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Determine Effect of Business Risk, Liquidity and Company Size on Capital Structure of Islamic Commercial Banks

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ABSTRACT
This study aims to determine the effect of business risk, liquidity and company size on the capital structure of islamic commercial banks listed in the financial services authority with profitability (ROE) as an intervening variable. The research period used was 2013-2018. This research was a quantitative research which associative causality. The method used to collect samples is purposive sampling method. Based on the predetermined sampling criteria, 11 Islamic commercial banks were registered with the Financial Services Authority for the 2013-2018 period. This study uses multiple linear regression analysis techniques. Based on the results of data analysis, it is concluded that Business Risk has a significant effect on Capital Structure. Liquidity has a significant effect on Capital Structure. Company size has a significant effect on Capital Structure. The results of the F test indicate that Business Risk, Liquidity, Company Size and Profitability (ROE) affect the Capital Structure. The result of path analysis shows that Profitability (ROE) does not mediate the effect of Business Risk and Liquidity on Capital Structure, but Profitability (ROE) mediates the effect of Company Size on Capital Structure.

KEYWORDS: *business risk, capital structure, company size, liquidity, profitability*

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INTRODUCTION

The increasing business climate in Indonesia has made various conventional banks compete to establish Islamic banks as subsidiaries. The purpose of establishing an Islamic bank in general is to optimize company value, maximize profit / profit and create welfare for stakeholders. The Financial services Authority (OJK) issued a record showing that Islamic banking assets in 2018 amounted to Rp. 477 trillion or an increase of 12.4% from the previous year.

According to Kusuma, Suhadak, and Arifin [1] a company as an entity that operates by applying economic principles, generally not only oriented towards achieving maximum profit but also trying to increase company value and the prosperity of its owners. Therefore, the company has a strategic plan in order to achieve predetermined goals.

One of the factors that influence firm value is funding decisions that are reflected in the capital structure. According to Riyanto [2], the capital structure is permanent expenditure which is reflected in the balance between own capital and long-term debt. The company's capital structure is influenced by several factors, including business risk, liquidity and company size. The first factor affecting capital structure is business risk. Business risk according to Al-Kuwari [3] illustrates the uncertainty of the direct relationship between current profits and expected future benefits. The second factor is liquidity. According to Riyanto, liquidity means that the company has sufficient funds in hand to pay bills when they are due. While the third factor that affects the capital structure is the size of the company. According to Riyanto, company size is a scale to classify the size of a company according to various ways, including total assets, total sales, stock market value and so on.

The fourth factor in this study is profitability as an intervening variable. According to Kusuma, et al, profitability is the ability of a company to make a profit using asset funds owned by the company. One of the ratios that is an indicator for profitability is Return on Equity (ROE). ROE is very attractive to holders and also to management because the higher the ROE ratio, the higher the company value. This is certainly an attraction for investors to invest in these companies.

This study aims to determine the effect of Business Risk, Liquidity and Company Size on the Capital Structure of Islamic Commercial Banks listed in the Financial Services Authority with Profitability (ROE) as an intervening variable. The research period used was 2013-2018.

A. Literature review

Islamic banks in Indonesia

Indonesia is the largest muslim country in the world. Although its development is a bit late when compared to other Islamic countries, the development of Islamic banks in Indonesia is believed to continue to grow. If in the period

1992-1998 there was only one sharia bank unit, in 2005 it had increased and totaled 20 units, with details of 3 Islamic commercial banks and 17 sharia business units. Currently, there are 11 Islamic commercial bank units in Indonesia. With the development of Islamic banks in Indonesia, it is hoped that the potential for managing people's funds which are worth hundreds or maybe even thousands of trillion is expected to be carried out optimally.

Capital Structure

According to Riyanto [2], capital structure is permanent expenditure that is reflected through a balance between own capital and long-term debt. The capital structure is also called the decision to choose the source of funding or the composition of the selection of funding which is a comparison in determining the fulfillment of corporate spending needs where the funds obtained are a combination of sources originating from long-term funds consisting of two main sources, namely originating from within and outside the company [4].

Profitability

Profitability is the company's ability to generate profits with all the capital that works in it [5] Sutrisno [5]. Profitability has an important meaning in business, namely to maintain the survival of the company in the long run because profitability indicates whether the entity has prospects in the future or not.

Business Risk

Risk is described as the possibility of an unwanted or unexpected bad result, the possibility already indicates the uncertainty that can lead to a growing risk. According to Brigham and Houston [6], the risk that is measured from the company's point of view is divided into business risk and financial risk. Business risk is defined as the uncertainty regarding the projected return on assets in the future.

Liquidity

According to Gultom, Agustina and Wijaya [7] Liquidity is the company's ability to meet its short-term obligations. Liquidity shows the ability of a company to meet its financial obligations that must be fulfilled immediately, or the company's ability to meet financial obligations when they are collected.

Company Size

According to Prasetyorini [8], company size is a scale which can be classified according to various ways, such as total assets, log size, market value and others. Or it means that the size of the company is the size of the company which can be measured by the total assets / assets of the company by using the logarithmic value of the total assets. The size of the company directly reflects the level of a company's operating activities. In general, the bigger a company is, the greater its activities[9].

Framework of Mind

Based on the framework of thinking underlying this research, it can be described in the following chart:

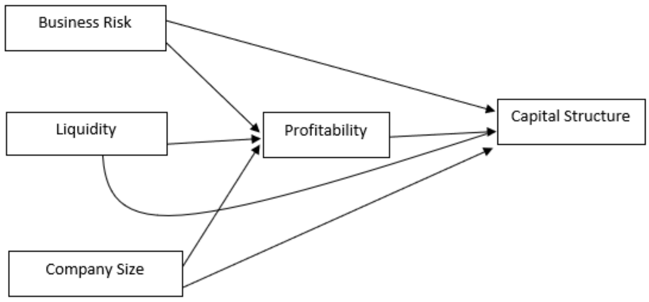

Figure 1 : Conceptual Framework

Hypothesis

Based on the theory and problems of this study, the research hypothesis is:

H1: Business risk has a effect on profitability.
H2: Liquidity has a effect on profitability.
H2: Company size has a effect on profitability.
H3: Business risk has a effect on capital structure.
H4: Liquidity has a effect on capital structure.
H5: Firm size has a effect on capital structure.
H6: Profitability has a effect on capital structure.
H7: Business risk has a effect on capital structure through profitability.
H8: Liquidity has a effect on capital structure through profitability.
H9: Firm size has a effect on capital structure through profitability.

B. Research Methods

Population and Reseach Sample

The population in this study were 11 Islamic commercial banks in Indonesia and registered with the Financial Services Authority (OJK) for the period 2013-2018. Sampling in this study using purposive sampling technique, namely sampling based on certain criteria determined by the researcher. The criteria for Islamic banking in this sampling are asTable 1 follows:

Table 1. Number of Companies in the ResearchSample

1.	The bank under study was still operating or active during the study period (2013-2018)	11
2.	Complete financial reports are available for the period 2013 – 2018	11
3.	The condition of the financial statements in rupiah	11

Source: Processed Data

The data used in this study are secondary data. Secondary data were obtained from annual report of islamic commercial banks in 2013-2018 at www.ojk.go.id.

Variable Reseach

The operational variables in this study are defined as follows:

Table 2. Operational Variables

No.	Variable	Wording	Formula	Scale	Reference
1.	Capital Structure	Z		Rasio	Brigham dan Ehrhardt
2.	Profitability	Y		Ratio	
3.	Business Risk	X1		Ratio	
4.	Liquidity	X2		Ratio	
5.	Company Size	X3		Ratio	

Source: Processed Data

C. Results and Analysis

Data Analysis and Hypotheses

The data analysis technique used in this study is path analysis using SPSS 21.0 software. Hypothesis testing by t test is if $p \geq 0.05$ means the hypothesis is rejected (no effect). And if $p < 0.05$ means the hypothesis is accepted (influential).

Model 1
Equation of Model 1:
Y = ρyx_1X1 + ρyx_2X2 + ρyx_3X3 + Ɛ1
Y = 11,714+ 0,111X1 + 0,003X2 – 0,009X3 + Ɛ1

Table 3. Results of Model 1 Analysis

No.	Variable	Standardized Coefficients Beta	t	Sig	F	Sig	Adjusted R Square
	(Constant)	11.714	1.063	0.029	0.881	0.046	0.231
1.	Business Risk	0.111	0.048	0,044			
2.	Liquidity	0.003	0.005	0.019			
3.	Company Size	-0.009	-1.125	0.265			

Dependent Variable: Profitability

Source: Processed Data

Based on the simultaneous test of model 1, it is obtained that the F value is 0.881 with probability (sig) = 0.046, so the decision is that the variables of business risk, liquidity and company size simultaneously have an effect and are significant on profitability. The magnitude of the influence of business risk, liquidity and company size on profitability is 23.1%, while 76.9% for other variables are outside the research variables.

Model 2
Equation of Model 2:
Z = ρzx_1X1 + ρzx_2X2 + ρyx_3X3 + ρzyY + Ɛ2
Z = 697,785 - 1,500X1+ 0,229X2 + 0,075X3 - 8,982Y + Ɛ2

Table 4. Results of Model 2 Analysis

No.	Variable	Standardized Coefficients Beta	t	Sig	F	Sig	Adjusted R Square
	(Constant)	697.785	1.489	0.014	0.918	0.049	0.255
1.	Business Risk	-1.500	-0.025	0,038			
2.	Liquidity	0.229	0.057	0.029			
3.	Company Size	0.075	0.023	0.016			
4.	Profitability	-8.982	-0.047	0.041			

Dependent Variable: Capital Structure

Source: Processed Data

Based on the simultaneous test model 2, the F value is obtained of 0.918 with probability (sig) = 0.049, so the decision is that the variables of business risk, liquidity, company size and profitability simultaneously have an effect and are significant on the capital structure. The magnitude of the influence of business risk, liquidity and company size on profitability is 25.5% while 74.5% is explained by other variables outside the research variables.

Implications of Research Results

1. Business Risk has a significant effect on profitability

The results of the regression analysis for the business risk variable note that the regression coefficient is 0.111. The t test results for the business risk variable obtained a value of 0.048 with a significance level smaller than the specified significance level (0.048 <0.05), it can be concluded that business risk has a significant effect on profitability in Islamic banks listed in the 2013-2018 period. Thus Ho1 in this study was rejected and Ha1 accepted. In this study, business risk has a positive effect on profitability, which means that the higher the business risk the company has, the higher the profitability that the company has..

2. Liquidity has a significant effect on profitability

The results of the regression analysis for the liquidity variable note that the regression coefficient is 0.003. The t test results for the liquidity variable obtained a value of 0.036 with a significance level smaller than the specified significance level (0.019 <0.05), it can be concluded that liquidity has a significant effect on profitability in Islamic banks listed in the 2013-2018 period. Thus, Ho2 in this study is rejected and Ha2 is accepted. In this study, liquidity has a positive effect on profitability, which means that the higher the company's liquidity, the lower the profitability. This is because if the company can meet its short-term liabilities, it will also have an impact on reducing profits for the company.

3. Company size has a significant effect on profitability

The results of the regression analysis for the firm size variable note that the regression coefficient is -0.009. The t test results for the firm size variable obtained a negative value of -1.125 with a significance level greater than the specified significance level (0.265 > 0.050), it can be concluded that company size has no significant effect on profitability in Islamic banks registered in the 2013-2018 period. In other words, Ho3 in this study is accepted and Ha3 is rejected. In this study, company size has a negative effect on profitability, which means that large company sizes are not always easier to obtain external capital. Companies that have good prospects in the future will influence investors in investing in the company.

4. Business Risk has a significant effect on Capital Structure

The results of the regression analysis for the business risk variable show that the regression coefficient is negative -1,500. The t test results for the business risk variable obtained a value of -0.025 with a significance level smaller than the specified significance level (0.038 <0.05), it can be concluded that business risk has a significant effect on the capital structure of Islamic banks listed in the 2013- 2018. In other words, Ho4 in this study is rejected and Ha4 is accepted. In this study, business risk has a negative effect on capital structure, which means that the use of debt to companies that have high business risk can reduce the possibility of losses that will arise. This is supported by the Trade Off Theory where companies with high business risk should use relatively low debt to avoid bankruptcy.

5. Liquidity has a significant effect on capital structure

The results of the regression analysis for the liquidity variable note that the regression coefficient is 0.229. The t test results for the liquidity variable obtained a value of 0.057 with a significance level smaller than the specified significance level (0.029 <0.05), it can be concluded that liquidity has a significant effect on the capital structure of Islamic banks listed in the 2013-2018 period. In other words, Ho5 in this study is rejected and Ha5 is accepted. In this study, business risk has a positive effect on capital structure, which means that the company will pay its obligations in the future so that additional debt will provide a positive signal.

6. Company size has a significant effect on capital structure

The results of the regression analysis for the firm size variable note that the regression coefficient is negative at 0.075. The t test results for the firm size variable obtained a value of 0.323 with a significance level smaller than the specified significance level (0.016 <0.05), it can be concluded that company size has a significant effect on the capital structure of registered Islamic banks in the 2013-2018 period. . In other words, Ho6 in this study is rejected and Ha6 is accepted. Company size has a positive effect, meaning that the larger the company size, the easier it will be for the company to get funding from outside the company or to commit debt.

7. Profitability has a significant effect on Capital Structure

The results of the regression analysis for the profitability variable note that the regression coefficient is positive at -8,982. The t test results for the profitability variable obtained a value of -0.047 with a significance level smaller than the specified significance level (0.041 < 0.05), it can be concluded that profitability has a negative effect on the capital structure of Islamic banks listed in the 2013-2018 period. In other words, Ho7 in this study is rejected and Ha7 is accepted. profitability has a negative effect. This means that the higher the company's ability to earn a profit, the higher the company's ability to be able to finance its investments using internal funds, such as retained earnings. From the results of this study, it can be concluded that profitability has a significant effect on proven capital structure.

8. Business Risk has a significant effect on Capital Structure with Profitability as an Intervening Variable

The direct effect of business risk on capital structure shows the standardized regression coefficient is negative at -0.32. The amount of direct influence (PL) p4 is -0.32, so PTL <PL (-0.3623 < -0.032), which means that profitability does not mediate the effect of business risk on capital structure. Ho8 in this study is accepted and Ha8 is rejected. The lower the company's business risk, the higher the optimal debt risk. Companies with high business risk tend to avoid financing using debt.

9. Liquidity has a significant effect on Capital Structure with Profitability as an Intervening Variable

The direct effect of liquidity shows that the standardized regression coefficient is positive at 0.132. The amount of direct influence (PL) p5 is 0.132, so PTL <PL (0.1144747 <0.132), which means that profitability does not mediate the effect of liquidity on capital structure. Ho9 in this study is accepted and Ha9 is rejected. Ho9 in this study is accepted and Ha9 is rejected. Sources of funds are very important in the company because it will affect the company's capital structure. Companies with a high level of profitability will use smaller debt because the company is able to provide sufficient funds through retained earnings.

10. Firm Size has a significant effect on Capital Structure with Profitability as an Intervening Variable

The direct effect of firm size on capital structure shows the standardized regression coefficient is negative at 0.213. The amount of direct influence (PL) p6 is 0.213, so PTL> PL (0.2434> 0.213), which means that profitability mediates the effect of firm size on capital structure. Ho10 in this study was rejected and Ha10 was accepted. Company size is often used as an indicator for the company. The size of the company affects the capital structure, it is evident that the bigger a company is, the company will tend to use a large loan amount.

D. Conclusions and Suggestions

Conclusions and suggestions that can be given based on the results of this study are as follows:

1. The company is expected to minimize business and liquidity risks in order to get maximum profit by utilizing the capital structure, so that later it will be able to increase the value of equity.
2. The company should maintain the company's growth rate by utilizing external funding, because this will be of positive value for market players, which will increase the company's effectiveness.
3. Investors are expected to consider the size of the company because it is proven to have a positive and significant effect on capital structure.

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