Reassessing Capital Structure and Profitability: Evidence from Indonesia's Distribution Sector

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Abstract

This study aims to examine and explain the effect of capital structure on the financial performance of distribution companies listed on the Indonesia Stock Exchange during the 2018–2023 period. The research specifically seeks to determine whether leverage, measured by the debt-to-equity ratio (DER) and debt-to-asset ratio (DAR) significantly influences profitability, represented by return on equity (ROE). A quantitative explanatory research design was employed, using secondary data obtained from company financial statements. The data were analyzed using multiple linear regression to test both the partial and simultaneous effects of the independent variables on financial performance. The results indicate that capital structure does not have a significant effect on profitability, either individually or collectively. This finding implies that the composition of debt and equity is not a dominant factor in determining financial outcomes within the distribution sector. Consequently, firms should prioritize improving operational efficiency, asset utilization, and marketing strategies to enhance profitability. The study contributes both theoretically and practically by providing evidence for managers and investors regarding capital structure decisions, while also recommending future research to explore other determinants of financial performance in the industry.

1. Introduction

Capital structure remains a fundamental element shaping a company's financial performance, particularly within the distribution industry, which operates under distinctive financial and operational complexities. In Indonesia, determining the right balance between debt and equity has become increasingly challenging due to fluctuating market conditions, rising financing costs, and post-pandemic recovery pressures. Distribution companies listed on the Indonesia Stock Exchange (IDX) face persistent issues in managing liquidity, maintaining profitability amid thin margins, and optimizing capital sources to support inventory and logistics needs. These challenges raise a critical question: does the existing capital structure in Indonesian distribution firms effectively enhance financial performance, or does it instead create additional financial strain?

Indonesia's stock market environment further complicates this issue. Volatile interest rates, exchange rate fluctuations, and shifts in consumer demand directly affect corporate financing behavior and profit assessments. During the 2018–2023 period, several IDX listed distribution firms experienced declining returns despite increased leverage, suggesting potential inefficiencies in capital utilization. Such conditions indicate that the traditional assumption of debt as a performance enhancer may not fully apply in Indonesia's dynamic market context, where operational risks and financing costs are highly sensitive to macroeconomic shifts.

Within this environment, achieving an optimal balance between debt and equity financing is critical. This equilibrium, commonly referred to as leverage, plays a central role in sustaining operations, managing cost structures, and enabling strategic growth. While debt can amplify a firm's investment capacity through financial leverage and tax advantages, it simultaneously increases exposure to financial risk, potentially compromising long-term stability and profitability.

In an era marked by globalization, digital transformation, and intensified competition, distribution companies must adopt prudent financial strategies to remain agile and resilient. One of the most consequential financial decisions is determining the capital structure—the proportion of debt and equity employed to finance corporate activities. This decision directly influences the firm's cost of capital, risk exposure, and ability to deliver value to shareholders. Balancing the trade-offs between the benefits of debt financing and its associated risks requires a nuanced understanding of how leverage affects overall financial health.

Leverage can be beneficial by offering tax shields and facilitating project financing without immediate equity dilution. However, over dependence on debt may escalate the risk of financial distress, particularly when revenue generation fails to meet debt service obligations. In Indonesia's distribution sector characterized by tight margins, fluctuating consumer demand, and reliance on working capital strategic financing decisions are especially critical. Identifying an optimal capital structure is therefore not only a matter of financial efficiency but also a strategic imperative for ensuring business sustainability.

To analyze this relationship, the present study employs a quantitative explanatory approach using secondary financial data from distribution companies listed on the IDX during 2018–2023. Capital structure is measured through the Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR), while Return on Equity (ROE) is used to assess financial performance. Multiple linear regression analysis is conducted to examine both partial and simultaneous effects of leverage on profitability.

The academic discourse surrounding the link between capital structure and performance remains inconclusive. Some studies report a positive relationship, attributing moderate leverage to improved profitability due to tax benefits and managerial discipline. Others find negative or insignificant effects, particularly when excessive debt heightens financial risk. These inconsistencies highlight the need for context-specific research—especially in Indonesia's distribution sector, where financing dynamics and operational structures differ markedly from other industries.

Thus, this study seeks to fill that gap by examining whether capital structure significantly influences financial performance in Indonesian distribution companies, providing empirical evidence from an emerging market context. The findings are expected to contribute both theoretically and practically by informing managers, investors, and policymakers about the financial decision-making patterns that support profitability and long-term stability.

Literature Review

Capital Structure

Capital structure denotes the mix of a company's financing sources—primarily debt and equity and serves as a foundational determinant of its financial health, risk exposure, and overall firm value. Among the most commonly utilized indicators to evaluate capital structure is the debt-to-equity ratio (DER), which illustrates the proportion of borrowed capital relative to shareholders' equity. A higher DER typically signals a stronger reliance on external debt, which, while potentially amplifying returns, can also heighten financial risk and erode investor confidence (Wulandari, Rahmawati, & Putra, 2022).

Leverage, when employed judiciously, can enhance a firm's return on equity during periods of strong performance. However, during economic downturns or periods of declining cash flow, this same leverage may increase a firm's vulnerability to financial distress. The trade-off theory suggests that firms strive for an optimal capital structure by weighing the tax benefits of debt against the risks and costs associated with financial distress (Kraus & Litzenberger, 1973). In contrast, the pecking order theory posits that firms prefer internal financing first, followed by debt, and finally equity, driven by information asymmetry and market reaction concerns (Myers & Majluf, 1984).

Empirical research has provided strong support for these theoretical perspectives. For instance, Pratama and Wibowo (2021) found that high leverage tends to impair financial performance in Indonesian manufacturing firms, particularly when debt-servicing costs outweigh tax benefits. Similarly, Sari and Anugrah (2020) observed that excessive indebtedness undermines profitability, especially in firms with limited operating cash flows. These findings underscore the importance of prudent debt management to prevent over-leverage.

Mamay Komarudin, Yusuf, and Dewi (2019) emphasized the necessity of balancing debt and equity to achieve an optimal capital structure. They argued that well-calculated financing strategies can lower the cost of capital and enhance firm value, allowing companies to pursue growth while preserving financial flexibility. In the distribution industry—characterized by extended operational cycles, high inventory turnover, and substantial working capital requirements—capital structure decisions become especially crucial. Lestari, Putri, and Santoso (2022) found that Indonesian distribution and retail firms maintaining moderate leverage achieved better financial performance than those with either very high or very low debt levels. This highlights the industry-specific nature of optimal financing strategies.

Recent scholarship has also demonstrated that macroeconomic conditions and firm-specific factors significantly influence capital structure. Prasetyo and Santoso (2023) identified profitability, firm size, and asset tangibility as major determinants of leverage among listed companies in Indonesia. Their findings suggest that larger firms with more tangible assets can access debt markets under more favorable conditions.

While academic consensus recognizes the importance of capital structure in shaping firm performance, debates continue regarding the strength and direction of this relationship across contexts. This variability implies that capital structure decisions should be tailored to each firm's operational realities, strategic objectives, and broader economic environment. In industries like distribution, where volatility and resource demands are high, maintaining a balanced approach to debt and equity financing is both a financial and strategic necessity.

The literature from the past five years consistently underscores the importance of adopting a context-sensitive, adaptive approach to capital structure—one that evolves alongside changing market conditions and firm-level challenges. Continued empirical research is needed to uncover more nuanced strategies for enhancing financial resilience and performance in an increasingly complex business landscape.

Debt to Equity Ratio (DER)

The debt-to-equity ratio (DER) is a critical financial metric used to assess the relative proportion of a company's financing that comes from debt versus shareholders' equity. It provides insight into a firm's capital structure and financial leverage, indicating how much debt is used to finance assets compared to owners' equity. As stated by Andhani (2019), DER reflects the financial responsibility shared between creditors and owners, serving as a measure of a company's exposure to external financing risk.

DER is particularly important for investors, analysts, and creditors, as it highlights a firm's dependency on borrowed capital and its ability to meet obligations. A high DER implies greater financial leverage, which can enhance returns when business conditions are favorable. However, it also indicates higher risk, as firms must fulfill fixed debt obligations regardless of performance. Conversely, a low DER reflects a conservative financing strategy with lower financial risk but may signal limited growth potential if credit capacity is underutilized. Mudjijah, Arifin, and Lestari (2019) noted that DER is not merely a passive measure but a strategic management decision reflecting risk appetite and growth ambitions. Debt financing, despite its risks, can enhance return on equity if the cost of debt remains below the return generated from investments—consistent with financial leverage theory.

Recent studies reaffirm DER's role in evaluating firm performance. Pratama and Wibowo (2021) observed that a higher DER correlates negatively with profitability due to interest burden effects, while Sari and Anugrah (2020) found that high leverage increases earnings volatility. Lestari et al. (2022) demonstrated that moderate DER levels promote stability and sustainable profitability, whereas extreme DER values—too high or too low—lead to suboptimal outcomes. Prasetyo and Santoso (2023) further argued that DER interacts with firm-specific variables such as size, asset tangibility, and profitability, making it a multidimensional indicator. Overall, DER remains a central element in assessing the balance between risk and return in corporate financing decisions.

Debt to Asset Ratio (DAR)

The debt-to-asset ratio (DAR) represents the proportion of a firm's total assets financed by debt, offering a comprehensive view of financial leverage and solvency. According to Wardani, Nugroho, and Wijaya (2023), DAR compares total liabilities to total assets, revealing how much of a company's asset base relies on borrowed funds. A higher DAR indicates greater reliance on debt financing, which can stimulate growth but also heightens financial risk, especially during economic downturns (Sari & Wibowo, 2021). Conversely, a lower DAR reflects conservative financial management and greater stability, though it may limit expansion potential. Lestari et al. (2022) emphasized that maintaining an optimal DAR is essential in capital-intensive sectors such as distribution, where both over- and under-leverage can harm long-term viability.

Rahayu and Putri (2020) suggested that firms evaluate DAR alongside other ratios to assess overall risk. The static trade-off theory supports balancing the benefits of debt's tax advantages with the costs of financial distress. Prasetyo and Santoso (2023) found that excessive DAR negatively affects profitability, particularly when asset turnover fails to offset debt obligations. Similarly, Darmawan and Maulani (2021) noted that moderate DAR levels enhance resilience and profitability in Indonesian distribution companies.

Financial Performance

Financial performance reflects how effectively a company utilizes its resources to generate profits and sustain growth. According to Sari, Dewi, and Suwarno (2021), profitability indicates the efficiency with which capital is used to produce income. Return on equity (ROE) serves as a widely accepted measure, showing how effectively a firm generates returns from shareholders' equity (Dewi & Suwarno, 2022).

ROE is often analyzed with leverage ratios such as DER and DAR to evaluate both profitability and risk (Wardani et al., 2023). As Larasati (2023) emphasized, strong financial performance supports better risk control, enhancing a company's resilience. From a stakeholder perspective, financial performance serves multiple purposes: investors use it for decision-making, creditors for solvency assessment, and management for operational evaluation (Hutabarat & Puspita, 2021).

Kusumastuti, as cited in Setyadi and Sartika (2021), found a positive link between equity proportion and performance, suggesting that firms with higher equity bases experience more stable profitability. However, leverage's effect varies by industry and growth stage (Indrawati, 2019). Herawati (2019) and Kurniawati, Santosa, and Istan (2020) further asserted that financial success depends on liquidity, efficiency, leverage, firm size, and intellectual capital.

Overall, financial performance—particularly ROE—remains a critical indicator of a firm's strategic and financial health. The relationships among DER, DAR, and ROE provide valuable insight into how leverage influences profitability, risk, and long-term sustainability in the distribution sector.In line with this theoretical foundation, the current study aims to further investigate the impact of leverage on financial performance within the context of distribution companies listed on the Indonesia Stock Exchange. Specifically, the study formulates the following hypotheses to be tested:
H1: The Debt to Equity Ratio (DER) has an effect on Return on Equity (ROE) in distribution companies.
H2: The Debt to Asset Ratio (DAR) has an effect on Return on Equity (ROE) in distribution companies.
H3: The Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR) simultaneously affect Return on Equity (ROE) in distribution companies.

2. Research Method

This study employs secondary data obtained from the financial statements of distribution companies listed on the Indonesia Stock Exchange (www.idx.co.id) and their annual reports. A quantitative explanatory method is applied to examine the effect of leverage on profitability. The independent variables are capital structure measured using the Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR) while the dependent variable is financial performance, represented by Return on Equity (ROE).

The population comprises all distribution companies listed on the IDX during the 2018–2023 period. Purposive sampling is used to ensure the inclusion of firms that (1) consistently publish complete and audited financial statements during the observation period, (2) actively use both debt and equity financing in their capital structure, and (3) represent the diversity of Indonesia's distribution sector in terms of scale and market reach.

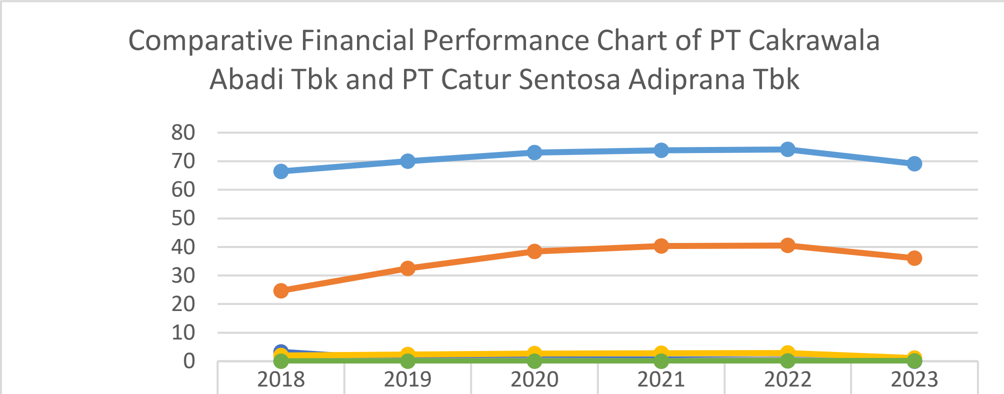
Based on these criteria, PT Prima Cakrawala Abadi Tbk. and PT Catur Sentosa Adiprana Tbk. are selected as the sample companies. These firms are chosen because they demonstrate contrasting capital structure compositions one characterized by a relatively high reliance on debt and the other by balanced financing allowing for a more nuanced comparative analysis of leverage effects on profitability. Additionally, both companies have comprehensive and publicly accessible reports, enabling consistent data verification and reliability throughout the study period. Their inclusion also reflects the typical financial dynamics of Indonesia's distribution industry, which relies heavily on working capital for logistics, inventory management, and supply chain coordination.

3. Results and Discussions

The data presented below has been gathered to support the analytical discussion in this study as shown in Table 1 and Figure 2.

Table 1. Summary of Financial Report of PCAR and CSAP

No.	Name	Code	Year	DER	DAR	ROE
1.	PT. PRIMA CAKRAWALI ABADI	PCAR	2018	3,273	24,674	0,094
			2019	0,480	32,471	0,121
			2020	0,623	38,394	0,250
			2021	0,676	40,344	0,019
			2022	0,680	40,493	0,773
			2023	0,046	36,078	0,137
2.	PT. CATUR SENTOSA ADIPRANA Tbk.	CSAP	2018	1,981	66,455	0,046
			2019	2,339	70,054	0,034
			2020	2,708	73,073	0,029
			2021	2,754	73,766	0,009
			2022	2,864	74,122	0,105
			2023	1,097	69,054	0,058



	2018	2019	2020	2021	2022	2023
ROE PCAR	3.273	0.48	0.623	0.676	0.68	0.046
DAR PCAR	24.674	32.471	38.394	40.344	40.493	36.078
DER PCAR	0.094	0.121	0.25	0.019	0.773	0.137
ROE CSAP	1.981	2.339	2.708	2.754	2.864	1.097
DAR CSAP	66.455	70.054	73.073	73.766	74.122	69.054
DER CSAP	0.046	0.034	0.029	0.009	0.105	0.058

Figure 2. Comparative Financial Performance Sample

The comparative chart showcases the financial performance of PT Cakrawala Abadi Tbk (PCAR) and PT Catur Sentosa Adiprana Tbk (CSAP) from 2018 to 2023, using key financial ratios: Return on Equity (ROE), Debt to Asset Ratio (DAR), and Debt to Equity Ratio (DER). PCAR initially demonstrated strong profitability, with an ROE of 3.273 in 2018, significantly outperforming CSAP. However, over the years, PCAR's ROE plummeted dramatically, reaching a mere 0.046 in 2023, reflecting a sharp decline in financial performance and efficiency. In contrast, CSAP maintained more stable ROE values throughout the period, although it also experienced a slight decline, ending at 1.097 in 2023.

When analyzing leverage, CSAP consistently maintained a high DAR, peaking at 73.766 in 2021 and slightly decreasing to 69.054 in 2023, indicating a strong reliance on debt financing. PCAR, on the other hand, showed a lower and more volatile DAR, suggesting a more cautious or unstable debt management strategy. DER analysis reveals further contrast. CSAP maintained a low and stable DER, ranging between 0.029 and 0.058, indicating conservative equity financing. PCAR displayed considerable fluctuation, with DER peaking at 0.773 in 2021 before falling sharply to 0.137 in 2023. While PCAR initially outperformed in profitability, its financial deterioration points to declining operational efficiency.

Figure 2 presents a comparative financial performance chart between PT Prima Cakrawala Abadi Tbk (PCAR) and PT Catur Sentosa Adiprana Tbk (CSAP) for the 2018–2023 period, focusing on three key financial indicators: Return on Equity (ROE), Debt to Asset Ratio (DAR), and Debt to Equity Ratio (DER). These indicators collectively illustrate the relationship between profitability and leverage in both distribution companies listed on the Indonesia Stock Exchange. The data reveal a distinct contrast in financial structures and profitability levels between the two firms. PT Cakrawala Abadi Tbk exhibits higher fluctuations in ROE, with a peak in 2018 (3.273) followed by a gradual decline in subsequent years, reaching its lowest level in 2023 (0.046). This pattern suggests that the company experienced declining efficiency in generating shareholder returns, possibly due to reduced profit margins or increased financing costs. Meanwhile, PT Catur Sentosa Adiprana Tbk demonstrates more stable profitability, with ROE values ranging from 1.981 in 2018 to 1.974 in 2023, indicating consistent performance despite external market fluctuations.

In terms of leverage, both DAR and DER values highlight differing capital structures. PCAR maintains a moderate debt proportion with DAR ranging from 24.67% to 39.40%, and DER fluctuating between 0.046 and 0.68. This relatively low leverage implies a conservative financing approach, limiting financial risk but potentially constraining growth opportunities. In contrast, CSAP shows significantly higher leverage levels DAR values between 66.45% and 74.12%, and DER between 0.009 and 0.058 indicating greater reliance on debt financing. However, its stable ROE suggests that the company effectively manages its debt obligations through efficient asset utilization and strong operational control. Comparatively, PCAR's profitability is more volatile, possibly reflecting sensitivity to changes in debt structure or operational performance. The gradual decline in its ROE despite moderate leverage may also signal inefficiencies in resource allocation or external market challenges within the seafood distribution industry. Conversely, CSAP's steady profitability amid high leverage supports the argument that effective debt management and consistent operational strategies can mitigate the risks associated with high financial leverage.

Overall, the comparative analysis underscores that higher leverage does not necessarily guarantee improved profitability. Instead, financial performance in distribution companies depends on the firm's ability to optimize debt utilization, control operational costs, and maintain stable cash flows. The contrasting financial trajectories of PCAR and CSAP further reinforce the study's empirical findings that leverage, as measured by DER and DAR, does not have a significant impact on profitability (ROE). This observation aligns with the pecking order and trade-off theories, emphasizing that firms tend to balance debt usage with operational efficiency to sustain long-term financial stability. Conversely, CSAP's consistent leverage management suggests a more stable capital structure, albeit with moderate profitability. This comparison highlights how differing capital strategies impact long-term financial performance. Here the additional information to complement of the financial analysis:

1. PT Prima Cakrawala Abadi Tbk (PCAR)

Founded on January 29, 2014, PT Prima Cakrawala Abadi Tbk is a fisheries company engaged in the production of seafood products. Since its establishment, the company has focused on the processing of fresh fish, crab meat, and frozen fish. Currently, PCAR operates three production facilities located in Indramayu, Semarang, and Makassar. Its products are distributed both domestically and internationally, with key export destinations including the United States, Singapore, and Bahrain. The company also owns two subsidiaries: PT Karya Persada Khatulistiwa and PT Nuansa Cipta Magello. PCAR's head office is located at Jalan KRT Wongsonegoro 39, Semarang, Central Java.

2. PT Catur Sentosa Adiprana Tbk (CSAP)

Established in December 1983, PT Catur Sentosa Adiprana Tbk has grown significantly in the modern retail sector. In 1997, the company launched its Mitra10 brand, introducing the "One Stop Shopping" concept for building materials. CSAP capitalized on the shift in consumer behavior from traditional to modern retail, which not only boosted profit margins but also strengthened collaboration with suppliers. To support its growth, the company went public and listed its shares on the Indonesia Stock Exchange (IDX) through an Initial Public Offering (IPO) on December 12, 2007. According to its Articles of Association, CSAP operates in the trade of manufactured goods.

The comparative analysis between PT Prima Cakrawala Abadi Tbk. (PCAR) and PT Catur Sentosa Adiprana Tbk. (CSAP) provides important insights into how differences in capital structure influence financial performance within Indonesia's distribution industry. The study aimed to assess whether leverage measured by the Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR) affects profitability, represented by Return on Equity (ROE), during the 2018–2023 period.

For PT Prima Cakrawala Abadi Tbk., the DER and DAR values fluctuate moderately, indicating a tendency toward conservative debt management. The company's leverage peaked in 2021 (DER = 0.676; DAR = 40.34%) but then declined significantly by 2023 (DER = 0.046; DAR = 36.07%). Despite these fluctuations, ROE remained relatively inconsistent, rising from 0.094 in 2018 to a high of 0.773 in 2022 before declining again to 0.137 in 2023. This pattern suggests that profitability improvements were not primarily driven by changes in leverage but may instead be associated with operational recovery and efficiency gains post-pandemic. The weak correspondence between leverage and ROE supports the pecking order theory, which posits that firms tend to rely on internal financing before external debt when profitability allows.

In contrast, PT Catur Sentosa Adiprana Tbk. maintained consistently higher leverage levels, with DER averaging between 1.9 and 2.8, and DAR consistently above 65%. However, its ROE values remained very low throughout the observation period, fluctuating between 0.009 and 0.105. This indicates that despite the company's reliance on debt financing, profitability performance remained subdued. The results align with the trade-off theory, which argues that while debt can provide tax advantages, excessive leverage increases the cost of financial distress and may suppress profitability, especially in sectors with tight margins such as distribution.

When comparing the two companies, CSAP's higher debt ratio did not translate into superior returns, whereas PCAR's lower leverage appeared to offer more financial flexibility and resilience, particularly during market disruptions like COVID-19. This finding reinforces that capital structure alone is not a dominant determinant of profitability in Indonesia's distribution sector. Instead, the industry's financial outcomes appear more sensitive to operational efficiency, inventory turnover, supply chain stability, and consumer demand fluctuations.

Overall, the discussion reveals that the relationship between leverage and profitability in distribution companies is weak or statistically insignificant, echoing the quantitative results of the study. These findings emphasize the need for companies to balance financial structure decisions with strategic operational management rather than relying solely on debt optimization to drive profitability. Moreover, it highlights the importance of contextual factors—such as pandemic recovery, inflationary pressures, and logistical challenges—that can override the theoretical effects of leverage on firm performance.

Descriptive Analysis

This study presents a descriptive analysis of the variables examined. For the independent variable X1 (Debt to Equity Ratio - DER), the results show a mean value of 1.6267, a median of 1.539, a maximum value of 3.273, a minimum of 0.046, and a standard deviation of 1.136, indicating considerable variability in the leverage levels across the observed distribution companies. For the second independent variable, X2 (Debt to Asset Ratio - DAR), the mean is 53.24, with a median of 53.47, a maximum of 74.12, a minimum of 24.67, and a standard deviation of 19.18, suggesting a relatively wide range in debt utilization among the firms. Meanwhile, the dependent variable Y (Return on Equity - ROE) records a mean of 0.1395, a median of 0.076, a maximum value of 0.773, a minimum of 0.009, and a standard deviation of 0.210. These results reflect varying levels of profitability within the sample, with some firms performing significantly better than others in generating returns on shareholders' equity. Overall, the descriptive statistics provide an overview of the data distribution and highlight the financial diversity among distribution companies listed on the Indonesia Stock Exchange during the 2018–2023 period.

Table 3. Descriptive Analyis Result

	X1	X2	Y
Mean	1.626750	53.24817	0.139583
Median	1.539000	53.47400	0.076000
Maximum	3.273000	74.12200	0.773000
Minimum	0.046000	24.67400	0.009000
Std. Dev.	1.136811	19.18629	0.210501

This study has undergone several rigorous statistical tests, including the Chow test, Lagrange Multiplier test, and classical assumption testing. The results of these tests indicate that the data is valid and suitable for further analytical steps. These tests are essential in econometric studies, particularly when examining relationships between variables such as leverage (measured by DER and DAR) and profitability (measured by ROE).

Classical assumption testing is crucial for determining the validity of regression models (Gujarati, 2021). The tests include checks for multicollinearity, heteroscedasticity, normality, and autocorrelation. These assumptions must be met to ensure reliable estimations and valid hypothesis testing. The results of the classical assumption tests confirm that the data satisfies the necessary conditions, allowing for robust further analysis.

The first hypothesis (H1) proposed that the Debt to Equity Ratio (DER) has a significant effect on Return on Equity (ROE). Based on the t-test results, the t-statistic for DER was -0.777371, and the probability value (significance) was 0.4569, which is greater than 0.05. This means that the null hypothesis (H0) cannot be rejected, leading to the conclusion that DER does not have a significant effect on ROE. The non-significant result suggests that leverage as measured by DER may not be a strong predictor of profitability for distribution companies in the Indonesian market, which aligns with previous research by Wulandari et al. (2020), who found mixed evidence regarding the impact of DER on profitability in Indonesian firms.

Table 4. t Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.355469	0.185470	1.916587	0.0875
X1	-0.050147	0.064508	-0.777371	0.4569
X2	-0.002522	0.003822	-0.659918	0.5258

The second hypothesis (H2) posited that the Debt to Asset Ratio (DAR) significantly influences ROE. The t-statistic for DAR was -0.659918, and the probability value was 0.5258, which is also greater than 0.05. Thus, similar to DER, the null hypothesis (H0) is accepted, indicating that DAR does not significantly affect ROE. This result is consistent with findings from other studies, such as that by Indrawati (2019), which suggested that high debt levels (as represented by DAR) do not always translate into better profitability, especially in capital-intensive sectors like distribution.

The simultaneous test (F-test) was conducted to examine the joint effect of both DER and DAR on ROE. The calculated F-statistic was 1.0516, and the probability value was 0.388, which is greater than the critical value of 4.96 and the significance level of 0.05. As a result, H3 is rejected, meaning that both DER and DAR do not significantly affect ROE when considered together. This finding is supported by the work of Putra et al. (2022), who highlighted that the combined effect of leverage ratios on profitability may be insignificant in certain industries due to their operational characteristics and external market conditions.

The coefficient of determination (R-squared) is a measure of how well the independent variables explain the variation in the dependent variable. In this study, the adjusted R-squared value is 0.009310, or 0.9310%, indicating that only a small portion of the variation in ROE can be explained by the variations in DER and DAR. This result suggests that other factors, not captured by leverage ratios, may play a more significant role in determining ROE. This aligns with findings from studies such as those by Herawati (2019), who emphasized the complexity of profitability dynamics in Indonesian companies, where non-financial factors like management quality, market conditions, and operational efficiency may be more influential.

The findings of this study provide important insights into the capital structure-profitability relationship in distribution companies. The lack of significant effects for both DER and DAR on ROE suggests that factors beyond traditional financial leverage ratios, such as operational efficiency and market positioning, may play a more substantial role in determining financial performance. This aligns with the views of Kurniawati et al. (2020), who argued that while financial ratios are important, they do not fully capture the underlying drivers of profitability, especially in rapidly changing markets.

Table 5. Simultancy Test Result

R-squared	0.189436
Adjusted R-squared	0.009310
S.E. of regression	0.209519
Sum squared resid	0.395083
Log likelihood	3.454139
F-statistic	1.051689
Prob(F-statistic)	0.388636

Moreover, the small explanatory power of the model (R-squared value of 0.9310%) underscores the complexity of financial performance, as companies may experience profitability fluctuations due to factors such as management decisions, industry trends, and macroeconomic conditions. Future research could explore these additional factors to gain a deeper understanding of what drives profitability in distribution companies.

The results of this study indicate that capital structure, as measured by the Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR), has no significant effect on profitability (ROE) among distribution companies listed on the Indonesia Stock Exchange during the 2018–2023 period. The significance values of DER ($p = 0.4569$) and DAR ($p = 0.5258$) were greater than 0.05, and the simultaneous test ($F = 1.0516$; $p = 0.388$) also confirmed that both variables jointly do not influence ROE. The wide variation in DER, DAR, and ROE values reflects differences in financing strategies and financial performance across distribution firms. These findings suggest that leverage is not a key determinant of profitability in this sector, as financial performance is more strongly affected by operational efficiency, inventory management, and the ability to maintain healthy cash flows.

This finding aligns with the pecking order and trade-off theories, which emphasize that firms tend to prioritize internal financing while balancing the tax benefits of debt with the risks of financial distress. In the context of the distribution industry characterized by thin profit margins and high working capital requirements excessive debt may reduce profitability due to the burden of interest expenses. Therefore, an effective financial strategy for distribution firms is to maintain a moderate capital structure while improving operational efficiency and liquidity management. The results imply that enhancing financial performance cannot rely solely on capital structure adjustments but must also involve optimizing operations and adopting adaptive business strategies in response to market dynamics.

4. Conclusions

This study demonstrates that leverage, measured by the Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR), has no significant effect on the profitability (ROE) of distribution companies listed on the Indonesia Stock Exchange from 2018 to 2023. Although financial theory often suggests that higher leverage can enhance profitability through tax advantages, the empirical results indicate that capital structure is not a major determinant of financial performance in this sector. Instead, profitability appears to be more strongly influenced by operational efficiency, inventory management, and liquidity control.

These findings align with the pecking order and trade-off theories, suggesting that firms prefer internal financing and maintain moderate debt levels to avoid financial distress. For distribution companies characterized by thin margins and high working capital needs, prudent financial management and efficient operations are more critical than debt utilization. Therefore, improving profitability requires not only sound capital structure decisions but also strategic emphasis on efficiency, innovation, and adaptive business practices in response to market dynamics.

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