ABSTRACT

This study aims to test the trade off theory and pecking order theory by analyzing the effect of profitability, asset structure, firm size, non-debt tax shield and company growth on capital structure with financial deficits as the control variable. Each proxy used for each variable is profitability with return on equity (ROE), asset structure with fixed assets, firm size with Ln total assets, non-debt tax shield with depreciation and amortization, growth with total assets, capital structure with debt to equity ratio (DER) and financial deficit by subtracting income from expenses.

The population in this study are companies on the main board index and development boards index listed on the Indonesia Stock Exchange (BEI) in the 2014-2018 period, besides that companies must also be listed on the Bloomberg database. Samples were taken using purposive sampling method to produce 705 MBX and 320 DBX company data by time series. The data analysis used is multiple linear regression analysis which includes classic assumption test, hypothesis testing, determination coefficient and chow test.

Based on the results of the analysis, it shows that the MBX variables of asset structure and firm size have a significant positive effect on DER, while the variables return on equity, non-debt tax shield and company growth have no effect on DER, besides the analysis results of the financial deficit control variable also have no effect on DER. From these results it can be concluded that in the MBX company capital structure policy supports the trade off theory. Then the results of the analysis on DBX show that the non-debt tax shield variable has a significant negative effect on DER, asset structure has a significant positive effect on DER but rejects hypothesis 2b, while the variables return on equity, firm size and company growth have no effect on DER, besides that the results financial deficit control variable analysis also has no effect on DER. From these results it can be concluded that in DBX company capital structure policy supports the pecking order theory.

Keywords: trade off theory, pecking order theory, return on equity, asset structure, company size, non-debt tax shield, company growth, debt to equity ratio, financial deficit.