ABSTRACT

A sufficient source of funding is needed to make the company able to run its business activities. The decision to decide which source of funding that will be used by the company can be explained by the capital structure theory, for example the pecking order theory which is stated by Myers and Majluf (1984). This theory stated that a company prefers to use a source of funding that came from the internal of the company, if there is any deficit situation then the company will decide to look for other source of funding from the outside of the company. This research is conducted to test whether or not the pecking order theory occurs in telecommunication industry in Indonesia and also its speed of adjustment.

Using the purposive sampling method and taking 7 years period of data collection from 2006 up to 2012, the data is gathered from the companies' financial statement. The data is analyzed using the random effect model of Hausman test with interest bearing debt as its dependent variable and deficit as its independent variable.

Based on the result of Hausman test the random effect model is used to analyze the data with14.51% probability and the result from this model has a power to reject the null hypothesis. It shows that pecking order theory is not applied in the telecommunication industry in Indonesia, since the coefficient value of pecking order, 0.716165, is less than the value of its constant with 0.7726119. It also discovered that the companies in the industry adjust towards the target capital structure at a moderate speed with 2.45 years average.

Keywords: Capital Structure, Pecking Order Theory, Speed of Adjustment, Financing Decision