

**The relation between capital structure and profitability:
An empirical analysis of non-financial listed firms in the emerging
East Asian countries**

ABSTRACT

The appropriate combination of capital structure plays crucial role to business organization because it has an impact to firm's competitiveness and return maximization. Although there are a number of capital structure theories, the optimal capital structure have not been found yet. The best way to understand is to focus short-term goals. To understand the issues requires a look at the concept of capital structure and its effect to firm's profitability. In Asian emerging countries, the most important source of funding mainly comes from the use of debt. In this study, we aim to test the relationship between capital structure and profitability in Asian emerging countries, including Indonesia, Malaysia, Philippines, South Korea, Taiwan and Thailand over 2001-2006 based on contemporaneous model and change of total liability ratio model. Our results support the pecking order theory suggesting that the firm's capital structure has a negative relation to its profitability.