DETERMINANT OF THE SPEED OF ADJUSTMENT OF THE CAPITAL STRUCTURE OF ISSUERS IN THE BANKING SECTOR

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Abstract

This paper intends to analyze and test the Speed of Adjustment (SoA) of the actual towards optimal capital structure in banks in Indonesia over the year 2013-2022 which are listed on the Indonesia Stock Exchange, focused on how distance affected Speed of Adjustment (SoA). In order to assess the impacts of distance on Speed of Adjustment (SoA) and used panel data estimators as our approach for this study. Data for the years 2013 through 2022 were gathered from 5 companies using their annual financial reports. The result in this research show that profitability, liquidity, and tangibility have significant implications on capital structure of banking sub-sector companies. Meanwhile, firm size, growth, and risk do not have a significant effect on the capital structure of banking sub-sector companies. For the period of 2013 to 2022, the speed of adjustment value for companies in the banking sector listed on the IDX is 76.2%, meaning that it will take 1.3 years for banking sector companies in Indonesia to change their capital structure to optimal. The analysis's findings indicate that distance significantly affects the speed of adjustment, with a higher distance indicating a quicker rate of capital structure adjustment by the company.

Keywords: Adjustment Speed, Capital Structure, Distance.

1. INTRODUCTION

Competition between companies makes companies compete to enhance the financial performance of the business, and of course companies need capital to carry out operations for company expansion (Karlina, 2021). Apart from competition, the worldwide COVID-19 pandemic which has also affected Indonesia, has put pressure on the economic sector, including the national financial sector (CNBC Indonesia, 2021). Because the banking industry serves as an intermediary or intermediary institution that supports the business world's needs for investment funds, the COVID-19 pandemic could pose problems for banking because it causes issues in the real sector or the business world that have the potential to affect banking (theconversation.com, 2020). So the financing decision is a crucial decision because it can directly determine the ability of a company to survive and develop (Pramukti, 2019). A company's funding decisions can be explained through its capital structure (Hendrawan & Nugraha, 2015). Financial decisions that company managers must pay attention to include determining funding sources or capital structures (Watiningsih, 2018).

A company's capital structure is the ratio of its debt and equity applied to finance its operational activities (Hendrawan & Nugraha, 2015). A financial decision is complex because of its relationship with other financial decision variables (Gitman & Zutter, 2015). A problem for managers is to attain and uphold a combination of equity and debt maintain the best capital

combination because the wrong decision regarding the combination of equity and debt can cause the company to experience financial troubles, and the worst outcome is bankruptcy (Rani et al., 2020). Financial managers constantly strive to increase business value, and in order to do so, it's critical to determine the ideal debt-to-equity ratio that will maximise shareholder wealth (Shaw & Rakshit, 2021). A company's capital structure is crucial because it influences profitability, risk, and value (Memon et al., 2021). Research questions in capital structure are always related to the company's optimal maximum capital structure (Sitorus et al., 2014). Thus, a company's capital structure must be at an optimal level, with the aim of maintaining the company's financial flexibility (Adiba, 2022). According to Fauziah et al. (2020), he interests of numerous stakeholders, including investors, creditors, and management, will be impacted by capital structure choices made in. the banking business.

A company's ideal capital structure might change, according to research, and it is currently not possible to give financial managers a suitable methodology for doing so, however financial theory can help with understanding how a company's capital structure affects company value (Titman et al., 2021). According to Gitman & Zutter (2015), the theory regarding capital structure began in 1958 and was put forward by Franco Modigliani and Merton H. Miller, commonly known as the MM theory, it contends that changes to a company's capital structure have no bearing on its value so they do not need to be a focus point for managers. corporate finance, next are trade-off, agency, pecking order, and signaling theory. According from Titman et al. (2021), capital structure theory includes MM theory, trade off. Theory, and agency .theory.

Author will emphasise pecking order and trade off theory more in this study. The debate over modifying long-term leverage targets is one of the distinctions between theory of pecking order and trade-off. The long-term leverage objective will be adjusted with a target capital structure, based on trade-off theory. Meanwhile, pecking order theory asserts that companies choose the funding sources based only on the cost of capital (Sitorus et al., 2014).

Trade-off theory states that savings from debt financing will reduce interest rates, thereby reducing the bankruptcy rate, and vice versa, when a company issues more debt, it will increase the company's bankruptcy rate (Titman et al., 2021). This trade-off approach takes into account a company's ideal level of debt, which is determined by balancing the advantages and disadvantages of growing financial leverage as well as potential sources of these advantages and disadvantages (Nivorozhkin & Kireu, 2020). Using the trade-off theory, businesses might take the leverage target into account and change their course accordingly. (Kythreotis et al., 2017).

Pecking order theory is a theory introduced by Myers in 1984 and states about how companies fund themselves and about the capital structure resulting from the financing chosen by sequential companies (pecking order financing) (Cahyaningdyah, 2017). Pecking order theory predicts that external equity is based on the final source of funding (Hendrawan & Nugraha, 2015). According to pecking order principle, companies will choose internal funding like retained earnings above external financing like debt and stock issues (Gitman & Zutter, 2015).

Fauziah & Iskandar (2015) stated that banking sector plays a significant role in Indonesian economy. The bank's active participation in the capital market is in line with PBI No. 15/12/PBI/2013, it requires banks to raise more capital than the minimum amount required in accordance with their levels of risk, which acts as a safety net in the event of an incident. Financial and economic issues that could jeopardise the stability of the financial system.

Because the banking industry gives a significant role in Indonesian economy, banks need to have a strategy for their capital mix in order to enchance the company's worth and direct operations to achieve an optimal capital structure because it will reflect the bank's state of health and because the share price can be used by the public to judge the company. The factors that determine the capital adequacy ratio are not only restricted to PBI; they also include unique factors for banks that are significant in defining capital structure. A shortage of capital is consistently recognised as the primary contributor to business risk (Fauziah & Iskandar, 2015).

Every business will strive to meet its objectives, which include boosting the owners' and shareholders' wealth by raising the company's worth, where the latter refers to the amount of money investors would be ready to part with if the business were to be sold (Salvatore, 2005). This shows that if the share price goes up, company value will goes up too, and vice versa. This rise is consistent with the expansion of shareholder prosperity if the share price continues to increaseCompany value can affect investors' impressions of the company before they invest their money because it reflects the company's success. One of the factors that can influence company value includes funding decisions or capital structure. Funding problems greatly influence the continuity of a company, so to anticipate this, financial managers must be careful in determining the right capital structure so that it is hoped that it can increase the value of the company (Utomo & Christy, 2017).

The factors that affect banking capital structure have been the subject of many studies in the past. According to Nasrah & Resni (2020), firm size, growth, tangibility, non-debt tax shield, and liquidity are variables that can influenece a company's capital structure. And according to Fauziah & Iskandar (2015) determinants of a company's capital structure are profitability, firm size, growth, and risk.

Adjustment speed is the amount of time required for a business to change its capital structure in order to achieve an ideal combination of debt and equity composition (Robiatun et al., 2021). The idea of SoA comes from a dynamic trade-off theory that is made in order for the business to reach its optimal leverage goals by balancing the advantages of tax breaks with the costs of debt and bankruptcy (Supra et al., 2016). SoA can be influenced by company-specific characteristics, and adjustments vary between companies and between industries (Robiatun et al., 2021). The speed of capital structure adjustment can be an important source of information for managing portfolios for investors (Supra et al., 2016).

Companies can maximise their value by implementing a funding target that balances the benefits received and the costs of the capital structure. However, funding may differ from the ideal capital structure that was initially desired due to elements including asymmetric information, economic instability, and firm peculiarities. This is the motivation for Companies

that make adjustments quickly reflect that The company could decide wisely on its capital structure and improve its value; this will provide a positive signal for investors companies to achieve an optimal capital structure, it ultimately creates a term called "speed of adjustment" (SoA), which describes how rapidly a corporation modifies its ideal capital structure aim (Adiba, 2022). According to (Douch et al., 2015), funding targets cannot be fully observed but can be tested by factors that influence SoA. This research focuses on the impact of distance on SoA (Serrasqueiro et al., 2022). Distance is the discrepancy between the ideal capital structure of a corporation and its actual capital structure. Theoretically, a company's capital expenses will be higher the more apart its actual and ideal capital structures are (Susilawati et al., 2020).

2. DETERMINANTS OF CAPITAL STRUCTURE AND SoA

2.1 Determinants of capital structure

According to several capital structure theories, contend that a company's choice of capital structure is influenced by a variety of determining factors, so this discussion will explain the relationship between profitability, liquidity, tangibility, firm size, growth, and risk on capital structure.

Profitability is the company's ability after paying all expenses and taxes, to generate money (Rani et al., 2020). Profitability and leverage should be positively correlated, according to trade-off theory (Rani et al., 2020; Shaw & Rakshit, 2021). This theory shows that companies with good profits issue more debt because their debt capacity increases and debt issuance provides tax protection (Rani et al., 2020). Profitability and leverage are negatively correlated, according to the pecking order (Rani et al., 2020; Shaw & Rakshit, 2021). In this theory, companies prefer to use retained earnings rather than debt to finance a project (Rani et al., 2020).

Since current assets can be used to pay current obligations even in the worst scenario, the ratio of current assets to current liabilities can be used to assess a company's liquidity. Companies with more liquid assets find it easier to get loans (Rani et al., 2020). In contrast to trade-off theory, which predicts a positive relationship between leverage and liquidity because high liquidity indicates more leverage because it can meet short-term obligations with high cash flow, pecking order theory contends that liquid companies typically use more retained earnings to finance investment projects (Shaw & Rakshit, 2021).

A higher percentage of tangible assets provides more protection for creditors since they serve as valuable collateral. According to the trade-off theory, there is a positive correlation between tangibility and leverage when a company has a higher proportion of tangible assets because this lowers its risk of bankruptcy and allows it to use more debt (Shaw & Rakshit, 2021). Pecking order theory states that companies with more tangible assets are more likely to issue equity and have less information asymmetry (Sheikh & Qureshi, 2017). The total assets' natural logarithm is used to calculate a company's size (Rani et al., 2020). Because larger organisations are often older and benefit from retained earnings, as well as because larger firms with selection concerns can issue stock more readily than smaller companies, pecking order theory predicts a

negative correlation between firm size and leverage, it is generally accepted that larger firms have a lower default risk (Shaw & Rakshit, 2021). Trade-off theory claims that leverage and company size are positively correlated (Rani et al., 2020). The percentage change in sales is used to calculate the growth factor (Rani et al., 2020). According to several studies, growth and leverage are inversely related, which is consistent with the trade-off idea. There are more investment prospects with growing businesses. But higher borrowing levels result in higher costs associated with financial distress, which drives down the ideal ratio. As a result, borrowing capacity is decreased, which results in a bad correlation between them. The pecking order theory, however, indicates a positive correlation between growth and leverage since, in times of expansion, the corporation would not be able to fully fund the project with internal resources, necessitating additional borrowing (Shaw & Rakshit, 2021).

Risk assessment is the evaluation of the risks present in a bank's operations that could have an influence on the financial condition of the bank (Fauziah & Iskandar, 2015). The trade-off argument states that businesses with higher levels of risk pay more for debt financing, which lowers their propensity to use debt. In other words, companies with high income fluctuations run a higher risk of defaulting on their obligations, which could lead to creditors filing lawsuits against the company. In order to mitigate the risk, creditors who believe their capital will be secure with the company demand stronger conditions, which raises the cost of the company's debt financing. Pecking order theory also states that companies with highly profit volatility run a higher risk of not being able to make their annual interest and debt principal payments. As a result, in these circumstances, businesses alter their financing hierarchies to favour internal funding sources and equity over debt. Business risk and leverage ratio show a negative relationship (Kythreotis et al., 2017). Research results (Fauziah et al., 2020; Fauziah & Iskandar, 2015) show that risk factors have no effect on capital structure.

2.2 Speed of adjustment capital structure

Findings from Jalilvand and Harris (1984), who claimed that firm financing behaviour is typified by partial adaptations to long-term capital structure aims, served as the foundation for research on the condition of a capital structure that is ideal or optimal (Memon et al., 2021). However, empirically, companies often deviate from their optimal level of leverage due to economic shocks, which force the company to respond by making capital structure policies that make the company move away from the optimal level of its capital structure, the pecking order theory expressly indicates that companies do not have target leverage, whereas trade-off theory claims that there is an ideal level of capital structure that companies should aim for in order to balance the costs and advantages of their capital structure, so companies do not try to read just the capital structure towards the target when the capital structure deviates from the target (Cahyaningdyah, 2017). Companies that have leverage close to the target will have a slower adjustment rate than companies that have leverage far from the target because the costs of deviation are lower. Overleveraged companies have higher SoA compared to underleveraged companies as a result of higher deviation costs (Dang et al., 2010). Several studies such as Memon et al., (2021); Rani et al., (2020); Shaw & Rakshit, (2021); Nivorozhkin & Kireu, (2020); Khan et al., (2022); Sitorus et al., (2014); Hendrawan & Nugraha, (2015); Kewal

(2018) found that there was an adjustment of the company's capital structure towards the target level with different measures of speed of adjustment depending on the target debt proxy used.

2.3 The effect of distance on SoA

A company that deviates from the desired capital structure will displayed an unbalanced capital structure, which is measured by the difference between the desired debt ratio and the present debt ratio. This distance implies deviation costs (such as bankruptcy costs) as well as restrictive provisions imposed by creditors during credit negotiations (Serrasqueiro et al., 2022). Distance can be measured as the difference in absolute terms among the ideal debt as determined by the fitted value of the firm's fixed effects regression on capital structure determinants and the actual debt (Memon et al., 2021). According to research by Serrasqueiro et al. (2022), distance affects target debt ratio in long-term non-family enterprises positively but negatively affects the speed of adjustment to the target short-term debt ratio in family firms. In family businesses, distance also has a detrimental effect on the desired long-term debt ratio. According to Memon et al. (2021), distance has a detrimental impact on the speed of adjustment. According to Kewal (2018)research, distance has no impact on the SoA to the company's capital structure.

3. METHODOLOGY

3.1. Data and variables

This research uses quantitative methods and descriptive analysis and calculation techniques. The capital structure and speed of adjustment are the research's dependent variables. Meanwhile, profitability, liquidity, tangibility, business size, growth, risk, and distance are the research's independent variables. This research uses purposive sampling.

Variable	Measurement
Capital Structure (Y_1)	$DER = \dfrac{\text{Total Debt}}{\text{Total Equity}}$
Speed Of Adjustment (Y_2)	$\delta_{i,t} = \dfrac{(L_{it} - L_{i,t-1})}{(L*_{i,t} - L_{i,t-1})}$
Profitability ($X1_1$)	$ROE = \dfrac{\text{Net Profit}}{\text{Total Equity}}$
Liquidity ($X1_2$)	$CR = \dfrac{\text{Cash Asset}}{\text{Total Deposit}}$
Tangibility ($X1_3$)	$\text{Tangibility} = \dfrac{\text{Fixed Asset}}{\text{Total Asset}}$
Firm Size ($X1_4$)	$FS = Ln\ (\text{Total Asset})$
Growth ($X1_5$)	$\text{Growth} = \dfrac{\text{Total Asset}_t - \text{Total Asset}_{t-1}}{\text{Total Asset}_{t-1}}$
Risk ($X1_6$)	$LDR = \dfrac{\text{Total Loan}}{\text{Total Deposit}}$
Distance ($X2_1$)	$\text{Distance} = L_{*i,t} - L_{i,t-1}$

3.2 Regression estimation

Quantitative analysis using methods of descriptive statistical computation was the method of data analysis adopted in this study. Stata software is used to process the data for this study, which uses methods for panel data regression analysis. In this study, the optimal leverage for the company is determined using the first of two regression analyses. Calculating the function of the factors influencing capital structure decisions will reveal the company's ideal leverage. The formula to determine the ideal leverage is as follows:

$$L *_{i,t} = \lambda_0 + \lambda_1 PROF_{i,t} + \lambda_2 LIQ_{i,t} + \lambda_3 TANG_{i,t} + \lambda_4 FS_{i,t} + \lambda_5 GROWTH_{i,t} + \lambda_6 RISK_{i,t} + \varepsilon_{i,t}$$

Where:

$L *_{i,t}$: Optimal leverage of company i at time t

$PROF_{i,t}$: Profitability company i at time t

$LIQ_{i,t}$: Liquidity company i at time t

$TANG_{i,t}$: Tangibility company i at time t

$FS_{i,t}$: Firm Size company i at time t

$GROWTH_{i,t}$: Growth company i at time t

$RISK_{i,t}$: Risk company i at time t

ε : Component errors

By including the components that affect the capital structure listed above, the equation used to assess whether the company has modified its capital structure may be written as follows:

$$L_{i,t} = (1 - \delta_{i,t})L_{i,t-1} + \delta_{i,t} \sum_{j=1}^{k} \lambda_j X_{j,i,t} + \varepsilon_{i,t}$$

Hypothesis testing uses the estimated $\delta_{i,t}$ as a sign of capital structure adjustment. Following the criterion, the capital structure adjustment indicator namely if $\delta = 1$ then $L_{i,t} = L *_{i,t}$ actual debt is the same as the optimal debt level. If $\delta < 1$ indicates that the adjustment is still below the ideal level of debt, however if $\delta > 1$ implies that the company has over adjusted (Kewal, 2019). The distance variable is used in this study as a variable that affects the speed of capital structure adjustment. Consequently, the formula that used is:

$$\delta_{i,t} = \beta_0 + \beta_1 DIST_{i,t} + \varepsilon_{i,t}$$

Where:

$\delta_{i,t}$: Capital structure adjustments

$DIST_{i,t}$: The distance between the actual and optimal capital structures of company i at time t

ε : Component errors

4. RESULTS AND DISCUSSION

4.1 Descriptive statistics

This research conducted a double regression test where the first regression showed the results of a study on the capital structure of banks. The following table shows overall findings of the descriptive analysis:

Table 1: Descriptive Statistics

	DER	PROF	LIQ	TANG	FS	GROWTH	RISK	DISTANCE
Mean	5.8166	15.096	11.759	2.9472	20.1784	0.112	79.2666	0.7630705
Min	4.28	2.94	4.74	0.01	18.01	0	54.39	0.0116605
Max	9.86	25.33	15.13	8.42	21.41	0.28	100.68	2.29353
Std. Dev.	1.012682	4.917678	2.237039	1.791738	1.019088	0.060034	11.54172	0.6310409
Obs	50	50	50	50	50	50	50	50

Source: Data processed using Stata (2023)

Table 1 of the analysis displays descriptives of each dependent variable and independent variable. Profitability projected through ROE has a minimum value of 2.94 for the BBNI company, while the maximum value is 25.33 for the BBRI company. The average ROE value for the companies in this study was 15,096, with a standard deviation of 4.917678. The liquidity projected through CR has a minimum value of 4.74 for the Mega company, while the maximum value is 15.13 for the BMRI company. The average CR value for the companies in this study was 11,759, with a standard deviation of 2.237039. The tangibility variable has a minimum value of 0.01, which owned by the BBCA company, while the maximum value is 8.42, which is owned by the Mega company. The average tangibility value for the companies in this study was 2.9472, with a standard deviation of 1.791738. The firm size variable has a minimum value of 18.01, which is owned by the Mega company, while the maximum value is 21.41, which is owned by the BMRI company. The average firm size value for the companies in this study was 20.1784, with a standard deviation of 1.019088. Variable growth has a minimum value of 0 owned by the BBRI company, while the maximum value is 0.28 owned by the BBRI company. The average firm size value for the companies in this study was 0.112, or 12.20%, with a standard deviation of 0.060034.The risk variable projected through the LDR ratio has a minimum value of 54.39 owned by the Mega company, while the maximum value is 100.68 owned by the BMRI company. The average LDR value for the companies in this study was 79.2666, with a standard deviation of 11.54172.

The average value of the leverage ratio is 5.8166; the minimum value is 4.28, which is owned by BBCA in 2019, while the maximum value is 9.86, which is owned by Mega in 2013. Higher debt levels in the long term can result from low agency debt costs. faced by these companies; in addition, the higher average level of long-term debt indicates that these companies are more likely to adopt a long-term strategy, thus relying on this type of financing to meet their needs, namely those related to company growth (Serrasqueiro et al., 2022).

4.2 Fixed effects model

The first stage in carrying out panel data regression is choosing the best model. In this research, the best model chosen was fixed effect model and the outcomes of the performed regression are shown in Tables 2 and 3.

Table 2: Fixed effect model results from the first regression

Variable	Coefficient	Std. Error	t	Prob.
PROF	-0.0800137	0.0205709	-3.89	0.000
LIQ	0.1601515	0.0431001	3.72	0.001
TANG	-0.6981006	0.0677856	-10.30	0.000
FS	-0.22827	0.2689812	-0.85	0.401
GROWTH	1.437309	1.273846	1.13	0.266
RISK	-0.0148438	0.0116816	-1.27	0.211
C	12.82047	6.059987	2.12	0.041

Source: Data processed using Stata (2023)

Table 3: Fixed effect model results from the second regression

Variable	Coefficient	Std. Error	t	Prob.
DER	0.2367901	0.0887477	2.67	0.012
PROF	-0.0482073	0.0200865	-2.40	0.022
LIQ	0.0629026	0.0436712	1.44	0.159
TANG	-0.4973421	0.0756591	-6.57	0.000
FS	0.0650937	0.2637653	0.25	0.807
GROWTH	1.436528	1.093996	1.13	0.198
RISK	-0.0060613	0.0097641	-0.62	0.539
DISTANCE	-0.6560063	0.1888366	-3.47	0.001
C	5.306474	6.101651	0.87	0.391

Source: Data processed using Stata (2023)

4.3 Determinants of capital structure

It has been determined from the outcomes of the data analysis that profitability significantly affects capital structure. The findings fit in regarding the pecking order theory, which postulates that profitability and leverage have a negative relationship (Rani et al., 2020; Shaw & Rakshit, 2021). According to this theory, companies chose to use retained earnings instead of debt to fund projects (Rani et al., 2020). These findings, contrary to the trade-off theory's assertions

that profitability and leverage are positively correlated (Rani et al., 2020; Shaw & Rakshit, 2021), where according to this theory, companies use more debt so that their debt capacity increases and debt issuance provides protection from taxes (Rani et al., 2020).

It has been determined from the outcomes of the data analysis that liquidity significantly affects capital structure. These findings are consistent with the trade-off theory's prediction that there is a positive correlation between leverage and liquidity. This is because liquidity levels are a good indicator of leverage because they show how well a company can satisfy short-term obligations with high cash flows. These findings, however, defy the pecking order theory, which contends that leverage and liquidity are mutually exclusive and that liquid corporations are more likely to finance their investment endeavours with retained earnings (Shaw & Rakshit, 2021).

It has been determined from the outcomes of the data analysis that tangibility significantly affects capital structure, the result also indicate that tangibility has a minus regression coefficient, who consistent in the pecking order theory's assertion if businesses with more assets that more tangible are more likely to own less information asymmetry and consequently, to be more inclined to issue stock. (Sheikh & Qureshi, 2017). These findings, however, defy the trade-off theory, that contends a favourable relationship between leverage and tangibility (Shaw & Rakshit, 2021).

It is known that company size doesn't significantly impact to capital structure based on the findings of the data analysis that has been done. These findings are consistent with peckingorder theory, which states because bigger companies are more likely to be older and benefit from retained earnings, there exists a negative correlation between firm size and leverage. Additionally, larger firms can issue equity more readily than smaller ones because they have fewer selection issues (Shaw & Rakshit, 2021). However, these results contradict the theory that company size is positively related to leverage (Rani et al., 2020).

Growth doesn't significantly impact to capital structure, according to the outcomes of the data analysis that has been done. The pecking order theory and these observations are in agreement, which asserts that growth and leverage are positively correlated. During periods of expansion, businesses may not be able to fully fund projects using internal resources, necessitating increased borrowing (Shaw & Rakshit, 2021). These findings, however, defy the trade-off paradigm that claims there are greater investment opportunities with corporate development. But higher borrowing levels result in higher costs associated with financial distress, which drives down the ideal ratio. It is recognised that risk doesn't significantly impact to capital structure based on the findings of the data analysis that has been done. These findings are relevant in pecking order theory, who states the companies with significant earnings volatility run a higher risk of failing to make their annual interest and debt principal payments. When this happens, businesses alter their finance hierarchies to rely more on internal funding sources and equity than debt. These findings, however, go against the trade-off theory, which holds that companies with higher levels of risk suffer an increase in debt financing; hence, companies don't have a strong propensity to use debt.

4.4 Speed of Adjustment

Regarding on the data analysis findings in the table, it can be deduced that, for the period of 2013–2022, the speed of adjustment in the banking sector is 0.763 (1-0.237) or 76.3%, which can be interpreted as the sector companies banks in Indonesia need 1.3 years to adjust their capital structure in the direction of an ideal capital structure.

Several studies on companies outside Indonesia, namely research conducted by Shaw and Rakshit (2021), show the results that non-financial companies in India have an adjustment speed of 44%, or the time needed to balance the model structure with the optimal model structure, namely 1.18 years. Meanwhile, research executed by Rani et al. (2020) shows the companies in India have an adjustment speed of 10.38% per year. Research executed by Serrasqueiro et al. (2022) shows that companies in Spain show a speed of adjustment of 35%–37% in family firms and 31%–39% in non-family firms. Furthermore, research conducted by Memon et al. (2021) shows that non-financial companies in Pakistan show a speed of adjustment of 44.5%–57.8%, or 1.73–2.25 years. Research on companies in Indonesia, namely that conducted by Kewal (2018), shows that the speed of adjustment for companies in Indonesia is 12.8%, or around 7.81 years. Furthermore, research conducted by Sitorus et al., (2014) shows that the speed of adjustment in telecommunications companies in Indonesia has an adjustment speed of 74.89% within 3 months.

Based on the explanation above, it shows that the outcomes of this research are correspond with several studies, such as Rani et al. (2020); Memon et al. (2021); Shaw & Rakshit (2021); Nivorozhkin & Kireu (2020); Khan et al. (2022); Sitorus et al. (2014); Hendrawan & Nugraha (2015); and Kewal (2018), which found that there was an adjustment of the company's capital structure towards the target level with different measures of speed of adjustment depending on the target debt proxy used. According to Nivorozhkin & Kireu (2020), companies in developing countries have a higher speed of adjustment compared to developed countries, where research results show varying speeds, book leverage ranges from 31-46% while market leverage is from 60-79%.

The research results are also in accordance with trade-off theory, where there is a degree of capital structure that is targeted by companies in order to balance the costs and benefits of their capital structure. Based on this theory, a company that has a speed of 76.2% can mean that every year the banking company earns 76.2% to approach its capital structure target. According to Oino & Ukaegbu (2015), companies strive to achieve their ideal target, namely that when the company is overleveraged, it can pay off its debt or add equity and buy back shares or add debt when the company is underleveraged to get benefits from debt. It can be interpreted that debt can protect profits, control manager activities, and align with shareholders. If a company needs to increase its debt to achieve its target, it tends to take a long time, especially if the company has free cash flow, little pressure to obtain external funds, and the desire to maintain its debt capacity. On the other hand, companies that need to reduce debt to achieve targets tend to need more time. However, transaction costs, including legal and investment banking fees, can discourage companies from adjusting their leverage targets, especially if they are too expensive.

This was also expressed by Dang et al. (2010). Companies that have leverage close to the target will have a slower adjustment rate than companies that have leverage far from the target because the deviation costs are lower. Overleveraged companies have a higher SoA than underleveraged companies as a result of higher deviation costs. It can also be seen that this research has a high SoA value, namely 76.2%, and the average distance value in this research is 0.763, which shows that the average banking company has leverage that is far from their target leverage.

4.5 The influence of distance on the speed of adjustment

According to the outcomes of the data analysis, it is known that distance significantly affects the speed of adjustment. Apart from that, the outcomes of this analysis show that distance has a minus regression coefficient, this implies that the distance and the adjustment speed relationship is inversely proportional; that is, The value of adjustment speed ($\delta_{(i,t)}$) will decrease, or it might be interpreted that the speed of adjustment ($1 - \delta_{(i,t)}$) will be higher, if the gap between leverage and optimal leverage is higher. The distance regression coefficient is -0.656, indicating that every unit raise in the distance value causes a decrease in the adjustment speed value of -0.656. These findings suggest that distance has a positive impact on adjustment speed, with higher distances leading to faster capital structure adjustments by the company. The study by Serrasqueiro et al. (2022) found that distance has a minus impact on speed of adjustment to the target short-term debt ratio in both family firms and non-family firms, as well as a minus impact on speed of adjustment to the target long-term debt ratio in family firms. These findings contrast with the findings of the present study.

Apart from that, this research also contradicts research conducted by Memon et al. (2021), where the speed of adjustment is negatively impacted by distance, and studiey conducted by Kewal (2018), where the speed of the company's capital structure adjustment is unaffected by distance. These findings agree with studies by Serrasqueiro et al. (2022), which indentified that distance has a positive impact on the target long-term debt ratio of non-family firms, and Drobetz & Wanzenried (2004) which found a positive interactions.

The difference in results could be caused by the companies that provided the research samples. According to Kewal (2019), differences in speed can be caused by differences in company characteristics and environments, so adjustment costs are different. When adjustment costs are low, the speed of adjustment will be faster, and vice versa. Serrasqueiro et al. (2022) support this up, where non-family businesses must change more quickly to hit the target in order to prevent financing imbalances and bankruptcy expenses, as the long-term debt ratio's positive impact on SoA indicates that adjustment costs are lower than deviation costs.

The impact of distance on a company's ability to respond quickly in the banking industry. It is known that distance significantly affects the pace of adjustment based on the findings of the data analysis that has been done. Apart from that, the outcomes of this analysis show that distance has a minus regression coefficient, which shows that the relationship between distance and adjustment speed is inversely proportional; that is, if the distance between leverage and optimal leverage is higher, the value of adjustment speed ($\delta_{(i,t)}$) will decrease, or it can be

interpreted that the speed of adjustment will be higher (1- δ_(i,t)). The distance regression coefficient is -0.656, indicating that every unit raise in the distance value causes a decrease in the adjustment speed value of -0.656.

These findings suggest that distance has a positive impact on adjustment speed, with higher distances leading to faster capital structure adjustments by the organisation. The study by Serrasqueiro et al. (2022) found that distance has a minus impact on speed of adjustment to the target short-term debt ratio in both family firms and non-family firms, as well as a negative impact on the speed of adjustment to the target long-term debt ratio in family firms. These findings contrast with the findings of the present study.

In addition, this study disagrees with studies by Memon et al. (2021), which found that distance had a minus influence on the speed of adjustment, and Kewal (2018), which found that distance had no impact on the speed of adjustment to the company's capital structure. These findings concur with studies by Serrasqueiro et al. (2022), which found a positive relationship between distance and non-family firms' target long-term debt ratios, and Drobetz & Wanzenried (2004) which discovered a similar connection between distance and speed of adjustment.

The difference in outcome could be caused by the companies that provided the research samples. According to Kewal (2019), differences in speed can be caused by differences in company characteristics and environments, so adjustment costs are different. When adjustment costs are low, the speed of adjustment will be faster, and vice versa. This is supported by Serrasqueiro et al. (2022) distance has a positive effect on the long-term debt ratio in non-family businesses, demonstrating that adjustment costs are less than deviation costs, so non-family companies need to make adjustments more quickly to reach the target to avoid financing imbalances and bankruptcy costs.

According to the trade-off hypothesis, a company's capital structure must be an ideal mix of debt and equity by weighing the advantages and disadvantages of debt (Shaw & Rakshit, 2021). So the company will try to balance it to achieve its ideal target. According to Oino & Ukaegbu (2015), the company tries to achieve its ideal target, namely that when the company is overleveraged, it can pay off its debt or add to its equity and can buy back shares or add to its debt when the company is in an underleveraged position to benefit from debt. Based on descriptive statistics, it shows that the capital structure projected through DER has a minimum value of 4.28 owned by the BBCA company, while the maximum value is 9.86 owned by the MEGA company.

The average DER value for the companies in this study was 5.8166 with a standard deviation of 1.012682, which shows that the research sample is overleveraged. Apart from that, the sample in this research is banking, where, according to Darajati & Hartomo (2015), the banking sector will tend to fund its operations using debt instruments. According to Sawiyah & Riduwan (2022), the banking sector has different characteristics from the roll sector, where the banking sector tends to have debt that is almost close to its total assets. This is because banks support their activities using debt.

5. CONCLUSION

Conclusions that can be taken from the data analysis's findings:

1. According to the analysis's findings, the capital structure of businesses in the banking subsector is significantly influenced by profitability, liquidity, and tangibility. Firm size, growth, and risk, meanwhile, have little impact on the capital structure of businesses in the banking subsector.

2. The speed of adjustment value for companies in banking sector that listed on the IDX for the 2013–2022 period is 76.2%, which indicates that it will take 1.3 years for banking sector companies in Indonesia to change the capital structure to an ideal one.

3. The analysis's findings indicate that distance significantly affects the rate of adjustment, with a higher distance indicating a quicker rate of capital structure adjustment by the company.

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