

Liquidity, capital structure, and firm value effects on profitability: evidence from plantation companies listed on the Indonesian stock exchange

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ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh *liquidity*, *capital structure*, dan *firm value* terhadap profitabilitas perusahaan perkebunan yang terdaftar di Bursa Efek Indonesia periode 2020–2024. Penelitian menggunakan pendekatan kuantitatif dengan data panel dari 24 perusahaan sehingga diperoleh 120 observasi. Variabel penelitian diukur menggunakan *Current Ratio* (CR), *Debt to Equity Ratio* (DER), *Price to Book Value* (PBV), dan *Return on Assets* (ROA). Analisis dilakukan menggunakan regresi data panel melalui uji Chow, Hausman, dan Lagrange Multiplier. Hasil penelitian menunjukkan bahwa *liquidity* berpengaruh positif dan signifikan terhadap profitabilitas, yang menunjukkan pentingnya pengelolaan modal kerja dalam meningkatkan efisiensi operasional perusahaan. *Capital structure* berpengaruh negatif namun tidak signifikan terhadap profitabilitas akibat tingginya risiko finansial dan beban bunga. Sementara itu, *firm value* tidak berpengaruh signifikan terhadap profitabilitas karena persepsi pasar tidak secara langsung mencerminkan kinerja operasional perusahaan perkebunan. Penelitian ini menegaskan bahwa pengelolaan likuiditas menjadi faktor utama dalam meningkatkan profitabilitas perusahaan perkebunan.

Kata Kunci: likuiditas; struktur modal; nilai perusahaan; profitabilitas; perusahaan perkebunan

ABSTRACT

This study aims to analyze the effect of liquidity, capital structure, and firm value on the profitability of plantation companies listed on the Indonesia Stock Exchange for the 2020–2024 period. The study used a quantitative approach with panel data from 24 companies, resulting in 120 observations. The research variables were measured using the Current Ratio (CR), Debt to Equity Ratio (DER), Price to Book Value (PBV), and Return on Assets (ROA). The analysis was conducted using panel data regression using the Chow, Hausman, and Lagrange Multiplier tests. The results showed that liquidity had a positive and significant effect on profitability, demonstrating the importance of working capital management in improving a company's operational efficiency. Capital structure had a negative but insignificant effect on profitability due to high financial risk and interest expenses. Meanwhile, firm value did not have a significant effect on profitability because market perception does not directly reflect the operational performance of plantation companies. This study confirms that liquidity management is a key factor in improving the profitability of plantation companies.

Keyword: liquidity; capital structure; company value; profitability; plantation companies

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1. INTRODUCTION

The plantation sector represents one of the strategic industries in Indonesia's economy, contributing significantly to commodity exports, employment generation, and overall economic stability. The characteristics of plantation industries, which are capital-intensive, involve long production cycles, and are highly influenced

by global commodity price volatility, make financial performance heavily dependent on management capability in efficiently managing financial structures. In this context, profitability becomes a key indicator reflecting the effectiveness of asset utilization and financing decisions. A higher level of profitability indicates that companies are able to optimize asset management, control financial risk, and maintain sustainable operational performance amid fluctuating commodity markets. Therefore, financial factors such as liquidity, capital structure, and firm value are considered important determinants that may influence the profitability of plantation companies listed on the Indonesia Stock Exchange (Silver et al., 2023; Valencia, 2023; Nugrahatama, 2024; Wendy, 2022; Bustaman, 2019).

Liquidity reflects a company's ability to meet short-term obligations that are directly related to operational sustainability. Companies with adequate liquidity levels have greater flexibility in financing production activities, purchasing raw materials, and managing operational costs continuously. In the plantation industry, working capital requirements are relatively large because production processes occur over long periods and require substantial initial investment before revenue is generated. Previous studies indicate that effective working capital management improves profitability through efficient asset utilization and reduced liquidity risk. However, excessively high liquidity may also result in idle cash that is not productively utilized, thereby reducing company efficiency. Consequently, the relationship between liquidity and profitability remains an empirical debate and requires further investigation in the plantation sector (Sulastri, 2023; Maya, 2023; Saputra, 2025; Avista, 2021; Muzaki, 2024).

In addition to liquidity, capital structure is another important factor influencing company profitability. Capital structure represents the proportion of debt and equity used to finance company operations. Debt usage can increase profitability through leverage effects and tax benefits, but excessive debt usage may increase bankruptcy risk and interest burdens that reduce company profits. In the plantation sector, capital structure decisions become more complex because investments are long-term and highly sensitive to commodity price fluctuations. Several empirical studies report that capital structure negatively affects profitability due to increased financial risk, while other studies find a positive relationship because debt usage increases production capacity. These inconsistent findings suggest that the relationship between capital structure and profitability remains inconclusive and requires further examination, particularly in plantation companies (Bustaman, 2019; Romansyah, 2021; Valencia, 2023; Evelyne, 2024; GEA, 2025).

Firm value is also considered a factor that may determine profitability levels. A higher firm value reflects positive investor perception regarding company prospects. *Price to Book Value* (PBV) is commonly used as an indicator of firm value because it represents market confidence in the company's ability to create value. Companies with higher market value generally have broader access to financing, lower cost of capital, and greater expansion opportunities. These conditions may enhance operational performance and improve profitability. However, several studies indicate that firm value is more influenced by market sentiment and external factors and therefore does not always reflect short-term operational performance. This condition leads to mixed findings regarding the relationship between firm value and profitability across industries (Zuhroh, 2019; Siregar, 2023; Valencia, 2023; Wendy, 2022; Avista, 2021).

Research examining the effect of liquidity, capital structure, and firm value on profitability in the plantation sector remains limited compared to studies conducted in manufacturing and banking sectors. In addition, previous studies show inconsistent findings regarding both the direction and significance of the relationship between these variables and profitability. Differences in industry characteristics, cost structures, and commodity risk levels in the plantation sector are suspected to contribute to these inconsistencies. Therefore, this study is important to provide empirical evidence regarding financial factors affecting the profitability of plantation companies listed on the Indonesia Stock Exchange, while also addressing gaps in previous research and contributing to the development of financial management literature in the agribusiness sector.

2. LITERATURE REVIEW

A. *The Effect of Liquidity on Profitability*

Liquidity reflects a company's ability to meet its short-term obligations using current assets. From a financial management perspective, adequate liquidity enables firms to maintain operational continuity, avoid default risk, and increase flexibility in making short-term investment decisions. The *Current Ratio*, as an indicator of liquidity, measures the company's ability to manage working capital efficiently. Firms with higher liquidity levels tend to have greater capacity to finance operational activities, maintain production stability, and exploit investment opportunities that may improve profitability. This condition becomes particularly important in the plantation sector, which is characterized by long production cycles, dependence on weather conditions, and substantial operational costs before generating revenue. Therefore, effective liquidity

management plays a critical role in improving company profitability (Basyith et al., 2021; Gonçalves et al., 2018; Alarussi & Gao, 2023; Hossain & Alam, 2019; Sari & Sedana, 2022).

Theoretically, the relationship between liquidity and profitability can be explained by *working capital management theory*, which states that firms with sufficient working capital are able to operate efficiently without experiencing financial disruptions. Adequate liquidity allows companies to meet short-term obligations on time, thereby reducing financial costs and increasing creditor confidence. Moreover, optimal liquidity helps companies maintain production stability and avoid operational interruptions that may reduce profits. However, excessively high liquidity may indicate idle funds that are not used productively, which can reduce asset utilization efficiency. Therefore, the relationship between liquidity and profitability is dynamic and depends on managerial capability in optimizing current asset utilization. Several empirical studies indicate that liquidity positively affects profitability because efficient working capital management increases returns generated from company assets (Kazemian et al., 2017; Yameen et al., 2019; Alghifari et al., 2022; Kumar et al., 2017; Bui & Pham, 2023).

Based on theoretical arguments and previous empirical findings, higher liquidity enables plantation companies to maintain operational stability, finance production activities, and improve asset utilization efficiency, thereby increasing profitability. Therefore, the first hypothesis is formulated as follows:

H1: Liquidity affects company profitability.

B. The Effect of Capital Structure on Profitability

Capital structure describes the composition of financing derived from debt and equity. Capital structure decisions are strategic financial decisions that determine a company's ability to obtain funds for operational and investment activities. According to *trade-off theory*, debt usage can increase profitability through tax shield benefits and leverage effects; however, excessive debt usage may increase bankruptcy risk and interest expenses that reduce company profits. Therefore, firms need to determine an optimal capital structure to enhance firm value while maintaining profitability stability. In the plantation sector, capital structure decisions become more critical because investments are long-term and require substantial funding, such as land development, crop replanting, and infrastructure expansion. These conditions often lead plantation companies to rely on debt financing as a major funding source (Kumar et al., 2017; Frank & Goyal, 2008; Bui & Pham, 2023; Ahmed & Hla, 2018; Cappa et al., 2020).

Optimal debt usage can improve profitability through increased production capacity and business expansion. However, excessive debt usage increases financial risk and reduces flexibility in dealing with revenue fluctuations. This issue becomes more complex in the plantation sector, which is highly affected by global commodity prices and environmental conditions. When commodity prices decline, companies with high leverage experience greater financial pressure because interest expenses remain fixed. This condition may reduce company profitability. Some empirical studies indicate that capital structure negatively affects profitability because higher leverage increases financial risk. However, other studies suggest that leverage can improve profitability through leverage effects. These inconsistent findings indicate that the relationship between capital structure and profitability depends on industry characteristics and economic conditions (Karadeniz et al., 2009; D'Amato, 2021; Mangku et al., 2024; Noegroho et al., 2022; Singh & Bagga, 2019).

Based on *trade-off theory* and previous research, capital structure is expected to influence company profitability. Optimal debt usage may increase profitability, whereas excessive leverage may reduce profitability. Therefore, the second hypothesis is formulated as follows:

H2: Capital structure affects company profitability.

C. The Effect of Firm Value on Profitability

Firm value reflects investor perceptions of a company's performance and future prospects. *Price to Book Value* (PBV) is commonly used as an indicator of firm value because it compares market price with book value, representing investor confidence in the firm's ability to create long-term value. Companies with high firm value generally have wider access to funding, lower cost of capital, and greater expansion opportunities. These conditions enable companies to enhance operational activities and investments that ultimately improve profitability. Therefore, firm value is considered an important factor influencing financial performance (John & Adebayo, 2013; Fitriani et al., 2026; Inayah, 2022; Melina & Endri, 2025; Budiandriani et al., 2023).

However, the relationship between firm value and profitability is not always direct. Firm value is often influenced by external factors such as macroeconomic conditions, market sentiment, government policies, and investor expectations regarding firm growth. In the plantation sector, firm value is strongly affected by global commodity prices, export policies, and sustainability issues. These conditions cause firm value not to always reflect short-term operational performance. Some studies indicate that firm value does not significantly affect profitability because stock price movements are driven more by investor perception than by fundamental performance. However, other studies suggest that firm value can improve profitability through increased investor confidence and easier access to financing (Karadeniz et al., 2009; Seth et al., 2020; Puspita & Siswanti, 2021; Noegroho et al., 2022; Maxim, 2023).

Based on theoretical arguments and previous findings, firm value is expected to influence company profitability. Higher firm value may increase investor confidence, expand funding access, and enhance company expansion capability, ultimately improving profitability. Therefore, the third hypothesis is formulated as follows:

H3: Firm value affects company profitability.

3. RESEARCH METHOD

This study employs a quantitative approach with an explanatory research design to analyze the effect of liquidity, capital structure, and firm value on the profitability of plantation companies listed on the Indonesia Stock Exchange. The quantitative approach is selected because this study aims to examine causal relationships among variables using numerical data processed through econometric modeling. The explanatory design is used to investigate the cause-and-effect relationship between the independent variables—liquidity, capital structure, and firm value—and the dependent variable, profitability. The data used in this study are secondary data in the form of annual financial statements obtained from the official Indonesia Stock Exchange website, company annual reports, and publicly available financial publications. These data sources provide consistent and reliable information for measuring financial ratios and evaluating company performance over the observation period.

The population of this study consists of all plantation subsector companies listed on the Indonesia Stock Exchange during the observation period. The plantation sector is selected due to its capital-intensive nature, long production cycle, and high exposure to commodity price volatility, making it an important context for analyzing financial performance. The sampling technique used is purposive sampling with the following criteria: (1) plantation subsector companies consistently listed on the Indonesia Stock Exchange during the 2020–2024 period, (2) companies that published complete annual financial statements during the observation period, and (3) companies with available data required to calculate all research variables. Based on these criteria, 24 companies were selected as the research sample. With an observation period of five years, the study generated 120 observations in the form of balanced panel data.

This study uses one dependent variable and three independent variables. The dependent variable is profitability, measured using *Return on Assets* (ROA). ROA is selected because it reflects the company's ability to generate profits from total assets owned. The first independent variable is liquidity, measured using the *Current Ratio* (CR), which is calculated as current assets divided by current liabilities. The *Current Ratio* measures the company's ability to meet short-term obligations. The second independent variable is capital structure, measured using the *Debt to Equity Ratio* (DER), calculated as total debt divided by total equity. DER reflects the degree of leverage used by the company in financing its operations. The third independent variable is firm value, measured using *Price to Book Value* (PBV), calculated as market price per share divided by book value per share, representing investor perception of the company's value.

Operationally, the measurement of variables in this study is defined as follows. Profitability is measured using *Return on Assets*, calculated by dividing net income after tax by total assets. Liquidity is measured using the *Current Ratio*, calculated by dividing current assets by current liabilities. Capital structure is measured using the *Debt to Equity Ratio*, calculated by dividing total debt by total equity. Firm value is measured using *Price to Book Value*, calculated by dividing market price per share by book value per share. All variables are calculated annually to maintain measurement consistency across the observation period.

The analytical method used in this study is panel data regression because the dataset combines *time series* and *cross-sectional* data. Panel data regression provides more accurate estimation by considering variations across firms and over time. The regression model used in this study is formulated as follows:

$$ROA_{it} = \alpha + \beta_1 CR_{it} + \beta_2 DER_{it} + \beta_3 PBV_{it} + \varepsilon_{it} \quad (1)$$

where ROA represents profitability, CR represents liquidity, DER represents capital structure, PBV represents firm value, α represents the constant, β represents regression coefficients, i represents the firm, t represents the time period, and ε represents the error term.

Model selection for panel data regression is conducted through three testing stages, namely the Chow test, Hausman test, and Lagrange Multiplier test. The Chow test is used to determine the best model between the *Common Effect Model* and the *Fixed Effect Model*. The Hausman test is applied to determine the best model between the *Fixed Effect Model* and the *Random Effect Model*. Furthermore, the Lagrange Multiplier test is used to determine the best model between the *Common Effect Model* and the *Random Effect Model*. The selected best model is then used for hypothesis testing.

In addition, classical assumption tests are conducted to ensure that the regression model satisfies the *Best Linear Unbiased Estimator* (BLUE) criteria. The classical assumption tests include multicollinearity testing to examine relationships among independent variables, heteroskedasticity testing to assess the variance consistency of residuals, and autocorrelation testing to detect correlations among residuals. Hypothesis testing

is conducted using a significance level of 5 percent. Hypotheses are accepted when the probability value is less than 0.05. All data processing in this study is conducted using econometric software such as *EViews*, *Stata*, or other statistical software commonly used in panel data financial research.

4. RESULTS AND DISCUSSION

The results of panel data regression testing using the *Common Effect Model* approach indicate that the liquidity variable, measured by the *Current Ratio* (CR), has a positive and significant effect on company profitability measured by *Return on Assets* (ROA). The coefficient value of 1.233966 with a probability value of 0.0076, which is lower than the 5 percent significance level, indicates that an increase in company liquidity statistically improves the profitability of plantation companies. This finding suggests that adequate working capital is an important factor in maintaining operational stability, particularly in the plantation sector, which is characterized by long production cycles and high operational cost requirements. Companies with strong liquidity levels have greater capacity to finance production activities such as plantation maintenance, fertilizer purchases, labor payments, and distribution management without experiencing short-term financial pressure. These conditions enable companies to operate more efficiently, improve asset utilization, and ultimately generate higher profits. This finding is consistent with *working capital management theory*, which states that optimal liquidity enhances operational performance and company profitability because firms can effectively manage current assets to support production activities and short-term investments (Basyith et al., 2021; Gonçalves et al., 2018; Alarussi & Gao, 2023; Hossain & Alam, 2019; Ahmeti & Balaj, 2023).

Table 1. Hypothesis Testing Results Using the Common Effect Model (CEM)

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 11/26/25 Time: 23:39				
Sample: 2020 2024				
Periods included: 5				
Cross-sections included: 24				
Total panel (balanced) observations: 120				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.443353	1.647952	0.269033	0.7884
CR	1.233966	0.454418	2.715487	0.0076
DER	-0.720885	0.434233	-1.660132	0.0996
PBV	-0.095697	0.738621	-0.129562	0.8971
Information	Value	Information	Value	
Root MSE	10.58328	R-squared	0.100210	
Mean dependent var	1.586083	Adjusted R-squared	0.076939	
S.D. dependent var	11.20384	S.E. of regression	10.76420	
Akaike info criterion	7.623095	Sum squared resid	13440.70	
Schwarz criterion	7.716011	Log likelihood	-453.3857	
Hannan-Quinn criterion	7.660828	F-statistic	4.306316	
Durbin-Watson stat	0.887601	Prob(F-statistic)	0.006420	

Furthermore, the capital structure variable measured using the *Debt to Equity Ratio* (DER) shows a negative coefficient of -0.720885 with a probability value of 0.0996. These results indicate that capital structure does not significantly affect company profitability at the 5 percent significance level; however, the negative coefficient suggests that higher debt usage tends to reduce profitability. This finding implies that plantation companies with higher leverage face greater interest expenses that reduce the profits generated. This condition becomes more complex because the plantation sector requires long-term investments such as land development and crop replanting, which take considerable time before generating revenue.

Consequently, large amounts of debt do not immediately improve company profits, while interest expenses must still be paid in the short term. In addition, fluctuations in plantation commodity prices such as palm oil and rubber cause unstable company revenues, making highly leveraged companies more vulnerable to financial pressure. These findings support *trade-off theory*, which states that debt usage may increase profitability up to a certain level, but excessive debt increases financial risk and reduces company profitability. This result is also consistent with previous studies indicating that high leverage reduces profitability due to increased bankruptcy risk and interest burdens (Kumar et al., 2017; Ahmed & Hla, 2018; Bui & Pham, 2023; D'Amato, 2021; Mankishi et al., 2025).

The firm value variable measured using *Price to Book Value* (PBV) shows a negative coefficient of -0.095697 with a probability value of 0.8971. These results indicate that firm value does not have a significant effect on the profitability of plantation companies. The very high probability value suggests that changes in firm value do not have a strong statistical relationship with profitability performance. This finding indicates that firm value, which reflects market perception, does not directly influence operational performance. In the

plantation sector, firm value is largely influenced by external factors such as global commodity price fluctuations, government export policies, macroeconomic conditions, and investor sentiment toward agribusiness industries. These factors are not directly related to the efficiency of asset utilization in generating profits. Therefore, increases in firm value are not necessarily followed by improvements in profitability in the short term. These findings support previous research stating that firm value does not always reflect operational performance because stock market prices are more influenced by investor expectations than by fundamental company performance (Karadeniz et al., 2009; Seth et al., 2020; Puspita & Siswanti, 2021; Noegroho et al., 2022; Maxim, 2023).

In addition, the test results show that the coefficient of determination (*R-squared*) is 0.100210. This value indicates that liquidity, capital structure, and firm value simultaneously explain 10 percent of the variation in company profitability, while the remaining 90 percent is explained by other variables outside the research model. The relatively low coefficient of determination suggests that profitability in plantation companies is influenced by various other factors not included in the model, such as operational efficiency, firm size, sales growth, commodity prices, cost structure, land productivity, and managerial quality.

This is reasonable given that the plantation sector has complex business characteristics and is highly influenced by external factors such as weather conditions, commodity price changes, and government policies. Nevertheless, the overall model remains statistically significant, indicating that liquidity, capital structure, and firm value still contribute to explaining profitability in plantation companies. These findings highlight that liquidity management is the main factor in improving profitability, while capital structure and firm value do not provide significant effects on profitability performance during the observation period.

5. CONCLUSION

This study aims to examine the effect of liquidity, capital structure, and firm value on the profitability of plantation companies listed on the Indonesia Stock Exchange. Based on the results of panel data regression analysis, the findings indicate that liquidity, measured by the *Current Ratio*, has a positive and significant effect on profitability. This result suggests that the company's ability to manage current assets to meet short-term obligations plays an important role in improving financial performance. Plantation companies with adequate liquidity levels tend to maintain operational stability, finance production activities sustainably, and enhance asset utilization efficiency, which ultimately leads to higher profitability. Therefore, effective working capital management becomes a key factor in improving profitability in plantation companies characterized by long production cycles and substantial operational funding requirements.

Furthermore, capital structure measured by the *Debt to Equity Ratio* shows a negative but insignificant effect on profitability. The negative coefficient indicates that higher debt usage tends to reduce company profitability, although statistically the effect is not significant. This finding implies that plantation companies with higher leverage face greater interest expenses that may reduce net income. In addition, long-term investments in the plantation sector require a considerable period before generating returns, meaning that debt financing does not immediately translate into improved profitability. This condition is further influenced by commodity price volatility, which leads to unstable company revenues. Therefore, companies need to maintain an optimal capital structure by balancing debt and equity to avoid excessive financial risk that could reduce profitability.

The results also indicate that firm value measured using *Price to Book Value* does not significantly affect the profitability of plantation companies. This finding suggests that firm value, which reflects market perception, does not directly influence operational performance. In the plantation sector, firm value is largely affected by external factors such as global commodity price fluctuations, macroeconomic conditions, and investor sentiment toward agribusiness industries. These factors are not directly related to the efficiency of asset utilization in generating profits. Consequently, an increase in firm value does not necessarily lead to an increase in profitability in the short term. This indicates that profitability in plantation companies is more influenced by internal operational factors than by market perceptions.

Overall, this study implies that liquidity management is the most important factor in improving profitability in plantation companies. Capital structure should be carefully managed to avoid financial risk resulting from excessive debt usage. Meanwhile, firm value does not directly influence profitability, suggesting that company management should focus more on improving operational efficiency and asset management. The findings also show that liquidity, capital structure, and firm value explain only a limited portion of profitability variation, indicating that other factors play a significant role in determining the financial performance of plantation companies. Future research is recommended to include additional variables such as firm size, sales growth, operational efficiency, cost structure, and external factors such as commodity prices and macroeconomic conditions. Including these variables is expected to improve the model's ability to explain

profitability more comprehensively. Future studies may also extend the observation period or employ dynamic panel analysis to provide deeper insights into the determinants of profitability in plantation companies.

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