The Effect Of Company Size On Profitability With Capital Structure As A Moderating Variable In Islamic Banks

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Abstract

The study aims to analyze the influence of corporate size on the profitability of sharia banks in Indonesia with capital structure as a moderation variable. Secondary financial data of Bank Islam Indonesia (BSI) and Bank Shariah Islamia (BMS) for the period 2020-2023. This research method uses simple linear regression analysis and moderated regression analyses (MRA). The results showed that the size of a company measured by the logarithm of the total asset (LN) has a significant influence on profitability measureed by the return on assets (ROA). The results suggest that larger companies tend to have better financial performance and are able to attract more investment. The research has made important contributions in formulating strategies to improve financial performance and attract investment in Sharia banking companies.

Keywords: Company Size; Profitability; Capital Structure; Islamic Banks

1. Introduction

The Shariah financial sector in Indonesia has experienced rapid growth in recent years. This is demonstrated by the growing number of Sharia banks, Sharia insurance companies and other Sharia financial institutions. Big or small a business is determined by its size. A company belongs to a large company if the total assets it holds are high (Syarifudin et al., 2020). By contrast, if it has a smaller total asset, it is indicated that the company is belonging to a small enterprise. For example, a company with high total assets will find it easier to attract investors because it can show that the company is a safe company with large assets (Adam et al., 2018). Large companies can have lower production costs than small, so the profits are much larger. (Parida, 2023).

Profitability ratios can be understood as an analytical tool in measuring the business efficiency of a company. In this research, this ratio is measured using return on assets (ROA). According to (Zubir 2017), the big smallness of the company is as follows It is relatively important to prove that the business grows so that investors give a positive response and the value of the business rises. Large companies are generally able to withstand economic shocks and vice versa. Therefore, investors tend to prefer large companies to small ones. That is, the size of the company is also a determining factor in achieving profitability and increasing the company's value.

According to Putra and Lestari (2016), a company's ability to generate profits from carrying out operational activities is known as profitability. High profitability shows that the business is developing well. The company's value rises as a result, and investors are compelled to put money and shares into the business as a result. (Wixana and Putri, 2021) A company's ability to generate profits can be evaluated using profitability ratios.

Or large capacity. A company that distributes dividends affects the growth of its share price.
(2017).

Previous research examining the impact of company size on profitability, such as (Budisaptorini et al., 2019), shows that company size has a strong or positive impact on "business". Apart from that, research by Sudrajat and Setiyawati (2021) shows that company size has a significant influence on capital structure.

The differences in some of the previous research results make this topic interesting for research. This is presumed to be due to the indicators used by previous researchers for each different variable and the presence of other variables compared to those variables. In this context, researchers can continue to study the effect of company size on profitability with structural capital as one of the variables. Moderation in sharia banks and false banks in the hope of guaranteeing or producing a large impact of a small company on the profitability of the company and being able to contribute to each company in matters that increase the company's profitability.

Literature Review

Signalling theory

In financial and economic literature, signal theory focuses on the fact that people in a company, consisting of directors and employees, generally have a fairly good knowledge of the state of the company, even predictions of the future from an external point of view, such as the government. creditors, investors and shareholders (Gumanti, 2009). Signal theory explains how managers inform investors through financial reports. Markets react to financial reporting data in a certain positive or negative way. Stock movements will reflect market reactions that will affect the company's value.

Material and Method

Company Size

Company size is a measure that classifies the size of a company based on various indicators such as total assets, registered area, share price and sales. Higher total assets and sales indicate the cash flow of a company. (Fathoni & Syarifuddin, 2021). The size of a company is determined by the size of the company. The higher the total assets, the more assets the company has, this shows that the company is getting bigger. Similarly, the lower the estimate, the company is in the small enterprise. The greater the total assets of a company, the more confident investors will be in investing in that company. (Adam et al., 2018).

The formula for calculating company size is the natural logarithm (LN) of total assets. The larger the scale of total assets, the better the business situation, and the easier it is for large companies to receive external loans and borrowings. (Muslima et al., 2020).

Total Asset = LN

Profitability

Generally, profitability is a measure used to evaluate a company's ability to generate profits at an acceptable level. Profitability explains how every economic actor is able to make a profit. These benefits are measurable. The degree of profit that an economist achieves is a reference to the degree of success that he achieved at a given time based on the operational results heined. (Yusuf dkk., 2024). A ratio known as profitability is used to assess a company's capacity to generate profits within a predetermined time frame. Because it measures companies' ability to generate the rate of JAA investment made by companies, the rate of profitability can be used as a basis for investment decisions. (Judge and Naelufar, 2020) from abroad (Muslimah et al., 2020).

As a result, investors and analysts use profitability, also known as profitability ratios, a financial report to evaluate a company's return on sales and estimate its capacity to generate profits. Costs of operation. The balance sheet's assets and equity for a specific time period. This metric shows how well a business uses its assets to make money and make money for shareholders. In this research, profitability is calculated as return on equity (ROA), or net profit after tax divided by total assets.

$$\mathbf{ROA} = \frac{\boldsymbol{Laba\ sebelum\ pajak}}{\boldsymbol{Total\ Asset}}$$

Capital Structure

An optimal capital structure optimizes company value and share price. The source of funds is costs that are easily identifiable from incurring debt, namely interest costs. Capital structure shows the extent to which credit is used to finance investments, so knowing the capital structure helps investors determine the balance between risk and return on capital. (Nabila and Rahmawati, 2023). (Aprilla et al., 2023).

We can conclude that capital structure refers to the combination of equity, preferred stock, debt, long-term financing, retained earnings, and other long-term funding sources that a company can build. So the company puts great attention to their financial situation in the future. In addition to the above explanation, some experts have clearly defined the capital structure. When the level of capital that a bank holds is sound, then the bank is said to be healthy. They know that managers should pay attention to the benefits and costs of each chosen funding source in the funding decision, because each fund source has a different financial impact than the other. The main indicator of a bank's capital adequacy is measured using the capital sufficiency ratio (CAR), which is a comparison between the company's capital and risk-weighted assets (RWA). (Muhammad, 2015).

$$\mathbf{CAR} = \frac{\boldsymbol{Modal\ Bank}}{\boldsymbol{ATMR}} \times \mathbf{100\%}$$

Framework of Thought

This paper outlines the framework for thinking about the impact of corporate size on profitability as follows

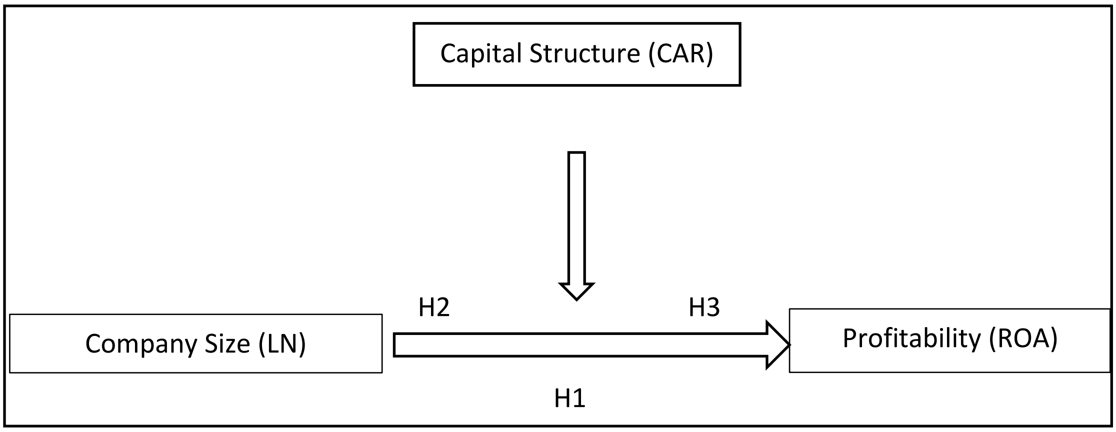


Image: Research Framework

In the framework above, it can be described that there is an effect of company size on profitability, and capital structure as a moderating variable in optimizing company capital.

Variable Relationship

The relationship between corporate size and profitability

The relationship between company size and profitability has been studied in a previous study conducted by Budisaptorini et al. (2019) in his research to test the impact of company size on profitability when there is a positive influence of the variable size of the company on the profitability. This study showed the same results as the research carried out by Harisa et al., (2019). This means that the larger the size of the company, the stronger the company's ability to increase profitability.

H1 : Size of the Company Significantly Influences Rentability (ROA)

H2 : Capital Structure Signifying Profitability (ROA)

The relationship between capital structure and profitability

According to Singh and Bagga's (2019) research, the size of a company's small capital structure is comparable to its profitability because capital structure variables have a positive influence. A company's capacity to satisfy the requirements of all of its stakeholders is directly related to the capital structure that the company has in place. CFOs and business leaders should always strive to develop capital structures that benefit shareholders, other shareholder, creditor, customer, and society. To increase profitability and reduce financial risks, corporate management should use capital structures. (Chang et al., 2007). Therefore, the hypothesis of this study is:

H3: The relationship between corporate size and profitability moderates capital structure

Research Methods

This research uses quantitative methods that use appropriate sampling methods to select samples and determine sample criteria. The study uses the population of the Sharia Bank of Indonesia (BSI) and Sharia Muamalat Bank (BMS) for the period 2020-2023. This research data analysis technique will be used to test these variables using the Moderated Regression Analysis model. (MRA). And the tool to handle that data is the SPSS version 29 application. The recorded company's annual financial statements are the kind of secondary data used in this research. The researchers obtained the data indirectly. All companies have official websites where they can get data on their annual financial statements.

Results And Discussion

Descriptive statistics

Based on the sample data, the study can be analyzed using descriptive analysis methods to make it easier to understand. Tools used to describe the results of descriptive analysis methods include information on minimum, maximum, average, and standard deviation values. A summary of the descriptive results is presented in the table below:

Table 1. Descriptive statistics

Descriptive Statistics

	N	Range	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance
LN	8	1,93	31,57	33,50	260,03	32,5041	,85452	,730
ROA	8	,000665	,000050	,000715	,000000	,00021738	,000224791	,000
CAR	8	,17	,15	,33	1,83	,2284	,05743	,003
Valid N (listwis)	8							

Source: Data tested by the author 2024

1) Descriptive Analysis of Company Size Variables (LN)

Big business has many advantages over small business. The first advantage is that the small size of a company determines the ease in raising funds in the capital market. Second, the size of the firm determines its competitiveness in financial contracts. Third, the economics of scale in cost and revenue allow big companies to make more profits. Sharia Bank and Muamalat Bank business size for the period 2020-2023. What's required is a minimum of 33.57 with a maximum average of 33.50 with an average of 32.5041.

The average value of this size indicates that the company is growing and approaching the maximum value of the size. The larger the size of the company, the easier it is for management to access and manage the company's assets, thereby improving the financial performance of a larger company. Assets can indicate that a company has reached maturity, thus giving investor confidence that the company has long-term prospects and can generate stable profits and performance and can distribute more dividends.

2) Descriptive Analysis of Profitability Variables (ROA)

In this study, profitability is expressed as the return on assets (ROA). This is an important figure that shows the contribution of the asset to the realisation of the net profit. In other words, this ratio is used to measure the amount of net profit generated by each rupee of the funds included in the total asset. ROA from 2 samples/data of sharia banking companies surveyed for the period 2020-2023 showed a maximum value of 0.000050% and an average value of 0,00021738%.

The average value explains that in the sharia banking companies and Bank Muamalat period 2020-2023 ROA value has increased which indicates that the business is good. It is true that companies with good financial performance and high profitability have an average positive ROA. Therefore, companies have average profits that are excellent results. ROA shows excellent business performance. The higher ROA indicates that managers have the ability and skill in managing company funds. That means affecting the growth of the business value as much as possible of the company. Descriptive analysis. Capital Structure Variable (CAR) Sharia Banking Company and Muamalat Bank period 2020-2023. Those surveyed showed a minimum of 0.0015%, a maximum of 0.033%, and an average of 0.2284%.

The results can illustrate the values of Sharia banking companies and Bank Muamalat for the period 2020-2023. A positive DER average, the higher the debt to equity ratio (DER) indicates that a company has a high risk of meeting its long-term obligations.

However, the fact that the company is enclosed in debt The fact that a large long-run debt does not mean that the firm is in financial difficulties, but rather that it has a large longer-term debt that is used for investment capital.

Multiconearity Test

Table 3. Coefficient

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
	(Constan)	33,727	1,654		20,391	,000		
1	ROA	73,249	1652,486	,019	,044	,966	,913	1,095
	CAR	-5,424	6,468	-,364	-,838	,440	,913	1,095

Source: Data processed by the Author (2024)

Dependent Variable: LN

The SPSS results contained in the table above indicate that the variables discussed have VIF nominal values less than 10. Therefore, it suggests that the regression model does not show multicolinearity between independent variables. The heterocadastisity test was also done. It is used in this study to find out whether the variance of the residual observations on the regression model is the same. To test heterocadastisity on this study, try using glass. If the independent variable affects the absolute residue statistically significantly, symptoms of heteroskedastisity may appear. Thus, when the model has a significant value greater than 0.05, it is considered not to show any symptoms of heterocadastasis.

Autocorrelation Test –Run Test

Runs Test

	Unstandardized Residual
Test Value[a]	,07844
Cases < Test Value	4
Cases >= Test Value	4
Total Cases	8
Number of Runs	2
Z	-1,909

Asymp. Sig. (2-tailed)	,056

Table 4. Runs Test

Source: Processed by the author (2024)

If the test results show a significant auto-correlation value less than 5% (0.05), then the regression equation indicates the existence of auto-correlation between residues. The SPSS output in the table above shows an Asymp. Tn. (2-tailed) value of 0.56, which is greater than 0.05, shows no symptoms or self-related problems. Furthermore, a multicolinearity test is used to determine whether a regression model shows a free variable correlation. (bebas). The researchers used the variance factor value (VIF) in this study to produce a free multicorrelation as seen in the table above.

T Statistical Teks

Table 5. T Teks

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	LN (Y1) & ROA (X1)	8	,127	,765
Pair 2	LN (Y1) & CAR (X2)	8	-,370	,367

From Table 5 it is known that the correlation test results of pairs of samples show that the profitability variable has no influence on ROA. The value of 0.127 shows significantly greater than 0.05 and sig = 0.765 > 0.05. The capital structure moderates the size of the company and profitability of 0.367 value > 0.05 so that this variable does not have a significant influence.

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	LN (Y1) - ROA (X1)	32,503907625	,854491182	,302108255	31,789535119	33,218280131	107,590	7	,000
Pair 2	LN (Y1) - CAR (X2)	32,27569	,87740	,31021	31,54216	33,00921	104,045	7	,000

Source: Processed by the author (2024)

So from the sample test table obtained count value for the profitability variable (ROA) of 107,590 and a significant value of 0,000. Therefore, the significant value is 0,000 < 0,05. In other words, the corporate size variable has a positive and significant influence on profitability of shariah banks and Muamalat period 2020-2023. Based on the results of the test, the applied sample test was taken, the count value of the capital structure variable (CAR) was 104,045 and the significant accepted value was 0,000.

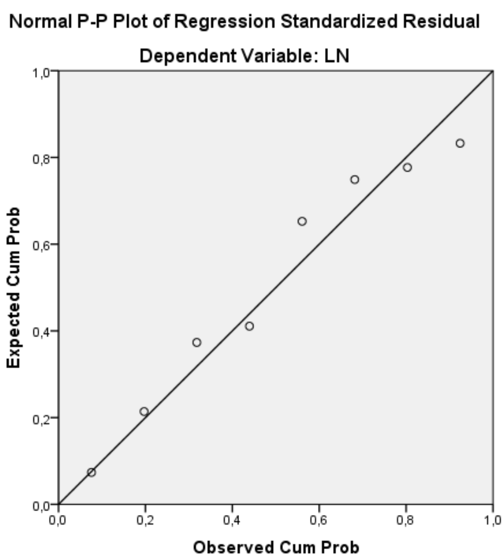
Therefore the significant value is 0,000 < 0,05. In other words, the results of this test show that the Capital Structure variable has a positive and significant impact on profitability. The classification of correlation coefficients without regard to direction is as follows.

1. 0 to 0.49: weak correlation
2. 0,5: fixed correlations
3. 0,51 to 0.99: strong correlates
4. 1 hour 00: perfect correlate

The results show that the statistical coefficient (T) for this model is 0.-208, meaning that the magnitude of the contribution of the influence of the independent variable X1 (Company Size), X2 (Profitability) on Y (Capital Structure) is -208%, the rest (100% - 208%) = -1.085 is explained by other variables not examined by the author.

Normal P-P Plot

Figure 2. P-P Plot



Source: Author (2024)

Simple Linear Regression Test Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.001	.004		-.293	.779
	UkuranPerusahaan.X	3.932E-5	.000	.141	.348	.740
a. Dependent Variable: Profitabilitas.Y						

MRA Regression Test Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.636E-5	.004		.009	.993
	UkuranPerusahaan.X	1.466E-5	.000	.052	.119	.910
	X.Z	-4.207E-5	.000	-.312	-.708	.511
a. Dependent Variable: Profitabilitas.Y						

The results of the simple linear regression test and the moderate regression analysis (MRA) show that the size of the company (LN) and the capital structure (CAR) have a significant influence on profitability (ROA). These results are consistent with some previous studies that show a positive relationship between company size and profitability, as well as the influence of capital structure on the company's ability to generate profit.

DISCUSSION

Big or small, a business is defined by its size. A company is classified as a large compa ny if the total assets it owns are high (Syarifudin et al., 2020). Likewise, if the balance sheet fig ure is lower, it indicates that the company is classified as a small company. Therefore, compani es with high total assets find it easier to attract investors to invest in the company because they can see the company. Is this a safe company with important assets (Adam et al., 2018).

This research found that the effect of firm size (LN) on profitability (ROA) was both negative and significant. These findings align with the study by Budisaptorini et al. (2019), which also investigated the relationship between company size and profitability. Their research identified a positive relationship between firm size and profitability. Additionally, the study revealed that capital structure has a significant impact on profitability.

This is in line with the research carried out by Singh and Bagga (2019) who found that the capital structure variable has a positive impact, which means that the size of the capital structure of a company is proportional to its profitability These results are consistent with the research carried out by Qayyum and Noreen (2019) and Herciu and Ogrean (2017). where the capital structure variable also has a positive impact on profitability. The capital structure of a company is very important because it depends on the company's ability to meet the needs of all stakeholders.

Capital structure, a moderating variable in this research, shows that the capital structure variable is able to amplify the impact of company size (LN) on profitability (ROA). An optimal capital structure is able to optimize the value of the company or the price of the shares. The source of financing comes from easily identifiable debt generation costs, i.e. interest costs. The capital structure shows the percentage of debt used to finance investments, thus recognizing the structure capital, investors can determine the balance between investment risk and return. If the capital level of a bank is good, the bank is said to be in good health. Managers must pay attention to the benefits and costs of each chosen financing source when making financing decisions, because each financing source has a different financial impact than the others.

CONCLUSION

Based on the data analysis and conclusions drawn by the authors, this study aimed to examine how company size affects profitability, with capital structure as a moderating variable for Islamic banks in Indonesia. The findings indicated that company size, as measured by the natural logarithm (LN) of total assets, significantly impacts profitability, measured by return on assets (ROA). However, the capital structure did not significantly moderate the relationship between company size and profitability.

The statistical analysis of this study showed that there was no problem of multicolinearity between independent variables and there were no problems of auto-correlation. The T-Test showed that the size of the company had a positive and significant impact on profitability, while the capital structure did not show a significant impact. The practical implications of this finding are that sharia banks with larger assets can manage more easily and have access to resources, improve financial performance and attract more investment. It is therefore important for Sharia bank managers to continue to increase the size of their assets as part of a strategy to increase their profitability.

Recommendations

The study uses data from the Sharia Bank of Indonesia (BSI) and Sharia Muamalat Bank (BMS) for the period 2020-2023, which may have limited generalization of results. Further research suggests considering longer time periods and involving more Sharia banks to obtain more complete results.

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