

THE EFFECT OF CAPITAL STRUCTURE, PROFITABILITY, AND LIQUIDITY IN THE FINANCIAL PERFORMANCE OF COMPANIES IN THE PROPERTY AND REAL ESTATE SECTOR ON THE INDONESIAN STOCK EXCHANGE

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ABSTRACT

This study aims to analyze the effect of capital structure, profitability, and liquidity on the financial performance of property and real estate companies listed on the Indonesia Stock Exchange for the period 2021–2024. The study uses a quantitative approach with a causal associative method and secondary data in the form of quarterly financial reports. The analysis was conducted using panel data regression with EViews 13. The results show that, partially, capital structure, measured by the Debt-to-Equity Ratio, and profitability, measured by Return on Assets, have a significant positive effect on financial performance. Conversely, liquidity measured by the Current Ratio has no significant effect. Simultaneously, all three variables significantly affect companies' financial performance. These findings indicate that capital structure management and increased profitability are the main factors in strengthening the financial performance of property companies, while liquidity is not a key indicator given the industry's long-term project cycles.

INTRODUCTION

After experiencing significant pressure during the COVID-19 pandemic, the property sector began to show recovery in 2021 through various government incentive policies (Martini, 2024). However, until 2024, this sector still faces challenges such as inflation, rising interest rates, and the public's purchasing power not yet fully recovering, which keeps companies' financial performance volatile (Kohar & al., 2018). In such conditions, companies need to maintain their financial performance to remain resilient and grow. Financial performance is generally influenced by internal company factors,

including capital structure, profitability, and liquidity (Widjanarko, 2020). Capital structure refers to the company's decision about the use of debt and equity as sources of funding. Profitability reflects the company's ability to generate profit from its owned assets, while liquidity indicates the company's ability to meet its short-term obligations. These three aspects are of significant concern to both company management and investors because they directly affect the business's stability and sustainability (Asniwati, 2020).

However, previous research on the influence of capital structure, profitability, and liquidity on financial performance has shown findings that are not always consistent. Moreover, some studies still use periods before the post-pandemic economic recovery or do not specifically highlight the property and real estate sector, which is characterized by long-term projects and high dependence on financing. These conditions indicate a research gap, particularly regarding how these financial factors affect the performance of property companies during the latest economic recovery period.

This study aims to address this gap by analyzing the impact of capital structure, profitability, and liquidity on the financial performance of property and real estate companies listed on the Indonesia Stock Exchange during the 2021–2024 period, which is the post-pandemic economic recovery phase. Using periodic company financial statement data, this research is expected to provide a more relevant picture of the factors influencing companies' financial performance under current economic conditions. Therefore, the aim of this research is to analyze the influence of capital structure, profitability, and liquidity on the financial performance of companies in the property and real estate sector in Indonesia, so that the results can provide a more easily understandable insight for various parties, including non-expert readers, regarding the financial condition of companies in that sector.

LITERATURE REVIEW

Theoretical Framework

The signaling theory explains how company management, as the information owners, provide signals to external parties, particularly investors, regarding the company's condition and prospects through the dissemination of financial information. Spence first introduced this theory, and it was later developed by Ross, who emphasized the importance of companies conveying information to financial statement users to reduce information asymmetry between management and investors. Information asymmetry occurs when management possesses more complete information than external parties, making the transparent dissemination of information crucial for investors to assess the company's condition more objectively.

Financial statements serve as the main medium for conveying these signals because they contain information about the company's performance and financial position. The

information received by investors can be either positive signals (good news) or negative signals (bad news). An increase in profits and the company's financial stability are usually considered positive signals that boost investor confidence, while a decline in financial performance is a negative signal that can affect investment decisions. Therefore, investors need relevant, accurate, and timely information to assess investment risks and opportunities.

In the context of this research, the signaling theory is closely related to the company's financial indicators, particularly capital structure, profitability, and liquidity. Capital structure describes the company's decisions in using debt and equity as sources of funding. A high level of debt can signal greater risk to investors, but under certain conditions, debt can also indicate the company's strategy for expanding its business. Profitability indicates the company's ability to generate profit from its assets, so a high level generally signals positive efficiency and prospects. Meanwhile, liquidity reflects the company's ability to meet its short-term obligations and provides an overview of its operational stability.

Several previous empirical studies have shown that solvency, profitability, and liquidity ratios are related to companies' financial performance, although the results indicate varying impacts across sectors and research periods. These differing results suggest that the relationship between financial indicators and company performance warrants further investigation, particularly in the property and real estate sector, which exhibits characteristics of long-term financing and project cycles.

Thus, signaling theory provides a foundation for the view that the financial information conveyed by the company through financial statements serves as an important signal for investors in assessing the company's condition. Capital structure, profitability, and liquidity are part of that signal, which can be used to evaluate the company's financial performance and the prospects for business sustainability, making it relevant as the basis for analysis in this research (Purba, 2023).

Previous Studies and Hypothesis

In the discussion regarding the influence of capital structure, profitability, and liquidity on financial performance in property and real estate companies listed on the Indonesia Stock Exchange (IDX), several previous studies have been published, but their discussions differ significantly. Riska Mandasari & Mukaram, in 2016, in their research titled "Analysis of the Influence of Capital Structure on Financial Performance (Study on Property and Real Estate Companies Listed on the Indonesia Stock Exchange Period 2012–2016)," aimed to determine the effect of capital structure on the financial performance of property and real estate companies. The data used are secondary data from the company's financial statements obtained from the Indonesia Stock Exchange (IDX). The research method used is descriptive and verificative, with the analysis tool Statistical

Program for Social Sciences (SPSS). The research results show a positive and significant influence of capital structure on financial performance, measured by Return on Equity (ROE), Sales Growth, and Price Earnings Ratio (PER), with a contribution of 6.6%. (Mandasari & Mukaram, 2018)

Yoyo Sudaryo & Ika Yanuar Pratiwi, in 2016, in the journal “The Influence of Capital Structure and Liquidity on Profitability and Its Impact on Financial Performance,” studied companies in the property, real estate, and construction sectors listed on the LQ45 IDX for the period 2007–2014. The purpose of this research is to determine the effect of capital structure, liquidity, and profitability on financial performance. The method used is descriptive-verificative with regression analysis. The research results show that capital structure has a positive effect on profitability and financial performance, while liquidity does not have a significant effect on either (Sudaryo & Pratiwi, 2016).

Temporary assumptions regarding the formulation of the research problem with the hypothesis, and based on the literature review and problem formulation, the temporary assumptions for this research are as follows:

1. H1: Capital structure affects the financial performance of companies in the property and real estate sector listed on the Indonesia Stock Exchange. H0: Capital structure does not affect the financial performance of companies in the property and real estate sector listed on the Indonesia Stock Exchange.
2. H2: Profitability positively affects the financial performance of companies in the property and real estate sector listed on the Indonesia Stock Exchange. H0: Profitability does not positively affect the financial performance of companies in the property and real estate sector listed on the Indonesia Stock Exchange.
3. H3: Liquidity affects the financial performance of companies in the property and real estate sector listed on the Indonesia Stock Exchange. H0: Liquidity does not affect the financial performance of companies in the property and real estate sector listed on the Indonesia Stock Exchange.
4. H4: Capital structure, profitability, and liquidity simultaneously affect the financial performance of companies in the property and real estate sector listed on the Indonesia Stock Exchange. H0: Capital structure, profitability, and liquidity simultaneously do not affect the financial performance of companies in the property and real estate sector listed on the Indonesia Stock Exchange.

RESEARCH METHODS

This research uses a quantitative, associative causal approach to analyze the cause-and-effect relationships among capital structure, profitability, and liquidity and their impact on the company's financial performance. The research utilizes secondary data in the form of quarterly financial statements of property and real estate sector companies

listed on the Indonesia Stock Exchange during the period 2021–2024. The data is obtained from official publications of the Indonesia Stock Exchange and from each company's financial statements.

The research population includes all companies in the property and real estate sector listed on the Indonesia Stock Exchange during the research period. The research sample was determined using purposive sampling techniques with criteria for companies that were consistently listed during the observation period, published complete financial statements, and had data that met the research needs. This technique is used to ensure that the analyzed data are consistent and can be compared across periods.

The dependent variable in this study is the company's financial performance, measured using financial indicators as used in the financial statements. The independent variables consist of capital structure, proxied by the Debt-to-Equity Ratio (DER); profitability, measured by Return on Assets (ROA); and liquidity, measured by the Current Ratio (CR). These three variables were chosen because they represent funding conditions, the ability to generate profit, and the company's ability to meet its short-term obligations.

Data analysis is conducted using panel data regression, which combines cross-sectional data and time-series data, thereby providing a more comprehensive picture of the relationships between variables. Data processing was carried out using EViews version 13 software. The analysis stages included selecting the most appropriate panel data model through model testing, assumption testing, and hypothesis testing, both partially and simultaneously, to determine the effect of each independent variable on the company's financial performance. This method is designed to enable other researchers to replicate the research using the same data sources and analysis procedures.

RESULT AND ANALYSIS

Results

The research results were obtained through panel regression data analysis of property and real estate companies listed on the Indonesia Stock Exchange for the 2021–2024 period. The analysis was conducted to determine the effect of capital structure, profitability, and liquidity on company financial performance.

Panel Data Regression Estimation Model Selection

There are three approaches to selecting panel data regression models, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The selection of the best model between the three models can be done by conducting the following tests:

Chow Test

The Chow test is conducted to determine which model is best, the Common Effect Model (CEM) or the Fixed Effect Model (FEM). If the probability value of the F-statistical cross-section is below α 5%, then H_0 is rejected, and H_1 is accepted, so the fixed effect model will be selected. Similarly, if the probability value of the F-statistical cross-section is above α 5%, then H_0 is accepted, and H_1 is rejected, so that the common effect model will be used, and the third test is not required.

Table 1 Chow Test Results

Test Summary	Prob.
Crosssection Chi-Square	0.9944

The Chow test results yielded a Chi-Square Cross-Section Prob. value of $0.9944 > 0.05$. This means that, in this Chow test, CEM is a better model than FEM.

Hausman Test

The Hausman test is used to determine which panel data regression model is more appropriate: the Common Effect Model (CEM) or the Fixed Effect Model (FEM). Model selection is based on the random cross-section probability value. If the random cross-section probability value is less than 0.05, the Fixed Effect Model (FEM) is selected. Conversely, if the random cross-section probability value is greater than 0.05, the Random Effect Model (REM) is selected.

Table 2 Hausman Test Results

Test Summary	Prob.
Cross-section random	0.9693

Based on the Hausman test results above, the random cross-section value is $0.9693 > 0.05$. This means that REM is a better model than FEM.

Lagrange Multiplier (LM) Test

The Lagrange Multiplier (LM) test is used to determine the most appropriate model for estimating panel data between the Common Effect Model (CEM) and the Random Effect Model (REM). Model selection is based on the Chi-square probability value. If the Chi-square probability value is greater than 0.05, the Common Effect Model (CEM) is selected. Conversely, if the Chi-square probability value is less than 0.05, the Random Effect Model (REM) is selected.

Table 3 LM Test Results

Test Summary	Prob.
Cross-section random	0.0755

Based on the LM test results above, the random cross-section value is 0.0755, which is > 0.05. This means that CEM is a better model than REM.

Common Effect Model (CEM) Panel Data Regression

Table 4 Common Effect Model (CEM) Results

Variable	Coefficient
X1	0.023
X2	2.066
X3	-0.002
_cons	-0.022

Based on the regression results in Table 4 above, a panel data analysis model can be created for the factors influencing the financial performance of property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2024 period, which can be summarized in the following equation:

$$Y = \beta_0 + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + et$$

$$Y = -0,022 + 0,023*X_1 + 2,066*X_2 - 0,002*X_3 + et$$

From the results of the panel data regression equation, it can be explained that:

1. The constant value of -0.022 means that if the capital structure variable (X1), profitability (X2), and liquidity (X3) are valued at 0 or do not change, the financial performance variable (Y) is predicted to be -0.022. This indicates that, without the influence of these three independent variables, financial performance (Y) will be negative, decreasing by 0.022.
2. The beta coefficient value of the capital structure variable (X1) is 0.023, meaning that if the other variable values are constant and the X1 variable increases by 0.023, the financial performance variable (Y) will increase by 0.023. A positive coefficient indicates a positive influence of capital structure on financial performance. Therefore, it can be concluded that the better the capital structure, the better the financial performance.
3. The beta coefficient value of the profitability variable (X2) is 2.066, stating that every 1% increase in profitability will increase financial performance by 2.066. A positive coefficient indicates a positive influence between profitability and financial performance. Therefore, it can be concluded that higher profitability is associated with better financial performance.
4. The liquidity variable (X3) value is 0.002, stating that every 1% increase in liquidity will increase financial performance by 0.002. A positive coefficient indicates a positive

influence between liquidity and financial performance. Therefore, it can be concluded that higher liquidity is associated with better financial performance.

Classical Assumption Test

Multicollinearity Test

The multicollinearity test in this study was conducted using EViews 13 software via regression analysis, considering the Variance Inflation Factor (VIF) and the correlation coefficients among the independent variables. The regression model is considered free of multicollinearity if the VIF for each variable is less than 10 or the tolerance is greater than 0.1. In addition, the absence of multicollinearity is indicated when the correlation coefficient between independent variables is less than 0.5, as the relationship between them is not strong enough to disrupt the regression model.

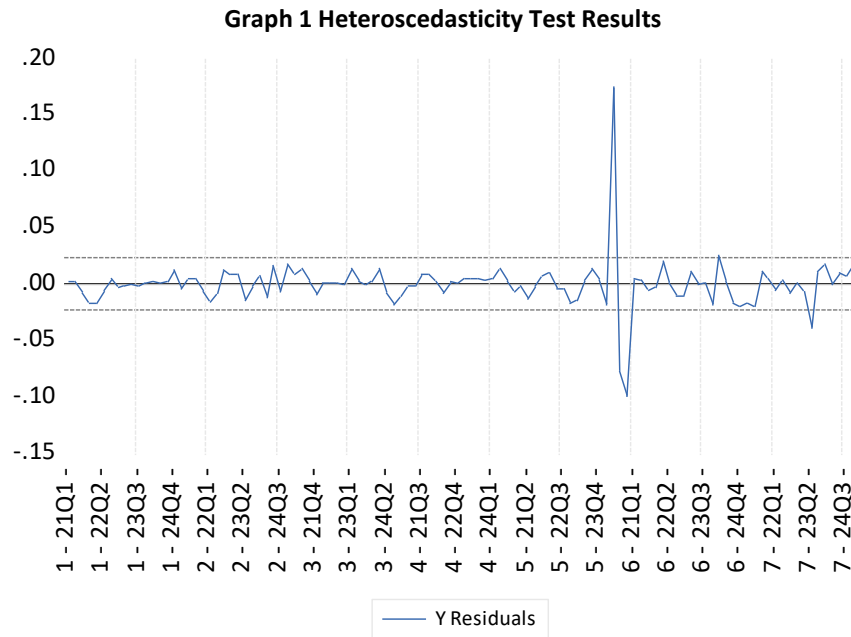
Table 5 Multicollinearity Test Results

Variable	VIF
Capital Structure (X1)	1.396
Profitability (X2)	1.127
Liquidity (X3)	1.518

Based on the results in Table 5, the overall VIFs are < 10, indicating no multicollinearity in the model.

Heteroscedasticity Test

In this study, heteroscedasticity testing was conducted using the Residual Plot Method, which involves examining the distribution of residuals in the regression model. Decision-making is carried out based on the residual distribution pattern formed. If the residual value does not exceed the 500 and -500 limits and is spread randomly around the zero line without forming a specific pattern, then the residual variance is considered constant, and the model is declared not to exhibit heteroscedasticity. Conversely, if the residual value exceeds the 500 and -500 limits or forms a specific pattern, such as expanding, narrowing, or wavy, then the residual variance is considered non-constant, indicating heteroscedasticity in the regression model.



Based on the results of the heteroscedasticity test above, graph 1 shows no heteroscedasticity problem, as the residual values do not exceed the 500 and -500 limits, indicating that the residual variance is constant. Therefore, the regression model does not exhibit heteroscedasticity, and, in other words, it passes the heteroscedasticity test.

Hypothesis Testing

T-Test (Partial)

In this study, the t-test was used to determine the effect of each independent variable, namely capital structure, profitability, and liquidity, on the dependent variable, namely the company's financial performance. Decision-making was carried out by comparing probability values with a significance level of 5 percent ($\alpha = 0.05$). If the probability value is less than 0.05, the alternative hypothesis (H1) is accepted, and the null hypothesis (H0) is rejected, indicating that the independent variable has a significant effect on financial performance. Conversely, if the probability value is greater than 0.05, then the alternative hypothesis (H1) is rejected, and the null hypothesis (H0) is accepted, which means the independent variable does not have a significant effect on financial performance.

Table 6 shows that capital structure has a positive and significant effect on financial performance, while profitability also has a positive and significant effect on financial performance. Meanwhile, liquidity has a negative, insignificant effect on financial performance for property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2024 period.

Table 6 Results of T-Test (Partial)

Variable	Coefficient	t- Statistics	Prob.	Information
X1	0.023506	3.628788	0.0004	Significant
X2	2.066255	50.09697	0.0000	Significant
X3	-0.002651	-1.127034	0.2622	Not Significant

F Test (Simultaneous)

The F test is used to examine the simultaneous influence of independent variables on the dependent variable. In this study, the F test was used to determine whether the capital structure (X1), profitability (X2), and liquidity (X3) variables collectively have a significant influence on financial performance (Y).

Table 7 Results F Test (Simultaneous)

Variable	Prob > F	F-stat
X1		
X2	0,000000	906,8194
X3		

Based on Table 7, the calculated F-stat value is 906.8194 > f table (2.688691468), and the sig value is 0.000000 < 0.05, so H₀ is rejected, and H₄ is accepted, meaning that the variables of capital structure, profitability, and liquidity, together or simultaneously, have an effect on financial performance.

Test of the Coefficient of Determination (R Square)

The coefficient of determination analysis assesses the extent to which the independent variable accounts for variation in the dependent variable. The R-squared, or adjusted R-squared, value ranges from 0 to 1. The closer to 1, the better. The following are the results of the coefficient of determination

Table 8 Results Test of the Coefficient of Determination (R Square)

<i>Adjusted R-Squared</i>	0,960756
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Table 8 shows that the adjusted R-squared value is 0.960756 or 96.0756%. The coefficient of determination indicates that the independent variables, consisting of capital structure, profitability, and liquidity, are able to explain the financial performance variable by 96.0756%. In comparison, the remaining 3.9244% is explained by other variables not included in this research model.

Discussion

The research results show that the capital structure measured by the Debt to Equity Ratio (DER) has a positive and significant impact on the financial performance of companies in the property and real estate sector. These findings indicate that effective debt management can support the operations and development of company projects, thereby enhancing financial performance. In the property sector, the large funding needs for projects often lead companies to utilize external financing. As long as the debt can generate returns higher than its financing costs, the company's performance can improve. This result is consistent with previous research that found DER to have a positive impact on financial performance, thereby reinforcing the view that an optimal capital structure can benefit the company.

Profitability, measured by Return on Assets (ROA), has also been shown to have a positive and significant impact on the company's financial performance. These findings indicate that the company's ability to leverage assets to generate profits is a key factor in strengthening its financial condition. The higher the company's ability to generate profits from its assets, the better the financial performance shown to investors. These research results are consistent with previous studies that report a strong relationship between profitability and company performance, thereby reinforcing that profits generated are the primary indicator of the company's financial health.

On the contrary, liquidity, measured by the Current Ratio (CR), does not show a significant impact on the company's financial performance. This condition can be explained by the characteristics of the property industry, which has long project cycles and large funding needs, so the company's liquid funds are often used to support the development of projects that do not generate cash flow in the short term. Thus, a high level of liquidity does not always reflect an improvement in financial performance. These findings are consistent with previous research showing that liquidity is not always the main determinant of company performance, especially in sectors with long-term project characteristics, such as the property industry.

Simultaneously, capital structure, profitability, and liquidity have been shown to affect the company's financial performance significantly. This shows that these three aspects together still play a role in shaping the company's financial condition, although the influence of each variable differs. These findings reinforce the view that a company's performance is not influenced by a single factor but rather by a combination of aspects of its financial management.

The implications of this research indicate that property company management needs to focus more on capital structure and profitability to maintain financial stability

and growth. For investors, the results of this study provide an overview showing that a company's ability to generate profits and manage funding is an important indicator for assessing investment prospects in the property and real estate sector. Meanwhile, liquidity remains important for maintaining the company's operations, but it is not the main factor in determining financial performance in this sector. These findings indicate that the company's financial strategy must be tailored to the industry's characteristics to sustainably enhance performance.

CONCLUSION

This study aims to analyze the influence of capital structure, profitability, and liquidity on the financial performance of companies in the property and real estate sector listed on the Indonesia Stock Exchange for the period 2021–2024. The research results indicate that, to some extent, the capital structure measured by the Debt-to-Equity Ratio (DER) has a positive and significant effect on the company's financial performance; thus, the hypothesis that capital structure influences financial performance can be accepted. Profitability, measured by Return on Assets (ROA), also has a positive and significant effect on the company's financial performance; thus, the second hypothesis is accepted. Meanwhile, liquidity, measured by the Current Ratio (CR), does not have a significant effect on the company's financial performance; thus, the hypothesis that liquidity influences financial performance is not significant.

Simultaneously, capital structure, profitability, and liquidity have been shown to affect the company's financial performance significantly. These findings indicate that the management of the funding structure and the company's ability to generate profit are the main factors in improving the financial performance of property companies, while liquidity is not always the primary indicator, given the industry's long-term project cycles.

As a practical implication, companies in the property and real estate sector are advised to pay more attention to capital structure management so that the use of debt can provide optimal benefits for company growth and improve asset utilization efficiency, thereby generating profit. For investors, the results of this study can be used as a consideration when assessing the company, taking into account its level of profitability and funding strategy before making an investment decision. Further research is recommended to include additional variables, such as macroeconomic and market factors, and to extend the research period to provide a more comprehensive picture of the factors influencing the company's financial performance.

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