BOARD CHARACTERISTICS AND FIRMS' SPECIFIC VARIABLES ON CAPITAL STRUCTURE OF SHARIA COMPLIANCE FIRMS IN INDONESIA

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Abstract

This study examines the influence of board characteristics and firm-specific variables on the capital structure of Sharia-compliant companies in Indonesia's basic materials sector. Utilizing data from 26 non-financial firms between 2007 and 2020, the research applies the Generalized Method of Moments (GMM) to analyze the relationships between board size, independent directors, board of commissioners, and capital structure decisions. The findings reveal that board size has a significant positive impact on leverage, while the presence of independent directors negatively affects debt usage, reflecting their role in promoting prudent financial practices in line with Sharia principles. The board of commissioners also exhibits a negative correlation with leverage, indicating that stronger supervision reduces reliance on debt. Additionally, firm-specific variables such as growth opportunities and non-debt tax shields significantly affect leverage decisions. This study contributes to the literature by offering insights into how governance practices and firm characteristics influence capital structure in Sharia-compliant firms, with implications for both corporate governance and financial management in the basic materials sector.

Keywords: ***Corporate governance, Capital structure, Leverage, Board characteristics*****.**

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Introduction

Indonesia is one of the countries with the strongest and most persistent economic growth in the world (Ministry of Finance, 2024). As the largest economy in Southeast Asia, Indonesia has experienced rapid growth in the Islamic finance sector, making it a key player in the global market that adheres to Sharia principles. The development of the Sharia capital market in Indonesia has been driven by increasing investor interest, particularly in companies that comply with Sharia principles. In 2023, the number of Sharia-compliant companies in Indonesia rise to 637, reflecting significant growth compared to previous years (KNEKS, 2022). This growth underscores Indonesia's commitment to strengthening its Islamic financial infrastructure and attracting more investors, both domestic and international.

As the number of Sharia-compliant companies grows, financial aspects such as capital structure have become increasingly important. A company's capital structure plays a crucial role in ensuring financial stability and influencing strategic decisions. A company's financial position is heavily dependent on its capital structure, which is a key factor that financial managers must consider when making important decisions (Yakubu et al., 2017). Capital structure, which refers to the mix of debt and equity, impacts a company's risk profile, cost of capital, and overall financial stability (Graham & Harvey, 2001). Decisions about the balance between debt and equity are therefore critical to a company's performance (Abdullah & Tursoy, 2019), affecting factors like average employee wages (Chemmanur et al., 2013) and investment efficiency (Eisdorfer et al., 2013).

The decision regarding a company's capital structure has significant implications, prompting researchers to explore the factors that influence it. Research on capital structure decisions has been a widely discussed topic. Boshnak (2024) found that factors such as leverage, tangibility, profitability, firm age, liquidity, and corporate governance significantly influence capital structure. Another study by Li and Islam (2019) confirmed that both firm-specific and industry-specific factors also play a role in these decisions, with the relationship between firm-specific variables and debt ratios varying across industries.

Moreover, sound corporate governance practices are essential for a company's long-term development and growth, as well as its ability to attract capital. High-quality governance practices can motivate managers to engage in actions that maximize shareholder wealth by minimizing the cost of capital (Ullah et al., 2019; AlHares, 2020; and Gerged & Elheddad, 2020). Previous research highlighting the influence of corporate governance on capital structure, such as Javaid et al. (2021), has shown that governance proxies like board size and composition, institutional ownership, and management ownership have a significant indirect effect on capital structure decisions. Amin et al. (2022) found that board size and the presence of independent directors are significantly positively related to capital structure preferences. Similarly, Nguyen et al. (2022) noted that corporate governance indices

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positively impact leverage levels, indicating that companies with better governance are more inclined to borrow. However, the capacity to increase debt tends to decrease as national governance quality improves.

In Indonesia, the basic materials sector is a key component of the national economy, contributing to the country's Gross Domestic Product (GDP). This sector includes companies that produce materials such as chemicals, construction materials, containers & packaging, metals & non-energy mining, and wood & paper products (IDX, 2022). Despite its importance, research on capital structure in Sharia-compliant companies within the basic materials sector remains limited.

Despite extensive research on capital structure, no comprehensive and practical solution has been identified for this issue, and a deeper understanding of the factors influencing capital structure is still needed (Haron, 2014). This study makes a significant contribution by exploring the role of board characteristics and firm-specific variables on the capital structure of Sharia-compliant companies, particularly within the basic materials sector in Indonesia. A unique aspect of this study is its approach using the Generalized Method of Moments (GMM), which provides more accurate estimates by addressing potential biases and variability in panel data. Furthermore, this research fills a gap in the literature regarding Shariah-compliant companies, as few previous studies have specifically analyzed the basic materials sector in this context. By understanding how governance factors impact capital structure, this study aims to provide new insights for stakeholders in this sector to make optimal decisions regarding leverage and funding strategies.

Literature Review

Director Size

The board of directors serves as the highest policy-making body of a company, playing a crucial role in strategic decision-making (Detthamrong et al., 2017). One of the board's key functions is to provide access to resources that can improve the quality of financial reporting (Rosly et al., 2024). Additionally, the board monitors and reviews management activities, ensuring that the goals of management are aligned with the interests of shareholders (Farhan & Almaqtari, 2023). More importantly, the board is responsible for financial decision-making, including managing the optimal capital structure mix (Boshnak, 2024). As a result, larger companies tend to have more board members. The larger the board, the more valuable the members' knowledge and ability to provide resources and services (Aldoseri & Hussein, 2024).

Companies with larger boards often exhibit higher financial leverage, indicating lower equity usage and greater reliance on debt financing. Detthamrong et al. (2017), in their study of companies in Thailand, found that effective corporate governance can strengthen a firm's

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capital structure by facilitating easier access to external funding sources. However, Berger et al. (1997) argued the opposite; they suggested that larger boards tend to reduce financial leverage. In their study focusing on U.S. companies, they found that larger boards can encourage managers to opt for lower leverage, thereby enhancing overall corporate performance. This view is supported by Wen et al. (2002), who studied companies listed in China and found that board size, as part of corporate governance, influences capital structure decisions. Overall, studies on the relationship between board size and financial leverage have yielded mixed findings. Feng et al. (2020), examined real estate companies in China, Zaid et al. (2020), analyzed firms across multiple countries, and Amin et al. (2022), highlighted the impact of gender diversity on corporate boards in Asia, all found a positive relationship between board size and debt ratios. Conversely, other studies, such as Meah (2019) on manufacturing firms in Bangladesh, Elgammal & Al-Najjar (2022) in the United Arab Emirates, and Ezeani et al. (2023), who studied companies in the United Kingdom, France, and Germany, reported a negative relationship.

Independent Director

Independent directors play a crucial role in corporate governance, offering a neutral perspective in decision-making, especially ensuring that management acts in the shareholders' best interest. According to agency theory, the presence of independent directors enhances a company's ability to manage uncertainty, including bankruptcy risk, and improves transparency in growth opportunities and capital access (Chen & Hsu, 2009; Fan et al., 2019). Alves et al. (2015) also found that companies with more independent directors tend to rely more on external capital rather than retained earnings. Independent directors can reduce information asymmetry between managers and investors, which in turn lowers the cost of external financing (Weisbach, 1988; Tarus & Ayabei, 2016). A strong independent board also improves financial transparency, making it easier for companies to secure financing and boosting investor confidence (Kyriazopoulos, 2017; Chen & Hsu, 2009). Overall, independent directors strengthen corporate governance through more effective oversight and enhanced managerial efficiency. However, studies on the relationship between board independence and capital structure have also shown mixed results. Research by (Dimitropoulos, 2014; Boateng et al., 2017; Feinerman (2017; and Elgammal & Al-Najjar, 2022) found a negative relationship, suggesting that better governance leads to lower leverage decisions by managers. On the other hand, (Zaid et al., 2020; Feng et al., 2020; and Amin et al. 2022) found that companies with more independent directors tend to have higher debt levels, indicating a positive relationship.

Commissionaire Size

Commissionaire size refers to the number of members on the supervisory board, responsible for overseeing and advising management. The supervisory board serves as a watchdog and advisor to the board of directors on behalf of shareholders (Sumanto et al., 2014). Resource dependence theory suggests that larger boards are beneficial, as diversity

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within the board can support better strategic decision-making (Wijaya & Memarista, 2024). A larger supervisory board strengthens the oversight of management activities, which in turn enhances the company's performance effectiveness (Anizar, 2017). Commissionaire size is typically measured by the number of members on a company's supervisory board (Ayuningtyas & Harymawan, 2022).

Independent Commissionaire

An independent commissioner is a member of the supervisory board with no direct ties to management or major shareholders. Furthermore, they must operate without any professional or personal relationships that could compromise their ability to act freely and prioritize the organization's needs (Wardana, 2024). According to the Indonesia Stock Exchange (IDX) Director's Decision No: KEP-399/BEI/07, in addition to overseeing the decisions and policies of the board of directors, independent commissioners are responsible for providing advice when needed. Independent boards of commissioners are often used as a proxy for corporate governance by researchers. Tarus and Ayabei (2016) assert that the presence of independent commissioners represents a strong board and is closely associated with higher leverage. This is supported by Alves et al. (2015), who emphasized that companies with a higher proportion of independent commissioners on their boards tend to have a capital structure that relies more on external capital than on retained earnings.

Top Ownership/Ownership Concentration

Concentrated ownership affects capital structure decisions by reducing agency conflicts between managers and shareholders (Fayez, 2019). Blockholders can improve corporate governance and managerial efficiency by monitoring managers, ultimately influencing a company's leverage. In firms with concentrated ownership, large shareholders have the motivation and power to oversee managers to protect their investments (McConnell & Servaes, 1990; Zeckhauser & Pound, 1990). Additionally, higher ownership concentration can mitigate agency problems, as major shareholders are more able to influence managerial decisions, thus safeguarding their investments (Liu et al., 2011). Ownership concentration is measured by the percentage of shares held by the largest shareholders, typically the top five, and is considered high when the largest shareholders hold at least 50% of the company's shares (Akben, 2019).

Government Ownership

Government ownership refers to the percentage of a company's shares held by the government (Makhdalena, 2018). Government or state ownership occurs when a government entity has controlling shares in a company (Abdul Rahman & Rejab, 2015; Boubakri et al., 2018). Higher leverage is often associated with government ownership, as these firms tend to rely more on debt to finance projects, avoiding equity issuance to maintain state control (Dewenter & Malatesta, 2001; Phi et al., 2019). As a major shareholder, the government tends to provide guarantees to state-owned enterprises (SOEs), helping them secure external

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funding (Perdana, 2019). This reduces agency costs and attracts more creditors, leading to higher debt levels compared to non-SOEs (Adair & Adaskou, 2015).

Firms Specific Variables - Age

Firm age refers to how long a company has been operating. The longer a firm has been in business, the more it demonstrates its resilience and builds external trust in its quality (Nugroho, 2006). Firm age is often considered a key determinant of capital structure decisions, as it relates to factors like risk, reputation, and access to financial resources. Older firms tend to have more stable capital structures due to their stronger reputation and easier access to lower-cost borrowing (Bernawati, 2019).

Firms Specific Variables - Tangibility

Tangibility refers to the value of a company's physical assets, which investors consider when assessing risk. These assets can serve as collateral, reducing default risk and making lenders more willing to extend credit (Yildiz, 2024). According to the Trade-Off Theory, there is a positive relationship between tangibility and leverage, as confirmed by various studies (Alnori & Alqahtani, 2019; Yildirim et al., 2018). However, Pecking Order Theory suggests a negative relationship, as higher tangibility reduces information asymmetry, lowering the cost of equity issuance (Frank & Goyal, 2009). Tangibility is calculated by dividing total fixed assets by the book value of total assets (Alhajjeah & Besim, 2024).

Firms Specific Variables – Non-Debt Tax Shield

Non-debt tax shields (NDTS) are tax deductions for depreciation and investment tax credits, which serve as an alternative to the tax benefits of debt financing (Yildiz, 2024). According to the Trade-Off Theory, NDTS negatively correlates with leverage, as supported by much of the literature (Alnori & Alqahtani, 2019; Haron & Ibrahim, 2012; Shah & Khan, 2007). However, some studies, such as those by (Rahim et al., 2020; and Sahudin et al., 2019), found a positive relationship, arguing that NDTS does not replace the tax shield from debt. NDTS is calculated as the ratio of depreciation and amortization to total assets (Attia et al., 2023).

Firms Specific Variables – Growth Opportunity

Growth opportunity refers to the potential for a company's future expansion. High-growth firms often need more capital, making it crucial to ensure adequate funding availability (Sanusi et al., 2024). According to (Myers, 1977), firms with high growth opportunities tend to have lower debt levels because they face higher agency costs. This is supported by the Trade-Off Theory, which predicts a negative relationship between growth opportunities and leverage (Alnori & Alqahtani, 2019). Conversely, Pecking Order Theory suggests a positive relationship, as high-growth firms may prefer debt financing when internal funds are insufficient (Frank & Goyal, 2009). From various theories, we have chosen the Pecking Order Theory as the basis for understanding the relationship between growth opportunities and the

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capital structure of firms.

Firms Specific Variables – Tobin's Q

Tobin's Q reflects long-term financial performance expectations derived from financial results related to shareholders (Alhajjeah & Besim, 2024). Tobin's Q is the ratio between the market value of capital and the replacement cost of assets, and it is used to measure a company's overall investment opportunities (Peters & Taylor, 2017). The calculation of Tobin's Q is done by dividing market capitalization plus the book value of long-term debt by the book value of total assets (Bui et al., 2023). Simply put, Tobin's Q is calculated as the ratio of a company's market value to its book value. A higher Tobin's Q indicates better potential and prospects for company development. Tobin's Q is considered to be greater than 1 (Tobin's Q > 1) when the market value exceeds the book value, indicating that the return on equity is higher than the expected return rate. Conversely, if the return on equity is lower than the market rate, Tobin's Q will be less than 1 (Tobin's Q < 1).

Aims and Hypotheses

This study explores the relationship between director size, commissionaire size, ownership concentration, government ownership, and firm-specific variables such as firm age, tangibility, non-debt tax shield, growth opportunities, and Tobin's Q on the capital structure of companies in the basic materials sector that comply with Shariah principles in Indonesia. The research aims to analyze how the size of the board of directors and commissionaires, commissionaire size, ownership concentration, and government ownership, along with other firm-specific factors, influence capital structure decisions in capital structure decisions in the basic materials sector, with a focus on Shariah-compliant companies Therefore, the following hypotheses are formulated:

H1: Director Size has a negative relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

H2: The Independent Director has a positive relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

H3: Commissionaire Size has a negative relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

H4: Independent Commissionaire has a positive relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

H5: Ownership Concentration has a positive relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

H6: Government ownership has a positive relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

H7: Age has a positive relationship with the capital structure of Shariah-compliant firms

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in the basic materials sector in Indonesia.

H8: Tangibility has a positive relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

H9: Non-Debt Tax Shield has a negative relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

H10: Growth Opportunity has a positive relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

H11: Tobin's Q has a negative relationship with the capital structure of Shariah-compliant firms in the basic materials sector in Indonesia.

Research Methods

This study employs a quantitative approach to analyze the impact of board characteristics and firm-specific factors on the capital structure of Sharia-compliant companies in Indonesia's basic materials sector. We analyzed 26 non-financial Indonesian companies listed in the basic manufacturing sector from 2007 to 2020, resulting in a total of 187 observations. Firm data was obtained from the Datastream database, with Table 1 detailing the sample companies.

Table 1. List of Sample

No.	Company Name
1	PT. Alakasa Industrindo Tbk.
2	PT. Aneka Gas Industri Tbk.
3	PT. Aneka Tambang (Persero) Tbk.
4	PT. Argha Karya Prima Industry Tbk.
5	PT. Asiaplast Industries Tbk.
6	PT. Barito Pacific Tbk.
7	PT. Betonjaya Manunggal Tbk.
8	PT. Champion Pacific Indonesia Tbk.
9	PT. Chandra Asri Petrochemical Tbk.
10	PT. Citra Tubindo Tbk.
11	PT. Colorpak Indonesia Tbk.
12	PT. Duta Pertiwi Nusantara Tbk.
13	PT. Ekadharma International Tbk.
14	PT. Indo Acidatama Tbk.
15	PT. Indocement Tunggal Prakarsa Tbk.
16	PT. Indopoly Swakarsa Industry Tbk.
17	PT. Intanwijaya Internasional Tbk.
18	PT. Kapuas Prima Coal Tbk.
19	PT. Kedawung Setia Industrial Tbk.
20	PT. Lionmesh Prima Tbk.
21	PT. Panca Budi Idaman Tbk.
22	PT. Semen Baturaja (Persero) Tbk.
23	PT. Trias Sentosa Tbk.

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24	PT. Unggul Indah Cahaya Tbk.
25	PT. Vale Indonesia Tbk.
26	PT. Waskita Beton Precast Tbk.

(Source: Author Processed)

Only companies with at least three consecutive observations at the end of the study period were included in the analysis, following the approach of Deesomsak et al. (2009) and Haron (2016). The panel data used is unbalanced due to the differing listing dates of these companies within the study period from 2007 to 2020.

In this quantitative approach, data analysis is conducted using the Generalized Method of Moments (GMM) to address potential endogeneity and variability in panel data (Boshnak, 2024). According to Zamzamin et al. (2022), when regressors demonstrate persistence, System-GMM is preferable over First Difference-GMM. The GMM method was selected as it provides more accurate estimates in research with unbalanced panel data and minimizes potential bias. GMM allows for controlling firm-specific variations and considers the effects of latent variables that may influence the capital structure.

We use a two-step system Generalized Method of Moments (GMM) as a tool to analyze. We also employ a panel mode cover as an approach to estimate the parameters of interest and estimate the firm leverage with a set of the Firm's board characteristics and firm-level determinants. The model's instrument consistency and validity were confirmed through the Hansen Test (1982). AR(1) and AR(2) tests were used to examine the serial correlation of the error term. For the AR(1) test, the null hypothesis should be rejected. More importantly, failing to reject the null hypothesis in the AR(2) test indicates a robust model regression and implies that the original error term lacks serial correlation (Blundell & Bond, 1998, as cited in Bayuny & Haron (2023).

Finding and Analysis

Table 2. Hypothesis Analysis Result

TLTA	Coefficient	Std. Err.	t	P > |t|	95% conf.	interval
Leverage	0.4548	0.2398	1.90	0.069*	-0.0389	0.9486
Director Size	0.1589	0.0440	3.61	0.001***	0.0683	0.2495
Independent Director	-0.1280	0.0628	-2.04	0.052*	-0.2573	0.0012
Commissionaire Size	-0.1559	0.0801	-1.95	0.063*	-0.3210	0.0099
Independent Commissionaire	-0.0652	0.0531	-1.23	0.231	-0.1745	0.0443
Top Ownership	-0.1316	0.1605	-0.82	0.420	-0.4621	0.1940
Government Ownership	0.1035	0.0722	1.43	0.164	-0.0451	0.2522
Age	-0.0007	0.0020	-0.33	0.741	-0.0049	0.0035
Tangibility	-0.0233	0.1592	-0.15	0.885	-0.3513	0.3048
NDTS	-2.4754	1.1178	-2.21	0.035**	-4.7774	-0.1732
Growth Opportunities	0.0810	0.0341	2.37	0.026**	0.0107	0.1513
Tobins Q	-0.1451	0.0612	-2.37	0.026**	-0.2712	-0.0191
_cons	0.4422	0.2244	1.97	0.060	-0.0199	0.9044
AR(1)				0.322		
AR(2)				0.426		
Sargan test				0.258		
Hansen test				1.000		

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*: Significant at 10% level ($p < 0.10$)
**: Significant at 5% level ($p < 0.05$)
***: Significant at 1% level ($p < 0.01$)

(Source: Author Processed)

The consistency and validity of the model's instruments have been confirmed through the Hansen test (1982). Additionally, AR(1) and AR(2) tests were used to examine autocorrelation in the error terms. A significance level greater than 0.05 indicates that this model does not suffer from autocorrelation issues and that the instrument validity is acceptable. The analysis of the regression results is as follows:

The size of the board of directors has a positive effect on a company's leverage, as indicated by a positive coefficient of 0.1588959. This means that the larger the number of directors in a company, the greater the use of debt in its capital structure. The significance result of 0.001 indicates a strong relationship between larger board size and increased leverage. This is consistent with the argument by (Abor and Biekpe, 2007) that larger boards tend to face challenges in reaching consensus, which can lead to increased debt in an effort to enhance the firm's value. Moreover, larger boards are often more entrenched, thus tending to use debt as a strategy to maintain control and boost company value (Wen et al., 2002; Abor, 2007). This finding is also supported by agency theory, which suggests that a larger board can exacerbate agency problems between owners and management, necessitating higher debt use to mitigate these issues (Feng et al., 2020). This interpretation aligns with several previous studies that also found a positive relationship between board size and firm leverage (Al-Bassam et al., 2018; Zaid et al., 2020; Amin et al., 2022; Boshnak, 2024).

The proportion of independent directors on the board has a significant negative impact, with a significance value of 0.052. This means that the higher the proportion of independent directors, the lower the company's use of debt. This indicates that independent directors play a crucial role in strengthening management oversight, which in turn limits the company's tendency to take on higher financial risks through increased debt. Independent directors tend to promote more cautious and conservative governance practices, thereby reducing the pressure from debt repayment obligations (Boshnak, 2024). This finding is consistent with agency theory, which states that stronger oversight from independent directors can curb inefficient and risky management behavior (Boateng et al., 2017; Wen et al., 2002). Other empirical studies also support this negative relationship, where stricter oversight from independent directors reduces a company's leverage to avoid excessive financial risk (Feinerman, 2017; Elgammal & Al-Najjar, 2022; Boshnak, 2024).

Commissionaire Size shows a significant negative effect, indicating that as the size of the board of commissioners increases, the company's leverage tends to decrease. The significance value of 0.063 suggests that a larger board of commissioners may be able to provide more effective oversight of management, making the company more cautious in using debt.

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Stronger supervision by the board of commissioners can reduce the company's reliance on debt for funding, as the board seeks to minimize financial risks that could disrupt the firm's performance. This finding aligns with previous studies, such as those by (Dasilas and Papasyriopoulus, 2015), which show that larger boards of commissioners can exert pressure on management to avoid excessive leverage due to the greater financial risks involved.

The results show that independent commissioners have an insignificant negative effect, with a significance value of 0.231, meaning independent commissioners do not influence the company's debt usage decisions. This finding is consistent with studies by (Vakilifard et al., 2011 and Kok et al., 2023). The insignificant result can be linked to literature indicating that the influence of independent commissioners on leverage can vary depending on other factors, such as firm size and age (Kok et al., 2023). In smaller firms, independent directors tend not to have a significant impact on leverage due to limited access to external financing, often caused by higher bankruptcy risk and other constraints like higher debt costs (Pandey, 2004; Rajan & Zingales, 1995). In this context, independent commissioners may play a lesser role in influencing debt-related decisions. Meanwhile, larger and older firms have better borrowing capabilities, as they are more capable of meeting interest and principal repayment obligations and generally have easier access to credit with lower costs due to stronger reputations and track records (Nico & Van Hulle, 2010; Sakai et al., 2010). In these situations, independent commissioners may be more effective in monitoring capital structure decisions and reducing reliance on risky debt. Therefore, although the analysis shows no significant influence of independent commissioners on leverage, their influence may be more relevant in large and older companies, where their oversight is more effective in shaping debt-related financial decisions.

The analysis of concentrated ownership shows a negative but insignificant result, with a significance value of 0.420. This indicates that concentrated ownership does not significantly influence debt usage. This finding is consistent with (Ngatno et al., 2021), who argue that large shareholders do not necessarily pressure management to increase debt in order to reduce free cash flow or enhance financial discipline. Thus, the results do not support the hypothesis that concentrated ownership automatically contributes to increased leverage or debt used to control managers.

The findings indicate that government ownership has an insignificant effect on a company's leverage, with a significance value of 0.164. Although government ownership is often associated with easier access to debt markets and lower bankruptcy risks, these results suggest that these factors do not have a meaningful impact on leverage decisions. This may be due to various factors, such as financial market conditions or internal company policies, that limit the influence of government ownership on debt use decisions. This finding is in line with (Perdana, 2019), who demonstrated that government share ownership does not have a positive impact on a company’s capital structure.

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According to the regression results, firm age shows an insignificant result, meaning that firm age does not impact total debt in the basic materials sector. This may be due to the fact that most of the companies are relatively young, indicating that they are still in the process of building an optimal capital structure. This finding is consistent with (Marimutuhu et al., 2023).

The regression results show that the coefficient of tangibility is positive but not significant, indicating that tangibility does not affect the company's leverage. This finding is consistent with (Kim, 2014; Buvanendra, 2017; Chakrabarti and Chakrabarti, 2019; and Gurusammy, 2024). Asset structure has not been proven to influence capital structure, as an increase in the company's assets does not always lead to an increase in capital structure. In some cases, the company's fixed assets may be smaller than its current assets, making creditors less inclined to provide financing due to the insufficient fixed assets available as collateral. Additionally, the lack of influence may be due to how well-fixed assets are utilized in the company's operations. Even though a company may have fixed assets that could be used as collateral, this does not always impact its decision in determining the optimal capital structure (Ayuningtyas and Susanto, 2020). Thus, it can be concluded that the asset structure is not always a primary factor influencing managers when selecting the company's source of funding.

The Non-Debt Tax Shield has a significant negative effect on company leverage, with a significance value of 0.036. This indicates that as the proportion of depreciation in a company's assets increases, its use of debt in the capital structure decreases. Depreciation serves as a non-debt tax shield that helps companies reduce their tax burden without relying on debt. With the tax shield provided by depreciation, companies can reduce their dependence on debt as a source of financing, which also helps minimize the financial risk associated with excessive debt use (Tasyahuda et al., 2024). This finding supports the Trade-Off Theory, which suggests that companies will take advantage of the tax shield offered by debt, but when the non-debt tax shield is high, they tend to use less debt to avoid excessive risk. These findings are consistent with previous studies (Fitriyanto & Haryono, 2020; Jaworski et al., 2019; Tasyahuda et al., 2024), which also found a negative relationship between the non-debt tax shield and company leverage.

Growth Opportunities show a significant positive effect on company leverage, with a significance level of 0.026, meaning that companies with higher growth rates tend to have higher leverage. This suggests that the internal funds of companies with high growth opportunities are insufficient to finance their growth, leading them to opt for debt financing. This is consistent with the information asymmetry theory of the Pecking Order Theory, which holds that companies prefer using internal funds and debt before resorting to equity financing when seeking external funds to avoid costs related to information asymmetry. This finding is in line with (Akinsomi et al., 2015, Ali, 2011, and Akbar et al., 2023).

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The regression results for Tobin's Q show a significant negative relationship with company leverage, with a significance value of 0.026. This finding indicates that companies with higher market value relative to their asset value tend to use less debt in their capital structure. This could be because firms with good performance or high growth prospects prefer using internal financing rather than external debt. Companies with a higher Tobin's Q ratio (an indicator of good growth prospects) tend to avoid the financial risks associated with high leverage. Additionally, this may be due to companies having better access to capital markets, efforts to reduce financial risk, and a preference for internal financing before taking on debt. This finding is consistent with studies by (Chaojin et al., 2014; and Attia et al., 2023).

The presence of independent directors and the board of commissioners in Sharia-compliant firms plays a crucial role in aligning corporate governance with the ethical principles of Sharia law. Independent directors, who are tasked with providing impartial oversight, may enforce stricter adherence to Sharia governance by promoting financial practices that avoid excessive risk, particularly the use of interest-bearing debt, which is prohibited in Islamic finance (Karbhari et al, 2023). Their role is not only to monitor management but also to ensure that the company's financial decisions align with the ethical framework of Sharia law, which emphasizes fairness, risk-sharing, and the avoidance of riba (interest). Similarly, the board of commissioners, with its supervisory responsibilities, further strengthens this ethical compliance by overseeing management's financial strategies, ensuring they do not conflict with Sharia principles. Together, independent directors and the board of commissioners can act as guardians of both corporate governance and Sharia compliance, fostering financial prudence while balancing the firm's growth objectives with the ethical constraints of Islamic finance.

Conclusion

The board characteristics of the firms significantly influence the firm's leverage level. The aforementioned board characteristics will influence the firm's capital structure decisions. Basic Materials companies will be pivotal to Indonesia's economic performance. This sector will be the primary driver for other industries, as it will significantly impact and provide essential raw materials for various sectors in Indonesia. This research has implications for stakeholders in the basic materials sector, particularly directors, commissioners, and shareholders. The findings can assist in formulating internal policies that support a balanced corporate leverage. For example, directors could implement stricter governance policies to ensure an optimal proportion of independent commissioners on the board, effectively monitoring leverage risk. For commissioners, these findings offer guidance in appointing board members with financial expertise to ensure that capital structure decisions are made with careful consideration. Additionally, shareholders can use these insights to assess whether the company has achieved an ideal leverage level, enabling them to request further transparency on the company's financing strategies. These measures will help enhance

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corporate financial stability and contribute positively to the long-term sustainability of the basic materials sector in Indonesia.

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