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# Effect of Capital Structure on Profitability and Its Implications on Financial Performance PT BRI Sharia TBK

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**Abstract**---This study aims to analyze the effect of structure on profitability and its implications for financial performance at PT. BRI Syariah Tbk period 2016- 2018. The population in this study is in the form of 36 financial statements. The sample in this study is the 2016-2018 financial statements. Hypothesis testing in this study using multiple linear regression. Simultaneously, DER and DAR have a significant and significant effect on profitability. Simultaneously DER and DAR affect financial performance. The coefficient of determination obtained by 42.5% indicates that DER and DAR have the ability to explain profitability, while the remaining 57.5% is explained by variables not examined in this study. The coefficient of determination obtained is 73.1% indicating that DER and DAR have the ability to explain financial performance, while the remaining 26.9% is explained by variables not examined in this study and a coefficient of determination of 57.4% indicates that profitability has the ability to explain financial performance, while the remaining 42.6% is explained by variables not examined in this study.

**Keywords**---banking, BRI sharia, capital structure, financial performance, profitability

#### Introduction

Banks are financial institutions whose function is to collect funds from the public in the form of deposits and channel these funds back to the public in the form of credit or otherwise in order to improve people's living standards, so that banking transaction activities also experience rapid progress. There are not a few banks in Indonesia, namely the existence of state banks, private banks and foreign banks, due to the large number of banking industries, the competition is getting tougher, this is because the banking sector has become an important need in Indonesia. The size of the Muslim community in Indonesia provides business opportunities, including in the banking world, with the establishment of a bank with the concept of Sharia. Philosophically, Islamic banks are banks where their activities leave usury (Rukmana, 2010). In Indonesia, the Islamic banking industry began in 1992 with the establishment of BankMuamalat (Smith Jr, 1986; Hayati & Caniago, 2012).

Islamic banks as newcomers are currently facing trade-offs. Islamic banks can use capital that can improve the health and safety of the bank, but reduce the rate of return from investors, or can rely on other funding such as sukuk issuance that results in higher performance. In banking, funding decisions can be seen in terms of customers who deposit their funds in the bank. Funds from the public are debts from banks to customers who deposit their funds. The company's capital structure is measured by the comparison between the total debt and the total equity owned by the bank (Puspita & Kusumaningtias, 2010). While in Islamic banking the capital structure is measured by the comparison of the total capital owned by the bank with Risk Weighted Assets (RWA) (Erdani et al., 2015). This is

what distinguishes the difference in the composition of the capital structure of the company with the capital structure of the banking sector (Istiqamah & Supriyanto, 2017).

Capital structure is an important issue for the company because the good or bad capital structure will have a direct effect on the company's financial position, especially with the existence of very large debts that will put a burden on the company. According to Martono and Harjito in Sholikhadi & Yahya (2016), capital structure is the comparison or balance of the company's long-term funding which is indicated by the comparison of long-term debt to its own capital. Fulfilling the company's funding needs from its own source of capital comes from share capital, retained earnings, and reserves. Capital structure according to Fahmi (2012), defined as follows: "Capital structure is an illustration of the form of the company's financial proportions, namely between owned capital originating from long-term debt (long-term liabilities) and shareholder's equity which is a source of financing for a company". Profitability is a ratio to assess the company's ability to seek profit and also provides the level of effectiveness of a company's management (Werner, 2015). The relationship between capital structure and profitability cannot be ignored because an increase in profitability is necessary for the long-term survivability of the company. Because debt interest payments are tax deductible, the addition of debt in the capital structure will increase the company's profitability. Therefore, it is very important to examine the relationship between capital structure and firm profitability in order to make capital structure decisions (Yulistina et al., 2021).

Financial performance is a description of every economic result that can be achieved by a banking company during a certain period through the company's activities to generate profits efficiently and effectively, whose progress can be measured by conducting an analysis of the financial data reflected in the financial statements (Chandra, 2016; Hairudin et al., 2020). The state of the capital structure will have a direct impact on the company's financial position so that it affects the company's performance (Fahmi, 2012). Assessment of the financial performance of Bank Indonesia as the central bank, in accordance with Bank Indonesia regulation Number 6/10/PBI/2004 dated April 12, 2004 concerning the Rating System for Soundness of Commercial Banks (State Gazette of the Republic of Indonesia Year 2004 Number 38. Supplement to the State Gazette Number 4382) (Chandra, 2016; Hairudin et al., 2020).

Based on the results of observations made by researchers who sourced from the Financial Performance data of PT. BRI Syariah Tbk period 2016-2018. DER value in March 2016 with the highest value of 8.1%. The greater the debt, the greater the risk the bank bears. The DAR value in September 2017 with the highest value of 8.4%. The size of the loan at the bank makes it difficult to pay it off at the bank. ROA value in October 2018 with the highest value of 8.2%. CAR value in February 2018 with the highest value of 8.3%. The amount of minimum capital in the bank then the condition of the bank is good. Therefore, increasing the capital structure shows the quality of the bank in absorbing the risks that arise and will lead to instability in the financial performance and capital structure of the bank. For a company, it is very important to strengthen its financial stability, because changes in the capital structure are thought to cause changes in the value of the company (Fahmi, 2011).

The company's capital structure is a mixture or proportion between long-term debt and equity, in order to fund its investment (operating assets) (Raharjaputra, 2011). For a company that is profit oriented, the decision to find funding sources in order to strengthen the capital structure is an important decision that must be studied in depth as well as various impacts that may occur in the future (future effect) (Fahmi, 2012). In research that has been done previously, according to research conducted by Hairudin et al. (2022); Hairudin & Desmon (2020); Marusya (2016) suggests that DAR has a significant effect on ROA, DER has a significant effect on ROA. In contrast to the research conducted by Tamba et al. (2017) which explains that DER partially insignificant effect on ROA. NPL has a partially insignificant effect on ROA. From this background, the researcher suspects the effect of capital structure on banking financial performance. Therefore, the researcher chose the title of the study "The Effect of Capital Structure on Profitability and Its Implications on the Financial Performance of PT. BRI Syariah Tbk" (Wulandari & Subagio, 2015; Adelia et al., 2019).

### *Theoretical Review*

#### *Capital Structure*

Capital structure is an illustration of the form of the company's financial proportions, namely between owned capital which is sourced from long-term debt (long-term liabilities) and own capital (shareholders' equity) which is a source of financing for a company. According to Martono and Harjito in Sholikhadi & Yahya (2016) capital structure is the comparison or balance of the company's long-term funding which is indicated by the comparison of long-term debt to its own capital. Fulfilling the company's funding needs from its own source of capital comes from share capital, retained earnings, and reserves (Serghiescu & Văidean, 2014; Löff, 2004).

### Profitability

According to [Fahmi \(2012\)](#), Profitability is the company's ability to earn profits in relation to sales, total assets and own capital. Thus, long-term investors will be very interested in this profitability analysis, for example, shareholders will see the profits that will actually be received in the form of dividends.

### Finance work

Financial performance is a description of every economic result that can be achieved by a banking company during a certain period through the company's activities to generate profits efficiently and effectively, whose progress can be measured by conducting an analysis of the financial data reflected in the financial statements ([Chandra, 2016](#); [Hairudin et al., 2020](#)).

### Hypothesis

- H1: It is suspected that DER and DAR have an effect on profitability.
- H2: It is suspected that DER has an effect on profitability.
- H3: It is suspected that DAR has an effect on profitability.
- H4: It is suspected that DER and DAR have an effect on financial performance.
- H5: It is suspected that DER has an effect on financial performance.
- H6: It is suspected that DAR has an effect on financial performance.
- H7: It is suspected that profitability has an effect on financial performance.

### Research Method

This study uses a descriptive type of research with a quantitative approach. Descriptive research is research conducted to determine the value of the independent variable [Gunawan \(2013\)](#); [Haryadi \(2011\)](#); [Muayyad et al. \(2014\)](#) either one or more variables (independent) without making comparisons or connecting with other variables ([Sanusi, 2014](#); [Sugiyono, 2017](#); [Sofyan & Tarigan, 2017](#)). The population in this study is the financial statements of PT. BRI Syariah, Tbk which has been published in the form of financial statements for 2016-2018 with a population of 36. The total sample is 36 financial statements. The type of data in this study is quantitative data. In this study quantitative data used is the company's financial statements PT. BRI Syariah Tbk. The source of data in this study is secondary data. All data sources in this study were obtained from PT. BRI Syariah Tbk. Data collection techniques in this research are Literature Study and Document Study. Data analysis techniques in this study are as follows: Normality Test, Autocorrelation Test, Multicollinearity Test, Heteroscedasticity Test, Multiple Linear Regression Analysis ([Davis & Albright, 2004](#); [Chi & Gursoy, 2009](#)).

### Result and Discussion

Multiple regression analysis was used to determine whether there was a significant effect of the independent variables (DER and DAR) on the dependent variable (Profitability).

Table 1  
Multiple Regression Test Results (X1, X2 and Y)  
Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.037	1.107		2,744	.010
	DER	.602	.208	.653	2.891	.007
	DAR	-.001	.258	-.001	-.005	.996

a. Dependent Variable: ROA

Based on the table above, it can be seen that the multiple linear regression equation is as follows:

$$Y = a + 1X1 + 2X2 + e$$

$$Y = 3.037 + 0.602 X1 - 0.001 X2 + e$$

1. Constant ( $\alpha$ ). The constant  $Y$  is 3.037. This means that the change in profitability ( $Y$ ) when all independent variables are zero (0) is 3.037
2. Regression Coefficient ( $\beta$ )  $X1$ . The DER regression coefficient is 0.602, meaning that if DER ( $X1$ ) increases every 1 unit, then profitability ( $Y$ ) increases by 0.602 units.
3. Regression Coefficient ( $\beta$ )  $X2$ . The regression coefficient for DAR ( $X2$ ) is -0.001 meaning that if DAR increases every 1 unit, then profitability ( $Y$ ) decreases by -0.001.
- 4.

Table 2  
Multiple Regression Test Results ( $X1$ ,  $X2$  and  $Z$ )  
Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.805	.867		.928	.360
	Der	.899	.163	.851	5.510	.000
	Dar	.007	.202	.005	.033	.974

a. Dependent Variable: car

Based on the table above, it can be seen that the multiple linear regression equation is as follows:

$$Z = a + 1X1 + 2X2 + e$$

$$Z = 0.805 + 0.899 X1 + 0.007 X2 + e$$

1. Constant ( $\alpha$ ). Constant value is 0.805. This means that if  $X1$  (DER)  $X2$  (DAR) is 0 then  $Z$  (CAR) is positive, namely 0.805.
2. Regression Coefficient ( $\beta$ )  $X1$ . The value of the  $X1$  variable regression coefficient (DER) is 0.899, meaning that if the DER increases by 1%, the CAR will increase by 0.899.
3. Regression Coefficient ( $\beta$ )  $X2$ . The value of the  $X2$  variable regression coefficient (DAR) is 0.007, meaning that if the DER increases by 1%, the CAR will increase by 0.007.

Table 3  
Simple Linear Regression Test Results ( $Y$  and  $Z$ )  
Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.921	.945		.975	.337
	Roa	.868	.128	.758	6,771	.000

a. Dependent Variable: car

Simple Linear Regression Equation is as follows:

$$Z = a + Y + e$$

$$Z = 0.921 + 0.868 Y + e$$

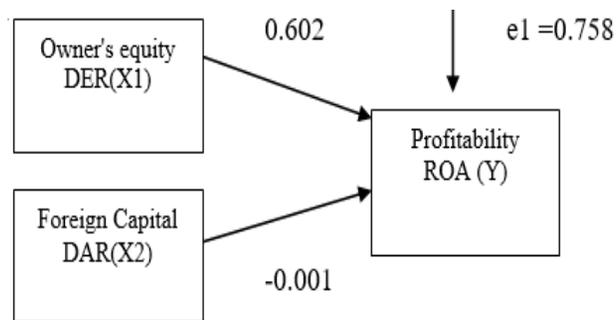
1. Constant value of 0.921 means that if  $Y$  (ROA) is 0 then  $Z$  (CAR) is positive, namely 0.921
2. The regression coefficient value of the ROA (Profitability) variable is 0.868, meaning that if the ROA (Profitability) variable increases by 1%, then  $Z$  (CAR) will increase by 0.868.

### Model and Path Analysis (Path Analysis)

Path analysis used to test and prove whether capital structure and profitability affect financial performance. The following are research variables that will be tested with path coefficients: X1, X2 against Y; X1, X2 against Z; Y to Z. In this study, researchers will calculate the path coefficients of model I and path coefficients of model II.

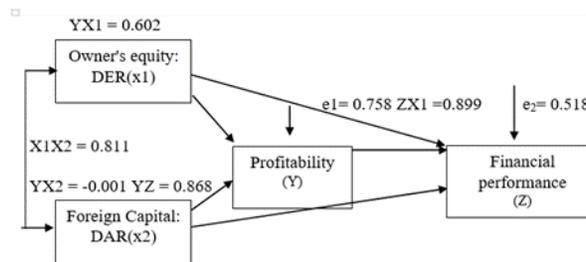
#### Model path coefficient I

1. In the results of the regression output in the coefficient section, it can be seen that the significance value of the X1 and X2 variables is significant value  $<0.05$  so it can be concluded that the X1 and X2 variables have a significant effect on Y.
2. The value of R Square contained in the "Model Summary" table is 0.425, this shows that the contribution of X1 and X2 to Y is 42.5% while the remaining 57.5% is influenced by other variables other than the independent variables being researched. Meanwhile the value of X1 can be searched with the formulae  $1 - \sqrt{1 - 0.425} = 0.758$  thus the path diagram of the structural model is obtained:



#### Path model coefficient II

1. In the results of the regression output in the coefficient section, it can be seen that the significance value of the X2 variable has no significant effect while the X1 and Y variables have a significant value  $<0.05$  so it can be concluded that the X1 and Y variables have a significant effect on Z.
2. The magnitude of the R Square value contained in the "Model Summary" table is 0.731, this indicates that the contribution of the influence of X1, X2 and Y to Z is 73.1% while the remaining 26.9% is influenced by variables other than the independent variables being carried out. study. Meanwhile, the value of  $e_2$  can be found with the formulae  $2 = \sqrt{1 - 0.731} = 0.518$  thus obtained the model II path diagram as follows:



Based on the path diagram above, it can be seen that the direct and indirect effects are as follows:

1. There is a direct effect of the DER variable on ROA of 0.602
2. There is a direct effect of the DAR variable on ROA of -0.001
3. There is a direct effect of the DER variable on the CAR of 0.899
4. There is a direct influence of the DAR variable on the CAR of 0.007
5. There is an indirect effect of the DER variable on CAR through the ROA variable with a calculation  $(0.602 \times 0.758)$  of 0.456

6. There is an indirect effect of the DAR variable on CAR through the ROA variable with a calculation  $(-0.001 \times 0.758)$  of  $-0.000758$
7. There is a direct influence of ROA on CAR of  $0.868$

#### *Effect of DER and DAR on Profitability (simultaneously)*

Based on table 4.17, it can be seen that  $F_{count}$  is 12.204 and  $F_{table}$  is 3.28, this shows that the value of  $F_{count} > F_{table}$  is  $12.204 > 3.28$ . with a significance level of  $0.000 < 0.05$ , this indicates that the independent variables (DER and DAR) together (simultaneously) have a significant effect on ROA. This is accepted because theoretically, companies with high ROA tend to have low DER and DAR. On the other hand, companies that have low ROA have high DER and DAR. This is very beneficial for the company because companies that have high ROA because the company does not have a lot of debt, increased company profits cause the ROA value to be a point. The results of the study are in line with the results of research conducted by Marusya (2016) which suggests that DER and DAR have a significant and significant effect on profitability (Bernhardt et al., 2000; Curak et al., 2012).

#### *Effect of DER on Profitability (Partially)*

From the results of the t-test in table 4.19, it is known that the  $t_{count}$  for the DER variable is 2.891 and a significant value is 0.007. Meanwhile, in this study, the  $t_{table}$  is 2,036. Statistically, the value of  $t_{count} > t_{table}$  is  $2,981 > 2,036$  with a significant value of  $0,007 < 0,05$ . Thus, DER has a positive and significant effect on ROA. The company has large own capital and also large debt. Large capital and debt are able to generate large net profits so that the company's profitability increases. The high value of equity and the use of equity indicates that the company develops the company without debt. An increase in debt will reduce profitability according to theory Sudana (2015) which states that in deteriorating economic conditions, the greater use of debt will reduce profits. Under normal conditions, the use of greater debt will increase profits, but if the amount of debt continues to increase, it will reduce company profits (Gunde et al., 2017). This ratio shows some part of each rupiah of own capital which is used as collateral for debt (Maulita & Tania, 2018). For companies, the greater this ratio will be more profitable, but for the bank the greater this ratio means the greater the risk borne for the failure of the company that may occur (Vincent, 2018). The results of the study are in line with the results of research conducted by Sudaryo & Sari (2015) which suggests that DER has an effect and is significant on profitability (Aithal, 2016; Ayuningtyas et al., 2021).

#### *Effect of DAR on Profitability (Partially)*

From the results of the t-test in table 4.19, it is known that the  $t_{count}$  for the DAR variable is  $-0.005$  and the significant value is 0.996. Meanwhile, in this study, the  $t_{table}$  is 2,036. Statistically, the value of  $t_{count} > t_{table}$  is  $-0.005 < 2.036$  with a significant value of  $0.996 > 0.05$ . Thus, DAR does not have a positive and significant effect on ROA. The company has large own capital and also large debt. Large capital and debt can generate large net income so that the company's profitability increases. The amount of debt contained in the company's capital structure is very important to understand the balance between risk and profit. Debt carries risks because every debt in general will cause a permanent attachment for the company in the form of an obligation to pay interest. A low capital structure will increase the level of profitability, and vice versa if a high capital structure will reduce the level of profitability.

The use of high debt which will increase the company's interest expense, so that the high burden of the company to pay off its obligations can pose a risk of bankruptcy to the company. The explanation is in accordance with the opinion Brigham & Houston (2021) which states that companies that have a high rate of return on profitability tend to have a small amount of debt because the use of their own capital is greater. The relationship between capital structure and profitability cannot be ignored because an increase in profitability is necessary for the long-term survivability of the company, because the payment of debt interest becomes a tax deduction, the addition of debt in the capital structure will increase the company's profitability (Rionita & Abundanti, 2018). Therefore, it is very important to examine the relationship between capital structure and firm profitability in order to make capital structure decisions. The greater the level of profitability will show good management performance. In managing the company and increasing the company's prosperity (Iswanaji, 2018). A very high DAR will reduce the company's profitability because it increases the usual interest and risk of default, but if the DAR increases properly it will help the company's operational funding capability in order to increase profitability. The results of the study are in line with the results of research conducted by Vincent (2018) who stated that DAR had no and significant effect on profitability.

*Effect of DER and DAR on Financial Performance (simultaneously)*

Based on table 4.18, it can be seen that  $F_{count}$  is 44,883 and  $F_{table}$  is 3,28, this shows that the value of  $F_{count} > F_{table}$  is  $12.204 > 3.28$ . with a significance level of  $0.000 < 0.05$ , this indicates that the independent variables (DER and DAR) together (simultaneously) have a significant effect on CAR. This means that the better the DER and DAR in a company, the better the financial performance of the company. This is confirmed by several studies, one of the results of the study is in line with the results of research conducted by [Kristianti \(2018\)](#) who stated that DER and DAR had a positive and significant effect on financial performance.

*Effect of DER on Financial Performance (Partially)*

From the results of the t-test in table 4.20, it is known that the  $t_{count}$  for the DER variable is 5.510 and a significant value is 0.000. Meanwhile, in this study, the  $t_{table}$  is 2,036. Statistically the value of  $t_{count} > t_{table}$  is  $5.510 > 2.036$  with a significant value of  $0.000 < 0.05$ , thus DER has a positive and significant effect on CAR. The company requires quite a lot of funds in its operational activities, the decision to fulfill this source of funds will affect the company's financial performance. DER is a ratio that shows the extent to which the company's equity can guarantee debt to outsiders and measures the extent to which the company's activities are financed by debt. The higher DER can illustrate that the company can operate with debt as its equity. This trade payable if used properly can generate increased profits when compared to operations using its own equity, because by increasing debt it will increase equity which will be used to increase profit activities ([Vincent, 2018](#)).

DER is the use of debt for business funding or as a source of capital used to increase capital in the company's operations, meaning that the company is able to utilize debt properly as a source of company funds so that the company's operations increase and will also improve the company's financial performance. The value on the DER reflects the extent to which the owner's capital can cover debts to outsiders so that the smaller this ratio, the better the condition of a company's capital because the proportion of capital owned by a company is able to meet obligations that must be paid ([Agustina & Huda, 2022](#)). This means that if this ratio is high, then the capital adequacy of the bank will also be high. The results of the study are in line with the results of research conducted by [Efendi & Wibowo \(2017\)](#) which suggests that DER has a significant and significant effect on financial performance.

*Effect of DAR on Financial Performance (Partially)*

From the results of the t-test in table 4.20, it is known that the  $t_{count}$  for the DAR variable is 0.033 and a significant value is 0.974. Meanwhile, in this study, the  $t_{table}$  is 2,036. Statistically, the value of  $t_{count} > t_{table}$  is  $0.033 < 2.036$  with a significant value of  $0.974 > 0.05$ . Thus, DAR has no effect and is significant on CAR. DAR as measured by the ratio between debt and assets has an influence on financial performance, meaning that the higher the DAR value, the lower the financial performance. This indicates that this ratio shows the composition of debt to assets owned by the company. In addition, DAR also shows the level of risk for shareholders. The high value of DAR reflects the high level of risk faced by shareholders and the reduced ability of the company to generate profits. DAR also shows the burden the company has on external parties or creditors, the greater the assets owned by the company, the more generated from debt, so that a company's dependence on creditors will also be higher. With the higher DAR, the burden borne by the company to creditors is also higher so that the level of profits obtained by the company decreases so that the financial performance decreases. This situation occurs because the more debt the company has, the profits generated by the company will be used to pay debts, pay interest to creditors, and costs incurred from debt so that the company's financial performance measures will be lower ([Vincent, 2018](#)). The results of the study are in line with the results of research conducted by [Zulkarnaen \(2018\)](#) who stated that DAR had no and significant effect on financial performance.

*The Effect of Profitability on Financial Performance (Partially)*

From the results of the t-test in table 4.21, it is known that the value of  $t_{count} = 6.771$  with a significance level of 0.000, this means that  $t_{count} > t_{table}$  is  $6.771 > 2.036$  with a significance value of  $0.000 < 0.05$ . Thus, ROA has a positive and significant effect on CAR. The bank's financial performance is analyzed through financial statements issued by the bank which is a reflection of the soundness of the bank. As a measure of bank success, financial performance can be analyzed using financial ratios, namely the Profitability ratio according to [Fahmi \(2012\)](#) explained that ROA is used to measure the company's ability to generate profits by using the total assets (wealth)

owned by the company after adjusting for costs to fund these assets. The greater the ROA, the better the bank's performance, because the higher the rate of return. Components that are used as a measure to assess a bank's financial performance and find out how effective it is in managing investment levels to assess bank performance (Hairudin et al., 2020). Information from financial performance is very necessary to assess changes in economic resources which can then be used as a tool to predict or determine company policies that must be taken in the future. ROA is often used by management to measure the company's financial performance and assess operational performance in utilizing the company's resources, and it is necessary to consider the issue of financing the assets. The results of the study are in line with the results of research conducted by Nopianto et al. (2019); Puspita & Kusumaningias (2010); Yulistina et al. (2021), which suggests profitability and significant effect on financial performance.

## Conclusion

Based on the results of the data analysis and discussion that has been presented, the following conclusions can be drawn: DER and DAR have a joint effect on profitability; DER and DAR jointly affect financial performance; DER has a partial and significant effect on profitability; DAR has no effect and is not partially significant on profitability; DER has a partial and significant effect on financial performance; DAR has no effect and is not partially significant on financial performance; Profitability has a partial and significant effect on financial performance.

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