# SUMMARY

TEDY SAPUTRA. The Effect of Capital Structure on Performance of Listed Financial Companies in Indonesia Stock Exchange. Supervised by NOER AZAM ACHSANI and LUKYTAWATI ANGGRAENI.

The business competition becomes increasingly strict along with the advancement in information and technology nowadays. One of the most important decision from the financial managers in order to maintain the firm's long-term competitiveness is a decision regarding the capital structure. Capital structure is all combination from the right side of the firm's balance sheet (Brigham and Weston 2004). Each firm management must find the appropriate capital structure to help the firm's operations so that the firm can improve its performance and profitability.

Previous studies regarding the capital structure has been done with varying results. Research conducted by Abor (2005), Pratomo dan Ismail (2007), Goyal (2013), Saeed et al. (2013) and Taani (2013) found that the capital structure has positive effect on the firm performance. On the other hand, research conducted by Zeitun & Tian (2007), Vitor & Badu (2012), Shubita & Alsawalhah (2013), Leon (2013) and Hasan *et al.* (2014) found the opposite result, that the capital structure has negative effect on the firm performance. Ebaid (2009) study also found that the capital structure has a weak-no effect on the performance of the firm.

Previous studies about capital structure generate a different effect on the firm's performance. Hence, this study will re-examine how the effect of capital structure on the firm performance of the financial sector in Indonesia. There are three motives from the selection of financial sector as a sector to be studied. First, many previous studies investigated the capital structure from many sectors of different countries, but eliminating financial sector from the research sample. This is related to differences in capital structures on the financial sector compared to others sector in the stock market. This is also related to the financial sector which is commonly consist of regulated firms where the business activities are regulated by the law or by the certain rules. Second, previous studies on the financial sector mostly focus on one subsector, namely banking, while other subsectors in the financial sector excluded from the sample. Third, the importance of the financial sector for a country, especially for developing country like Indonesia.

The purpose of the study is to identify the capital structure and the firm's performance in the financial sector, as well as to analyze the effect of capital structure on the firm's performance. Research was using descriptive analysis and panel data regression to estimated the 55 firm annual report that listed in the Indonesia Stock Exchange (IDX) during 2009 to 2013. The firms were studied came from five subsectors, namely banks, funding companies, securities companies, insurance and other financial companies. The dependent varables used in the study, among others, return on assets (ROA), return on equity (ROE), earnings per share (EPS) and the firm value (TOBINSQ). Independent variables that representing the capital structure consist of short-term debt to total assets (SDTA), long-term debt to total assets (LDTA), total debt to total assets (TDTA) and total debt to total equity (TDTE). This study is also using the firm size (SIZE) and firm assets growth (AG) as control variable.

The descriptive analysis showed that each subsector applied various capital structure and mainly financed by the debt. Banking is one of the most subsector that has biggest debt ratio as a source of funding, with an average of 89% TDTA consisting of 73% short-term debt and 16% long-term debt. Funding companies, securities companies, insurance and other financial subsector had an average of TDTA amounted 64%, 52%, 56% and 43% respectively. When viewed from the firm's performance, financial subsectors has good performance during the period of 2009-2013. Investments made in the financial sector become an attractive option for investors because it provides a considerable advantage, where the average of ROE in all subsectors has a value above 10%. Funding companies subsector recorded the highest value of ROA, ROE and EPS, amounting to 6.71%, 18.26% and Rp256.03 during the period of 2009 to 2013. Most of the financial subsectors had a ratio of TOBINSQ greater than 1, except in the insurance (0.92) and other financial companies (0.98) subsector. In addition, firms in each subsector also obey the rules regarding the capital set by the Financial Services Authority (FSA).

In general, the capital structure variable resulted a significant effect on the firm's performance. Regression analysis for entire firms showed varying results againts four dependent variables. TDTA generate significant negative effect on ROA, significant positive effect on EPS and TOBINSQ and does not have significant effect on ROE. The regression results for each financial subsector also had a different outcome. The capital structure variable had a positive effect on firm's performance in banking, insurance and other financial subsector so the debt financing is recommended in those subsectors. Furthermore, the capital structure had negative effect on funding companies and securities companies subsectors so the firm in both subsectors should avoid the debt financing and using more internal funds derived from the firm's operation. The capital structure decision for each subsectors must have to consider the optimal capital structure, where the firm management must create a combination of debt and equity with certain proportion so it can minimized the cost of capital and maximized performance and value of the firm.

Keywords : capital structure, financial sector, firm performance, Indonesia Stock Exchange (IDX), panel data