Determinants of Corporate Capital Structure: An Empirical Study of the Effects of Profitability, Liquidity, and Firm Size on Manufacturing Issuers in the Primary Consumer Goods Sector Listed on the Indonesia Stock Exchange

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Zita Angelica Kanza
Bentara Persada School of Economics Batam, Indonesia
Corresponding Author: angelica@gmail.com

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Abstract

This study investigates the influence of profitability (ROE), liquidity (CR), and firm size on the capital structure of manufacturing companies in the Primary Consumer Goods Sector listed on the Indonesia Stock Exchange (IDX). Employing a quantitative research approach, the study uses purposive sampling to select 42 companies based on established criteria, covering financial data for the period 2024-2025. The analytical procedures include descriptive statistics, classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), and hypothesis testing through multiple linear regression, the coefficient of determination (R2), the F-test, and the t-test. The findings indicate that ROE has no statistically significant effect on capital structure (sig. 0.683 > 0.05; t = 0.412 < t-table 1.686). CR has a statistically significant negative effect on capital structure (sig. 0.038 < 0.05; t = -1.798 > t-table -1.686). Firm size shows no statistically significant effect on capital structure (sig. 0.693 > 0.05; t = -0.398 < t-table -1.686). Simultaneously, the three independent variables do not exert a significant combined effect on capital structure (F-calculated 1.623 < F-table 2.845; sig. 0.198 > 0.05). These results are consistent with the Pecking Order Theory and have important implications for financial decision-making within Indonesian manufacturing firms.

Keyword Profitability (ROE), Liquidity (CR), Firm Size, Capital Structure, Pecking Order Theory

Introduction

Capital structure decision-making is one of the fundamental aspects of corporate financial management. Such decisions concern the optimal composition of internal and external financing sources to support business continuity and growth. External financing sources generally come from debt instruments, such as bank loans and bonds, while internal sources consist of equity, retained earnings, common shares, and preferred shares. Within the framework of the pecking order theory introduced by Myers and Majluf (1984), corporate management tends to prioritize the use of internal funds before turning to external sources. The financing hierarchy according to this theory begins with retained earnings, followed by debt, and finally the issuance of new equity. This pattern reflects an effort to minimize the costs of asymmetric information that arise in capital markets (Myers, 2001; Frank & Goyal, 2009).

Profitability reflects a company's ability to generate earnings from its operational and investment activities. In the context of capital structure, companies with high levels of profitability tend to be more capable of financing their needs from internal sources, thereby reducing their dependence on debt. This condition is consistent with the basic premise of the pecking order theory, which states that there is a negative relationship between profitability and the level of debt use. A number of empirical studies support this view, including Rajan and Zingales (1995) and Titman and Wessels (1988), who found that more profitable firms tend to use less leverage. On the other hand, some arguments suggest that profitability may actually

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encourage debt use because creditors are more confident in lending to companies that have proven to be profitable (Moradi & Paulet, 2019).

Corporate liquidity describes the extent to which a business entity is able to meet its short-term financial obligations using available current assets. Companies with high liquidity ratios are considered to have stronger financial foundations, thereby giving them greater flexibility in managing funding sources. From the perspective of the pecking order theory, liquid firms tend to prioritize internal financing sources because they have sufficient current asset reserves and consequently reduce the proportion of debt in their capital structure (Hang et al., 2018). Nevertheless, some researchers argue that high liquidity may increase a company's borrowing capacity because it provides better assurance for creditors (Sheikh & Wang, 2011).

Firm size also plays a role as a determining factor in capital structure decisions. Large companies generally have broader access to capital markets, lower bankruptcy risk due to better diversification, and stronger reputations in the eyes of investors and creditors. Therefore, large firms are generally viewed as being more capable of bearing a greater debt burden than smaller firms (Frank & Goyal, 2009). However, a number of empirical studies in the context of developing countries show that the relationship between firm size and capital structure is not always consistent, as it is influenced by industry-specific characteristics and local financial market conditions (Le & Phan, 2017).

This research was conducted on manufacturing companies in the Primary Consumer Goods subsector listed on the Indonesia Stock Exchange (IDX), considering that this sector is one of the backbones of national industry and has diverse financial characteristics that are vulnerable to changes in macroeconomic conditions. Using data from 42 sample companies for the 2024-2025 period, this study aims to empirically examine the effects of profitability (ROE), liquidity (CR), and firm size on the capital structure (DER) of manufacturing companies in Indonesia.

Literature Review and Hypothesis Development

Capital Structure and Theoretical Foundations

Capital structure refers to the composition of long-term financing sources used by a company to finance its assets and operational activities, including the proportion between long-term debt and equity (Siegel & Shim in Fahmi, 2012). Decisions regarding capital structure essentially have direct implications for the weighted average cost of capital (WACC) and the overall value of the firm. An optimal composition is one that is able to minimize the cost of capital while maximizing firm value for shareholders. Operationally, capital structure is often measured using the Debt to Equity Ratio (DER), namely the ratio between total liabilities and total equity of the company.

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

The theoretical foundation underlying this study is the Pecking Order Theory proposed by Myers and Majluf (1984). This theory argues that managers have hierarchical preferences in selecting financing sources: (1) internal financing through retained earnings as the first option; (2) debt issuance if internal financing is insufficient; and (3) new equity issuance as the last resort. This preference arises because of information asymmetry between management and external investors: the issuance of new shares is often interpreted by the market as a negative signal that may reduce share prices. In addition, the cost of issuing bonds is generally lower

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than the cost of issuing new shares, thereby reinforcing the tendency to use debt before equity (Myers, 2001).

Another supporting theory is the Trade-Off Theory developed by Modigliani and Miller (1963), which argues that companies will balance the tax benefits of debt use (tax shield) against the costs of financial distress. The optimal point is achieved when the marginal value of the tax benefits of debt equals the marginal value of financial distress costs. At this point, firm value is maximized. In practice, these two theories Pecking Order and Trade-Off are often used complementarily to explain the dynamics of capital structure decisions across various industrial and national contexts (Frank & Goyal, 2009; Hang et al., 2018).

Profitability and Capital Structure

Profitability measures a company's ability to generate profit from the total capital invested. In this study, profitability is operationalized using Return on Equity (ROE), namely the ratio between net income after interest and taxes and total shareholders' equity. ROE is selected because it directly reflects the efficiency of equity capital use in generating profit, which is relevant from the perspective of both shareholders and creditors.

$$\text{ROE} = \frac{\text{Earnings After Interest and Taxes}}{\text{Total Equity}}$$

Based on the Pecking Order Theory, there is a negative relationship between profitability and the use of debt. Companies that are able to generate high profits will have sufficient internal funds to finance their investment needs, thereby reducing the need for debt. Rajan and Zingales (1995), in their cross-country study, found that profitability is consistently negatively associated with leverage in almost all countries examined. Titman and Wessels (1988) also confirmed that highly profitable companies tend to use less debt because of the availability of adequate internal funds.

On the other hand, the Trade-Off Theory offers a different perspective: more profitable companies have greater capacity to benefit from the tax shield of debt, and therefore, theoretically, they are encouraged to use more debt. In the Indonesian context, Moradi and Paulet (2019) note that the relationship between profitability and capital structure is strongly influenced by country-specific characteristics, including the level of financial market development and the tax regulatory framework. Kurniawan and Sari (2022), in their study of manufacturing companies listed on the IDX, found that profitability has no significant effect on capital structure, possibly because company management does not consistently follow the financing hierarchy predicted by the pecking order theory.

Liquidity and Capital Structure

Liquidity reflects a company's ability to meet its short-term financial obligations on time. In this study, liquidity is measured using the Current Ratio (CR), namely the ratio between current assets and current liabilities. This ratio provides an overview of the extent to which a company can repay its short-term debt using assets that are easily liquidated.

$$\text{CR} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

According to the Pecking Order Theory, companies with high liquidity tend to have greater ability to finance their operational and investment activities from available current assets, thereby reducing the need for external debt financing. This implies a negative relationship between liquidity and debt use in the capital structure. Sheikh and Wang (2011), in their study of Pakistani companies, found that liquidity has a significant negative effect on corporate leverage, which is consistent with the predictions of the Pecking Order Theory.

Similar findings were also reported by Hang et al. (2018) in their research on companies in Vietnam, where increased liquidity was consistently associated with a decrease in the debt ratio. Nevertheless, some literature suggests the possibility of a positive relationship between liquidity and debt. The argument is that a high level of current assets can function as collateral, increasing a company's access to credit from financial institutions. Thus, liquid companies requiring additional capital for expansion may use their liquidity position to obtain debt on more favorable terms (Le & Phan, 2017). The inconsistency of findings across various studies indicates that the effect of liquidity on capital structure is contextual and influenced by industry factors and prevailing macroeconomic conditions.

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Firm Size and Capital Structure

Firm size is an important determinant in capital structure decision-making because it is closely related to accessibility to external financing sources, the degree of risk diversification, and bargaining power with creditors. In this study, firm size is measured using the natural logarithm of total assets, a measure commonly used in financial literature to normalize data distribution and minimize extreme size effects.

$$\text{Firm Size} = \text{Ln (Total Assets)}$$

Theoretically, the Trade-Off Theory predicts a positive relationship between firm size and debt use because larger firms have lower bankruptcy risk due to better diversification and therefore are more likely to obtain loans at competitive interest rates. In addition, large firms are generally easier for external investors to monitor, resulting in lower information asymmetry and reduced moral hazard problems that typically hinder access to credit (Frank & Goyal, 2009). Empirical research by Acaravci (2015) on Turkish manufacturing companies confirmed this positive relationship, showing that larger firm size is consistently associated with higher leverage.

Conversely, the Pecking Order Theory anticipates a possible negative relationship: large companies tend to be financially established and have substantial retained earnings reserves, making them less dependent on debt. Empirical findings in various contexts remain inconsistent. Several studies in Southeast Asia, including studies in the Indonesian capital market, found that firm size does not significantly determine the level of leverage selected by companies (Le & Phan, 2017; Nugroho et al., 2023). This may indicate that financing decisions among Indonesian companies are more influenced by other factors, such as industry type, macroeconomic conditions, and managerial preferences.

Previous Studies

A number of previous studies have investigated the relationship between profitability, liquidity, firm size, and capital structure, with varying findings. Regarding the effect of profitability on capital structure, Kurniawan and Sari (2022), in their study of manufacturing

companies listed on the IDX for the 2018-2020 period, found that ROE has no significant effect on DER. This finding is also supported by Putri and Andriyanto (2023), who examined companies in the consumer goods sector and concluded that profitability is not a reliable predictor of debt financing decisions because company management does not consistently follow the pattern predicted by the Pecking Order Theory.

For the liquidity variable, Rahmawati and Dewi (2023) found that CR has a negative and significant effect on DER in consumer-sector manufacturing companies in Indonesia, indicating that companies with adequate current assets tend to avoid debt as a source of financing. This finding is also consistent with the studies of Sheikh and Wang (2011) and Hang et al. (2018) at the international level, both of which consistently reported a negative relationship between liquidity and leverage. For firm size, Nugroho, Prasetyo, and Wibowo (2023), in their study of primary consumer goods issuers, found that firm size has no significant effect on DER, possibly due to the heterogeneity of financing strategies among both large and small companies in the sector.

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Conceptual Framework of the Study

Based on the theoretical and empirical review above, the conceptual framework of this study places three independent variables—profitability (ROE), liquidity (CR), and firm size—as factors expected to influence the dependent variable, namely capital structure, proxied by DER. This framework is built on the foundation of the Pecking Order Theory as the main theory, with the Trade-Off Theory as a complementary perspective.

The Effect of Profitability (ROE) on Capital Structure (DER)

Profitability is a central indicator that reflects a company's ability to generate profit from invested capital. Within the framework of the Pecking Order Theory (Myers & Majluf, 1984; Myers, 2001), highly profitable firms have adequate internal funds, thereby reducing their dependence on external debt, which implies a negative relationship between profitability and leverage. Rajan and Zingales (1995) and Titman and Wessels (1988) empirically confirmed this pattern in cross-country studies and developed market contexts. However, empirical findings in Indonesia show inconsistency: Kurniawan and Sari (2022) found no significant effect of ROE on DER among IDX manufacturing companies, as also confirmed by Putri and Andriyanto (2023), who concluded that company management does not consistently follow the financing hierarchy predicted by the theory. Triani and Ningsih (2022), in their study of manufacturing companies in the miscellaneous industry sector listed on the IDX during 2014-2019, also found that profitability is not a reliable predictor of leverage levels, allegedly because of strategic managerial considerations such as capacity expansion and the use of the tax shield from debt. Zulkarnain (2020) also noted that the effect of profitability on capital structure among Indonesian manufacturing companies is inconsistent and influenced by industry-specific conditions and the dividend policies of each company. Based on this explanation, the first hypothesis is formulated as follows:

H1: Profitability (ROE) has a significant effect on the Capital Structure (DER) of manufacturing companies in the Primary Consumer Goods Sector listed on the IDX.

The Effect of Liquidity (CR) on Capital Structure (DER)

Liquidity, proxied by the Current Ratio (CR), reflects a company's capacity to meet its short-term obligations using available current assets. The Pecking Order Theory predicts a

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negative relationship between liquidity and debt use: companies with abundant current assets tend to prioritize internal financing sources and reduce dependence on external creditors (Myers & Majluf, 1984; Hang et al., 2018). Empirically, Sheikh and Wang (2011) proved that liquidity has a significant negative effect on leverage in Pakistani companies, while Hang et al. (2018) confirmed similar findings in Vietnamese companies. In the Indonesian context, Rahmawati and Dewi (2023) found that CR has a negative and significant effect on DER in consumer-sector manufacturing companies, indicating that domestic company management is more responsive to liquidity positions when making financing decisions. Zulkarnain (2020) also reported a significant negative effect of liquidity on capital structure among Indonesian manufacturing companies, confirming that companies with large current asset reserves consistently reduce the proportion of debt in their financing composition. Referring to this strong theoretical and empirical support, the second hypothesis is formulated as follows:

H2: Liquidity (CR) has a negative and significant effect on the Capital Structure (DER) of manufacturing companies in the Primary Consumer Goods Sector listed on the IDX.

The Effect of Firm Size on Capital Structure (DER)

Firm size is a structural determinant that influences a company's access to capital markets and its capacity to bear debt burdens. The Trade-Off Theory predicts a positive relationship: large companies have better risk diversification, relatively lower bankruptcy costs, and stronger reputations before creditors, making it easier for them to obtain large loans with competitive interest rates (Modigliani & Miller, 1963; Frank & Goyal, 2009). Acaravci (2015) confirmed this positive relationship in Turkish manufacturing companies. Conversely, a number of studies in Southeast Asian and Indonesian contexts report insignificant relationships: Le and Phan (2017) found that firm size does not consistently determine leverage choices in emerging markets, while Nugroho, Prasetyo, and Wibowo (2023) found similar results specifically among primary consumer goods issuers listed on the IDX. Triani and Ningsih (2022), in their study of IDX manufacturing companies, also reported that firm size has no significant effect on DER, possibly due to the heterogeneity of financing strategies that are not determined solely by business scale, but also by managerial preferences, macroeconomic conditions, and industry characteristics. Based on these theoretical arguments and empirical evidence, the third hypothesis is formulated as follows:

H3: Firm size has a significant effect on the Capital Structure (DER) of manufacturing companies in the Primary Consumer Goods Sector listed on the IDX.

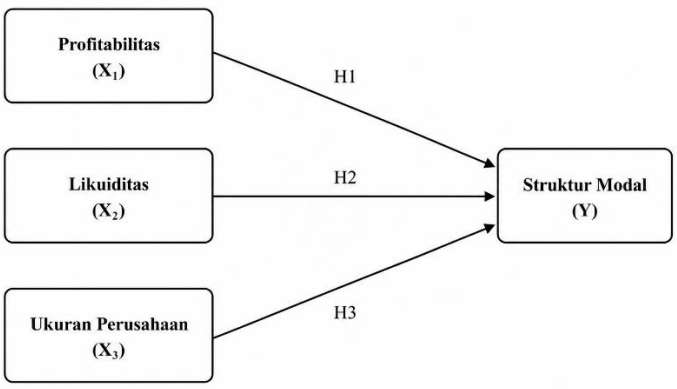

Figure 1. Conceptual Framework of the Study

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Methods

This study uses a quantitative approach with a positivist paradigm, emphasizing hypothesis testing through systematic numerical data analysis. This method was selected because the purpose of the study is to identify and measure the strength of causal relationships among the variables examined based on verifiable empirical data. A quantitative approach enables more objective generalization of results and can be replicated by future research.

The population in this study consists of all manufacturing companies in the Primary Consumer Goods Sector that were consistently listed on the Indonesia Stock Exchange (IDX) during the 2024-2025 observation period. The sampling technique used is purposive sampling, namely sample selection based on specific criteria predetermined by the researcher to ensure data relevance and quality. The criteria established are: (1) manufacturing companies in the Primary Consumer Goods Sector listed on the IDX continuously during the 2024-2025 period; (2) companies that submitted annual financial statements in rupiah during the research period; and (3) companies that did not incur losses (net losses) during the research period. Based on these criteria, a sample of 42 companies was obtained, with a total of 84 observation units (42 companies x 2 years).

The dependent variable in this study is capital structure, measured using the Debt to Equity Ratio (DER). The independent variables consist of three variables: (1) profitability, proxied by Return on Equity (ROE); (2) liquidity, proxied by the Current Ratio (CR); and (3) firm size, proxied by the natural logarithm of total assets. The data used were obtained from annual financial statements published on the official IDX website (www.idx.co.id) and the websites of each sample company.

The data analysis technique was conducted in stages using SPSS version 26. The analytical stages include: (1) descriptive statistical testing to obtain a general overview of the distribution characteristics of each variable; (2) classical assumption testing, including residual normality test (Kolmogorov-Smirnov), multicollinearity test (VIF), heteroscedasticity test (Glejser), and autocorrelation test (Durbin-Watson); and (3) hypothesis testing through multiple linear regression analysis, coefficient of determination (Adjusted R2), simultaneous test (F-test), and partial test (t-test).

Results

Descriptive Statistics

Table 1. Descriptive Statistics (n = 42)

Variable	N	Min	Max	Mean	Std. Dev.
ROE	42	0.00	0.75	0.1623	0.18174
CR	42	0.54	3.82	1.7914	0.68203
Firm Size	42	25.31	32.87	28.9502	2.11436
DER	42	0.20	1.86	0.8912	0.43067

Source: Processed data, 2025

Based on the descriptive statistical data processing results presented in Table 1, the characteristics of each variable can be described as follows. The profitability variable (ROE) has an average value of 0.1623 with a standard deviation of 0.1817, indicating substantial heterogeneity in profit-generating ability among the sample companies. The highest ROE value of 0.75 was achieved by leading companies such as PT Central Protena Prima Tbk. and PT

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Widodo Makmur Unggas Tbk., while the lowest ROE values approaching zero were found in PT Bentoel Internasional Investama and PT Cilacap Samudera Fishing Industry.

The liquidity variable (CR) shows an average value of 1.7914 with a standard deviation of 0.6820. An average value above 1 indicates that, in general, the sample companies are able to meet their short-term obligations, although there is considerable variation among companies. The highest CR value of 3.82 was recorded by PT Cilacap Samudera Fishing Industry, while the lowest CR value of 0.54 was recorded by PT Widodo Makmur Unggas Tbk., indicating liquidity pressure in that company. Firm size, proxied by the natural logarithm of total assets, has an average value of 28.95 with a standard deviation of 2.11. PT Indofood Sukses Makmur Tbk. is the largest company with a value of 32.87, while PT Cilacap Samudera Fishing Industry is the smallest with a value of 25.31. Finally, DER as a proxy for capital structure has an average value of 0.8912 and a standard deviation of 0.4307, meaning that, on average, the companies in the sample finance approximately 89% of their equity through debt.

Normality Test

Table 2. One-Sample Kolmogorov-Smirnov Test

Description	Unstandardized Residual
N	42
Normal Parameters - Mean	0.0000000
Normal Parameters - Std. Deviation	0.40127841
Most Extreme Differences - Absolute	0.121
Most Extreme Differences - Positive	0.121
Most Extreme Differences - Negative	-0.108
Test Statistic	0.121
Asymp. Sig. (2-tailed)	0.192

Source: Processed data, 2025

The normality test using the One-Sample Kolmogorov-Smirnov Test produced an Asymp. Sig. value of 0.192. This value substantially exceeds the critical threshold of 0.05, meaning that the residuals of the regression model are normally distributed and the normality assumption is satisfied. Therefore, the estimated multiple linear regression model is appropriate for further hypothesis testing.

Heteroscedasticity Test (Glejser)

Table 3. Heteroscedasticity Test - Glejser Test

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	1.198	0.618		1.938	0.060
ROE	-0.362	0.268	-0.247	-1.351	0.184
CR	-0.078	0.071	-0.200	-1.099	0.278
Firm Size	-0.024	0.022	-0.198	-1.134	0.265

Source: Processed data, 2025

The heteroscedasticity test was conducted using the Glejser Test by regressing the absolute residual values on the independent variables. The results presented in Table 4.3 show that all independent variables have significance values above 0.05 (ROE: 0.184; CR: 0.278;

Firm Size: 0.265). Thus, there is no indication of heteroscedasticity in this regression model, and the assumption of residual homoscedasticity is fulfilled.

Autocorrelation Test (Durbin-Watson)

Table 4. Model Summary - Durbin-Watson Test

Model	R	R Square	Adj. R Square	Std. Error	Durbin-Watson
1	0.386	0.149	0.079	0.41358	2.189

Source: Processed data, 2025

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The Durbin-Watson test requires the D-W statistic to fall within the range du < d < 4-du for the model to be free from autocorrelation. With du = 1.6603 and 4-du = 2.3397 (based on the D-W table for n = 42, k = 3, alpha = 5%), the obtained Durbin-Watson value of 2.189 falls within that range (1.6603 < 2.189 < 2.3397). This result proves that the regression model is free from autocorrelation problems.

Multicollinearity Test

Table 5. Multicollinearity Test (VIF)

Variable	Tolerance	VIF
ROE	0.934	1.071
CR	0.921	1.086
Firm Size	0.946	1.057

Source: Processed data, 2025

The multicollinearity test results show that all independent variables have Variance Inflation Factor (VIF) values far below the threshold of 10 (ROE: 1.071; CR: 1.086; Firm Size: 1.057) and tolerance values above 0.10. These findings confirm that there is no meaningful multicollinearity problem among the independent variables in the model, so the resulting regression coefficient estimates can be considered reliable and unbiased by correlations among predictors.

Multiple Linear Regression Analysis

Table 6. Results of Multiple Linear Regression Analysis

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	1.654	0.998		1.658	0.106
ROE (X1)	0.184	0.447	0.078	0.412	0.683
CR (X2)	-0.214	0.119	-0.338	-1.798	0.038
Firm Size (X3)	-0.015	0.038	-0.071	-0.398	0.693

Source: Processed data, 2025

Based on the regression estimation results in Table 6, the multiple linear regression equation is as follows:

DER = 1.654 + 0.184 ROE - 0.214 CR - 0.015 FIRM SIZE

The interpretation of the equation is as follows: first, the constant value of 1.654 indicates that if all independent variables are zero, the estimated DER value is 1.654. Second, the ROE coefficient of +0.184 indicates a positive relationship between profitability and capital

structure, although it is not statistically significant. Third, the CR coefficient of -0.214 reflects a significant negative relationship between liquidity and DER, meaning that an increase in liquidity by one unit will reduce DER by 0.214 units, ceteris paribus. Fourth, the firm size coefficient of -0.015 indicates a negative but statistically insignificant relationship.

Partial Hypothesis Test (t-test)

Partial hypothesis testing was conducted using the t-test with a t-table value for df = n-k-1 = 42-3-1 = 38 at alpha = 5% (one-tailed) of 1.686.

1. Testing H1 (ROE on DER): the significance value is 0.683 > 0.05 and t-calculated is 0.412 < t-table 1.686. H1 is rejected; ROE has no significant effect on capital structure.
2. Testing H2 (CR on DER): the significance value is 0.038 < 0.05 and t-calculated is -1.798 > t-table -1.686. H2 is accepted; CR has a negative and significant effect on capital structure.
3. Testing H3 (Firm Size on DER): the significance value is 0.693 > 0.05 and t-calculated is -0.398 < t-table -1.686. H3 is rejected; firm size has no significant effect on capital structure.

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Coefficient of Determination Test (Adjusted R2)

Referring back to Table 4, the obtained Adjusted R2 value is 0.079 or 7.9%. This means that variations in capital structure (DER) can be explained by the three independent variables (ROE, CR, and Firm Size) by only 7.9%, while the remaining 92.1% is explained by other variables not included in the model. This relatively low Adjusted R2 value indicates that many important determinants of capital structure have not yet been accommodated in this study, such as asset tangibility, sales growth, business risk, and macroeconomic conditions.

Simultaneous Test (F-test)

Table 7. ANOVA - Simultaneous F-test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.867	3	0.289	1.623	0.198
Residual	6.754	38	0.178		
Total	7.621	41			

Source: Processed data, 2025

The F-test results in Table 7, show an F-calculated value of 1.623 with a significance value of 0.198. The F-table value for (k; n-k-1) = (3; 38) at alpha = 5% is 2.845. Because F-calculated (1.623) < F-table (2.845) and the significance value (0.198) > 0.05, it can be concluded that, simultaneously, ROE, CR, and Firm Size do not have a significant effect on the capital structure of manufacturing companies in the Primary Consumer Goods Sector listed on the IDX. Therefore, H4 is rejected.

Discussion

The Effect of Profitability (ROE) on Capital Structure. The test results show that ROE has no significant effect on DER. This finding does not support H1 and is inconsistent with the prediction of the Pecking Order Theory, which anticipates a strong negative relationship between profitability and debt use. One possible explanation is that the management of companies in the sample does not strictly follow the internal-external financing hierarchy predicted by the theory. Companies may continue to rely on debt despite high profitability because of strategic considerations such as production capacity expansion or the tax benefits of

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debt use. This finding is consistent with the results of Kurniawan and Sari (2022) and Putri and Andriyanto (2023) in similar Indonesian contexts, both of which found no significant effect of profitability on leverage.

The Effect of Liquidity (CR) on Capital Structure. In contrast to profitability, liquidity (CR) is proven to have a negative and significant effect on DER. This finding supports H2 and is closely aligned with the prediction of the Pecking Order Theory: companies with excess current assets tend to use them as internal financing sources, thereby reducing the need for debt. Empirically, this result is consistent with the findings of Sheikh and Wang (2011), Hang et al. (2018), and Rahmawati and Dewi (2023), all of whom reported a negative relationship between liquidity and leverage. The implication is that financial management in Indonesian manufacturing companies tends to be more responsive to liquidity positions when making financing decisions than to profitability levels.

The Effect of Firm Size on Capital Structure. Firm size is also not proven to have a significant effect on DER; thus, H3 is rejected. This finding contradicts the prediction of the Trade-Off Theory, which assumes that large companies have easier access to debt and are better able to utilize the tax shield. This condition may be explained by the argument that, in the IDX context, both large and small companies have relatively equal access to debt instruments, particularly given the development of the corporate bond market and increasingly inclusive bank credit facilities. Nugroho et al. (2023) found similar results, indicating that, in the primary consumer goods sector, financing strategies are not determined solely by business scale.

Conclusion

Based on the empirical analysis conducted, this study produces four main conclusions. First, profitability proxied by ROE has no significant effect on the capital structure of manufacturing companies in the Primary Consumer Goods Sector listed on the IDX. Second, liquidity proxied by CR has a negative and significant effect on capital structure, meaning that an increase in a company's ability to meet its short-term obligations is correlated with a decrease in debt use in its capital structure. Third, firm size has no significant effect on capital structure. Fourth, simultaneously, the three independent variables (ROE, CR, and Firm Size) do not have a significant effect on capital structure, as reflected in the low Adjusted R2 value of 7.9%. The theoretical implication of this finding is that the Pecking Order Theory is only partially valid in the context of manufacturing companies in Indonesia, particularly through the liquidity mechanism.

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