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Impact of factors influencing capital structure: An analysis of the literature on public companies in emerging markets

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ABSTRACT
Background: Capital structure is an important element in corporate financial management, especially for public companies in emerging markets. This study aims to analyze the factors that influence capital structure with a qualitative approach, using data from the financial statements of companies listed on the Indonesia Stock Exchange. **Methods:** Through content analysis and synthesis of findings from various sources, this study identifies key themes relating to profitability, firm size, liquidity, and asset structure as determinants in financing decision-making. **Findings:** The results suggest that firms in emerging markets should consider the balance between debt and equity to maximize value and financial stability. Trade-off and Pecking Order theories become the foundation for understanding how firms can achieve an optimal capital structure. **Conclusion:** The selection of the proper capital structure affects not only the performance and value of the company but also its competitiveness in a dynamic market. **Novelty/Originality of the Article:** This study is expected to make a significant contribution to the literature on capital structure and financial management, as well as provide practical recommendations for companies in making better financing decisions.

KEYWORDS: emerging market; financial management; liquidity; public company; profitability.

1. Introduction

Capital structure is one of the crucial aspects of corporate financial management that serves as the foundation for investment and financing decisions. In the context of public companies, especially in emerging markets, the selection of an optimal capital structure becomes increasingly important as it can affect performance, firm value, and competitiveness in the market. A good capital structure not only reflects the balance between debt and equity but also reflects the company's strategy in dealing with the risks and opportunities that exist in a dynamic business environment.

In emerging markets, the capital structure decisions of firms are influenced by various factors, including profitability, firm size, liquidity, and dividend policy. Recent literature has expanded on these themes, providing new insights into how these factors interact and affect financial performance. Profitability remains a central determinant of capital structure in emerging markets. Firms with higher profitability often prefer to utilize retained earnings for financing, thereby reducing their reliance on debt. This behavior aligns with the pecking order theory, which suggests that firms prioritize internal financing over external sources

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due to lower costs and reduced information asymmetry (Sumail, 2022; Bahaw, 2023). However, excessive dividend payments can diminish retained earnings, forcing firms to seek external financing, which can lead to increased leverage and associated risks (Sumail, 2022). Recent studies have reinforced this notion, indicating that retained earnings are crucial for maintaining financial stability and enhancing profitability in manufacturing firms (Mulekano, 2023).

The size of a firm significantly impacts its capital structure decisions. Larger firms typically have better access to capital markets and can secure debt financing on more favorable terms, which enhances their market value (Bahaw, 2023; Lestari, 2023). Conversely, smaller firms often rely heavily on internal funds due to limited access to equity, which can lead to higher leverage ratios and increased financial risk (Chit & Rizov, 2023). Recent findings suggest that firm size can moderate the relationship between profitability and capital structure, highlighting the importance of considering firm size in financial decision-making (Lestari, 2023; Samuel et al., 2022).

Liquidity is another critical factor influencing capital structure. Firms with high liquidity are better positioned to meet short-term obligations and are more likely to finance investments through equity rather than debt, thereby adopting a more conservative capital structure (Budiandriani et al., 2023). Recent research indicates that liquidity positively correlates with profitability, suggesting that firms with strong liquidity positions can enhance their financial performance while minimizing risks associated with high leverage (Rasheed et al., 2022). This relationship underscores the importance of maintaining adequate liquidity levels to support sustainable growth and investment strategies.

Dividend policy significantly affects capital structure decisions. Firms that maintain a stable dividend policy often prefer to use retained earnings for financing, which can impact their overall capital structure (Sumail, 2022; Bahaw, 2023). Recent studies have shown that consistent dividend payments can enhance investor confidence and firm value, reinforcing the notion that dividend policy is a critical component of capital structure strategy (Mulekano, 2023; Budiandriani et al., 2023). Moreover, the interplay between dividend policy and retained earnings highlights the need for firms to balance their payout strategies with their financing needs to optimize capital structure and financial performance (Sumail, 2022; Bahaw, 2023).

In capital structure analysis, there are significant differences between companies operating in emerging markets and developed markets. Emerging markets are often characterized by economic instability, limited access to financial resources, and underdeveloped infrastructure. In contrast, developed markets typically have more stable financial systems, better access to capital, and stricter regulations. These factors contribute to the differences in how companies in these two types of markets determine their capital structure.

In emerging market contexts, firms frequently rely on debt as their primary source of financing due to limited access to equity. The high costs associated with issuing shares and the uncertainties prevalent in capital markets compel firms to favor debt financing (Diantimala et al., 2021). Research indicates that profitability, firm size, and business risk are the main factors influencing capital structure decisions in these markets (Puwanenthiren, 2021). For instance, larger firms tend to have better access to debt markets and can leverage economies of scale to reduce their cost of capital (Diantimala et al., 2021). Recent studies have shown that firm size significantly impacts financing choices, with larger firms being more sensitive to the correlation between financing choices and firm value (Diantimala et al., 2021).

Conversely, firms in developed markets have a broader array of options regarding capital structure. They can access various financial instruments, including equity, long-term debt, and derivatives. Research demonstrates that firms in developed markets are more likely to consider factors such as the cost of capital, financial flexibility, and prevailing market conditions when determining their capital structure (Matschke, 2021; Gaytán et al., 2022). Furthermore, firms in developed markets often enjoy a better reputation and stronger relationships with financial institutions, enabling them to secure financing at lower costs (Mudalige, 2023). This dynamic allows for a more diversified capital structure that can adapt to changing market conditions.

Differences in regulatory environments also play a crucial role in shaping capital structure decisions. In developed markets, stringent regulations regarding transparency and financial reporting enhance investor confidence, positively influencing capital structure choices (Lovchikova & Matschke, 2021). In contrast, the lack of regulation and transparency in emerging markets may lead to investor caution, compelling firms to offer higher returns to attract investment (Lv et al., 2023). This reliance on debt financing can increase financial risk, as firms in emerging markets may struggle to meet their obligations during economic downturns.

Overall, the differences between emerging markets and developed markets in determining capital structure are strongly influenced by factors such as access to financial resources, regulation, and firm characteristics. Firms in emerging markets tend to rely more on debt and face more challenges in managing their capital structure compared to firms in developed markets, which have more options and better access to capital.

In the context of the Indonesian market, research on the capital structure of public companies is increasingly relevant, given the changing economic and regulatory dynamics. Research by Efriyanti & Widjaja shows that capital structure, profitability, and firm size have a significant influence on firm value in the mining sector (Efriyanti & Widjaja, 2022). These findings suggest that firms in specific sectors have unique characteristics that influence their capital structure decisions.

Overall, an in-depth understanding of the factors that influence capital structure in emerging markets is essential for better decision-making in corporate financial management. This study aims to analyze the various factors that influence the capital structure of public companies in emerging markets, focusing on profitability, firm size, liquidity, and dividend policy. By understanding the relationship between these factors, it is expected to gain better insight into the optimal financing strategy for companies in an increasingly competitive market.

In this study, a qualitative approach will be used to analyze data obtained from the financial statements of public companies listed on the Indonesia Stock Exchange. The analysis method was used to test the influence of each variable on capital structure with a literature review of previous research. Thus, this study is expected to make a significant contribution to the literature on capital structure and financial management in emerging markets, as well as provide practical recommendations for companies in making better financing decisions.

In the world of finance, capital structure refers to the way a company funds its operations through a mix of debt and equity (Kunoviku-Demiri et al., 2021; Puerta-Guardo et al., 2023). A firm's capital structure plays an important role in determining its financial health and stability. It is important for public market companies in emerging markets to carefully consider capital structure as it can have a significant impact on the ability to grow and succeed in the long term.

1.1 Trade-off theory

The Trade-off Theory posits that firms must weigh the tax benefits of debt against the potential costs of bankruptcy when determining their capital structure. This theory suggests that there exists an optimal capital structure where the marginal benefits of debt equal its marginal costs, thereby maximizing firm value (Stoiljković, 2024). In emerging markets, characterized by heightened economic uncertainty, firms often exhibit caution in leveraging debt due to the increased risks associated with bankruptcy costs. Research indicates that firms in these regions frequently opt for equity or internal financing before resorting to debt, as they seek to mitigate the risks associated with high leverage (Pestana et al., 2021). This cautious approach aligns with the findings of (Mensah et al., 2021), who emphasizes the importance of balancing the tax advantages of debt with the associated risks in volatile economic environments (Mensah et al., 2021).

1.2 Pecking order theory

In conjunction with the Trade-off Theory, the Pecking Order Theory provides a complementary perspective on capital structure decisions. This theory asserts that firms prioritize their financing sources, preferring internal funds (retained earnings) over debt, and debt over equity due to the higher information costs linked to equity issuance. In the context of emerging markets, where capital market conditions are often unpredictable, firms are inclined to utilize internal resources first, as this approach avoids the need for additional disclosures that could expose them to greater scrutiny (Mensah et al., 2021). Empirical studies support this sequence of financing preferences, highlighting that firms in these markets typically follow the pecking order due to the inherent uncertainties they face (Paseda, 2021).

1.3 Agency theory

Agency Theory further enriches the understanding of capital structure by addressing the conflicts of interest between shareholders and managers. The use of debt can serve as a mechanism to align the interests of these parties, as it imposes payment obligations that compel managers to enhance company performance (Simanjuntak & Sinaga, 2021). In emerging markets, where managerial oversight may be less rigorous, the strategic use of debt can mitigate agency problems by incentivizing managers to make decisions that bolster firm performance. This relationship underscores the interconnectedness of Agency Theory with the Trade-off Theory, as both highlight the implications of debt on managerial behavior and firm value.

1.4 Market timing theory

Market Timing Theory introduces another layer of complexity to capital structure decisions, suggesting that firms adjust their financing strategies based on prevailing market conditions. Companies are more likely to issue equity when their shares are perceived as overvalued and vice versa (Puri, 2024). This theory is particularly pertinent in emerging markets, where market volatility can significantly influence firms' capital structure choices. Research indicates that firms in these regions are acutely aware of external factors, such as macroeconomic conditions and market sentiment, when determining their financing strategies (Wahyudin, 2024). The interplay between Market Timing Theory and the other theories illustrates how firms adapt their capital structures in response to both internal and external pressures.

In summary, the analysis of capital structure in emerging markets reveals a multifaceted landscape shaped by various theoretical frameworks. The Trade-off Theory, Pecking Order Theory, Agency Theory, and Market Timing Theory collectively provide a comprehensive understanding of how firms navigate their financing decisions amidst economic uncertainties. By integrating these theories, a more nuanced perspective emerges, highlighting the strategic considerations that firms must account for in their capital structure decisions..

The relationship between profitability and capital structure remains a critical area of inquiry in corporate finance, particularly in the context of emerging markets. Recent studies have reinforced the notion that profitability, often quantified through metrics such as Return on Assets (ROA) and Return on Equity (ROE), significantly influences a firm's capital structure decisions. For instance, Suriani et al. (2024) emphasizes that higher profitability not only reflects a firm's financial health but also provides it with greater flexibility in financing decisions, allowing firms to leverage retained earnings effectively to optimize their capital structure. This aligns with earlier findings that suggest more profitable companies tend to maintain lower levels of debt, as they can rely on internal funding sources (Amir, 2023).

Moreover, the interplay between profitability and other financial theories, such as the Pecking Order Theory, is noteworthy. The Pecking Order Theory posits that firms prefer internal financing over external financing due to the costs associated with information asymmetry and equity issuance. This theory is particularly relevant in emerging markets where firms often face higher uncertainty and risk. As highlighted by (Amir, 2023), firms with strong profitability are more likely to utilize retained earnings first, thereby reducing their reliance on debt and equity financing. This sequential preference underscores the importance of profitability in shaping capital structure decisions.

In addition to profitability, company scale plays a pivotal role in determining capital structure. Larger firms typically enjoy better access to capital markets and can secure debt at lower costs compared to their smaller counterparts. Research by Alghifari et al. (2022) indicates that firm size significantly impacts firm value, which can reflect more favorable capital structure decisions. The relationship between firm size and capital structure can also be understood through the lens of Agency Theory, which suggests that larger firms may experience fewer agency problems due to more established governance structures, thus allowing them to take on more debt without incurring significant risks.

Liquidity is another critical factor influencing capital structure. Companies with high liquidity, as measured by the Current Ratio (CR), are generally better positioned to meet short-term obligations and may be more inclined to take on additional debt. However, recent findings by Prastika & Candradewi (2019) suggest that high liquidity can also lead firms to prefer equity financing over debt, as they may not want to increase their leverage unnecessarily. This dynamic illustrates the complex relationship between liquidity and capital structure, where firms must balance their immediate financial flexibility with long-term financing strategies.

Asset structure, particularly the proportion of fixed assets, also influences capital structure decisions. Firms with a higher ratio of fixed assets are often more inclined to utilize debt, as these assets can serve as collateral. This relationship is supported by research indicating that companies with substantial fixed assets tend to have higher debt ratios. The connection between asset structure and capital structure can be further analyzed through the Trade-off Theory, which suggests that firms weigh the benefits of debt financing against the risks associated with bankruptcy, particularly in asset-heavy industries.

2. Method

The approach used in this review is Systematic Literature Review (SLR), which allows researchers to identify, analyze, and synthesize relevant research in the last 10-15 years. The literature selection criteria focused on journal articles that discuss public companies in emerging markets, with data sources from international journal databases such as Scopus, ScienceDirect, and SpringerLink, as well as financial reports and secondary data from emerging capital markets.

The systematic literature review on factors influencing capital structure in public companies within emerging markets, particularly in Indonesia, relied exclusively on secondary data from academic journals, financial reports, and reputable media outlets. This approach was chosen to avoid the resource-intensive nature and potential biases of interviews with top management, as noted by Creswell and Poth (2018). Qualitative methods, such as interviews, require meticulous planning to ensure reliability, which was beyond the scope of this review.

The methodology aimed to synthesize existing knowledge and identify broader patterns across multiple studies. Utilizing international journal databases like Scopus, ScienceDirect, and SpringerLink ensured access to peer-reviewed articles and empirical data. This systematic approach provided a robust analysis of capital structure determinants, grounded in comprehensive trends and established theories, without relying on individual managerial insights.

The research process follows a structured approach, beginning with source identification, where relevant articles and studies from academic journals are collected, particularly those focusing on capital structure and its influencing factors in emerging markets, with a specific emphasis on Indonesia. Next, a selection criterion is applied to ensure that only highly relevant articles are included, particularly those discussing key factors such as profitability, firm size, liquidity, and asset structure in relation to capital structure.

Following the selection process, content analysis is conducted on the chosen articles to identify key themes and relationships between various factors influencing capital structure. This step allows for a deeper understanding of the dynamics within public companies in emerging markets. The findings from different sources are then synthesized to create a comprehensive overview of the determinants of capital structure, integrating insights from multiple perspectives.

Finally, the research concludes with a summary of key insights and recommendations. Conclusions are drawn based on the analysis, and practical recommendations are provided for companies operating in emerging markets. Additionally, suggestions for future research are outlined to encourage further exploration of capital structure determinants.

3. Result and Discussion

A comparison of capital structures between developed and emerging markets shows significant differences in the way companies fund their operations and growth. The following outlines some of the differences in capital structure between developed and emerging markets:

3.1 Debt to equity ratio

Companies in developed markets tend to have lower debt-to-equity ratios, ranging from 0.5 to 1.0. This is due to economic stability and better access to alternative funding sources such as capital markets. According to research by Frank and Goyal (2023), companies in developed countries prefer to use equity over debt, reflecting investor confidence and financial stability. In emerging markets, companies often have higher debt-to-equity ratios, often exceeding 1.0 or even 2.0. This indicates a greater reliance on debt to fund growth (Murhayani et al., 2023). Research by Rahman et al. (2024) shows that limited access to capital makes firms in emerging markets more dependent on debt financing.

3.2 Source of funding

Advanced Markets: Access to various funding sources such as bonds, stocks, and other financial instruments allows firms to choose the most efficient combination of funding. According to a study, firms in developed markets can utilize various financial instruments to optimize their capital structure. Emerging Markets–on the other hand, firms in emerging markets are often limited to bank debt and informal financing, which can increase the cost of capital and financial risk (Booth et al., 2001; Murhayani et al., 2023). Other study shows that the need for more access to formal capital markets limits funding options for firms in developing countries.

3.3 Profitability

Advanced Markets: Companies in developed markets generally have higher profitability levels, with an average net profit margin of around 10-15%. This allows them to use retained earnings as the main source of funding. Research by Chen et al. (2024) shows that companies with high profitability tend to rely less on debt. Emerging Markets: In contrast, firms in emerging markets often face challenges in achieving stable profitability, with an average net profit margin of around 5-10%, so they are more likely to use debt (Murhayani et al., 2023).

3.4 Revenue volatility

In advanced markets, firms generally experience lower earnings volatility, with annual earnings standard deviations ranging between 5-10%. Research by Smith & Jones (2024) indicates that this earnings stability enables companies to develop more effective long-term financing strategies. In contrast, firms in emerging markets face significantly higher revenue volatility, with annual revenue standard deviations reaching 15-20%. This increased volatility is largely attributed to factors such as exchange rate fluctuations and political uncertainty, making financial planning more challenging for companies operating in these markets.

3.5 Economic and regulatory conditions

In advanced markets, a stable economic environment and well-defined regulations provide strong support for planned and strategic funding decisions. Companies operating in these markets benefit from predictable financial conditions, allowing for more structured capital allocation. Conversely, in emerging markets, economic uncertainty and less transparent regulations often lead companies to adopt a more cautious approach to capital structure decisions. The higher level of risk in these markets necessitates more flexible and adaptive financial strategies to navigate unpredictable economic conditions.

Table 1. Capital structure comparison

Aspect	Emerging Market	Developed Market
Debt to Equity Ratio	Average 0.5 - 1.0	Average >1.0 hingga 2.0
Source of Funding	Access to various financial instrument	Limited to bank debt
Profitability	Average net profit margin 10-15%	Average net profit margin 5-10%
Revenue Volatility	Annual revenue standard deviation 5-10%	Annual revenue standard deviation 15-20%
Economic Stabilitt	Stable	Vulnerable to fluctuations

The data above shows significant differences in the factors affecting capital structure in emerging markets compared to developed markets. In emerging markets, firms often face limited access to capital and higher economic uncertainty, which affects their financing decisions . Research in Indonesia shows that profitability, firm size, and business risk are the main variables influencing capital structure. Meanwhile, in developed markets, firms have better access to various sources of financing and are more likely to consider factors such as cost of capital and financial flexibility.

Table 2. Data of Company on Indonesia Stock Exchange

Company	PT A.I. Tbk	PT W.K. Tbk	PT M.D.S. Tbk
Company Size	IDR 198.64	IDR 12.83	IDR 12.3
Profitability	17.7%	IDR 401	15%
Liquidity(CR)	2.5	1.5	0.90
Assest Structure	IDR 5,111.04	76,36%	40%
Debt Ratio	<1	323%	447%

PT A.I. Tbk, PT W.K. Tbk, and PT M.D.S. Tbk is particularly relevant for understanding capital structure dynamics in Indonesia due to their distinct operational sectors and varying financial characteristics. PT A.I., a leading player in the automotive industry, represents a significant portion of Indonesia's GDP, contributing to economic growth and employment (Gracía & Kristiyono, 2023). Its substantial company size and profitability metrics provide a robust framework for examining how large corporations manage their capital structures in response to market conditions.

Conversely, PT W.K. Tbk, a prominent construction firm, showcases the impact of liquidity and asset structure on capital financing decisions. The construction sector often faces unique challenges, such as project financing and cash flow management, which can significantly influence capital structure choices (Kurniawan et al., 2021). The high debt ratio observed in Wijaya Karya indicates a reliance on external financing, making it an interesting case for analyzing the implications of leverage in capital structure.

Lastly, PT M.D.S. Tbk, a key player in the retail sector, highlights the effects of profitability and liquidity on capital structure decisions. The retail industry is characterized by fluctuating consumer demand and competitive pressures, which necessitate a careful balance between debt and equity financing (Anindita & Elmanizar, 2019). The lower liquidity ratio of Matahari suggests potential challenges in meeting short-term obligations, thereby affecting its capital structure strategy.

In summary, these three companies provide a diverse perspective on capital structure determinants in Indonesia, reflecting the complexities of different sectors and their financial strategies. This analysis aligns with the findings of (Kurniawan et al., 2021), who emphasize the importance of sector-specific factors in capital structure decisions, and (Anindita & Elmanizar, 2019), who discuss the interplay between liquidity and profitability in shaping financial strategies.

3.6 Company size and capital structure

Companies with larger sizes, such as PT A.I. Tbk, tend to have lower debt ratios (DER < 1). This indicates that large companies have better access to equity funding and tend to rely less on debt. In contrast, smaller companies, such as PT Wijaya Karya Tbk and PT M.D.S. Tbk, have much higher DER. This reflects their high dependence on debt funding, especially to support business expansion.

3.7 Profitability and capital structure

PT A.I. Tbk, with an ROE of 17.7%, shows its high profit-making ability, allowing the company to utilize retained earnings as a funding source. PT M.D.S. Tbk also has a good ROE (15%), but the high debt ratio (447%) indicates that most operational activities are financed with debt. This increases the company's financial risk. PT W.K. Tbk is less profitable than the other two companies but still has a high DER. This reflects the company's strategy of using debt for expansion despite relatively small profits.

3.8 Liquidity and capital structure

Good liquidity, such as that of PT A.I. Tbk (CR 2.5), allows the company to reduce dependence on short-term debt. PT M.D.S. Tbk has a low CR (0.90), indicating that the company is facing liquidity challenges. Low liquidity often forces companies to use debt as a funding solution, which increases leverage. PT Wijaya Karya Tbk is in the middle position with a CR of 1.5, sufficient to meet short-term obligations, but still showing dependence on debt to support working capital and investment needs.

3.9 Asset structure and debt utilization

PT W.K. Tbk has a high fixed asset structure (76.36%), allowing the company to use fixed assets as collateral to obtain loans. This explains its high debt ratio despite modest profitability. PT M.D.S. Tbk, with 40% fixed assets, focuses on operational efficiency, but high leverage (447%) signifies the company's aggressive strategy in using debt. PT A.I. Tbk has nominally significant fixed assets (IDR 5,111.04 trillion), but low leverage indicates a conservative approach to funding. Company data on the Indonesia Stock Exchange clearly shows how factors such as company size, profitability, liquidity, and asset structure determine capital structure. This supports the argument that an understanding of these factors is crucial for financial managers in formulating effective funding strategies.

3.10 Key factors affecting capital structure

Variables that are often analyzed in capital structure research include profitability, business risk, firm size, growth, and liquidity. Profitability has been found to have a negative relationship with debt in emerging markets. Research by Pratiwi & Wiksuana (2020) indicates that profitability positively affects firm value, suggesting that more profitable firms have greater flexibility in selecting their capital structure. While profitability also plays a role in developed markets, companies in these regions typically have better access to external funding sources, allowing them to use debt more strategically without overly relying on retained earnings. This enables them to leverage debt to enhance their return on equity, particularly when the cost of debt is low.

Business risk is another critical factor, as firms with higher business risk often use debt to capitalize on tax advantages and reduce income tax obligations. In emerging markets, where economic uncertainty is more pronounced, firms may prefer to increase leverage through debt. Conversely, in developed markets, firms facing high business risk tend to be more cautious about taking on debt due to the heightened risk of bankruptcy. As a result, they generally maintain a lower debt ratio to safeguard against earnings volatility.

Firm size also influences capital structure decisions, as it determines a company's ability to access capital markets. Larger firms usually have better access to debt. In emerging markets, firm size provides a competitive advantage by improving access to financing. In developed markets, large firms not only have access to debt but also various financial instruments such as bonds and preferred shares, allowing them to optimize their capital structure with greater flexibility.

Growth is another important consideration, as fast-growing firms are more likely to use debt to finance expansion. In emerging markets, limitations in equity access often make debt the primary financing option. However, in developed markets, growth is typically supported through a mix of equity and debt, with large firms having the ability to raise additional funds by publicly offering shares, thereby avoiding excessive debt accumulation.

Lastly, liquidity plays a significant role in capital structure decisions, as it affects a firm's ability to meet short-term debt obligations. Companies with high liquidity are more capable of taking on debt risks because they can easily meet short-term liabilities. In developed markets, liquidity tends to be more stable due to a well-structured and transparent financial system, which enables firms to plan their long-term funding needs more effectively.

3.11 Discussion

In an emerging market context, a firm's capital structure is influenced by various factors, including profitability, firm size, liquidity, and asset structure. In emerging markets, research shows that profitability has a negative relationship with debt. This aligns with the Pecking Order theory, where more profitable companies prefer to use retained earnings as a source of internal funding rather than relying on debt. According to Murhayani et al. (2023), companies with a high level of profitability can utilize these profits to fund expansion and investment without taking on additional debt. Thus, good profitability provides flexibility in managing the capital structure.

Companies with high ROA show efficiency in using assets to generate profits, which in turn supports the decision to reduce dependence on debt. Large companies have better access to capital markets and can obtain debt at a lower cost than small companies. Research by Efriyanti & Widjaja (2022) shows that company size significantly affects firm value, reflecting better capital structure decisions. Large companies can diversify risks and increase bargaining power in debt negotiations.

High liquidity allows the company to fulfill its short-term obligations without difficulty. A research found that companies with high liquidity tend to be more able to take risks by using debt because they can fulfill short-term obligations without financial difficulties. A company with a high current ratio shows a good ability to fulfill short-term obligations, which gives investors and creditors confidence. Asset structure includes the proportion of fixed assets to the company's total assets. Research by Pramana & Darmayanti (2020) shows that asset structure affects capital structure decisions; the more significant the proportion of fixed assets, the higher the debt ratio used. This ratio shows how much debt is used compared to shareholders' equity. Companies with high DER show dependence on debt funding, often driven by the need to utilize fixed assets as collateral. The research results include results found by previous researchers and comparisons with the article being discussed.

4. Conclusions

This study provides an in-depth understanding of the factors that influence the capital structure of public companies in emerging markets, with a focus on profitability, firm size, liquidity and asset structure. Companies with high profitability tend to rely on retained earnings as the main source of funding, in line with Pecking Order Theory. This reduces dependence on debt and lowers financial risk. However, in some cases, companies still use debt to take advantage of tax benefits, especially if profitability is stable.

Large companies have better access to capital markets, allowing them to obtain funding at a lower cost than smaller companies. Firm size also affects the ability to diversify risks, increases bargaining power in debt negotiations, and favors a more balanced capital structure. Companies with high liquidity tend to be better able to meet their short-term obligations and have flexibility in choosing funding sources. Good liquidity allows companies to reduce dependence on debt and focus on equity funding.

Companies with a high proportion of fixed assets are more likely to use debt because these assets can be used as collateral. Asset structure affects corporate funding decisions, especially in emerging markets where access to equity funding is often limited. The study also identified significant differences in capital structure management between firms in emerging and developed markets. In emerging markets, reliance on debt is higher due to limited access to capital markets and less stringent regulation. In contrast, firms in developed markets have more diverse funding options and are more strategic in managing their capital structure.

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For public companies, optimizing capital structure requires careful consideration of factors such as profitability, liquidity, size, and asset structure when making funding decisions. Maintaining a balance between debt and equity is essential to minimizing financial risk while enhancing company value. Additionally, access to capital markets is crucial, particularly for companies in emerging markets. Strengthening corporate reputation and transparency can help increase investor confidence and improve access to equity funding.

From a governmental perspective, improving financial infrastructure plays a vital role in facilitating corporate access to funding. Governments should establish a stable financial system and implement regulations that promote transparency, thereby creating an environment conducive to alternative funding sources. Moreover, providing tax incentives for companies that utilize internal funding sources or raise equity can help reduce their reliance on debt, fostering a more sustainable capital structure.

For future researchers, the conclusions drawn indicate that numerous factors beyond profitability and liquidity influence capital structure and firm value across various types and levels of organizations. Further studies are necessary to identify additional determinants of capital structure by employing quantitative data to empirically examine relationships between variables, particularly within specific industrial sectors. Additionally, in-depth research on capital structure variations across different developing countries would provide valuable insights into the local factors shaping corporate funding decisions.

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