JURNAL MAGISTER ILMU EKONOMI
GROWTH

Liquidity dynamics and financial performance in Indonesia's technology sector: Implications for capital market development

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Received : February 11th 2026;
Received in revised form: June, 10th 2026;
Accepted: June, 13th 2026
Available online: June, 18th 2026

GROWTH
Jurnal Magister Ilmu Ekonomi,
Universitas Palangka Raya
Print ISSN: 2460-5204
e-ISSN: 2986-2639
Volume 10, Issue 1 (2026)
https://doi.org/10.12345/growth.v10i1.001

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Abstract. *Liquidity, as a fundamental aspect of corporate financial management, plays a crucial role in shaping firm performance and supporting capital market development, particularly in emerging technology sectors. This study investigates the dynamics of liquidity and its influence on financial performance among technology firms listed on the Indonesia Stock Exchange during 2022–2024. Drawing on firm-level financial data, we examine how liquidity, proxied by the current ratio, contributes to return on equity (ROE). The findings reveal that liquidity positively and significantly affects financial performance, while also highlighting its limited explanatory power relative to other determinants. These results underscore the complexity of financial performance dynamics and emphasize the importance of balanced liquidity management in enhancing market efficiency.*

Keywords: *capital market development; current ratio; financial performance; liquidity dynamics; technology sector*

I. INTRODUCTION

The development of capital markets plays a crucial role in driving economic growth and supporting financial system stability, particularly in emerging economies such as Indonesia. In recent decades, the rapid expansion of the digital economy has significantly transformed industrial structures, with the technology sector emerging as a key driver of innovation, productivity, and long-term economic growth. As a result, understanding the financial dynamics of firms operating within this sector has become increasingly important, not only from a microeconomic perspective but also in relation to broader capital market development and economic sustainability.

Indonesia's capital market has experienced substantial growth, supported by regulatory reforms and increasing investor participation. The government has set ambitious targets to strengthen the capital market's contribution to the national economy, including efforts to increase the market capitalization-to-GDP ratio as part of long-term development planning.

Within this context, the technology sector has gained prominence due to its strategic role in accelerating digital transformation and enhancing economic competitiveness. However, despite its growth potential, the sector has also faced considerable volatility in recent years, raising concerns regarding financial performance, investor confidence, and market stability.

Empirical evidence indicates that the performance of technology firms in Indonesia has experienced fluctuations, particularly in the post-pandemic period. Reports from the Indonesia Stock Exchange show a declining trend in stock performance within the technology sector between 2021 and 2023, reflecting both internal inefficiencies and external macroeconomic pressures. Such conditions highlight the importance of examining firm-level financial indicators that may influence performance outcomes and investor perceptions. Among these indicators, liquidity has been widely recognized as a fundamental aspect of corporate financial health.

Liquidity refers to a firm's ability to meet its short-term financial obligations using its current assets. It is commonly measured using financial ratios such as the current ratio, which reflects the balance between current assets and current liabilities. From a financial management perspective, adequate liquidity ensures operational continuity, reduces financial distress risk, and enhances firm resilience during periods of economic uncertainty. Conversely, insufficient liquidity may lead to payment difficulties and increased bankruptcy risk, while excessive liquidity may indicate inefficient resource allocation due to idle funds (Hanafi, 2022; Husnan, 2024).

The relationship between liquidity and financial performance has been extensively discussed in the corporate finance literature. Financial performance, often measured using indicators such as return on equity (ROE), reflects a firm's ability to generate returns for its shareholders. A higher ROE indicates better utilization of equity capital and stronger value creation for investors. Several studies have emphasized that effective liquidity management contributes to improved financial performance by ensuring the availability of working capital and supporting business operations (Dewi & Novalia, 2023; Safariah et al., 2025). In addition, liquidity plays an important role in shaping investor confidence, as firms with strong liquidity positions are perceived as more stable and less risky.

However, the relationship between liquidity and financial performance is not always straightforward. While adequate liquidity is necessary for operational stability, excessive liquidity may reduce profitability due to underutilized resources. This creates a trade-off between liquidity and profitability, which remains a central issue in financial management. Previous empirical findings have shown mixed results. Some studies report a positive and significant relationship between liquidity and financial performance (Simanjuntak et al., 2025; Widnyana et al., 2025), while others find that the impact is limited or even negative due to inefficiencies in asset utilization (Sari & Curry, 2024; Shofi & Ramdani, 2023). These inconsistencies suggest that the effect of liquidity may vary depending on sectoral characteristics, firm behavior, and macroeconomic conditions.

In the context of the technology sector, the role of liquidity becomes even more critical due to the unique nature of the industry. Technology firms often operate in highly dynamic environments characterized by rapid innovation, high uncertainty, and significant investment in intangible assets. These conditions require firms to maintain sufficient liquidity to support research and development activities, adapt to market changes, and sustain growth. At the same time, excessive liquidity may signal a lack of investment opportunities or inefficient financial management, which can negatively affect firm performance and market valuation.

Beyond firm-level considerations, liquidity dynamics also have broader implications for capital market development. Efficient capital markets rely on transparent financial information and strong firm fundamentals to attract investors and allocate resources effectively. Firms with stable financial performance and sound liquidity management are more likely to enhance investor confidence, increase market participation, and contribute to overall market efficiency. In contrast, weak financial performance and liquidity constraints can lead to increased volatility, reduced investor trust, and slower market development.

Recent studies have begun to explore the linkage between firm-level financial indicators and broader economic outcomes. For instance, Agustiana and Pratama (2025) highlight the importance of financial sustainability and institutional frameworks in supporting economic resilience in the digital era. Their findings suggest that financial management practices, including liquidity management, play a crucial role in ensuring long-term sustainability within emerging economies. Similarly, Sastra et al. (2024) emphasize that business performance is not solely determined by financial ratios but is also influenced by managerial behavior and strategic decision-making. This indicates that liquidity should be analyzed within a broader context that includes both financial and non-financial factors.

Moreover, macroeconomic conditions also influence firm performance and financial stability. Purba et al. (2024) demonstrate that macroeconomic variables, such as foreign exchange reserves, play an important role in shaping economic conditions and corporate financial outcomes. These findings highlight the need to integrate micro-level financial analysis with macroeconomic perspectives to better understand the dynamics of capital market development. In this regard, examining liquidity and financial performance within the technology sector provides valuable insights into how firm-level factors interact with broader economic conditions.

Despite the growing body of literature, several research gaps remain. First, most previous studies focus on manufacturing or traditional sectors, with limited attention given to the technology sector, particularly in emerging markets such as Indonesia. Second, existing studies often emphasize firm-level analysis without explicitly linking the findings to broader capital market development. Third, empirical evidence on the relationship between liquidity and financial performance in the Indonesian technology sector remains limited and inconclusive. These gaps highlight the need for further research that integrates firm-level financial analysis with a macroeconomic perspective.

This study aims to address these gaps by examining the effect of liquidity on financial performance in technology firms listed on the Indonesia Stock Exchange during the 2022–2024 period. Specifically, this study uses the current ratio as a proxy for liquidity and return on equity (ROE) as a measure of financial performance. By focusing on the technology sector, this study provides sector-specific insights that are relevant to understanding the dynamics of digital economic transformation in Indonesia.

Furthermore, this study contributes to the financial economics literature by linking liquidity dynamics to capital market development. Unlike previous studies that primarily focus on firm-level relationships, this research emphasizes the broader implications of liquidity management for market efficiency, investor confidence, and economic sustainability. The findings are expected to provide valuable insights for policymakers in designing strategies to strengthen capital market development, as well as for investors and corporate managers in optimizing financial decision-making.

In addition, this study offers practical implications for improving financial management practices within the technology sector. Firms are encouraged to maintain an optimal level of liquidity that balances operational needs and profitability objectives. Effective liquidity management can enhance financial performance, reduce financial risk, and support long-term growth. At the same time, investors can use liquidity indicators as part of their decision-making process in evaluating investment opportunities within the technology sector.

II. LITERATURE REVIEW

2.1. Liquidity Theory and Corporate Financial Management. Liquidity represents a firm's ability to meet its short-term obligations and is considered a critical component of corporate financial management. In financial theory, liquidity reflects the availability of cash or assets that can be quickly converted into cash without significant loss of value. The concept is closely linked to working capital management, which ensures the smooth operation of business activities.

According to Hanafi (2022) and Husnan (2024), firms with adequate liquidity are better positioned to sustain operational continuity and avoid financial distress. Moreover, liquidity is often proxied by the current ratio, which provides a simple yet effective measure of short-term financial health.

From a theoretical standpoint, liquidity management is grounded in the trade-off theory between risk and return. Firms must balance the need for sufficient liquid assets with the opportunity cost of holding idle resources. Excess liquidity may reduce profitability because funds are not invested in productive activities, while insufficient liquidity increases the risk of insolvency (Deloof, 2003; Safariah et al., 2025). This trade-off highlights the importance of efficient financial decision-making in determining optimal liquidity levels. Therefore, liquidity management is not merely about maintaining cash availability but also about optimizing resource allocation.

In the context of modern financial systems, liquidity has gained greater importance due to increasing market uncertainty and economic volatility. Firms operating in dynamic environments, such as the technology sector, require higher liquidity to maintain flexibility and respond to rapid changes. Empirical studies have shown that firms with better liquidity management tend to exhibit stronger resilience during economic downturns (Shin & Soenen, 1998). Furthermore, liquidity plays a role in reducing financing constraints, allowing firms to invest in growth opportunities more effectively. This reinforces the argument that liquidity is a key determinant of corporate sustainability.

Recent research also emphasizes the role of liquidity in supporting financial sustainability and institutional development. For instance, (Agustiana & Pratama, 2025) highlight that financial sustainability in the digital era is closely related to effective financial management practices, including liquidity control. Their findings suggest that firms operating in digitally driven environments must maintain adequate liquidity to ensure long-term viability. In addition, liquidity contributes to strengthening investor confidence and enhancing market credibility. Therefore, liquidity management extends beyond firm-level considerations and has broader implications for economic systems.

2.2. Financial Performance and Return on Equity (ROE). Financial performance reflects a firm's ability to generate profits and create value for its stakeholders. It is commonly evaluated using financial ratios that capture different dimensions of performance, including profitability, efficiency, and solvency. Among these indicators, Return on Equity (ROE) is widely used to measure the effectiveness of a firm in utilizing shareholders' equity to generate earnings. According to Husnan (2024), ROE provides a direct assessment of shareholder value creation. Similarly, (Narsa, 2024) emphasizes that ROE is a key metric for evaluating managerial efficiency in financial decision-making.

From an investment perspective, financial performance serves as an important signal for investors in making decisions. Firms with strong financial performance are generally perceived as less risky and more attractive for investment. High ROE indicates that a firm can generate higher returns relative to its equity base, which enhances investor confidence. According to Brigham & Houston (2021), profitability indicators such as ROE play a crucial role in determining firm valuation and market performance. Therefore, financial performance is closely linked to capital market dynamics.

However, financial performance is influenced by multiple internal and external factors. Internal factors include managerial capability, operational efficiency, and financial structure, while external factors include macroeconomic conditions and market competition. (Sastra et al., 2024) argue that entrepreneurial behavior and strategic decisions significantly influence business performance, highlighting the importance of non-financial aspects. This suggests that financial performance cannot be explained solely by financial ratios but must be analyzed within a broader organizational framework. As a result, a comprehensive approach is required to understand performance dynamics.

In emerging markets, financial performance also reflects broader economic conditions and institutional quality. Firms operating in such environments often face higher uncertainty and limited access to capital. Consequently, maintaining strong financial performance becomes more challenging yet more important. Empirical evidence shows that firms with consistent financial performance contribute positively to economic stability and market development (Demirgüç-Kunt & Maksimovic, 1998). Therefore, financial performance plays a dual role at both the firm and macroeconomic levels.

2.3. The Relationship Between Liquidity and Financial Performance. The relationship between liquidity and financial performance has been widely discussed in financial literature, yet remains inconclusive. On one hand, liquidity ensures the availability of working capital, which supports daily operations and reduces financial risk. Firms with adequate liquidity are better able to meet their obligations and sustain business activities. According to Dewi & Novalia (2023), liquidity has a positive effect on financial performance due to its role in supporting operational efficiency. Similarly, Simanjuntak et al. (2025) find that higher liquidity levels are associated with improved firm performance.

On the other hand, excessive liquidity may negatively affect financial performance due to inefficiencies in resource utilization. Idle cash or underutilized assets represent missed investment opportunities that could generate higher returns. (Sari & Curry, 2024) argue that excessive liquidity reduces profitability because funds are not allocated to productive activities. Likewise, Shofi & Ramdani (2023) find that high liquidity levels may indicate poor financial management. This highlights the importance of maintaining an optimal level of liquidity rather than maximizing it.

Empirical studies have produced mixed results regarding the liquidity-performance relationship. Some studies report a positive and significant relationship, indicating that liquidity enhances firm performance (Widnyana et al., 2025). Others find a weak or insignificant relationship, suggesting that liquidity is not the primary determinant of performance (Samuel & Dewi, 2025). These inconsistencies may be explained by differences in industry characteristics, firm size, and economic conditions. Therefore, the relationship between liquidity and performance remains context-dependent.

In addition, the complexity of this relationship is influenced by managerial decisions and external factors. (Sastra et al., 2024) emphasize that business performance is shaped by both financial and behavioral factors. This implies that liquidity alone cannot fully explain financial performance outcomes. Moreover, macroeconomic variables such as inflation and exchange rates may also affect firm performance. As a result, a more integrated approach is needed to understand the interaction between liquidity and financial performance.

2.4. Technology Sector and Financial Dynamics in Emerging Markets. The technology sector is characterized by rapid innovation, high uncertainty, and significant reliance on intangible assets. These characteristics create unique financial dynamics that differentiate it from traditional industries. Technology firms often require substantial investment in research and development, which increases their financial risk. At the same time, they must maintain sufficient liquidity to support ongoing operations. According to Dayanti et al. (2024), financial performance in the technology sector is highly sensitive to both internal and external factors.

In emerging markets such as Indonesia, the technology sector plays a strategic role in driving digital transformation and economic growth. However, the sector also faces significant challenges, including market volatility and regulatory uncertainty. These challenges can affect financial performance and investor confidence. (Raudah et al., 2025) find that financial ratios, including liquidity, play an important role in explaining performance variations in technology firms. This highlights the importance of sector-specific analysis in financial research.

Furthermore, the performance of technology firms is influenced by broader economic conditions. Changes in consumer behavior, technological advancements, and global economic

trends can significantly impact firm performance. Technology firms must continuously adapt to these changes to remain competitive. As noted by Munthe (2025), financial performance in the technology sector is closely linked to market dynamics and innovation capacity. This underscores the importance of strategic financial management.

In addition, the technology sector contributes to the development of capital markets by attracting investors and increasing market activity. Firms with strong financial performance and growth potential are more likely to attract investment. This, in turn, enhances market efficiency and supports economic development. Therefore, understanding financial dynamics in the technology sector is essential for both academic research and policy formulation.

2.5. Liquidity and Capital Market Development. Liquidity at the firm level has broader implications for capital market development. Efficient capital markets rely on strong firm fundamentals and transparent financial information. Firms with stable liquidity and financial performance are more likely to attract investors. This contributes to increased market participation and improved resource allocation. According to Rojulmubin & Sulistyani (2024), poor liquidity management can lead to financial distress, which negatively affects investor confidence.

From a macroeconomic perspective, capital market development is influenced by both firm-level and systemic factors. Strong financial performance across firms contributes to overall market stability. Conversely, weak performance may increase market volatility. (Purba et al., 2024) highlight that macroeconomic stability, including foreign exchange reserves, plays a key role in shaping financial systems. This suggests that firm-level liquidity should be analyzed within a broader economic context.

In addition, capital market development is closely linked to economic growth and financial inclusion. Well-developed capital markets provide access to funding for businesses and investment opportunities for individuals. Firms with strong liquidity positions are better able to access external financing. This enhances their growth potential and contributes to economic development. Therefore, liquidity plays an indirect role in supporting capital market expansion.

Recent studies also emphasize the importance of integrating micro and macro perspectives in financial research. Understanding how firm-level liquidity affects market-level outcomes can provide valuable insights for policymakers. As noted by Agustiana & Pratama (2025), financial sustainability requires alignment between firm behavior and institutional frameworks. This highlights the interconnected nature of financial systems. Consequently, liquidity dynamics should be examined not only at the firm level but also in relation to capital market development.

III. METHODS

This study adopts a quantitative research design to examine the effect of liquidity on financial performance in technology sector firms listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The study relies on secondary data obtained from audited financial statements, reflecting firm-level financial conditions in a post-pandemic economic environment. The population consists of 47 listed technology firms, from which a sample of 30 firms was selected using purposive sampling based on data availability, consistency of financial reporting, and the use of Indonesian Rupiah. This resulted in 90 firm-year observations, providing sufficient data to capture both cross-sectional and time-series variations.

Liquidity is measured using the current ratio, which reflects a firm's ability to meet short-term obligations through its current assets. Financial performance is proxied by return on equity (ROE), representing the firm's ability to generate returns from shareholders' equity. These variables are widely used in financial research to capture short-term financial health and profitability. The data were analyzed using descriptive statistics to provide an overview of variable characteristics, followed by classical assumption tests to ensure the validity of the

regression model.

The relationship between liquidity and financial performance is examined using a simple linear regression model. Before estimation, the model was tested for normality, multicollinearity, heteroskedasticity, and autocorrelation to ensure compliance with classical regression assumptions. Hypothesis testing is conducted using the t-test at a 5% significance level, while the coefficient of determination (R^2) is used to assess the explanatory power of the model. This approach allows for a clear evaluation of the extent to which liquidity influences financial performance in the technology sector.

IV. RESULTS AND DISCUSSION

This study examines technology firms listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period, with a focus on the effect of liquidity on financial performance, particularly Return on Equity (ROE). Liquidity is proxied by the Current Ratio (CR), while financial performance is measured using ROE. The study utilizes secondary data obtained from publicly available annual financial statements. The analytical approach employs simple linear regression, supported by classical assumption tests to ensure model validity. This approach is widely used in financial research to evaluate the relationship between working capital management and firm performance (Husnan, 2024; Brigham & Houston, 2021).

4.1 Descriptive Statistics Test. Descriptive statistics provide an overview of the characteristics of the variables used in this study, including mean, minimum, maximum, and standard deviation values. These statistics are essential for understanding the distribution and variability of the data before further analysis.

Table 1. Descriptive Statistics Results

Variable	Minimum	Maximum	Mean	Std. Deviation
ROE	-47.31	50.40	6.2070	19.18353
Current Ratio	0.97	37.31	6.3683	8.54171

Source: Processed secondary data (SPSS Output)

The results indicate that ROE has a wide range, from -47.31 to 50.40, with an average value of 6.2070. The relatively high standard deviation suggests substantial variability in financial performance across firms, reflecting differences in profitability and operational efficiency. Meanwhile, the current ratio ranges from 0.97 to 37.31, with a mean value of 6.3683, indicating variation in liquidity conditions among firms. This variability highlights the heterogeneous nature of financial management practices in the technology sector, which is consistent with findings that firms in dynamic industries exhibit diverse financial characteristics (Dayanti et al., 2024).

4.2 Normality Test. The normality test is conducted to determine whether the regression residuals follow a normal distribution. This study uses the Kolmogorov–Smirnov test as presented below.

Table 2. Normality Test (Kolmogorov–Smirnov)

Description	Value
N	90
Mean	2.1503
Std. Deviation	1.25408
Test Statistic	0.121
Asymp. Sig. (2-tailed)	0.112

The significance value of 0.112 exceeds the 0.05 threshold, indicating that the residuals are normally distributed. Therefore, the normality assumption is satisfied, and the data are suitable for parametric statistical analysis. This result supports the reliability of the regression model in explaining the relationship between liquidity and financial performance.

4.3 Multicollinearity Test. The multicollinearity test is used to examine whether there is a strong correlation among independent variables in the regression model. The results are presented in Table 3.

Table 3. Multicollinearity Test

Variable	Tolerance	VIF
Current Ratio	1.000	1.000

Source: SPSS V26 Output (2025)

The results show that the current ratio has a tolerance value of 1.000 and a VIF of 1.000, indicating no multicollinearity problem. This suggests that the independent variable does not exhibit high correlation with other variables, ensuring that the regression estimates are unbiased and reliable (Gujarati & Porter, 2009).

4.4 Autocorrelation Test. The autocorrelation test aims to determine whether there is a correlation between residuals across observations. This study employs the Durbin–Watson test.

Table 4. Autocorrelation Test (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error	Durbin-Watson
1	0.425	0.181	0.172	20.56350	1.172

Source: SPSS V26 Output (2025)

The Durbin–Watson value of 1.172 lies within the acceptable range, indicating no autocorrelation. The R value of 0.425 suggests a moderate positive relationship between liquidity and financial performance. However, the R-squared value of 0.181 indicates that liquidity explains only 18.1% of the variation in ROE, implying that other factors play a significant role. This finding is consistent with previous studies highlighting the multidimensional nature of financial performance (Sastra et al., 2024; Safariah et al., 2025).

4.5 Heteroskedasticity Test. The heteroskedasticity test is conducted using the Glejser method to determine whether the variance of residuals is constant.

Table 5. Heteroskedasticity Test

Variable	Coefficient	Sig.
Constant	14.797	0.000
Current Ratio	-0.018	0.266

Source: SPSS V26 Output (2025)

The significance value for the current ratio is 0.266, which is greater than 0.05, indicating the absence of heteroskedasticity. This confirms that the regression model satisfies the homoscedasticity assumption and can be used for further analysis.

4.6 Simple Linear Regression Analysis. Simple linear regression is used to examine the effect of liquidity on financial performance. The results are presented in Table 6.

Table 6. Simple Linear Regression Results

Variable	Coefficient (B)	Std. Error	t-value	Sig.
Constant	6.206	2.168	2.863	0.005
Current Ratio	0.087	0.020	4.408	0.000

Source: SPSS V26 Output (2025)

$$ROE = 6.206 + 0.087\ CR + \varepsilon$$

The results indicate that liquidity has a positive and statistically significant effect on financial performance. The coefficient of 0.087 implies that an increase of one unit in the current ratio leads to an increase of 0.087 in ROE, ceteris paribus. This finding suggests that firms with higher liquidity are better able to generate returns for shareholders. The significance level of 0.000 confirms that the effect is statistically significant.

These findings support the argument that effective liquidity management enhances firm performance by ensuring operational stability and reducing financial risk (Dewi & Novalia, 2023; Simanjuntak et al., 2025). However, the relatively low R-squared value indicates that liquidity is not the sole determinant of financial performance. Other factors such as leverage, efficiency, and firm size also play important roles, as highlighted in previous studies (Widnyana et al., 2025; Purba et al., 2024).

4.7 Discussion. The empirical results of this study indicate that liquidity, proxied by the current ratio (CR), has a positive and statistically significant effect on financial performance, as measured by return on equity (ROE), among technology firms listed on the Indonesia Stock Exchange. The positive coefficient suggests that firms with stronger liquidity positions are more capable of generating higher returns for shareholders. This finding supports the fundamental premise of corporate finance theory that effective working capital management enhances firm performance by ensuring operational continuity and reducing financial risk (Brigham & Houston, 2021; Hanafi, 2022). In this context, liquidity functions not only as a safeguard against short-term obligations but also as a strategic resource that enables firms to sustain profitability.

From a theoretical perspective, the findings are consistent with the trade-off theory of liquidity, which posits that firms must balance liquidity and profitability to achieve optimal financial performance. Adequate liquidity allows firms to finance daily operations, avoid costly external financing, and respond to unexpected financial shocks (Deloof, 2003). Empirical evidence from international studies also supports this relationship. For instance, Shin and Soenen (1998) demonstrate that efficient working capital management contributes to improved profitability, while García-Teruel and Martínez-Solano (2007) find that firms with better liquidity management achieve higher financial performance. These findings reinforce the argument that liquidity is a critical determinant of firm success across different economic contexts.

The results of this study are also in line with prior empirical research in both domestic and international contexts. Previous studies have consistently found a positive relationship between liquidity and firm performance, indicating that firms with higher liquidity levels tend to achieve better profitability (Fatma, 2021; Khasanah & Suwarti, 2022; Purnamasari & Sitorus, 2023). Similarly, more recent studies confirm that liquidity significantly influences financial outcomes, particularly in dynamic sectors (Simanjuntak et al., 2025; Widnyana et al., 2025). However, the findings also align with the broader literature suggesting that liquidity is not the sole determinant of financial performance. As highlighted by (Sastra et al., 2024), managerial behavior and strategic decision-making also play a crucial role in shaping business performance.

Despite its positive effect, liquidity must be interpreted carefully due to its dual nature. While a higher current ratio generally indicates stronger financial health and the ability to meet short-term obligations, excessively high liquidity may signal inefficient resource allocation. Idle

cash or underutilized assets may reduce profitability because they are not invested in productive activities (Deloof, 2003; Arisinta et al., 2023). This reflects the inherent trade-off between liquidity and profitability, where firms must maintain an optimal balance to maximize performance. Therefore, the relationship between liquidity and financial performance is not strictly linear but depends on the efficiency of financial management practices.

Conversely, low liquidity levels may expose firms to financial distress, particularly when they lack sufficient current assets to cover short-term liabilities. This condition increases the risk of insolvency and may negatively affect investor confidence. As noted by Istanti et al. (2024) and Rojulmubin and Sulistyani (2024), firms with inadequate liquidity are more vulnerable to financial distress, which can ultimately lead to declining performance and potential bankruptcy. This highlights the importance of maintaining sufficient liquidity as a buffer against financial uncertainty, especially in sectors characterized by high volatility such as technology.

Furthermore, liquidity plays a significant role in shaping investor perceptions and capital market behavior. Investors often use the current ratio as an indicator of a firm's financial stability and risk profile. A well-balanced liquidity position signals that a firm has adequate resources to sustain operations while still generating returns. This enhances investor confidence and increases the attractiveness of the firm in capital markets. However, both excessively high and excessively low liquidity levels may send negative signals to investors, either indicating inefficiency or financial vulnerability. This dual signaling effect underscores the importance of optimal liquidity management.

In addition, the findings of this study have broader implications for capital market development. Firms with strong liquidity and stable financial performance contribute to market efficiency by providing reliable financial signals to investors. This, in turn, supports better resource allocation and enhances the overall functioning of capital markets. As highlighted by Agustiana and Pratama (2025), financial sustainability in the digital economy depends on the alignment between firm-level financial practices and broader economic systems. Therefore, liquidity management plays a crucial role not only at the firm level but also in supporting macroeconomic stability.

Overall, this study confirms that liquidity is a significant determinant of financial performance in the technology sector, while also highlighting its limitations. The relatively low explanatory power of the model suggests that financial performance is influenced by a combination of financial and non-financial factors, including leverage, operational efficiency, and macroeconomic conditions (Purba et al., 2024). This finding reinforces the need for a more comprehensive analytical framework in future research to better understand the complexity of financial performance dynamics.

V. CONCLUSION

This study concludes that liquidity has a positive and significant effect on financial performance in technology firms listed on the Indonesia Stock Exchange. Firms with higher liquidity levels are better able to meet short-term obligations and generate returns for shareholders, indicating the importance of effective working capital management. However, liquidity alone is not sufficient to fully explain variations in financial performance, as other factors also play a substantial role. This study recommends that future research incorporate additional financial and non-financial variables, such as leverage, operational efficiency, and sales growth, to provide a more comprehensive analysis. Expanding the sample size and extending the observation period would also improve the generalizability of the findings. Moreover, this study is limited to a single sector and a relatively short time frame, which may restrict its broader applicability.

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