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How firm characteristics affect capital structure: an empirical study

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Purpose

The aim of this study is to isolate the firm characteristics that affect capital structure.

Design/methodology/approach

The investigation has been performed using panel data procedure for a sample of 129 Greek companies listed on the Athens Stock Exchange during 1997-2001. The number of the companies in the sample corresponds to the 63 per cent of the listed firms in 1996. The firm characteristics are analyzed as determinants of capital structure according to different explanatory theories. The hypothesis that is tested in this paper is that the debt ratio at time *t* depends on the size of the firm at time *t*, the growth of the firm at time *t*, its quick ratio at time *t* and its interest coverage ratio at time *t*. The firms that maintain a debt ratio above 50 per cent using a dummy variable are also distinguished.

Findings

The findings of this study justify the hypothesis that there is a negative relation between the debt ratio of the firms and their growth, their quick ratio and their interest coverage ratio. Size appears to maintain a positive relation and according to the dummy variable there is a differentiation in the capital structure among the firms with a debt ratio greater than 50 per cent and those with a debt ratio lower than 50 per cent. These results are consistent with the theoretical background presented in the second section of the paper.

Originality/value

This paper goes someway to proving that financial theory does provide some help in understanding how the chosen financing mix affects the firm's value.

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