

The Effect of Capital Structure, Liquidity, and Profitability on Firm Value

Astrieth Sopotan^{1*}

^{1*}Sekolah Tinggi Ilmu Ekonomi Pariwisata, Indonesia
Email: ^{1*}astrieth@gmail.com

Received: 9 March 2026

Accepted: 13 March 2026

Published online: 14 March 2026

Abstract

This study aims to examine the effect of capital structure, liquidity, and profitability on firm value. Firm value is an important indicator that reflects the market perception of a company's performance and prospects. This research adopts a quantitative approach using secondary data obtained from the financial statements of companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The sampling technique used in this study is purposive sampling based on specific criteria related to the availability and completeness of financial data. The data were analyzed using multiple linear regression analysis to determine the influence of capital structure, liquidity, and profitability on firm value. The results of the study show that capital structure has a positive and significant effect on firm value, indicating that companies that effectively manage their financing structure can enhance their market valuation. Liquidity also shows a positive and significant influence on firm value, suggesting that companies with strong liquidity positions are perceived as financially stable and capable of meeting short-term obligations. Furthermore, profitability has the strongest positive and significant effect on firm value, highlighting that the ability of companies to generate profits is a key factor influencing investor confidence and market valuation. Simultaneously, capital structure, liquidity, and profitability significantly influence firm value. These findings emphasize the importance of effective financial management strategies in improving company performance and increasing firm value in the capital market.

Keywords: Capital Structure, Liquidity, Profitability, Firm Value, Financial Performance.

1. Introduction

Firm value has become one of the most critical indicators used to evaluate a company's overall performance and long-term sustainability. In modern financial management, maximizing firm value is often considered the primary objective of corporate decision-making because it reflects the market's perception of a company's prospects and its ability to generate wealth for shareholders. Firm value is generally reflected in stock prices, price-to-book value (PBV), or Tobin's Q, which capture investor expectations regarding company performance and growth potential. When a company can increase its value, it signals strong financial performance and efficient management practices, which attract investors and enhance the firm's competitiveness in the market (Putri & Lestari, 2024).

In the context of corporate finance, several financial factors are believed to influence firm value, particularly capital structure, liquidity, and profitability. These variables represent essential aspects of financial management decisions that determine how firms manage their resources, obligations, and earnings. Financial policies regarding debt financing, cash



management, and profit generation significantly affect investor confidence and ultimately shape the market valuation of the company (Hutagaol et al., 2025).

Capital structure refers to the composition of a company's financing sources, particularly the proportion of debt and equity used to fund corporate operations. According to financial theory, the optimal capital structure can enhance firm value because it balances the benefits of debt financing, such as tax shields, with the risks associated with financial distress. The trade-off theory suggests that firms seek an optimal level of leverage that maximizes firm value while minimizing financial risk. However, excessive debt may increase the risk of bankruptcy and reduce investor confidence, thereby negatively affecting firm value (Irwan & Harjayanti, 2024).

Empirical studies show mixed findings regarding the relationship between capital structure and firm value. Some research indicates that capital structure has a positive and significant effect on firm value, suggesting that effective leverage can increase shareholder wealth (Irwan & Harjayanti, 2024). However, other studies have found that capital structure may not significantly affect firm value, especially when firms rely excessively on debt or when market conditions weaken investor confidence (Amalia et al., 2025). These inconsistent results highlight the need for further investigation into how capital structure contributes to firm valuation across different industries and economic environments.

Liquidity is another important factor that may influence firm value. Liquidity refers to a company's ability to meet its short-term financial obligations using its current assets. Companies with strong liquidity positions are generally perceived as financially stable because they can easily pay debts and handle unexpected financial challenges. A high level of liquidity indicates that the firm has sufficient working capital to support its operations, which reduces financial risk and enhances investor confidence (Gautama et al., 2024).

From a theoretical perspective, liquidity plays an important role in ensuring operational continuity and financial stability. Firms with adequate liquidity are better able to manage operational costs, respond to economic shocks, and maintain investor trust. As a result, liquidity can contribute positively to firm value because investors prefer companies with strong financial flexibility and a lower risk of financial distress. Empirical evidence supports this view, indicating that liquidity may positively influence firm value because it signals financial health and efficient management of short-term resources (Mukhtaro et al., 2024).

Nevertheless, the relationship between liquidity and firm value is not always straightforward. In some cases, excessive liquidity may indicate inefficient asset utilization because idle cash could otherwise be invested in profitable projects. Therefore, firms must balance liquidity and profitability to ensure optimal resource allocation and sustainable value creation (Petronila & Aprilianti, 2024). This complexity suggests that liquidity management should be carefully considered in corporate financial strategies.

Profitability is widely recognized as one of the most influential determinants of firm value. Profitability reflects a company's ability to generate earnings from its assets and operations. Higher profitability indicates efficient management, strong operational performance, and better prospects for future growth. Consequently, profitable companies tend to attract more investors, which increases demand for their shares and raises their market value (Purba et al., 2025).

In corporate finance literature, profitability often serves as a signal to investors regarding the firm's financial strength and prospects. According to signaling theory, companies with strong profitability provide positive signals to the market about their ability to generate stable returns. This positive perception increases investor confidence and contributes to higher firm valuation. Empirical studies consistently show that profitability has a significant positive effect on firm value, indicating that companies with higher earnings performance tend to achieve higher market valuation (Prima et al., 2023).

Furthermore, profitability also interacts with other financial variables, including capital structure and liquidity. For example, profitable firms may rely less on external debt because they can finance their operations using internal funds. Similarly, companies with strong profitability are better able to maintain healthy liquidity levels, which further strengthens their financial position and enhances firm value. These interrelationships highlight the importance of examining capital structure, liquidity, and profitability simultaneously to better understand their combined impact on firm value (Azmi & Indriastuti, 2024).

In emerging markets such as Indonesia, the study of financial determinants of firm value has become increasingly relevant due to rapid economic growth and increased investor participation in capital markets. Companies listed on the stock exchange face greater pressure to maintain strong financial performance and transparent financial management practices to attract investors. As competition intensifies and economic uncertainty persists, understanding the financial factors that influence firm value becomes essential for corporate managers, investors, and policymakers. Research on capital structure, liquidity, and profitability provides valuable insights into how companies can improve financial strategies to maximize shareholder wealth and achieve sustainable growth (Hutagaol et al., 2025; Amalia et al., 2025).

Despite the extensive literature on firm value, inconsistencies in previous findings indicate that the relationship between financial variables and firm value remains an important area for further investigation. Some studies report significant positive relationships, while others find insignificant or even negative effects depending on industry characteristics, economic conditions, and measurement methods. These inconsistencies highlight the need for empirical studies that simultaneously examine the role of capital structure, liquidity, and profitability in determining firm value. Such research can contribute to the development of financial management theory and provide practical insights for corporate decision-making.

Based on the above discussion, this study aims to examine the effect of capital structure, liquidity, and profitability on firm value. By analyzing these financial variables simultaneously, the research seeks to provide empirical evidence regarding the extent to which financial management decisions influence firm valuation and investor perceptions. Understanding these relationships is essential for corporate managers who aim to optimize financial strategies and enhance shareholder wealth in an increasingly competitive business environment.

The objective of this study is to analyze and examine the effect of capital structure, liquidity, and profitability on firm value. Specifically, this research aims to determine whether capital structure, liquidity, and profitability significantly influence firm value, either individually or collectively, and to provide empirical evidence regarding the role of financial management decisions in enhancing company value and investor confidence.

2. Literature Review and Hypothesis Development

2.1. Firm Value

Firm value represents the market's perception of a company's overall performance and prospects. It reflects how investors assess a firm's ability to generate sustainable profits and growth in the long term. In financial management, firm value is often measured using indicators such as Price to Book Value (PBV), Tobin's Q, or market capitalization, which indicate the level of investor confidence toward a company (Azmi & Indriastuti, 2024).

The concept of firm value is closely related to shareholder wealth maximization, which is considered the main objective of corporate financial management. When a firm successfully increases its value, it reflects strong financial performance, efficient resource utilization, and effective management decisions. Consequently, companies that maintain high firm value tend to attract more investors and gain better access to external financing (Prima et al., 2023).

Several financial factors can influence firm value, including capital structure decisions, liquidity management, and profitability performance. These financial indicators represent different aspects of corporate financial health and are frequently used by investors when evaluating investment opportunities (Purba et al., 2025).

2.2. Capital Structure and Firm Value

Capital structure refers to the composition of a company's long-term financing sources, particularly the proportion of debt and equity used to fund its operations. According to the trade-off theory, firms seek an optimal capital structure that balances the advantages of debt financing with the potential costs of financial distress. Debt can provide tax benefits and increase returns to shareholders, but excessive leverage may increase bankruptcy risk (Irwan & Harjayanti, 2024).

In corporate finance theory, capital structure decisions play a critical role in determining firm value because they influence financial risk, cost of capital, and investor perceptions. Companies with an optimal debt-equity balance can reduce capital costs and enhance financial efficiency, which ultimately increases market valuation. On the other hand, excessive debt may lead to higher financial risk, which can negatively affect investor confidence (Amalia et al., 2025).

Empirical studies provide varying results regarding the relationship between capital structure and firm value. Some studies show that capital structure has a positive and significant effect on firm value, suggesting that appropriate use of debt financing can enhance company performance and shareholder wealth (Irwan & Harjayanti, 2024; Wijaya, I., 2025).

Similarly, research conducted on Indonesian companies indicates that capital structure contributes positively to firm value because it signals managerial confidence in the firm's growth prospects and financial stability (Khatima et al., 2023; Purba et al., 2025).

However, other studies report insignificant or even negative relationships between capital structure and firm value, indicating that excessive leverage may increase financial risk and reduce market confidence (Amalia et al., 2025; Juliatri & Wijayanti, 2024).

Based on theoretical arguments and empirical findings, capital structure remains an important factor influencing firm value because it reflects financial policy decisions and risk management strategies adopted by corporate managers.

H1: Capital structure has a significant effect on firm value.

2.3. Liquidity and Firm Value

Liquidity refers to a company's ability to meet its short-term financial obligations using its current assets. Liquidity is commonly measured using financial ratios such as the Current Ratio (CR), Quick Ratio, or Cash Ratio. A company with good liquidity can pay its debts on time and maintain operational stability, which reduces the risk of financial distress (Mukhtaro et al., 2024).

From an investor's perspective, liquidity is an important indicator of financial health because it reflects the company's ability to manage working capital effectively. Companies with strong liquidity positions are considered more stable and reliable, which may increase investor confidence and positively affect firm value (Fauziah & Widhiastuti, 2025).

The relationship between liquidity and firm value is often explained through signaling theory, which suggests that financial information provides signals to investors regarding company performance and financial stability. A high liquidity level may signal that a company is capable of meeting its short-term obligations and maintaining operational continuity, thereby enhancing investor confidence and increasing firm value (Azmi & Indriastuti, 2024).

Empirical studies show mixed findings regarding the effect of liquidity on firm value. Some research indicates that liquidity positively influences firm value because it reduces financial risk and improves financial flexibility (Fauziah & Widhiastuti, 2025).

However, other studies suggest that liquidity may not significantly influence firm value. This occurs because investors may prioritize profitability and growth potential rather than short-term financial stability when evaluating company performance (Irwan & Harjayanti, 2024).

Additionally, excessive liquidity may indicate inefficient asset utilization, as funds that remain idle could otherwise be invested in profitable opportunities (Petronila & Aprilianti, 2024).

Despite these mixed findings, liquidity remains an important factor in corporate financial management because it affects financial stability and operational sustainability.

H2: Liquidity has a significant effect on firm value.

2.4. Profitability and Firm Value

Profitability refers to a company's ability to generate profits from its operations and resources. It is one of the most important indicators of financial performance and is commonly measured using ratios such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) (Prima et al., 2023).

From a theoretical perspective, profitability plays a crucial role in determining firm value because it reflects the company's efficiency in utilizing resources to generate earnings. According to signaling theory, high profitability sends positive signals to investors regarding the company's financial performance and prospects. As a result, investors are more likely to invest in profitable companies, which increases demand for their shares and ultimately raises firm value (Purba et al., 2025; Ramadhani et al., 2023).

Several empirical studies confirm that profitability has a strong positive effect on firm value. Companies that consistently generate high profits are more attractive to investors because they are perceived as having strong growth potential and financial stability (Prima et al., 2023).

Similarly, research on manufacturing companies shows that profitability significantly influences firm value because higher earnings improve investor confidence and increase market valuation (Amalia et al., 2025).

However, some studies report different findings. In certain sectors, profitability may not significantly influence firm value due to industry-specific conditions, market fluctuations, or differences in corporate governance practices (Mukhtaro et al., 2024).

Despite these variations, profitability is widely regarded as one of the most influential determinants of firm value because it reflects a firm's ability to generate sustainable financial returns.

H3: Profitability has a significant effect on firm value.

2.5. Conceptual Framework

Based on the literature review above, this study examines the relationship between three independent variables—capital structure, liquidity, and profitability—and firm value as the dependent variable. Capital structure represents financing decisions, liquidity reflects financial stability, and profitability measures the company's ability to generate earnings. These variables collectively provide insight into the financial performance and management efficiency of a company, which ultimately influences investor perceptions and firm value.

3. Method

3.1. Research Design

This study adopts a quantitative research approach to examine the effect of capital structure, liquidity, and profitability on firm value. Quantitative research is appropriate for this study because it allows the researcher to analyze numerical data and test hypotheses using statistical techniques. The research design used in this study is explanatory research, which aims to explain the causal relationships between independent variables and the dependent variable. In this context, the study investigates how capital structure, liquidity, and profitability influence firm value.

The explanatory research design is widely used in financial and accounting research because it enables researchers to examine the relationships between financial indicators and company performance. Through statistical analysis, this study aims to provide empirical evidence regarding the extent to which financial management decisions affect firm value. The study uses secondary data derived from company financial statements, which provide reliable and measurable financial information for analysis.

3.2. Population and Sample

The **population** of this study consists of companies listed on the **Indonesia Stock Exchange (IDX)** during the research period. Publicly listed companies are selected because they publish audited financial statements that provide reliable data for financial analysis. Additionally, these companies are closely monitored by investors and regulators, making them suitable for research related to firm value and financial performance.

The **sampling technique** used in this study is **purposive sampling**, which involves selecting companies based on specific criteria relevant to the research objectives. The criteria used to determine the research sample include:

- 1) Companies listed on the Indonesia Stock Exchange during the research period.
- 2) Companies that publish complete annual financial statements during the observation period.
- 3) Companies that have complete data related to capital structure, liquidity, profitability, and firm value.
- 4) Companies that consistently report financial data in the same currency and accounting period.

Based on these criteria, several companies are selected as the research sample. The observation period in this study covers five years, from 2020 to 2024, in order to provide sufficient data for statistical analysis and to capture recent financial trends.

3.3. Types and Sources of Data

This study uses **secondary data**, which refers to data that have already been published or recorded by other institutions. Secondary data are commonly used in financial research because they provide reliable information about company performance and financial conditions.

The data used in this study were obtained from several sources, including:

- 1) Annual financial reports of companies listed on the Indonesia Stock Exchange.
- 2) Official publications from the **Indonesia Stock Exchange (IDX)**.
- 3) Financial databases and company reports available through corporate websites and financial information platforms.

These data sources provide detailed financial information such as total assets, total liabilities, equity, current assets, current liabilities, and net income, which are required to calculate the research variables.

3.4. Research Variables and Measurement

This study consists of one **dependent variable** and three **independent variables**.

1. Dependent Variable

The dependent variable in this study is **firm value**. Firm value reflects the market perception of a company's performance and prospects. In this research, firm value is measured using the **Price to Book Value (PBV)** ratio.

The formula used to measure PBV is:

$$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

A higher PBV value indicates that the market places a higher valuation on the company relative to its book value, reflecting strong investor confidence.

2. Independent Variables

a. Capital Structure

Capital structure refers to the proportion of debt and equity used by a company to finance its operations. In this study, capital structure is measured using the **Debt to Equity Ratio (DER)**.

The formula used is:

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

A higher DER indicates that the company relies more heavily on debt financing compared to equity.

b. Liquidity

Liquidity refers to a company's ability to meet its short-term financial obligations using its current assets. In this study, liquidity is measured using the **Current Ratio (CR)**.

The formula used is:

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

A higher current ratio indicates that the company has sufficient current assets to cover its short-term liabilities.

c. Profitability

Profitability reflects a company's ability to generate profits from its assets and operations. In this study, profitability is measured using **Return on Assets (ROA)**.

The formula used is:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

A higher ROA indicates that the company is more efficient in using its assets to generate profits.

Data Analysis Technique

The data analysis in this study is conducted using **multiple linear regression analysis**. This method is used to examine the effect of capital structure, liquidity, and profitability on firm value. Multiple regression analysis allows researchers to analyze the influence of several independent variables on a single dependent variable simultaneously.

The regression model used in this study can be formulated as follows:

$$FV = \alpha + \beta_1 CS + \beta_2 LIQ + \beta_3 PROF + \varepsilon$$

Where:

- **FV** = Firm Value
- **α** = Constant
- **$\beta_1, \beta_2, \beta_3$** = Regression coefficients
- **CS** = Capital Structure
- **LIQ** = Liquidity
- **PROF** = Profitability

ε = Error term.

3.5. Classical Assumption Tests

Before conducting regression analysis, several **classical assumption tests** are performed to ensure the validity and reliability of the regression model. These tests include:

1) Normality Test

The normality test is conducted to determine whether the data distribution follows a normal distribution. This test can be performed using the **Kolmogorov–Smirnov test** or graphical methods.

2) Multicollinearity Test

The multicollinearity test is used to determine whether there is a high correlation among the independent variables. This test is commonly conducted using the **Variance Inflation Factor (VIF)** and **tolerance values**.

3) **Heteroscedasticity Test**

The heteroscedasticity test examines whether the variance of residuals is constant across observations. Methods such as the **Glejser test** or scatterplot analysis are commonly used.

4) **Autocorrelation Test**

The autocorrelation test is used to determine whether there is a correlation between residuals in the regression model. The **Durbin–Watson test** is typically used for this purpose.

3.6. Hypothesis Testing

To test the research hypotheses, several statistical tests are conducted:

1) **t-Test (Partial Test)**

The t-test is used to determine whether each independent variable individually affects the dependent variable.

2) **F-Test (Simultaneous Test)**

The F-test is used to determine whether the independent variables simultaneously influence the dependent variable.

3) **Coefficient of Determination (R²)**

The coefficient of determination measures the proportion of variance in the dependent variable that can be explained by the independent variables.

All statistical analyses in this study are conducted using statistical software such as **SPSS**, **Stata**, or **EViews**, which allow researchers to process large financial datasets efficiently and accurately.

4. Results and Discussion

This section presents the results of the data analysis conducted to examine the effect of capital structure, liquidity, and profitability on firm value. The analysis includes descriptive statistics, classical assumption tests, and multiple linear regression analysis. The results are presented in tables followed by brief interpretations.

4.1. Descriptive Statistics

Descriptive statistics provide an overview of the data used in this study, including the minimum value, maximum value, mean, and standard deviation of each variable.

Table 1. Descriptive Statistics

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|-------------------------|-----|---------|---------|------|----------------|
| Capital Structure (DER) | 120 | 0.25 | 2.85 | 1.32 | 0.61 |
| Liquidity (CR) | 120 | 0.78 | 4.20 | 2.01 | 0.85 |
| Profitability (ROA) | 120 | 0.01 | 0.23 | 0.11 | 0.06 |

| | | | | | |
|------------------|-----|------|------|------|------|
| Firm Value (PBV) | 120 | 0.60 | 5.75 | 2.48 | 1.21 |
|------------------|-----|------|------|------|------|

Table 1 shows that the average capital structure measured by the Debt to Equity Ratio (DER) is 1.32, indicating that companies generally use slightly more debt than equity in financing their operations. The liquidity variable measured by the Current Ratio (CR) has an average value of 2.01, suggesting that most companies have sufficient current assets to cover their short-term liabilities. The mean value of profitability (ROA) is 0.11, indicating that companies generate an average return of 11% on their assets. Meanwhile, the average firm value measured by PBV is 2.48, which indicates that the market generally values companies higher than their book value.

Classical Assumption Tests

4.2. Normality Test

The normality test determines whether the residual data are normally distributed.

Table 2. Normality Test (Kolmogorov-Smirnov)

| Variable | Asymp. Sig (2-tailed) | Conclusion |
|---------------------|-----------------------|----------------------|
| Regression Residual | 0.087 | Normally Distributed |

Table 2 shows that the significance value of the Kolmogorov-Smirnov test is 0.087, which is greater than the significance level of 0.05. This indicates that the residual data are normally distributed, meaning the regression model meets the normality assumption.

4.3. Multicollinearity Test

The multicollinearity test is conducted to determine whether there is a strong correlation among the independent variables.

Table 3. Multicollinearity Test

| Variable | Tolerance | VIF | Conclusion |
|-------------------|-----------|------|----------------------|
| Capital Structure | 0.71 | 1.40 | No Multicollinearity |
| Liquidity | 0.68 | 1.47 | No Multicollinearity |
| Profitability | 0.73 | 1.36 | No Multicollinearity |

Table 3 indicates that all variables have tolerance values greater than 0.10 and VIF values less than 10. Therefore, it can be concluded that there is no multicollinearity problem among the independent variables in the regression model.

4.4. Heteroscedasticity Test

The heteroscedasticity test examines whether the variance of residuals is constant across observations.

Table 4. Heteroscedasticity Test (Glejser Test)

| Variable | Sig. | Conclusion |
|-------------------|-------|-----------------------|
| Capital Structure | 0.284 | No Heteroscedasticity |
| Liquidity | 0.392 | No Heteroscedasticity |

Profitability 0.147 No Heteroscedasticity

Table 4 shows that all significance values are greater than 0.05, indicating that there is no heteroscedasticity problem in the regression model. Therefore, the variance of the residuals is constant.

4.5. Autocorrelation Test

The autocorrelation test is conducted using the Durbin-Watson statistic.

Table 5. Autocorrelation Test

| Durbin-Watson Value | Conclusion |
|---------------------|--------------------|
| 1.89 | No Autocorrelation |

The Durbin-Watson value of 1.89 falls within the acceptable range of 1.5 to 2.5, indicating that there is no autocorrelation problem in the regression model.

4.6. Multiple Linear Regression Analysis

Multiple regression analysis is used to examine the effect of capital structure, liquidity, and profitability on firm value.

Table 6. Multiple Linear Regression Analysis Result

| Variable | Coefficient (B) | t-value | Sig. |
|-------------------|-----------------|---------|-------|
| Constant | 0.842 | 2.31 | 0.023 |
| Capital Structure | 0.412 | 3.78 | 0.000 |
| Liquidity | 0.168 | 2.15 | 0.034 |
| Profitability | 3.524 | 5.96 | 0.000 |

Table 6 shows that capital structure has a positive and significant effect on firm value with a coefficient of 0.412 and a significance value of 0.000, which is less than 0.05. This indicates that higher leverage is associated with higher firm value.

Liquidity also has a positive and significant effect on firm value, as indicated by a coefficient of 0.168 and a significance value of 0.034. This suggests that companies with stronger liquidity positions tend to have higher market valuations.

Profitability shows the strongest positive effect on firm value with a coefficient of 3.524 and a significance value of 0.000. This result indicates that companies with higher profitability levels tend to have significantly higher firm values.

4.7. Simultaneous Test (F-Test)

The F-test examines whether the independent variables simultaneously influence the dependent variable.

Table 7. (F-Test)

| Model | F-value | Sig. |
|------------------|---------|-------|
| Regression Model | 36.72 | 0.000 |

Table 7 shows that the F-value is 36.72 with a significance level of 0.000, which is less than 0.05. This indicates that capital structure, liquidity, and profitability simultaneously have a significant effect on firm value.

4.8. Coefficient of Determination (R²)

The coefficient of determination measures how much variation in firm value can be explained by the independent variables.

Table 8. Model Summary

| R | R Square | Adjusted R-Square |
|-------|----------|-------------------|
| 0.697 | 0.486 | 0.472 |

Table 8 shows that the R-squared value is 0.486, meaning that 48.6% of the variation in firm value can be explained by capital structure, liquidity, and profitability. The remaining 51.4% is explained by other variables not included in this study, such as company size, growth opportunities, and corporate governance.

4.9. Discussion

This study aims to examine the effect of capital structure, liquidity, and profitability on firm value. Based on the results of the regression analysis, all three independent variables show a positive and significant influence on firm value. These findings indicate that financial decisions and performance indicators play an important role in determining how the market perceives and values a company. The discussion below explains the relationship between each variable and firm value by linking the empirical results with relevant financial theories and previous studies.

The Effect of Capital Structure on Firm Value

The results of this study show that capital structure has a positive and significant effect on firm value. This finding indicates that companies that manage their capital structure effectively, particularly in balancing debt and equity, tend to achieve higher market valuations. The positive coefficient of the capital structure variable suggests that the use of debt can increase firm value when it is managed properly.

This result is consistent with the trade-off theory, which explains that companies can increase their value by using debt financing up to an optimal level. Debt provides tax advantages because interest payments are tax-deductible, which reduces the overall cost of capital. As a result, companies that utilize debt efficiently can improve their financial performance and attract investors. When investors perceive that a company has an optimal capital structure, they are more likely to view the company as financially efficient and capable of generating future returns.

In addition, capital structure can serve as a signal to investors regarding management confidence in the company's growth prospects. According to signaling theory, when companies use debt financing, it may signal that management believes the company will generate sufficient future cash flows to meet its financial obligations. This positive signal can increase investor confidence, which ultimately leads to a higher market valuation and increased firm value.

The findings of this study are consistent with previous research showing that capital structure significantly influences firm value. Studies conducted in various sectors indicate that an appropriate level of leverage can enhance firm performance and shareholder wealth. However, it is also important to note that excessive use of debt may increase financial risk and lead to financial distress. Therefore, companies must carefully manage their capital structure to maintain an optimal balance between risk and return.

Overall, the findings suggest that financial managers should pay close attention to capital structure decisions. By maintaining an appropriate proportion of debt and equity, companies can minimize capital costs and improve market valuation. Effective capital structure management can therefore contribute significantly to increasing firm value.

The Effect of Liquidity on Firm Value

The results of the analysis show that liquidity has a positive and significant effect on firm value. This finding indicates that companies with higher liquidity levels tend to have higher firm values. Liquidity reflects a company's ability to meet its short-term obligations and maintain stable operations. A company with a strong liquidity position is generally considered financially healthy and less exposed to short-term financial risk.

The positive relationship between liquidity and firm value can be explained through signaling theory. When a company reports strong liquidity, it sends a positive signal to investors that the firm has sufficient financial resources to meet its obligations and continue its operations without financial difficulties. This signal increases investor confidence and encourages investment in the company's shares, which in turn raises its market value.

From a financial management perspective, liquidity is essential for maintaining operational efficiency and financial stability. Companies need adequate working capital to support daily activities such as purchasing raw materials, paying employees, and meeting other operational expenses. If a company has insufficient liquidity, it may experience difficulties in fulfilling its financial commitments, which can negatively affect its reputation and market perception.

The findings of this study are consistent with several empirical studies that indicate liquidity has a significant influence on firm value. Companies with strong liquidity positions are generally more capable of surviving economic fluctuations and financial uncertainty. Investors tend to prefer companies that demonstrate financial stability because these companies are perceived as less risky.

However, it is also important to consider that extremely high liquidity may indicate inefficient asset utilization. Excessive current assets that remain idle could have been invested in profitable projects or productive assets. Therefore, companies should maintain an optimal level of liquidity that supports operational needs while still maximizing profitability and investment opportunities.

In general, the results suggest that effective liquidity management is essential for maintaining financial stability and enhancing firm value. Companies that successfully manage their working capital and maintain adequate liquidity are more likely to gain investor confidence and achieve higher market valuation.

The Effect of Profitability on Firm Value

The results of this study show that profitability has the strongest positive and significant effect on firm value compared to the other variables. This finding indicates that companies with higher profitability tend to have higher firm value. Profitability reflects the company's ability to generate profits from its assets and operations, which is one of the main indicators used by investors when evaluating a company's performance.

The positive relationship between profitability and firm value can also be explained through signaling theory. High profitability sends a strong positive signal to investors that the company is performing well and has strong growth potential. Investors are generally attracted to companies that consistently generate high profits because such companies are more likely to provide higher returns on investment. As a result, demand for the company's shares increases, which leads to higher stock prices and increased firm value.

Profitability is also closely related to the efficiency of resource utilization. Companies that can effectively manage their assets, operations, and costs are more likely to generate higher profits. This operational efficiency not only improves financial performance but also enhances investor confidence. When investors observe consistent profitability, they tend to perceive the company as stable and capable of sustaining long-term growth.

The findings of this study support previous research showing that profitability significantly affects firm value. Many empirical studies in corporate finance have consistently demonstrated that profitability is one of the most important determinants of firm value. Companies with higher profitability levels generally have stronger financial performance, which makes them more attractive to investors and leads to higher market valuations.

Furthermore, profitability also provides internal funding for companies to finance future investments and expansion. Companies that generate higher profits are less dependent on external financing, which reduces financial risk and enhances financial flexibility. This condition further strengthens investor confidence and contributes to increased firm value.

Overall Discussion

Overall, the results of this study indicate that capital structure, liquidity, and profitability simultaneously influence firm value. These findings highlight the importance of effective financial management in determining the market valuation of a company. Each variable represents a different aspect of financial performance: capital structure reflects financing decisions, liquidity represents short-term financial stability, and profitability measures operational performance.

Among the three variables, profitability has the strongest influence on firm value. This suggests that investors place significant emphasis on a company's ability to generate profits when making investment decisions. However, capital structure and liquidity also play important roles in supporting financial stability and maintaining investor confidence.

These findings imply that companies should adopt integrated financial management strategies that balance financing decisions, liquidity management, and profit generation. By optimizing these financial aspects, companies can improve their performance, strengthen investor confidence, and ultimately increase their firm value.

5. Conclusion

This study examines the effect of capital structure, liquidity, and profitability on firm value using quantitative analysis of financial data from companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The results indicate that capital structure, liquidity, and profitability all have a positive and significant influence on firm value. Capital structure contributes to firm value by enabling companies to optimize the use of debt and equity in financing their operations, which can reduce the cost of capital and enhance market perception when managed effectively. Liquidity also plays an important role, as companies with stronger liquidity positions are better able to meet their short-term obligations and maintain operational stability, thereby increasing investor confidence. Among the three variables, profitability shows the strongest effect on firm value, indicating that the company's ability to generate profit from its assets is a key factor considered by investors when evaluating corporate performance. Overall, the findings suggest that effective financial management, including optimal financing decisions, sound liquidity management, and strong profitability performance, is essential for enhancing firm value and attracting investor interest in the capital market.

6. References

- Amalia, R., Ramli, A., & Aslam, A. P. (2025). The effect of capital structure and liquidity on company value with profitability as a moderating variable. *Journal of Studies in Academic, Humanities, Research, and Innovation*, 2(2), 846–858. <https://doi.org/10.71305/sahri.v2i2.1161>
- Astitri, D., Rahmanto, B. T., & Fathihani, F. (2025). Liquidity, capital structure, and firm value: The moderating role of profitability in Indonesia's transportation and logistics sector. *DEAL: International Journal of Economics and Business*, 3(2). <https://doi.org/10.37366/deal.v3i02.6247>
- Azmi, L. N., & Indriastuti, M. (2025). The effect of profitability and liquidity on firm value with capital structure as a mediating variable. *Jurnal Pendidikan Tambusai*, 9(3). <https://doi.org/10.31004/jptam.v9i3.31843>
- Bidaya, K., Purba, M. I., Laia, R., Giawa, A. H., & Aliah, N. (2023). The influence of profitability, liquidity, and capital structure on firm value. *Journal of Economics and Business Letters*, 3(3), 14–20. <https://doi.org/10.55942/jebel.v3i3.209>
- Febriyanti, N. P. L., & Hasibuan, H. T. (2024). The relationship between capital structure and profitability with firm value: A study of LQ45 index companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period. *International Journal of Economics, Management and Accounting*, 2(4).
- Hafitriyanti, R. A., Syahrudin, M., & Pawitri, W. (2025). Profitability and capital structure as determinants of firm value: An empirical study in the pharmaceutical industry. *Jurnal Audit, Pajak, Akuntansi Publik (AJIB)*, 4(1). <https://doi.org/10.32897/ajib.2025.4.1.4707>
- Hasanudin, H., & Wijareni, N. (2023). The effect of capital structure, liquidity, and firm size on company value with profitability as an intervening variable. *Jurnal Manajemen, Kepemimpinan, dan Supervisi Pendidikan*, 8(1), 461–473.

<https://doi.org/10.31851/jmksp.v8i1.12627>

- Irwan, V., & Harjayanti, D. R. (2024). The effect of capital structure, profitability, and liquidity on company value in coal subsector mining companies listed on the Indonesia Stock Exchange for the 2019–2023 period. *Journal of Management, Economics, and Accounting*, 4(2). <https://doi.org/10.37676/jmea.v4i2.936>
- Khatima, H., Haeruddin, M. I. M., Anwar, A., Sahabuddin, R., & Burhanuddin, B. (2023). The effect of capital structure on profitability in animal feed sub-sector companies listed on the Indonesia Stock Exchange. *Journal Management & Economics Review (JUMPER)*, 1(2), 49–56. <https://doi.org/10.59971/jumper.v1i2.34>
- Kurniawati, D. D., Ratnawati, T., & Pristiana, U. (2024). The effect of liquidity, activity, and capital structure on profitability, financial distress, and firm value in building construction and property companies listed on the Indonesia Stock Exchange. *International Journal of Economics*, 3(2), 735–751. <https://doi.org/10.55299/ijec.v3i2.940>
- Pujiati, N., & Hapsari, D. I. (2023). The effect of capital structure, liquidity, and profitability on company value with company size as a control variable. *ACCRUALS (Accounting Research Journal of Sutaatmadja)*, 7(2). <https://doi.org/10.35310/accruals.v7i02.1002>
- Ramadhani, K. K. P., Haeruddin, M. I. M., Nurman, N., Amin, A. M., & Aslam, A. P. (2023). Profitability ratio analysis to assess financial performance at Bank Syariah Indonesia (BSI). *Journal Management & Economics Review (JUMPER)*, 1(6), 235–242. <https://doi.org/10.59971/jumper.v1i6.119>
- Simanjuntak, A., Sembiring, Y. N., Goh, T. S., Simanjuntak, G. Y., & Simanullang, N. L. (2023). The influence of capital structure, liquidity, and leverage on firm value with profitability as an intervening variable in automotive companies listed on the Indonesia Stock Exchange. *Jurnal Ilmiah Accusi*, 5(2), 94–109. <https://doi.org/10.36985/6mxfe088>
- Situmorang, L. F., Pratama, S. N. S., Wulandari, B., & Habibie, M. (2024). The influence of firm size, capital structure, liquidity, profitability, and asset structure on firm value. *International Journal of Economics, Social and Technology*, 4(1). <https://doi.org/10.59086/ijest.v4i1.597>
- Sritapayanti, N. N., Gunadi, I. G. N. B., & Salasa, A. W. (2025). Profitability, liquidity, and capital structure as determinants of firm value: A study of technology companies listed on the Indonesian Stock Exchange (IDX) (2020–2022). *EMAS Journal*.
- Wijaya, I. (2025). Sustainable finance and corporate performance: The role of green investment, ESG disclosure, and capital structure. *Journal Management & Economics Review (JUMPER)*, 3(2), 425–436. <https://doi.org/10.59971/jumper.v3i2.680>