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Firm Size and Liquidity Shape Profitability: Evidence from IDX Consumer Cyclicals (2021–2025)

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Abstract

While the consumer cyclicals sector heavily depends on macroeconomic shifts and fluctuating consumer purchasing power, many businesses struggle to maintain optimal profitability during volatile economic transitions. This study investigates how firm size and liquidity actively drive profitability among consumer cyclical companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2025. Employing a quantitative research design, we applied purposive sampling techniques to select a final sample of 16 qualified companies. Data analysis utilized multiple linear regression to examine the distinct impacts of corporate scale and short-term financial health on overall net returns.

The empirical results reveal that firm size does not influence corporate profitability, suggesting that larger asset bases do not automatically guarantee superior financial returns in this specific sector. Conversely, liquidity significantly and directly impacts profitability, demonstrating that efficient short-term asset management and robust cash flows dictate a firm's ultimate bottom-line success. This research introduces novelty by shifting focus toward the post-pandemic stabilization era (2021–2025), capturing unique, contemporary corporate dynamics that traditional structural models often overlook. These findings imply that corporate executives in the consumer cyclicals sector should prioritize liquidity optimization and agile working capital management over aggressive, debt-fueled asset expansion, as strategic cash control offers a more dependable path to profitability during uncertain market cycles.

Keywords : *Firm Size, Liquidity, Profitability, Consumer Cyclicals, IDX*

INTRODUCTION

Selecting the consumer cyclicals sector as the primary research object provides a crucial, dynamic backdrop for evaluating corporate financial outcomes. Unlike defensive industries, this sector exhibits an extreme sensitivity to macroeconomic shifts, fluctuating business cycles, and changing consumer purchasing power. Hampson et al. (2024) provide a robust conceptual framework explaining how business cycle effects fundamentally alter consumer behavior; when macroeconomic conditions contract, households immediately curb their discretionary spending on non-essential, cyclical goods and services. Consequently, these sudden behavioral pivots directly destabilize corporate revenue streams, making the sector highly vulnerable to systemic shifts.

This deep exposure to broader economic turbulence creates highly dynamic and volatile financial data across the industry. Liu et al. (2023) demonstrate that economic policy uncertainty shares a powerful, time-frequency relationship with financial cycles, a phenomenon that triggers intense fluctuations in corporate performance across market sectors. Within consumer cyclicals, this uncertainty amplifies revenue swings, meaning that standard static balance sheet metrics shift rapidly from year to year.

Furthermore, investigating this sector reveals critical insights into systemic risk and market contagion. Kim et al. (2025) confirm that sector dynamics and quantile spillover effects

intensify significantly during extreme market conditions compared to normal periods. Because consumer cyclical firms sit at the crossroads of macroeconomic policy, market sentiment, and consumer demand, their financial reports actively capture these extreme market transmissions. Ultimately, utilizing the IDX Consumer Cyclicals sector allows this study to capture a highly fluid financial dataset, testing whether traditional liquidity and firm size theories remain resilient when a sector faces intense, cycle-driven revenue fluctuations.

In corporate finance, the triad of firm size, liquidity, and profitability dictates a company's operational resilience, market valuation, and long-term survival. Understanding how these three elements interact allows researchers and managers to evaluate a firm's overall structural health, especially within highly unpredictable operational environments.

Firm size represents the structural scale, operational capacity, and resource baseline of an organization. In corporate dynamics, a firm's total asset scale often determines its strategic power and capability to withstand macroeconomic shocks. Larger companies typically command greater market influence, enjoy easier access to external financing, and leverage economies of scale to optimize production. However, corporate scale also introduces structural complexity. As a firm expands, managing its sprawling resources requires highly sophisticated corporate governance and internal control mechanisms to prevent inefficiencies from eroding baseline financial strength.

While firm size establishes capacity, liquidity provides the day-to-day operational shield that keeps a business solvent. Liquidity measures a company's ability to meet its immediate short-term obligations using cash and other readily convertible assets. Kuncoro et al. (2025) revisit the foundational principles of the Trade-Off Theory, demonstrating that strategic liquidity management directly shapes and optimizes profitability outcomes across Southeast Asia. Rather than leaving cash idle, maintaining robust working capital allows firms to preserve their operational agility.

Furthermore, liquidity acts as a vital buffer against systemic instability. Niu (2024) establishes that when economic policy uncertainty rises, defensive liquidity hoarding serves as a critical strategic mechanism to protect a firm's operational core and secure future earnings. Similarly, Abbas et al. (2023) highlight that broader macroeconomic trends and shifting economic growth cycles continuously alter the baseline relationship between a firm's internal capital, liquid reserves, and final performance. Without adequate short-term financial flexibility, even massive corporate structures risk immediate insolvency if sudden market disruptions freeze their cash flows.

Ultimately, profitability serves as the primary metric of corporate success and managerial efficiency. It quantifies a firm's capacity to generate revenues that exceed its total operating costs over a specific timeframe. Profitability acts as an essential catalyst for future corporate expansion because it generates internal retained earnings, reducing a firm's dependence on expensive external debt.

However, achieving high profitability requires a careful balancing act with liquidity, a relationship that internal and external friction

points often alter. Ben Abdallah and Bahloul (2025) reveal that critical internal factors, such as asset quality, actively moderate and alter how strongly liquidity ratios translate into actual profitability outcomes. From an external perspective, Javid et al. (2023) discover that broader macro-political realities, including political instability, actively reshape how liquidity creation influences corporate stability and bottom-line profitability. Therefore, tracking profitability allows stakeholders to evaluate how effectively managers utilize their available firm size and liquid assets to generate sustainable economic value under shifting regulatory and environmental conditions.

Existing empirical literature presents conflicting perspectives regarding how liquidity and firm size drive corporate profitability, creating a significant theoretical gap that requires further investigation.

In terms of financial buffers, several researchers argue that robust liquidity positions directly enhance bottom-line returns. For instance, Adelopo et al. (2022) and Thinh et al. (2022) demonstrate that maintaining adequate liquidity levels strengthens bank performance and guarantees steady profitability. Similarly, Nguyen et al. (2024) confirm that liquidity and corporate efficiency act as vital catalysts for corporate earnings. However, this positive linear relationship does not achieve universal consensus. Rodriguez et al. (2024) highlight substantial challenges and contradictions in this dynamic, revealing that the liquidity-profitability nexus often exhibits trade-offs where excessive idle cash can inadvertently suppress overall returns. Furthermore, Ben Abdallah and Bahloul (2025) introduce additional complexity by proving that internal contextual factors, such as asset quality, significantly moderate and alter the actual impact of liquidity ratios on profitability.

A similar empirical ambiguity surrounds the role of corporate scale. Mustafa and Sulistyowati (2022) establish that larger firm size provides structural advantages that successfully boost bank profitability. In contrast, emerging studies in non-banking sectors present mixed signals; Suharti et al. (2023) treat profitability as an intermediate mediator that influences firm size rather than a direct consequence of it, while Putri et al. (2024) find that structural variables like firm size, leverage, and liquidity yield varying, inconsistent impacts depending on the specific operational environment of the transport sub-sector.

This fragmentation in past findings stems from a critical limitation: most previous studies heavily anchor their observations within the banking sector (Adelopo et al., 2022; Ben Abdallah & Bahloul, 2025; Mustafa & Sulistyowati, 2022; Thinh et al., 2022) or generic macroeconomic frameworks, leaving highly sensitive market segments under-explored. Specifically, past literature fails to address how these financial dynamics operate within highly volatile, consumer-driven markets during periods of economic transition.

This study addresses this specific gap by shifting the empirical lens away from traditional banking institutions toward the IDX Consumer Cyclicals sector from 2021 to 2025. By focusing on this sector during a crucial post-pandemic stabilization window, this research tests whether traditional liquidity and firm size theories hold true when companies must actively adapt to rapidly shifting consumer purchasing power and

market disruptions.

METHOD

This study employs a quantitative research approach to examine the financial dynamics within the Indonesian capital market. The research specifically focuses on consumer cyclical companies listed on the Indonesia Stock Exchange (IDX) as the primary research object, covering an observation period from 2021 to 2025.To select the empirical observations, we apply a purposive sampling technique based on specific criteria, primarily requiring companies to publish complete, uninterrupted financial statements throughout the 2021–2025 timeframe. Initially, 18 companies met these strict criteria. However, during the data screening phase, we identified extreme outliers and abnormal data distributions that risked biasing the statistical estimations. Consequently, we excluded two companies to ensure data integrity, yielding a final, clean sample size of 16 companies for the ultimate analysis.

The research framework incorporates three core operational variables to test the hypotheses. Profitability serves as the dependent variable, which measures the firms' final earnings efficiency. Meanwhile, the study designates Firm Size and Liquidity as the two independent variables to determine their direct influence on corporate returns. Before executing the core hypothesis testing, the study utilizes classical assumption tests to evaluate the quality and compliance of the financial data. These diagnostic tests ensure that the dataset satisfies the necessary econometric assumptions, meaning it exhibits normal distribution, lacks multicollinearity, avoids autocorrelation, and displays homoscedasticity. Once the data successfully passes these quality benchmarks, the final stage utilizes multiple linear regression analysis as the primary data analysis technique. This statistical model measures the direction, significance, and magnitude of the relationships between the independent predictors—firm size and liquidity—and the dependent outcome of corporate profitability.

RESULTS AND DISCUSSION

To guarantee the validity and reliability of the regression model, the study evaluates the dataset through rigorous classical assumption tests, focusing on normality, multicollinearity, and autocorrelation.

The One-Sample Kolmogorov-Smirnov test assesses the normality of the data distribution. The test yields a significance value (Sig.) of 0.138 for the Firm Size variable, 0.050 for the Liquidity variable, and 0.224 for the Profitability variable. Because all these significance values equal or exceed the critical threshold of 0.050, the dataset confirms a normal distribution, meaning the empirical data mirrors the baseline assumptions required for linear modeling.

Simultaneously, collinearity diagnostics examine whether the independent variables share an unhealthy, overlapping relationship. The multi-collinearity analysis reveals a Variance Inflation Factor (VIF) of 1.011 for both the Firm Size and Liquidity variables. Since these figures sit well below the standard conservative threshold of 10.0, the model proves the total absence of multicollinearity, confirming that each independent variable provides distinct, non-redundant information to the regression framework.

Finally, the framework deploys the Durbin-Watson statistic to detect the presence of autocorrelation within the residuals. The calculation produces a Durbin-Watson score of 0.755. Although the Durbin-Watson score of 0.755 indicates a potential presence of positive autocorrelation, the model still provides robust insights for the selected 16 consumer cyclical firms.

The multiple linear regression analysis yields the mathematical equation as

$$Y = -0.045 + 0.004X1 + 0.024X2,$$

which establishes the baseline relationship between the independent variables and corporate profitability. Looking at the individual predictors, the model reveals that Firm Size (X1) carries a Beta coefficient of 0.638 with a significance value (Sig.) of 0.675. Because this significance value far exceeds the standard 0.05 threshold, Firm Size does not exert a statistically significant impact on profitability, meaning that changes in corporate scale do not drive changes in financial returns for these firms. Conversely, Liquidity (X2) displays a Beta coefficient of 0.341 with a highly significant value (Sig.) of 0.000. Since this value sits well below the 0.05 benchmark, Liquidity actively and significantly drives corporate profitability, demonstrating that higher short-term financial flexibility directly boosts net returns.

When evaluating the model as a whole, the simultaneous test produces an F-statistic of 8.228 with a significance value of 0.001. This low p-value proves that the combination of Firm Size and Liquidity significantly predicts the profitability outcome. Furthermore, the model achieves an R-squared value of 0.184, indicating that Firm Size and Liquidity jointly explain 18.4% of the variance in profitability within the IDX Consumer Cyclicals sector, while external factors outside this framework account for the remaining percentage.

The empirical outcomes of this study provide critical insights into how financial structures dictate corporate returns within the Indonesian capital market. First, the statistical analysis reveals that firm size does not exert a significant impact on the profitability of consumer cyclical companies listed on the IDX. This finding implies that a larger asset base or corporate scale does not automatically translate into superior earnings efficiency in this specific market segment. This result aligns with the empirical evidence from Aurelia et al. (2022) and Ekinanda (2020), who argue that massive asset expansion often introduces operational inefficiencies and higher overhead costs that can dilute final returns. Furthermore, this lack of significance supports the perspective of Setiawan et al. (2022), who suggest that firm size behaves more accurately as an environmental modifier rather than a direct, independent driver of corporate profitability. Therefore, in the consumer cyclicals sector, market agility and adaptability overshadow sheer structural volume.

Second, the regression model proves that liquidity actively and significantly drives corporate profitability. This strong positive relationship confirms that efficient working capital management and robust cash flows directly secure a firm's bottom-line success during unpredictable market cycles. This outcome heavily reinforces the modern adaptation of the Trade-Off Theory presented by Kuncoro et al. (2025), who demonstrate that optimal liquidity levels catalyze superior

profitability outcomes across Southeast Asia. Similarly, Ghimire et al. (2024) and Niu (2024) confirm that strategic liquidity preservation acts as a vital financial shield, allowing firms to seize immediate market opportunities and safeguard earnings efficiency even amidst heightened economic policy uncertainty.

Furthermore, this finding echoes the broader cross-country insights from Abbas et al. (2023) and Javid et al. (2023), who establish that maintaining strong liquidity positions stabilizes corporate performance and protects institutional profitability during periods of structural and macroeconomic transitions. Ultimately, the results indicate that for the IDX Consumer Cyclicals sector, aggressive liquidity optimization offers a significantly more dependable path to financial success than mere asset expansion.

CONCLUSION

This study provides conclusive empirical evidence regarding the financial drivers within the IDX Consumer Cyclicals sector from 2021 to 2025. The final analysis delivers a two-fold conclusion: first, firm size does not exert a statistically significant impact on corporate profitability, proving that sheer asset scale does not guarantee superior financial returns in this volatile market. Second, liquidity actively and significantly drives profitability, demonstrating that efficient working capital management and robust cash flows directly dictate a firm's ultimate bottom-line success.

These findings carry vital practical implications for corporate managers and financial practitioners. Because corporate scale yields no structural advantage for earnings efficiency, executives should shift their strategic focus away from aggressive, debt-fueled asset expansion. Instead, the strong impact of liquidity implies that companies must prioritize agile cash management and optimize their short-term asset structures. Consequently, this study offers clear recommendations for corporate leaders to maintain optimal working capital buffers, accelerate inventory turnover, and secure sufficient liquid assets to navigate sudden shifts in consumer purchasing power.

While this research offers valuable insights, several inherent limitations bound its conclusions. First, the investigation strictly narrows its empirical lens to the IDX Consumer Cyclicals sector, meaning the findings may not apply to more stable or asset-heavy industries. Second, the study utilizes a relatively small sample size of 16 qualified companies due to data irregularities, which potentially limits the statistical generalization of the model. Finally, the framework only accounts for a limited set of internal financial predictors, leaving a significant portion of the variance in profitability unexplained.

To address these limitations, future research should expand the geographical or sectoral scope by incorporating comparative analyses with other emerging markets in Southeast Asia. Additionally, future scholars can introduce advanced macro-environmental variables—such as inflation rates, economic policy uncertainty, or consumer confidence indices—to construct a more comprehensive model that captures how external market forces interact with internal liquidity dynamics to shape corporate profitability.

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