

Capital Structure and Financial Performance: The Case of Microfinance Institutions of Indonesia

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CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE: THE CASE OF MICROFINANCE INSTITUTIONS OF INDONESIA

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—Abstract—

Microfinance institutions serve two purposes: collection and distribution of funds. Microfinance enterprises use principal, mandated, and voluntary deposits to raise capital. As a function, microfinance institutions channel funds through credit supply to their members. The financial administration of microfinance institutions must be equitable, transparent, and accountable. This study aimed to examine the capital structure's effect on the profitability of cooperative microfinance in East Java. The methodology utilized is quantitative. Approximately 150 statistics are collected through the cooperative's financial report. Multiple Linear Regression (MLR) is used within SPSS for the analysis. The findings demonstrated that capital structure greatly affects profitability (RoE and RoA). In this analysis, the capital structure comprises short-term debt, long-term debt, equity financing, revenue growth, asset capacity, and the company's age. Short-term debt and equity financing variables negatively affect profitability, whereas long-term debt, revenue growth, asset capacity, and organization age have a favorable effect. Thus, it can be argued that one of the benefits of microfinance institutions is that they provide their members with lending and borrowing opportunities on a member-to-member basis.

Keywords: capital structure, financial reports, microfinance, profitability

1. INTRODUCTION

Microfinance is an institution with unique qualities compared to other organizations or institutions. It has a profit motive that members can utilize. The component of the

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business profit report that lowered the operational burden of microfinance organizations is the business revenue. Cooperative describes the microfinance institution investigated in this study. In the cooperative, the staff is accountable to the members at the annual member meeting for the financial performance. The yearly report will describe the previous year's performance accomplishments and the upcoming year's work planned. Microfinance institutions provide two intermediation roles: as collectors and fundraisers (Bougheas et al., 2021). Microfinance institutions operate with cash gathered through principal repayment and mandatory and voluntary savings (Kasali et al., 2016). According to Lisa (2021), in Indonesia, microfinance organizations provide loans to members as part of their disbursement role. In microfinance institutions, financial management must be prudent, transparent, and accountable. According to Gietzen (2017), microfinance institutions posed the least amount of liquidity risk. Therefore, it is required to have the ability to maintain liquidity. Microfinance institutions can engage in the payment of short-term obligations. Cooperatives determine the profitability of their savings and loan operations (Nagaraju et al., 38 18). According to Charitou (2019), it is more beneficial for a financial institution to have a greater capital adequacy ratio. The capital adequacy ratio can be enhanced if net expenses are high and loss reserves are low.

Microfinance institutions are legal entities that conduct microfinance based on democratic principles (Wuryani, 2013). Following the premise of microfinance institution, the economic, social, and cultural aspects of microfinance organizations are covered. In addition, microfinance institutions have the intermediary function of storing and distributing funds to microfinance institution members. In certain nations, such as Nigeria, Africa, and Croatia, microfinance organization provides their members with financial support (Gietzen, 2017; Zager et al., 2016). In addition, Gupta et al. (2020) noted that microfinance institutions have a social focus to perform better social work than organizations with a commercial orientation.

Microfinance Institutions in Pakistan offer interest-free loans to improve living conditions and alleviate poverty (Honarmand et al., 2020). Iran's financial institutions contribute to changes in the business cycle (Rahmani et al., 21 2019). There has been researching on financial institutions (Gholizadeh Keykanloo et al., 2020), (García-Pérez et al., 2020), and (Shamsuddin et al., 2020). In Iran, financial factors have a larger role in determining differences in loan interest rates. Reduced financial leverage reduces the rate of return on equity capital (Ghasemi et al., 2020). The positive and logical relationship between the share of total deposits is held by each financial institution (Shamsuddin et al., 2020). In Tunisia, microfinance institutions providing credit experienced a delay in credit payment (Mighri et al., 2019). In Ghana, Simotwo et al. (2018) and Nagaraju et al. (2018) have conducted research on cooperative objects.

According to certain studies, capital modal favorably affected profitability (Lisa, 2021; Marandu et al., 2016; Shamsuddin et al., 2020; Siddik et al., 2017; Vijayakumaran,

2017). In Jordan, Shamsuddin et al. (2020) discovered that equity funding has a considerable favorable effect on the work of RoA. Adopting equity financing is advantageous since it eliminates the need for businesses to issue extra collateral and capital and prevents financial difficulties. Like Siddiqui et al. (2020), a company with a good history typically relies on fund and equity capital rather than debt. Consequently, the company with large capital faced lower expenses with experiencing bankruptcy, which decreased their financing costs or reduced their need for external financing, resulting in greater performance.

In contrast to Shamsuddin et al. (2020), who asserted that organization size affects profitability, Quan et al. (2019) and Tinggi et al. (2015) stated that organization size has no substantial effect on profitability. However, there are relatively few studies on microfinance cooperatives. Therefore, this study aims to investigate the impact of capital structure on the profitability of microfinance in East Java cooperatives. The capital structure analysis comprises long-term debt, RoA equity, revenue growth, asset capacity, and the organization's age.

41

2. LITERATURE REVIEW

2.1 Theoretical Background

The current investigation is grounded in capital structure theory and pecking order theory. The capital structure theory attempts to describe a combination of debt and equity. The optimal capital structure maximizes the company's value while minimizing its cost of capital. Consequently, this is the objective of the capital structure (Kumar et al., 2020). Four theories are utilized to characterize the capital structure: the static trade-off theory, the agency theory, the pecking-order theory, and the bankruptcy banking theory (Yue, 2021). The fundamental problem offered by the capital structure is identifying whether adjustments to the structure influence the firm's value and capital expenses. When an organization begins to rely more on internal sources of money, its dependence on external sources is substantially reduced. Alternatively, once all of the firm's internal funds have been utilized to improve its growth, the company will employ funds that originate from outside the company to meet its financial needs, either by incurring new debt or issuing new shares. This can be accomplished by giving new shares or using debt (Alber, 2018).

Donaldson's 1961 Pecking Order Theory challenges the assumption that corporations have a particular debt-to-equity ratio that permits them to run at the lowest possible cost of capital (Agyei et al., 2020). To pay their long-term obligations, firms have a predetermined hierarchy of capital sources, according to the paper's main point. The first option is to employ the organization's resources, often retained earnings (Yıldırım et al., 2021). If this is insufficient, the next option is to get finance from other sources, such as bank loans and corporate bonds. Because investors see a fresh stock offering objectively, view it as negative news, and are only ready to purchase new shares at a discount, it is

the least desirable form of financing (Simatupang et al., 2019). Due to the prospect that this would result in value being transferred from existing shareholders to new shareholders, offering new shares at decreased prices is unlikely (Oktaviani et al., 2019).

2.2 Microfinance Institutions (MFIs)

MFIs offer several financial services to their clients under the umbrella term "microfinance," one of which is a small loan (Hermes et al., 2018). MFIs aid their economically disadvantaged clients in strengthening their personal and social capital to boost the possibility of their success in endeavors such as social entrepreneurial enterprises (Joseph et al., 2019). Most microfinance institution employees are low-income, self-employed individuals living in poverty. Their enterprises are operated from their residences. Their modest businesses are concentrated in retail stores, street sales, the production of handicrafts, agriculture, animal husbandry, and a variety of small production and service industries. Most MFI clients are female, and despite having a lower or nonexistent formal education, they have a better track record of loan repayment than male clients. They often have a lower risk of delinquent loans than men (Fianto et al., 2019).

Since they cannot provide collateral, poor people do not have access to credit facilities from official credit organizations (Beisland et al., 2021). Microfinance institutions offer access to credit through either individual or group lending (Ayodele et al., 2019). Individuals with a certain amount of security, such as a high reputation among their peers and society and many sources of income, can acquire direct loans from MFIs (García-Pérez et al., 2020). A further option for providing loans is developing a small group of individuals to get the same type of financial service. Typically, poor individuals may form smaller groups, and each member will accept joint accountability, also known as joint liability, for the loan (Adusei et al., 2019). This means that each person will be responsible for themselves and the group as a whole. Several empirical studies have demonstrated that self-selected groups perform better than MFI-selected groups. This is because concerns associated with underinvestment can be addressed, and repayment rates can also be enhanced (N'Guessan et al., 2021). The poor also create larger groups of 30 to 100 individuals, known as the village banking model, and use this approach to secure loans for the larger group instead of for themselves individually (Hussain et al., 2020).

2.3 Microfinance Institutions (MFIs) in Indonesia

In Indonesia, Bank Indonesia categorizes microfinance institutions into two distinct groups: those linked with banks and those not affiliated with banks. Unaffiliated microfinance organizations often take the shape of savings and loan cooperatives or individual savings and loan units. The regulations established by the Minister of Cooperatives and SMEs serve as the basis for the cooperatives' governing bodies. Moreover, non-bank microfinance institutions are considerably easier to interact with

personally. In addition, a greater emphasis is placed on trust, the existence of a motive to help one another, credit limits, the time of credit issuance, and payment mechanisms. Microborrowers in Tunisia have access to microfinance for various purposes (Mighri et al., 2019). The objective of the micro borrower, from both an economic and a social standpoint, is to accelerate the loan repayment rate. The microfinance institution supervises the loan amount that has been disbursed. The loan is required to oversee the loan repayment process while it is being implemented. The borrower's ability should provide the nominal amount. Then, it is necessary to examine the borrower's physical location, namely the distance between their residence and the microfinance institution. Due to its registered members' contributions, the cooperative established its initial financial footing. The existence of microfinance institutions reduces the severity of poverty in rural areas and improves the well-being of household members, according to (Kasali et al., 2016).

2.4 Microfinance Institutions (MFIs) Performance

The return-on-investment ratio indicates how much profit may be generated from capital investment (Anarfo, 2015). The performance and effectiveness evaluation result is derived from owner equity (Marandu et al., 2016). The performance of owner investments, the computation of ratios, and the efficiency of firm performance can be used to assess if the owner equity return should be implemented. According to Zeitun et al. (2014), owner equity includes capital payment; the authors argue that the higher the ratio, the higher the company's productivity. The income is generated by utilizing the effective indicator, the income ratio on assets (Murniati, 2016). As a result, the asset measurement is more accurate, and the ratio of income to assets has increased. The proportion of an organization's size is to its total assets (Chang et al., 2021; Dong et al., 2022; Li et al., 2022).

2.5 Capital Structure and Microfinance Institutions (MFIs) Performance

A corporation's performance will be increased by its efficient capital structure. The capital structure of a firm has a considerable impact on financial success, according to Shamsuddin et al. (2020). The link between RoA and short-term debt, long-term debt, equity financing, and equity is significantly positive. Short-term debt, long-term debt, and equity financing constituted the capital structure. According to earlier findings, using long-term debt and equity financing is more advantageous for capital owners in Jordan compared to using short-term debt. This was determined to be true. Long-term debt often carries a slightly higher interest rate than its shorter-term counterpart. However, the company will have additional time to repay the principal and interest on the loan. Therefore, the financial risk associated with long-term debt requires the equity owner to earn a high-risk premium and investment return. This is due to the greater maturity of long-term debt. According to Giarretta et al. (2021), the company's financing comes from debt. According to Murniati (2016), the two key components for calculating ROA are margin and asset turnover, capitalizing on the company's assets to attain higher

levels of profitability. The next step is establishing internal funding, which can be accomplished if the business has a high degree of profitability and relatively little debt.

3. METHODOLOGY

The quantitative research design was adopted to carry out the present study. Primary and secondary data from cooperative microfinance in East Java, Indonesia, were used in this study. The preliminary data refers to the organization's ³⁷, gathered from direct interviews with the cooperative's administration. Meanwhile, the secondary data is ⁷ the form of a joint financial report, which includes information such as profitability, short-term debt, long-term debt, equity finance, income growth, and organizational capacity. The data is derived from cooperatives in East Java before the ¹⁴ pandemic in 2019. Around 150 data are analyzed using multiple linear regressions to test ⁷ the influence of the independent variable on the dependent variable. As a result, the independent variables are short-term debt, long-term debt, equity financing, income growth, organizational capacity, and the organization's age, whereas the dependent variable is profitability. There is also the multiple regression equation, which is as follows:

$$ROA_{it} = \beta_0 + \beta_1 STD_{it} + \beta_2 LTD_{it} + \beta_3 ETQ_{it} + \beta_4 Capacity_{it} + \beta_5 Growth_{it} + \beta_6 Age_{it} + \varepsilon_{it}$$

Where:

<i>LTD</i>	: long-term debt ⁴⁹
<i>STD</i>	: short-term debt
<i>ETQ</i>	: equity financing
<i>Growth</i>	: income growth
<i>Capacity</i>	: the capacity of a firm
<i>Age</i>	: age of the organization
<i>ROA</i>	: the return on total assets

Measurement of Variable:

1. The measurement of Short Term Debt (STD) is short-term debt divided by asset total (Ashraf et al., 2017; Habib et al., 2016). ¹⁸
2. The measurement of Long Term Debt (LTD) is long-term debt divided by total assets (Shamsuddin et al., 2020). ²³
3. The measurement of Equity Financing (ETQ) is the total equity divided by total assets. ³⁶
4. The measurement of growth is the current year's sales subtracted from the previous year's sales, then divided by the current year's sales. ¹¹

5. The measurement of organizational age is the age observation date minus the start date.
6. Implementing the capacity measurement of the company is $\log(\text{Total assets})$.
7. Return on Assets (ROA) is net income divided by the total asset.

4. RESULTS

According to the data obtained from the microfinance institutions, 150 data of cooperatives had analyzed. The analysis of descriptive statistics of the study result can be seen in Table 1 as follows.

According to Table 1, the average score for the distribution of range data falls between 17.587 and 61.684, with a mean of 29.996.49. ROA demonstrates that the distribution of the data numbers ranges from 11.879 to 54.369, with an average of 22,111.98. In addition, Short-Term Debt (STD) reveals that data distribution ranges from 40 to 78, with an average of 54,24. Long-Term Debt (LTD) indicates that the distribution of data numbers ranges from 2.550 to 13.635, with an average of 6.656,96. Then, ETQ demonstrates that the data range is distributed between 4.358 and 16.827, with an average of 7,538,94. In addition, CAPACITY reveals that the data range is distributed between 1.123 and 2.924, with an average of 1.875,10. Therefore, the result of the growth value shows that the data range is between 7.478 and 9.051, with an average of 8.259,03. In addition, the age result indicates that the data number distribution range is between 170 and 999, with an average of 876,75.

4.1 Normality Test

The residual normality test employs the non-parametric Kolmogorov–Smirnov statistical test (K-S). Residual data are normally distributed in the profitability variable where the Kolmogorov–Smirnov value is approximately 1,359 and significant at 0.064. Then, if the value of Kolmogorov–Smirnov for the profitability variable with ROA proxy is approximately 0.23 and significant at 0.072, it indicates that the residual data are also normally distributed. In addition, because the value of Kolmogorov–Smirnov is around 0.145 and significant at 0.062 for short-term debt, residual data are regularly distributed. As the value of Kolmogorov–Smirnov is approximately 0.2219 and significant at 0.073 for long-term debt, residual data are similarly normally distributed.

Table 1. Descriptive Statistics

Information	ROA	STD	LTD	ETQ	CAPACITY	GROWTH	AGE
Minimum	11,879.00	40.00	2,550.00	4,358.00	1,123.00	7,478.00	170.00
Maximum	54,369.00	78.00	13,635.00	16,827.00	2,924.00	9,051.00	999.00
Mean	22,111.98	54.24	6,656.96	7,538.94	1,857.10	8,259.03	876.75
Std. Deviation	7,009.58	6.27	1,802.24	1,477.59	224.90	353.24	111.85
Kolmogorov- Smirnov	0.236	0.145	0.219	0.213	0.176	0.214	0.164
Asymp. Sig. (2-tailed)	0.072	0.062	0.073	0.068	0.079	0.067	0.072

As the value of Kolmogorov–Smirnov for the equity financing variable is 0.213 and significant at 0.068, the residual data are regularly distributed. As the value of Kolmogorov–Smirnov for the income growth variable is 0.214 and significant at 0.067, the residual data are periodically distributed. In terms of the company's age, Kolmogorov–Smirnov's value is 0.164 and significant at 0.072, indicating that residual data are normally distributed.

16

4.2 Autocorrelation Test

The autocorrelation test aimed to test the linear regression to determine the correlation between the intruder errors to the t period and the intruder error to the t-1 period (previously). In Table 2, autocorrelation tests to the profitability endogen, variable with RoA proxy shows Durbin Watson's value (DW) is 1,753. Then, the Durbin Watson table (DW) value with a total n=150 and independent variable 6 (k=6) dl around 1.651 and du is 1.817. Furthermore, the provision showing positive or negative autocorrelation is $dl < DW < 4 - du$. Then, the autocorrelation test results show that the value is $1.651 < 1.753 < 1.817$. It can be concluded that there is no autocorrelation, either positive or negative. The autocorrelation in the profitability endogen variable using the RoA proxy tools shows that Durbin Watson's (DW) value is 1.753.

In Table 3, autocorrelation tests to the profitability endogen variable with ROE proxy show Durbin Watson's (DW) value is 1.734. The Durbin Watson Table (DW) value with the total n=150 and independent variable 6 (k=6) dl are 1,651, and du is 1,817. Then, the provision of the positive or negative condition is $dl < DW < 4 - du$. In the end, the result of autocorrelation test shows $1,651 < 1,734 < 1,817$. It can be concluded that there is no autocorrelation, either positive or negative. The autocorrelation test to the profitable endogen variable with the ROE proxy tool shows that Durbin Watson (DW) value is 1,734.

6

Table 1. RoA Model Summary

Model	R	R Square	Adjusted R Square	Std. An error in the Estimate	Durbin – Watson
1	0,753	0,568	0,550	4704,56400	1,753

a. Predictors: (Constant), AGE, STD, LTD, GROWTH, CAPACITY, ETQ

b. Dependent Variable: ROA

4.3 Recursive Assumption Test

19

According to Table 2, the results of the recursive assumption test indicate that the tolerance value is greater than 0.10 and VIF is less than 0.10. The model test result, therefore, satisfies the recursive capital assumption. In the regression model, it can be inferred that the capital does not exhibit multicollinearity between independent variables.

Table 2. Recursive Assumption Test on the Variable of Dependent Return on Assets

Independent Variable	Tolerance	VIF	Conclusion
STD	0,814	1,228	No relationship (mutually independent)
LTD	0,788	1,252	No relationship (mutually independent)
ETQ	0,714	1,401	No relationship (mutually independent)
CAPACITY	0,765	1,307	No relationship (mutually independent)
GROWTH	0,886	1,129	No relationship (mutually independent)
AGE	0,781	1,281	No relationship (mutually independent)

Table 3. F Test (Simultaneously) on RoA

Model	Sum of Square	Df	Mean Square	F	Significant
1 Regression	4156000871.508	6	692666811.918	31,296	0,000
Residual	3165007908.465	443	22132922.437		
Total		149			

a. Dependent Variable: ROA

b. Predictors: (Constant), AGE, STD, LTD, GROWTH, CAPACITY, ETQ

Furthermore, [Table 46](#) of significance test shows that the value $< 0,05$ (0,000). The Simultaneous test of short-term debt, long-term debt, equity financing, organizational capacity, income growth, and organizational age affects profitability as measured by Assets. Based on [Table 3](#), hypothesis 1 is accepted.

Table 4. RoA Coefficient Linear Test

Independent Variable	Dependent Variable	Standardized Coefficients Beta	t-Statistic	p-Value	Description
STD	ROA	-0,165	-2.705	0.008	Significant
LTD	ROA	0,356	5.785	0.000	Significant
ETQ	ROA	0,288	4.420	0.000	Significant
CAPACITY	ROA	0,173	2.749	0.007	Significant
GROWTH	ROA	0,386	6.614	0.000	Significant
AGE	ROA	0,261	4.192	0.000	Significant

4.4 Partial Test

In [Table 4](#), [t₁₇](#) effect of short-term debt (X1) has a substantial impact on Return on Equity (Y1), as indicated by the p-value 0.05 (0.001) and the path coefficient of -0.152. Under the assumption that the other independent variables remain constant, the path coefficient specifies that if each unit of the short-term debt variable increases, the Return on Equity variable will decrease by approximately 0.152, assuming that the other

independent variables remain constant. This study concluded that short-term debt significantly impacts Return on Equity. Moreover, in table 9, the effect of short-term debt (X1) has a substantial impact on Return on Asset (Y2) with a p-value of 0.05 (0.008) and a path coefficient of around -0.165. If each relative unit in the variable of short-term debt increases, the variable of Return on Asset will fall by approximately 0.165, assuming that the other independent variables remain constant. In addition, the finding indicated that short-term debt had a substantial impact on Return on Assets. Based on Table 4's hypothesis (1a), it is agreed that short-term debt affects profitability.

The long-term debt effect (X2) in Table 4 substantially impacts Return on Asset (Y2) since the p-value is less than 0.05 and the path coefficient is 0.356. The path coefficient specifies each relative unit by which the variable of long-term debt increases. Assuming that all other independent variables remain the same, the Return on Asset variable will be increased by approximately 0.356. In addition, the finding indicated that long-term debt had had a substantial impact on Return on Assets. Based on Tables 8 and Table 9, it is acknowledged that short-term debt affects profitability (1b).

Table 4 demonstrates that the effect of equity financial (X3) has a substantial influence on Return on Asset (Y2), as indicated by a p-value of 0.05 and a path coefficient of 0.356. The route coefficient specifies each relative unit of the effect of varied increases in equity funding. Assuming that the other independent variables remain unchanged, the Return on Asset variable will be increased by approximately 0.356. This study discovered that the effect of equity financing substantially impacts the return on assets. According to Table 4's hypothesis (1c), the impact of equity financing on profitability is accepted.

Table 4 demonstrates that the effect of organizational capability (X4) has a substantial impact on Return on Asset (Y) due to a p-value of 0.05 (0.007) and a path coefficient of 0.173. The route coefficient identifies each relative unit through which the capacity variable of an organization rises. Assuming that the other independent variables remain constant, the Return on Asset variable will be raised by about 0.713. The third outcome of this research is that the organization's capacity substantially affects Return on Assets. Based on Tables 8 and 9, the organizational capacity hypothesis (1d) that has affected profitability is accepted.

Table 4 indicates that income growth (X5) substantially impacts Return on Asset (Y) due to a p-value of 0.05 and a path coefficient of 0.386. The path coefficient specifies each relative unit by which the variable of income growth grows. Approximately 0.38 will be added to the Return on Asset variable, assuming that the other independent variables remain unchanged. This study concluded that income increase significantly impacts Return on Assets. The hypothesis (1e) that income increase influences profitability is supported by Table 4.

5. DISCUSSION

This study demonstrates that the capital structure, comprised of various variables including short-term debt, long-term debt, equity financing, organizational capacity, income growth, and organization age, has a positive and significant impact on profitability. This indicates that the greater the capital structure, the greater the profitability. Microfinance institutions will have a tremendous opportunity to use capital structure in business, expanding their role as loan intermediaries. The return increases as the amount of credit distributed increases. Microfinance institutions' returns can boost a business's profitability. This analysis is supported by prior research indicating that capital structure has a favorable and substantial effect on profitability (Lisa, 2021; Shamsuddin et al., 2020).

In contrast to Shamsuddin et al. (2020), this study demonstrated that short-term debt negatively impacts profitability. It implies that the greater the level of short-term debt, the worse the profitability. Microfinance organizations' ability to repay their obligations will be affected by short-term debt with a repayment duration of less than one year. The microfinance institutions will have trouble repaying their short-term debt, and they will then apply an alternative source: the increase of internal capital. Another result demonstrated that long-term debt positively affects profitability. Therefore, the greater the level of long-term debt, the greater the profitability. Microfinance organizations have more than a year to pay off their debt so that long-term debt can be used to increase capital, particularly for business activities. Credit on a short-term basis enhances capital structure (Shahchera, 2020). The proportion of capital structure comprised of debt declines as a company age (Kieschnick et al., 2018).

In contrast, for the RoA proxy, equity financial has a substantial positive impact on profitability. It indicates that the greater the equity financing, the lower the RoA. Microfinance institutions can utilize internal and external capital to increase the value of their assets, enhancing their profitability.

Similar to Shamsuddin et al. (2020) this study's findings regarding organizational capacity significantly favor profitability. It implies that the capabilities of the larger organization will boost profitability. Managing a business with greater overall assets as capital also increases profitability. Microfinance institutions derive their assets from the overall number of cooperative members. The greater the number of members, the greater the asset of microfinance institutions, as principal savings, mandated savings, and voluntary savings are added. Additionally, the greater the organization's capacity, which is determined by the quantity of assets, the greater its profitability is.

The study outcome of income increase positively impacts profitability. It signifies more income growth; profitability will increase. The income obtained by microfinance institutions will increase as capital for operating the business, hence increasing its profitability. Microfinance institutions derive a portion of their income from the loan

interest paid by their members. The more members borrow, the greater their revenue will be.

Age-related factors that have positively impacted the organization's profitability are also accepted. It implies that the longer an organization has existed, the greater its profitability. Microfinance institutions have existed for a long time, and as a result, they have more experience managing capital to facilitate the attainment of profitability. Long-established microfinance organizations will be well-known to the public; as a result, citizens will be attracted to join. Moreover, the cooperative member is the source of capital from microfinance organizations.

24

6. CONCLUSION

Based on the above discussion, it is feasible to conclude that the higher the capital structure, the higher the profitability. Profitability is positively impacted by long-term debt, RoA equity, revenue growth, asset size, and the age of the business. Long-term debt has a substantial positive effect on profitability since the bigger the amount of long-term debt, the greater the improvement in profitability. Using RoA as a proxy, this is equivalent to equity financing, which has a substantial beneficial influence on profitability. Microfinance institutions can enhance their assets and profitability by utilizing internal and external resources. Income growth positively impacts profitability because higher income growth results in greater profitability. As a business's capital increases, so does the amount of money collected by microfinance institutions, allowing for growth in profitability. Large asset sizes as company capital will increase profitability. The number of cooperative members is an advantage of microfinance institutions.

7. RESEARCH IMPLICATIONS

As the number of members increases, the microfinance organization's assets will increase due to a rise in immediate savings, compulsory savings, and voluntary savings. Meanwhile, organizational age influences acceptable profitability in a good way. Long-standing microfinance institutions have a deeper understanding of capital management, contributing to their ability to achieve profitability. Individuals will be more interested in becoming members of microfinance institutions that have been in business for a long. Micro-institutions must maintain their capital structure to fulfill their intermediation function. Microfinance institutions use capital to lend money to their members. Consequently, the institution will obtain a return from the lending transaction. In addition, the microfinance organizations will receive a greater return the more cooperatively the loan is extended.

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