



Determinants of Return on Equity in Indonesian Cosmetic and Household Goods Companies: Evidence from a Sharia Economics Perspective

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Article Info	Abstract
Article history: Received March 10, 2026 Revised April 13, 2026 Accepted June 27, 2026 Available online August 15, 2026 *Corresponding author email: indahlarasati0816@gmail.com Keywords: Corporate Profitability, Cosmetic Industry, Financial Performance, Islamic Corporate Finance, Panel Data Regression.	Introduction/Main Objectives: This study examines the effects of liquidity, solvency, and firm size on Return on Equity (ROE) in cosmetics and household goods companies listed on the Indonesia Stock Exchange during 2021–2024 from an Islamic economics perspective. Research Methods: A quantitative approach used secondary financial statement data from seven purposively selected companies. Panel data regression was conducted using the Random Effect Model (REM). Finding/Results: Liquidity, solvency, and firm size had no significant effects on ROE, either individually or simultaneously. The model explained only 1.56% of ROE variation, indicating that profitability is largely influenced by other factors. Conclusion: Profitability in this subsector is more likely shaped by operational efficiency, sales growth, asset turnover, and innovation, while Sharia-based financial management should also emphasize accountability, transparency, prudence, and sustainable value creation.
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INTRODUCTION

The cosmetics and household goods subsector is one of the manufacturing industries that continues to grow and contributes significantly to the Indonesian economy. This subsector includes companies engaged in producing cosmetics, perfumes, skincare products, personal care products, and various household necessities (Marbun & Malau, 2021). Along with rising public awareness of personal care, hygiene, and healthy lifestyles, demand for cosmetic and household products has continued to grow. As a result, companies operating in this subsector are required to enhance their competitiveness through innovation, operational efficiency, and effective financial management to sustain business performance.

The cosmetic and household goods subsector was selected as the research object because it has distinctive operational and financial characteristics compared to other manufacturing industries. Companies in this subsector operate in a highly competitive market that requires continuous product innovation, efficient resource management, and effective financial decision-making to sustain business performance. These conditions may influence the relationships among liquidity, solvency, firm size, and profitability differently than in other industrial sectors. Therefore, examining the determinants of profitability in this subsector is expected to provide more specific empirical evidence regarding corporate financial performance.

Although numerous studies have examined the relationships among liquidity, solvency, firm size, and profitability, limited evidence specifically explains how these financial indicators influence the financial performance of companies operating in Indonesia's cosmetics and household goods industry. This subsector is characterized by intensive product innovation, intense brand competition, shifting consumer preferences, and substantial investment in marketing and product development, which may create distinct profitability mechanisms compared to other manufacturing industries. Therefore, this study seeks to enrich the existing literature by providing empirical evidence from this specific industrial context.

One of the primary objectives of a company is to maximize profit and ensure long-term sustainability. Therefore, profitability is an important indicator of a company's financial performance. Profitability reflects a company's ability to generate earnings from its operations and available resources. (Kasmir, 2025). A higher profitability level indicates that management has been successful in utilizing company resources efficiently to generate profits. In this study, profitability is measured by Return on Equity (ROE), which indicates the company's ability to generate net income relative to shareholders' equity. Investors and stakeholders widely use ROE because it directly reflects the return generated from invested capital and serves as an important benchmark in evaluating corporate performance.

Previous international studies have consistently demonstrated that profitability, particularly Return on Equity (ROE), is affected by both internal financial characteristics and corporate governance practices. Firm profitability is determined not only by operational

efficiency but also by financing decisions, liquidity management, and company scale, making ROE one of the most comprehensive indicators of financial performance. (Alarussi & Alhaderi, 2018).

Several financial factors, including liquidity, solvency, and firm size, can influence profitability. Liquidity represents a company's ability to meet its short-term obligations when they become due. Companies with adequate liquidity are generally considered financially healthy because they can meet their obligations without financial strain. Liquidity enables firms to maintain operational continuity and meet short-term obligations without disrupting business activities. Nevertheless, excessive liquidity may indicate idle current assets that reduce investment opportunities and ultimately lower profitability. Therefore, the relationship between liquidity and profitability remains an empirical issue requiring further investigation across different industrial sectors (Yazdanfar, 2013)

Solvency reflects the extent to which a company's assets are financed by debt. (Paramita & Fidiana, 2022). The proper use of debt may support business expansion and increase returns; however, excessive debt may increase financial risk and reduce profitability. Capital structure has long been recognized as one of the major determinants of corporate profitability. Debt financing may increase firm value through tax advantages; however, excessive leverage raises financial risk and interest expenses, potentially reducing shareholders' returns. Empirical findings indicate that the impact of leverage on profitability varies across industries and countries. (Salim & Yadav, 2012) Meanwhile, firm size reflects the scale of company operations and is commonly measured by total assets. (Dr Leni Hartati, 2024.). Larger firms generally possess greater resources, broader market access, and better financing opportunities that may contribute to improved financial performance.

According to financial management theory, liquidity, solvency, and firm size are expected to influence profitability. Companies with adequate liquidity can support operational activities more effectively and maintain business continuity. Likewise, firms that manage their debt efficiently can utilize financial leverage to increase returns. In addition, larger companies are expected to benefit from economies of scale, stronger market positions, and easier access to external financing, which may improve profitability. However, the relationship between these variables and profitability is not always consistent in practice.

An interesting phenomenon can be observed among cosmetics and household goods companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. Several companies experienced conditions that were inconsistent with theoretical expectations. For example, PT Akasha Wira International Tbk. recorded an increase in liquidity, a decrease in debt levels, and growth in total assets during the observation period, yet its ROE declined. Similar conditions occurred in PT Victoria Care Indonesia Tbk., where improvements in liquidity and reductions in leverage were not accompanied by higher profitability. On the other hand, PT Unilever Indonesia Tbk. maintained a very high ROE despite having relatively low liquidity and high leverage levels. These phenomena indicate that improvements in liquidity, solvency, and

firm size do not necessarily lead to higher profitability, suggesting a more complex relationship among these variables.

The inconsistency between theory and empirical conditions indicates an empirical gap. Financial theories generally suggest that adequate liquidity, healthy solvency levels, and larger firm size can enhance profitability. Nevertheless, evidence from companies within the cosmetics and household goods subsector demonstrates that such relationships are not always observed. Therefore, further investigation is required to provide a more comprehensive understanding of the determinants of profitability in this industry.

In addition to the empirical gap, previous studies have produced inconsistent findings regarding the influence of liquidity, solvency, and firm size on profitability. Several studies found that liquidity significantly affects profitability, while others reported no significant effect. Similar inconsistencies are also found in studies examining the effects of solvency and firm size on profitability. (Ayu, 2023). These inconsistent findings indicate not only an empirical gap but also a theoretical gap in the existing corporate finance literature. Conventional financial management theory generally assumes that adequate liquidity, optimal leverage, and larger firm size contribute positively to profitability. However, empirical evidence has shown that these theoretical expectations are not consistently supported across different industries and research contexts. Therefore, further empirical investigation is necessary to clarify the relationship between these variables and profitability, particularly in Indonesia's cosmetic and household goods industry.

Moreover, a methodological gap can also be identified. Many previous studies have examined profitability across different sectors, with shorter observation periods or using conventional regression techniques. This study extends previous research by employing panel data regression analysis, which combines cross-sectional and time-series data. This approach enables a more comprehensive analysis because it captures variations across companies and changes over time. Furthermore, this study focuses specifically on cosmetics and household goods companies listed on the Indonesia Stock Exchange during the 2021–2024 period, providing more recent empirical evidence regarding corporate financial performance.

Although liquidity, solvency, and firm size have been widely examined in previous studies, limited evidence explains how these financial indicators influence profitability in Indonesia's cosmetic and household goods industry. This subsector has distinctive characteristics, including intensive product innovation, intense brand competition, shifting consumer preferences, and substantial investment in marketing and product development, which may influence profitability differently than in other manufacturing industries. Accordingly, this study seeks to enrich the existing literature by providing empirical evidence from this specific industrial context.

Another important contribution of this study is the integration of an Islamic economics perspective into the analysis of corporate financial performance. In Islamic economics, financial management should not only focus on profit maximization but also emphasize ethical principles

such as justice, responsibility, transparency, and accountability (Asri Jaya, 2023). The use of debt should be managed prudently to avoid excessive financial burdens and practices that contradict Islamic values. Therefore, examining the relationship between liquidity, solvency, firm size, and profitability from an Islamic economics perspective may provide a broader understanding of corporate financial performance.

Based on the issues discussed above, this study seeks to answer the following research questions: (1) Does liquidity partially affect Return on Equity (ROE) in cosmetics and household goods companies listed on the Indonesia Stock Exchange during the 2021–2024 period? (2) Does solvency partially affect ROE in these companies? (3) Does firm size partially affect ROE? and (4) Do liquidity, solvency, and firm size simultaneously affect ROE?

Accordingly, the objective of this study is to analyze the partial and simultaneous effects of liquidity, solvency, and firm size on Return on Equity (ROE) among cosmetics and household goods companies listed on the Indonesia Stock Exchange during the 2021–2024 period. This study contributes to the existing literature in four ways. First, it provides empirical evidence regarding the determinants of profitability in Indonesia's cosmetic and household goods industry. Second, it builds on previous studies by integrating the Islamic economics perspective into the interpretation of corporate financial performance, guided by the principles of accountability, justice, transparency, and responsible financial management. Third, this study employs panel data regression to provide more comprehensive estimates by combining cross-sectional and time-series observations. Finally, the findings are expected to provide practical insights for managers, investors, policymakers, and future researchers in evaluating financial performance and supporting more effective financial decision-making.

METHOD

This study employed a quantitative approach to examine the effects of liquidity, solvency, and firm size on Return on Equity (ROE) among companies in the cosmetic and household goods sub-sector listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. (Mendrofa & Susilowati, 2024). Panel data regression was employed because it combines cross-sectional data from several companies with time-series observations over multiple periods, enabling more comprehensive estimation than conventional regression models. This approach captures both differences among companies and changes in financial performance over time, thereby reducing estimation bias and improving parameter estimation efficiency. Considering the characteristics of the data used in this study, panel data regression was considered the most appropriate analytical approach.

The population consisted of all companies in the cosmetic and household goods subsector listed on the Indonesia Stock Exchange during the 2021–2024 period. The sample was selected using purposive sampling based on the following criteria: (1) companies consistently listed on the IDX during the observation period; (2) companies providing complete financial data required to

measure all research variables; (3) companies presenting financial statements in Indonesian Rupiah; (4) companies reporting positive earnings throughout the observation period; and (5) companies consistently publishing financial statements. Based on these criteria, seven companies met the sampling requirements. The study generated a total of 112 observations derived from the panel data structure covering all sampled companies throughout the observation period (Harsono, 2024).

This study used secondary data obtained from corporate financial statements published on the official websites of the Indonesia Stock Exchange (IDX) and the respective companies. (Sugiyono, 2013). The independent variables consisted of liquidity, measured by the Current Ratio (CR); solvency, measured by the Debt-to-Equity Ratio (DER); and firm size, measured by the natural logarithm of total assets [Ln(Total Assets)]. The dependent variable was profitability, proxied by Return on Equity (ROE). The panel data regression model used in this study is formulated as follows:

$$ROE_{it} = \beta_0 + \beta_1 CR_{it} + \beta_2 DER_{it} + \beta_3 Firm_Size_{it} + \epsilon_{it}$$

The collected data were processed in Microsoft Excel and analyzed in EViews 9. Panel data regression analysis was employed to estimate the relationship between the independent and dependent variables. The most appropriate regression model was determined using the Chow, Hausman, and Lagrange Multiplier (LM) tests. These model selection tests were conducted to identify the panel data estimation model that best fits the data's characteristics. From a theoretical perspective, the Random Effect Model (REM) is appropriate when individual company effects are assumed to be uncorrelated with the explanatory variables, allowing for more efficient parameter estimation while accounting for unobserved heterogeneity across companies. Furthermore, classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, were conducted to ensure model validity. Hypothesis testing was performed using the t-test, F-test, and coefficient of determination (R^2) to examine both the partial and simultaneous effects of liquidity, solvency, and firm size on ROE. (Anwar et al., 2025).

RESULT AND DISCUSSION

Panel Data Regression Estimation Results

The first step in panel data regression analysis was to estimate three alternative models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Harsono et al., 2024). The purpose of estimating these models was to determine the most appropriate model for analyzing the effect of liquidity, solvency, and firm size on Return on Equity (ROE). The estimation results are presented in Table 1.

Table 1. Panel Data Regression Estimation Results Using CEM, FEM, and REM

Variabel		Metode Estimasi Regresi Data Panel		
		CEM	FEM	REM
C	Coefficient	-17.96711	4.468611	-15.09191
	Std. Error	5.970440	32.41007	11.94286
	t-Statistic	-3.009344	0.137877	-1.263677
	Prob.	0.0033	0.8906	0.2091
Variabel		Metode Estimasi Regresi Data Panel		
		CEM	FEM	REM
LN_CR	Coefficient	-0.029131	-0.080966	-0.037157
	Std. Error	0.114837	0.331952	0.227115
	t-Statistic	-0.253675	-0.243910	-0.163605
	Prob.	0.8002	0.8078	0.8703
LN_DER	Coefficient	-0.037911	-0.142508	-0.030890
	Std. Error	0.134407	0.295573	0.212248
	t-Statistic	-0.282063	-0.482141	-0.145535
	Prob.	0.7784	0.6307	0.8846
LN_UP	Coefficient	5.267855	-1.442548	4.410712
	Std. Error	1.784243	9.702647	3.568981
	t-Statistic	2.952432	-0.148676	1.235846
	Prob.	0.0039	0.8821	0.2192
R-squared		0.139665	0.372401	0.015606
F-statistic		5.844148	6.724898	0.570722
Prob(F-statistic)		0.000975	0.000000	0.635477
Durbin-Watson stat		1.559552	2.169746	2.069782

Source: Processed data using EViews 9, 2026.

Selection of the Best Panel Data Model

Before estimating the regression model, the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test were performed. The results are presented in Table 2.

Table 2. Results of Panel Data Model Selection Tests

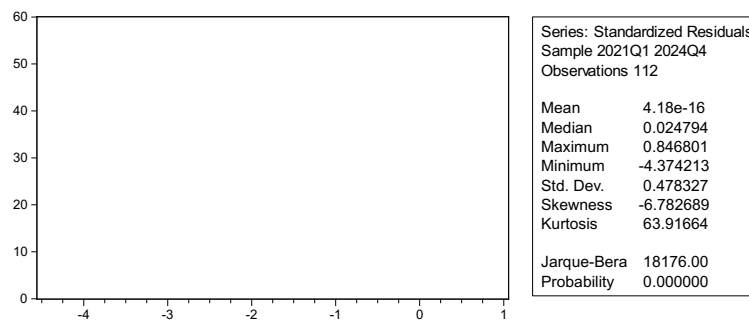
Uji LM	Breusch-Pagan		Cross-section	
			0.0000	
Uji Chow	Effects Test	Statistic	d.f.	Prob.
	Cross-section F	6.304203	(6,102)	0.0000
	Cross-section Chi-square	35.327083	6	0.0000
Uji Hausman	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
	Cross-section random	0.435793	3	0.9328

Source: Processed data using EViews 9, 2026.

Based on the LM Test results, the Breusch–Pagan probability value is 0.0000, which is lower than the significance level of 0.05. This result indicates that the Random Effect Model (REM) is preferable to the Common Effect Model (CEM). Furthermore, the Chow Test produced a Cross-section Chi-square probability value of 0.0000, indicating that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). The Hausman Test yielded a p-value of 0.9328, which exceeds the significance level of 0.05, suggesting that the Random Effect Model (REM) is more suitable than the Fixed Effect Model (FEM).

Based on the results of the LM Test, Chow Test, and Hausman Test, the Random Effect Model (REM) was selected as the most appropriate model for this study. The Chow test indicated that the Common Effect Model was not the most suitable. In contrast, the Hausman test showed that the individual effects were not significantly correlated with the explanatory variables. The Lagrange Multiplier test further confirmed that the Random Effect Model was more appropriate than the Common Effect Model. Therefore, the Random Effect Model was employed to estimate the effects of liquidity, solvency, and firm size on Return on Equity (ROE).

Classical Assumption Tests



Source: Processed data using EViews 9, 2026.

Figure 1. Normality Test Results

The normality test results are presented in Figure 1. The Jarque–Bera probability value is 0.0000, which is lower than the significance level of 0.05. Statistically, this indicates that the residuals are not normally distributed. However, this condition remains acceptable because the study employs 112 observations. According to the Central Limit Theorem (CLT), a sample size greater than 30 observations tends to produce a sampling distribution that approximates normality. Therefore, the model remains suitable for further analysis. (Muh Nur et al., 2026).

Table 3. Multicollinearity Test Results

	LN_ROT	LN_CR	LN_DER	LN_UP
LN_ROT	1.000.000	-0.123660	0.228416	0.372867
	LN_ROT	LN_CR	LN_DER	LN_UP
LN_CR	-0.123660	1.000.000	-0.850634	-0.329033
LN_DER	0.228416	-0.850634	1.000.000	0.635487
LN_UP	0.372867	-0.329033	0.635487	1.000.000

Source: Processed data using EViews 9, 2026

Based on Table 3, the correlation coefficient between liquidity and solvency is -0.850634, while the correlation coefficients between liquidity and firm size and between solvency and firm size are -0.329033 and 0.635487, respectively. Since all correlation coefficients are below the commonly accepted threshold of 0.8, the model does not exhibit serious multicollinearity. Therefore, the independent variables can be included simultaneously in the regression model.

Table 4. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.124299	5.151994	-0.800525	0.4252
LN_CR	0.031618	0.099136	0.318933	0.7504
LN_DER	0.129830	0.115866	1.120518	0.2650
LN_UP	1.306156	1.539649	0.848346	0.3981

Source: Processed data using EViews 9, 2026

The heteroscedasticity test results are presented in Table 4. The probability values for liquidity, solvency, and firm size are 0.7504, 0.2650, and 0.3981, respectively. Since all values exceed 0.05, the model is free from heteroscedasticity and satisfies the homoscedasticity assumption.

Table 5. Autocorrelation Test Results

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	61.83596	21	0.0000
Pesaran scaled LM	5.221001		0.0000
Pesaran CD	-1.653982		0.0981

Source: Processed data using EViews 9, 2026

The autocorrelation test results are presented in Table 5. The probability value of the Breusch–Pagan LM test is 0.0000, which is lower than the significance level of 0.05 ($0.0000 < 0.05$). This result indicates the presence of autocorrelation in the residuals, suggesting that the independence assumption is not fulfilled. However, further examination using the Durbin–Watson statistic on the selected model, namely the Random Effect Model (REM), shows that the Durbin–Watson value lies between d_U and $4 - d_U$, which falls within the region indicating no autocorrelation. Therefore, the residuals are approximately independent, and the model satisfies the autocorrelation assumption. Based on the Durbin–Watson test, the Random Effect Model (REM) is considered free from autocorrelation problems and is therefore appropriate for further analysis. The use of the Durbin–Watson statistic as a complementary test strengthens the conclusion that the regression model fulfills the classical assumption of residual independence. (Widarjono, 2025). Overall, the results of the classical assumption tests indicate that the selected Random Effect Model satisfies the required assumptions and is therefore appropriate for estimating the relationship between liquidity, solvency, firm size, and profitability.

Partial Significance Test (t-Test)

Table 6. Partial Significance Test (t-Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-15.09191	11.94286	-1.263677	0.2091
LN_CR	-0.037157	0.227115	-0.163605	0.8703
LN_DER	-0.030890	0.212248	-0.145535	0.8846
LN_UP	4.410712	3.568981	1.235846	0.2192

Source: Processed data using EViews 9, 2026

The partial significance test (t-test) was conducted to examine the effect of each independent variable on the Return on Equity (ROE) of cosmetic and household goods companies during the 2021–2024 period. (Rifkhan, 2023).

Effect of Liquidity on ROE

The liquidity variable, measured by the Current Ratio (CR), has a probability value of 0.8703, which exceeds the significance level of 0.05. Therefore, liquidity does not significantly affect ROE. This finding suggests that liquidity is not a primary determinant of profitability among cosmetic and household goods companies during the observation period. (Amanda, 2023). A possible explanation is that a substantial proportion of current assets is held as cash, receivables, and inventories that are not utilized productively. Consequently, excess liquid assets may create idle funds that generate little return and fail to improve profitability.

This finding is consistent with previous international studies reporting that high liquidity does not necessarily increase profitability because excessive current assets may remain unproductive and reduce the efficiency of capital utilization. In the cosmetics and household goods industry, firms compete primarily through innovation, product differentiation, and marketing performance rather than by maintaining high liquidity levels.

These findings indicate that profitability is more strongly influenced by factors such as operational efficiency, product innovation, marketing performance, and asset utilization than by liquidity management alone. In the cosmetics and household goods industry, competitive advantage is often derived from innovation, brand strength, and market expansion rather than from maintaining high liquidity levels. From the perspective of Islamic economics, liquidity reflects the principle of trustworthiness in fulfilling financial obligations. Although liquidity does not significantly affect profitability, maintaining adequate liquidity remains important because it demonstrates responsibility toward creditors, investors, employees, and other stakeholders.

Effect of Solvency on ROE

The solvency variable, measured by the Debt-to-Equity Ratio (DER), has a probability value of 0.8846, which exceeds the significance level of 0.05. Therefore, solvency does not significantly affect ROE. Theoretically, debt can increase firm value through financial leverage. However, excessive debt may simultaneously increase financial risk and financing costs. The

findings indicate that debt utilization does not significantly contribute to profitability among cosmetic and household goods companies.

This result suggests that profitability depends more on how effectively financial resources are managed than on the amount of debt itself (Alifiana & Indah, 2021). Debt financing may primarily support operational activities rather than productive investments that can generate substantial returns. Consequently, higher leverage does not automatically translate into higher profitability. This finding is also consistent with previous international studies indicating that debt financing contributes to profitability only when borrowed funds are allocated to productive investments. Otherwise, higher leverage merely increases financial obligations without generating proportional returns for shareholders. From the perspective of Islamic economics, business financing should ideally comply with the principles of justice, transparency, accountability, and the avoidance of *riba*-based transactions. Although solvency does not significantly affect profitability, responsible debt management remains essential because it reflects the principles of trustworthiness and accountability.

Effect of Firm Size on ROE

The firm size variable has a probability value of 0.2192, which exceeds the significance level of 0.05. Therefore, firm size does not significantly affect ROE. Theoretically, larger firms are expected to benefit from economies of scale, greater market access, and broader financing opportunities. However, the findings indicate that larger companies do not necessarily achieve higher profitability. One possible explanation is that firms with substantial assets also face greater operational complexity, higher administrative costs, and more challenging coordination processes. As a result, the benefits associated with larger asset ownership may be offset by inefficiencies and increasing operational expenses.

These findings suggest that profitability depends not only on the amount of assets owned but also on management's ability to utilize those assets effectively. (Nuraini & Suwaidi, 2022). Therefore, firm size reflects the scale of business operations rather than the firm's capability to generate profits. Similar findings have been reported in previous international studies, suggesting that larger firms often face greater organizational complexity and higher operating costs. Therefore, business scale alone is insufficient to improve profitability unless supported by efficient resource utilization and effective managerial capability. From the perspective of Islamic economics, larger firms are expected to demonstrate greater accountability, transparency, and social responsibility. Corporate success should be measured not merely by asset ownership but also by the extent to which those assets create benefits for stakeholders and society.

Simultaneous Effect of Liquidity, Solvency, and Firm Size on ROE

The results of the simultaneous significance test (F-test) are presented in Table 7.

Table 7. Simultaneous Significance Test Results

R-squared	0.015606	Mean dependent var	-0.098969
Adjusted R-squared	-0.011738	S.D. dependent var	0.417855
S.E. of regression	0.420300	Sum squared resid	19.07841
F-statistic	0.570722	Durbin-Watson stat	2.069782
Prob(F-statistic)	0.635477		

Source: Processed data using EViews 9, 2026

The probability value of the F-statistic is 0.635477, which exceeds the significance level of 0.05. Therefore, liquidity, solvency, and firm size do not significantly affect ROE simultaneously. This finding indicates that these three variables collectively cannot explain variations in profitability among cosmetic and household goods companies during the observation period. Although liquidity reflects short-term financial strength, solvency reflects capital structure decisions, and firm size reflects operational scale, these factors do not appear to be the primary drivers of profitability in the industry. (Hamdi Agustin, 2023)

One possible explanation is that high liquidity may not be utilized efficiently to generate profits, resulting in idle current assets. Similarly, high solvency levels may not improve profitability when debt financing is not allocated to productive investments. In addition, large firms may not achieve higher profitability if their assets are not managed effectively and efficiently. The findings suggest that profitability is primarily influenced by factors outside the research model, including operational efficiency, sales growth, asset turnover, product innovation, brand competitiveness, managerial capability, and market expansion strategies. From the perspective of Islamic economics, profitability should be assessed not only on financial outcomes but also on the ethical processes by which profits are generated. Islamic teachings emphasize honesty, trustworthiness, justice, and social responsibility in all economic activities. Therefore, the absence of significant effects of liquidity, solvency, and firm size on profitability suggests that other managerial and ethical factors may play a more substantial role in determining business performance. Moreover, sustainable profitability in Islamic business practices is achieved not only through efficient resource management but also through adherence to ethical and socially responsible principles. These findings reinforce the argument that corporate profitability should be evaluated through a broader framework encompassing financial, operational, managerial, and ethical dimensions, rather than relying solely on conventional financial ratios.

Coefficient of Determination (R^2)

The coefficient of determination (R^2) was used to evaluate the explanatory power of the regression model. Based on the REM estimation results presented in Table 7, the R-squared value is 0.0156. This indicates that liquidity, solvency, and firm size collectively account for only 1.56% of the variation in ROE, with the remaining 98.44% explained by other variables not included in the model. The low R-squared value further confirms that profitability in cosmetic and household goods companies is influenced predominantly by factors outside the variables examined in this

study. Therefore, future research is recommended to incorporate additional variables, such as sales growth, asset turnover, operational efficiency, corporate governance, and innovation capability, to provide a more comprehensive explanation of the determinants of profitability.

The relatively low explanatory power of the model does not necessarily indicate that the regression model is inappropriate. Instead, it suggests that profitability in the cosmetic and household goods industry is a multidimensional construct influenced by numerous internal and external factors that were beyond the scope of this study. Therefore, the findings should be interpreted as evidence that liquidity, solvency, and firm size alone are insufficient to explain variations in Return on Equity.

Panel Data Regression Model Significance Test Results

Table 8. Panel Data Regression Model Significance Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-15.09191	11.94286	-1.263677	0.2091
LN_CR	-0.037157	0.227115	-0.163605	0.8703
LN_DER	-0.030890	0.212248	-0.145535	0.8846
LN_UP	4.410712	3.568981	1.235846	0.2192

Source: Processed data using EViews, 2026.

Based on Table 8, the estimated panel data regression equation is as follows: The regression results show that liquidity (LN_CR) has a negative coefficient of -0.037157, indicating that an increase in liquidity tends to reduce profitability (ROE), assuming other variables remain constant. Similarly, solvency (LN_DER) has a coefficient of -0.030890, indicating that higher debt is associated with lower profitability. In contrast, firm size (LN_UP) has a positive coefficient of 4.410712, implying that larger firms tend to achieve higher profitability. Specifically, a one-unit increase in liquidity is associated with a 0.037157-unit decrease in ROE, while a one-unit increase in solvency is associated with a 0.030890-unit decrease in ROE. Conversely, a one-unit increase in firm size is associated with a 4.410712-unit increase in ROE, assuming all other variables remain constant. However, the probability values of liquidity (0.8703), solvency (0.8846), and firm size (0.2192) are all greater than the significance level of **0.05**. These results indicate that liquidity, solvency, and firm size do not have a statistically significant effect on the profitability of cosmetic and household goods companies listed on the Indonesia Stock Exchange during the 2021–2024 period.

CONCLUSION

This study examined the effects of liquidity, solvency, and firm size on Return on Equity (ROE) among cosmetic and household goods companies listed on the Indonesia Stock Exchange during the 2021–2024 period using panel data regression analysis. The findings indicate that liquidity, solvency, and firm size do not significantly influence ROE, either individually or simultaneously. These results suggest that profitability is influenced by factors beyond

conventional financial ratios, including operational efficiency, managerial capability, asset utilization, innovation, and business strategy.

Theoretically, this study contributes to the corporate finance literature by providing empirical evidence that traditional financial indicators alone are insufficient to explain profitability in the cosmetic and household goods industry. Furthermore, by incorporating the perspective of Islamic economics, the study emphasizes that corporate performance should also be evaluated based on the principles of *amanah* (trustworthiness), justice (*adl*), transparency, responsibility, and efficient resource management.

Practically, the findings imply that corporate managers should focus not only on maintaining liquidity, capital structure, and company size but also on improving operational efficiency and strategic resource utilization. Investors are encouraged to consider broader financial and non-financial indicators when evaluating company performance. Future research should include additional explanatory variables, extend the observation period, and examine other industrial sectors to provide a more comprehensive understanding of the determinants of corporate profitability.

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