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Testing Pecking Order Theory and Trade Off Theory Models in Public Companies in Indonesia

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Abstract

The purpose of this paper was to test the trade off and pecking order theory of capital structure. We started with identifying variables that influenced capital structure based on both theory. The data in the study were gathered from statistics and annual report of IDX in 2009. There were 46 companies that distributed dividends in 2008 (this year was as the base year to discover the changes) and 2009. Subsequently there were two companies were excluded because the availability of data and the reports were submitted in US Dollars. From 44 companies, there were 28 companies were excluded because there was not any financing deficits and the remaining 16 manufacturing companies were used as samples in this study. Despite the fact these results support the POT model, they were weak to elaborate the POT model as there were only 45.1% of the companies taking financing decision through debt. This can be explained based on market timing theory in the decision making of capital structure.

Keywords: Trade off theory, Pecking order theory, Capital structure.
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