

The Effect of Liquidity on Performance of Consumer Cyclical Companies Listed on the Indonesian Stock Exchange

Liquidity on
Company
Performance

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ABSTRACT

This study examines the effect of liquidity on company performance in the cyclical consumer sector listed on the Indonesian Stock Exchange (IDX) with a focus on 40 companies for a five years from 2019-2023. This study uses panel data regression analysis and purposive sampling techniques, with the dependent variable being profitability as measured by return on equity (ROE). Independent variables consist of current ratio and quick ratio, while control variables include tangible assets, company size, company age, inflation rate, and GDP growth. The results show that the current ratio produces a positive effect on company performance, while the quick ratio shows a negative effect. In addition, tangible assets and company size do not have a significant effect on company performance. The age of the company proved to have a negative influence, while the inflation rate did not show a significant influence. On the other hand, GDP has a positive influence on company performance. The results of this study can be taken into consideration for companies in making strategic decisions to increase profitability in the cyclical consumer sector.

Keywords: ROE, Liquidity, Current Ratio, Inflation, GDP, Size.

ABSTRAK

Penelitian ini menguji pengaruh likuiditas terhadap kinerja perusahaan pada sektor konsumen siklis yang terdaftar di Bursa Efek Indonesia dengan fokus pada 40 perusahaan selama 5 tahun dari 2019-2023. Penelitian ini menggunakan analisis data regresi panel dan teknik pengambilan sampel purposive sampling, dengan variabel dependennya adalah profitabilitas yang diukur dengan return on equity (ROE). Variabel independen terdiri dari current ratio dan quick ratio, sedangkan variabel kontrol meliputi aset berwujud, ukuran perusahaan, umur perusahaan, tingkat inflasi, dan pertumbuhan PDB. Hasil penelitian menunjukkan bahwa current ratio menghasilkan pengaruh positif terhadap kinerja perusahaan, sedangkan quick ratio menunjukkan pengaruh negatif. Selain itu, aset berwujud dan ukuran perusahaan tidak berpengaruh signifikan terhadap kinerja perusahaan. Umur perusahaan terbukti memiliki pengaruh negatif, sedangkan tingkat inflasi tidak menunjukkan pengaruh yang signifikan. Di sisi lain, PDB memiliki pengaruh positif terhadap kinerja perusahaan. Hasil penelitian ini dapat menjadi bahan

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INTRODUCTION

Company performance is one of the important indicators that reflect the success of management in managing financial resources, with the ultimate goal of creating value for shareholders and other stakeholders (Wahyuni & Waskito, 2024). In this context, liquidity emerges as one of the key factors affecting company performance, especially in the consumer cyclical sector listed on the Indonesia Stock Exchange. Liquidity, as measured through liquidity ratios such as current ratio and quick ratio, indicates the company's ability to meet its short-term obligations. A good level of liquidity is expected to contribute positively to a company's performance, while low liquidity can limit a company's ability to invest and operate efficiently (Wijaya et al., 2024).

In the dynamic landscape of business, every company strives for optimal performance, a metric that reflects the management's success in effectively utilizing financial resources to create value for shareholders and stakeholders alike (Simbolon, 2015). Company performance serves as a barometer for assessing organizational health over a specific period, shaped by operational activities and resource allocation (Sri & Chen, 2019). One critical determinant of corporate performance is liquidity, which influences financial outcomes through liquidity ratios that evaluate a firm's ability to meet short-term obligations using its current assets. High liquidity indicates a company's capacity to quickly convert assets into cash to fulfill financial commitments, thereby enhancing investor confidence (Masood et al., 2016). However, excessive liquidity may also signal inefficiencies, as idle funds could be better utilized for profit-generating investments (Dhani & Utama, 2017).

The importance of liquidity becomes even more pronounced in the context of Indonesia's capital market, particularly following the classification of companies into sectors by the Indonesia Stock Exchange (BEI) in 2020. The consumer cyclical sector, characterized by firms that produce or distribute goods and services with cyclical demand, serves as the focus of this study (Perdana et al., 2022). The COVID-19 pandemic posed significant challenges to this sector, prompting firms to adapt swiftly to changing economic conditions. While some studies indicate that the pandemic adversely affected corporate liquidity (Amalia et al., 2021), others suggest a negligible impact (Hilman & Laturette, 2021), underscoring the need for further investigation into how external economic shocks influence corporate liquidity and performance.

This study aims to explore the relationship between liquidity and company performance among consumer cyclical firms listed on the BEI, utilizing liquidity ratios such as the current and quick ratios as independent variables. Additionally, it will consider other determinants of performance, including tangible assets, company size, company age, inflation, and GDP. By examining these factors, this research seeks to provide a comprehensive understanding of their impacts on operational efficiency and overall business performance, thus contributing to the competitive landscape of the consumer cyclical sector.

LITERATURE REVIEW

Liquidity, which reflects a company's ability to convert assets into cash quickly, plays an important role in managing short-term liabilities. Hossain (2020), shows that liquidity has a negative effect on return on equity (ROE) in manufacturing companies in Dhaka, indicating that inefficient liquidity management can reduce financial performance. In contrast, Egbunike & Okerekeoti (2018); Prempeh et al. (2017) found that liquidity has a significant positive effect on profitability, confirming that companies with good liquidity tend to be more successful in achieving optimal performance.

Tangible assets, defined as physical assets that are used in the long term, have an important role in supporting company performance. Research by Nguyen et al. (2024) shows that tangible assets have a positive effect on the performance of manufacturing companies listed on the Vietnam Stock Exchange, signaling that the presence of adequate physical assets can improve operational efficiency and productivity. Furthermore, İltaş & Demirgüneş (2020) also found that tangible assets have a positive impact on firm performance, even during periods of crisis, indicating the stability offered by physical assets in difficult conditions. Research from Naryono (2020) adds evidence that tangible assets have a significant influence on overall company performance.

Company size is a picture of the size of a company. In the study of Nguyen et al. (2024) stated that company size has a positive influence on company performance. Likewise, the results of research by Rajan & Zingales (1995) and Susilo et al. (2020) stated that company size shows a positive influence on company performance. Company age is one of the indicators in influencing earnings management. Where the age of the company illustrates how long the company has been able to run its operations. Based on previous research, the same results were obtained, where company age has a positive influence on company performance (Pervan et al., 2019; Putra, 2021; Nguyen et al., 2024).

Inflation is a situation where there is an increase in prices for goods and services in general and continuously within a certain period of time. In the journals used as references in this study, namely Hendayana & Riyanti (2020) and Nguyen et al. (2024), the inflation rate has a positive effect on company performance. In contrast to the two previous studies, research conducted by Handriani & Robiyanto (2018) stated that the inflation rate has a negative effect on company performance. The level of gross domestic product can illustrate the current and future state of macroeconomic activity. With increasing economic growth, which has an impact on increasing consumer demand, it can potentially increase sales and higher profitability (Pervan et al., 2019). This is also evidenced by several studies that confirm the positive relationship between GDP and company performance, such as in research conducted by (Bui et al., 2020; Nguyen et al., 2024).

H1: Measured liquidity has a significant effect on the liquidity ratio and company performance.

H2: Tangible assets have a significant effect on company performance.

H3: Company size has a significant effect on company performance.

H4: Company age has a significant effect on company performance.

H5: Inflation has a significant effect on company performance.

H6: Gross domestic product has a significant effect on company performance.

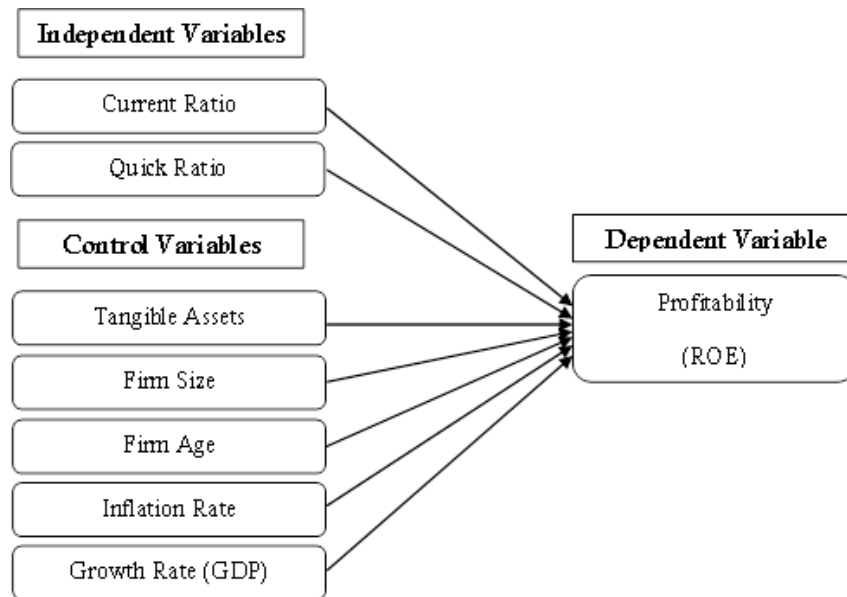


Figure 1. Conceptual Framework

METHODS

This study explores the influence of financial metrics—current ratio, quick ratio, tangible assets, firm size, firm age, inflation, and GDP—on firm performance, specifically Return on Equity (ROE), in consumer cyclical companies on the Indonesian Stock Exchange between 2019 and 2023. Using statistical tests, including the t-test, researchers analyzed data from 40 firms to assess these variables' effects. The current ratio, reflecting a company's ability to cover short-term liabilities with current assets, showed a negative impact on ROE. This implies that high liquidity may not always increase profitability, as excess assets may be allocated inefficiently. This result is consistent with previous research, which reported a similar negative relationship (Nguyen et al., 2024). The quick ratio, a more stringent measure of liquidity that excludes inventory, has a positive effect on ROE, suggesting that sufficient liquid assets—minus inventory—can improve firm performance (Sundas & Butt, 2021). Unexpectedly, tangible assets and firm size had no significant effect on ROE. While tangible assets were presumed to improve performance, consistent with Nguyen et al. (2024), this study did not support this link, indicating that physical assets might not drive profits in all sectors. Firm size, often linked to economies of scale, also showed no correlation with profitability. Firm age negatively influenced ROE, implying that experience does not guarantee higher profits. This contradicts Nguyen et al. (2024) and suggests older firms may face challenges in adapting to market changes. Inflation showed no significant impact on ROE, as found by Prastyatini & Utami (2024), highlighting possible industry resilience. However, GDP positively affected ROE, aligning with Nguyen et al. (2024), likely due to increased consumer spending during economic growth phases. The results underscore the significance of liquidity management and economic conditions in shaping profitability in the consumer cyclical sector.

RESULTS

The description of the research object provides brief information about the cyclical consumer company as the subject of the research. The focus of this exploration is on 40 cyclical consumer companies listed on the IDX during the period 2019-2023. Data obtained from www.idx.co.id and the respective company websites. The sampling technique used judgment sampling based on the category of cyclical consumer companies listed on the IDX for 5 years (2019-2023 period), cyclical consumer companies that are not listed on the special monitoring board, cyclical consumer

companies listed using the rupiah currency, and cyclical consumer companies that have complete data to study changes in needs. Out of 163 consumer cyclical company issuers, only 40 consumer cyclical companies are eligible to be used as research samples, resulting in 200 observation data point. (40 consumer cyclical companies x 5 years).

Table 1. Estimation Results with Fixed Effect Model

Independent Variable	Coefficient	Prob.	Conclusion
Constanta	-0.981777	0.5712	
Current ratio (CR)	-0.058867	0.0303	(-) Sig.
Quick ratio (QR)	0.093201	0.0167	(+) Sig.
Tangible assets (TGB)	-0.059847	0.7156	(-) Not Sig.
Firm size (SIZE)	0.054089	0.3804	(-) Not Sig.
Firm age (AGE)	-0.016269	0.0096	(-) Sig.
Inflation rate (INF)	0.008207	0.3978	(+) Not Sig.
Growth rate (GDP)	0.013399	0.0000	(+) Sig.
R-squared		0.602932	
Adjusted R-squared		0.483552	
F-stat		5.050526	
Prob F-stat		0.000000	

The test results from descriptive analysis provide information containing the least, greatest, mean, and standard deviation values. The least value represents the smallest value, the maximum value represents the largest value, the mean value represents the average value, and the standard deviation indicates the dispersion of inspection information, revealing homogeneous or heterogeneous variants.

Table 2. Descriptive Analysis Test Results

	ROE	CR	QR	AGE	SIZE	TGB	INF	GDP
Mean	0.033668	2.121763	1.222105	35.10000	28.74508	0.438358	2.880000	3.380000
Median	0.049700	1.627200	0.905300	35.00000	28.94880	0.425100	3.000000	5.000000
Maximum	0.395700	8.032800	4.939900	72.00000	31.77280	0.942800	4.200000	5.300000
Minimum	-0.486100	0.295900	0.195500	4.000000	25.75250	0.093100	1.600000	-2.100000
Std. Dev.	0.134017	1.603852	0.930796	13.82191	1.467671	0.214327	1.005313	2.802296
Skewness	-0.925081	2.015338	1.568239	0.011760	-0.036580	0.399871	-0.036747	-1.363962
Kurtosis	4.809888	6.879088	5.049371	2.833018	2.083485	2.364505	1.403242	3.043945
Jarque-Bera	55.82330	260.7806	116.9785	0.236968	7.044599	8.695328	21.29199	62.02913
Probability	0.000000	0.000000	0.000000	0.888266	0.029531	0.012937	0.000024	0.000000
Sum	6.733600	424.3525	244.4210	7020.000	5749.016	87.67150	576.0000	676.0000
Sum Sq. Dev.	3.574169	511.8962	172.4100	38018.00	428.6573	4.141261	201.1200	1562.720
Observation	200	200	200	200	200	200	200	200

The descriptive statistical analysis in Table 2, several variables exhibit characteristics that can be interpreted. First, the ROE has an average of 0.033668 with a standard deviation of 0.134017, indicates that, on average, these companies generate return of 3.34% on shareholder's equity. The standard deviation suggests a relatively high variability in ROE among the companies, meaning that some firms significantly outperform or underperform relative to average. Second, the current ratio has an average 2.121763 with a standard deviation 1.603852 and the quick ratio shows an average 1.222105 and standard deviation 0.930796, indicating that the level of liquidity of companies tends to vary. The other variables, such as Firm Age, Firm Size, Tangible Assets, Inflation, and Growth Domestic Product, also have their respective means and standard deviations, providing the idea of variation and characteristics of each variable in the analysis dataset.

This study uses panel data regression analysis to examine the influence and analyze the independent variables Current Ratio (CR) and Quick Ratio (QR) with control variables Tangible Assets (TGB), Firm Size (Size), Firm Age (Age), Inflation (Inf), and Gross Domestic Product (GDP) on the dependent variable Return on Equity (ROE). The results of the panel data regression analysis are described as follows:

$$ROE_{it} = -0.981777 - 0.058867(CR)_t + 0.093201(QR)_{it} - 0.059847(TGB)_{it} + 0.054089(SIZE)_{it} - 0.016269(AGE)_{it} + 0.008207(INF)_{it} + 0.013399(GDP)_{it}$$

The results of the fixed effect model test in the table, with a 5% error rate for each variable, provide an understanding of the impact of changes in independent variables on the dependent and control variables. First, the constant (α) of -0.981777 indicates that if CR, QR, TGB, SIZE, AGE, INF, and GDP have a value of 0 (zero), then ROE will decrease by -0.981777. Additionally, the coefficients β_1 to β_7 provide information about the sensitivity of ROE to changes in each variable. For example, $\beta_1 = -0.0058867$ indicates that if CR increases by 1 unit, ROE will decrease by -0.0058867. Similarly, other variables such as QR, TGB, SIZE, AGE, INF, and GDP each have coefficients that indicate the direction and magnitude of changes in ROE due to a one-unit change in those variables. This result provides insights into the dynamics of the relationship between variables in the context of a fixed effect model. Furthermore, the t-test (individual test) aims to examine whether the independent variables, namely the Current Ratio (CR) and Quick Ratio (QR), along with the control variables Tangible Assets (TGB), Firm Size (Size), Firm Age (Age), Inflation (Inf), and Gross Domestic Product (GDP), have a significant effect on the dependent variable, which is the company's performance measured by Return on Equity (ROE).

Table 3. Estimation Results with Fixed Effect Model

Independent Variable	Coefficient	Prob.	Conclusion
Constanta	-0.981777	0.5712	
CR	-0.058867	0.0303	(-) Sig.
QR	0.093201	0.0167	(+) Sig.
TGB	-0.059847	0.7156	(-) Not Sig.
SIZE	0.054089	0.3804	(-) Not Sig.
AGE	-0.016269	0.0096	(-) Sig.
INF	0.008207	0.3978	(+) Not Sig.
GDP	0.013399	0.0000	(+) Sig.
R-squared		0.602932	
Adjusted R-squared		0.483552	
F-stat		5.050526	
Prob F-stat		0.000000	

The proposed hypothesis, several conclusions can be drawn. First, in hypothesis H1 which states that CR has a negative effect on ROE, a probability value of 0.0303 was obtained, which is less than the significance level alpha of 0.05, followed by hypothesis H5 which states that AGE has a negative effect on ROE, with a profitability value of 0.0096, which is also less than the significance level alpha of 0.05. Therefore, H1 and H5 are rejected, indicating that CR and AGE have a negative effect on ROE. However, for hypothesis H2 (QR) and H7 (GDP) which have a positive effect on ROE because they show probability values of 0.0167 and 0.0000, both less than alpha 0.05. Thus, hypotheses H2 and H7 are rejected, indicating that QR and GDP have a positive effect on ROE. Meanwhile, for hypothesis H3 (TGB), H4 (SIZE), and H6 (INF) which state that these three variables do not affect ROE, showing probability values of 0.7156, 0.3804, and 0.3978 respectively. These three hypotheses are accepted because their probability values are greater than alpha 0.05. Thus, TGB, SIZE, and INF do not have a significant effect on ROE.

DISCUSSION

This study focuses on analyzing the relationship between several financial metrics and external economic indicators, specifically the current ratio, quick ratio, tangible assets, firm size, firm age, inflation, and GDP, with company performance. The study measured company performance through Return on Equity (ROE) and included control variables to refine the impact of each independent variable. Using statistical tests,

primarily the t-test, the researchers explored how each variable influences ROE. The primary finding was that the current ratio and quick ratio, indicators of a company's liquidity, significantly affect company performance. The current ratio, which reflects a company's ability to meet its short-term liabilities with current assets, showed a negative influence on ROE. This result implies that a higher current ratio, which usually signals liquidity, might not necessarily translate into higher profitability. It could indicate that a company is holding excess assets that could be otherwise invested or utilized. This finding aligns with Nguyen et al. (2024), who also found a negative correlation between the current ratio and company performance. High liquidity levels might seem favorable, but an excessively high current ratio could signify inefficient use of assets.

In contrast, the quick ratio, another measure of liquidity but more stringent as it excludes inventories, showed a positive impact on company performance. A high quick ratio indicates that a company has sufficient liquid assets, excluding inventories, to cover immediate liabilities. This finding suggests that liquidity in a more narrowly defined sense—excluding less liquid assets like inventory—positively influences ROE. This result corresponds with Sundas & Butt (2021), who reported a similar positive relationship between liquidity and performance. Thus, while maintaining a balance of liquid assets, companies might benefit from managing their inventories effectively to enhance profitability. For tangible assets, which represent a company's physical assets, the study found no significant impact on ROE. This outcome contradicts the study's hypothesis, which initially predicted a positive relationship between tangible assets and performance. Nguyen et al. (2024) suggested that tangible assets could improve the performance of consumer cyclical companies. However, in this study, tangible assets did not show the anticipated positive influence, leading to the proposal of an alternative hypothesis stating that tangible assets might be irrelevant to company performance, as supported (Derbali & Jamel, 2017). The absence of an effect could mean that asset-heavy investments are less critical in certain market segments, or that the value of tangible assets may not translate directly into increased profits.

Company size, measured by total assets or revenues, was also expected to influence ROE positively. However, the study found no significant relationship between firm size and company performance, challenging the hypothesis that larger firms have better financial outcomes. Previous research, including that of Nguyen et al. (2024), proposed a positive link between company size and performance, suggesting that larger companies benefit from economies of scale and enhanced market presence. This study, however, did not find such an effect, possibly indicating that the advantages of size may vary across industries or that other factors overshadow the benefits of scale. The age of a company, often viewed as an indicator of experience and market stability, showed a negative impact on company performance in this study. While older companies might be expected to benefit from experience and established reputations, this result implies that age does not necessarily correlate with profitability. This finding contradicts the hypothesis based on Nguyen et al. (2024), which suggested a positive link between company age and performance. The negative effect observed in this study could be due to potential issues in adapting to new market trends or technological shifts, which could disadvantage older firms. This finding suggests that staying competitive and innovative might be more important than longevity in driving profitability.

Inflation, an external economic factor, did not show a significant impact on company performance. This finding differs from the results of Nguyen et al. (2024), who found a negative relationship between inflation and performance. In light of the insignificant impact, an alternative hypothesis was suggested, supported by Prastyatini & Utami (2024), indicating that inflation may not influence company performance significantly. This might be because companies adjust their pricing strategies in response to inflation or because cyclical consumer industries, which were the study's focus, are less sensitive to inflationary changes. The study found that Gross Domestic Product (GDP), a measure of economic activity, positively influences company performance. A growing GDP typically signals economic health, potentially boosting consumer spending and

benefiting companies in consumer-oriented sectors. This finding is consistent with Nguyen et al. (2024), who also noted a positive correlation between GDP and company performance. As consumer spending tends to rise with economic growth, companies in consumer sectors are likely to see increased demand, which could enhance profitability. The research sample used in this study consisted of 40 consumer cyclical companies listed on the Indonesian Stock Exchange (IDX) over the 2019–2023 period. This focus on consumer cyclical companies allowed the study to observe how economic cycles might influence companies within a sector that is directly affected by consumer demand. The analysis confirmed that liquidity ratios, particularly the current and quick ratios, are critical factors in understanding company performance within this context. The current ratio's negative impact and the quick ratio's positive effect reveal how liquidity management can either hinder or benefit profitability.

In summary, the study made several conclusions based on these findings. First, it emphasized the role of liquidity in performance, highlighting that while the quick ratio has a beneficial effect on profitability, an excessively high current ratio might be counterproductive. Second, it found that tangible assets and company size do not significantly influence ROE, contradicting initial assumptions. Third, the negative impact of firm age suggests that longevity alone does not guarantee profitability. Fourth, the study observed no impact of inflation on company performance, implying that some sectors might be insulated from inflationary pressures. Finally, GDP's positive effect on ROE aligns with expectations, supporting the idea that economic growth can foster business performance in consumer-focused industries. This study contributes important insights into how liquidity management, firm-specific factors, and economic indicators interact to influence company performance in the consumer cyclical sector. These findings can inform strategies in managing liquidity and adapting to economic conditions, particularly for businesses that depend heavily on consumer demand.

CONCLUSION

The results of this research are an important consideration for companies in managing their performance, finances, and policies. Based on the analysis and research results conducted on 40 companies in the consumer cyclical sector listed on the Indonesia Stock Exchange (IDX) over a 5-year period (2019 - 2023). The research concluded that liquidity, company age, and GDP have an impact on company performance, both positive and negative, while tangible assets, company size, and inflation do not affect company performance. Of course, the company needs to consider a more strategic approach, including determining the liquidity level, increasing GDP, and understanding factors related to the company's age. For shareholders (investors) who decide to invest in a company, it is certainly necessary to pay attention to several pieces of information related to the company that is in the consumer cyclical sector that will be decided to receive investment. Some factors that can be considered are the liquidity ratio, the age of the company, and Indonesia's GDP level. Where, for investors, it is recommended to choose companies that have high liquidity values. This is because the company is able to manage its finances well by optimizing existing inventory and striving for low storage costs.

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