GOLDEN RATIO OF FINANCE MANAGEMENT
VOLUME 5, ISSUE. 2 (2025)
Website: https://goldenratio.id/index.php/grfm

GOLDEN RATIO
ISSN [Online]: 2776-6780

FINANCE | RESEARCH ARTICLE

Evaluating Financial Health in Indonesia's Infrastructure Sector: The Impact of Capital Structure, Liquidity, and Firm Size

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ARTICLE HISTORY

Received: January 22, 2025
Revised: April 14, 2025
Accepted: May 25, 2025

DOI
https://doi.org/10.52970/grfm.v5i2.1059

ABSTRACT
This study analyzes the effect of capital structure, liquidity, and company size on financial performance. In this study, there are three independent variables, namely capital structure as measured by DER, liquidity as measured by Current Ratio, and company size as measured by total assets, and one dependent variable, namely financial performance as measured by ROA. The object of this research is infrastructure sector companies listed on the Indonesia Stock Exchange from 2021 to 2023 using secondary data, namely the companies' financial statements. The sampling technique in this study used a purposive sampling technique, with the number of samples obtained being 32 companies for 3 years, making a total of 96 sample data points. This study uses multiple linear regression analysis methods by conducting hypothesis testing to see its effect on financial performance. The results showed that the capital structure and liquidity variables negatively affected financial performance, while the company size variable did not affect the company's financial performance. This research can also be a consideration for companies to optimize capital structure management and increase company liquidity. The combination of debt and equity will be able to maximize profitability. Decisions regarding the use of debt must consider the risks that may arise as well as the potential return on investment. Thus, the company can improve its financial performance and provide positive signals to investors.

Keywords: Capital Structure, Liquidity, Company Size, Financial Performance.
JEL Code: G32, G30, L25, M41.

I. Introduction

The infrastructure sector in Indonesia is currently the center of attention in economic development initiatives aimed at improving people's welfare and quality of life. The completion of these infrastructure projects has positively impacted regional economic progress, increasing regional competitiveness and encouraging private investment, according to statistics from the Ministry of Public Works and Public Housing (PUPR) (Rohim, 2024). However, citing data from the Indonesia Stock Exchange (IDX) page, the performance of IDX Infrastructures has fallen 1.48% since the beginning of the year, aka year to date. This has led to a tendency to postpone investing in infrastructure, especially construction (Nityakanti, 2024). One of the factors that investors always look at when making investment policies is healthy company finances (Lutfitasari & Munandar, 2022). One of the most important ways to measure a company's survival is to examine its financial

ISSN [Online]: 2776-6780

performance (Nugroho & Sunarya, 2024). If a business wants to solve and fix its financial problems over time, it must see how well its financial performance (Nini et al., 2020). Financial success is measured by various statistics that reveal the state of the organization. These ratios serve as decision-making tools by providing an overview of the company's financial health and efficiency (Purwaningsih & Kurniawati, 2022).

A strong capital structure can significantly influence financial success (Prekazi et al., 2023a). A business can only remain competitive in this market by developing methods to raise capital. Thus, it is up to the company's financial management to make an informed guess regarding the optimal capital structure (Hasan et al., 2022). Careful consideration is needed when calculating the percentage of the company's capital structure. Maximizing profits, increasing sales, and influencing financial performance are possible outcomes of a balanced capital structure (Evelyne et al., 2024). Financial ratios are early warning signals that warn stakeholders about the company's financial performance, one of which is liquidity (Blessing & Sakouvogui, 2023). When the company's liquidity ratio is low, it has difficulty meeting its short-term needs, so it may have to borrow money to meet urgent needs. These loans often come with higher interest rates that can burden the company's finances and make the company's financial performance worse. (Sasidharan et al., 2023) On the other hand, company size significantly impacts financial performance. A company can be said to be large or small, depending on how many assets it has (Weinzimmer et al., 2023). Larger companies are better financially because they can invest more money, have more assets, and generate more sales, leading to higher cash turnover (Lutfitasari & Munandar, 2022).

Previous research by Prekazi et al. (2023) Confirmed a strong relationship between capital structure and the financial performance of Kosovo commercial companies. Research by Munandar et al (2023) and Putri & Indrati (2024) Determined that a company's capital structure negatively affects its financial performance. At the same time, a different study conducted by Jessica & Triyani (2022) and Farida & Yulazri (2024) Stated that capital structure has no impact on business financial performance. Diroh & Mochlasin (2023) The findings of their study show that liquidity improves financial results. Research by Astutik et al. (2019), Tsvetkova et al. (2021) and Lestari & Sapari (2021) Prove that liquidity is detrimental to a company's profit, even though Dahiyat et al. (2021) and Ningrum & Maryanti (2022) Show that cash on hand has no impact on net profit results. Research by Wati et al. (2023) and Mushafiq et al. (2023) States that larger companies have better financial results, while Lutfitasari & Munandar (2022) and Nilawati & Hendrani (2024) State that they could not find a correlation between company size and its financial success in their investigations. Unlike previous studies, this study focuses on infrastructure sector companies listed on the IDX from 2021 to 2023. Additional criteria in this study include adding company size and liquidity variables. A company may have poor financial performance if it cannot meet its short-term debt obligations due to a lack of liquidity. Therefore, liquidity can be one of the factors of financial performance. (Affi & As'ari, 2023). Meanwhile, the company size variable is added because larger businesses may find it easier to enter the market than smaller businesses. Better financial performance may occur when the company's operational activities are larger because this allows the company to generate more profits. (Ayuningtya & Mawardi, 2022). This study uses indicators such as capital structure, liquidity, and company size to evaluate the financial health of construction businesses listed on the IDX from 2021 to 2023. Investors can use this study as a guide to find potential construction businesses and choose how much to invest based on the financial performance data provided. This study can also serve as a reference for future academics interested in the same field.

II. Literature Review and Hypothesis Development

2.1. Trade-off Theory: Definitions and Implications

Trade-Off Theory was first proposed by Modigliani & Miller (1963). This theory explains that companies must consider the costs and benefits of using debt in their capital structure. This theory explains the relationship between the company's capital structure and liquidity with the company's profitability and financial performance. In conclusion, the trade-off theory emphasizes how companies take into account the

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trade-off between the costs and benefits of using debt in choosing the ideal capital structure that will affect profitability and, in turn, will also improve the company's financial performance (Mara & Munandar, 2024).

2.2. Financial Performance: Definitions and Implications

A company can learn a lot about how well it runs its day-to-day operations by looking at its financial performance (Anggitasari et al., 2023). According to Rambe (2020), company's financial performance is a picture of its financial health at a particular time, resulting from several management-level decisions. When deciding to invest their money in a company, investors need accurate information about its financial performance. A company's financial performance can be described as an estimate of its financial condition used to describe work performance over a specific period. This estimate is based on a study conducted using financial analysis methodology (Lukitasari et al., 2022). Munandar et al. (2023) looked at corporate profits using several relevant metrics, including ROA, which can help companies analyze their financial performance. An increase in return on assets (ROA) indicates that a business uses its resources effectively (Prekazi et al., 2023a). The higher the ROA results of a company, the better its use of assets to generate profits will improve its financial performance (Hisar et al., 2021). According to the Financial Services Authority (2016), a company is said to have a good ROA if it is above 2% (two percent).

2.3 Capital Structure: Definitions and Implications

Capital structure refers to the company's sources of funds to carry out its operational activities. (Maina & Jagongo, 2022). A company's capital structure details the various ways a company raises money, such as short-term loans and long-term investments (Putri & Indrati, 2024). Equity and debt are two components of a company's financial mix that form its capital structure (Nini et al., 2020). Since it impacts the achievement of financial management goals, deciding on the capital structure is a crucial financial choice for a company. When a business has a weak capital structure, with a high level of debt, it puts a lot of pressure on the company to pay many bills, which can be detrimental to its profits (Anjelia & Nyale, 2024). In order for the capital structure decided by the company to function correctly, the right strategy must be in place. Finding the middle ground between risk and return is essential for an ideal capital structure (Mercyana et al., 2022). A company's capital structure can be determined by calculating DER, which is the ratio of total debt to equity (Prekazi et al., 2023). One of the key areas of inquiry in corporate finance is capital structure, which refers to the composition of a firm's financing through a combination of debt and equity (Aisyah, 2024). One way to see a company's financial health is to look at the debt-to-equity ratio. Simply put, DER shows the ratio of funds provided by creditors (borrowers) to funds provided by the company's owners (Rizky & Aryani, 2020). Bank Indonesia considers a company to have a good DER value if it is less than 100% (Purwaningsih & Mulyani, 2023).

2.4. Liquidity: Definitions and Implications

A company is considered liquid if it can pay its short-term debts when they fall due. (Octavia & Purwaningsih, 2023). Meeting short-term financial commitments using easily convertible assets such as cash, receivables, and inventory is the definition of a company's liquidity (Sangawi & Abdulla, 2024). A company's liquidity indicates its health and capacity to pay short-term and long-term commitments (Hermuningsih et al., 2022). If a company's liquidity is low, the company will not be able to run its business as usual (Pratama et al., 2022). Therefore, company management needs to ensure that assets can be quickly and sufficiently converted into cash in order to meet its obligations (Sangawi & Abdulla, 2024). Among the many methods for measuring liquidity, the Current Ratio is the most prominent. The current ratio measures the company's liquidity and ability to meet short-term debt commitments. A higher current ratio indicates better financial health because it shows that assets can cover liabilities (Affi & As'ari, 2023). The Financial Services Authority (2016) said that a company's current ratio of fifteen percent or more indicates strong liquidity.

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2.5. Company Size: Definitions and Implications

Company size refers to the ability, stability, and expertise needed for economic activities (Kalbuana et al., 2023). Company size refers to the amount stated specifically to assess the scale of a business, such as the amount of assets, sales, capitalization, and revenue (Irawan et al., 2022). In business, the value of a company's assets is a good indicator of the size of the company. A larger company's market capitalization, total assets, and revenue will be higher (Weinzimmer et al., 2023). Large companies have more opportunities to access funding sources because large companies certainly have hefty profits, thus allowing companies to win the competition and even survive in the industrial world (Ramadhaningsih & Indrati, 2024). Company size can be classified in various ways, including total assets, sales, log size, stock market value, market capitalization, and other highly correlated factors (Mariska et al., 2025). According to Article 6 of the Republic of Indonesia Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises (2008), Micro enterprises are defined as businesses with annual sales of less than IDR 300 million or a net worth of less than IDR 50 million. Medium enterprises are companies with annual sales of between IDR 300 million and IDR 2.5 billion, or a net worth of between IDR 50 million and IDR 500 million. A business is considered significant if its annual income or net worth is higher than that of a medium-sized business.

2.6. Relationship of Capital Structure to Financial Performance

The trade-off theory explains that companies consider the advantages and disadvantages of using debt in choosing the optimal capital structure (Tarigan & Wahyudi, 2023). Companies may incur high costs due to their unfavorable capital structure if they have much debt (Anjelia & Nyale, 2024). Taking on much debt means that the company must pay interest and principal on the debt every month. When these fixed costs increase, they can reduce the company's income and harm the company's financial performance. (Purwaningsih & Kurniawati, 2022). According to research conducted by Munandar et al. (2023) and Putri & Indrati (2024)Capital structure have a positive effects on the company's financial performance.

2.7. Relationship between Liquidity and Financial Performance

Financial managers pay close attention to liquidity because of its significant effect on company performance (Syihan et al., 2024). Companies with sufficient cash will be better able to pay their short-term debts, reducing their total debt and helping them create a more manageable capital structure. This, in turn, improves their financial performance (Sangawi & Abdulla, 2024). As previously shown in the research conducted by Farida & Yulazri (2024) and Nilawati & Hendrani (2024) There is a positive correlation between liquidity and a company's financial performance.

2.8. Relationship of Company Size to Financial Performance

Larger businesses sometimes have easier access to funding options than smaller businesses (Ramadhaningsih & Indrati, 2024). By making the most of their assets and preparing themselves well, large companies can show that they can generate significant profits, which improves their financial performance. (Ayuningtya & Mawardi, 2022). By making the most of their assets and preparing themselves well, large companies can show that they can generate significant profits, which improves their financial performance (Nilawati & Hendrani, 2024). Research by Mushafiq et al. (2023), Wati et al. (2023) and Zavalii et al. (2024) Shows that larger companies have a positive effect on financial performance. This section summarizes how literature reviews and hypotheses align with your research aims, emphasizing the study's potential contributions to theory, practice, or policy. Therefore, based on this relationship, the hypothesis proposed in this study is as follows:

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H1: Capital structure have a positive effects on financial performance
H2: Liquidity has a positive effect on the Company's financial performance
H3: Company size has a positive effect on financial performance

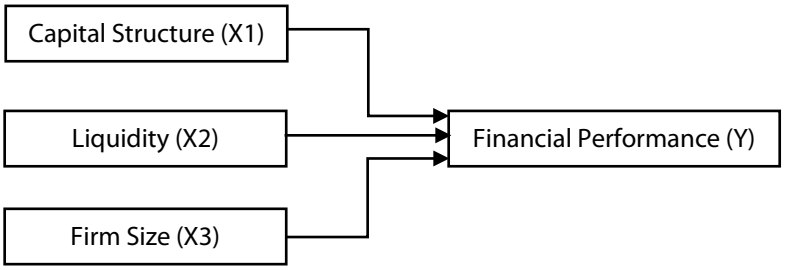

Figure 1. Conceptual Framework

III. Research Method

This study uses financial performance as the dependent variable, while capital structure and profitability are used as independent variables. Prekazi *et al.* (2023). Return on Assets is one of the metrics that can be used to assess a company's financial performance by dividing total debt by equity. DER measures capital structure by comparing total debt with total equity (Purwaningsih & Kurniawati, 2022). *Current Ratio* measures liquidity by dividing current assets by current liabilities. (Radu et al., 2023). Then, company size is measured by transforming the actual amount of assets the company owns into the natural logarithm. (Zavalii et al., 2024). Using causal quantitative techniques, this study tests the hypothesis by analyzing data. This study uses secondary data from the annual financial reports of companies related to infrastructure listed on the IDX for 2021-2023. Financial reports are available on the IDX website (https://www.idx.co.id/id) or the websites of each company. Between 2021 and 2023, 69 infrastructure companies included in this study were listed on the IDX. This study used a purposive sampling technique to select infrastructure companies that meet specific criteria for consistent financial reporting, present financial statements in rupiah, and do not experience losses from 2021 to 2023. Ninety-six research samples from 32 companies have met these criteria for three years. Various statistical tests were used to examine the data for this study. These include descriptive statistics, classical assumption tests such as normality, multicollinearity, heteroscedasticity, autocorrelation, hypothesis tests such as simultaneous F and partial T statistics, and determination coefficient tests (R2). The following is the regression equation of this study:

$$ROA = \alpha - \beta_1 DER + \beta_2 CR + \beta_3 SIZE + e$$

Description:
ROA = Financial Performance
α = Constant
β1 β2 β3= Regression Coefficient
DER = Capital Structure
CR = Liquidity
SIZE = Company Size
e = Error

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IV. Results and Discussion

Table 1. Descriptive Statistics Analysis

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
ROA	96	0,00	0,24	0,0529	0,04595
DER		0,02	14,75	1,5022	1,81303
CR		0,14	79,09	3,3455	8,85521
SIZE		25,53	33,29	29,2060	2,11744
Valid N (listwise)					

The maximum, minimum, average, and standard deviation values are part of the values shown in the descriptive statistics report. Based on the descriptive statistics test table, the minimum value of the ROA financial performance variable is 0.00 at PT Adhi Karya (Persero) Tbk in 2021 and 2021, PT Inti Bangun Sejahtera Tbk in 2022 and 2023, PT PP (Persero) Tbk in 2023, PT LCK Global Kedaton Tbk in 2022 and 2023, and PT Maharaksa Biru Energi Tbk in 2023, and the maximum value is 0.24 at PT Paramita Bangun Sarana Tbk in 2023. The average value is 0.0529, and the standard deviation is 0.04595. With an ROA of 0.0529 or 5.29%, the infrastructure sector company has relatively good financial performance because it is above the ROA value considered reasonable by the OJK, which is 2%. In 2023, the capital structure variable proxied by DER ranged from 0.02 at PT Sumber Mas Konstruksi Tbk. to 14.75 at PT Maharaksa Biru Energi Tbk., with a standard deviation of 1.81303 and an average of 1.5022. Infrastructure companies have a sound capital structure based on this average. In 2022, the current ratio (CR) ranged from 0.14 at PT Maharaksa Biru Energi Tbk. to 79.09 at PT Sumber Mas Konstruksi Tbk., with an average of 3.3455 and a standard deviation of 8.85521. Based on the average value, companies in the infrastructure sector have good liquidity. With a minimum value of 25.53 in 2021 and a maximum of 33.29 in 2023, the company size variable proxied by SIZE had the lowest point at PT Bangun Karya Perkasa Jaya Tbk. With a standard deviation of 2.11744, the mean is 29.2060. This value is the Natural Logarithm (Ln) of total assets, and if converted to its original form, it is IDR 4,830,166,853,008. This average value shows that large infrastructure sector companies exceed the net value of medium-sized companies by more than 10 billion rupiah.

4.1. Classical Assumption Test

Testing for classical assumptions includes checking data normality, multicollinearity, heteroscedasticity, and autocorrelation. The first thing to do is use the Kolmogorov-Smirnov test to ensure the data is normally distributed. A p-value greater than 0.05 indicates that the data tends to follow a normal distribution. This study conducted a data normality test twice. A p-value of 0.001 indicates that the data does not follow a normal distribution, as shown in the first test with the original data. After performing data transformation, the researcher conducted a second test, which gave a result of 0.194, and was able to proceed to the next testing stage. The following classical assumption test is the multicollinearity test, which requires a VIF below 10 and a tolerance above 0.100. Each independent variable in this study has a tolerance value greater than 0.100, and the VIF value of each variable is less than 10, indicating no symptoms of multicollinearity. The next test is heteroscedasticity with the Glejser test. The significance score of the independent variable was determined to be greater than 0.05. Because no independent variable has a significance level below 0.05, this study has no heteroscedasticity problem. Finally, the autocorrelation test using the runs test, assuming a significance level greater than 0.05. The results of the test autocorrelation analysis produced a value of 0.837, revealing no autocorrelation problem between variables.

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4.2. Multiple Regression Analysis

The test findings can be used to create an equation model between the variables:

$$ROA = 0{,}561 - 0{,}088DER - 0{,}019CR - 0{,}011SIZE + e$$

According to the regression equation, the financial performance variable, represented by ROA as a proxy, is predicted to be 0.561 if all independent variables are set to 0. In addition, the regression coefficient value of -0.088 indicates that ROA will decrease by 0.088 for every 1% increase in the capital structure variable (DER proxy). The regression coefficient of -0.019 indicates that ROA decreases by 0.019 for every 1% increase in the liquidity variable (CR) and ROA decreases by 0.011 for every 1% increase in the company size variable (SIZE).

4.3. F-Test

The F test looks for evidence that each independent variable impacts the dependent variable and is also used to evaluate the feasibility of the regression model. The feasibility of the regression model and the combined effect of all independent variables on the dependent variable can be concluded from the ANOVA significance value, which is less than 0.05, or the calculated F value, which is greater than the F table. The calculated F value of the study of 7.614 is greater than the F table value of 3.095, and the significant ANOVA value of 0.000 is lower than 0.05. These results mean that the capital structure, liquidity, and company size variables affect financial performance, and the regression model is worthy of study.

4.4. t-Test

The t-test is used separately to determine whether the independent variables affect the dependent variable and to test the hypothesized relationship. Acceptance of the hypothesis depends on a positive calculated T value greater than the T table value, with a significance level below 0.05. Based on the data, the DER variable is statistically significant with a p-value of 0.001, smaller than the significance level of 0.05, and a t-value of -3.580, smaller than the t-table value of -1.989. This proves it is based on the hypothesis that DER, a capital structure variable, effect on financial performance. Furthermore, the t-value of -3.474 is smaller than the t-table of -1.989, and the significance value of 0.001 is smaller than 0.05, indicating that liquidity negatively affects financial performance. In addition, the t-value of -1.844 is greater than the t-table value of -1.989, and the significance value of 0.068 is greater than 0.05, so there is no relationship between company size and financial performance.

Table 2. Summary of Hypothesis Test Results

Hypothesis		Results	Decision
H1	Capital structure have a positive effects on financial performance.	T count < T table –3,580 < –1,989 Sig. Value < 0,05 0.001 < 0,05	Hypothesis Accepted
H2	Liquidity has a positive effect on financial performance.	T count < T table -3,474 < -1,989 Sig. Value < 0,05 0,001 < 0,05	Hypothesis Rejected
H3	Company size has a positive effect on financial performance.	T count > T table –1,787 > –1,989 Sig. Value > 0,05 0,068 < 0,05	Hypothesis Rejected

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4.5. Determination Coefficient Test

One way to measure the extent of the influence of independent factors on dependent variables is to look at the determination coefficient value. There is a correlation of 17.3% between financial performance and variables related to capital structure, liquidity, and company size, as indicated by the Adjusted R Square value of 0.173 in this study. As much as 82.7% of financial performance is caused by variables not included in this study.

4.6. The Effect of Capital Structure on Financial Performance

The findings of the t-test show that the capital structure variable have a positive effects on financial performance, so H1 is accepted. Companies with inadequate capital structures, such as having high debt levels, can incur high costs that will reduce the company's financial performance. (Anjelia & Nyale, 2024). These findings support the trade-off theory, which explains how companies consider the advantages and disadvantages of using debt in choosing the optimal capital structure, which will impact profitability and ultimately affect the company's financial performance. (Tarigan & Wahyudi, 2023). Companies with large profits prefer to use retained earnings to finance the company's investment activities in order to achieve the company's revenue targets. (Satrio et al., 2024). The results of this study are in line with research conducted by Nini et al. (2020), Bindu C (2021), Opoku-Asante et al. (2022), Sharkh et al. (2022), Imronudin et al. (2023), Munandar et al. (2023) and Putri & Indrati (2024) Who stated that capital structure have a positive effects on financial performance?

4.7. The Effect of Liquidity on Financial Performance

This study's findings indicate that liquidity negatively affects financial performance, so H2 is rejected. Company performance will be low when the company has too much liquidity. According to the trade-off theory, companies with high liquidity lose the opportunity to increase revenue. (Sudiyatno & Suwarti, 2022). High liquidity causes a decrease in profitability because companies want to reserve cash or make short-term investments rather than other investments with high rates of return. The decrease in profitability will cause a decrease in the company's financial performance (Quoc et al., 2024). The findings of this study are consistent with previous studies by Hossain (2021), Lestari & Sapari (2021), (Rohilla & Sharma, 2023) and Amira et al. (2023) This shows that financial performance is negatively affected by liquidity.

4.8. The Effect of Company Size on Financial Performance

It is clear from the findings of this study that company size has no impact on financial performance, so H3 is rejected. When looking at company size, total assets are not always a good predictor of how well a company's financial performance. (Meiryani et al., 2020). Just because a company is big does not guarantee its best sales management. A high market and asset value also increases the likelihood of large profits. (Nilawati & Hendrani, 2024). Inefficient company revenue management means that the company's size does not affect its financial performance, regardless of its size. (Azmi & Setyowati, 2023). Consistent with the findings of research by Muslih & Marbun (2020), Ihsani et al. (2023), Setiawan & Ekadjaja (2023) and Estiasih et al. (2024) Who found no correlation between company size and financial performance.

V. Conclusion

The research conducted on 32 infrastructure sector companies found that capital structure have a positive effects on financial performance, meaning that the higher the capital structure influenced by debt, the lower the company's financial performance. Liquidity have a positive effects on financial performance, meaning that a liquidity level that is too high will reduce financial performance. Also, company size does not

ISSN [Online]: 2776-6780

affect financial performance, meaning that the size of a company does not directly affect how well the company's financial performance is.

Limitations: The limitation of the study is that when testing was carried out, the data were not normally distributed, so data transformation was needed first. In addition, the determination coefficient test produced a value of 0.173, which means that the independent variables only affect the dependent variable by 17.3%. Therefore, it is recommended that further researchers consider including the board of commissioners as an independent variable because it can help improve financial performance by preventing fraud in company management. (Febrina & Sri, 2022). Managerial Implications: The results of this study can help companies optimize capital structure and liquidity management and increase company liquidity. The combination of debt and equity will later be able to maximize profitability. Decisions regarding the use of debt must consider the risks that may arise and the potential return on investment. Thus, the company can improve its financial performance and provide a positive signal to investors.

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