1st *KBP Conference Business*
(March 2024): 168 - 176

CAPITAL STRUCTURE AND COMPANY SIZE ON THE PROFITABILITY OF BANKING COMPANIES IN INDONESIA IN 2020-2022

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ABSTRACT

This research examines the influence of capital structure and company size on profitability. Capital structure in this research is proxied using Debt to Equity Ratio, while company size uses firm size. Profitability as the dependent variable is proxied by Return On Assets (ROA). This research was conducted on banking companies listed on the Indonesia Stock Exchange in 2020-2022. This research sample includes 34 companies selected through sample criteria. This research sample includes 34 companies selected through sample criteria. This research uses secondary data has passed the classical assumption test and is analyzed using multiple linear regression analysis. The result of the analysis show that capital structure and company size have no effect on profitability.

Keyword : Capital Structure, Company Size and Profitability

Submit : March, 22th, 2024
Accepted : March, 27th, 2024

INTRODUCTION

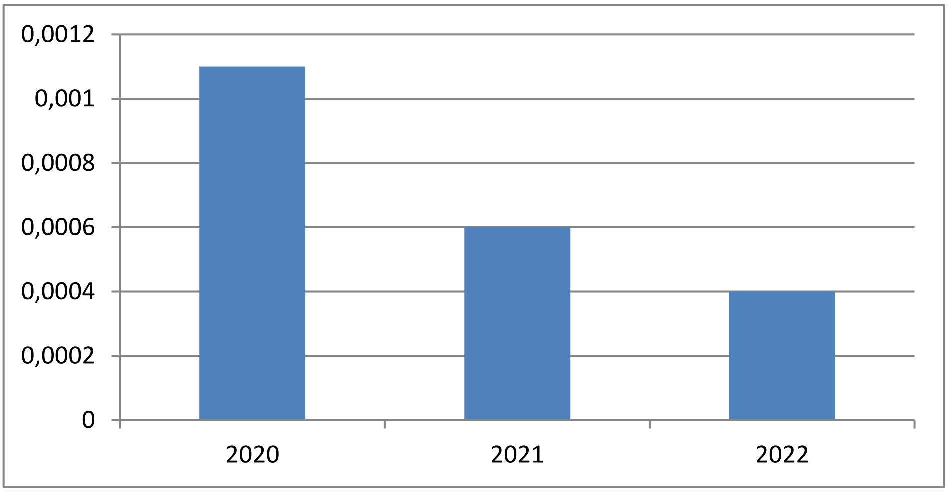
The increasing development of the world economy has resulted in the emergence of more and more companies operating in the financial and banking sectors. Banks are financial institutions that function as intermediaries between those who have money and those who need capital as institutions that handle all financial transactions. In the era of globalization, the role of banking is very important for a country's economy, because it can be said that banks are the lifeblood of the economy and improve the standard of living of many people. In all its activities, banks cannot be separated from the aim of generating profits and banks must apply the principle of prudence in carring out their activities so that there are no obstacles in generating maximum profits. Profit is a summary of the net result of a company's business activities over a certain period of time, expressed in financial from, which is used as a benchmark for the company's existence (Purwanty, 2016).

In general, every company has a main goal to be achieved, such as obtaining long-term profits or profit with the aim of maintaining the company if at any time it experience bankruptcy. Some large companies will focus more on their financial sector, this is because financial performance is a reflection of the company's ability to control and distribute its funds. When evaluating a company's financial performance, it can be understood through company reports which consist of a balance sheet, profit and loss report, cash flow report. In analysing financial report, an appropriate analysis techniqueis needed as a benchmark. One technique that is often used is profitanility (Dessi Herliana, 2021).

According to (Sulaeman, 2021) profitability is the ability of a company to create profits in a certain period, such as at the level of sales, assets and share capital. Where when a company can generate large profits. Many investors will invest in that company. Meanwhile, if the level of profitability is low, it can result in investors withdrawing their funds. For companies, profitability can be used to evaluate the effectiveness of company management. If the level of profitability is high in the company, the balance of life in the company will be maintained. Profitability has an important meaning in efforts to maintain the long-term sustainability of the company's life because profitability can reveal whether the company has good hopes for the futures (Muslih, 2019).

A company must be in a condition that is profitable for the company's future. To calculate the profitability ratio, it is used based on company asstes or return on assets (ROA). ROA also describes the level of return on all asstes owned by the company and low the company's performance is seen from the use of all assets to create profits (Muslih, 2019).

Chart 1
Profitability at PT Bank Mayapada International in 2020-2022



From this graph it can be seen that the ROA value at PT Bank Mayapada International Tbk in 2020 was 0,0011 and in 2021 it increased by 0,0006, but in 2022 the ROA value at Bank Oke Indonesia Tbk decreased by 0,0004. So from this phenomenon it can be concluded that PT Bank Oke Indonesia is experiencing fluctuations. Fluctuation here is the occurrence of changes in specific value caused by market mechanisms, the changes in the from of increases or decreases in ROA value which are depicted graphically.

Capital structure is the ratio or balance of a company's long-term funding to its own capital. Meeting the company's funding needs from its own capital sources comes from share capital, retained earnings and reserves. If there is a shortage of company funding from its own capital, then it is necessary to consider company funding that comes from outside, namely from debt (Melodie & Ruslim, 2019).

Company size is the average total net sales in the year in question over several years. In this case, income is greater than variable costs and fixed costs, so income is obtained before tax, conversely, if income is less than variable costs and fixed costs, the company will experience a loss. Company size is a characteristic of a company that is related to its structure. Company size is measured by the total assets owned by the company (Miswanto et al., 2017).

Profitability is a ratio to measure the company's ability to manage the company's expenses in making profits. By knowing the influence of each factor on profitability, the company can determine steps to evercome problems and minimize the negative impacts that arise (Deviani & Sudjarni, 2018). The purpose of using profitability ratios is to determine the development of profits obtained from time to time and measure the profits obtained from a certain period (Melodie & Ruslim, 2019)

RESEARCH METHODS

The research is quantitative research. The object of this research is banking companies listed on the Indonesia Stock Exchange in 2020-2022. This research uses secondary data sourced from banking companies annual financial reposts and obtained from www.idx.co.id. The variables in this research consist of capital structure, company size and profitability. The population of this research is 34 banking companies listed on the IDX with 3 observation periods selected using a purposive sampling technique with criteria, namely : banking companies that are consistenly listed on the Indonesia Stock Exchange (BEI) in 2020-2022, banking companies that repost reports complete finances from 2020-2022 and banking companies that have no losses from 2020-2022.

RESULTS AND DISCUSSION

Descriptive Analysis

The descriptive analysis test in the discussion of this research is by looking at the highest, lowest, average and standard deviation tests obtained. The results of the descriptive analysis test in this research are :

Table 1
Descriptive Analysis Result

	Profitability	Capital Structure	Company Size
Mean	0.018436	5.084768	20.40570
Maximum	0.195839	16.07858	30.43946
Minimum	0.000397	0.080986	15.49549
Std. Dev.	0.024909	2.985728	4.215964
Observations	102	102	102

Source : Secondary data processed with e-views 8, 2023

In the table above, it can be seen that the observations in this study amounted to 102 data. Data on Capital Structure shows that the maximum value is 16.07 and the minimum value on Capital Structure is 0.08. And the average amount of capital structure is 5.08. The Size variable shows that the maximum value is 30.43. and the minimum value for size is 15.49. And the average (Mean) data size is 20.40. The Profitability variable shows that the maximum value is 0.195839 and the minimum value is 0.000397. And the average (mean) of ROA is 0.018436.

Multiple Linear Regression Test

Table 2
Chow Test Result

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.480467	(33,66)	0.0009
Cross-section Chi-square	82.271179	33	0.0000

Source : Secondary data processed with e-views 8, 2023

Based on table 2, the probability value for the chi-square cross section is 0,0009 < 0,05, so the result show that H_o is rejected and H_a is accepted, meaning that the fixed effect model is more appropriate to use than the common effect model for estimating panel data.

Table 3
Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.877198	2	0.6449

Source : Secondary data processed with e-views 8, 2023

Berdasarkan tabel 3 diperoleh nilai *probability* untuk *cross-section random* sebesar 0,6449 > 0,05 sehingga hasil uji menunjukan H_0 ditolak dan H_a diterima maka dapat disimpulkan *random effect model* layak digunakan dibandingkan *fixed effect model.*

Based on table 3, the probability value for random cross section is 0,6449 > 0,05, so the test result show that H_o is rejected and H_a is accepted, so it can be concluded that the random effect model is suitable for use compared to the fixed effect model.

Table 4
Random Effect Model Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.253926	0.968894	-5.422601	0,0000
LOG (X1)	-0.236744	0.164376	-1.440254	0,1530
X2	0.050007	0.042131	1.186946	0,2381

Source : Secondary data processed with e-views 8, 2023

Based on the results using the random effect model (REM), the following equation can be obtained :

$$\mathbf{Y = -5.253926 + -0.236744X_{it} + 0.050007X_{it}}$$

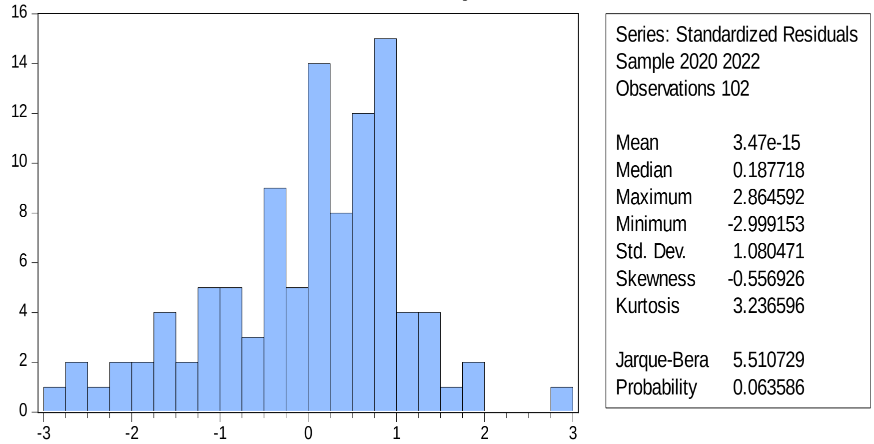
The result of the equation above show a negative constant value of -5,253926, which means that if the capital structure and company size of the company increases by 1%, then the company’s profitability increases by -5,253926 which is considered constant or constant.

The regression coefficient for the capital structure variable has a negative value of -0,236744, if the company’s capital structure has increased by 1% then the company’s profitability has increased by -0,236744 if the value of the other independent variable is fixed or constant.

The regression coefficient for the company size variable has a positive value of 0,050007, meaning that if the company size increses by 1% the company profitability will increase by 0,050007 if the value of the other independent variable is constant or equal to 0.

Classic Assumption Test

Figure 1
Normality Test



Source : Secondary data processed with e-views 8, 2023

Based on figure 1, it show that the probability value obtained is 0,063586 with a significance level used of 0,05, the result obtained is (0,063586 > 0,05), this the residual data is normally distributed, so that the profitability, capital structure and size variables are normally distributed.

Table 5
Multicollinearity Test

	X1	X2
X1	1.000000	-0.303670
X2	-0.303670	1.000000

Source : Secondary data processed with e-views 8, 2023

Based on table 5, the results of the multicollinearity test show that the relationship between capital structure variables has a value of 1.000000 with a level of α=0,08. So it can be concluded that the capital structure has symptoms of multicollinearity. Meanwhile, the company size variable has a value of -0,3003670 with a level of α= 0,08, so it can be concluded that company size if free from symptoms of multicollinearity.

Table 6
Heteroscedastisity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.273440	0.390316	3.262587	0.0015
X1	-0.034088	0.023026	-1.480393	0.1419
X2	-0.012167	0.016307	-0.746098	0.4574

Source : Secondary data processed with e-views 8, 2023

From the table above it can be seen that the regression result do not have heteroscedasticity problems because the probability value for all independent variables is more than 0,05 with a capital structure probability of 0,1419 and company size of 0,4574. So it can be concluded that heteroscedastisity does not occur or the data is homoscedastic.

Hypothesis Testing

Table 7 T Test

Variable	Coeficient	t-statistic	t-table	Prob	Alpha	Conclusion
Log (Capital Structure)	-0,236744	-1,440254	1,66039	0,1530	0,05	H_1 Rejected
Company Size	0,050007	1,186946	1,66039	0,2381	0,05	H_2 Rejected

Source : Secondary data processed with e-views 8, 2023

In accordance with the results of testing the first hypothesis using the capital structure variable, the t-statistic value was -2,343761. The t-statistic value is > t-table 1,66039 and the probability value is 0,1530. In testing, an error rate of 0,05 is used. The results obtained show that the prob value is 0,1530 > 0,05, so the decision H1 is rejected so it can be concluded that capital structure has no effect on the profitability of banking companies in 2020-2022.

In accordance with the results of testing the second hypothesis using the company size variable, the t-statistic value was -4, 843340 > t-table 1,66039 and the probability value was 0,2381. In testing, an error rate of 0,05 is used. The results obtained show that the prob value is 0,2381 > 0,05, so the decision H_a is rejected so it can be cocluded that firm size has no influence on the profitability of banking companies in 2020-2022.

Table 8
Determination Coefficient Test (R^2)

Keterangan	Koefisisen
R-squared	0,577808
Adjusted R-squared	0,353918

Source : Secondary data processed with e-views 8, 2023

Based on the table above, the adjusted R-squared value is 0,353918. This means that the capital structure and company size variables have a contribution of 35,39 % in explaining profitability, while the remaining 64,61 % (100%-35,39%) is explained. By other variables not included in the model or explained by other indicators this research.

DISCUSSION RESULT

The influence of capital structure on profitability

Based on the results of partial regression tests, it shows that capital structure has an influence but is not significant on profitability in banking companies in 2020-2022. In the 2020-2022 time period, banking companies listed on the Indonesia Stock Exchange show a trend where the Debt to Equity Ratio (DER) does not have a significant impact on their profitability. This could be caused by a number of factors that influence the relationship between DER and profitability. First, unstable macroeconomic condition, especially due to the COVID-19 pandemic, may have created fluctuations in the relationship between financial ratis and company operational performance. Second, banking companies financial management strategies may focus more on growth, liquidity or risk mitigation rather that optimizing DER to increase profitability. Additionally, changes in regulations or government policies can also impact how companies manage their DER, without an immediately visible impact on profitability. Specific industry factors, such as tight regulations and intense competition, may also play a role in the absence of a strong relationship between DER and profitability in the banking industry. This, it is important to consider the economic context, company strategy, regulations, and industry characteristics when evaluating the relationship between DER and banking company profitability withing a specified time period.

This research is in line with research (Amelia & Wijaya, 2023) that DER has effect on Return On Assets (ROA). These results are not in line with the results of research carried out by (Astuti & Rosyid, 2015) which explains that capital structure has a positive influence on profitability.

The influence of company size on profitability

Based on the results of the partial regression test, it shows that company size has an effect but is not significant on profitability in banking companies in 2020-2022. This is because during the 2020-2022 period, there is evidence that company size does not have a significant impact on the profitability of banking companies listed on the Indonesian Stock Exchange. Although company size is often considered a key factor in determining the level of profitability, in this time period, other factors may be more dominant in influencing the financial performance of banking companies. One key factor is a focus on operational efficiency, where companies may have allocated resources to improve cost efficiency and risk management without playing much attention to the scale of their operations. In addition, smaller or more specialized bank have been able to compete effectively with large banks through service specialization, adoption of innovative financial technology, and revenue diversification. By developing business models that are more flexible and responsive to market changes, these banks can achieve profitability comparable to large banks, without having to rely exclusively on the scale of their operations. Therefore, in the time span analysed, company size may not be the main determining factor in determining the profitability of banking companies on the Stock Exchange, with other factors such as operational efficiency, service specialization, technology, and revenue diversification may be more relevant in influencing their financial performance.

This research supports research (Putri, 2022) which, based on the results of hypothesis testing, concluded that company size has no effect on Return On Assets. This result is not in line with research (Purwanty, 2016) which states that company size has a positive influence on profitability.

CONCLUSION

1. This results of this research show that capital structure has an influence but is not significant on the profitability of banking companies in 2020-2022. The results show from the data that the significance value is 1,1530 > 0,05. Based on an analysis of data from banking

companies listed on the Indonesia Stock Exchange during the 2020-2022 period, it can be concluded that capital that capital structure, as measured through indicators such as te debt to equity ration, dis not have a significant influence on the profitability of banking companies in that period. Although capital structure is an important factor in corporate financial management, especially in the banking sector, data analysis show that variations in capital structure do not consistenly influence the level of profitability of banking companies in the selected time period. Although capital structure is an important factor in corporate financial management, especially in the banking sector, data analysis show that variations in capital structure do not concistenly influence the level of profitability of banking companies in the selected time period. This suggests that other factors such as economic conditions, financial management startegies, regulations and industry characteristics may have had a greater impact on the profitability of banking companies in the period. Therefore, while it is important to pay attention to capital structure in the financial management of banking companies, not ignoring other factors that can influence financial peroformance is crusial in making the right business decisions.

2. The results of this research show that company size has an influence but is not significant on banking company profitability in 2020-2022. The results show from the data that the significance value is 0,2381 > 0,05. Based on data analysis of banking companies listed on the Indonesia Stock Exchange in 2020-2022 period, it can be concluded that company size does not have a significant influence on profitability. Although company size is often considered as a factor that can influence company perofmance, these finding show that in the Indonesia banking context in the period, the company size variable did not have a concistent or significant impact on profitability. This may be caused by other factors that are more dominant or have more influence on profitability, such as macroeconomic conditions, management strategy, industry condition and regulatory factor. Therefore, although company size can be an important factor in analyzing company performance, in this period, empirical evidence shows that this variable does not have a significant influence on the profitability of banking companies listed on the Indonesia Stock Exchange.

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