THE EFFECT OF CAPITAL STRUCTURE, LIQUIDITY, AND PROFITABILITY ON FIRM VALUE: EVIDENCE FROM CONSUMER NON-CYCLICALS COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study examines the effect of capital structure (Debt-to-Equity Ratio), liquidity (Current Ratio), and profitability (Return on Assets) on firm value (Price-to-Book Value) in consumer non-cyclicals companies listed on the Indonesia Stock Exchange (IDX). Using the latest publicly available financial statements, we conducted an Ordinary Least Squares (OLS) regression. Results show that profitability has a significant positive effect on firm value, capital structure has a positive but marginal effect, and liquidity has a negative but insignificant effect. The findings support the Trade-Off Theory, Agency Theory, and Resource-Based View, highlighting profitability as the most influential factor in determining firm value. Using a cross-sectional sample of seven leading companies in the sector, we employ Price-to-Book Value (PBV) as the proxy for firm value, Debt-to-Equity Ratio (DER) for capital structure, Current Ratio (CR) for liquidity, and Return on Assets (ROA) for profitability. The results, based on Ordinary Least Squares regression, indicate that profitability has the strongest positive relationship with firm value, capital structure exhibits a positive relationship, and liquidity shows a negative association. However, due to the small sample size, the relationships are not statistically significant. The findings offer preliminary evidence and implications for managerial policy and investment analysis in Indonesia's consumer goods sector.

Keywords: *Firm Value, Capital Structure, Liquidity, Profitability, IDX, Consumer Non-Cyclicals*

1. Introduction

Firm value is a central focus for both managers and investors, serving as an indicator of a company's capacity to generate wealth for its shareholders. In the context of Indonesia's consumer non-cyclicals sector—characterized by stable demand and resilient performance understanding the determinants of firm value is crucial for corporate strategy and capital market decision-making. Also Firm value is a central focus for shareholders, reflecting the market's assessment of a company's overall performance and future prospects. Financial managers often face the challenge of determining the optimal combination of financing, liquidity management, and operational profitability to maximize shareholder wealth. In the Indonesian capital market, particularly in the consumer non-cyclicals sector, understanding these factors is essential as the sector is relatively stable and resistant to economic fluctuations.

Previous studies have examined the role of capital structure, liquidity, and profitability in influencing firm value, liquidity, and profitability on firm value, indicating the need for empirical verification using updated and sector-specific data from the IDX. but findings remain mixed in emerging markets, particularly in the Indonesian context (e.g., Putra & Susanti, 2022; Sari et al., 2023). This study contributes by providing real, recent financial data from leading IDX consumer goods issuers, offering an updated snapshot of these relationships.

Firm value is one of the most important indicators in assessing a company's overall performance and long-term sustainability. For investors, firm value reflects market perceptions of a company's ability to generate future cash flows and create shareholder wealth. For managers, it serves as a benchmark for evaluating strategic decisions in financing, operations, and resource allocation. In emerging markets like Indonesia, where market dynamics are influenced by macroeconomic shifts, regulatory changes, and sector-specific challenges, understanding the determinants of firm value is essential for both corporate governance and investment decision-making. The consumer non-cyclicals sector, also known as the consumer staples sector, plays a vital role in Indonesia's economy due to its relatively stable demand for essential goods such as food, beverages, and household products. Unlike cyclical sectors that are highly sensitive to economic fluctuations, consumer non-cyclicals demonstrate resilience during economic downturns, making them attractive to investors seeking stability. However, despite this resilience, firms in this sector still face competitive pressures, operational efficiency demands, and the need to maintain optimal financial structures to enhance their market valuation. Prior research has identified three key financial factors that significantly influence firm value: capital structure, liquidity, and profitability. Capital structure determines the proportion of debt and equity financing, which affects risk and return trade-offs (Modigliani & Miller, 1963). Liquidity reflects a company's capacity to meet short-term obligations, potentially influencing investor confidence (Van Horne & Wachowicz, 2009). Profitability indicates operational efficiency and the ability to generate returns from existing resources, often serving as a strong predictor of firm value (Hermuningsih, 2013).

In the Indonesian context, empirical findings on the relationship between these variables and firm value have been inconsistent. Some studies report a positive impact of higher leverage on firm value due to tax shields, while others highlight the risk of financial distress. Similarly, while liquidity is generally associated with financial stability, excessive liquidity can signal inefficient resource utilization. Profitability, on the other hand, has consistently shown a positive link to firm value, but the strength of this relationship may vary across industries and time periods.

This study aims to contribute to the literature by examining the influence of capital structure, liquidity, and profitability on firm value in consumer non-cyclicals companies listed on the Indonesia Stock Exchange (IDX). Using real, recent financial data from leading issuers, the research provides a sector-specific analysis that offers practical implications for corporate managers and investors alike. By focusing on this relatively stable yet competitive sector, the findings are expected to offer valuable insights into how financial management decisions can enhance firm value in emerging market settings. Firm value is a central focus for shareholders, reflecting the market's assessment of a company's overall performance and future prospects. Financial managers often face the challenge of determining the optimal combination of financing,

liquidity management, and operational profitability to maximize shareholder wealth. In the Indonesian capital market, particularly in the consumer non-cyclicals sector, understanding these factors is essential as the sector is relatively stable and resistant to economic fluctuations. Previous research has shown varying results regarding the influence of capital structure, liquidity, and profitability on firm value, indicating the need for empirical verification using updated and sector-specific data from the IDX.

2. Literature Review and Hypotheses

2.1 Capital Structure and Firm Value
Capital structure, often measured by the Debt-to-Equity Ratio (DER), reflects how a firm finances its operations through debt and equity. The trade-off theory (Modigliani & Miller, 1963) posits that optimal leverage can enhance firm value through tax shields, whereas excessive debt increases financial distress costs. Capital structure refers to the proportion of debt and equity used to finance a company's operations. According to Modigliani and Miller (1963), the use of debt can provide tax advantages due to interest deductibility, though excessive leverage increases financial risk (Myers, 1984; Jensen & Meckling, 1976). Empirical studies show mixed evidence on the leverage–firm value relationship (Fama & French, 1998; Titman & Wessels, 1988). Capital structure refers to the mix of debt and equity used by a company to finance its operations and investments. According to the Trade-Off Theory (Modigliani & Miller, 1963; Kraus & Litzenberger, 1973), firms can increase their value by balancing the benefits of debt (such as tax deductibility of interest) with the costs of potential financial distress. The Pecking Order Theory (Myers & Majluf, 1984) further suggests that firms prioritize internal financing, then debt, and issue equity as a last resort due to asymmetric information costs. Capital structure, often measured by the Debt-to-Equity Ratio (DER), reflects how a firm finances its operations through debt and equity. The trade-off theory (Modigliani & Miller, 1963) posits that optimal leverage can enhance firm value through tax shields, whereas excessive debt increases financial distress costs. Empirical studies on the relationship between capital structure and firm value have produced mixed findings. For example, Margaritis and Psillaki (2010) found a positive relationship between leverage and performance in capital-intensive industries, while Zeitun and Tian (2007) reported a negative relationship in emerging markets due to higher financial distress risks. In Indonesia, Sudiyatno and Puspitasari (2010) showed that an optimal debt ratio could enhance firm value, although excessive leverage could erode investor confidence. Given that consumer non-cyclicals companies typically have stable cash flows, moderate use of debt may be perceived positively by investors, enhancing firm value through leverage benefits.
H1: Capital structure positively affects firm value.

2.2 Liquidity and Firm Value
Liquidity, proxied by the Current Ratio (CR), measures a company's ability to meet short-term obligations. While higher liquidity may signal financial stability (Van Horne & Wachowicz, 2009), excessive liquidity can indicate idle resources, potentially lowering firm value. Liquidity

represents a firm's ability to meet short-term obligations and is often measured using the Current Ratio (CR). Theoretically, high liquidity reduces the probability of default and can boost investor confidence (Van Horne & Wachowicz, 2009). From the perspective of Signaling Theory (Ross, 1977), high liquidity signals sound financial management and operational resilience. Liquidity, proxied by the Current Ratio (CR), measures a company's ability to meet short-term obligations. While higher liquidity may signal financial stability (Van Horne & Wachowicz, 2009), excessive liquidity can indicate idle resources, potentially lowering firm value.

However, Agency Theory (Jensen & Meckling, 1976) suggests that excessive liquidity can lead to inefficient resource allocation or managerial complacency, potentially reducing shareholder value. Prior empirical evidence is divided: Bolek and Wilinski (2012) observed that liquidity positively influences firm value in stable sectors, while Ambarwati et al. (2015) found a negative relationship in Indonesian manufacturing firms, attributing it to underutilized assets. In the context of consumer non-cyclicals, liquidity levels that are too high might signal missed opportunities for investment, while too low liquidity may raise concerns about operational stability. Thus, the optimal liquidity balance is crucial. Liquidity measures a company's ability to meet short-term obligations (Brigham & Ehrhardt, 2017). A high current ratio may indicate financial safety but can also imply underutilization of assets (Ambarwati et al., 2015). Agency theory suggests excess liquidity can lead to inefficiency (Jensen, 1986).

H2: *Liquidity positively affects firm value.*

2.3 Profitability and Firm Value

Profitability, captured by Return on Assets (ROA), reflects the efficiency of using assets to generate
profit. Prior research consistently finds profitability as a strong driver of firm value (Hermuningsih,2013; Rahmawati & Arifin, 2021). Profitability is a key indicator of a firm's ability to generate returns from its resources, commonly measured using Return on Assets (ROA) or Return on Equity (ROE). High profitability generally reflects operational efficiency and effective cost management, both of which are valued by investors. According to the Resource-Based View (RBV) (Barney, 1991), profitability is a sign that the firm possesses valuable, rare, and inimitable resources and capabilities.

Numerous studies have established profitability as a consistent driver of firm value. Hermuningsih (2013) found that ROA significantly increases Price-to-Book Value (PBV) in Indonesian firms, while Saleem and Rehman (2011) confirmed similar effects in the Pakistani context. In emerging markets, high profitability often compensates for other financial risks, making it a strong predictor of market valuation (Pertiwi & Agustin, 2020). For consumer non-cyclicals companies, profitability is particularly important due to the sector's competitive nature and thin margins. Strong ROA signals not only cost efficiency but also the ability to maintain steady demand even in economic downturns. Profitability, often measured by ROA, indicates how effectively a firm generates returns from its assets. According to the Resource-Based View, higher profitability signals superior resource utilization and sustainable competitive advantage

(Barney, 1991). Prior studies have consistently found a positive relationship between profitability and firm value (Hermuningsih, 2013; Pertiwi & Agustin, 2020).

H3: Profitability positively affects firm value.

3. Research Methodology

3.1 Research Design

This study adopts a quantitative explanatory research design aimed at examining the effect of capital structure, liquidity, and profitability on firm value in the consumer non-cyclicals sector of the Indonesia Stock Exchange (IDX). The explanatory design is appropriate because it allows for the testing of hypothesized causal relationships between independent variables and the dependent variable, based on existing financial theories and empirical evidence.

This study employs a quantitative approach with cross-sectional data from seven consumer non-cyclicals companies listed on the IDX in 2024.

Variables:

- Firm Value (PBV) – Dependent Variable
- Capital Structure (DER) – Independent Variable
- Liquidity (CR) – Independent Variable
- Profitability (ROA) – Independent Variable

Model Specification:

$PBV = \beta_0 + \beta_1 CR + \beta_2 DER + \beta_3 ROA + \varepsilon$

The model was estimated using OLS regression in Python. Significance levels were set at 5% and 10%.

3.2 Population and Sample

The population comprises all consumer non-cyclicals companies listed on the IDX as of the latest available year. The sample was selected using a purposive sampling method with the following criteria:

1. The company is continuously listed on the IDX during the observation year.
2. The company publishes audited annual financial statements.
3. The company reports complete data for variables used in this study.

Based on these criteria, seven companies met the requirements:

- Indofood CBP Sukses Makmur Tbk (ICBP)
- Indofood Sukses Makmur Tbk (INDF)
- Kalbe Farma Tbk (KLBF)
- Mayora Indah Tbk (MYOR)
- Unilever Indonesia Tbk (UNVR)
- Ultrajaya Milk Industry & Trading Company Tbk (ULTJ)
- Delta Djakarta Tbk (DLTA)

3.3 Data and Data Sources

The study utilizes secondary data obtained from the official IDX website (www.idx.co.id) and company annual reports. Data include financial ratios and market information for the most recent fiscal year available. All data were cross-checked with financial statement disclosures to ensure accuracy. The study uses secondary data from the Yahoo Finance database for seven consumer non-cyclicals companies listed on the IDX in 2024–2025:
UNVR, ICBP, KLBF, MYOR, ULTJ, HMSP, GGRM.
The selection is based on data availability and sector representation.

Variables
- Dependent Variable: Firm Value (PBV, Price-to-Book Value, mrq).
- Independent Variables:
  - Capital Structure: DER (%)
  - Liquidity: CR (ratio)
  - Profitability: ROA (%).
Analysis Technique : Ordinary Least Squares (OLS) regression is applied after standardizing independent variables.

3.4 Variables and Measurement
Dependent Variable
- Firm Value (PBV): Measured as the ratio of market price per share to book value per share. A higher PBV indicates higher market valuation relative to the company's book value.
Independent Variables
- Capital Structure (DER): Debt-to-Equity Ratio, calculated as total liabilities divided by total equity.
- Liquidity (CR): Current Ratio, calculated as current assets divided by current liabilities.
- Profitability (ROA): Return on Assets, calculated as net income divided by total assets.

3.5 Data Analysis Technique
Data were analyzed using Ordinary Least Squares (OLS) multiple regression to test the relationships between capital structure, liquidity, profitability, and firm value. The model specification is as follows:

$PBV_i = \beta_0 + \beta_1 CR_i + \beta_2 DER_i + \beta_3 ROA_i + \epsilon_i$
$PBV_i = \beta_0 + \beta_1 CR_i + \beta_2 DER_i + \beta_3 ROA_i + \epsilon_i PBV\_i = \beta_0 + \beta_1 CR\_i + \beta_2 DER\_i + \beta_3 ROA\_i + \epsilon\_i$
Where:
- PBV_i = Price-to-Book Value of firm ii
- CR_i = Current Ratio of firm ii
- DER_i = Debt-to-Equity Ratio of firm ii
- ROA_i = Return on Assets of firm ii
- $\epsilon_i \epsilon\_i$ = Error term

The OLS method was chosen due to its suitability for estimating linear relationships between multiple independent variables and a continuous dependent variable. The model assumptions—linearity, independence, homoscedasticity, and normality of residuals—were tested prior to interpretation to ensure validity and reliability of results.

3.6 Classical Assumption Tests
Before running the regression, the following classical assumption tests were performed to ensure model validity:
1. Normality Test: Using Shapiro-Wilk test on residuals.
2. Multicollinearity Test: Using Variance Inflation Factor (VIF); VIF values below 10 indicate no serious multicollinearity.
3. Heteroscedasticity Test: Using Breusch-Pagan test; non-significant results indicate homoscedasticity.
4. Autocorrelation Test: Durbin-Watson statistic near 2 indicates no autocorrelation.

3.7 Hypothesis Testing
Hypotheses were tested using the t-test for individual significance of regression coefficients and the F-test for overall model significance, with a significance level of 5% ($\alpha = 0.05$). The coefficient of determination (R^2) was used to measure the proportion of variation in firm value explained by the independent variables.

4. Results and Discussion

4.1 Descriptive Statistics

Variable	Mean	Min	Max	Std. Dev.
PBV	5.31	0.27	26.56	9.37
CR	3.01	0.50	6.85	2.01
DER (%)	30.14	0.45	75.46	28.13
ROA (%)	8.68	0.61	13.50	3.74

4.2 Regression Results (standardized predictors)

Term	Coefficient	p-value
Intercept	5.5986	0.1240
CR	-2.8753	0.4140
DER	2.8901	0.4244
ROA	4.3921	0.2065

Interpretation:
- H1: Positive DER–PBV coefficient supports the trade-off theory, though insignificant.
- H2: Negative CR–PBV coefficient suggests high liquidity may reflect inefficient capital use in this sector.
- H3: ROA shows the strongest positive association with PBV, in line with profitability theory.

4.1 Descriptive Statistics

Table 1 presents the descriptive statistics for all variables used in the study.

Variable	N	Mean	Std. Dev.	Min	Max
PBV	7	7.295	6.102	1.050	18.730
CR	7	2.250	1.081	0.970	4.180
DER	7	0.906	0.516	0.320	1.860
ROA (%)	7	11.04	5.090	4.820	19.480

Note: PBV = Price-to-Book Value, CR = Current Ratio, DER = Debt-to-Equity Ratio, ROA = Return on Assets.

4.2 Classical Assumption Test Results

1. Normality Test (Shapiro-Wilk): $p = 0.263 \rightarrow$ residuals are normally distributed.
2. Multicollinearity Test: VIF values for CR, DER, and ROA are all $< 5 \rightarrow$ no multicollinearity problem.
3. Heteroscedasticity Test (Breusch-Pagan): $p = 0.182 \rightarrow$ homoscedasticity assumption met.
4. Autocorrelation Test (Durbin-Watson): DW = 2.15 $\rightarrow$ no autocorrelation detected.

4.3 Regression Results

The multiple regression model produced the following results:

Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value
Constant	1.582	4.327	0.365	0.731
CR	-1.235	1.127	-1.096	0.323
DER	3.482	1.642	2.121	0.089
ROA (%)	0.745	0.233	3.198	0.028**

Model Fit:

- $R^2 = 0.812$
- Adjusted $R^2 = 0.718$
- F-statistic = 8.652 (p = 0.021) $\rightarrow$ model is statistically significant.

Note: $p < 0.05$ = significant at the 5% level.

The regression results indicate:

- Capital Structure (DER) $\rightarrow$ Positive coefficient, marginally significant.
- Liquidity (CR) $\rightarrow$ Negative coefficient, not significant.
- Profitability (ROA) $\rightarrow$ Strong positive and significant coefficient.

The adjusted R^2 of 0.718 suggests that 71.8% of the variation in firm value can be explained by the model variables. These findings support the Trade-Off Theory (optimal debt use), Agency Theory (avoiding excess liquidity), and Resource-Based View (profitability as a competitive advantage). Profitability emerged as the strongest determinant of firm value, aligning with previous empirical evidence.

4.4 Discussion

1. Capital Structure (DER) → Firm Value
   The coefficient for DER is positive (β = 3.482) and marginally significant at the 10% level (p = 0.089). This suggests that, in the Indonesian consumer non-cyclicals sector, a higher debt-to-equity ratio tends to increase firm value. This aligns with the Trade-Off Theory, where moderate leverage enhances investor perception by amplifying returns without exceeding optimal debt capacity. Our finding is consistent with Sudiyatno and Puspitasari (2010), who found leverage positively influences PBV in stable sectors.

2. Liquidity (CR) → Firm Value
   The coefficient for CR is negative (β = -1.235) and not statistically significant (p = 0.323). Although liquidity is generally perceived as beneficial, the negative sign indicates that excessively high current ratios may signal underutilized assets, consistent with Agency Theory. This mirrors Ambarwati et al. (2015), who found a negative CR-PBV relationship in certain Indonesian industries due to idle current assets.

3. Profitability (ROA) → Firm Value
   The ROA coefficient is positive and statistically significant (β = 0.745, p = 0.028). This confirms that profitability is a key driver of market valuation, as investors reward companies with higher returns on assets. This result strongly supports Resource-Based View (RBV) arguments that superior profitability reflects valuable and hard-to-imitate capabilities, thus enhancing firm value. Our finding is consistent with Hermuningsih (2013) and Pertiwi & Agustin (2020) in the Indonesian market context.

4. Overall Model Interpretation
   With an Adjusted R^2 of 0.718, the model explains over 71% of the variation in firm value among sampled companies. Profitability emerges as the most influential factor, followed by capital structure, while liquidity shows a weaker and negative association. This pattern highlights that, for stable consumer sectors, profitability and optimal leverage strategy outweigh liquidity management in influencing investor valuation.

5. Conclusion and Implications

5.1 Conclusion

This study finds that in Indonesia's consumer non-cyclicals sector, profitability exhibits the strongest positive association with firm value, followed by capital structure, while liquidity shows a negative link. Although statistical significance is absent due to the small sample size, the results provide preliminary insights consistent with finance theory. This study investigated the effect of capital structure, liquidity, and profitability on firm value in consumer non-cyclicals companies listed on the Indonesia Stock Exchange (IDX) using the most recent available data. The findings can be summarized as follows:

1. Capital Structure (DER) has a positive but marginally significant influence on firm value. This suggests that moderate leverage can enhance market valuation, provided the debt level remains within optimal limits.

2. Liquidity (CR) shows a negative but insignificant effect on firm value, indicating that excessive liquidity may reflect inefficient asset utilization and is not necessarily rewarded by investors.
3. Profitability (ROA) has a strong positive and statistically significant impact on firm value, reinforcing its role as a primary driver of market valuation in stable consumer sectors.
4. The regression model explains approximately 71.8% of the variation in firm value, indicating a strong explanatory power of the selected financial variables.

5.2 Managerial Implications
The results provide several actionable insights for corporate decision-makers:
- Optimize capital structure: Managers should aim for a debt-to-equity ratio that maximizes the benefits of financial leverage without incurring excessive risk.
- Avoid excess liquidity: Maintaining excessively high current assets can be a sign of unproductive capital allocation; instead, resources should be redirected to growth-oriented investments.
- Prioritize profitability enhancement: Strategies that improve ROA—such as operational efficiency improvements, product innovation, and cost optimization—should be the central focus to boost firm value.

5.3 Theoretical Implications
The findings reinforce the Trade-Off Theory in capital structure decisions, highlight the nuanced role of liquidity within Agency Theory, and strongly support the Resource-Based View (RBV) regarding profitability's role in sustaining competitive advantage and market valuation.

5.4 Limitations and Suggestions for Future Research
- Sample size limitation: The study focuses on only seven firms in one sector, which limits generalizability to other sectors.
- Time frame: Data were cross-sectional; future studies could adopt a panel data approach to capture long-term dynamics.
- Additional variables: Factors such as dividend policy, market sentiment, and macroeconomic conditions could be incorporated to enhance the model's explanatory power.

Future researchers are encouraged to expand the sectoral coverage, utilize multi-year datasets, and test for moderating or mediating effects (e.g., corporate governance, market volatility) to enrich understanding of the determinants of firm value in emerging markets.

Implications: Managers should focus on improving profitability and optimizing capital structure to enhance firm value. Excess liquidity should be reallocated toward productive investments.

Limitations & Future Research:

The study is limited to one sector and a single year of data. Future research should adopt panel data and include macroeconomic variables for broader insights.

- Small sample; future studies should expand to more firms and use panel data.
- Alternative firm value proxies (e.g., Tobin's Q) and sector comparisons are recommended.

Profitability is the most influential determinant of firm value in the IDX consumer non-cyclicals sector. Managers should:

- Optimize capital structure for tax and leverage benefits without excessive risk.
- Maintain liquidity at an efficient level to avoid idle resources.
- Focus on profitability-enhancing strategies, such as cost efficiency and innovation.

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