FACTORS THAT INFLUENCE CAPITAL STRUCTURE OF INDONESIAN FIRMS IN CONSUMER GOODS INDUSTRY AT THE JAKARTA STOCK EXCHANGE.

Hendra Wijaya 0700674731

Abstract

Objectives

Basically, this is an empirical study regarding the factors that influence the capital structure. This study has several objectives to be accomplished. The main objective of this research is to determine several factors that expected have impact to the capital structure of companies in Indonesia. Each factor will be tested in order to figure out is there any relationship with leverage of companies or not. Secondly, this study also examines the financial data that used to proxy each independent variable. The last objective is to analyze how those factors influence the capital structure of companies in Indonesia.

Method

The method used in this study is content analysis. The sample of analysis includes 34 companies which involve in consumer goods industry in Indonesia that officially listed in Jakarta Stock Exchange.

Results and Conclusions

The preliminary and tentative findings of this study conclude that first of all, there is a significant relationship between the growth of companies and the leverage. Second, the size of companies is not significantly related to the leverage. Third, there is no significant correlation between the company’s profitability and the leverage. Fourth, there is no significant relationship between the operating risk and the leverage of companies. Fifth, the level of payout of companies is not significantly related to the leverage. Sixth, growth is the only factor that determines the capital structure of companies. Seventh, there are seven financial data that used by the writer in order to proxy each variable. Finally, based on the statistical result, growth does have influences to the capital structure of consumer goods companies in Indonesia.

Key words

Capital structure, influence, consumer goods industry, Indonesia.
Preface

First of all, the writer would like to express his gratitude to God for the blessing and guidance regarding the completion of this thesis. This thesis titled FACTORS THAT INFLUENCE CAPITAL STRUCTURE OF INDONESIAN FIRMS IN CONSUMER GOODS INDUSTRY AT THE JAKARTA STOCK EXCHANGE is prepared to fulfill the final requirements in order to obtaining the Sarjana Degree from the Accounting School of Bina Nusantara University.

At this opportunity, the writer would like to thanks the following for their contribution and help regarding the completion of this thesis:

1. Mr. Firdaus Alamsyah as the Chief Executive Officer of the Joseph Wibowo Center.
2. Mr. Minaldi Loeis as the Program Director of Bina Nusantara International.
3. Mr. Dezie Leonarda Warganegara as the head of Accounting School of Bina Nusantara International and also as the enormous supervisor for the writer. The writer would like to say lot of thanks for his wonderful support and guidance during the completion of this thesis.
4. Mr. Dominique Razafindrambinina, the deputy of Accounting School of Bina Nusantara International for his support and guidance.
5. Mrs. Ersa Tri Wahyuni for her support and kindness for all these times.
6. Lecturers and staffs at Bina Nusantara International for the academic support.
7. Accounting class of 2006 and 2007i for the wonderful moment of friendship and for the togetherness that we have shared.

8. Beloved parents for their never ending love and supports.

9. Beloved sister for her support and help.

10. Friends in Bina Nusantara International for the friendship and supports.

11. The Writer’s friends in Jakarta for their supports and help.

The writer hopes that this thesis would be useful for future references in the field of Capital Structure. Furthermore, the writer realizes that this thesis is far away from perfect, thus any critics and suggestions would be very much appreciated. Finally, the writer hopes that this thesis may bring benefits to the fellow students and readers.

Jakarta, February 15th 2008

The Writer

Hendra Wijaya
TABLE OF CONTENTS

Cover Page .........................................................................................................................................................i
Title Page ..........................................................................................................................................................ii
Certificate of Approval for Softcover copy .................................................................................................iii
Statement for Readiness in Attending Defense Examination.................................................................iv
Statement of Examiner .................................................................................................................................v
Abstract ............................................................................................................................................................vi
Preface ..............................................................................................................................................................vii
Table of Contents ...........................................................................................................................................ix
List of Tables ................................................................................................................................................xii
List of Figures ................................................................................................................................................xiii

CHAPTER 1  INTRODUCTION .................................................................................................................1

1.1 Background ...............................................................................................................................................1
1.2 Scope of analysis .......................................................................................................................................3
1.3 Aims and Benefits .....................................................................................................................................3
1.4 Research Hypotheses & Questions .........................................................................................................5
1.5 Research Methodology ...........................................................................................................................6
1.6 Thesis Structure .........................................................................................................................................6

CHAPTER 2  THEORETICAL FOUNDATION ...............................................................................................9

2.1 Irrelevance of Capital Structure ...........................................................................................................12
2.2 Tax Benefits of Capital Structure .........................................................................................................13
2.3 Financial Distress ...................................................................................................................................14
CHAPTER 3  RESEARCH METHODOLOGY ..............................................21

3.1 The Research Hypotheses and Research Questions ..............................21

3.2 Variable and Research .........................................................................24

3.3 Time and Place .....................................................................................26

3.4 Purpose of the Study ...........................................................................26

3.5 Type of Data Used ................................................................................26

3.6 Data-Collection Method .......................................................................28

3.7 Research Methodology .........................................................................28

3.8 Data Analysis Method ..........................................................................29

3.9 Data Interpretation ...............................................................................31

CHAPTER 4  FINDINGS AND DISCUSSION ..............................................34

4.1 Descriptive Statistics ...........................................................................34

4.2 Hypotheses Tested ................................................................................36

4.3 R Square .............................................................................................36

4.4 F Test ....................................................................................................38

4.5 T Test ....................................................................................................40

4.5.1 First Hypothesis .............................................................................41

4.5.2 Second Hypothesis ........................................................................43

4.5.3 Third Hypothesis ...........................................................................44

4.5.4 Fourth Hypothesis ..........................................................................45

4.5.5 Fifth Hypothesis .............................................................................47
4.6 Summary of the Findings ................................................................. 48
  4.6.1 First Question ........................................................................ 49
  4.6.2 Second Question ................................................................. 49
  4.6.3 Third Question .................................................................... 50

CHAPTER 5 CONCLUSIONS AND RECOMMENDATIONS ............. 51
  5.1 Conclusions ............................................................................ 51
  5.2 Recommendations ............................................................... 52
  5.3 Limitations ............................................................................. 52
  5.4 Avenue for Further Research .................................................. 53

REFERENCE .................................................................................... 54

CURRICULUM VITAE ....................................................................... 57

APPENDICES .................................................................................. 58
LIST OF TABLES

Table 3.1 List of Sample Companies .................................................................27
Table 3.2 Data of Variables .........................................................................32
Table 4.1 Descriptive Statistics.................................................................34
Table 4.2 Model Summary Results for $r^2$ ............................................37
Table 4.3 Summary of Regression Results for $r^2$ .................................37
Table 4.4 Regression Results for F Test .................................................39
Table 4.5 Regression Results for T Test ..................................................42
LIST OF FIGURES

Figure 2.1 Static Trade-Off Theory Graph...............................................................17