

ANALYSIS OF THE IMPACT OF LIQUIDITY AND SOLVENCY ON THE FINANCIAL PERFORMANCE OF FOOTWEAR MANUFACTURING COMPANIES IN INDONESIA

Dian Ramdani^{1*}, Hikmah Goyatun Napilah²

^{1,2}Universitas Widyatama, Indonesia

*Correspondence email: dian.ramdani@widyatama.ac.id

ABSTRACT

This study aims to analyze the effect of liquidity and solvency on the financial performance of footwear manufacturing companies in Indonesia. Financial performance is measured using Return on Assets (ROA), while liquidity is measured using the Current Ratio (CR) and solvency is measured using the Debt to Assets Ratio (DAR). The research uses a quantitative approach based on secondary financial data for a 30-observation dataset. Multiple linear regression analysis is employed to examine the partial and simultaneous effects of liquidity and solvency on financial performance. The results indicate that liquidity has a positive and statistically significant effect on financial performance, while solvency has a negative and statistically significant effect on financial performance. The simultaneous test also indicates that liquidity and solvency significantly affect financial performance. The coefficient of determination shows that 57.6% of the variation in ROA can be explained by liquidity and solvency, while the remaining 42.4% is explained by other factors outside the research model. These findings highlight the importance of maintaining an adequate liquidity position and managing debt efficiently to support sustainable financial performance in footwear manufacturing companies.

Keywords: liquidity, solvency, financial performance, current ratio, debt to assets ratio

1. INTRODUCTION

The footwear manufacturing industry is an important part of Indonesia's manufacturing sector and contributes to export activities and economic growth. Footwear companies operate in a highly competitive environment where operational efficiency, production costs, and financial management are important factors in maintaining profitability. Companies involved in international markets are also exposed to various economic and financial risks that can affect their business performance. Previous research on Indonesian footwear manufacturing has

shown that external financial factors can influence company profitability, although the magnitude of the effect may vary depending on internal company conditions. (Napilah & Ramdani, 2025). Financial performance is an important indicator for evaluating the effectiveness of a company's resource management. Return on Assets (ROA) is one of the profitability measures used to evaluate the company's ability to generate profit from its assets (Kasmir, 2014). A higher ROA indicates that the company is more effective in utilizing its assets to generate income. Therefore, maintaining financial performance is particularly important for manufacturing companies that require substantial assets to support production activities.

One of the internal factors that may influence financial performance is liquidity. Liquidity indicates the company's ability to fulfill its short-term obligations. The Current Ratio (CR) compares current assets with current liabilities and is commonly used to evaluate a company's short-term financial condition (Kasmir, 2014). Adequate liquidity allows companies to finance daily operations, purchase production materials, and meet short-term obligations. However, excessive liquidity may also indicate that available resources are not being utilized optimally.

Another important factor is solvency. Solvency reflects the company's ability to meet its long-term financial obligations and indicates the extent to which company assets are financed by debt. Debt to Assets Ratio (DAR) measures the proportion of total assets financed through debt. According to Brigham and Houston (2006), the use of debt can provide financial leverage but may also increase financial risk and financing costs. Sartono (2011) similarly emphasizes that appropriate financial structure and debt management are important in maintaining company performance. The relationship between liquidity, solvency, and profitability is particularly relevant in manufacturing companies because production activities require continuous working capital and significant asset investment. Effective liquidity management can support operational continuity, while excessive dependence on debt may increase financial pressure. Consequently, companies need to balance their short-term financial capacity and long-term financing structure to maintain profitability.

Previous research by Napilah and Ramdani (2025) examined the effect of exchange rate fluctuations on the profitability of footwear export companies in Indonesia and found a consistently negative relationship between exchange rate fluctuations and ROA, NPM, and ROE, although the effects were not statistically significant. The study also suggested that profitability may be affected by other internal and external factors, including production efficiency, costs, and financial management. This provides an opportunity to further examine internal financial factors that may influence profitability. Based on this background, this study examines the effect of liquidity and solvency on the financial performance of footwear manufacturing companies in Indonesia. Liquidity is measured using the Current Ratio (CR), solvency is measured using the Debt to Assets Ratio (DAR), and financial performance is measured using Return on Assets (ROA). The study aims to determine whether liquidity and solvency individually and simultaneously affect the financial performance of footwear manufacturing companies.

2. LITERATURE REVIEW

Financial performance represents the company's ability to manage its resources effectively and generate profit from its business activities. One commonly used indicator is Return on Assets (ROA), which measures the company's ability to generate profit from the assets it owns. A higher ROA indicates that the company is more effective in utilizing its assets to generate earnings (Kasmir, 2014). Financial performance is influenced by both internal financial conditions and external factors, including financial management decisions and operating conditions (Brigham & Houston, 2006).

Liquidity reflects the company's ability to meet its short-term financial obligations. The Current Ratio (CR) is one of the commonly used indicators of liquidity, calculated by comparing current assets with current liabilities (Kasmir, 2014). Adequate liquidity enables companies to maintain daily operations, meet short-term obligations, and reduce financial constraints. However, excessive liquidity may also indicate that company assets are not being utilized optimally. Therefore, effective liquidity management is important to maintain operational efficiency and financial performance.

Solvency describes the company's ability to fulfill its long-term obligations and reflects the proportion of company assets financed by debt. Debt to Assets Ratio (DAR) measures the proportion of total assets financed through liabilities. According to Brigham and Houston (2006), the use of debt can provide financial benefits but also increases financial risk and financing costs. Sartono (2011) also emphasizes that financial structure and debt management are important considerations in determining a company's financial performance. Consequently, a higher level of debt may place greater pressure on profitability when financing costs exceed the benefits obtained from debt.

Liquidity and solvency are closely related to financial performance because both reflect the company's financial management and ability to maintain operational sustainability. Effective liquidity management can support production and ensure that short-term obligations are fulfilled, while appropriate debt management can control financial risk and financing costs. Kasmir (2014) explains that financial ratios provide important information for evaluating a company's financial condition and performance.

Previous studies also indicate that financial factors can influence company profitability. The previous research included in the original article shows that financial performance can be affected by internal and external financial conditions. In the footwear manufacturing context, profitability may also be affected by production costs, operational efficiency, and other financial factors. The previous study by Napilah and Ramdani (2025) found that exchange rate fluctuations had a negative relationship with ROA, NPM, and ROE, although the effects were statistically insignificant. This finding indicates that profitability is influenced by multiple factors and supports the need to examine internal financial variables such as liquidity and solvency.

Based on these theoretical perspectives and previous findings, liquidity measured by Current Ratio is expected to have a positive effect on financial performance measured by ROA, because sufficient liquidity supports operational activities and the fulfillment of short-term obligations. Conversely, solvency measured by Debt to Assets Ratio is expected to have a negative effect on ROA because higher debt dependence may increase financial risk and financing costs. Therefore, this study proposes the following hypotheses:

H1: Liquidity (Current Ratio) has a positive effect on financial performance (Return on Assets).

H2: Solvency (Debt to Assets Ratio) has a negative effect on financial performance (Return on Assets).

H3: Liquidity and solvency simultaneously affect financial performance.

3. METHODS

This study uses a quantitative research approach to examine the effect of liquidity and solvency on the financial performance of footwear manufacturing companies in Indonesia. The research focuses on three financial variables: liquidity as the independent variable, solvency as the second independent variable, and financial performance as the dependent variable. The data used in this study are secondary quantitative data in the form of financial information. The research data consist of 30 observations representing the financial conditions of footwear manufacturing companies. The data were analyzed using descriptive statistical analysis and multiple linear regression with the assistance of statistical software.

A. Variable Measurement

Liquidity is measured using the Current Ratio (CR), which indicates the company's ability to meet its short-term obligations. The Current Ratio is calculated as follows:

$$CR = \text{Current Assets} / \text{Current Liabilities} \times 100\%$$

Solvency is measured using the Debt to Assets Ratio (DAR), which indicates the proportion of company assets financed by debt. The formula is:

$$DAR = \text{Total Debt} / \text{Total Assets} \times 100\%$$

Financial performance is measured using Return on Assets (ROA), which reflects the company's ability to generate profit from its total assets. The formula is:

$$ROA = \text{Net Income} / \text{Total Assets} \times 100\%$$

B. Data Analysis

The analysis consists of descriptive statistics, classical assumption tests, and multiple linear regression analysis. Descriptive statistics are used to describe the minimum, maximum, mean, and standard deviation of each research variable. Before conducting regression analysis, classical assumption tests are performed, including the normality test,

multicollinearity test, and heteroskedasticity test. These tests are conducted to ensure that the regression model meets the basic statistical assumptions.

Multiple linear regression is then used to examine the effect of liquidity and solvency on financial performance. The regression model is formulated as follows:

$$ROA = \alpha + \beta_1 CR + \beta_2 DAR + \varepsilon$$

where:

ROA = Financial Performance

α = Constant

β_1, β_2 = Regression coefficients

CR = Liquidity

DAR = Solvency

ε = Error term

The t-test is used to determine the partial effect of liquidity and solvency on financial performance, while the F-test is used to examine their simultaneous effect. The coefficient of determination (R^2) is used to determine how much of the variation in financial performance can be explained by liquidity and solvency.

4. RESULTS AND DISCUSSION

This section presents the results of the analysis regarding the effect of liquidity and solvency on the financial performance of footwear manufacturing companies in Indonesia. The analysis includes descriptive statistics, classical assumption tests, multiple linear regression, and hypothesis testing. The results are presented as follows.

A. Descriptive Statistics

Descriptive analysis was conducted to provide an overview of the research variables, namely Current Ratio (CR), Debt to Assets Ratio (DAR), and Return on Assets (ROA).

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
R	30	121.8	232.4	178.1	32.84
DAR	30	37.9	66.2	49.97	7.77
ROA	30	4.73	10.89	7.79	1.68

The results show that the average CR is 178.10%, DAR is 49.97%, and ROA is 7.79%. These results indicate that the companies generally have adequate liquidity and utilize debt as part of their asset financing.

B. Classical Assumption Test

Before conducting regression analysis, classical assumption tests were performed to ensure that the regression model was appropriate. The normality test produced a significance value of 0.200, indicating normally distributed residuals. The multicollinearity test showed VIF values of 1.091, indicating no multicollinearity. The heteroskedasticity test also produced significance values above 0.05, indicating that the model did not experience heteroskedasticity.

C. Multiple Regression and Hypothesis Testing

Multiple linear regression was used to examine the effect of liquidity and solvency on financial performance.

Table 1. Descriptive Statistics

Variable	Coefficient	t-value	Sig.
Constant	12.193	6.02	<0.001
CR	0.016	2.82	0.007
DAR	-0.139	-4.67	<0.001

The regression equation is $ROA = 12.193 + 0.016 CR - 0.139 DAR$. The results show that CR has a positive and significant effect on ROA, with a significance value of 0.007. This indicates that better liquidity can support operational activities and improve financial performance. Meanwhile, DAR has a negative and significant effect on ROA, with a significance value below 0.001. This suggests that greater dependence on debt may increase financial costs and reduce profitability.

The simultaneous test shows an F-value of 18.45 with a significance value below 0.001. Therefore, liquidity and solvency simultaneously have a significant effect on financial performance. The R^2 value of 0.576 indicates that 57.6% of the variation in ROA can be explained by CR and DAR, while the remaining 42.4% is explained by other factors. Overall, the findings indicate that effective liquidity management contributes positively to financial performance, while excessive debt dependence may negatively affect profitability.

5. CONCLUSION AND LIMITATION

A. Conclusion

This study concludes that liquidity and solvency significantly affect the financial performance of footwear manufacturing companies in Indonesia. Liquidity measured by Current Ratio (CR) has a positive and significant effect on Return on Assets (ROA), indicating that adequate liquidity supports operational activities and profitability. Meanwhile, solvency measured by Debt to Assets Ratio (DAR) has a negative and significant effect on ROA, suggesting that excessive dependence on debt may reduce financial performance.

Simultaneously, liquidity and solvency have a significant effect on financial performance, with an R^2 of 57.6%.

B. Limitations

This study has several limitations. First, the analysis uses a limited number of observations, which may restrict the generalization of the findings. Second, the study only examines liquidity and solvency as independent variables, while other factors such as sales growth, asset turnover, operational efficiency, production costs, and exchange rate fluctuations may also influence financial performance. Future research is therefore recommended to use a larger sample and include additional financial and operational variables.

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