SUMMARY

TAJUDIN NOOR. Testing on Pecking Order Theory and Analysis of Company's Characteristic Effects on Emitten's Capital Structure. Supervised by BONAR M SINAGA and NUR TB AHMAD MAULANA.

Agricultural sector in Indonesia is one of the sectors having an important roles in national development. However, it is found that the amount of lending from commercial banks for agricultural business field is low. Financial Stability Review published by Bank Indonesia also states that the leverage ratio in agricultural sector in the period of 2001-2009 shows declining trend. The low leverage ratio in the agricultural sector indicates that the use of external funds through debt are still low.

In order to meet the needs of the fund, companies must look for alternative funding sources through optimal capital structure policy. Optimal capital structure occurs when the specified capital structure can minimize the cost of capital use or the average capital cost. The company's capital structure can be recognised by the amount of the composition of long-term debt, short-term debt, preferred stock, and common stock used to fund the operations of the company.

Pecking order theory states that hierarchy fundings based on the cheapest cost coming from internal fund, then followed by the external (debt and shares) is needed due to determine the capital structure. Corporates using funding sequences are considered of having good prospects if the debt option is executed, it will increase financial risks. While, the stock selling option is applied, operational cost will rise dramatically. Therefore, the usage discretion between those two sources is completely needed.

Interestingly, study about optimized capital structure in the company has been conducting for many years, but it is still being discussed attractively until now. This prompted the researcher to analyse the implementation of pecking order theory in determining the company's capital structure policy in the agricultural sector. The research uses panel data regression analysis of pooled least square (PLS) to analyse the implementation of pecking order theory, by using deficiency of internal fund as independent variable and long-term debt as the dependent variable.

This study also analyses the influence of company'scharacteristics to capital structure by using panel data regression analysis method offixed effect model (FEM). Independent variables used in the researchare profitability, company's size, growth, structure of assets, and liquidity, as well as the independent variables is leverage. This research is important due to the company's capital structure policy will directly affect on the company's financial.

The proof of pecking order theory show that deficiency of internal fund significantly positive effect on the changes in long-term debt at 10% significance level. While the results of the regression analysis between the company'scharacteristics (profitability, company size, growth, structure of assets, and liquidity) and capital structure indicate that company size and growth of the company have significantly positive effect on the capital structure, but profitability and liquidity have significantly negative effect on the capital structure. By contrast, the structure assets do not have a significant effect on leverage at 10% significance level.

It can be concluded that the emitten in the agricultural sector has followed the rules of the pecking order theory through the use of external sources of funding (debt). The analysis also provides an overview for managers in the agricultural sector to control the company's characteristics, particularlyon its size, profitability, growth, and liquidity in order to optimize the company's capital structure.

Keywords: agricultural sector emitten, capital structure, company's characteristics, pecking order theory