

DETERMINANTS OF CAPITAL STRUCTURE DECISIONS IN INDONESIA

Nirmadarningsih Hiya

nirmadarningsih@gmail.com

Dr Isfenti Sadalia, ME

isfentisadalia@gmail.com

Dr Khaira Amalia Fachruddin, MBA, MAPPI (Cert)

khairaamalia@yahoo.co.id

Universitas Sumatera Utara

We suggest you to cite this article as:

Hiya, N., Sadalia, I., Fachruddin, K.A. 2019. Determinants of capital structure decisions in Indonesia. *Junior Scientific Researcher*, Vol V, No. 1, pp. 38-54.

Abstract

The aims of this study are to examine the effect of return on equity (ROE), current ratios (CR), tangibility, non-debt tax shields (NDTS) and growth opportunities (GO) on the debt to equity ratio of the Indonesian Stock Exchange Manufacturing Sector. This study uses data analysis techniques with multiple linear regression models using a panel data analysis mechanism. The object of this research is manufacturing companies listed in Indonesia Stock Exchange with a span of observational studies is from 2008 - 2012. The sampling technique used was purposive sampling technique. In testing multiple regression models using panel data analysis used a statistical software tool namely E-views series 4. Panel data testing was carried out in 3 tests, namely Pooled Least Squared (PLS) Test, Fixed Effect Model (FEM) and Random Effect Model (REM)

The results of the sample selection are based on 88 companies from the total of 125 companies. Every data from this research is collected from the sources of the Indonesian Capital Market Directory (ICMD). Multiple regression testing begins with testing the estimation of Pooled Least Square (PLS) and Fixed Effect Model (FEM) and the results of the Chow-Test test stated that FEM is better than PLS. Also, Random Effect Model (REM) testing and Hausman showed that REM is a better model in analyzing this research data, so that this study is no longer testing classical assumptions.

Based on the results of the tests conducted, the results show that the research model formed from the independent variable return on equity (ROE), current ratio (CR), tangibility, non-debt tax shields (NDTS) and growth opportunities (GO) affected the debt to equity ratio (DER) in the manufacturing sector of companies listed on the Indonesia Stock Exchange in the period 2008 to 2012. Also, partially variable which has a significant effect and in accordance with the theory is only the ROE variable where the variable has a negative effect.

Keywords: debt to equity ratio, Data Panel, Capital Structure, Random Effect

JEL Classification: G29, G 30, O44