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THE DETERMINANTS OF COMPANY LIQUIDITY

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ABSTRACT

This research paper examines the economic heterogeneity of businesses in Indonesia, emphasizing the obstacles and industries implicated, including commodities, technology, and sustainability. This article elucidates the notion of corporate liquidity and the various determinants that impact it, encompassing cash management, capital structure, operational cycle, working capital management, as well as external factors such as market conditions and monetary policy. The research highlights the importance of comprehending the factors that influence a company's ability to meet its short-term financial obligations. This understanding is crucial for financial managers and stakeholders in order to develop effective strategies and mitigate liquidity risks. The paper describes the research methodology employed, specifically the Systematic Literature Review (SLR), to gather, examine, and integrate scientific literature that pertains to the research subject. The document concludes by emphasizing the practical ramifications of the research, including its potential to aid financial institutions in credit assessment and provide valuable insights to regulators and policymakers in creating a business environment conducive to company liquidity.

Keywords : ***Determinants, Company, Liquidity***

1. INTRODUCTION

A company is an economic entity that functions with the purpose of attaining a particular objective, such as generating financial gains or delivering services to the community. Companies can exist in different forms, such as private companies, public companies, cooperatives, or non-profit entities. Companies are typically established by a collective of individuals or investors with the objective of efficiently allocating resources and participating in economic endeavors. The company employs a hierarchical organizational structure comprising multiple departments and management tiers to ensure optimal operational efficiency. Moreover, companies have the ability to function across diverse economic domains, including manufacturing, services, technology, and finance. Companies employ business strategies, mitigate risks, and engage with customers, competitors, and other relevant stakeholders in order to accomplish their objectives. The success of a company is typically evaluated based on its financial performance, market share, and its ability to make a positive contribution to society and the environment (Aprillia et al., 2021).

The condition of companies in Indonesia mirrors the extensive and diverse economic landscape of the country. Indonesia boasts a substantial number of companies spanning diverse sectors such as manufacturing, agriculture, mining, services, and the financial sector. The majority of companies in Indonesia are classified as small and medium enterprises, with a notable presence of large corporations that significantly contribute to the economy. The Indonesian government has implemented a range of measures to enhance the business and investment environment in the country. These measures include making changes to regulations, streamlining licensing procedures, and actively encouraging investment (Byusi & Achyani, 2019). Nevertheless, the presence of intricate bureaucracy, ongoing infrastructure development, and employment issues frequently impact the performance of companies in Indonesia. Several notable industries encompass commodities such as palm oil, coffee, and mining, while the technology and e-commerce sectors are experiencing significant growth. Furthermore, there is a growing emphasis on sustainability and corporate social responsibility, as numerous companies strive to incorporate sustainable and environmentally conscious business practices into their operations. Indonesia is making efforts to enhance its competitiveness in international markets by implementing diverse policies and initiatives, within the framework of the global economy (Mayasari & Rahayu, 2021).

Corporate liquidity pertains to a company's capacity to fulfill its immediate financial responsibilities. Key determinants of a company's liquidity encompass effective cash management, capital structure, operational cycle, and policies for managing working capital. Effective cash management entails the efficient management of a company's cash inflows and outflows, along with vigilant monitoring of both present and future cash positions. Companies must establish a well-balanced capital structure, ensuring an optimal mix of debt and equity to avoid onerous obligations that may be challenging to meet (Mayasari & Rahayu, 2021).

The liquidity of a company is also influenced by its operational cycle. Companies with abbreviated operational cycles possess the capacity to expedite the conversion of inventory into cash, thereby augmenting liquidity. In contrast, companies that have lengthy operational cycles may encounter difficulties in maintaining sufficient liquidity due to the fact that their funds are held up in inventory or receivables for extended periods of time (Ismawati Management & Economics and Business Study Program, 2017).

Working capital management, encompassing the oversight of accounts receivable, inventory, and current liabilities, additionally contributes to the assessment of liquidity. Companies must achieve a delicate equilibrium between preserving liquidity and optimizing investment returns. Implementing stringent credit policies and employing effective receivables management strategies can mitigate the potential risk of delayed payments (Arifin et al., 2019).
Market conditions and monetary policy are external factors that can impact a company's liquidity. Fluctuations in economic or market conditions can impact the demand for products or services, consequently influencing a company's cash flow. In addition, interest rates and banking policies have an impact on a company's ability to obtain funding sources (Arifin et al., 2019).

To address liquidity risk, companies must implement a robust risk management strategy that encompasses diversification of funding sources, utilization of derivative financial instruments, and meticulous financial planning. In general, the factors that influence a company's ability to meet its short-term obligations are a mix of internal choices and external circumstances that necessitate careful oversight from management in order to sustain a favorable equilibrium between liquidity and profitability (Taufiqurrahman & Hidayati, 2022).

The study of the factors that influence a company's ability to maintain sufficient cash reserves is highly relevant and pressing in the field of financial management and business decision-making. Gaining a profound comprehension of the variables that impact a company's liquidity can furnish financial managers and other stakeholders with a more precise assessment of a company's financial well-being. Understanding the impact of cash management, capital structure, operational cycles, and working capital management policies on liquidity enables companies to develop more efficient strategies for maintaining sufficient funds. This research is crucial for assisting companies in identifying and effectively managing liquidity risks. Through comprehending the variables that can exacerbate liquidity, corporations can formulate enhanced risk management policies and practices. This is a risk mitigation strategy that involves diversifying funding sources, efficiently managing receivables, and utilizing derivative financial instruments to safeguard the company against unfavorable market fluctuations or interest rates.

Furthermore, this research can offer valuable understanding to regulators and policy makers regarding the essential factors that must be taken into account in order to establish a business environment that fosters company liquidity. This can facilitate the development of more efficacious economic and financial policies and establish a robust banking system and stable financial markets. Studying the factors that influence a company's ability to maintain sufficient cash reserves also has practical applications in evaluating creditworthiness for financial institutions. Financial institutions frequently consider a company's liquidity level as a key factor when evaluating credit risk. Hence, this study can assist corporations in upholding their credit reputation and facilitating the borrowing procedure or obtaining capital from financial markets.

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2. IMPLEMENTATION METHOD

The Systematic Literature Review (SLR) method is a rigorous and organized research approach used to gather, analyze, and integrate scientific literature that is pertinent to a specific research subject. The purpose of SLR measures is to mitigate bias and guarantee the precision and validity of research findings. Initially, researchers establish the conceptual framework and research questions that will be addressed through Systematic Literature Review (SLR). Next, a comprehensive information retrieval strategy is developed by identifying relevant keywords, selecting appropriate databases, and establishing specific criteria for literature inclusion and exclusion (Zhu et al., 2018).

The literature selection process is conducted meticulously, employing pre-established criteria. The relevant articles were subsequently examined thoroughly, encompassing an assessment of the research methodology's quality and an interpretation of the findings. Subsequently, data extracted from the chosen literature is synthesized and scrutinized in order to formulate definitive conclusions or findings that can effectively address the research inquiries. Systematic Literature Review (SLR) enables researchers to conduct a comprehensive and unbiased evaluation of the available literature. It facilitates the identification of patterns, areas of knowledge deficiency, and the creation of a consolidated summary that can serve as a foundation for decision-making or the advancement of theories (Akhigbe et al., 2017).

3. RESULTS AND DISCUSSION

Based on the SLR results of 5 journals that match the keywords searched, namelyDeterminants, Liquidity, and Companies, Indonesiathe following results were obtained:

No.	Article Title	Writer	Research Findings/Results
1	Profitability, Liquidity, and Company Size are Determinants of Company Value	(Bahri, 2022)	The findings show that profitability, liquidity, and company size have a significant positive impact on company value, which supports and strengthens the concepts in signaling theory.
2	Determinants of Profitability of Sharia Commercial Banks in Indonesia with Liquidity Level as an Intervening Variable	(Anisa & Anwar, 2021)	A large or small FDR level does not have a significant impact on profitability, so BOPO is unable to influence ROA through the FDR variable.
3	Analysis of Determinants of Company Value in Transportation & Logistics Companies Listed on the Indonesian Stock Exchange	(Larank Assya, 2023)	Research findings show that company value is not influenced by the level of liquidity, while leverage has an impact on company value. On the other hand, profitability does not have a significant influence on company value.
4	Determinants of Profitability of Mining Companies on the Indonesian Sharia Stock Index	(Maulana et al., 2022)	Working capital turnover has a significant negative impact on profitability. On the other hand, liquidity and leverage do not have a significant influence on profitability.

5	Determinants of Dividend Policy in Telecommunication Companies in Indonesia	(Ismawati Management & Economics and Business Study Program, 2017)	If a company maintains its level of liquidity and improves its debt structure, it must have the ability to pay dividends from available liquidity sources.

The determinants of liquidity in a company encompass various internal and external factors that collectively impact the company's capacity to fulfill its immediate financial responsibilities. Internal factors pertaining to cash management and company financial policies encompass receivables collection policies, inventory management, and debt payment policies. Effective cash management can guarantee sufficient cash flow, while sound practices in managing receivables and inventory can aid in controlling working capital turnover and liquidity. The capital structure of a company is crucial as it determines the optimal mix of debt and equity that a company should have in order to mitigate avoidable liquidity risks (Maldina et al., 2021).

External factors encompass market conditions and the economic environment. A company's liquidity can be significantly impacted by shifts in market demand, fluctuations in interest rates, and the stability of financial markets. The level of liquidity is significantly influenced by the presence of external funding sources, such as bank loans or stock investments. Macroeconomic variables, such as inflation or alterations in monetary policy, can exert a lasting influence on a company's liquidity (Rachma Puspita, 2019).

The liquidity of the company is also influenced by its operational cycle. Companies that have rapid operational cycles, enabling them to efficiently convert inventory into cash, typically exhibit superior liquidity. External factors such as risk management policies and cash reserve strategies can impact liquidity. Comprehensive comprehension of potential liquidity risks and the formulation of contingency plans can assist companies in managing unforeseen circumstances. Liquidity management is crucial not only for ensuring business continuity but also for upholding the company's reputation among stakeholders, including investors and creditors. Hence, it is imperative to comprehend and prudently handle the factors that influence liquidity in order to uphold the financial well-being of the company and foster sustainable expansion (Wijandari, 2020). Various internal and external variables can impact a company's liquidity. Internally, a company's cash management is crucial in determining its liquidity. Implementing effective cash management strategies, such as overseeing the inflow and outflow of cash, can ensure the maintenance of sufficient liquidity. The capital structure of the company is an important internal factor. Companies must achieve an optimal liquidity level while minimizing unnecessary financial risk by striking the appropriate balance between debt and equity (Mahmudah et al., 2019).

Additionally, a company's liquidity can be influenced by external factors such as market conditions and regulations. Fluctuations in economic or market conditions can impact the demand for products or services, subsequently influencing a company's cash flow. Furthermore, the availability of external sources of funds, such as the credit market or stock market, can significantly influence the degree of liquidity in a company (Dewi & Cahyaningtyas, 2019).

The liquidity of a company is influenced by its operational cycle. Companies that have shorter operational cycles, enabling them to convert inventory into cash more rapidly, typically exhibit superior liquidity. The implementation of effective credit and collection policies, along with other working capital management strategies, significantly impacts a company's liquidity (Dewi & Cahyaningtyas, 2019).

Environmental factors, such as fluctuations in interest rates, alterations in banking regulations, and currency risks, can exert a substantial influence on a company's liquidity, particularly for companies with global operations. In order to maintain a company's liquidity and successfully navigate external challenges, it is crucial to have a comprehensive understanding of these factors and to implement effective risk management strategies (Maslika 'atin & Muharram, 2022).

Recognizing and controlling liquidity risk is a crucial element of corporate financial management that demands significant focus. Identification of liquidity risk entails a comprehensive comprehension of the variables that can impact a company's cash accessibility, including variations in operational cash flow, a decrease in sales, or an incapacity to obtain external funding sources. Scenario analysis can also aid in the identification of unforeseen events that have the potential to affect liquidity (Marfuah et al., 2022).

After identifying liquidity risks, the subsequent action is to effectively manage these risks. This entails formulating strategies and policies to safeguard a company against potential liquidity deficiencies. One way to mitigate liquidity risk is by diversifying funding sources, such as utilizing bank credit, stock markets, or derivative financial instruments. Companies can enhance their cash flow by implementing effective receivables and inventory management strategies, which facilitate the prompt conversion of assets into cash (Astakonmi & Utami, 2019).

Effective cash management is a crucial element in the management of liquidity risk. This entails meticulous monitoring of both present and future cash positions, along with the formulation of contingency plans to tackle unforeseen circumstances. Additionally, a preemptive alert system can be established to inform management of potential liquidity risks that may emerge. Furthermore, it is imperative for companies to be mindful of financial regulations and banking prerequisites that can have an impact on their liquidity (Umar, 2021).

Proficient knowledge of banking policies and liquidity requirements enables companies to develop strategies that adhere to the regulatory framework. Effectively managing liquidity risk is crucial not only for ensuring business continuity but also for influencing the perception of investors and creditors towards the company (Astakonmi & Utami, 2019). Through a comprehensive comprehension and proficient management of liquidity risk, companies can enhance their ability to withstand and adapt to potential financial difficulties.

4. CONCLUSION

The parameters of liquidity in a company encompass both internal and external factors that interact with one another to create a comprehensive assessment of the company's capacity to fulfill immediate financial responsibilities. Liquidity is significantly influenced by internal factors, including effective cash management, robust financial policies, and a well-balanced capital structure. On the other hand, a company's liquidity is also affected by external factors such as market conditions, the economic environment, and the availability of external funding sources. The level of liquidity is significantly influenced by the operational cycle and risk management policies. In order to ensure a company's financial well-being, resilience in the face of challenges, and the trust of stakeholders, it is essential to have a comprehensive grasp of these factors and to implement effective liquidity management strategies.

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