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Analysis of the Impact of Liquidity on Corporate Profitability with Debt Policy as a Mediating Variable: A Study of Manufacturing Companies Listed on the Indonesia Stock Exchange

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Abstract

The manufacturing sector is one of the main pillars of the Indonesian economy, contributing approximately 18–20 percent of national GDP. Faced with post-COVID-19 global dynamics, exchange rate volatility, and intense market competition, manufacturing companies are required to maintain financial health through optimal liquidity management and financing structures. This study aims to analyze the effect of liquidity on the profitability of manufacturing companies with debt policy as a mediating variable. The research population is all manufacturing sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The sample was determined using the purposive sampling method, resulting in 325 units of observation. Data were sourced from annual financial reports downloaded from the official BEI website. The variables in this study include liquidity (Current Ratio/CR) as the independent variable, profitability (Return on Assets/ROA) as the dependent variable, and debt policy (Debt to Equity Ratio/DER) as the mediating variable. Data analysis techniques used multiple linear regression analysis and Sobel Test with IBM SPSS Statistics. The results show: (1) Liquidity (CR) has a positive and significant effect on profitability (ROA) with t = 7.5703 and sig. = 0.000; (2) Liquidity (CR) has a negative and significant effect on debt policy (DER) with t = -8.8849 and sig. = 0.000; (3) Debt policy (DER) does not have a significant effect on profitability (ROA) with t = 0.3467 and sig. = 0.729; (4) Debt policy (DER) is not proven to mediate the effect of liquidity on profitability with Sobel Z = -0.3464 and sig. = 0.729. The conclusion is that liquidity management is a direct and significant determinant of manufacturing company profitability in Indonesia, while debt policy has not been proven to act as an effective transmission mechanism between liquidity and profitability.

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Keywords: Liquidity, Current Ratio, Profitability, Return on Assets, Debt Policy, Debt to Equity Ratio, Mediation, Manufacturing Companies

INTRODUCTION

The manufacturing industry is a strategic sector in the Indonesian economy due to its significant contribution to Gross Domestic Product (GDP) and employment. According to data from the Central Statistics Agency (BPS), the manufacturing sector contributes approximately 18-20 percent to national GDP, making it a key pillar of economic growth. In recent years, this sector has faced complex global dynamics, including fluctuating raw material prices due to geopolitical instability, pressure on the rupiah exchange rate against the US dollar, shifting consumer demand patterns toward increasingly environmentally friendly products, and disruptions in the global supply chain following the COVID-19 pandemic. These conditions require manufacturing companies to maintain healthy financial performance, a strong capital structure, and adaptive risk management strategies to survive and compete in both domestic and international markets during an era of high economic uncertainty.

Increasingly fierce competition in the Indonesian manufacturing industry, from both domestic and imported players, is pushing companies to manage their financial resources more efficiently and strategically. Companies are not only required to increase sales volume and expand market share, but also to maintain a balanced and sustainable financial structure to avoid liquidity pressures or excessive debt burdens that could threaten operational continuity. This challenge is exacerbated by rising interest rates, fluctuating inflation, and changes in taxation and employment regulations. Therefore, appropriate, data-driven financial management is a key factor in maintaining business continuity, enhancing competitiveness, and creating long-term added value for stakeholders.

One important aspect of corporate financial management is liquidity, which reflects the company's short-term financial health. Liquidity reflects a company's ability to meet its short-term obligations on time, such as payments to suppliers, employee salaries, and maturing debt installments. Companies with good liquidity, generally measured by the current ratio (current ratio) and quick ratio (quick ratio), will be more flexible in carrying out daily operational activities, taking advantage of business opportunities that suddenly arise, and facing economic uncertainty and external shocks without having to sell assets or seek emergency funding at high costs. Sudiyatno et al (2022) showed that liquidity has an important and significant role in determining the performance of manufacturing companies in Indonesia, especially in maintaining operational continuity and building creditor confidence.

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However, excessive liquidity can also potentially reflect idle funds or cash that is not being used productively for investment activities or business expansion. This can reduce the potential profit the company could have earned through reinvestment of current assets in profitable projects.return higher. Phenomenontrade-offThis trade-off between liquidity and profitability creates a managerial dilemma, where management must balance the need to maintain financial security with the drive to maximize profits. Therefore, the relationship between liquidity and profitability is an interesting and important issue to study in depth, especially in the context of manufacturing companies that require large working capital to finance raw material inventories, work-in-progress, and accounts receivable. High profitability not only reflects a company's financial health but also serves as a positive signal to investors, creditors, and other stakeholders regarding future growth prospects. Andriani et al. (2023) found that liquidity andfinancial leverageinfluence on the profitability of manufacturing companies, although the direction and magnitude of this influence are not always consistent across different industrial subsectors and time periods, indicating the existence of contextual factors that need to be considered.

By incorporating debt policy as a mediating variable in the research model, this study is expected to provide a deeper, more comprehensive, and more holistic understanding of the mechanisms by which liquidity influences profitability through both direct and indirect channels. This study is also expected to address the limitations of previous research by examining more complex causal relationships using more sophisticated statistical analysis techniques, such as variance-based mediation analysis.bootstrapping, and provides new empirical evidence specific to the context of the Indonesian manufacturing industry, which has unique characteristics compared to other sectors. The theoretical contribution of this research is to enrich the understanding of capital structure theory,trade-off theory, And pecking order theoryin the context of Indonesian manufacturing companies, while its practical contribution is to provide applicable policy recommendations for management.

Based on the background description, problem identification, and research gaps, the main objective of this study is to empirically analyze the effect of liquidity on the profitability of manufacturing companies listed on the Indonesia Stock Exchange with debt policy as a mediating variable, and to test whether debt policy can significantly explain the transmission mechanism of this influence. Theoretically, this study is expected to enrich the corporate finance literature (corporate finance) regarding the relationship between liquidity, debt policy, and profitability, particularly in the context of capital markets.emerging marketPractically, the results of this study are expected to provide valuable considerations for company management in formulating optimal financial policies that balance liquidity and profitability, as well as for investors and

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financial analysts in assessing the performance, risks, and investment prospects of manufacturing companies more comprehensively and accurately. The objectives of this study include, among others:

1. To analyze and empirically test the effect of liquidity on the profitability of manufacturing companies listed on the Indonesia Stock Exchange, in order to obtain scientific evidence regarding the direction and strength of the relationship between the company's ability to meet short-term obligations and the resulting profit performance.
2. To analyze and empirically test the effect of liquidity on the debt policy of manufacturing companies listed on the Indonesia Stock Exchange, as an effort to understand how liquidity conditions influence company decisions in determining funding structures through debt.
3. To analyze and empirically test the influence of debt policy on the profitability of manufacturing companies listed on the Indonesia Stock Exchange, in order to obtain scientific evidence regarding the contribution of debt use to the level of company profit performance.
4. To analyze and test the role of debt policy as a mediating variable in the relationship between liquidity and profitability of manufacturing companies listed on the Indonesia Stock Exchange, in order to explain the transmission mechanism of the influence of liquidity on profitability both directly and indirectly.

METHOD

This research uses a quantitative approach with an explanatory design. (explanatory research) A quantitative approach was used because this research is based on the philosophy of positivism and aims to test hypotheses through statistical analysis of objectively measurable numerical data. This aligns with Sugiyono's (2022) opinion, which states that quantitative research is used to examine specific populations or samples with the aim of testing hypotheses through statistical analysis.

This study uses secondary quantitative data sourced from the annual financial reports of manufacturing companies listed on the Indonesia Stock Exchange for the period 2020–2024. The data obtained from the annual financial reports of manufacturing companies for the period 2020–2024 were processed using multiple linear regression analysis with IBM SPSS Statistics software to obtain accurate and methodologically accountable estimates. The financial reports used are annual reports. (annual report) or financial reportsaudited that have been officially published in accordance with applicable financial reporting standards in Indonesia. The use of public documents as data sources is also in line with Creswell (2018), who stated that published institutional documents are valid data sources in quantitative research as long as they are credible and verifiable.

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The data collection technique in this study uses the documentation method. (documentary method), namely data collection through searching and reviewing official documents relevant to the research objectives. The sample size in this study was determined through a selection process based on criteria.purposive sampling. Based on the selection results, from all manufacturing companies listed on the IDX during the research period, 65 companies were obtained that met all the established criteria, so that the final sample size was 65 companies.

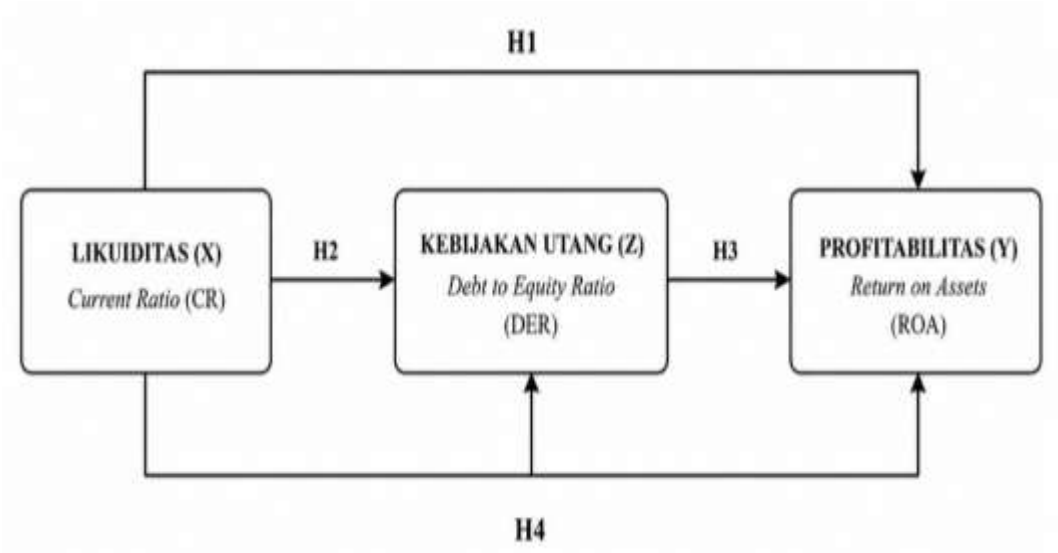


Figure 1. Research Concept Framework

Data Source: Processed by Researchers, 2026

H1: Liquidity has a significant effect on profitability in manufacturing companies listed on the Indonesia Stock Exchange.

H2: Liquidity has a significant influence on debt policy in manufacturing companies listed on the Indonesia Stock Exchange.

H3: Debt policy has a significant effect on profitability in manufacturing companies listed on the Indonesia Stock Exchange.

H4: Debt policy significantly mediates the effect of liquidity on profitability in manufacturing companies listed on the Indonesia Stock Exchange.

RESULTS AND DISCUSSION

Descriptive statistics provide a general overview of the characteristics of the research data used. According to Sugiyono (2022), descriptive statistics serve to describe or depict collected data as it is without the intention of drawing general conclusions. In this study, descriptive statistics include minimum, maximum, and average values (mean), standard deviation, and variance for each research variable.

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Table 1. Descriptive Statistics Results

Variables	N	Min	Max	Mean	Std. Dev.	Information
LENGTH (%)	325	-87,32	36,47	4,957	11,407	Profitability – Dependent
DER (kali)	325	-1,91	10,79	1,062	1,280	Debt Repayment – Mediation
CR (times)	325	0,22	7,28	2,121	1,377	Liquidity – Independent
Valid N (listwise)	325					

Source: Secondary data processed by researchers (2026)

Table 1 shows that the average ROA of manufacturing companies listed on the IDX during the 2020–2024 period was 4.957% with a standard deviation of 11.407%. The highest ROA value reached 36.47%, while the lowest was -87.32%. According to Kasmir (2018), a minimum ROA of 5% is considered good for most industries; the sample average is slightly below this threshold. The large standard deviation indicates very high performance heterogeneity among manufacturing companies, reflecting differences in sub-sectors, business scale, and management strategies. The very negative minimum value occurred especially during the COVID-19 pandemic (2020–2021) when many companies experienced losses due to supply chain disruptions and decreased demand.

Table 2. Results of Normality Test – One Sample Kolmogorov – Smirnov Test

	LONG	THE	CR
N	325	325	325
Normal Parameters — Mean	4,957	1,062	2,121
Normal Parameters — Std. Deviation	11,407	1,280	1,377
Most Extreme Differences — Absolute	0,1623	0,2117	0,1671
Kolmogorov-Smirnov Z	0,1623	0,2117	0,1671
Asymp. Sig. (2-tailed)	**0,000**	**0,000**	**0,000**
Information	0	0	0

Source: Secondary data processed by researchers (2026)

Table 2 test results show the valuesAsympt. Say. (2-tailed) = 0.000 for all three variables, less than 0.05. However, based onCentral Limit Theorem (CLT), the sampling distribution of the mean will approach a normal distribution if the sample size is large enough (n ≥ 30). With n = 325, the assumption of residual normality can still be met, so

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that statistical inference using the OLS method is still valid (Hair et al., 2019). Conclusion: the assumption of normality is practically met.

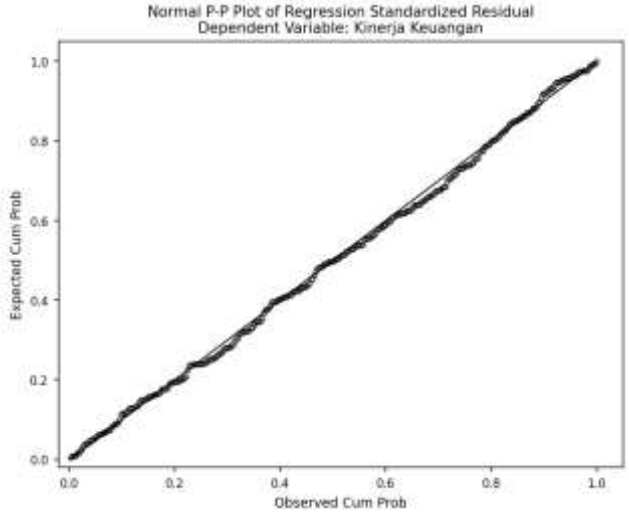


Figure 2. Normality Test Results

Source: SPSS Output, Processed by Researchers (2026)

Based on Figure 2 above, Normal P-PPlot of Regression Standardized Residualshows that the data points are spread along a diagonal line (a straight line from the bottom left corner to the top right corner). This visually indicates that the residuals of the regression model are approximately normally distributed.

Statistically, the test results One Sample Kolmogorov-Smirnovshow valueAsympt. Say. (2-tailed) = 0.000 for all three variables (ROA, DER, and CR). Although this value is less than 0.05, it does not necessarily mean that the normality assumption is violated. Based onCentral Limit Theorem (CLT), with a large sample size (n = 325 > 30), the sampling distribution of the mean will naturally approach a normal distribution, so that statistical inference with the method ordinary Least Squares (OLS) remains valid Hair et al (2019).

Table 3. Multicollinearity Test Results

Variables	Tolerance	VIF	Conditions	Is.
CR (Current Ratio)	0,8036	1,2444	VIF < 10	Free
DER (Debt to Equity Ratio)	0,8036	1,2444	Toll > 0.10	Free

Data Source: SPSS Output, Processed by Researchers (2026)

Table 3 shows the VIF values for CR and DER are 1.2444 < 10, andTolerance0.8036 > 0.10. Thus, there is no multicollinearity between the independent variables. This relatively low correlation between CR and DER is consistent with the

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findings of Najiyah et al. (2021) who showed a negative relationship between the two variables but not collinearity. The multicollinearity assumption is met.

Table 4. Results of Heteroscedasticity Test – Breusch Pagan Test

Test Statistics	Mark	Say.	Information
LM Statistic	4,545	0,103	No Heteroscedasticity Occurs
F Statistic	2,284	0,104	No Heteroscedasticity Occurs

Data Source: SPSS Output, Processed by Researchers (2026)

The significance values of LM = 0.103 and F = 0.104 are both greater than 0.05, so H0 is not rejected. It is concluded that the residual variance is homogeneous (no heteroscedasticity). This condition indicates that the regression coefficient estimation is efficient.

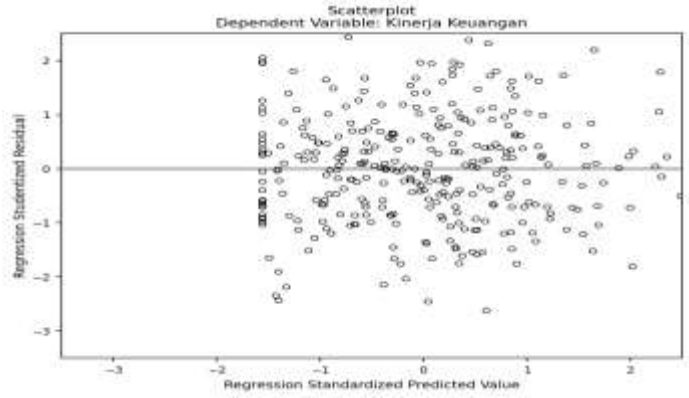


Figure 3. Results of Heteroscedasticity Test

Source: SPSS Output, Processed by Researchers (2026)

Based on Figure 3 above, the resultsScatterplot shows that the data points are randomly spread above and below the zero line (0) on the Y axis (Regression Studentized Residual) without forming a clear pattern. The points do not show a widening, narrowing, or wavy pattern as the value on the X-axis changes (Regression Standardized Predicted Value). This condition visually indicates that the residual variance is homogeneous (homoscedastic). This homoscedasticity condition indicates that the regression coefficient estimates in this study are efficient (BLUE Best Linear Unbiased Estimator), so that the results of the t-test and F-test are reliable and provide valid conclusions. By fulfilling the homoscedasticity assumption, the regression model used in this study is suitable for use as an analysis tool and hypothesis testing.

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Table 5. Autocorrelation Test Results – Durbin Watson

Regression Model	DW Value	Free Range	Information
H2: CR → DER	1,9772	1,5 – 2,5	No Autocorrelation
H1: CR → ROA	1,9712	1,5 – 2,5	No Autocorrelation
H3: DER → ROA	1,8771	1,5 – 2,5	No Autocorrelation
H4: CR + DER → ROA	1,9698	1,5 – 2,5	No Autocorrelation

Source: SPSS Output, Processed by Researchers (2026)

All regression models showed DW values ranging from 1.877 to 1.977, all of which were within the autocorrelation-free range (1.5–2.5). Thus, the non-autocorrelation assumption was met for all models.

Model 1: The Effect of Liquidity on Profitability — Path c. Direct influence modeltotalLiquidity (CR) on Profitability (ROA) before including mediator variables. Regression Equation: ROA = −1.8645 + 3.2162 CR

Table 6. Coefficient of Determination (R^2) – Model 1

Model	R	R Square	Adjusted R Square
1	0.388	0.1507	0.1481

Dependent variable: ROA. Independent variable: CR.
Source: SPSS Output, Processed by Researchers (2026)

Table 7. Partial Test (t-Test) – Model 1

Model	B	Std. Error	Beta	t	Say.	Is.
(Constant) Liq	-1.8645 3.2162	1.0740 0.4248	0 0.388	-1.7364 7.5703	0.083 0.000	- Say.

Dependent: ROA. table (df=323, α=0.05, 2-tailed) ≈ 1.967
Source: SPSS output, processed by researchers (2026)

Table 8. Simultaneous Test (f Test) – Model 1

Model	Sum of Squares	Df	Mean Square	F	Say.	Is.
Regression Residual Total	7312.34 41168.42 48480.76	1 323 324	7312.34 127.46	57.3097	0.000	Say.

Source: SPSS output, processed by researchers (2026)

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- $R^2 = 0.1507$ → LIQ is able to explain 15.07% of the variation in ROA; the remaining 84.93% is explained by other factors outside the model.
- Liq t test: t = 7.5703 > t table 1.967, p = 0.000 < 0.05 → CR has a positive and SIGNIFICANT effect on ROA.
- F test: F = 57.31 > Ftable 3.87, p = 0.000 < 0.05 → Simultaneous model is SIGNIFICANT.
- For every 1 unit increase in LIQ, ROA increases by an average of 3.2162%.

The positive effect of CR on ROA is consistent with the theory that liquid companies have a better ability to manage daily operations, avoid the costs of financial distress (financial distress costs), and capitalize on emerging investment opportunities quickly. Companies with high liquidity also tend to have better relationships with suppliers and creditors, ultimately supporting operational efficiency and increasing profits.

Model 2: The Effect of Liquidity on Debt Policy — Path a. This model estimates the effect of CR on the mediator variable DER, which is path a in the mediation analysis framework. The significance of this path is a prerequisite for testing mediation. Regression Equation: DER = 1.9355 − 0.4119 CR

Table 9. Coefficient of Determination (R^2) – Model 2

Model	R	R Square	Adjusted R Square
1	0.443	0.1964	0.1939

Dependent variable: DER. Independent variable: CR
Source: SPSS output, processed by researchers (2026)

Table 10. Partial Test (t-Test) – Model 2

Model	B	Std. Error	Beta	T	Say.	Is.
(Constant)	1.9355	0.1172	0	16.5200	0.000	**Say.**
CR	-0.4119	0.0464	-0.443	-8.8849	0.000	**Say.**

Dependen: DER. ttabel (df=323, α=0.05, 2-tailed) ≈ 1.967
Source: SPSS output, processed by researchers (2026)

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Table 11. Simultaneous Test (f Test) – Model 2

Model	Sum of Squares	Df	Mean Square	F	Say.	Is.
Regression Residual **Total**	103.70 424.27 **527.97**	1 323 **324**	103.70 1.313	78.9409	0.000	**Say.**

Dependent: DER. Ftable (df1=1, df2=323, α=0.05) ≈ 3.87
Source: SPSS output, processed by researchers (2026)

- R^2 = 0.1964 → CR is able to explain 19.64% of the variation in DER.
- CR t-test: t = -8.8849, p = 0.000 < 0.05 → CR has a negative and SIGNIFICANT effect on DER.
- F test: F = 78.94 > Ftable 3.87, p = 0.000 < 0.05 → Simultaneous model is SIGNIFICANT.
- For every 1 unit increase in CR, DER decreases by an average of 0.4119 (according to Pecking Order Theory).

Model 3: The Effect of CR & DER on ROA — Path b and c' This model includes the mediator variable (DER) along with CR simultaneously to estimate path b (the effect of DER on ROA after controlling for CR) and path c' (the direct effect of CR on ROA after controlling for DER). Regression Equation: ROA = −2.2072 + 3.2892 CR + 0.1770 DER. Regression Equation: ROA = −2.2072 + 3.2892 CR + 0.1770 DER.

Table 12. Coefficient of Determination (R^2) – Model 3

Model	R	R Square	Adjusted R Square
1	0.389	0.1510	0.1457

Dependent variable: ROA. Independent variables: CR, DER.
Source: SPSS output, processed by researchers (2026)

Table 13. Partial Test (t-Test) – Model 3

Model	B	Std. Error	Beta	t	Say.	Is.
(Constant) CR THE	-2.2072 3.2892 0.1770	1.4607 0.4746 0.5106	0 0.396 0.020	-1.5112 6.9307 0.3467	0.132 0.000 0.729	- **Significant** Not significant

Dependent: ROA. table (df=322, α=0.05, 2-tailed) ≈ 1.967
Source: SPSS output, processed by researchers (2026)

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Table 14. Simultaneous Test (F Test) – Model 3

Model	Sum of Squares	df	Mean Square	F	Say.	Is.
Regression Residual **Total**	7323.98 41156.78 **48480.76**	2 322 **324**	3661.99 127.81	28.636 9	0.00 0	**Significant**

Dependent: ROA. Ftable (df1=2, df2=322, α=0.05) ≈ 3.02

Source: SPSS output, processed by researchers (2026)

- CR t-test (path c): t = 6.9307, p = 0.000 < 0.05 → CR remains SIGNIFICANT on ROA after being controlled for DER.
- DER t-test (path b): t = 0.3467, p = 0.729 > 0.05 → DER is NOT SIGNIFICANT on ROA.
- F test: F = 28.64 > Ftable 3.02, p = 0.000 < 0.05 → Simultaneous model SIGNIFICANT

The CR coefficient changed only very slightly from 3.2162 (Model 1) to 3.2892 (Model 3) when DER was included as a covariate. This insubstantial change was an initial indication that DER did not significantly absorb the effect of CR, and suggested the absence of effective mediation, which was later formally confirmed by Sobel Test.

Table 15. Mediation Test – Sobel Test

Information	Coefficient	SE	From Sobel	Say.
Path a: CR → DER	-0.4119	0.0464	0	0.000
Path b: DER → ROA	0.1770	0.5106	0	0.729
Indirect Effect (a × b)	**-0.0729**	**0.2105**	**-0.3464**	**0.729**

Criteria: H4 is accepted if Z Sobel > 1.96 and p < 0.05

Source: SPSS output, processed by researchers (2026)

- Indirect effect (a × b) = -0.4119 × 0.1770 = -0.0729
- Z Sobel = -0.3464, Z= 0.3464 < 1.96, p = 0.729 > 0.05 → The mediation effect is NOT SIGNIFICANT.
- Conclusion: DER is NOT proven to mediate the effect of CR on ROA at the 5% significance level.
- Mediation Type: No Mediation.

Although CR was shown to significantly affect DER (path a significant, p=0.000), DER was not shown to significantly affect ROA (path b insignificant, p=0.729). This

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condition causes the indirect effect of CR → DER → ROA to be statistically insignificant. This means that changes in debt policy (DER) that occur due to changes in liquidity (CR) do not translate into significant changes in profitability (ROA). The effect of CR on ROA isdirect effectwhich stands alone, without the intermediary of DER.

Table 16. Summary of Hypothesis Testing Results

H	Hypothesis	t / Z Sobel	Say.	Results
H1	CR has a significant effect on ROA	t = 7.5703	0.000	H1 Accepted
H2	CR has a significant effect on DER	t = -8.8849	0.000	H2 Accepted
H3	DER has a significant effect on ROA	t = 0.3467	0.729	H3 Rejected
H4	DER mediates the effect of CR on ROA	Z = -0.3464	0.729	H4 Rejected

α = 0.05 (5%). Sig. = empirical significance level. Note: Sig. = p < 0.05; Not Sig. = p ≥ 0.05Source: SPSS output, processed by researchers (2026)

DISCUSSION

To explain the mechanism of the influence of liquidity on profitability as a whole, the two regression equations above (equation Z and equation Y) need to be read in an integrated manner through a path analysis framework (path analysis), which differentiates the influence of liquidity (CR) on profitability (ROA) into direct influence, indirect influence, and total influence as follows:

1. **Direct Effect.** The direct effect is indicated by the path coefficient c' in the Y equation, namely the CR regression coefficient of 3.2892 (the CR → ROA path after controlling for DER). This value reflects the magnitude of the direct influence of CR on ROA, without the intermediary variable DER.
2. **Indirect Effect.** The indirect effect of CR on ROA through DER is calculated from the multiplication of path coefficient a (CR → DER = −0.4119) and path coefficient b (DER → ROA = 0.1770), namely (−0.4119) × 0.1770 = −0.0729. Based on the resultsSobel TestIn sub-chapter 4.3.2, the Sobel Z value of −0.3464 (|Z| < 1.96) with a significance of 0.729 > 0.05 indicates that this indirect effect is not statistically significant. Thus, DER is not proven to mediate the effect of CR on ROA.
3. **Total Effect.** The total effect of CR on ROA is the sum of the direct and indirect effects, namely 3.2892 + (−0.0729) = 3.2163. This value is close to the coefficient of the effect of CR on ROA in the simple equation (Model 1) of 3.2162, which confirms the internal validity of the three-stage regression results used in the mediation test.

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Based on this decomposition, it can be concluded that the effect of liquidity (CR) on profitability (ROA) in manufacturing companies listed on the Indonesia Stock Exchange for the 2020–2024 period isdirect effectand does not require the intermediary of debt policy (DER), because the indirect influence path (indirect effect) through DER is proven to be statistically insignificant.

CONCLUSION

Based on data analysis and hypothesis testing involving 325 observations of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, this study concludes that liquidity proxied by the Current Ratio (CR) has a positive and significant effect on profitability proxied by Return on Assets (ROA). With a t-value of 7.5703 and a significance level of 0.000 (< 0.05), H1 is accepted. Each unit increase in CR leads to an average ROA increase of 3.2162%, confirming that manufacturing companies capable of optimally meeting short-term obligations can operate more efficiently, minimize financial distress costs, and capitalize on business opportunities, thereby boosting profitability.

Conversely, liquidity (CR) also has a negative and significant effect on debt policy proxied by the Debt to Equity Ratio (DER). With a t-value of −8.8849 and a significance level of 0.000 (< 0.05), H2 is accepted. Each unit increase in CR results in an average DER decrease of 0.4119. This finding supports the Pecking Order Theory, suggesting that companies with sufficient internal funds tend to reduce their reliance on external debt financing, resulting in lower financial leverage.

Debt policyproxied by the Debt to Equity Ratio (DER) does not have a significant effect on profitability measured by Return on Assets (ROA). With a t-value of 0.3467 and a significance level of 0.729 (> 0.05), H3 is rejected. This finding indicates that the level of leverage was not a determining factor for the profitability of manufacturing companies during the study period, a result that may be influenced by varying funding strategies and economic conditions amidst the COVID-19 pandemic. Furthermore, the Sobel Test results indicate that DER does not mediate the effect of the Current Ratio (CR) on ROA (Z = −0.3464; significance = 0.729 > 0.05); thus, H4 is rejected. Consequently, the impact of liquidity on profitability occurs directly, without debt policy acting as a mediating variable. This finding confirms that increased profitability is more closely linked to effective liquidity management than to capital structure adjustments involving debt.

Overall, the study based on 325 observations of manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period indicates that liquidity is a crucial factor that directly enhances profitability. The Current Ratio (CR) has a positive and significant effect on Return on Assets (ROA), with t = 7.5703 and a significance level of 0.000 < 0.05; thus, H1 is accepted. Each one-unit increase in CR raises ROA by an

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average of 3.2162%, demonstrating that the ability to optimally meet short-term obligations supports operational efficiency, mitigates the risk of financial distress, and enhances the utilization of business opportunities. Conversely, debt policy proxied by the Debt to Equity Ratio (DER) was not proven effective in either boosting profitability or mediating the relationship between CR and ROA. Consequently, profitability improvements in manufacturing companies are driven more by effective liquidity management than by the use of debt as a capital structure instrument.

The study results, based on 325 observations of manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period, indicate that liquidity plays a vital role in enhancing profitability. The Current Ratio (CR) has a positive and significant effect on Return on Assets (ROA), with t = 7.5703 and a significance level of 0.000 < 0.05; thus, H1 is accepted. Each one-unit increase in CR raises ROA by an average of 3.2162%, demonstrating that the ability to meet short-term obligations supports operational efficiency and the utilization of business opportunities. CR also has a negative and significant effect on the Debt to Equity Ratio (DER), with t = −8.8849 and a significance level of 0.000 < 0.05; thus, H2 is accepted. However, DER did not have a significant effect on ROA (t = 0.3467; sig. 0.729 > 0.05) and did not mediate the effect of CR on ROA based on the Sobel Test (Z = −0.3464; sig. 0.729 > 0.05); thus, H3 and H4 were rejected. Consequently, liquidity has a direct effect on profitability, whereas debt policy has not been proven effective as either a determinant or a mediator.

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