

The Effect of Liquidity, Leverage, and Firm Size on the Financial Performance of Manufacturing Companies Listed on the IDX in 2024

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Abstract

This study aims to analyze the effect of liquidity, leverage, and firm size on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2024. Financial performance is measured using Return on Assets (ROA), liquidity with Current Ratio (CR), leverage with Debt to Equity Ratio (DER), and firm size using the natural logarithm of total assets. This research employs a quantitative explanatory approach with a sample of 117 manufacturing companies selected through purposive sampling. Secondary data were obtained from annual financial reports published on the official IDX website (www.idx.co.id). Data analysis was performed using multiple linear regression preceded by classical assumption tests (normality, multicollinearity, and heteroscedasticity). The results of the partial hypothesis test show that liquidity does not significantly influence financial performance ($t = -1.782$; $\text{sig.} = 0.077 > 0.05$), leverage has a positive and significant influence on financial performance ($t = 4.825$; $\text{sig.} = 0.000 < 0.05$), and firm size does not significantly influence financial performance ($t = 0.899$; $\text{sig.} = 0.371 > 0.05$). Simultaneously, all three variables significantly influence financial performance ($F = 9.473$; $\text{sig.} = 0.000 < 0.05$) with a coefficient of determination (R -squared) of 0.201, indicating that 20.1% of the variation in financial performance can be explained by these three variables, while the remaining 79.9% is explained by other factors outside the research model. These findings imply that efficient debt management is the most critical factor in improving financial performance of manufacturing companies.

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INTRODUCTION

The rapid development of the business environment in the era of globalization requires companies to continuously enhance their competitiveness by improving financial performance. Financial performance serves as an important indicator for investors, creditors, and management in evaluating a company's financial condition and making appropriate economic decisions. In this context, manufacturing companies listed on the Indonesia Stock Exchange (IDX) play a strategic role due to their significant contribution to the national economy, accounting for approximately 18–20% of Indonesia's Gross Domestic Product (GDP) and representing one of the largest employment-generating sectors (Sanny & Warastuti, 2020).

Corporate financial performance is influenced by several internal factors, including liquidity, leverage, and firm size. Liquidity reflects a company's ability to meet its short-term obligations and is therefore an essential indicator of operational sustainability. Companies with higher liquidity generally face lower financial distress risk (Anistasya & Setyawan, 2022). However, excessively high liquidity may also indicate the existence

of idle funds that are not utilized efficiently. Consequently, companies must maintain an optimal level of liquidity to ensure both operational efficiency and profitability.

In addition to liquidity, leverage is another important determinant of financial performance. Leverage reflects the extent to which a company relies on debt financing to support its business operations. Appropriate use of leverage can enhance firm value through its positive effect on profitability, whereas excessive debt increases financial risk and may adversely affect corporate performance (Muwafiq et al., n.d.). Firm size also plays a significant role in determining financial performance, as larger firms generally have greater access to financing sources, advanced technology, and highly qualified human resources.

Previous studies have reported inconsistent findings regarding the effects of liquidity, leverage, and firm size on financial performance. Some studies found that liquidity has a positive effect on financial performance, whereas others reported insignificant relationships. Similar inconsistencies have been observed for leverage and firm size. These variations may be attributed to differences in research objects, observation periods, and analytical methods. Therefore, further investigation using more recent data is necessary to re-examine the relationships among these variables (Apriyani et al., 2026).

Based on the foregoing discussion, this study aims to analyze the effects of liquidity, measured by the Current Ratio (CR), leverage, measured by the Debt-to-Equity Ratio (DER), and firm size on financial performance, measured by Return on Assets (ROA), using a sample of 117 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2024. The research hypotheses are formulated as follows: H1: Liquidity has no significant effect on financial performance; H2: Leverage has a positive and significant effect on financial performance; H3: Firm size has no significant effect on financial performance; and H4: Liquidity, leverage, and firm size simultaneously have a significant effect on the financial performance of manufacturing companies listed on the IDX (Ekonomi et al., 2022).

The theoretical foundation of this study is based on Agency Theory (Jensen & Meckling, 1976) which serves as the grand theory explaining the relationship between management and shareholders in managing corporate resources. Financial performance is measured using Return on Assets (ROA), which reflects the company's effectiveness in utilizing its total assets to generate profits. Liquidity is proxied by the Current Ratio (CR), leverage by the Debt-to-Equity Ratio (DER), and firm size by the natural logarithm of total assets.

METHOD

This study employed a quantitative explanatory research approach to empirically examine the effects of the independent variables (liquidity, leverage, and firm size) on the dependent variable (financial performance) using numerical data derived from corporate financial statements. This approach was selected because it enables objective statistical hypothesis testing and allows the findings to be generalized (Ardina et al., 2024).

The study population consisted of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2024, totaling 169 firms distributed across three sectors: Miscellaneous Industry (44 companies), Consumer Goods Industry (55 companies), and Basic Industry and Chemicals (70 companies). The sample was selected using purposive sampling based on the following criteria: (1) the company was consistently listed on the IDX during 2024; (2) it published complete annual financial statements audited by an independent public accountant; and (3) its financial statements were presented in Indonesian Rupiah (IDR). Based on these criteria, 117 companies were selected as the research sample.

Secondary data were obtained from the annual financial statements published on the official Indonesia Stock Exchange (IDX) website (www.idx.co.id). Data analysis was conducted using multiple linear regression based on the following model:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

where Y = Return on Assets (ROA), X_1 = Current Ratio (CR) representing liquidity, X_2 = Debt-to-Equity Ratio (DER) representing leverage, and X_3 = Natural Logarithm of Total Assets (Firm Size).

Prior to hypothesis testing, classical assumption tests were performed, including the Kolmogorov–Smirnov normality test, multicollinearity test using Variance Inflation Factor (VIF) and Tolerance values, and the Glejser heteroscedasticity test. The hypotheses were then tested using the t-test (partial effect), F-test (simultaneous effect), and the coefficient of determination (R^2) at a significance level of 5%. The operational definitions of the research variables are presented in Table 1.

Includes research design, population and sample, development of research instruments, data collection techniques, and data analysis techniques, which are described briefly.

Table 1. Operational Definitions of Variables

Variable	Variable	Variable
Financial Performance (Y)	$ROA = \text{Net Income} \div \text{Total Assets} \times 100\%$	Measures the company's efficiency in generating profits from its total assets.
Leverage (X ₁)	$DER = \text{Total Liabilities} \div \text{Total Equity} \times 100\%$	Measures the proportion of debt financing relative to shareholders' equity in the company's capital structure.
Liquidity (X ₂)	$CR = \text{Current Assets} \div \text{Current Liabilities} \times 100\%$	Measures the company's ability to meet its short-term obligations.
Firm Size (X ₃)	$SIZE = \ln(\text{Total Assets})$	Reflects the company's operational scale based on its total assets.

RESULTS

1. Descriptive Statistics

Descriptive statistics provide an overview of the characteristics of the research data, including the minimum, maximum, mean, and standard deviation of each research variable, as presented in Table 2.

Table 2. Descriptive Statistics of Research Variables

Variable	N	Min	Max	Mean	Std. Dev
Leverage (DER)	117	-26.47	11.33	0.3619	4.211
Liquidity (CR)	117	0.09	163.16	5.0893	16.928
Firm Size	117	155	472,925,000	14,589,520.71	49,826,273.9
Financial Performance (ROA)	17	17	17	17	17

Source: SPSS Output (processed data)

As shown in Table 2, the leverage (DER) variable has a mean value of 0.3619, with a wide range from -26.47 to 11.33, indicating substantial heterogeneity in the capital structures of the sampled companies. Negative DER values indicate firms with negative equity, which generally reflects companies experiencing accumulated losses. The liquidity (CR) variable has an average value of 5.0893 with a standard deviation of 16.928, suggesting that most companies are sufficiently liquid, although liquidity varies considerably across firms. Financial performance (ROA) has an average value of 0.0247, with a minimum value of -0.54, indicating that several companies experienced significant losses during the study period.

2. Classical Assumption Tests

The normality test using the Kolmogorov–Smirnov method produced an Asymp. Sig. (2-tailed) value of 0.055, which is greater than 0.05, indicating that the regression residuals are normally distributed. The multicollinearity test showed that all independent variables had Tolerance values greater than 0.10 and Variance Inflation Factor (VIF) values below 10 (Leverage: Tolerance = 0.997, VIF = 1.003; Liquidity: Tolerance = 0.996, VIF = 1.004; Firm Size: Tolerance = 0.996, VIF = 1.004), indicating the absence of multicollinearity. Furthermore, the heteroscedasticity test using the Glejser test produced significance values greater than 0.05 for all independent variables, indicating that no heteroscedasticity problem exists. Therefore,

all classical regression assumptions were satisfied, and the regression model is appropriate for hypothesis testing.

3. Hasil Analisis Regresi Linear Berganda

Based on the multiple linear regression analysis performed using SPSS, the estimated regression equation is as follows:

$$\text{ROA} = 0.023 - 0.001\text{CR} + 0.012\text{DER} + 1.836 \times 10^{-10}\text{SIZE} + e$$

The results of the partial hypothesis testing (t-test) and simultaneous hypothesis testing (F-test) are presented in Tables 3 and 4, respectively.

Table 3. Results of the Partial t-Test

Variable	Coefficient	t-value	Sig.	Interpretation
Constant	0.023	2.108	0.037	–
Leverage (DER)	0.012	4.825	0.000	Significant (+)
Liquidity (CR)	-0.001	-1.782	0.077	Not Significant
Firm Size	1.836E-10	0.899	0.371	Not Significant

Source: SPSS Output (processed data)

Table 4. Results of the Simultaneous F-Test and Coefficient of Determination

Test	Value	Sig.	Interpretation
F-statistic	9.473	0.000	Significant
R Square (R ²)	0.201	–	The model explains 20.1% of the variation in the dependent variable
Adjusted R ²	0.180	–	18.0%

Source: SPSS Output (processed data).

DISCUSSION

1. The Effect of Leverage on Financial Performance

The results of the t-test indicate that leverage (DER) has a positive and statistically significant effect on financial performance (ROA) ($t = 4.825$; $p = 0.000 < 0.05$); therefore, H_1 is accepted. The positive regression coefficient of 0.012 indicates that a one-unit increase in DER increases ROA by 0.012, holding the other variables constant. This finding suggests that the manufacturing companies in the sample were able to utilize debt financing productively, either to expand production capacity or to finance investments that generated returns exceeding their interest costs. This result is consistent with the trade-off theory, which predicts that when leverage remains below its optimal level, the benefits of the tax shield outweigh the costs of financial distress.

This finding is consistent with the studies of (Antoni. R & Jannah, 2025; Saeful Fachri et al., 2024), who also found that leverage has a positive and significant effect on the profitability of manufacturing companies listed on the Indonesia Stock Exchange. From a managerial perspective, this finding suggests that manufacturing firms should strategically utilize debt financing as an instrument to improve financial performance while ensuring that debt levels remain within the firm's repayment capacity and optimal capital structure.

2. The Effect of Liquidity on Financial Performance

Liquidity (CR) does not have a statistically significant effect on financial performance ($t = -1.782$; $p = 0.077 > 0.05$); therefore, H_2 is accepted. The negative coefficient (-0.001) indicates a tendency for higher liquidity to be associated with lower ROA, although the relationship is not statistically significant. This phenomenon can be explained by the concept of idle funds, whereby firms with excessively high current ratios may hold excessive current assets, such as surplus cash or slow-moving inventories, which are not utilized efficiently and consequently reduce overall asset productivity.

This finding is consistent with the results reported by (Saeful Fachri et al., 2024) who also found that liquidity has a negative but insignificant effect on the financial performance of manufacturing companies. These results suggest that, in the context of Indonesian manufacturing firms, maintaining an adequate level of liquidity is more important than maximizing liquidity, as excessive liquidity does not significantly contribute to improving ROA.

3. The Effect of Firm Size on Financial Performance

Firm size does not have a statistically significant effect on financial performance ($t = 0.899$; $p = 0.371 > 0.05$); therefore, H_3 is accepted. Although the regression coefficient is positive, possessing larger total assets does not automatically lead to higher ROA. This finding may be explained by the considerable heterogeneity in asset management efficiency among manufacturing companies. Large firms with substantial asset bases but inefficient management may generate lower ROA than smaller firms with more effective asset utilization [4].

This finding is consistent with the studies conducted by (Fitriyah & Syaiful, 2024; Muwafiq et al., n.d.) all of whom reported no significant relationship between firm size and financial performance. The results indicate that, within Indonesia's manufacturing industry, managerial quality and operational efficiency are more important determinants of financial performance than firm size alone.

4. Simultaneous Effect

The simultaneous test demonstrates that leverage, liquidity, and firm size jointly have a significant effect on financial performance ($F = 9.473$; $p = 0.000 < 0.05$); therefore, H_4 is accepted. The coefficient of determination ($R^2 = 0.201$) indicates that these three variables collectively explain 20.1% of the variation in financial performance, while the remaining 79.9% is explained by other factors outside the research model, such as operating profitability, sales growth, ownership structure, dividend policy, and macroeconomic conditions. This finding highlights the importance of considering leverage, liquidity, and firm size simultaneously, as their combined effects provide a statistically significant explanation of the variation in corporate financial performance [11].

CONCLUSION

Based on the results of the multiple linear regression analysis of 117 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2024, several conclusions can be drawn.

First, liquidity (Current Ratio/CR) does not have a statistically significant effect on financial performance (Return on Assets/ROA) ($t = -1.782$; $p = 0.077 > 0.05$). The negative coefficient suggests that excessive liquidity may reduce asset utilization efficiency due to the presence of idle funds, such as excess inventories and uncollectible receivables.

Second, leverage (Debt-to-Equity Ratio/DER) has a positive and statistically significant effect on financial performance ($t = 4.825$; $p = 0.000 < 0.05$). This finding indicates that manufacturing companies capable of utilizing debt productively are able to improve ROA through the positive leverage effect on profitability.

Third, firm size does not have a statistically significant effect on financial performance ($t = 0.899$; $p = 0.371 > 0.05$), indicating that larger asset holdings alone do not guarantee higher profitability without effective asset management.

Fourth, the independent variables jointly have a significant effect on financial performance ($F = 9.473$; $p = 0.000 < 0.05$), with a coefficient of determination (R^2) of 0.201, indicating that the model explains 20.1% of the variation in financial performance.

These findings have several practical implications. For corporate management, leverage management should be prioritized in financial strategy, as the productive and prudent use of debt has been shown to enhance financial performance. Liquidity should be managed efficiently rather than merely maintaining a high Current Ratio. For investors, the Debt-to-Equity Ratio (DER) appears to be the most important indicator when

evaluating the financial prospects of manufacturing companies. Future research is encouraged to incorporate additional explanatory variables, such as asset turnover, sales growth, dividend policy, and macroeconomic factors (e.g., inflation and interest rates), to explain the remaining 79.9% of the variation in financial performance that is not captured by the current research model.

A summary description of the discussion of research results, but still refers to the research objectives and hypotheses, not a summary of the results of calculations or statistical testing. Can present findings or what new theory triggers are obtained from the research results.

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