

The Relationship of Liquidity, Leverage, and Business Growth with Corporate Financial Stability

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ABSTRACT

The company's financial stability is a crucial aspect in ensuring the continuity of the company's operations and competitiveness. Liquidity, leverage, and business growth are factors that significantly affect a company's financial stability. This research aims to explore and identify how liquidity, leverage, and business growth affect a company's financial stability. By understanding these linkages, companies can formulate more effective strategies to maintain and improve their financial stability. This study uses a quantitative method with a multiple linear regression approach to analyze financial data from 100 companies listed on the Indonesia Stock Exchange during the 2019-2023 period. Data is collected through the company's financial statements that have been audited and processed using statistical software. The results show that liquidity has a significant positive influence on a company's financial stability, while leverage has a significant negative influence. Business growth has also been found to have a significant positive influence on the company's financial stability. These findings indicate that companies need to maintain a good balance between liquidity and leverage and encourage business growth to ensure sustainable financial stability.

Keywords: **Liquidity, Leverage, Business Growth, Financial Stability, Financial Strategy**

INTRODUCTION

The company's financial stability is a fundamental foundation that supports various operational and strategic aspects. Companies with stable finances have a greater ability to deal with uncertainty and economic fluctuations. In an uncertain economic situation, financially stable companies can maintain their operations without having to make drastic cuts or significant workforce reductions. This stability also gives companies the flexibility to make strategic investments, such as developing new products, expanding into new markets, or improving operational efficiency, all of which can strengthen the Company's competitiveness and market position (Suretno, 2020).

Additionally, financial stability allows companies to take advantage of growth opportunities more effectively. Companies with strong financial standing can easily

access the resources needed to support growth, such as additional financing, talent acquisition, and infrastructure development. With stable finances, companies can also be more confident in taking calculated risks, which are often necessary for innovation and expansion. The long-term advantages of financial stability include improved company reputation, trust from stakeholders, and increased company value in the eyes of investors. Thus, maintaining financial stability is not only about avoiding crises, but also about creating a solid foundation for long-term growth and success.

Liquidity, which refers to a company's ability to meet its short-term obligations, is a key indicator that describes a company's financial health. Adequate liquidity indicates that a company has enough current assets, such as cash and cash equivalents, receivables, as well as inventory, that can be used to pay short-term debts and other obligations on time. This is especially important because delays or inability to meet these obligations can damage a company's reputation, increase borrowing costs, and even lead to bankruptcy (Lestari, et, al., 2022). Therefore, companies with strong liquidity are considered better able to deal with economic and market uncertainties, as well as maintain the continuity of their operations without experiencing significant disruptions.

However, it is also important to understand that too high liquidity can create other problems. If a company holds too many liquid assets, it may indicate that the company is not making optimal use of the available funds for investment or business growth. These unused funds could be resources that should be allocated to projects that can provide higher returns. For example, companies may miss out on opportunities to expand markets, increase production capacity, or invest in research and development. Therefore, maintaining the right balance between sufficient liquidity to deal with short-term liabilities and efficient utilization of funds for business growth is a strategic challenge that a company's financial management must face.

Leverage, or the use of debt in a company's capital structure, refers to a financial strategy where a company borrows funds to finance its operations or projects. With leverage, a company can increase available capital without having to issue more equity. The primary benefit of leveraging is the potential to enhance return on equity (ROE), as the company can use borrowed funds to generate higher income than the interest costs incurred. However, leverage also carries significant risks (Oktavionita, et al., 2022). When a company borrows money, it must make regular interest and principal payments,

regardless of whether the company's income increases or not. If the company fails to generate sufficient income to cover these costs, it faces the risk of bankruptcy.

In addition, high leverage makes companies more vulnerable to economic fluctuations and changes in market conditions. For instance, during recessions or market downturns, company revenues may decrease, but debt repayment obligations remain. This can lead to significant financial pressure. Fluctuations in interest rates can also affect borrowing costs, thereby increasing the company's financial burden. Therefore, prudent leverage management is crucial. Companies should carefully assess their capacity to meet debt obligations under various economic scenarios and take steps to mitigate risks through income source diversification, effective cash flow management, and more conservative financing if necessary. Consequently, companies can ensure that the benefits of debt usage outweigh the risks, thus aiding in achieving sustainable financial stability.

Rapid business growth is often interpreted as a positive sign of company performance. Companies experiencing rapid growth tend to have larger cash flows due to increased sales and revenue. Strong cash flow enables companies to make further investments in product development, market expansion, and operational capacity enhancement. Additionally, consistent business growth can enhance the company's attractiveness to investors and creditors, thereby strengthening its access to external financial resources (Fauziah & Sudiyatno, 2020). Thus, healthy business growth not only enhances internal capacity but also strengthens the overall financial position of the company.

However, unplanned or excessively rapid business growth can be a double-edged sword. Despite appearing advantageous, uncontrolled growth can lead to significant financial pressures. For example, companies may incur substantial costs to accommodate this growth, such as increased inventory, additional workforce recruitment, or investments in new infrastructure. If this growth is not balanced with careful financial management, the company may face liquidity issues and increased risk of default. Moreover, rapid growth can cause operational pressures, such as declining product or service quality, which can damage the company's reputation and ultimately hinder its growth sustainability. Therefore, it is crucial for companies to plan and manage business growth carefully to ensure sustainable financial stability.

THEORETICAL BASIS

Financial Stability

Financial stability is a condition in which the financial system, including financial institutions, markets, and infrastructure, is able to function effectively and efficiently, even in the face of external shocks. In a company context, financial stability refers to the ability of a company to maintain its financial health in the long term, ensuring that cash flows are sufficient to meet short-term and long-term obligations, and avoiding the risk of bankruptcy or financial crises (Adesta, et al., 2023). Financial stability enables management to focus on achieving strategic goals without being disrupted by urgent financial issues.

Financial stability is a critical concept in the fields of financial management and economics, encompassing the condition where the financial system, including financial institutions, markets, and financial infrastructure, can function effectively and efficiently without significant disruption. Traditional financial theories, such as portfolio theory and capital structure theory, posit that financial stability is achieved through careful risk management and optimal resource allocation. In their capital structure theory, they argue that a company's capital structure does not affect its value in perfect market conditions (Fitrianingsih & Apriadi, 2022). However, in reality, companies must consider factors such as taxes, bankruptcy costs, and information asymmetry, all of which can impact the financial stability of the company.

Selain itu, stabilitas keuangan juga mencakup kemampuan perusahaan untuk bertahan dari guncangan eksternal, seperti fluktuasi ekonomi, perubahan regulasi, atau krisis pasar. Perusahaan yang stabil secara keuangan memiliki cadangan kas yang memadai, struktur utang yang sehat, dan strategi diversifikasi risiko yang efektif. Hal ini memungkinkan perusahaan untuk tidak hanya bertahan dalam kondisi sulit tetapi juga untuk memanfaatkan peluang yang muncul dari perubahan pasar (Maulida, 2020). Dengan demikian, stabilitas keuangan adalah dasar yang memungkinkan perusahaan untuk berkembang dan mencapai pertumbuhan yang berkelanjutan, meningkatkan daya saing dan menciptakan nilai jangka panjang bagi pemegang saham.

Liquidity

Liquidity refers to the ability of an entity, whether it's an individual, company, or financial institution, to meet its short-term financial obligations without needing to sell

fixed assets or take on additional debt. In a corporate context, liquidity means having cash or assets that can be quickly and easily converted into cash to meet day-to-day operational needs, pay short-term debts, and handle emergencies. Good liquidity signifies that a company has effective cash management and is financially healthy (Wahyuni & Subaida, 2021). In financial analysis, liquidity is often measured using specific ratios such as the current ratio and quick ratio.

Liquidity is a key concept in financial management that describes an entity's ability to meet its financial obligations using assets that can be easily converted into cash. Liquidity theory emphasizes the importance of maintaining a balance between cash inflows and outflows so that companies can meet their financial obligations without significant difficulty. According to cash management theory, good liquidity is crucial for managing financial risks, ensuring smooth day-to-day operations, and maintaining both short-term and long-term financial stability (Muna, et al., 2023). By understanding these theories, companies can develop optimal cash management strategies, maximize the use of liquid assets, and reduce liquidity risks that could disrupt financial stability.

The importance of liquidity is also evident in financial risk management. Inadequate liquidity can compel companies to sell assets at discounted prices or take on high-cost debt, which can undermine long-term profitability and stability. This situation is often referred to as liquidity risk. Conversely, excess liquidity may indicate that the company is not efficiently deploying resources for productive investments, potentially hindering growth (Lestari, et al., 2022). Therefore, management must achieve a proper balance between maintaining adequate liquidity and optimizing asset usage to maximize the company's value.

Leverage

Leverage refers to the use of debt or loans to amplify the potential returns or profits of a company. In finance, leverage reflects the use of borrowed funds to increase a company's investment or operational scope, with the expectation that the return on investment (ROI) will exceed the interest costs associated with the debt (Mariani, 2023). Leverage enables companies to leverage additional financial resources without fully using their own capital, thereby enhancing the returns obtained from specific operations or projects.

The Modigliani-Miller theorem, one of the fundamental theories in capital

structure, posits that the value of a company should not be affected by its capital structure in perfect market conditions. However, in practice, leverage can influence the value of a company due to factors such as taxes, bankruptcy costs, and investor preferences for stable capital structures. The use of leverage can increase return on equity (ROE) by leveraging lower interest costs compared to the return on equity from using its own capital (Miswanto, et al., 2022). However, high leverage also carries significant risks, such as increasing financial burdens and worsening liquidity positions if company earnings decline or market conditions change drastically.

However, leverage also comes with risks. When companies rely heavily on debt, they become more vulnerable to market fluctuations and economic changes. For example, an increase in interest rates can raise the interest costs that companies must pay, negatively affecting their profitability (Utari, et al., 2023). Additionally, high leverage can lead to significant financial pressure if company earnings decline or if economic conditions worsen. Therefore, risk management and careful leverage management are crucial to maintaining long-term financial stability for the company.

Business Growth

Business growth is a primary focus in strategic management theory, describing a company's efforts to increase its operational scale through enhanced sales, market expansion, or product diversification. The theory of business growth emphasizes that sustainable growth can enhance a company's competitiveness, expand market share, and increase long-term profitability. In the theory of corporate evolution, business growth is often considered a crucial stage in the company lifecycle, where companies strive to surpass past performance and capture broader market shares (Sono, et al., 2023). Additionally, industrial economics theory supports the importance of business growth as a strategy to leverage economies of scale, reduce per unit production costs, and enhance operational efficiency.

Business growth refers to the increase in the scale of operations or expansion of a company across various aspects, including revenue, number of employees, physical facilities, or served markets. Generally, business growth indicates the positive evolution of a company from early stages to more mature and sustainable stages. This growth can be measured from various perspectives, such as annual sales increases, geographic expansion, product diversification, or acquisition of other companies (Setiawati &

Veronica, 2020). Business growth is often a primary goal for many companies because it can enhance market share, profitability, and competitiveness. Good growth can also create new opportunities for innovation, investment in technology, and improved operational efficiency.

To achieve sustainable business growth, companies often adopt different strategies and tactics, such as organic expansion through increased sales or opening new branches, or non-organic growth through acquisitions or strategic partnerships (Marlisa, et al., 2021). Additionally, building a corporate culture that supports innovation, flexibility, and responsiveness can be key to success in achieving sustainable growth in a constantly changing market. By understanding and managing growth wisely, companies can optimize their potential to achieve long-term goals and provide added value to all stakeholders.

METHOD

This research method is designed using a quantitative approach, collecting empirical data to test the relationships between these variables. The study will employ a correlational study design. The primary objective is to explore and analyze the relationships between liquidity, leverage, business growth, and financial stability of companies. Data will be collected at a single point in time to observe the interrelationships among these variables. The relevant population for this study is 100 companies listed on the Indonesia Stock Exchange during the period 2019-2023. A sample will be selected using purposive sampling method, focusing on companies with complete and relevant financial data for the variables under investigation, totaling 32 companies.

The independent variables in this study are liquidity, leverage, and business growth of the company, while the main dependent variable is financial stability of the company. Data analysis will be conducted using quantitative statistical techniques, such as regression analysis, to test hypotheses regarding the relationships between liquidity, leverage, business growth, and financial stability. This research method is expected to provide a better understanding of how these variables are interrelated and their influence on the overall financial stability of the company.

RESULT

The Influence of Liquidity on Financial Stability

The results of this study indicate a positive and significant influence of liquidity on the financial stability of companies. Specifically, the partial hypothesis test shows that the computed t-value (3.285) is greater than the critical t-value (1.663), with a significant probability value Sig ($0.002 < 0.05$). This indicates that the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_a) is accepted. In other words, there is sufficient statistical evidence to state that liquidity has a positive and significant impact on the financial stability of companies.

Furthermore, the regression analysis results with an R Square of 0.273 indicate that liquidity collectively contributes 27.3% to the variability of financial stability in companies. R Square, or the coefficient of determination, measures how well the dependent variable is explained by the independent variables in the regression model. This means that approximately 27.3% of the variability in financial stability of companies can be explained by liquidity in this study. The remaining 72.7% is influenced by other factors not examined in this model, such as external factors or other variables not included in the analysis.

These findings support the importance of maintaining good liquidity levels within companies as a key factor in sustaining financial stability. While liquidity makes a significant contribution, holistic management of other factors that can influence overall financial stability remains essential. Therefore, corporate financial management can be more effective in making decisions regarding liquidity strategies to achieve and maintain optimal financial stability.

The Influence of Leverage on Financial Stability

These results indicate that there is a positive and significant influence of leverage on the financial stability of the company. Specifically, the partial hypothesis testing shows that the calculated t-value (2.782) exceeds the tabulated t-value (1.663), with a significant probability value Sig ($0.002 < 0.05$). This indicates that the null hypothesis H_0 is rejected, and the alternative hypothesis H_a is accepted. In other words, there is sufficient statistical evidence to state that leverage has a positive and significant impact on the financial stability of the company.

These results indicate that leverage collectively contributes 30.6% to the variability

of financial stability in the company. R Square, or the coefficient of determination, measures how well the dependent variable is explained by the independent variables in the regression model. This means that approximately 30.6% of the variation in the financial stability of the company can be explained by the leverage variable in this study. The remaining 69.4% is influenced by other factors not examined in this model, such as external factors or other variables not included in the analysis.

These findings highlight the importance of proper capital structure management in influencing the financial stability of the company. By using leverage wisely, a company can amplify profits by utilizing borrowed funds. However, it's important to note that excessive leverage can also increase financial risk, especially when facing market fluctuations or economic changes. Therefore, effective risk management and sound financial policies are crucial to maintaining the long-term financial stability of the company.

The Influence of Business Growth on Financial Stability

The results of this study indicate that there is a positive and significant influence of business growth on the financial stability of the company. Specifically, the partial hypothesis testing shows that the calculated t-value (2.978) is greater than the critical t-value (1.663), with a significant probability value Sig ($0.002 < 0.05$). This indicates that the null hypothesis H_0 is rejected, and the alternative hypothesis H_a is accepted. In other words, there is sufficient statistical evidence to state that business growth has a positive and significant impact on the financial stability of the company.

The results also show that the regression analysis with an R Square of 0.384 indicates that business growth collectively contributes 38.4% to the variability of financial stability in the company. R Square, or the coefficient of determination, measures how well the dependent variable is explained by the independent variables in the regression model. This means that approximately 38.4% of the variation in the financial stability of the company can be explained by business growth in this study. The remaining 61.6% is influenced by other factors not examined in this model, such as external factors or other variables not included in the analysis.

The results indicate that business growth can indeed be a key factor in influencing the financial stability of a company. By increasing operational scale, sales, or expanding into new markets, a company can strengthen its position in facing economic challenges

and optimize resource utilization. However, management needs to pay attention to risks associated with poorly managed growth, such as financial, operational, or reputational risks. Therefore, achieving financial stability in a company can be attained through a combination of wise growth strategies and effective risk management.

The Influence of Liquidity, Leverage, and Business Growth on Financial Stability

Based on the research findings, there is a positive and significant influence of liquidity, leverage, and business growth on the financial stability of the company. Specifically, the computed F-value (14.672) is greater than the critical F-value (2.15), with a probability value (p-value) that is less than the specified significance level. This leads to the rejection of the null hypothesis (H_0) and acceptance of the alternative hypothesis (H_a). In other words, there is sufficient statistical evidence to conclude that liquidity, leverage, and business growth collectively have a positive and significant impact on the financial stability of the company.

The coefficient of determination, R Square of 0.495, indicates that liquidity, leverage, and business growth together explain approximately 49.5% of the variation or variability in the financial stability of the company. This means that about half of the level of financial stability can be explained by the combination of these variables in the regression model used. The remaining 50.5% is influenced by other factors not included in this analysis, such as external factors, regulatory changes, or other variables that may affect the financial stability of the company.

These results highlight the importance of considering not only individual factors such as liquidity, leverage, or business growth separately, but also how they interact to influence overall financial stability of the company. Management can use these findings to develop more holistic strategies in maintaining and enhancing financial stability, focusing on effective liquidity management, appropriate capital structure, and sustainable growth strategies.

CONCLUSION

From the research findings, it can be concluded that liquidity, leverage, and business growth collectively have a positive and significant impact on the financial stability of the company. Statistical analysis indicates that these three factors significantly contribute to explaining the variability of the company's financial stability, with an R

Square value of 0.495. This figure suggests that liquidity, leverage, and business growth together explain approximately 49.5% of the variability in the company's financial stability within the regression model used. The positive and significant impact of liquidity underscores the importance of having sufficient cash resources to meet financial obligations reliably and potentially mitigate liquidity risks in fluctuating market conditions. Meanwhile, well-managed leverage can provide financial advantages by leveraging borrowed funds for expansion and growth, but caution is needed to manage additional risks that could affect the company's financial stability.

Business growth also significantly contributes to enhancing financial stability by increasing revenue and the company's operational scale, which in turn can strengthen its market position. However, it's important to note that uncontrolled or poorly managed growth can also pose risks to the financial stability of the company. Overall, these findings provide valuable insights for company management in designing appropriate policies and strategies to enhance financial stability. By ensuring adequate liquidity, exercising prudent leverage management, and effectively managing business growth, companies can reduce financial risks and enhance their ability to achieve long-term goals.

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