SUMMARY

ANDI YOSHENDY. Analysis of Capital Structure on Consumer Goods Companies in Jakarta Stock Exchange year 2002-2011. Supervised by NOER AZAM ACHSANI and TUBAGUS NUR AHMAD MAULANA.

Capital structure is one of the seven most important topics in the financial management practice (Brealey *et al*. 2011). Research on capital structure have been carried out in Indonesia and other countries. Capital structure of a company is debt-to-equity ratio (DER) in the balance sheet. DER vary in value in every companies.

This thesis relates company capital structure with Indonesian economic condition after 1998 economic crisis, i.e. recovery period up to the period of the European-US financial crisis 2008. At those times, fluctuations in the stock price index of consumer goods sector in Indonesia Stock Exchange (IDX) were relatively smaller compared to those of other sub-sectors in IDX. This was due to the consumer goods sector has performed well, due to the sale of products supported by demographic Indonesia. The purpose of the study was to analyze the factors that affect the capital structure of consumer goods companies in the IDX, since after the end of financial crisis, until after the financial crisis in Europe and the United States ended, i.e year 2002 – 2011. Other research objective was to determine whether there were any differences between the factors that affect the capital structure on consumer goods company with headquarter abroad and headquarter in Indonesia.

The study was conducted using secondary data from audited annual financial statements from consumer goods companies listed on the BEI during the year 2002 - 2011 The approach used was descriptive statistics and econometrics. The samples were a total of 29 companies, resulting in a 290 observation points. The data were processed using regression analysis of panel data and independent sample t-test. This study uses the dependent variabel of leverage: total liabilities (TL), short-term liabilities (STL), and long-term liabilities (LTL). While the independent variabels are: profitability (PRO), tangibility (TNG), firm size (SZE), non-debt tax shield (NDT), liquidity (LIQ) and the firm age (AGE).

Descriptive analysis showed that consumer goods companies in the BEI during study period had a debt ratio of 49%. The debt ratio level (total liabilities) was higher in the food and beverage sub-sector and the lowest was in cosmetics and skin treatments. One reason of the high debt ratio was the need of financing for raw materials for production of food and beverage, to supply an expanding market (fast moving consumer goods). The total liability of 49% consisted of 35% short-term liabilities and the rest were long-term liabilities.

Result of test for capital structure factors, especially profitability and capital structure tangibility, both were tested on sub-sector level and overall sector level, indicated that consumer goods companies for year 2002 - 2011 using the pecking order theory. This finding was consistent with literature and results of prior research on consumer goods companies in several countries (Myroshnichenko 2004, Indrawati and Suhendro, 2006 and Chen, 2007). Based on the result, financial directors and managers of consumer goods companies may consider applying financing decision using pecking-order theory, which is using financing

first from retained earnings, followed by debt, and the last step is the issuance of equity if necessary.

The results of the testing and analysis of the capital structure effect on the total *leverage* (TL) indicated that the independent variabel PRO, TNG and AGE were statistically significant. With R^2 of 54.9%, it means that 54.9% of change in the capital structure of companies in the study sample can be explained by the independent variables. Variabel SZE, NDT and LIQ were not statitistically significant on the capital structure and the company's total *leverage*. This result however can still be considered by consumer goods' company management, where large composition of fixed assets or high liquidity in the total assets did not significantly affect the capital structure decisions. Management should also consider age (AGE), in which the longer the age of the company, the study demonstrated that the level of corporate *leverage* were diminished, and companies increasingly rely on financing from capital accumulation.

Analysis of the effect of capital structure to *leverage* short-term (STL) showed more or less similar results with total *leverage* (TL), where the variabel PRO, TNG and significant effect and the variabel AGE, NDT and LIQ had no significant effect. This result is only slightly different from the expected results of previous studies on the variabel AGE. Analysis of the effect of capital structure to *leverage* the long-term (LTL) gave slightly different results, only variabel AGE and TNG had significant effect and the other variabels had no effect. This indicated that the capital structure variabels influencing more over the short term *leverage* rather than to the long-term *leverage*. Long-term *leverage* in the consumer goods companies were not very much influenced by the capital structure of most of the variabels used in this study.

The results of research on the differences in the capital structure of local and multinational companies, showed that there was no significant difference between the variabels studied in both types of companies. These results can serve as guidelines for directors and financial managers in consumer goods companies both local and multinational that factors that affect the capital structure of companies in Indonesia the same for both local and multinational companies.

Keywords: capital structure, consumer goods company, pecking-order theory, panel data regression, independent sample t-test