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Profitability, Leverage, and Liquidity on Foreign Ownership in Non-Financial Sector Companies

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Abstract

This study aims to analyze the effect of profitability, leverage, and liquidity on foreign ownership in non-financial companies in Indonesia. The research sample consists of 30 companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. This study uses secondary data from company financial reports and official IDX information, and applies panel data regression with a fixed effect model to analyze the effect of independent variables on foreign ownership. The results show that profitability has a positive and significant effect, while leverage and liquidity do not have a significant effect on foreign ownership. These findings indicate that foreign investors prioritize a company's profit performance as the basis for their investment decisions. This study has implications for company management to focus on improving profitability, as well as for regulators to encourage transparency and good governance. The limitations of this study include the limited sample coverage in the non-financial sector and other variables that have not been analyzed, so further research is recommended to expand the variables and sectors to obtain a more comprehensive picture.

Keywords: Profitability, Leverage, Liquidity, Foreign Ownership

A. INTRODUCTION

The Indonesian economy in 2025 shows a fairly positive outlook amid global uncertainty and ongoing domestic dynamics. National economic growth is projected to reach around 5.15% (Purwowidhu, 2024), signaling optimism about the resilience and competitiveness of the Indonesian economy. This performance is mainly supported by strong household consumption and increased investment, both domestic and foreign. Externally, the increase in foreign direct investment (FDI) into the domestic market is a positive signal of foreign investors' confidence in Indonesia's economic fundamentals and the effectiveness of adaptive and responsive macroeconomic policy management (Fadila, 2024). Data from the Central Statistics Agency (2025) shows that Indonesia's economic growth in the second quarter of 2025 grew by 5.12% year-on-year. One of the main contributors to this growth was the non-financial sector, particularly the food and beverage sub-sector, as well as commodity-based industries such as Crude Palm Oil (CPO) and its derivative products. The non-financial sector plays an important role in supporting the national Gross Domestic Product (GDP) and is a major magnet for foreign investment due to its high growth potential. However, increased industrial activity also poses challenges in the form of increased competition, high capital requirements, and financial risks that must be carefully managed to ensure business sustainability.

Under such conditions, a company's ability to manage its financial structure becomes a key factor that can influence foreign investors' decisions to invest their capital. Profitability, leverage, and liquidity are important indicators that reflect a company's financial condition. Profitability shows a company's ability to generate profits through the effective management of its assets and capital. Companies with high profitability are generally more attractive to foreign investors because they are considered to have stable profit prospects and good investment returns. Meanwhile, leverage describes the extent to which a company utilizes external funding sources in the form of debt. Moderate leverage can send a positive signal about a company's growth potential, but if it is too high, it reflects high financial risk, which can reduce foreign investor interest. Liquidity reflects a company's ability to meet its short-term obligations. Companies with good liquidity levels demonstrate sound cash management and strong financial stability, which ultimately increases investor confidence in the sustainability of their business. Foreign ownership in a company is often seen as an indicator of confidence in the governance and financial performance of domestic companies. Foreign investors tend to place their capital in companies that are able to maintain an optimal balance between profitability, leverage, and liquidity. In other words, a company's financial characteristics play an important role in shaping foreign investment perceptions and decisions in the Indonesian capital market.

However, empirical studies on the influence of profitability, leverage, and liquidity on foreign ownership in Indonesia's non-financial sector are still relatively limited. In fact, this sector contributes significantly to the national economy and is one of the most active sectors in attracting foreign direct investment. Each subsector within the non-financial sector has a different financial structure and business dynamics, so further analysis is needed to understand how a company's financial condition can affect the level of foreign ownership. Based on this background, this study is titled "The Effect of Profitability, Leverage, and Liquidity on Foreign Ownership in Non-Financial Sector Companies." This study is expected to provide empirical understanding of the internal factors that influence foreign investors' decisions to invest in Indonesia, while also contributing to the development of corporate finance theory and the formulation of policies that support increased foreign investment in the non-financial sector.

B. LITERATURE REVIEW

Profitability

Cudivia, Salim, and Daryatno (2025) explain that profitability is a company's ability to generate profits from its sales, assets, and equity. In line with this, Subramanyam (2020) refers to profitability as a company's ability to derive profits from its operational activities, while Pravitadewi (2021) emphasizes that a company is considered profitable if its income exceeds all costs in a given period. According to Maulana and Aziz (2024), the ability to consistently generate profits reflects solid management and a sustainable business position. Profitability plays an important role in supporting business sustainability because the profits obtained can be used for investment, dividend payments, and strengthening the financial structure (Cudivia et al., 2025). According to Nirawati et al (2022) and Aznedra and Putra (2020), profitability ratios can be used to assess management's ability to generate profits from sales and company assets. Wahyu et al. (2022) add that these ratios reflect management's capacity to generate profits in the short term.

Leverage

Leverage is a key component of capital structure that reflects the extent to which a company uses debt-based funding sources to finance its operations and investments. According to Okeke et al. (2025) and Patiu (2025), the level of leverage reflects the balance between financial risk and potential returns for shareholders. Companies with high leverage have the potential to earn greater profits, but on the other hand, they also face higher financial risks. Excessive use of debt can increase interest expenses and the risk of bankruptcy, while moderate leverage indicates a company's ability to manage its funding sources efficiently. Therefore, decisions regarding leverage must consider the tax benefits of using debt as well as the costs that may arise from the inability to pay financial obligations.

Liquidity

Liquidity describes a company's ability to meet its financial obligations, both short-term and long-term, without incurring losses. A company is said to be liquid if it is able to pay all its obligations on time with its cash or current assets. According to Ilham et al. (2025), companies with high liquidity have the ability to pay off short-term debt without difficulty, while low liquidity ratios indicate potential problems in meeting financial obligations. Strong liquidity is usually possessed by companies with little debt, because sufficient internal funds can be used to finance operations without having to rely on external loans. Ramadani, Hesniati, and Safitri (2025) emphasize that the higher the company's liquidity level, the lower its dependence on external funding. This condition is in line with the pecking order theory, in which companies tend to use internal funds first before seeking external funding. Fadhillah et al (2022) add that companies with high liquidity have greater flexibility in determining their capital structure, including better opportunities to issue bonds to raise capital.

Foreign Ownership

Foreign ownership is the portion of a company's shares owned by foreign investors out of the total outstanding shares (Gupta et al., 2024). According to Tran (2022) and Nguyen et al (2020), this indicator is commonly used in financial research to describe the level of foreign investor involvement in a company. Each industry has its own characteristics, and the level of foreign ownership in a sector tends to be influenced by factors such as profitability, growth, liquidity, and risk level (Gupta et al., 2024). Nguyen and Duong (2022) explain that foreign ownership plays an important role in supporting economic growth, especially in developing countries. Through foreign investment, companies can obtain additional capital, technology transfer, and improved managerial efficiency. Governments in various developing countries, such as Vietnam, provide tax incentives and regulatory easing to attract foreign investors, thereby increasing their participation in the domestic capital market.

From a corporate governance perspective, Pohan (2025) argue that the presence of foreign investors encourages greater transparency, efficiency, and oversight of management. The presence of foreign shareholders is also considered to strengthen corporate governance practices because they tend to demand higher standards of accountability. Harymawan et al. (2020) add that foreign ownership can increase market confidence in companies because it is considered to bring global reputation and credibility. Meanwhile, Muñoz-Mendoza et al. (2023) assess that foreign ownership serves as a control mechanism that helps reduce agency conflicts and improve the quality of decision-making. Gupta et al. (2024) also emphasize that an increase in foreign ownership has the potential to strengthen corporate governance through more transparent and efficient business practices. Overall, foreign ownership plays an important role in expanding the capital base, improving governance practices, and enhancing the competitiveness of companies at the global level.

C. METHODOLOGY OF RESEARCH

This study uses a quantitative approach to analyze the effect of profitability, leverage, and liquidity on foreign ownership in non-financial companies listed on the Indonesia Stock Exchange (IDX) during the period 2018–2024. The data used in this study is panel data, which is a combination of cross-company and time series data. The research population includes all non-financial sector companies listed on the Indonesia Stock Exchange. The research sample was determined using purposive sampling based on the following criteria: (1) non-financial sector companies that were consecutively listed on the IDX during the period 2018–2024; (2) companies that did not distribute dividends for seven consecutive years were excluded from the sample; (3) companies without foreign ownership were not included in the sample; and (4) companies that presented financial reports not in rupiah (IDR) were excluded from the research sample.

Data collection was conducted through documentation, using secondary data sourced from companies' annual financial reports published officially on their websites and the Indonesia Stock Exchange (www.idx.co.id). The information analyzed relates to non-financial companies listed on the Indonesia Stock Exchange. The dependent variable in this study is foreign ownership, while the independent variables consist of profitability, leverage, and liquidity. The data obtained was then analyzed using panel data regression to determine the effect of each independent variable on foreign ownership.

D. RESULT AND DISCUSSION

Result

Panel Data Regression Model Selection Test

Before performing panel data regression estimation, this study first conducted model selection tests to determine the model that best fits the data characteristics. The tests used include the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test, with the test results presented in the following table.

Table 1. Panel Data Regression Model Selection Test

Test	Hypothesis	Statistic Test	Probability	Decision	Selected Model
Chow Test	H_0: The Common Effect Model is more appropriate H_1: Fixed Effect Model is more appropriate	Cross-section F	0,000	H_0 is rejected	Common Effect
Hausman Test	H_0: Random Effect Model lebih tepat H_1: Fixed Effect Model is more appropriate	Chi-square	0,0238	H_0 is rejected	Fixed Effect

Source: Researcher Processing, 2025

The Chow test results show that the more appropriate model to use is the Chow test result. Furthermore, based on the Hausman test, a probability value of 0.0238 was obtained, so the model selected is the fixed effect model. Thus, the panel data regression model used in this study is the fixed effect model.

T-test (Partial)

The t-test is used to determine the partial effect of each independent variable on the dependent variable. Hypothesis testing is conducted by examining the probability value (p-value) of the analysis results using E-Views 13, with a significance level of 5% (α = 0.05). The hypothesis is rejected if the p-value > 0.05, indicating that the independent variable is not significant to the dependent variable. Conversely, if the p-value ≤ 0.05, the hypothesis is accepted, meaning that the independent variable has a significant partial effect on the dependent variable. The following are the results of the T-test

Table 2. T-test Results

Variable	Coefficient	Prob	Description
C	-2.438026	0.0000	-
ROA	2.731541	0.0066	Significant Positive
Leverage	0.430065	0.1646	Not Significant
Likuiditas	0.401581	0.0614	Not Significant

Source: Researcher Processing, 2025

Based on the T-test results in the table above, the results are as follows:

1. Return on assets (ROA) shows a probability value of 0.0066 < 0.05. This means that return on assets affects foreign ownership. In this study, the return on assets result is significantly positive. This indicates that return on assets has a significant effect on foreign ownership. This means that the higher the profitability reflected by return on assets, the greater the likelihood that the company will attract foreign investors, so that return on assets plays a positive role in influencing foreign ownership in non-financial sector companies.
2. Leverage shows a probability value of 0.1646 > 0.05. This means that leverage has no effect on foreign ownership. This indicates that a company's debt level is not a major consideration for foreign investors, so variations in the use of debt in a company's capital structure do not significantly affect foreign ownership.
3. Liquidity shows a probability value of 0.0614 > 0.05. This means that liquidity does not affect foreign ownership. This indicates that a company's ability to meet its short-term obligations is not a major factor influencing foreign investors' decisions on share ownership. In other words, variations in a company's liquidity level do not significantly affect foreign investors' interest in non-financial sector companies.

F-test

The F test or concurrent test aims to evaluate the existence of a linear influence between independent variables affecting the dependent variable as a whole in the regression model. The hypothesis in the F test can be stated as follows:

Table 3. F test

Model	Statistic F	Probability (p-value)	Decision
Panel Regression	18.70810	0,000000	Significant

Source: Researcher Processing, 2025

The F-test results show a probability value of 0.000000, which is less than the significance level of 5% ($\alpha = 0.05$). This indicates that simultaneously, the three independent variables (return on assets, leverage, and liquidity) have a significant effect on foreign ownership. In other words, although only ROA is partially significant, overall, these three variables are able to explain the variation in foreign ownership.

Goodness of Fit

Multiple regression models are used to determine the extent to which independent variables and control variables can explain dependent variables. One of the main measures in model evaluation is Adjusted R^2, which indicates the strength of the relationship between variables and is also known as goodness of fit. The closer the Adjusted R^2 value is to 1, the better the model explains the variation in the dependent variable, so that the model is considered accurate in describing the relationship between variables. Below is a table of goodness of fit tests as follows:

Table 4. *Goodness of Fit*

Statistic	Value
R^2	0,820458
Adjusted R^2	0,771353

Source: Researcher Processing, 2025

Based on Table 4, the R^2 value of 0.820 indicates that 82% of the variation in the dependent variable can be explained by the independent and control variables as a whole. Meanwhile, the Adjusted R^2 value of 0.771 adjusts the effective contribution of independent variables to dependent variables by considering the number of variables and observations. This fairly high Adjusted R^2 value indicates that the regression model has good explanatory power and accurately describes the relationship between variables, so that the model can be said to be fit (goodness of fit).

Discussion

The analysis shows that company profitability, as measured by Return on Assets (ROA), has a positive and significant effect on foreign ownership. Companies that are able to consistently generate profits from their assets are considered more stable and efficient, thereby attracting foreign investors. High profitability sends a positive signal about a company's ability to manage its resources effectively and guarantee potential returns for shareholders. Foreign investors tend to invest in companies with good profit performance because this reflects competent management, effective business strategies, and promising growth prospects. Thus, profitability is not only an indicator of financial performance, but also one of the main factors in building foreign investor confidence. Conversely, leverage and liquidity do not appear to have a significant effect on foreign ownership. The level of debt in the capital structure and the company's ability to meet short-term obligations do not seem to be key factors considered by foreign investors. This shows that although these two variables are important in company operations and financial risk management, foreign investors prioritize potential profits and long-term gains over the current proportion of debt or liquidity. In other words, foreign investors focus more on profitability and long-term investment attractiveness than short-term financial health.

These findings confirm that in the context of non-financial companies in Indonesia, profitability is the main factor influencing foreign investors' decisions, while leverage and liquidity play a more supporting role that is not significantly decisive. These results are in line with financial theory and signaling principles, which state that good profit performance is a positive indicator for investors because it reflects management credibility, company stability, and the ability to provide consistent added value. In addition, these findings support the pecking order theory concept, which shows that companies with high profitability are better able to attract external funding sources, including from foreign investors, because they are considered to have lower risk and clearer profit prospects. Furthermore, the results of this study have practical implications for corporate management and policymakers. For management, focusing on increasing profitability through operational efficiency, sound asset management, and effective business strategies will enhance the company's attractiveness to foreign investors. For policymakers and capital market regulators, these results highlight the importance of creating an environment that supports transparency, good governance, and sound financial performance, thereby increasing foreign investor interest and promoting the growth of the national capital market. Thus, profitability is not only a measure of a company's internal performance, but also a strategic factor that influences foreign investment flows and broader economic development.

E. CONCLUSIONS

Based on the results of the study, it can be concluded that profitability has a positive and significant effect on foreign ownership, while leverage and liquidity have no significant effect. This shows that foreign investors prioritize a company's profit performance as an indicator of investment attractiveness, while capital structure and the ability to meet short-term obligations are considered less decisive in decision making. In practical terms, these findings have several implications. For company management, focusing on improving profitability through operational efficiency, optimal asset management, and effective business strategies will increase foreign investor interest. For regulators and policymakers, it is important to promote transparency, good governance, and sound financial performance in order to make the capital market more attractive to foreign investors, thereby supporting national economic growth.

However, this study has limitations. The analysis only covers non-financial companies in Indonesia, so the results may not apply to the financial sector or other countries. In addition, other variables that could potentially affect foreign ownership, such as company size, corporate governance, and market risk, were not included in the model. Based on these findings and limitations, suggestions for further research include adding other relevant variables, expanding the sample to include the financial sector, or conducting a longitudinal analysis to examine long-term trends in foreign ownership. Thus, future research can provide a more comprehensive picture of the factors that influence foreign investors' decisions to invest in public companies.

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