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Capital Structure And Related Problems At Financial Firms That List With Indonesia Stock Exchange

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ABSTRACT

Research object is financial firms that list with Indonesia Stock Exchange. One factor in financial firms that attracts the author is the growth of firms in finance industry that has been dramatically advanced in Indonesia since 2006 to 2013, the role of finance service industry is then becoming very important to push national economic growth upward in this period. Research is aimed to obtain empirical evidences by examining and explaining the effect of profitability, firm size, growth of asset, tax, and business risk, on capital structure of financial firms that list with Indonesia Stock Exchange. Result of this research will give useful information needed by financial firms and investors as reference materials in making decisions and determining policies in the future, and also in contributing to economic science development. Type of research is quantitative descriptive. Sampling technique is *non-probability sampling*. Sample type is *purposive sampling* by which sample is determined by criteria. The use of this sampling technique has obtained 12 financial firms that list with Indonesia Stock Exchange, and these firms become research object. Data analysis is using *multiple regression analysis* with *Ordinary Least Square*. Result of analysis can be described as follows. (1) Five independent variables including profitability, firm size, growth of asset, tax, and business risk, are simultaneously influential positively and significantly to capital structure of financial firms that list with Indonesia Stock Exchange. Capital structure variance has reached 48.3%. (2) Some variables such as firm size, growth of asset, and tax are partially influential positively and significantly to capital structure. Business risk is partially not influential to capital structure. And finally, (3) the variable with the most dominant effect on capital structure of financial firms that list with Indonesia Stock Exchange is profitability. Conclusions of this research that financial firms that list with Indonesia Stock Exchange have bright prospect as shown by firm performance from period 2009 to 2013. Financial firms perform their operation by exercising capital in optimum way to maintain their stability and profitability. In fulfilling capital demand, financial firms use short-term and long-term debts as main alternatives. The principals of financial firms that list with Indonesia Stock Exchange are expected to always give attention to profitability because result declares that profitability is influential dominantly to capital structure of the firms.

INTRODUCTION

Capital composition declared by management may impact firms at least on two aspects, respectively financial aspect and legal aspect. It aligns with Fahmi (2012), Anup and Suman (2010), and Tim C. Opler *et ali*. (1997) they state that, "in financial aspect, high indebted firms will be subjected to the increase of interest cost, but it will reduce tax cost, and therefore, firms' profitability goes upward". However, huge debts may scale up

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business risk, financial disturbance and even bankruptcy. When management releases stocks, then firms need quite big emission cost that unfortunately will suppress profitability.

High indebted firms not only have better potentials of profitability but also encounter big potentials of bankruptcy. As said by Brigham and Houston, "problems related with bankruptcy will rise only if firms' capital structure is fully loaded with huge debts" Brigham and Houston (2011:182).

Preliminary reviews about capital structure are still undergone in several countries and the results are on debate. Scholars attempt to understand factors that influence capital structure of firms in various industries. These factors are independent variables usually related with financial problems such as profitability, firm growth, tax, business risk, firm size, and other factors.

In 2006, asset total of financial firms is IRD 19,858,832,000,000 whereas in 2013, asset total has reached IRD 103,957,147,000,000. In only 7 years, from 2006 to 2013, asset total at financial firms has increased by 423%. By the presence of this increase, the role of finance service industry is then becoming very important to push national economic growth upward in this period. Data of capital structure at financial firms are presented in DAR (Debt to Asset Ratio). This ratio compares debt total and asset total in period from 2007 to 2013, and it is shown in the following table.

Table 1: Capital Structure Development of Go Public financial firms

No	Name of Firms	Debt to Asset Ratio						
		2007	2008	2009	2010	2011	2012	2013
1	PT. Adira Dinamika Multi Finance Tbk.	63%	46%	39%	50%	74%	80%	81%
2	PT. Batavia Prosperindo Finance Tbk.	69%	69%	45%	47%	56%	64%	72%
3	PT. BFI Finance Indonesia Tbk.	52%	62%	36%	50%	55%	56%	59%
4	PT. Buana Finance Tbk.	44%	51%	36%	41%	67%	71%	71%
5	PT. Clipan Finance Indonesia Tbk.	37%	27%	26%	45%	55%	50%	55%
6	PT. Equity Development Invest Tbk.	62%	66%	68%	73%	72%	79%	78%
7	PT. Mandala Multi Finane Tbk.	80%	82%	77%	81%	81%	78%	72%
8	PT. Sinar Mas Multiartha Tbk.	83%	82%	82%	81%	68%	67%	64%
9	PT. Tifa Finance Tbk.	54%	60%	65%	78%	80%	78%	75%
10	PT. Trust Finance Indonesia Tbk.	48%	48%	36%	45%	58%	55%	39%
11	PT. Verena Oto Finance Tbk.	85%	80%	79%	83%	89%	89%	88%
12	PT. WOM Finance	95%	92%	87%	87%	89%	87%	87%
	Average Rate	61%	61%	54%	61%	68%	70%	69%

As indicated by the table above, the average rate of debts used by financial firms in their capital structure has been around 50%. In 2011 onward, DAR composition is always above 68%. It is quite interesting because theoretical base has determined that high indebted firms only amplify their financial risk and even their potentials of bankruptcy. However, go public financial firms often use debt composition into their capital structure. At least, it proves that debts are still selected by Indonesian financial firms as the main element to satisfy their demand for work capital. The annual increase of debt composition also brings along the potentials of bigger profitability to the financial firms, and therefore, firms tend to satisfy their work capital through debts.

The performance of go public financial firms that list with Indonesia Stock Exchange has been favorable as shown by Table 2:

Table 2: Recapitulation of Financial Performance Averages per Year

Variables	2009	2010	2011	2012	2013	Average Rate
Capital Structure	56.30%	63.43%	70.14%	71.17%	69.97%	66.20%
Profitability	7.25%	6.43%	4.75%	3.88%	4.05%	5.27%
Firm Size	12.14	12.30	12.47	12.54	12.58	12.41
Growth of Asset	2.67%	46.63%	49.25%	19.40%	11.26%	25.84%
Tax	24.51%	21.42%	24.80%	26.00%	24.00%	24.15%
Risk	1.03%	1.31%	1.44%	0.82%	0.89%	1.10%

As indicated by table above, the annual average rate of capital structure, shown by DAR, is always above 50 %. For 5 years, the average rate of the use of debt as external capital source is 66.20%. This number is meant as that debt total has exceeded a half of asset total, and it is also shown that financial firms is very easily to decide to take debt to fulfill their demand for capital.

II. Literature Review:

Agency problem may rise in two forms. One is between firm owner (principal) and management (agent), and second is between stockholder and bondholder (credit provider). This agency problem occurs when firm managers maintain less than 100% of firm stocks Brigham and Houston (2006), in Hardiningsih *et ali*. (2012:3) and Nour (2012).

Agency relationship is vulnerable to conflict Anup and Suman (2010), Meyers (1977), in Hardiningsih *et ali*. (2012:3) and Nour (2012). A decision to use free cash flow may also cause a conflict between management

and capital owner. There is a possibility that management indeed requires finance to increase their wealth by expecting that firm performance will improve, thus hereby increasing firm value. However, capital owners may have other opinion, respectively that if free cash flow is used for managerial wealth, the problem is that it will cause improvidence which burdensome the firms. A conflict then occurs between management and capital owners, and thereby, it will increase agency cost Shiam and Tam (2010), and Brigham and Houston (2006), in Hardiningsih *et ali*. (2012:3).

According to Indahningrum and Handayani (2009) in Hardiningsih *et ali*. (2012:3), Shiam and Tam (2010), and Gunarianto *et ali*. (2015), there are alternatives that can be used to reduce agency cost. First is by improving management's stock ownership with the firm. Second is by implementing supervisory mechanism over the firm. Third is by increasing dividend payout ratio. Fourth is by increasing finance with debts.

Several factors are influential to firms' capital structure in certain industry, or also in certain geographic area or group of countries. Doron and Stephen (2003), Krisnan and Moyer in Nanok (2008), Valeriy (2009), Akhtar and Oliver (2009), Bhatti *et ali*. (2010), Chang and Yu (2010), Shiam and Tam (2010), Afsa and Hussain (2011), Karadeniz *et ali*. (2011) and Nour (2012), have examined capital structure in industrialist countries. Although economic character of these countries is almost similar, but in fact, their determinants of capital structure are different. In United States, Japan, Italia and Germany, the influencing variables are profitability and firm size. However, determinant variable in each country is different. United States's determinant variable is tax. In Germany, determinant variable is the cost for research and development. Japan and British concern more with short-term debt because its determination rate is bigger than long-term debt.

Some researches have revealed that profitability has a negative and significant relationship with capital structure. It is consistent with Cespedes *et ali*. (2008), Chen and Strange (2005), Thian (2012), and Yuliati (2010). These researches discover that this relationship is reflecting Pecking Order Theory which states that if firm profitability gets bigger, then internal fund source of the firm will increase, and thus, debt usage may decline because operational cost is compensated sufficiently by the existing cash. It is clearly supported by Cespedes *et ali*. (2008) in Latin America context. High profitable firm will have more tangible assets, but low profitability may force the firm to take more loans. This argument also prevails for firm size.

Different result is given by Hardiningsih *et ali*. (2012), Masdar (2007) and Gunarianto *et ali*. (2014), with their report that profitability is influential positively and significantly to capital structure. As said by Hardiningsih *et ali*. (2012), higher firm profitability will make investor to expect higher dividend, and therefore, the firm is forced to look for additional finance to support the operation, among other by reissuing the debt. Masdar (2007) uncovers that Tradeoff Theory is often identified with profitability of firm that has higher ROI (Return on Investment). Therefore, firm may then search for debt fund source to boost up profitability. However, Indonesia manufacturing firms often have small ROI although it has positive relation with leverage ratio. Masdar (2007) adds that financial performance of these firms is not optimum due to the presence of great debts but without good sale. Consequently, firms are failed to maximize investors' benefits, and it is proved by small ROI. The relationship between profitability with Pecking Order Theory and Signaling Theory is hereby real.

The finding also shows that firm size has a positive relation with capital structure as observed by Masdar (2007), Nanok (2008), Yuliati (2010), Cespedes *et ali*. (2008), and Thian (2012). According to Yuliati (2010), and Cespedes *et ali*. (2008), a relationship between firm size and profitability is positively significant. These scholars have similar theoretical base of why firm size has positive relationship with profitability. Firm size is the extent of which firm asset can determine type and amount of loan. Big firms can obtain debt easily because the possibility of financial distress is smaller. Moreover, Yuliati (2010) explains that firm size that positively and significantly relates with profitability is contrasting against Pecking Order Theory. This theory indicates that the bigger net sale of the firm, the higher debt incurred by the firm. However, relationship between firm size and profitability has conformed to Tradeoff Theory which explains that the bigger the firm is, the smaller is the possibility of bankruptcy, and therefore, more easier to obtain the loan.

According to Chen and Strange (2005), however, firm size is related negatively and non-significantly with leverage ratio. Firms in China tend to use Pecking Order Theory, which firms with higher asset total will have higher profitability, and as a result, these firms will accept huge incoming flow of finance, be hesitant to take additional debt, and often utilize initially internal capital.

Other researches have found that data of growth do not have informative content on DER (Debt to Equity Ratio). One indicative finding is given by Nanok (2008) who observes 326 firms in 2002. Nanok asserts that the finding contrasts with previous researches and hypotheses that the growth of Indonesia firms does not influence capital structure. It is shown by the fact that in 2001-2002, Indonesia firms increase their capitalization in favor of long-term goal or debt restructuring goal. Capital structure change is not directly related with short-term sales growth. Similar opinion is expressed by Yuliati (2010), and growth is not significantly influential to leverage ratio, which means that growth is also not influential to DER. Yuliati examines 122 manufacturing firms from 1995-1996. Result that growth has negative significant relationship with leverage ratio is different from previous

research by Doron and Stephen (2003) which states that firms with higher future growth may reduce their debt usage and shall use bigger equity.

As shown by Cespedes *et ali*. (2008), growth opportunities are positively and significantly related with DER. Chen and Strange (2005) have found that growth of China firms is positively related with DER, but it is not significant. It proves that in Latin America and China, the relationship of both variables is consistent to Pecking Order Theory, which states that the higher prospect of business growth, the greater possibility is that firms will take additional loans. It is closely related with agency cost. According to Pecking Order Theory, as quoted by Chen and Strange (2005), *"On the other hand, the "pecking order theory" argues that high growth firm should issue debt, as debt is a more convincing financing instrument than outside equity financing*. The measurement of *growth opportunities* is based on market value rather than book value of stock price.

Masdar (2007) explains that firm growth is measured from sale growth and also asset growth. In the context of Indonesia manufacturing firms, firm growth is positively related with leverage decision, and it conforms to Pecking Order Theory. According to Brigham and Houston in Masdar (2007), high growth firm is too often using external capital than retained earning. Firms with Pecking Order concept are giving greater emphasis on debt usage rather than issuing new stock. Different finding is shown by Thian (2012) and Hardiningsih *et ali*. (2012), where research variables are negatively related with DER and it conforms to DER. High growth means that firms can maximize the existing funds, and therefore, higher growth may minimize debt increment. Firm growth in Hardiningsih *et ali*. (2012) is a description of business growth or sale growth from year to year. As revealed by Thian (2012), financial firms in China tend to increase their capitalization from debt as their main option when asset growth declines, and also to refrain from taking debt when asset growth improves. It means that financial firms in China are also applying Pecking Order Theory.

In general theory, tax is a saver factor against debt. Many researches have been done on how tax can influence the decision of capital structure made by a firm. Cespedes *et ali*. (2008) in Latin America context have found that tax is negatively and significantly related to DER. It is consistent to Pecking Order Theory, and tax is an idea to influence firm profitability. As also indicated by Chen and Strange (2005) and Thian (2012), in China, tax is negatively related with DER. It contradicts with previous researches and hypothesis that expect for positive relationship. The conclusion of both researches is that tax in China is given negative sign, meaning that tax policy in China is not attractive to the firms intending to increase their debt capital. Developing countries are not always using tax as the determinant of capital structure decision. Research on tax by Thian (2012) is discussing about NDTS (*Non-Debt Tax Shields*) measured from depreciation cost divided by asset total. As reported by Masdar (2007), tax shield effect has non-significant relationship with capital decision. Measurement is done against NDTS (Non-Debt Tax Shields), which means that depreciation rate of manufacturing firms listing with Indonesia Stock Exchange is not sufficiently meaningful to firm cash flow, and therefore, it is not counted within leverage capital decision.

Research on business risk, as confirmed by Yuliati (2010), has revealed that business risk is non-significantly influential to leverage ratio. It contrasts with previous research, where Yuniningsih in Yuliati (2010) has found that high risk firms are negatively and significantly related with capital structure decision because the higher business risk, the greater possibility is that firms will use debt to avoid bankruptcy or payout failure. Different from Chen and Strange (2005), in China, business risk is positively related with DER. It shall differ from previous reaches and hypotheses that expect that a relationship between business risk and DER is negative. As revealed also in Chen and Strange, naturally, business growth may increase with higher business risk. Both variables are unique. Government policy has required that firms listing with stock exchange must be given liquidity protection. Research with positive result is Masdar (2007) and Bhatti *et ali*. (2010) who has found that the measurement of cost of financial distress involves business risk and financial risk. Business risk is positively and significantly related with cost of financial distress. It means that the higher risk is firm bankruptcy, the more courageous is the firm to take debt.

Other research by Thian (2012) in China financial industry has revealed that the relationship between business risk (earning volatility) and debt total ratio is negative. It is consistent to what observed by Qian (2009) in Thian (2012) who infers that firms with retained dividends will accumulate dividends to next year to prevent the occurrence of investor distrust. The higher volatility means the higher business risk of the firm, thus reducing investor trust. It agrees with Pecking Order Theory. Regarding to the relationship between leverage ratio and long-term debt, Thian (2012) has found positive result, similar to Chen and Strange (2005). Governmental protection factor has prevented the bankruptcy of state-owned enterprises, which represent the majority of firms listing in China Stock Exchange. The difference of this current research from previous researches is on the object and the variable researched. The object of research is Indonesia financial firms, whereas research variable involves profitability, firm size, growth of asset, tax and risk.

Problems of research are formulated as follows: (1) Are profitability, firm size, growth of asset, tax and risk simultaneously influential positively and significantly to capital structure of financial firms listing with Indonesia Stock Exchange? (2) Are profitability, firm size, growth of asset, tax and risk partially influential positively and significantly to capital structure of financial firms listing with Indonesia Stock Exchange? and (3)

From profitability, firm size, growth of asset, tax and risk, which one is with the most dominant effect in determining capital structure of financial firms listing with Indonesia Stock Exchange? (2)

The objectives of research are (1) to understand whether profitability, firm size, growth of asset, tax and risk are simultaneously influential positively and significantly to capital structure of financial firms listing with Indonesia Stock Exchange; (2) to recognize whether profitability, firm size, growth of asset, tax and risk are partially influential positively and significantly to capital structure of financial firms listing with Indonesia Stock Exchange; and (3) to recognize which one is from profitability, firm size, growth of asset, tax and risk with the most dominant effect in determining capital structure of financial firms listing with Indonesia Stock Exchange.

Research Methods:

This research is designed to understand what factors are influential to capital structure decision of financial firms listing in stock market. Population of research is financial firms, respectively firms moving in the business of credit conferral to community, which remain outside the realm of bank financial agency.

Based on data of 2009 and 2013, there are 12 financial firms listing with Indonesia Stock Exchange and those have met the criteria. Data analysis technique is multiple linear regression based on several theories of capital structure, such as: *Pecking Order Theory, Tradeoff Theory, Agency Theory* and *Signaling Model*.

RESULTS AND DISCUSSION

Research uses multiple linear regression analysis with Ordinary Least Square. Data are processed with Ordinary Least Square, and the result is described as follows:

Table 3: Result of Calculation from Multiple Linear Regression

Variables	*Unstandardized Coefficient*	Std. Error	t-count value	Partial Corr. Coeff.	Sig.	Remarks
Constant	9.746	7.482	1.327			
Profitability	-2.010	0.418	-4.809	-0.548	0.000	- Significant
Firm Size	9.359	2.934	3.190	0.398	0.002	+ Significant
Growth of Asset	0.156	0.061	2.533	0.248	0.014	+ Significant
Tax	0.366	0.169	2.172	0.212	0.034	+ Significant
Risk	-2.271	1.453	-1.563	-0.153	0.124	Non-significant
R = 0.695	DW Count = 1.664	t–table = 1.674				
R Square (R^2) = 0.483	F Count = 10.108	F–table = 2.39				
Adjusted (R^2) = 0.436	Sig. F = 0.000					
Standard Error Estimate = 12.6028						

Based on table ove, multiple linear regression model is obtained as following:

DAR = 9.746 – 2.010 PROFIT + 9.359 SIZE + 0.156 GROWAS + 0.366 TAX - 2.271 RISK

In general, it informs that five variabels are simultaneously influential to capital structure. Of these five variables, four variables such as profitability, firm size, growth of asset and tax are significantly influential to capital structure. One variable that is not influential to capital structure is risk.

The analysis on regression line precision (Goodness of Fit Test) is made based on coefficient of determination (R^2). Result of regression above indicates that R^2 is 0.483, which mean that variables of profitability, firm size, growth of asset, tax and risk are simultaneously influential in 48.3%.

Based on regression model, regression coefficient for profitability is -2.010. It means that there is negative relationship between profitability and capital structure. Test against firm size has obtained regression coefficient of 9.359. It means that there is positive relationship between firm size and capital structure. Third variable is growth of asset. Result of data processing has found that regression coefficient rate is 0.156. It means that there is a positive relationship between growth of asset and capital structure. Fourth variable is tax. Result of data processing shows that regression coefficient rate is 0.366. It means that there is a positive relationship between tax and capital structure. Those four variables have significance level below 5%.

Fifth variable is risk. Significance level of risk is 0.124 greater than significance level of 5%. It means that risk does not have significant effect on capital structure.

To understand which one of independent variables with the dominant effect on dependent variable, it is important to see partial correlation coefficient of each independent variable. From the result of regression above, it can be seen that the highest partial regression coefficient is profitability with rate -0.548. As shown by Beta (Standardized Coefficients) of each independent variable, there are five independent variables, and profitability has the biggest coefficient, respectively -0.519. It means that profitability is the variable with dominant effect on capital structure of go public financial firms from Period 2009-2013.

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Table 4: Recapitulation of t-test Result

Variables	Hypotheses	Result of t-test	Beta (Standardized Coeff.)	Remarks
Profitability	Positively Significant (H2)	Negatively Significant	-0,519	Dominantly Influential
Firm Size	Positively Significant (H3)	Positively Significant	0,332	
Growth of Asset	Positively Significant (H4)	Positively Significant	0,272	
Tax	Positively Significant (H5)	Positively Significant	0,232	
Risk	Positively Significant (H6)	Negatively Non-Significant	-0,182	Not Influential

Referring to the existing theories, profitability is the ratio of financial performance that describes firm capacity to obtain profit from asset usage. It is represented by ROA (Return on Asset). High ROA firms can ensure that current and fixed assets are available, thus maintaining operational feasibility of the firms. Firms with higher ROA are desirable to investors.

Based on data processed, averagely, ROA of financial firms per year tend to decline. Compared to DAR of financial firms in research period, the following data are obtained:

Table 5: Fluctuation of ROA and DAR in Period 2009 – 2013

Years	ROA Average	Δ ROA ($t - t_{-1}$)	DAR Average	Δ DAR ($t - t_{-1}$)
2009	7.25%		56.30%	
2010	6.43%	-0.82	63.43%	7.13
2011	4.75%	-1.68	70.14%	6.71
2012	3.88%	-0.87	71.17%	1.03
2013	4.05%	0.24	69.97%	-1.20

The above table has described that in financial firms, a decline for ROA is followed by an increase of DAR. Reversely, ROA increases with the declined DAR. It means that when the incoming fund is bigger, net profit is higher. Firms experience capital adequacy and is capable to meet their operational demand. Thus, firms can reduce and also suppress the demand of loan. The converse also prevails. This result supports the findings of Cespedes *et ali*. (2008), Chen and Strange (2005), Thian (2012), and Yuliati (2010). These researches uncover that the higher profitability or internal fund source the firms have, the greater reduction is debt usage because operational cost can be met by the existing cash.

Relationship between profitability and capital structure is negative. Theoretically, it matches with capital structure theories among other is Pecking Order Theory. This theory asserts that firms meet their capital demand by utilizing the existing capital of their own. It means that internal capital will be used first, and if still lacking, firms start looking for external sources to meet the demand. Under the condition of capital scarcity, firms that use Pecking Order Theory will take debt first rather than issuing new stock. As shown this theory, "the intention of firms to determine capital structure is initiated by using internal source and followed by taking low risk debt, and only adding equity (stock) as the last alternative. Managers who take debt or equity are very attentive to capital cost". Myers and Majluf (1984) in Chen and Strange (2005:3) Financial firms tend to increase their debt than to undergo stock issuance. It is reflected by DAR increase while ROA declines. Stock issuance is rarely performed in periodic schedule, whereas debt increment is always happening every year.

Firm size is measured using asset logarithm. Firm size represents the reflection of firm wealth. "Firms with reliable asset useful as the collateral tend to increase their debt. It means that asset structure of firms can be used as a consideration factor in deciding capital structure of the firms" Brigham and Houston (2011:188)

Descriptively, firm size of financial firms is averagely rated in 6.41. There are six or 50% financial firms with firm size above this average. The growth of firm size still can increase by 7.16% from 2009 to 2013. In general, it indicates the higher level of asset of financial firms. Result of data processing has shown that greater firm size means higher capital structure.

It aligns with the findings from Masdar (2007), Nanok (2008), Yuliati (2010), Cespedes *et ali*. (2008), and Thian (2012) who declare that firm size is the size of firm asset that may be useful to determine type and amount of loan because firms with greater asset tend to take loan. Greater firms are often being facilitated to take loan because their financial distress is smaller.

The findings above support Tradeoff Theory. This theory determines that "when capital structure is optimum, firms must develop a balance between *the agency cost of financial distress* and *the tax advantage of debt financing*. Financial distress is a bankruptcy sign that is avoided by any firms. Therefore, to ensure being prevented from bankruptcy, firms usually prepare their wealth as the collateral against the debt to pay. Firms with higher wealth tend to increase debt because additional debt can increase firm wealth. *The agency cost of financial distress* is the cost that must be prepared for capital procurement Saeed (2007) in Yulianti (2010:2). Increasing the loan is becoming main option because its emission cost is lower than issuing new stock. It is chosen because firms with reliable asset as the collateral tend to increase debt. Debt collateral can determine

creditor trust in giving loan to firms that need additional fund. Whether the loan is conferred or not depends on the value of asset used as the collateral, and this value is bet on risk if firm debt is not repaid properly. It also encourages financial firms into believing that they can meet the requirements, thus deciding to increase their capital structure from debt. Therefore, the greater firm size, the greater possibility is that capital structure of financial firms is increased from debt. Conversely, if firm size declines, financial firms will reduce debt composition in their capital structure.

Based on the result of testing, growth of asset is positively and significantly influential to capital structure. This result is consistent with Masdar (2007) and Cespedes *et ali*. (2008) who cite that growth of asset is positively and significantly influential to capital structure, whereas Chen and Strange (2005) concede that growth of asset has positive but non-significant effect.

Tax is positively and significantly influential to capital structure. This finding rejects previous research by Cespedes *et ali*. (2008) who have found that in Latin America, tax is negatively and significantly influential to capital structure. It is supported by Chen and Strange (2005) and Thian (2012) within China context. Masdar (2007) determines that tax protection (*tax shield effect*) has non-significant relation with capital decision. Although there is no previous results of researches supporting result of current research on tax, but theoretical overview of previous researches have supported the current condition.

Such findings also contribute Tradeoff Theory. It is explained in this theory that "relationship between capital structure and firm value will produce optimum leverage rate". This theory also asserts that to obtain optimum capital structure, firms must produce a balance between *the agency cost of financial distress* and *the tax advantage of debt financing*." Saeed (2007) in Yulianti (2010:2) and Carl *et ali*. (2010). *The tax advantage of debt financing* means that firms can take tax advantage as the cost saver against the debt. Theoretical implication concerning with this tax advantage is that firms with higher tax burden will obtain higher tax saver if these firms take greater debt. As reported by Brigham and Houston (2011:188), "the relationship between tax and loan interest is described as that interest rate is a burden that becomes tax reduction". Such reduction is more valuable in high-taxed firms. The higher tax rate is the greater advantage obtained from debt". The following table explains that tax cost can influence net profit (Earning After Tax).

Table 6: EAT, Tax Cost, and EBT of Financial Firms (in thousands)

	2009	2010	2011	2012	2013
EBT	3.446.315	4.655.877	5.666.417	5.054.622	5.832.949
Tax Cost	788.601	876.538	1.042.199	927.447	1.451.687
EAT	2.657.714	3.779.339	4.624.218	4.127.175	4.381.262

Above table shows that tax rate to pay tends to increase every year in observed period. Financial firms under this tax tariff rate tend to meet their demand for business capital through debt. It is evident because interest cost can be tax reducer and may increase net profit. It can be said then that Indonesia tax rate can influence management to increase firm debt to meet the demand for work capital because tax tariff in observed period is unique, respectively that the higher tax rate will increase net profit potentials. It matches with Theory of Modigliani Miller in 1963.

Final variable is risk or business risk. In this matter, business risk is inherent risk rate incurred at firm operation if firms are not using debt. Measurement of business risk can use the variability of projected return on asset (ROA). The higher ROA fluctuation in the future, the greater business risk is.

Pursuant to test result, risk has negative sign, meaning it is negatively but non-significantly influential to capital structure. This result describes a condition that the management of financial firms can make capital structure decision, either increasing or deducing firm debt in observation period, by not giving consideration onto business risk factor because the existing business risk factor is still acceptable by management. In other words, business risk may not be the factor constraining profitability aceheivmen*et ali*though the management knows that *earning volatility* experienced by financial firms is not small after all, and it brings along higher potentials of financial distress due to debt increment. This result aligns with Yuliati (2010) that business risk is non-significantly influential to leverage ratio, which means that this variable is not influential to capital structure.

The researcher's discovery are used to reinforce the theory of signaling and pecking order, and contribution from the result of this reseach are expected to provide information and consideration for financial firms and investors in taking decisions and policy setting in future, especially related to the problem profitability, size, growth of asset, tax, businiss risk and capital structure.

Conclusion:

Based on result of hypothesis testing and discussion given previously, some conclusions are then made:

1. Profitability, size, growth of asset, tax, and risk are simultaneously influential significantly to capital structure of go public financial firms that list with Indonesia Stock Exchange.

2. Profitability, size, growth of asset, tax, and risk are partially influential significantly to capital structure of go public financial firms that list with Indonesia Stock Exchange. The elaboration is given as follows:

a. Profitability has negatively significant effect on capital structure.
b. Firm size has positively significant effect on capital structure.
c. Growth of asset has positively significant effect on capital structure.
d. Tax has positively significant effect on capital structure.
e. Risk (business risk) has negative coefficient sign but it is not influential to capital structure.

3. Profitability is variable with the most dominant effect on capital structure of financial firms that list with Indonesia Stock Exchange.

Research Implications:

The implication from result of this current research is that in performing their operation, financial firms always need optimal capitalization to maintain their stability and profitability of business. In fulfilling the demand for capital, financial firms tend to use debt either short-term or long-term as main alternative of capitalization. It is proved by the fact that 12 (twelve) financial firms have used debt as their biggest share to finance their capital structure, and in average, the debt is always above 50% of all components of capital structure. The precise number of debt if compared to total capital structure in financial firms is 66.20%.

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