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The Importance of Estimation Method Choice for the Analysis of the Determinants of Capital Structure - An Example of Poland

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ABSTRACT

The results of the analysis of capital structure determinants are affected by three main aspects of the study. Firstly, the researcher has to select the set of determinants taken into account. Secondly, the influence of these determinants may vary depending on their operationalization. Thirdly, the estimated parameters of the regression model and the significance of selected determinants may differ between the estimation methods. Taking into consideration the characteristics of capital structure data, i.e. the persistence of debt ratios, the endogeneity of independent variables and two-dimensional residuals, the determinants of debt ratios should be analyzed with dynamic panel data models, using generalized method of moments estimators. . For the companies listed on Warsaw Stock Exchange, it is shown that both parameter and their standard errors estimates vary significantly when the model is estimated with ordinary least squares, fixed effects or generalized method of moments. The results imply that lagged debt ratio and size have positive impact on debt ratio, while profitability, business risk and industry median debt ratio have negative impact on debt ratio for companies listed on Warsaw Stock Exchange.

KEYWORDS Capital structure; debt ratio; generalized method of moments

JEL J3, J32