



**TRADE-OFF THEORY VS PECKING ORDER THEORY: EVIDENCE FROM
ISLAMIC AND CONVENTIONAL BANKS IN MALAYSIA**

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ABSTRACT

The purpose of the study is to determine which theory provides the best explanation toward capital structures of the banking industry in Malaysia. The study is divided into two parts which is Islamic banks and Conventional banks. The establishment of three objectives is to test whether independent variables used are determinant factors of capital structure as stated in previous literature. Results shown that Islamic banks are more likely can be explained by the trade-off theory when three out of the four variables are consistent with this theory. On the other side, Conventional bank results can be explained by mix theories when only two variables are consistent with the trade-off theory. Findings also prove that three independent variants used in this study are determinant factors of the capital structure of the banking industry in Malaysia.

Keywords: trade-off theory, pecking order theory, banking industry, capital structure.