
Mining sector is one of the business sector in Indonesia which impacted by global economic downturn. The stock return of mining sector in Indonesia Stock Exchange (IDX) has the worst performance than other sectors and this sector always have lower than Indonesia Composite Index (ICI). Beside that, mining sector contribution on Gross Domestic Product (GDP) decreased since 2012 which caused by the decreasing of mining commodities demand and commodity price as well. This conditions affect mining companies’ cash flow which also followed by the high Non Performing Loan (NPL) on bank loan. The decreasing of mining sector performance is showed by the decreasing of profitability ratio and market ratio while capital structure showed the positive trend in the period 2011 until 2015. Mining companies need to consider cost and benefit of debts that also concern on risks that must be faced.

The previous researches of capital structure mostly discussed about determinants of capital structure which concerned on firm characteristics and macroeconomics. The impact of capital structure to financial performance is one of the important business decision of a firm (Sadeghian et al. 2012). Beside that, the previous researches also showed the impact of capital structure of financial performance (Abor 2005; Vatavu 2015). Generally, these studies did separately but in this research the two main studies on capital structure will be discussed. This research based on two capital structure theories which are trade-off theory and pecking order theory. The trade-off theory is based on the proposition that capital structure is determined by a trade-off between benefits and costs of debts. On the other hand, the pecking order theory is based on a specific hierarchy of financing which should have faces the asymmetric information and transactional costs by firm. Although these theories have different perspective of capital structure, these theories were the most influence theory on explaining firm characteristics (Jeeveer 2013).

The study aims to investigate the behavior of capital structure which focused on determinants of capital structure analysis and impact of capital structure on financial performance of mining companies which listed in IDX in the period of 2011 until 2015. This research uses descriptive analysis and regression analysis with unbalanced panel data, either static panel data regression or dynamic panel data regression. The data which used in this research is secondary data such as firm’s financial reports which obtained from IDX and macroeconomic data which obtained from Bank Indonesia and World Bank. On the determinants of capital structure analysis, the dependent variable on this study is capital structure. Firms’ capital structure is represented by four variables which are short-term debt to total assets (STDTA), long-term debt to total assets (LTDTA), total debts to total assets (TDTA), and total debts tot total equity (TDTE). The independent variables that representing on determinants of capital
structure have two categories, firm characteristics and macroeconomic factors. Firm characteristics consist of firm size (SIZE), profitability (ROA and ROE), firm growth (ASGR), asset structure (TANG), Non Debt Tax Shield (NDTS), liquidity (CR) and firm age (AGE). The macroeconomic factors consist of world’s brent oil price (OP), inflation (INFR), GDP growth (GDPGR), exchange rate (EXCHR), and interest rate (INTR). On the impact of capital structure on financial performance analysis, capital structure variables are the independent variables while the dependent variables are financial performance which represented by Return on Assets (ROA), Return on Equity (ROE), Price to Earnings Ratio (PER), and TOBINSQ.

The descriptive analysis shows behavior of capital structure on mining sector employs a balance source of financing between debts and equity although mining firms use more debts than equity. On the other hand, there is a different behavior of capital structure on mining subsector which listed in IDX. The capital structure of coal mining and metal and mineral mining subsector use low leverage which inversely with crude petroleum and natural gas production subsector and land or stone quarrying subsector which show the high leverage. The regression analysis on determinants of capital structure shows that not only firm characteristics which had the significant effect on firm’s capital structure but also macroeconomic condition based on proxy of capital structure. Determinants of capital structure which is represented by STDTA are firm size, growth, asset structure, liquidity, oil price, and inflation rate while determinants of capital structure which is represented by LTDTA are firm size and growth. Capital structure that is represented by TDTE has different determinants which consist of firm size, profitability, growth, asset structure, liquidity, oil price, and inflation rate. Determinants of capital structure which is represented by TDTE are asset structure, liquidity, firm age, oil price, inflation rate, and exchange rate. The results show that capital structure has a positive or negative significant impact on financial performance. Capital structure that is measured by TDTE has a negative relationship with ROA. On the other hand, capital structure that is measured by LTDTA has a positive relationship with ROE while capital structure that is measured by TDTE has a negative relationship with ROE. Capital structure that is measured by STDTA and LTDTA has a negative relationship with PER while capital structure that is measured by TDTE has a positive relationship PER. The regression results also describe that the capital structure of mining companies is dominated by pecking order theory.

The behavior of capital structure on mining companies shows the dynamic changes with speed of adjustment which reached higher than all of sector in IDX. The managers of a company should consider internal and external factors on their business properly. Beside that, the investors should concern of business operation performance and business’ macroeconomic condition. The governments and policymakers should have the synchronize with the mining business operation, primarily on capital structure policy.

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