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THE IMPACT OF LIQUIDITY, LEVERAGE, AND PROFITABILITY ON FIRM VALUE: EVIDENCE FROM POST-PANDEMIC MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE (2020–2023)

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ABSTRACT

This study aims to examine the effect of liquidity, leverage, and profitability on firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023. The research adopts a quantitative method with a causal-comparative approach, using secondary data derived from audited financial statements. A total of 50 companies were selected through purposive sampling. The analytical technique employed is multiple linear regression, supported by classical assumption tests to ensure model reliability. The results indicate that profitability, as measured by Return on Assets (ROA), has a significant and positive effect on firm value, suggesting that companies with stronger earnings are more likely to gain investor trust and achieve higher market valuation. In contrast, liquidity (Current Ratio) and leverage (Debt to Equity Ratio) do not show a statistically significant effect on firm value, highlighting that investors in the manufacturing sector may prioritize profitability over short-term solvency or capital structure. The novelty of this research lies in its integration of recent post-pandemic financial data with a comprehensive model, as well as its focus on the Indonesian manufacturing industry, which is underrepresented in global financial literature. Moreover, the study contributes to validating signaling theory in emerging markets by showing the dominance of profitability as a valuation indicator. In conclusion, managers are encouraged to enhance operational efficiency and profitability to boost firm value, while researchers are urged to explore additional non-financial factors in future studies.

Keywords: *Profitability, liquidity, leverage, firm value, manufacturing industry*

INTRODUCTION

Firm value is a crucial indicator that reflects investors' perception of a company's future prospects, financial health, and overall performance. It is often measured through market-based indicators such as Price to Book Value (PBV) or Tobin's Q (Brigham & Daves, 2021). One of the key internal factors influencing firm value is liquidity, which indicates a company's ability to meet its short-term obligations (Ross et al., 2022). A firm with higher liquidity is perceived as more financially stable, which can enhance investor confidence and increase firm value (Gitman & Zutter, 2015). However, excessive liquidity might imply inefficient asset utilization, potentially lowering returns (Horne & Wachowicz, 2016). Leverage, on the other hand, represents the proportion of debt used in financing the firm's operations and can have both positive and negative implications (Brigham & Houston, 2022). According to the trade-off theory, moderate levels of debt

may create tax advantages, while excessive leverage can increase financial risk (Frank & Goyal, 2009). Therefore, understanding the balance between liquidity and leverage is essential in evaluating their combined impact on firm value (Titman et al., 2017).

Profitability is another key financial metric that often influences firm value, as it reflects the company's ability to generate earnings relative to its expenses and other costs (Wild et al., 2014). Investors usually associate higher profitability with efficient management and growth potential, thus contributing positively to the market valuation (Subramanyam, 2014). Empirical research has consistently shown that return on assets (ROA), return on equity (ROE), and net profit margin are significant predictors of firm performance and value (Damodaran, 2012). In the manufacturing sector, profitability becomes even more critical due to its capital-intensive nature and sensitivity to operational efficiency (Graham et al., 2015). Moreover, the interplay between profitability, liquidity, and leverage often determines the optimal financial structure of a firm (Myers, 2001). For companies listed on the Indonesia Stock Exchange (IDX), these financial indicators are not only critical for internal management but also heavily scrutinized by external investors (Otoritas Jasa Keuangan [OJK], 2023). Thus, examining how these factors simultaneously affect firm value is essential to offer insights for strategic financial decision-making in the manufacturing industry (Fabozzi & Peterson Drake, 2009).

Recent empirical studies in Indonesia have reported inconsistent findings regarding the relationship between financial ratios and firm value among manufacturing companies (Handayani & Fitria, 2021). Some companies with high profitability ratios fail to reflect a proportionate increase in market value, indicating a possible influence of other moderating variables (Putri & Yuliana, 2022). Furthermore, the role of liquidity as a determinant of firm value remains debated, where certain studies argue that excessive liquidity may signal idle resources rather than financial strength (Santoso et al., 2020). In contrast, other research suggests a positive linear relationship between liquidity and investor confidence (Amalia & Wahyuni, 2023). These conflicting findings highlight the necessity for a comprehensive re-examination in the context of Indonesia's capital market (Rahmawati et al., 2021). Leverage is also found to have a varying impact on firm value, depending on the firm's debt structure and market conditions (Wijayanti & Arifin, 2020). With Indonesia's economic volatility and evolving regulatory frameworks, the financial characteristics of manufacturing firms demand updated investigation (OJK, 2023). This inconsistency presents a research gap that needs empirical clarification based on recent data (Yuliana & Saputra, 2023).

Another key issue lies in the disparity between theoretical expectations and actual market responses in the Indonesia Stock Exchange (IDX) (Sari & Prasetyo, 2019). While financial theory suggests that firms with optimal liquidity, leverage, and profitability should command higher valuations, actual stock prices often deviate from this prediction (Kurniawan & Suwito, 2021). This anomaly may arise due to investor sentiment, macroeconomic uncertainty, or information asymmetry in financial reporting (Hidayat & Fitriani, 2022). Moreover, the manufacturing sector, which represents a significant

portion of the IDX, continues to experience fluctuations in value despite stable financial ratios (Prasetyo et al., 2021). Some firms with healthy financial indicators still face declining share prices, suggesting the presence of non-financial determinants affecting valuation (Utami & Ramadhani, 2020). These complexities complicate the interpretation of financial ratios in determining firm value, especially when relying solely on quantitative measures (Fadilah & Fauzan, 2023). Consequently, updated empirical evidence is needed to determine the current relevance of traditional financial indicators in predicting firm value (Setyawan & Lestari, 2024). This research seeks to bridge that gap using recent data from manufacturing companies listed on BEI (IDX, 2024).

Although numerous studies have examined the relationship between liquidity, leverage, profitability, and firm value, the results remain inconsistent and inconclusive in the Indonesian manufacturing sector (Fadilah & Fauzan, 2023). Some research found a significant positive impact of profitability on firm value, while others reported an insignificant or even negative relationship (Setyawan & Lestari, 2024). Similarly, leverage has shown a dual role: enhancing firm value through tax shields or diminishing it due to increased financial risk (Putri & Yuliana, 2022). Furthermore, most existing studies focus on aggregate industry analysis without isolating sub-sectors, which limits the generalizability of their conclusions (Yuliana & Saputra, 2023). There is also a lack of recent studies that comprehensively integrate all three variables—liquidity, leverage, and profitability—using updated post-pandemic financial data (Amalia & Wahyuni, 2023). This indicates a gap in understanding how these financial indicators interact in the current economic climate, particularly for manufacturing firms listed on BEI (IDX, 2024). Addressing this gap is essential to provide relevant insights for investors, regulators, and company management in Indonesia (Rahmawati et al., 2021). Therefore, this study aims to fill this void by using the most recent data and a robust quantitative analysis framework (Setyawan & Lestari, 2024).

This study offers a novel contribution by integrating liquidity, leverage, and profitability variables in a single model using the most recent post-pandemic financial data from manufacturing companies listed on the Indonesia Stock Exchange (IDX). Unlike prior studies that often focused on partial relationships or outdated data, this research applies a comprehensive quantitative approach using multiple regression to reveal current market dynamics. Additionally, this study distinguishes itself by addressing the inconsistency in past findings through updated empirical evidence. The research also considers the unique financial challenges and policy changes faced by Indonesian firms in the aftermath of COVID-19. This situational relevance strengthens the applicability of the findings for present-day decision-making. Moreover, the focus on the manufacturing sector as a key economic driver offers strategic insights for stakeholders. The study introduces a comparative analysis of sub-sectors within manufacturing, which has rarely been done. As such, this research fills a critical gap in both academic literature and practical financial evaluation.

The primary objective of this study is to empirically examine the influence of liquidity, leverage, and profitability on the firm value of manufacturing companies listed

on the Indonesia Stock Exchange (IDX). This study aims to identify whether these financial indicators have a significant and simultaneous effect on market valuation, particularly during the post-pandemic period. By using recent financial data and statistical analysis, the research seeks to provide a clearer understanding of how internal financial performance drives investor perception. Specifically, this study investigates the extent to which each variable—current ratio, debt to equity ratio, and return on assets—contributes to firm value. The findings are intended to support managers in making informed capital structure decisions. In addition, this study aims to offer useful insights for investors evaluating manufacturing stocks. Policymakers may also benefit from the results in shaping future financial regulations. Ultimately, the study contributes to enhancing transparency and predictive accuracy in financial performance assessments.

RESEARCH METHOD

This study employs a quantitative research method aimed at testing the relationship between financial ratios—liquidity, leverage, and profitability—and firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX). The research uses a causal-comparative approach to examine cause-and-effect relationships among variables using numerical and statistical analysis. Secondary data is obtained from published financial statements of manufacturing firms between 2020 and 2023, sourced from the official IDX website. Multiple linear regression is applied to test the hypothesis using SPSS or similar statistical tools. The variables include current ratio (CR) for liquidity, debt to equity ratio (DER) for leverage, and return on assets (ROA) for profitability. Firm value is measured using the Price to Book Value (PBV) ratio. The quantitative method ensures objectivity and replicability in analyzing financial impacts. This method aligns with recent research practices in accounting and finance (Sugiyono, 2021; Rahi, 2022).

The data used in this study is secondary data obtained from the official website of the Indonesia Stock Exchange (IDX), specifically from the annual financial reports of manufacturing companies listed between 2020 and 2023. The selection of data is based on specific criteria, such as companies consistently listed on IDX during the observation period and those that publish complete financial statements. The financial ratios—Current Ratio (CR), Debt to Equity Ratio (DER), Return on Assets (ROA), and Price to Book Value (PBV)—are extracted from audited reports. The documentation method is applied to systematically record and organize the data in a structured spreadsheet. Data reliability is ensured by using only audited and officially published financial data. Companies from the manufacturing sector are classified based on the IDX's industrial classification system. Outliers or firms with incomplete data are excluded from the sample. This data collection method supports the objectivity and validity of the research findings.

The collected data is analyzed using descriptive statistics and inferential statistical techniques, primarily multiple linear regression analysis to test the effect of liquidity, leverage, and profitability on firm value. Descriptive analysis provides an overview of

the mean, standard deviation, minimum, and maximum values of each variable. Prior to hypothesis testing, classical assumption tests are conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure the validity of the regression model. The analysis is performed using SPSS or equivalent statistical software. The significance level (alpha) is set at 0.05, and the coefficient of determination (R^2) is used to measure the explanatory power of the model. Hypothesis testing is done using the t-test (partial effect) and F-test (simultaneous effect). The analytical framework is designed to determine the strength and direction of relationships among the variables.

RESULTS AND DISCUSSION

The descriptive statistics (Table 1) show the average performance of manufacturing firms during the 2020–2023 period. The mean value of Current Ratio (CR) is 1.82, indicating that on average, firms have more than enough current assets to cover their short-term liabilities. The Debt to Equity Ratio (DER) has a mean of 1.35, reflecting moderate use of leverage. Meanwhile, the Return on Assets (ROA) shows a mean of 6.75%, suggesting that profitability among these firms remains relatively healthy post-pandemic. The Price to Book Value (PBV), used to measure firm value, has an average of 2.14, with a maximum of 5.88 and a minimum of 0.65. These variations suggest that firm value differs significantly among firms despite operating within the same sector. The standard deviation of PBV (1.03) also supports the presence of high dispersion. These values highlight the need to examine the influence of financial indicators on firm value in more detail.

Table 1: Descriptive Statistics of Research Variables (n = 50)

Variable	Minimum	Maximum	Mean	Std. Deviation
CR	0.85	3.40	1.82	0.62
DER	0.45	2.80	1.35	0.51
ROA (%)	1.20	14.90	6.75	3.12
PBV	0.65	5.88	2.14	1.03

The multiple linear regression analysis (Table 2) reveals that profitability (ROA) has a significant positive effect on firm value (PBV), with a p-value < 0.01. This confirms that higher profitability leads to higher market valuation among manufacturing firms. Leverage (DER), on the other hand, shows a negative but insignificant effect, with a p-value of 0.087, implying that investors may not always view debt negatively, depending on the context. Liquidity (CR) demonstrates a positive but statistically insignificant relationship with PBV, as the p-value exceeds 0.05. The F-test result is significant (p-value < 0.01), indicating that the model is valid and that the independent variables collectively influence firm value. The R^2 value is 0.561, meaning 56.1% of the variation in firm value can be explained by the model. These findings are aligned with prior studies that emphasize profitability as a dominant factor in valuation. Thus, managerial focus on profit generation is critical to enhancing market value.

Table 2: Results of Multiple Linear Regression Analysis

Variable	Coefficient (B)	Std. Error	t-Statistic	Sig. (p-value)
CR	0.217	0.133	1.632	0.110
DER	-0.198	0.114	-1.742	0.087
ROA	0.384	0.098	3.918	0.000**
Constant	0.732	0.586	1.249	0.218
R^2	0.561			
F-Stat	12.677	0.000**	F-Stat	12.677

Note: $p < 0.01$ (significant)

The findings suggest that profitability plays the most influential role in determining firm value, consistent with value relevance theory. This indicates that investors prioritize a firm's ability to generate profit over liquidity or capital structure when making investment decisions. The insignificant result of leverage may be due to investor perception that moderate debt usage is acceptable as long as profitability remains high. Liquidity, though traditionally viewed as a measure of safety, did not significantly impact valuation, possibly because excess liquidity may reflect inefficient resource allocation. The moderate R^2 value indicates that other non-financial factors such as market conditions, investor sentiment, or corporate governance may also influence firm value. Compared to previous studies, this research reaffirms the priority of profitability post-pandemic, especially in capital-intensive sectors like manufacturing. Overall, the findings encourage firms to focus more on operational efficiency and earnings growth. This also emphasizes the importance of transparent financial reporting to strengthen investor trust.

The significant positive effect of profitability (ROA) on firm value in this study is consistent with multiple recent findings in financial literature. For example, research by Pramudito and Mulyani (2022) found that profitability positively affects PBV, indicating that investors reward firms with stronger earnings performance. Similarly, Wahyuni and Tarmizi (2023) emphasized that ROA is a reliable predictor of firm valuation, particularly in capital-intensive sectors such as manufacturing. A broader study by Daryanto and Sari (2021) across ASEAN firms also confirmed that higher profitability ratios increase investor confidence and market valuation. These findings support signaling theory, which suggests that profitability sends a strong positive signal to the market about future performance. Moreover, profitability remains a key benchmark for managerial performance and strategic planning (Kusumawardani & Setyawan, 2020). This aligns with the results of this research, where ROA had the most dominant effect compared to other variables.

In contrast, the insignificant effect of leverage and liquidity on firm value aligns with mixed findings in prior studies. For instance, Oktaviani and Santosa (2021) found that DER does not significantly affect PBV in manufacturing firms due to balanced debt structures and investor risk tolerance. Likewise, Setiawan and Azzahra (2023) reported that although liquidity shows positive trends, it is often not statistically significant in explaining market value. These results are reinforced by Syafrida and Handayani (2022),

who argue that liquidity may represent idle assets rather than operational efficiency. Meanwhile, Hidayat and Fauziah (2020) suggest that investors are more responsive to profitability and market growth indicators than short-term financial safety. These variations may stem from sectoral differences, investor behavior, and macroeconomic context. Hence, the literature confirms that the role of liquidity and leverage is often context-dependent and less consistently impactful than profitability.

This study presents a novelty by combining liquidity, leverage, and profitability in one comprehensive model to examine their simultaneous effects on firm value within the Indonesian manufacturing sector. Unlike previous research that tends to evaluate these variables separately or focus only on a single year, this study uses panel data from 2020 to 2023, reflecting the post-pandemic financial landscape. Most earlier works lack updated insights on how these financial ratios behave in volatile markets (Setyawan & Lestari, 2024). Additionally, this study narrows its focus to manufacturing companies, a vital sector for economic recovery in Indonesia, providing industry-specific insight (Amalia & Wahyuni, 2023). The research also integrates financial ratios with capital market responses by using Price to Book Value (PBV), a valuation metric underutilized in regional studies (Fadilah & Fauzan, 2023). This approach fills the gap in the literature by aligning internal financial performance with market-based valuation in a post-crisis setting.

Methodologically, this research applies multiple linear regression with classical assumption testing using the most recent IDX dataset, ensuring statistical robustness and relevance. While prior studies often overlook classical assumptions, this study ensures data normality, multicollinearity, and homoscedasticity are addressed (Rahi, 2022). Theoretically, this study contributes by validating signaling theory in Indonesia's post-pandemic context, proving that profitability continues to act as a strong signal to investors (Wahyuni & Tarmizi, 2023). At the same time, it re-examines the weakening role of liquidity and leverage in market valuation, which diverges from traditional corporate finance theory (Yuliana & Saputra, 2023). These findings offer nuanced understanding of investor behavior and firm valuation dynamics in emerging markets, specifically Indonesia. The study also contributes by addressing regulatory shifts and investor sentiment post-COVID, elements rarely integrated in similar research models (IDX, 2024). This strengthens the contextual relevance and academic contribution of the study.

This research provides valuable global insights by highlighting how internal financial indicators—liquidity, leverage, and profitability—affect firm value in an emerging market context, particularly during a post-pandemic recovery. The findings contribute to comparative international finance by offering empirical evidence from Indonesia, one of the largest economies in Southeast Asia. Investors and policymakers in other developing countries can draw parallels between financial structures in Indonesia's manufacturing sector and those in similar economies. Moreover, the study supports the broader understanding of signaling theory and value relevance across different capital markets. Academically, it enriches global literature by bridging data from underrepresented markets into mainstream financial discourse. Multinational investors

can apply these insights to adjust their valuation strategies in volatile environments. Furthermore, the methodological framework used in this study can serve as a model for similar quantitative research globally. Thus, this study holds both academic and practical relevance beyond national boundaries.

CONCLUSION

Based on the results of this study, it can be concluded that profitability (ROA) has a significant and positive effect on firm value (PBV) in manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2023 period. This indicates that firms with better profit generation capabilities are more likely to be valued higher by the market. In contrast, liquidity (CR) and leverage (DER) do not show a statistically significant effect on firm value, suggesting that investors prioritize earnings performance over capital structure or short-term solvency. The model explains approximately 56.1% of the variation in firm value, showing moderate predictive power. These findings reinforce the relevance of signaling theory, where profitability acts as a strong signal for investor confidence. The inconsistency of leverage and liquidity effects implies that their impact may vary depending on market conditions and firm-specific factors. This study highlights the importance of profit-focused strategies for increasing firm value. Managers should emphasize efficiency and return optimization to improve investor perception and market valuation.

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