



PROFIT MAXIMIZATION THROUGH CAPITAL STRUCTURE MANAGEMENT IN BANKING SECTOR

Empirical Evidence from Indonesian Public Banks

Bachelor Thesis International Business and Economic Business

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Abstract

This study investigates the effect of capital structure management on profitability in Indonesian banking sector during 2006 to 2015. The result shows a positive correlation between capital ratio and bank profitability in terms of ROE. When stock's abnormal return represents profit, a different relationship is observed. Other determinants of capital structure such as non-performing loan and firm size show a significant proof of their negative interaction to



profitability. Loan share is found to have a positive impact on ROE exclusively to big banks while an unclear relationship is found between leverage ratio and profitability.



Abstraksi

Penelitian ini mengkaji pengaruh manajemen struktur modal terhadap profitabilitas di sektor perbankan Indonesia selama tahun 2006 hingga 2015. Hasilnya menunjukkan korelasi positif antara rasio modal dan profitabilitas bank dalam hal ROE. Ketika abnormal return saham dihitung sebagai laba, hubungan yang berbeda diamati. Determinan lain dari struktur modal seperti kredit macet dan ukuran perusahaan menunjukkan bukti signifikan dari interaksi negatif terhadap profitabilitas. Pangsa pinjaman ditemukan memiliki dampak positif pada ROE secara eksklusif untuk bank-bank besar sementara hubungan yang tidak jelas ditemukan antara rasio leverage dan profitabilitas.