

Financial Performance Efficiency: Determinants of Return on Invested Capital

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Abstract

With the growth of the capital market in Indonesia, stocks are an attractive investment option. The healthcare sector plays a crucial role in supporting public health services, making it highly sought after by investors. Inconsistency results from the fact that much previous research has created a knowledge gap in this field. This study aims to determine the effect of capital structure on the efficiency of financial performance, both partially and simultaneously, in healthcare sector companies from 2019 to 2021. Based on the EViews statistical analysis and testing results, the partial Self-Financing Ratio, Long-Term Asset Ratio, and Financial Leverage Ratio have no significant effect on financial performance efficiency. The Fixed Asset Ratio variable partially and significantly affects financial performance efficiency. The test results simultaneously show that the variables Self-Financing Ratio, Long-Term Asset Ratio, Financial Leverage Ratio, and Fixed Asset Ratio have a significant impact on financial performance efficiency. The novelty of this research lies in its use of the capital structure, which is proxied by the Self-financing Ratio (SFR), Long-term Asset Ratio (LAR), Financial Leverage Ratio (FLR), and Fixed Asset Ratio (FAR), across different company sectors and periods of the panel data. The implication from this analysis of these ratios and industry benchmarks can provide a more comprehensive picture of a company's financial health and ability to generate sustainable returns on its invested capital.

Keywords: Financial Performance Efficiency, Self-Financing Ratio, Long-Term Asset Ratio, Financial Leverage Ratio, Fixed Asset Ratio

1. Introduction

Many investors invest in companies that have been listed in the hope of obtaining greater returns than those in other sectors, one of which is the healthcare sector, which is in high demand among investors. The healthcare sector continues to grow in the capital market as the world faces a shocking Coronavirus outbreak. Investors must thoroughly assess the company before purchasing shares. Investors can use a company's financial performance to determine its quality. Investment decisions are related to the distribution of funds within and outside the company. Investment objectives aim to enhance shareholder prosperity by achieving high returns while maintaining a low level of risk (Saputri et al., 2016). Financial performance is a fundamental issue in a business, and all companies should strive for the best economic results. When assessing its operations' effectiveness, many factors affect a company's financial performance. Maximizing the company's operational activities is one factor that can impact financial performance. To carry out its operational

activities, the company requires funds. Sources of funds can be obtained from internal funds, namely, capital owned by the company. The company's external funds include long-term debt and short-term debt.

Internal funding is often the most accessible funding option for companies. Internal funding sources can be determined by the capital structure, such as from retained earnings (also called retained earnings), capital, and additional shareholder funds. These funding sources can be used for investments, dividend payments, and operational activities. The company's ability to manage its internal funds effectively will demonstrate good judgment in the eyes of investors. The easier it is for a company to gain investor credibility and the more internal funds, such as capital, it has to operate, the less likely it is to receive loans. Thus, the company's interest expense payments will decrease, which in turn can increase its profitability and vice versa (Lorenza et al., 2020). The company's ability to generate profitability is one of the key elements that can be used as a material assessment for

investors. The company's ability to generate profits from the funds invested in it and use them for its operations is one of the key returns on invested capital (ROIC). ROIC aims to evaluate how well the company can return investment capital through the profitability generated (Arisadi & Djazuli, 2013). Assessment of financial performance through ROIC can be seen from the composition of assets, liabilities, or debt, and capital owned by the company (Candraeni et al., 2013).

The novelty of this study is to measure the effect of internal sources of funds, namely capital structure, which is proxied by Self-financing Ratio (SFR), Long-term Asset Ratio (LAR), Financial Leverage Ratio (FLR), and Fixed Asset Ratio (FAR) to Financial Performance (FP) in healthcare sector companies listed on the Indonesia Stock Exchange (IDX). Based on the problems described by the researcher above, this presents an opportunity for researchers to conduct further investigation. The study aimed to determine the effect of capital structure on the efficiency of financial performance, both partially and simultaneously, in healthcare sector companies listed on the Indonesia Stock Exchange during the pandemic. The results of this study are expected to provide benefits in terms of adding theoretical insight. This research is also likely to serve as a reference for future studies. The results of this study are expected to make a valuable contribution as a reference for considering the company's financial performance when making investment decisions, which can be seen from the company's capital structure. This study examines the effect of Capital Structure, proxied by financial ratios, namely Self-financing Ratio (SFR), Long-term Asset Ratio (LAR), Financial Leverage Ratio (FLR), and Fixed Asset Ratio (FAR), on Financial Performance (FP), proxied by Return on Invested Capital (ROIC).

2. Theory, Literature Review, and Hypothesis

Trade-off Theory

This theory posits that the average company's funding is partially financed by both external and internal funds (Megawati et al., 2021). Trade-off Theory argues that companies can maximize financial performance by determining the optimal capital structure (Le et al., 2022). The optimal capital structure can be determined by the balanced costs and benefits of debt and equity (Efendi & Wibowo, 2017). Companies can also consider the Trade-off Theory. Companies with numerous assets will typically have smaller debt because they can utilize their assets to meet operational needs and the necessary funds (Rahmadani et al., 2019). Additionally, the company's assets can be used as collateral to secure loans or obtain external funding, allowing it to acquire more

assets. Therefore, the amount of external funds used for the capital structure will increase (Anggita & Suryawati, 2019).

Pecking Order Theory

This theory explains how to choose financing sources by comparing internal and external ones. (Antoni et al., 2016). Internal funds can be generated from the company's operational activities, while external funds are obtained through debt and the issuance of shares from external parties. This theory shows companies prefer internal funding through retained earnings and equity financing. Companies that generate high profits tend to use retained earnings as their primary source of funding or internal funding (Le et al., 2022). Myers stated that there are two rules proposed by the pecking order: first, utilizing internal financing, such as capital, and second, using debt or issuing safe securities if the first option is not feasible (Dao & Ta, 2020).

Financial Performance

One way to measure a company's financial performance is by using profitability ratios, namely, the ability of a company to generate profits. One indicator of profitability measurement is Return on Invested Capital (ROIC). ROIC is the return on capital invested in a business by measuring the rate of return obtained from capital invested in the investment (Damodaran, 2007). ROIC is an indicator that can be used to assess company profitability (Mardawiyah et al., 2021). ROIC measures how well and efficiently a company manages its capital to generate income. ROIC also has the maximum growth rate for businesses without external funding. Companies with high competition and ROIC advantages will be viewed favorably by investors (Baldwin, 2016).

Capital Structure

Decisions about the company's capital structure are crucial to optimising performance (Noviani et al., 2019). The ideal capital structure combines long-term loans with equity capital. With the right combination, the capital structure can be a strong foundation for the company (Antoni et al., 2016). In this study, researchers used four variables to represent Capital Structure: Self-financing Ratio (SFR), Long-term Asset (LAR), Financial Leverage Ratio (FLR), and Fixed Asset Ratio (FAR).

Self-financing

Companies can overcome financial constraints by accumulating internal funds, such as self-financing (Moll, 2014). In other words, self-financing involves sacrificing economic resources to acquire assets (Setyowati & Sawitri, 2021). Self-financing refers to capital provided by the owner and is embedded in the company for an uncertain period (Ginting & Silitonga, 2019). Self-financing refers to company funds from shareholders, comprising preferred and common shares, as well as retained earnings (Susanti &

Hidayat, 2015). Self-financing refers to the capital embedded within the company and utilized by the company to fund its operational activities (Susilowati et al., 2017). Research by Mahesarani (2015) suggests that self-financing impacts financial performance.

Long-term Asset

Long-term assets are a critical component owned by the company. Long-term assets are defined as assets with a life of more than one year that support company activities, enabling them to run effectively and efficiently, and achieve their goals (Chandra & Nurjanah, 2013). Long-term assets yield future benefits over an extended period (Nurhayati, 2013). Long-term assets are property (tangible) and intangible rights directly involved in producing goods and services, not for resale, and have a useful life of more than one year or one company operating cycle (Kozachenko, 2020). Thus, Long-term Assets are assets that generate income for the company over more than one reporting period, and the costs incurred for their acquisition are gradually recognized as expenses over the useful life of the assets (Ahmad, 2019).

Financial Leverage

Financial leverage measures using debt and equity to finance its assets (Enekwe et al., 2014). Financial leverage includes acquiring assets with funds obtained from creditors or shareholders (Hamid et al., 2015). Financial leverage shows how much equity can finance the company's assets (Ferrari, 2021). Financial leverage can be measured by the ratio of assets to the equity deposited by shareholders (Nasir, 2016). Financial leverage describes the company's ability to use its assets to increase potential income for shareholders (Widiyanti & Elfina, 2015). Strebulaev & Yang stated that a leveraged business has additional capital to finance its operations and expansion compared to an unleveraged business that relies solely on equity (Ahmed et al., 2018).

Fixed Asset

Fixed assets are one of the essential elements in carrying out the company's operating process. Fixed assets are tangible assets used to produce and provide goods and services for more than one period. Therefore, it can be concluded that fixed assets play a crucial role in supporting the company's survival (Fathmaningrum & Yudhanto, 2019). Fixed assets are an essential part of the merchandise production process that provide economic benefits to the company in the future and indicate their influence on company profitability (Kartikasary et al., 2021). Fixed assets enhance financial performance and aid companies in securing external financing (Cho et al., 2021).

Literature Review

Research by Dinh & Pham (2020) on the effect of

Capital Structure proxied by the Self-financing Ratio on Financial Performance (FP) with 30 samples of pharmaceutical companies listed on Vietnam's Stock Market. The Self-financing Ratio (SFR) influences Financial Performance (FP). The higher the proportion of SFR in company funding, the more financially independent the company is, which in turn affects its financial performance. In addition, this study also shows that Long-term Asset Ratio (LAR) influences FP. Qayyum & Noreen's (2019) research on the effect of SFR on FP using ten samples of banking companies from 2006-2016 shows that SFR affects FP. Research by Candraeni et al. (2013) on the effect of SFR on FP indicates that SFR has an impact on FP. In addition, research on the effect of SFR on FP was also conducted by Parvin et al. (2020), showing that SFR influences FP. In the study of V. C. Nguyen et al. (2019) on the effect of Financial Leverage (FLR) on FP using 58 samples of real estate companies consisting of 45 samples of companies listed on the Hochiminh Stock Exchange and 13 companies listed on the Hanoi Stock Exchange, it was found that FLR influences FP. Research conducted by Altahtamouni et al. (2022) on the effect of FLR on FP using 11 bank samples from 2010-2019, which are the main components of the leading stock index MT30, shows that FLR influences FP. Aloshaibat (2021) also investigated the effect of FLR on FP, using 25 samples randomly selected from financial companies listed on the Amman Stock Exchange. The results show that FLR influences FP. Prafitri et al. (2017) researched the Fixed Asset Ratio (FAR) effect on FP with six samples of oil palm plantation issuers on the Indonesia Stock Exchange from 2009 to 2015. Shows the results of the FAR affecting FP. Research by Arisadi & Djazuli (2013) on the effect of FAR on FP shows that FAR affects FP. In addition, research conducted by Kartikasary et al. (2021) regarding the effect of FAR on FP with 46 samples of consumer goods issuers listed on the Indonesia Stock Exchange. Shows that FAR affects FP.

Hypothesis Development

According to the Pecking Order Theory, companies generally prefer internal funding over external funding. Using own funds (Self-financing) rather than external funds, such as debt, will reduce the interest expense the company must bear. Self-financing can increase the company's net profit, which in turn enhances its profitability. According to Parvin et al. (2020), the self-financing ratio impacts financial performance.

H1: Self-financing Ratio (SFR) significantly affects Financial Performance

Long-term assets support company activities for more than one year, enabling them to run effectively and efficiently, and ultimately achieve their goals (Chandra & Nurjanah, 2013). One of the company's goals is to increase company profits. Dinh & Pham's research (2020) shows that Long-term Assets affect

Financial Performance.

H2: Long-term Asset Ratio (LAR) significantly affects Financial Performance

Financial Leverage shows how much the company can use its assets for its operational activities. Companies with numerous assets tend to use less debt because they can maximize the utilization of their assets. Dinh & Pham (2020) research shows that Financial Leverage affects Financial Performance.

H3: Financial Leverage Ratio (FLR) significantly affects Financial Performance

Fixed assets are an essential part of the company's operational activities that will provide economic benefits to the company in the present or future. So fixed assets are one of the indicators that support company performance, which will affect financial performance (Kartikasary et al., 2021). The results of Dinh & Pham's research (2020) show that FAR influences financial performance.

H4: Fixed Asset Ratio (FAR) significantly affects

Le et al. (2022) stated that companies can maximize financial performance by determining the optimal capital structure based on the Trade-off Theory. A company's capital structure is essential in maximizing performance (Noviani et al., 2019). Hung (2020) states that SFR, LAR, FLR, and FAR simultaneously impact financial performance.

H5: SFR, LAR, FLR, and FAR simultaneously have a significant effect on Financial Performance.

3. Research Methodology

This research uses quantitative methods with statistical calculations to analyse the effect of capital structure on financial performance. This research utilizes secondary panel data from financial reports of issuers in the healthcare sector (pharmaceuticals, providers of medical equipment and supplies, health service providers, and research in the health sector), covering the reporting period 2019-2021, sourced from the official website <https://www.idx.co.id/>. Researchers use the total sampling technique to determine the number of samples used in this research, where the entire population is considered to be the sample, and all individuals are measured or observed. Sampling is conducted using the purposive sampling technique, where researchers establish specific criteria for research purposes. The formula for each variable is as follows:

Return on Invested Capital (ROIC)

$ROIC = \text{Net Operating Profit After Tax} / \text{Invested Capital}$ (Ge & Xu, 2021), (Damodaran, 2007)

Self-financing Ratio (SFR)

$SFR = \text{Equity} / \text{Total assets}$ (Dinh & Pham, 2020),

(Candraeni et al., 2013), (Alcaide et al., 2021)

Financial Leverage Ratio (FLR)

$FLR = \text{Assets} / \text{Equity}$ (Altahtamouni et al., 2022), (Dinh & Pham, 2020), (Chen & Anh, 2020)

Long-term Asset Ratio (LAR)

$LAR = \text{Non-current asset} / \text{Total assets}$ (Dinh & Pham, 2020), (Alcaide et al., 2021)

Fixed Asset Ratio (FAR)

$FAR = \text{Fixed assets} / \text{Total Assets}$ (Kartikasary et al., 2021), (C. D. T. Nguyen et al., 2020), (Wardani & Subowo, 2020).

This research uses multiple linear regression analysis for hypothesis testing because it uses more than one independent variable (Figure 1). Researchers processed the data using statistical applications, such as EViews (Econometric Views) 12.0.

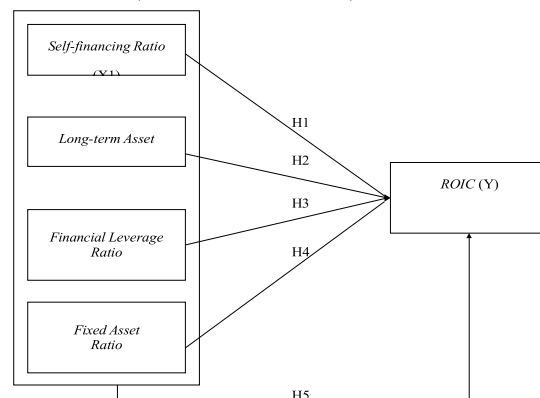


Figure 1: Variables Framework

4. Results and Discussion

Results

Classical Assumption Test

In the normality test output (Figure 2) the probability value obtained by Jarque-Bera is 0.676693, which means that the probability value of Jarque-Bera is greater than the significance value ($0.676693 > 0.05$). So, it can be concluded that the data is typically distributed.

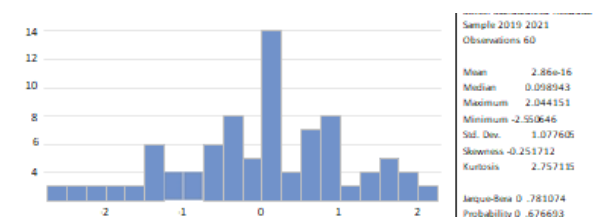


Figure 2: Normality Result Test

The VIF values (Table 1) are 6.840356 for the SFR variable, 3.967966 for the LAR variable, 6.745179 for

the FLR variable, and 3.870496 for the FAR variable, indicating that the values are smaller than 10. Therefore, it is concluded that there is no multicollinearity in this regression model.

TABLE I
MULTICOLLINEARITY RESULT TEST

Variable	Coefficient Variance	Centered VIF
SFR	3.037926	7.426663
LAR	1.764045	4.658372
FLR	0.175970	7.266036
FAR	1.575942	4.902864

The results of the heteroscedasticity test (Table 2), using the Glejser test, yielded an Obs*R-squared result of 0.3338, which is greater than 0.05. In the regression model, there are no signs of heteroscedasticity. The Durbin-Watson test results (Table 4) obtained a value of 1.799182. The Durbin-Watson value falls between -2 and +2, indicating that this model exhibits no autocorrelation. Using the Durbin-Watson criteria states that there is no autocorrelation if the Durbin-Watson value is between $-2 < DW < +2$.

TABLE 2
HETEROSCEDASTICITY RESULT TEST

Obs*R-squared	7.066469
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Regression Test

The output results (Table 3) of multiple linear regression equations so that the regression equation is obtained as follows:

$$\text{ROIC} = 2.04108398564 - 2.88707552245 \cdot \text{SFR} + 0.150437814589 \cdot \text{LAR} - 0.499668721522 \cdot \text{FLR} - 3.84331119416 \cdot \text{FAR} + e \quad (1)$$

Based on the regression equation obtained, it can be concluded as follows:

- The constant value shows several 2.04108398564, which means that if the independent variables (SFR, LAR, FLR, FAR) increase by one unit on average, the dependent variable (ROIC) will also increase by 2.04108398564.
- The SFR Variable Regression Coefficient value is negative (-) of -2.88707552245, it can be

concluded that if the SFR variable increases, the ROIC variable will decrease by 2.88707552245.

- The LAR Variable Regression Coefficient value is positive (+) of 0.150437814589; this indicates that if the LAR variable increases, the ROIC variable will also experience an increase by 0.150437814589.
- The FLR Variable Regression Coefficient value is negative (-) of -0.499668721522, which means that if the FLR variable increases, the ROIC variable will decrease by -0.499668721522.
- The FAR variable regression coefficient value is negative (-), amounting to -3.84331119416; it can be concluded that if the FAR variable increases, the ROIC variable will decrease by -3.84331119416.

TABLE 3
REGRESSION RESULT TEST

Variable	Coefficient	t-Statistic	Prob.
C	2.041084	1.063387	0.2923
SFR	-2.887076	-1.584518	0.1188
LAR	0.150438	0.115892	0.9082
FLR	-0.499669	-1.137905	0.2601
FAR	-3.843311	-2.592471	0.0122

The probability value (Table 3) for the SFR (Self-Financing Ratio) variable is 0.1188, which is greater than 0.05. Thus, the SFR variable has an insignificant effect on Financial Performance. The probability value of the LAR (Long-term Asset Ratio) variable is 0.9082 > 0.05. Thus, it can be concluded that the LAR variable has an insignificant effect on Financial Performance. The probability value obtained for the FLR (Financial Leverage Ratio) variable is 0.2601, which is greater than 0.05. This indicates that the FLR variable has an insignificant effect on Financial Performance. The probability value of the FAR (Fixed Asset Ratio) variable shows a value of 0.0122 < 0.05. Thus, it can be concluded that the Fixed Asset Ratio variable has a significant impact on financial performance.

TABLE 4
F RESULT TEST

Durbin-Watson Stat.	1.799182
Adjusted R-squared	0.226879

F-statistic	5.328522
Prob (F-statistic)	0.001064

The probability value of the simultaneous variable (Table 4) shows a value of 0.001064 < 0.05. Thus, it can be concluded that all variable has a significant impact on financial performance.

The adjusted R-squared value (Table 4) is 0.226879. Thus, it can be concluded that SFR, LAR, FLR, and FAR have a significant impact on 22.6879% of the financial performance simultaneously. This is in line with the results of a considerable effect on the FAR variable, partially, and a simultaneous significant impact.

Discussion

The Effect of Self-Financing Ratio (SFR) on Financial Performance

The results of the first hypothesis test partially support the notion that SFR has an insignificant effect on Financial Performance, indicating that an increase or decrease in SFR has a minimal impact on Financial Performance. This study's results align with research conducted by Anastasia & Septiarini (2015) and Ria (2022), which shows that SFR does not affect financial performance. SFR is capital that comes from within the company or funds provided by the company (shareholders), which consists of various types of shares (preferred shares and common shares), as well as retained earnings (Susanti & Hidayat, 2015). The argument that self-funding has an insignificant impact on ROIC is that when a company decides to self-fund operational costs, it increases its financial responsibility. While self-funding can offer cost-saving opportunities, it also exposes the company to greater financial risk. That unexpected cost can have a significant impact on the company's budget. ROIC explains how much money the company pays for its debt and equity capital. On the other hand, equity is more expensive than debt because interest paid on debt is tax-deductible. Also, lenders' expected returns are usually lower than those of equity investors. The risk and return for the debt are lower.

The Effect of Long-term Asset Ratio (LAR) on Financial Performance

The LAR variable has an insignificant effect on ROIC. The results of this study are not in line with those of Dinh & Pham (2020), which suggest that the Long-term Asset Ratio affects Financial Performance. This result is an anomalous finding, as the matrix indicates that this ratio should have a significant impact on ROIC. Non-current assets are long-term investments in a company's operations, including property, plant, and equipment (PP&E), intangible assets such as patents and trademarks, and long-term investments.

These assets typically involve heavy upfront costs but generate returns over an extended period of time. The proportion of non-current assets in the total asset mix indicates the company's focus on 1) if high LAR, this suggests a focus on capital-intensive operations, where significant upfront investments are necessary for generating future returns. Companies rely heavily on efficiently utilising their long-term assets to generate enough income and cover the initial investments. A high ratio in conjunction with a strong ROIC indicated effective long-term investment use. And a low ROIC with a high ratio could signal underutilization of assets or declining return; and 2) Low LAR suggests a focus on asset-light operations, where the business relies primarily on intangible assets or intellectual property to generate revenue. Companies have lower upfront investment costs, but may rely on factors such as brand recognition or innovation to maintain their competitive edge. A low ratio in conjunction with a high ROIC suggests efficient operational execution with minimal capital investment. However, a low ROIC could imply struggles generating sufficient returns even with lower capital needs. Therefore, LAR is not just a measure of size but also reflects the company's business model and its efficiency in utilizing its long-term investments. LAR, in conjunction with ROIC, provides valuable insights into a company's financial health and ability to generate sustainable ROIC. Here are some factors to consider as reasons being anomaly: 1) industry impact. The optimal LAR can vary significantly across industries. Capital-intensive industries like manufacturing or oil and gas typically have higher ratios compared to service-oriented industries like technology or even a healthcare company; 2) growth stage. Younger companies may have a lower ratio as they invest in building their asset base, while mature companies may have a higher ratio due to accumulated investments, and 3) financing structure. Companies with higher debt financing may be pressured to generate higher ROIC to manage their interest expenses, affecting the relationship between LAR and ROIC.

The Effect of Financial Leverage Ratio (FLR) on Financial Performance

The Financial Leverage Ratio variable has an insignificant effect on Financial Performance. The results of this analysis also coincide with research conducted by Hamid et al. (2015), which states that the Financial Leverage Ratio does not affect Financial Performance. This means the high and low financial leverage ratios will not affect the company's financial performance. Financial leverage does not depend on assets to finance the company's capital, so it does not affect economic performance. Financial leverage measures using debt and equity to finance its assets (Enekwe et al., 2014). Financial leverage includes acquiring assets with funds obtained from creditors or

shareholders (Hamid et al., 2015). More debt financing can amplify not to ROIC but to return on assets or Return on Equity (ROE). Inefficient asset utilization and potentially high debt burden. Although calculated differently, ROIC and ROE are connected. ROIC considers debt and equity financing in the denominator (invested capital), while ROE only considers equity. Therefore, if a company has significant debt, ROIC would likely be lower than ROE due to the higher cost of debt in the denominator. A company create value when ROIC exceeds the opportunity cost of the capital they deploy. FLR does not impact ROIC directly. It influences ROIC indirectly by affecting the equity multiplier and ROE.

The Effect of Fixed Asset Ratio (FAR) on Financial Performance

The Fixed Asset Ratio variable has a significant impact on financial performance. Fixed assets significantly impact a company's financial performance if they are not operated and utilized optimally. Fixed assets that are not optimal for operational support or company production will affect the profit generated. Unused Fixed Assets will reduce the company's profitability because they will cause a burden to the company (Arisadi & Djazuli, 2013). Fixed assets are the lifeblood of many businesses. They represent long-term investments in machinery, equipment, property, and other resources essential for generating revenue. The efficiency and productivity of these assets directly impact a company's ability to create value and generate profits. FAR acts as a gauge for: 1) it reveals the proportion of a company's resources tied up in long-term investments; 2) a higher ratio suggests a heavier reliance on fixed assets for generating revenue; and 3) a lower ratio indicates a focus on intangible assets or lighter-asset operations. The FAR significantly impacts ROIC, depending on several factors: 1) asset utilisation efficiency. Suppose a company with the FAR effectively utilises its equipment and facilities. In that case, it can generate a higher return on each unit of invested capital, leading to a positive impact on ROIC. Conversely, inefficient utilisation (underproduction, idle capacity) can depress ROIC, regardless of the asset base; 2) the nature of the business. Capital-intensive industries like manufacturing or utilities typically have higher ratios and rely heavily on efficient asset utilization to achieve high ROIC. Service-oriented companies, such as healthcare sector companies with lower ratios, may depend more on intangible assets or intellectual property, where ROI could be measured differently; and 3) financing structure. Companies with significant debt financing face pressure to achieve a higher ROIC to cover interest expenses. This can amplify the impact of asset utilisation on ROIC. Therefore, FAR does not directly determine ROIC but provides valuable insights into: 1) capital intensity of the business and its reliance on physical assets for revenue

generation, 2) potential return on long-term investments made in fixed assets, and 3) efficiency in utilising its fixed asset base to generate profits. Here are some additional points to consider: 1) age and condition of fixed assets. Older or outdated equipment could affect efficiency and profitability, impacting ROIC; 2) technological advancements. Companies may need to invest in new technologies to stay competitive, potentially impacting the ratio and future ROIC, and 3) maintenance and operating costs. Fixed assets require upkeep and maintenance, which can affect profitability and ROI.

Effect of SFR, LAR, FLR, and FAR on Financial Performance

For the simultaneous test results (F-test), it can be concluded that the SFR, LAR, FLR, and FAR variables collectively have a significant impact on the Financial Performance variable. This combined impact on ROIC is complex and requires a holistic understanding of how these variables interact. Firstly, SFR versus FLR. Self-financing, which relies on internal capital (retained earnings and equity financing), offers greater control and flexibility but limits growth potential. It can contribute to a higher ROIC because there is no debt interest to eat into profits. Leverage itself using debt financing can amplify returns if the company earns a higher return than its borrowing cost. This leverage effect can boost ROIC, but also introduces risk and financial burdens if the return is low. Secondly, LAR and FAR. These LAR represent investments that generate returns over extended periods, such as PP&E. Their efficient utilization directly impacts profitability and ROIC. The FAR is a subset of long-term assets. They are physically immovable resources essential for operations. A higher FAR indicates a greater intensity and reliance on efficient asset utilization, leading to a stronger ROIC. For each interplay within research variables are: 1) SFR can facilitate investments in LAR and FAR, potentially leading to higher future ROIC through efficient utilization; 2) FLR can amplify the return from these assets, but only if the company generates an adequate return to cover debt costs and maintain a healthy financial position; and 3) efficient utilization of LAR and FAR is crucial for maximizing returns on both equity and debt, ultimately impacting ROIC. These four independent variables have a complex, intertwined effect on ROIC. They influence the cost of capital: SFR offers lower costs than debt, affecting leverage and potential return amplification. They impact the asset base: investment decisions in LAR and FAR determine the potential for generating future returns. They drive operational efficiency: utilising these assets effectively is crucial for maximising ROIC and justifying financing choices. By examining SFR and FLR simultaneously, we can evaluate the risk-reward trade-off and assess its potential impact on ROIC. Combining LAR and

FAR with ROIC insights into the efficiency of utilising these assets and the potential for future returns.

5. Conclusion

Based on the results of the analysis and discussion in this study regarding the effect of Capital Structure proxied by the Self-Financing Ratio, Long-Term Asset Ratio, Financial Leverage Ratio, and Fixed Asset Ratio on Financial Performance in the healthcare sector companies, it can be **concluded** that (1) Self-Financing Ratio has an insignificant effect on Financial Performance, (2) Long-Term Asset Ratio has an insignificant effect on Financial Performance, (3) Financial Leverage Ratio has an insignificant effect on Financial Performance, (4) Fixed Asset Ratio has an effect significant to Financial Performance, (5) Self-Financing Ratio, Long-Term Fixed Asset Ratio, Financial Leverage Ratio, and Fixed Asset Ratio simultaneously significantly affect Financial Performance.

We give actionable **suggestions** to optimize financial outcomes, such as: a) prioritize efficient fixed asset management (FAR). Companies should enhance asset utilization, dispose of underperforming assets, and adopt technology-driven asset tracking; b) Re-assess debt and external financing strategies (FLR). Thus, avoid over-reliance on debt financing, explore equity financing or strategic partnerships, and optimize debt maturity structures; c) strengthen internal financing without overdependence (SFR). To improve financial resilience, the company could reinvest profit strategically and balance dividend policies; d) evaluate long-term investments critically (LTAR). Companies should conduct cost-benefit analysis and lease instead of purchase; e) adopt an integrated capital structure approach. Since all ratios simultaneously impact financial performance, the company must develop a balanced financing mix, use scenario analysis, align financial strategies with sector trends; f) make industry-specific adjustments. Given the healthcare sector's unique demands, leverage government incentives for medical infrastructure to reduce capital expenditure and invest in scalable technologies that enhance asset productivity and patient revenue streams; g) regulatory suggestion. Governments could incentive asset modernization grants or public private partnership to alleviate fixed asset burdens.

This study provides valuable empirical insights into capital structure dynamics within Indonesia's healthcare sector, offering several key **contributions** to academic literature and practical financial management, such as: a) Empirical Validation of Fixed Asset Ratios' Dominant Role. This research confirms that FAR is the most critical individual factor driving financial performance in Indonesian healthcare firms, unlike other capital structure proxies. Theoretical implications

support asset efficiency theories, suggesting that healthcare firms must prioritize the optimal utilization of tangible assets (e.g., medical equipment, facilities) over adjustments to the financing mix; b) Challenge to conventional debt financing assumptions. This research's contributions reveal that FLR has no significant individual impact, contradicting traditional Modigliani-Miller and pecking order theories in this context. The practical implication is that Indonesian healthcare companies should avoid aggressive debt financing unless it directly enables revenue-generating investments (e.g., hospital expansions); c) Nuanced perspective on internal financing. This research contribution demonstrates that SFR, as retained earnings alone, does not enhance performance, challenging the notion that internal funds are always preferable. Contribution for managerial insight is to suggest that firms should reinvest retained earnings strategically (e.g., in digital health technologies) rather than relying on them passively; d) Identifies that healthcare firms' financial performance is asset-intensive rather than financing-driven, differing from manufacturing or tech sectors.

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