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LIQUIDITY, CAPITAL STRUCTURE, COMPANY GROWTH AND FINANCIAL PERFORMANCE

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ABSTRACT
This research aims to investigate the impact of liquidity, capital structure, and company growth on financial performance. The current ratio (CR) measures liquidity, the debt-to-equity ratio (DER) measures capital structure, and total asset turnover measures the company's growth (TATO). At the same time, Return on Assets (ROA) is used to assess financial performance. This study's population comprises all infrastructure sector companies registered on the Indonesia Stock Exchange between 2017 and 2021. The purposive sampling method was used to collect samples from 15 companies in this investigation. As many as 75 data points were retrieved from the sample data. The data in this study is secondary data collected using quantitative research methodologies. A panel data regression analysis with a significance threshold of 5% was employed as the analytical technique. This study, conducted with E-Views 9 software, revealed that liquidity did not affect financial performance. Conversely, the capital structure and company growth significantly affected financial performance.

Keyword: Liquidity, Capital Structure, Company Growth, Financial Performance

1. INTRODUCTION

A company's good or bad condition can be seen from the results of the company's financial performance. Financial performance refers to the results achieved by various activities carried out by the company (Fudsyi & Agil, 2020). It is because financial performance is related to a company's financial condition that reflects work performance which. If an activity carried out by the company goes well, financial performance will increase (Hartoyo, 2018). Financial performance will increase if the company's financial condition improves, so the company's financial condition must be carried out correctly and according to the rules. Conversely, financial performance will also decrease if the company's financial condition decreases and is not carried out according to the rules (Anthonie, et.al., 2018). Therefore, financial performance is very dependent on the activities carried out by the company (Erawati & Ndoen, 2019).

However, the company's performance is only sometimes reflected in the results of a company's financial performance. Some companies have increased sales, but their performance has decreased. It happened to one of the companies in the infrastructure sector, namely PT Indosat Tbk, in 2020, which posted an increase in cellular revenue of Rp. 23.06 trillion from previously at the end of 2019 of Rp. 20.67 trillion. However, the increase in income was different from the results of its performance which suffered a loss of Rp 716.72 billion; this performance is far

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different from the company's achievements from the same period the previous year, which recorded a net profit of Rp. 1.56 trillion (Wareza, 2021). Therefore, financial performance is influenced by company activities and several factors, such as liquidity, capital structure and company growth (Aziz, 2017).

The first factor affecting financial performance is liquidity. The better a company's liquidity, the more financial performance will also increase (Pakpahan et al, 2020). It is because liquidity is the ability of a company to meet its short-term obligations promptly. Liquidity is significant because if a company fails to pay its short-term obligations, it can cause financial performance to decline (Lombogia, et.al., 2021). For example, when a company can fulfil its obligations, it is said to be liquid. Meanwhile, when a company cannot fulfil its obligations, it is said to be illiquid or needs help selling or converting its assets into cash. In contrast, the company has obligations to pay employees, produce, and pay debts (Pakpahan, et.al., 2020). Companies that are not liquid can be at risk of having poor financial performance and going bankrupt. Therefore, it can be concluded that liquidity is the ability of a company to fulfil its short-term obligations by using current assets to improve financial performance (Haukilo, 2022).

The second factor affecting financial performance is capital structure. The better a company's capital structure, the better its financial performance (Haukilo, 2022). It is because the capital structure refers to the company's funding sources (Dinh & Pham, 2020). For example, when a company obtains funding, the funding will invest in various assets that are used to support the company's operational activities to generate greater profits (Yuliani, 2021). Therefore, it can be concluded that companies use capital structure to achieve financial stability and ensure company survival (Aziz, 2017).

The third factor that affects financial performance is the company's growth. The better the company's growth, the better the financial performance (Rosa, Desilfa, & Shoumi, 2022). It is because if the company experiences growth, it will have a good impact on its financial performance (Jonatan, 2018). For example, if there is an investment opportunity that can provide a positive signal about the company's growth in the future financial performance can increase (Muamilah & Jannah, 2022). Therefore, it can be concluded that company growth is the company's ability to improve performance that has been carried out since the company was founded (Rosa, et.al., 2022).

This study's novelty is using the infrastructure sector as a research sample. Due to the condition of the company's financial performance sector, Infrastructure experienced a negative impact during the Covid-19 and post-pandemic recovery. Therefore, the results of this study can explain the gap phenomenon described in the previous paragraph.

2. LITERATURE REVIEW

The trade-off theory states that companies exchange tax benefits from debt financing with problems that arise and have the potential for bankruptcy (Rahman, 2020). It is because companies cannot use debt as much as possible. After all, the benefits of using debt come from tax savings, so interest payments can be used to reduce the tax burden. Companies that use as much debt as possible have a higher risk of bankruptcy that will occur in the company. The greater the risk of bankruptcy, the more the company is reluctant to use much debt (Erawati & Ndoen, 2019).

Signalling theory discusses the existence of information dissimilarities between internal parties (managers) and external parties (investors). The information is essential for investors and

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business people because it presents a record or description of the excellent viability of the company in the past, present and future. Internal parties issue annual reports to signal investors about the company's prospects to avoid information asymmetry, and annual reports usually contain accounting and non-accounting information (Nurmala & Adiwibowo, 2021).

Financial performance is a company's financial condition over a certain period (Jonatan, 2018). It is because financial performance is a description of the company's financial condition to determine whether the company's financial condition is good or evil, reflecting the performance of a certain period (Rahman, 2020). One of the company's financial performances is reflected in the net profit after tax. It is the level of success in managing company finances which ultimately gives good results (Muamilah & Jannah, 2022).

Liquidity is the company's ability to meet its short-term obligations on time. It is because companies that want to maintain the continuity of their business activities must be able to pay off obligations at maturity by using available current assets (Fajaryani & Suryani, 2018). Companies that can fulfil their financial obligations on time are solid or liquid (Erawati & Ndoen, 2019).

Capital structure is a comparison between external capital and own capital. It is because the capital structure can be used to measure the company's funding structure which shows the level of risk the company has. This capital structure shows that more or less the amount of long-term debt rather than own capital is invested in fixed assets used to carry out the company's operational activities to earn profits (Haukilo, 2022).

The company's growth is the growth rate. The higher it is, the greater the need for funds the company needs to finance future needs. It is because the company must have sufficient capital to be able to finance the company's growth continues with the aim of maintaining its survival (Jonatan, 2018). Increasing company growth has a high potential to generate high cash flows in the future. If the company can increase its growth, the results of its financial performance are increasing and can impact the level of trust of outsiders (investors) (Muamilah & Jannah, 2022).

Financial performance is influenced by liquidity. It is because liquidity depicts a company's ability to meet short-term obligations that must be met immediately (Erawati, 2019). If the company's liquidity is too high, it can hurt its financial performance. As a result, companies must maintain their liquidity level. In the trade-off theory, reducing a company's debt explains that the actions taken by the company exchange the tax benefits of financing debt for the problems it causes and the possibility of bankruptcy. It makes the company unable to use large debts because it reduces the likelihood of bankruptcy and reduces the company's liquidity value, allowing the company to pay its short-term debt on time (Erawati, 2019). This assertion is supported by research by Yuliani (2021), Haukilo (2020), Pakpahan et al. (2020), and Fudsy (2020), which found that liquidity has a positive and significant effect on performance finance. Based on the preceding discussion, the following hypothesis can be advanced:

H_1: Liquidity has a substantial impact on financial performance.

Financial performance is influenced by capital structure. It is because the capital structure compares external capital and own capital. The size of the capital structure indicates whether there are many or fewer long-term debts from own capital invested in fixed assets used in the company's core business to generate profits (Haukilo, 2022). According to the trade-off theory, companies must consider tax savings and financial distress costs when determining capital structure. The capital structure affects the burden and availability of capital, thereby affecting company performance, whereas a less-than-optimal capital structure affects performance and increases the risk of business failure. Companies require an optimal capital structure to maximize profits while maintaining the company's ability to compete (Kristianti, 2018). According to Hartoyo (2018),

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Jonatan (2018), Kristianti (2018), Azis (2017), and Suryani (2018), capital structure has a positive and significant effect on financial performance. Based on the preceding discussion, the following hypothesis can be advanced:

H_2: Capital structure influences financial performance significantly.

The financial performance of the company is affected by its growth. The company must optimize its growth rate to finance future needs (Muamilah, 2022). According to signalling theory, the company's actions signal investors positively about its prospects, allowing the company to increase its growth. Company growth affects the ability to finance company needs, affecting good financial performance; however, more-than-optimal company growth will impact unfavourable financial performance conditions (Rosa, 2022). Company growth positively and significantly affects financial performance. Based on the preceding discussion, the following hypothesis can be proposed:

H_3: Business expansion has a significant impact on financial performance.

3. DATA AND RESEARCH TECHNIQUE ANALISYS

This study employs a quantitative approach to research. The data used in this study is secondary. This study's population comprises infrastructure sector companies listed on the Indonesia Stock Exchange between 2017 and 2021. Several samples will be drawn from the 57 existing company populations for this research. The researchers chose infrastructure sector companies listed on the Indonesia Stock Exchange as research objects because their financial performance conditions were negatively impacted during the Covid-19 pandemic and the post-pandemic recovery. The sample used in this study was determined using the purposive sampling method, which uses specific considerations in determining the sample. The population that will be used as a sample meets the following sampling criteria:

Table 1 : Sample Selection Procedure

Description	No. of companies
Infrastructure Sector Company listed on the IDX as of 31 December 2021	57
Unlisted on the IDX during 2017-2021	(12)
Did not present and publishes financial reports for 2017-2021	(4)
Currency in their financial reports for 2017-2021 are not rupiah	(2)
Companies' data is not suitable for this research	(24)
Final Sample	15
Duration study	5 years
Total observation	75

Table 2 : Variable Measurement

Variables	Measurements
Dependent Variable *Financial Performance*	$ROA = \frac{Net\ Profit}{Total\ Assets}$
Independent Variables: *Liquidity*	$CR = \frac{Current\ Liabilities}{Current\ Assets}$

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Capital Structure	$DER = \frac{Total\ Liabilities}{Total\ Equities}$
Company Growth	$TATO = \frac{Sales}{Total\ Assets}$

The following data panel regression was used to test this research:

$$FINPERit = \alpha + \beta 1(LIQUIDit) + \beta 2(STRUCit) + \beta 3(GROWTH)it + eit$$

Dependent variable is the financial performance of the company "i" at period "t" (FINPERit). The independent variable is liquidity of the company "i" at period "t" (LIQUIDit), capital structure of the company "i" at period "t" (STRUCit) and Growth of the company "i" at period "t" (GROWTHit).

4. RESULTS AND DISCUSSION

Table 3 : Descriptive Statistical Test Results

	Financial Performance	Liquidity	Capital Structure	Company Growth
Mean	0.063111	1.933462	1.271917	0.530328
Median	0.059231	1.372544	1.067320	0.516660
Maximum	0.174686	9.283865	4.457518	1.263102
Minimum	0.003090	0.274817	0.113372	0.128245
Std. Dev.	0.040575	1.690282	0.834516	0.264451

Source : Proceed by researcher

The output results show that the lowest financial performance, as measured by return on assets (ROA), is 0.003090 obtained from Wijaya Karya (Persero) Tbk in 2021, indicating that every Rp. 1 total assets owned by Wijaya Karya (Persero) Tbk in 2021 can only generate a net profit of IDR 0.003090. While Link Net Tbk had the highest financial performance value of 0.174686 in 2017, every IDR 1 of total assets owned by Link Net Tbk in 2017 generated a net profit of IDR 0.174686. The average value (mean) of financial performance is 0.063111, which means that a sample can be produced for every Rp. 1 in total assets owned by the company, resulting in a net profit of Rp. 0.063111.

The output results show that Link Net Tbk has the lowest liquidity value of 0.274817 in 2020, as measured by the current ratio (CR), which means that every IDR 1 of current assets owned by Link Net Tbk in 2020 can guarantee its current liabilities of IDR 0.274817. While Cikarang Listrindo Tbk obtained the highest value of 9.283865 in 2021, every IDR 1 of current assets owned by Cikarang Listrindo Tbk in 2021 can guarantee the current liabilities of IDR 9.283865. The average (mean) value of liquidity is 1.933462, which means that every Rp. 1 of current assets owned by the sample companies during the study period can guarantee Rp. 1.933462 in current liabilities.

The output results show that the capital structure measured by the debt to equity ratio (DER) during the study period is 0.113372, obtained from Jasa Armada Indonesia Tbk in 2018, which means that Jasa Armada Indonesia Tbk has a debt of 11.33% of its total equity in that year. Meanwhile, Sarana Menara Nusantara Tbk obtained the highest value of 4.457518 in 2021, implying that Sarana Menara Nusantara Tbk has a debt of 445.75% of its total equity in 2021. The average capital structure value (mean) is 1.271917, which means that the sample companies' average debt during the study period was 127.19% of their total equity.

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The company's growth as measured by the total asset turnover ratio (TATO) during the research period can be seen in the output results, with Nusantara Infrastructure Tbk having the lowest company growth value of 0.128245 in 2021, which means that every IDR 1 of Nusantara Infrastructure Tbk's total assets in 2021 only generated net sales of IDR 0.128245. While the highest TATO was obtained from Bukaka Teknik Utama Tbk in 2019, every IDR 1 of Bukaka Teknik Utama Tbk's total assets resulted in net sales of IDR 1.263102 in 2019. The average (mean) value is 0.530328, which means that for every Rp. 1 in total assets owned by the company, net sales of Rp. 0.530328 are generated.

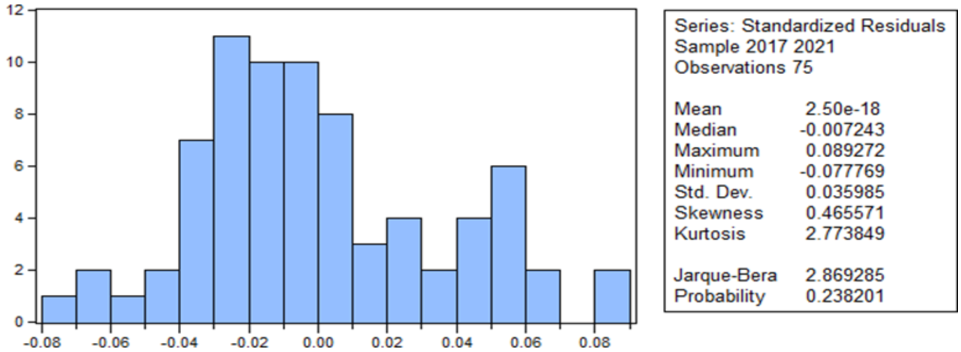

Figure 1 : Normality Test

Source : Proceed by researcher

The histogram graph above shows that the Jarque-Bera value is 2.869285, and the probability value is 0.238201, more significant than the significance level of 0.05. As a result, the data in this study were normally distributed.

Table 4 : Correlation Matrix

	Liquidity	Capital Structure	Company Growth
Liquidity	1.000000		
Capital Structure	-0.344631	1.000000	
Company Growth	0.034532	-0.245661	1.000000

Source : Proceed by researcher

According to the calculation results in table 4, all independent variables have a value of 0.90. As a result, all independent variables do not exhibit multicollinearity.

Table 5 : Test model regression

Redundant fixed effects tests	Hausman test	Lagrange multiplier test	Selected model
0.0000	0.8077	0.0000	Random Effect Model

Source : Proceed by researcher

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The results indicate that the random effect model is the most appropriate regression model for regression equations model for this study.

Table 6 : Regression Analysis Results

Variables	Coefficient	Sig.
Independent variables:		
Liquidity	-0.001168	0.7099
Capital Structure	-0.018183	0.0048**
Growth	0.056269	0.0027**
R-square	21.83%	
Prob(F-statistic)	0.000130	
Observations	75	

Source : Proceed by researcher

The first hypothesis proposed in this study is that liquidity significantly affects financial performance. The tests' results show that the probability value of liquidity is 0.7099, which means that the probability value is greater than the significance value (0.05). Therefore, variable liquidity does not affect financial performance. It shows that the first hypothesis is rejected. Liquidity does not affect financial performance because the value of liquidity is not the company's main focus. The company will be more focused on seeing the profits generated by the company increase or decrease each year so that the value of liquidity is not used as a guide in making a decision. The company must maintain minimum liquidity because the higher this ratio, the higher the liquidity, which will result in higher idle cash and can result in decreased income and profits (Yuliani, 2021).

The second hypothesis proposed in the study is that capital structure has a significant effect on financial performance. The tests' results show that the probability value is 0.0048, which means that the probability value is smaller than the significance value (0.05). Therefore, the capital structure variable has a significant effect on financial performance. It shows that the second hypothesis is accepted. The results of this study are in line with research conducted by Yuliani (2021), Hartoyo (2018) and Erawati (2019), which state that capital structure has a significant effect on financial performance. Companies that apply the principle of capital structure to the value of long-term debt company owns to finance their assets as efficiently as possible can improve financial performance. This financial performance is presented by the market price of the shares, which reflects investment decisions on financing and asset management.

The third hypothesis proposed in the study is that company growth has a significant effect on financial performance. The tests' results show that the probability value is 0.0027, which means that the probability value is smaller than the significant value (0.05). Therefore, the company's growth variable significantly affects financial performance. It shows that the third hypothesis is accepted. This study's results align with research conducted by Muamilah (2022) and Jonatan (2018), which state that company growth has a positive and significant effect on financial performance. Growth is expressed as total asset growth, where past asset growth reflects future profitability and company growth.

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5. CONCLUSION

This study's first hypothesis is that liquidity significantly impacts financial performance. According to the results of the tests, the probability value of liquidity is 0.7099, indicating that the probability value is greater than the significance value (0.05). As a result, variable liquidity has no impact on financial performance. It demonstrates that the first hypothesis is invalid. The study's second hypothesis is that capital structure significantly impacts financial performance. According to the results of the tests, the probability value is 0.0048, which means that the probability value is less than the significance value (0.05). As a result, the capital structure variable substantially impacts financial performance. It demonstrates that the second hypothesis is correct. The study's third hypothesis is that company growth significantly impacts financial performance. According to the results of the tests, the probability value is 0.0027, which means that the probability value is less than the significant value (0.05). As a result, the growth variable of the company has a significant impact on financial performance. It demonstrates that the third hypothesis is accepted.

Based on the outcomes of the discussion and the conclusions reached, it is suggested that future researchers add new variables that influence financial performance to broaden the discussion on the factors that influence financial performance. For future research, selecting a different industry, increasing the sample size, and lengthening the research period, so that more samples are obtained and the research period is longer, resulting in more precise research results.

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