International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

# Determinants Of Financial Performance: The Role Of Liquidity, Solvency, And Profitability Ratios

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**Abstract**

This study aims to examine the effect of liquidity, solvency, and profitability ratios on the financial performance of automotive companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2024 period. A quantitative causal-associative method was used with secondary data from financial statements. Using purposive sampling, 12 companies were selected, yielding 48 firm-year observations. The independent variables were measured using the Current Ratio (CR), Debt to Equity Ratio (DER), and Net Profit Margin (NPM), while financial performance was measured by Return on Assets (ROA). Data were analyzed using multiple linear regression with SPSS 29. Results show liquidity has not improved financial performance as current assets remain underutilized, solvency is not yet a main determinant so funding structure must stay balanced, while profitability has a significant positive effect requiring continued operational efficiency. Simultaneously, all three ratios significantly affect financial performance (Adjusted R Square 46%), requiring balanced, integrated management.

**Keywords: liquidity, solvency, profitability, financial performance**

## INTRODUCTION

Financial performance is a key indicator in assessing a company's success in carrying out its operational activities. Good financial performance reflects a company's ability to manage its resources effectively and efficiently to generate optimal profits (Yulia et al., 2024). In an increasingly competitive business environment, particularly in the automotive sector, companies are required to maintain financial stability in order to survive and thrive amid market dynamics.



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The automotive sector is one of the industrial sectors that plays a strategic role in the Indonesian economy. This industry not only contributes to economic growth but also employs a large workforce (Irfan et al., 2024). However, the automotive sector also faces various challenges, such as fluctuations in demand, rising production costs, and pressure from unstable economic conditions (Retno Widyastuti & Paramitalaksmi, 2024). This has an impact on companies' financial performance, which tends to be unstable over time. Fluctuations in the financial performance of automotive companies during the 2021–2024 period indicate instability in the companies' financial conditions. The average net income of automotive companies listed on the Indonesia Stock Exchange increased from Rp1.91 trillion in 2021 to Rp3.61 trillion in 2023, but declined to Rp3.54 trillion in 2024. In addition, domestic vehicle sales have also fluctuated, reaching 887,000 units in 2021, rising to 1.04 million units in 2022, then declining to 1.02 million units in 2023, and falling again to 865,000 units in 2024 (GAIKINDO, 2025).

These conditions indicate that automotive companies face challenges in maintaining stable financial performance amid changing economic conditions. Therefore, an analysis of the factors influencing companies' financial performance—particularly liquidity, solvency, and profitability ratios—is necessary. The main issue in this study is the continued inconsistency in research findings regarding the factors influencing financial performance. Theoretically, liquidity, solvency, and profitability ratios play a crucial role in determining financial performance (Syahrani et al., 2024). However, in practice, not all of these ratios have a significant impact. Based on previous research, there are differing findings: while profitability ratios tend to have a significant effect, liquidity and solvency ratios often do not show a meaningful impact. This situation creates a research gap that needs to be addressed, particularly in the automotive sector.

## LITERATURE REVIEW

### Signaling Theory

Signaling theory explains that companies have an incentive to convey information to external parties as a signal regarding the company's condition and prospects. This information is generally conveyed through financial reports published periodically. Management, as an internal party, possesses more complete information than investors; therefore, a mechanism is needed to reduce information asymmetry through the transmission of relevant and credible signals (Michael Spence, 1973).

In the automotive sector, a company's financial condition is a key concern because this industry requires substantial capital, incurs high operating costs, and faces


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intense market competition. Consequently, investors tend to use financial ratios as a basis for assessing a company's financial health before making investment decisions. The better a company's financial ratios, the more positive the signal received by the market, which in turn can boost investor confidence in the company's future prospects. Conversely, financial ratios indicating poor conditions can send negative signals that affect the market's perception of the company's performance.

In a financial context, financial ratios such as liquidity, solvency, and profitability can serve as indicators for investors in assessing a company's performance and stability (Iswati & Salamah, 2024). A high liquidity ratio signals that a company is capable of meeting its short-term obligations, while a solvency ratio indicates the company's level of financial risk. On the other hand, profitability ratios reflect a company's ability to generate profits, which serve as a key indicator for investors in assessing the company's future prospects (Brigham & Houston, 2021). Thus, the better the financial ratios a company demonstrates, the more positive the signals received by the market.

**Agency Theory**

Agency theory explains the relationship between a company's owners (principals) and management (agents), who are authorized to manage the company. Investors, as principals, expect the company to deliver strong financial performance, while management, as agents, is responsible for managing the company's assets, liabilities, and operations effectively and efficiently. In this relationship, conflicts of interest often arise because management does not always act in the owners' best interests, leading to agency problems (Jensen & Meckling, 1976).

To mitigate these conflicts, performance monitoring and evaluation mechanisms are necessary, one of which is through the analysis of financial statements. Financial ratios serve as an effective tool for assessing the extent to which management performs its duties efficiently and in line with the company's objectives. Profitability ratios, for example, indicate management's ability to generate profits, while solvency ratios reflect the financing decisions made by management (Cicilia Erly Istia et al., 2023). In the automotive sector, which is highly competitive and requires significant capital, sound financial management is a critical factor in maintaining the company's stability and sustainability. Thus, the use of financial ratios can help minimize agency conflicts and enhance corporate transparency and accountability (Scott & O'Brien, 2021).


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**Liquidity Ratios**

Liquidity ratios are used to measure a company's ability to meet its short-term obligations. This ratio indicates a company's level of security in facing the risk of being unable to pay its current liabilities (Rahmah et al., 2023). One of the indicators commonly used in liquidity ratios is the Current Ratio (CR), which is the ratio of current assets to current liabilities (Kasmir, 2022).

Companies with high liquidity levels tend to have a strong ability to meet their short-term obligations, thereby sending a positive signal to investors (Bestari et al., 2024). However, excessively high liquidity may also indicate that assets are not being utilized optimally. Therefore, companies need to maintain a balance in liquidity management to ensure efficiency (Hery, 2021).

**Solvency Ratios**

Solvency ratios are used to measure a company's ability to meet its long-term obligations. This ratio also reflects a company's capital structure—specifically, the extent to which the company is financed by debt relative to its equity (Prameswari & Haymans Manurung, 2024). One commonly used indicator is the Debt-to-Equity Ratio (DER), which shows the ratio of total debt to equity (Kasmir, 2022).

A high solvency ratio indicates that a company relies heavily on debt, thereby increasing financial risk. Conversely, a low solvency ratio indicates a healthier capital structure (Hamsyah et al., 2023). Therefore, sound solvency management is crucial for maintaining a company's financial stability and enhancing investor confidence (Brigham & Houston, 2021).

**Profitability Ratios**

Profitability ratios are used to measure a company's ability to generate profits. These ratios serve as key indicators for assessing a company's financial performance because they reflect management's effectiveness in managing resources. One commonly used indicator is the Net Profit Margin (NPM), which measures the percentage of net income relative to sales (Hery, 2021).

In addition, Return on Assets (ROA) is also frequently used to assess a company's ability to generate profit from its total assets. The higher the profitability ratio, the better the company's performance in generating profits. This makes the company more attractive to investors looking to invest their capital in it (Handayani & Ismunawan, 2023).



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**Financial Performance**

Financial performance provides an overview of a company's condition and operational results over a specific period. By assessing financial performance, management can determine the effectiveness of strategies implemented to achieve corporate objectives. Furthermore, information regarding financial performance is essential for investors, creditors, and other external parties when making economic decisions. Financial performance reflects a company's ability to generate profit, manage assets, and meet its obligations (Saputra & Ryketeng, 2023). Financial performance assessment is typically conducted through financial statement analysis, specifically by utilizing financial ratios (Irham Fahmi, 2022).

One frequently used indicator for measuring financial performance is Return on Assets (ROA), which demonstrates a company's ability to generate profit from its total assets. Strong financial performance indicates that a company is capable of managing its resources effectively and efficiently. Conversely, poor financial performance may signal underlying issues in the company's management (Hutabarat, 2023).

**Hypothesis**

**The Effect of Liquidity Ratios on Financial Performance**

Liquidity ratios reflect a company's ability to meet its short-term obligations. Based on signaling theory, a healthy level of liquidity sends a positive signal to investors that the company is financially sound and capable of maintaining operational stability. High liquidity indicates that the company possesses sufficient current assets to cover short-term liabilities, thereby resulting in a relatively low risk of default. Additionally, from the perspective of agency theory, a company's ability to maintain liquidity reflects management's performance in managing assets efficiently and acting responsibly toward the company's owners. Management's ability to maintain optimal liquidity levels demonstrates sound financial management.

Previous research indicates that liquidity ratios influence a company's financial performance. Studies have found that liquidity has a positive impact on profitability and corporate performance (Affi & As'ari, 2023). However, excessively high liquidity may also indicate the presence of idle funds that are not being utilized optimally. Based on the results of previous research, the author formulates the following hypothesis:

H1: The liquidity ratio affects financial performance.



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**The Influence of Solvency Ratios on Financial Performance**

Solvency ratios indicate a company's ability to meet its long-term obligations and reflect its financing structure. According to signaling theory, a high level of solvency can send a negative signal to investors, as it indicates a heavy reliance on debt, which potentially increases financial risk. Conversely, low solvency reflects a healthier and more stable capital structure. From an agency theory perspective, high debt usage can give rise to conflicts between management and company owners, particularly regarding the risk of suboptimal decision-making. Therefore, proper capital structure management is crucial for maintaining a company's financial performance.

Previous research indicates that solvency ratios influence a company's financial performance, either positively or negatively, depending on the company's specific conditions and its industrial sector (Mardiana Ningsih et al., 2023). Based on these prior findings, the author formulates the following hypothesis:

H2: Solvency ratios influence financial performance.

**The Influence of Profitability Ratios on Financial Performance**

Profitability ratios indicate a company's ability to generate profit from its operational activities. From a signaling theory perspective, high profitability sends a positive signal to investors regarding the company's future prospects. Companies with strong profitability are viewed as efficient performers with the potential to deliver high returns to investors. Meanwhile, in agency theory, profitability reflects management's success in effectively managing company resources. High profitability indicates that management is capable of conducting operations in alignment with the owners' objectives, thereby minimizing agency conflicts.

Previous research demonstrates that profitability ratios have a significant influence on a company's financial performance. Studies have found that profitability is a key factor in enhancing financial performance and firm value (Affi & As'ari, 2023). Based on these prior findings, the author formulates the following hypothesis:

H3: Profitability ratios influence financial performance.

**The Influence of Liquidity, Solvency, and Profitability Ratios on Financial Performance**

A company's financial performance is influenced not by a single financial aspect alone, but by a combination of various factors, including liquidity, solvency, and profitability. These three ratios are interconnected, collectively reflecting the company's


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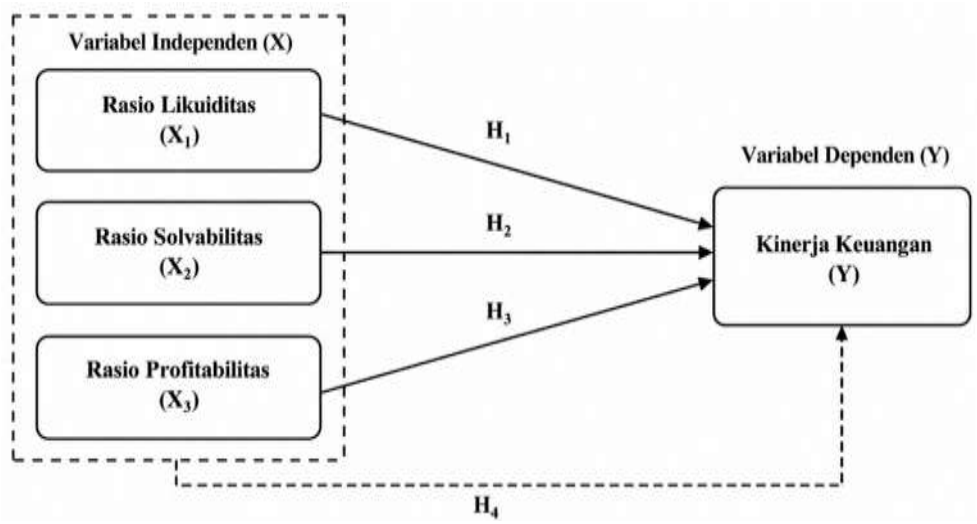
overall financial condition. Liquidity indicates short-term capability, solvency reflects long-term stability, and profitability demonstrates the ability to generate profit. Within the framework of signaling theory, the combination of these three ratios provides investors with a more comprehensive picture of the company's condition. Meanwhile, in agency theory, these ratios reflect management's effectiveness in managing all aspects of the company's finances.

Previous research indicates that liquidity, solvency, and profitability ratios—when considered simultaneously—have a significant impact on a company's financial performance (Putri Latifatul Azizah et al., 2025). This suggests that a joint analysis yields more robust results than a partial analysis. Based on these prior findings, the author formulates the following hypothesis:

H4: Liquidity, solvency, and profitability ratios simultaneously influence financial performance.

**Conceptual Framework**

Explains the flow of relationships between variables systematically and clearly regarding the influence of independent variables on the dependent variable.




**RESEARCH METHODOLOGY**

This study utilizes secondary data consisting of corporate annual reports. The population for this study comprises all automotive companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period, with data accessed via the official


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IDX website at www.idx.co.id. Sampling was conducted using the purposive sampling method to select a sample that meets specific criteria. The criteria used for sample selection are as follows:

**Table 1 Research Sample**

| No | Description | Number of Companies |
|---|---|---|
| 1 | Total automotive companies listed on the IDX for the 2021–2024 period | 23 |
| 2 | Companies not listed continuously throughout 2021–2024 | (5) |
| 3 | Companies that did not disclose complete annual reports | (4) |
| 4 | Companies that incurred losses consecutively during the research period | (2) |
| 5 | Total Final Sample (Companies) | 12 |
| | Total Observation Data (Firm-Year) = 12 companies x 4 years | 48 |

Source: Processed by the Researcher (2026)

Based on these criteria, 12 companies were identified as meeting the requirements for the research sample. With a four-year observation period, the total number of analysis units processed was 48. This study employed the documentation method for data collection, specifically by downloading company financial reports from the official website of the Indonesia Stock Exchange. The collected data were then analyzed using a quantitative approach with the aid of IBM SPSS 29 statistical software.

**Table 2 Operational Definition of Variables**

| Variable | Operational Definition | Indicator/Rumus | Scale |
|---|---|---|---|
| Liquidity Ratio (X1) | Ratio of current assets to current liabilities. (Hery, 2021) | $CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$ | Ratio |
| Solvency Ratio (X2) | Ratio of total debt to total equity. (Kasmir, 2022) | | Ratio |


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| | | | |
|---|---|---|---|
| | | $DER = \frac{\text{Total Debt}}{\text{Total Equity}}$ | |
| Profitability Ratio (X3) | The company's effectiveness in generating profit from sales. (Hakim, 2021) | $NPM = \frac{\text{Net Profit}}{\text{Total Sales}}$ | Percentage |
| Financial Performance (Y) | The company's ability to generate profit from total assets. (Hakim, 2021) | $ROA = \frac{\text{Net Profit}}{\text{Total Asset}}$ | Ratio |

Source: Processed by the Researcher (2026)

This study employs a multiple linear regression analysis method to examine the influence of independent variables on the dependent variable. The multiple linear regression equation is as follows:

$$Y = a + b1X1 + b2X2 + b3X3 + e$$

Where:

Y = Financial Performance
a = Constant
b = Regression Coefficient
X1 = Liquidity Ratio
X2 = Solvency Ratio
X3 = Profitability Ratio
e = Error term

Prior to hypothesis testing, classical assumption tests are conducted, comprising tests for normality, multicollinearity, autocorrelation, and heteroscedasticity. These classical assumption tests aim to ensure that the regression model meets the BLUE (Best Linear Unbiased Estimator) criteria. A t-test is used to measure the extent of the partial influence of independent variables on the dependent variable. Additionally, a simultaneous test (F-test) is performed to determine the combined influence of the independent variables on the dependent variable, and the coefficient of determination ($R^2$) test is used to measure the ability of the independent variables to explain the variation in the dependent variable.


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## ANALYSIS AND DISCUSSION

### Classical Assumption Tests

This stage of regression analysis aims to ensure that the research model meets statistical requirements, thereby ensuring that analysis results can be used appropriately and do not lead to biased conclusions.

### 1. Normality Test

Aims to determine whether the residual data in the regression model is normally distributed.

**Table 3 Normality Test Results Before Outliers**

| One-Sample Kolmogorov-Smirnov Test | | |
|---|---|---|
| | | **Unstandardized Residual** |
| N | | 48 |
| Normal Parameters[a,b] | Mean | .0000 |
| | Std. Deviation | 2.91264 |
| Most Extreme Differences | Absolute | .210 |
| | Positive | .210 |
| | Negative | -.140 |
| Test Statistic | | .210 |
| Asymp. Sig. (2-tailed)[c] | | < .001 |

Source: Processed by the researcher using SPSS 29 (2026)

In the initial test, the obtained significance value was only 0.001 well below the required threshold meaning the data distribution could not yet be considered normal. One method to address this issue was to remove outlier data.

**Table 4 Data Outliers**

| Code | Years | *Current Ratio* | *Debt Equity to Ratio* |
|---|---|---|---|
| **IMAS** | 2024 | | 3,22 |
| **LPIIN** | 2021 | 7,26 | |
| | 2023 | 8,61 | |
| | 2024 | 6,75 | |

Source: Processed by the Researcher (2026)



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**Table 5 Normality Test Results After Outliers**

| One-Sample Kolmogorov-Smirnov Test | | |
|---|---|---|
| | | **Unstandardized Residual** |
| N | | 44 |
| Normal Parameters[a,b] | Mean | .0000 |
| | Std. Deviation | 2.28614 |
| Most Extreme Differences | Absolute | .151 |
| | Positive | .135 |
| | Negative | -.151 |
| Test Statistic | | .151 |
| Asymp. Sig. (2-tailed)[c] | | .13 |

Source: Processed by the researcher using SPSS 29 (2026)

The initial normality test results indicated that the residual data were not normally distributed, as the significance value was below 0.05. Consequently, outlier handling was performed by removing four data points identified as extreme values to stabilize the data distribution. Following this step, the normality test yielded an Asymp. Sig. (2-tailed) value of 0.13, which exceeds 0.05. This indicates that the research residuals are normally distributed.

**2. Multicollinearity Test**

Used to determine whether there is a high degree of correlation among the independent variables in the study.

**Table 6 Multicollinearity Test Result**

| **Model** | | **Collinearity Statistics** | |
|---|---|---|---|
| | | **Tolerance** | **VIF** |
| | CR | .668 | 1.497 |
| | DER | .584 | 1.712 |
| | NPM | .713 | 1.403 |

Source: Processed by the researcher using SPSS 29 (2026)

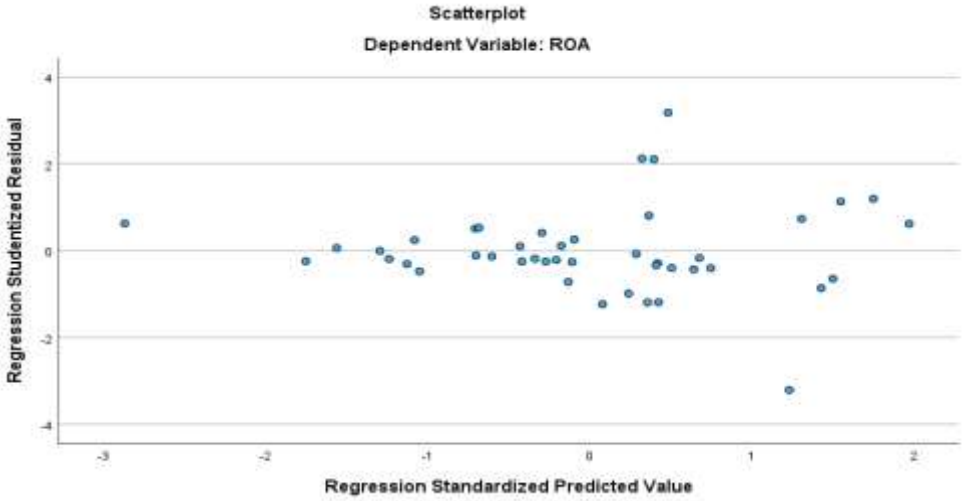

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The multicollinearity test results indicate that all variables have Tolerance values greater than 0.10 and VIF values less than 10; therefore, it can be concluded that the regression model does not suffer from multicollinearity issues.

### 3. Heteroscedasticity Test

This test is conducted to determine whether there is inequality in residual variances across observations. The scatterplot results indicate the absence of heteroscedasticity issues, as evidenced by a random distribution of data points that do not form any discernible pattern.




**Picture 2 Heteroscedasticity Test Result**

Source: Processed by the researcher using SPSS 29 (2026)

### 4. Autocorrelation Test

This test aims to determine whether there is a relationship between the residuals of one period and those of another.

**Table 7 Autocorrelation Test Result**

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .687[a] | .472 | .460 | 2.13230 | 1.932 |

Source: Processed by the researcher using SPSS 29 (2026)



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From the Durbin-Watson table (α = 0.05): dl = 1.39, du = 1.66, 4 – du = 4 – 1.66 = 2.34.

Result: du < DW < 4 – du (1.66 < 1.932 < 2.34); therefore, no autocorrelation occurs in this regression model.

**Multiple Linear Regression Analysis**

**Table 8 Multiple Linear Regression Test**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | | Std. Error | Beta | | |
| | (Constant) | -.073 | 1.329 | | -.055 | .957 |
| | CR | .005 | .307 | .001 | .016 | .987 |
| | DER | .002 | .651 | .000 | .003 | .998 |
| | NPM | .974 | .072 | .929 | 13.460 | <,001 |

Source: Processed by the researcher using SPSS 29 (2026)

Based on the multiple linear regression results, the equation Y = -0,073 + 0,005CR + 0,002DER + 0,974NPM + e was obtained. The partial test (t-test) results indicate that the Current Ratio (CR) and Debt to Equity Ratio (DER) do not have a significant effect on financial performance, with significance values of 0.987 and 0.998, respectively (p > 0.05). Conversely, Net Profit Margin (NPM) has a positive and significant effect on financial performance, with a significance value of < 0.001 and a beta coefficient of 0.929. These findings indicate that profitability is the most dominant factor influencing the company's financial performance, whereas liquidity and solvency did not exert a significant influence on the sample companies during the study period.

**Hypothesis Testing**

Used to determine the validity of a tentative claim or assumption regarding a population or sample data.

**1. Partial Test (t-test)**

To determine whether an independent variable has a partial effect on the dependent variable.



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**Table 9 Partial Test (t-test) Result**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | | Std. Error | Beta | | |
| | (Constant) | -.073 | 1.329 | | -.055 | .957 |
| | CR | .005 | .307 | .001 | .016 | .987 |
| | DER | .002 | .651 | .000 | .003 | .998 |
| | NPM | .974 | .072 | .929 | 13.460 | <,001 |

Source: Processed by the researcher using SPSS 29 (2026)

The partial test results (t-test) indicate that the Current Ratio (CR) and Debt to Equity Ratio (DER) do not have a significant effect on financial performance (ROA), as evidenced by significance values greater than 0.05 for each. Conversely, the Net Profit Margin (NPM) has a positive and significant effect on financial performance, with a significance value of less than 0.05. These findings indicate that only profitability plays a crucial role in enhancing the company's financial performance.

**2. Simultaneous Test (F-test)**

To determine whether independent variables have a simultaneous or collective effect on the dependent variable.

**Table 10 Simultaneous Test (F-test) Result**

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | f | Mean Square | F | Sig. |
| | Regression | 142.976 | | 47.658 | 8.482 | <,001[b] |
| | Residual | 22.473 | 0 | 5.618 | | |
| | Total | 165.450 | 3 | | | |

Source: Processed by the researcher using SPSS 29 (2026)


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The simultaneous test result (F-value = 8.482) indicates that the regression model has a significance value of 0.001 (< 0.05); thus, it can be concluded that the Current Ratio (CR), Debt to Equity Ratio (DER), and Net Profit Margin (NPM) variables collectively have a significant effect on financial performance (ROA).

**Coefficient of Determination Test ($R^2$)**

This test is used to measure the percentage of the influence of the independent variables (X) on the dependent variable (Y).

**Table 11 Coefficient of Determination Test Result**

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .687[a] | .472 | .460 | 2.13230 | 1.932 |

Source: Processed by the researcher using SPSS 29 (2026)

The coefficient of determination test result shows an R-Square value of 0.472, meaning that 47.2% of the variation in financial performance (ROA) can be explained by the Current Ratio (CR), Debt to Equity Ratio (DER), and Net Profit Margin (NPM) variables, while the remaining 52.8% is influenced by factors outside the research model.

## DISCUSSION

### The Effect of Liquidity on Financial Performance

Based on the multiple linear regression analysis, the regression coefficient for Liquidity (CR) shows a positive value of 0.005, indicating a positive relationship between liquidity and financial performance. However, the t-test results show a significance value of 0.987 (> 0.05); thus, it can be concluded that liquidity does not have a significant effect on financial performance. Consequently, H1 is rejected.

From the perspective of signaling theory, a high level of liquidity can send a positive signal to investors that the company is capable of meeting its short-term obligations; however, this signal is not always strong enough to directly influence investor decisions regarding financial performance. Meanwhile, under agency theory, management—acting as the agent—may maintain liquidity at a certain level to ensure


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corporate stability, yet this does not necessarily translate into the performance improvements expected by shareholders (the principals).

This positive relationship suggests that an increase in a company's ability to meet short-term obligations tends to be accompanied by an improvement in financial performance, even though the effect is not statistically significant. These findings align with the research conducted by Wilda & Desi (2024), which concluded that liquidity has no effect on financial performance.

**The Effect of Solvency on Financial Performance**

Based on the multiple linear regression analysis, the regression coefficient for Solvency (DER) is 0.002, indicating a positive relationship between solvency and financial performance. The t-test result shows a significance value of 0.998 (> 0.05); thus, it can be concluded that solvency does not have a significant effect on financial performance. Consequently, H2 is rejected.

From the perspective of signaling theory, the use of debt can convey either positive or negative signals to investors. High debt levels may be perceived as a signal of management's optimism regarding the company's prospects, yet they can also signal high financial risk. Meanwhile, according to agency theory, debt usage can serve as a control mechanism to mitigate conflicts of interest between managers and shareholders; however, in the context of this study, debt usage was not a dominant factor influencing financial performance.

This indicates that the level of debt usage within the company's capital structure does not significantly impact financial performance. This situation may arise because the company tends to utilize internal funding sources rather than debt, meaning that changes in the DER do not substantially affect the company's profitability. These findings align with the research conducted by Affi & As'ari (2023), which states that solvency does not affect financial performance.

**The Effect of Profitability on Financial Performance**

Based on the multiple linear regression analysis, the regression coefficient for Profitability (NPM) is 0.974, indicating a strong positive relationship between profitability and financial performance. The t-test result shows a significance value of < 0.001 (< 0.05); thus, it can be concluded that profitability has a positive and significant effect on financial performance. Consequently, H3 is accepted.


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This indicates that the greater the company's ability to generate profit, the higher its financial performance. These findings align with the research conducted by Wilda & Desi (2024), which states that profitability affects financial performance.

**The Influence of Liquidity, Solvency, and Profitability on Financial Performance**

Based on the F-test results, an F-value of 8.482 was obtained with a significance level of < 0.001 (< 0.05). This indicates that the variables of Liquidity (CR), Solvency (DER), and Profitability (NPM) simultaneously exert a significant influence on financial performance. Thus, H4 is accepted.

From the perspective of signaling theory, the combination of these three financial ratios provides investors with a comprehensive overview of the company's condition, thereby serving as a basis for investment decision-making. Meanwhile, in agency theory, these three variables reflect how management handles the company's assets, debt, and profits to mitigate conflicts of interest between managers and shareholders and to enhance firm value.

This indicates that, collectively, these three variables are capable of explaining variations in the company's financial performance. Although only profitability shows a significant influence when analyzed individually, the combined effect of all three variables remains crucial in determining the company's financial performance. These findings align with the research conducted by Nur & Fatimah (2024), which states that Liquidity, Solvency, and Profitability influence financial performance.

## CONCLUSION

Based on the research conducted, it can be concluded that the financial performance of automotive companies measured by Return on Assets (ROA) is influenced more by the company's ability to generate profit than by its liquidity capabilities or capital structure. The results indicate that the Current Ratio (CR) does not significantly affect ROA, suggesting that the company's ability to meet short-term obligations does not directly enhance the efficiency of asset utilization in generating profit. The Debt to Equity Ratio (DER) also shows no significant effect on ROA, indicating that the use of debt within the capital structure does not contribute meaningfully to improved financial performance; this may be due to the company exercising caution regarding external funding or because the debt is not being managed optimally. Meanwhile, the Net Profit Margin (NPM) was found to have a positive and significant effect on ROA, confirming that the greater a company's ability to generate profit from


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sales, the better its financial performance. Simultaneously, these three variables continued to exert a significant influence on ROA, demonstrating that a company's financial performance results from a combination of liquidity, solvency, and profitability factors although profitability emerged as the most dominant factor in this study.

**The Influence of Liquidity, Solvency, and Profitability on Financial Performance**

Based on the F-test results, an F-value of 8.482 was obtained with a significance level of < 0.001 (< 0.05). This indicates that the variables of Liquidity (CR), Solvency (DER), and Profitability (NPM) simultaneously exert a significant influence on financial performance. Thus, H4 is accepted.

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## CONCLUSION

Based on the research conducted, it can be concluded that the financial performance of automotive companies—measured by Return on Assets (ROA)—is influenced more by the company's ability to generate profit than by its liquidity capabilities or capital structure. The results indicate that the Current Ratio (CR) does not significantly affect ROA, suggesting that the company's ability to meet short-term obligations does not directly enhance the efficiency of asset utilization in generating profit. The Debt to Equity Ratio (DER) also shows no significant effect on ROA, indicating that the use of debt within the capital structure does not contribute meaningfully to improved financial performance; this may be due to the company exercising caution regarding external funding or because the debt is not being managed optimally. Meanwhile, the Net Profit Margin (NPM) was found to have a positive and significant


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effect on ROA, confirming that the greater a company's ability to generate profit from sales, the better its financial performance. Simultaneously, these three variables continued to exert a significant influence on ROA, demonstrating that a company's financial performance results from a combination of liquidity, solvency, and profitability factors—although profitability emerged as the most dominant factor in this study.

## LIMITATIONS AND RECOMMENDATIONS

Based on these limitations, several recommendations are offered. Future researchers are advised to incorporate additional variables—such as firm size, sales growth, or activity ratios—to provide a more comprehensive overview of the factors influencing financial performance. It is also recommended that future studies extend the observation period so that the findings better reflect long-term conditions. Expanding the scope of research to include other industrial sectors is suggested to enhance the generalizability of the results. For corporate management, these findings can serve as a basis for decision-making aimed at improving profitability, given that the variables in question have been shown to significantly impact financial performance.

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