The Determinants of the Capital Structure: Empirical Evidence from Indonesian Stock Exchange Companies

Teddy Chandra, Pelita Indonesia School of Business

Available at: https://works.bepress.com/teddy_chandra/6/
The Determinants of the Capital Structure: Empirical Evidence from Indonesian Stock Exchange Companies

ARTICLE in REVISTA KASMERA · NOVEMBER 2015
Impact Factor: 0.07

1 AUTHOR:

Teddy Chandra
School of Business, Pelita Indonesia, Pekan…

15 PUBLICATIONS 0 CITATIONS

Available from: Teddy Chandra
Retrieved on: 25 December 2015
The Determinants of the Capital Structure: Empirical Evidence from Indonesian Stock Exchange Companies

TEDDY CHANDRA
School of Business, Pelita Indonesia

Abstract
The purpose of this study was to analyze the factors affecting capital structure in Indonesia. The variables used were DER as the dependent variable and as independent variables are profitability, growth opportunity, fixed asset tangibility, size, dividend payout ratio and short-term debt to total assets. The sample used in this study is a company registered in LQ-45. And selected by using purposive sampling. Thus obtained 38 companies as a sample. The analytical method used is linear regression. The results obtained from this study is the variable profitability, tangibility fixed assets and short term debt to total assets that have a significant influence 5%. While the growth opportunity and size variables have a significant influence 10%. While the variable dividend payout ratio does not have a significant influence.

Keywords: Capital structure, profitability, growth opportunity, fixed asset tangibility, size, dividend payout ratio, short-term debt to total assets, Pecking Order Theory, Asymmetric Information Theory, Theory trade off.

1. INTRODUCTION
The financial crisis that started from the collapse of Lehman Brothers in the US in 2008 had shocked the world, including Indonesia. Effects that occur in Indonesia is not like other countries. Indonesia's economic growth could reach 7.4% in 2008 and 4.7% in 2009. While other countries including neighboring ASEAN nothing like Singapore reaching negative growth -0.6%, -1.5% Malaysia, Thailand and Brunei Darussalam -2.3% -1.8% in 2009 (the International Monetary Fund, 2015).

At the time of the 1997/1998 crisis, many companies in Indonesia bankruptcies. In the study (Chow, 1994) show that since the 1970s (the oil crisis of the world) many low-income countries prefer to loan financing. With financing loan them the opportunity to obtain debt rescheduling and loan renewal. This situation was also experienced by the company in Indonesia. They are vying for foreign loans. Because the cost of foreign borrowing is lower than the cost of borrowing in the country. However, foreign loans are not in the hedge and the number of loans in the form of short-term loans. This is the source of the causes of financial distress in Indonesia in 1997/1998 (Adiningsih, Soesastro, Budiman, Triaswati, & Alisjahbana, 2005). In the crisis of 2008, despite sizeable private loan companies, but the anticipation is already done, so that at that time companies in Indonesia did not get to experience financial distress.

After passing through a crisis in 2008, Indonesia began competing companies to get debt back. During Indonesia's foreign debt is dominated by the Indonesian government loans. However, since 2012 Indonesia's external debt is dominated by private debt. Private corporate debt reached USD.126.245 billion. While the Indonesian government debt only USD.126.119 billion. For 2014, private corporate debt has reached USD.163.437 while Indonesia's government debt reached only USD.129.736 (Bank Indonesia and the Ministry of Finance, 2015). Private corporate debt is dominated by companies not financial institutions. This shows the real sector companies began aggressively moving into debt. In fact, from research conducted by (Chandra, 2009) show that companies in Indonesia still adheres to the pecking order theory. It means that
companies in Indonesia are still conservative in making capital structure decisions. Indeed, in a study conducted before either study abroad or research in Indonesia, there is still no agreement about the factors that influence the decision of the company's capital structure. This study will re-examine the factors that affect the company's capital structure in Indonesia. Whether there has been a paradigm shift in decision-making capital structure after the global crisis.

LITERATURE REVIEW

Capital Structure Theories

Many reasons companies use debt. Options debt as a source of funds came from research done by Modigliani and Miller in 1958. Modigliani and Miller said that the company's value has nothing to do with the debt. In a study they say financial managers do not have to worry about capital structure. In the perfect market conditions, capital structure will not affect the value of the company (Modigliani & Miller, 1958).

But in 1963, they make corrections to their opinion. By considering the tax factors in their model, they say that debt is a positive thing for the company. This study shows the debt undertaken by the company will reduce the company in paying taxes. Making debt will rise to the interest costs so will reduce the income on which the tax payment. With the reduction in tax payments will lead to a tax saving which ultimately will increase the value of the company (Modigliani & Miller, 1963).

Signaling theory is a theory developed by (Ross, 1977). Ross developed the theory of signaling to provide a signal to investors of capital structure decisions. Managers as the company's internal know more about the condition of the return of the company. Instead investors as external parties are not a lot of information about the company. This condition is used by managers to increase the company's debt and provide signal for investors will be the emergence of higher returns in the future. Improved return in the future is a positive sentiment for investors to be able to increase the value of the company.

Trade off theory (Scott, 1977) is a development of the theory of capital structure before. Proposed use of debt that many of the capital itself, was criticized by various parties. The increase in debt to some extent will increase the risk ie the risk of bankruptcy. Increased risk of bankruptcy this will increase the cost of bankruptcy. So increase the benefits of the use of debt as a result of the tax saving will be followed by an increase in the cost of financial distress. Increased cost of financial distress that is too high will lead to not like the addition of debt. This theory suggests that the increase in debt can still be carried out up to the same cost of financial distress with the tax advantages of the cost of debt. Besides the bankruptcy of factors included in the model Trade Off consideration this factor less serious manager who is also a special consideration. With the investors, management and creditors, making the existence of a relationship of mutual suspicion. especially suspicion occurred between shareholders with management. The management was given the freedom to go into debt to finance the company, but shareholders may feel suspicious of the use of the loan funds to finance projects that are dangerous. As a result, shareholders should always monitor the company, otherwise the management also felt the loss of freedom of movement. Costs due to loss of freedom and the cost to monitor this company are always referred to as agency costs.

The pecking order theory was first introduced by Donaldson in 1961 and continued in 1984 by Myers (Myers, 1984). According to Myers, there is no optimal capital structure, only the internal and external funding sources only. Own capital that comes from within the company itself is preferred by managers compared with external funds derived from debt. The pecking order theory is stressed at some point. First, the Company prefers funding from the internal (internal
finance), namely the financing of the company's operating results of its own that will cost less than the debt. Second, the Company seeks to be consistent with the target dividend payout (dividend payout ratio) for investment purposes in the future. The company always avoid any sudden changes in the dividend policy is. Third, the dividend policy of strict or consistent, accompanied by fluctuations in profits and investment opportunities are difficult to predict in advance, resulting in internal cash flow sometimes there is excess, and sometimes there is a shortage. At the time of excess internal cash flow, companies tend to use the funds to pay off debt or invest in securities. Conversely, if there is a shortage of funds, the company will reduce the cash balance or sell the securities held. Fourth, if needed funding from outside the company (external finance), the company will seek the most secure source of funds first. Which starts from the debt through bonds, followed by securities that are options such as convertible bonds, the next new issue new shares as a final solution. On this theory, companies prefer the use of internal funds in advance to meet the investment needs, while external funds will be the last option. Therefore, the company's dividend policy will be very tight, especially for the dividend in cash. From the above explanation it appears that the company prefers funding from within (internal finance) compared with the funding coming from the outside (external finance). This could indicate the reason big companies are profitable are more likely to be conservative in using debt to the company's operations. As for companies that are less profitable, will tend to keep using internal funding sources first and then cover the shortfall by borrowing in the form of debt. They are less interested to immediately add the new shares to finance the company for lack of funds. This is done to reduce the spread of the company's internal information to the public so that the public spotlight when issuing new shares.

Another theory of capital structure is the theory of free cash flow (Jensen, 1986) which states that a manager who has the free cash flow tends to make investments that are less favorable than those funds be returned to shareholders. The manager will select investments that can sustain the company's growth, although the growth will not increase the value of the company. On this theory shareholder forcing managers to borrow as much as possible, with the hope of reducing agency costs and disciplining managers to manage existing funds and will force managers to be able to do its work more productively in accordance with the expectations of shareholders. In this theory hypothesis states that the debt will motivate the management to be more efficient so that the use of resources (assets) to be more productive.

**Variables Affecting Capital Structure and Capital Structure Decision**

**Capital Structure**
Capital structure is a dependent variable that is measured by using the formula total debt to total equity (Debt to Equity ratio). This formula has been used in the study (Chandra, 2009; Pahuja & Sahi, 2012; Velampany & Niresh, 2012).

**Profitability ratios**
In a previous study found the tendency of companies that earn a large profit will use internal funds to finance investments or profits. The use of debt will be the second priority if internal funds are insufficient. This is consistent with the theory of the pecking order theory of Myers. That is the relationship with the capital structure profitability ratio is negative. The study, to obtain the results of a negative relationship has been found in the study (Antoniou, Guney, & Paudyal, 2002; Bauer, 2004; Bevan & Danbolt, 2000; Cekrezi, 2013; Hossain and Ali, 2012; Khrawish & Khrawish 2010; Mwangi, Macau , & Kosimbei, 2014; Myers, 1984; Rajan and Zingales, 1995; Sayilgan, Karabacak, & Kucukkocaoglu 2006; Velampany & Niresh, 2012). Research conducted by (Milton & Raviv, 1991) found that companies with a strong financial
capability can gain access to cheaper debt. It means that companies that have a large profit to be able to get the cost of debt cheaper so that the use of debt will be greater. That is the relationship between profitability ratios with the capital structure is positive. This result is also supported by signaling theory and the trade off theory. Research supporting positive relationships found in the study (Milton & Raviv, 1991; Ross, 1977; San & Heng, 2011; Scott, 1977).

In this study, the hypothesis that adapted to the pecking order theory is negative.

H1: There is a negative effect on the profitability ratio capital structure.

**Growth Opportunity.**

In accordance with the pecking order theory (Myers, 1984) to find a company with high potential growth will tend to reduce debt. Meaning that the higher the lower the growth opportunity company's capital structure. This means that the relationship between the growth opportunity with capital structure is negative. Results of this study was supported by research (Akhtar & Oliver, 2009; Bauer, 2004; Buferna & Hodgkinson, 2005; Myers, 1984).

In the pecking order theory also said that the investment needs will be financed with internal funds. But the funding needs for growing companies will not be sufficiently funded with internal funds. So the funding needs will be met by debt. It means growing an enterprise will be greater need for funds derived from debt. This means the relationship is positive. These results are never found in the study (Hossain and Ali, 2012; Pahuja & Sahi, 2012; Titman & Wessels, 1988).

In this study, the hypothesis that adapted to the pecking order theory is negative.

H2: There is a negative effect on the capital structure of growth opportunity.

**Fixed Assets tangibility.**

(Grossman & Hart, 1982) provide ideas for companies that have little collateral, should take advantage of the larger debts to monitor management activities. This means that there is a negative relationship between tangibility fixed assets with capital structure. This negative result was found by (Bauer, 2004; Ebaid, 2009; Fitriya, Abdul, and Muhammad, 2013; Grossman & Hart, 1982; Hossain and Ali, 2012; Sayilgan et al., 2006).

In the trade off theory, financial distress very decisive factor in the policy of capital structure. To reduce these risks, the existing debt needs to be supported with sufficient guarantees. Tangible assets that many will be used as collateral to secure loans. That is the relationship between tangibility fixed assets with capital structure is positive. This research was supported by (Akhtar & Oliver, 2009; Antoniou et al., 2002; Bevan & Danbolt, 2002; Buferna & Hodgkinson, 2005; Cekrezi, 2013; Friend & Lang, 1988; Grossman & Hart, 1982; Khrawish & Khraiwesh, 2010; Milton & Raviv, 1991; Rajan and Zingales, 1995; Scott, 1977; Shah & Khan, 2007).

In this study, the hypothesis is negative.

H3: There is a negative effect of tangibility fixed assets to capital structure.

**Size**

According to research conducted by (Rajan and Zingales, 1995) firm size measured by Ln of sales. From the results of research conducted (Fama & Jensen, 1983) said that the enactment of asymmetric information theory at large companies. The use of debt in the big companies connotated as a bad thing. As a result, large companies are more likely to use their own capital of the debt. It means that the relationship between size companies with capital structure is negative. These results are supported by other studies (Fitriya et al., 2013; Pahuja & Sahi, 2012).

However, the results obtained by conversely (Rajan and Zingales, 1995) which states that large enterprises are more able to diversify investments so it is not easy to experience financial distress. As a result, cost of capital companies will be cheaper. Low cost of debt that will encourage companies to undertake debt. This means that research to get a positive relationship
between the size with the capital structure. This research was supported by research done (Antoniou et al., 2002; Bauer, 2004; Cekrezi, 2013; Karadeniz, Kandır, Iskenderoglu, and Onal, 2011; Khrawish & Khraiwesh, 2010; Maxwell & Kehinde, 2012; Rajan and Zingales, 1995; Titman & Wessels, 1988).

In this study, the hypothesis is negative.

H4: There is a negative effect on the capital structure size.

**Dividend Payout Ratio**

Dividend variable is measured by using the formula per share dividend divided by earnings per share. According to research conducted by (Myers, 1984) in the pecking order theory, companies are advised to set a dividend policy based on expected future investment and expected cash flow. High dividend will result in decreased internal funding sources. Decrease in internal funding sources will force the company to use debt funding sources to meet the investment needs. This means that there is a positive relationship between dividend to capital structure. Results of this study was supported by research (Jiang & Jiranyakul, 2013).

In this study, the hypothesis is positive.

H5: There is a positive influence Dividend Payout ratio of the capital structure.

**Short Term Debt to Total Assets**

This ratio is the company's ability to finance its assets using short-term liabilities. The formula used in this study is a comparison of short-term debt to total assets. Typically used to finance working capital. This formula has been used in research (Khrawish & Khraiwesh, 2010). According to the theory, the ability to trade off high liquidity will reflect a greater ability to obtain debt (Scott, 1977). Therefore, the relationship between the sort-term debt to total assets (STD / TA) with the capital structure is positive.

In this study, the hypothesis is positive.

H6: There is a positive influence STD / TA of the capital structure.

**METHODOLOGY OF THE STUDY**

**Population and Sample**

The population used in this study is a company registered in LQ-45 index in the Indonesia Stock Exchange from 2010 to 2013. Samples were taken from the companies listed in LQ-45 period August 2013 to January 2014. The companies listed on LQ -45 regarded as the best 45 companies and could represent all the companies that exist because of all the sectors represented on the list. Besides, according to the nature of companies listed on LQ-45 are companies where the liquid option market capitalization for the whole company LQ-45 reaches 74.53% of the market capitalization of all companies listed on the Indonesia Stock Exchange (Chandra & K., 2015). Samples were taken by using purposive sampling. Company must be registered in the Indonesia Stock Exchange since January 2010 until December 2013. Given the differences in the nature of capital structure for the company's financial and banking, the financial and banking companies not included in the sample. So that the number of samples used in this study is 38 companies. Listed companies as a sample is a non-financial company evenly distributed to all sectors such as table 1.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>2</td>
</tr>
<tr>
<td>Mining</td>
<td>4</td>
</tr>
<tr>
<td>Basic Industry</td>
<td>4</td>
</tr>
<tr>
<td>Miscellaneous Industry</td>
<td>1</td>
</tr>
<tr>
<td>Customer Goods</td>
<td>5</td>
</tr>
<tr>
<td>Property</td>
<td>11</td>
</tr>
</tbody>
</table>
Data Collection Method
This study uses secondary data. The research data is derived from the company's financial statements published by the company each through the mass media and the web Indonesia Stock Exchange (www.idx.co.id). All the data both for the dependent variable (capital structure) and independent variables (profitability, growth opportunity, tangibility fixed assets, firm size, dividend payout ratio and sort-term debt to total assets) is derived from the financial statements (balance sheet and income statement) in 2010 until 2013.

Variables Research and Measurement
The dependent variable
The dependent variable of this study is the capital structure. Capital structure is a mix of funding companies represented debt and equity capital. The formula used in this study is the debt to equity ratio (DER). This formula has been used in the study (Chandra, 2009; Pahuja & Sahi, 2012; Velnampy & Niresh, 2012).

\[ \frac{DE}{E} = \frac{t}{a} \]

Independent Variables
Profitability Ratio.
Profitability ratio is a picture of firm performance. As the independent variable profitability ratio measured using return on assets. The formula used in this study are earnings after tax divided by total assets. This formula has been used in research (Cekrezi, 2013; Mwangi et al., 2014).

\[ R = \frac{b}{a} \]

Growth Opportunity
Growth opportunity is a ratio that describes the company's growth opportunities in the future. The formula used to measure the growth opportunity is the change in book value compared to total assets. This formula has been used in research (Buferna & Hodgkinson, 2005; Hossain and Ali, 2012).

\[ G = \% \text{ Change} \times \frac{t}{T} \]

Tangibility Fixed Assets (Tang)
Tangibility of fixed assets (tang) is a ratio that describes the ability of fixed assets that can be pledged as collateral. Tangibility of fixed assets is measured by using the formula fixed assets divided by total assets. This formula has been used in research (Friend and Lang, 1988; Hossain and Ali, 2012; Shah & Khan, 2007).

\[ T = \frac{T}{A} \]

Size
Size is the size of the company that describes the size of the company. The formula used is Ln of sales. This formula has been used by (Rajan and Zingales, 1995).
Dividend payout ratio (DPR)
Dividend payout ratio is the amount of profits distributed in the form of dividend. The formula used in this study is the amount of dividends per share divided by earnings per share.

\[
S = L (S)
\]

Short Term Debt to Total Assets (STD / TA)
Short-term debt to Total Assets (STD / TA) is a ratio that describes the ability of the company's short-term debt to finance its assets primarily working capital. This formula has been used by (Khrawish & Khrawish, 2010).

\[
S / I = \frac{S \theta}{T} \frac{T}{A} \frac{D}{D}
\]

Data analysis Method
In this study, analysis of the data used is linear regression. The analysis model is as follows:

\[
Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + \epsilon
\]

Where:

- \( Y \) = Capital structure
- \( a \) = intercept
- \( b_1..b_6 \) = regression coefficient of each independent variable.
- \( X_1 \) = Profitability ratios (ROA).
- \( X_2 \) = Growth Opportunity.
- \( X_3 \) = Tangibility Fixed Assets.
- \( X_4 \) = Firm Size.
- \( X_5 \) = Dividend Payout Ratio.
- \( X_6 \) = Short Term Debt To Total Assets.
- \( \epsilon \) = Error Term.

Before use regression analysis will be performed classical assumption examination form of normality test, autocorrelation, multicolinearity and heterascendastisity.

ANALYSIS AND DISCUSSION
Descriptive Analysis
This study analyzed the period 2011 to 2013. However, to clarify the trend data from each of the variables, descriptive analyzes were carried out starting from the year 2010 until 2013.

Table 2. Descriptive Statistics (Means)

<table>
<thead>
<tr>
<th>Variable</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>DER</td>
<td>1.07055</td>
<td>1.16326</td>
<td>1.27191</td>
</tr>
<tr>
<td>ROA</td>
<td>0.13434</td>
<td>0.13099</td>
<td>0.11649</td>
</tr>
<tr>
<td>Growth Opportunities</td>
<td>0.07883</td>
<td>-0.03203</td>
<td>-0.02105</td>
</tr>
<tr>
<td>Tangibility</td>
<td>0.25870</td>
<td>0.23652</td>
<td>0.29325</td>
</tr>
<tr>
<td>Size</td>
<td>15.90469</td>
<td>16.16290</td>
<td>16.33823</td>
</tr>
<tr>
<td>DPR</td>
<td>0.39044</td>
<td>0.36452</td>
<td>0.15764</td>
</tr>
<tr>
<td>STD/TA</td>
<td>0.22672</td>
<td>0.22597</td>
<td>0.23993</td>
</tr>
</tbody>
</table>

Table 2 shows the trend of the data from all the variables both the dependent variable and independent variables. DER variable as the dependent variable seen a decrease in 2011 compared
to 2010. But after the year 2011 the variable DER has increased significantly. This according to
the data released by Bank Indonesia. ROA variable conditions experienced reverse. flat average
ROA in 2011 increased and after the year 2011 the average ROA of companies in Indonesia
decreased. This condition is also experienced by other independent variables, except DPPR and
STD / TA.

Result of Regression Analysis
From the results of tests conducted for normality assumption test and heteroscedastisity test, everything is otherwise qualified testing. Normality test and test heteroscedastisity tested using graphs. Normality test results show data model closer to the diagonal lines so that it can be said normal distribution of data. while for heteroscedastisity test all point spreads and does not form a specific pattern so that it can be said there is no heteroscedastisity analysis model.

Table 3. Result of Regression

<table>
<thead>
<tr>
<th>Variable</th>
<th>Beta Coefficients</th>
<th>t-value</th>
<th>Sig.</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>2.715</td>
<td>2.767</td>
<td>0.007</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>-4.202</td>
<td>-5.142</td>
<td>0.000</td>
<td>1.470</td>
</tr>
<tr>
<td>Growth Opportunities</td>
<td>-0.872</td>
<td>-1.825</td>
<td>0.071</td>
<td>1.145</td>
</tr>
<tr>
<td>Tangibility</td>
<td>-0.899</td>
<td>-2.696</td>
<td>0.008</td>
<td>1.343</td>
</tr>
<tr>
<td>Size</td>
<td>-0.122</td>
<td>-1.905</td>
<td>0.060</td>
<td>1.357</td>
</tr>
<tr>
<td>DPR</td>
<td>0.047</td>
<td>0.187</td>
<td>0.852</td>
<td>1.266</td>
</tr>
<tr>
<td>STD/TA</td>
<td>5.174</td>
<td>11.689</td>
<td>0.000</td>
<td>1.164</td>
</tr>
<tr>
<td>Durbin Watson</td>
<td>2.044</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj R-Square</td>
<td>0.587</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-Statistic</td>
<td>27.724</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.(F-Statistic)</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Multicolinearity test was tested using a coefficient variance inflation factor (VIF). Coefficient VIF for all independent variables under five. That is to say the free model multicolinearity. Final test is autocorrelation test, tested by durbin watson test. Test results get the value of 2.044. the results showed durbin watson test result greater than the Durbin Watson upper (1.8065) and under 4-DU (4-1.8065). That is the result indicates the absence of autocorrelation problems.
The coefficient of determination shows the number 0521. That is the change that occurs in Capital structure can be explained by the variable ROA, GO, Tangibility Fixed Assets, Size, Parliament and STD / TA amounted to 52.1%, while the remaining 47.9% to be explained by other variables.

F-statistic for 7712 and Sig. For 0000 shows that the variable ROA, GO, Tangibility Fixed Assets, Size, Parliament and STD / TA together have a significant effect on the capital structure policy. But when viewed as partial, just ROA, Tangibility and STD / TA that have a significant influence on the capital structure with an alpha of 5%. Variable GO and size also has an influence on the capital structure, but used 10% alpha. While the House of Representatives variable has no significant effect on the capital structure.

Discussion

Profitability Ratio
Hypotheses are formed to profitability variable (ROA) is negative. The results obtained in this study is significantly negative with significance level of 0.000 or alpha 1%. It means that there is a significant negative effect on the profitability variable capital structure. These results are consistent with studies conducted by (Antoniou et al., 2002; Bauer, 2004; Bevan & Danbolt, 2000; Cekrezi, 2013; Hossain and Ali, 2012; Khrawish & Khraiwesh 2010; Mwangi et al., 2014; Myers 1984; Rajan and Zingales, 1995; Sayilgan et al., 2006; Velnampy & Niresh, 2012). And not according to research conducted by (Milton & Raviv, 1991; Ross, 1977; San & Heng, 2011;
From the results shown in Table 2 Indonesia still increase its profit despite declining capital structure. This is a form of trust management company will be the business prospects of Indonesia in the future. Funds requirement for investment is filled with internal funding sources first. However, lack of funds is encouraging companies to use debt funding sources as a second choice. As for the issuance of new shares is the last option. This is reflected in the funding table 2, where DER in 2012 be increased from 1.07055 to 1.16326. This increase also occurred in the year 2013 to 1.27191. The amount of DER ratio that reflects the improvement in debt and a decrease in the proportion of equity. This reinforces the findings (Chandra, 2009) which found that companies in Indonesia are more likely to use the pecking order theory.

**Growth Opportunity**

Growth opportunity hypothesized negative effect on the capital structure. Results from this study showed a significant negative result with a significance level of 0.071 (the alpha level of 10%). That is growth opportunity here significantly affect the capital structure at the alpha of 10%, and not significant at 5% alpha. These results support the research conducted by (Akhtar & Oliver, 2009; Bauer, 2004; Buferna & Hodgkinson, 2005; Myers, 1984). These results also rejected the results of research conducted by (Hossain and Ali, 2012; Pahuja & Sahi, 2012; Titman & Wessels, 1988). This means that the pecking order theory also applies here.

**Tangibility Fixed Assets**

The hypothesis for this variable is tangibility negatively affect capital structure. The results obtained in accordance with the hypothesis. Tangibility significant negative effect on capital structure with a significance level of 0.008 or alpha 1%. These results are consistent with studies conducted by (Bauer, 2004; Ebaid, 2009; Fitriya et al., 2013; Grossman & Hart, 1982; Hossain and Ali, 2012; Saydgan et al., 2006). And refuse to research conducted by (Akhtar & Oliver, 2009; Antoniou et al., 2002; Bevan & Danbolt, 2002; Buferna & Hodgkinson, 2005; Cekrezi, 2013; Friend & Lang, 1988; Grossman & Hart, 1982; Khrawish & Khrawish, 2010; Milton & Raviv, 1991; Rajan and Zingales, 1995; Scott, 1977; Shah & Khan, 2007). Although tangibility had dropped in 2012, but capital structure remained elevated. This shows the company trying to take advantage of opportunities to use sources of debt funding despite a decline in fixed assets as collateral.

**Size**

Firm size is hypothesized to negatively affect the capital structure. The results showed a significant negative effect on the capital structure with an alpha level of significance of 0.060 or 10% and not significant for the alpha 5%. These results are consistent with studies conducted by (Fitriya et al., 2013; Pahuja & Sahi, 2012). The research contradicts the results of research conducted by (Antoniou et al., 2002; Bauer, 2004; Cekrezi, 2013; Karadeniz et al., 2011; Khrawish & Khrawish, 2010; Maxwell & Kehinde, 2012; Rajan and Zingales, 1995; Titman & Wessels, 1988). If seen from the data, it has been an increase in total assets the company evenly to all companies. Only companies KLBF are declining assets. While the two companies declined in 2012 and the two companies declined only in 2013, while other companies have increased assets evenly over 3 years. This does not happen in the capital structure. Although the average capital structure has increased for 3 years, but if observed in more detail, it would seem there are 10 companies that experienced a decrease in capital structure for 3 years. There are 9 companies decreased capital structure for 1 year. That is an increase in assets here used by some companies to increase capital structure. But for some companies further increase in assets used to reduce debt to avoid asymmetric information.

**Dividend Payout Ratio (DPR)**
Dividend Payout Ratio (DPR) is hypothesized to have a positive effect on the capital structure. The results obtained showed a positive but not significant influence of the Parliament of the capital structure. These results are not in accordance with the research done by (Jiang & Jiranyakul, 2013; Myers, 1984). Although there is a positive effect, but the results are not significant. This is because almost all of the company decreased the House either for 2012 or 2013. The most drastic decline happen in 2013 where there were 22 companies from 38 companies that do not pay a dividend. While the company's capital structure on average remained elevated. Although there are 19 companies that experienced a decrease in capital structure. So finding that an increase in the dividend will increase the capital structure as described pecking order theory, not proven in this study.

**Short Term Debt / Total Assets (STD / TA)**

The hypothesis for this variable is the positive influence of STD / TA of the capital structure. The results showed significant results of the positive influence of STD / TA of the capital structure. This is consistent with the results of the study (Khrawish & Khrawish 2010; Pahuja & Sahi, 2012; Scott, 1977). This happens due to a decrease in STD / TA on some companies also followed by a decline in capital structure. In contrast to an increase STD / TA in several companies is also accompanied by an increase in capital structure.

**CONCLUSION**

This study wants to examine the factors that affect capital structure. Literature review of the results obtained by the variable profitability, growth opportunity, fixed asset tangibility, size, dividend payout ratio and short-term debt to total assets. But the test results only profitability, tangibility fixed assets and short term debt to total assets that have a significant influence 5%. While the growth opportunity and size variables have a significant influence 10%. While the remaining dividend payout ratio does not have a significant influence.

By looking at the test results influence profitability ratio and growth opportunity, was in Indonesia still adheres to the pecking order theory. This is reinforced by the findings of the positive influence of the House of Representatives, although the results were not significant. It is appropriate and reinforces the findings (Chandra, 2009). However, by looking at the size that showed a significant negative, meaning asymmetric information theory also applies here. So also the result of STD / TA which is a testament to the enactment of a significant positive trade off theory here.

By looking at the results of determination model is only 0.587 or 58.7%, 41.3% means that there needs to be explained by other factors. This is a limitation of the study that needs to be examined again by subsequent researchers. Taking companies LQ-45 was able to represent the company in the stock exchanges of Indonesia. However, with the merger of different sectors, will make it less specific results. Given the characteristics of inter-sector companies have differences. Therefore, it would need to research back the consistency of the results of this research to the sectors more specific.
REFERENCES


