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Financial Ratios and Corporate Governance's Impact on Financial Performance in the Indonesian Stock Market: The Case in Manufacturing Industry

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

Aims: Here to determine how financial ratios in this case, liquidity and leverage ratios along with an examination of corporate governance in this case, institutional and management ownership affect the company's financial performance.

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Study Design: The population of the study consists of 194 manufacturing-related companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2021 period. The data for this study came from the company's annual report.
Methodology: The method used to gather the data was purposeful sampling. For this inquiry, 36 businesses served as samples. The conventional assumption test, multiple regression analysis, model fit test, and hypothesis testing are tested using the analytical tool Eviews 12.
Results: Given that managerial ownership, institutional ownership, and liquidity ratios are the variables affecting the company's financial performance, the analysis' findings show that only one hypothesis—the impact of the leverage ratio on the company's financial performance—is supported, whereas H2, H3, and H4 are not.

Keywords: Financial ratios; leverage; liquidity; managerial ownership; institutional ownership; financial performance.

1. INTRODUCTION

To attract more potential investors to the company, businesses must maintain and improve their financial performance. Measuring financial success is crucial before making an investment because investors who fund a company undoubtedly anticipate a profit. For managers, gauging financial success is crucial since it allows them to choose the best course of action for the business moving forward. Manufacturing is one industry that needs to improve its financial performance. Considering that businesses in the manufacturing sector account for the largest share of the country's GDP (Kemenperin.go.id), One of the causes of the collapse of numerous businesses, including the manufacturing industry, is the occurrence of the COVID-19 outbreak. Manufacturing PMI (Purchasing Managers' Index) fell from a level of 51.9 in February 2020 to 45.3 in March 2020, and then sharply to its lowest level of 27.5 in April 2020, indicating the beginning of the nation's manufacturing industry's significant decline. With the exception of the medical device and pharmaceutical industries, several percent of the manufacturing industry sector had experienced a decline in production capacity of up to 20 percent, according to an official government statement released by the ministry of industry in April 2020 (Kemenperin.go.id).

Nevertheless, throughout the previous year, the operational conditions of the country's industrial sector have improved. This is reflected in the Indonesian Manufacturing Purchasing Managers' Index (PMI), which rose from 51.3 to 51.7 in August 2022. The Indonesian Manufacturing PMI continues to show improvement, in contrast to other Asian countries like South Korea (down from 49.8 in July 2022 to 47.6) and Japan (52.1 in July 2022 to 51.5). Based on this incidence, manufacturing companies must give enhancing their financial performance top priority. When picking an investment, investors take into account a variety of aspects. One of these important factors is the financial performance of the company. It is possible to tell whether a firm is functioning well by looking at its financial report. Although there are many factors that could affect financial performance, this study will concentrate on the implications of financial ratios, including an examination of corporate governance and ratios that reflect the degree of leverage, such as liquidity and solvency.

The first factor that can affect financial performance is liquidity. The liquidity ratio is a ratio that assesses a company's ability to meet its immediate obligations. As a company's cash level increases, so will its capacity to meet its immediate obligations. Liquidity ratios show a company's ability to pay down its short-term debt. According to Wulandari et al. [1], liquidity has a positive effect on financial performance. A business can be sure it has adequate liquidity if it can turn assets into cash without losing value. As a result, the business can complete its commitments right away and keep operating its assets to their full potential. According to Hanie [2], management can use liquidity by determining if a firm can make its payments by the deadlines established by parties outside the company. Research by Anam [3], Elizabeth and Sugiarto [4], Wulandari et al. [1], and Yuliani [5] is in agreement with the findings of this study. As opposed to studies by Dahlia [6], Arisanti [7], Silitonga and Manda [8] that claim liquidity has a detrimental impact on financial performance.

Leverage is the second factor that might affect financial success. The leverage ratio determines how much of a company's assets are capital or debt and can be utilized to evaluate a company's

position and liabilities. Because it is believed that businesses with significant levels of financial leverage manipulate their financial statements. It resulted in subpar performance since the business was unable to fulfill its duty to make timely debt payments. According to research by Erawati and Wahyuni [9], a company's financial performance will suffer if it has a lot of liabilities. Long-term utilization of debt acquired through loans will not be beneficial for the business. Predicting the company's future success will be more challenging for the management. Erawati and Wahyuni [9], concludes that leverage has a detrimental impact on financial performance. Suvvari et al.[10], Elizabeth and Sugiarto [4], Ramli et al. [11], Wiariningsih et al. [12], Kustiani et al. [13], AMKC [14], and this research all follow in the footsteps of those studies. The findings of this study are different from those of studies by Diah et al. [15] and Ningsih and Wuryani [16], both of which claim that leverage has a favorable impact on financial performance. In a similar vein, research by Widyastuti [17] shows that leverage does not materially harm a company's financial success.

The third factor that could affect financial performance is managerial ownership. According to research by Nurhidayah [18], it will be able to oversee a corporation if there is a significant amount of management ownership. The manager, who is also a shareholder and a corporate supervisor, wants reports to be produced that have relevant information and can be properly accounted for in order for the firm's financial performance to improve. The management of the company will naturally improve performance as their ownership of shares increases. According to research by Nurhidayah [18], management ownership improves a company's financial success. According to research by Diah et al. [15], Leatemia et al. [19], Novitasari et al. [20], and Wendy and Harnida [21], this study is in line with those studies. According to research by Erawati and Wahyuni [9] and Wiariningsih et al. [12], financial performance is negatively impacted by management ownership. The results of this study conflict with those of other investigations.

The final aspect that can impact financial performance is institutional ownership. According to Novitasari et al. [20], the institutional ownership structure will improve financial performance because management control will be more effective if an institution controls the company. Institutional ownership is one of the entities that can control a firm. However, if institutional ownership increases, financial performance will deteriorate. They exclusively rely on the management of the company and are not involved in important policy decisions. According to research by Erawati and Wahyuni [9], institutional ownership has a negative effect on financial performance. These findings suggest that institutional ownership is ineffective at monitoring financial performance and that the level of share ownership by agencies has no bearing on the success of the company. This study also complies with studies by Gurdyanto et al. [22], Wendy and Harnida [21], Situmorang and Simanjuntak [23], Wiariningsih et al. [12], Hendratni et al. [24]. According to research by Novitasari et al. [20], Wardaya and Dhelo [25], Nurhidayah [18], and Ningsih and Wuryani [16], Financial performance benefits from institutional ownership. The results of this investigation are at odds with previous ones. The objective of this study is to examine financial data and studies of corporate governance in connection to the financial performance of manufacturing companies listed on the Indonesia Stock Exchange.

2. LITERATURE REVIEW

The theories used in this investigation were agency theory and signaling theory. Signaling was first developed by Spence [26]. Signals are actions that provide clues to investors about how management views a company's future. The signaling theory contends that managers act in current shareholders' best interests and have access to more information about potential investment opportunities at their organization than do investors [27].

Research by Wulandari B, et al. [1] indicates that liquidity has a favorable impact on financial performance. If a corporation can convert assets into cash without suffering an impairment, that company is said to have strong liquidity. As a result, the business may complete its duties right away and keep improving its operational assets. According to Hanie [2], managers can employ liquidity by evaluating a firm's capacity to pay its debts as they mature, as judged by parties outside the organization. According to earlier studies, liquidity has a favorable impact on a company's financial performance, including those from Anam [3], Elizabeth and Sugiarto [4], Wulandari B, et al. [1], Yuliani [5], and Suvvari et al. [10]. Thus, the initial hypothesis that this investigation suggests is as follows:

H1. Liquidity has a positive effect on financial performance.

To determine how much of a company's assets are financed by stock or debt, or by both, the leverage ratio is used to determine the firm's financial status and liabilities. Companies with significant amounts of debt relative to their own assets are suspected of falsifying data in reports due to the danger of default, which has the negative effect of resulting in mediocre economic performance since the company is unable to satisfy its commitments to pay its debts on time.

According to research by Erawati and Wahyuni [9], performance of a company's finances will suffer if it has a lot of liabilities. Long-term utilization of debt acquired through loans will not be beneficial for the business. Predicting the company's future success will be more challenging for the management. Previous studies have shown that leverage includes those from Kustiani et al. [13], Somita et al. [28], Rahmatin and Kristanti [29], AMKC [14], and that have a negative effect on a company's financial performance. The second hypothesis this study suggests is the following in light of the results of past research:

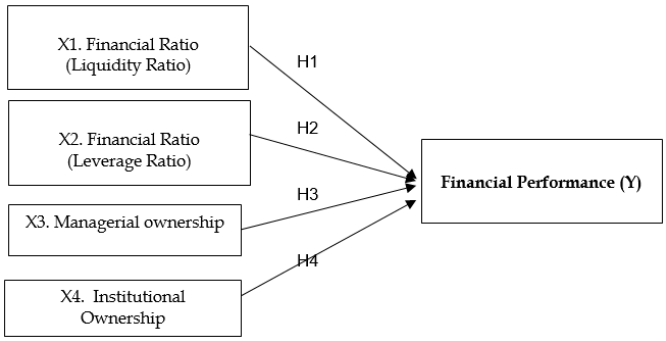
H2. Leverage has a negative effect on financial performance.

Jensen and Meckling [30] who first used the term, defined agency theory as a theory of divergent interests between principals and agents. The contractual arrangement between owners, or shareholders, and management, or managers, is the foundation of agency theory. This idea contends that, due to competing interests, the relationship between owners and managers is intrinsically difficult to establish. There is a chance that agency theory will serve as the foundation for creating effective corporate governance. When a company's management is cut off from the owner, agency issues develop. Agency theory explains the connection between institutional ownership and performance. Significant institutional ownership suggests the capacity to oversee management. The more institutional ownership a firm has, the more effectively its assets are used, and it is thought that this will avoid managerial waste. (Lisaime & Sri, 2018).

According to Nurhidayah [18], a firm can be monitored more effectively if it has a large percentage of managerial ownership. Because the manager also serves as the company's shareholder and supervisor, he or she wants the reports that are submitted to have pertinent data and be accounted for in order to enhance the business's financial performance. Nurhidayah [18] found that managerial ownership increases a company's financial success. As their ownership of shares grows, the management of the company will inevitably perform better. According to earlier studies by Diah et al. [15], Leatemia et al. [19], Novitasari et al [20], managerial ownership has a positive effect on the financial success of the organization. The third hypothesis that this investigation raises is as follows:

H3: Managerial ownership has a positive effect on financial performance.

Novitasari et al. [20] assert that if an institution owns the company, the institutional ownership structure will improve financial performance because it will encourage an increase in more effective management supervision. Institutional ownership can serve as a party that oversees the company; however, the performance of the company declines as institutional ownership increases. They don't contribute to any major policies and just rely on the firm's management.



Picture 1. Research framework

Erawati and Wahyuni [9] research found that institutional ownership has a negative effect on financial performance. These results imply that institutional ownership is poor at tracking financial performance and that the proportion of shares held by agencies that are owned by the company has no affect on its financial performance. This assertion is supported by research from Situmorang and Simanjuntak [23], among others, which indicates that institutional ownership has a negative impact on the company's financial performance.

> H4: Institutional ownership has a negative effect on financial performance.

Based on the formulation of the aforementioned hypothesis, the research's conceptual framework can be pictured as follows Picture 1.

3. METHODS AND DATA

This research was quantitative in nature, with a population of 194 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the years 2019 to 2021. The sample for this study, which comprised a manufacturing firm, was chosen via purposeful sampling. Businesses whose shares are actively traded on the Indonesian Stock Exchange include manufacturing companies. 36 companies were multiplied by the three years of research to yield the 108 companies that made up the sample used in this study. The list of sample selection criteria utilized is as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2021 timeframe
2. Manufacturers for the 2019–2021 period using comprehensive and consistent financial reporting
3. Companies that publish their financial information in rupiah (IDR)
4. Profitable manufacturing companies between 2019 and 2021.

Secondary data gathering approaches are used in the data collection strategy for this project. The technique of data collection for this study was documentation, namely the gathering of financial report papers in the form of company annual reports that were made available on www.idx.co.id, the Indonesia Stock Exchange's official website. The dependent variable in this study is return on assets (ROA), which measures financial performance. Leverage, as measured by the debt-to-equity ratio (DER), liquidity, as measured by the current ratio (CR), and components of corporate governance, as measured by management ownership and institutional ownership, make up the independent variables [31].

3.1 Dependent Variable

To determine how well a company has implemented its financial implementation strategy utilizing proper and acceptable financial implementation guidelines, financial performance is elaborated on and researched. Return on assets, which shows how well firm assets are used to produce net income, is the ratio used to gauge financial success. According to Hanafi and Halim [32], the indicator formula for calculating return on assets is as follows:

$$\text{ROA} = \frac{Net\ Income}{Total\ Assets} \quad (1)$$

3.2 Independent Variable

The liquidity ratio, sometimes referred to as independent variable liquidity, gauges a company's capacity to meet its immediate obligations. Kasmir [33] claims that a firm's ability to fulfill its commitments at maturity, including those with both internal and external parties (company liquidity), is demonstrated or quantified by using the liquidity ratio. According to Hanafi and Halim [32], the current ratio is calculated using the following formula:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities} \quad (2)$$

Leverage is a source of funding that companies obtain through loans. The company uses this funding to finance its assets. Excluding other funding sources such as capital or equity. The indicator formula used to determine leverage [32] is as follows:

$$Debt\ to\ Eduity\ Ratio = \frac{Total\ Liabilities}{Total\ Equity} \quad (3)$$

An internal party who serves as the firm's management and owns shares is said to have managerial ownership. The fact that this manager owns shares will improve the informational balance between management and shareholders. so that it can lessen the issues with agency theory. [9] The following formula can be used to calculate managerial ownership:

$$Managerial\ Ownership = \frac{Number\ of\ Managerial\ Shares}{Number\ of\ Shares\ Outstanding} x100\% \quad (4)$$

Governments, financial institutions, international institutions, legal entities, and other institutions make up a portion of a company's stockholders. Institutional ownership demonstrates the impact of shareholders on business financial reporting performance. The financial drive and voice of these financial organizations to oversee management increase with institutional ownership. As a result, it may give management more motivation to improve business performance. [9] The calculation below can be used to determine institutional ownership:

$$Institutional\ Ownership = \frac{industrial\ investor\ stock}{outstanding\ shares} x\ 100\% \quad (5)$$

A process for analyzing data. Researchers performed several experiments on the data in order to analyze it. The researcher performed a descriptive statistical test on each variable to determine its data features. The established hypothesis is tested in this study using multiple linear regression analysis with the EViews 12 application. In order to test the hypothesis, it is necessary to select the best regression model from the Common Effect Model (CEM), Fix Effect Model (FEM), Random Effect Model (REM), CEM, and FEM tests, analyze the Hausman test results by contrasting the models FEM and REM, and then carry out the lagrange multiplier (LM) test, if required. This study did not require the standard assumption tests (normality tests and autocorrelation tests) mentioned by Imam [34] and Gujarati [35] because it employed panel data and had a sample size of more than 30. To ascertain the level of correlation between the variables, multiplicity tests were applied. Additional tests for multiple regression were run.

4. RESULTS

The analyses listed below have been broken down into the steps outlined in the study procedure. Since all of the necessary data and information have been gathered, the next step is to process it using the Eviews 12 application. Each variable can be succinctly represented using descriptive statistics based on the outcomes of data processing as follows:

Table 1 (which summarizes the data from the 108 samples during the three years of observation in this study) was created through the examination of descriptive statistics. Based on the results of this analysis, it is known that the liquidity ratio, the first variable, has a range from 0.874816 to 206.8642, an average value of 4.650318 and a standard deviation of 19.8374065, meaning that every unit of current debt is backed by 4650 units of current assets. The liquidity variable is heterogeneous, as seen by the higher than normal standard deviation value. PT Aneka Gas Industri Tbk (AGII) companies had a minimum value of 0.8748 in 2019. Businesses at PT Duta Pertiwi Nusantara Tbk (DPNS) will have a maximum value of 206.8642 in 2020 in the meantime.

The second independent variable, leverage, is homogeneous and has a mean value of 70.3%, a maximum value of 2.0239, a minimum value of 0.0650, a standard deviation of 42.9%, and a value of 42.9% that is less than the average. The minimum valuation for businesses at PT Indonesia Fibreboard Industry (IFII) in 2021 will be 0.0650. A company's highest valuation at PT Gajah Tunggal Tbk (GJTL) in 2019 is 2.0239. The average degree of leverage for Indonesian manufacturing companies is 70.3%, which indicates that their total debt is 70.3% greater than their total equity.

According to the descriptive analysis table, the third independent variable, managerial ownership, has a range of 0.000157 to 0.4842, an average of 0.107979, and a standard deviation of 0.1347211. Given that the standard deviation value is larger than the average, the institutional ownership variable is varied. PT Mulia Boga Raya (KEJU) is one of the companies having a minimum value of 0.0002 in 2019 and 2020. PT Ultra Jaya Milk and Trading Company (ULTJ) is one of the companies with a maximum value of 0.4842 as of 2021. The third independent variable, institutional ownership, has a standard deviation of 0.2062056 and a range of 0.07125 to 0.9406 with an average value of 0.624575. The institutional ownership variable is homogenous since its standard deviation is lower than the average. In 2019, 2020, and 2021, companies at PT Gaya Abadi Sempurna Tbk (SLIS) have a minimum value of 0.0713. In 2019 and 2020, companies at PT Sekar Laut Tbk (SKLT) can have a maximum value of 0.9406.

4.1 Chow Test

Which model is better is decided using the results of the Chow test, which contrasts the performance of the common effect model and the fixed effect model. Based on the cross-section F probability value (p), making judgments The common effect model is the one that has been selected if P > 0.05. But if p = 0.05, the fixed effect model is the one that is applied [36,37].

Table 1. Descriptive statistics analysis result

	N	Maximum	Minimum	Mean	Std. Dev
Liquidity	108	206.8642	0.874816	4.650318	19.83741
Leverage	108	2.023924	0.065038	0.703571	0.428649
Managerial Ownership	108	0.484192	0.000157	0.107979	0.134721
Institutional Ownership	108	0.940569	0.071250	0.624579	0.071250
ROA	108	0.363620	0.000407	0.069626	0.063301
Observation	108				

Source: Processed data (EViews 12)

Table 2. Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	10.369260	(35,68)	0.0000
Cross-section Chi-square	199.413818	35	0.0000

Source : processed data (EViews 12)

According to the Chow test table above, the null hypothesis is disregarded because the two cross-sectional F probability values and the Chi square are both less than alpha 0.05. The model that uses the fixed effect method is the most successful, as shown by these results. Following the results of the Chow test, which disproved the null hypothesis, the data were subjected to further analysis using the Hausman test.

4.2 Test Hausman

The Hausman test was used to compare or decide which of the fixed effect models and the random effect models is the best. Making choices based on the probability value (p) of a random cross-section If p is greater than 0.05, the random effect model is the preferred option. But if p 0.05, the Fix Effect Model should be used.

Based on Table 3, the Hausman test above, it can be inferred that the chosen model is the Random Effect Model because the cross section random value has a value of p> 0.05, or 0.542.

4.3 Test for Lagrange Multipliers (LM)

The LM test was designed to determine whether the Random Effect model is superior to the Common Effect (OLS) method and to check whether the results from earlier tests using the Fixed Effect and Random Effect Models were consistent.

Table 4's output results show that the null hypothesis is rejected since the Breusch-Pagan (BP) probability value of 0.0000 is less than the alpha value of 0.05. The Random Effect Model is the optimal model to utilize, according to the LM test.

4.4 Classic Assumption Test

This study only examines the multicollinearity test for the traditional assumption test in order to determine the correlation between the variables. Since this is panel data with more than 30 companies making observations, the normality test and autocorrelation test were not performed.

Table 5 demonstrates that the Centered VIF value for both X1 and X2 is 1.036369 where the value is less than 10, indicating that the prediction model is free of multicollinearity issues.

4.5 Regression Test

The results of the research showed that of the four X factors used, only the leverage variable, which has a probability value of 0.0115, significantly impacted the company's financial performance. If the number is more than 0.05 and the likelihood value is 0.2299, it is likely that the liquidity ratio has no bearing on the financial performance indicator for the organization. The managerial ownership and institutional ownership variables do not significantly affect financial performance, despite having a direction that is consistent with the hypothesis, as shown by the managerial ownership variable's probability value of 0.9769 > 0.05 and the institutional ownership variable's probability value of 0.5622 > 0.05.

The following equation describes the multiple linear model with the random effect model:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$$

$$ROA = 0.113 - 0.0002CR - 0.0361DER + 0.0021MO - 0.028IO$$

Table 3. Hausman test result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.097717	4	0.5416

Source : processed data (EViews 12)

Table 4. Lagrange multiplier test result

Test Hypothesis			
	Cross-section	Time	Both
Breusch-Pagan	58.76669	0.986653	59.75334
	(0.0000)	(0.3206)	(0.0000)

Source : processed data (EViews 12)

Table 5. Multicolinearity test

	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	0.000861	26.66039	NA
LIKUIDITAS	8.71E-08	1.109851	1.051525
LEVERAGE	0.000191	4.000521	1.075619
KM	0.002905	2.665624	1.617092
KI	0.001205	16.12915	1.572061

Source : processed data (EViews 12)

Table 6. Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.113244	0.038186	2.965594	0.0038
Liquidity	-0.000209	0.000179	-1.167554	0.2457
Leverage	-0.036056	0.014364	-2.510203	0.0136
Managerial Ownership	0.002058	0.070923	0.029021	0.9769
Institutional Ownership	-0.028016	0.048180	-0.581486	0.5622

Source : processed data (EViews 12)

5. DISCUSSION

Based on the findings of the aforementioned analysis, a discussion may be conducted that offers some specific information about the findings of the study and how each variable affects the other variables. The following will be a discussion of each theory:

5.1 Liquidity's Impact on Financial Performance

Liquidity has no bearing on financial performance, according to the study's conclusions based on the regression table, with a t value of -1.207535 at a significance level of 0.2294.. As a result, the second hypothesis—that liquidity improves financial performance—is unsupported. This demonstrates that the company's increased liquidity has not been able to influence how financial performance is disclosed. If the current ratio is excessively high, it suggests that the company has extra assets, whereas a low current ratio is typically seen to signify a problem with liquidation. According to (Diana dan Osesoga et al., 2020), this will demonstrate the amount of idle funds that could ultimately lower the company's profit.

The corporation's ability to pay short-term liabilities (debt) is revealed by the liquidity ratio. A company is more likely to be able to pay its debt commitments if it has a high liquidity ratio. The ability or capacity of the company's profit will be negatively impacted by a substantial liability (debt) that the company owns [33]. so that investors might benefit from the signal theory's signal. However, the test results show that liquidity has a negligible effect on a company's financial performance. This goes against signaling theory since liquidity cannot provide investors with a signal to aid in their decision to invest. The results of this study are consistent with those of Dahlia [6], Arisanti [7], Silitonga and

Manda [8], who did not discover a relationship between liquidity and financial performance.

5.2 The Effect of Leverage on Financial Performance

The results of the study based on the regression table show that leverage considerably and negatively affects financial performance with a t value of -2.570929 at a significance level of 0.0115. As a result, the original theory that leverage has a negative effect on financial performance is confirmed. This could imply that how the company discloses its financial performance is influenced by the amount of debt it has. As debt levels increase, the company's financial performance will deteriorate [13].

This is associated with the signaling theory, which, according to Spence [26], explains the significance of data that businesses provide to third parties for use in investment decision-making. The company's financial performance will suffer if its obligations are substantial. Long-term utilization of debt acquired through loans will not be beneficial for the business. Forecasting the company's future trajectory will be harder for the management to do [9]. The results of this study support the findings of numerous other studies that show that leverage has a negative effect on financial performance, such as those by Somita [28], Wiariningsih et al. [12], Kustiani et al. [13], Rahmatin and Kristanti [29], AMKC [14], and (Anandamaya dan Hermanto, 2021).

5.3 The Effect of Managerial Ownership on Financial Performance

Study by Erawati and Wahyuni [9] showed no association between managerial ownership and financial success, and the analysis of evaluating this hypothesis supported their findings. These results support research by Wiariningsih et al. [12], which found no connection between managerial ownership and financial success.

5.4 The Effect of Institutional Ownership on Financial Performance

Because institutional investors are unable to carry out their oversight responsibilities in a way that prohibits them from having an impact, the study's findings indicate that institutional ownership has no effect on a company's financial performance. Novitasari et al. [20], Wardaya and Dhelo [25], Nurhidayah [18], and Ningsih and Wuryani [16] investigations found no relationship between institutional ownership and financial performance.

6. CONCLUSION

In general, the goal of this study is to ascertain how corporate governance and financial ratios impact the financial performance of manufacturing companies listed on the Indonesian Stock Exchange. The results of the above data analysis show that the first, third, and fourth hypotheses analysis are unsupported (not supported), as the other independent variables, such as the variable liquidity ratio, managerial ownership, and institutional ownership, have no effect on the company's financial performance. The impact of the leverage ratio on business financial performance, one of the four hypotheses put forth, is the only one that is supported.

The analysis's conclusions indicate that whether debt levels are high or low will have a big influence on investors' choices when it comes to making investments. The signaling hypothesis, which contends that a situation or piece of information from a corporation will have a major impact on investor views, is consistent with this finding. Investors will also want to predict a company's performance by examining evidence of the amount of corporate debt. In this study, the liquidity ratio is also employed to assess a company's performance along with the leverage ratio. The profitability of manufacturing companies is not considerably impacted by liquidity ratios. This is because many companies have surplus assets that aren't being utilised for investments or business operations. Excess assets do not necessarily mean that a company is profitable (increasing its financial performance), and vice versa.

Results from an analysis of managerial ownership and institutional ownership of corporations, which measure corporate governance, are consistent with agency theory, which explains the conflict between majority and minority shareholders. Due to the size of this shareholding's share of the company's total share ownership, it is likely that the majority of institutions will act unfavorably toward the interests of minority shareholders in favor of their own, leading to an imbalance. Agency theory holds that managers' ownership of stock can enhance a company's financial performance because it will advance both their and

shareholders' interests, giving them a direct say in decision-making. However, the institutional ownership variable produces results that are in opposition to agency theory.

In general, this study serves as an example to the reader that not all businesses that have a high level of liquidity (excess assets) also offer a high level of profit and that the leverage ratio, which displays a business' level of debt, does not always indicate poor performance. This means that the financial measures employed will become a standard in decision-making, both from an internal company perspective and from the perspective of an investor, and will be highly helpful in anticipating the state of the firm's fundamentals.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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