Enhancing Financial Performance: A Conceptual Paper

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ABSTRAK

Corporate financial performance is a widely researched topic due to its significant influence on economic growth. Many factors influence improved financial performance, such as capital structure, liquidity, and firm size. Therefore, in this study, capital structure, liquidity, and firm size serve as independent variables to examine their influence on the dependent variable, namely the financial performance of furniture and textile manufacturing companies listed on the Indonesia Stock Exchange. This study uses secondary data, namely financial reports for the 2020-2024 period, with a population of 25 companies. Using a purposive sampling method, 20 companies were selected and analyzed using panel data regression. This study will contribute to the literature on corporate financial performance by examining the growth of furniture and textile manufacturing companies in maintaining their existence amidst dynamic economic challenges.

Keywords : *Financial performance perusahaan, furniture, tekstile.*

INTRODUCTION

A company's financial performance is a common phenomenon that is always linked to the state of the national economy, even the global economy. In the furniture and textile manufacturing sub-sector, where sales markets are dominated by exports, global economic shocks will impact company performance. A company's capital structure that relies more on external capital in such an unstable economy carries a high risk. This will also affect the company's liquidity because disrupted sales will reduce the company's cash flow, thus reducing the company's ability to repay its short-term debt. Under these conditions, the company's financial performance becomes unhealthy, causing investors and creditors to withdraw their trust in providing capital funding to the company. In 2025, one of Romania's largest furniture manufacturers, Taparo SA, went bankrupt. This furniture manufacturer is highly dependent on the global market, with 80% of its production dependent on exports https://www.romania-insider.com. The 2020 COVID-19 pandemic, rising logistics costs caused by the 2021-2023 container crisis, and the trade war with competing countries offering affordable prices led to a decline in Taparo SA's sales, resulting in a drastic decline in the company's financial performance. The company became illiquid, meaning it could no longer finance its operations and debts. A similar situation occurred in Indonesia, with PT Sri Rejeki Isman Tbk, a textile manufacturing company, experiencing a similar situation in 2025.

The furniture and textile manufacturing industry is a labor-intensive industry that employs a large workforce. With the current dynamic global economic conditions, many furniture and textile companies have collapsed. Medium- and small-scale companies are most affected due to limited capital and resource management capabilities, making them unable to maintain their financial performance. Company size influences financial performance in various ways (Saeful Fachri et al., 2024). A company's financial performance will improve if its capital structure is efficient, its liquidity is balanced, and technological innovation is successfully implemented in medium- and small-scale companies. Research on company financial performance has been proven by Darma & Lidya (2024), who stated that capital structure, liquidity, and company size have a significant positive effect on company financial performance. Gunawan et al. (2022), Helda & Mawardi (2022), and Arisanti (2020) stated that capital structure and company size influence company financial performance. However, in research by Purwanti D (2021), company size does not affect company financial performance, and Haukilo & Widyaswati (2020) stated that capital structure does not affect company financial performance. Saeful Fachri et al., (2024) stated that company size has a significant negative effect on the company's financial performance, different from the findings of Putu Yumi et al., (2024) who revealed a significant positive effect on the company's financial performance. Anindita & Noegroho, (2021) stated that liquidity has a significant effect on the company's financial performance, but in the findings of Sabeth Sembiring, (2024) liquidity has no effect on the company's financial performance.

This research contributes to the literature on corporate financial performance across various company scales and sectors. Furthermore, it can provide useful references for investors, creditors, and the wider public, aiding in decision-making. Furthermore, this research can be developed to broaden the body of knowledge on corporate financial performance.

By understanding a company's financial performance and evaluating its financial performance, factors influencing its decline and improvement can be detected early, enabling the company to maintain its stability and avoid bankruptcy.

Based on the background presented, the research questions are as follows:

1. Does capital structure affect a company's financial performance?

2. Does liquidity affect a company's financial performance?

3. Does company size affect a company's financial performance?

Literature Review
Signaling Theory

Signaling theory refers to financial decisions made by management to send signals about a company's prospects to investors or other stakeholders (Brigham & Brigham, 1973). A positive signal is typically illustrated by a company's decision to increase debt, which is done because management is confident in the company's ability to generate profits in the future. Fiana et al. (2022) state that a superior company will send positive signals to the market, both directly and indirectly.

Company Financial Performance

Company financial performance is the result of achievements that indicate a company's financial health, as seen in the company's financial statements (Lestari et al., 2019). Factors influencing financial performance include capital structure, liquidity, company size, operational efficiency, and sales growth. Financial performance can be used as a primary indicator and strategic factor for company sustainability, attracting new investors and retaining existing ones (ERYANTO & SURYANTO, 2018).

Capital Structure

Capital structure is a key financial decision and determines how a company finances its assets through the balance of liabilities and equity (Gul & Cho, 2019). It is crucial for companies to align and direct their various assets to maximize value for company growth and achieve optimal returns. This is in line with the company's objectives, with a capital structure that supports long-term growth strategies to increase company value and minimize the cost of capital.

Liquidity

Horne and Wachowicz (2009) define liquidity as a company's ability to convert its assets to meet its obligations. Liquidity can detect a company's level of financial security, thus assisting management in making financial decisions, particularly regarding cash management for operating capital. High liquidity indicates management's inability to capitalize on existing investment opportunities to increase company profitability, while low liquidity increases the risk of default on short-term debt payments (Saeful Fachri et al., 2024).

Company Size

Company size is a classification of companies into three scales: large, medium, and small, which can be seen from the number of assets owned and the amount of profit (Tremblay et al., 2016). Company size can determine the level of a company's financial performance because the larger the company, the greater the company's ability to manage resources, the level of efficiency, and profit generation. This is driven by the ease with which large companies can obtain capital (Wibowo, 2021). Investors and creditors base their capital provision decisions on the number of assets owned and the level of profit generated. The limitations faced by medium- and small-scale companies make them vulnerable to external factors. By classifying companies based on the number of assets and profit, companies can determine their economic capacity and strength and assess their ability to generate profits.

Hypothesis
Capital Structure and Corporate Financial Performance

Capital structure is the composition of a company's capital mix used to finance business management activities to generate profit. A company's use of capital, whether from internal or external sources, will positively or negatively impact its financial performance. This is in line with the trade-off theory explained by Setiawati & Putra (2015), which states that the use of external capital will force a company to balance the benefits and costs of using debt to achieve an optimal capital structure. An efficient capital structure can increase a company's profitability. Therefore, it can be concluded that capital structure influences a company's financial performance. This is in line with research by Darma Riswan & Lidya Martha (2024), which states that capital structure has a positive and significant effect on a company's financial performance.
H1: Capital structure influences a company's financial performance

Liquidity and Corporate Financial Performance

Liquidity, as measured by the current ratio, illustrates a company's ability to repay its short-term debt using its current assets. Fajaryani & Suryani (2018) argue that a high level of corporate debt will reduce the company's liquidity. A high liquidity value indicates suboptimal resource management, which reduces the company's profitability. A low liquidity value indicates a company's low ability to repay its short-term debt. Liquidity theory emphasizes the need for sufficient liquidity to maintain a balance between the two, thus maintaining and improving the company's financial performance. This has been demonstrated in research by Darma Riswan & Lidya Martha (2024), who found that liquidity has a positive and significant effect on the company's financial performance.
H2: Liquidity affects the company's financial performance.

Company Size and Financial Performance

Company size reflects asset ownership, resource management, and market power. Large companies have easier access to capital and greater efficiency in operational management. If a company can consistently and effectively optimize its assets, its financial performance will continue to improve. This is in line with the liquidity theory proposed by Brigham, E. F., & Houston, J. F. (2019), which states that large size is a signal of company strength and stability. This has been demonstrated in research by Darma Riswan & Lidya Martha (2024), which found that company size has a positive and significant effect on financial performance.
H3: Company size influences financial performance.

Empirical Research Model

Based on the theoretical explanation of the research, the dependent variable is Financial Performance and the independent variables are Capital Structure, Liquidity, and Company Size. Based on the theoretical foundation and previous research, the following empirical research model was created:

Picture 1. Research Model

RESEARCH METHODS

The population in this study was furniture and textile manufacturing companies listed on the Indonesia Stock Exchange in 2020-2024.
The sampling method used in this study was purposive sampling, with the following criteria:
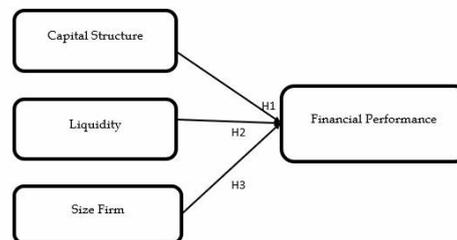
1.   Furniture and textile manufacturing companies listed on the Indonesia Stock Exchange in 2020-2024.
2.   Furniture and textile manufacturing companies listed on the Indonesia Stock Exchange published financial reports in the observation year.
3.   Furniture and textile manufacturing companies listed on the Indonesia Stock Exchange in 2020-2024 had complete data during the observation period.

This research is a causal study because it tests hypotheses related to the relationship between the influence of one or more variables, more than one, on one or more other variables. This research model was developed to identify and integrate the variables determining company financial performance, involving capital structure, liquidity, and company size. The model was empirically tested.

Measurement Method

The variables in this study consist of independent variables, namely capital structure, liquidity, and company size, and the dependent variable, namely company financial performance.

Company Financial Performance

Company financial performance is the results of achievements that indicate a company's financial health, as seen in the company's financial statements (Lestari et al., 2019). Company financial performance is measured by analyzing the Return on Equity (ROE) financial ratio to assess the company's ability to utilize its resources to generate returns on equity. ROE is calculated using the following formula:

ROE = Earning After Tax (EAT) Total
　　　　Equity

Capital Structure

Capital structure is a key decision in finance and determines how a company finances its assets through the balance of liabilities and equity (Gul & Cho, 2019). This study uses the Debt to Equity Ratio (DER) to measure capital structure. The Debt to Equity Ratio (DER) is used to assess debt versus equity. DER is calculated using the following formula:

DER=　Total Liability
　　　　Total Equity

Liquidity

Liquidity is a company's ability to convert its assets to meet its obligations (Horne and Wachowicz 2009). In general, liquidity describes a company's ability to pay its short-term debts in a timely manner. In this study, liquidity is measured using the Current Ratio (CR), which can be calculated using the following formula:

CR=　　Current Asset
　　　　Current Liability

Company Size

Company size is a classification of companies into three scales: large, medium, and small, which can be seen from the number of assets owned and the amount of profit (Tremblay et al., 2016). In this study, company size was calculated using the following formula:

Size Firm = Ln Total Asset

Data Collection Plan

The type of data used in this study is secondary data obtained from www.idx.co.id. The secondary data is the financial reports of furniture and textile manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2024 period.

Data Analysis Plan

All hypotheses were processed using panel data regression analysis. This study was conducted to determine the effect of independent variables on the dependent variable. Panel data regression analysis was used to determine whether a hypothesis was accepted or rejected. The significance level used was 5%. The estimated statistical model was the best model and free from deviations from classical assumptions (Hadya et al., 2018). The equation is as follows:

$$ROE_{it} = \alpha + \beta_1\,DER_{1it} + \beta_2\,CR_{2it} + \beta_3\,SIZE_{3it} + e_{it}$$

Keterangan :

α = Konstanta

β = Koefisien dari masing-masing variabel independen
ROE = Return on Equity
DER = Debt to Equity Ratio
CR = Current Ratio
SIZE = Firm Size
e = Standard Error

Conclusion

A company's financial performance is the result of a company's achievements through management over a specific period. Financial performance is useful for assessing the company's financial condition and serves as a basis for management decisions to improve the effectiveness and efficiency of the company's operations. Financial performance serves as the basis for assessment by investors and creditors when determining capital provision. Therefore, it is crucial for companies to analyze their financial performance to identify weaknesses and deficiencies, thus preventing the company from the brink of bankruptcy, as experienced by Taparo SA and PT. Sri Rejeki Isman, Tbk.

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