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The Role of Tangibility, Business Risk, and Managerial Ownership on Capital Structure

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ABSTRACT

A survey by the Ministry of Manpower of the Republic of Indonesia revealed that 88% of enterprises experienced financial distress during the COVID-19 pandemic, highlighting the importance of effective capital structure management in times of crisis. This study aims to examine the factors influencing capital structure decisions among companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. Using a purposive sampling method, secondary data from company financial statements were analyzed through multiple regression analysis with EViews 12 software. The findings confirm that business risk has a significant negative effect on capital structure ($p = 0.03$), indicating that higher risk discourages debt financing. Additionally, asset tangibility moderates this relationship, strengthening the influence of business risk on capital structure. However, managerial ownership does not significantly impact capital structure ($p = 0.7657$), and no moderating effect of tangibility is found on the relationship between managerial ownership and capital structure. The study concludes that firms can better manage their financing strategies by accounting for business risks and the role of tangible assets, while the limited influence of managerial ownership may reflect its relatively low proportion in the sample firms.

Keywords: Business Risk; Capital Structure; Indonesia Stock Exchange; Managerial Ownership; Tangibility

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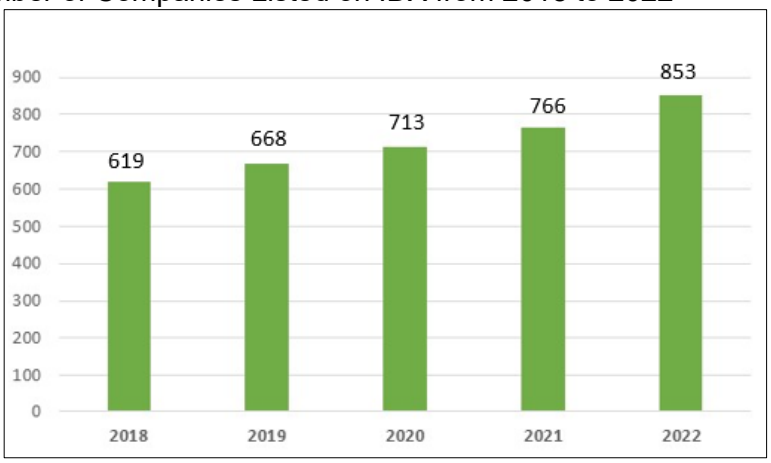
INTRODUCTION

Many companies have experienced financial difficulties as a result of the COVID-19 pandemic, with some ultimately going bankrupt. Despite these challenges, the number of companies listed on the Indonesia Stock Exchange (IDX) has continued to increase each year. The IDX functions as a platform that brings together investors and issuers, enabling companies to access funding opportunities. Public companies can raise capital by issuing equity through Initial Public Offerings (IPOs) or by offering debt instruments such as bonds.

Figure 1. Number of Companies Listed on IDX from 2018 to 2022



Source: Processed Data from IDX

The data in Figure 1 shows a steady rise in the number of issuers registered on the IDX from 2018 to 2022: a 7.9% increase from 2018 to 2019, a 6.7% increase from 2019 to 2020, a 7.4% increase from 2020 to 2021, and an 11.3% increase from 2021 to 2022. The companies listed on the IDX are classified into various sectors, such as agricultural, basic and chemical industry, consumer goods industry, infrastructure, utilities and transportation, commerce, services and investment, mining, varied industries, property, real estate and building construction, and finance. Companies listed on the IDX necessitate funds to sustain their commercial operations.

A company's operational funds are derived from both internal and external sources. Internal sources of funds refer to the financial resources that are generated by the firm itself, namely through the retention of earnings from the company's equity position (Asmoro et al., 2023). External sources of funds originate from outside the company, typically from creditors. Debt for a corporation can also be a source of financing from owners, participants, or investors, known as the company's own capital (Dewi, 2022). The company's financial structure will be impacted by funding decisions made by the company. Utilizing significant amounts of debt will heighten a company's financial risk regarding the repayment of principal and interest on loans (Wongsowinoto, 2022). Additionally, excessive firm debt may lead to an inability to meet interest and principal payments. If the company overly utilizes its own capital, it can diminish the company's earnings per share (EPS) and consequently affect the company's value for investors (Arilyn, 2020). Thus, to attain the company's objectives of maximizing earnings and enhancing corporate value, firms must effectively manage their capital structure.

An optimal capital structure of a corporation is achieved when there is an equilibrium between risk and return, leading to the maximization of share prices (Sihite, 2022). Capital structure policies incorporate a trade-off theory between risk and rate of return (Rumasukun et al., 2019). The capital structure of a company involves financing obtained

through a combination of equity and debt. Loan financing includes both short-term and long-term loans, whereas equity financing encompasses shareholder capital, common shares, preferred shares, and retained earnings.

According to the pecking order principle, corporations often prioritize using internal financing sources, such as retained earnings, over external funds for funding activities (Cenci & Kealhofer, 2022). External funds are only considered when internal funds are insufficient. When opting for external financing, the corporation typically prefers to utilize debt over stock (Sihite, 2022). A company's financial decisions are crucial, encompassing the withdrawal and efficient allocation of funds (Nareswari et al., 2024). The company's financial structure will be impacted by funding decisions made by the company.

This study addresses a significant research vacuum by examining the direct impacts of company risk and managerial ownership on capital structure, as well as the moderating effect of tangibility. The research examines organizations in the basic materials and industrial sectors, which are marked by significant fixed-asset intensity and volatility, thereby providing valuable insights into their financial structure decisions amid uncertainty.

This research aims to investigate aspects that can impact capital structure. The essential key to the company's sustainability is utilizing a balanced and optimal capital structure (Rumasukun et al., 2019). The study is anticipated to offer insights for organizations on utilizing internal and external finance sources. This research has theoretical implications that can contribute to studies on factors influencing firm capital structure decisions. Prior studies have shown variations in outcomes. Business risk has no substantial effect on the composition of a company's capital structure, and other studies conducted by others demonstrate that the impact of corporate risk on capital structure is substantial (Munandar, 2019). The level of ownership by managers had a strong and negative impact on the way a company's capital is structured (Doorasamy, 2021). This study investigates the role of tangibility in the relationship between company risk and capital structure, as well as its influence on the association between management ownership and capital structure.

LITERATURE REVIEW

Trade-Off Theory

The trade-off theory of capital structure asserts that enterprises establish their optimal debt level by weighing the tax benefits of borrowing against the costs associated with possible financial hardship (Myers, 1984). This idea posits that debt provides a tax shield advantage, as interest payments are tax-deductible, thereby diminishing a firm's total tax obligation. As debt levels escalate, the likelihood of financial trouble and bankruptcy also increases. Therefore, companies must balance these costs and advantages to ascertain the optimal level of leverage.

This study elucidates the inverse link between business risk and capital structure through the lens of the trade-off theory. Companies facing significant business risk may refrain from incurring further debt to mitigate the likelihood of distress, therefore lowering their financial leverage. This argument further substantiates the moderating influence of tangibility, since tangible assets serve as collateral that mitigates anticipated distress costs, allowing firms to prudently augment their debt levels (Frank & Goyal, 2009).

Agency Theory

Agency theory, created by Jensen and Meckling (2019), elucidates the conflicts of interest between managers (agents) and shareholders (principals) in a firm. A significant agency problem occurs when managers seek personal gains to the detriment of shareholder value. Managerial ownership is suggested as a means to align interests, as managers with equity investments are more inclined to act in shareholders' best interests.

Agency theory posits that more managerial ownership leads to more judicious financial policies, particularly with leverage decisions (Jiraporn & Liu, 2008). Managers possessing substantial ownership are anticipated to eschew excessive debt that may endanger the firm's long-term value. The study's findings indicate that management ownership does not significantly affect capital structure, likely due to the low average ownership levels across the sample firms, which restricts the opportunity for effective alignment of interests.

Resource-Based View (RBV) and Tangibility

The Resource-Based View (RBV) posited by Barney (1991) contends that a firm's enduring competitive advantage stems from its distinctive and valued resources. Tangible assets can function as strategic resources if they facilitate value generation, possess rarity, and are challenging to replicate. From a capital structure viewpoint, physical assets fulfill a dual role, enhancing operating capacity while also serving as collateral that might diminish borrowing costs.

This study incorporates tangibility as a moderating variable based on this theoretical perspective. Companies with substantial asset tangibility are regarded as less risky by creditors, as the tangible assets can be confiscated in the event of default. As a result, these companies may possess improved access to debt funding, especially in scenarios characterized by elevated business risk. This supports the trade-off theory, emphasizing that asset structure is crucial in a firm's financing decisions.

Empirical Insights from Prior Studies

Numerous prior studies have examined the correlation among business risk, managerial ownership, and capital structure, yielding inconclusive results. Meilyani et al. (2019) and Ria & Lestari (2015) found no significant correlation between business risk and capital structure in Indonesian firms. Conversely, Munandar (2019) identified a substantial impact of company risk on capital structure, especially within capital-intensive industries. These conflicting results indicate that contextual factors, including industry traits and macroeconomic situations, are key contributors.

Doorasamy (2021) revealed a negative correlation between managerial ownership and leverage levels, aligning with arguments for the decrease of agency costs. Nevertheless, the findings of the present study contest this conclusion, indicating the restricted influence of management ownership in companies with minimal average ownership stakes. This necessitates a deeper investigation of the ownership thresholds at which governance becomes effective.

Capital Structure

Capital structure pertains to the amalgamation of debt and equity employed by firms to finance their assets (Meilyani et al., 2019). Capital structure refers to the combination of a company's debt and equity funding (Arilyn, 2020). The theory of corporate capital structure seeks to establish a framework for analysis in order to determine the most efficient capital structure. Pecking order theory describes the process by which the

company establishes the most favored hierarchy of funding sources. In summary, the theory states that: (1) companies prefer internal financing, which involves funding from the company's operating results; (2) If the company needs external funding, it will prioritize issuing the most secure securities, starting with bonds, then moving on to securities with option features like convertible bonds, and as a last resort, issuing new shares.

Hypotheses Development

Business Risk and Capital Structure

Companies aim to decrease debt levels during periods of heightened business risks. Organizations facing high levels of risk tend to decrease their reliance on external financing to safeguard against corporate bankruptcy resulting from such funding (Doorasamy, 2021). Elevated business risk indicates heightened volatility in a company's operating cash flows, hence augmenting the likelihood that the firm may default on fixed financial obligations, like interest payments or principal repayments (Melananda & Sari, 2024). To counter these risks, organizations typically adjust their financial strategy to adopt more conservative ways by decreasing leverage and increasing reliance on equity or retained earnings.

According to the pecking order concept, corporations prioritize the utilization of the most secure and readily available internal finance sources, such as retained earnings, prior to pursuing external debt or equity (Buana & Khafid, 2018). In high-risk circumstances, internal funding is crucial, as it enables enterprises to circumvent additional financial liabilities that may intensify liquidity constraints. By reducing dependence on external debt during volatile periods, organizations safeguard their financial flexibility and diminish their vulnerability to potential insolvency (Orbaningsih, 2022).

Furthermore, increased business risk can raise borrowing costs, as lenders require larger risk premiums to offset the augmented likelihood of default. This additionally deters companies from seeking debt financing during volatile periods (Anisah et al., 2023). The relationship between business risk and capital structure is often inverse: increased business risk correlates with reduced debt ratios.

From a strategic standpoint, decreasing debt during turbulent periods enables enterprises to sustain a more robust credit rating and retain access to capital markets when necessary (Orbaningsih, 2022). Companies that actively manage their leverage in relation to business risk exhibit superior risk governance procedures, thereby bolstering stakeholder confidence and long-term corporate value.

The interplay between business risk and capital structure signifies a prudent financial strategy designed to reconcile operational risks with the imperative of sustaining financial solvency and company resilience in fluctuating business landscapes.

H1: Business risk adversely impacts the capital structure.

Managerial Ownership and Capital Structure

Managerial ownership is the term used to describe the ownership of company shares by individuals within the organization, specifically the management team. The management comprises directors and commissioners who actively participate in establishing policies and making decisions within the business. Managerial ownership results in directors and commissioners holding dual roles as both firm shareholders and part of the management team. Valensiska (2021) suggests that management ownership by commissioners and directors, in accordance with agency theory, can mitigate agency conflicts by aligning the interests of shareholders and managers. Managers who serve as both agents and

shareholders will consistently work to enhance the company's value. One method is expanding a business by raising funds from other sources, specifically through debt, due to its advantages. Mustaruddin et al. (2017) state that the advantage is that the interest expenses from loans can be deducted from income, leading to tax savings.

H2: Managerial ownership positively influences the capital structure.

Tangibility, Business Risk, and Capital Structure

Businesses may opt to utilize external capital when they possess substantial tangible assets (Triherawati & Nusraningrum, 2021). The company's physical assets can serve as collateral for creditors, encouraging the management to utilize external finance sources.

The presence of physical assets diminishes the perceived risk for lenders, as these assets can be liquidated to recoup outstanding obligations in the case of borrower default (Putri, 2025). As a result, companies possessing a substantial ratio of tangible assets generally attain enhanced access to debt financing under more advantageous conditions, like reduced interest rates or extended repayment durations.

Tangibility serves a crucial mitigating function in the realm of business risk. Companies functioning in high-risk contexts may struggle to obtain external capital due to the unpredictability of future cash flows (Susanti & Rohima, 2023). Nonetheless, when companies own significant tangible assets, creditors may regard the firm as less hazardous, thus mitigating some of the adverse effects of increased business risk. Consequently, tangibility serves as a safeguard, augmenting enterprises' ability to secure loans even with heightened operational unpredictability.

Tangible assets affect managerial decisions concerning capital structure within the context of the trade-off hypothesis. This theory posits that corporations evaluate the tax benefits of debt in relation to the possible expenses associated with financial hardship. Tangible assets mitigate distress costs by providing security, therefore adjusting the optimal capital structure towards increased leverage. In sectors characterized by high asset specificity, such as manufacturing or heavy industry, this dynamic is particularly crucial, as firms depend on substantial fixed investments to facilitate operations and expansion strategies.

The link between tangibility, company risk, and capital structure highlights the strategic significance of asset composition in financial decision-making. Companies with a robust foundation of tangible assets are more adept at optimizing their capital structure by balancing risk management, cost of capital, and the development of shareholder value.

H3: The presence of tangible assets reduces the impact of business risk on the composition of a company's capital.
H4: The presence of tangibility amplifies the impact of business risk on the composition of a company's capital structure.

The framework of this study is represented in Figure 2.

Figure 2. Research Framework

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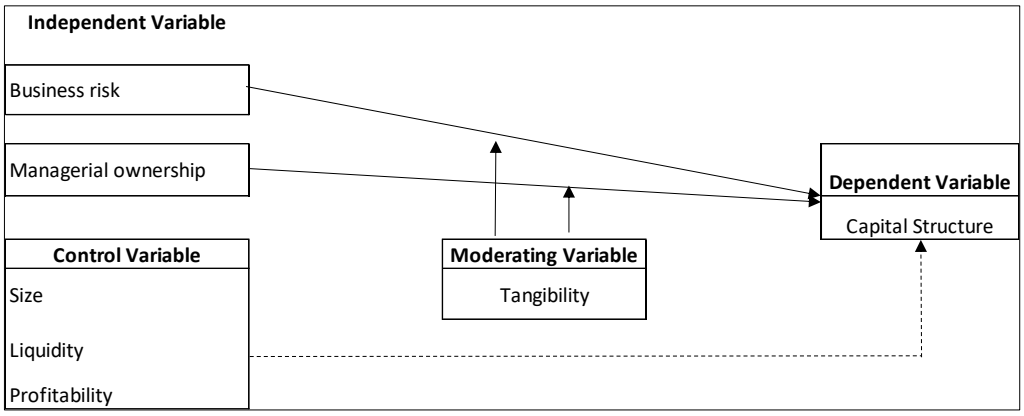

RESEARCH METHOD

This research employs the methodology of a causal study. Causal investigation is a type of research that seeks to establish a cause-and-effect relationship between two or more variables. The aim of this study is to establish a causal relationship between two separate factors, specifically firm risk and management ownership, and the dependent variable, capital structure. Furthermore, we shall analyze the function of tangibility as a moderating variable. The study employs a quantitative methodology. The tests in this study will employ secondary data. Secondary data refers to information that researchers obtain from sources that have already studied it, as stated by Bougie (2013).The analysis utilized financial report data from companies listed on the IDX for the time frame between 2020 and 2022. The data will be acquired through the IDX website and the IDX library.

The research employed the multiple regression approach to conduct hypothesis testing and investigate causal relationships. This research employs panel data to capture the temporal dimension. This analysis includes all companies listed on the IDX, leading to a significant level of universality. The study centers on the analysis of an organization, specifically a company. The study's population consists of all companies that were formally registered on the IDX during the years 2020 and 2022. The study will employ purposive sampling, a technique that entails selecting participants based on predetermined criteria established by the researcher. The specified criteria are (1) from 2020 to 2022, companies in the basic materials and industrial sectors have consistently remained listed on the IDX, (2) the corporation releases audited financial reports prepared by an independent auditor, and (3) the company possesses all pertinent data concerning this research.

According to the obtained data, the population of the firm during the research period consisted of 123 companies. The subsequent outcomes in Table 1 were obtained using selective sampling and specific criteria.

Table 1. Research Sampling

	Description	Amount
1	Companies in the basic materials and industrial sectors have maintained a consistent presence on the IDX from 2020 to 2022.	123
2	The corporation releases audited financial reports prepared by an independent auditor.	118
3	The company possesses all pertinent data concerning this research.	67

Operational Variable and Measurement

Dependent Variable

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Capital structure in this study is measured by Debt-to-Equity Ratio (DER). The DER can be calculated using the following formula:

$$Debt\ to\ Equity\ Ratio\ (DER) = \frac{Total\ Debt}{Shareholders'Equity}$$

Independent Variable

Business Risk

Business risk pertains to the possibility of incurring financial losses due to operational activities or an excessive accumulation of long-term debt. The Degree of Leverage (DOL) will be used as a measure of the business risk variable in this research. The DOL is utilized to assess the company's growth in terms of revenue and sales, enabling the identification of hazards associated with its operational operations. The DOL formula, as stated by Doorasamy (2021), is as follows:

$$DOL = \frac{\%\ \text{growth of}\ earning\ before\ interest\ and\ taxes}{\%\ \text{sales growth}}$$

Managerial Ownership

Managerial ownership is quantified by calculating the ratio of shares held by managers to the total number of shares available (Doorasamy, 2021).

$$MGROWN = \frac{\text{total managerial ownership}}{\text{outstanding shares}}$$

Control Variable

This research also included additional control variables, specifically Size, measured with Ln Total asset, and Liquidity, proxied by Current Ratio (CR).

$$CR = \frac{Current\ assets}{Current\ liabilities}$$

Profitability is proxied by Return on Assets (ROA).

$$ROA = \frac{Net\ income}{Average\ total\ assets}$$

Moderating Variable

This research also includes a moderating component, specifically tangibility, which is assessed using the formula provided by Arilyn (2020):

$$TAN = \frac{Net\ fixed\ assets}{Total\ assets}$$

RESULTS

Descriptive statistics is a technique employed to provide a comprehensive summary of quantitative data in a research study. Descriptive statistical analysis yields data in the form of average or mean values, as well as maximum and minimum values, which represent the highest and lowest values for each variable. The results of the descriptive statistical test are displayed in Table 2, as depicted below:

Table 2. Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.

DER	0.317	0.337	0.590	0.0316	0.101
DOL	5.030	1.327	273.620	-84.446	36.267
MGROWN	0.126	0.059	0.721	7.868	0.169
ROA	0.009	0.019	0.280	-0.353	0.096
CR	5.164	1.405	208.444	0.0592	25.320
SIZE	28.404	27.923	32.643	25.079	2.125

Note: DER (Debt-to-Equity Ratio), DOL (Degree of Leverage), MGROWN (Managerial Ownership), ROA (Return on Assets), CR (Current Ratio), Size (Size)

Table 2 displays the average, middle value, highest value, lowest value, and measure of variability (standard deviation) for the 201 data points analyzed in the study. The DER variable exhibits a range of variance from 0.0316 to 0.590, with an average value of 0.317. The standard deviation of the DER variable data is 0.101, indicating that the data varies by 0.101 from the average value. The range of the independent variable DOL is from -84.446 to 273.620, with a mean of 5.030. The independent variable of managerial ownership data exhibits a range of variations, spanning from a minimum value of 7.868 to a maximum value of 0.721, with an average value of 0.126.

Table 3. FEM Model Result

Variable		Beta	t-statistic	Prob	Notes
1	DOL	0.000442	-1.442190	0.0309**	H1 accepted
2	MGROWN	0.014890	-0.298478	0.7657	H2 rejected
3	DOL*TAN	-0.001240	-1.750952	0.0815*	H3 accepted
4	MGROWN*TAN	-0.014648	-0.130747	0.8961	H4 rejected
5	CR	-0.001987	-4.834511	0.0000	
6	ROA	-0.614294	-7.356498	0.0000	
7	SIZE	0.006819	1.651163	0.1003	
Goodness of Fit Model					
Adj R-squared		27.73%			
Prob F-stat		0.00000			
Dependent Variable: DER					

Note: *sig 10%, **5%

Table 3 clearly demonstrates that H1 is supported, suggesting a statistically significant negative relationship between company risk and capital structure. The significance value of 0.03 (<0.05) further confirms this finding. On the other hand, H2 is rejected in this study since the significance value is 0.7657, suggesting that managerial ownership does not have a negative effect on capital structure. When examining the role of tangibility as a moderating variable, it becomes clear that H3 is confirmed, suggesting that tangibility might strengthen the influence of company risk on capital structure. Nevertheless, the absence of evidence for H4 suggests that the presence of tangible assets does not enhance the beneficial impact of management ownership on the structure of capital.

Managerial ownership does not exert a favorable influence on capital structure. Despite high levels of managerial ownership, companies remain reliant on debt as a means of financing their capital structure. This is evident from the data obtained in this research, which indicates that the average level of management ownership in enterprises is rather small, with an average value of 0.126 or 12.6%.

DISCUSSION

Business Risk and Capital Structure

The empirical results provide strong support for H1, demonstrating that business risk has a statistically significant negative influence on capital structure. This finding aligns closely

with the pecking order theory, which posits that firms prioritize internal financing over external debt, especially under conditions of high uncertainty. When firms experience elevated levels of business risk—manifested through volatile cash flows or unpredictable earnings—they are generally less inclined to increase leverage, as the fixed obligations associated with debt can exacerbate financial vulnerability. This behavior is corroborated by previous studies, such as Doorasamy (2021), which concluded that firms with greater operational risk adopt more conservative financing strategies to avoid the increased likelihood of default and financial distress.

The negative relationship observed in this study is also consistent with the broader literature on capital structure dynamics during economic downturns. For instance, empirical evidence from the COVID-19 pandemic period shows that firms across various industries adopted more risk-averse financial policies, including reducing reliance on debt financing, to preserve liquidity and enhance financial resilience (Beck, 2023). In the specific context of Indonesian listed companies, which often face institutional and market constraints, minimizing debt exposure becomes a rational strategy to manage earnings volatility and external shocks.

Moreover, the substantial negative coefficient associated with business risk in the regression analysis underscores the significance of proactive risk management in capital structure decisions. Firms must continuously evaluate their risk profiles and adjust their financing mix accordingly, not only to maintain solvency but also to sustain investor confidence. These findings suggest that financial managers in high-risk environments are likely to favor equity or retained earnings over debt, even if debt appears cheaper in the short term. Thus, the study reinforces the practical implication that effective risk assessment and capital allocation policies are integral to long-term financial stability, particularly during periods of macroeconomic uncertainty.

Managerial Ownership and Capital Structure

The results show that managerial ownership does not have a significant effect on capital structure, leading to the rejection of H2. This outcome is inconsistent with agency theory, which posits that higher managerial ownership aligns the interests of managers and shareholders, thereby encouraging more cautious and effective financial decision-making. According to this view, managers with substantial ownership stakes are expected to be more risk-averse in using debt, as excessive leverage could directly impact their own financial returns. Previous research by Valensiska (2021) supports this assumption, finding a negative relationship between managerial ownership and corporate debt levels.

However, in the context of this study, the lack of significance may be explained by the relatively low average level of managerial ownership among the sampled firms, which stands at 12.6%. At this level, the ownership stake may be insufficient to influence capital structure decisions. Managers may not feel a strong enough financial incentive to avoid risk through reduced leverage. Furthermore, this finding may reflect structural characteristics of Indonesian firms, particularly in the basic materials and industrial sectors, where ownership is often concentrated in family holdings or institutional investors. In such cases, strategic financing decisions are likely driven by the majority of stakeholders rather than individual managers.

This result also suggests that managerial ownership, when relatively small, may not serve as an effective internal control mechanism in the Indonesian corporate setting. External factors such as access to debt markets, industry norms, or state policies may exert greater influence on capital structure than internal ownership dynamics. Future studies may benefit from examining whether a threshold effect exists, where managerial

ownership must reach a certain level before it begins to significantly shape financial decisions.

Tangibility as a Moderator between Business Risk and Capital Structure

The results confirm H3, indicating that asset tangibility significantly moderates the relationship between business risk and capital structure. Specifically, the negative interaction term suggests that firms with a higher proportion of tangible assets are more capable of sustaining or increasing their use of debt financing, even in the presence of heightened business risk. This finding highlights the important role that tangible assets—such as property, plant, and equipment—play in mitigating lenders' concerns about default. By serving as collateral, these assets help reduce the perceived credit risk, making it easier for firms to access external financing under uncertain conditions.

This result supports the theoretical predictions of the pecking order theory, which suggests that firms prefer internal financing but may resort to debt when external capital is needed, particularly when supported by strong asset bases. The findings are also consistent with those of Arilyn (2020), who argued that the presence of fixed assets enhances a firm's borrowing capacity by providing assurance to creditors in the form of recoverable value. In volatile environments, such as during the COVID-19 pandemic, firms with higher tangibility are better positioned to negotiate financing terms despite operational uncertainties.

This relationship is especially relevant in capital-intensive sectors, where tangible assets form a significant portion of total firm value. In such cases, firms can maintain financial flexibility by leveraging their physical resources, thereby offsetting some of the constraints imposed by risk exposure. Overall, this study reinforces the idea that asset tangibility does not merely reflect firm size or capacity but also plays a strategic role in influencing financing decisions during periods of uncertainty.

Tangibility as a Moderator between Managerial Ownership and Capital Structure

The analysis does not support H4, which proposed that tangibility strengthens the positive relationship between managerial ownership and capital structure. The interaction term in the regression model is statistically insignificant, indicating that the presence of tangible assets does not amplify the influence of managerial ownership on a firm's leverage decisions. This outcome reinforces the earlier finding that managerial ownership, on its own, does not significantly impact capital structure within the sampled firms. Even in the presence of substantial tangible assets—typically considered favorable collateral in debt financing—managerial ownership appears to play a limited role in shaping capital decisions.

One plausible explanation is that the average level of managerial ownership remains too low to affect strategic financial policies, regardless of asset composition. Without a significant ownership stake, managers may lack the incentive or authority to influence long-term financing strategies, especially in firms where ownership and control are largely in the hands of institutional or family stakeholders. Additionally, the existence of collateralizable assets does not necessarily empower managers in governance contexts where broader structural factors, such as board dynamics, shareholder dominance, or external financial constraints, are more influential in capital structure decisions. This result is consistent with the findings of Gaur et al. (2015), who suggest that the effectiveness of managerial ownership as a control mechanism is contingent on broader governance conditions and ownership concentration.

In summary, the findings suggest that tangible assets alone are not sufficient to strengthen the governance role of managerial ownership in financing decisions. In the

context of the firms studied, collateral value does not appear to enhance internal governance influence on leverage, pointing to the need for more comprehensive governance structures to shape capital structure outcomes meaningfully.

CONCLUSION

After analyzing the financial reports of 67 basic material and industrial companies listed on the IDX from 2020 to 2022, with a total of 201 data points, the study finds that business risk has a statistically significant negative impact on capital structure. In contrast, managerial ownership does not have a significant influence on capital structure. Tangibility strengthens the negative effect of business risk on capital structure, but it does not moderate the relationship between managerial ownership and capital structure.

This study has several limitations. The adjusted R-squared value of 27.3% indicates that other variables (72.7%) also play a role in determining capital structure but were not included in this model. Additionally, 51 companies were excluded from the analysis due to the lack of data on managerial ownership, which may affect the generalizability of the findings.

Implications

Managerial Implications

This study's findings offer significant insights for company finance managers and strategic decision-makers, especially in the basic materials and industrial sectors on the IDX. The substantial adverse effect of business risk on capital structure underscores the necessity for comprehensive risk management systems. Companies must improve their internal risk assessment systems to predict changes in operating conditions and income sources. By doing so, they can deliberately modify their leverage levels, preventing excessive dependence on debt during high-risk times that could jeopardize financial stability and creditworthiness.

Secondly, the function of tangible assets as a moderating variable emphasizes the significance of asset composition in financial planning. Companies with elevated degrees of tangibility are more capable of obtaining external financing. Consequently, investing in physical, collateralizable assets like machinery, equipment, or real estate enhances operational capacity and fortifies the firm's financial resilience by augmenting its borrowing potential. Managers must acknowledge the dual role of tangible assets as both productive resources and financial facilitators.

Thirdly, the insignificance of managerial ownership indicates a possible deficiency in the efficacy of corporate governance. Despite the conventional expectation that managerial ownership mitigates agency conflicts and improves decision alignment, the findings reveal that current ownership levels are insufficient to impact strategic capital decisions. Companies may need to reassess their ownership frameworks and consider governance reforms that enable managers to assume greater accountability in financial decision-making.

Policy Implications

These findings have significant implications for regulators and institutions tasked with capital market development in Indonesia. The research indicating that company risk inhibits loan use implies that macroeconomic and industry stability are essential for promoting sound corporate financing practices. Policymakers must endeavor to mitigate systemic risk and foster industrial stability via supportive fiscal policies, dependable infrastructure, and business continuity frameworks, especially in response to global disturbances such as pandemics or geopolitical conflicts.

Moreover, while tangibility improves a firm's financing potential, tax incentives or government-supported credit programs that promote investment in tangible assets may prove to be extremely advantageous. These programs may assist smaller enterprises in strengthening their balance sheets, enhancing access to capital markets, and promoting more inclusive economic growth.

Recommendations for Future Research

This study has multiple opportunities for more scholarly investigation. Subsequent study ought to include a wider array of moderating variables, like corporate governance procedures, institutional ownership, or cultural characteristics, to more accurately reflect the dynamics of management impact on capital structure. The analysis scope may be broadened to encompass additional sectors beyond basic materials and industrial to see if sectoral characteristics substantially modify the observed associations.

Furthermore, because the adjusted R-square value is quite low (27.3%), subsequent research could explore additional explanatory variables, such as tax policies, credit ratings, innovation capabilities, or ESG (Environmental, Social, and Governance) components. Qualitative methods, such as interviews with finance executives or board members, can enhance the comprehension of capital structure drivers beyond the insights provided by quantitative models.

Ultimately, longitudinal studies that encompass pre- and post-crisis periods (e.g., before to and following COVID-19) may elucidate how external shocks modify financing behavior and risk tolerance among enterprises.

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DECLARATION OF CONFLICTING INTERESTS

The authors declared no potential conflicts of interest.

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