Enrichment: Journal of Management, 12 (4) (2022)

Published by: Instiute of Computer Science (IOCS)

Enrichment: Journal of Management

Journal homepage: www.enrichment.iocspublisher.org

The Influence of Capital Structure, Liquidity, and Company Size on Sulselbar Bank's Profitability

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ARTICLE INFO

Article history:

Received Sep 24, 2022
Revised Sep 30, 2022
Accepted Okt 08, 2022

Keywords:

Capital Structure,
Liquidity,
Profitability,
Size

ABSTRACT

The purpose of this study is to analyze and determine the effect of the capital structure is measured using financial ratios, specifically the debt-to-equity ratio (DER). Liquidity, or often known as working capital ratio, is measured through current assets (current ratio), and company size is seen from the total assets owned by the company, which can be used to carry out company operations, against profitability to assess the company's ability to make a profit in a certain period by using Return on Investment, Return on Assets, Profit Margin, and Return on Equity. Secondary data is used from the financial statements of Sulselbar bank for the period 2017–2021. Data analysis techniques use multiple linear regression with the help of SPSS 24. The results and findings of the research show that the capital structure proxied by DER and DAR has no effect on the profitability of Sulselbar Bank, while liquidity proxied with Current Ratio, Quick Ratio, and Cash Ratio partially has a significant effect on profitability, while the size of the company proxied with Ln Total Assets partially has no effect on the profitability of Sulselbar Bank proxied with ROA, ROI, and ROE. The capital structure, liquidity, and company size together affect the profitability of Sulselbar bank. The predictor variable is able to explain the model with an adjusted R Square value of 50%, while the remaining 50% is explained by factors that are not included in this study model.

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INTRODUCTION

Competitiveness and reliability of the company in maintaining the existence and growth of the company's performance are a must. Increasingly fierce competition requires companies to make the right decisions so that they can continue to exist in accordance with the concept of "going concern," which lasts for a long time. professionalism, accountable and transparent in presenting information, a mirror that describes the condition of the company's performance as a means of communication to stakeholders, shareholders, and investors in general. The formation of the company includes goals that must be met by the owner and management, one of which is that the owner of the company wants the company to survive, which is expressed in optimal profitability for the business he manages.

The challenge that is of concern to financial managers in making funding decisions is how the company can obtain funding sources and the risks that the company will face. On the one hand, the company's growth and expansion must be carried out. When the choice falls on the capital structure of the enterprise, then the consequences should take into account several elements that influence the efficiency and effectiveness of the decisions taken. Husaeni (2018), revealed that the capital structure greatly affects sales stability, asset structure, operating leverage, growth rate, profitability, taxes, management control attitude, market conditions, internal conditions of the company and financial flexibility.

The results of empirical studies still have debates and gaps in the results of previous studies related to the topics of capital structure, liquidity, company size, and profitability. Recent research related to the topic of capital structure has a positive effect on profitability (Nugraha, 2021; Putra et al., 2019; Qosidah et al., 2020; Sayyid et al., 2021), while other research results (Fauzi & Rasyid, 2019; Lilia et al., 2020; Nita Septiani & Suaryana, 2018; Widi et al., 2021), capital structure has a negative effect on profitability. According to the findings of the research (Sukmayanti & Triaryati, 2019; Sutan Indomo, 2019), liquidity has no effect or a negative effect on the profitability variable. Research by Putra et al. (2019) and (Sutan Indomo, 2019), confirms that company size has a positive effect on company profitability, while research conducted by (Aghnitama et al., 2021; Fauzi & Rasyid, 2019; Maptuha et al., 2021) stated that the size of the company proxied by the logarithm of total assets negatively affects the company's profitability.

Based on the analysis of background situations and discrepancies in the results of previous studies, this study aims to analyze and determine the effect of capital structure as measured using financial ratios, namely debt to equity ratio (DER) and debt to asset ratio (DAR). The use of debt as a source of funding for the company has both advantages and disadvantages. The liquidity variable, or often known as the working capital ratio, is measured through current assets (Current Ratio), which is a ratio used to find out and measure how liquid a company is divided by its current debt. The variable size of the company; in this case, the size of the company is seen from the total assets owned by the company, which can be used to carry out company operations. Meanwhile, the bound variable is profitability to assess the company's ability to make a profit in a certain period. To measure a bank's ability to make a profit, it can use a ratio consisting of Return on Investment, Return on Assets, Profit Margin, and Return on Equity.

Capital Structure, A capital structure is a permanent expenditure indicated by the balance between own capital and debt and optimizing the balance between risk and rate of return. Sukmayanti & Triaryati (2019) stated that due to its relationship with other financial choice variables, capital structure is a difficult financial decision. A capital structure is defined as a balance or comparison between the amount of long-term debt and own capital.(Frank et al., 2020)

The theory of capital structure is known to exist, as proposed by Jansen and Mackling in 1976, where management is an agent of the shareholders, as the owner of the company. The stock traders expect the agent to be a proxy for their interests, thus delegating authority to the agent. To be able to perform its functions properly, management is provided with adequate incentives and supervision. Meanwhile, in agency theory, it is emphasized to overcome two problems that can occur in agency relationships. First, agency issues arise when the wishes and or objectives of the principal and the agent are opposed to each other, and it is difficult for the principal to verify whether the agent has done something appropriately. Second, the problem of division in bearing risks arises when principals and agents have different attitudes towards risks.

The determination of the company's capital structure with respect to the initial public offering is based on funding decisions in a hierarchical manner, starting from the cheapest cost of funding options sourced from profits, debts, and stocks. The Pecking Order Theory explains the basis for profitable companies to have relatively small loans (Frank et al., 2020).

H_1 = Bank Sulselbar's capital structure has an effect and a significant effect on the profitability of Bank Sulselbar.

Liquidity is a ratio used to measure a company's ability to repay short-term debts that have matured. A company that can immediately repay its debts will gain the trust of creditors and be able to issue large amounts of debt. According to Kasmir (2014), liquidity is a ratio that measures the company's ability to fulfill its maturing obligations, both obligations to parties outside the company and obligations within the company.

Liquidity is the company's ability to pay short-term financial obligations on time. The liquidity of the company is indicated by the size of current assets, namely assets that are easily converted into cash, which include cash, securities, receivables, and inventories. The liquidity ratio is measured using the current ratio. A current ratio (CR) is a liquidity ratio that describes to what extent current liabilities are covered by current assets (Brigham & Houston, 2015).

H_2 = Liquidity has an effect and a significant effect on the profitability of Bank Sulselbar.

Company Size, The size of the enterprise plays an important role in applied microeconomics and industrial organization. The size of the company also has an important influence on various studies, such as economies of scale in production, capital markets, profitability, diversification, regulation, company balance sheet, research, and development (R&D), and technological innovation. According to (Jogiyanto, 2016), the size of a company is the size of a company which can be measured by the total value of assets, net sales, or equity value. Jogiyanto (2016) stated that the size of the company can be measured by the total assets or the size of the company's assets using the calculation of the logarithm value of total assets. Large companies usually have large total assets because the size of the company determines the size of assets owned by the company.

Compared to small businesses, large businesses have easier access to financial markets. Investors are interested in investing in companies to increase their value because it is easier to obtain external financing in larger amounts the larger the company. With this money available, businesses can pursue investment opportunities more easily. (Sunarto & Budi, 2009).

H_3 = The size of the company has significant effect on the profitability of Bank Sulselbar.

RESEARCH METHOD

This type of research uses quantitative research. Quantitative research tries to conduct research in a systematic, planned, and clearly structured manner from the beginning to the creation of its research design. The study used secondary data from the financial statements of Bank Sulselbar for the 2017–2021 period, or for a 5-year accounting period cycle. Variable measurements are shown in Table 1:

Table 1. The Variables in Research

Variable	Definition	Measurement	Scale
Capital Structure (X1)	The source of the composition of funds managed by the company in carrying out business activities to achieve the company's goals of maximizing the owner's loyalty as a balance or comparison between the amount of long-term debt and own capital.	1) DAR Ratio $= \frac{Total\ Debt}{Total\ Assets} \times 100\%$ 2) DER Ratio $= \frac{Total\ Debt}{Total\ Equity} \times 100\%$	**Ratio**

Liquidity (X2)	A company's liquidity ratio is how it meets its short-term obligations.	1) Current ratio $= \frac{Current\ Assets}{Current\ Debt} \times 100\%$ 2) Quick ratio $= \frac{Current\ Assets - Inventory}{Current\ Debt} \times 100\%$ 3) Cash ratio $= \frac{\text{Cash+Cash Equivalents}}{Current\ Debt} \times 100\%$	**Ratio**
Company Size (X3)	As a scale that classifies the size of the company through the total value of assets, the number of sales, and market capitalization.	$Company\ Size = LN\_Total\ Assets$	**Ratio**
Profitability (Y)	The company's ability to make a profit in relation to sales, total assets, and own capital.	1) $ROA = \frac{EBITDA}{Total\ Assets}$ 2) $ROI = \frac{Laba\ Bersih}{Total\ Assets}$ 3) $ROE = \frac{Net\ Profit}{Equitas\ Shareholders}$	**Ratio**

The technique of inferential statistical analysis was carried out using Multiple Linear Regression Analysis, which is useful in estimating the value of dependent variables by using the level of one independent variable and with the help of the IBM SPSS 24 program, by first conducting a descriptive analysis to describe and display the profiles and characteristics of the research data.

RESULTS AND DISCUSSIONS

Classical Assumptions Test

Characteristics of the research data using the financial statements of Bank Sulselbar, the last five years (2017–2021), The data normality test was carried out to ascertain whether the regression model of free variables and bound variables was distributed normally or vice versa. The results of the normal probability plot test show that the points are spread around the diagonal line, so it can be concluded that the data are normally distributed from the test results of Kolmogorov Smirnov >0.05. The results of the heteroskedasticity test show that the capital structure has a sig value of 0.388 > 0.05, liquidity has a sig value of 0.250 > 0.05, and company size has a sig value of 0.679 > 0.05. If the entire variable free against residual has a sig value of > 0.05, then it can be said that heteroskedasticities do not occur or are free of heteroscedasticities.

Multiple Linear Regression Analysis

Based on Table 2 regarding the results of multiple Linear Regression estimation using the IBM SPSS statistics Ver 24 program, the multiple regression model used in this study can be formulated as follows:

Table 2. Multiple Linear Regression Analysis Test Results

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	-3.534	8.074
	Capital Structure	-4.155	1.288
	Liquidity	1.889	.690
	SIZE	.391	.266

Source: Primary Data Processed

Profitability = -3.534 – 4.155 Capital structure + 1.889 Liquidity + 0.391 Company size.

The value of the constant at 3,534 states that if the capital structure, liquidity, and size of the enterprise are constant, or are worth zero, then the profitability value of the enterprise is -3,534. The value of the regression coefficient of the company's structure of -4.155 states that every addition of 1-unit capital structure value will result in a decrease in the company's profitability value by 4,155 units. The value of the liquidity regression coefficient of 1,889 states that every time there is an increase in liquidity by 1 unit, it will result in a decrease in the profitability value of 1,889 units. Meanwhile, the value of the company size regression coefficient of 0.391 states that every time there is an increase in the value of the company size by 1-units, it will result in a decrease in the company's profitability by 0.391 units.

Coefficient of Determination Test

The Adjusted R Square value in Table 3 shows a figure of 0.500 or equivalent to 50%, which means the magnitude of the influence of Capital Structure, Liquidity and Company Size on the Profitability of Bank Sulselbar companies for the 2017-2021 period, while the remaining 50% is influenced by other variables outside this research model.

Table 3. Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.727	.528	.500	2.85672

Source: Primary Data Processed

Test F (Simultaneous)

The F-statistical testing was carried out by comparing the calculated F-Value with the alpha level, shown in Table 4, where the sig. < α level (0.05), so that the Debt to Equity Ratio (DER) as the Capital Structure proxy variable, the current ratio (CR) as the liquidity company proxy variable, and SIZE as a proxy variable The size of the company together affects ROA as a proxy variable bound to profitability.

Table 4. F Test Results (Simultaneous)

Model		Sum of Squares	df	Mean Square	F	Sig
1	Regression	456.710	3	152.237	18.655	.000
	Residual	408.043	50	8.161		
	Total	864.753	53			

Source: Primary Data Processed

From the results of the F test analysis, it shows that the independent variables in this research model together have a significant effect on the dependent variable with a confidence level of 95%, so that H4 is accepted debt to equity ratio (DER), current ratio (CR), and SIZE together are feasible to estimate the Bank Sulselbar profitability.

t-Test (Partial test)

The t test (partial test) is carried out to determine the significance of each independent variable in influencing the dependent variable shown in Table 5 below:

Table 5. T-Test Results

Model		t	Sig.
1	(Constant)	-.439	.663
	Capital Structure	-3.227	.002
	Liquidity	2.736	.009
	SIZE	1.469	.148

Source: Primary Data Processed

Based on the calculation estimates using SPSS, a significant level value was obtained in the capital structure variable of 0.002 < 0.05 but the direction β1 has a value of -4.155, so H1 is rejected, meaning that the capital structure variable partially has no effect on the profitability variable of Bank Sulselbar. And the value of a significant level in the liquidity variable of 0.009 < 0.05 H2 is accepted, meaning that the liquidity variable partially affects the Bank Sulselbar's profitability variable. While the value of the significant level in the Company Size variable is 0.148 > 0.05, then H3 is rejected, meaning that the Company Size variable partially has no effect on the Bank Sulselbar Profitability variable.

The negative capital structure explains that debt has a bad impact on the company's performance because the higher the level of debt means that it will reduce the profit of Bank Sulselbar because the higher the value of DER or debt owned by Bank Sulselbar, the lower the level of profit will be, and the company is more focused on its debt. The advantage of using debt is obtained from taxes, where debt interest is a reduction in taxes and the obligation to pay debts causes management discipline, while the loss of debt use is related to the emergence of agency costs and insolvency costs. This result is supported by (Fauzi & Rasyid, 2019; Lilia et al., 2020; Widi et al., 2021), who confirmed the capital structure (DER) had no positive effect on profitability (ROA). If liquidity increases, then the return on assets will also increase This is because the greater the company's ability to pay short-term debt, the greater the company's ability to make a profit. More liquid means that there is an effectiveness of no parking or productive funds so that the funds generate income for Bank Sulselbar, which also increases profitability. This result is in line with (Nugraha, 2021; Putra et al., 2019), which concluded that liquidity (CR) affects profitability (ROA). The H3 is rejected, which states that the size of the enterprise positively affects its profitability, thus disproving These findings suggest that changes in profitability are not directly correlated with the size of the enterprise. The size of the business reflects the wealth of the business. The total sales of the company increase with the size of the enterprise. This result in line with (Aghnitama et al., 2021; Maptuha et al., 2021; Nugraha, 2021). However, the profitability of the enterprise does not necessarily increase with an increase in sales. There are businesses that generate big sales yet struggle to increase their revenue. This is because even when the company's costs increase along with its sales, the profit it earns is smaller than it should be.

CONCLUSIONS

This study aims to analyze the influence of capital structure, liquidity, and company size on the profitability of Bank Sulselbar companies for the 2017–2021 period. Based on the results of the study, it was concluded as follows: (1) The capital structure proxied by the debt-to-equity ratio (DER) and the debt to assets ratio (DAR) partially has no effect on profitability. (2) Partially, liquidity affects profitability of Bank Sulselbar. (3) The size of the company, proxied by the normal logarithm of total net sales, partially has no effect on profitability. (4) Meanwhile, the capital and liquidity structure and company size simultaneously affect the profitability of Bank Sulselbar in the 2017–2021 period.

ACKNOWLEDGEMENTS

Gratitude and thanks go to those who have helped the completion of this research project until it is published as an article. Hopefully you will get a worthy reply from God almighty.

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