



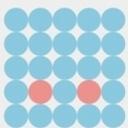
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ABSTRACT

The Impact of Capital Structure on Corporate Financial Performance: Case Study of Banking Companies Listed in The Indonesia Stock Exchange, 2005-2010

The development of information, technology and transportation in the current era of globalization has made the competition becomes increasingly stringent, including the banking industry. Banking is one part of the financial sector that sustains of the Indonesia economy strategic which has a role in creating price stability and achieving high economic growth by supporting the real sector. Given the important role of these banks, the banks are required to be able to grow and have competitiveness, one through the financial strategy. Weston and Brigham (1994) mentions that one of the important decisions of financial managers in order to stay competitive in the long run is a decision on capital structure. Capital structure is important because it affects the financial position and corporate risk. The purpose of this study was to analyze the impact of capital structure on financial performance of banking companies listed in the Indonesia Stock Exchange (BEI). This study employed the descriptive analysis and a regression analysis of panel data using annual data of 20 banks that listed in the BEI during 2005-2010. The descriptive analysis showed that most of banks applied a high-leverage policy in their capital structure and loan policy in bank are still not optimal. In average, the companies generate low return on assets but high in ROE and TOBINS'Q compared to standard. The regression analysis of panel data showed that capital structure has a significant impact on the company's financial performance based on ROE and TOBINS'Q, but have insignificant impact on the company's financial performance based on ROA. These results suggested that firm's management could increase their leverage so that financial performance that's indicated by ROE and TOBINS'Q can be improved.

Keywords : *Capital Structure, Financial Performance, ROE, banking, tobins'q, Regression Analysis of Panel Data.*



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