

The Effect of Capital Structure, Liquidity, and Company Size on Profitability in LQ-45 Index Companies on the Indonesia Stock Exchange

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ABSTRACT

The object of this study is the LQ-45 Index companies listed on the Indonesia Stock Exchange (IDX) with the aim of determining the effect of capital structure, liquidity, and company size on profitability. The research method used in this study is quantitative with a causal associative approach. The researcher used 62 LQ-45 Index companies listed on the Indonesia Stock Exchange from 2021 to 2023 as the population for this study. The research sample consisted of 20 companies, resulting in a total of 60 samples over a three-year research period. The sample was determined using purposive sampling. The data source used in this study was secondary data from the financial reports of LQ-45 Index companies listed on the Indonesia Stock Exchange from 2021 to 2023. The data analysis method used in this study was multiple linear regression analysis. The results of this study are partial, namely that capital structure has a significant effect on profitability. Liquidity has a significant effect on profitability. Firm size has a significant effect on profitability.

Keywords: : *Capital Structure; Company Size; Liquidity; Profitability.*

1. INTRODUCTION

In the business world, there are challenges that require every company to improve its performance in order to achieve its goals. A company's financial performance can be measured by its profit or earnings; the higher the profit or earnings, the better the company's performance is considered to be (Harsono & Pamungkas, 2020:847). A company's ability to generate profits within a certain period of time through its operations is called profitability. Profitability is determined by various policies and decisions, which indicate liquidity, asset management effectiveness, and debt management over operational assets (Brigham & Houston in Septiano & Mulyadi, 2023:527). To obtain the best returns, investors must carefully analyze the performance of the stocks they intend to invest in. Profitability or profit can indicate a company's performance because annual profits can show how well a company uses its

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resources to generate profits. According to Hayat et al., (2021:88) Profitability analysis aims to measure a company's ability to generate profits, whether in relation to sales, assets, or equity. Thus, profitability results can serve as a benchmark or an indication of management performance effectiveness, as assessed by the profits obtained compared to the company's sales and investments. Profitability ratios are analytical tools used to analyze a company's ability to generate profits or gains. These ratios are also referred to as operational performance ratios. The higher the value of these profitability ratios, the greater the company's ability to generate profits (Irnawati, 2021:40). Profitability indices reflect a company's ability to secure profits at the level of sales, assets, and equity capital (Hanafi, 2015 in Hanif, Hendra, and Rahajeng 2023:533).

Companies must consider internal components when maximizing resources to improve financial performance. Companies need funds to be used as capital to obtain expected profits. Companies with good capital structures conduct efficient financing. It is very important for a company to have a good capital structure. The quality of a capital structure directly impacts a company's finances, which in turn affects profitability. The Debt to Equity Ratio (DER) factor is used to calculate the capital structure in this study (Wulandari & Widyastuti, 2023:3401). Capital structure is a company's long-term expenditure, measured by comparing long-term debt with equity (Sudana, 2015:164). Meanwhile, according to Fahmi (2017:179), Capital structure is a representation of a company's financial proportions, namely between capital sourced from long-term liabilities and shareholders' equity, which are the sources of financing for a company. A company is considered liquid if it has the ability to pay such a large amount that it can meet all its financial obligations that must be paid immediately. A company that does not have the ability to pay is called illiquid. Liquidity in research is measured by the Current Ratio (CR), which is the division between current assets and current liabilities (Sudaryo & Pratiwi, 2016:5). According to Fahmi (2017:174), Liquidity is a general picture of a company's ability to meet its short-term obligations smoothly and on time, so liquidity is often referred to as short-term liquidity. Meanwhile, according to Dangnga & Haeruddin (2018:23), Liquidity is related to the ability to obtain cash when needed. Liquidity ratios are used to analyze credit because liquidity is related to a company's ability to meet its short-term obligations (Irnawati, 2021:38). Liquidity is key to business sustainability. Companies use debt to maximize their business potential. The size of a company is a large company that has been established for a long time

and has the ability to obtain capital in the capital market more easily than small companies. This means that large companies have more flexibility than small companies (Sartono in Fajaryani & Suryani, 2018:76). Company size is a measure of production used to determine the scale of a company (Oktaviyana et al., 2023:1566).

The LQ-45 index is based on stock trading liquidity and is revised every six months. It shows the market capitalization value of the 45 most liquid stocks. It serves as a liquidity indicator and has a high market capitalization value. As a result, the stocks included in the index will always change. Additionally, the LQ-45 stock index is used by investors, investment managers, and financial analysts to track the most actively traded stock prices. The LQ-45 helps the IHSG monitor stock movements. PT Jasa Marga (Persero) Tbk. is one of the companies in the LQ-45 stock index that has shown positive performance throughout 2024. This achievement reflects the company's significant performance post-pandemic, boosting foreign investor confidence to 11.33% as of July 31, 2024.

Research conducted by Rahmawati and Mahfudz (2018) explains that liquidity has no significant negative effect on profitability, capital structure has a significant negative effect on profitability, and company size has a positive and significant effect on profitability. Research conducted by Indomo (2019) explains that, partially, capital structure has a significant negative effect on profitability, company size has a positive and insignificant effect on profitability, and liquidity has a significant negative effect on profitability.

The researchers hope that the LQ-45 Index companies selected as research subjects will provide the most accurate data on how capital structure, liquidity, and business size affect their financial performance. Based on the previous explanation, the researchers will conduct a study titled "The Effect of Capital Structure, Liquidity, and Company Size on Profitability in LQ-45 Index Companies on the IDX."

2. RESEARCH METHOD

The researcher conducted this study using quantitative methods through a causal associative approach. Quantitative research is a type of research that finds (obtains) information using quantification (measurement) or statistical techniques (Sujarweni, 2020:39). According to Sugiyono, (2017:20) Causal associative describes and tests hypotheses of relationships between two or more variables whose titles are characterized by the words influence or

correlation. The researchers used 62 LQ-45 Index companies listed on the Indonesia Stock Exchange from 2021 to 2023 as the population for this study. The sample size consists of 20 companies, totaling 60 samples over a three-year research period. The sample was determined using purposive sampling. The data source used in this study is secondary data from the financial reports of LQ-45 Index companies listed on the Indonesia Stock Exchange from 2021 to 2023. Data collection techniques used documentation, online data searches, and library research. Data analysis techniques used multiple linear regression analysis. According to Sujarweni, (2020:160), Multiple linear regression analysis is used to test the validity of hypotheses proposed in research.

3. RESULTS AND DISCUSSION

RESULT

Table 1 Normality Test

Asymp. Sig. (2-tailed)	Ketentuan Sig	Keterangan
0,200	>0,05	berdistribusi dengan normal

Source: Data processed using SPSS, 2025

Table 1 shows the results of the Kolmogorov-Smirnov normality test, which obtained an Asymp Sig (2-tailed) value of $0.200 > 0.05$. It can be concluded that the research data is normally distributed and meets the normality test requirements.

Table 2 Multicollinearity Test Results

Variabel	Tolerance	Ketentuan	VIF	Ketentuan	Keterangan
Struktur Modal (X1)	0,355	>0,10	2,815	<10	Tidak Terjadi
Likuiditas (X2)	0,516	>0,10	1,937	<10	Tidak Terjadi
Ukuran Perusahaan (X3)	0,605	>0,10	1,654	<10	Tidak Terjadi

Source: Data processed using SPSS, 2025

Table 2 shows the results of the multicollinearity test above. It can be seen that the tolerance values of the capital structure, liquidity, and company size variables are 0.355, 0.516, and 0.605, respectively, which means that these values are greater than the assessment criterion of 0.10. Meanwhile, the VIF values for the variables of capital structure, liquidity, and company size are 2.815, 1.937, and 1.654, respectively, which means these values are less than 10. Therefore, the conclusion is that there is no multicollinearity in this research data because it

meets the testing criteria, namely VIF values less than 10 and tolerance values greater than 0.10.

Table 3 Heteroscedasticity Test Results

Variabel	Sig. (2-tailed)	Ketentuan	Keterangan
Struktur Modal (X1)	0,871	>0,05	Tidak Terjadi Masalah
Likuiditas (X2)	0,697	>0,05	Tidak Terjadi Masalah
Ukuran Perusahaan (X3)	0,462	>0,05	Tidak Terjadi Masalah

Source: Data processed using SPSS, 2025

Table 3 shows the results of the heteroscedasticity test conducted using the Spearman test, which indicates the unstandardized residual values for capital structure, liquidity, company size, and profitability, with significance values of 0.871, 0.697, 0.462, and 0.357, respectively, which means > 0.05 , indicating that there is no heteroscedasticity in this research data because it meets the test criteria, namely a significance value greater than 0.05.

Table 4 Multiple Linear Regression Test Results

Variabel	Unstandardized Coefficients B	Keterangan
	8,668	
Struktur Modal (X1)	0,967	Hubungan Positif
Likuiditas (X2)	0,067	Hubungan Positif
Ukuran Perusahaan (X3)	1,990	Hubungan Positif

Source: Data processed using SPSS, 2025

Table 4 shows the regression model, and the results of the multiple linear regression equation above describe the relationship between the variables, which can be explained as follows: a = The constant value of 8.668 means that profitability as the dependent variable is not influenced by any independent variables, so its value will remain at 8.668. b1 = The regression coefficient of capital structure (X1) is 0.967 and is positive, meaning that every 1-unit increase in the capital structure variable will increase the profitability variable by 0.967, assuming that all other independent variables remain constant. b2 = The regression coefficient of liquidity (X2) is 0.067 and is positive, meaning that every 1-unit increase in the liquidity variable will increase the profitability variable by 0.067, assuming all other independent variables remain constant. b3 = The regression coefficient of company size (X3) is 1.990 and is positive, meaning that an

increase of 1 unit in the company size variable will increase the profitability variable value by 1.990, assuming that other independent variables remain constant.

$$Y = 8,668 + 0,967x_1 + 0,067x_2 + 1,990x_3$$

Table 5 Results of the Coefficient of Determination Test

Model	Adjusted R Square	Keterangan
1	0,982	98,2% berpengaruh

Source: Data processed using SPSS, 2025

Table 5 shows the coefficient of determination results with an Adjusted R Square value of 0.982 or 98.2%. This means that 98.2% of the profitability variable can be explained by the capital structure, liquidity, and company size variables, while the remaining 1.8% may be influenced by other variables not included in this research model.

Table 6 t-test results

Variabel	Sig.	Ketentuan sig.	Keterangan
Struktur Modal (X1)	0,000	< 0,05	Berpengaruh
Likuiditas (X2)	0,000	< 0,05	Berpengaruh
Ukuran Perusahaan (X3)	0,000	< 0,05	Berpengaruh

Source: Data processed using SPSS, 2025

Table 6 above shows that the capital structure has a significant t-value of $0.000 < 0.05$ and a calculated t-value of $25.706 > t\text{-table } 1.67252$. This means that the capital structure has a significant effect on profitability. The liquidity variable has a significant t-value of $0.000 < 0.05$ and a calculated t-value of $4.145 > t\text{-table } 1.67252$. This means that liquidity has a significant effect on profitability. The company size variable has a significant t-value of $0.000 < 0.05$ and a calculated t-value of $17.524 > t\text{-table } 1.67252$. This means that company size has a significant effect on profitability.

DISCUSSION

The Effect of Capital Structure on Profitability

Based on the results of partial testing (t-test), capital structure affects profitability in LQ-45 Index companies listed on the Indonesia Stock Exchange from 2021 to 2023. The results of this study are consistent with those reported by researchers Wulandari and Widyastuti (2023), who stated that capital structure affects profitability. This means that capital structure is closely

related to profitability, whether from non-operational or operational activities. Capital structure, as proxied by the debt-to-equity ratio (DER), indicates that assets sourced from equity are more sustainable. In financial health assessments, which evaluate a company's financial position, an ideal capital structure is crucial to consider. This capital structure can enhance profitability and shareholder value by reducing costs, maximizing returns, and achieving a balance between risk and return levels.

The Effect of Liquidity on Profitability

Based on the results of partial testing (t-test), liquidity affects profitability in companies listed on the LQ-45 Index on the Indonesia Stock Exchange from 2021 to 2023. The findings of this study align with those reported by Farika and Dewi (2023), who stated that liquidity affects profitability. This means that an increase in liquidity enables management to achieve greater profits. Liquidity can improve profitability and fund management, especially in efficient current assets. This also increases the company's ability to pay off its short-term debt, which will also have a positive impact on the profits it achieves. Investors see this as a good ability to provide funds with the expectation of high returns.

The Effect of Company Size on Profitability

Based on partial testing (t-test), company size affects profitability in LQ-45 Index companies listed on the Indonesia Stock Exchange from 2021 to 2023. The results of this study are in line with those reported by Rahmawati and Mahfudz (2018), who stated that company size affects profitability. This means that company size can guarantee the value of a company because the company's assets are used to increase profits, so management maximizes the use of these resources to generate profits or profitability.

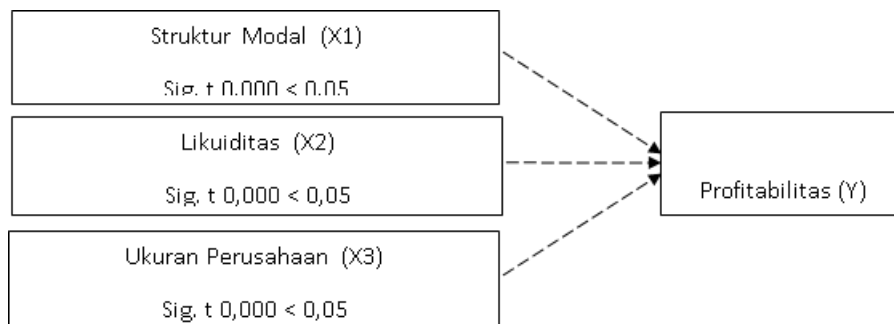


Figure 1: Results of the Conceptual Framework

4. CONCLUSION

Based on the description of the results and discussion of the partial test results (t-test) of the capital structure variable, it can be concluded that the capital structure variable has a significant partial effect on profitability in companies listed on the LQ-45 Index of the Indonesia Stock Exchange from 2021 to 2023. The liquidity variable partially has a significant effect on profitability in LQ-45 Index companies listed on the Indonesia Stock Exchange in 2021-2023. The company size variable partially has a significant effect on profitability in LQ-45 Index companies listed on the Indonesia Stock Exchange in 2021-2023. Recommendations for researchers conducting studies aligned with this research are encouraged to use other measurement indicators for variables or add supporting variables to further develop and innovate this quantitative research, thereby generating more insights into studies influencing profitability.

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