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Capital Structure, Firm Size, and Financial Performance of State-Owned and Private Banking Companies Listed on the Indonesia Stock Exchange

Dani Firmanda[1], Verlina Nadia Oktavia[2], Mutimmah Rustianawati[3]

[1,2,3] *Faculty of Economics and Business, Universitas Panca Marga*

Email corresponding author : firmandadani481@gmail.com

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ABSTRACT
This study was conducted to analyse how capital structure and company size affect financial performance. Capital structure was measured using the debt-to-equity ratio, while company size was measured based on size. A quantitative approach was used in this study. Sampling was determined using purposive sampling, a technique of selecting samples based on specific criteria that had been determined in advance. Through this technique, 10 companies listed on the Indonesia Stock Exchange in the 2022-2024 period were selected as research samples. The analysis technique applied was path analysis using SPSS version 26 software. The research findings show that capital structure has a positive and significant effect on financial performance, while company size has a positive but insignificant effect on financial performance

Keywords: ***: Banking Sector; Capital Structure; Debt to Equity Ratio; Financial Performance; Firms Size***

1. INTRODUCTION

In the post pandemic era, which continues to be shaken by global economic dynamics, the Indonesian banking sector operates amid a combination of simultaneous challenges and opportunities. According to a report by the Financial Services Authority (Otoritas Jasa Keuangan or OJK) (SP 19/GKPB/OJK/II/2024), the conventional banking industry recorded a Return on Assets (ROA) of 2.74 percent at the end of 2023. In addition, total assets of commercial banks reached approximately IDR 11,800 trillion, highlighting the sector's dominant role in the national economy. Under these conditions, the determination of capital structure, namely the proportion of debt relative to equity, and firm size, as reflected by total assets or business scale, become critical aspects to examine, as both may influence the financial performance of banks listed on the Indonesia Stock Exchange (IDX).

Essentially, the greatest challenge faced by companies in the banking subsector is how to balance the use of debt and equity while optimizing firm size to enhance financial performance such as ROA, particularly amid increasingly intense competition and rising economic risks. Although the financial sector remains relatively stable, efficiency and profitability continue to be major concerns, as evidenced by performance disparities among banks. Larger firms tend to benefit from economies of scale and better access to funding, yet they may also face potential inefficiencies. Conversely, an overly leveraged capital structure can increase risk, while an excessively conservative structure may constrain growth. Therefore, further research is necessary to examine how these two factors, capital structure and firm size, affect the financial performance of banks in Indonesia.

Table 1. ***Development of the Financial Performance of Coal Mining Companies for the 2022–2024 Period***

No	Company	ROA			Average ROA	DER			Average DER
		2022	**2023**	**2024**		**2022**	**2023**	**2024**	
1	BBCA	2.56	2.45	2.48	2.49	4.94	4.81	4.51	4.75
2	BBNI	2.46	2.61	2.51	2.52	6.35	6.02	5.76	6.27
3	BBRI	3.76	3.93	3.76	3.81	5.15	5.21	4.95	5.10
4	BBTN	0.76	0.80	0.64	0.73	14.52	13.40	13.22	13.71
5	BDMN	1.29	1.42	1.33	1.34	3.16	3.43	3.68	3.42
6	BNLI	0.79	1.00	1.38	1.05	5.78	5.44	5.08	5.43
7	PNBN	1.57	1.57	1.56	1.56	3.19	3.16	3.35	3.23
8	BNGA	2.16	2.59	2.53	2.42	5.78	5.78	5.77	5.77
9	BMRI	3.30	4.03	3.59	3.64	6.12	5.78	6.74	6.21
10	MEGA	4.00	3.47	2.56	3.34	5.87	5.07	5.37	5.43
	Total	**22.65**	**23.87**	**22.34**	**22.92**	**60.86**	**58.10**	**58.43**	**59.13**

Source: Data processed by the researcher

Based on Table 1, it can be observed that the ten companies listed on the Indonesia Stock Exchange exhibit fluctuating annual financial performance on average. Several previous studies have demonstrated similar patterns. A study by Nasution et al. (2025) shows that capital structure, as measured by the Debt to Equity Ratio (DER), does not have a significant effect on banking financial performance. Likewise, research conducted by Nuraini et al. (2025) in the property and real estate sector indicates that firm size tends to have a positive and significant impact, while capital structure is not consistently significant. However, there is still limited research that comprehensively examines the financial sector using recent data for the 2022–2024 period while simultaneously analyzing the effects of capital structure and firm size. This gap highlights the need for further investigation.

According to Hidayat (2022:8–10), capital structure can be understood as a company's effort to maintain a balance among its various sources of financing. These include short term debt with fixed characteristics, long term debt, and equity in the form of preferred and common shares. This combination is not arranged arbitrarily but is guided by established financial theories. Key theoretical frameworks include the Pecking Order Theory, which emphasizes financing preference order; the Trade Off Theory, which considers the balance between the benefits and costs of debt usage; Agency Theory, which highlights potential conflicts of interest in financial management; and the Modigliani Miller theory, which discusses the impact of capital structure on firm value. Together, these theories form the foundation for understanding how companies logically and strategically design their financing structures.

Komarudin and Tabroni (2021:1–2) explain that capital structure essentially represents the combination of equity and debt based financing, both of which play important roles in assessing a firm's financial condition. The term refers to the proportion of liabilities and equity used by a company to conduct its operations and finance its assets. In practice, capital structure is commonly expressed through the debt to equity ratio, as both funding sources are utilized to support corporate activities ranging from daily operations and capital expenditures to acquisitions and other forms of investment.

Irma et al. (2021:70) define capital structure as the composition or combination of various long term financing sources owned by a company. These sources include share capital in the form of common and preferred stock, interest bearing government securities, long term loans from external parties, retained earnings, and other long term funding sources. All of these components constitute the total capital that a company must raise to support its operational activities.

$$\boldsymbol{DER = \frac{Total\ Utang}{Total\ Modal\ Sendiri}}$$

According to Sumarson Goh (2023:47), total assets can be used as an appropriate indicator to assess the scale of a company. When a firm possesses a large amount of assets, this condition reflects that the company has reached a more mature stage, tends to be more stable, and has more promising long term prospects. The magnitude of assets is also often associated with a company's ability to dominate market share.

Irma et al. (2021:74) state that large scale companies generally have a stronger incentive to expand their operational areas and diversify their business lines. As business activities become more diversified, the risk of business failure can be spread across different segments, thereby reducing the likelihood of bankruptcy. Although large companies may still face the risk of failure, their capacity to survive and manage pressure during crisis conditions is typically much stronger than that of smaller firms.

According to Yang, as cited in Pratiwi (2020:4), firm size can be measured through total assets, as these assets serve as the primary foundation for companies in carrying out various operational activities. The larger the total assets owned, the greater the company's capacity to manage and optimize available resources. This condition allows management to have greater operational flexibility in running the company, meaning that firms with larger asset bases generally exhibit better operational flexibility than those with smaller assets.

Size = Ln (Total Aset)

According to Rahayu (2020:7), financial performance reflects how successfully a company carries out its activities, both in terms of achievement, performance outcomes, operational capability, and its ability to generate value for the firm and its shareholders. Such success is achieved when the company operates effectively meaning it is able to attain predetermined objectives and efficiently, namely by utilizing available resources without unnecessary waste.

The Indonesian Institute of Accountants (IAI), as cited in Fadrul et al. (2023:21), states that financial performance describes the extent to which a company is able to manage and control its available resources. Information regarding a company's financial position and future performance is particularly important as it is directly related to the interests of financial statement users, including dividend payment potential, wage levels, securities price movements, and the company's ability to fulfill its various financial obligations.

Panjaitan et al. (2023:104) argue that financial performance measurement is a means of assessing how well a company is able to utilize its capital optimally, both in terms of effectiveness and efficiency. This capability reflects how the company manages its resources to generate profits and sustain its operations. Moreover, the results of financial performance evaluation serve a highly strategic function, as they provide evidence to investors and the public that the company possesses credibility, sound corporate governance, and adequate capacity to meet its financial responsibilities. In other words, financial performance is not merely an internal indicator but also a communication tool that conveys a company's reputation and trustworthiness in the eyes of the public.

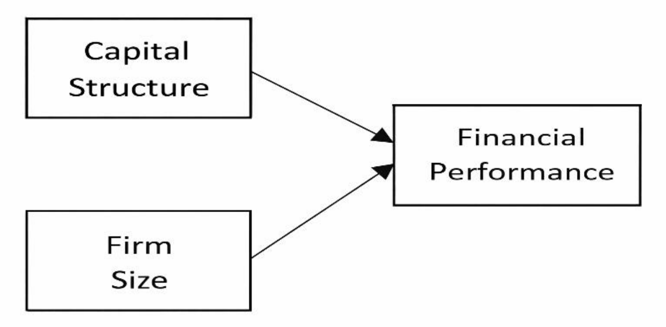
$$\boldsymbol{ROA = \frac{Earning\ After\ Tax}{Total\ Aset} X100\%}$$

According to Susilowati et al. (2019), financial performance, capital structure, and firm size are positively interrelated.

In the banking industry, financial performance is a key indicator that reflects a bank's ability to manage its resources effectively and efficiently. Financial performance in this study is proxied by Return on Assets (ROA), which indicates how well a bank generates profits from its total assets.

Capital structure represents the composition of a company's financing derived from debt and equity. An optimal capital structure is expected to minimize the cost of capital and enhance profitability. In the banking sector, prudent use of debt can support business expansion and improve financial performance when managed properly.

Meanwhile, firm size reflects the scale of a company's operations, commonly measured by total assets. Larger banking firms tend to benefit from economies of scale, better access to external funding, and greater operational stability, which may lead to superior financial performance.



Picture 1 . Conceptual Framework

Based on theoretical considerations and prior empirical findings, capital structure and firm size are expected to influence the financial performance of banking companies.

Based on the conceptual framework above, the hypotheses proposed in this study are as follows:

H1: Capital structure has a positive effect on the financial performance of banking companies.

H2: Firm size has a positive effect on the financial performance of banking companies.

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2. RESEARCH METHOD

The type of research used in this study is quantitative research by analyzing secondary data. Quantitative research is a scientific approach based on the philosophy of positivism, in which reality is considered measurable, observable, and objectively analyzable. The research is conducted on a predetermined population or sample, with data collection carried out using standardized instruments such as questionnaires, observation sheets, or numerical documents. The collected data are then processed using quantitative or statistical analysis techniques to produce measurable findings. The main objective of this method is to test systematically formulated hypotheses so that the researcher can draw empirically accountable conclusions (Sugiyono, 2021:16).

In conducting this research, the type of data used is documentary data. According to Sugiyono (2021:240), documentary data are understood as information collected from documents or archives that record various past events. These records may take the form of written texts, images, or other works that preserve traces of certain events. Such data are utilized by researchers as supporting evidence to deepen, strengthen, and validate research findings so that the results become more reliable and relevant. In this study, the documentary data consist of the annual financial statements of banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2024.

The data source used in this study is secondary data. Secondary data are data obtained by researchers indirectly, as the information has previously been collected and presented by other parties. This type of data is usually found in the form of documents, reports, archives, official publications, or other media that were available prior to the conduct of the research. Secondary data help researchers broaden their understanding of the object of study, complement information that cannot be obtained directly, and strengthen the analysis developed in the research (Sugiyono, 2021:137–138).

Table 2 ***Research Variables***

Variable	Concept	Indicator	Measurement Scale
Capital Structure (X1)	The comparison between external capital (debt) and equity capital.	Debt to Equity Ratio (DER)	Ratio Scale
Firm Size (X2)	The magnitude of a company measured by its total assets.	Firm Size	Ratio Scale
Financial Performance (Y)	The comparison between net income and total assets.	Return on Assets (ROA)	Ratio Scale

Source: Data processed by the researcher

RESULTS AND DISCUSSION

RESULT

Based on Table 3, the standard deviation of the capital structure of banking sub-sector financial companies listed on the Indonesia Stock Exchange is 15,948.830, indicating a relatively high level of variation among the observed firms. The mean value of the capital structure is 4,251.20, suggesting that, on average, companies rely substantially on debt financing. The maximum value reaches 80.016, while the minimum value is 1.00, reflecting significant disparities in capital structure policies across companies. This wide range implies that differences in funding strategies may be influenced by firm-specific characteristics, risk preferences, and managerial decisions.

Table 3 ***Descriptive Statistical***

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Struktur Modal	30	1	80016	4251.20	15948.830
Valid N (listwise)	30				

Source: Data processed by the researcher

Based on Table 4, the banking sub-sector companies listed on the Indonesia Stock Exchange show a mean firm size of 470.23, with a minimum of 142 and a maximum of 983. The standard deviation of 240.22 indicates a relatively wide variation in company sizes, suggesting that while some banks are relatively small, others are substantially larger, reflecting diversity in scale within the sub-sector.

Table 4 ***Descriptive Statistical Analysis of Company Size***

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Ukuran Perusahaan	30	142	983	470.23	240.220
Valid N (listwise)	30				

Source: Data processed by the researcher

Table 5 ***Descriptive Statistics Analysis of Financial Performance***

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Kinerja Keuangan	30	-299	520	8.07	111.128
Valid N (listwise)	30				

Source: Data processed by the researcher

Based on Table 5, the financial performance of banking sub-sector companies listed on the Indonesia Stock Exchange shows a mean value of 8.07, with a minimum of -299 and a maximum of 520. The standard deviation of 111.128 indicates a high level of variability among the firms, suggesting that while some banks perform well, others experience significant financial challenges. This wide range highlights the diversity in financial outcomes within the sub-sector.

Table 6 ***Descriptive Statistics Analysis of the Effect of Capital Structure and Firm Size on Financial Performance***

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Struktur Modal	30	1	80016	4251.20	15948.830
Ukuran Perusahaan	30	142	983	470.23	240.220
Kinerja Keuangan	30	-299	520	8.07	111.128
Valid N (listwise)	30				

Source: Data processed by the researcher

DISCUSSION

The hypothesis testing results indicate that capital structure has a positive and significant effect on the financial performance of banking companies listed on the Indonesia Stock Exchange. This suggests that an increase in the Debt to Equity Ratio (DER) in banking companies is directly associated with higher profit generation, provided that the composition between debt and equity is managed optimally. Therefore, it can be concluded that a proportional and well-managed use of debt can enhance the profitability of banks, which in turn positively impacts overall financial performance. These findings are consistent with Dewi and Sadana (2024), who reported that capital structure has a positive effect on financial performance when measured using the DER ratio. The consistency of these results strengthens the argument that effective capital structure management, particularly in optimizing the balance between debt and equity, plays a crucial role in improving a company's financial performance.

Meanwhile, the hypothesis test results reveal that firm size has a positive but not significant effect on financial performance in banking sub-sector companies listed on the Indonesia Stock Exchange. In other words, banks with larger total assets tend to exhibit better financial performance. However, this effect has not reached statistical significance. This condition may occur because some smaller-scale banks face challenges in effectively managing their liabilities or debts, which ultimately affects their financial performance outcomes. These findings align with Sazili (2022), who found that firm size has a positive but insignificant effect on financial performance. This indicates that, although companies with larger assets tend to have better financial performance, the size of these assets alone is not yet a strong determinant in significantly enhancing financial performance.

3. CONCLUSION

Based on the results of the analysis, it can be concluded that capital structure has a positive and significant effect on the financial performance of banking sub-sector companies listed on the Indonesia Stock Exchange, while firm size has a positive but not significant effect during the 2022–2023 period. The discussion in this study remains relatively limited, and further input is needed. Therefore, future researchers are encouraged to examine this topic more thoroughly and comprehensively to provide deeper insights into the relationship between capital structure, firm size, and financial performance.

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