The Effect of Capital Structure, Agency Costs, and Liquidity on Financial Performance (Manufacturing Companies Listed on the Indonesia Stock Exchange)

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A B S T R A C T

Financial performance represents a company's capability as shown in its financial statements, which stakeholders use as a basis for decision-making. This study aims to analyze the impact of capital structure, agency costs, and liquidity on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period. The study employs several variables, including capital structure, which is measured using the debt-to-equity ratio (DER), liquidity measured by the current ratio (CR), agency costs measured by the balance of power (BOP), and financial performance measured by return on assets (ROA). The population of this study consists of all consumers non-cyclicals companies listed on the IDX, totaling 129 companies. The selected sample comprises 78 companies that have complete financial reports over the five-year period from 2019-2023, selected using the purposive sampling method and analyzed using multiple regression analysis. The results of this study show that DER has a negative effect on ROA, BOP has a negative effect on ROA, and CR has no significant effect on ROA.

INTRODUCTION

Financial performance shows the extent to which a company is successful in its operations, which is usually displayed in the form of financial statements. The data contained in the financial statements is a form of management accountability to shareholders and a reference for stakeholders, including management, investors, government, creditors, and other parties when making decisions about the company (Suranto et al., 2017). The company's financial performance has a crucial role for investors when evaluating and determining investment decisions in a company (Azis & Hartono, 2017). Return on Assets (ROA) is a tool to assess a company's financial performance by assessing how effectively the company generates profits from all of its assets, which is often represented by the return on assets ratio. The higher this ratio, the better the business' finances. Management can use ROA as an important tool to evaluate how well they are managing the company's assets. The calculation of return on assets (ROA) is done by dividing profit after interest and tax by total assets, which consists of liabilities (borrowed capital) and equity. A higher ROA value indicates that the profit generated increases the company's total assets, reflecting a healthier financial condition.

Capital structure plays an important role in achieving a company's long-term goals. However, on the other hand, determining the source of funding is a complex process. This process includes various methods, choices, and variations of funding that can affect the company's condition in the future era (Suranto et al., 2017). An optimal capital structure allows the company to achieve the best rate of return. This not only benefits the company, but also has a positive impact on shareholders. Thus, capital structure becomes an important element to support the growth and resilience of the company (Ningsih & Utami, 2020). Capital structure has a significant influence on the burden and availability of capital, which in turn affects firm performance. However, an unoptimized capital structure can negatively impact firm performance and increase the risk of business failure. In this study, capital structure is measured using the Debt to Total Equity Ratio (DER).

Kristianti (2018) examined the effect of capital structure on the company's financial performance and found that capital structure has a significant positive effect. Similar research was conducted by Tambunan and Prabawa (2018), which also concluded that capital structure has a positive impact on financial performance. However, other results were found in Sari's study (2017) , and Tambunan - Prabawani (2018), which says if the capital structure has no significant effect on financial performance

Agency theory addresses the concept of separation between the owners and managers of a company, emphasizing the ownership structure in the management of company performance. Understanding the application of agency theory in financial management is important because it provides greater insight for investors, shareholders, and those concerned with this issue, which creates what is called “agency costs” Agency costs are costs used to monitor and supervise managers to avoid exploitation. One method to overcome agency problems is through incentivizing financing policies. The agent usually wants to maximize his own profit by increasing his personal wealth and job security, while the principal wants to maximize his own wealth (Abdullah & Tursoy, 2023).

The purpose of this study is to examine the relationship between capital structure, agency costs, and liquidity on the financial performance of companies in the non-cyclical consumer industry sector using agency theory as a theoretical basis. This study also evaluates the effect of agency costs on the company's financial performance. Equity agency costs arise when there are differences of opinion between shareholders and managers. However, these costs can be minimized through effective planning.

The most popular and frequently applied theoretical framework for examining conflicts of interest in corporate operations and management decision-making processes is agency theory. This theory, based on its key assumptions has a positive impact on financial performance (Dawar, 2014). This study also measures the effect of agency theory on financial performance. Based on assumptions (Jensen & Meckling, 2014) Agency costs are related to firm performance. This study also evaluates the impact of agency theory on financial performance.

Liquidity is one of the important aspects of finance that needs to be analyzed. This is due to its role as a tool used to assess the company's success in meeting its short-term liability needs (Yuliani, 2021). Current Ratio (CR) is used to calculate the liquidity of the study, Current Ratio is a ratio that describes how far the company is able to pay off short-term debt using its current assets. A high CR value indicates that the company is more liquid, which means that the company can fulfill its short-term obligations with its current assets. High current assets indicate that there are short-term funds available to pay short-term debt and for business operations, increasing sales and generating profits. With effective asset management, the ROA value is expected to increase. The higher the liquidity of the company, the more efficient the company's financial performance. Research conducted by Utami and Pardanawati (2016) and Alicia (2017) shows that liquidity has a positive and significant effect on financial performance. However, these findings contradict the results of Tjahjono's (2014) study, that liquidity has no effect on financial performance

The rapid growth of the business world and economic growth motivates business competitors to improve their business performance. Companies are usually established with the aim of making the most amount of money and increasing the prosperity of its shareholders, which encourages financial managers to obtain funding to meet the company's operational needs. Financial management is an important part of a company's operations as it is a way of increasing the profitability and value of the company, the higher the value. To carry out its operations, a company needs funds, for the long-term and short-term interests of the company. Working capital used by a company can help increase its profitability by supporting its operations.

The purpose of this study is to gain a deeper understanding of the elements that affect financial performance with several phenomena that arise. Then because of the differences in findings with previous research, the researcher intends to investigate the effect of capital structure as measured by debt to equity ratio (DER) agency costs as measured by the cost ratio (BOP), and liquidity as measured using current ratio (CR) on financial performance assessed based on return on assets (ROA) in manufacturing companies that have been listed on the Indonesia Stock Exchange in the non-cyclical Consumer sector.

The manufacturing industry is an industry that is in great demand by investors to invest their capital, and this sector produces primary needs, so this sector is relatively stable even though the economy is declining.

Literatur Riview

Capital Structure

According to Arifin (2007), capital structure is a combination of debt and equity that forms a company's long-term financial structure (Hardianti, 2017). Balancing theories are capital structure theories that aim to achieve a balance between debt and equity. The essence of this theory is to consider the benefits and consequences of using debt. However, this balance can only be achieved in a perfect capital market and in the absence of income tax. Although these assumptions do not fully match the real conditions, this theory remains the basis in formulating the cost of capital for each funding source (Kristianti, 2018).

The trade-off theory says that firms prefer debt over equity when the benefits of debt through reduced interest expense before income tax calculations outweigh the cost of debt, the interest expense itself. According to this theory, increased use of debt can result in an optimal capital structure. Capital structure theory outlines how firm value can be affected by changes in capital structure, assuming investment decisions and dividend policy remain constant.

The ideal capital structure is a combination of debt and equity that can increase share price and firm value. According to theory, a firm's capital structure is not ideal. In addition, Modigliani and Miller (1963) revised their previous work and exempted the assumptions of MM theory from taxation. They also mentioned that the market value of a company that has a proportion of debt on its balance sheet is better than a company that relies solely on equity funding (Sdiq & Abdullah, 2022). Capital structure: According to Fraser et al. (2007), a firm's capital structure is its permanent long-term funding, represented by long-term debt, preferred stock, retained earnings, and common stock. Sources of funding in a company are divided into two categories, namely liabilities and equity. Based on some of the main factors that are usually considered by companies in capital structure theory include operating leverage, sales stability, growth rate, asset structure, and profitability.

These factors play a role in assessing the risks and rewards of using debt and equity to ensure the optimal combination maximizes firm value and taxes (Vu Thi & Phung, 2021). The right capital structure to maximize firm value is a capital structure that substantially reduces agency costs (Jensen & Meckling, 2014) also argue that agency costs have two main types: “equity agency costs”, which are driven by conflicts between agents and principals, and “debt agency costs”, which are caused by conflicts between bondholders and equity holders (Ahmed et al., 2023)

Agency Cost

Agency theory, originally developed by Berle and Means (1932), states that managers pursue only their own interests rather than maximizing profits for shareholders. The terms of the agency theory include the owners of the company acting as principals, while the managers act as agents, and there is an agency cost, which is the extent to which the benefits obtained by the residual plaintiffs i.e. the owners are below what they would get if principals, it is stated that high levels of debt put managers under pressure to invest in some profitable projects in order to generate sufficient cash flow to meet debt repayments (Jensen & Meckling, 2014). This study also measures the effect of agency theory on financial performance. Based on the assumption (Jensen & Meckling, 2014), Agency costs are related to company performance.

Empirically, (Kontus, 2021) found evidence suggesting that variations in agency costs have little or no impact on firm performance in Croatia. (Hoang et al., 2019) ound evidence of a negative effect between agency costs and financial performance in the case of Vietnam. Similar results were found for companies listed in China by (Rashid Khan et al., 2020). The main component of agency theory is conflict of interest (Shrestha, 2019). The theory is concerned with solving problems that arise due to conflicts agency problem is a term used to describe conflicts between agents and principals, in which agents (managers) may act based on personal interests that are not in line with the main objectives of the principal (owner or shareholder) (Nidumolu, 2018). As a result, maximization of company performance can be

achieved. The lower the agency costs, the higher the expected financial performance. In addition, (Hoang et al., 2019) confirmed that debt can be a useful tool to reduce the negative impact of agency costs on financial performance due to the pressure on managers to repay their debt. Thus, managers are less able to concentrate on their own interests so that conflicts of interest are reduced (Sdiq & Abdullah, 2022).

Liquidity

Asri Novi and Sofie (2015) reveal that liquidity is the capacity of a company or institution to meet urgent financial needs and its ability to pay off obligations when due (Nur Amalia & Khuzaini, 2021). According to pecking order theory, a high level of liquidity in a company tends to avoid financing through debt, because they have sufficient internal funds, which they will use more. Liquidity is an important factor in maintaining the continuity of a business. In addition, liquidity shows the ability of the organization / company to provide sufficient funds to pay off bills on time and anticipate unexpected cash needs (Yuliani, 2021). Liquidity is measured by the Current Ratio, which serves as an indicator of the company's ability to pay off short-term debt using its current assets.

The liquidity ratio reflects the extent to which the company is able to effectively meet its short-term financial obligations. (Utami and Pardanawati 2016). Thus, companies that have a lot of liquidity tend to have the ability to meet their short-term debt obligations. In this study, the level of liquidity in the company is calculated using the current ratio or Current Ratio (CR). According to Hantono (2016), Current Ratio describes the level if current assets can cover the company's current liabilities, it shows that the company has the ability to fulfill its short-term responsibilities with assets that are easily liquidated (Diana & Osesoga, 2020).

Kinerja keuangan

As a description of the company's ability to achieve its goals (Abdullah & Tursoy, 2021a). According to Ali (2018), financial performance is referred to as a measure of the efficiency and effectiveness of an organization's internal and external actions and operations. In addition, it is often used in the literature to determine the success, condition, and compliance of the company. Mansyur et al. (2020) explain financial performance as the result of managers' efforts in carrying out tasks related to financial management. From the definition, we observe a common understanding of financial performance as a mirror that reflects the achievement of corporate goals, while others believe that financial performance is the effective utilization of resources available to the company. As a result, it can be said that financial performance measures the financial health of a company. This is demonstrated by using several indicators to identify how successful and efficient a company is in managing its resources for operational, financing, and investment activities (Sdiq & Abdullah, 2022).

Financial performance is an achievement obtained by the company in a certain period of time, which is described as financial stability and its ability to manage and distribute resources effectively (Suranto et al., 2017) Financial performance can be evaluated through the process of assessing progress in achieving goals and objectives, especially in human resource management, the focus is on optimizing the workforce to support the production process of goods and services efficiently and quality. In addition, financial performance also reflects the level of efficiency and effectiveness of actions taken in meeting organizational goals (Moeheriono, 2010: 61). According to Fahmi (2012), financial performance describes the success of an agency, which is reflected in the results achieved based on the application of financial rules and various activities that have been carried out (Nur Amalia & Khuzaini, 2021) The company's financial performance has great benefits for various stakeholders, including investors, creditors, business management, brokers, financial consultants, and the government. If financial statements, such as balance sheets and profit and loss statements, are prepared properly and accurately, they can provide detailed and clear information about the company's achievements in a certain period. This information becomes the basis for assessing the company's performance. In addition, profitability reflects the effectiveness of management in managing the company and optimizing its resources (Susanti et al., 2018)

Hypothesis Development

The Effect of Capital Structure on Financial Performance

Long-term funding called capital structure is designed to balance long-term debt and equity (Riyanto, 2015: 22) In the context of financial management, capital structure has an important role in determining the company's strategy to create and maintain economic value or wealth (Yuliani, 2021). In relation to signal theory, the actions taken by company management serve as indicators of investors for management's views on the company's future opportunities. Kristianti (2018), analyzing the effect of capital structure on the company's financial performance shows that the capital structure, as measured using the Debt to Equity Ratio (DER), has a significant influence on the value of the company's financial performance as measured by Return on Assets (ROA). So the hypothesis is formulated as follows:

H1 : Capital structure affects financial performance

The Effect of Agency Costs on Financial Performanc

Agency costs, measured using the expense ratio, can have a moderating influence on the relationship between capital structure and firm performance. The higher the expense ratio, the less profit can be retained. As a result, the company will rely more on external funding, either through equity or debt. Previous research Pandey and Sahu (2019) in the case of India and Wellalage and Locke (2013) in Sri Lanka determined a positive influence between agency costs and financial performance. So the following hypothesis is formulated:

H2 : Agency costs have an influence on financial performance.

Effect of Liquidity on Financial Performance

Liquidity is one of the components that can affect financial performance. a ratio that determines how quickly a company can meet short-term financial obligations (Utami and Pardanawati, 2016). using existing current assets. Companies with higher CR have a better ability to pay off short-term debt with current assets, because there are short-term funds that can be used to pay debts and help business operations, increase sales and generate profits. High profits, combined with effective asset management, are expected to increase the value of ROA.

This finding is in line with the research of Utami and Pardanawati (2016), Alicia (2017), and Saragih et al. (2015), which shows that liquidity has a positive and significant effect on financial performance (Diana & Osesoga, 2020). So that the following hypothesis is formulated:

H3 : Liquidity affects financial performance.

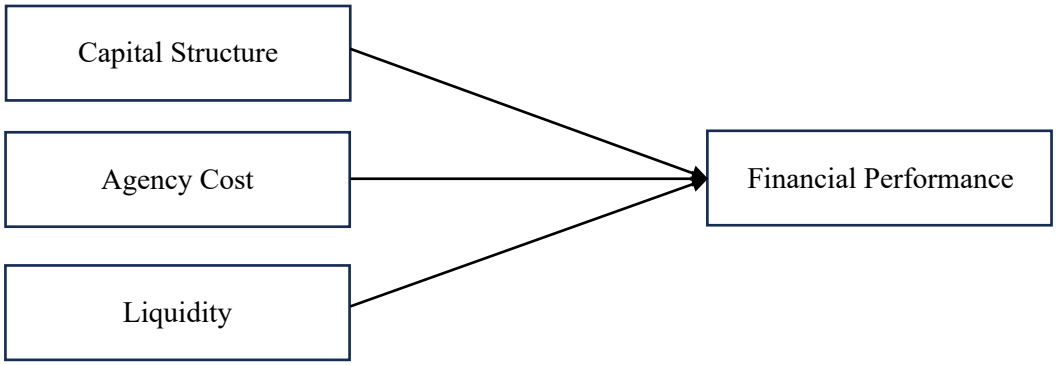

Figure 1. Structural Model

Source: Data Processed, 2024

RESEARCH METHOD

Quantitative methods are used in this study with secondary data disclosed by companies listed on the IDX. The quantitative research approach is one of the crucial aspects in conducting a study. The quantitative approach is often referred to as the positivistic approach (Purba, 2021). The quantitative approach is used to obtain information based on measurement results obtained through instruments that have been tested for validity. This research is a type of quantitative research that aims to analyze the effect of independent variables on financial performance. The population of this research is 129 companies that have been listed in the consumer non-cyclicals sector on the IDX. The method used is purposive sampling based on the criteria for companies that prepare complete financial reports for five years (2019-2023). From this population, 78 companies were obtained as samples. The secondary data that the author uses is in the form of the company's annual financial statements, the data collected includes financial ratios such as capital structure, liquidity, agency costs and financial performance for 5 years. This study uses multiple regression analysis on panel data to evaluate the relationship between independent variables and variables.

RESULTS AND DISCUSSION

Descriptive Analysis

This study uses Panel Multiple Regression using STATA 11. The results of descriptive statistical data processing are shown in Table 1.

Table 1. Dekriptive Analysis

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	390	.0479631	.2555928	-4.15	.94
DER	390	2.094026	6.485823	-4.86	92.5
BOP	390	1.533615	10.58803	0	209.67
CR	390	3.597292	18.67501	.06	325.88

Source: results of data processing using STATA, 2024.

Description: ROA: financial performance, DER: Capital structure, BOP: Agency cost, CR: Liquidity.

The average ROA is 0.048 with a standard deviation of 0.256. The average DER is 2.09 with a standard deviation of 6.485. The average BOP is 1.534 with a standard deviation of 10.59. The average CR is 3.597 with a standard deviation of 18.675.

Based on the results of the descriptive analysis above, it appears that the standard deviation or standard deviation of all variables is greater than the average. This explains that there is extreme or outlier data. Therefore, it can affect the results of regression estimation or prediction. So the effort that can be made is by Winsorizing, which is by eliminating extreme data without discarding the data but changing the extreme data value to be equal to the highest and lowest data within the percentile limits.

In this case, the researcher winsorizes within 5% and 95% percentile limits. This means that if the data exceeds 95% percentile, the data will be changed to the value of the data at 95% percentile. And if it is less than 5% percentile, it will be converted to 5% percentile.

Table 2. Descriptive Analysis Winsorize

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA_w	390	.0541654	.0944991	-.1133	.287
DER_w	390	1.328897	1.261067	.14	4.96
BOP_w	390	.9514359	.1427619	.73	1.35
CR_w	390	2.022369	1.700627	.41	7.21

Source: data processing results using STATA, 2024.

This study analyzes data from 128 manufacturing companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange during 2019-2023. The financial performance variable which has an average of 0.054 with a standard deviation of 0.094, shows that there is considerable variation between

companies, with a minimum value of -0.1133 and a maximum of 0.287. The capital structure variable shows an average of 1.328 with a standard deviation of 1.261, reflecting significant differences in the Company's ability to generate capital structure, with a minimum of 0.14 and a maximum of 4.96. Meanwhile, agency costs (BOP) have an average of 0.951 and a standard deviation of 0.142, indicating diversity in the proportion of costs to total assets, with a minimum value of 0.73 and a maximum of 1.35. The liquidity shows an average of 2.022 with a standard deviation of 1.700, illustrating the significant variation in liquidity between companies, with a minimum value of 0.41 and a maximum of 7.21. Overall, these descriptive results indicate that there is high heterogeneity in the financial condition of the companies in this research sample.

Data Analysis

For the selection of the best model based on the Common Effect Model (CEM) and FE (Fixxed Effect Model) tests, carried out through the Chow Test, the results obtained the Cross-Section Chi Square value of 8.24 with p value: 0.0000 <0.05, meaning that the better model is FE. Furthermore, the results of the RE test compare RE or FE through the Hausman test, first conducting the Random Effect Model (REM) test. The Random effect Model (REM) test results obtained a random cross-section value of 12.96 with a p value: 0.0047 <0.05, meaning that the better model is FE. Furthermore, the LM (Lagrangian Multiplier Test) test obtained a BreuschPagan cross-section value of 244.14 with a p value: 0.0000 <0.05, so the better model is RE. (Lagrangian Multiplier Test) The BreuschPagan cross-section value is 244.14 with a p value: 0.0000 <0.05, so RE is a better model.

The Shapiro Wilk test is used to perform the normality test. The test results show that the calculated W value is 0.89418 with a p value of 0.0000 <0.05, which indicates that the residuals are not normally distributed. The heteroscedasticity test uses the Modified Wald Test for Groupwise Heteroscedasticity method. The Chi-square value is 6.1 x 105 with a p value of 0.0000 <0.05 or accept H1, meaning that the model does not meet the assumption of homoscedasticity because it experiences heteroscedasticity problems. Autocorrelation test is carried out through the Wooldridge Test For Autocorrelation test. The result obtained is 2.280 with a p value of t equal to 0.1352> 0.05, so the model fulfills the non-autocorrelation assumption because there is no autocorrelation because there is no serial correlation.

The correlation test between independent variables is used to determine whether there is multicollinearity. The correlation coefficient r pearson product moment between independent variables is found if all correlation values are less than 0.9 and more than -0.9. Thus, the model meets the assumption that there is no multicollinearity. Based on the test results, there is a violation of the assumption of non-normality of residuals. So that boostraping resampling is done 200 times so that it makes the estimator consistent even though there is a violation of the normality assumption. and the robust estimator makes the coefficient unbiased even though there is a violation of heteroscedasticity.

Hypothesis Testing

Table 3. Partial Test

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	0,2511901	0,0364854	6,88	0,000
DER	-0,0287799	0,009721	-2,96	0,003
BOP	-0,1658158	0,0366443	-4,53	0,000
CR	-0,0005024	0,0025484	-0,02	0,844

Source: results of data processing using STATA, 2024

The following regression equation is formed based on Table 3

ROA = 0.2511901 - 0.0287799DER - 0.1658158BOP - 0.0005024CR +Rit + Eit

Based on the table above, the variables that partially and significantly affect or accept H1 in predicting financial performance (ROA) are capital structure (DER) and agency costs (BOP) where the p-value is less than the probability or alpha 0.05. While other independent variables, namely liquidity (CR) accept H0 or not significant partial effect.

The effect of capital structure variable on financial performance variable is a negative effect of 2.88%, then every increase of one unit of capital structure can reduce the value of financial performance by 2.8%. The influence of agency cost variable on financial performance is a negative influence of 16.58%, then each increase of one unit of agency cost can reduce the value of financial performance by 16.58%.

A set of independent variables can explain the dependent variable by 14.65%, which is less than 50%, with an R Squared value of 0.1465. Thus, although a set of independent variables has a weakness in explaining the dependent variable, the simultaneous test shows the acceptance of H1.

Discussion

The results of the analysis show that capital structure has a significant negative effect on financial performance, this indicates that a capital structure that utilizes more debt than equity can negatively contribute to the efficient use of assets to generate profits, as reflected in improved financial performance (ROA). So that these results are in line with research (Varghese & Sahai, 2021) and (Solihin, 2019) that DER has a negative influence on ROA - An increase in DER tends to reduce ROA, indicating that the higher the debt compared to equity, the lower the company's profitability.

The agency cost variable (BOP) has a significant negative effect on the financial performance variable. This significant negative effect indicates that companies with high BOP ratios, or large operating costs relative to revenue, tend to have lower efficiency in generating return on assets financial performance. In other words, the greater the operating expenses compared to revenue, the more the company's financial performance tends to deteriorate. This is in accordance with research (Hoang et al., 2019) which found evidence of a negative influence between agency costs and financial performance in the case of Vietnam. Similar results were found by (Sukoco, 2023) which proves that agency cost has a negative effect on the company's financial performance. Agency Cost (Agency Cost) negatively affects ROA. The higher the agency costs, the lower the company's financial performance (ROA). This occurs due to managerial inefficiency, non-optimal use of assets, and unproductive expenses, which reduce company profits.

Financial performance is not much influenced by liquidity. The liquidity variable as measured by Current Ratio (CR) does not have a significant effect on financial performance as measured by Return on Assets (ROA). This means that the company's liquidity level is not the main factor determining changes in financial performance in the context of this test. This finding is in line with previous research from(Eldi et al., 2023) that liquidity has a negative and insignificant effect on financial performance as measured by Return on Assets (Septiano & Mulyadi, 2023) that CR has a negative effect on CR.

CONCLUSION

This study examines the effect of capital structure, agency costs, and liquidity on the financial performance of consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange for the period 2019-2023. The results show that capital structure affects financial performance significantly and negatively; this suggests that businesses that use more debt than equity tend to use their assets less efficiently to generate profits. Agency costs proxied by operating costs relative to revenue (BOP) affect financial performance negatively and significantly, which indicates that high agency costs will reduce company profitability. Liquidity measured using Current Ratio (CR) does not have a significant impact on financial performance, which indicates that, excessive liquidity can reduce asset efficiency and overall profitability. This finding is consistent with previous findings suggesting that capital structure decisions and agency cost management are important determinants of financial performance (Ahmed et al., 2023). However, these results highlight nuances in the role of liquidity, which contrasts with some previous studies that emphasize its positive contribution. This study contributes to the literature by integrating these

factors and emphasizing the importance of their balance for sustainable financial performance in the context of Indonesia's non-cyclical consumer industry. The managerial implication is the need for firms to carefully strategize their financial decisions, optimize debt levels, control agency costs, and maintain liquidity within an efficient range to maximize profitability.

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