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Political Patronage and Capital Structure of Companies in Indonesia

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Abstract:
This quantitative and empirical study examines the effect of coalition political patronage, non-coalition political patronage, and political regimes on the company's capital structure. All companies listed in the Indonesian stock exchange for 2005 to 2018 were the main target population of this study. After using certain criteria such as non-financial companies and complete data, this study analyzes 373 firm-year observations. The data in the form of company annual financial reports are obtained from the Indonesian Capital Market Directory (ICMD). The model used to test the proposed hypotheses is the common effect model with the Ordinary Least Square assumption. The results showed that the three types of political patronage significantly improve the debt used by the companies in the samples. The findings suggest that creditors seem more confident to give loans to the companies having political patronage. The companies do not need to use financing sources such as selling new shares or company profits.

Keywords: capital structure, patronage, political coalition, regime.

印尼公司的政治赞助和资本结构

摘要:
这项定量和实证研究研究了联盟政治赞助，非联盟政治赞助和政治制度对公司资本结构的影响。本研究的主要目标人群是 2005 年至 2018 年在印度尼西亚证券交易所上市的所有公司。在使用某些标准（例如非金融公司）和完整数据之后，本研究分析了 373 个公司年度观察结果。公司年度财务报告形式的数据可从印尼资本市场目录（ICMD）获得。用于检验提出的假设的模型是具有普通最小二乘假设的共同效应模型。结果表明，三种类型的政治赞助大大改善了样本中公司所使用的债务。调查结果表明，债权人似乎更有信心向有政治赞助的公司提供贷款。公司不需要使用融资来源，例如出售新股或公司利润。

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关键词:资本结构，赞助，政治联盟，政权。

1. Introduction

Political patronage is a relationship formed between a politician or a political leader with a company, in which the politician uses the power to assist the company (Lim et al., 2012). Faccio (2006)defined political patronage as a direct or indirect relationship of everyone who has positions in the government or a political institution with a company. The existence of politicians in a company can influence the company by taking advantage of their political positions (Shleifer & Vishny, 1994). Various types of company activities that may be affected include the use of corporate debt (Faccio, 2010; Fraser et al., 2006; Lim et al., 2012), the absorption of labor associated with the politician (Bertrand et al., 2018), lower tax payments (Adhikari et al., 2006; Sudibyo & Jianfu, 2016), easy access to credit(Bencheikh & Taktak, 2017; Dinc, 2005; Johnson & Mitton, 2003)and easiness to obtain various kinds of project contracts from the government (Goldman et al., 2009; Widoyoko, 2018).

Political patronage also has links to capital structures. Capital structure is a description of the debt and equity composition of the company in the long run (Cornett et al., 2018). The existence of political patronage could be an advantage for companies because this will make it easier for companies to get loans in the form of debt or additional equity capital. In Malaysia, it is found that companies with political patronage can carry more debt than companies without it(Fraser et al., 2006). Companies with political connections have easier access to debt (Bencheikh & Taktak, 2017; Johnson & Mitton, 2003). The study conducted by Lim et al.(2012)showed that state-owned companies have more debt than privately-owned companies. Faccio (2006)concluded that companies with political patronage have a higher average debt than companies with no political patronage relationship.

A company has political patronage if its management or board directors connect to the political party that supports a governmental regime. The previous studies have examined the political patronage of the government coalition. However, many firms have management or board of directors from parties that do not support a political regime. Previous studies have not yet examined the issue of capital structure in the context of this non-government coalition. These previous studies have also focused on a particular political regime without comparing it with other regimes. Different political regimes may have different economic policies thus may influence firm capital structure. This study aims to analyze the relationship between political patronage and company capital structure. Theoretically, this study is an extension of the study conducted by Bliss and Gul (2012b), Faccio (2010). Fraser et al. (2006),and Lim et al. (2012). In contrast to previous studies, this study focuses on the political patronage of government coalitions and non-government coalitions and political regimes during a period of government.

2. Literature Review

Capital structure is a combination of debt and equity in a long-term financial structure. Financial literature has presented various definitions of capital structure. Ghosh et al. (2017) defined capital structure as a company's permanent long-term financing mix (or proportion) as represented by debt, preferred stock, and common stock equity. On the other hand, Cornett et al. (2018) defined capital structure as a combination of long-term debt and equity used to finance company operations. As follows from this definition, capital structure is a company's permanent financing which consists of long-term debt, preferred stock, and shareholder equity. Therefore, it can be concluded that capital structure is a comparison or balance between long-term debt and equity, which is usually called a long-term debt to equity ratio or leverage.

Capital structure policies relate to the company financing activities with debt, equity, or a combination of debt and equity. Modigliani & Miller (1963) have developed a theoretical framework that will contribute to a company's financial managers in determining capital structure decisions(Brounen et al., 2006). If the source of funding for a company is obtained from debt, interest payments will occur on the debt obtained. Expenses in the form of interest payments are justified in tax regulations, as a result of which the capital structure encourages the use of debt(Modigliani & Miller, 1963). Regarding this, the various theories of capital structures are developed, namely Irrelevance Theory, Agency Theory, Signaling Theory, Trade-Off Theory, Pecking Order Theory, and Asymmetric Information Theory.

Modern capital structure theory was introduced in 1963 by Modigliani and Miller. They proved that the capital structure of a company does not affect firm value. Modigliani and Miller stated that in perfect market conditions, firm value is irrelevant by the use of debt. Still, the user of debt will be relevant to the existence of taxes. This theory is based on several unrealistic assumptions, including no tax, no brokerage fees, and that it is in the case of buying and selling securities. This generally means that the value of a company has nothing to do with the company's financial resources in financing the company's operations.

Jensen & Meckling (1976a) put forward the agency theory, which stated that an agency relationship is an agreement or contract between owners or more parties and agents on the other. In the owner's interests, there is a transfer of power from the owner to the agent for making various decisions to reduce conflicts of various interests. This agency conflict must be resolved or reduced. As a result of the efforts to resolve or mitigate these agency conflicts, it will automatically result in agency costs borne by both the owner and the agent. According to Jensen & Meckling (1976), there are three agency costs: monitoring costs, bonding costs, and residual loss. Monitoring costs are the costs incurred and charged by the owner in monitoring the agent's behavior to observe and control the agent's actions or behavior. Bonding cost is a form of the fee charged by the agent to ensure and follow a mechanism that ensures that the agent will work in the owner's interests. Furthermore, residual loss describes the sacrifice in the form of a lack of the principal's welfare due to conflicting decisions between the agent and the principal.

Signaling theory occurs when company management takes actions to guide the investors about the company’s prospects in the future, which is called signal (Ross, 1977). Companies that see a favorable prospect will try not to sell shares and try to obtain any required capital by other means, including the use of debt. If the company sells new shares more often, this can result in a decline in share prices because the issuance of new shares is a negative signal that can suppress share prices even though the company’s prospects are good (Brigham & Ehrhardt, 2015). A company that performs well can give signals regarding a high amount of debt in its capital structure. In contrast, companies that are not very well-performed are afraid to use large amounts of debt because if they do, there will be a high possibility of experiencing bankruptcy (Ross, 1977).

The trade-off theory decides the source of financing based on the balance of the benefits of using debt in the form of tax savings and bankruptcy costs on the use of debt. Trade-off theory aims to balance capital from outside the company in the form of debt and capital from within the company (Myers, 1983). The company’s debt will always be increased when the benefits of the debt are still immense, but if the sacrifices when the use of debt is greater, the increase in debt will not be optimal. This theory is evidence that the company does not use debt as much as possible because the interest to be borne by the company is getting higher; thus, it can lead to bankruptcy if it fails to pay the debt. Tax advantages paid due to the use of debt at a certain point will reach a balance with the cost of bankruptcy (DeAngelo & Masulis, 1980). The balance point is the maximum amount of debt.

The Pecking Order theory is based on the assumption of asymmetric information (Myers & Majluf, 1984). They make two main assumptions concerning the managers. First, managers are more aware of the company’s current performance and investment opportunities than outside investors. Second, managers act in the interests of the company’s old shareholders. Myers (1983) put forward the pecking order theory, which states that companies start from the most preferred hierarchy to get funds for company operations. Three hierarchies can be chosen. First, the company uses an internal source of funds obtained from the company’s operational profits. Second, if the funds needed are still lacking, the company will use debt. Third, if it still requires a source of funds, the company chooses the safest securities priority starting from issuing bonds up to the last importance, namely issuing new shares. This theory makes the company not stating how the optimal capital structure, but it ranks the priority policy of funding sources.

Asymmetric information or information inequality is a situation when managers have different information (better information) about the company’s prospects than investors(Brigham & Ehrhardt, 2015). An example of this is a situation where management may think that the share price is currently overvalued. If this happens, the management would think it would be better to offer new shares, as they could be sold at higher prices than they should have. On the other hand, investors will interpret that one of the possibilities that make the company offer new shares is because the current share price is too expensive (according to the management's perception). As a result, investors will bid the new share price at a lower price.

2.1. Political Patronage in Indonesia

Patronage is the distribution of material resources with a specific purpose that will get political rewards through the network of personal power they have (Aspinall, 2013). By definition, political patronage is the relationship between a political leader or politician and a company to use their authority or power to assist affiliated companies (Lim et al., 2012). Companies with political patronage or have relationships with politicians will get many benefits, such as the ease of winning projects if they participate in project tenders (Goldman et al., 2009).

Political patronage has occurred in various countries in the world. Faccio(2006)found evidence that countries such as England, Italy, Germany, Canada, Singapore, and Japan have political patronage practices. Political relations between ruling-owned parties and companies also exist in the United States. In 2000, the presidential election was followed by George W. Bush from the Republican Party and Al Gore from the Democratic Party. When the presidential election is won by the Republican Party, the shares of companies whose directors are related to the Republican Party increase, and the shares of companies associated with the Democratic Party decrease (Goldman et al., 2009).

In Indonesia, political patronage practice has occurred since the era of President Soekarno. At that time, Chinese entrepreneurs and Dutch companies dominated the economy of the Republic of Indonesia. To be equal with Chinese entrepreneurs and Dutch companies, the President provided a kind of protection (Widoyoko, 2018). The Benteng program is a protection given to indigenous entrepreneurs. Having officials or former officials participating in the business world is a hallmark of the Benteng program. Entrepreneurs involved in this program receive special rights in the form of import licenses or contracts to become the capital for indigenous entrepreneurs (Muhaimin, 1991).

The Benteng program was unsuccessful because indigenous entrepreneurs instead traded licenses granted by the government to the Chinese entrepreneurs. This license trading process gave birth to the term Ali-Baba. Ali is a symbol of indigenous entrepreneurs, while Baba is a symbol for Chinese entrepreneurs. Positions at Chinese companies are rewards received by indigenous entrepreneurs as a result of the licensed trade (Brahma, 2018; Muhaimin, 1991; Widoyoko, 2018).

Raymond Fisman (2001)stated that during President Suharto's leadership, political patronage did not disappear. Evidence of political patronage showed when President Soeharto was related to several businessmen such as LiemSioeLiong with the Salim group, Bob Hasan with the Nusamba group, and PrajogoPangestu with the Barito Pasifik group.

During the era of President Susilo Bambang Yudhoyono, many entrepreneurs began to enter the world of politics. At that time, as the Bakrie Group owner, Abu Rizal Bakrie was elected as the chairman of the Golkar Party. The general chairman of the Golkar Party was then replaced by Jusuf Kalla, the owner of the Bosowa Group. To run a stable government, President Susilo Bambang Yudhoyono formed a coalition government that came from various political parties(Habib et al., 2017; Situmorang, 2009)

One of the forms of political patronage that occurred during the leadership era of President Susilo Bambang Yudhoyono was when the athletes' homestead project was built in Palembang city, South Sumatera Province, and Hambalang, West Java Province. The project involved M. Nazaruddin, who at that time was the head of the central committee and treasurer of the Democratic Party, and a member of the People's Representative Council of Indonesia. Nazaruddin's role in the People's Representative Council is also to become a member of the budget body so that he can freely regulate the project to win it through the tenders he participated in (Widoyoko, 2018)

In the first period of President Joko Widodo's era in 2014-2019, entrepreneurs began to re-emerge in Indonesian politics. Entrepreneurs who have sufficient capital do not hesitate to form a new political party or at least become members of an existing one. For example, the owner of the MNC group, HaryTanoesoedibdjo, founded a new political party called Perindo after previously being part of the HanuraParty. Besides, Sandiaga Uno, as the shareholder of PT Saratoga InvestamaSedayaTbk. is also part of the Gerindra party (Khamim & Sabri, 2019; Pardede, 2020).

2.2. Political Patronage and Capital Structure

Political patronage is a concept born from the imbalance of the relationship between the patrons on the one hand and the client on the other. This imbalance is essentially related to different ownership of resources in the community itself (Agustino, 2014). Many researchers have not studied the effect of political patronage on the capital structure. Fraser et al. (2006) stated that political patronage is positively related to the level of leverage which provides empirical evidence that the size of a company's debt can be seen from the company's relationship with politicians or rulers at that time. Furthermore, Bliss and Gull (2012) added that companies connected to political patrons have a positive and significant impact on leverage, which means that companies connected to politicians tend to have very high debt compared to companies that are not connected to politicians. It also has an increased tendency to be audited by well-known public accounting firms because of the high risk of financial information held by companies with political ties, thus causing lenders to charge higher fees for these companies. The study conducted by Bliss & Gul (2012) is also consistent with Lim et al. (2012), who stated that there is a positive relationship between political patronage and capital structure, namely leverage, because based on the available evidence, state-owned companies located in China have more enormous debts compared to private companies.

Research in several countries such as Italy, Germany, Singapore, and Japan stated that political patronage affects corporate debt in these countries (Faccio, 2010). Several pieces of evidence show that political patronage exists in these countries. In Italy, Italian banks provide loans to the Italian Prime Minister Silvio Berlusconi to finance his television media companies through public banks whose loan amounts are beyond reasonable limits (Faccio, 2010). Furthermore, Dinc (2005) found that political patronage causes state-owned banks to provide larger loans compared to privately owned banks in developing countries such as Argentina, South Africa, the Philippines, and Hungary.

In Indonesia, the ties of political patronage with capital structure become the research object of the researchers. The Golden Key business group, which received a $430 million loan from Bank Pembangunan Indonesia (Indonesian Development Bank) during the era of President Soeharto, is an example of a form of political patronage (Leuz & Oberholzer-Gee, 2006)

2.3. Hypothesis Development

This section describes some of the contexts of political patronage and capital structure. The hypothesis developed in this study is based on the literature review and empirical research that has been previously described.

2.3.1. Political Patronage and Capital Structure

The creditor will have more confidence in the debt repayment rate that will be given if the owner or commissioners are the people who support the current government. Olson (1993) stated that the relationship between politicians, in this case, is the existing government that is associated with companies. Government relations, which are a product of the political process of companies, are intended to control the company so that the government's agenda can continue to run smoothly.

Fraser et al. (2006) argued that the relationship of political patronage with capital structure happened in Malaysia, where companies with political patronage have a high rate of debt compared to companies without it. This study is also supported by Lim et al. (2012), who stated that there is a positive relationship between political patronage with leverage because, based on the available evidence, state-owned companies have bigger debts compared to private companies.

The trade-off theory mentioned the benefits of debt. Coalition political patronage in companies gets benefits in the form of easy access to debt. Dinc (2005) argued that there is a relationship between banks as creditors and politicians. In this case, when company owners are affiliated with certain political parties, it is easier to obtain debt because they have access to the current government. Therefore, it is possible to get loans from outside and is easier than companies who are not affiliated with certain political parties. The loans given by the Italian banks to companies owned by Italian Prime Minister Silvio Berlusconi are one proof of the influence of the political patronage of the current government (Faccio, 2010). Based on this, the first hypothesis proposed is as follows:

Hypothesis 1: Government coalition political patronage is positively related to company capital structure.

2.3.2. Non-Coalition Political Patronage and Capital Structure

Political patronage is the use of power in the form of assistance by political leaders or politicians to a company that is associated with the politicians (Lim et al., 2012). The assistance referred to is usually in the form of economic aid, such as ease of obtaining credit or loans. Companies are said to have political patronage or have political connections if there are these conditions: (1) there is at least one of the largest shareholders; (2) there are people who control at least 10% of the total shares with voting rights; or (3) there is one or more directors or commissioners of the company who are government officials such as ministers, members of People's Representative Council, or people who are closely associated with politicians or members of a certain political organization (Agrawal & Knoeber, 2001; Faccio, 2006). All of these political patronages do not have to be the main supporters of the government.

Political patronage theory stated that the existence of patrons would benefit companies through the power network owned by companies even though they are not supporters of the government (Aspinall, 2013). Bliss & Gul (2012) showed a positive relationship between leverage and political parties, as government companies have a high degree of leverage compared to companies whose owners do not come from the government. The study conducted by Khwaja & Mian (2005) found that in Pakistan, companies related to political parties get more debt from loans by government banks, while private-owned banks do not differentiate in terms of providing loans to companies. Political patronage positively affects corporate debt because company access to credit is easier (Bencheikh & Taktak, 2017). Based on this, the second hypothesis proposed is as follows:

Hypothesis 2: Non-government coalition political patronage is positively related to company capital structure.

2.3.3. Political Regime and Company Capital Structure

One of the indicators of political instability is regime change (Alesina et al., 1996). Regime change and the economy are two interconnected things. The change from one regime to the next will result in economic conditions such as the number of third-party funds in savings. Political instability due to regime change may cause public savings funds to decline (Venieris & Gupta, 1986). Leuz & Oberholzer-Gee (2006)stated that the company would divert the source of debt from within the country to abroad if it experiences difficulties establishing communication with the new government. If a government regime has companies associated with the regime, it will easily obtain debt. The regime of Silvio Berlusconi as the prime minister of Italy and the owner of a television company received debts from Italian state-owned banks that exceeded the appropriate limit (Faccio, 2010). This treatment will be different when the regime does not own companies or has any relationship with local companies.

In Indonesia, the process of regime change affects the source of financing. Leuz & Oberholzer-Gee (2006) argued that companies experienced loan difficulties when President Abdurrahman Wahid led Indonesia. This difficulty occurs because there is no political patronage with the elected President. The regime change process after the reform will certainly issue different regulations from the previous government. This will depend on the initial vision and mission of the government and the extent to which development priorities will be carried out during the period of the government administration. Likewise, the change of government from President Susilo Bambang Yudhoyono to President Joko Widodo certainly affected the capital structure of both state-owned and private-owned companies during their respective administration. Based on this, the third hypothesis proposed is as follows:

Hypothesis 3: Political regime positively affects company capital structure.

3. Method

This study is explanatory research, namely research that explains and builds causal relationships between variables and certain phenomena (Ragab & Arisha, 2018). The target population in this study is all companies listed on the Indonesian capital market during the period 2005-2018. The sampling technique is used the purposive sampling method with the main criteria of the availability of data.

The type of data used in this study is secondary data collected on the financial statements of companies that have been registered in the Indonesian capital market during 2005-2018. The information about the companies' annual financial reports was obtained from the Indonesia Capital Market Directory (ICMD). From these data, some variables were used to test the hypothesis that is measured. The variables include dependent variable, independent variable, and control variable. Table 1 shows the variable measurements and their references.

Table 1. Variable measurement and references

Variable	Measurement	References
Capital Structure (SM)	Long-term Debtdivided by Total asset	Cornett et al., 2018; Lim et al., 2012
Coalition Political Patronage (PPolK)	Dummy variable. Value 1 if a company has government coalition political patronage, otherwise 0.	Agrawal & Knoeber, 2001; Faccio, 2006; Romli, 2017
Coalition Political Patronage (PpolNK)	Dummy variable. Value 1 if a company has non-government coalition political patronage, otherwise 0.	Agrawal & Knoeber, 2001; Faccio, 2006; Romli, 2017
Political Regime (RzM)	Dummy variable Value 1 if the political regime of President Susilo Bambang Yudhoyono, otherwise 0	Kamus Besar Bahasa Indonesia, 2010
Control Variable		
Company Age (Age)	Observation year minus the year the company was established	Chen & Strange, 2005
Company Size (Size)	Ln (Total Assets)	Ozkan, 2001
Profitability (Profit)	Earning before Interest/Total Assets	Brigham & Ehrhardt, 2015
Growth (Growth)	Increase in Assets/Total Asset	Akinlo, 2011

The statistical model used to test the three hypotheses is shown in equation 1. From this equation, the coefficient $\beta_1$to $\beta_3$is expected to be positive and significant.

$$SM_i = \beta_0 + \beta_1 PPolK_{it} + \beta_2 PPolNK_{it} + \beta_3 Rzm_{it} + \beta_4 Size_i + \beta_5 Age_{it} + \beta_6 Prof_{it} + B_7 Growth_{it} + e_{it} \quad (1)$$

where:

SM_i = Capital Structure

$PPolK_i$ = Coalition Political Patronage in the observation point i

$PPolNK_i$ = Non-Coalition Political Patronage in the observation point i

Rzm_i = Political Regime in the observation point i

$Size_i$ = Company Size in the observation point i

Age_i = Company Age in the observation point i

$Prof_i$ = Company Profitability in the observation point i

$Growth_i$= Company Growth in the observation point i

e_{it} = error term in the model

4. Results and Discussion

This section describes an overview of the research data in the form of descriptive statistics and hypothesis testing results. Furthermore, a discussion of the test results is presented. The descriptive statistical analysis aims to provide information about the general description of the sample obtained, which includes the minimum value, maximum value, mean, and standard deviation of both dependent and independent variables. Table 2 shows the descriptive data.

Table 3 provides the result of the hypothesis tests. The first hypothesis in this study is supported. This result is in line with the previous study conducted by Fraser et al. (2006) and Lim et al. (2012), who stated that political patronage is positively related to capital structure. This statement indicates that when there is a political patronage relationship, companies tend to have bigger debt than those without a political patronage relationship. This result occurs because the creditors may not hesitate to provide loans due to government intervention. Government intervention on loans may not cause concern for default.

Table 2. Descriptive data

Variables	Mean	Min	Max	Standard Deviation
SM	0.240	0.000	1.650	0.190
Size	15.970	10.330	19.140	1.400
Prof	0.060	-0.880	0.690	0.140
Age	48.90	2.000	201.000	37.390
Growth	0.240	-0.930	16.680	0.930
PPolK	-	0	1	-
PpolNK	-	0	1	-
RzM	-	0	1	-

Table 3. Results of hypothesis tests

Variables	Expected Sign	Coefficient (t-statistics)	Results
C	+-	-0.714 (-6.440)*	
PpolK	+	0.047 (2.145)**	H1 is supported
PpolNK	+	0.208 (6.229)*	H2 is supported
Rezim	+	0.053 (2.768)*	H3 is supported
Size	+-	0.058 (8.902)*	
Prof	+-	-0.153 (-2.263)**	
Age	+-	-0.000 (-2.208)**	
Growth	+-	0.003 (0.372)	

* Significant at 1% level
** Significant at 5% level

However, this result differs from the one found by Faccio (2006), who showed that political patronage is negatively related to capital structure. Faccio (2006) examined the relationship before the political reform in Indonesia. Before the reform, Indonesia was known as only three parties with one dominant political party. After the reform, there was a very extreme multi-party (hyper party) because there were so many political parties (Romli, 2011). These different results may also be due to the use of varying proxy variables, such as the study conducted by Fraser et al. (2006) and Lim et al. (2012). In the previous studies, the variable of political patronage did not differ between the coalition and non-coalition political patronage. The variable of the coalition and non-coalition political patronage used in this study is the characteristic of the political system in Indonesia that does not recognize opposition parties (Romli, 2011).

As expected, the effect of non-government coalition political patronage on company capital structure is positive and significant. This result indicates that political patronage can affect the company for specific purposes (Shleifer & Vishny, 1994), as the existence of non-coalition political patronage results in an increase in the amount of corporate debt. Although not in coalition with the government, the existence of political patronage will make it easier for companies to borrow debts from banks (Bencheikh & Taktak, 2017; Johnson & Mitton, 2003). The bank has confidence in the return on capital lent without any influence from government intervention. This result is supported by the study carried out by Khwaja & Mian (2005), who stated that companies with ties to political parties could obtain more debt than those without political patronage in Pakistan. The results are similar to these findings when using a proxy for long-term debt divided by total equity. This result is also consistent with Faccio (2010) and Fraser et al. (2006). They found that political patronage affects company capital structure because political relations, even though there is no coalition with the government, will provide easier access to corporate debt.

The effect of the government political regime on company capital structure is positive and significant. This result supports the hypothesis because the political regime that becomes the focus of this study is the regime that occurs after the reform. This supports the study from Leuz & Oberholzer-Gee (2006), who compared the regime of President B. J. Habibie and President Abdurrahman Wahid. These two regimes are different since the regime of President B. J. Habibie is still connoted with the regime of President Soeharto (before the reform), while the regime of President Abdurrahman Wahid is the result of the election after the reform. This result is also valid when it is viewed from the company's average debt to the total assets. During the regime of President Susilo Bambang Yudhoyono, the average debt to total assets of companies was smaller than during the regime of President Joko Widodo. The positive effect is also interpreted as the use of corporate debt during the regime of President Susilo Bambang Yudhoyono is greater than in other regimes.

5. Conclusion

This study concludes that the political patron of the government coalition has a positive effect on capital structure. When a company has a coalition political patronage, the non-coalition political patronage of a government and a government regime increases company debt. This finding indicates that an increase in debt occurs when a company has political patronage regardless of the type of patronage. Furthermore, these findings also show that creditors seem confident that the loans given to companies can be repaid. The existence of directors or shareholders with political patronage will also increase the company's debt. Therefore, corporate financing does not need to use other sources such as selling new shares or company profits.

These findings contribute to the capital structure theory, as it adds additional factors (political patronage) that affect the company's capital structure. The effect of this political patronage in Indonesia is grouped into the coalition, non-coalition, and government regime. The grouping of the three types of political patronage has never been studied before.

This result is based on the Indonesian case. However, it might also incur for other developing countries that apply multi-party systems. A further study might validate our findings. This study can also be developed into further research by expanding the concept of political patronage. Political patronage that is not included in the parliament can be used as an alternative proxy for political patronage in companies. The multiparty political system in Indonesia allows for more in-depth discussion.

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