

## **ABSTRACT**

*This study analyzes the effect of industrial concentration on the level of technical efficiency in Indonesia's large and medium manufacturing industries in 2010-2015. This study uses on firm-level with a total of 50,088 observations with a sample of 8,348 companies in a period of six years. The method used is Stochastic Frontier Analysis (SFA) with a transcendental logarithmic (translog) production function model. This study uses three control variables, namely the Herfindahl Hirschman Index (HHI), firm size and Capital Output Ratio (COR). The results show that the average level of technical efficiency in large and medium manufacturing industries is 53,93 percent. SFA estimates show that HHI has a negative effect on technical inefficiency. The increase in HHI can reduce inefficiency and increase efficiency levels. Thus, the Efficient-Structure-Hypothesis (ESH) approach applies to large and medium manufacturing industries in Indonesia in 2010 – 2015. Companies that have a high concentration will improve technical efficiency. Company size has a negative effect on inefficiency or an increase in company size can increase the level of efficiency. Companies with a larger scale tend to have a higher level of efficiency. Capital Output Ratio (COR) variable has a positive effect on the company's technical inefficiency. The greater the capital output ratio, the greater the technical inefficiency or it can be said that the level of efficiency is lower. A lower capital output ratio indicates that capital is highly productive or efficient.*

*Keywords : technical efficiency, industrial concentration, manufacturing companies, stochastic frontier analysis*