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# DETERMINANTS OF FINANCIAL STRUCTURE OF GREEK COMPANIES

Empirical  
study

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## **Keywords**

*Financial structure*  
*Performance indicators*  
*Regression model*

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## **JEL Classification**

M40, M41

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## **Abstract**

*Capital structure is essential for the survival, growth and performance of a firm. There has been a growing interest worldwide in identifying the factors associated with debt leverage. This article aims to investigate the factors affecting the capital structure of companies listed on the Athens Stock Exchange (ASE). The data set used is composed of indicators reflecting the financial position and performance of 40 firms listed on the ASE in 2014. Using a regression model we estimate in what extent the financial structure of companies is affected by performance indicators and other specific factors like the field of activity or the size of the firms. The results obtained show an important influence of share of tangible assets in total assets of the company on the financial leverage, as main variable selected in order to reflect the capital structure of Greek companies.*

## INTRODUCTION

The issue of optimal capital structure represents a major theme for corporate finance in the last decades. The early research in this field has reflected different results regarding the optimal capital structure. Modigliani & Miller (1963), Kraus & Litzenberger (1973) have shown that an optimal capital structure can be achieved only when the company value is maximized and in each firm there is a target debt-equity ratio.

In order to reflect the leverage of companies the research in the field used different ratios. Noulas & Genimakis (2011) identify three ratios as proxies of leverage, mainly: the long term debt to equity; the total bank debt to equity and the ratio of total liabilities to equity. Moreover, as determinants of capital structure, most of the studies included different variables as the size of the company, the sector classification, the age of the firm, the profitability, the value of total assets, the growth rate, credit rating etc.

Taking into consideration the indicators encountered in the literature and the companies selected in our study, represented by the firms listed on the Athens Stock Exchange, we selected as a dependent variable the total indebtedness of companies and as determinants indicators the size of companies, the share of tangible assets in the total assets of a firm, the profitability, liquidity, and sector classification.

## LITERATURE REVIEW

The financial structure of Greek companies was the object of several studies in the literature.

In 2011, Noulas & Genimakis investigated the determinants of capital structure for the companies listed on the Athens Stock Exchange. Applying cross-sectional and nonparametric statistics, the researchers shown that both ownership and stock exchange categorization do not affect the capital structure of companies included in the analysis.

Eriotis, Vasiliou & Ventoura-Neokosmidi (2007) intended to isolate the companies' characteristics which influence the capital structure. Using a panel data consisted of 129 Greek firms listed on the Athens Stock Exchange in the period 1997-2001 the authors found out that there is a negative relation between the debt ratio of companies and their growth, their current ratio and their interest coverage ratio. In addition, the results obtained indicated a positive relation between debt ratio and the size of companies.

In order to identify the main determinants of capital structure, Daskalakis & Psillaki (2005) performed a comparative study between small and medium enterprises (SMEs) from Greece and France. Using data from ICAP and DIANE

databases the authors intended to found out in what extent the debt ratio of companies included in the study is affected by the asset structure, the size of companies, the profitability and the growth rate. The results obtained demonstrated that in both of the country considered, the SMEs tend to have a similar behaviour, meaning that the asset structure and the profitability have a negative impact of the companies' leverage, while the size indicator and growth have a positive influence on the debt ratio.

In 2007, Kapopoulos & Lazaretou investigated the corporate ownership structure and firm performance in Greek companies. They investigated whether there is strong evidence to support the notion that variations across firms in observed ownership structures result in systematic variations in observed firm performance. The authors tested the hypothesis by assessing the impact of the structure of ownership on corporate performance, measured by profitability, using data for 175 Greek listed firms. Following Demsetz & Villalonga (2001) they modelled the ownership structure, first, as an endogenous variable and, second, they considered two different measures of ownership structure reflecting different groups of shareholders with conflicting interests. Empirical findings suggest that a more concentrated ownership structure positively relates to higher firm profitability. In addition, they found that higher firm profitability requires a less diffused ownership.

## THEORETICAL BACKGROUNDS

For most of the companies, the financial resources are essential to achieving their goals. In this sense, knowing the optimal financial structure in order to cover the funding needs becomes an advantage for firms and their managers. Over the time, the financing decision, represented by choosing financing sources and establishing optimal financial structure, was one of the main concerns for financial theory and practice.

In an attempt to explain how companies finance their assets and what factors influence these funding decisions have been proposed a series of theoretical and practical models of capital structure.

One of the theories that led to the explosive growth of research on the optimal financial structure is that advanced by economists Modigliani and Miller in 1958. They developed a model in which demonstrated the neutrality of funding policy towards enterprise value and the cost of capital. Other schools of thought emerged in the 70s as the signal theory and agency theory, allowed analysing the funding practices of companies and financial structure formation, taking into consideration the potential conflicts between different account holders of securities managers, shareholders and creditors.

Brealey, Myers & Marcus (2001) developed the theory of static arbitrage which explains how an optimal financial structure can be achieved in order to maximize the value of a company. Contrary to theories stated above, the pecking order theory is not centred on the issue of optimal financial structure, following only to establish a ranking of the financing arrangements and offering a reasonable alternative to loans for profitable firms.

In each of the theories listed the researchers have used several factors in order to measure the capital structure. According to Hermanns (2006), they can be categorized in two main classes:

- 1) External factors which represent the economic conditions specific to every country in which the companies perform their activities;
- 2) Specific factors of the companies.

In our study we are gone concentrated on factors from the second category because of the easy access to financial data used in the model.

### **PURPOSE AND HYPOTHESIS OF THE STUDY**

The purpose of our study consists in identifying the determinants of capital factor inside the Greek companies listed on the Athens Stock Exchange.

The financial leverage has been selected as the dependent variable which reflects the capital structure of companies. We presume that financial leverage is influenced by: the profitability, the liquidity, the size of companies, the sector classification and the share of tangible assets in the total assets of a firm.

Considering the indicators included in the model, the hypothesis of our study are the following:

1. Several specific factors of the companies, namely, the size of companies and the share of tangible assets in the total assets of a firm have a positive influence on the financial leverage of Greek companies.

2. Several specific factors of the companies, namely, profitability, liquidity, and sector classification have a negative influence on the financial leverage of Greek companies.

In order to test our hypothesis we selected the following variables.

### **DESCRIPTION OF VARIABLES USED IN THE MODELS**

In this section we are going to present the variables selected to be included in the model and we are gone justify their selection.

#### **Profitability**

There are many points of view regarding the correlation between profitability and financial

leverage inside companies. According to hierarchical theory, the firms prefer to use internal sources of financing and, when there is no option left, to choose indebtedness and external capital (Myers & Majluf, 1984). According to Cassar & Holmes (2003), profitable firms don't need external financing very often as they are capable to use their profits in order to finance future investments.

#### **Liquidity**

Most of the empirical study from the literature (e.g. Titman & Wessels, 1988; Rajan & Zingales, 1995; Campbell & Jerzemowska, 2001 and Bevan & Danbolt, 2002) suggest that liquidity is negative correlated with the financial leverage.

#### **The size of companies**

This indicator is an important factor to determine the capital structure of the company. Rajan & Zingales (1995) and Titman & Wessels (1988) argued that larger firms tend to be more diverse and therefore they have lower probability of failure. Equilibrium theory predicts an inverse relationship between size and probability of bankruptcy, which is actually a positive relationship between size and leverage.

#### **The sector classification**

Titman (1984) considers that the capital structure of a firm should depend on the uniqueness of its products. If a company provides unique products and services, its customers may find it difficult to find alternative in case of liquidation, and therefore bankruptcy costs increase. As a result, the uniqueness is expected to be negatively correlated with the leverage.

#### **The share of tangible assets in the total assets of a firm**

Titman & Wessels (1988), Rajan & Zingales (1995) and Fama & French (2000) argued that the rate of tangible assets in the total assets should be an important factor for indebtedness. Asset structure is commonly suggested as a variable because assets can serve as collateral. Greater safeguards can mitigate agency costs of debt (Jensen & Meckling 1976; Myers 1977). Moreover, the degree to which the company's assets are tangible and guaranteed should bring the company more value than liquidation (Titman & Wessels, 1988). This will reduce the scale of the financial losses incurred to company sponsors. Therefore, these are the main reasons why there is a positive relation between tangible assets and liabilities. The results obtained in developed countries (Rajan & Zingales 1995; Titman & Wessels 1988) confirm

the positive influence of the structure of assets on financial leverage.

In order to have a global view regarding the influence of every variable on the financial leverage we drafted Table 1.

According to the findings in the literature we considered the relation between the size of companies and the share of tangible assets with the financial leverage as being positive and the correlation between the profitability, liquidity and sector classification with the financial leverage as being negative.

## DATA COLLECTION

The companies were selected from the Athens Stock Exchange and the data collected reflect the values of indicators for 2014. The sample consisted in 40 companies which are listed on the Athens Stock Exchange for which we found complete data regarding the indicators selected in the study.

## RESULTS AND DISCUSSION

Before analysing the correlation and regression between variables we used descriptive statistics in order to characterize the indicators included in the model (Jaba, 2004). The results are presented in section 6.1.

### Characterization of variables

From the all 6 variables defined previously we were interested first in those categorical, namely the size of companies and the sector classification.

According to the contingency tables obtained (Table 2 and Table 3) we can have a global view regarding the frequency of every type of company according to size, the percentage and the cumulative percentage of every category of the nominal variable.

As we can see from Table 2 most of the companies included in the study are mid-sized, they representing 57.5% from the total of 40 companies included in the study. On the second place, with 14 representative firms come those included in the category “big companies” which represent 35% from the total number of firms included in the analyse. Finally, we can notice that there are only 3 firms included in analyse which represent 7.5% of the total companies taken into consideration.

According to data presented in Table 3 we can notice that most of the companies included in the study come from the construction sector (20%), followed by oil and gas, telecommunication and food and beverage (15% for each of the three sectors). On the third place come companies from IT and retail, every one of them representing 12.5% from the total of firms included in the study and, in the end, the chemical sector is represented by 4

companies which represent 10% from the total of 40 companies analysed.

In order to represent the relation between the sector classification and the size of companies we used the Crosstabs option from SPSS. Because the sector classification had more categories than the size of companies we chose to display the categories of the sector classification on rows and the size of companies in columns.

The results obtained are presented in Table 4 and 5.

As we can see from Table 4 the number of cases processed is 40, there are no missing values, mining that all cases are valid 100%.

As we can notice from Table 5 the oil and gas industry is represented equally by companies of the 3 different sizes identified (2 companies in every category).

Considering the companies which come from the chemical sector we can see that all four of them are mid-size companies. In what concerns the construction and materials sector, 2 of the companies come from the 1<sup>st</sup> category – big size, while 6 of them are mid-size.

The situation is similar in the telecommunication industry, except instead of 6 companies in the mid-size category there are only 4.

The food and beverage sector includes 2 companies from the 1<sup>st</sup> category “big size”, 3 companies from the mid-size and just 1 company of small size.

In what concerns the IT sector there are 3 companies of large size in this area and 2 of medium size.

Finally, the retail sector comprises a total of 5 companies, from which 3 have a big size and 2 are mid-size.

In total, there are 14 companies included in the big size category, 23 from the mid-size and only 3 in the small size.

In order to characterize the numeric variables, namely the share of tangible assets in total assets, the financial leverage, the liquidity and profitability we recoded every variable by combining its values in a smaller number of categories.

For example, the variable “share of tangible assets” had values comprised between 20 and 50. In order to group the data in certain range of frequencies we used the Recode function from the menu Transform by selecting the Recode into Different Variables. We selected the variable tangible assets in total assets (TAT) and the range and then we introduced the new values of the variable. If TAT was between 0-10 we said that the new value is going to be 10, if it was between 10 and 20 we assigned 20 etc.

After saving the new variable defined we selected descriptive statistics and frequencies. The results are shown in Table 6, 7, 8, and 9.

According to data in Table 6 we can see that 9 of the companies from the sample have the share of tangible assets in the total assets under 30%, while 22 of them have the same indicator under 40%. Only for 9 of the companies analysed this indicator is under 50%. Most of the firms in the sample are those of whose indicator is under 40%, representing 55% of the total of 40 companies analysed.

Considering the financial leverage, the data from Table 7 show that most of the companies (19) have an indicator situated under 80%, they representing 47.5% from the total of 40 companies analysed.

In what concerns the liquidity indicator we notice from data presented in Table 8 that most of the companies (16) have a level of this ratio situated under 80%, they representing 45% of the total of 40 companies taken into consideration.

Analysing data from Table 9, we see that most of the companies (14) have a level of profitability under 5%, the representing 35% of the total of 40 companies comprised in the analysis.

### Regression analysis

In the beginning of the study we considered that financial leverage is dependent of several factors: profitability, liquidity, the size of companies, the sector classification and, in the end, the share of tangible assets in the total assets of a firm. In order to demonstrate our hypothesis we constructed a regression model with the further general form:

$$Y = f(X_1, X_2, \dots, X_n) + \varepsilon, \text{ in which}$$

Y is the dependent variable

$X_1, \dots, X_n$  is the independent variable and

$\varepsilon$  is the residual variable.

Table 10 summarizes the descriptive statistics for each variable included in the model. N shows the number of the cases analysed and, as we can see, there are no cases meaning, while mean and standard deviation provide a general characterization of the variables.

Table 11 displays the partial correlations between variables. On diagonal, the value of correlations equals 1 because the variable is perfectly correlated with her. Analysing the correlation coefficients obtained we noticed that there is only one significant linkage between the financial leverage and the share of tangible assets in total assets which is one negative. The value of the correlation coefficient is -0,595 and the value of Sig is 0,000.

In this first phase of the model we kept the variables considered as shown in Table 12.

Further in Table 13 we presented the value of the coefficient correlation, the value of the determination coefficient and the standard error.

According to data displayed in Table 14 the correlation coefficient is significant ( $R = 0,665$ ).

The same conclusion can be reached if we analyse the results displayed in Table 15.

The F test has a small value of 5,393 and a Sig less than 0.05 (Sig equals 0.01), a fact that demonstrates that the independent variables explain the variance of the dependent variable.

In Table 16 are displayed the regression coefficients. In the first part of the table appear the regression coefficients, the standard errors, the value of t test and the value of SIG. We can notice that the most significant regression coefficient is for the share of tangible assets in total assets with a Sig value of 0,000.

The tolerance can take values between 0 and 1. Because the tolerance is closer to 1 we can say that the share of tangible assets in total assets is not explained by a linear combination of the other independent variables. As a result, explaining the financial leverage only through this variable is not too accurate.

For measuring the connection between the independent variables we measured the collinearity (Table 16).

Eigenvalue from Table 16 shows the number of linkages between the independent variables. When the indicator is closer to zero, the independent variable are usually highly correlated. If we analyse the data obtained we can say that there is a significant correlation between the independent variables.

Respecting the hypothesis required by the regression analysis (errors are normally distributed, with a zero mean; errors have a constant variance and errors are independent one of another) can be checked graphically using P-P Plot and Scatterplot. As shown in Figure 1 and Figure 2 these hypothesis are respected.

### CONCLUSIONS

The purpose of our study consisted in identifying the determinants of capital factor inside the Greek companies listed on the Athens Stock Exchange.

After considering the financial leverage as the dependent variable in the regression model the result obtained illustrate a single indirect (negative) linkage between the financial leverage and the share of tangible assets in total assets. Considering these findings we can say that the first hypothesis of our study, that several specific factors of the companies, namely, the size of companies and the share of tangible assets in the total assets of a firm have a positive influence on the financial leverage of Greek companies, is confirmed.

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**Table 1. Correlation between variables according to the literature**

<i>Factors</i>	<i>Correlation with financial leverage</i>
<b>Profitability</b>	-
<b>Liquidity</b>	-
<b>The size of companies</b>	+
<b>The sector classification</b>	-
<b>The share of tangible assets in the total assets of a firm</b>	+

Source: author's processing.

**Table 2. Distribution of Greek companies according to the size criteria**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Big companies	14	35,0	35,0	35,0
	Mid-size companies	23	57,5	57,5	92,5
	Small companies	3	7,5	7,5	100,0
	Total	40	100,0	100,0	

Source: author's processing in SPSS.

**Table 3. Distribution of Greek companies according to the sector classification**

<b>Sector classification</b>		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Oil and gas	6	15,0	15,0	15,0
	Chemical	4	10,0	10,0	25,0
	Construction and materials	8	20,0	20,0	45,0
	Telecommunications	6	15,0	15,0	60,0
	Food and beverage	6	15,0	15,0	75,0
	IT	5	12,5	12,5	87,5
	Retail	5	12,5	12,5	100,0
	Total	40	100,0	100,0	

Source: author's processing in SPSS.

**Table 4. Case Processing Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Sector classification * Size of companies	40	100,0%	0	,0%	40	100,0%

Source: author's processing in SPSS.

**Table 5. Cross tabulation of sector classification and size of companies**

		Size of companies			Total
		Big companies	Mid-size companies	Small companies	
Sector classification	Oil and gas	2	2	2	6
	Chemical	0	4	0	4
	Construction and materials	2	6	0	8
	Telecommunications	2	4	0	6
	Food and beverage	2	3	1	6
	IT	3	2	0	5
	Retail	3	2	0	5
Total		14	23	3	40

Source: author's processing in SPSS.

**Table 6. Distribution of Greek companies according to Share of tangible assets in total assets**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	30,00	9	22,5	22,5	22,5
	40,00	22	55,0	55,0	77,5
	50,00	9	22,5	22,5	100,0
	Total	40	100,0	100,0	

Source: author's processing in SPSS.

**Table 7. Distribution of Greek companies according to financial leverage**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	60,00	7	17,5	17,5	17,5
	70,00	4	10,0	10,0	27,5
	80,00	19	47,5	47,5	75,0
	90,00	8	20,0	20,0	95,0
	100,00	2	5,0	5,0	100,0
	Total	40	100,0	100,0	

Source: author's processing in SPSS.

**Table 8. Distribution of Greek companies according to liquidity**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	70,00	2	5,0	5,0	5,0
	80,00	16	40,0	40,0	45,0
	90,00	8	20,0	20,0	65,0
	100,00	14	35,0	35,0	100,0
	Total	40	100,0	100,0	

Source: author's processing in SPSS.

**Table 9. Distribution of Greek companies according to profitability**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2,00	1	2,5	2,5	2,5
	3,00	5	12,5	12,5	15,0
	4,00	11	27,5	27,5	42,5
	5,00	14	35,0	35,0	77,5
	6,00	8	20,0	20,0	97,5
	8,00	1	2,5	2,5	100,0
	Total	40	100,0	100,0	

Source: author's processing in SPSS.

**Table 10. Descriptive Statistics**

	Mean	Std. Deviation	N
Financial leverage	73,4793	9,62438	40
Share of tangible assets in total assets	35,4103	6,19567	40
Liquidity	83,0043	9,93320	40
Profitability	4,1368	1,13861	40
Sector recoded	3,9250	1,95314	40
Size recoded	1,7250	,59861	40

Source: author's processing in SPSS.

**Table 11. Correlations**

		Financial leverage	Share of tangible assets in total assets	Liquidity	Profitability	Sector	Size
Pearson Correlation	Financial leverage	1,000	-,595	-,383	-,196	,090	,058
	Share of tangible assets in total assets	-,595	1,000	,179	,344	-,034	-,217
	Liquidity	-,383	,179	1,000	,128	-,256	-,088
	Profitability	-,196	,344	,128	1,000	-,159	-,395
	Sector recoded	,090	-,034	-,256	-,159	1,000	-,325
	Size REcoded	,058	-,217	-,088	-,395	-,325	1,000
Sig. (1-tailed)	Financial leverage	.	,000	,007	,113	,291	,360
	Share of tangible assets in total assets	,000	.	,134	,015	,417	,089
	Liquidity	,007	,134	.	,215	,055	,294
	Profitability	,113	,015	,215	.	,164	,006
	Sector recoded	,291	,417	,055	,164	.	,020
	Size REcoded	,360	,089	,294	,006	,020	.
N	Financial leverage	40	40	40	40	40	40
	Share of tangible assets in total assets	40	40	40	40	40	40
	Liquidity	40	40	40	40	40	40
	Profitability	40	40	40	40	40	40
	Sector recoded	40	40	40	40	40	40
	Size REcoded	40	40	40	40	40	40

Source: author's processing in SPSS.

**Table 12. Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	Size REcoded, Liquidity, Share of tangible assets in total assets, Sector recoded, Profitability	.	Enter

a. All requested variables entered.  
b. Dependent Variable: Financial leverage

Source: author's processing in SPSS.

**Table 13. Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,665 <sup>a</sup>	,442	,360	7,69786

a. Predictors: (Constant), Size REcoded, Liquidity, Share of tangible assets in total assets, Sector recoded, Profitability  
b. Dependent Variable: Financial leverage

Source: author's processing in SPSS.

**Table 14. ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1597,783	5	319,557	5,393	,001 <sup>a</sup>
	Residual	2014,738	34	59,257		
	Total	3612,521	39			

a. Predictors: (Constant), Size REcoded, Liquidity, Share of tangible assets in total assets, Sector recoded, Profitability  
b. Dependent Variable: Financial leverage

Source: author's processing in SPSS.

**Table 15. Coefficients**

Model	Standardized Coefficients Beta	t	Sig.	95,0% Confidence Interval for B		Correlations			Collinearity Statistics	
				Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)		8,074	,000	99,592	166,587					
Share of tangible assets in total assets	-,562	-4,057	,000	-1,310	-,435	-,595	-,571	-,520	,856	1,168
Liquidity	-,302	-2,214	,034	-,561	-,024	-,383	-,355	-,284	,883	1,132
Profitability	-,015	-,095	,925	-2,759	2,511	-,196	-,016	-,012	,697	1,435
Sector recoded	-,045	-,300	,766	-1,722	1,278	,090	-,051	-,038	,731	1,368
Size REcoded	-,111	-,705	,485	-6,899	3,344	,058	-,120	-,090	,668	1,498

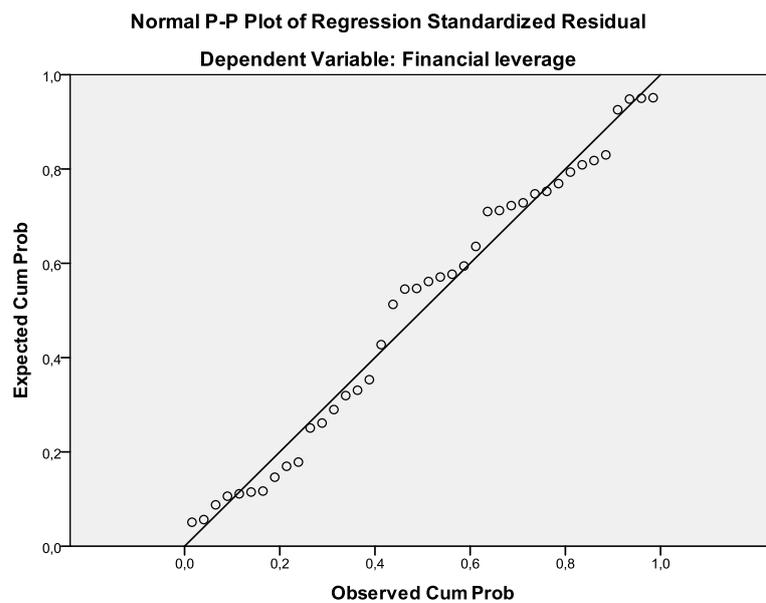
Source: author's processing in SPSS.

**Table 16. Collinearity Diagnostics<sup>a</sup>**

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions					
				(Constant)	Share of tangible assets in total assets	Liquidity	Profitability	Sector recoded	Size
1	1	5,620	1,000	,00	,00	,00	,00	,00	,00
	2	,210	5,178	,00	,00	,00	,00	,51	,07
	3	,121	6,822	,00	,01	,00	,15	,08	,28
	4	,028	14,153	,00	,23	,08	,72	,10	,25
	5	,018	17,819	,02	,72	,28	,00	,00	,08
	6	,004	36,930	,98	,04	,64	,12	,30	,31

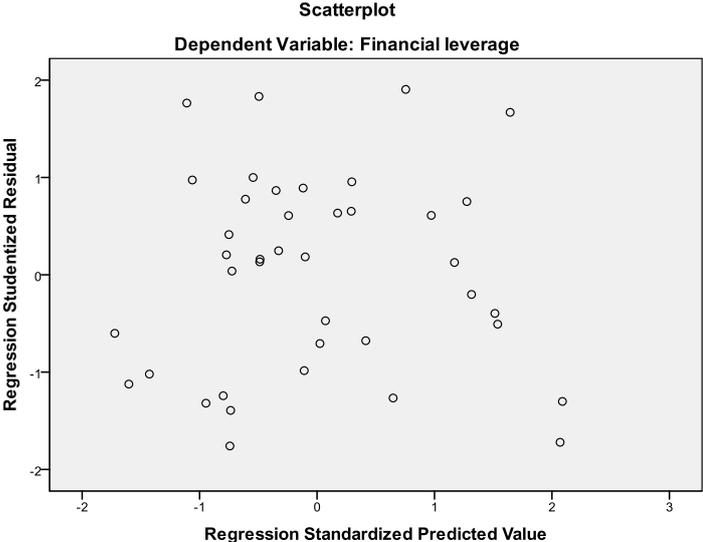
a. Dependent Variable: Financial leverage

Source: author's processing in SPSS.



**Figure 1. Normal P-P Plot Diagram**

Source: author's processing in SPSS.



**Figure 2. Scatterplot diagram**  
*Source: author's processing in SPSS.*