

From Data to Strategy: Analysis of Profitability, Tangibility, and Liquidity in Building Capital Structure of Islamic Banks in Indonesia

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Abstract. *This study investigates the impact of profitability, tangibility, and liquidity on the capital structure of Islamic banks in Indonesia from 2021 to 2023. Employing a quantitative approach, the research utilizes multiple linear regression analysis. The population consists of 13 Islamic commercial banks registered with the Financial Services Authority (OJK) during this period, with a purposive sampling method resulting in a sample of 12 banks. Data are gathered from secondary sources, specifically annual financial reports available on each bank's website. The findings reveal that while profitability and tangibility do not significantly influence capital structure, liquidity has a negative and significant impact on it. Improving liquidity management, adjusting financing policies, and focusing on operational efficiency to enhance profitability are essential. Additionally, communicating liquidity strategies to investors and training staff on liquidity risk management will support better decision-making within the bank. This research lies in its focus on Islamic banks in Indonesia, highlighting liquidity's negative impact on capital structure. It provides contemporary empirical data, practical recommendations for management, and contributes to the literature on financial practices in Islamic banking.*

Keywords: Profitability, Tangibility, Liquidity.

PENDAHULUAN

Amidst evolving global dynamics, Indonesia's Islamic banking sector faces unique challenges and opportunities. Increasing public awareness of the importance of ethical and sustainable finance is creating greater demand for Islamic banking services. In this context, capital structure management becomes crucial, especially in creating resilience and sustainable growth. Banks are third parties as intermediaries in the transfer of funds from parties who have financial resources to parties who need funds for certain purposes. Banks provide efficient savings facilities for the public and facilitate payment transactions in all sectors of the economy (Al Balushi, et, al, 2019). Banks aim to provide optimal services and maintain positive performance in the financial services sector, banks need to require adequate funds including Islamic banking (Lisa, 2016).

In managing capital, Islamic banks are faced with two main challenges, namely low asset quality and limited capital. The low asset quality of Islamic banks is evidenced by the high funding problems at Bank Muamalat, Bank Panin, Bank BJB Syariah, Bank Panin Dubai, Bank BRI Syariah and Bank Syariah Bukopin so that they have to face these problems. This situation is caused by the distribution of financing from Islamic banks is real in nature which occurs when economic conditions are down and experiencing very slow financing expansion. The second problem faced by Islamic banks is limited capital. Of the 13 Islamic Commercial Banks (BUS), only Bank Syariah Mandiri is included in the capital level which reaches Rp. 30 trillion. Other bank capital categories such as BTPN Syariah, BNI Syariah, BCA Syariah, Aceh Syariah, BRI Syariah, Bank Muamalat and Bank Mega Syariah fall into the capital category of Rp1 trillion to Rp5 trillion. Meanwhile, Bank Maybank, Bank Victoria, Bank BJB Syariah, Bank Bukopin Syariah, and Bank Panin Dubai Syariah only fall into the capital category below Rp 1 trillion. This data reflects the amount of capital owned by BUS in Indonesia today (Kontan.co.id, 2019).

With the two problems that occur in Islamic banks, there is a need for additional funding from outside parties, one of which is investors. Investors in investing their funds need to consider several aspects that can provide future profits including the capital structure owned by the Islamic bank itself (Ousama, et, al, 2020). Capital structure is an important issue for Islamic banks because the quality level of the capital structure can affect the financial condition of the Islamic bank itself. Investors will see the condition of the capital structure of Islamic banks which will be a consideration in investing their funds related to the risks and income expected by investors (Nomran & Haron, 2020).

Decisions about capital structure are very important in banking, so banks need to pay attention to the factors that influence capital structure to maximize bank value. According to Kahya, et, al (2020), the factors that influence capital structure include asset structure, company size, growth opportunity, profitability, and business risk. According to Rahmalia, et, al (2022), liquidity, sales growth, company size, dividends, asset growth, profitability, business risk, and asset structure can affect capital structure.

Profitability, tangibility, and liquidity are key indicators that can influence banks' capital structure decisions. Profitability not only reflects the financial health of the bank, but also its attractiveness to investors (Al-Sulaiti, et, al, 2018). Banks that are able to generate consistent profits find it easier to access additional capital and strengthen their market position (Darapalgia, et, al, 2024). Asset tangibility, on the other hand, serves as collateral for creditors, which can increase trust and expand access to financing. With increasing competition in the sector, Islamic banks need to evaluate and optimize their asset structure to meet capital requirements efficiently (Shawtari, 2018). Liquidity is also an important focus in the context of global economic uncertainty. In a crisis situation, banks that have good liquidity can survive and even grow, while less liquid banks may face greater risks. This phenomenon is increasingly relevant amidst changes in monetary policy and market challenges triggered by the COVID-19 pandemic as well as shifts in economic policy in Indonesia (Fitri, et, al, 2023).

Along with technological advancements and digitalization, Islamic banks are faced with the need to adapt and integrate innovation in their business models. This not only affects operational aspects, but also requires new strategies in capital management. Through this study, it is expected to identify a significant relationship between the three factors and capital structure, providing valuable insights for strategic decision-making in the Islamic banking sector. By understanding and analyzing the interaction between profitability, tangibility and liquidity on capital structure, Islamic banks can develop more effective strategies to face the existing challenges and take advantage of the emerging opportunities in this new era. This research aims to make a meaningful contribution to the development of literature and practice in Indonesia's Islamic banking sector, as well as support the broader vision of financial inclusion.

The research object taken in this study is the Islamic Commercial Bank (BUS) for the period 2021-2023. BUS is a financial institution that provides financing services in money circulation in accordance with sharia principles. BUS has a unique capital composition and is different from conventional banks because Islamic banking prohibits receiving interest-bearing fund. The data in this study uses financial statements for 2021-2023 because 2021 is the initial year of recovery after the COVID-19 pandemic, when Islamic banks faced significant challenges in maintaining liquidity and profitability due to the impact of the pandemic which disrupted economic stability. During the pandemic, many customers experienced difficulties in fulfilling their payment obligations, potentially increasing the ratio of non-performing financing and affecting banks' decisions in managing their capital structure.

METHOD

This research is included in the quantitative research category with the use of data in numerical form and descriptive statistics. The data source of this research is secondary data, sourced from the annual financial statements of BUS in Indonesia for 2021-2023 which can be accessed on the website of each bank. The population of this study consists of 13 Islamic commercial banks taken based on Sharia Banking Statistics (SPS) for the period 2021-2023. The sampling technique in the study was *purposive sampling*, so that a total sample of 12 Islamic banks was obtained.

Table 1. Sample Criteria

No	Description	Amount
1	Sharia Banks included in General Sharia Banks in Indonesia for 2021-2023	13
2	General Sharia Banks registered with OJK based on SPS consecutively from 2021-2023	(1)
3	Sharia Banks that do not have the necessary data completeness for this research	(0)

The analysis used in this study is multiple linear regression. In this analysis, several tests are needed including the Classical Assumption test which consists of normality test, multicollinearity test, heteroscedasticity test, auto correlation test, determination coefficient test, and hypothesis testing using partial test (t test).

RESULTS AND DISCUSSION

Results

The results showed a significant value of 0.200, which is greater than 0.05. Thus, it can be concluded that the research data is normally distributed. Based on the multicollinearity test results, the tolerance value for the profitability variable is 0.956 (greater than 0.10) and the VIF value is 1.046 (less than 10). This indicates that the profitability variable does not experience symptoms of multicollinearity. For the tangibility variable, the tolerance value is 0.935 (greater than 0.10) and the VIF value is 1.069 (less than 10), so it can be concluded that the tangibility variable also does not show symptoms of multicollinearity. Similarly, for the liquidity variable, where the tolerance value is 0.929 (more than 0.10) and the VIF value is 1.077 (less than 10), indicating that the liquidity variable does not experience symptoms of multicollinearity.

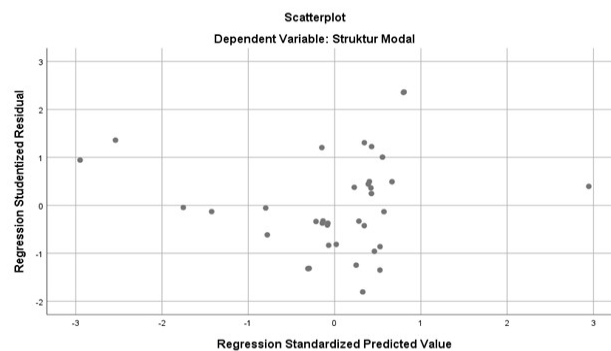


Figure 1. Heteroscedasticity Test

The results of the heteroscedasticity test show that the data points are randomly scattered above and below the number 0 on the Y-axis, without forming a certain pattern. Therefore, it can be concluded that there are no symptoms of heteroscedasticity in this regression model. The results of the autocorrelation test show that the Durbin-Watson (DW) value is in the range $2 < 2,317 < 4$. This indicates that the regression model used in this study does not experience positive or negative autocorrelation. Thus, it can be concluded that there are no autocorrelation symptoms that can affect the reliability of the analysis results. The coefficient of determination test result shows the adjusted R-squared value of 0.357. It means that about 35.7% variation in capital structure can be explained by profitability, tangibility, and liquidity variables. Meanwhile, the remaining 64.3% variation is caused by other factors not examined in this study, indicating the possible influence of external variables.

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Discussion

1. Effect of Profitability on Capital Structure.

The result of this study shows that profitability has no significant effect on capital structure, with the significance value of t test for profitability variable is 0.612, which is greater than 0.05. This

indicates that the bank does not directly rely on the profit earned to determine its capital structure. Within the framework of *Trade-Off Theory*, although profitability may provide tax benefits through debt interest deduction, banks may assess that the costs associated with increasing debt outweigh the benefits. Therefore, even though profits are available, banks do not always use those profits to increase debt. Whereas in the context of *Pecking Order Theory*, the absence of a significant effect of profitability indicates that banks prefer not to use the profit generated as a source of financing. Instead, they prefer to utilise external funds when necessary, avoiding the use of retained earnings if their liquidity is adequate.

A recent phenomenon shows that many banks nowadays prefer to use external funds, such as loans and bond issuances, to fund their operational activities, even though they record profits. This decision may be influenced by factors such as low cost of capital and favourable monetary policy, which provide greater access to external funding sources. The implication of this test result is that banks can continue to optimise their funding strategies without being tied to profitability performance. Thus, banks have more flexibility in planning expansion and investment, which can contribute to long-term growth. As support, previous research by Pratama & Fitriani (2023) is in line with these findings, showing that profitability is not always a determining factor in capital structure management. This suggests that managerial decisions in capital management are often influenced by the external context and broader policies, not just internal financial results.

2. Effect of Tangibility on Capital Structure.

The result of this study shows that tangibility has no significant effect on capital structure, with the significance value of t test for tangibility variable is 0.151, which is greater than 0.05. This indicates that although fixed assets are often considered as collateral for debt financing, the presence of high tangible assets is not a determinant factor in decisions regarding the use of debt and equity. Although fixed assets can be used as collateral, within the framework of *Trade-Off Theory*, banks may consider that relying on tangible assets alone is not enough to improve the capital structure if the cost of debt is not worth the benefits. The decision not to increase debt may be due to greater risk considerations associated with reliance on assets as collateral. From a *Pecking Order Theory* perspective, the low influence of tangibility suggests that banks do not always consider tangible assets as the main factor in funding decisions. Even if they have strong assets, the decision to take on debt may not be a priority, especially if they feel sufficient with internal funding sources or if they have good liquidity.

A recent phenomenon shows that many financial institutions are paying more attention to risk and potential return aspects in determining financing decisions, rather than simply relying on physical assets as collateral. This can be attributed to the increased focus on risk analysis and project feasibility, which are often more important than the value of the tangible asset itself. The implications of the results suggest that banks should consider various factors in the management of their capital structure, rather than relying solely on the tangibility of assets. Thus, a more holistic approach to risk and opportunity assessment can improve funding decisions and optimise capital structure. In support, research by Rofi'atun & Nabila (2021) is in line with these findings, emphasising that fixed asset ownership is not always a strong guarantee to increase bank debt. This suggests the need for a deeper understanding of the financial and managerial dynamics of capital structure management in the banking sector.

3. Effect of Liquidity on Capital Structure.

The result of this study shows that liquidity has a significant negative influence on capital structure, with the significance value of t test for liquidity variable is 0.000, which is smaller than 0.05. This indicates that banks with a high level of liquidity tend to have enough current assets to fulfil their maturing short-term debt obligations, thus reducing the need to use debt as a source of funding. In the context of *Trade-Off Theory*, this suggests that banks with high liquidity tend to avoid using debt, as they can fulfil their short-term liabilities without increasing leverage. This reflects a cautious approach in managing debt risk. While within the framework of *Pecking Order Theory*, the negative effect of liquidity is also in line with the principle that banks prefer to utilise available internal resources before seeking debt. When liquidity is high, banks feel safe not to take on the additional risk associated with debt, even though they may have sufficient profitability or tangibility.

Recent phenomenon shows that banks that maintain high liquidity are better able to manage financial risks and maintain operational stability. This is particularly important in volatile market conditions, where access to external funding may be limited. The implications of the results emphasise that good liquidity management can help banks reduce leverage and strengthen their financial position. As such, banks should focus on strategies that ensure sufficient liquidity is available to meet short-term liabilities, which in turn can improve long-term financial health.

In support, research by Nasrah & Resni (2020) is in line with these findings, emphasising that high liquidity not only affects bank operations but also contributes to the reduction of leverage. This demonstrates the importance of liquidity in managerial strategies to achieve stability and growth in the banking sector.

CONCLUSION

This study explores the effect of profitability, tangibility, and liquidity on the capital structure of Islamic commercial banks in Indonesia. Based on the analysis conducted, several conclusions can be drawn: 1) Profitability: The test results show that profitability has no significant influence on capital structure, with a significance value of 0.612. This indicates that banks do not rely solely on profit to determine capital structure, but prefer to use external funds as a source of financing, 2) Tangibility: This study found that tangibility also has no significant effect on capital structure, with a significance value of 0.151. Although fixed assets are often considered as collateral, this result suggests that financing decisions are based more on other factors, such as risk analysis and potential returns, 3) Liquidity: Liquidity has a significant negative effect on capital structure, with a significance value of 0.000. This suggests that banks with high liquidity levels tend to have enough current assets to fulfil short-term obligations, thus reducing the need to use debt.

Limitations

Behind a study, of course, there are limitations of the study. The limitation of this study itself is that the results may not be fully generalisable to all banks in Indonesia, given the limited focus on Islamic commercial banks. Banks with different characteristics and strategies may show different results in the same context. This research presents several suggestions that could be used as avenues for further investigation by subsequent researchers, including:

1. Addition of Variables: Future research should consider additional variables that may affect capital structure, such as market risk, monetary policy, and other macroeconomic factors. This would provide a more comprehensive view of capital management dynamics.
2. Use of Diverse Analytical Methods: To understand the more complex relationships between variables, it is recommended to use more advanced analytical methods, such as panel analysis or structural models. These methods can accommodate temporal dynamics and the interrelationships among variables.
3. Expansion of Scope: Subsequent research could include more banks, including conventional banks, to compare the differences in capital structure management strategies between Islamic and conventional banks.
4. Longitudinal Studies: Conducting longitudinal studies that encompass data from several previous years can offer insights into how the factors influencing capital structure change over time, especially under varying economic conditions.
5. Focus on Best Practices: Future research could explore best practices in capital structure management among successful Islamic banks, thereby providing concrete recommendations for other institutions facing similar challenges.

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