ABSTRACT

This research aims to empirically examine factors that induce companies' capital structure using trade-off and pecking order theories. Analyzed variables are liquidity, business risk, profitability and sales growth.

Samples are 29 banking and financial sectors listed in Jakarta Stock Exchange (JSE) during 2000-2005 resulting 174 observations. Multiple regressions and chow test are used to test hypotheses.

Results of partial test using multivariate analyze show that all variables have positive significantly impact on capital structure at banking and financial sectors. Liquidity and sales growth variables have positive impact on companies' capital structure in line with trade off theory implication and business risk variable have positive impact on capital structure that contrary to trade off theory. Profitability variable that has positive impact on capital structure is contrary to pecking order theory. The theory stated that the higher profitability the more retained returns so capital structure become lower. This means that not all proxies of trade off and pecking order theories could explain capital structure of banking and financial companies listed in JSE.

However, simultaneous test (F-test) shows that simultaneously all four variables do not significantly impact on capital structure. This is due to sampling effect that eliminate / reduce among variables so it became a financial paradox.

Using univariate analyzes, results show 2 (two) variables have impact on capital structure, namely business risks and profitability. Both give positive impact on capital structure.

Results of coefficient homogeneity test, using chow test, show there are no significant different between those two sectors.

Key word: capital structure, trade off theory, pecking order theory, liquidity, business risk, profitability and sales growth, and chow test.