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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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**FINDING THE DETERMINANTS OF CAPITAL STRUCTURE: A CASE STUDY OF UK COMPANIES****MUKHIDDIN JUMAEV****M B.A. STUDENT****OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS****UNIVERSITY UTARA MALAYSIA****MALAYSIA****JALAL HANAYSHA****RESEARCH SCHOLAR****OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS****UNIVERSITY UTARA MALAYSIA****MALAYSIA****EMAD EDDIN ABAJI****M.B.A. STUDENT****OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS****UNIVERSITY UTARA MALAYSIA****MALAYSIA****ABSTRACT**

*This paper analyzes the significant of variables that determine capital structure. In addition, it emphasizes how independent variables influences leverage particularly long-term debt. A sample from 905 UK companies was chosen to examine an effect of book value of debt on book value of asset and 750 companies were used to determine the influence of book value of debt on market value of asset. It was found that Profitability, Growth opportunity, and Costs of financial distress have negative relationship with leverage. While firm size, tangibility, business risk, and market to book of asset ratio have positive correlations with capital structure. It was also found that companies which have high profitability and growth opportunity prefer to operate with internal financing activities, high cost of financial distress is constrain to finance from external. By the way, big size companies are able to use more external long-term financing. High tangibility and market to book ratio of asset are helpful to operate external financing activity.*

**KEYWORDS**

Firm size, book value, growth opportunity, business risk, tangibility.

**INTRODUCTION**

Since the 1950s from the 20th century, Western economists launched a wide range of capital structure research. The MM theorem proposed as a starting point the traditional capital structure theory, such as the Modigliani Miller (MM) theory, balance theory, agency theory, asymmetric information theory, control theory. These theories suggested that the optimal capital structure of companies have chosen to have some guidance. There is a gap between theory and reality, and always some unexpected factors influence the choice of capital structure, one after another of these factors were caused the concern of financial and economic scholars and, through case summary or empirical studies to prove these factors on capital structure.

Capital structure theory is the Western contemporary financial theory of the main research results. Capital structure is due to adopt a different method of financing business formation, showing long-term capital for enterprises and the ratio between the composition of the corporate balance sheet on the right long-term debt, preferred stock, common equity structure. Different combinations of various types of financing decisions on capital structure of enterprises and changes. Do capital structures change with corporate value in the kind of relationship? When firms make capital structure of what state the maximum business value? This relationship constitutes the focus of capital structure theory.

This study extends empirical work on capital structure theory. First, it extends the range of theoretical determinants of capital structure by examining some recently developed theories. Second, since some of these theories have different empirical implications with regard to different factors affect capital structure, it is analyzed variables to determine debt to total asset especially on long-term debt. In this study, it is emphasized on the determinant as several ratios that able to get figure from financial statements in companies. Furthermore, it will be used Ordinary Least Square (OLS) to examine relationship between the determinants and capital structure. Lastly, we close with conclusion and suggestions for future research.

**LITERATURE REVIEW**

There have been many scientific works regarding to capital structure by the researchers until now. Gurcharan (2010) studied the capital structure role in developing countries' companies which was taken from Asian Stock exchange index-linked listed. It was resulted that Debt Exempt tax shield of Malaysian companies were negative significance on leverage, and nevertheless, observed positive relationship with firm sizes especially in Indonesian and Philippine companies. As described that theoretical perspectives of capital structure has showed the variables, which are stock market, Gross Domestic Product (GDP) rate are significant relationship with leverage but, the Influence of bank size and inflation rate are also insignificant.

In addition, Korajczyk and Levy (2003) investigated relationship the effect of macro economical variables to the capital structure change. By using as a measure of financial constraints, the result defined hypothesis, which unconstrained firms make moment their matters to match with macroeconomic condition periods but constrained firms are opposite.

Brav (2009) revealed that Evaluation between public and reliance of private types subsidies on debt financing in Great Britain were higher leverage ratios which was defined on reluctance of external capital markets, high willingness to regulate to variation on their capital structures. It was pretended that these distinct are because of more cost of private equity than public since information irregularity and aspiration are for keeping the power.

Regarding to capital structure, Margaritis and Psillaki (2007) analyzed the correlation of both firm efficiency and leverage. The sampled data from 12 240 New Zealand firms were revealed that Firm efficiency was defined as a measure of production facility in industrial organizations and also positive relationship. Moreover, Efficiency influence was positive on leverage beyond the overturn at low Mid Leverage levels, and nevertheless it is negative at high leverage ratios. It was found that firm size effect on leverage as follow: Both Negative and Positive are respectively at low debt ratios and at mid high debt ratios. Influence of both tangibles and profitability is positive on leverage whilst there is negative influence of intangibles and assets on leverage.

Ovtchinnikov (2010) approached five type-deregulated industries which entertainment, petroleum, natural gas, utilities, telecommunications, and transportations in capital structure decisions. Results were that deregulation influenced significantly to the working environment of the firm as well as financing

decisions also. But it was observed that there was considerable impact decreasing in firm profitability, tangible asset and therefore, it was significant raise in growth opportunity by the following deregulation. Firms have achieved it by having decreased leverage ratio. And also, it was observed that there had been considerable impact on cross-sectional correlations between casual factors and leverage. Also, negligible negative Leverage was interrelated with lucrativeness as well as market value to book value. Nevertheless, firm sizes were related positively and matched with capital structure's dynamic tradeoff theory.

Frank and Goyal (2009) surveyed that which factors can have strong relationships in public organizations based on American for the periods between 1950 and 2003 years. From found results that factors are positively related in respectively median industry leverage, tangibility, log of assets and expected inflations and however, negative approach was market to book asset ratio and profit. Moreover, Low leverage is as a result of tending firms which are based on dividend paying. By approaching book leverage, it has an influence on firm size, market to book ratio but are not consistent with inflation rate. They found that book leverage is related with a several theories of capital structure's trade-off-theory.

Additionally, Brounen et al (2006) made investigation internationally amid 313 Chief Financial Officers on arranging capital structure of the company. They approached to learn the way of applying conceptual theories which was applied by UK, Netherland Germany and France professionals. Having result, they contrasted with other result which was done previously in US and the findings are in the pecking order of behavior. Asymmetric Information system doesn't regulate behavior by that time. They considered that generally, the target debt and also, tax cut and bankruptcy cost approves static trade-off theory. In the end, they concluded with that there are negligible differences over the countries in spite of considerable existences of distinction in organizations. They revealed that there were opposing characteristics in private companies to the public companies. As well as, they pointed which was not found any clear details about agency problems in structuring of the company capital.

Hackbarth et al (2006) analyzed the correlation influence of credit risk in terms of macro economical changes and in changing of the capital structure. The research investigation was begun by the scientists while turnover of cash flows were regulated by the economic climate change. This economic position can advantage for firms which can adjust both their financial and default policies in terms of the business procurement process. The study showed that variables which were chosen were considerable impact on company destiny. Remarkably, the created model by the scientists was revealed that it repeated debt levels which were selected and leverage ratio cyclical. In addition, the model also replicated short terms credit structure and lead short term maturity credit spreads for which was considered as a debt contract.

Margaritis and Psillaki (2009) studied about that whether there is any relationship or not between capital structures, ownership structure and firm performance by approaching French based companies. By utilizing non parametric data envelopment analysis, since they tended to check that high performing efficient companies whether they choose more or less debt to form their capital structure. They accepted two opposing hypothesis ideas which were risk efficiency and franchise value measurements. They found that firm efficiency on leverage is correlated positively as well as company ownership equity was originated from the high debt in capital structure.

Booth et al (2001) conducted a research to evaluate the irrelativeness of capital structure theory over the countries with institutions which are diverse type form. The study of capital structure which was taken from 10 developing countries revealed that the influence of identical variables resulted as like as developed states. Their decision conclusion was that capital structure formation greatly remains which having done effect of diverse aspect organizations in spite of approaching to the modern finance theories.

King and Santor (2008) on the other hand, made survey analysis correlation of that whether family ownership impact firm efficiency and capital structure as an example of 613 Canadian firms which period was taken since 1998 until 2005 year. The finding was revealed that there has been a like market performance in these firms which are not family owned. But the firms, which are owned by the family, are not related negatively for the Canadian institution's performance. However, this type of ownership may cause to destabilize firm on value sides.

Furthermore, Desai et al (2004) studied characteristics of capital structure foreign subsidiary and domestic markets of conglomerates. The study showed that higher taxes rates are due to 2.8% higher ratios in debt and assets as well as domestic lend is responsive to the taxes. It was also defined which these institutions are rarely funded externally in countries where was low progressed capital markets and fragile credit privileges. Moreover, it was caused to cost highly getting from the domestic borrowing. Higher borrowing, which was taken from company substitutes in three quarter periods caused to decrease to get fund from outside sources under the capital market environment. Additionally, size has positive correlation with long-term debt to book value of asset ratio and market to book value of asset is able to increase external long term financing capacity (Titman & Waessels, 1988).

Lang et al (1996) demonstrated that growth opportunity has negative effect to leverage because if companies have high growth rate so they will use internal financing rather than debt financing.

Bradley et al (1984) illustrated that cost of financial distress has negative effect on leverage ratio, they argued if companies associate with more financial distress that companies would have high probably default in payment. In addition, Walsh and Ryan (1997) indicated that volatility decrease probability to issue debt.

**METHODOLOGY**

This study used secondary data from academic database in Sultanah Bahiyah library, University Utara Malaysia, which is DATASTREAM from Thomson Reuters that has information similar balance sheet of companies. We got 1588 companies as list on London Stock Market Exchange in every industry in time series period 1998 to 2010. After that, it is used Eviews program to analyze and excluded some incomplete raw data. Therefore, there are around 905 companies were tested by model 1 and model 2 and 750 companies were by model 3.

This study is applied Ordinary Least Square regression method to test correlation between independent variables and capital structure. For dependent variables,

it is tested for overall leverage  $\frac{\text{Book Value of Total Debt}}{\text{Total Asset}}$  in model 1, long-term leverage  $\frac{\text{Book Value of Long-Term Debt}}{\text{Total Asset}}$  in model 2, and leverage  $\frac{\text{Book value of Long-Term Debt}}{\text{Market Value of Asset}}$  in model 3. For details of independent variables as illustrated in TABLE 1.

**TABLE 1: DEFINITION OF INDEPENDENT VARIABLES**

Independent Variables	Measurable	Expectation
1. Profitability (PROFIT)	$\frac{EBIT}{\text{Total Asset}}$	+/-
2. Firm Size (SIZE)	Log of Total Asset	+/-
3. Growth Opportunities (GROWTH)	$\frac{\text{Sales Growth}}{\text{Total Asset Growth}}$	+/-
4. Tangibility (TANG)	$\frac{\text{Tangible Asset}}{\text{Total Asset}}$	+
5. Cost of Financial Distress (EVOL)	Earning volatility = Absolute value of the first difference of percentage change of Operating Income	-
6. Tax Shield Effects (NDTS)	$\frac{\text{Depreciation}}{\text{Total Asset}}$	+
7. Business Risk (RISK)	$\frac{\text{S.D of Operating Income}}{\text{Book Value of Total Asset}}$	-
8. Liquidity (LIQUID)	$\frac{\text{Current Asset}}{\text{Current Liability}}$	-
9. Effective Tax rate (TAX)	$\frac{\text{Total Income taxes}}{\text{Pre Tax Income}}$	+
10. Market to Book value (GROWTHA)	$\frac{\text{Market Value of Total Asset}}{\text{Book Value of Total Asset}}$	-



**REGRESSION MODEL**

This study uses sample data across companies' overtime, which means to apply panel data method. Therefore, it is adopted 3 regressions to examine relationship between leverage and independent variables are;

**Model 1**

$$LEV_1 = \alpha + \beta_1.PROFIT_{it} + \beta_2.SIZE_{it} + \beta_3.GROWTH_{it} + \beta_4.TANG_{it} + \beta_5.EVOL_{it} + \beta_6.NDTS_{it} + \epsilon_{it}$$

**Model 2**

$$LEV_2 = \alpha + \beta_1.PROFIT_{it} + \beta_2.SIZE_{it} + \beta_3.GROWTH_{it} + \beta_4.TANG_{it} + \beta_5.EVOL_{it} + \beta_6.NDTS_{it} + \epsilon_{it}$$

**Model 3**

$$LEV_3 = \alpha + \beta_1.TANG_{it} + \beta_2.RISK_{it} + \beta_3.SIZE_{it} + \beta_4.TAX_{it} + \beta_5.GROWTHA_{it} + \beta_6.PROFIT_{it} + \beta_7.LIQUID_{it} + \epsilon_{it}$$

From models, i and t denote individual company and time dimension respectively. Model 1 highlights on relationship between independent variables and all leverage. Then model 2 testes how independent variables affect to book value of long-term debt as book value of asset is denominator. The purpose of model 3 is to examine correlation between independent variables and book value of long-term debt when book market value of asset is denominator. The next section considers the finding and discussions of the study.

**FINDING AND DISCUSSIONS**

**TABLE 2: DESCRIPTIVE ANALYSIS**

Variables	LEV1	LEV2	LEV3	PROFIT	SIZE	GROWTH	TANG	EVOL	NDTS	RISK	LIQUID	TAX	GROWTHA
Mean	0.1849	0.1196	139911.6	-0.0541	11.0224	-0.8076	0.2342	0.0763	0.0356	0.2496	1.2034	0.2134	0.0034
Median	0.1185	0.0369	320.9646	0.0881	10.8241	0.5170	0.1367	0.0681	0.0224	0.071	0.6969	0.2066	0
Maximum	19.5091	6.5606	27281192	8.0498	19.5112	2593.0730	14.2290	359.4101	18.8569	379.8404	485.6667	173.3333	8.2857
Minimum	0	0	-85082.46	-219.1429	2.6391	-11731.46	0	-534.000	0	0.0006	0.0000	-60.3333	-0.6350
Std. Dev.	0.3765	0.2295	877010.5	2.5974	2.3791	159.5198	0.3406	12.9376	0.2653	4.3521	8.3729	2.6178	0.1134
Observations	8113	8113	8113	8113	8113	8113	8113	8113	8113	8113	8113	8113	8113

Table 2 presents descriptive statistics of all variables in every model. There are 8113 observations by period between 1998 -2010 from DATASTREAM. LEV1, LEV2, and LEV3 are dependent variables as ratio of leverage in difference detail ratio as it was mentioned in previous part. While other variables are, independent variables in these estimations determine capital structure in each model. As it was explained details of these variables in earlier part also. It is illustrated mean, median, maximum, minimum, and standard deviation in this table.

For Table 3 presents correlative coefficients for variables in these estimations. It also indicated significant correlation between variables as mentioned in this table. For instance, SIZE has correlation with every leverage significant at 1% level, while it has correlation with other independent variables as PROFIT, GROWTH, RISK, LIQUID, TAX, and GROWTHA as different significant. In addition, there are other correlations as we show in this table.

**TABLE 3: CORRELATION ANALYSIS**

	LEV1	LEV2	LEV3	PROFIT	SIZE	GROWTH	TANG	EVOL	NDTS	RISK	LIQUID	TAX	GROWTHA
LEV1	0.141735												
LEV2	0.043818	0.052672											
	(52.992)***												
LEV3	24948.48	25923.57	7.69E+11										
	(6.825)***	(11.697)***											
PROFIT	-0.16962	-0.00102	21881.03	6.745484									
	(-15.863)***	(-0.154)	(0.865)										
SIZE	0.03727	0.099367	781785.8	0.731251	5.659414								
	(3.750)***	(16.669)***	(36.401)***	(10.734)***									
GROWTH	-0.43172	0.286613	832247.1	24.516	10.30076	25443.42							
	(-0.647)	(0.705)	(0.535)	(5.338)***	(2.445)**								
TANG	0.009551	0.032039	20915.57	0.013845	0.143563	0.358003	0.115983						
	(6.727)***	(40.473)***	(6.322)***	(1.409)	(16.215)***	(0.593)							
EVOL	-0.04795	-0.022819	-2797.251	0.174411	-0.036056	-2.072326	0.003353	167.3603					
	(-0.886)	(-0.692)	(-0.022)	(0.467)	(-0.105)	(-0.090)	(0.068)						
NDTS	0.002205	0.001577	-871.8236	-0.001619	-0.006677	-0.108912	0.004751	-0.012566	0.070363				
	(1.989)**	(2.334)**	(-0.337)	(-0.211)	(-0.953)	(-0.231)	(4.743)***	(-0.329)					
RISK	0.102072	0.001612	-29974.02	-0.942356	-0.885208	-1.250575	0.028174	0.082664	0.002274	18.93833			
	(5.621)***	(-0.145)	(-0.707)	(-7.535)***	(-7.728)***	(-0.162)	(1.712)*	(0.132)	(0.177)				
LIQUID	0.25172	0.006825	-13387.62	-1.01755	-0.50153	-2.364618	0.046382	-0.222756	-0.00214	1.095161	70.0971		
	(7.215)***	(0.319)	(-0.164)	(-4.219)***	(-2.268)**	(-0.159)	(1.465)	(-0.185)	(-0.086)	(2.708)**			
TAX	0.014616	0.010273	25067.21	0.025634	0.171396	-12.88133	0.005451	0.493751	-0.00094	-0.035292	-0.013435	6.852226	
	(1.335)	(1.540)	(0.983)	(0.339)	(2.479)**	(-2.779)**	(0.550)	(1.313)	(-0.121)	(-0.279)	(-0.055)		
GROWTHA	0.000693	-0.00021	-481.7613	-0.229067	-0.0199	-0.031024	-0.000542	-0.001282	-5.02E-05	0.053456	0.0267	-0.0007	0.012859
	(1.461)	(-0.727)	(-0.436)	(-111.441)***	(-6.661)***	(-0.154)	(-1.263)	(-0.078)	(-0.150)	(9.813)***	(2.533)**	(-0.211)	

\* Significant at 10% level, \*\*significant at 5% level, \*\*\* significant at 1% level

**TABLE 4: REGRESSION ANALYSIS**

Independent Variables	Model 1	Model 2	Model3
1. PROFIT	-0.040772***	-0.000761	-925.4687***
2. SIZE	-0.001664	0.000463	10342.06***
3. GROWTH	-2.56E-06	-4.24E-06**	
4. TANG	0.112139***	0.415222***	795.3153
5. EVOL	-5.61E-05	-1.89E-05**	
6. NDTS	0.017470	-0.000516	
7. RISK			153.1409***
8. LIQUID			-1.051771
9. TAX			6.429752
10. GROWTHA			1535.198***
Observations	9049	9044	7498
R-squared	0.821833	0.921604	0.842847
Adjust R-squared	0.821695	0.921543	0.842679
F-statistics	0.000000	0.000000	0.000000
Durbin-Watson Stat	1.903743	1.783020	1.911036

\*Significant at 10% level, \*\*Significant at 5% level, \*\*\*Significant at 1%level

The empirical result from all three model has revealed that there are 7 variables significantly correlated with leverage as profitability, firm size, growth opportunities (GROWTH), growth opportunities (GROWTHA), tangibility, cost of financial distress, and business risk. It was observed three models gave results for different variables. Some variables as profitability was examined by model 1 and 3 and showed the same result, while tangibility was also tested by model

1 and 2 and also showed the same result. Profitability, growth opportunities, and cost of financial distress are negative relationship with leverage, while firm size, tangibility, business risk, and growth opportunities (GROWTHA) are positive relationship with leverage. In this comparison of model, all models have high  $R^2$ , estimated at 82-92% that means these models have explanatory power on leverage. Further, Durbin-Watson statistics of all model that lies near 2 showed that there are not auto-correlations in these models.

## DISCUSSION

### PROFITABILITY

Profitability has negative correlation with leverage as be tested by model 1 and 3 as significant level 0.01. This result support prior researches that indicate negative relationship between profitability and leverage by Pecking order model as Kester (1986), Friend and Lang (1988), Baskin (1989), Griner and Gordon (1995), Shyam-Sunder and Myers (1999). That means, as the Pecking order theory hypothesise that the companies prefer to issue internal financing by issuing securities rather than external financing. In addition, issuing common stock is process of financing that become free source of finance. From this result, it implies that the companies in UK use equity finance as much as possible because of retaining profit is easy and fast financing.

### SIZE

Firm size has positive relationship with leverage significant level 0.01 examined by model 3. Similarly, The previous researches have found the same result of Marsh (1982), Rajan and Zingales (1995), and Chittenden et al. (1996). These result demonstrated as follow trade-off theory. The expectation of this correlation is, if size is large so it has higher debt capacity especially on long term debt, that mean firm size has positive correlation with long term debt. In addition, large size with long term debt able to reduce transaction cost of debt financing. From this result, the coefficient of firm size is 10342.26 that are able to imply that firm size has highly relationship with long term debt in UK companies; large firms have much proportion of long term debt. Furthermore, there is also probability default in large companies because of proportion of long term debt. While Pecking order theory suggests that firm size should be lower relation with leverage and should issue equity securities rather than debt (Kester, 1986). In addition, Titman and Wassels (1988) indicated there is negative relationship between firm size and leverage.

### GROWTH OPPORTUNITIES (GROWTH)

In this research, there are 2 variables concern about growth opportunities, GROWTH from proportion of sale growth and total asset growth. This variable has negative correlation with significant level at 0.05 by model 2. This result support trade-off theory as Long and Malitz (1985) examined the same result before. The trade-off theory demonstrate that firms holding growth opportunities for create intangible assets and tend to borrow less than firm holding more tangible assets. Myers (1977) and Jensen (1986) demonstrated on agency theory that firms have a tendency to move wealth from debtholder to shareholder because substitution effects and flexibility on investment.

### GROWTH OPPORTUNITIES (GROWTHA)

Growth opportunities (GROWTHA) from proportion of market value of total asset and total asset, has positive correlation at significant level 0.01 by model 3, which support result of prior researchers as Titman and Waessels (1988), Lang et al (1996) on Pecking order theory and signalling model. Wald (1999) confirmed that this relationship was occurred in developed countries except United State. The signalling model demonstrate that companies with the best earning and gross prospects will use the most leverage. Furthermore, Lang et al (1996) argued that the negative correlation between growth and leverage will happen in unknown companies by the capital market only. The implication of UK companies, growth opportunities associate with listed companies are recognise by capital market.

### TANGIBILITY

Tangibility was tested by model 1 and 2 and found the similar that there is positive relationship with leverage at significant level 0.01. This result as follow trade-off theory and Pecking order theory, which has been examined by Long and Malitz (1985), Chung (1993), and Walsh and Ryan (1997). From the result, tangibility has positive correlation with debt especially on model 2, which able to imply that tangible assets are important for bank's credit policy especially on long term debt. In addition, the more proportion of tangibility able to reduce cost of financial distress that occur when there are more intangible asset (Markaritis & Psillaki, 2007).

### COST OF FINANCIAL DISTRESS

Cost of financial distress has negative correlation with capital structure at significant level 0.05 by model 2. This result supports the findings of prior researches by Bradley et al (1984), Friend and Lang (1988), and Walsh and Ryan (1997) with trade-off theory. The theory indicates that if there is high volatility of earning that increase probability of financial distress. So, the companies may not be able to fulfil their debt servicing commitments. The implication from this result, cost of financial distress affect to ability of long term debt financing. That mean if companies have much cost of financial distress, so there are constraints to debt financing such as bank's consideration fund as less than companies' expect, or affect on companies' credit rating as decrease.

### BUSINESS RISK

Business risk was tested by model 3 and find that has positive relationship with capital structure at significant level 0.01. This result is opposite to the expectation of risk according to trade-off theory that demonstrates negative relationship with leverage. Argument from theory, when there is greater risk of bankruptcy cost; the firm will take offsetting action by reducing leverage. In addition, the companies issue long-term debt as bond that attempt to restrict the extent to which equityholder able to pursue risky project that reduce the value of the debt (Jensen & Meckling, 1976). Capital structure theory suggest that firms with large fraction of tangible asset should serve as collateral and reduce risk of the lender suffering the agency cost of debt, that means correlation between tangibility and leverage insisit negative relationship between risk and capital structure.

## CONCLUSION

This paper investigated the determinants of leverage ratio of UK companies. The purpose of this study is a looking for which factors affect capital structure. Therefore, it was used 3 ratios of leverage to be dependent variables, which focus on book value of total debt to book value of total asset in model 1, and especially proper of book value of long term debt by compare with book value of total asset in model 2 and market value of total asset in model 3. It was used 905 UK companies to test in model 1 and 2, and 750 companies to test model 3. The determinants which was applied as independent variables such as profitability, size, growth opportunity, tangibility, cost of financial distress, tax shield effect, business risk, liquidity, effective tax rate, and market to book of asset ratio.

The result, there are 7 independent variables which was affected to capital structure ratio. Profitability, growth opportunity, and cost of financial distress are negative relationship with leverage. While firm size, tangibility, business risk, and market to book of asset ratio have positive correlations with capital structure. From results, it can be implied that the companies, which have more profitability and growth opportunity, focus more on internal financing as prefer to use common stock and retain earning to invest in companies that means they would use less long-term liability to financing in companies. Cost of financial distress is threat of long-term debt because there are volatilities to fulfil debt obligations. In contrast, firm size and tangibility are positive relationship with long-term debt because of there is more debt in big companies, is common sense that able to understand. While there are more tangible assets, is good collateral to finance with long-term debt in companies. For market to book of asset ratio, which results opposed with prior research that this implication is the UK companies, which high market price can make reliable for long-term financing in UK companies. Moreover, for risk, it cannot make implication in this study.

## FUTURE RESEARCH

we consider for the future research to focus more on model 2 and model 3 because variables which have significant correlation in model 1, model 2, and 3. This means that it should interpret relationship between the determinants of capital structure with long-term debt. In addition, we leave for future research to include other variables to determine capital structure in terms of other countries.

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