

THE EFFECT OF EFFICIENCY, MARKET RATIO, LIQUIDITY AND LEVERAGE ON FINANCIAL PERFORMANCE: EVIDENCE FROM JAKARTA ISLAMIC INDEX 70 (JII70)

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Abstract

Companies listed in the Jakarta Islamic Index 70 (JII70) provide a unique research context because they operate within an Islamic capital market framework that applies sharia screening criteria and financial requirements. Despite being guided by the same sharia principles and regulatory environment, JII70 companies still show variations in financial performance. Although previous research has examined the factors that affect financial performance, empirical evidence regarding the influence of efficiency, market ratios, liquidity, and leverage still shows inconsistent results, particularly in companies that comply with sharia principles. Therefore, this study aims to analyze the influence of efficiency, market ratio, liquidity, and leverage on the financial performance of companies listed on JII70 by using Return on Assets (ROA) as a performance indicator. This study uses a quantitative approach by utilizing secondary data obtained from the annual reports of 57 non-financial companies during the period 2021–2025, resulting in 285 company-year observations. Panel data regression analysis was performed using the Fixed Effects model with Driscoll–Kraay error standard to overcome the problems of heteroscedasticity and autocorrelation. The results show that efficiency measured by Total Asset Turnover (TATO) and market ratio measured by Price-to-Book Value (PBV) have a positive and significant effect on financial performance. Meanwhile, liquidity measured by Current Ratio (CR) and leverage measured by Debt-to-Asset Ratio (DAR) have a positive but not statistically significant effect on financial performance. The findings of this study support the Signaling Theory by showing that efficiency and market ratio provide stronger signals regarding company quality and financial performance in the context of the Islamic capital market in Indonesia. These findings provide practical implications for managers in improving company performance as well as for investors in making more informed investment decisions.

Keywords: Efficiency; Financial Performance; Liquidity; Leverage; Market Ratio.

1. INTRODUCTION

The increasing complexity of the global capital market and business competition have made financial performance an important indicator for the sustainability and competitiveness of companies. Companies must be able to utilize resources efficiently, maintain liquidity and optimize capital structures to achieve profitability and meet stakeholder expectations

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(Alfarah et al., 2026). In the ASEAN region, financial performance reflects managerial effectiveness in the face of increasing economic uncertainty and competitive pressures (Sambuaga et al., 2026). These challenges are particularly relevant to the Islamic capital market in Indonesia, where companies are required to maintain strong financial performance while complying with sharia principles. Therefore, understanding the factors that influence corporate financial performance remains important (Azzah et al., 2025; Putri et al., 2026). This condition shows that profitability is greatly influenced by the company's ability to utilize available resources and its operational efficiency (Rido et al., 2026). Despite operating within the same regulatory framework, companies listed in the Jakarta Islamic Index 70 (JII70) still show varying performance, indicating the importance of internal financial and operational capabilities in achieving sustainable business success.

Table 1 illustrates the sharp contrasts in financial market returns across various industries within this index, highlighting why uniform external conditions do not guarantee uniform corporate success.

Sector	Index Weight (%)	Month-to-Date (MTD)		Year-to-Date (YTD)	
		Rank	Point	Rank	Point
Basic Materials	23.6	10	-0.78	11	1.03
Consumer non-cyclicals	20.0	11	-1.56	2	-1.02
Energy	14.4	2	0.85	1	-3.75
Infrastructure	13.4	6	0.07	8	0.17
Health	10.2	4	0.37	4	-0.06
Industrials	6.0	1	1.29	10	0.69
Consumer Cyclicals	5.8	3	0.62	5	-0.00
Property & Real Estate	4.5	5	0.17	9	0.31
Finance	4.2	7	0.03	3	-0.08
Technology	-	8	0.02	6	0.02
Transportation & Logistics	-	9	-0.02	7	0.03

Source: (IDX INDEX FACT SHEET JII70, 2023) Proceed Data, 2026

Table 1 presents the sector composition and market performance of the Jakarta Islamic Index 70 (JII70) based on the IDX Index Factsheet published in February 2023. This index is dominated by the Basic Materials (23.6%), Consumer Non-Cyclicals (20.0%), Energy (14.4%), and Infrastructure (13.4%) sectors. Although all companies operate on the same basis of sharia principles and regulatory frameworks, market performance between sectors shows differences. For example, the Energy sector recorded a month-to-date (MTD) yield of 0.85%, but experienced a year-to-date (YTD) yield of -3.75%, while the Basic Materials sector showed the opposite pattern. These differences indicate that external market conditions alone are not able to explain the variation in company performance. Therefore, this study uses Return on Assets (ROA) as a measure of financial performance because ROA

reflects the company's ability to generate profits from the total assets owned and shows the effectiveness of management in utilizing company resources.

The pattern suggests that a larger proportion in the JII70 index does not necessarily correlate with better company performance, so the presence of a company in the index alone cannot explain the difference in performance between firms. This variation emphasizes the importance of examining the specific financial characteristics of a company that affect profitability. Therefore, Return on Assets (ROA) is used as a measure of financial performance because it reflects a company's ability to generate profits from the total assets it owns. The ability of companies to utilize assets efficiently, maintain adequate liquidity levels, achieve good market valuations, and manage funding through debt has been recognized as a fundamental factor in maintaining financial performance (Alfarah et al., 2026). Therefore, the assessment of efficiency is important because it reflects how effectively a company utilizes its assets to generate profits, while market ratios show how the market assesses the company's future prospects. Liquidity reflects a company's ability to meet short-term liabilities and maintain operational activities, while leverage represents funding decisions that can affect financial risk and profitability. Differences in the fundamental characteristics of companies continue to affect the performance of companies that comply with sharia principles, even though they operate in the same regulatory environment (Prabowo & Ananta Vidada, 2026).

Based on the previous discussion, there are still several research gaps that need to be studied. Previous research has shown inconsistent results regarding the effect of efficiency, liquidity and leverage on financial performance. Some studies report a significant influence, while others show insignificant results (Augustpaosa Narima, 2022; Ayu Diah Astuti, 2025; Cahyani et al., 2024; Indika et al., 2026). Meanwhile, empirical evidence on the role of market ratios is still relatively limited, especially in companies that comply with sharia principles. In addition, most previous studies have analyzed those financial factors separately, rather than in a single, integrated analytical framework. Research that specifically focuses on companies listed in the Jakarta Islamic Index 70 (JII70) is also limited, although the sharia capital market in Indonesia continues to grow. Therefore, this study examines the influence of efficiency, market ratio, liquidity, and leverage in an integrated manner on the financial performance of companies listed in JII70 to provide more comprehensive empirical evidence regarding the financial factors that determine the company's performance in the Indonesian Islamic capital market.

This research contributes to the development of literature from two perspectives, contextual contribution and theoretical contribution. From a contextual perspective, this study presents the latest empirical evidence regarding factors related to financial performance in companies that are members of the Jakarta Islamic Index 70 (JII70) during

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the period 2021–2025. By focusing on companies that meet sharia principles, this study enriches empirical evidence regarding the determinants of financial performance in the context of Indonesia's sharia capital market which is still relatively limited compared to research on conventional capital markets. From a theoretical perspective, this study expands the empirical application of Signaling Theory by evaluating the extent to which efficiency, market ratio, liquidity and leverage function as signals that reflect the quality of the company and financial performance. Therefore, this study provides additional empirical evidence that provides the understanding of the application of Signaling Theory in the context of companies listed in the Indonesian Islamic capital market.

Signaling Theory explains that companies reduce information asymmetry by conveying signals about quality and future prospects to stakeholders (Spence, 1973). According to (Tahara et al., 2026), investors are increasingly considering signals that reflect the organization's internal capabilities and readiness to create value in the future. In the capital market, efficiency, market ratio, liquidity, and leverage are important indicators of a company's financial condition. Previous research shows that efficiency and market ratios have a positive effect on financial performance because they reflect the effectiveness of resource management and good market perception (Ayu Yulanda & Napisah, 2025; Miswanto & Oematan, 2020). In addition, liquidity and leverage also provide signals regarding financial stability and risks that affect the company's performance (Abid et al., 2024; Diana & Osesoga, 2020). Thus, financial performance is influenced by the company's operational signals and financial signals.

This study analyzes the influence of efficiency, market ratio, liquidity, and leverage on the financial performance of companies listed in the Jakarta Islamic Index 70 (JII70) for the 2021–2025 period. This study provides empirical evidence regarding the role of operational, market, and financial factors in explaining the company's performance in the sharia capital market. By integrating the four variables in one analytical framework, this study provides a more comprehensive understanding of the factors that affect the company's financial performance

Financial performance reflects a company's ability to generate profits through effective resource management (Wahyuni et al., 2023). According to Signaling Theory, financial performance is the result of the signals conveyed by a company through its financial and operational characteristics (Spence, 1973).

Efficiency reflects a company's ability to make optimal use of resources to improve revenue and financial performance. Previous research has shown mixed results. Several studies have found that Total Asset Turnover (TATO) has a positive effect on financial performance (Bakir & Sadersah, 2023; Khusna et al., 2024; Miswanto & Oematan, 2020; Rachman et al., 2023) while (Dewanti et al., 2025) reported an insignificant influence. Based

on Signaling Theory, efficiency is a signal of management's ability to manage resources effectively to create value for the company.

In addition, the market ratios reflect investors' perceptions of a company's prospects and are measured using Price to Book Value (PBV). Previous research has shown mixed results. Several studies have found that market ratios have a positive effect on financial performance (Julianti et al., 2025; Magdalena et al., 2024; Sayidul et al., 2026) while (Dera et al., 2025) reported an insignificant influence. Meanwhile, (Anjelita et al., 2025) show that better financial performance is able to increase market valuation. These inconsistencies indicate that the relationship between market ratios and financial performance is conditional and does not occur automatically. Based on the perspective of Signaling Theory, market ratios contribute to financial performance by communicating information about the quality of a company and its future prospects to stakeholders.

Similarly, Liquidity reflects the company's ability to meet short-term obligations and maintain operational stability. Previous research has shown mixed results. Several studies have found that liquidity has a positive effect on financial performance (Cahyani et al., 2024; Diana & Osesoga, 2020; Manao & Dewi, 2025), while other studies reported negative or insignificant influences (Ahmad Abdelrahim DAHIYAT, 2021; Sanga et al., 2025; Zaskya & Ridwan, 2025). These conflicting findings suggest that the influence of liquidity on financial performance is nonlinear and depends on the company's level of efficiency. From the perspective of Signaling Theory, liquidity improves financial performance when it reflects the stability and flexibility of the company's finances, while excessive or unutilized liquidity can be a signal of inefficient resource management.

Leverage reflects the use of debt as a source of funding and is an indicator of a company's financial risk. The results of previous studies show that leverage generally has a negative effect on financial performance (Abid et al., 2024; Ahmad Abdelrahim DAHIYAT, 2021; Zaskya & Ridwan, 2025) although some studies have found an insignificant influence (Cahyani et al., 2024; Diana & Osesoga, 2020) as well as nonlinear relationships (Dsouza et al., 2025). These findings indicate that leverage has a threshold effect. From the perspective of Signaling Theory, leverage makes a positive contribution to performance only if the use of debt signals the company's growth opportunities, while excessive leverage signals increased financial risk.

Signaling Theory explains that companies with a higher level of operational efficiency provide positive signals regarding the company's managerial effectiveness and operational capabilities (Spence, 1973). Efficient asset utilization allows companies to improve profitability and financial performance through optimization of resource utilization. Therefore, more efficient companies tend to result in better financial performance. Previous studies have found a positive relationship between efficiency and financial performance.

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(Bakir & Sadersah, 2023; Khusna et al., 2024; Miswanto & Oematan, 2020; Rachman et al., 2023) found that a higher level of efficiency has a positive and significant effect on financial performance. Based on theoretical arguments and the dominance of supporting empirical findings this study expects a positive relationship between efficiency and financial performance.

H1: Efficiency has a positive effect on financial performance.

The market ratio reflects investors perceptions and expectations of the company's future prospects and profitability. According to Signaling Theory, market ratios function as market-based signals that communicate information about company quality, growth opportunities, and future performance to investors (Spence, 1973). A higher market ratio reflects investor confidence in the company's prospects. This trust encourages companies to maintain operational performance so that companies with higher market ratios are expected to have better financial performance. Empirical evidence suggests that market ratios are positively correlated with financial (Julianti et al., 2025; Magdalena et al., 2024; Sayidul et al., 2026) although (Dera et al., 2025) reported that the relationship was not significant. Therefore, this study expects market ratio to have a positive effect on financial performance.

H2: Market ratio has a positive effect on financial performance.

Liquidity reflects a company's ability to meet short-term obligations and maintain operational stability. According to Signaling Theory (Spence, 1973) companies with an adequate level of liquidity provide signals about healthy financial conditions, so that they are able to finance operational activities efficiently and take advantage of profitable investment opportunities, which ultimately improves financial performance. Adequate liquidity allows the company to meet short-term obligations and support smooth operations. Thus, companies that have a good level of liquidity are expected to be able to increase profitability and financial performance. Empirical evidence generally supports this relationship by showing that liquidity has a positive effect on financial performance (Cahyani et al., 2024; Diana & Osesoga, 2020; Manao & Dewi, 2025) although some studies report insignificant or even negative influences (Ahmad Abdelrahim DAHIYAT, 2021; Sanga et al., 2025; Zaskya & Ridwan, 2025). Therefore, based on theoretical arguments and the majority of supporting empirical evidence, this study expects liquidity to improve the financial performance of companies.

H3: Liquidity has a positive effect on the financial performance.

Leverage is an important indicator of a company's funding strategy and reflects the extent to which business activities are financed through debt. In Signaling Theory, leverage is seen as a signal of financial risk because excessive debt levels increase interest costs and the possibility of financial distress, which can negatively impact financial performance (Spence, 1973). High leverage increases the company's financial burden, reducing

operational flexibility and profitability. Therefore, companies with high levels of leverage tend to have lower financial performance. Previous studies have found that leverage has a negative effect on financial performance (Abid et al., 2024; Ahmad Abdelrahim DAHIYAT, 2021; Dsouza et al., 2025). Therefore, this study hypothesizes that leverage has a negative effect on financial performance.

H4: Leverage has a negative effect on the financial performance.

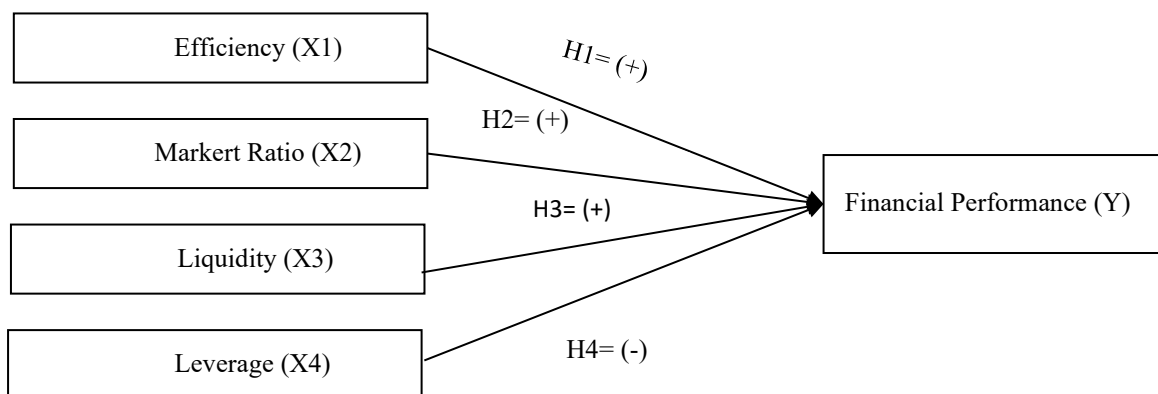


Figure 1. Theoretical Framework

The research framework illustrates the hypothesized relationships between efficiency, market ratio, liquidity, leverage, and financial performance. Efficiency X1 is expected to have a positive effect, as effective resource utilization enhances operational productivity and asset efficiency. Market ratio X2 is also hypothesized to positively influence financial performance, since favorable market perceptions signal strong growth prospects and investor confidence. Similarly, liquidity X3 is expected to have a positive impact because adequate short-term resources provide financial flexibility and operational stability. In contrast, leverage X4 is expected to negatively affect financial performance, as higher debt levels increase interest obligations and the risk of financial distress. Overall, this framework shows how operational efficiency, market perception, and financial structure collectively determine firm performance outcomes.

2. RESEARCH METHOD

This study uses a quantitative approach to analyze the influence of efficiency, market ratio, liquidity, and leverage on the financial performance of companies listed in the Jakarta Islamic Index 70 (JII70) for the 2021–2025 period. This approach was chosen because it allows the analysis of relationships between variables using numerical data and statistical techniques. The research population consisted of all companies registered in JII70 during the

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observation period, while the sample was determined using purposive sampling techniques based on certain criteria in order to obtain companies with complete and consistent annual report data. The data used is secondary data sourced from the company's annual report and the Indonesia Stock Exchange (IDX). Financial performance is used as a dependent variable, while efficiency, market ratio, liquidity, and leverage are independent variables.

Table 2. Research Criteria

No.	Sample Criteria	Total
1	Companies listed in the Jakarta Islamic Index 70 (JII70) during the period 2021–2025	70
2	Less: Companies operating in the financial sector	(3)
3	Less: Companies that did not publish complete annual reports or lacked the financial data required to measure the research variables for all observation years (2021–2025)	(2)
4	Less: Companies that reported negative Return on Assets (ROA) in one or more years during the 2021–2025 observation period	(8)
5	Final sample of companies meeting all selection criteria	57
6	Observation period	5
Total	Firm-year observations (57×5)	285

Source: Data Processed, 2026

Financial sector companies are excluded in this research because they have different financial and regulatory characteristics from non-financial companies. Companies that do not have a complete annual report are excluded because the research variables cannot be measured consistently throughout the observation period. In addition, companies with negative ROAs are issued to reduce the influence of extreme financial conditions and maintain a more comparable sample with companies that generate profits

Table 3. Operational Definition of Variables

Variable	Operational Definition	Measurement	Formula	References
Financial Performance (Y)	Financial performance describes the financial condition of a company and reflects its management effectiveness in utilizing assets to generate profit.	Return On Assets (ROA)	$ROA = \frac{\text{Net Income Before Tax}}{\text{Total Assets}} \times 100\%$	(Cahyani et al., 2024; Diana & Osesoga, 2020)
Efficiency (X ₁)	Efficiency reflects a firm's ability to utilize its resources effectively to generate revenue and profitability.	Total Asset Turnover (TATO)	$TATO = \frac{\text{Net Sales}}{\text{Total Assets}}$	(Bakir & Sadersah, 2023; Rachman et al., 2023)
Market Ratio (X ₂)	Market ratio reflects investors' perceptions and expectations regarding a firm's	Price to Book Value (PBV)	$PBV = \frac{\text{Market Price per Share}}{\text{Book Value Per Share}}$	(Nur Aisyah, 2026; Sayidul et al., 2026)

Liquidity (X ₃)	future prospects and profitability. Liquidity indicates the company's ability to meet its short-term obligations using its current assets and maintain financial stability.	Current Ratio (CR)	$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$	(Ahmad Abdelrahim DAHIYAT, 2021; Cahyani et al., 2024)
Leverage (X ₄)	Leverage refers to the extent to which a company relies on debt financing to support its operations and assets.	Debt to Asset Ratio (DAR)	$DAR = \frac{\text{Total Liabilities}}{\text{Total Assets}}$	(Abid et al., 2024; Ahmad Abdelrahim DAHIYAT, 2021)

Source: Data Processed, 2026

Data analysis was carried out using panel data regression to test the influence of efficiency, market ratio, liquidity, and leverage on the financial performance of companies listed in the Jakarta Islamic Index 70 (JII70) for the 2021–2025 period. This method was chosen because it combines cross-section and time-series data, so that it can provide a more comprehensive analysis of the relationships between variables.

The selection of regression models was carried out through the Chow Test, the Hausman Test, and the Lagrange Multiplier (LM) Test. The Chow Test is used to determine the Common Effect or Fixed Effect model, the Hausman Test is used to choose between Fixed Effect and Random Effect, while the LM Test is used to determine the Random Effect or Common Effect model. The best model obtained is then used as the basis for regression analysis and hypothesis testing.

The empirical model used in this study is specified as follows:

$$ROA_{it} = \alpha + \beta_1 EFF_{it} + \beta_2 MR_{it} + \beta_3 LIQ_{it} + \beta_4 LEV_{it} + \varepsilon_{it}$$

Where:

ROA_{it} = Financial Performance of company *i* in year *t*

α = Constant

β₁–β₄ = Regression coefficients

EFF_{it} = Efficiency of company *i* in year *t*

MR_{it} = Market Ratio of company *i* in year *t*

LIQ_{it} = Liquidity of company *i* in year *t*

LEV_{it} = Leverage of company *i* in year *t*

ε_{it} = Error term

i = Company entity

t = Time period

Data Analysis Techniques

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Data analysis was carried out using STATA software with a panel data regression approach. This method was chosen because it combines cross-section data from several companies with time-series data during the study period, allowing for a more comprehensive analysis of the influence of efficiency, market ratio, liquidity, and leverage on financial performance.

The stages of data analysis include:

1. Common Effect Model (CEM) estimation as an initial regression model.
2. Chow test, Hausman test, and Lagrange Multiplier (LM) test to determine the most appropriate panel data regression model.
3. Heteroscedasticity and autocorrelation tests were conducted to test the feasibility of the model and ensure the fulfillment of regression assumptions.
4. The t-test and the F-test to analyze the partial and simultaneous influence of independent variables on financial performance.
5. The coefficient of determination (R^2) to measure the model's ability to explain variations in financial performance.

3. RESULTS AND DISCUSSION

Table 4. Descriptive Statistical Test Results

Variable	Observations	Minimum	Maximum	Mean	Std. Deviation
Financial Performance (ROA)	285	0.0025	0.5851	0.1205	0.0990
Efficiency (TATO)	285	0.0091	3.8222	0.7053	0.5512
Market Ratio (PBV)	285	0.0816	6.6076	1.6755	1.3509
Liquidity (CR)	285	0.0281	9.5250	2.4023	1.7424
Leverage(DAR)	285	0.6350	0.8661	0.3950	0.1762

Source: Research Data (2026)

Table 4 presents descriptive statistics of the research variables based on 285 firm-year observations. The average financial performance value (ROA) of 0.1205 shows that on average, companies listed in the Jakarta Islamic Index 70 (JII70) are able to generate a return rate of 12.05% on the total assets owned during the research period. The standard deviation of 0.0990 indicates a moderate variation in financial performance between companies, while the minimum values (0.0025) and maximum (0.5851) indicate a considerable difference in profitability, reflecting variations in the company's operational efficiency and financial management.

The efficiency measured using Total Asset Turnover (TATO) has an average value of 0.7053 with a standard deviation of 0.5512, which indicates a moderate variation in the company's ability to utilize assets efficiently. The fairly wide range between the minimum value (0.0091) and the maximum value (3.8222) indicates that some companies are able to generate high sales from their assets, while others are using assets less efficiently, reflecting differences in operational effectiveness.

The average market ratio (PBV) is 1.6755, with a standard deviation of 1.3509, indicating considerable variation in market valuation among the sampled firms. The minimum (0.0816) and maximum (6.6076) value suggest substantial differences in investor perceptions implying that some firms are valued significantly higher than their book value whereby others receive relatively lower market valuations.

Liquidity measured using the Current Ratio (CR) has an average value of 2.4023 with a standard deviation of 1.7424, which indicates a considerable variation in the company's liquidity position. The minimum (0.0281) and maximum (9.5250) indicate that some companies have limited short-term liquidity levels, while others maintain a much higher level of current assets than their current liabilities, reflecting differences in working capital management.

The leverage measured using the Debt-to-Asset Ratio (DAR) has an average value of 0.3950, which indicates that about 39.50% of the company's total assets are financed through debt. The relatively low standard deviation, which is 0.1762, indicates that the variation in leverage between firms is smaller compared to other independent variables. However, the minimum (0.0635) and maximum (0.8661) values indicate differences in the company's funding strategy, ranging from conservative debt use to a relatively higher level of reliance on debt funding.

Table 5. Pearson Correlation Matrix Results

Variables	Financial Performance (ROA)	Efficiency (TATO)	Market Ratio (PBV)	Liquidity (CR)	Leverage (DAR)
Financial performance (ROA)	1.000				
Efficiency (TATO)	0.3861 0.0000	1.000			
Market Ratio (PBV)	0.3905 0.0000	0.1774 0.003	1.000		
Liquidity (CR)	0.2121 0.0003	-0.045 0.4473	0.1969 0.0008	1.000	
Leverage (DAR)	-0.2163 0.0002	0.1434 0.0154	-0.2868 0.0000	-0.5517 0.000	1.000

Source: Research Data (2026)

Table 5 presents the Pearson correlation matrix between the study variables. The results of the analysis showed that financial performance was positively correlated with efficiency (0.3861), market ratio (0.3905), and liquidity (0.2121), while leverage was negatively correlated (-0.2163). The relatively low correlation between independent variables indicates the absence of serious multicollinearity problems (Sarstedt, 2019). However, correlation analysis only shows relationships between variables and cannot explain causal relationships. Therefore, a regression analysis of panel data was carried out

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to test the influence of efficiency, market ratio, liquidity, and leverage on the financial performance of companies listed in the Jakarta Islamic Index 70 (JII70).

Test of Classical Assumptions

a. Normality Test

Table 6. Normality Test Results

Variable	Observations	Shapiro-Wilk Test Statistic	Transformed Statistic	Standardized Statistic	Pr (Skewness)	Adj Chi ² (2)	Significance (p-value)
Residual	285	0.9143	17.442	6.694	0.0001	39.15	0.0001

Source: Research Data (2026)

Residual normality tests were performed using the Shapiro–Wilk and Skewness/Kurtosis tests on 285 observations. The results of the Shapiro–Wilk Test showed a statistical value of 0.9143 with a p-value of 0.0001, while the Skewness/Kurtosis Test produced a Chi-square value of 39.15 with a p-value of 0.0001. Both results show that the residual is not normally distributed, so the null normality hypothesis is rejected.

b. Multicollinearity Test

Table 7. Multicollinearity Test Results

Variable	Tolerance	VIF
Efficiency (TATO)	0.927	1.079
Market Ratio (PBV)	0.868	1.153
Liquidity (CR)	0.693	1.442
Leverage (DAR)	0.638	1.567

Source: Research Data (2026)

Table 7 presents the results of the multicollinearity test. The tolerance values range from 0.638 to 0.927, while the VIF values range from 1.079 to 1.567. Since all tolerance values exceed 0.10 and all VIF values are below 10, the model is free from multicollinearity.

Heteroskedasticity Test

Table 8. Heteroskedasticity Test Results

Test	Chi-square Statistic	p-value	Decision
Modified Wald Test	70033.04	0.0000	Heteroskedasticity Present

Source: Research Data (2026)

Table 8 shows that the Modified Wald Test produced a Chi-square value of 70033.04 with a p-value of 0.0000 (< 0.05), so that the model experienced heteroscedasticity and the homoscedasticity hypothesis was rejected.

a. Autocorrelation Test

Table 9. Autocorrelation Test Results

Test	F Statistic	p-value	Decision
Wooldridge Test	17.858	0.0001	Autocorrelation Present

Source: Research Data (2026)

Table 9 shows that the Wooldridge Test yielded an F-value of 17.858 with a p-value of 0.0001 (< 0.05), so the model underwent autocorrelation and the hypothesis of no autocorrelation was rejected.

b. Cross-Sectional Dependence Test

Table 10. Cross-Sectional Dependence Test

Test	Pesaran Test Statistic	p-value	Decision
Pesaran Cross-Sectional Dependence	-0.377	0.7061	No Cross-Sectional Dependence

Source: Research Data (2026)

Table 10 shows that the Cross-Sectional Dependence Test yielded a statistical value of -0.377 with a p-value of 0.7061 (> 0.05), so there was no cross-sectional dependence in the regression model.

Panel Model Selection Tests.

a. Chow Test

Table 11. Chow Test Results

Statistic	F Statistic	p-value	Decision
Chow Test	13.26	0.0000	Fixed Effects Selected

Source: Research Data (2026)

The results of the Chow test showed an F value of 13.26 with a p-value of 0.0000 (< 0.05), so the Fixed Effects model was more suitable than Pooled Ordinary Least Squares (OLS).

b. Hausman Test

Table 12. Hausman Test Results

Test	Chi-square Statistic	p-value	Decision
Hausman	52.97	0.0000	Fixed Effects Selected

Source: Research Data (2026)

The Hausman test produced a Chi-square statistic of 52.97 with a p-value of 0.0000, which is below the 0.05 significance level. Therefore, the null hypothesis is rejected, indicating that the Fixed Effects model is more appropriate than the Random Effects model for this study.

c. Lagrange Multiplier (LM) Test

Table 13. Breusch–Pagan Lagrange Multiplier (LM) Test Results

Test	Chi-bar-square Statistic	p-value	Decision
Breusch–Pagan LM Test	218.32	0.0000	Random Effects Model

Source: Research Data (2026)

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The Breusch–Pagan Lagrange Multiplier (LM) test yielded a Chi-bar-square value of 218.32 with a p-value of 0.0000, indicating that the Random Effects model is more appropriate than the Pooled Ordinary Least Squares (OLS). However, since the LM test is only used to differentiate between the Random Effects and Pooled OLS models, the selection of the final model is based on the Hausman test. The significant results of Hausman's test show that the Fixed Effects model is the most appropriate model, so it is used in all hypothesis analysis and testing.

The selection of regression models was carried out through the Chow test, the Hausman test, and the Breusch–Pagan Lagrange Multiplier test, which indicated that the Fixed Effects model was the most appropriate specification. Diagnostic tests further revealed the presence of heteroscedasticity and autocorrelation, while the Pesaran CD test indicated no evidence of cross-sectional dependence. Therefore, the final estimation was conducted using the Fixed Effects model with Driscoll–Kraay standard errors to obtain robust statistical inference that is consistent in the presence of heteroscedasticity and autocorrelation.

Regression Analysis

Table 14. Results of the Fixed Effects Regression Using Driscoll–Kraay Standard Errors

Variable	Coefficient	Std. Error	t-value	p-value	Decision
Efficiency (TATO)	0.2482	0.0228	10.89	0.000	Supported
Market Ratio (PBV)	0.0118	0.0023	5.04	0.007	Supported
Liquidity (CR)	0.0092	0.0017	5.32	0.006	Supported
Leverage (DAR)	0.0413	0.0195	2.11	0.102	Not Supported
Model Statistics	N = 285	Groups = 57	Within R ² = 0.3988	F = 594.60	Prob > F = 0.0000

Source: Research Data (2026)

The regression results estimated using the Fixed Effects model with Driscoll–Kraay standard errors are presented in Table 14. The model is statistically significant, as indicated by the F-statistic (F = 594.60; Prob > F = 0.0000), suggesting that efficiency, market ratio, liquidity and leverage jointly influence the financial performance of companies listed in the Jakarta Islamic Index 70 (JII70). The within R² value of 0.3988 indicates that approximately 39.88% of the variation in financial performance is explained by the independent variables included in the model, while the remaining 60.12% is explained by firm-specific, industry-specific and macroeconomic factors not incorporated into this study. Although the explanatory power is moderate this is acceptable in firm-level financial performance studies because corporate profitability is influenced by numerous operational and external factors beyond those examined in this research. The final model was estimated using Driscoll–Kraay standard errors because the diagnostic test results showed heteroscedasticity and autocorrelation. This estimation approach results in robust statistical inference on both problems, thereby increasing the reliability of the estimation coefficient and hypothesis test results.

The results of the Hypothesis 1 (H_1) test showed that efficiency had a positive and significant effect on financial performance (coefficient = 0.2482; p-value = 0.000). These findings show that companies with higher Total Asset Turnover are able to utilize assets more efficiently to increase profitability. Based on Signaling Theory (Spence, 1973) asset efficiency is a positive signal regarding management capabilities and operational effectiveness, thereby increasing stakeholder confidence in the company's prospects. This finding is consistent with the studies of (Bakir & Sadersah, 2023; Khusna et al., 2024; Miswanto & Oematan, 2020) who reported that operational efficiency significantly improves financial performance. These studies consistently demonstrate that firms capable of utilizing their assets more productively are better positioned to enhance profitability by maximizing the effectiveness of available resources. Therefore, H_1 is supported.

Similarly, results of the Hypothesis 2 (H_2) test showed that the market ratio had a positive and significant effect on financial performance (coefficient = 0.0118; p-value = 0.007). These findings suggest that companies with higher Price-to-Book Value (PBV) tend to have better financial performance because they reflect investor confidence and positive growth prospects. Based on Signaling Theory (Spence, 1973), market ratios become signals of company quality and prospects that reduce information asymmetry and increase investor confidence. Firms receiving favourable market valuations are generally more capable of attracting investment and sustaining higher financial performance. This finding supports previous studies conducted by (Julianti et al., 2025; Magdalena et al., 2024; Sayidul et al., 2026) who concluded that market ratio positively influences financial performance. These studies suggest that favourable market valuations enhance investor confidence, facilitate access to capital, and strengthen firms' ability to achieve sustainable profitability. Therefore, H_2 is supported.

Likewise, the results of the Hypothesis 3 (H_3) test showed that liquidity had a positive and significant effect on financial performance (coefficient = 0.0092; p-value = 0.006). These findings show that adequate liquidity supports smooth operations and improves the company's ability to generate profits. Based on Signaling Theory (Connelly et al., 2011; Spence, 1973) liquidity is a signal of financial stability that increases investor confidence in the company's prospects. This finding is consistent with previous studies conducted by (Cahyani et al., 2024; Diana & Osesoga, 2020; Manao & Dewi, 2025) which found that liquidity significantly enhances financial performance. These studies indicate that firms maintaining adequate liquidity are better able to support operational activities, strengthen stakeholder confidence, and improve profitability through effective working capital management. Therefore, H_3 is supported.

In contrast, the results of the Hypothesis 4 (H_4) test showed that leverage had a positive but insignificant effect on financial performance (coefficient = 0.0413; p-value = 0.102). These findings show that the level of debt of Islamic companies has not had a meaningful

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impact on financial performance. Based on Signaling Theory (Connelly et al., 2011), leverage reflects the company's funding strategy, but in the context of JII70 it is not a strong enough signal compared to efficiency, market ratio, and liquidity in explaining the company's performance. This finding is consistent with previous studies by (Cahyani et al., 2024; Diana & Osesoga, 2020; Dimas Tegar Penggalih, 2025; Fernando & Yanti, 2024) who likewise reported that leverage has no significant effect on financial performance. These studies suggest that debt financing does not necessarily improve profitability unless borrowed funds are utilized efficiently to generate returns that exceed financing costs. Therefore, H₄ is not supported.

Overall, the results of the study show that the financial performance of companies listed in the Jakarta Islamic Index 70 is more influenced by efficiency, market ratio, and liquidity, while leverage has no significant effect. These findings strengthen the Signaling Theory by showing that these three factors provide stronger signals about the quality and prospects of a company than leverage. Therefore, companies that are able to efficiently manage assets, maintain good market valuations, and maintain adequate liquidity are likely to achieve better financial performance.

DISCUSSION

The results show that the financial performance of companies listed in the Jakarta Islamic Index 70 (JII70) is mainly influenced by efficiency, market ratio, and liquidity, while leverage does not have a significant effect on financial performance. Although all four financial ratios were tested simultaneously, only the three variables were shown to be significant in explaining variations in financial performance. These findings show that operational effectiveness, market valuation, and financial stability are more important factors than funding structures in determining a company's profitability.

Based on Signaling Theory efficiency, market ratio, and liquidity provide more credible signals regarding the company's quality because it reflects the company's management capabilities, financial stability, and growth prospects. In contrast, leverage does not provide a strong enough signal to influence investors' assessment of a company's financial performance, especially since JII70 companies generally implement more conservative funding policies.

Among all independent variables efficiency is the most dominant factor in influencing financial performance compared to other independent variables. Positive and significant coefficients indicate that companies that are able to utilize their assets more efficiently tend to generate higher profitability. This finding is supported by descriptive statistics that show an average Total Asset Turnover (TATO) value of 0.7053, while the variation in TATO values between companies reflects differences in the ability to manage assets productively. Mechanically, more efficient utilization of assets allows companies to generate greater sales without having to increase assets proportionately. This condition increases operational

effectiveness, reduces unproductive costs and ultimately increases the profit generated from the assets owned. Therefore, operational efficiency is one of the sources of competitive advantage for companies that are members of the Jakarta Islamic Index 70 (JII70).

These findings are in line with Signaling Theory (Connelly et al., 2011; Spence, 1973) which states that financial information can be a signal about the quality of the company to investors. A high level of efficiency reflects the management's ability to allocate and utilize the company's resources optimally. These positive signals increase investor confidence in the company's prospects, thereby supporting the increase in company value and the sustainability of financial performance.

The results of this study are consistent with the findings of (Khusna et al., 2024; Miswanto & Oematan, 2020; Rachman et al., 2023) who concluded that efficient utilization of assets contributes to increasing company profitability. However, this result is different from (Dewanti et al., 2025) who found that efficiency does not have a significant effect on financial performance. These differences are likely due to variations in industry characteristics, sample composition, research period, and operational complexity of the company. In the context of companies that are members of JII70, operational efficiency seems to have a more important role because companies are required to optimize the use of resources, maintain competitiveness, and continue to operate in accordance with sharia principles.

Overall, these findings show that investors not only consider the size of the assets the company has, but also the ability of management to turn those assets into productive and profitable performance. Thus, operational efficiency is an important indicator that reflects the quality of the company's management and plays a role in improving the financial performance of companies listed in the Jakarta Islamic Index 70.

The results of the study show that the market ratio measured using Price-to-Book Value (PBV) has a positive and significant effect on financial performance. These findings suggest that companies with higher market valuations tend to have better profitability because investors value the company as having higher growth prospects and the ability to create value. Descriptive statistics show an average PBV of 1.6755, which indicates that most of the companies in the Jakarta Islamic Index 70 (JII70) have a market value above their book value. The variation in PBV between companies also reflects differences in investor confidence levels and expectations.

These findings support the Signaling Theory (Spence, 1973), which explains that market valuation is a signal about the quality of a company and its prospects for future performance. A high PBV reflects investors' confidence in management's ability to create value and generate sustainable profits. This condition makes it easier for companies to access funding to finance productive investments so that they can improve financial performance.

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The results of this study are in line with (Anjelita et al., 2025; Julianti et al., 2025; Magdalena et al., 2024; Sayidul et al., 2026) who found that market valuation has a positive effect on financial performance. However, these results are different from (Dera et al., 2025) who reported that market ratios do not have a significant effect on financial performance. These differences are likely influenced by industry characteristics, research period, and sample composition. In JII70 companies, strong corporate fundamentals and compliance with sharia principles can strengthen PBV's role in supporting financial performance.

PBV reflects not only market perception of the company's value, but also describes investors' expectations of the company's ability to produce sustainable performance. Therefore, the market ratio is one of the important indicators that supports the improvement of a company's financial performance.

Liquidity has a positive and significant effect on financial performance. These findings show that companies with adequate liquidity levels are better able to meet short-term obligations while maintaining the smooth running of the company's operations. Descriptive statistics support these results with an average Current Ratio (CR) of 2.4023, which indicates that most of the companies in the Jakarta Islamic Index 70 (JII70) have sufficient current assets to meet their current obligations. The variation in CR values between companies also reflects differences in working capital management and financial flexibility.

Signaling Theory (Spence, 1973), explains that a good level of liquidity is a signal of financial stability and management's ability to manage short-term liabilities effectively. Companies with adequate liquidity are seen as having lower financial risk thereby increasing investor confidence. In addition, optimally managed liquidity allows companies to fund operational needs without disrupting productive activities, ultimately supporting increased profitability.

The results of this study are consistent with the findings of (Ayu Diah Astuti, 2025; Cahyani et al., 2024; Diana & Osesoga, 2020; Manao & Dewi, 2025) who concluded that adequate liquidity contributes to improving financial performance. However, these results are different from (Ahmad Abdelrahim DAHIYAT, 2021; Sanga et al., 2025; Zaskya & Ridwan, 2025) who found that liquidity has a negative or insignificant effect on financial performance. These differences are likely influenced by industry characteristics, sample composition, and differences in the company's liquidity management. In JII70 companies, liquidity appears to be managed at an optimal level so that the company is able to meet short-term obligations without reducing its ability to make productive investments.

The results show that liquidity reflects not only a company's ability to meet short-term obligations, but also describes the effectiveness of working capital management. Therefore, maintaining an optimal level of liquidity is an important factor in supporting operational continuity and improving the company's financial performance.

Leverage measured using the Debt-to-Asset Ratio (DAR) shows a positive but not significant influence on financial performance. These results indicate that the funding

structure through debt is not the main factor that determines the profitability of companies listed in the Jakarta Islamic Index 70 (JII70). Descriptive statistics show an average DAR of 0.3950, which indicates that most companies have relatively moderate levels of debt. Although there is variation in leverage between companies, the regression results show that the difference in debt levels is not followed by a significant difference in financial performance. Thus, the fourth hypothesis is not supported.

This finding can be explained through Signaling Theory (Connelly et al., 2011; Spence, 1973). Funding decisions through debt are not always perceived as a positive signal by investors. While moderate amounts of debt use may reflect management's confidence in a company's growth prospects, increased debt can also increase financial risk and funding burdens. As a result, investors tend to pay more attention to operational efficiency, market valuation, and liquidity than debt structure in assessing the company's prospects.

The results of this study are consistent with the findings of (Cahyani et al., 2024; Diana & Osesoga, 2020; Dimas Tegar Penggalih, 2025; Fernando & Yanti, 2024) which concluded that leverage does not have a significant effect on financial performance. However, these results differ from (Abid et al., 2024; Ahmad Abdelrahim DAHIYAT, 2021; Dsouza et al., 2025) who found that leverage negatively affects financial performance because it increases financial risk, payment burden and potential financial distress. These differences are likely influenced by industry characteristics, company funding policies, economic conditions, and the composition of the research sample. In JII70 companies, the application of sharia principles and a more conservative funding policy has led to relatively limited variations in the use of debt so that the influence of leverage on financial performance is insignificant.

Therefore, these findings suggest that debt levels alone are not enough to explain the difference in a company's financial performance. The impact of leverage is highly dependent on how the funds earned are managed and invested productively. The improvement in financial performance is more influenced by the effectiveness of the company's resource management than by the large proportion of debt used.

Overall, the results showed that the financial performance of companies listed in the Jakarta Islamic Index 70 (JII70) was more influenced by efficiency, market ratio, and liquidity, while leverage did not show a statistically significant influence. These findings indicate that operational capability, market valuation, and financial stability have a greater role in explaining financial performance compared to a company's funding structure.

The findings are in line with Signaling Theory, which explains that efficiency, market valuation, and liquidity provide stronger signals about a company's quality and performance prospects than funding decisions alone. In the context of Indonesia's sharia capital market, investors seem to be more considering operational performance and financial stability in

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assessing the company's prospects. Therefore, this study makes an empirical contribution by showing the importance of operational, market, and liquidity factors in explaining the financial performance of companies that are members of JII70.

From a practical perspective, companies need to prioritize improving operational efficiency, maintaining adequate liquidity levels, and maintaining investor confidence to support sustainable financial performance. Meanwhile, investors are advised to consider these factors along with the funding structure in evaluating the company's prospects. Further research can consider company-specific factors as well as other macroeconomic factors to gain a more comprehensive understanding of the determinants of financial performance.

4. CONCLUSION

This study aims to analyze the influence of efficiency, market ratio, liquidity, and leverage on the financial performance of companies listed in the Jakarta Islamic Index 70 (JII70) for the 2021–2025 period. The results show that efficiency, market ratio, and liquidity have a positive and significant effect on financial performance, while leverage has a positive but insignificant effect. These findings suggest that companies that are able to manage assets efficiently, maintain good market valuations, and maintain liquidity tend to have better financial performance.

Theoretically, this study supports the Signaling Theory by showing that efficiency, market ratio, and liquidity are stronger signals about the quality and prospects of a company than leverage. Practically, the results of this study indicate that management needs to prioritize improving operational efficiency, maintaining liquidity, and strengthening investor confidence to improve financial performance. For investors, these three indicators can be used as a basis for evaluating the long-term prospects of Islamic companies.

Despite its contributions, this study has limitations because it only uses JII70 companies during the 2021–2025 period and tests four financial ratios as determinants of financial performance. Therefore, further research is recommended to extend the observation period, using samples from other indices or countries, and adding variables such as corporate governance, company size, dividend policy, macroeconomic conditions, Environmental, Social, and Governance (ESG), or innovation capabilities to provide a more comprehensive understanding of the factors that affect financial performance.

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