



ABSTRACT

Capital structure theories which have been known are pecking order theory and trade-off theory. Pecking order is a kind of capital structure model which prefer internal fund to external fund and debt to equity if external funds are needed. While trade-off theory explains that optimal capital structure is reached when the tax advantage of borrowing is balanced by cost of financial distress.

The research tested pecking order theory independently to look further the explanatory power of model on explaining the financing behaviour in Indonesia especially company which included in LQ45 index. This research analyzed 27 non-financial company which included in LQ45 index for the periode of 2004-2008. This research's coefficient have been estimated with OLS (Ordinary Least Square) method.

From the final result of the research showed that financing behaviour in Indonesia can not be explained by pecking order theory at the significant level because there are four hypothesis that not suitable with that theory from six hypothesis that have already tested for this research. Furthermore, the result showed that pecking order theory did not fully consistent with the research hypothesis and also with the final result of previous research that have already existed

Keywords : Capital structure, Financing behaviour, Pecking order theory