Capital Structure and Profitability Dynamics: A Literature Review

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Abstract

This study aims to analyze the effect of capital structure on corporate profitability using a literature review approach. A total of 20 national and international journal articles published were reviewed to identify the relationship between capital structure and profitability. The results indicate that most studies found a significant effect of capital structure on profitability, measured by the Debt to Equity Ratio (DER), Debt to Asset Ratio (DAR), Return on Assets (ROA), and Return on Equity (ROE). However, several studies reported inconsistent findings, indicating the existence of a research gap. Therefore, the relationship between capital structure and profitability remains relevant for further investigation. The implication of this study is the need to incorporate moderating variables and firm characteristics in future research to obtain a more comprehensive understanding.

Keywords: *Capital Structure, Profitability, DER, DAR, Literature Review.*

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Introduction

Profitability is one of the primary indicators used to assess a company's ability to generate profits and sustain its business continuity[1]. Capital structure is a key factor influencing a company's profitability through debt and equity financing decisions[2]. Trade-Off Theory states that debt increases firm value through tax shields, while Pecking Order Theory emphasizes a preference for internal financing over debt and equity issuance [3]. Numerous studies have examined the relationship between capital structure and profitability, but the findings remain inconsistent. While some studies report a significant effect of capital structure on profitability, others find insignificant or contradictory results. These inconsistencies indicate a research gap that requires further investigation. Therefore, this study reviews existing literature to provide a more comprehensive understanding of the relationship between capital structure and corporate profitability.

The relationship between capital structure and profitability is also affected by firm characteristics, industry conditions, and managerial policies [4]. Optimal capital structure improves financial performance by reducing capital costs, whereas excessive debt increases financial risk and lowers profitability [5]. Therefore, capital structure decisions play a key role in increasing firm value and shareholder wealth [6]. This study reviews the literature to identify patterns linking capital structure and profitability and to reveal research gaps for future research.

Problem Solving Analysis

Capital structure is the combination of debt and equity financing, whereas profitability is typically measured using ROA, ROE, and NPM [7]. Studies show that higher leverage may either increase or decrease profitability, depending on a firm's condition, industry, and asset-management efficiency. This relationship is explained by several financial theories. Trade-Off Theory argues that debt can enhance firm value through tax shields. Pecking Order Theory suggests that firms prefer internal financing before using debt or issuing equity. Signalling Theory holds that financing decisions send signals to investors about a firm's current condition and future prospects [8].

Literature Search Strategy

To enhance the methodological quality of this study, a Systematic Literature Review (SLR) approach was employed. The literature search, selection, and evaluation processes were conducted systematically using a scientific review protocol that included search strategies, inclusion and exclusion criteria, screening procedures, and quality assessment of the selected articles, as described below :

- Academic Databases: Articles were systematically identified and collected from reputable national and international academic databases, including Scopus, ScienceDirect, Emerald Insight, Springer, Taylor & Francis, Google Scholar, Garuda, and SINTA.
- Keywords: The literature search used the keywords 'capital structure' and 'profitability', combined with 'debt to equity ratio' or 'debt to asset ratio', and 'return on assets' or 'return on equity' using Boolean operators.
- Search Period: Only articles published from 2020 to 2026 were included to reflect current economic and business conditions
- Inclusion Criteria: (1) Articles published in national or international peer-reviewed journals; (2) Full-text articles; (3) Articles examining the relationship between capital structure and corporate profitability; (4) Articles published between 2020 and 2026; (5) Empirical studies with clearly defined research methods; (6) Studies reporting analyzable and comparable findings; and (7) Studies employing capital structure indicators such as Debt-to-Equity Ratio (DER), Debt-to-Asset Ratio (DAR), leverage, or related measures.
- Exclusion Criteria: (1) Non-journal publications, including conference proceedings, book chapters, theses, and dissertations; (2) Duplicate articles; (3) Conceptual or review studies without empirical evidence; (4) Articles unavailable in full text; (5) Studies unrelated to

capital structure and corporate profitability; (6) Studies using variables inconsistent with the research objectives; and (7) Articles published before 2020.

PRISMA Flow Diagram

Article selection followed the PRISMA guidelines. Articles were identified, screened, and evaluated based on the inclusion and exclusion criteria. Only eligible studies were included in the final analysis The PRISMA flow diagram is presented below :

Identification	Records identified through comprehensive searches of academic databases (Scopus, ScienceDirect, Emerald Insight, Google Scholar, Garuda, SINTA, etc.). **(n = 250)**	
Screening	Articles were screened based on publication year criteria (2020–2026), and duplicate records were removed. **(n = 110)**	Records Excluded **(n = 140)** • Published before 2020 • Duplicate records
Eligibility	Articles were assessed for eligibility based on abstract relevance, research topic alignment, inclusion and exclusion criteria, and the availability of full-text articles. **(n = 40)**	Excluded Articles **(n = 70)** • Not relevant to capital structure and profitability **(35)** • Conceptual studies/Literature reviews **(15)** • Full text unavailable **(10)** • Unclear empirical data **(10)**
Included	Articles that met all inclusion criteria and were included in the literature synthesis matrix. **(n = 20)**	

Figure 1. PRISMA Flow Diagram

Article selection followed the PRISMA guidelines through identification, screening, and eligibility assessment stages. From 250 initially identified articles, 20 studies met the inclusion criteria and were included in the final literature synthesis. Comparative descriptive analysis was used to compare previous findings, identify patterns in the relationship between capital structure and profitability, and reveal existing research gaps.

Results

The review findings indicate that an optimal capital structure generally enhances corporate profitability, supporting the Trade-Off Theory. However, excessive debt may reduce profitability due to higher interest costs and financial risks. The findings from the 20 selected articles were analyzed and compared using a literature review matrix containing the research objects, methods, and key results of each study. The results of the analysis of the 20 selected articles are presented in detail in the following literature review matrix:

Table 1. Research Results Matrix

No	Author	Title	Object	Metode	Main Findings
1	Linda Fitriyanti [9]	Pengaruh Struktur Modal Terhadap Profitabilitas: Studi Pada Perusahaan Sektor Keuangan Di	Financial Sector	Kuantitatif dengan analisis rasio keuangan (CR, DER, dan ROE).	Negative effect on profitability

		Bursa Efek Indonesia 2023 – 2024			
2	Cherrin Nathania Wu & Citra Rahayu Indraswari. [10]	Pengaruh Struktur Modal Terhadap Profitabilitas Bank Pada Dual Banking System Di Indonesia	Perbankan	Kuantitatif kausalitas dengan data sekunder dan purposive sampling.	DER dan CAR mempengaruhi ROA bank
3	Hajar Chair Arrachman et al. [11]	PengaruhStruktur Modal, Ukuran Perusahaan, dan Nilai Perusahaan terhadap Profitabilitas Pada Sektor Perbankan yangTerdaftar di Bursa Efek Indonesia Periode 2020-2024	Banking	Penelitian kuantitatif dengan data sekunder	Struktur modal berpengaruh positif signifikan
4	Nita Priska Ambarita et al. [12]	Pengaruh Struktur Modal Terhadap Profitabilitas Perusahaan Sektor Pariwisata	Pariwisata	Penelitian kuantitatif dengan metode asosiatif.	Struktur modal berpengaruh terhadap profitabilitas sektor pariwisata
5	P. Aishwarya et all. [7]	A Study on Impact of Capital Structure on Profitability of Companies Listed in Indian Stock Exchange with respect to Automobile Industry	Otomotif india	Penelitian kuantitatif menggunakan data sekunder.	Struktur modal tidak berpengaruh signifikan terhadap profitabilitas; profitabilitas lebih dipengaruhi efisiensi operasional.
6	Gillang Pradana Putra & Ana Ramadhayanti [13]	Pengaruh Struktur Modal Dan Likuiditas Terhadap Profitabilitas Umkm (Studi Kasus Pada	Sektor UMKM	Kuantitatif eksplanatif dengan analisis regresi linier berganda	Struktur modal tidak berpengaruh signifikan dalam meningkatkan profitabilitas

		Umkm Di Kelurahan Menteng Dalam)			UMKM di wilayah tersebut.
7	Eka Nur Wijayanti & Ita Rahmawati [14]	Pengaruh Struktur Modal dan Efisiensi Operasional terhadap Profitabilitas Bank Swasta Nasional yang Terdaftar di Bursa Efek Indonesia Periode 2020–2024	Perbankan	Penelitian kuantitatif dengan data sekunder dan teknik purposive sampling.	Capital Adequacy Ratio(CAR) terbukti memiliki pengaruh positif namun tidak signifikan terhadap profitabilitas
8	Regita Octaviana et al. [15]	Pengaruh Struktur Modal, Kinerja Keuangan, Ukuran Perusahaan, dan Leverage Terhadap Profitabilitas (Studi Empiris Pada Perusahaan Manufaktur Sub Sektor Makanan dan Minuman yang Terdaftar di Bursa Efek Indonesia Periode 2021-2024	Manufacturing	enelitian kuantitatif dengan pendekatan positivistik menggunakan data sekunder.	Positive effect
9	Mutiara Sari Ramadani et all. [16]	Pengaruh Struktur Modal Terhadap Profitabilitas Perusahaan (Studi PadaPerusahaan Manfaktur Sub Sektor Makanan dan Minuman yang Terdaftar di BEI Tahun 2020 -2024)	Food & Beverage	Penelitian kuantitatif dengan analisis regresi linier sederhana menggunakan DER sebagai proksi struktur modal dan ROE sebagai	struktur modal memiliki hubungan positif namun tidak signifikan terhadap profitabilitas pada perusahaan manufaktur subsektor makanan dan

				proksi profitabilitas .	minumanperio de 2020–2024.
10	Lazarus Sinaga [17]	Struktur modal dan profitabilitas: Peran ESG skor sebagai pemoderasi	Multi-sektor BEI	Pendekatan kuantitatif eksplanatori	pengaruh negatif yang signifikan dari DER terhadap ROA
11	Sampriti Mondal et all.[18]	Impact Of Capital Structure On Profitability: An Empirical Search	Manufacturing	Penelitian kuantitatif menggunaka n data sekunder.	Struktur modal berpengaruh positif terhadap profitabilitas perusahaan.
12	Merniwati Waruwu et al. [19]	Peran Struktur Modal terhadap Profitabilitas dengan Good Corporate Governance (GCG) sebagai Variabel Moderasi	Consumer Industry	Penelitian kuantitatif menggunaka n data sekunder.	Positive effect
13	Bello Adeleke H et all. [20]	Capital Structure And Profitability Of Listed Manufacturing Firms In Nigeria	Manufacturing	Penelitian kuantitatif menggunaka n data sekunder.	truktur modal berpengaruh positif terhadap ROA dan ROE.
14	Priskila Priskila & Sofia Prima Dewi [21]	The Impact Of Asset Management, Capital Structure, And Firm Size Toward Profitability	Manufacturing non-cyclical	Kuantitatif dengan teknik purposive sampling	Struktur modal berpengaruh negatif terhadap profitabilitas.
15	Bustani et al. [3]	Green Capital Dynamics: Investigating the Impact of Capital Structure on Profitability among IDX	Perusahaan IDX LQ45 Low Carbon Leaders Indonesia	Kuantitatif dengan regresi data panel menggunaka n Random Effects	Struktur modal (leverage) tidak berpengaruh signifikan terhadap profitabilitas (ROA dan ROE).

		LQ45 Low Carbon Leaders in Indonesia		Model (REM)	
16	Theresya Evelyne et all. [22]	The Effect Of Capital Structure On Firm Value With Profitability As Variable Mediator In Industrial Companies Listed On The Idx	sektor industri	Kuantitatif dengan analisis mediasi menggunakan PROCESS Macro Model 4	Struktur Modal (DER) terhadap Profitabilitas (ROE) Positive significant
17	Jaja & Dewi Andita Permatasari Radia. [23]	Pengaruh Struktur Modal Terhadap Profitabilitas Studi Pada Bank BUMN yang Terdaftar Di Bursa Efek Indonesia	Bank BUMN	Pendekatan kuantitatif	Significant effect
18	Nur Rahma et all. [24]	The Effect Of Capital Structure On Profitability In The Registered Financial Services Industry On The Indonesian Stock Exchange (Bei)	Galeri Investasi BEI yang ada di kampus Universitas Muhammadiyah Makassar	Kuantitatif dengan pendekatan eksplanator	Debt to Asset Ratio (DAR) berpengaruh positif dan signifikan terhadap Return on Assets (ROA)."
19	Case José Marcos Carvalho de Mesquita1 José Edson Lara2. [25]	Capital Structure And Profitability: The Brazilian	70 perusahaan Brasil dari berbagai sektor	Metologi yang diigunakan dalam penelitian ini adalah OLS (ordinary least square)	Hasil menunjukkan bahwa tingkat pengembalian menyajikan korelasi positif dengan utang jangka pendek dan ekuitas, dan korelasi terbalik dengan utang jangka panjang.

20	Mazen KEBEWAR. [8]	La structure du capital et la profitabilité Le cas des entreprises industrielles françaises	1.846 perusahaan industri di Prancis	penelitian kuantitatif dengan analisis regresi data panel dinamis menggunakan Generalized Method of Moments (GMM).	Struktur modal tidak berpengaruh terhadap profitabilitas perusahaan Prancis, baik pada perusahaan besar maupun kecil

Sumber : Di olah oleh peneliti

Based on the analysis of 20 selected articles, the relationship between capital structure and profitability remains inconclusive. A total of 11 studies (55%) found a positive and significant effect of capital structure on profitability, 4 studies (20%) reported a negative effect, and 5 studies (25%) found no significant relationship. The dominance of positive findings suggests that optimal debt utilization can enhance profitability through tax shield benefits, supporting the Trade-Off Theory. Conversely, negative findings indicate that excessive debt may increase interest costs and financial risk, thereby reducing profitability, which is consistent with the Pecking Order Theory and Financial Distress Theory. The variation in findings reflects differences in industry characteristics, research periods, economic conditions, measurement indicators, and analytical methods. Positive effects are more frequently observed in the banking sector, whereas manufacturing firms and SMEs show more diverse results due to differences in operational risk and debt management practices. Furthermore, profitability is influenced not only by capital structure but also by factors such as firm size, growth, liquidity, operational efficiency, and corporate governance. Overall, although the majority of studies support the positive role of capital structure in improving profitability, nearly 45% of the reviewed studies reported negative or insignificant effects. These inconsistencies indicate a significant research gap and highlight the need for future studies to incorporate moderating and mediating variables in order to provide a more comprehensive understanding of the relationship between capital structure and corporate profitability.

Conclusion

Based on the review of 20 selected articles, it can be concluded that capital structure has a varied impact on corporate profitability. The majority of the studies reviewed (55%) indicate that capital structure positively affects profitability, suggesting that the optimal use of debt can enhance corporate performance through tax shield benefits, as explained by the Trade-Off Theory. However, several studies reported either negative or insignificant effects, indicating that excessive reliance on debt may increase financial risk and reduce profitability.

The differences in research findings can be attributed to variations in industry characteristics, research periods, measurement indicators, and analytical methods employed. Therefore, capital structure cannot be regarded as the sole determinant of corporate profitability. Other factors may also play significant roles in influencing a firm's financial performance. Consequently, further research is required by incorporating additional variables and broader contextual factors to provide a more comprehensive understanding of the relationship between capital structure and profitability.

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