Impact of Liquidity and Activities on Profitability by Mediation of Capital Structure: Empirical Evidence from Sri Kehati Indexed Companies

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ABSTRACT

This paper analyzes the impact of liquidity and activity on profitability with capital structure as a mediating variable. Return on assets (ROA) is the company's ability to generate profits in a certain period and develop dynamically that changes from time to time, depending on the variables that affect it as a whole, type of business, or company. This study contributes to the literature by investigating the factors that affect the profitability (ROA) of companies indexed by SRI KEHATI. This study aims to identify the determinants of company profitability either directly or through the role of mediating variables. The analysis used is panel data regression. The selected model is the fixed effect model (FEM) and uses path analysis and Sobel test. The results show that the current ratio has a direct effect on capital structure and capital structure has a direct effect on ROA. On the other hand, the current ratio and working capital turnover have no direct effect on ROA and working capital turnover does not directly affect the capital structure. The results of the path analysis prove that the capital structure is able to mediate the effect of the current ratio on ROA.

INTRODUCTION

One of the goals of investors in investing their funds in a company is to make a profit. In order to guarantee this goal, an investor needs to ensure that the company can provide a profit. The analysis that can be done to determine the prices is by analyzing financial fundamentals. Fundamental analysis is a method that basically refers to the company's financial statement data. Given the importance of a company for the country's economic development, the success and sustainability of the company is important. One of the metrics that can be used to measure business continuity and success is business profitability.

Nguyen and Nguyen (2020) define profitability as one of the key elements of performance appraisal and is the percentage of profit compared to investments in assets, equity, or sales. The higher the rate
of return of a company, the better the ability to generate profits. Companies that are able to maintain profitability and potential for business expansion in the future are companies that perform well (Hasan and Grave, 2021). Increasing profitability is one of the main challenges for companies.

According to Al-Jafari and Samman (2015) profitability describes the company's sales. This is because profitability is generated after sales minus all costs incurred during a certain period of time. The ability to generate profits is one of the most important goals to be achieved by company management. Ultimately, the company's goal is to maximize shareholder wealth by increasing shareholder value.

Profitability ratios include gross margin, basic profitability, operating margin, net profit margin, return on shareholder equity margin, return on assets margin, net profit (loss), growth rate, and net sales growth. These things are indicators of the ability to generate profit levels (Bayaraa, 2017).

The profitability of a company is generally the main thing that needs to be considered by company management, because the profitability of a company determines the company's survival in the future. Companies that are relatively stable in profitability and tend to grow gain a competitive advantage in the industry (Azmi et al., 2020).

![Figure 1. Development of ROA of Sri Kehati Indexed Company](image)

Figure 1 shows the development of the ROA from 2019 to 2021. Most of the company's ROA decreased in 2020 and the highest decline occurred in the State Gas Company (Persero) which caused the ROA value to be negative. The decline in the ROA value that occurred in 2020 was mainly due to Indonesia being hit by the Covid-19 pandemic. Covid-19 in Indonesia was detected in March 2019. To avoid a rapid rate of transmission, the government issued a policy of social distancing and Work from Home (WFH). These policies directly impact almost all businesses. Almost all business sectors experienced a decline in ROA, except for PT. Semen Indonesia Tbk., where the company actually experienced an increase in ROA.

In 2021 the ROA values of several companies listed on the SRI KEHATI index have increased again, except for PT Semen Indonesia Tbk., and PT. Wijaya Karya, Tbk. The decrease in ROA experienced
by PT. Semen Indonesia was mainly due to a decrease in revenue, while for PT. Wijaya Karya, Tbk.
This was due to an increase in the total assets owned even though during that period the income
increased.

Agusfina & Sinarti (2020), and Azmi et al. (2020) found that liquidity (current ratio) has a positive
effect on profitability (ROA). While the results of other studies say that liquidity (current ratio) has a
negative effect on profitability (ROA) (Ravindran & Kengatharan, 2021), Shahnia et al. (2020) (Mudjijah & Hikmanto 2018) (Nurlaela et al. 2019) and (Damayanti & Chaerudin 2021). The results of research conducted by Khan et al. (2018), Pervan et al. (2019), Hertina et al. (2021) Chandra et al. (2019) and Putu et al. (2021) which shows that liquidity (current ratio) has no effect on ROA profitability.

The results of research by Mustinah & Ferieka (2019), Pardanawati (2021), Putu et al. (2021) and
Almomani et al. (2021) show that working capital turnover has a positive effect on profitability.
Research from Singh & Bagga, (2019) and Yousaf & Bris (2021) that working capital has a negative
effect on ROA. Meanwhile, Daryanto & Rachmanto, (2017) and Lumapow & Tumiwa, (2020) found
that working capital turnover had no significant effect on profitability (ROA).

Research by Mudjijah & Hikmanto (2018), Nurlaela et al. (2019), (Chandra et al., 2019), Suharna &
Silvianti (2019), Nguyen & Nguyen (2020) and Yousaf & Bris (2021) resulted in the finding that
capital structure (DAR) has a positive impact on profitability (ROA). Khan et al. (2018), Gharibeh &
Bani Khaled (2020), Shahnia et al. (2020) and Sensini & Vazquez (2021) find that capital structure
(DAR) has a negative effect on profitability (ROA). Other studies have shown that capital structure
(DAR) has no effect on profitability (ROA) (Lumapow & Tumiwa, 2020).

Raghibi & Oubdi (2021), Naibaho, (2021) show that liquidity (CR) has a negative effect on capital
structure (DAR). While Kartika & Dana, (2015), Suherman et al. (2019) shows that liquidity (current
ratio) has a positive effect on capital structure (DAR). The results of the research by Chandra et al.
(2019) and Mujaddid & Marsoem (2020) Current Ratio (CR) has no effect on capital structure (DAR).

According to Militina & Jonathan (2018), net working capital turnover has an effect on capital
structure. Another opinion says working capital has a negative effect on capital structure (Naibaho,
2021).

Several previous studies have tested the role of liquidity, working capital turnover and capital
structure on profitability, showing that partially liquidity and working capital turnover has an effect on
capital structure, and capital structure has an effect on profitability, but partially liquidity and working
capital turnover has no direct effect on profitability.

This study aims to identify the determinants of company profitability either directly or through the
mediating role of capital structure. This analysis uses panel data regression to describe the
profitability of companies indexed by Sri Kehati. The results of this study can be used by companies
to support their decisions to increase profitability. It is also useful to complete studies related to the
determinants of profitability and the mediating role of capital structure.

LITERATURE REVIEW
Besley & Brigham, (2008) define Signaling theory as a theory that explains an action taken by the
company's management that provides clues to investors about how management views the company's
prospects. According to Van Horne & Wachowicz Jr. (2009) financial signals occur when changes in capital structure convey information to securities holders. The use of debt to increase capital is often seen as a signal that reflects management's view of a company's stock price (Gitman & Zutter, 2012). The placement of the company's capital structure can be realized by selling new shares or increasing external capital. According to Besley & Brigham (2008) the optimal capital structure is a structure that balances risk and return to achieve the ultimate goal of maximizing stock prices. The information provided by the company is very important because it influences investment decisions. Investors and businesspeople need information because it can be a clue about the viability of a company, a record of past, present, and future situations. When the information is published and the entrepreneur receives the information, the entrepreneur first analyzes the information to determine whether the information is good or bad news (Sadewo et al., 2022).

Potential conflicts of interest occur between outside shareholders (owners) and managers who make decisions about how to operate the company (Besley & Brigham, 2008). Scott (2015) defines agency theory as a theory that explains the relationship or contract between principal and agent. Agency theory has the assumption that each individual is solely motivated by his own interests, causing a conflict of interest between the principal and the agent. Agency relationship is a contract in which one or more people (principals) instruct another person (agent) to perform a service on behalf of the principal and authorize the agent to make the best decisions for the principal.

According to Azmi et al. (2020) the profitability of a company is an indicator of a company's ability to generate profits. The profit of a company is important for the company because it will affect the sustainability of the company. Companies with high profitability gain a competitive advantage over companies with low profitability. The profitability of a company can be measured by the return on assets.

Liquidity is often defined as a company's ability to meet commitments short-term and therefore can be seen as a measure of the risk that the firm is unable to meet its short-term commitments (Pervan et al., 2019). The current ratio is a measure of a company's liquidity. Azmi et al. (2020) found the current ratio had a significant effect on ROA. Liquidity measures the company's ability to pay short-term debt with its current assets. Companies that can meet all of their financial obligations are liquid. But if the opposite happens, then the company is illiquid (Amalia & Kurniasih, 2018).

Agusfina & Sinarti (2020) explained that liquidity as measured by the current ratio has a significant positive effect on profitability as measured by return on equity. Samo and Murad (2019) concluded that there is a positive interaction between company liquidity and profitability. Corporate finance managers must focus on policies related to the components of liquidity management if they are to achieve sustainable financial growth. Nurlaela et al. (2019) and Damayanti & Chaerudin (2021) explain that liquidity (CR) has a significant positive effect on financial performance (ROA), this illustrates that liquidity is the company's ability to fund the company's operations and meet its short-term obligations. The higher the CR of a company, the higher its profitability.

The activity ratio is an instrument used to measure the company's efficiency in using and managing its resources to generate revenue. Different types of activity ratios indicate a company's ability to convert various accounts on the balance sheet, such as capital and assets, into cash or sales. Measurement of activity ratios can use working capital turnover, fixed asset turnover, total asset turnover.

Working capital is needed to carry out business activities so that business continuity and business continuity can be maintained (Nintara, 2020). According to Pardanawati (2021) the working capital turnover rate represents the amount of income received by the company for every rupiah of working capital. The short working capital turnover shows a high working capital turnover which means that the company's working capital management is efficient. If the working capital turnover rate is high, then profitability will also be high because high sales have the potential to increase profits. Effective and efficient working capital management is a measure of the success of a company, so that the company will survive for the long term. The working capital turnover period is the period from when
cash is invested in the working capital component until it becomes cash back. The shorter the cycle, the faster the rotation. The working capital turnover period depends on the time it takes for each working capital component to rotate (Daryanto & Rachmanto, 2017). Mustinah's research results, Ferieka (2019), Pardanawati (2021), Putu et al. (2021) and Almomani et al. (2021) show that working capital turnover has a positive effect on profitability. Working capital turnover is formulated as follows:

\[
WCTO = \frac{Sales}{current\ assets - current\ liabilities}
\]

Modigliani and Miller (1958) state that firms have specific cash flow forecasts. If a company prefers a certain percentage of financial debt and equity, it simply divides the cash flow among investors. Investors and businesses are expected to have equal access to financial markets. According to this theory, a firm's market value is based on the earning power and potential risk of the underlying assets. In addition, the value of a company does not depend on how it raises funds for its investments or how it pays dividends (Singh & Bagga, 2019).

Capital structure is the percentage of the company's debt funding (Dhani and Utama, 2017). Companies with a high level of business development require a large source of funding, thus requiring additional funding from outside parties to meet funding needs. The test results of Yusfiarto (2020) show that the capital structure has a positive and significant effect on profitability.

Correlation analysis shows that the debt ratio has a negative effect on ROA, this indicates that an increase in total debt results in a decrease in return on assets. (Singh & Bagga, 2019). Gharaibeh & Bani Khaled (2020), Khan et al. (2018) shows that the ratio of liabilities to assets (capital structure) has a significant negative effect on profitability. Research conducted by Nurlaela et al. (2019) and Suharna & Silviyanti, (2019) show that capital structure has a significant positive effect on financial performance (ROA).

The research hypothesis is as follows:
H1: Liquidity has a negative effect to profitability
H2: Working Capital Turnover has a positive effect on profitability
H3: Capital structure has a negative effect on profitability
H4: Capital structure can mediate the relationship between liquidity and profitability
H5: Capital structure can mediate the relationship between activity ratio and profitability
Figure 2. Research framework

METHOD
The population surveyed is all companies listed on the IDX. The sample used is the companies listed in the Srikehati Index, because the companies listed in the index are companies that have a concern for the environment, this reflects a sustainable company. The next criterion is to have complete annual financial reports from 2018 to 2021.

The research data are annual data and are time series and cross-sectional data. Therefore, panel data regression analysis was used. Panel data regression model to estimate the relationship between profitability and its determinants are as follow:

\[ ROA_{it} = \beta_1 CR_{it} + \beta_2 WCTO_{it} + \beta_3 CS_{it} + \epsilon_{it} \text{ (model -1)} \]

\[ CS_{it} = \beta_1 CR_{it} + \beta_2 WCTO_{it} + \epsilon_{it} \text{ (Model -2)} \]

Table 1: Variable Description

<table>
<thead>
<tr>
<th>Variable</th>
<th>Code</th>
<th>Variable Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability</td>
<td>ROA</td>
<td>Net Income / Total Assets</td>
</tr>
<tr>
<td>Independent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td>CR</td>
<td>Current assets / Current Liabilities</td>
</tr>
<tr>
<td>Activity</td>
<td>WCTO</td>
<td>Sales / (Current Assets - Current Liabilities)</td>
</tr>
<tr>
<td>Mediation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Structure</td>
<td>CS</td>
<td>Total Debt / Total Assets</td>
</tr>
</tbody>
</table>

Proving the role of capital structure (CS) as a mediating variable is done by path analysis. Path analysis is the use of regression analysis to estimate the causal relationship between causal model variables that have been determined previously based on theory. To test the strength of the indirect effect, the Sobel test was used. In this study, the Sobel test used the website application [https://quantpsy.org/sobel/sobel.htm](https://quantpsy.org/sobel/sobel.htm) developed by Preacher & Leonardelli.
Figure 3. Path analysis framework

Each p-value in the path analysis model describes the path and path coefficients. The p1 and p2 values are obtained from the regression coefficients of model 2, the p3, p4 and p5 values are obtained from the regression coefficients of model 1.

Direct Effect of Liquidity on Profitability = p4
Indirect Effect of Liquidity on Profitability = p1 x p3
Total influence (Correlation of Liquidity to Profitability) = p4 + (p1xp3)

Direct Effect of Activity on Profitability = p5
Indirect Effect of Activity on Profitability = p2 x p3
Total influence (activity correlation to profitability) = p5 + (p2xp3)

RESULT AND DISCUSSION
Table 2 shows the average value of the profitability variable (ROA) 7.17 which shows that the assets owned by the company are able to contribute to the company's net profit of 7.17%, the lowest value -2.86% experienced by the State Gas Company (Persero) in 2020. The lowest ROA value indicates the company is experiencing a loss. The highest ROA value of 44.67% was experienced by PT. Unilever Tbk in 2018, shows that every 100 rupiahs of assets is able to generate 44.67 rupiahs of profit. The minimum liquidity (CR) is 27.97%, which occurred at PT Jasa Marga Tbk in 2019 which indicates the company is not liquid. The maximum value of CR is 490.11% occurring at PT. Bumi Serpong Damai Tbk. in 2019. The average CR value of 155.22% shows that on average the company is in a liquid state.

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>CR</th>
<th>WCTO</th>
<th>CS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>7.171607</td>
<td>155.2213</td>
<td>3.292520</td>
<td>59.33364</td>
</tr>
<tr>
<td>Median</td>
<td>3.428370</td>
<td>127.2067</td>
<td>1.102874</td>
<td>56.26485</td>
</tr>
<tr>
<td>Maximum</td>
<td>44.67457</td>
<td>490.1061</td>
<td>82.04823</td>
<td>86.88692</td>
</tr>
<tr>
<td>Minimum</td>
<td>-2.863926</td>
<td>27.96561</td>
<td>-43.69663</td>
<td>15.71464</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>9.003537</td>
<td>105.8918</td>
<td>14.64968</td>
<td>20.14276</td>
</tr>
</tbody>
</table>
The minimum activity value (WCTO) was experienced by PT Telkom Indonesia (Persero) Tbk in 2018 with a value of -43.69. The minimum negative WCTO value indicates if a company's operations are not able to generate sufficient income to support short-term debt payments. The maximum value occurred at PT Wijaya Karya Tbk. 2021 is 82.09. The average value of WCTO is 3.29, which means that on average the companies that are sampled have a fairly good performance in their operations to support the payment of their short-term debt.

The capital structure (CS) as measured by the debt to asset ratio (DAR), the minimum value of which is 15.71%, occurred at PT Bank Negara Indonesia Tbk in 2021 which shows the company has the lowest risk in that period. The highest DAR value was experienced by PT. Kalbe Farma Tbk. in 2018, which was 86.88%. This figure shows that KAEF is in a condition that has the greatest risk and is in an unsolvable state. The average debt to asset ratio (DAR) is 59.33% which shows that on average the company is in an unsolvable state because for every 100 rupiahs of assets, 59.33 rupiahs is funded by debt. This means that the company uses more debt than equity.

Model test

To get the best model, a model test was conducted from several alternative models, namely *Pooled Least Square* (PLS), *Fixed Effect Model* (FEM) and *Random Effect Model* (REM). The test results are presented in Table 3.

Table 3. Results of Selection of the Best Panel Model Equation-1

<table>
<thead>
<tr>
<th>Test</th>
<th>Decision-making</th>
<th>The calculation results</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chow Test</td>
<td>Cross-section F</td>
<td>Statistics = 87.580612 (prob = 0.000)</td>
<td>PLS not the best model</td>
</tr>
<tr>
<td>Hausman Test</td>
<td>Random cross-section</td>
<td>Chi-Sq Statistic = 8.510061 (Prob. = 0.0366)</td>
<td>The best FEM models</td>
</tr>
</tbody>
</table>

Referring to the table, it can be concluded that the best model is FEM. Equation-1 is as follows:

\[
ROA_{it} = 24,5 - 0,008CR_{it} + 0,008WCTO_{it} - 0,271CS_{it} \quad (equation-1)
\]

Table 4 shows the best equation-2 model is FEM. Equation-2 is as follows:

\[
CS_{it} = 67,71 - 0,054CR_{it} + 0,016WCTO_{it} \quad (equation-2)
\]

According to Gujarati & Porter (2009) classical assumption testing is not always necessary for panel data analysis, because panel data have advantages such as: (1) it can minimize bias that can appear in the analysis results and provide more information, variability, and degree of freedom, (2) explicitly explains heterogeneity by considering subject-specific variables. (3) able to detect and measure the impact better where this cannot be done with cross-section or time series methods. Panel data allow a more complex study of the behavior that exists in the model so that panel data testing does not require classical assumption tests.
Regression Model Test

Table 5 shows the model built accordingly. The F-statistic value of 85.72 with a probability of 0.000 shows that liquidity, working capital turnover, and capital structure affect profitability (ROA) simultaneously. The value of Adjusted R-Square (Adj R$^2$) is 0.9511 which means that the dependent variable (ROA) can be explained by the independent variables in the ROA regression model of 95.11% and the rest is explained by other factors outside the model used.

Table 5. Effect of Liquidity, Working Capital Turnover, and Capital Structure on Profitability of Sri Kehati Companies Listed on the IDX

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-stat</th>
<th>Prob.</th>
<th>Sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>-0.008342</td>
<td>0.945117</td>
<td>0.3486</td>
<td>tidak signifikan</td>
</tr>
<tr>
<td>WCTO</td>
<td>0.007713</td>
<td>0.420293</td>
<td>0.6759</td>
<td>tidak signifikan</td>
</tr>
<tr>
<td>CS</td>
<td>-0.271107</td>
<td>-3.657392</td>
<td>0.0006</td>
<td>signifikan</td>
</tr>
</tbody>
</table>

Table 5 shows the CR coefficient of -0.008 with a significance of 0.3486, meaning that the current ratio (CR) has no effect on the profitability (ROA) of companies listed on the SRI KEHATI index for the 2017–2021 period. The results of this study are in line with Bayaraa (2017), Pervan et al. (2019), Khan et al. (2018) and Hertina et al. (2021) which states that the current ratio has no effect on ROA. These results contradict the research of Nguyen and Nguyen, (2020), Azmi et al. (2020), Ramadhanti et al. (2019), Budhathoki et al. (2020), Agusfina & Sinarti (2020), Samo and Murad (2019), and Nurlaela et al. (2019) which says that liquidity has an effect on profitability.

The WCTO regression coefficient is 0.0077 with a significance of 0.6759. It means that working capital turnover has no effect on profitability. These results support research by Lumapow & Tumiwa (2020) that working capital turnover has no effect on profitability. Other studies Mustinah & Ferieka (2019), Pardanawati (2021), Putu et al. (2021) and Almomani et al. (2021) show that working capital turnover has a positive effect on profitability. Research from Singh & Bagga, (2019) and Yousaf & Bris (2021) that working capital has a negative effect on ROA.

The capital structure coefficient (CS) is -0.271 with a significance of 0.0006. It means that the capital structure has a significant negative effect on profitability. The higher the company’s use of debt, the lower the profit generated by the company. This is because the greater the company’s debt will lead to a large interest expense so that it has an impact on reducing net income. The results of this study are in line with Khan et al. (2018), Gharibeh & Bani Khaled (2020), Shahnia et al. (2020) and Sensini & Vazquez (2021) find that capital structure (DAR) has a negative effect on profitability (ROA). Research by Mudijjah & Hikmanto (2018), Nurlaela et al. (2019), Chandra et al. (2019), Suharna & Silviyanti (2019), Nguyen & Nguyen (2020) and Yousaf & Bris (2021) shows that there is an influence between capital structure and profitability but has a positive direction. The results of this study contradict the results of research by Maulita & Tania (2018) and Lumapow & Tumiwa (2020) that capital structure has no effect on profitability.

Table 6 shows the model built accordingly. The F-statistic value is 147.33 with a probability of 0.00 < 0.05, it can be concluded that the two independent variables have an effect on the CS variable simultaneously. The value of Adjusted $R$-Square ($Adj R^2$) is 0.9694. This means that the
capital structure (CS) can be explained by the variable liquidity and working capital turnover of 96.94%. The rest (3.06%) is explained by other independent variables outside the model.

Table 6. The Effect of Liquidity and Working Capital Turnover on the Capital Structure of Companies Listed SRI KEHATI Index 2017–2021 (equation-2)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t stat</th>
<th>Prob.</th>
<th>Sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>-0.054284</td>
<td>-3.900987</td>
<td>0.0003</td>
<td>signifikan</td>
</tr>
<tr>
<td>WCTO</td>
<td>0.016279</td>
<td>0.501846</td>
<td>0.6177</td>
<td>tidak signifikan</td>
</tr>
</tbody>
</table>

The coefficient of liquidity (CR) is -0.054 with a significance of 0.0003. This means that liquidity has a significant negative effect on capital structure. The more liquid the company, the lower the debt used. For every 1 unit increase in liquidity, debt decreases by 0.054 units. The effect of the negative current ratio (CR) on the capital structure (CS) is in line with the results of research from Said & Jusmansyah (2019), Purba et al. (2020) and Hidayat et al. (2021). The results of this study are different from those of Hertina et al. (2022) who found that the current ratio had no effect on the capital structure.

Based on table 6, the coefficient value of the current ratio (CR) is -0.054 which means that any change in the value of the current ratio will result in a change in the capital structure (CS) in the opposite direction, if the current ratio increases it will have an impact on the decline in the capital structure (CS). The prob value of CR <0.05, which means that there is a negative effect of liquidity (CR) with profitability (ROA). The coefficient of working capital turnover (WCTO) is 0.016 with a significance of 0.6177. This means that working capital has no significant effect on the capital structure.

Table 7. Testing the Role of CS Mediation Variables (Path Analysis)

<table>
<thead>
<tr>
<th>Variable</th>
<th>β</th>
<th>std</th>
<th>t stat</th>
<th>p-value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Effect</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CR → ROA</td>
<td>-0.008</td>
<td>0.009</td>
<td>-0.945</td>
<td>0.3486</td>
<td>No Sig.</td>
</tr>
<tr>
<td>WCTO → ROA</td>
<td>0.008</td>
<td>0.018</td>
<td>0.42</td>
<td>0.6759</td>
<td>No Sig.</td>
</tr>
<tr>
<td>CS → ROA</td>
<td>-0.271</td>
<td>0.074</td>
<td>-3.657</td>
<td>0.0006</td>
<td>Sig.</td>
</tr>
<tr>
<td>CR → CS</td>
<td>-0.054</td>
<td>0.014</td>
<td>-3.901</td>
<td>0.0003</td>
<td>Sig.</td>
</tr>
<tr>
<td>WCTO → CS</td>
<td>0.016</td>
<td>0.032</td>
<td>0.502</td>
<td>0.6177</td>
<td>No Sig.</td>
</tr>
<tr>
<td>Indirect effect</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CR → CS → ROA</td>
<td>0.007</td>
<td>0.006</td>
<td>2.656</td>
<td>0.0079</td>
<td>Sig. (sobel test)</td>
</tr>
<tr>
<td>WCTO → CS → ROA</td>
<td>0.004</td>
<td>0.009</td>
<td>-0.495</td>
<td>0.6203</td>
<td>No Sig. (sobel test)</td>
</tr>
</tbody>
</table>

WCTO have no direct effect on the profitability variable (ROA) and the capital structure variable (CS). The liquidity variable (CR) has a direct effect on the capital structure variable (CS) and the capital structure variable (CS) has a direct effect on the profitability variable (ROA). The capital structure variable (CS) can mediate the effect of the liquidity variable (CR) on the profitability variable (ROA), this can be seen from the p-value Sobel test 0.0079 <0.05. The total mediation effect is 0.0146 with a positive relationship. The modal structure variable (CS) mediates the effect of CR on ROA as a full mediation, because the CS variable is able to provide an indirect effect, from which previously there was no direct effect of CR on ROA.

CONCLUSION
The results showed that the liquidity variable (current ratio/CR) had a direct effect on the capital structure (CS) variable as measured by the debt to assets ratio (DAR). Capital structure (CS) has a direct effect on the profitability variable (ROA). The variable net working capital turnover (WCTO) has no direct effect on either the capital structure variable (CS) or the profitability variable (ROA). The results of the Sobel test explain that capital structure (CS) is able to mediate the effect of liquidity (CR) on profitability (ROA) but is unable to mediate the effect of net working capital turnover (WCTO) on profitability (ROA).

It is recommended that financial managers pay attention to the use of debt in the company, because the greater the debt used, the lower the company's profitability. Financial managers also need to maintain the company's liquidity level. The results showed that with the mediation of the use of debt (capital structure), the more liquid the company, the higher the company's profitability. Further researchers can replicate this research model to be applied in other industries or use other independent variables and replace the mediating variable to prove the effect of working capital on company profitability.

REFERENCES
Dede Suharna, Augustina Kurniasih; Impact of Liquidity and Activities on Profitability by Mediation of Capital Structure: Empirical Evidence from Sri Kehati Indexed Companies

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