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THE EFFECT OF LIQUIDITY, PROFITABILITY, FIRM SIZE, AND CAPITAL STRUCTURE ON STOCK PRICES OF IDX30 COMPANIES FOR THE 2019–2023 PERIOD

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Abstract: This study investigates the effect of liquidity, profitability, firm size, and capital structure on stock prices of companies included in the IDX30 index during the period under review. Using a quantitative approach, multiple linear regression was employed to analyze secondary data obtained from annual reports and financial statements. The analysis reveals that liquidity and capital structure have a positive and significant influence on stock prices, indicating that higher current ratios and optimal debt levels tend to enhance market valuation. In contrast, profitability and firm size show no significant impact, suggesting that these variables may not be primary determinants of stock price movements within the observed sample. The results support the signaling theory and capital structure theory while offering practical insights for investors and corporate managers in formulating strategies to optimize firm value. These findings contribute to the literature on capital market performance in emerging economies.

Keyword: Liquidity, Profitability, Firm Size, Capital Structure, Stock Prices, IDX30

INTRODUCTION

Capital markets play a critical role in facilitating the flow of funds from investors to companies in need of capital. A well-functioning capital market not only supports corporate growth but also enhances overall economic stability. In emerging economies like Indonesia, the stock market serves as a key platform for price discovery and investment decision-making, with stock prices reflecting the collective judgment of market participants (Fama, 1970). Understanding the factors that influence stock price movements is, therefore, essential for both academics and practitioners.

Stock prices are often influenced by a variety of internal and external factors. Internal factors such as liquidity, profitability, firm size, and capital structure represent fundamental indicators that reflect a company's operational performance and financial health (Brigham & Ehrhardt, 2017). These variables are commonly analyzed by investors to assess potential returns and risks, as they provide signals about a company's value and future prospects.

Liquidity, typically measured by the current ratio, reflects a company's ability to meet its short-term obligations using its current assets (Kasmir, 2019). High liquidity can indicate strong short-term financial stability, which may positively influence investor perceptions. However, excessively high liquidity might suggest inefficient asset utilization, creating ambiguity in its effect on stock prices (Van Horne & Wachowicz, 2009).

Profitability, often measured through return on equity, is a direct indicator of a firm's ability to generate earnings from shareholders' investments (Ross, Westerfield, & Jaffe, 2019). High profitability generally sends a positive signal to the market, potentially increasing stock demand and driving prices upward. Nonetheless, previous studies have shown mixed evidence, with some indicating a weak or insignificant relationship between profitability and stock prices (Wulandari & Purbawangsa, 2019).

Firm size, commonly expressed as the natural logarithm of total assets, is another important determinant. Larger firms are often perceived as more stable and better equipped to withstand market fluctuations (Titman & Wessels, 1988). However, in certain cases, large company size does not necessarily translate into higher stock valuations, as inefficiencies and bureaucratic complexities may offset potential advantages (Chandler, 1990).

Capital structure, reflected in the debt-to-equity ratio, indicates how a company finances its operations between debt and equity (Modigliani & Miller, 1963). An optimal capital structure can lower the cost of capital and increase firm value, but excessive reliance on debt can heighten financial risk, potentially leading to adverse effects on stock prices (Myers, 1984).

Empirical evidence on these variables shows diverse results across different market contexts. For instance, Sudiyatno and Puspitasari (2010) found that liquidity and capital structure significantly influence stock prices, whereas profitability did not. In contrast, studies in other emerging markets have identified profitability as a strong driver of stock performance (Abdullah et al., 2015). This variation suggests the need for further examination within the Indonesian capital market context, especially for companies in the IDX30 index.

The IDX30 index comprises companies with large market capitalization, high liquidity, and strong fundamentals, making it a representative sample for examining determinants of stock price movements (Indonesia Stock Exchange, 2023). Given their influence in the market, understanding how fundamental variables affect these companies' stock prices can provide valuable insights for investors, analysts, and policymakers. Furthermore, recent economic conditions, including the lingering effects of the COVID-19 pandemic and global market volatility, have amplified the need for robust investment analysis (World Bank, 2022). These conditions have tested the resilience of even the strongest companies, highlighting the importance of identifying which fundamental factors remain influential under uncertainty.

Against this backdrop, this study aims to analyze the effect of liquidity, profitability, firm size, and capital structure on stock prices of IDX30 companies over the observed period. The findings are expected to contribute to the existing literature by providing updated empirical evidence from the Indonesian market and offering practical recommendations for investment strategies.

RESEARCH METHOD

This research adopts a quantitative approach with an explanatory design, aiming to test the causal relationships between the independent variables, liquidity, profitability, firm size, and capital structure, and the dependent variable, stock price. The explanatory design was chosen to allow for a clear understanding of how variations in the selected financial ratios influence stock price movements among IDX30 companies. Quantitative methods are appropriate for this study because they provide measurable evidence and allow for statistical testing of hypotheses (Creswell, 2014).

The population of this study comprises all companies listed in the IDX30 index during the research period. The IDX30 list includes leading companies with large market capitalization and high liquidity, making them suitable for analysis of fundamental factors affecting stock prices. A purposive sampling technique was applied, using criteria such as continuous listing during the study period, availability of complete annual financial statements, and consistent reporting in Indonesian Rupiah.

The final sample includes only companies that met these criteria, ensuring data consistency and reliability. By focusing on a homogeneous group of large, liquid companies, the study minimizes the influence of sector-specific or liquidity-related biases. The time frame covers multiple years, allowing for a more comprehensive analysis that captures both short-term and medium-term patterns.

Secondary data were obtained from publicly available sources, including annual reports, audited financial statements, and the official website of the Indonesia Stock Exchange. Stock price data represent year-end closing prices, reflecting the market valuation of each company at the end of the respective year. Financial ratios were calculated using standard formulas to ensure comparability with prior research.

Liquidity was measured using the Current Ratio, calculated by dividing current assets by current liabilities (Kasmir, 2019). Profitability was measured using Return on Equity, obtained by dividing net income by total equity (Ross et al., 2019). Firm size was represented by the natural logarithm of total assets, a common

measure in corporate finance studies (Titman & Wessels, 1988). Capital structure was measured using the Debt-to-Equity Ratio, representing the proportion of debt financing relative to equity (Modigliani & Miller, 1963).

The data were analyzed using multiple linear regression, which allows for simultaneous examination of the effects of multiple independent variables on a single dependent variable. This method is widely used in finance research because it can quantify the relative contribution of each variable while controlling for the others (Gujarati & Porter, 2009). Before conducting regression analysis, the classical assumption tests were performed, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests.

Normality was tested using the Kolmogorov–Smirnov test, while multicollinearity was examined through tolerance and variance inflation factor (VIF) values. The Glejser test was employed to detect heteroscedasticity, and the Durbin–Watson statistic was used to assess autocorrelation. These diagnostic procedures ensure that the regression model meets the statistical assumptions required for unbiased estimation.

All data processing and statistical analyses were carried out using the Statistical Package for the Social Sciences (SPSS) software. The regression outputs, including coefficients, significance levels, and model fit indicators, were then interpreted in light of theoretical frameworks such as signaling theory and capital structure theory. This methodological framework ensures that the study's findings are both statistically valid and theoretically meaningful.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistics Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Current Ratio	60	0.552	4.908	1.80318	0.942801
Return on Equity	60	-0.073	1.451	0.25277	0.357202
Firm Size	60	30.444	33.731	31.95918	0.949021
Capital Structure	60	0.17	3.928	0.93225	0.810531
Stock Price	60	840	42000	6478.53	7615.587
Valid N (listwise)	60				

Table 1 presents the descriptive statistics of the 60 observations used in this study. The Current Ratio (CR) shows an average of 1.80318, with a maximum of 4.908, a minimum of 0.552, and a standard deviation of 0.942801. The mean Return on Equity (ROE) is 0.25277, ranging from -0.073 to 1.451, with a standard deviation of 0.357202. Firm Size has an average value of 31.95918, a maximum of 33.731, a minimum of 30.444, and a standard deviation of 0.949021. Capital Structure (DER) records a mean of 0.93225, with values between 0.170 and 3.928, and a standard deviation of 0.810531. Lastly, Stock Price has an average of IDR 6,478.53, a maximum of IDR 42,000, a minimum of IDR 840, and a standard deviation of IDR 7,615.587.

Classical Assumption Test

1. Normality Test

Table 2. One-Sample Kolmogorov–Smirnov Normality Test

		Unstandardized Residual
N		57
Normal Parameters [a, b]	Mean	.0000000
	Std. Deviation	.44800523
Most Extreme Differences	Absolute	.114
	Positive	.114
	Negative	-.073
Test Statistic		.114
Asymp. Sig. (2- tailed) [c]		.063
Monte Carlo Sig. (2-tailed) [d]	Sig.	.059

	99% Confidence Interval	Lower Bound	.053
		Upper Bound	.065

The purpose of the normality test is to assess whether the independent and dependent variables in the regression model are normally distributed. An ideal regression model is characterized by data that are normally or approximately normally distributed. Based on the Kolmogorov–Smirnov test results, the significance value of 0.063 exceeds the 0.05 threshold, indicating that the residuals are normally distributed and the normality assumption is met.

2. Multicollinearity Test

Table 3. Multicollinearity Test Results

Model		Collinearity Statistics Tolerance	VIF
1	LAG_LNCR	.354	2.822
	LAG_LNROE	1.000	1.000
	LAG_LNUP	.843	1.186
	LAG_LNSM	.361	2.768

a. Dependent Variable: LAG_LNHS

The normality test aims to determine whether the independent and dependent variables in the regression model are normally distributed. An ideal regression model is characterized by data that are normally or nearly normally distributed. The Kolmogorov–Smirnov test yielded a significance value of 0.063, exceeding the 0.05 threshold, indicating that the residuals are normally distributed and the normality assumption is satisfied.

3. Autocorrelation Test

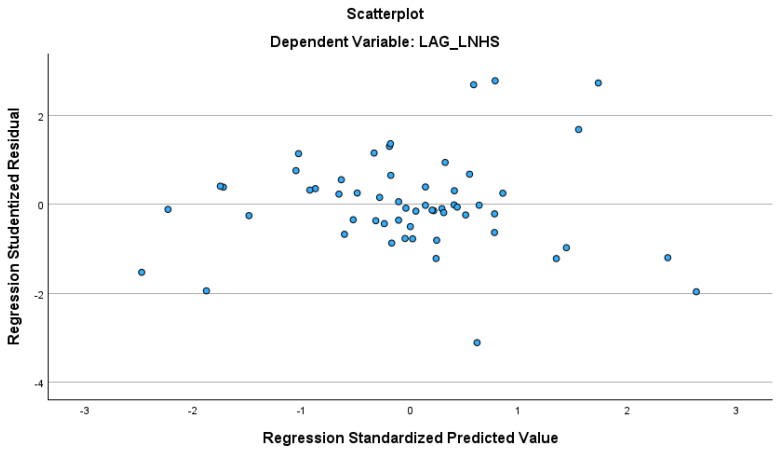
Table 4. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.536[a]	.287	.232	.46492	1.838

a. Predictors: (Constant), LAG_LNSM, LAG_LNROE, LAG_LNUP, LAG_LNCR
b. Dependent Variable: LAG_LNHS

Based on the results in Table 4, the Durbin–Watson (DW) statistic is 1.838. Given the number of observations and independent variables, the DW value falls between the lower and upper bounds, indicating no indication of autocorrelation in the regression model.

4. Heteroscedasticity Test



The test results show that the data points are evenly dispersed and not concentrated in any specific area, indicating no signs of heteroscedasticity in the regression model. Therefore, the model can be considered suitable and reliable for further analysis.

Multiple Linear Regression Analysis

Table 5. Multiple Linear Regression Analysis Results

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-2.493	2.545		-.979	.332		
	LAG_LNCR	1.089	.332	.644	3.275	.002	.354	2.822
	LAG_LNROE	.149	.089	.197	1.683	.098	1.000	1.000
	LAG_LNUP	5.517	3.102	.227	1.778	.081	.843	1.186
	LAG_LNSM	.862	.236	.713	3.660	<.001	.361	2.768

a. Dependent Variable: LAG_LNHS

Multiple linear regression analysis is used to examine the relationship between one dependent variable and two or more independent variables. In this study, Stock Price serves as the dependent variable, while Liquidity (Current Ratio/CR), Profitability (Return on Equity/ROE), Firm Size, and Capital Structure (Debt-to-Equity Ratio/DER) act as the independent variables. The results indicate that Liquidity, Profitability, Firm Size, and Capital Structure each have positive regression coefficients, suggesting that increases in these variables are associated with higher stock prices.

Table 6. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.524	4	1.131	5.233	.001[b]
	Residual	11.240	52	.216		
	Total	15.764	56			

a. Dependent Variable: LAG_LNHS

b. Predictors: (Constant), LAG_LNSM, LAG_LNROE, LAG_LNUP, LAG_LNCR

Based on the results in Table 6, the significance value of 0.001 is below the 0.05 threshold, and the F-statistic exceeds the critical value, indicating that the regression model is statistically valid and suitable for analysis.

Discussion

This study examines the effect of Liquidity, Profitability, Firm Size, and Capital Structure on stock prices of IDX30 companies from 2019 to 2023. Using multiple linear regression, the results reveal that Liquidity and Capital Structure have a significant positive effect on stock prices. High liquidity signals the firm's ability to meet short-term obligations, reducing perceived risk and boosting investor confidence. Capital Structure findings suggest that moderate leverage is positively perceived as a growth driver, consistent with Pecking Order Theory.

Conversely, Profitability (ROE) and Firm Size show no significant impact. This may be due to the stability and relative uniformity of these variables among large, established IDX30 companies, leading investors to focus on other factors such as innovation, growth potential, and macroeconomic conditions.

CONCLUSION

This study investigated the influence of liquidity, profitability, firm size, and capital structure on the stock prices of companies listed in the IDX30 index over the observed period. The analysis revealed that liquidity and capital structure exert a significant positive effect on stock prices, underscoring their strategic importance in shaping market valuation. High liquidity signals the company's ability to meet short-term obligations, enhancing investor confidence, while an optimal capital structure reflects effective leverage management that supports growth without increasing excessive financial risk.

In contrast, profitability and firm size showed no significant effect on stock prices. This outcome suggests that in large, established companies with relatively stable performance and market dominance, these variables may already be priced in by the market, reducing their marginal influence on price fluctuations. Investors may instead prioritize other qualitative and strategic factors such as innovation, competitive advantage, and responsiveness to macroeconomic changes.

The results highlight the need for corporate managers to focus on liquidity management and capital structure optimization as key levers for improving market value. For investors, the findings emphasize the importance of evaluating a broader range of indicators, combining traditional financial ratios with strategic and market-based assessments when making investment decisions.

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