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# THE INFLUENCE OF FINANCIAL RATIO ON FINANCIAL PERFORMANCE IN CONSUMPTION GOODS COMPANIES LISTED ON THE BEI FOR THE 2018-2022 PERIOD

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***Abstract***

*This research explores the influence of liquidity, solvency and profitability on the financial performance of manufacturing companies on the Indonesia Stock Exchange (BEI), especially in the consumer goods sector. Using multiple linear regression analysis, these variables are evaluated to understand their impact individually and simultaneously. The research results show that liquidity has a significant influence on financial performance, while solvency has no effect individually. Profitability, on the other hand, shows a positive and significant impact on a company's financial performance. These findings provide important insights for the management of consumer goods companies amidst market dynamics influenced by the pandemic and PPKM policies. Implementing a comprehensive financial strategy, optimizing liquidity, maintaining solvency and increasing profitability, is recognized as the key to a company's sustainability and competitiveness in a competitive business environment.*

***Keywords***: *Liquidity, Solvency, and Profitability.*

## INTRODUCTION

Indonesia's economic growth is currently supported by various sectors, one of which is the manufacturing industry sector (Ramadhani, 2021). The manufacturing industry is divided into three main sectors, namely the basic chemical industry sector, the miscellaneous industry sector,and the consumer goods industry. In 2016, the manufacturing sector showed positive performance, with data from the United Nations Statistics Division (Ayuning Tyas et al., 2014) placing it as one of the top five sectors that supported the Indonesian economy that year. In the global ranking, Indonesia is in fourth place out of 15 countries with the significant role of its manufacturing industry in economic growth. South Korea ranked first with 29%, followed by China with 27%, Germany with 23%, and Indonesia with 22%. This success can be largely attributed to the financial performance of manufacturing companies.

In July 2022, a consumer survey conducted by Bank Indonesia showed a weakening of consumer confidence in economic conditions. This is reflected in the decline in the Consumer Confidence Index (IKK) to 80.2, compared to 107.4 in the previous month. The decline in CCI wasmainly caused by declining consumer expectations regarding economic conditions in the next sixmonths, as seen from the decline in the Consumer Expectation Index (IEK) from 124.4 in June 2021 to 93.2. The Current Economic Conditions Index (IKE) is also still at a pessimistic level and fell from 90.3 in June 2021 to 67.1 (Bank Indonesia, 2022). With the current phenomenon, namelythe Covid 19 pandemic virus and the publication of the PPKM policy, it has greatly influenced thefinancial performance of consumer goods companies listed on the Indonesian Stock Exchange (BEI), so it is necessary to monitor good financial reports to assess the health of the company's financial performance itself. Financial reports in a company are a source of information for stakeholders in assessing management performance in a company. The objective of financial reporting in PSAK No.1 of 2013 is to provide information regarding the financial position, financialperformance of a company, and the entity's cash flow which is useful for the majority of report users in making economic decisions. Financial reports are

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management's accountability results for the use of mandated resources.

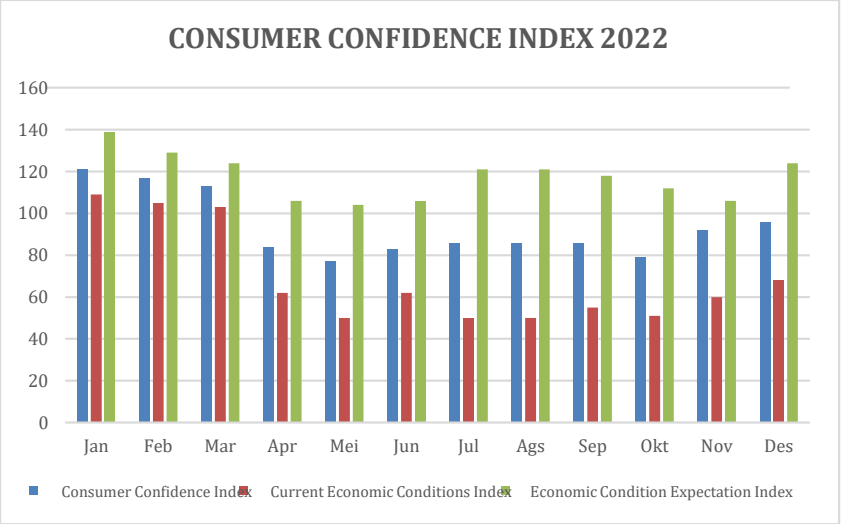


**Figure 1.** Indeks Keyakinan Konsumen 2022 (Januari-Juli)
Source: Bank Indonesia, 2022

The purpose of financial reports is to provide accurate details about a company's financialstatus, performance in operations, and cash flow. This is crucial as owners, investors, creditors, and government agencies rely on the information presented in these statements to make decisions concerning the company's progress. Despite this, adherence to international auditing standards highlights that management holds a distinctive position that could lead to fraudulent activities due to their capability to manipulate accounting records and their preparation.

Several previous studies have investigated the relationship between asset growth and profitability as measured by Return on Assets (ROA). Study conducted by (Mariana, 2019), (Wang et al., 2017), (Atikah et al., 2023), (Susanti, 2019), dan (Afriyeni & Fernos, 2018) presents an in- depth understanding of these interactions. Along with advances in science and technology, business processes have also experienced an evolution from business models that depend on labor (labor-based business) to business models that focus on knowledge (knowledge-based business). Therefore, the main characteristic of the company becomes focused on the utilization of knowledge.

In the view of Sawarjuwono and Kadir in (Mahaendrayasa & Putri, 2017), knowledge-based business emphasizes the management of intangible assets, such as knowledge and skills, to increase company value. This allows companies to compete with their competitors not only through ownership of tangible assets. One approach used in assessing and measuring intangible assets is through the concept of Intellectual Capital.

## METHOD

In line with the research goal of assessing the impact of Liquidity, Solvency, and Profitability on the financial performance of manufacturing firms listed on the Indonesia Stock Exchange, the research framework incorporates three independent variables: Liquidity (measured by Current Ratio), Solvency (measured by Debt to Equity Ratio), and Profitability (measured by Return on Equity). The dependent variable is Financial Performance. The research hypothesis comprises four statements. Initially, Liquidity is expected to partially exhibit a positive and significant influence on financial performance (H1). Secondly, Solvency is anticipated to partially demonstrate a positive and significant impact on Financial Performance (H2). Thirdly, Profitability is predicted to partially indicate a positive and significant effect on Financial Performance (H3). Lastly, Liquidity, Solvency, and Profitability

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are assumed to collectively exert a positive and significant influence on Financial Performance (H4).

The study was conducted within a two-month data collection period, spanning Novemberto December, focusing on manufacturing companies listed on the Indonesia Stock Exchange. The research population includes consumer goods companies consistently listed from 2018 to 2022, providing comprehensive financial reports. The sample selection followed a purposive sampling method, considering specific criteria. Secondary data was obtained through internet sources suchas www.idx.co.id and respective company websites. Analysis methods involved descriptive statistical analysis, the Kolmogorov-Smirnov normality test, multicollinearity test, heteroscedasticity test, auto-correlation test, and multiple linear regression test. The coefficient of determination was used to assess the percentage change in the dependent variable due to independent variables.

Hypothesis testing included the t-test (partial) to ascertain individual effects and the F-test to assess joint effects. Various tests were conducted to ensure the validity and reliability of the research findings, encompassing normality, multicollinearity, heteroscedasticity, and autocorrelation. The study aims to offer fresh insights into the influence of Liquidity, Solvency, and Profitability on the financial performance of manufacturing companies in Indonesia.

## RESULTS AND DISCUSSION

The results of data processing show that the average (mean), standard deviation, maximum value and minimum value of each variable using 72 observation data. In the Liquidity Variable, the minimum value is -0.14, the maximum value is 1.35, the average value is 0.4464, and the standard deviation is 0.33953 with a total of 72 observation data. The average value is greater than the standard deviation, which shows quite good results. This is to ensure that the data distribution provides normal results and does not cause bias.

For the Solvency Variable, the minimum value is 0.13, the maximum value is 1.83, the average value is 0.7409, and the standard deviation is 0.44783 with a total of 72 observation data. The average value is greater than the standard deviation, which shows quite good results. This isto ensure that the data distribution provides normal results and does not cause bias. For the Profitability Variable, the minimum value is 0.00, the maximum value is 0.39, the average value is 0.1010, and the standard deviation is 0.08926 with a total of 72 observation data. The average value is greater than the standard deviation, which shows quite good results. This is to ensure thatthe data distribution provides normal results and does not cause bias.

For the Financial Performance Variable, the minimum value is 0.00, the maximum value is0.53, the average value is 0.0971, and the standard deviation is 0.08876 with a total of 72 observation data. The average value is greater than the standard deviation, which shows quite good results. This is to ensure that the data distribution provides normal results and does not cause bias. Data normality testing in this research was carried out using the Normal P-Plot graphic method and using the One-Sample Kolmogorov-Smirnov Test which can be seen in the picture and table below.

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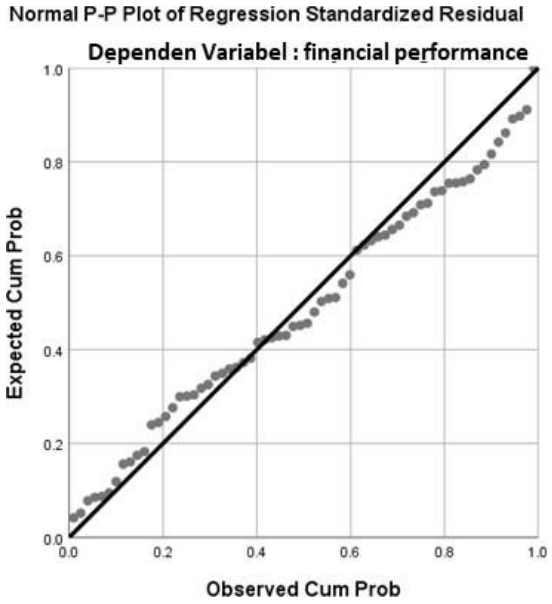


**Figure 2.** Data Normality Test ResultsSource: BEI 2022

The normality test results in the Normal P-Plot image above show that the data is spread around the diagonal line and follows the diagonal line. Meanwhile, in the normality test results using the One-Sample Kolmogorov-Smirnov Test method with Unstandardized Residual in the data table above, it can be seen that Asymp value. Sig. (2-tailed) has a significance level of 0.200 >
0.05 which indicates the data is normally distributed. Based on the results of data normality testing using the two test methods above, the regression model has a normal distribution or the model meets the assumptions of normality. Thus, it can be concluded that this regression model is suitable to proceed to the next stage of testing.

**Table 1.** Multicollinearity Test

| Dependen | Independen | *Collinearity Statistics* | | information |
|---|---|---|---|---|
| | | Tolerance | VIF | |
| Finance Performance | Liquidity | 0.668 | 1.497 | Multicollinearity does not occur |
| | Solvency | 0.629 | 1.590 | Multicollinearity does not occur |
| | Profitability | 0.929 | 1.077 | Multicollinearity does not occur |

Source: Data processing results

From the results of the multicollinearity test in the table above, it shows that the tolerance value for the Liquidity variable has a tolerance value of 0.668, the Solvency variable has a tolerance value of 0.629 and the Profitability variable has a tolerance value of 0.929. Meanwhile, the VIF value for the Liquidity variable has a VIF value of 1,497, the Solvency variable has a VIF value of 1,590 and the Profitability variable has a VIF value of 1,077.

Based on the results of the multicollinearity test of the data in the table above, it can be concluded that the overall tolerance value for the independent variables is greater than > 0.1 andthe variance inflation factor (VIF) value for all independent variables has a value below < 10. Thusit can be concluded that all the independent variables in this study multicollinearity does not occur. The heteroscedasticity test in this research is used to determine whether in the regressionmodel there is an inequality of variance from the residuals from one observation to another. If the significant value (sig) is > 0.05 then heteroscedasticity does not occur (Sugiyono, 2017). The results of the heteroscedasticity test can be seen in the table below:

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**Table 2.** Heteroscedasticity Test

| variable | *Sig* | *Sym* | *Coefficient reference* | *Information* |
|---|---|---|---|---|
| Liquidity (X1) | 0,112 | > | 0,05 | Not occur |
| Solvency (X2) | 0,182 | > | 0,05 | Not occur |
| Profitability (X3) | 0,000 | < | 0,05 | Happen |

Source: Data processing results

From the results of the heteroscedasticity test, it can be seen in the Scatterplots graph above that it shows that the data is spread randomly and is distributed both above and below the number 0 on the Y axis. Thus the results of the heteroscedasticity test show that the data on the variables in this study does not have heteroscedasticity, so the regression model is feasible used to predict Financial Performance based on input variables of liquidity, solvency and profitability. In the Multiple Linear Regression Analysis, the results of the regression equation above produce a positive constant value of 0.913, this shows a positive influence, if it is significant <0.05 then the level of financial performance will increase by 0.913.

**Table 3.** Multiple Linear Regression Analysis

| Variabel | Koefisien *B* | t value | Sign |
|---|---|---|---|
| Constant | 0,913 | 3.225 | 0.002 |
| Liquidity (X1) | 0,081 | 2.110 | 0.009 |
| Solvency (X2) | 0.053 | 1.649 | 0.182 |
| Profitability (X3) | 0.695 | 10.086 | 0.000 |

Source: Data processing results

The coefficient value of the Liquidity variable (X1) is 0.081, meaning that for every increase or decrease in Liquidity (X1), financial performance (Y) will increase by 0.081. The coefficient value of the Solvency variable (X2) produces a positive value of 0.053, which means that the level of financial performance has increased by 0.129. The coefficient value of the Profitability variable (X3) is obtained at 0.695, meaning that for every increase in the variable, financial performance (Y) under the influence of taxes will increase by 0.695. Furthermore, the results of testing this hypothesis are:

**Table 4.** Nilai T hitung

| Hypothesis | *B* | t value | t table | Sig. | Information |
|---|---|---|---|---|---|
| Hypothesis (1) | 0,913 | 2.110 | 1,994 | 0.009 | H1: accepted |
| Hypothesis (2) | 0,081 | 1.649 | 1,994 | 0.182 | H2: rejected |
| Hypothesis (3) | 0.053 | 10.086 | 1,994 | 0.000 | H3: accepted |
| Hypothesis (4) | 0,057 | 2,008 | 1,994 | 0,023 | H4: accepted |

Source: Data processing results

Based on the above table, it can be concluded that in H1, the t-test result on variable X1 shows a t-score > t-table (2.110 > 1.994) and significance < 0.05 (0.009 < 0.05), indicating a significant influence. Therefore, it can be accepted that liquidity significantly affects the financial performance of consumer goods companies listed on the Indonesia Stock Exchange (BEI). In H2, the t-test statistic on variable X2 shows a t-score < t-table (1.649 < 1.994) and significance > 0.05 (0.182 > 0.05), indicating that solvability does not significantly affect financial performance in the company. In H3, the t-test statistic on variable X3 shows a t-score > t-table (10.086 > 1.994) and significance < 0.05 (0.000 < 0.05), indicating that profitability significantly affects the financial performance of the company. Finally, in H4, the t-test statistic result on all three variables (X1, X2, X3) shows a t-score > t-table (2.008 > 1.994) and significance < 0.05 (0.023 < 0.05), indicating that the hypothesis simultaneously, consisting of liquidity, solvability, and profitability variables, significantly affects the financial performance of the company. Thus, Ha is accepted, and H0 is rejected.

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Based on the results of the table analysis, these findings can be applied specifically to consumer goods companies listed on the IDX. Liquidity (X1), which has a significant effect on financial performance, shows the importance of liquidity management in supporting the daily operations of consumer companies. Meanwhile, solvency (X2), which has no significant influence individually, remains an important consideration, especially in maintaining the trust of external parties.

The significant influence of profitability (X3) highlights the importance of business strategies that generate profits in the consumer goods industry. High profitability reflects the company's competitiveness in managing costs, marketing and product innovation. Overall, the simultaneous significant statistical test results on the three variables (H4) underline the complexity of the relationship between liquidity, solvency and profitability in determining the financial performance of consumer goods companies. Thus, these findings provide an in-depth view of the financial dynamics of companies in the consumer goods sector based (Afriyeni & Fernos, 2018) providing a basis for management to optimize their financial strategies in facing the challenges and opportunities of the consumer market.

For companies, maintaining a healthy level of liquidity is key in supporting smooth operations. According to research results (Armalinda, 2019), reliable inventory management, debt management and careful financial policies are important factors in achieving optimal liquidity. Even though solvency does not show a significant influence individually, companies still need to pay attention to the stability of their financial structure in order to maintain stakeholder trust. Focusing on increasing profitability through cost efficiency, effective marketing strategies and product innovation can be a strategic step for consumer goods companies. Intellectual Capital management, such as knowledge and innovative capabilities, can also be a determining factor in increasing profitability in the context of knowledge-based businesses.

By looking globally at these three variables, company management can design a comprehensive and sustainable financial strategy. Optimizing liquidity, solvency stability and increasing profitability can together improve the competitiveness and financial performance of consumer goods companies in this dynamic market. Therefore, policies and actions taken should include these aspects to achieve sustainability and sustainable growth.

## CONCLUSION

In conclusion, the results of the analysis of consumer goods companies listed on the IDX show that liquidity plays an important role in supporting financial performance, with a significant influence. Even though solvency does not matter individually, attention to the stability of the financial structure remains relevant. Profitability has a significant impact on financial performance, emphasizing the importance of cost efficiency, effective marketing and product innovation.

Overall, the variables liquidity, solvency and profitability have a complex relationship in the context of consumer goods companies. Managing these aspects together is necessary to design a comprehensive financial strategy. Thus, company management can consider improvements in liquidity management, financial structure stability, and increased profitability as strategic steps to strengthen their position in a dynamic and competitive market.

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