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The Effect of Liquidity on the Financial Performance of Companies in the Property, Real Estate and Building Construction Sectors Listed on the Indonesia Stock Exchange in 2023

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ABSTRACT

The property and real estate sector requires large investments and long business cycles, which requires developers to have solid financial strategies and adequate liquidity. However, the relationship between liquidity and financial performance is still debated, as excess liquidity can indicate inefficiencies. Purpose: analyze the effect of liquidity on financial performance in property and real estate companies listed on the Indonesia Stock Exchange. Methods: A quantitative approach with a descriptive and causal design to measure the relationship between the liquidity and financial performance of property and real estate companies. Secondary data is obtained from the annual financial statements of companies listed on the IDX in 2023, with sampling using a census involving all companies in this sector. Results: The Current Ratio has a significant negative effect on ROA while the Quick Ratio has no effect on ROA. Meanwhile, F-Statistic value shows that liquidity has no effect on financial performance. Implications: The importance of balanced liquidity management to support the profitability and efficiency of the company's operations. Conclusion: Adequate liquidity needs to be optimized without sacrificing the potential for productive investment.

Keywords: *Liquidity, Financial Performance, Real Estate, Property and Building Construction Sector*

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INTRODUCTION

The property and real estate sector requires large capital investments and has a long business cycle. Property developers are required to have a solid financial strategy and the ability to manage risk effectively. Strong financial resilience is also important in the face of often unpredictable market fluctuations (Sanga & Hajanirina, 2023). To overcome these challenges, adequate liquidity is the main key in supporting operations and fulfilling the company's various obligations. With sufficient liquidity availability, property developers are able to face financial constraints that arise throughout their project lifecycle. In addition, collaboration with financial institutions and investors can open up access to a wider range of financial resources, thereby strengthening the company's ability to execute their projects (Sanga et al., 2024). Through the implementation of the right financial strategy and synergy with various stakeholders, property developers can maximize the potential of their projects while facing uncertain market dynamics (Gusnafitri et al., 2024). Companies with high levels of liquidity are able to meet their short-term obligations without constraints, thus reflecting the efficiency of asset management (Situmorang & Sanga, 2023). Several studies have shown a positive relationship between liquidity and financial performance, such as Return on Assets (ROA), as good liquidity provides flexibility for companies to take advantage of profitable investment opportunities (Hongli et al., 2019). In addition, companies with optimal liquidity are able to increase profitability through efficient working capital management (Vuković & Jakšić, 2019).

However, there are different views on the relationship between liquidity and financial performance. Excessive liquidity is often seen as an indication of a lack of productive investment, which can ultimately lower the rate of return on assets (Uremadu et al., 2012). Companies with excess liquidity tend to face high opportunity costs due to funds that are not used optimally (Brown & Petersen, 2015). This creates a dilemma for management in determining the ideal level of liquidity to support financial performance.

This study aims to fill the literature gap regarding the influence of liquidity on financial performance, especially in property and real estate companies listed on the Indonesia Stock Exchange in 2023 post-pandemic. By integrating the positive and negative perspectives of these relationships, this research contributes to understanding the role of liquidity on profitability. The findings of the study are expected to provide benefits for company management, investors, and policymakers in making strategic decisions related to liquidity management and strengthening financial performance.

METHODS

This study uses a quantitative approach with a descriptive and causal research design. The quantitative approach was chosen because this study aims to measure the relationship between liquidity variables and financial performance statistically. Descriptive design is used to provide an overview of the liquidity conditions and financial performance of property and real estate companies, while causal design is used to test the influence of liquidity on financial performance. The data used is secondary data sourced from the annual financial statements of property and real estate companies listed on the IDX during a certain period.

Data is collected through the documentation method, namely downloading the company's financial statements from the IDX's official website or each company's website. Relevant data include liquidity ratios, namely the current ratio or quick ratio, and the return on assets (ROA) profitability ratio. Data collection is carried out carefully to ensure the accuracy of the information to be used in the analysis. The sampling technique used is census, because all property and real estate companies listed on the IDX are used as research objects. With this technique, no company is excluded, which allows for a more comprehensive analysis of the relationship between liquidity and financial performance.

RESULTS

1. Descriptive Statistics

Table 1. Descriptive Statistics

Variables	Mean	SD	Min.	Max.	Median	N
ROA	0.019	0.044	-0.046	0.138	0.012	15
Current Ratio	6.380	12.888	0.078	51.853	2.374	15
Quick Ratio	1.659	2.685	0.013	10.985	0.919	15

Source: Author, 2024

Based on table 1 above, Return on Assets (ROA) has an average of 0.019 or 1.9%, which reflects the average profitability of a company in generating profit from its total assets. With a standard deviation of 0.044, there was a moderate variation among companies, where the minimum ROA value was -0.046 (loss of 4.6%) and the maximum value reached 0.138 (profit of 13.8%). The median of 0.012 or 1.2% indicates that half of the companies are underperforming. For the Current Ratio, the average is at 6,380 with a high standard deviation of 12,888, which reflects a large difference in the ability of companies to meet their current obligations. The minimum value of the current ratio is 0.078, which indicates a company with very low liquidity, while the maximum value reaches 51.853, indicating a company with excess current assets. The median current ratio of 2.374 indicates that half of the companies have liquidity lower than this value. Meanwhile, the Quick Ratio showed an average of 1.659 with a standard deviation of 2.685, which indicates a significant variation in the company's ability to pay off current liabilities without considering inventory. The minimum value of the quick ratio is 0.013, while the maximum value reaches 10.985. The median of 0.919 indicates that half of the companies have a quick ratio below that value.

2. Regression Analysis

Correlation analysis was conducted to evaluate the initial relationship between liquidity (Current Ratio and Quick Ratio) and company performance (ROA). Correlation provides a preliminary idea of whether the relationship between variables is feasible for further analysis using regression. The correlation between ROA and Current Ratio has a value of -0.55, which reflects a moderate negative relationship. This means that an increase in the Current Ratio is related to a decrease in ROA. This relationship is statistically significant (Sig. = 0.03 < 0.05). Meanwhile, the correlation between ROA and Quick Ratio has a value of -0.098, which also indicates a very weak

negative relationship. This relationship was also not statistically significant (Sig. = 0.364 > 0.05). Based on these results, it was concluded that the Current Ratio has a negative and significant relationship with ROA while the Quick Ratio does not have a significant relationship with ROA. These results are in line with research of Ehiedu, (2014) that the current ratio has a significant negative effect on profitability while the Acid-test ratio has no effect on the profitability of Nigerian companies. So, the relationship between the company's liquidity and financial performance based on ROA needs to be reviewed.

Table 2. Regression analysis results

VARIABLES	ROA
Current Ratio	-0.009**
	(-2.179)
Quick Ratio	0.043
	(1.995)
Constant	0.008
	(0.571)
Adjusted R^2	0.156
F-Statistic	2.298
Number of Firms	15

Note: ** statistical significance at the level 5%

Source: Author, 2024

The results of regression analysis showed that the Current Ratio had a significant negative influence on ROA with a coefficient of -0.009 and a t-statistical value of -2.179, which was significant at the level of 5% ($p < 0.05$). This shows that an increase in the Current Ratio tends to lower ROA, reflecting that too high liquidity can indicate low operational efficiency or the presence of unproductive current assets. Meanwhile, the Quick Ratio variable has a positive coefficient of 0.043 with a t-statistical value of 1.995, but it is not statistically significant at the level of 5%. This suggests that although the increase in Quick Ratio has the potential to increase ROA, the effect is not statistically strong enough in this model. This shows that companies need to pay more attention to the Current Ratio than the Quick Ratio in an effort to improve efficiency and profitability (Alarussi & Alhaderi, 2018).

The constant has a value of 0.008, but is not statistically significant (t = 0.571). An Adjusted R^2 value of 0.156 indicates that about 15.6% of the variation in ROA can be explained by the Current Ratio and Quick Ratio variables in this model. The F-Statistic value of 2,298 and insignificant indicates that the model as a whole has limited ability to explain the relationship between independent variables and ROA with a sample of 15 companies.

DISCUSSION

Although the current ratio had a significant effect on ROA while the quick ratio had no significant effect on ROA, the F-statistic results showed that liquidity had no significant effect on financial performance. These results are in line with research of Bintara, (2020) that liquidity has no

effect on the profitability of manufacturing companies listed on the Jakarta Stock Exchange for the period 2012 – 2014.

Post-COVID-19 pandemic, corporate liquidity has not had a significant influence on profitability, especially in the property and real estate industries, for a variety of fundamental reasons. *First*, the pandemic caused high economic uncertainty, so the company's focus shifted from increasing profitability to maintaining financial stability. Many companies increase their liquidity to deal with potential risks such as declining market demand and cash flow disruptions, but this does not directly impact profits as investment and business expansion become delayed (Bartik et al., 2020; Hassan et al., 2023). *Second*, in the property industry, profitability is more influenced by external factors such as interest rates, consumer purchasing power, and government policies, which are more relevant in determining the sustainability of property sales (Mironiuc et al., 2021). In addition, increased liquidity as reflected in the Current Ratio or Quick Ratio often indicates an accumulation of liquid assets that have not been optimized to generate income (Situmorang & Sanga, 2023). Therefore, while liquidity remains important to maintain operational continuity, its contribution to profitability has been limited amid changing market dynamics post-pandemic.

The Current Ratio covers the entire current asset, including inventory, which has an important role in the property and real estate industry. Post-pandemic, companies in this sector have high inventory levels due to a slowdown in sales during the pandemic. A significant increase in the Current Ratio is an indicator of the existence of unproductive current assets, thereby reducing efficiency and reducing the level of profitability as measured by ROA (Sudirman et al., 2020). This significant negative relationship reflects that suboptimal inventory management can hinder the return of a company's assets. The Quick Ratio does not include inventory in the calculation, so it focuses more on current assets that are quickly converted into cash, such as accounts receivable and cash itself (Rashid, 2018). In the property and real estate sector, the main component of liquidity is often inventory. Therefore, the Quick Ratio does not fully reflect the relevant operational liquidity for the industry. This is the reason that the Quick Ratio does not show a significant relationship with ROA.

Post-pandemic, companies face the need to increase liquidity in order to survive and return to normal operations (Anderson et al., 2021). Under these conditions, a high current ratio describes inefficient use of resources, especially if the current assets do not contribute directly to the increase in revenue. In contrast, the Quick Ratio is less relevant because it reflects less of the current asset structure specific to the property sector. Property company management focuses more on maintaining a current ratio to demonstrate the ability to pay off short-term obligations to creditors and investors. However, attention to the efficiency of current asset management, as measured by the Quick Ratio, is less significant in affecting direct profitability (ROA) in the short term.

CONCLUSIONS

This study shows that the relationship between liquidity and financial performance in property and real estate companies listed on the Indonesia Stock Exchange has no statistical significance. The Current Ratio and Return on Assets (ROA) show a weak negative correlation, as

well as the Quick Ratio which also has a weak negative relationship, both of which are not significant at a certain level of probability. The majority of companies have relatively high liquidity, but their average profitability is still low, reflecting that good liquidity management has not fully supported the increase in profitability. In addition, there is considerable variation in the level of liquidity between companies, which reflects differences in the approach or financial strategy used.

For property and real estate companies, these findings highlight the importance of achieving an optimal liquidity balance. Liquidity that is too high can reflect inefficiencies in resource management, while levels that are too low increase the risk of default. Therefore, companies are advised to manage working capital efficiently, utilize excess liquid assets for productive investments, and improve operational strategies to increase profitability. Collaboration with financial institutions to obtain flexible funding can also be a strategic step in dealing with market uncertainty and supporting the sustainable growth of the project.

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