

## Capital Structure in Indonesian Banking Industry

**Dewi Tamara**

Executive Master Program, Binus Business School  
University of Bina Nusantara  
Jakarta Indonesia  
dtamara@binus.edu

**Nadia Heraini and Dimas Ivaldi**

Young Professional Master Program, Binus Business School  
University of Bina Nusantara  
Jakarta Indonesia  
[nadia.heraini@binus.ac.id](mailto:nadia.heraini@binus.ac.id); [dimas.ivaldi@binus.ac.id](mailto:dimas.ivaldi@binus.ac.id)

### Abstract

The purpose of this paper is to investigate the dynamics involved in the determination of capital structure of banks in Indonesia. The results of this study show that depending on the leverage measurement (book or market) various independent variables on the capital structure determinant of Indonesia Banking. The results of the regression models show that profitability is positively related to leverage uniform across both, leverage measures. Firm size is positively related to leverage uniform across both, leverage measures. Collateral is positively related to leverage uniform across both, leverage measures. Non-debt tax shield is negatively related to leverage uniform across both, leverage measures. Furthermore, as expected uniform relationship between Tobin's Q is observed for market leverage and Tier 1 Capital is observed for book leverage. The positive relationship between Tobin's Q and book leverage is not in line with our expectations and the positive relationship between Tier 1 Capital and market leverage. Overall, our panel regression results tend to suggest that the determinants under study are reliable in explaining bank capital structure. Additionally, based on the results above, in terms of the coefficient sign and significance, the financing decision of bank, both are better explained by the Pecking Order Theory and by the Trade-Off Theory, respectively.

### Keywords

Banking capital structure, Tobin's Q, market leverage, Bank Tier 1.

### Biography / Biographies

**Dewi Tamara** (Associate Professor) is a faculty member and deputy for the Executive Masters program at Bina Nusantara University, Jakarta. Dewi has more than 8 years of experience as a financial professional in multinational companies and has been a lecturer for more than 10 years. Dr Dewi focuses her research on finance, management, education and empowerment. Dr Dewi has written more than 20 business case studies and scientific articles in various national and international journals.

**Nadia Heraini** is a master student in Binus Business School.

**Dimas Ivaldi** is a master student in Binus Business School.