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Rethinking capital structure and liquidity in technology firms: profitability as the key driver of financial performance

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ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh struktur modal, profitabilitas, dan likuiditas terhadap kinerja keuangan perusahaan sektor teknologi yang terdaftar di Bursa Efek Indonesia periode 2020–2024. Kinerja keuangan diukur menggunakan *Return on Equity* (ROE), sedangkan struktur modal diproksikan dengan *Debt to Equity Ratio* (DER), profitabilitas dengan *Return on Assets* (ROA), dan likuiditas dengan *Current Ratio* (CR). Penelitian ini menggunakan pendekatan kuantitatif dengan metode analisis regresi data panel. Pemilihan model dilakukan melalui uji *Chow*, uji *Hausman*, dan uji *Lagrange Multiplier* sehingga diperoleh *Random Effects Model* sebagai model terbaik. Hasil penelitian menunjukkan bahwa profitabilitas berpengaruh positif dan signifikan terhadap kinerja keuangan, yang menunjukkan bahwa efisiensi perusahaan dalam memanfaatkan aset mampu meningkatkan pengembalian kepada pemegang saham. Sementara itu, struktur modal dan likuiditas tidak berpengaruh signifikan terhadap kinerja keuangan. Secara simultan, ketiga variabel independen juga tidak mampu menjelaskan variasi kinerja keuangan secara signifikan. Rendahnya nilai koefisien determinasi menunjukkan bahwa kinerja keuangan perusahaan teknologi dipengaruhi oleh faktor lain di luar model penelitian, seperti inovasi, peluang pertumbuhan, dan efisiensi operasional. Temuan ini menegaskan bahwa profitabilitas merupakan faktor utama dalam meningkatkan kinerja keuangan perusahaan teknologi.

Kata Kunci: struktur modal; profitabilitas; likuiditas; kinerja keuangan; perusahaan teknologi

ABSTRACT

This study aims to analyze the effect of capital structure, profitability, and liquidity on the financial performance of technology sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Financial performance is measured using Return on Equity (ROE), while capital structure is proxied by Debt to Equity Ratio (DER), profitability by Return on Assets (ROA), and liquidity by Current Ratio (CR). This research applies a quantitative approach using panel data regression analysis. The selection of the panel data model was conducted through the Chow test, Hausman test, and Lagrange Multiplier test, resulting in the Random Effects Model as the most appropriate model. The findings reveal that profitability has a positive and significant effect on financial performance, indicating that efficient asset utilization contributes to higher shareholder returns. Meanwhile, capital structure and liquidity do not significantly affect financial performance. Simultaneously, the three independent variables also do not significantly explain variations in financial performance. The low coefficient of determination suggests that financial performance in technology companies is influenced by other factors beyond the research model, such as innovation, growth opportunities, and operational efficiency. These findings emphasize the importance of profitability as the primary driver of financial performance in technology firms.

Keyword: capital structure; profitability; liquidity; financial performance; technology companies

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1. INTRODUCTION

The rapid growth of digital technology has significantly transformed the global economic structure, positioning technology companies as key drivers of innovation, productivity, and economic development. In Indonesia, the technology sector has experienced substantial expansion, particularly after 2020, driven by increasing digital adoption, platform-based business models, and growing investor interest in high-growth firms. Despite strong growth opportunities, technology companies often face financial instability due to high research and development costs, uncertain revenue streams, and aggressive expansion strategies. These characteristics make financial performance a critical issue, particularly for investors and stakeholders seeking sustainable returns. Financial performance, commonly measured using *Return on Equity* (ROE), reflects a firm's ability to generate returns for shareholders and evaluate managerial effectiveness in utilizing equity capital (Nguyen & Nguyen, 2020; Bhatia & Srivastava, 2016; Ahmed et al., 2023; Abdullah & Tursoy, 2021).

Capital structure is one of the main determinants of financial performance, as financing decisions influence risk exposure, cost of capital, and firm value. *Trade-off theory* suggests that firms balance the benefits of debt, such as tax advantages, with the costs of financial distress, while *pecking order theory* emphasizes internal financing preference over external funding. In technology firms, capital structure decisions become more complex due to intangible assets, high uncertainty, and volatile earnings. Excessive reliance on debt may increase financial risk, while equity financing may dilute ownership and reduce shareholder returns. Previous empirical studies provide mixed findings, indicating that leverage may either enhance or reduce financial performance depending on firm characteristics and industry conditions (Salim & Yadav, 2012; Le & Phan, 2017; Abdullah & Tursoy, 2021; Bui et al., 2023). Other studies also report similar inconsistencies regarding the relationship between capital structure and financial performance across different sectors and market conditions (Nguyen & Nguyen, 2020; Ahmed et al., 2023; Vo & Ellis, 2017; Tani & Albitar, 2021).

Profitability also plays a crucial role in determining financial performance because it reflects the firm's ability to generate earnings from its assets. Firms with higher profitability tend to utilize resources more efficiently and generate greater returns for shareholders. *Return on Assets* (ROA) is widely used to measure profitability and evaluate management effectiveness in converting assets into profits. In technology companies, profitability is often influenced by innovation investment, digital infrastructure development, and expansion strategies. Firms that successfully transform investments into earnings are more likely to improve financial performance. Previous studies consistently report a positive relationship between profitability and financial performance, suggesting that asset efficiency is a key factor in enhancing shareholder value (Alarussi & Alhaderi, 2018; Bhatia & Srivastava, 2016; Gautama et al., 2024; Simanungkalit, 2025). Similar findings are also supported by several other studies emphasizing the importance of profitability in improving shareholder returns and firm sustainability (Nguyen & Nguyen, 2020; Ahmed et al., 2023; Vo & Ellis, 2017; Tani & Albitar, 2021).

Liquidity is another factor that may influence financial performance because it reflects the firm’s ability to meet short-term obligations and maintain operational stability. Adequate liquidity enables firms to manage working capital efficiently and reduce financial distress risk. However, excessive liquidity may indicate inefficient asset allocation, as idle current assets may reduce profitability. Technology companies often maintain high liquidity levels to support expansion and innovation activities, but such reserves may not directly improve shareholder returns. Empirical findings regarding liquidity and financial performance remain inconclusive, with some studies reporting positive relationships and others finding insignificant effects depending on firm characteristics and financial policies (Nguyen & Nguyen, 2020; Bhatia & Srivastava, 2016; Gami et al., 2025; Muchsidin et al., 2025). Other empirical studies also reveal that liquidity does not always significantly influence financial performance, particularly in firms with aggressive growth strategies and high innovation investment (Gautama et al., 2024; Simanungkalit, 2025; Tani & Albitar, 2021).

Technology sector companies exhibit unique financial characteristics compared to traditional industries, including reliance on equity financing, high growth orientation, and substantial investment in intangible assets. These characteristics may influence the relationship between capital structure, profitability, liquidity, and financial performance. Although numerous studies have examined these variables in manufacturing, banking, and consumer sectors, empirical evidence focusing specifically on technology companies remains limited, particularly in emerging markets such as Indonesia. Therefore, this study aims to examine the effect of capital structure, profitability, and liquidity on the financial performance of technology sector companies listed on the Indonesia Stock Exchange during 2020–2024, providing empirical insights into financial decision-making in high-growth technology industries (Ahmed et al., 2023; Abdullah & Tursoy, 2021; Bhatia & Srivastava, 2016; Simanungkalit, 2025). Additional studies also support the importance of examining financial determinants in technology firms due to their unique operational and financing characteristics (Bui et al., 2023; Nguyen & Nguyen, 2020; Tani & Albitar, 2021).

2. LITERATURE REVIEW

A. Capital Structure and Financial Performance

Capital structure refers to the proportion of debt and equity used by a firm to finance its operations and investment activities. Theoretical perspectives such as *trade-off theory* and *pecking order theory* explain that financing decisions influence firm performance through risk, cost of capital, and financial flexibility. An optimal capital structure allows firms to benefit from tax shields while minimizing bankruptcy risk, thereby improving financial performance. However, excessive leverage may increase financial distress costs and reduce profitability, particularly in industries characterized by volatile earnings and high uncertainty, such as technology firms. Prior empirical studies provide mixed evidence, where leverage may positively affect performance through efficient capital utilization, while other findings indicate negative or insignificant relationships due to risk exposure and unstable cash flows (Salim & Yadav, 2012; Le & Phan, 2017; Bhatia & Srivastava, 2016; Nguyen & Nguyen, 2020). Several other studies also emphasize that the impact of capital structure on financial performance depends on firm characteristics, industry dynamics, and growth opportunities (Alarussi & Alhaderi, 2018; Tani & Albitar, 2021; Vo & Ellis, 2017; Abor, 2005).

Technology companies typically rely more on equity financing due to intangible assets and uncertain revenue streams, which may reduce the effectiveness of debt in improving financial performance. In addition, high-growth firms often prioritize flexibility rather than leverage, making capital structure decisions more complex. Empirical evidence from emerging markets indicates that leverage may not significantly influence financial performance in technology-oriented firms, suggesting that financing strategy should be aligned with industry-specific characteristics and growth stages. Therefore, examining the relationship between capital structure and financial performance in technology companies becomes important to understand whether debt financing contributes to shareholder value.

H1: Capital Structure has a significant effect on Financial Performance

B. Profitability and Financial Performance

Profitability reflects a firm's ability to generate earnings from its assets and operations, serving as a key indicator of managerial efficiency and operational effectiveness. Higher profitability indicates better resource utilization and stronger capacity to deliver returns to shareholders. *Return on Assets* (ROA) is commonly used to measure profitability because it evaluates how efficiently firms convert assets into profits. Firms with higher profitability tend to improve retained earnings, reduce dependence on external financing, and enhance financial performance. In addition, profitability contributes to stronger investor confidence and market valuation, particularly in high-growth sectors such as technology. Previous studies consistently report that profitability positively influences financial performance, indicating that efficient asset utilization leads to improved shareholder returns and long-term sustainability (Alarussi & Alhaderi, 2018; Bhatia & Srivastava, 2016; Nguyen & Nguyen, 2020; Tani & Albitar, 2021). Other empirical findings also confirm the positive relationship between profitability and financial performance across various industries and market conditions (Le & Phan, 2017; Salim & Yadav, 2012; Vo & Ellis, 2017).

In technology firms, profitability is often influenced by innovation investment, platform development, and digital infrastructure. Although early-stage technology companies may experience lower profitability due to expansion strategies, firms that successfully manage assets and generate sustainable profits are more likely to achieve higher financial performance. The positive relationship between profitability and financial performance suggests that efficient operational management and asset productivity play a critical role in enhancing shareholder value.

H2: Profitability has a positive effect on Financial Performance

C. Liquidity and Financial Performance

Liquidity represents a firm's ability to meet short-term obligations using current assets and reflects financial flexibility in supporting operational activities. Adequate liquidity enables firms to manage working capital, reduce financial distress risk, and maintain operational continuity. However, excessive liquidity may indicate inefficient asset utilization, as idle cash or current assets may reduce profitability. The relationship between liquidity and financial performance therefore remains ambiguous, as both insufficient and excessive liquidity may negatively affect firm performance. Empirical studies report mixed findings, where some research shows a positive relationship between liquidity and financial performance, while others find insignificant or negative effects depending on firm characteristics, financial policies, and industry conditions (Nguyen & Nguyen, 2020; Bhatia & Srivastava, 2016; Tani & Albitar, 2021; Alarussi & Alhaderi, 2018). Several other studies also reveal inconsistent findings regarding the effect of liquidity on financial performance across different sectors and financial environments (Salim & Yadav, 2012; Le & Phan, 2017; Vo & Ellis, 2017).

Technology companies often maintain higher liquidity levels to support research and development, innovation, and market expansion. However, excessive liquid assets may reduce investment efficiency and lower returns to shareholders. Therefore, liquidity management plays a crucial role in balancing operational

stability and profitability. Understanding the relationship between liquidity and financial performance in technology firms is essential to determine whether short-term financial strength contributes to improved shareholder returns.

H3: Liquidity has a significant effect on Financial Performance

3. RESEARCH METHOD

This study employs a quantitative research approach to examine the effect of capital structure, profitability, and liquidity on the financial performance of technology sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. A quantitative approach is considered appropriate because this study aims to analyze causal relationships between variables using numerical data obtained from company financial statements. Panel data regression analysis is applied because it combines cross-sectional and time-series data, enabling more comprehensive analysis and improving estimation accuracy compared to pure cross-sectional or time-series models.

The population of this study consists of all technology sector companies listed on the Indonesia Stock Exchange during the observation period. The sampling technique used is purposive sampling based on several criteria: (1) companies consistently listed in the technology sector during 2020–2024, (2) companies publishing complete annual financial statements during the observation period, and (3) companies providing complete data required to calculate all research variables. Based on these criteria, the selected companies constitute a balanced panel dataset for analysis.

This study uses secondary data obtained from audited annual financial statements published on the official website of the Indonesia Stock Exchange and the respective company websites. The dependent variable is financial performance measured using *Return on Equity* (ROE), which reflects the company's ability to generate profits from shareholders' equity. The independent variables consist of capital structure measured using *Debt to Equity Ratio* (DER), profitability measured using *Return on Assets* (ROA), and liquidity measured using *Current Ratio* (CR). DER is calculated by dividing total debt by total equity, ROA is measured by dividing net income by total assets, CR is calculated by dividing current assets by current liabilities, and ROE is measured by dividing net income by total equity.

The panel data regression model used in this study is formulated as follows:

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

where ROE represents financial performance, DER represents capital structure, ROA represents profitability, CR represents liquidity, α represents the constant term, β1–β3 represent regression coefficients, *i* represents cross-sectional units, *t* represents the time period, and ε represents the error term.

To determine the most appropriate panel data model, this study conducts several model selection tests, including the *Chow test* to compare the *Common Effect Model* (CEM) and *Fixed Effect Model* (FEM), the *Hausman test* to determine whether the *Fixed Effect Model* or *Random Effect Model* (REM) is more appropriate, and the *Lagrange Multiplier test* to compare the *Common Effect Model* and *Random Effect Model*. These tests are conducted to ensure that the selected model provides unbiased and efficient estimators.

Hypothesis testing is conducted using the *t-test* to examine the partial effect of each independent variable on financial performance, while the *F-test* is used to examine the simultaneous effect of all independent variables. The coefficient of determination (R^2) is used to measure the explanatory power of the model in explaining variations in financial performance. All data analyses are performed using *EViews* software to ensure accurate panel data estimation.

4. RESULTS AND DISCUSSION

Table 1 presents the results of panel data regression analysis using the *Random Effects Model* to examine the effect of capital structure, profitability, and liquidity on the financial performance of technology sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The dataset consists of 47 cross-sectional units observed over five years, resulting in 235 balanced panel observations. Financial performance is proxied by *Return on Equity* (ROE), while the independent variables include capital structure measured by *Debt to Equity Ratio* (DER), profitability measured by *Return on Assets* (ROA), and liquidity measured by *Current Ratio* (CR).

The regression results indicate that the constant value is -2026.718 with a probability value of 0.0004, which is statistically significant at the 5 percent significance level. The negative constant suggests that when all independent variables are assumed to be zero, financial performance measured by ROE would decline. However, the constant primarily reflects the baseline level of ROE and does not provide substantial economic interpretation, particularly in panel data models involving financial ratios.

The coefficient of capital structure (DER) is 0.054062 with a probability value of 0.9320, which is greater than the significance level of 0.05. This indicates that capital structure does not significantly influence

financial performance. Although the coefficient is positive, suggesting that an increase in leverage tends to increase ROE, the effect is statistically insignificant. This finding implies that the proportion of debt relative to equity does not play a major role in determining the financial performance of technology companies. The insignificant effect may be attributed to the characteristics of technology firms that rely more heavily on equity financing and internal funding rather than debt financing. In addition, high uncertainty and volatile earnings in technology companies may reduce the effectiveness of leverage in improving shareholder returns.

Profitability measured by *Return on Assets* (ROA) shows a coefficient of 0.857949 with a probability value of 0.0477, which is statistically significant at the 5 percent significance level. This result indicates that profitability has a positive and significant effect on financial performance. The positive coefficient implies that an increase in ROA leads to an increase in ROE. This finding suggests that technology companies that are more efficient in utilizing assets to generate profits tend to provide higher returns to shareholders. Profitability therefore becomes the most important determinant of financial performance in technology sector firms. This result also indicates that asset efficiency plays a crucial role in improving shareholder value.

Table 1. Panel Data Regression Results Using the Random Effects Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2026.718	567.5849	-3.570775	0.0004
DER	0.054062	0.632582	0.085463	0.9320
ROA	0.857949	0.431038	1.990425	0.0477
CR	37.52141	56.61126	0.662791	0.5081

Model Statistics	Value	Model Statistics	Value
Root MSE	6831.717	R-squared	0.018086
Mean dependent var	-1492.800	Adjusted R-squared	0.005334
S.D. dependent var	6909.064	S.E. of regression	6890.612
Akaike info criterion	20.53058	Sum squared resid	1.10E+10
Schwarz criterion	20.58947	Log likelihood	-2408.343
Hannan-Quinn criter.	20.55432	F-statistic	1.418311
Durbin-Watson stat	2.200127	Prob(F-statistic)	0.238139

Liquidity measured by *Current Ratio* (CR) has a coefficient of 37.52141 with a probability value of 0.5081, which exceeds the significance level of 0.05. This indicates that liquidity does not significantly influence financial performance. Although the coefficient is positive, the relationship is statistically insignificant. This suggests that higher liquidity levels do not necessarily lead to improved financial performance. In technology companies, high liquidity may reflect idle current assets that are not efficiently allocated to productive investments such as innovation and digital infrastructure. Therefore, liquidity is not a dominant factor affecting ROE in technology sector firms.

The simultaneous test results show an F-statistic value of 1.418311 with a probability value of 0.238139, which is greater than 0.05. This indicates that capital structure, profitability, and liquidity simultaneously do not have a significant effect on financial performance. These results suggest that the independent variables collectively do not explain variations in ROE. Therefore, other factors outside the model may play a more important role in determining the financial performance of technology companies.

The coefficient of determination (*R-squared*) is 0.018086, indicating that only 1.8 percent of the variation in financial performance can be explained by capital structure, profitability, and liquidity. The remaining 98.2 percent is explained by other variables not included in the model. The adjusted *R-squared* value of 0.005334 further confirms the weak explanatory power of the model. This low explanatory power suggests that financial performance in technology firms is influenced by other factors such as firm size, growth opportunities, innovation investment, operational efficiency, and market expansion strategies.

The *Durbin-Watson* statistic is 2.200127, indicating that the model does not suffer from autocorrelation problems. This suggests that the regression model is statistically reliable. Overall, the results indicate that profitability is the only variable that significantly affects financial performance, while capital structure and liquidity do not significantly influence the financial performance of technology sector companies listed on the Indonesia Stock Exchange.

A. Effect of Capital Structure on Financial Performance

The regression results show that capital structure measured by *Debt to Equity Ratio* (DER) has a positive coefficient but is not statistically significant in explaining financial performance. The probability value of DER exceeds the 5 percent significance level, indicating that capital structure does not significantly influence *Return on Equity* (ROE). This finding suggests that the proportion of debt used by technology companies does not directly improve shareholder returns. The insignificant effect may be attributed to the characteristics of technology firms that rely more heavily on equity financing and venture capital rather than debt financing. Technology companies also face high uncertainty and volatile earnings, making debt less effective in improving financial performance.

This result is consistent with *pecking order theory*, which suggests that firms prefer internal financing and equity over debt, especially when facing high uncertainty and asymmetric information. Technology firms typically prioritize growth and innovation investments, reducing the relevance of leverage in determining financial performance. This finding supports previous studies reporting that capital structure does not significantly influence financial performance, particularly in high-growth industries where equity financing dominates corporate funding decisions (Le & Phan, 2017; Alarussi & Alhaderi, 2018; Nguyen & Nguyen, 2020). Similar findings are also supported by several other studies emphasizing that leverage may not effectively improve firm performance in technology-oriented industries (Tani & Albitar, 2021; Bhatia & Srivastava, 2016). However, this result contrasts with *trade-off theory*, which suggests that debt financing can improve firm performance through tax benefits and discipline effects. The absence of significant influence in this study indicates that the benefits of debt may not be fully realized in technology firms due to their unique financial structure and growth orientation.

B. Effect of Profitability on Financial Performance

The regression results indicate that profitability measured by *Return on Assets* (ROA) has a positive and statistically significant effect on financial performance. The positive coefficient implies that higher profitability leads to higher *Return on Equity*. This finding suggests that technology companies that efficiently utilize their assets to generate earnings are more capable of delivering higher returns to shareholders. Profitability reflects managerial efficiency and operational effectiveness, which directly contribute to improving financial performance.

This result supports *signaling theory*, which suggests that higher profitability signals better firm performance and increases investor confidence. Firms with higher profitability generate greater internal funds, reduce dependence on external financing, and improve shareholder value. This finding is also consistent with *agency theory*, which emphasizes that efficient management of company resources leads to improved financial outcomes. Empirical evidence from previous studies also supports the positive relationship between profitability and financial performance, indicating that firms with higher ROA tend to generate higher ROE (Alarussi & Alhaderi, 2018; Bhatia & Srivastava, 2016; Nguyen & Nguyen, 2020; Salim & Yadav, 2012). Other studies likewise confirm that profitability plays an important role in improving shareholder returns and firm sustainability (Le & Phan, 2017; Vo & Ellis, 2017; Tani & Albitar, 2021).

In the context of technology companies, profitability becomes a crucial factor because firms invest heavily in innovation, digital infrastructure, and market expansion. Companies that successfully convert these investments into earnings are more likely to improve financial performance. Therefore, asset efficiency plays a key role in enhancing shareholder returns in technology sector firms.

C. Effect of Liquidity on Financial Performance

Liquidity measured by *Current Ratio* (CR) shows a positive coefficient but does not significantly influence financial performance. This indicates that higher liquidity levels do not necessarily translate into improved *Return on Equity*. The insignificant relationship suggests that maintaining large amounts of current assets does not directly improve shareholder returns. In technology firms, excess liquidity may indicate idle resources that are not efficiently invested in productive activities such as research and development or platform expansion.

This finding aligns with the theory of *liquidity-profitability trade-off*, which states that excessive liquidity may reduce profitability due to inefficient asset utilization. Technology companies often hold significant cash reserves to support expansion strategies, but such reserves may not directly contribute to short-term financial performance. Previous empirical studies also report mixed results regarding the relationship between liquidity and financial performance, with several studies finding insignificant effects similar to the findings of this study (Nguyen & Nguyen, 2020; Bhatia & Srivastava, 2016; Tani & Albitar, 2021; Alarussi & Alhaderi, 2018). Other studies also suggest that liquidity is not always a dominant determinant of financial performance, particularly in industries characterized by high growth and innovation investment (Salim & Yadav, 2012; Le & Phan, 2017; Vo & Ellis, 2017). These results indicate that liquidity alone is insufficient to improve financial performance in technology companies.

D. Simultaneous Effect of Capital Structure, Profitability, and Liquidity on Financial Performance

The simultaneous test results indicate that capital structure, profitability, and liquidity do not jointly influence financial performance. The probability value of the F-statistic exceeds the significance level, indicating that the independent variables collectively do not explain variations in financial performance. Additionally, the coefficient of determination is relatively low, suggesting that the model has limited explanatory power. This implies that financial performance in technology companies is influenced by other factors not included in this study.

The low explanatory power may be attributed to the unique characteristics of technology firms, which rely heavily on innovation, intangible assets, platform scalability, and growth opportunities. Variables such as

firm size, revenue growth, research and development investment, operational efficiency, and market expansion strategies may better explain financial performance in technology companies. Previous studies emphasize that financial performance in technology firms is strongly influenced by growth opportunities and innovation-driven investments rather than traditional financial ratios (Bhatia & Srivastava, 2016; Nguyen & Nguyen, 2020; Tani & Albitar, 2021). Similar findings are also reported in several other studies highlighting the importance of operational efficiency and innovation in determining firm performance (Le & Phan, 2017; Salim & Yadav, 2012). Overall, the findings of this study indicate that profitability is the most important determinant of financial performance in technology sector companies. Capital structure and liquidity do not significantly affect financial performance, suggesting that technology firms prioritize operational efficiency and asset utilization rather than financing structure or short-term liquidity management. These results highlight the importance of improving asset productivity to enhance shareholder value in the technology sector.

This study provides empirical evidence that profitability is the primary determinant of financial performance in technology sector companies, while capital structure and liquidity do not significantly influence financial performance. These findings contribute to corporate finance literature by suggesting that traditional financial ratios such as leverage and liquidity may not fully explain financial performance in high-growth technology firms. The results support *pecking order theory*, which emphasizes the importance of internal financing and retained earnings in firms with high uncertainty and intangible assets. Additionally, the findings highlight that asset efficiency plays a more important role than financing structure in determining shareholder returns in technology companies.

The findings of this study provide important implications for managers of technology companies. Since profitability significantly influences financial performance, firms should focus on improving asset utilization efficiency and operational productivity. Technology companies are encouraged to allocate resources effectively, optimize digital assets, and improve revenue generation strategies. The insignificant effect of capital structure suggests that increasing leverage may not necessarily improve shareholder returns. Therefore, managers should carefully evaluate debt financing decisions and prioritize sustainable growth strategies. Furthermore, liquidity management should focus on balancing operational stability and investment efficiency, as excessive liquidity may reduce profitability.

This study also provides implications for investors and policymakers. Investors should consider profitability indicators as a key factor when evaluating technology companies rather than focusing solely on leverage and liquidity ratios. For policymakers and regulators, the findings suggest the need to support innovation-driven financing mechanisms rather than debt-based financing for technology firms. Developing policies that encourage innovation investment and equity-based financing may improve financial performance and long-term sustainability of technology companies.

5. CONCLUSION

This study aims to examine the effect of capital structure, profitability, and liquidity on the financial performance of technology sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Using panel data regression analysis, the results indicate that profitability has a positive and significant effect on financial performance. This finding implies that technology companies with higher efficiency in utilizing assets to generate profits tend to provide higher returns to shareholders. Profitability therefore becomes the most important determinant of financial performance in technology firms, emphasizing the role of operational efficiency and effective asset management in enhancing shareholder value.

In contrast, capital structure does not significantly influence financial performance. This result suggests that the proportion of debt and equity used by technology companies does not directly affect *Return on Equity* (ROE). The insignificant relationship may be explained by the characteristics of technology firms that rely more heavily on equity financing and internal funds rather than debt financing. Additionally, high uncertainty and volatile earnings in technology companies may reduce the effectiveness of leverage in improving financial performance. Liquidity also does not significantly affect financial performance. Although liquidity is important for maintaining operational stability, excessive current assets may not be efficiently utilized to generate profits. This indicates that short-term financial strength alone is insufficient to improve shareholder returns in technology companies. Instead, firms should focus on productive investments that enhance long-term profitability.

Simultaneously, capital structure, profitability, and liquidity do not significantly explain variations in financial performance. The low coefficient of determination indicates that financial performance in technology companies is influenced by other factors outside the model, such as firm size, growth opportunities, innovation investment, operational efficiency, and market expansion strategies. These findings highlight that financial performance in technology firms is more strongly driven by growth and innovation dynamics rather than traditional financial structure indicators.

Overall, this study concludes that profitability is the primary determinant of financial performance in technology sector companies, while capital structure and liquidity do not significantly influence financial performance. Therefore, technology companies are encouraged to focus on improving asset efficiency and operational effectiveness to enhance shareholder value. Future research is recommended to include additional variables relevant to technology firms in order to improve the explanatory power of the model and provide more comprehensive insights into the determinants of financial performance.

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