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Liquidity Surplus: Profitability Growth, Leverage, in Financial Service Companies

Siska Yuli Anita^{1*}, Nuraeni², Moch Arif Hernawan³, Siti Nurhayati⁴, Eddy Haryanti⁵

¹ Universitas Islam Negeri Raden Intan Lampung, Indonesia, siskayulianita@radenintan.ac.id

² Universitas Muhammadiyah Jakarta, Indonesia, nur.aini@umj.ac.id

^{3,4} Institut Transportasi dan Logistik Trisakti, Jakarta, Indonesia, arifhernawan1112@gmail.com, srikalibata66@gmail.com

⁵ STIE Indonesia Banking School, Jakarta, enny.haryanti@ibs.ac.id

*Corresponding Author: siskayulianita@radenintan.ac.id

Abstract: The purpose of this article is to analyze potential strategies and solutions to efficiently manage liquidity surpluses, increase profitability, and address operational issues, and provide recommendations to company management on concrete steps that can be taken to optimize liquidity surplus management, increase profitability growth, and reduce leverage and gap risks in company operations. This article uses quantitative methods, which look for influences between variables, the population in this study is middle leaders in financial companies with respondents randomly selected from several financial companies with the distribution of questionnaires. The questionnaire returned after being filled out as many as 52 respondents. Data processing in producing results from questionnaires using SPSS 23 in producing research results. Profitability and leverage have a significant influence on a company's liquidity. This suggests that a company's financial performance, such as profitability, and capital structure, such as leverage, play an important role in determining a company's liquidity level. Therefore, the company's financial management needs to pay close attention to these two factors in an effort to maintain and increase optimal liquidity levels. Pay Attention to Profitability Performance: The management of the company must continue to pay attention and improve its profitability performance. This can be done by improving operational efficiency, product innovation, and the right marketing strategy to increase company revenue and profits. It is expected that the company can maintain and increase its liquidity level, so that it can achieve its long-term financial goals more effectively and efficiently.

Keyword: Liquidity, Probability, Leverage

INTRODUCTION

Liquidity surplus refers to the amount of cash available in a company after meeting the required working capital and investment needs. Financial companies, in this context, have a significant liquidity surplus, which gives rise to several interesting phenomena and potential problems. Financial services companies have experienced significant liquidity surplus phenomena in recent periods (Putri & Wiksuana, 2021). This can be due to several factors, such as strong sales, cost savings, or receiving funds from external funding that are larger than

necessary. A large liquidity surplus can have a positive impact on a company's profitability growth. With more funds, companies can invest in profitable projects or take advantage of emerging investment opportunities. In addition, a sufficient liquidity surplus can help companies cope with financial stresses that may arise in unexpected situations (Krykliy & Luchko, 2018).

Although surplus liquidity can provide significant financial flexibility, however, if not managed properly, it can pose leverage issues. Companies may tend to use higher leverage than they should, as they feel that their liquidity surplus provides sufficient assurance of financial security. This can increase the company's financial risk in the event of changes in market conditions or unexpected business situations (Njenga, 2019). Liquidity surplus management is a major challenge for financial companies (Moridu & Abidin, 2023). Proper management is necessary to ensure that liquidity surpluses are utilized efficiently to create added value for shareholders, while minimizing the risk of excessive leverage (Nieuwoudt & Hall, 2022).

Financial services companies often face pressure from intense competition, both from traditional competitors and financial technology (fintech) companies (Románova et al., 2018). This can reduce a company's profit margins and demand constant innovation of products and services. Financial services firms must comply with a number of complex and diverse regulations, which can strain companies' resources and limit their operational flexibility (Kasradze, 2021). Not complying with regulations can result in serious financial penalties and reputational damage.

Develop effective risk management strategies to manage their liquidity surplus. This may include diversification of investments, payment of dividends to shareholders, share buybacks, or the use of derivative financial instruments to hedge exchange rate or interest rate risk (Mughal & Saeed, 2014). Financial services companies often experience a technology gap between what they offer and what their customers or competitors expect (Agwu, 2020). This gap can occur in terms of product and service innovation, use of digital technology, or complex system integration (Ayimah et al., 2023). Financial services firms often face gaps in the skills and expertise of the workforce (Njeri et al., 2017). Rapid changes in the financial industry require constantly updated skills, but it is often difficult to recruit or retain talent that fits a company's needs (Jangra, 2018). The purpose of this article is to analyze potential strategies and solutions to efficiently manage liquidity surpluses, increase profitability, and address operational issues, and provide recommendations to company management on concrete steps that can be taken to optimize liquidity surplus management, increase profitability growth, and reduce leverage and gap risks in company operations.

Profitability with Liquidity

Liquidity and profitability each contribute positively to the valuation of cement sector manufacturing firms listed on the Indonesia Stock Exchange (Sa'diah et al., 2023). Another study found that liquidity, activity, leverage, and profitability are all significant to firm value in LQ45 index companies listed on the Indonesia Stock Exchange, with corporate social responsibility playing a role as a moderating variable and company size as a control variable (Jihadi et al., 2021).

The other study from (Yuliyanti et al., 2022) found that liquidity and profitability did not affect firm value in mining sector companies listed on the Indonesia Stock Exchange, while leverage had a positive effect on the company. From several previous studies found, the hypotheses in this study are:

H₁: It is suspected that there is a positive and significant influence between Profitability and Liquidity

Leverage on Liquidity

Research results from (Mardianti & Sunandar, 2022) This research concentrated on retail trading businesses listed on the Indonesian Stock Exchange and discovered a notable correlation among liquidity, profitability, leverage, and firm value. The study indicated that liquidity (assessed via the current ratio), profitability (assessed via return on assets), and leverage (assessed via the debt-to-equity ratio) all exert a significant impact on firm value. which focused on property companies listed on the Indonesia Stock Exchange, found that liquidity, profitability, and leverage all have an influence on the value of the company. However, leverage was found to not mediate between liquidity and profitability on the company's value (Prakosa & Muharam, 2022).

That liquidity and leverage had a negative and insignificant impact on firm value, while profitability had a positive and significant impact on firm value. The study also found that dividend policy was not able to moderate the impact of liquidity and leverage on firm value, but it was able to weaken the impact of profitability on firm value (Stefanie & Yanti, 2023). From several previous studies found in support of this study, the hypothesis is as follows:
H₂: It is suspected that there is a Positive and Significant Influence between Leverage and Liquidity.

METHOD

This article uses quantitative methods, which look for influences between variables, the population in this study is middle leaders in financial companies with respondents randomly selected from several financial companies with the distribution of questionnaires. The questionnaire returned after being filled out as many as 52 respondents.

Data processing in producing results from questionnaires using SPSS 23 in producing research results.

RESULTS AND DISCUSSION

Based on the data collected, both from primary and secondary sources, an overview of the results of the study has been obtained. The data is processed based on information collected through data collection instruments. In accordance with the predetermined number of respondents, as many as 52 questionnaires were distributed to respondents and returned in full. Once the data from the questionnaire is sorted, it overall meets the criteria and is deemed worthy of analysis. Then, using the SPSS 23.00 for Windows computer tool, the data is analyzed and interpreted to address previously formulated problems.

Overview of research findings for each research variable, namely Productivity, Leverage, and Liquidity. The following is a test carried out from the data of the questionnaire answer results collected as follows:

Test the validity of profitability variables.

Table 1. Test the validity of profitability variables

| Statement | Profitability | | |
|-----------|---------------|----------------|-------------|
| | r count | r table n = 52 | Information |
| 1 | 0,645** | 0.268 | Valid |
| 2 | 0,623** | 0.268 | Valid |
| 3 | 0,540** | 0.268 | Valid |
| 4 | 0,590** | 0.268 | Valid |
| 5 | 0,564** | 0.268 | Valid |
| 6 | 0,498** | 0.268 | Valid |
| 7 | 0,464** | 0.268 | Valid |

| | | | |
|----|---------|-------|-------|
| 8 | 0,682** | 0.268 | Valid |
| 9 | 0,729** | 0.268 | Valid |
| 10 | 0,806** | 0.268 | Valid |
| 11 | 0,458** | 0.268 | Valid |
| 12 | 0,676** | 0.268 | Valid |
| 13 | 0,472** | 0.268 | Valid |

From the table above, it can be seen that each statement on the Leadership variable has high validity, because the resulting calculated value significantly exceeds the rtable value for N = 52, which is 0.268.

Variable Leverage Validity Test

Tabel 2. Result Validity Test Leverage Variable

| Statement | Leverage | | |
|-----------|----------|---------------------------|-------------|
| | rcount | r _{table n = 52} | Information |
| 1 | 0,781** | 0.268 | Valid |
| 2 | 0,722** | 0.268 | Valid |
| 3 | 0,823** | 0.268 | Valid |
| 4 | 0,634** | 0.268 | Valid |
| 5 | 0,655** | 0.268 | Valid |
| 6 | 0,679** | 0.268 | Valid |
| 7 | 0,660** | 0.268 | Valid |
| 8 | 0,852** | 0.268 | Valid |
| 9 | 0,798** | 0.268 | Valid |
| 10 | 0,632** | 0.268 | Valid |
| 11 | 0,603** | 0.268 | Valid |
| 12 | 0,775** | 0.268 | Valid |
| 13 | 0,363** | 0.268 | Valid |

From the table, it can be seen that each statement on the Leverage variable has high validity, because the resulting calculated value significantly exceeds the rtable value for N = 52, which is 0.268.

Test the validity of liquidity variables

Table 3. Liquidity Variable Validity Test

| Statement | Liquidity | | |
|-----------|-----------|---------------------------|-------------|
| | rcount | r _{table n = 52} | Information |
| 1 | 0,550** | 0.268 | Valid |
| 2 | 0,487** | 0.268 | Valid |
| 3 | 0,674** | 0.268 | Valid |
| 4 | 0,549** | 0.268 | Valid |
| 5 | 0,662** | 0.268 | Valid |
| 6 | 0,611** | 0.268 | Valid |
| 7 | 0,659** | 0.268 | Valid |
| 8 | 0,694** | 0.268 | Valid |
| 9 | 0,765** | 0.268 | Valid |
| 10 | 0,771** | 0.268 | Valid |
| 11 | 0,674** | 0.268 | Valid |
| 12 | 0,589** | 0.268 | Valid |
| 13 | 0,562** | 0.268 | Valid |

Source: Processed Data (SPSS 23), 2023

From the table, it can be seen that each statement on the variable Personnel Work Performance (Y) has high validity, because the resulting calculated value significantly exceeds the rtable value for N = 52, which is 0.268.

Liquidity Variable Reliability Test

Tabel 4. Variable Reliability Test Profitability Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| ,851 | 13 |

Source: Processed Data (SPSS 23), 2023

From the table, to test the reliability of the Liquidity variable with a rtable value of 0.268, and the resulting Alpha value of 0.851, it can be concluded that r alpha is positive and greater than 0.268 ($0.851 > 0.268$), so it can be concluded that the research instrument regarding the Liquidity variable is reliable.

Variable Leverage Reliability Test

Table 5. Variable Leverage Reability Test Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| ,911 | 13 |

Source: Processed Data (SPSS 23), 2023

Based on the table above, for the reliability test of the Leverage variable with a rtable of 0.268, and the result of the Alpha value of 0.911, it can be concluded that the ralpha is positive and greater or $0.911 > 0.268$, thus the research instrument regarding the Leverage variable is Reliable.

Variable Liquidity Reliability Test

Table. Liquidity Variable Reliability Test

| Cronbach's Alpha | N of Items |
|------------------|------------|
| ,871 | 13 |

Source: Processed Data (SPSS 20), 2020

From the table, to test the reliability of the Liquidity variable with a rtable value of 0.268, while Cronbach's Alpha value is 0.871. Therefore, it can be concluded that ralpha is positive and greater than 0.268 ($0.871 > 0.268$), so it can be concluded that the research instrument regarding the Liquidity variable is reliable.

Normality Test

Table 7. Normality Test Results
One-Sample Kolmogorov-Smirnov Test

| | | Profitabilitas | Leverage | Likuiditas |
|----------------------------------|----------------|----------------|----------|------------|
| N | | 52 | 52 | 52 |
| Normal Parameters ^{a,b} | Mean | 47,3077 | 53,0769 | 56,7308 |
| | Std. Deviation | 9,32746 | 9,36587 | 7,16504 |
| Most Extreme Differences | Absolute | ,120 | ,162 | ,155 |
| | Positive | ,068 | ,113 | ,124 |
| | Negative | -,120 | -,162 | -,155 |
| Kolmogorov-Smirnov Z | | ,864 | 1,168 | 1,120 |
| Asymp. Sig. (2-tailed) | | ,444 | ,131 | ,162 |

a. Test distribution is Normal.

b. Calculated from data.

Source: Processed Data (SPSS 23), 2023

From the table, the significance value (2-tailed) for the Profitability variable is 0.444, for the Leverage variable is 0.131, and for the Liquidity variable is 0.162. All three significance values (2-tailed) of the instrument are above 0.05, which mengindikasikan bahwa data memiliki distribusi normal. Sementara itu, nilai Kolmogorov-Smirnov untuk variabel Profitability is 0.864, for variable Leverage is 1.168, and for variable Liquidity is 1.120. This indicates that the residual data has a normal distribution.

Multiple Linear Regression Analysis

Table 8. Multiple Linear Regression Test Results
Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-----------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 19,355 | 4,389 | | 4,410 | ,000 |
| 1 Profitability | ,335 | ,072 | ,437 | 4,647 | ,000 |
| Leverage | ,405 | ,072 | ,530 | 5,637 | ,000 |

a. Dependent Variable:Liquidity

Source: SPSS Calculation Results 23.00, 202

Based on the results of the table above, the regression equation can be identified:

$$Y = 19.355 + 0.355 X1 + 0.405 X2$$

With the following explanation:

- The value of Constant a = 19.355 can be interpreted if the variables Profitability, Leverage, are zero then, then Liquidity is negative 19.355.
- The regression coefficient of Profitability b1 = 0.355, can be interpreted that if the value of Profitability increases by one, then the value of Liquidity will also increase by 0.355.
- Work Discipline regression coefficient b2 = 0.405, it can be interpreted that if the Work Discipline value increases by one, the Personnel Work Performance value will also increase by 0.405.

T Test

Table 9. Test Results t Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-----------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 19,355 | 4,389 | | 4,410 | ,000 |
| 1 Profitability | ,335 | ,072 | ,437 | 4,647 | ,000 |
| Leverage | ,405 | ,072 | ,530 | 5,637 | ,000 |

a. Dependent Variable: Liquidity

Source: SPSS Calculation Results 23.00, 2024

The Effect of Profitability on Liquidity

From the coefficient table above, the calculated value for the Profitability variable is 4.647, while the ttable value for N = 52 is 2.007. Therefore, because the value of tcount (4.647) is greater than the value of ttable (2.007), H0 is rejected and Ha is accepted. Thus, it can be concluded that Profitability has a significant influence on Liquidity.

Effects of Leverage on Liquidity

From the coefficient table above, the calculated value for the Leverage variable is 5.637, while the ttable value for N = 52 is 2.007. Therefore, because the value of tcount (5.637) is greater than the value of ttable (2.007), H0 is rejected and Ha is accepted. Thus, it can be concluded that partially variable Leverage has an influence on Liquidity.

Both profitability and leverage have a significant influence on liquidity. This shows that companies need to pay attention to these two factors in managing their liquidity. Increased profitability and prudent leverage management can contribute to increased liquidity of financial services firms.

CONCLUSION

Profitability and leverage have a significant influence on a company's liquidity. This suggests that a company's financial performance, such as profitability, and capital structure, such as leverage, play an important role in determining a company's liquidity level. Therefore, the company's financial management needs to pay close attention to these two factors in an effort to maintain and increase optimal liquidity levels.

Pay Attention to Profitability Performance: The management of the company must continue to pay attention and improve its profitability performance. This can be done by improving operational efficiency, product innovation, and the right marketing strategy to increase company revenue and profits. It is expected that the company can maintain and increase its liquidity level, so that it can achieve its long-term financial goals more effectively and efficiently.

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