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Capital Structure Determinants: The Role of Non-Debt Tax Shield, Cash Holding, and Growth Opportunity

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Abstract

Backgrounds: The basic and chemical industrial sector was selected for its significance in supplying everyday products and its capacity to aid businesses in optimizing financial strategies and attracting investors. **Objectives:** This study will examine the influence of Non-Debt Tax Shield, Cash Holdings, and Growth Opportunities on Capital Structure in basic and chemical manufacturing companies listed on the Indonesia Stock Exchange. **Methods:** This study employs a census sampling method, resulting in 12 pharmaceutical companies listed on the IDX throughout a seven-year duration, culminating in a total sample size (n) of 84. The research employs a causal associative methodology and utilizes multiple linear regression analysis to ascertain the relationship between the independent and dependent variables. **Results:** The results indicate that at a 5% significance level, all three variables exerted a significant impact on the dependent variable. The ANOVA test findings indicate that the regression model employed in this analysis is significant, as evidenced by an F-statistic exceeding the crucial value and a significance level below 0.05.

Keywords: Capital Structure; Cash Holding, Growth Opportunity; Non-Debt Tax Shield

JEL Classification: M41; M42

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INTRODUCTION

The basic and chemical industries sector provides the vital materials for daily existence. Almost everything we consume on a daily basis is produced by firms in this field. It is divided into eight sub-sectors: cement, ceramics, porcelain, and glass; metals and the similar; chemicals; plastic and packaging; animal feed; wood and its processing; and pulp and paper. This industry is rapidly expanding in Indonesia, as seen by the increasing number of chemical sub-sector firms listed on the Indonesian Stock Exchange. With the emergence of new chemical enterprises, it is clear that they are in high demand and have promising prospects both today and in the future. To stay ahead of the competition, business owners will use all available resources to get an advantage over competitors. According to (Handoko, 2021), a strong capital structure is critical to a company's long-term competitiveness. According to (Effendi, 2021), capital structure is a combination of long-term debt and equity that provides permanent finance. Capital structure has a direct impact on a company's operational performance. According to (Amin et al., 2023), changes in the composition of the capital structure can affect the weighted average cost of capital, which determines how the company is valued. (Kasmir., 2017) Achieving the appropriate capital

structure mix necessitates striking a balance between internal and external finances. The purpose of the capital structure is to integrate permanent sources of funding in a way that maximizes the company's worth. (Linda et al., 2023) discuss numerous ideas for selecting funding sources, including the classical approach, Modigliani and Miller, the trade-off theory, personal taxation, and the pecking order theory. These theories highlight the need of taking into account a variety of elements while managing capital structures (Wardhana et al., 2022).

Funding for the capital structure can originate from either internal (own capital) or external sources (borrowings). (Labibah & Andayani, 2019) defines own capital, or equity, as long-term money contributed by a company's owners (shareholders). This can comprise preferred shares, common shares, and retained earnings, whereas borrowings are long-term loans obtained by the corporation. When selecting loans as a funding source, it is critical to balance the interest rate with the expected return on the loan's utilization. Similarly, equity sources must examine the return on their invested capital. Financial managers who decide on the company's capital structure must carefully assess various funding sources in order to develop an ideal structure. (Labibah & Andayani, 2019) defines an optimal capital structure as one that strikes a balance between risk and return, maximizing the stock price.

Businesses need adequate funding tae support their growth. The composition o' fundin' sources, or capital structure, is crucial as it directly affects operational performance. Therefore, management must weigh several factors when decidin' on the capital structure. Tax savings from asset use (Elvina Kurniawati Hadiyanto, 2018), growth opportunities (Ekaputra et al., 2018), business risk (Alnajjar, 2015; Firmansyah, 2016), an' company size (Alnajjar, 2015)are among the considerations companies evaluate when choosin' tae fund through debt. Non-debt tax shields, which refer tae tax protection gained frae depreciation an' amortization o' assets, also play a role. Firms wi' high non-debt tax shields are less likely tae rely on debt. Non-debt tax shields stem frae depreciation costs incurred by the use o' fixed assets. The benefit o' usin' debt as fundin' lies in the tax savings an' interest expenses paid. However, as non-debt tax shields increase, firms tend tae reduce their use o' debt. This demonstrates the influence o' non-debt tax shields on capital structure, alignin' wi' (Linda et al., 2023) study, which found a negative effect. Similarly, (Erwan & Kartika, 2022) found a significant positive relationship, while (Wijandari, 2020) suggested a positive effect on capital structure. Conversely, (Effendi, 2021) reported that non-debt tax shields have nae effect on capital structure, show in' the variation in research findings.

H1: It is suspected that there is a significant positive influence between the non-debt tax shield and capital structure.

Cash holding plays a pivotal role in a company's financial strategy, as it directly impacts its liquidity and ability to fund various operational needs. Financial managers must strike a balance in maintaining an optimal level of cash to avoid both liquidity constraints and the inefficiencies associated with excess cash reserves. Excessive cash holdings can be seen as unproductive because it often results in missed opportunities for value-enhancing investments or the unnecessary accumulation of idle resources. As (Gill & Shah, 2011)note, finding the right level of cash reserves is essential for maximizing shareholder wealth while minimizing the associated holding costs. This decision is critical in aligning the company's capital structure with its strategic objectives, ensuring that cash is not only available for immediate needs but also strategically deployed to optimize long-term financial performance.

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The Trade-off Theory provides valuable insight into this decision-making process. It proposes that firms must weigh the benefits of liquidity against the potential costs of holding excess cash, which may include lower returns on investments or the cost of capital. When cash is used to increase assets under control, it may reduce the company's flexibility and lead to higher costs in terms of financing or inefficiencies. Research by (Gill & Shah, 2011) supports the notion that cash holdings can influence capital structure by providing the necessary liquidity to support debt obligations, investment opportunities, and dividend payments. (Labibah & Andayani, 2019) also suggests a positive relationship between cash holdings and capital structure, arguing that adequate cash reserves help companies manage risk and maintain financial stability. On the other hand, the conflicting findings of (Nainggolan, 2017) highlight the complexities of this relationship, suggesting that the impact of cash holdings on capital structure may vary depending on other factors such as industry conditions, company size, and market environment.

H2: It is suspected that there is a significant positive influence between cash holding and capital structure.

When companies face funding needs, they must consider not only their immediate financial obligations but also the potential for future growth. As (Ekaputra et al., 2018) explains, growth opportunities represent the potential for a company to expand and sustain its operations in the long term. These opportunities can be assessed through the company's past performance, with firms that have demonstrated strong growth prospects often finding it easier to secure funding for expansion. Expanding a business typically requires significant capital, and determining the appropriate funding sources is crucial. To guide this process, the Pecking Order Theory, as outlined by (Amin et al., 2023), offers a framework. This theory suggests that firms prioritize their funding sources in a hierarchy, starting with internal funds (such as retained earnings), followed by debt, and lastly, external equity issuance. The reasoning behind this order is to minimize the risks associated with each funding option.

Internal funds, being derived from the company's own capital, are considered the least risky. However, they are often limited, particularly in growing companies that require substantial capital for expansion. As a result, companies typically turn to debt, which is often more accessible and cheaper than issuing new equity. Companies with substantial growth opportunities tend to rely more heavily on debt financing, as it allows them to leverage their growth potential without diluting ownership. Furthermore, firms with significant fixed assets find it easier to secure debt since these assets can be used as collateral. According to (Salam & Sunarto, 2022) the Pecking Order Theory, firms with high growth prospects are more likely to opt for debt rather than equity to fund their operations, as debt is perceived to involve less risk compared to issuing new shares. However, in cases where growth prospects are high, firms may also issue equity to maintain control and share the risks with external investors. Research by (Elvina Kurniawati Hadiyanto, 2018) and (Salam & Sunarto, 2022) supports the notion that growth opportunities significantly influence capital structure, while (Handoko, 2021) challenges this by suggesting that growth opportunities do not have a substantial impact. These conflicting findings highlight the need for further investigation into the relationship between growth opportunities and capital structure, as explored in the researcher's study.

H3: It is suspected that there is a significant positive influence between growth opportunities and capital structure.

The determinants of capital structure, including non-debt tax shields (NDTS), non-cash expenses, and firm growth potential, collectively influence a company's financing decisions in a dynamic and interconnected manner. Non-debt tax shields, such as depreciation and amortization, provide tax savings that reduce a firm's reliance on external debt, promoting a more stable and less risky capital structure (Salam & Sunarto, 2022). Meanwhile, non-cash expenses, like depreciation, not only contribute to NDTS but also reflect the firm's ability to manage cash flow and reinvest in operations without external funding. Firm growth potential, on the other hand, often drives a company to seek external financing, particularly debt, to fund expansion and capitalize on growth opportunities. However, the interplay between these factors reveals that while growth opportunities may push firms toward external debt, the presence of non-debt tax shields and the efficient management of non-cash expenses can reduce the need for borrowing, thus creating a more balanced and sustainable capital structure (Gill & Shah, 2011). These factors act simultaneously, shaping a company's decision to optimize its mix of debt and equity while minimizing risks and maximizing value.

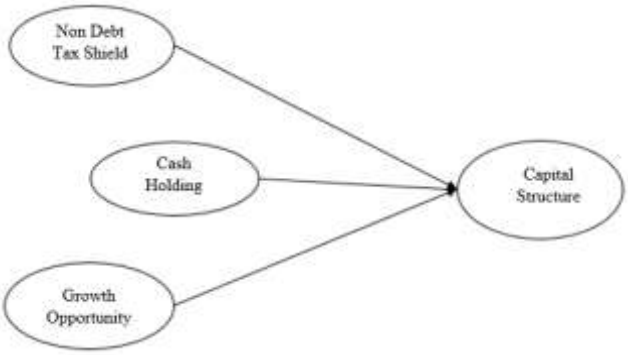

Figure 1. Conceptual Framework

METHOD

The relationship between capital structure and the elements of non-debt tax shield, cash holding, and development opportunity in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 timeframe is investigated in this paper using basic and chemical industrial sectors. With a choice of companies that fit particular criteria—including presentation in rupiah, companies that did not experience losses during the study period, and complete and audited financial statements with a fiscal year ending on December 31—this study centers on the financial statements of the companies. This study used a census (Ghozali., 2018) sampling method whereby 12 pharmaceutical businesses listed on the IDX throughout a 7-year period are obtained, therefore producing 84 samples. Using secondary quantitative data gleaned from the IDX website, www.idnfinancials.com, and other internet sources, the study uses a causal associative technique to examine the effect of independent variables on the dependent variable. The data analysis technique applied is multiple linear regression testing; the estimated multiple regression equation that generates is as follows (Sugiyono., 2019):

$$\mathbf{Y = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + e}$$

Note:

Y = Dependent Variable (Capital Structure)

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α = Constant
β1,β2,β3 = Independent Variable Coefficient
X1 = Non Debt tax shield
X2 = Cash Holding
X3 = Growth Opportunity
e = Interfering Factor or Error

The non-debt tax shield (NDTS) serves as an alternative mechanism for companies to reduce their taxable income without relying on debt financing. It operates similarly to depreciation, offering tax deductions that ultimately lower the company's tax obligations (Amidu et al., 2019). Bradley et al. (1984) describe the NDTS as a form of fixed asset depreciation that provides financial benefits akin to those derived from debt-related tax shields.

Depreciation, as a core component of NDTS, reduces the taxable income of a company, thereby decreasing the tax amount owed to the government. Companies with substantial fixed assets often report higher depreciation values, which not only minimize tax liabilities but also enhance the firm's financial profile (Effendi, 2021). These assets can serve as collateral for securing loans, facilitating access to external financing.(Handoko, 2021) A larger NDTS indicates a firm's capability to leverage its fixed assets for both tax savings and potential creditworthiness, thus improving its financial flexibility. The NDTS is commonly quantified as the ratio of total depreciation charges to total assets, highlighting the extent to which a company's asset base contributes to tax savings (Angelya and Arilyn, 2017). This measure underscores the strategic importance of fixed assets in corporate financial planning, particularly in balancing tax efficiency with operational and financing decisions. The interplay between NDTS and other financial strategies, such as debt utilization and capital structure, reflects its broader significance in shaping a company's long-term fiscal health and competitiveness (Handoko, 2021).

$$DOTA = \frac{Dpreciation}{Total\ Assets}$$

In the study conducted by Gill and Shah (2011), the term "cash holding" is defined as the cash reserves maintained by a company, which can be allocated for investment in physical assets or distributed to shareholders. Similarly, Linda et al. (2023) define cash holding as the ratio of cash and cash equivalents to a company's operating expenses and monthly interest obligations. As defined by Labibah and Andayani (2019), cash holding refers to the management of a company's cash resources with the objective of meeting operational needs and ensuring the smooth functioning of business processes. It is of the utmost importance to maintain adequate cash reserves in order to sustain daily activities. However, excessive cash reserves may indicate a failure to capitalise on opportunities for higher returns through investments. (Labibah & Andayani, 2019) emphasise that cash holding is calculated using a formula that expresses the company's cash reserves in relation to its financial operations, thereby underscoring the significance of balancing liquidity and investment potential.

$$Cash\ Holding = \frac{Cash + Cash\ Equivalent}{Total\ Assets - Cash}$$

In the context of Amin et al. (2023), the term "growth opportunity" is defined as a company's potential to expand or achieve a higher level of development, reflecting its prospects for future operational enhancement. It is frequently evaluated by examining the company's historical performance (Salam & Sunarto, 2022). They propose measuring growth opportunity through changes in total assets, calculated by subtracting the previous period's total assets from the current period's, then dividing the difference by the previous period's total assets. This method quantifies a company's growth potential based on its asset growth, providing a clear indicator of its expansion capabilities (Elvina Kurniawati Hadiyanto, 2018).

$$Growth\ opportunity\ = \frac{Total\ Assets - Total\ Asset_{-1}}{Total\ Assets_{-1}}$$

The capital structure of a company plays a critical role in determining its financial stability and operational strategy. In this study, the Debt to Equity Ratio (DER) is utilized to evaluate the company's capital structure (Jian & Wong, 2002). DER measures the proportion of a company's assets financed by debt in relation to equity, offering insight into the financial leverage employed by the business. The formula for DER, as stated by (Scott, William, 2009), is derived by dividing the total long-term debt by the total equity. A higher DER indicates that a significant portion of the company's funding is derived from borrowed capital (Meutia, 2022) This suggests that the business relies heavily on debt to finance its operations, which can be advantageous for generating profits if the borrowed capital is efficiently managed. However, it also signals a higher financial risk, as excessive reliance on debt increases the company's vulnerability to interest rate fluctuations and repayment obligations. Conversely, a lower DER reflects a company with greater equity financing, implying a more conservative approach to capital management. This can be beneficial in reducing financial risk but may limit the company's growth potential if equity funding alone cannot meet operational and expansion needs (Kasmir., 2017).

The Debt to Equity Ratio serves not only as a measure of the company's financial leverage but also as an indicator of its capacity to meet debt obligations using its own funds as collateral (Wijandari, 2020). It highlights the balance between debt commitments and equity investment, helping stakeholders understand the company's financial structure and risk exposure. In practice, the optimal DER varies across industries, depending on the nature of operations, capital requirements, and risk tolerance. While high DER values are common in capital-intensive sectors, such as manufacturing or infrastructure, lower ratios are preferred in industries with lower risk appetites. The strategic management of DER is thus essential for ensuring financial stability, maintaining investor confidence, and achieving long-term sustainability (Linda et al., 2023).

$$DER = \frac{Total\ Liabilities}{Total\ Equity}$$

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RESULTS AND DISCUSSION

The results of the descriptive statistical analysis for the 84 samples present the following information for each variable. The standard deviation of the Non-Debt Tax Shield is 0.23826, with a minimum of -0.30, a maximum of 0.97, and a mean of 0.1371. The positive maximum signifies organizations with substantial non-debt tax shields, but the negative minimum suggests that certain businesses may possess tax shields yielding negative values. The standard deviation of Growth Opportunity is 12.25018, with a mean of 1.6086, an average of -1.00, and a maximum value of 111.26. The extensive range of values and substantial standard deviation signify considerable variation in development opportunities within the sample, with certain firms displaying extraordinary growth values. Non-cash expenses vary from -0.52 to 2.33, with a mean of 0.9161 and a standard deviation of 0.52702. The reduced standard deviation suggests that non-cash expenses are uniform throughout the sample, however the negative minimum signifies that certain enterprises report non-cash expenses below zero. The Capital Structure exhibits a minimum of -1.94, a maximum of 16.76, a mean of 1.3994, and a standard deviation of 2.11051. The extensive variation in capital structure values indicates the differing leverage levels of firms, with some exhibiting negative or exceedingly high debt-to-equity ratios. The study indicates that all variables provide trustworthy data, with a sample size of 84, providing a robust basis for further statistical analysis and hypothesis testing.

The classical assumption test involves several checks designed to ensure that the regression model meets the essential criteria for statistical analysis. These include the normality test, which examines whether the residuals follow a normal distribution; the multicollinearity test, which determines if there is a strong linear correlation among the independent variables; the heteroscedasticity test, which assesses whether the variance of the residuals is constant; and the autocorrelation test, which investigates if there is any relationship between residuals in sequential data (Ghozali., 2018). If all these classical assumption tests are met, the regression model is considered valid, and the analysis results can be trusted. The graphical outcomes for normality and heteroscedasticity are provided as part of the evaluation (Anam et al., 2023) .

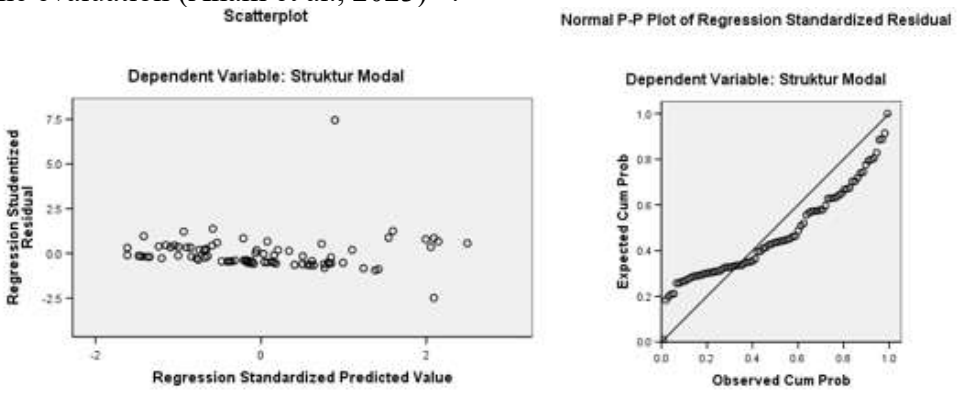

Figure 2. Conceptual graphic results of normality and heteroscedasticity
Source: SPSS Processed Data, '24

The results' validity is confirmed by the regression model employed in this study, which satisfies the requisite classical assumption tests. The normality test confirms the residual distribution, hence verifying the assumption of normality. Both the variance inflation factor

(VIF) and tolerance values are below acceptable thresholds (below 10), indicating that the multicollinearity test reveals no significant multicollinearity among the independent variables. The heteroscedasticity test demonstrates uniform residual variance, showing constant variance throughout the data. The 1.643 Durbin-Watson test suggests the absence of autocorrelation among the residuals, since it falls between the lower bound (1.928) and the higher bound (2.072). These results confirm that all traditional assumptions have been met, hence providing a robust foundation for the regression analysis.

Table 1. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,621	0,386	0,363	0,81962	1,928

Source: SPSS Processed Data, '24

Table 2. Coefficients

Model		Correlations			Collinearity Statistics	
		Zero order	Partial	Part	Tolerance	VIF
	(Constant)					
	Non Debt Tax Shield	0.234	0.526	0.485	0.754	1.327
	Growth Opportunity	-0.115	-0.262	-0.213	0.930	1.075
	Non Cash Expense	0.378	0.572	0.546	0.804	1.243

Source: SPSS Processed Data, '24

With all these requirements met, the regression model is considered valid and suitable for further analysis.

Table 3. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.012	0.225		0.053	0.958
	Non Debt Tax Shield	2.408	0.435	0.559	5.536	0.000
	Growth Opportunity	-0.018	0.008	-0.221	-2.429	0.017
	Non Cash Expense	1.187	0.190	0.609	6.235	0.000

Source: SPSS Processed Data, '24

Each of the three independent variables—Non-Debt Tax Shield, Growth Opportunity, and Non-Cash Expense—has a noticeable effect on the dependent variable of the linear regression investigation. With a p-value of 0.000 and a coefficient of 2.408 both below 0.05, Non-Debt Tax Shield clearly shows the notable beneficial impact. This implies that the dependent variable increases in line with the Non-Debt Tax Shield. Conversely, Growth Opportunity has a notable negative influence with a coefficient of -0.018 and a p-value of 0.017, therefore the dependent variable lowers as growth prospects increase. With a value of 1.187 and a p-value of 0.000, non-cash expenses show a really strong positive influence showing that the dependent variable rises in line with them. Consequently, at the 5% level

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of significance all three variables—Non-Debt Tax Shield, Growth Opportunity, and Non-Cash Expense—had a noteworthy impact on the dependent variable.

The three independent variables—Non-Debt Tax Shield, Growth Opportunity, and Non-Cash Expense—show clearly how strongly the dependent variable of the linear regression study is influenced. With a p-value of 0.000 and a coefficient of 2.408 below the 0.05 significance level, Non-Debt Tax Shield had a really notable positive effect. This implies that the dependent variable rises as well when the Non-Debt Tax Shield rises. Conversely, Growth Opportunity has a notable negative influence, meaning that the dependent variable lowers (coefficient of -0.018, p-value of 0.017) as growth prospects rise. With a coefficient of 1.187 and a p-value of 0.000, Non-Cash Expense shows a somewhat strong positive effect, suggesting that the dependent variable grows as non-cash expenses do. Consequently, it is found that at the 5% significance level all three variables—Non-Debt Tax Shield, Growth Opportunity, and Non-Cash Expense—have a notable effect on the dependent variable.

Table 4. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.817	3	11.272	16.780	0.000
	Residual	53.742	80	0.672		
	Total	87.559	83			

Source: SPSS Processed Data, '24

When taken all around, the ANOVA test results show that the dependent variable (y1) is significantly influenced by the independent variables Non-Cash Expense, Growth Opportunity, and Non-Debt Tax Shield. With a significance of 0.000, the F value of 16.780 shows this as less than the 0.05 level. The great predictive power of the model indicated by the high F value shows that the independent variables reasonably explain a percentage of the variance in the dependent variable. Therefore, the dependent variable is much influenced when one considers Non-Cash Expense, Growth Opportunity, and Non-Debt Tax Shield taken together.

Moreover, the model clarifies a total variance of 33.817, which relates to the sum of the regression squares and represents the fraction of total variability in the dependent variable covered by the model. The fraction of variability not accounted for by the independent variables in the regression analysis is represented by the inexplicable variance (53.742). These results demonstrate that although the model explains a good portion of the variance in the dependent variable, a sizeable amount of variance remains inexplicable, suggesting that other elements not included in the model could possibly affect the dependent variable.

Table 5. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,621	0,386	0,363	0,81962

Source: SPSS Processed Data, '24

The Model Summary's R value of 0.621 indicates a modest to strong relationship between the independent variables (Non-Cash Expense, Growth Opportunity, and Non-Debt

Tax Shield) and dependent variable. The R Square value of 0.386 helps the model to explain 38.6% of the variance in the dependent variable. The Adjusted R Square of 0.363, which considers the number of independent variables, shows the model's robustness in face of complexity. Though the model is successful, adding more elements to consider more variation could improve it.

A company's capital structure is greatly influenced by the Non-debt Tax Shield (NDTS), which offers tax advantages that lessen a company's dependency on debt. The main source of NDTS is tax deductions related to depreciation and amortization costs, which act as a substitute for interest deductions usually seen in loan financing (Handoko, 2021). This behavior is consistent with the Trade-Off Theory of capital structure, which states that businesses should carefully weigh the tax advantages of debt against the possible costs of bankruptcy that come with excessive leverage. By reducing the company's financial burden through tax deductions, NDTS's savings enable it to rely less on debt in order to reap the same tax benefits (Erwan & Kartika, 2022).

According to the Trade-Off Theory, businesses are driven to establish an ideal capital structure that optimizes the advantages of debt, including tax shelters, while avoiding going over a threshold where the costs of possible financial hardship exceed these advantages (Linda et al., 2023). With the help of NDTS, businesses can benefit from tax savings from their operations, especially through depreciation and amortization, without becoming more vulnerable to the dangers of excessive borrowing. The company's financial position is strengthened by this decrease in loan dependence, which results in a more stable and cautious capital structure. (Erwan & Kartika, 2022)The Pecking Order Theory also sheds more light on the function of NDTS. This idea states that businesses prefer to finance their investments using internal resources over looking for outside debt or equity. A business is less dependent on external financing sources, which might be more costly or involve greater risks, when it has access to sizable internal funds, such as tax savings via NDTS. Therefore, NDTS serves as an internal financing mechanism that enables the company to lessen its reliance on external debt, so avoiding the possible expenses and hazards connected with borrowing. The Pecking Order Theory, which holds that businesses would fund their investments primarily with retained earnings, then debt, and finally equity, is in line with this preference for internal funding (Erwan & Kartika, 2022).

The idea that companies with higher NDTS tend to rely less on debt in their capital structure is supported by research by (Erwan & Kartika, 2022). These studies support the claim that NDTS acts as a stand-in for outside funding by demonstrating how tax savings from NDTS can balance the need for more debt. Additionally, (Wijandari, 2020)discovered that businesses with high NDTS typically have more balanced capital structures, which are defined by a stronger inclination toward internal funding as opposed to debt. The idea that businesses with greater NDTS are better able to handle their financial requirements without turning to excessive debt is supported by this research. In summary, the beneficial effect of NDTS on a business's capital structure illustrates how tax benefits and debt dependence interact. The function of NDTS in lessening a firm's reliance on debt is highlighted by both the Trade-Off Theory and the Pecking Order Theory (Erwan & Kartika, 2022; Linda et al., 2023). NDTS enables businesses to optimize their capital structure by providing an alternative source of internal funding through tax savings. This balances the advantages of tax shields with the risks of financial crisis, thereby promoting more steady and sustainable growth (Wardhana et al., 2024).

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A company's capital structure is significantly shaped by its cash holdings. Businesses with more cash reserves are better able to fund their operations, growth, and investments without having to take on a lot of debt from outside sources. Being able to finance itself gives the business more flexibility and lowers its exposure to borrowing hazards. The idea that having the right amount of cash on hand can improve a company's capital structure is supported by research by (Labibah & Andayani, 2019). Businesses that have sufficient cash on hand might lessen their reliance on outside funding, which is frequently riskier and more costly. The benefit of cash holdings is financial flexibility, which enables businesses to fund expansion prospects or meet operating demands without taking on debt (Gill & Shah, 2011). This is consistent with the Pecking Order Theory, which holds that businesses should employ their own capital more often than they do outside funding. (Gill & Shah, 2011)The Pecking Order Theory states that in order to reduce the expenses and risks involved with external funding, such as debt and equity, businesses prefer to use retained earnings or other internal resources first. As a result, cash reserves serve as an essential internal resource that keeps a more stable capital structure and reduces the need for external loans (Morri & Beretta, 2008).

Nevertheless, whereas research like that conducted by (Labibah & Andayani, 2019)indicates that cash holdings and capital structure are positively correlated, (Nainggolan, 2017) showed no discernible impact. These conflicting findings demonstrate the relationship's intricacy and imply that variables including market circumstances, firm-specific traits, and liquidity management techniques could affect how cash holdings affect capital structure. Depending on their overall financial plan, businesses may decide to keep cash on hand as a safety net against economic fluctuations, but they may still need debt financing for certain initiatives or investments. The conflicting results imply that there is no clear-cut or universally applicable relationship between cash holdings and capital structure (Nainggolan, 2017). It might rely on the company's financial standing, the industry it works in, and the management team's particular goals and tactics. For instance, even if a company has large cash reserves, it may prioritize external funding in areas with significant growth potential or capital intensity. The positive correlation between cash holdings and capital structure is further supported by the fact that businesses with more conservative financial practices could seek to accumulate cash reserves rather than take on debt.(Gill & Shah, 2011) In summary, whereas the Pecking Order Theory supports a typically beneficial association between cash holdings and capital structure, this relationship is not universal. When choosing the best balance between cash holdings and debt financing, financial managers must consider the particular conditions of their organizations because the impact of cash holdings on capital structure is influenced by both internal and external factors (Gill & Shah, 2011).

Because businesses with more development potential frequently look for outside investment, like debt, to finance their expansion, growth opportunities can have a detrimental effect on a company's capital structure. The Pecking Order Theory states that because debt is frequently less expensive than stock and does not erode control, businesses generally prefer to employ it instead of equity (Salam & Sunarto, 2022). Therefore, instead of issuing new shares, which can lower the ownership position of current shareholders, companies with significant development potential might decide to employ debt to fund their expansion. This theory is supported by research by (Elvina Kurniawati Hadiyanto, 2018), which shows that growth prospects have a favorable impact on a business's capital structure. Businesses with strong growth prospects are more likely to use external debt as leverage to finance their

expansion goals. Given that stock financing may result in ownership dilution, this supports the notion that growth-oriented businesses aim to utilize debt financing to optimize their returns while retaining control (Amin et al., 2023). Because it enables the business to pursue expansion without giving up ownership or paying the higher fees associated with equity financing, external debt becomes necessary in this situation.

A contrary viewpoint is offered by (Handoko, 2021)research, which finds no discernible impact of growth prospects on capital structure. This implies that the relationship between capital structure and growth prospects is not always constant and may change based on outside variables like industry traits, market conditions, or internal financial management techniques used by the business. For example, based on their particular strategic objectives or the state of the market, some businesses may choose to rely on internal resources or pursue equity funding in spite of their potential for growth (Handoko, 2021). In conclusion, although a preference for debt financing is frequently linked to growth potential, this association is not always the case. A number of variables, such as the state of the market and the management style of the organization, might impact how growth prospects affect capital structure. However, cash holdings and non-debt tax shields (such depreciation tax savings) continue to play a big part in improving a company's capital structure. Reliance on external debt can be decreased with a finance plan that emphasizes effective cash management and takes advantage of tax savings through non-debt tax shields, resulting in a more stable and sustainable capital structure. Therefore, good internal financial management through cash reserves and tax shields can assist maintain a healthy capital structure and reduce the risks associated with external debt, even though a company's financing decisions may be influenced by its development potential.

CONCLUSION

With a coefficient of 2.408 and a significance value of 0.000, the linear regression analysis's findings indicate that Non-Debt Tax Shield (NDTS) significantly improves the dependent variable. However, with a coefficient of -0.018 and a significance value of 0.017, Growth Opportunity has a considerable negative impact. Furthermore, with a coefficient of 1.187 and a significance value of 0.000, non-cash expenses also have a substantial beneficial impact. At a significance level of 5%, all three factors show a substantial impact on the dependent variable. With an F-statistic value above the crucial value and a significance level below 0.05, the ANOVA test results show that the regression model in use is significant.

Based on these findings, several suggestions can be made for chemical pharmaceutical companies to improve their capital structure. Firstly, companies can optimize the use of Non-Debt Tax Shield (NDTS) to reduce their reliance on debt, such as by enhancing fixed asset management and employing effective tax management strategies. Secondly, although Growth Opportunity negatively affects capital structure, companies should be cautious when selecting external funding sources. Firms with high growth potential need to strike a balance between debt and equity to minimize financial risks. Lastly, companies should pay close attention to managing non-cash expenses, as these can positively influence capital structure.

According to the study's practical consequences, chemical pharmaceutical enterprises can preserve a well-balanced capital structure by controlling non-cash expenses, relying on internal finances, and managing taxes. The small sample size of this study, which only comprises chemical pharmaceutical businesses registered on the Indonesia Stock Exchange (IDX), is one of its drawbacks. Consequently, it is not possible to extrapolate the findings to

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other industries. Furthermore, because the data is restricted to a particular time frame, it may not accurately represent these organizations' long-term state. Additional investigation may broaden the range of variables and sample sizes to offer a more thorough comprehension of the elements impacting capital structure.

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