



The Impact of Profitability on Capital Structure with Audit Committee as the Control Variable

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Abstract. This research was conducted to find out whether Return on Asset and Return on Equity have an impact on Capital Structure. In addition, the researcher also chose the Audit Committee as the control variable in this research. This research is categorized as quantitative research, where the researcher uses figures derived from the company's financial statements and annual reports. The researcher uses the purposive sampling method in this research to filter the existing data. The data taken in this research comes from a company listed on IDX 80 on the Indonesia Stock Exchange. The research sample was found as many as 240 obtained from the company's reports over the last 3 years. The analysis was carried out using the E-Views 13 software to see the impact of the variables studied. The findings found in this research are that ROA has a significant negative impact on Capital Structure and ROE has a significant positive impact on Capital Structure. As for the control variable, there was no effect on the Capital Structure variable.

Keywords: Audit Committee; Capital Structure; IDX 80; Return on Assets; Return on Equity.

1. INTRODUCTION

The management of capital structure is an important aspect of a company's financial strategy to achieve efficiency and sustainable growth. This aspect is also considered to refer to the available sources of financing that can be used as investments both now and in the future (Javaid et al., 2023). The capital structure reflects the proportion of debt and equity use, playing a key role in determining the financial stability and ability of the company to operate. The capital structure is very important, because the good and bad of a company's finances can be seen from the management of their capital structure (Putri & Puspitasari, 2022). When examined from the external side of the company, the capital structure can be influenced by the Central Bank's policies. In April 2024, Bank Indonesia (BI) raised the BI Rate to 6.25% before lowering it back to 6% in September 2024. This increase can certainly affect the capital structure, due to an increase in debt burden when interest rates are high. Interest rate growth causes additional expenses for companies (Nguyen et al., 2023). In 2024, according to the International Monetary Fund (IMF), although the condition of non-financial companies in general has improved after the pandemic. On the other hand, small companies are facing debt pressure and limited cash reserves.

In addition, internal factors of a company can also affect the capital structure. One of the factors that affect the capital structure is the company's financial performance (Fanani & Pertiwi, 2022). Financial performance can usually be measured through the profitability ratio, namely ROA and ROE. ROA measures the efficiency of using a company's assets in generating profits, while ROE shows how well shareholders' equity is used to create profits. High

performance in these two ratios can give a positive signal to management in designing an optimal capital structure. This is because the company's capital cost is a return needed by investors (Javaid et al., 2023).

In searches Ilie & Vasiu (2022), It was found that ROA had a strong impact on capital structure in the period before the Covid-19 pandemic. In addition, research from Spitsin et al., (2022) also found that profitability will be able to affect the capital structure. Although the findings made Ahmed et al., (2024), It was found that profitability had a negative impact on the capital structure.

However, the relationship between ROA, ROE, and capital structure is not always linear because it is influenced by various external and internal factors of the company. One mechanism that can moderate this relationship is good corporate governance, where the existence of an audit committee plays an important role. The audit committee is in charge of ensuring that the company's financial statements are prepared transparently and in accordance with applicable accounting standards, so that it can increase the trust of stakeholders. Because the audit committee is also in charge of advising on strategic issues (Habib et al., 2021). The audit committee consists of at least 3 people, with at least 1 person having the ability or competence in the field of finance and accounting (Al-Nsour et al., 2024). The existence of an effective audit committee can also assist management in financial decision-making, including in determining the ideal capital structure.

This research is important to conduct considering the increasingly complex challenges faced by companies in financial management, especially in the midst of changing market dynamics. By examining the impact of ROA and ROE on capital structure, as well as the role of audit committees as control variables, it is hoped that this research can make a significant contribution both theoretically and practically. The results of this research are expected to be a reference for company management in financial decision-making, as well as provide insights for stakeholders on the importance of financial performance and good governance in supporting the company's financial stability.

2. THEORETICAL STUDIES

Signal Theory

In signal theory, companies have the opportunity to increase investor interest in investing in the company through the information conveyed by the company to the market (Mahanani & Kartika, 2022). The signals conveyed by the management contain information addressed to investors, whether the investor's wishes have been fulfilled or not (Sadewo et al.,

2022). Increased revenue growth is a strong signal for increased profitability (Akhmadi, 2023). Providing information is a signal to strengthen investors' confidence in the company (Astuti et al., 2020). This theory is also the basis for voluntary disclosure. Therefore, the existence of information in the form of signals is needed by management to make decisions that will bring good to the company or investors.

Structure Modal

Capital Structure Capital is part of the financial structure intended to support the company's operations (Nurkhasanah & Nur, 2022). Capital structure can be said to be an overview of the internal or external capital that the company has to fund operational activities (Rozet & Kelen, 2022). In addition, the capital structure is a picture of a combination of debt and equity (Kabichi & Bwana, 2024). This combination is used by management to reduce the overall cost of capital. The proportion of a company's funding is often also referred to as the capital structure (Miswanto et al., 2022). Nonetheless, another opinion mentions that a company funded by debt or equity does not affect the overall value of the company (Nassim & Benraïss, 2024). In a company, the capital structure also often depends on global economic conditions. In the event of an economic shock, the company will make adjustments to the expenses and risks that will be faced (Hussain, 2026). Ideally, a good capital structure will bring balance in the company's performance and increase the company's value (Nguyen et al., 2023). Therefore, the capital structure is an inseparable part of a company, as it concerns how the sources fund the company's operations.

Profitability

Profitability is the result of activities on the management of assets or capital owned by the company which then generates profits for the company (Sadewo et al., 2022). Profitability can also be said to be the profit that a company has managed to obtain (Mere et al., 2022). To strengthen the capital structure, internal funding is one of the important things. Strengthening profitability and cash flow is essential for the stability of the company's capital structure (Rossi et al., 2026). To create value for shareholders, the rate of return on equity must be higher than the cost of capital the company has (Luu et al., 2024). In profitability, increasing ROA is the dominant factor in influencing profitability (Akhmadi, 2023). ROA is also described as a measure of efficient managerial performance, in addition to its capital structure (Ilie & Vasiu, 2022). Companies with high profits will not depend on external capital (Spitsin et al., 2022). The higher the income received, the less dependence on debt will be. (Nuanpradit, 2023). Therefore, it can be said that profitability is a determining factor that underpins the company's operations and affects its dependence on various sources of corporate funding.

3. RESEARCH METHODS

This research was carried out using a qualitative method, where the researcher used numbers derived from the ratio and ordinal scale in the company's financial statements. The *purposive sampling* method was chosen by the researcher to filter the data that became the research sample. The research sample came from the Indonesia Stock Exchange with the IDX 80 Index. In data analysis to reveal the purpose of the research, the researcher used the E-Views 13 software. This tool was chosen because it is relevant to the type of data available, namely panel data from the Indonesia Stock Exchange for the period of 2021 – 2023. The researcher observed companies listed on the Indonesia Stock Exchange with the IDX 80 Index and conducted a search of the company's performance over the last 3 years.

4. RESULT AND DISCUSSION

Descriptive Statistical Results

Descriptive statistics are a presentation of statistical analysis in general about the data studied through statistical software. In this research, the results of descriptive statistics consisting of mean, median, maximum and minimum values can be seen in table 1.

Table 1. Descriptive Statistics.

	Structure Modal	ROA	ROE	Audit Committee
Mean	-0.091	-1.272	-0.961	3.491
Median	-0.098	-1.203	-0.895	3.000
Maximum	1.184	1.353	0.643	8.000
Minimum	-1.504	-3.775	-3.142	3.000
Std. Dev.	0.503	0.597	0.517	0.997

Source : Data processed, 2024

From table 1, it can be seen that the mean value of Capital Structure is -0.091, ROA is -1.272, ROE is -0.961 and the Audit Committee is 3.491. The media value of the Capital Structure variable is -0.098, ROA is -1.203, ROE is -0.895 and the Audit Committee is 3,000. The maximum value of the Capital Structure variable is 1.184, ROA is 1.353, ROE is 0.643 and the Audit Committee is 8,000. As for the minimum value of all these variables, namely Capital Structure is -1.504, ROA is -3.775, ROE is -3.142 and Capital Structure is 3,000.

Model Test

Model testing is one of the steps to see which model is more suitable to use in seeing the best model to use as an explanation of the research results that have been analyzed.

Table 2. Test Model.

Test	Prob	Model
Chow Test	0.000	Fixed Effect Model
Hausman Test	0.000	Fixed Effect Model
Lagrange Multiplier Test	0.000	Random Effect Model

Source ; Data processed, 2024

From the analysis that has been carried out, it can be seen that the best model in this research is the Fixed Effect Model. So for this research, the researcher uses the results of the Fixed Effect Model to find out the results statistically.

Hypothesis Test

Hypothesis testing is an important step in research that aims to test pre-formulated assumptions or conjectures based on the research objectives. This process involves statistical analysis to evaluate the relationship between the variables being studied, such as independent, dependent, and control variables. The results of the hypothesis test provide answers to research questions or problems posed, by presenting empirical evidence in the form of statistical values, such as coefficients, significance values (p-values), and other test statistics.

Table 3. Hypothesis Test.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.269	0.149	-1.804	0.073
ROA	-0.137	0.040	-3.428	0.000
ROE	0.161	0.047	3.402	0.000
Audit Committee	0.051	0.040	1.259	0.209
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.947	Mean dependent var	-0.069	
Adjusted R-squared	0.917	S.D. dependent var	0.485	
S.E. of regression	0.139	Akaike info criterion	-0.830	
Sum squared resid	2.813	Schwarz criterion	0.407	
Log likelihood	176.2	Hannan-Quinn criter.	-0.330	
F-statistic	32.07	Durbin-Watson stat	2.687	
Prob(F-statistic)	0.000			

Source : Data processed, 2024

From table 3, it can be seen that the ROA variable was found to have a significant negative impact on the Capital Structure with a t-statistical value of -3.428 and a probability of 0.000. The ROE variable was found to have a significant positive effect with a t-statistical value of 3.402 with a probability of 0.000. As for the Audit Committee Variable, which was the control variable in this research, it was not found to have an effect on the Capital Structure, where the t-statistical value was 1.259 and the probability value was 0.209.

Discussion

The Influence of ROA on Capital Structure

Return on Assets (ROA) is one of the indicators of financial performance that measures a company's ability to generate profits from the total assets it owns. In the context of companies that are members of the IDX80 index on the Indonesia Stock Exchange, the results of the analysis show that ROA has a significant negative effect on capital structure. This finding contradicts research that has been conducted Njo & Jonnardi, (2022), which ROA was found to have no impact on the capital structure. And it also contradicts the findings Hutabarat (2022),

which found that this factor actually had a positive effect on the capital structure. Nevertheless, the findings of this research are in line with the Sunaryo (2020), which found that the ROA factor negatively impacted the capital structure. In the context of IDX80 companies, which are companies with good financial fundamentals, this significant negative influence suggests that they tend to optimize the use of assets to create value without relying on external financing. In addition, this approach can increase investor confidence in the company's financial health, which can ultimately support the growth of market value and the company's reputation in the eyes of stakeholders.

The Effect of ROE on Capital Structure

Return on Equity (ROE) is a financial indicator that shows the extent of a company's ability to generate profits from its equity capital. Based on data from companies that are members of the IDX80 index on the Indonesia Stock Exchange, the analysis shows that ROE has a significant positive influence on the capital structure. This finding is also contrary to what is done by Rahayu et al., (2020), where the ROE factor actually has a negative impact on the capital structure. And it also contradicts the findings Jusmansyah (2022), which found that this factor did not have an impact on the capital structure. Nevertheless, these findings are in line with those found by Muslimah et al., (2020), where the ROE factor was found to have a positive impact on the capital structure. The impact of Return on Equity (ROE) which has a significant positive effect on the capital structure of companies that are members of the IDX80 index on the Indonesia Stock Exchange reflects a growth-oriented financial strategy.

5. CONCLUSIONS AND SUGGESTIONS

From the analysis that has been carried out, it can be seen that the ROA variable has a significant negative impact on the Capital Structure and ROE has a significant positive impact on the Capital Structure. Meanwhile, the control variable in this research, namely the Audit Committee, was not found to have an effect on the Capital Structure. By relying on internal funding sources, the company is able to minimize financial risks arising from debt interest expense and potential liquidity pressures. The significant positive influence of ROE on capital structure confirms the importance of strong equity performance in supporting strategic financial decision-making.

This result is certainly inseparable from various shortcomings, for this reason future researchers can conduct research on other factors that may affect the Capital Structure. As for investors, the results of this research can certainly be a consideration to determine which

category of companies is good for investment. For academics, this finding can be an illustration that financial management is important to create trust in investors.

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