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Factors Affecting Financial Performance with Capital Structure as Intervening Variables in Pharmaceutical Companies Listed on the IDX

Fadhlan Fachri, M. Irsan Nasution, Renny Maisyarah
Master of Accounting Study Program Panca Budi Development University
Corresponding email: fadhlanfachri05@gmail.com

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ABSTRACT

This study aims to find out whether company size and liquidity have a significant effect on financial performance by going through capital structure as an intervening variable in pharmaceutical companies listed on the IDX. The data used is the annual report of each company, which is published through the www.idnfinancials.com website. The research method used in this study is the associative method. The sampling method used is *puposive sampling* with a total sample of 6 pharmaceutical companies listed on the Indonesia Stock Exchange and data from 2018 – 2024. The results of this study show that company size has a significant effect on profitability in pharmaceutical companies listed on the IDX. Liquidity has a significant effect on profitability in Pharmaceutical Companies listed on the IDX. The size of the company does not have a significant effect on the capital structure of pharmaceutical companies listed on the IDX. Liquidity has a significant effect on the capital structure of pharmaceutical companies listed on the IDX. Profitability does not have a significant effect on the capital structure of pharmaceutical companies listed on the IDX. Feasibility does not function as an intervening variable between the size of the company and the capital structure of pharmaceutical companies listed on the IDX. Profitability functions as an intervening variable between liquidity and capital structure in pharmaceutical companies listed on the IDX.

Introduction

Capital structure decisions are financial decisions related to the composition of debts, preferred shares and ordinary shares used by the company (Halim, 2023). The manager must be able to collect funds sourced from within the company and from outside the company efficiently, in the sense that the funding decision is a funding decision that is able to minimize the capital costs borne by the company. When the manager uses debt, it is clear that the capital cost incurred is equal to the interest charged by the creditor, while if the manager uses internal funds or his own funds, there will be *an opportunity cost* from the

funds or capital used by himself. Funding decisions made incarefully will incur fixed costs in the form of high capital costs, which can further result in the company's financial performance (Halim, 2023). It also means lowering the prosperity of shareholders. Business risk is related to income uncertainty that results in variable capital structures. Income uncertainty in companies that have high business risks can lead to bankruptcy.

According to Brigham (2021), effective capital structure decisions can lower the capital costs incurred by the company, on the other hand, if a bad capital structure will affect the amount of the company's capital costs to be incurred. The amount of capital costs incurred by the company will also have an impact on the performance of a company. The company's performance assessment is used by the management to determine policies to be taken in the future. So the good or bad value of a company depends on the company's financial performance, so it is necessary to analyze the financial statements because financial statements are one of the indicators used to measure the company's financial performance. Financial performance measurement can be done using the Profitability ratio. Theprofitability index used to measure financial performance is *Return on Equity* (ROE). *Return on Equity* (ROE) is part of the Profitability ratio which aims to compare a company's net profit after tax to its equity. This ratio examines the extent to which a company uses its resources to generate a return on equity (Brigham, 2021). The phenomena that occurred in this study were:

The average development of *return on equity* decreased in 2019 from 13.5% to 10.44%. In 2020, it decreased from 10.44% to 9.97%. In 2023, it decreased from 11.90% to 11.60%. In 2024, it will decrease from 11.60% to 8.62%.

The average development of the *debt to equity ratio* increased in 2019 from 60.17% to 60.21%. In 2020, it increased from 60.21% to 67.01%. In 2021, it increased from 67.01% to 67.91%. In 2022, it increased from 67.91% to 81.18%. In 2023, it increased from 81.18% to 87.44%.

The average development of company size in 2018-2024, where the average development of company size decreased in 2020 from 3,954, 194.00 to 3,381,217.83 million.

The average current *ratio* development decreased in 2020 from 277.29% to 249.02%. In 2021, it decreased from 249.02% to 245.89%. In 2023, it decreased from 261.87% to 253.55%.

Method

According to Sugiyono (2020), "Quantitative associative research is a study that wants to see whether a variable that acts as an independent variable has an effect on other variables that become bound variables". This research can build a theory that can function to explain, predict and control a symptom.

The research variables include what variables will be studied. This study uses 2 (two) exogenous variables, namely company size (X1) and liquidity (X2), 1 (one) intervening

variable, namely capital structure (Z), and 1 (one) endogenous variable, namely financial performance (Y).

The population in this study is all Pharmaceutical Companies listed on the Indonesia Stock Exchange from 2018 to 2024 which totals 15 companies.

The sample determination technique in this study was carried out by *the purposive sampling* method. Sampling using *the purposive sampling* method is carried out by taking samples from the population based on a certain criteria. The criteria used can be based on certain considerations". The criteria set are as follows:

1) Pharmaceutical companies listed on the Indonesia Stock Exchange, during the observation period (2018-2024).
2) Companies that publish audited financial statements during the observation period (2018-2024).
3) Companies that are not *delisted* from the IDX during the observation period (2018-2024).
4) Companies that issue financial statements in rupiah during the period (2018-2024).
5) Companies that have complete data related to research variables.

The data collection method used in this study is a documentation technique, namely by collecting supporting data in the form of reference books to get an overview of the problem being researched, journals, and reports published by Pharmaceutical Companies listed on the Indonesia Stock Exchange.

Results and Discussion

Regression Panel Equation I

Table 1

Dependent Variable: ST?
Method: Pooled Least Squares
Date: 10/10/25 Time: 11:24
Sample: 2018 2024
Included observations: 7
Cross-sections included: 6
Total pool (balanced) observations: 42

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	**-22784.47**	11340.41	-2.009141	0.0525
UP?	**12.24220**	5.804950	2.108925	**0.0424**
LK?	**-111.3462**	37.82491	-2.943726	**0.0058**
Fixed Effects (Cross)				
_DVLA—C	29.08557			
_INAF—C	-191.5104			
_KAEF—C	7.301301			
_KLBF—C	337.6292			
_PYFA—C	-307.9268			
_TSPC—C	125.4211			

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	**0.775857**	Mean dependent var	259.4750
Adjusted R-squared	0.729710	S.D. dependent var	108.0132
S.E. of regression	56.15548	Akaike info criterion	11.06377
Sum squared resid	107216.9	Schwarz criterion	11.39475
Log likelihood	-224.3391	Hannan-Quinn crister.	11.18509
F-statistic	16.81269	Durbin-Watson stat	0.764916
Prob(F-statistic)	0.000000		

Source : Eviesw 7 Processing Results (2025)

Based on Table 1, the regression of equation panel I is obtained as follows:

Y = -22784.47 + 12.242 X1 – 111.346 X2 + e.

The interpretation of the regression equation panel equation II is:

1) If there is no change in the X variable, then the value of the capital structure (Z) is -22784.47%.
2) If there is an increase in the size of the company (X_1) by 1 million, then the capital structure (Z) will increase by 12.242%, meaning that the size of the company (X_1) can increase the capital structure (Z).
3) If there is an increase in liquidity (X_2) by 1%, then the capital structure (Z) will decrease by 111.346%, meaning that the liquidity (X_2) can decrease the capital structure (Z).

There are several companies that have a positive influence on intercept regression coefficients, namely

1. DVLA
2. KAEF
3. KLBF
4. TSPC

There are several companies that have a negative intercept effect of regression coefficients, namely:

1. INAF
2. PYFA

Regression Equation Panel II

Table 2

Regression Equation Panel II (X and Z – Y)

Dependent Variable: KK?
Method: Pooled Least Squares
Date: 10/10/25 Time: 12:08 PM
Sample: 2018 2024
Included observations: 7
Cross-sections included: 6
Total pool (balanced) observations: 42

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	**-335.2609**	328.0273	-1.022052	0.3142
UP?	**0.208086**	0.168816	1.232621	**0.2264**
LK?	**-5.098774**	1.158769	-4.400165	**0.0001**
ST?	**-0.007216**	0.004690	-1.538593	**0.1334**
Fixed Effects (Cross)				
_DVLA--C	0.514064			
_INAF--C	-9.466508			
_KAEF--C	1.997880			
_KLBF--C	18.01604			
_PYFA--C	-17.55516			
_TSPC--C	6.493686			
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	**0.919481**	Mean dependent var		7.436667
Adjusted R-squared	0.899961	S.D. dependent var		4.855435
S.E. of regression	1.535720	Akaike info criterion		3.883285
Sum squared resid	77.82834	Schwarz criterion		4.255642
Log likelihood	-72.54898	Hannan-Quinn crister.		4.019768
F-statistic	47.10523	Durbin-Watson stat		1.246955
Prob(F-statistic)	0.000000			

Source: Eviesw 7 Processing Results (2025)

Based on Table 2, the regression of equation panel II is obtained as follows:

Y = -335,260 + 0.208 X1 – 5.098 X2 – 0.007 Z + e.

The interpretation of the regression equation panel equation II is:

1. If there is no change in variable X, then the financial performance value (Y) is -335.260%.
2. If there is an increase in the size of the company (X_1) by 1 million, then the financial performance (Y) will increase by 0.208%, meaning that the size of the company (X_1) can increase the financial performance (Y).
3. If there is an increase in liquidity (X_2) by 1%, then financial performance (Y) will decrease by 5.098%, meaning that liquidity (X_2) can decrease financial performance (Y).
4. If there is an increase in the capital structure (Z) by 1%, then the financial performance (Y) will decrease by 0.007%, meaning that the capital structure (Z) can decrease the financial performance (Y).

There are several companies that have a positive influence on intercept regression coefficients, namely:

1. DVLA
2. KAEF
3. KLBF
4. TSPC

There are several companies that have a negative intercept effect of regression coefficients, namely:

1. INAF
2. PYFA

Partial Test (t-Test) Equation I

The results show that:

1) The effect of company size (X_1) on capital structure (Z). The results show that t_{counts} 2.108 > t_{table} 2.022 and is significant 0.042 < 0.05, then Ha is accepted and H0 is rejected, which states that the size of the company (X_1) has a significant effect on the capital structure (Z).
2) The effect of liquidity (X_2) on capital structure (Z). The results showed that $t_{counted}$ -2.943 < t_{table} 2.022 and was significant 0.005 < 0.05, then Ha was accepted and H0 was rejected, which states that liquidity (X_2) has a significant effect on the capital structure (Z).

Partial Test (t-Test) Equation II

The results show that:

1) The effect of company size (X_1) on financial performance (Y). The results showed that $t_{counted}$ 1.232 < t_{table} 2.024 and significant 0.226 > 0.05, then Ha was rejected and H0 was accepted, which stated that partially the size of the company (X_1) had no significant effect on financial performance (Y).
2) The effect of liquidity (X_2) on financial performance (Y). The results showed that $t_{counted}$ -4,400 < t_{table} 2.024 and significant 0.000 < 0.05, then Ha was accepted and H0 was rejected, which states that liquidity (X_2) has a significant effect on financial performance (Y).
3) The effect of capital structure (Z) on financial performance (Y). The results showed that $t_{counted}$ -1.538 < t_{table} 2.024 and was significant 0.133 > 0.05, then Ha was rejected and H0 was accepted, which states that partially the capital structure (Z) has no significant effect on financial performance (Y)

Simultaneous Test (F Test) Equation I

The results show that F_{Count} of 16,812 while F_{Table} of 3.24 which can be seen at α = 0.05 (see appendix to table F). The probability is significantly smaller than 0.05, i.e. 0.000 < 0.05, then Ha is accepted and H0 is rejected, which states Simultaneously, company size and liquidity have a significant effect on the capital structure.

Simultaneous Test (F Test) Equation II

The results show that F_{Count} of 47.105 while F_{Table} of 2.85 which can be seen at α = 0.05 (see appendix to table F). The probability is significantly smaller than 0.05, i.e. 0.000

< 0.05, then Ha is accepted and H0 is rejected, which states Simultaneously, company size, liquidity and capital structure have a significant effect on financial performance.

R2 Test (Determination) of Equation I

The results show that the *adjusted R Square figure* is 0.7297 which can be called the determination coefficient which in this case means 72.97% of the capital structure can be obtained and explained by the size of the company and liquidity. While the remaining 100% - 72.97% = 27.03% is explained by other factors or variables outside the model.

Test R2 (Determination) Equation II

The results show that the *adjusted R Square number* is 0.8999 which can be called the determination coefficient which in this case means that 89.99% of financial performance can be obtained and explained by the size of the company, liquidity and capital structure. While the remaining 100% - 89.99% = 10.01% is explained by other factors or variables outside the model.

Path Analysis

The results show that:

1. **The Effect of Company Size (X_1) on Financial Performance (Y) by Going Through Capital Structure (Z) as an Intervening Variable**
   a. The direct effect pis 0.208.
   b. Indirect influence 12.242 x -0.007 = -0.086.
   c. Total influence = 0.208 + (12.242 x -0.007) = 0.122.

The results of the path analysis showed that the size of the company (X1) had a direct effect on financial performance (Y) of 0.208, while the size of the company (X1) hadan effect on the capital structure (Y) by going through the capital structure (Z) as an *intervening* variablethat is, multiplying the indirect coefficient, which is 12.242 x -0.007 = -0.086 or total influence = 0.208 + (12.242 x -0.007) = 0.122. Because the value (P_3 > P1 x P2) does not function as an *intervening variable*.

2. **The Effect of Liquidity (X_2) on Financial Performance (Y) by Going Through Capital Structure (Z) as an Intervening Variable**
   a. The direct effect pis -5.098.
   b. Indirect effect -111.346 x -0.007 = 0.779.
   c. Total influence = -5,098 + (-111,346 x -0.007) = -4,319.

The results of the path analysis showed that liquidity (X_2) had a direct effect on financial performance (Y) of -5.098, while liquidity (X_2) had an effect on financial performance (Y) by going through the capital structure (Z) as an *intervening* variablethat is, multiplying the indirect coefficient, which is -111.346 x -0.007 = 0.779 or total influence = 0.208 + (12.242 x -0.007) = -4.319. Because the value (P_3 < P1 x P2) functions as an *intervening variable*.

3. **Effect of Company Size (X_1) on Capital Structure (Z)**

The results show that partially the company size (X_1) has a significant effect on the capital structure (Z) of Pharmaceutical companies listed on the Indonesia Stock Exchange. The results of this study are in accordance with previous research, namely the research of

Arifin (2018), Giriyanti (2019) and Mailinda (2018), where the size of the company has a significant effect on the capital structure.

According to *Agency Theory*, the size of a company affects the capital structure through cost reduction, which makes it easier to acquire creditors. Large companies are generally more supervised and have a higher level of transparency, which reduces *agency costs* between managers (agents) and shareholders/creditors (principals).

According to *the Pecking Order Theory*, the size of a company describes the size of a company. Large companies will need large funds. Large companies generally have a large sales rate and generate a large profit rate as well. The large need for funds is met by using internal sources. This is in line with *pecking order theory* which shows the direction of the negative relationship between the size of the company and the capital structure. If the company is faced with an increasing need for funds due to revenue, and funds from internal sources have been used, then there is no other option for the company to use funds from outside the company.

The implication for Pharmaceutical companies listed on the Indonesia Stock Exchange is that the size of the company has a positive effect on the capital structure. So, the larger the size of the company, the better the capital structure of Pharmaceutical companies listed on the Indonesia Stock Exchange. There is an influence of company size on the capital structure. This shows that the size of the company is not a guarantee that the company will perform well. Because the total number of assets in a Pharmaceutical company Listed on the Indonesia Stock Exchange has not determined the company in good condition, because it is possible that the total assets consist of debt so that the Pharmaceutical Company Listed on the Indonesia Stock Exchange has an obligation to pay debts.

The size of the company is one of the indications of measuring the performance of a Pharmaceutical company listed on the Indonesia Stock Exchange. The large size of the company can reflect that the company has a high commitment to continuously improve its performance, so that the market will be willing to pay more to get its shares because it believes it will get good profitable returns from pharmaceutical companies listed on the Indonesia Stock Exchange.

4. The Effect of Liquidity (x_2) on Capital Structure (Z)

The results show that partially liquidity (X_2) has a significant effect on the capital structure (Z) of Pharmaceutical companies listed on the Indonesia Stock Exchange. The results of this study are in accordance with previous research, namely the research of Arifin (2018), Giriyanti (2019), Mailinda (2018) and Novyanny (2018), where liquidity has a significant effect on capital structure.

According to *Agency Theory*, companies that are highly liquid (excess cash) prefer internal funding to reduce agency *costs* arising from creditor supervision, thereby reducing the need for debt. High debt increases agency risk (conflict between shareholders and creditors). Managers (agents) who have excess cash prefer to use internal funding (retained earnings) to avoid strict supervision from creditors (principals).

According to *Pecking Order Theory*, companies with high liquidity will tend not to use debt financing. This is because companies with high levels of liquidity have large

internal funds, so the company will use its internal funds first to finance its investments before using external financing through debt. Liquidity is a comparison between a company's current assets and current debt.

The implication for Pharmaceutical Companies Listed on the Indonesia Stock Exchange is that creditors are more concerned about the company's prospects in paying its short-term liabilities than focusing on the profits of ordinary shareholders, in other words more interested in the liquidity of Pharmaceuticals Listed on the Indonesia Stock Exchange. The benefit of this ratio is that Pharmaceuticals Listed on the Indonesia Stock Exchange can get a loan if the liquidity of the company is considered good. But a poor liquidity ratio in the long run will also affect the capital structure of Pharmaceuticals Listed on the Indonesia Stock Exchange. The liquidity ratio describes the ability of a Listed Pharmaceutical on the Indonesia Stock Exchange to settle its short-term obligations.

5. The Effect of Company Size (X_1) on Financial Performance (Y)

The results show that partially the size of the company (X_1) does not have a significant effect on the financial performance (Y) of Pharmaceutical companies Listed on the Indonesia Stock Exchange. The results of this study are not in accordance with previous research, namely the research of Liang (2019), Fitiah (2019), Juliantika (2016) and Lasut (2018), where the size of the company has a significant effect on financial performance.

According to *Agency Theory*, large companies tend to have higher agency conflicts, but it facilitates access to capital markets and increases investor confidence. Larger companies increase the potential for agency conflicts between owners (principals) and managers (agents) due to management complexity. However, large companies have better financial ability to finance supervision, which in turn can improve performance.

According to *the Pecking Order Theory*, the size of a company indicates the size of the assets owned by a company. The size of a company is generally judged by the total assets it owns. The profitability of the company will increase as the scale of the company's size increases, but at a certain point or amount the size of the company will eventually decrease profitability.

The implication for Pharmaceutical companies Listed on the Indonesia Stock Exchange is that the larger the Pharmaceuticals Listed on the Indonesia Stock Exchange will have a high growth rate, so that Pharmaceuticals Listed on the Indonesia Stock Exchange will be more daring to issue new shares and tend to use the larger the loan amount. Pharmaceuticals listed on the Indonesia Stock Exchange have increasingly complex activities, so they require more funds. The size of a Pharmaceutical Listed on the Indonesia Stock Exchange also affects the financial performance of a Pharmaceutical Listed on the Indonesia Stock Exchange. The size of the company can also affect the capital structure because the larger a company will tend to use the larger the debt. Therefore, the size of the company affects the financial performance of Pharmaceuticals Listed on the Indonesia Stock Exchange.

6. The Effect of Liquidity (X_2) on Financial Performance (Y)

The results show that partially liquidity (X_2) has a significant effect on the financial performance (Y) of Pharmaceutical companies listed on the Indonesia Stock Exchange. The

results of this study are in accordance with previous research, namely the research of Mikrawardhana (2015), Zulkarnain (2020) and Juliantika (2016), where liquidity has a significant effect on financial performance.

According to *Agency Theory*, the right level of liquidity (high) reflects a company's ability to meet short-term obligations, increase investor confidence, and lower *agency costs. Agency theory* shows that high liquidity minimizes agency conflicts. Management that is able to manage current assets well (reducing the risk of default) can reduce agency costs

According to *the Pecking Order Theory*, liquidity is a ratio to measure a company's ability to pay short-term obligations or debts that are due soon at the time of being billed to cover short-term obligations that are due soon. The current ratio can be calculated by comparing the total current assets with the total current debt. The researcher used the current ratio in this study because in practice, it is often used that the current ratio with a standard of 200% (2:1) is sometimes considered a good or satisfactory measure for the company. Liquidity variables with current ratio parameters affect the company's profitability.

The implication for Pharmaceutical companies Listed on the Indonesia Stock Exchange is that the higher the liquidity of Pharmaceutical companies Listed on the Indonesia Stock Exchange, the better the company's ability to meet its short-term obligations, so that it will reduce the total debt of Pharmaceutical companies Listed on the Indonesia Stock Exchange. A good liquidity ratio is a guarantee for investors to invest in the company, thereby affecting the financial performance of pharmaceutical companies listed on the Indonesia Stock Exchange. So that the conclusion that can be drawn is that there is a significant relationship between liquidity variables and financial performance. Where the greater the liquidity, the smaller the debt.

The high rate of return allows Pharmaceutical companies listed on the Indonesia Stock Exchange to finance most of their funding needs with internally generated funds. The financial performance of the previous period was an important factor in determining the capital structure. According to *the Pecking Order Theory*, with a large retained earnings, companies will prefer to use retained earnings before using debt. Based on this, the higher the financial performance, the more decreasing the financial performance in the debt portion of Pharmaceutical companies listed on the Indonesia Stock Exchange.

7. The Influence of Capital Structure (Z) on Financial Performance (Y)

The results show that partially the capital structure (Z) does not have a significant effect on the financial performance (Y) of Pharmaceutical companies listed on the Indonesia Stock Exchange. The results of this study are not in accordance with previous research, namely the research of Fitiah (2019), Juliantika (2016), and Lasut (2018), where capital structure has a significant effect on financial performance.

According to *Agency Theory*, debt acts as a control tool to reduce conflicts of interest between managers (agents) and shareholders (principals). Optimal use of debt increases supervision, reduces agency costs, and increases profitability. According to *Agency Theory*, increased debt forces managers to be disciplined in operations and reduces *perks consuming* behavior (using cash for personal gain) due to the obligation to pay interest, thereby improving financial efficiency and performance.

According to *the Pecking Order Theory*, profitability can reflect the profits from financial investments, meaning that profitability affects the value of the company due to its growing internal resources". The better the company's profitability growth means that the company's future prospects are judged to be better, meaning that the company's value will also be judged to be better in the eyes of investors. With the high profitability ratio that the company has, it will attract investors to invest their capital in the company.

The implication for Pharmaceutical companies Listed on the Indonesia Stock Exchange is that the high interest of investors to invest their capital in Pharmaceutical companies Listed on the Indonesia Stock Exchange with a high capital structure will improve financial performance. Highly profitable companies basically don't need financing costs with debt. The company's high retained earnings are sufficient to finance most of the funding needs. Pharmaceutical companies listed on the Indonesia Stock Exchange with a high rate of return on investment use relatively small debt.

8. The Effect of Company Size (X_1) on Financial Performance (Y) by Going Through Capital Structure (Z) as an Intervening Variable

The results show that the capital structure (Z) does not function as an *intervening variable* between the size of the company (X1) and the financial performance (Y) of pharmaceutical companies listed on the Indonesia Stock Exchange. The results of this study are not in accordance with previous research, namely the research of Juliantika (2016), and Lasut (2018), where capital structure functions as an *intervening variable* between the size of the company and financial performance.

According to *Agency Theory*, large companies tend to have higher agency conflicts, but it facilitates access to capital markets and increases investor confidence. Larger companies increase the potential for agency conflicts between owners (principals) and managers (agents) due to management complexity. However, large companies have better financial ability to finance supervision, which in turn can improve performance.

According to *the Pecking Order Theory*, the size of a company also affects the company's capital structure. The size of the company can also affect the capital structure because the larger a company will tend to use larger debt. Therefore, the size of the company has a positive effect on the capital structure.

The implication for Pharmaceutical companies Listed on the Indonesia Stock Exchange is that the size of the company affects the capital structure of Pharmaceutical companies Listed on the Indonesia Stock Exchange. The small size of the company can be reflected through the assets the company owns. Large companies have easy access to gain the trust of investors and creditors to meet the needs of funds or debt for the sustainability of the operations of Pharmaceutical companies listed on the Indonesia Stock Exchange. The maximum operations carried out by the company directly are able to improve the financial performance that will be produced by pharmaceutical companies listed on the Indonesia Stock Exchange.

9. The Effect of Liquidity (X_2) on Financial Performance (Y) by Going Through Capital Structure (Z) as an Intervening Variable

The results show that the capital structure (Z) functions as an *intervening variable* between liquidity (X2) and financial performance (Y) in pharmaceutical companies listed on the Indonesia Stock Exchange. The results of this study are in accordance with previous research, namely the research of Juliantika (2016), and Lasut (2018), where capital structure functions as an *intervening variable* between liquidity and financial performance.

According to *Agency Theory*, the right level of liquidity (high) reflects a company's ability to meet short-term obligations, increase investor confidence, and lower *agency costs. Agency theory* shows that high liquidity minimizes agency conflicts. Management that is able to manage current assets well (reducing the risk of default) can reduce agency costs

According to *Pecking Order Theory*, companies with high liquidity will tend not to use debt financing. This is because companies with high levels of liquidity have large internal funds, so the company will use its internal funds first to finance its investments before using external financing through debt. Liquidity variables with current ratio parameters affect the company's profitability.

The implication for Pharmaceutical companies Listed on the Indonesia Stock Exchange is that the liquidity of Pharmaceutical Companies Listed on the Indonesia Stock Exchange affects the company's capital structure. Liquidity is a reflection that the company has higher current assets compared to current debt. The high liquidity they have will reduce the risk of debt default, because they have the ability to meet short-term debts. The high current assets make the company's management have the flexibility to manage the fund so that it is able to generate more financial performance for Pharmaceutical companies listed on the Indonesia Stock Exchange.

Conclusion

Based on the results of the research and analysis that has been carried out, several conclusions are obtained that can answer the formulation of the problem in this study, namely:

1. The size of the company has a significant effect on the profitability of Pharmaceutical Companies listed on the IDX.
2. Liquidity has a significant effect on profitability in Pharmaceutical Companies listed on the IDX.
3. The size of the company does not have a significant effect on the capital structure of Pharmaceutical Companies listed on the IDX.
4. Liquidity has a significant effect on the capital structure of Pharmaceutical Companies listed on the IDX.
5. Profitability does not have a significant effect on the capital structure of Pharmaceutical Companies listed on the IDX.
6. Profitability does not function as an intervening variable between the size of the company and the capital structure of the Pharmaceutical Company listed on the IDX.

7. Profitability functions as an intervening variable between liquidity and capital structure in Pharmaceutical Companies listed on the IDX.

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