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The Effect of Capital Structure, Liquidity, and Profitability on Corporate Financial Performance

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ABSTRACT

This study aims to determine the effect of capital structure, liquidity, and profitability on the financial performance of transportation and logistics sector companies listed on the Indonesia Stock Exchange during the 2020-2024 period. The variables used in this study include Debt to Equity Ratio (DER), Current Ratio (CR), and Return on Assets (ROA) as independent variables, and Return on Equity (ROE) as the dependent variable. The analysis method used is panel data regression with the Random Effect Model (REM) approach, which is analysed with Eviews 12 software. The results showed that capital structure (DER) has a negative and significant effect on financial performance (ROE), while liquidity (CR) and profitability (ROA) have no significant effect. However, simultaneously, the three variables have a significant impact on financial performance. This finding confirms the importance of optimal capital structure management in improving company performance, while liquidity and profitability require more effective strategies to contribute maximally to company profits.

***Keywords**: Capital Structure, Liquidity, Financial Performance, Logistics, Profitability, Transport*

ABSTRAK

Penelitian ini bertujuan untuk mengetahui pengaruh struktur modal, likuiditas, dan profitabilitas terhadap kinerja keuangan perusahaan sektor transportasi dan logistik yang terdaftar di Bursa Efek Indonesia selama periode 2020–2024. Variabel yang digunakan dalam penelitian ini meliputi Debt to Equity Ratio (DER), Current Ratio (CR), dan Return on Assets (ROA) sebagai variabel independen, serta Return on Equity (ROE) sebagai variabel dependen. Metode analisis yang digunakan adalah regresi data panel dengan pendekatan Random Effect Model (REM) yang dianalisis dengan software Eviews 12. Hasil penelitian menunjukkan bahwa struktur modal (DER) berpengaruh negatif dan signifikan terhadap kinerja keuangan (ROE), sedangkan likuiditas (CR) dan profitabilitas (ROA) tidak berpengaruh signifikan. Namun, secara simultan ketiga variabel tersebut berpengaruh signifikan terhadap kinerja keuangan. Temuan ini menegaskan pentingnya pengelolaan struktur modal yang optimal dalam meningkatkan kinerja perusahaan, sementara likuiditas dan profitabilitas memerlukan strategi yang lebih efektif agar dapat berkontribusi secara maksimal terhadap keuntungan perusahaan**.**

Kata Kunci: Kinerja keuangan, Likuiditas, Logistik, Profitabilitas, Struktur Modal, Transportasi.

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INTRODUCTION

The transport and logistics sector is the backbone of modern economic activity. It is essential in supporting the movement of goods, services and people, which is the basis for the continuity of national and international supply chains. In Indonesia, this sector is one of the main drivers of development, especially due to the geographical characteristics of the archipelago. Therefore, the performance of the transport and logistics sector has direct implications for national economic efficiency and global competitiveness. In recent years, the sector has faced complex dynamics. The period from 2019 to 2023 saw sharp fluctuations in its financial performance. The beginning of 2019 was characterised by a positive growth trend, driven by increased domestic trade and export-import activities. However, the COVID-19 pandemic that occurred from early 2020 to mid-2022 drastically disrupted the sector's operations. Mobility restrictions, falling logistics demand, and global uncertainty caused many companies to experience declining revenues and even losses. The capital structure constitutes a critical strategic element that affects a firm's capacity to endure and adapt during crises. Achieving an equitable capital structure that balances debt and equity is essential for ensuring the long-term viability of the organization. An overreliance on debt can elevate the risk of insolvency, particularly in instances of abrupt revenue declines, such as those experienced during a pandemic. Consequently, it is vital to evaluate the impact of capital structure on the financial performance of firms within the transport and logistics sector. Liquidity, defined as a firm's capacity to meet its short-term liabilities, is instrumental in navigating unforeseen circumstances. Organizations with substantial liquidity enjoy enhanced flexibility in managing operational cash flows and financing daily operations. However, an excessive liquidity position may suggest a suboptimal allocation of assets. Prior studies indicate that the correlation between liquidity and financial performance is not invariably linear and may vary based on industry conditions and the managerial approaches adopted by individual firms. Profitability serves as a fundamental measure of a company's effectiveness in generating added value. Within the transport and logistics sector, profitability is influenced not only by sales volume but also by operational efficiency, logistics expenses, and asset utilization. Return on Assets (ROA) and Return on Equity (ROE) are commonly employed metrics for evaluating the extent to which management effectively utilizes capital and assets to produce net income.

Data from the Indonesia Stock Exchange shows that the average company in the transport and logistics sector experienced a significant decline in revenue and net profit during 2020. However, in 2021 and 2022, signs of recovery began to appear, especially for companies that were able to carry out digital transformation and cost efficiency. Some companies, such as PT Blue Bird Tbk and PT Samudera Indonesia Tbk, reported a consistent increase in profitability as economic activity recovered. The year 2023 marks a broader recovery momentum with improvements in aggregate ROA and ROE indicators in the sector. Nonetheless, not all companies have experienced an even recovery. Total Asset Turnover (TATO) is still low in most companies, indicating that efficient utilisation of fixed assets is a major challenge. Many companies face the problem of idle capacity as fleets and logistics facilities are not fully utilised. This is an important note in assessing profitability in terms of efficiency, rather than solely from increased revenue. This shows that financial performance is not only influenced by external factors such as global market and economic conditions, but also by the company's internal decisions, including in terms of capital structure, liquidity, and profitability strategies. In this framework, it is crucial to undertake empirical research that examines the influence of these three variables on the financial performance of companies operating within the transport and logistics sector in Indonesia, particularly those that are publicly traded and listed on the Indonesian Stock Exchange. Through a quantitative examination of companies in this sector that are listed on the IDX, this study aspires to enhance the understanding of the interrelations

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among these financial variables. The findings of this research are anticipated to serve as a foundational reference for corporate management in devising a more effective funding strategy, asset management practices, and liquidity policies. Overall, the importance of this study is underscored by the critical role of the transport and logistics sector in the national economic framework and the necessity for a robust financial strategy to navigate forthcoming global challenges. Furthermore, this research holds the potential to enrich the academic discourse and serve as a practical guide for policymakers, investors, and practitioners within the domains of finance and logistics management.

1. Relationship between Capital Structure and Financial Performance

The association between capital structure and financial performance presents a complex landscape, with an array of scholarly investigations revealing both affirmative and adverse correlations. Capital structure, conceptualized as the amalgamation of debt and equity employed to finance a firm's assets, exerts a considerable influence on financial outcomes. Empirical findings indicate that although leverage may enhance returns, it concurrently introduces risks that can adversely impact performance indicators. Research indicates a positive association between capital structure and financial performance, particularly within developing markets. For instance, the utilization of debt and equity financing has been demonstrated to exert a significant influence on the financial outcomes of firms such as Robin Corporation Ltd (Govere & Wadesango, 2024). In contrast, elevated levels of leverage may precipitate an escalation in financial risk, thereby detrimentally affecting returns, as illustrated by extensive analyses conducted across various sectors (Habimana, 2015). In the context of Jordanian banking institutions, the mediating role of liquidity risk within the nexus of capital structure and financial performance indicates that proficient liquidity management is imperative for the optimization of performance results (Al-Nimer et al., 2024). Additionally, the impact of managerial efficacy and external economic variables is pivotal in shaping financial performance, thus indicating that capital structure alone cannot be regarded as the sole determinant (Govere & Wadesango, 2024). Although capital structure is a significant element influencing financial performance, it is essential to evaluate the broader contextual factors, including managerial methodologies and prevailing market conditions, which can markedly influence outcomes. These intricacies highlight the necessity for corporations to implement strategic capital management practices to adeptly maneuver through these challenges.

2. Liquidity Relationship to Financial Performance

Liquidity plays an important role in determining financial performance, as evidenced by numerous studies highlighting its positive correlation with key performance indicators. The relationship between liquidity and financial performance is diverse, involving both direct and indirect effects through factors such as capital structure and profitability. Below are key aspects of how liquidity relates to financial performance. Liquidity is significantly correlated with financial performance, specifically Return on Assets (ROA), suggesting that companies with better liquidity management tend to perform better financially (Musah et al., 2019). In the Indonesian market, liquidity positively affects financial performance, albeit to a lesser extent than profitability and leverage, which collectively explain most of the variation in performance (Rahmanto et al., 2024). Liquidity can indirectly improve financial performance by affecting capital structure. Higher liquidity reduces debt pressure, which in turn can lead to improved financial efficiency and lower interest costs (Nam & Tuyen, 2024). Firms with a strong liquidity position are better equipped to manage their capital structure, thus positively affecting their overall financial performance (Nam & Tuyen, 2024). Effective liquidity management is critical to sustaining business operations, especially in a challenging economic environment.

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Companies that maintain higher liquidity ratios are better positioned to navigate financial uncertainty (Ether et al., 2024). Strategic financial planning that prioritises liquidity can lead to improved financial outcomes, as firms can take advantage of investment opportunities while reducing the risks associated with cash flow shortages (Rahmanto et al., 2024). Conversely, while liquidity is generally beneficial to financial performance, excessive liquidity may indicate inefficiencies in asset utilisation, potentially leading to lower investment returns. As such, a balanced approach to liquidity management is critical to optimising financial performance.

3. Relationship between Profitability and Financial Performance

Profitability is an important indicator of financial performance, reflecting a company's ability to generate income relative to revenue, assets or equity. The relationship between profitability and financial performance is multifaceted, as profitability not only serves as a measure of success but also influences other financial metrics and market perceptions. Profitability metrics, such as Return on Assets (ROA) and Return on Equity (ROE), are critical for assessing a company's financial health and operational efficiency (Hakiki et al., 2024). High profitability is often correlated with improved financial performance, as evidenced by research showing a significant positive effect of profitability on financial performance in various sectors, including banking and mining (Susiowati et al., 2020). Profitability can act as a moderating variable, increasing the impact of other factors such as capital structure and sales growth on financial performance (Prasetya & Susilowati, 2024). In banking, for example, profitability strengthens the relationship between financial performance and stock price dynamics, suggesting that profitable banks are more sensitive to changes in financial performance (Hakiki et al., 2024). While profitability is very important, it is not the only determinant of financial performance. Other factors, such as market conditions and operational efficiency, also play a significant role (Bottazzi et al., 2008). Some research suggests that despite high profitability, firms may not always experience rapid growth, suggesting a complex interaction between profitability, productivity, and market dynamics (Bottazzi et al., 2008). In conclusion, while profitability is an important component of financial performance, its influence is moderated by various factors, and it does not guarantee growth or market success.

RESEARCH METHODS

This research uses a quantitative approach with an associative research type. This approach was chosen because it is suitable for analysing the relationship and influence between variables, especially between capital structure, liquidity, and profitability on the company's financial performance. The purpose of this research is to empirically test the extent to which the independent variables affect the dependent variable using numerical data that can be processed statistically. The population in this study are all companies included in the transportation and logistics sector and have been officially listed on the Indonesia Stock Exchange (IDX) during the period 2020 to 2024. The sampling technique used is purposive sampling, which is a sampling technique based on certain criteria. The criteria used in this study are: (1) the company was consistently listed in the transportation and logistics sector during 2020-2024, (2) the company published complete annual financial reports during that period, and (3) the company did not experience delisting from the IDX during the study period. Based on these criteria, several companies were selected as samples that met the requirements for further analysis.

The data used in this study is secondary data, namely, data obtained indirectly through official documents that have been published. The data source comes from the company's annual financial statements available on the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official website of each company. The data collected includes financial

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information related to total debt, total equity, current assets, short-term liabilities, total assets, net income, and other indicators needed to calculate financial ratios. This study uses four main variables, namely one dependent variable and three independent variables. The dependent variable in this study is financial performance measured using the Return on Equity (ROE) ratio, while the independent variables are capital structure measured by Debt to Equity Ratio (DER), liquidity measured by Current Ratio (CR), and profitability measured by Return on Assets (ROA). Data analysis was conducted using statistical software such as SPSS or EViews. The analysis process begins with descriptive statistical tests to determine the general characteristics of each variable. Furthermore, a classical assumption test is conducted, which includes normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure that the data meets the requirements for multiple linear regression analysis. Multiple linear regression analysis is used to test the simultaneous and partial effects of capital structure, liquidity, and profitability on financial performance. The regression model in this study is formulated in the form of an equation:

$$ROE = \alpha + \beta 1DER + \beta 2CR + \beta 3ROA + \epsilon$$

Where:
ROE is Return on Equity as the dependent variable,
DER is Debt-to-Equity Ratio,
CR is Current Ratio,
ROA is Return on Assets,
α is a constant,
$\beta 1$, $\beta 2$, and $\beta 3$ are regression coefficients, and
ε is the error term or residual.

To measure the significance level of the influence of each independent variable on the dependent variable, the t-test is used. Meanwhile, to determine the simultaneous influence, the F test is used. The coefficient of determination (R^2) is also calculated to see how much the independent variables together can explain variations in the company's financial performance. This research was conducted within a certain period by the schedule for preparing the final project or research report, with all data obtained online through available official sources. With this method, it is expected that valid results can be obtained and can be the basis for making the right financial decisions for companies and other stakeholders.

RESULTS AND DISCUSSION

This study uses Panel Data Linear Regression Analysis with Random Effects approach. The Random Effects method was selected after a series of tests, namely the Chow test and the Hausman test, which showed that the Random Effects method is the most suitable approach for analysing panel data in this study. Hypothesis testing criteria, If the p-value <0.05, then the independent variable has a significant effect on profitability (H0 rejected, H1 accepted). If p-value > 0.05, then the independent variable does not have a significant effect on profitability (H0 accepted).

Table 1. Panel Data Regression Test Results with Random Effects Method

Dependent Variable: ROE
Method: Panel EGLS (Cross-section random effects)
Date: 05/19/25 Time: 13:21
Sample: 2020 2024
Periods included: 5
Cross-sections included: 37
Total panel (balanced) observations: 185

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Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.263532	5.887225	1.063919	0.2888
DER	-4.235302	0.919868	-4.604248	0.0000
CR	0.253588	1.147942	0.220907	0.8254
ROA	0.440871	0.260700	1.691106	0.0925
	Effects Specification			
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			72.61211	1.0000
	Weighted Statistics			
Root MSE	66.54818	R-squared		0.135950
Mean dependent var	5.619351	Adjusted R-squared		0.121629
S.D. dependent var	71.78665	S.E. of regression		67.27950
Sum squared resid	819302.1	F-statistic		9.492871
Durbin-Watson stat	1.697602	Prob(F-statistic)		0.000007
	Unweighted Statistics			
R-squared	0.135950	Mean dependent var		5.619351
Sum squared resid	819302.1	Durbin-Watson stat		1.697602

Source: Data processed (2025)

The estimation results demonstrate that the Debt to Equity Ratio (DER), which serves as a critical proxy for a company's capital structure, has a pronounced negative and statistically significant impact on financial performance, specifically measured through Return on Equity (ROE). With a substantial coefficient of -4.235302 and an extremely strong significance level (p-value = 0.0000), the data reveal that as companies increase their reliance on debt financing relative to equity, shareholder returns diminish markedly. This negative relationship underscores the inherent financial strain that accompanies heavy borrowing: rising interest expenses drain net income, and heightened financial leverage escalates the company's risk exposure. Such elevated risk can deter investors, increase borrowing costs, and ultimately erode the firm's market value. This finding aligns with classical capital structure theories, which caution against overleveraging, highlighting that beyond an optimal debt level, the marginal cost of debt surpasses its benefits, thereby undermining profitability and shareholder wealth. For companies in sectors like transport and logistics, where capital intensity is high, careful debt management is thus essential to avoid adverse impacts on financial stability and equity returns.

In contrast to the clear influence of capital structure, the Current Ratio (CR), which serves as a key measure of a firm's liquidity, does not exhibit a statistically significant effect on Return on Equity (ROE) in this analysis. The coefficient of 0.253588, coupled with a high p-value of 0.8254, suggests that variations in a company's capacity to meet its short-term liabilities through available current assets do not directly translate into enhanced shareholder returns. This seemingly counterintuitive outcome may be explained by the nuanced role liquidity plays in operational performance: while sufficient liquidity is essential to ensure smooth day-to-day operations and solvency, excessive liquidity might reflect suboptimal asset utilization, such as large cash holdings or slow-moving inventories that do not actively contribute to profit

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generation. Consequently, a high current ratio could signify inefficiencies rather than strength, failing to boost profitability or equity returns. This finding emphasizes the need for management to balance liquidity prudently, not only to safeguard against financial distress but also to optimize asset deployment for maximum value creation.

The analysis further reveals that Return on Assets (ROA), which is widely regarded as a fundamental indicator of a company's profitability and asset utilization efficiency, exhibits a positive yet statistically insignificant relationship with Return on Equity (ROE). The coefficient of 0.440871 and a p-value of 0.0925 suggest that while improvements in ROA are associated with better financial performance, the strength of this relationship is insufficient to achieve conventional statistical significance in this particular dataset. This outcome aligns with theoretical expectations: companies that utilize their assets more efficiently tend to generate higher returns, contributing positively to shareholder equity. However, the lack of strong significance may be attributed to heterogeneous operational efficiencies across the sample firms, where differences in management practices, asset composition, and external market conditions dilute the consistent impact of ROA on ROE. Such variability implies that asset efficiency alone may not fully capture the complexities of financial performance in the transport and logistics sector, where external factors and capital structure dynamics also play pivotal roles. Therefore, firms should consider ROA improvement strategies as part of a broader, integrated approach to enhancing overall financial health.

In summary, the regression analysis produces an F-statistic of 9.492871 alongside a Prob(F-statistic) of 0.000007, signifying that the three independent variables examined collectively exert a substantial influence on the financial performance of the firm. Nevertheless, the R-squared value of 0.135950 reveals that merely approximately 13.6% of the variation in Return on Equity (ROE) can be attributed to Debt-to-Equity Ratio (DER), Current Ratio (CR), and Return on Assets (ROA). The residual 86.4% is determined by external factors not accounted for in the model, which may encompass firm size, revenue growth, cost efficiency, risk management, or macroeconomic variables. Consequently, the findings of this research underscore the critical role of effective capital structure management in enhancing corporate financial performance, while also indicating that internal liquidity and profitability are insufficient to fully elucidate the disparities in performance among firms within the Indonesian transport and logistics industry.

1. Effect of Capital Structure on Financial Performance

The results of this study confirm that the capital structure characterised by a high Debt to Equity Ratio (DER) has a negative and significant impact on Return on Equity (ROE), which reflects the decline in the company's ability to generate profits for shareholders when the proportion of debt increases. The greater the company's dependence on debt-based financing, the higher the interest expense that must be borne, thus eroding net income and ultimately reducing overall financial performance. This condition shows that debt, although it can function as a leverage tool to increase profits, will become a double-edged sword if not managed wisely. This finding is in line with the view in traditional capital structure theory that there is an optimum point in the combination of the use of debt and equity-where before this point, the use of debt can increase firm value, but after crossing it, it will increase the risk of bankruptcy, reduce profitability, and weaken the financial position. Therefore, capital structure decision-making should consider the risk-return trade-off, as well as industry characteristics, market conditions, and the firm's internal ability to manage long-term liabilities. A haphazard financing strategy, especially one that is too aggressive in accumulating debt, will only plunge the company into a financial trap that is difficult to recover from. Cross-sector and country studies underline that a balanced approach to the use of debt and equity financing is of key importance

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in improving corporate financial performance, although the impact is highly dependent on the characteristics of each industry. For example, in the banking sector in Ethiopia, a higher loan-to-deposit ratio has a positive effect on Return on Assets (ROA), reflecting efficiency in the utilisation of third-party funds to generate profits (Muhammed et al., 2024). However, the situation is sharply different in the pharmaceutical sector in Vietnam, where an increase in the debt-to-total assets ratio markedly decreases the financial performance of firms, most likely due to the industry's high sensitivity to interest expense and liquidity risk (Nguyen et al., 2024).

These differences emphasise that capital structure is not a single formula that can be applied universally- what works in one industry may not necessarily yield the same results in another. In the manufacturing sector, for example, equity-based financing may be more favourable due to long-term investment needs and lower reliance on quick cash flows, whereas in the pharmaceutical sector, financial flexibility and stability are crucial due to high research and regulatory costs. Hence, strategic decisions on financing structure should be based on an in-depth understanding of the industry context and the company's internal operational dynamics, rather than simply pursuing ideal financial ratios. A tailor-made approach to capital structure is essential to ensure that financing strategies are aligned with long-term growth and financial resilience objectives. The strategic ramifications of this discovery underscore the critical nature of meticulous and contextually informed management of capital structure for firms seeking to enhance their financial outcomes. Given the demonstrable adverse effect of a debt-heavy capital structure (elevated Debt-to-Equity Ratio) on Return on Equity, firms must exercise caution against over-dependence on debt financing, which poses risks associated with substantial interest obligations and the possibility of reduced net earnings. Financial strategy ought to be oriented towards identifying the optimal capital structure equilibrium, where the interplay of debt and equity facilitates leverage without compromising profitability. It is recommended that firms tailor their capital structure in accordance with the distinctive characteristics of their respective sectors, as the repercussions of capital structure are known to differ among industries—illustratively, the Vietnamese pharmaceutical sector often incurs losses with elevated debt levels, whereas the manufacturing sector may derive greater advantages from equity financing. Hence, financial decision-making should eschew a one-size-fits-all approach, instead adapting to the nuances of industry trends and specific organizational circumstances. Over the long term, a judicious financing strategy not only bolsters Return on Equity but also mitigates bankruptcy risks and enhances the firm's competitive edge in an increasingly fluid market.

2. Effect of Liquidity on Financial Performance

Research findings indicating that liquidity, measured through the current ratio (CR), does not significantly influence Return on Equity (ROE) suggest that a company's ability to meet its short-term obligations does not always align with increased profitability for shareholders. The existence of idle assets can explain this phenomenon, which includes current assets such as idle cash, uncollectible accounts receivable, or non-rotating inventory, which, despite increasing the liquidity ratio, do not contribute significantly to profit creation. A high liquidity ratio can even reflect operational inefficiency if it reflects the accumulation of unproductive current assets. Imbalances in working capital management, such as inadequate accounts receivable collection strategies or weak inventory management, can be the primary cause of the weak correlation between CR and ROE. This is particularly relevant in the transportation and logistics sector, where fixed assets like vehicle fleets and infrastructure dominate company asset structures, causing managers to prioritize optimizing fixed assets over managing current assets. In this context, operational efficiency and productive asset utilization become the primary drivers of profitability, not merely liquidity. Therefore, companies must not only maintain liquidity within

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safe limits but also ensure that their current assets are truly functioning productively to support the achievement of optimal financial performance.

Recent studies provide a more nuanced view of the role of liquidity in influencing corporate financial performance, where its impact is not always direct and uniform across all industry sectors. Strategic adequate liquidity allows companies flexibility to seize investment opportunities and respond to business risks more agilely, ultimately driving improved financial performance (Rahmanto et al., 2024). These positive effects can occur indirectly through improved capital structure—companies with high liquidity tend to have lower debt dependency, resulting in reduced interest expenses and healthier cash flows, contributing to more stable and sustainable profitability (Nam & Tuyen, 2024). However, the other side of the spectrum shows that excessive liquidity can also serve as a hidden warning sign. In the context of banking institutions, for example, excessively high liquidity levels have a negative and significant impact on financial performance because they indicate inefficiency—that is, funds that could be used to generate income are instead idle without contributing meaningfully to profits (Warisi et al., 2024). This finding emphasizes that liquidity management must be dynamic and tailored to the strategic needs of each industry; too low poses a solvency risk, while too high poses a risk of inefficiency. Therefore, companies must find the right balance between financial security and asset productivity so that liquidity is not merely a defensive tool but a valid driver of corporate value growth. The strategic implications of this study indicate that liquidity, as measured by the current ratio (CR), is not a key determinant of financial performance (ROE), suggesting that companies need to change their perspective on current asset management. The insignificant influence of CR on ROE shows that meeting short-term obligations alone is not enough to guarantee shareholder profits, especially without optimizing current assets like cash, accounts receivable, or inventory for value creation.

In this context, idle assets become a strategic issue because they hinder asset turnover and lose revenue potential. This finding also warns that high liquidity ratios can be misleading; they may not indicate financial strength but reflect inefficient current asset management. For sectors such as transportation and logistics, which are capital-intensive, liquidity may have a lower impact on profitability than fixed asset utilization efficiency. On the other hand, studies also show that liquidity remains strategically important, providing financial flexibility to capture investment opportunities and manage financial risks. Healthy liquidity can strengthen capital structure and reduce reliance on high-interest debt. However, if uncontrolled, excess liquidity can indicate inefficiency, as seen in the banking sector. Therefore, we should direct liquidity management strategies toward maintaining short-term solvency and improving the utilization of current assets to enhance their contribution to long-term profitability, both directly and through optimal working capital management and financing structures.

3. Effect of Profitability on Financial Performance

The finding that profitability, as measured by Return on Assets (ROA), exerts a positive but statistically insignificant influence on financial performance (ROE) suggests a nuanced relationship between asset efficiency and shareholder returns. Although the direction of the relationship aligns with financial theory, where higher profitability should lead to better financial outcomes, the lack of significance (p-value 0.0925) indicates that this effect is not consistently strong across companies, potentially because of variability in operational efficiency and revenue stability within the sector. Such fluctuations may dilute the impact of ROA on ROE, particularly in industries like transport and logistics, where asset intensity and cost structures can differ widely. Importantly, profitability plays a broader role beyond direct influence; it acts as a mediator linking operational efficiency to financial performance, implying that streamlining operations and optimizing resource use can boost ROA, which has a positive,

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albeit modest, impact on ROE (Kurniasih & Akhmadi, 2024). Moreover, profitability has a synergistic effect on financial strategy by strengthening the link between sales growth and capital structure decisions, enhancing the overall financial outcomes of the firm (Prasetya & Susilowati, 2024). Making a profit is important, but having efficient internal processes and a good overall financial strategy is even more important. Focusing on profit is not enough; a more holistic approach is needed. While profitability is undeniably a cornerstone of financial performance, its impact does not operate in isolation but rather in conjunction with other financial indicators such as liquidity and leverage.

Empirical evidence supports the idea that the combination of profitability, liquidity, and leverage collectively accounts for a substantial portion of the variance in financial performance, underscoring the importance of viewing these metrics as interdependent components within a comprehensive financial management framework (Rahmanto et al., 2024). Profitability may signal a company's operational efficiency and ability to generate returns, but its effectiveness can be amplified or constrained by a firm's capacity to meet short-term obligations (liquidity) and the burden of its capital structure (leverage). Interestingly, however, not all studies agree on the influence of these supporting variables. Some research findings suggest that solvency and liquidity do not always exert a significant effect on financial outcomes, implying that even with solid liquidity or solvency ratios, a company may still underperform financially if it lacks robust profitability (Ningrum & Maryanti, 2022). This divergence highlights the multifaceted nature of financial performance, where profitability remains central but must be reinforced through balanced financial strategies and context-specific management decisions. Ultimately, companies aiming to strengthen their financial health must adopt a holistic approach that considers not just the power of profitability but how it interacts with other financial levers to drive sustainable success. The F-test results show that simultaneously, the three independent variables tested have a significant influence on ROE. However, the low R-squared value (13.6%) indicates that most of the variation in ROE is explained by other factors not included in the model, such as firm size, revenue growth, operational efficiency, risk management, and macroeconomic factors (such as inflation or exchange rates). These results provide important implications for the management of transport and logistics sector companies. In managing capital structure, companies must be careful in balancing between debt and equity financing. A capital structure that is too heavy on the debt side can reduce shareholder profitability. In addition, companies also need to improve efficiency in the use of assets so that profitability (ROA) can contribute more to ROE.

The strategic implications of this study reveal that while profitability, measured by Return on Assets (ROA), positively influences financial performance (ROE), its effect is not statistically robust, suggesting that profitability alone is not a guaranteed driver of shareholder returns. This nuanced finding implies that simply generating profits from assets is not sufficient. There must also be consistent operational efficiency and revenue stability to translate those profits into improved equity returns. The role of profitability as a mediator between operational performance and financial outcomes reinforces the importance of streamlining operations to maximize asset utility. Furthermore, profitability enhances the interaction between sales growth and capital structure, implying that companies with higher profitability can better leverage growth and funding strategies to boost financial performance. However, the model's low R-squared value (13.6%) underscores that a large portion of ROE variability stems from unaccounted factors, such as company size, risk management practices, and external economic forces, such as inflation and exchange rates. This necessitates a more holistic financial strategy, especially in the transport and logistics sector, where firms must manage their debt-to-equity balance precisely and optimize asset utilization. Over-reliance on debt, in particular, can erode shareholder returns even in the face of rising profitability. Therefore, managers should adopt an

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integrative financial performance framework combining profitability efforts with prudent capital structure decisions, operational enhancements, and responsiveness to external economic dynamics to drive sustainable value creation.

CONCLUSION

According to the results of the study, it is apparent that capital structure, quantified through the Debt-to-Equity Ratio (DER), significantly and adversely affects the financial performance, particularly the Return on Equity (ROE), of enterprises within the transport and logistics industry on the Indonesia Stock Exchange. This suggests that an overreliance on debt financing tends to reduce shareholder returns, likely due to heightened financial risk and increased interest obligations that diminish net profits. Conversely, liquidity (evaluated via the Current Ratio, CR) and profitability (assessed through Return on Assets, ROA) do not exhibit a statistically significant effect on ROE independently; however, ROA retains a positive correlation with financial performance, indicating its potential relevance under varying circumstances. When considered in conjunction, these three variables collectively exert a significant influence on ROE, although the overall explanatory capacity of the model is constrained, accounting for only a minor fraction of the variation in financial performance. This implies that additional external and internal factors—such as company size, market dynamics, operational effectiveness, risk management practices, and macroeconomic variables—play critical roles in determining financial outcomes. Given that capital structure is identified as the most influential factor affecting financial performance, it is crucial for corporate management within the transport and logistics sector to emphasize sound debt management and uphold a balanced capital structure. Such a strategic emphasis will contribute to ensuring financial stability, optimizing shareholder value, and facilitating sustainable long-term growth in the face of the sector's fluctuating economic landscape.

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