ABSTRACT

This paper empirically examines the impact of degree of operating leverage (DOL) and degree of financial leverage(DFL) to firm performance by using size as control variable. Firm performance used are return on equity (ROE) and market to book ratio (MTB). Statistical tool used is pooled regression while sample used is all Indonesian manufacturing firms listed in Bursa Efek Indonesia from 2009-2013. The findings revealed that high fixed asset firms pose higher DOL compared to those of lower ones; and highly financial leveraged firms pose significantly higher DFL compared to those of lower financial leveraged ones. Further, both DOL and DFL impacting ROE in negative manner but only DOL is statistically significant, while all variables (DOL, DFL and Size) impacting MTB in negative manner but only size is statistically significant. The latter finding shows that Indonesian stock market investors do not regard risks as important element in making investment decision. The findings, however, pose a quite low R squared value of 1.39% for ROE and 2.4% for MTB. This means only those percentage of ROE and MTB can be explained from the variables used in this research. Thus, the author encourge more variables should be included in the future research, including macro economic variables, as it is one of the key component in firm performance.

Keywords: DOL, DFL, size, ROE, MTB