

Systematic Literature Review: The Profitability Of Liquidity Leverage On Company Value

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Abstract

Research objectives: This study aims to evaluate the correlation between profitability, liquidity, leverage, and corporate value, while investigating the impact of tax avoidance and Good Corporate Governance (GCG) as additional variables that influence financial performance.

Method/Approach: The methodology used is a Systematic Literature Review (SLR), which analyzes eight scientific articles indexed by Sinta and Garuda from 2018 to 2024. Each article is evaluated based on topic relevance, research methodology, and empirical results.

Results: The study shows that profitability has a positive and significant impact on firm value, as it indicates a company's ability to generate consistent profits. Liquidity is crucial for maintaining financial stability; however, excessive liquidity can reduce operational efficiency. Leverage has a dual effect: judicious use of debt can increase firm value through the capital multiplier effect, while excessive leverage increases the risk of bankruptcy. Furthermore, tax avoidance affects firm value both directly and indirectly; this strategy can increase short-term profits while creating reputational risks. Governance, culture, and growth (GCG) and business size have been shown to enhance the correlation between financial performance and firm value by encouraging greater transparency and accountability.

Practical Implications: practical implications for corporate management to maintain a balance between profitability, liquidity, and leverage.

Originality/Novelty: This research has a strong element of novelty compared to previous research because it combines a systematic literature review (SLR) approach with

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a very specific focus on the relationship between profitability, liquidity, leverage, and firm value during the period 2016–2025.

Keywords: profitability, liquidity, leverage, company value, tax avoidance and financial performance.

INTRODUCTION

Background

Companies must increase their corporate value as a reflection of management's performance in managing resources in an increasingly competitive business environment. Investors use corporate value as a key metric to evaluate a company's stability and future potential. Several financial parameters, such as profitability, liquidity, and leverage, which collectively represent a company's financial performance and risk management capabilities, must be considered to achieve optimal corporate value.

A business's ability to generate income from its assets is known as profitability. Research shows that profitability is strongly correlated with financial success and a company's ability to avoid financial distress (STMIK Jayakarta Journal, 2023). A company's ability to continue operating is positively correlated with its profitability level. Furthermore, profitability significantly impacts dividend policy and how investors assess a company's value (Owner Politeknik Ganesha, 2022).

One factor that demonstrates a company's ability to meet its short-term commitments is liquidity. According to research by UAJM (2023), high liquidity levels indicate sound cash management and send a positive signal to investors. Conversely, excessively high liquidity levels can also be a sign of inefficient asset utilization.

Leverage, on the other hand, indicates the extent to which a business relies on external financing. According to research from the Uilil Albab Institute (2023), a company's debt-to-equity ratio (DER) affects its financial health and profitability. Effective leverage management can enhance a company's reputation and value, but excessive use of debt can increase the risk of bankruptcy.

In financial literature, tax avoidance is a serious issue beyond internal considerations. Various studies (ITB Semarang, 2023; Uilil Albab Institute, 2024) demonstrate how tax avoidance tactics can impact a company's valuation. Tax avoidance may increase profits in the short term, but it can also damage investor confidence and threaten the company's image.



A review of previous research shows conflicting findings regarding the relationship between profitability, liquidity, leverage, and corporate value. While some studies show no significant impact, others find a favorable relationship. This indicates a research gap that can be addressed by using a Systematic Literature Review (SLR) methodology to gain a deeper understanding of the relationship between these factors and business value.

Problem Formulation

Based on the description above, the problem formulation in this research is:

- 1) How does profitability affect company value based on previous research results?
- 2) How do liquidity and leverage affect company value?
- 3) *tax avoidance* practices and other financial policies play in mediating this relationship?

Research Objectives

The objectives of this research are:

- 1) Analyzing the influence of profitability, liquidity, and leverage on company value through the SLR approach.
- 2) Identifying patterns of empirical findings from various previous studies.
- 3) Identify research gaps and provide recommendations for further research in the field of financial management and accounting.

Benefits of Research

This research is expected to provide:

- 1) Academic benefits, namely enriching the empirical literature regarding the relationship between financial variables and company value.
- 2) Practical benefits, namely providing guidance for managers and investors in making strategic financial decisions.
- 3) The benefits of the policy are that it becomes a basis for regulators in formulating policies that support transparency and good corporate governance.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Main Concepts and Theories

1. Company Values

One indicator of how much the market values a company is its value. Ratios such as Price to Book Value (PBV) or Tobin's Q are often used to measure this value. According

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to financial theory, an increase in a company's value indicates that management has succeeded in optimizing shareholder welfare. Agency theory states that managers, acting as agents, have an obligation to make financial decisions that will maximize the company's value while considering the interests of shareholders.

2. Profitability

A business's ability to generate profits from its assets is indicated by its profitability. Measures of management effectiveness in resource management include Return on Equity (ROE) and Return on Assets (ROA). According to the STMIK Jayakarta Journal (2023), a high profitability level has a significant impact on reducing the risk of financial crises and signaling to investors that the company is in good financial health.

3. Liquidity

A company's ability to meet its short-term obligations is measured by its liquidity. When evaluating the effectiveness of current asset management, ratios such as the Current Ratio (CR) are important indicators. Companies with strong liquidity are more credible to investors due to their financial stability and effective cash management, according to research by UAJM (2023).

4. Leverage

The degree of a business's dependence on external capital (debt) is reflected in its leverage level. The balance between debt and equity is indicated by the Debt-to-Equity Ratio (DER). While well-managed debt can enhance credibility and profitability, excessive leverage actually increases the risk of bankruptcy, according to research from the Ulil Albab Institute (2023).

5. Tax Avoidance

Companies use tax avoidance as a tactic to legally reduce their tax liabilities, but this still has moral and reputational consequences. Research from the Ulil Albab Institute (2024) and ITB Semarang (2023) shows that tax avoidance techniques impact a company's estimated value. While this strategy may reduce the tax burden in the short term, it has the potential to damage public trust and the company's market value over time.

Literature Review Method

Using a systematic literature review (SLR) methodology, this study analyzed eight scientific publications published between 2018 and 2024 and indexed by Sinta and Garuda. The analyzed publications cover a wide range of topics relevant to the relationship between firm value, tax avoidance, leverage, liquidity, and profitability.



The stages of the SLR method include:

- 1) Identify sources through accredited national journal databases.
- 2) Article selection is based on topic suitability and publication quality.
- 3) Content analysis to identify patterns, variables, and findings.
- 4) Synthesis of results in narrative form that combines the relationships between the main variables.

Previous Research Findings

No	Researcher / Journal	Focus of Study	Method	Key Results
1	Ulil Albab Institute (2024)	The effect of tax avoidance on company value	Qualitative Review	Tax avoidance influences investor perceptions and company value.
2	University of 45 Surabaya (2023)	GCG, company size, leverage on earnings quality	SLR	Leverage reduces earnings quality, while GCG improves it.
3	University of Jember (2024)	Corporate risk preference towards firm value	Review	High risk → growth increases but stock price volatility increases.
4	Ganesha Polytechnic (2022)	Leverage & profitability against stock price volatility	Quantitative	Leverage has a direct effect on stock volatility; profitability is insignificant.
5	Ulil Albab Institute (2023)	DER & ROA on financial performance	Qualitative Review	High DER is not always negative; effective DER management increases stability.
6	UAJM (2023)	Profitability, liquidity, solvency and company value	Descriptive Quantitative	High liquidity indicates good debt control capabilities.
7	Jayakarta Islamic High School (2023)	Profitability against financial distress	SLR	Profitability lowers the risk of bankruptcy; leverage worsens the situation.



No	Researcher / Journal	Focus of Study	Method	Key Results
8	ITB Semarang (2023)	Factors that influence tax avoidance	SLR	Leverage, profitability, and company size influence tax avoidance .

From the synthesis above, most studies indicate that profitability and leverage are the most dominant variables influencing firm value. Liquidity contributes to short-term stability, while *tax avoidance* has reputational implications that moderate the relationship between a firm's finances and market value.

Research Gap and Theoretical Implications

Although several studies have examined how financial aspects affect a company's value, the results have been mixed. While some studies show no significant impact, others find a positive correlation between company valuation and profitability. These differences may be due to the study period, industry environment, and analytical techniques used.

Furthermore, there are still limitations in examining interactions between variables, such as the simultaneous influence of leverage, liquidity, and *tax avoidance* on firm value. Only a few studies have examined the mediating and moderating effects between these variables.

The theoretical implication of this study's findings is the importance of a multidimensional approach to assessing corporate financial performance. Agency theory, signaling theory, and capital structure theory can serve as a basis for understanding the relationship between managerial financial decisions and market perceptions of corporate value.

RESEARCH METHODS

Types and Approaches of Research

This research employs a Systematic Literature Review (SLR) strategy, a research methodology that aims to systematically and structuredly find, evaluate, and integrate data from various previous studies. This method is used to better understand how profitability, liquidity, leverage, and firm value relate to each other and other supporting elements such as tax avoidance and good corporate governance (GCG).



The SLR method was chosen because it can present comprehensive research results by combining various relevant and up-to-date scientific sources. SLR also allows researchers to identify patterns, research gaps, and directions for further research in the fields of financial management and accounting.

Research Sources and Data

The data used in this study is secondary data, obtained from scientific articles indexed by Sinta and Garuda. The selected articles come from reputable national journals with publication periods between 2016 and 2025.

Data Collection Procedures

The data collection process is carried out through several systematic stages in accordance with the SLR guidelines (Kitchenham, 2004), namely:

1. Identification

The article search was conducted using the following keywords: *“profitability,” “liquidity,” “leverage,” “firm value,” “tax avoidance,”* and *“firm financial performance.”* The search focused on journals indexed by Sinta or Garuda and published between 2018–2024.

2. Screening:

From the initial search results, articles that were irrelevant to the topic or did not address the relationship between the main variables were excluded. Only articles examining at least two main variables (profitability, liquidity, leverage, and firm value) were retained.

3. Eligibility

Articles that pass the selection are further analyzed based on the completeness of the methodology, clarity of variables, and suitability to the Indonesian economic context.

4. Inclusion

A total of 8 final articles were included in the main analysis, representing a combination of quantitative and qualitative methods with a focus on corporate finance and accounting studies.

Data Analysis Techniques

Data analysis was carried out using a content analysis and narrative synthesis approach, including:

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Data Extraction

Each article was reviewed to identify variables, methods, main results, and conclusions.

➤ Classification of Findings

Articles are grouped based on the main variables (profitability, liquidity, leverage, and company value) as well as additional variables such as *tax avoidance* and GCG.

➤ Data Synthesis The

research results are compared to find patterns of similarities, differences, and the direction of relationships between variables. This synthesis is then used to formulate general conclusions and research gaps.

➤ Validity and Reliability

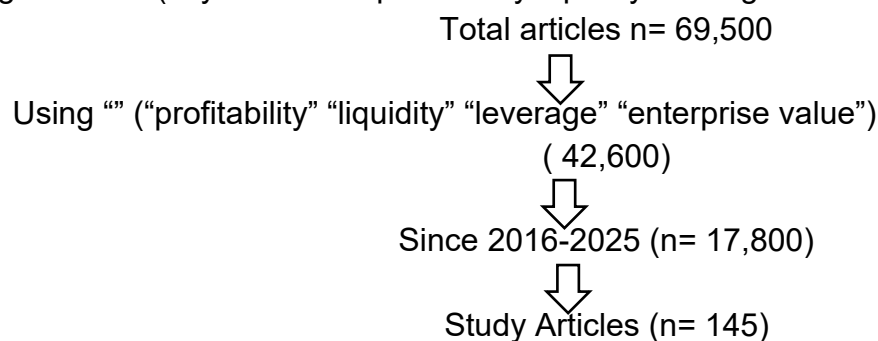
Validity is maintained through the selection of credible journals and a repeated review process. Reliability is achieved by ensuring consistency in the classification process and interpretation of findings between articles.

Inclusion and Exclusion Criteria

Criteria	Description
Inclusion	1) Articles published between 2016 and 2024; 2) In Indonesian or English; 3) Indexed in Sinta or Garuda; 4) Discuss at least two main variables (profitability, liquidity, leverage, and company value).
Exclusion	1) Duplicate articles; 2) Articles that do not provide empirical data; 3) Research that is not relevant to the context of companies in Indonesia.

Research Flow Framework (SLR Flow Diagram)

Google School (keyword initial profitability liquidity leverage firm value)





Open Access and Type Journal (n= 25)
Journal according to research n= 25.

The journals used as guidelines in this systematic literature are 8 journals out of 25 research journals.

Expected Output and Results

`From this SLR process, it is expected that the following will be produced:

- 1) Mapping the relationship between profitability, liquidity, leverage, and firm value.
- 2) Identify factors that influence *tax avoidance* and their role in company value.
- 3) Synthesis of empirical results patterns and research gaps as a basis for further research development.

RESULTS AND DISCUSSION

Analysis Results Literature

`Analysis done to eight article relevant scientific with theme connection profitability , liquidity , leverage, and value company , as well as factor addition such as Good Corporate Governance (GCG) and tax avoidance.

No	Variables Studied	Source Journal	Key Findings	Direction of Influence
1	Tax Avoidance → Company Value	Ulil Albab Institute (2024)	Tax avoidance influence investor perception ; potential increase mark company term short , but lower trust public in term long .	Positive term short , negative term long
2	GCG, Size , Leverage → Earnings Quality	University of 45 Surabaya (2023)	GCG and size company increase transparency ; leverage decreases quality profit Because pressure financial .	Mixture



No	Variables Studied	Source Journal	Key Findings	Direction of Influence
3	Preference Risk → Company Value, Stock Price	University of Jember (2024)	Preference risk tall increase growth and volatility stock ; risk low guard stability mark company .	Positive – Negative depends context risk
4	Leverage, Profitability → Stock Volatility (Dividends) as Intervening)	Polytechnic (2022)	Leverage matters direct to volatility stock ; profitability No influential significant .	Positive (Leverage)
5	DER, ROA → Financial Performance	Ulil Albab Institute (2023)	high DER No always bad ; DER management is ineffective can increase profitability and stability finance .	Positive If managed Good
6	Profitability , Liquidity , Solvency → Company Value	UAJM (2023)	Liquidity tall show ability company managing current liabilities ; high DER show dependence on debt.	Positive moderate
7	Profitability → Financial Distress	Jayakarta Islamic High School (2023)	Profitability lower risk bankruptcy ; leverage worsens condition finance .	Negative (Profitability against distress)
8	Leverage, Profitability , Size → Tax Avoidance	ITB Semarang (2023)	The three of them influential significant to tax avoidance ; company big and high profit more tend do efficiency tax .	Positive

DISCUSSION KEY FINDINGS

Influence Profitability on Company Value

One of element most important in evaluate mark something company is level the benefits . Based on findings study from Institute Ulil Albab (2023) and STMIK Jayakarta (2023), level more benefits tall can reduce possibility occurrence difficulty finance and have

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impact positive to stability finance . However , the study Ganesha Polytechnic (2022) shows that volatility stocks and policies dividend No always influenced in a way significantly by profitability , implying that influence profitability to mark company can varies depending on the environment macroeconomics and sectors industry .

Influence Liquidity on Company Performance and Value

One of size ability something company For fulfil commitment term in short is its liquidity . According to UAJM (2023), the company with strong liquidity manage his debt with good , which improves investor confidence . However , excessive liquidity can also become sign existence assets that are not used and unused productive . As a result , there is non-linear relationship between liquidity and value profitable company until ideal and weakening points If too tall .

The influence of leverage on Financial Stability and Risk

Leverage shows to what extent the company dependent on funding external . Most of studies (Ulil Albab Institute, 2023; Univ. 45 Surabaya, 2023; Ganesha Polytechnic , 2022) concluded that leverage has influence significant to stability finance and value company . Optimal use of debt can enlarge opportunity growth and increase mark company through effect capital multiplier , but too leveraged tall precisely increase risk bankruptcy .

The Role of Tax Avoidance on Company Value and Reputation

Tax avoidance becomes increasingly variable often investigated in context modern finance . Research results Ulil Albab Institute (2024) and ITB Semarang (2023) demonstrated that practice avoidance tax can increase profit term short , but lower reputation and investor trust if considered excessive or No ethical . With thus , *tax avoidance* play a role double as **factor efficiency finance at a time risk reputation** .

The Relationship between Good Corporate Governance and Company Size

Research result from the University of 45 Surabaya (2023) shows that implementation of Good Corporate Governance (GCG) and size company influential positive to quality profit and value company . Big company with good governance more capable guard credibility report finance as well as reduce risk manipulation profit consequence leverage pressure .



IMPLICATIONS OF RESEARCH RESULTS

Theoretical Implications

- This research strengthens **agency theory** , which explains that managers (agents) and shareholders (principals) have different interests in financial decision making, especially regarding leverage and *tax avoidance* .
- The SLR results also support **the signaling theory** , that good profitability and liquidity provide positive signals to the market and increase the company's value.
- In addition, **the capital structure theory (trade-off theory)** also received support, where companies need to balance the benefits of using debt with the risk of bankruptcy.

Practical Implications

- Company management needs to maintain proportional levels of leverage and liquidity to remain attractive to investors without increasing financial risk.
- *Tax avoidance* practices must be carried out carefully and legally so as not to pose reputational risks.
- Investors can use profitability and liquidity indicators as a basis for making long-term investment decisions.

Policy Implications and Further Research

- Regulators need to strengthen tax transparency policies and corporate financial governance to increase public trust.
- Further research is recommended to expand the cross-sector sample and use *meta-analysis methods* to measure the strength of the influence between variables statistically.

CLOSING

Conclusion

Based on the findings of the analysis of eight scientific publications conducted using the Systematic Literature Review (SLR) methodology, the following important conclusions can be drawn:

1. A company's value is positively influenced by its profitability. Companies with high profitability can generate consistent profits and send a favorable signal to investors. High profitability also increases market confidence in management performance and reduces the likelihood of financial distress.

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2. Liquidity plays a crucial role in maintaining a company's financial stability. Optimal liquidity levels demonstrate a company's ability to meet short-term obligations and strengthen stakeholder confidence. However, excessive liquidity can indicate unproductive assets, which could reduce operational efficiency.
3. Leverage has a complex relationship with company value. Proportional use of debt can increase company value through the capital multiplier effect (*financial leverage*). Conversely, excessive leverage can increase the risk of bankruptcy and undermine investor confidence.
4. Tax avoidance has been shown to impact company value both directly and indirectly. Tax avoidance practices can increase short-term profitability, but they pose reputational risks that can negatively impact market perception and long-term company value.
5. Good Corporate Governance (GCG) and company size play a role in strengthening the relationship between financial performance and company value. The implementation of good governance increases transparency and reduces conflicts of interest between managers and shareholders.
6. In general, the SLR results indicate that the combination of profitability, liquidity, leverage, and GCG is the dominant factor determining firm value. However, the variation in results across studies indicates a research gap, namely the need for further research into the mediating and moderating effects between these variables, particularly *tax avoidance* and dividend policy.

Research Implications

1. Theoretical Implications

- The results of this study strengthen the agency theory , signaling , and capital structure as a basis for understanding corporate financial behavior.
- This SLR broadens academic insight into the relationship between financial variables by highlighting the role of *tax avoidance* and GCG as supporting variables in increasing company value.

2. Practical Implications

- Company management is expected to be able to balance the levels of profitability, liquidity, and leverage in order to achieve optimal company value.
- Tax avoidance practices need to be carried out ethically and in accordance with regulations to maintain the company's long-term reputation.

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- Investors can use key financial ratios such as ROA, DER, and CR as a benchmark for assessing a company's financial health and potential market value.

3. Policy Implications

- Regulators and policymakers need to strengthen regulations regarding transparency of financial reports and the implementation of good corporate governance.
- A fiscal policy is needed that encourages tax compliance without burdening corporate competitiveness.

Research Limitations

1. The number of articles reviewed is still limited to eight primary sources with a time span of 2018–2024.
2. Most of the articles are conceptual in nature and do not contain many empirical results that can be measured quantitatively.
3. This study only covers the context of companies in Indonesia, so the results may differ if applied in other countries or different industrial sectors.

Suggestions

1. For Further Researchers:

- It is recommended to conduct further research using *the meta-analysis method* to be able to measure the strength of the influence between variables statistically.
- It is necessary to expand the sample by including international journals as well as researching specific sectors such as banking, manufacturing and property.

2. For Practitioners and Corporate Management:

- Management needs to balance the strategy of using leverage and dividend policy so as not to cause financial pressure.
- Focus on increasing profitability and operational efficiency while maintaining transparency of financial reports.

3. For Regulators and Governments:

- The government needs to tighten regulations regarding tax reporting and corporate governance to prevent excessive *tax avoidance practices*.



- Promote fiscal education programs so that business actors understand the importance of long-term tax compliance.

CONCLUSION

Using the Systematic Literature Review (SLR) methodology, this study effectively identifies recurring trends and variations in findings across studies on the correlation between profitability, liquidity, leverage, and firm value. Given current economic conditions, the findings suggest that intelligent financial policies, strong governance, and sound financial performance are important factors in increasing firm value.

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