not utilize debt in their capital structure may fail to achieve optimal value due to the absence of tax benefits associated with debt financing.

One of the underlying theories of capital structure is the Pecking Order Theory, which outlines a hierarchy of financing sources, including internal funds (retained earnings) and external funds (debt and equity issuance). This theory suggests that companies with high profitability tend to use less debt. Companies with high income levels rely more on internal capital and have less need for external debt.

This study employs the Debt to Equity Ratio (DER) as a proxy to determine capital structure, as this ratio measures the proportion between total liabilities and shareholders' equity. A high DER indicates a higher financial risk because it reflects that the company relies more on debt than equity.

There is a noticeable disparity between companies. For instance, Phapros Tbk consistently records a high DER above 130%, while Kalbe Farma Tbk maintains a very low DER, averaging only 21%. This phenomenon highlights that, even within the same sector, companies adopt different capital structure policies. Some companies exhibit stable DER levels, while others, such as Organon Pharma Indonesia Tbk, experience sharp fluctuations. This diversity warrants further investigation to understand the factors influencing these differences in capital structure decisions.

Brigham and Houston (2011:188) identify several factors that influence capital structure, including sales stability, asset structure, operating leverage, business risk,

growth rate, profitability, taxes, control, management attitude, firm size, and financial flexibility. This study focuses on four variables that influence capital structure: profitability, sales growth, firm size, and business risk. These variables are selected based on the rationale that they are internal factors within the company's managerial control.

Profitability reflects operational efficiency and the company's ability to generate profit as an internal financing source. Sales growth results from marketing strategies and business expansion aimed at increasing revenue. Firm size relates to the scale of operations, which can be enhanced through asset accumulation and operational development. Business risk reflects the stability of operational activities. These variables are not only relevant in influencing capital structure but also controllable and optimizable by the company in formulating a suitable capital structure to meet its strategic goals.

The first factor that influences capital structure in this study is profitability, which refers to the company's ability to generate profit based on the resources used (Wiagustini, 2010:76). Profitability reflects the company's performance effectiveness in generating profit from its assets. Highly profitable companies tend to retain part of their earnings to boost internal financing. Based on the Pecking Order Theory, profitability has a negative influence on capital structure—higher profitability leads to lower reliance on external capital. This is because internally generated funds are more cost-effective, thus reducing dependence on external financing. Profitability in this study is measured using Return on Equity (ROE), which indicates the company's ability to generate profit from shareholders' equity.

Previous studies by Triyono et al. (2019), Dzikiriyah & Sulistyawati (2020), Yulinda Prastika & Reina Candradewi (2019), Satya Pramana & Ayu Darmayanti (2020), and Dwi Febrianti, Sukadana, and Widnyana (2020) reveal similar findings that profitability has a negative effect on capital structure. On the other hand, different results show a positive relationship between profitability and capital structure in studies by Zulkarnain (2020), Rosdiana, Karyatun, and Sekar Sari (2023), Hana Anggraeni (2022), Darma Sarjana & Yadnya (2020)—indicating conflicting conclusions regarding profitability's effect.

The second factor influencing capital structure is sales growth, defined as the year-to-year or periodical increase in the company's sales (Seitiawati & Veironica, 2020). Sales growth reflects market demand and the company's competitiveness within its industry (Aramana, 2021). Companies with high sales growth have the potential to generate higher profits, enabling them to rely on internal funds for operations rather than external capital (Pratiwi & Afif, 2024). This supports the Pecking Order Theory, where increased profits minimize financing costs and reduce

reliance on debt, suggesting a negative relationship between sales growth and capital structure.

Negative effects of sales growth on capital structure are supported by research from Meilyani (2019), Sari & Budyastuti (2022), Setiawati & Veronica (2020), Pratiwi & Afif (2024), Melya and Nurhalis (2021), Omposunggu (2020), Lizara & Hidayati (2023). Contrastingly, studies by Bintang Pramawati (2024), Dzikiriyah & Sulistyawati (2020), Pusparini & Dewi (2020), Wijaya, Permata Sari, and Sari (2020), Setiyanti, Prawani, and Pari (2019) report a positive influence.

The third factor is firm size, which refers to the scale of the company, as indicated by equity value, sales, and total assets. Firm size describes the magnitude of the business based on asset ownership (Ramadhan et al., 2021). Larger firms are considered capable of utilizing their assets efficiently and reducing their need for external financing (Andaya & Rolanda, 2023). According to the Pecking Order Theory, larger firms require less debt due to greater internal cash reserves, indicating a negative relationship between firm size and capital structure (Ananta & Danamik, 2022).

Studies showing a negative effect include Ardiansyach (2022), Ananta & Danamik (2022), Saragih & Hariani (2023), Andaya & Rolanda (2023), and Ilmiyati & Muniroh (2023). Conversely, a positive relationship is found in research by Ayu Sintyamanik (2024), Sarjana & Yadhya (2020), Pramana & Darmayanti (2020), Andika & Sedana (2019).

The fourth factor is business risk, defined as the uncertainty of profit or loss outcomes from future company operations. Business risk may arise from the company's inability to generate profit or meet its obligations, potentially leading to financial distress or bankruptcy. Companies with higher business risks tend to use less debt, as debt increases interest burdens and lowers profitability. According to the Pecking Order Theory, companies facing higher business risks should limit debt to avoid endangering their sustainability and rely more on internal funds. Therefore, business risk has a negative effect on capital structure. This is supported by studies from Meilyani et al. (2019), Bintang Pramawati (2024), Pratiwi & Afif (2024), and Silalahi et al. (2023).

This study focuses on the chemical, pharmaceutical, and traditional medicine industry sector listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. This sector is strategic and contributes significantly to the Indonesian economy, especially in meeting public health needs. Data from the Central Bureau of Statistics (BPS) shows that the growth rate in this sector declined: from 16.32% in 2020 to -1.12% in 2021, -8.01% in 2022, and -19.45% in 2023. The positive growth in 2020 likely resulted from increased demand for pharmaceutical products due to the COVID-19 pandemic. However, subsequent years experienced consistent decline, indicating market uncertainty and the potential for declining profitability. Companies facing such

conditions need to adjust their financial strategies, including reassessing their capital structures.

Based on the above background and the contradictory results from prior research regarding the effects of profitability, sales growth, firm size, and business risk on capital structure, a research gap is identified. This gap provides the basis for re-examining existing studies to clarify previous findings. Therefore, this study aims to analyze the influence of profitability, sales growth, firm size, and business risk on the capital structure of companies in the chemical, pharmaceutical, and traditional medicine sector listed on the IDX for the 2020–2023 period.

RESEARCH METHODS

This study adopts a quantitative approach with a causal associative design aimed at examining the influence of profitability, sales growth, firm size, and business risk on capital structure. The research objects are companies in the chemical, pharmaceutical, and traditional medicine industry sectors listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023. The data used are derived from annual financial reports accessed through the official IDX website, and the sample was selected using purposive sampling based on specific criteria. From a total population of 11 companies, 8 were selected as samples (Sugiyono, 2018; Wirawan, 2022).

The dependent variable in this study is capital structure, measured by the Debt to Equity Ratio (DER). The independent variables include profitability, proxied by Return on Equity (ROE); sales growth; firm size, measured by the natural logarithm of total assets; and business risk, calculated using the standard deviation of EBIT. All variables were operationalized using secondary quantitative data in the form of numerical values taken from the financial statements. Data collection was carried out through non-participant observation involving document analysis, journals, and relevant official publications that align with the research focus (Prasetyo & Jannah, 2020; Darminto, 2021).

Data analysis was performed using multiple linear regression with SPSS software to test both the simultaneous and partial effects among variables. Prior to regression analysis, classical assumption tests were conducted, including normality, autocorrelation, multicollinearity, and heteroscedasticity tests. The t-test was employed to examine the partial effect of each independent variable on capital structure, while the F-test was used to assess the overall model fit. Furthermore, the coefficient of determination (R^2) was used to evaluate the extent to which the independent variables explain the dependent variable. This study is expected to provide empirical evidence to support decision-making regarding corporate financing structures (Ghozali, 2018; Wirawan, 2022; Sugiyono, 2018).

RESULTS AND DISCUSSION

Description of Research Variable Data

Results of Descriptive Statistical Analysis

Table 1. Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Standard Deviation
Profitability	32	.01	.36	.1581	.08506
Sales Growth	32	-.25	.62	.0677	.17488
Company Size	32	20.65	30.94	28.0241	2.95561
Business Risk	32	54864534.34	38733075075.82	129150877.730.0325	125193951120.4191
Capital Structure	32	.15	1.59	.5584	.41190
Valid N (listwise)	32				

Source: Processed Secondary Data, 2025

Table 1 describes the data characteristics of 32 companies in the chemical, pharmaceutical, and traditional medicine industry sectors listed on the Indonesia Stock Exchange. The variables analyzed include profitability, sales growth, firm size, business risk, and capital structure.

Profitability shows a minimum value of 0.01 and a maximum of 0.36, with a mean of 0.1581 and a standard deviation of 0.08506. The relatively small variation in profitability indicates that most companies tend to have homogeneous financial performance in terms of generating net income relative to their total assets or equity.

The sales growth variable has a minimum value of -0.25 and a maximum of 0.62, with a mean of 0.0677 and a standard deviation of 0.17488. The negative minimum value indicates that there are companies experiencing a decline in sales compared to the previous year. Meanwhile, the fairly high maximum value shows that some companies are able to record significant sales growth. A standard deviation higher than the average reflects a considerable difference among companies in terms of sales performance.

Firm size, usually measured using the natural logarithm of total assets, has a minimum value of 20.65 and a maximum of 30.94, with a mean of 28.0241 and a standard deviation of 2.95561.

Business risk in this study shows a minimum value of IDR 54,864,534.34 and a maximum of IDR 387,330,750,754.82, with an average of IDR 129,150,877,730.03 and a

standard deviation of IDR 125,193,951,120.42. The large standard deviation value reflects a very large difference in the level of business uncertainty faced by each company. This indicates that some companies face very high income fluctuations, while others are more stable.

Capital structure in the sample has a minimum value of 0.15 and a maximum of 1.59, with a mean of 0.5584 and a standard deviation of 0.41190. This indicates a fairly large variation in the use of funding sources by companies. Some companies rely more on equity, while others heavily depend on debt financing. The average capital structure ratio of around 0.56 reflects that, in general, companies use a balanced combination of equity and external financing (debt) in their operations.

Multiple Regression Analysis

Table 2. Results of Multiple Linear Regression Analysis Test

Coefficients^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-5,918	3,021		-1,959	0.060
Profitability	-0.493	0.118	-0.553	-4,170	0.000
1 Sales Growth	1,639	0.490	0.396	3,344	0.002
Company Size	1,297	0.955	0.211	1,357	0.186
Business Risk	-2.774E-12	0.000	-0.480	-2,982	0.006

a. Dependent Variable: Capital Structure

Source: Processed Secondary Data, 2025

Table 2 above shows the results of the multiple linear regression calculation, which identifies the relationship between the independent variables (profitability, sales growth, firm size, and business risk) and the dependent variable, namely capital structure. Based on the results of this analysis, the following multiple linear regression equation is obtained:

$$Y = -5,918 - 0,493(X_1) + 1,639(X_2) + 1,297(X_3) - 2,774E-12(X_4)$$

The explanation of the regression equation is as follows:

- The constant value of -5.918 indicates that if all independent variables, namely profitability, sales growth, firm size, and business risk, are equal to zero, then the capital structure will have a value of -5.918. This shows the baseline capital structure condition in the absence of any influence from the four independent variables.
- The regression coefficient $\beta_1 = -0.493$ indicates that the profitability variable has a negative effect on capital structure. This means that if profitability increases by one

unit, the capital structure will decrease by 0.493 units, assuming other variables remain constant.

- c. The regression coefficient $\beta_2 = 1.639$ indicates that sales growth has a positive effect on capital structure. This means that each one-unit increase in sales growth will increase the capital structure by 1.639 units.
- d. The regression coefficient $\beta_3 = 1.297$ indicates that firm size has a positive effect on capital structure. This means that an increase of one unit in firm size will increase capital structure by 1.297 units.
- e. The regression coefficient $\beta_4 = -2.774\text{E-}12$ (or -0.000000000002774) indicates that business risk has a negative effect on capital structure. This means that if the business risk variable increases by one unit, the capital structure will decrease by 2.774E-12 units, although the magnitude of the effect is very small numerically. However, the t-value of -2.982 indicates that this effect is statistically significant. This means that although the numerical impact is minor, fluctuations in business risk still hold relevance to the company's capital structure decisions..

Classical Assumption Test

The purpose of the classical assumption is to obtain regression analysis model results that are accountable and more convincing regarding the feasibility of the developed model. The classical assumption test in this study consists of the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. The classical assumption test is conducted to examine the variables of profitability, sales growth, firm size, and business risk.

1. Normality Test Results

Table 3. Normality Test

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			32
Normal Parameters ^{a,b}	Mean		0.0000000
	Standard Deviation		0.42928266
Most Extreme Differences	Absolute		0.133
	Positive		0.133
	Negative		-0.102
Test Statistics			0.133
Asymp. Sig. (2-tailed)			0.164 ^c

Source: Processed Secondary Data, 2025

Table 3 shows that the probability value of significance or the Asymp. Sig. (2-tailed) coefficient is greater than 0.05. This means that the residual data used in this study is normally distributed.

2. Multicollinearity Test Results

Table 4. Multicollinearity Test

Coefficients ^a				
Model		Sig.	Collinearity Statistics	
			Tolerance	VIF
1	(Constant)	0.060		
	Profitability	0.000	0.740	1,351
	Sales Growth	0.002	0.929	1,076
	Company Size	0.186	0.537	1,861
	Business Risk	0.006	0.503	1,986

Source: Processed Secondary Data, 2025

The results of the multicollinearity test presented in Table 4 show the tolerance and VIF values of the variables. These values indicate that the tolerance value for each variable is greater than 0.10 and the VIF value is less than 10, which means that the regression equation model is free from multicollinearity.

3. Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	-0.334	1,878		-0.178
	Profitability	0.073	0.074	0.217	0.998
	Sales Growth	-0.212	0.305	-0.135	-0.695
	Company Size	0.268	0.594	0.115	0.452
	Business Risk	-5.273E-13	0.000	-0.240	-0.912

a. Dependent Variable: AbsRes

Source: Processed Secondary Data, 2025

Based on the results of the heteroscedasticity test using the Glejser test, the significance values of each variable are above 0.50, indicating that there is no heteroscedasticity. Since the regression model meets the classical assumption requirements and can therefore be used for prediction and as a research model, the next step is hypothesis testing.

4. Autocorrelation Test

Table 6. Autocorrelation Test Results

Model Summary^b						
Model	R	R Square	Adjusted Square	R	Standard Error of the Estimate	Durbin-Watson
1	0.805a	0.648	0.596		0.45998	1,848

Source: Processed Secondary Data, 2025

Based on Table 6, it is known that the Durbin-Watson value is 1.848, with a total of 32 observations and 4 independent variables. The boundary values used are $dl = 1.547$ and $du = 1.697$. Therefore, since the obtained Durbin-Watson value is 1.848 and lies between $du = 1.697$ and $(4 - du) = 2.303$, it can be concluded that there is no autocorrelation in the regression model used. This means that the residual values in the model do not show a pattern of interdependence among observations, indicating that the regression model satisfies one of the key classical linear regression assumptions.

5. Coefficient of Determination (R^2) Test

Table 7. Results of the Coefficient of Determination (R^2)

Model Summary^b						
Model	R	R Square	Adjusted Square	R	Standard Error of the Estimate	Durbin-Watson
1	0.805a	0.648	0.596		0.45998	1,848

Source :Data Processed, 2024

The magnitude of the coefficient of determination is indicated by the adjusted R square value. Table 7 shows that the Adjusted R Square value obtained is 0.596, or approximately 59.6%. Adjusted R Square provides a more accurate description of how well the model explains the dependent variable, as this value has been adjusted for the number of independent variables and the number of observations in the model. This value indicates that, although the model has a good explanatory power, there are still about 40.4% of the variations in capital structure that are influenced by other factors not included in this model.

F test

Table 8. F Test Results

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10,514	4	2,629	12,423	0.000b
	Residual	5,713	27	0.212		
	Total	16,227	31			

Source: Data Processed, 2024

Based on the data in Table 8, the results of the analysis from the calculation in Table 7 show that the significance value of the F-test is 0.000, which is less than 0.05. This means that the variables of profitability, sales growth, firm size, and business risk simultaneously have a significant effect on capital structure.

Hypothesis Test (t-Test)

Table 9. t-Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5,918	3,021		-1,959	0.060
	Profitability	-0.493	0.118	-0.553	-4,170	0.000
	Sales Growth	1,639	0.490	0.396	3,344	0.002
	Company Size	1,297	0.955	0.211	1,357	0.186
	Business Risk	-2.774E-12	0.000	-0.480	-2,982	0.006
a. Dependent Variable: Capital Structure						

a. Dependent Variable: Capital Structure

Source: Processed Data, 2021

The results of testing the effect of each independent variable on the dependent variable in this study are explained as follows.

1) The Effect of Profitability on Capital Structure.

Based on Table 9, it can be seen that the profitability variable has a partial value of -0.493 or 49.3% with respect to capital structure. The significance value of profitability is 0.000, which is less than 0.05, and the t-value = -4.170 > -2.052. This indicates that H_0 is rejected and H_1 is accepted, meaning that partially, profitability has a negative effect on capital structure in companies within the chemical, pharmaceutical, and traditional medicine sectors listed on the Indonesia Stock Exchange. When profitability increases, capital structure tends to decrease. Therefore, the first hypothesis in this study, stating that profitability has a negative effect on capital structure, is accepted.

2) The Effect of Sales Growth on Capital Structure

The sales growth variable shows a regression coefficient of 1.639 with a t-value = 3.344 and a significance level = 0.002, which is less than 0.05. Since the t-value > t-table (3.344 > 2.052), H_2 is accepted and H_0 is rejected. This means that sales growth has a positive and significant effect on capital structure. Companies experiencing an increase in sales tend to raise external capital (especially debt) for expansion, leading to an increase in capital structure.

3) The Effect of Firm Size on Capital Structure

For the firm size variable, the regression coefficient is 1.297 with a t-value = 1.357 and a significance level = 0.186, which is greater than 0.05. Since the t-value < t-table (1.357 < 2.052), H_0 is accepted and H_3 is rejected. This indicates that partially, firm size does not have a significant effect on capital structure. This result suggests that although large firms have greater access to funding, firm size is not a determining factor in capital structure decisions within this sector.

4) The Effect of Business Risk on Capital Structure

The business risk variable has a regression coefficient of -0.00000000002774, with a t-value = -2.982 and a significance level = 0.0006, which is less than 0.05. Since the t-value < -t-table (-2.982 < -2.052), H_0 is rejected and H_4 is accepted. This means that business risk has a negative and significant effect on capital structure. The higher the business risk faced by a company, the lower the tendency to increase debt in its capital structure. This is due to the high uncertainty of cash flows, which encourages companies to avoid fixed burdens such as interest payments.

Discussion of Research Findings

The Effect of Profitability on Capital Structure

Profitability in this study shows a significant negative effect on capital structure. This means that companies that generate higher profits tend to utilize internal funding sources, such as retained earnings, to finance their operational and investment activities. Consequently, the company does not need to rely heavily on external funding such as debt. This supports the first hypothesis, which states that profitability negatively affects capital structure.

This is in line with the principle of the Pecking Order Theory, which suggests that companies prioritize internal financing before turning to external sources, as internal funds are considered cheaper and involve lower information risk (Setiyanti et al., 2019). Therefore, high profitability reduces the company's need to take on debt, which may entail interest costs and greater financial risk.

Previous research also reinforces these findings. A study conducted by Hossain and Hossain (2020) found that highly profitable companies tend to reduce their debt proportion as they prefer internal financing. Sari and Wibowo (2020), in their study of manufacturing companies in Indonesia, found that profitability had a negative and

significant effect on capital structure. In addition, Fitriani and Nurhadi (2021) stated that companies with high profitability tend to reduce their reliance on debt and prefer to use retained earnings as a source of funding. This finding is also supported by Putra and Sari (2022), who explained that profitability is a key indicator in internal financing decision-making, especially in industries with high risk levels.

The Effect of Sales Growth on Capital Structure

The sales growth variable in this study has a positive and significant effect on capital structure. This indicates that companies experiencing an increase in sales tend to require larger additional capital to support business expansion and meet the growing market demand. Therefore, companies are more likely to seek external funding sources, particularly through debt, to cover the capital shortfall. This finding is in accordance with the second hypothesis, which states that sales growth has a positive effect on capital structure.

From the perspective of Pecking Order Theory, companies will prioritize using internal funds first, but when funding needs exceed the available internal resources, companies will choose external financing, with debt as the main option because it is quicker and does not reduce managerial control (Setiyanti et al., 2019). Therefore, high sales growth usually drives an increase in the use of debt as part of the capital structure.

Several studies also support this result. Khan et al. (2020) show that companies with high sales growth are more likely to use debt to finance their business expansion. Similarly, Zhang and Li (2021), in their study of manufacturing companies in China, found that rapid sales growth significantly drives increased financial leverage. Nurlina and Nasution (2021) confirm that sales growth has a significant positive effect on capital structure in consumer sector companies in Indonesia. The research by Maulana and Hidayat (2022) also shows that companies with high sales growth tend to increase the use of long-term debt to support their business expansion. The same was found in the study by Rahayu and Santoso (2023), which emphasized the importance of external financing in responding to continuously growing market demand.

The Effect of Firm Size on Capital Structure

The research findings show that firm size does not have a significant effect on capital structure, thus the third hypothesis is rejected. This suggests that the size of a company is not always a key factor in determining financing decisions, especially in the use of debt and equity. Although larger firms are typically considered to have easier access to capital markets and external funding sources, these results indicate that even large firms do not always choose to use debt aggressively. Instead, they may prioritize internal funding or other financial strategies depending on the company's condition.

This phenomenon can also be explained through Pecking Order Theory, which emphasizes the preference of firms to use internal funds first without relying too heavily on firm size as a dominant factor in capital structure. In practice, other factors such as profitability, risk, and business strategy may be more decisive than firm size.

Relevant studies also support this finding. Rahman and Arif (2020) found that firm size does not significantly affect financing decisions because management gives more weight to internal factors like profitability and risk. In addition, the study by Kumar and Singh (2021) also showed that firm size does not have a meaningful impact on capital structure, since financing policies are more influenced by the firm's financial strategy. Another study by Lee and Chen (2022) stated that large companies do not always use more debt than smaller ones, because funding choices tend to be adjusted according to capital needs and efficiency. These findings reinforce the result that firm size is not a main determinant in setting capital structure. Rahmawati and Permana (2020) found that firm size does not significantly affect capital structure in agriculture and forestry sector companies. Prasetyo and Ayu (2021) also stated that not all large companies choose to use debt, as management policies and capital market conditions influence financing decisions. This study strengthens the view that firm size is not the sole determinant of capital structure, especially in industry sectors with specific characteristics like chemicals and pharmaceuticals.

The Effect of Business Risk on Capital Structure

Business risk has been proven to have a negative and significant effect on capital structure. This means that companies facing business uncertainty and high earnings volatility tend to avoid using debt in their capital structure. Debt carries interest expenses and fixed obligations that can increase bankruptcy risk, so companies prefer more conservative funding sources, such as retained earnings or equity.

In the theoretical frameworks of Pecking Order and Trade-Off Theory, companies operating in high business risk environments will be cautious in adding debt to avoid increasing their risk. These companies prefer to maintain a more conservative capital structure to remain flexible in facing uncertainties.

Research by Zhang and Li (2020) found that companies with high levels of business risk tend to avoid debt-based financing to reduce the likelihood of financial distress. Furthermore, a study by Ahmed and Farooq (2021) shows that company management will be more cautious in making capital structure decisions when there is high business risk, and prefer internal sources of financing. Another study by Wang and Zhao (2022) also supports this, stating that business risk is a factor that significantly reduces the proportion of debt in a company's capital structure. All three findings consistently support the result that business risk plays an important role in shaping a more conservative capital structure. Lestari and Gunawan (2022) provide empirical evidence that business risk has a significant negative effect on capital

structure in the basic industry and chemical sector. Additionally, Putri and Arifin (2020) also state that companies with high business risk choose to use internal funds to minimize financial risk and maintain operational stability. This research confirms that business risk is a key factor in corporate financing decisions.

CONCLUSION

Based on the analysis in the previous chapter, the conclusions of this study are as follows:

- 1) Profitability has a negative and significant effect on capital structure, indicating that companies with higher levels of profit tend to use internal sources of funds and reduce the use of debt.
- 2) Sales growth has a positive and significant effect on capital structure, which means that companies with rapid sales growth are more likely to increase external funding through debt.
- 3) Firm size has no significant effect on capital structure, meaning that the size of a company is not a major factor in determining the composition of funding between debt and equity.

Business risk has a negative and significant effect on capital structure, indicating that companies with high levels of business risk tend to limit the use of debt in order to reduce financial risk.

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