

DETERMINANTS OF CAPITAL STRUCTURE: EVIDENCE FROM SHARI'AH COMPLIANT AND NON-COMPLIANT FIRMS

Source: Yildirim, Ramazan and Mohammed Masih, Abul Mansur and Bacha, Obiyathulla Ismath. (2018). Determinants of capital structure: evidence from Shari'ah compliant and non-compliant firms. *Pacific-Basin Finance Journal*, 51, pp. 198-219.

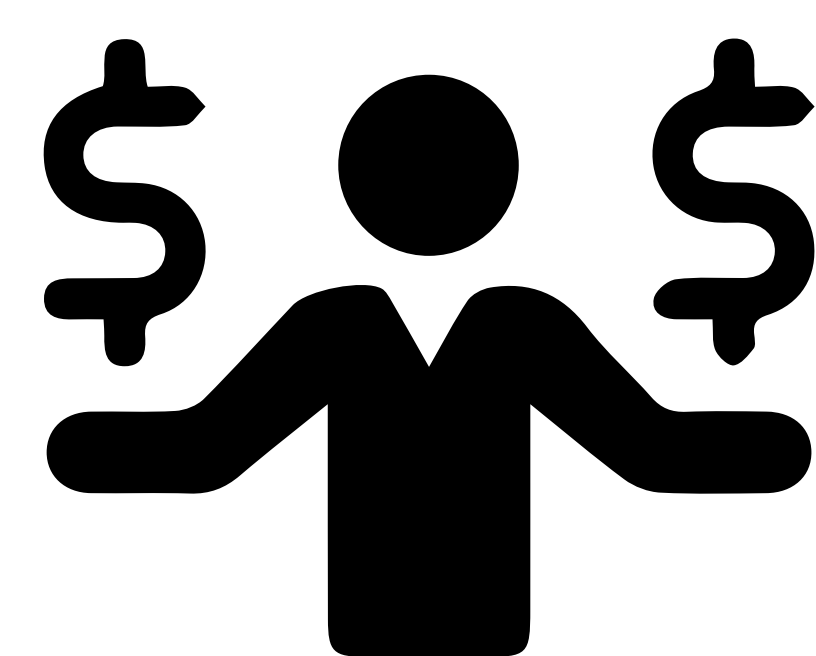
FIND OUT MORE AT INCEIF KNOWLEDGE REPOSITORY (IKR)

<https://ikr.inceif.org/handle/INCEIF/2970>

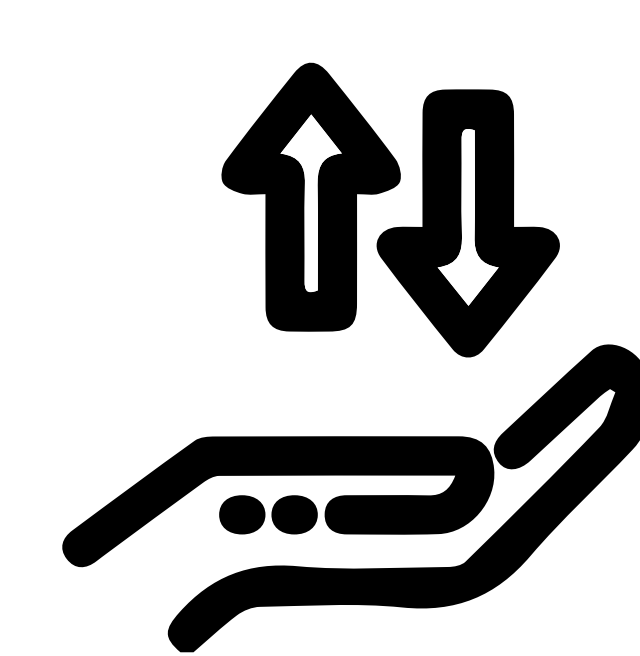
INTRODUCTION



Capital structure is the mixture of debt and equity capital of a company.



Theories of capital structure seek to provide a framework for understanding how financing decisions are made.



The main theories for capital structure are Trade-Off Theory and Pecking Order Theory.



During the last decades, Islamic finance experienced enormous growth and innovation within the currently global (conventional) financial industry.



Many individual and institutional investors, mainly from Islamic countries, seek to invest only in stocks that are compliant with the Shari'ah (Islamic law).

DETERMINANTS OF CAPITAL STRUCTURE FOR SHARI'AH COMPLIANT (SC) AND SHARI'AH NON-COMPLIANT (SNC) FIRMS

Growth Opportunities

Tangibility

GDP Growth



Profitability



Firm Size

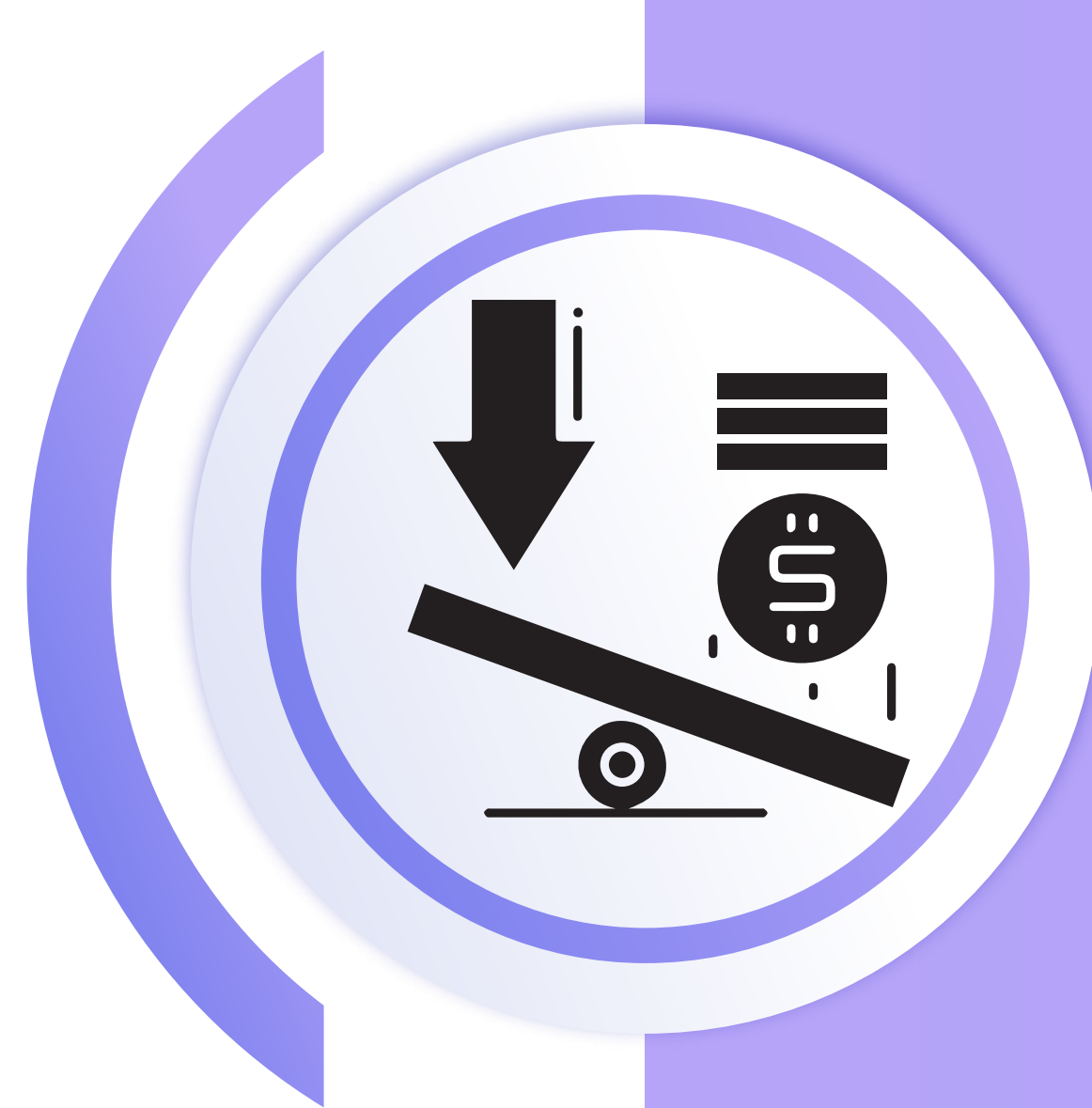


Business Risk



GDP

CONCLUSION



This study found that depending on the leverage measurement (book or market) various independent variables on the capital structure do exhibit different effects among SC and SNC firms.



This study contributes to the strategic decisions made by the firms' policy-makers and executives in terms of how capital structure decisions are driven by different debt determinants.



To transform Islamic Financial Stock Markets into a market in which the activities are fully in compliance with Islamic Shari'ah, policy makers should provide instruments and solutions to encourage participations in this market:

- Policy makers are required to introduce tax incentive mechanism that favors equity financing
- Policy makers could lift off the tax payment on dividend income on investors
- Policy makers should support risk-sharing instruments which are fully in line with the spirit of Islamic financial system