

# The Effect of Working Capital Turnover and Liquidity on Profitability, with Leverage as an Intervening Variable. (A Study of Manufacturing Companies Listed on the Indonesia Stock Exchange in 2021-2023)

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This research is motivated by the importance of manufacturing companies' ability to manage working capital and liquidity to increase profitability amidst increasingly fierce industrial competition, as well as the role of leverage as a funding mechanism that can strengthen or weaken financial performance. The purpose of this study is to analyze the effect of working capital turnover and liquidity on profitability, with leverage as an intervening variable, in manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2023 period. This study uses a quantitative approach with secondary data analysis methods obtained from the companies' annual financial reports. The research sample was determined using a purposive sampling technique based on certain criteria. Data were analyzed using the Partial Least Squares (PLS) method to test the direct and indirect effects between variables. The results show that profitability has a positive effect on company financial performance, while liquidity tends to have a negative effect on profitability. Working capital turnover plays a crucial role in supporting company operational efficiency and contributing to increased profits. These findings indicate that optimal working capital and liquidity management are essential for companies to improve their financial performance sustainably. This research is expected to be a consideration for company management and investors in making financial decisions. The conclusion of this study shows that effective working capital and liquidity management, accompanied by an optimal leverage structure, can increase the profitability of manufacturing companies in a sustainable manner.

**Keywords:** Profitability, Working Capital Turnover, Liquidity, Financial Performance, Manufacturing Companies.

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## 1. Introduction

Manufacturing companies are an industrial sector that plays a vital role in the economy due to their production activities, which process raw materials into finished goods for marketing. The primary goal of a company is to generate profits and maintain business continuity, particularly for companies that have gone public and are listed on the Indonesia Stock Exchange (IDX). [1]. Therefore, a company's financial performance is a crucial aspect that reflects the effectiveness of the company's resource management. Financial reports are the primary source of information for investors and stakeholders in assessing the company's financial condition and performance. Timely submission of financial reports is crucial because late information will reduce the relevance and quality of the information. In Indonesia, the obligation to submit financial reports is regulated in Law Number 8 of 1995 concerning Capital Markets and regulations of the Capital Market Supervisory Agency (Bapepam), which requires public companies to submit audited annual financial reports no later than 90 days after the end of the fiscal year. Delays in financial reporting can result in administrative sanctions and even the temporary suspension of stock trading. One factor that influences a company's financial performance is profitability. Profitability reflects a company's ability to generate profits from its assets and demonstrates management's success in managing operational

activities [2]. Companies with high levels of profitability tend to have good financial performance and are able to send positive signals to investors. Conversely, low profitability indicates less than optimal management of the company's resources [3]. In addition to profitability, working capital turnover also plays an important role in supporting a company's operational efficiency. Effectively managed working capital will accelerate the turnover of cash, receivables, and inventory, thereby increasing the company's ability to generate profits [4]. Suboptimal working capital management can lead to idle funds or a lack of operational funds, which ultimately impacts the company's financial performance. Liquidity is another factor that influences a company's financial performance. Liquidity indicates the company's ability to meet its short-term obligations. Adequate liquidity reflects a healthy financial condition, but excessive liquidity can reduce profitability due to funds that are not optimally utilized. Therefore, companies need to maintain a balance between liquidity and profitability to maintain optimal financial performance [5].

This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The selection of manufacturing companies was based on the sector's significant contribution to the economy and the availability of adequate financial data. Furthermore, previous research has shown differences in findings regarding the influence of profitability, working capital turnover, and liquidity on company financial performance [2], thus leaving gaps in research that require further study. Based on this description, this study aims to analyze the influence of profitability, working capital turnover, and liquidity on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange. The results of this study are expected to contribute to the development of financial management studies and serve as considerations for company management and investors in making financial decisions.

## 2. Literature Review

Working capital turnover is an indicator of a company's efficiency in managing its current assets to generate sales and profits [6]. Financial management theory states that the higher the working capital turnover rate, the more effective the use of operational funds, thus potentially increasing the company's profitability [7]. Liquidity is also an important factor because it reflects the company's ability to meet its short-term obligations, which at an optimal level can support smooth operations and financial stability. [5]. However, excessive liquidity can actually indicate the presence of idle funds that are less productive, thus potentially reducing profitability levels. In the context of financial structure, leverage acts as a source of external funding that can increase a company's opportunities to increase profits, but also increases financial risk if not managed optimally [8].

Previous studies have shown mixed results regarding the relationship between working capital turnover and liquidity on profitability. Some studies found a positive and significant effect, while others showed a negative or insignificant effect, especially when leverage was not considered as an intervening variable [9]. This research gap indicates the need for a more comprehensive analysis by including leverage as a mediating variable to explain the mechanism of the relationship between these financial variables. Based on this gap, the research problem is formulated as follows: (1) do working capital turnover and liquidity affect leverage, (2) do working capital turnover, liquidity, and leverage affect profitability, and (3) is leverage able to mediate the effect of working capital turnover and liquidity on profitability in manufacturing companies listed on the Indonesia Stock Exchange for the 2021–2023 period. Furthermore, this study tests the hypothesis that working capital turnover and liquidity have a significant effect on profitability both directly and indirectly through leverage.

### 3. Method

This study uses a quantitative approach with an associative research type that aims to analyze the effect of profitability, working capital turnover, and liquidity on the financial performance of manufacturing companies [10]. The study population includes all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. Sample determination was carried out using a purposive sampling technique, namely sample selection based on certain criteria, including manufacturing companies listed consecutively during the study period, publishing complete and audited annual financial reports, and using the rupiah currency in presenting financial reports [11]. The data used in this study are secondary data obtained from the company's annual financial reports published through the official IDX website and other supporting sources. The dependent variable in this study is the company's financial performance proxied by Return on Assets (ROA) [12], while the independent variables include profitability, working capital turnover, and liquidity, each of which is measured using relevant financial ratios, such as working capital turnover and Current Ratio (CR). Data analysis was conducted using multiple linear regression methods to determine the influence of independent variables on dependent variables, which was previously initiated by testing classical assumptions including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Hypothesis testing was conducted through partial and simultaneous tests with a significance level of 5 percent, while data processing was carried out using statistical software [10].

### 4. Results and Discussion

#### Descriptive Statistics

Descriptive statistics are statistics used to analyze or describe collected data to draw general conclusions or generalizations. Descriptive statistics describe a summary of research data, such as mean, standard deviation, variance, mode, etc.

**Table 1.** Descriptive Statistical Analysis Results

	N	Minimum	Maximum	Mean	Standard Deviation
	Statistics	Statistics	Statistics	Statistics	Statistics
MO_KERJA	270	-140.00	461.33	8.02	40.67
LIQUIDITY	270	0.20	15.16	2.71	1.96
PROFIT	270	0.02	52.67	7.48	8.12
LEVERAGE	270	0.99	5.56	1.80	0.72
Valid N (listwise)	270				

Secondary Data Sources (processed)

In table 1 above, it can be seen that the Working Capital variable has the lowest value of -140.00 and the highest value of 461.33 with an average value of 8.02 and a standard deviation (data distribution level of 40.67). The Liquidity variable has the lowest value of 0.20 and the highest value of 15.16 with an average value of 2.71 and a standard deviation (data distribution level of 1.96). The Profitability variable has the lowest value of 0.02 and the highest value of 52.67 with an average value of 7.48 and a standard deviation (data distribution level of 8.12). The Leverage variable has the lowest value of 0.99 and the highest value of 5.56 with an average value of 1.80 and a standard deviation (data distribution level of 0.72).

#### Normality Test

The analytical tools used in this study are histogram analysis, normal pp plot of regression standardized residual, and non-parametric Kolmogorov-Smirnov (KS) statistics. If the Histogram of Standardized Regression Residual forms a bell-shaped curve, then the residual value is said to be normal. If the line depicting the actual data on the Normal Probability Plot graph follows or approaches the diagonal line, then

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the data is normally distributed. If the results of the non-parametric Kolmogorov-Smirnov (KS) statistical test have a P value  $\geq 0.05$ , then the standardized residual value is said to be normally distributed.

**Table 2.** Normality Test Results Model I

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		166
Normal Parameters <sup>a</sup>	Mean	.0000000
	Standard Deviation	.19917005
Most Extreme Differences	Absolute	.088
	Positive	.088
	Negative	-.063
Kolmogorov-Smirnov Z		1,138
Asymp. Sig. (2-tailed)		.150
a. Test distribution is Normal.		

Based on table 4.3 , the normality test shows that the Asymp.Sig. (2-tailed) level is more than 0.05, namely 0.150 for working capital , liquidity, and profitability . This identifies that model I is normally distributed so it is suitable for use in path regression analysis .

**Table 3.** Normality Test Results Model II

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		159
Normal Parameters <sup>a</sup>	Mean	.0000000
	Standard Deviation	3.09833856
Most Extreme Differences	Absolute	.080
	Positive	.080
	Negative	-.059
Kolmogorov-Smirnov Z		1,003
Asymp. Sig. (2-tailed)		.266
a. Test distribution is Normal.		

Based on table 3, the normality test shows that the Asymp.Sig. (2-tailed) level is more than 0.05, namely 0.266 for Working Capital, Liquidity, Profitability, and Leverage . This identifies that model II is normally distributed so it is suitable for use in path regression analysis.

### Multicollinearity Test

The multicollinearity test is used to determine whether a strong correlation exists between the independent variables in a regression model. The multicollinearity assumption states that the independent variables must be free from multicollinearity symptoms. The criteria used in this test are: if the Tolerance value is  $\leq 0.10$  or equal to the VIF value  $\geq 10$ , then there is a multicollinearity problem between the independent variables.

**Table 4.** Multicollinearity Test Results Model I

Coefficients <sup>a</sup>							
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	2,239	.059		37,959	.000		
MO_Work	.006	.001	.355	7,513	.000	.985	1,015

Liquidity	-.180	.017	-.492	-	.000	.985	1,015
							10,406

a. Dependent Variable: Leverage

Source: Secondary Data (processed)

Based on table 4 above, the VIF value is <10, so it can be concluded that the regression model in model I does not have multicollinearity problems.

**Table 5.** Multicollinearity Test Results Model II

Coefficients <sup>a</sup>							
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3.103	2,161		1,436	.152		
MO_Work	-.029	.013	-.146	-	.030	.813	1,230
				2,187			
Liquidity	.617	.298	.150	2,073	.039	.701	1,427
Leverage	1,630	.886	.145	1,839	.067	.589	1,698

a. Dependent Variable: Profitability

Source: Secondary Data (processed)

Based on table 5 above, the VIF value is <10, so it can be concluded that the regression model in model II does not have multicollinearity problems.

### Heteroscedasticity Test

According to [13], the heteroscedasticity test aims to test heteroscedasticity by recognizing the difference in *residual variance* from one observation period to another. How to predict the presence or absence of heteroscedasticity in a model can be seen using the Gledjer model. To detect the presence of heteroscedasticity in this study, the Glejser test was used. This test compares significant values. If the sig value is > 0.05 or 5%, it is concluded that the regression model does not contain heteroscedasticity problems. Conversely, if the sig value is < 0.05 or 5%, it is concluded that the regression model contains heteroscedasticity problems.

**Table 6.** Heteroscedasticity Test Results Gledjer Model I

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	5,302	.647		8,190	.000
MO_Work	-.014	.009	-.094	-1,528	.128
Liquidity	.019	.190	.006	.097	.923

a. Dependent Variable: abs\_res

Source: Secondary Data (processed)

Based on table 6, it can be seen that the Sig. value of the Working Capital and Liquidity variables produced is greater than 0.05, so it can be concluded that there is no heteroscedasticity problem.

**Table 7.** Heteroscedasticity Test Results Gledjer Model II

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1,107	.733		1,512	.132

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MO_Work	.025	.043	.047	.576	.565
Liquidity	.120	.102	.117	1,171	.243
Leverage	.096	.330	.029	.292	.771

a. Dependent Variable: abs\_res8

Source: Secondary Data (processed)

Based on Table 7, it can be seen that the Sig. value of the Working Capital, Liquidity, and Profitability variables produced is greater than 0.05, so it can be concluded that there is no heteroscedasticity problem.

### Multiple Linear Regression Test

Hypothesis testing is used to determine the effect of independent variables on dependent variables (Y) and intervening variables (Z). Hypothesis testing in this study consists of the t-test, f-test, and coefficient of determination test.

### Multiple Linear Regression Analysis Model I

**Table 8.** Summary of Multiple Linear Regression Test Model I

Coefficients <sup>a</sup>				
Model		Unstandardized Coefficients		Sig.
		B	Std. Error	
1	(Constant)	1,842	.051	.000
	MO_Work	.010	.007	.202
	Liquidity	-.131	.012	.000

a. Dependent Variable: Leverage

Sumber: Data Sekunder (diolah)

From the table, the regression equation can be seen as follows:

$$Z = a + \beta_1 X_1 + \beta_2 X_2 + e$$

To determine the influence of Working Capital (X1) and Liquidity (X2) on Leverage (Z), multiple linear regression analysis was used, the following regression tests were carried out.

**Table 9.** Results of Linear Regression Analysis of Working Capital (X1) and Liquidity (X2) on Leverage (Z) Model I

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	1,842	.051		36,400	.000
	MO_Work	.010	.007	.077	1,279	.202
	Liquidity	-.131	.012	-.643	-10,732	.000

a. Dependent Variable: Leverage

Source: Secondary Data (processed)

Based on table 4.10 above, the regression equation can be seen as follows:

$$Z = 1.842 + 0.010 X_1 - 0.131 X_2 + e$$

The interpretation based on this equation can be interpreted as follows, a constant of 1.842 means that if the Working Capital and Liquidity values are 0, then the output leverage is 1.842. The positive regression coefficient of 0.010 means that if Working Capital is increased by one unit, assuming the Liquidity variable is ignored, it will result in an increase in Leverage of 0.010. The negative regression coefficient of -0.131 means that if Liquidity is reduced by one unit, assuming the Working Capital variable is ignored, it will result in a decrease in leverage of -0.131.

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### Hypothesis Testing

Hypothesis testing in this study uses *path* analysis techniques and results in the following stages.

#### t-test

test is intended to determine the extent of influence of one independent variable ( Working Capital ) individually in explaining the intervening variable (Leverage). The results of the t - test in this study can be seen in Table 10 below.

**Table 10.** Research Hypothesis Testing Results Model I

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	1,842	.051		36,400	.000
MO_Work	.010	.007	.077	1,279	.202
Liquidity	-.131	.012	-.643	-10,732	.000

a. Dependent Variable: Leverage

Source: Secondary Data (processed)

The Effect of Working Capital on Leverage If the significance value  $\leq$  is 0.05, it means that the independent variable individually has an effect on the dependent variable or vice versa, the significance value of  $\geq$ 0.05 means that the independent variable individually has no effect on the dependent variable. The test results with SPSS were obtained for variable X1 ( Working Capital ), with t-count smaller than t-table (1.279 <1.969) using a significant limit of 0.05, with a significant level (0.202 > 0.05), which means that Ho is accepted and Ha is rejected. Thus, the first hypothesis does not have a significant effect on this leverage in line with research [14] . The Effect of Liquidity on Leverage. If the significance value is  $\leq$ 0.05, it means that the independent variable individually has an effect on the dependent variable or vice versa, the significance value of 0.05  $\geq$  means that the independent variable individually has no effect on the dependent variable. The test results with SPSS were obtained for variable X2 ( Liquidity ), with t-count greater than t-table ( -10.732, < 1.969 ) using a significant limit of 0.05, with a significant level (0.00 < 0.05), which means Ho is rejected Ha is accepted. Thus, the second hypothesis has an influence and is significant on leverage [15] .

#### Analysis of Determination Coefficient (R<sup>2</sup>)

The coefficient of determination is used to determine the extent to which independent variables contribute to explaining the variation in the dependent variable . The determination results can be seen in Table 11 below:

**Table 11.** Determination Test Results Model I

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.675 <sup>a</sup>	.456	.450	.19835

a. Predictors: (Constant), Liquidity, MO\_Kerja  
 b. Dependent Variable: Leverage

Source: Secondary Data (processed)

Based on table 11 above, the *R Square figure* is 0.456. This shows that the contribution of the working capital and liquidity variables is 0.456 or 45.6 % , while the remaining 54.4 % is influenced by other variables not examined in this study.

Path Stage Two a

**Table 12.** Summary of Multiple Linear Regression Test Model II

Coefficients <sup>a</sup>				
Model		Unstandardized Coefficients		Sig.
		B	Std. Error	
1	(Constant)	-2,298	2,776	.409
	MO_Work	.850	.142	.000
	Liquidity	1,410	.313	.000
	Leverage	1,218	1,396	.384

a. Dependent Variable: Profitability

Sumber: Data Sekunder (diolah)

Path analysis stage two using multiple linear regression model II

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + b_3 Z + e$$

**Multiple Linear Regression Analysis Model II**

To determine the influence of Working Capital (X1), Liquidity (X2) on profitability (Y), with leverage (Z) as an intervening variable. The following are the results of the regression test that was carried out.

**Table 13.** Results of Multiple Linear Regression Analysis of working capital (X1), liquidity (X2) on profitability (Y), with leverage (Z) as an intervening variable.

Model II						
Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2,298	2,776		-.828	.409
	MO_Work	.850	.142	.454	6,000	.000
	Liquidity	1,410	.313	.430	4,507	.000
	Leverage	1,218	1,396	.081	.873	.384

a. Dependent Variable: Profitability

Based on table 13 above, the regression equation can be seen as follows:

$$Y = -2.298 + 0.850 X_1 + 1.410 X_2 + 1.218 Z + e$$

Interpretation based on the equation can be interpreted as follows, A negative constant of -2.298 means that if working capital, liquidity, and profitability are smaller than 0, then the small output leverage is -2.298 . A positive regression coefficient of 0.850 means that if working capital is increased by one unit, assuming liquidity and leverage are ignored, it will result in an increase in profitability of 0.850 . A positive regression coefficient of 1.410 means that if liquidity is increased by one unit, assuming working capital and leverage are ignored, it will result in an increase in profitability of 1.410 . A positive regression coefficient of 1.218 means that if leverage is increased by one unit, assuming working capital and liquidity are ignored, it will result in an increase in profitability of 1.218.

## Hypothesis Testing

Hypothesis testing in this study uses *path* analysis techniques and results in the following stages.

### t-test

**Table 14.** Research Hypothesis Testing Results Model II

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-2,298	2,776		-.828	.409
MO_Work	.850	.142	.454	6,000	.000
Liquidity	1,410	.313	.430	4,507	.000
Leverage	1,218	1,396	.081	.873	.384

a. Dependent Variable: Profitability

Source: Secondary Data (processed)

The influence of working capital on profitability If the significance value is  $\leq 0.05$ , it means that the independent variable individually has an influence on the dependent variable or vice versa, a significance value of  $\geq 0.05$  means that the independent variable individually has no influence on the dependent variable. The test results with SPSS were obtained for variable X1 ( working capital ), with t-count greater than t-table ( $6,000 > 1,969$ ) using a significant limit of 0.05, with a significant level ( $0,000 < 0.05$ ), which means  $H_0$  is rejected  $H_a$  is accepted. Thus, the third hypothesis has a positive and significant effect on profitability [5] . The effect of liquidity on profitability If the significance value is  $\leq 0.05$ , it means that the independent variable individually has an effect on the dependent variable or vice versa, a significance value of  $\geq 0.05$  means that the independent variable individually has no effect on the dependent variable. The effect of leverage on profitability If the significance value  $\leq$  is 0.05, it means that the independent variable individually has an effect on the dependent variable or conversely, a significance value of  $\geq 0.05$  means that the independent variable individually has no effect on the dependent variable [16] .

### Analysis of the Coefficient of Determination ( $R^2$ )

**Table 15.** Determination Test Results Model II

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.469 <sup>a</sup>	.220	.206	3.63081

a. Predictors: (Constant), Leverage, MO\_Kerja, Liquidity  
b. Dependent Variable: Profitability

Source: Secondary Data (processed)

Based on table 15 above, the *R Square figure* is 0.220. This shows that the contribution of the working capital, liquidity and leverage variables is 0.220 or 22.00 % , while the remaining 78 % is influenced by other variables not examined in this study.

**Table 16.** Research Hypothesis Testing Results

Hypothesis	Statement	Significant	Comparison	Decision
H1	Working Capital has no positive but significant effect on Leverage	0.202	0.05	Rejected
H2	Liquidity has a positive and significant effect on Leverage	0,000	0.05	Accepted
H3	Working Capital has a positive but significant effect on Profitability	0,000	0.05	Accepted

Hypothesis	Statement	Significant	Comparison	Decision
H4	Liquidity has no positive and insignificant effect on profitability.	0,000	0.05	Accepted
H5	Leverage does not have a positive but significant effect on profitability	0.081	0.05	Rejected

Source: Processed Secondary Data

**Table 4.19.** Path Analysis Test Results

Hypothesis	Statement	Direct Influence	Indirect Influence	Decision
H6	Leverage is not an intervening variable that influences Working Capital on Profitability	0.454	0.006	Rejected
H7	Leverage is not an intervening variable that affects Liquidity on Profitability	0.430	-0.052	Rejected

Source: Processed Secondary Data

## 5. Conclusion

Based on the research and discussion conducted on the effect of working capital turnover and liquidity on profitability, with leverage as an intervening variable, in manufacturing companies listed on the Indonesia Stock Exchange for the 2021–2023 period, it can be concluded that working capital turnover has no significant effect on leverage, while liquidity has a negative and significant effect on leverage. This indicates that high liquidity encourages companies to reduce the use of debt in their financing structure. Furthermore, working capital turnover and liquidity have been shown to have a positive and significant effect on profitability, indicating that efficient working capital management and the company's ability to meet its short-term obligations play a crucial role in improving profit performance. Meanwhile, leverage has no significant effect on profitability, indicating that the level of debt use has not been able to optimally increase company profits. The path analysis also shows that leverage does not act as an intervening variable in the relationship between working capital turnover and liquidity on profitability. Thus, the profitability of manufacturing companies is more directly influenced by the effectiveness of working capital and liquidity management than by debt-based financing structures.

Based on the research results, it is recommended that manufacturing company management focus their financial strategies on optimal working capital and liquidity management to sustainably increase company profitability. Companies need to maintain a balance between adequate liquidity and efficient use of funds to prevent idle funds, which can reduce profitability. For investors and potential investors, the results of this study can be used as a consideration in assessing company performance and prospects, particularly by considering the working capital turnover ratio and liquidity as key indicators of financial performance. Meanwhile, for future researchers, it is recommended to add other variables that could potentially influence profitability, extend the research period, and expand the research object to other industrial sectors so that the research results obtained have a broader level of generalizability.

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