

CAPITAL STRUCTURE AND LIQUIDITY ON FINANCIAL PERFORMANCE: THE MODERATING ROLE OF GOOD CORPORATE GOVERNANCE

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Abstract

The phenomenon of fluctuating financial performance in companies listed in the LQ45 index in Indonesia remains a concern, as indicated by changes in Net Profit Margin (NPM). This condition is influenced by internal factors such as capital structure, liquidity, and the implementation of good corporate governance that has not yet been optimal. This study aims to analyze the effect of capital structure and liquidity on financial performance with good corporate governance as a moderating variable. The data used are secondary data obtained from financial statements and annual reports of 20 LQ45 index companies during the 2022–2024 period. The analysis was conducted using panel data regression with the Random Effect Model (REM) through EViews 12. The results of this study indicate that capital structure and liquidity have a significant effect on financial performance. In addition, good corporate governance is able to moderate the effect of capital structure and liquidity on financial performance. The implications of this study emphasize the importance of optimal capital structure and liquidity management, as well as strengthening corporate governance to support the improvement of financial performance. This study is expected to serve as a consideration for company management and investors in making more effective and sustainable decisions.

Keyword: Good Corporate Governance, Financial Performance, Liquidity, Capital Structure.

Introduction

The Indonesian capital market plays a significant role in providing long-term financing opportunities for companies through the issuance of shares to the public (Putri & Mandayanti, 2021). Beyond supporting corporate growth, the capital market also contributes to national economic development by encouraging investment, improving productivity, and creating employment opportunities. One of the primary indicators reflecting the condition of the Indonesian capital market is the LQ45 Index, which consists of forty-five companies with high liquidity, large market capitalization, and strong financial fundamentals. Therefore, the performance of companies listed in the LQ45 Index on the Indonesia Stock Exchange is widely used by investors as a benchmark for assessing investment prospects and the overall condition of the national economy.

Financial performance reflects a company's ability to efficiently utilize its economic resources to generate profits and maintain long-term sustainability (Brigham & Houston, 2019). A decline in financial performance is often indicated by a reduction in the net profit margin, which may result from rising operating costs and unfavorable macroeconomic conditions that weaken a company's ability to generate stable earnings. Changes in the net profit margin are represented by fluctuations in the Net Profit Margin (NPM), which is widely recognized as one of the primary indicators for evaluating corporate profitability (Ovami et al., 2022). A summary of the average values of the four research indicators is presented below.

Tahun	Capital Structure (ICR)	Liquidity (CR)	Financial Performance (NPM)	Good Corporate Governance (GCG)
2022	15,5%	4,42%	47%	47%
2023	84,0%	2,16%	50%	46%
2024	32,2%	6,45%	42%	47%

Source: BEI (November 2025)

The data presented above indicate that the average values of companies included in the LQ45 Index during the 2022–2024 period experienced fluctuations, reflecting changes in corporate financial management

amid ongoing economic pressures. These fluctuations were particularly evident in financial performance, indicating a decline in the companies' ability to generate net profit from their operating activities. Accordingly, the decrease in the Net Profit Margin (NPM) suggests a reduction in corporate efficiency in managing revenue and controlling operational costs.

One of the key internal factors influencing financial performance is capital structure. Capital structure refers to the composition of a company's financing sources, consisting of equity and debt used to finance its assets (Setiawati & Putra, 2015). Recent evidence indicates that companies have become increasingly dependent on debt financing. This phenomenon is supported by Susilowati et al. (2023), who found that high leverage significantly influences the capital structure of companies listed in the LQ45 Index. In this study, capital structure is measured using the Interest Coverage Ratio (ICR), which reflects a company's ability to cover its interest expenses through operating income. Fluctuations in capital structure during the study period may be attributed to increasing macroeconomic uncertainty, rising benchmark interest rates, and higher financing costs. These conditions have led companies to rely more heavily on debt to support their operational activities and business expansion, thereby reducing their ability to meet interest obligations effectively (Sarpta et al., 2024).

In addition to capital structure, liquidity is another important factor affecting financial performance. Liquidity has become a significant concern, as several companies have experienced a decline in their liquidity ratios due to increasing short-term liabilities. This condition reduces a company's ability to meet its current obligations and increases its reliance on external financing (Trisnayanti et al., 2025). In this study, liquidity is measured using the Current Ratio (CR), which reflects a company's capacity to cover its short-term liabilities with its current assets. Fluctuations in liquidity during the study period were primarily driven by rising current liabilities, declining operating cash flows, and an increasing dependence on debt financing. Consequently, these conditions made it more difficult for companies to maintain adequate short-term liquidity (Hocky & Renaldo, 2024).

As liquidity pressures continue to increase, an effective governance mechanism is required to ensure sound corporate financial management. One such mechanism is Good Corporate Governance (GCG), which represents a fundamental component of corporate governance. In this study, GCG is measured using the proportion of Independent Commissioners (DKI). GCG is expected to serve as a moderating variable that strengthens the relationship between capital structure and liquidity on financial performance by enhancing transparency, accountability, and the efficient management of corporate resources. Therefore, this study aims to determine whether Good Corporate Governance (GCG) moderates the relationship between capital structure and liquidity on financial performance using recent data from companies listed in the LQ45 Index during the 2022–2024 period.

LITERATURE REVIEW

Agency Theory

Agency Theory, proposed by Jensen and Meckling (1976), explains the relationship between shareholders (principals) and managers (agents), where conflicts of interest may arise because managers do not always act in the best interests of shareholders. These agency conflicts can influence corporate financial decisions, including capital structure and liquidity management, ultimately affecting financial performance. Therefore, the implementation of Good Corporate Governance (GCG) is essential to reduce agency conflicts by enhancing transparency, accountability, and managerial oversight. In this study, Agency Theory provides the theoretical foundation for examining the relationships among capital structure, liquidity, financial performance, and the moderating role of GCG.

Packing Order Theory

Pecking Order Theory, introduced by Myers and Majluf (1984), suggests that companies prioritize internal financing over external sources, using debt only when internal funds are insufficient and issuing new equity as a last resort. This financing hierarchy is driven by information asymmetry between managers and external investors. For companies listed in the LQ45 Index, which generally have strong profitability and stable cash flows, internal financing is often preferred to reduce financing costs and minimize reliance on debt. Accordingly, this theory provides a relevant framework for explaining how financing decisions and liquidity management influence corporate financial performance.

Research Method

This study employs a quantitative approach with a causal associative research design to examine the effects of capital structure and liquidity on financial performance, with Good Corporate Governance (GCG) serving as a moderating variable, among companies listed in the LQ45 Index on the Indonesia Stock Exchange during the 2022–2024 period. The study utilizes secondary data obtained from the annual reports and financial statements of the sampled companies, which were collected through the official websites of the Indonesia Stock Exchange and the respective companies.

The study population consisted of 71 companies included in the LQ45 Index and listed on the Indonesia Stock Exchange. Using a purposive sampling technique, 20 companies that met the predetermined selection criteria were chosen, resulting in a total of 60 panel observations. The data were analyzed using panel data regression with EViews 12 software.

Capital Structure

Capital structure refers to the combination of long-term debt and equity used by a company to finance its operations and investments. In this study, capital structure is measured using the Interest Coverage Ratio (ICR), which is calculated by dividing Earnings Before Interest and Taxes (EBIT) by total interest expense. The ICR indicates a company's ability to meet its interest obligations using its operating earnings.

$$\text{ICR} = \text{EBIT} / \text{Interest Expense}$$

A higher Interest Coverage Ratio (ICR) indicates a stronger ability to meet interest payment obligations, thereby reducing the company's risk of default.

Liquidity

Liquidity refers to a company's ability to meet its short-term obligations using its current assets. In this study, liquidity is measured by the Current Ratio (CR), a widely used indicator that assesses the extent to which current assets are sufficient to cover current liabilities.

$$\text{CR} = \text{Cash} + \text{Cash Equivalents} / \text{Current Liabilities}$$

A Current Ratio > 1 indicates that a company has sufficient current assets to cover its short-term liabilities, thereby reflecting a relatively low risk of liquidity problems.

Financial Performance

Financial performance reflects how efficiently a company utilizes its assets to support operational activities (Komara et al., 2016). In this study, financial performance is measured using the Net Profit Margin (NPM). NPM represents the proportion of net income generated from each unit of sales, thereby indicating a company's ability to convert revenue into net profit efficiently.

$$\text{NPM} = \text{Net Income} / \text{Sales} \times 100$$

A higher Net Profit Margin (NPM) indicates that a company is able to manage its cost structure effectively and maximize the profits generated from its business operations.

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) refers to a governance system that ensures a balanced distribution of authority and responsibility between management and supervisory bodies in managing corporate resources. In this study, Good Corporate Governance is measured by the proportion of Independent Commissioners (Board of Independent Commissioners).

$$\text{DKI} = \text{Number of Independent Commissioners} / \text{Total Board of Independent Commissioners}$$

A proportion of Independent Commissioners (DKI) exceeding 30% indicates that a company meets the minimum Good Corporate Governance (GCG) requirements, as its supervisory board structure complies with the regulatory standards.

Result and Discussions

Descriptive Statistics

Table 1. Descriptive Statistics of Research Variables

	Y	X ₁	X ₂	Z
Mean	43.61633	4.339950	0.473833	1.092500
Median	5.155000	1.015000	0.205000	0.415000
Maximum	910.6700	56.73400	2.110000	38.00000
Std. Dev.	0.010000	0.090000	0.020000	0.290000
skewness	131.5345	10.80412	0.551513	4.847782
Kurtosis	5.364762	3.689016	1.449602	7.539947
Observations	33.97346	15.91109	3.971601	57.90768
	60	60	60	60

Source: Data Processing Result, 2026

Table 1 presents the results of the descriptive statistical analysis for the research variables, namely Capital Structure (X_1), Liquidity (X_2), Financial Performance (Y), and Good Corporate Governance (Z) during the 2022–2024 study period. The table summarizes the key descriptive measures, including the mean, median, maximum, minimum, standard deviation, and the total number of observations for each variable. Descriptive statistics provide an overview of the characteristics and distribution of the research data without testing research hypotheses, thereby offering an initial understanding of the variables examined in this study (Sugiyono, 2023).

Chow Test

Table 2. Chow Test

Effects Test	Prob.
Cross-section F	0.0000

Source: Data Processed with Eviews 12, February 2026

The Chow test was performed to determine the most appropriate panel data model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The test results produced a probability value of 0.0000, which is lower than the significance level of 0.05. These findings indicate that the Fixed Effect Model (FEM) is the most appropriate model (Basuki & Prawoto, 2021). Therefore, the Hausman test was subsequently conducted to determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) was more appropriate for the analysis.

Hausman Test

Table 3. Hausman Test

Test Summry	Prob.
Cross-section random	0.4586

Source: Data Processed with Eviews 12, February 2026

The Hausman test was conducted to determine the most appropriate model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The test results yielded a probability value of 0.4586, which exceeds the 0.05 significance level, indicating that the Random Effect Model (REM) is the most appropriate model for this study. Following the Chow and Hausman tests, the Lagrange Multiplier (LM) test was performed to confirm the final selection of the panel data regression model.

Langrage Multiplier (LM) Test

Table 4. Langrage Multiplier (LM) Test

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	48.25776 (0.0000)	1.173390 (0.2787)	49.43114 (0.0000)

Source: Data Processed with Eviews 12, February 2026

The Lagrange Multiplier (LM) test was conducted to determine the most appropriate panel data model between the Common Effect Model (CEM) and the Random Effect Model (REM). The test results showed a Breusch–Pagan probability value of 0.0000, which is lower than the 0.05 significance level. Therefore, the Random Effect Model (REM) was selected as the most appropriate model for the panel data regression analysis.

Multicollinearity Test

Table. 5 Multicollinearity Test

Variable	Centered VIF
C	NA
X_1	1.003448
X_2	1.003448

Source: Data Processed with Eviews 12, February 2026

The Multicollinearity test was conducted to determine whether a high correlation existed among the independent variables in the regression model. Multicollinearity was evaluated using the Variance Inflation Factor (VIF). As shown in Table 5, all independent variables had centered VIF values of less than 10, indicating that no Multicollinearity was present in the regression model (Ghozali, 2021).

Heteroscedasticity Test

Table 6. Heteroscedasticity Test

F-statistic	2.449567	Prob F	0.0954
Obs*R-squared	4.748824	Prob. Chi-Square	0.0931

Source: Data Processed with Eviews 12, February 2026

The Glejser test was employed to examine the presence of heteroscedasticity by identifying whether the variance of the regression residuals was constant across observations. As presented in Table 6, the Glejser test produced a probability value of 0.0931, which exceeds the 0.05 significance level. Therefore, it can be concluded that the regression model is free from Heteroscedasticity.

Panel Data Regression Results

Table 7. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.452333	0.019609	23.06753	0.0000
X ₁	-0.001799	0.000688	-2.613278	0.0115
X ₂	-0.011896	0.004842	-2.457090	0.0172
X ₁ Z	0.005068	0.002121	2.389540	0.0203
X ₂ Z	0.023959	0.006795	3.526144	0.0009
R-squared				0.344685
Adjusted R-square				0.297026

Source: Data Processed with Eviews 12, February 2026

Table 7 presents the results of the panel data regression analysis using the Moderated Regression Analysis (MRA) method, which was performed with EViews 12 software. The estimated regression equation is expressed as follows:

$$Y_{it} = 0.452333 - 0.001799.X_{1it} - 0.011896.X_{2it} + 0.005068.X_{1Zit} + 0.023959.X_{2Zit} + e_{it}$$

Capital Structure on Financial Performance

Capital Structure (X₁) has a significant effect on Financial Performance (Y), as indicated by a probability value of $0.0115 \leq 0.05$. Therefore, the first hypothesis (H1) is accepted. These findings suggest that a company's financing decisions, particularly the allocation of debt, play a crucial role in improving Financial Performance. Effective management of Capital Structure enhances the company's ability to optimize its Financial Performance.

Liquidity on Financial Performance

The results of the second hypothesis test indicate that Liquidity (X₂), measured by the Current Ratio (CR), has a significant effect on Financial Performance (Y). The probability value of $0.0172 \leq 0.05$. Therefore, the second hypothesis (H₂) is accepted. These findings suggest that a company's ability to meet its short-term obligations contributes to operational stability and enables it to capitalize on business opportunities, thereby enhancing Financial Performance.

Capital Structure on Financial Performance with Good Corporate Governance (GCG) as Moderator

The results of the moderation analysis show that the interaction between Capital Structure, measured by the Interest Coverage Ratio (ICR), and Good Corporate Governance (GCG) has a significant effect on Financial Performance. The interaction term (X₁Z) produced a probability value of $0.0203 \leq 0.05$, indicating that GCG significantly moderates the relationship between Capital Structure and Financial Performance. Therefore, the third hypothesis (H3) is accepted. These findings suggest that effective Good Corporate Governance strengthens the positive impact of Capital Structure on Financial Performance by enabling companies to manage debt more efficiently and mitigate financial risks.

Liquidity on Financial Performance with Good Corporate Governance (GCG) as Moderator

The moderation analysis results indicate that the interaction between Liquidity, measured by the Current Ratio (CR), and Good Corporate Governance (GCG) has a significant effect on Financial Performance. The interaction term (X₂Z) yielded a probability value of $0.0009 \leq 0.05$, indicating that GCG significantly moderates the relationship between Liquidity and Financial Performance. Therefore, the fourth hypothesis (H4) is accepted. These findings suggest that effective Good Corporate Governance strengthens the influence of Liquidity on Financial Performance by enabling companies to utilize current assets more efficiently, thereby supporting operational activities and improving profitability.

Conclusion

This study aims to examine the effects of Capital Structure and Liquidity on Financial Performance, with Good Corporate Governance (GCG) serving as a moderating variable, among companies consistently listed in the LQ45 Index on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. Based on the panel data analysis, the findings reveal that Capital Structure has a significant effect on Financial Performance, accepted the first hypothesis (H1). Likewise, Liquidity is found to significantly influence Financial Performance, confirming accepted the second hypothesis (H2). Furthermore, Good Corporate Governance significantly moderates the relationships between both Capital Structure and Financial Performance, as well as Liquidity and Financial Performance, thereby accepted the third (H3) and fourth (H4) hypotheses. These findings highlight the importance of effective Good Corporate Governance in strengthening the impact of Capital Structure and Liquidity on Financial Performance.

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