The Effect of Profitability and Liquidity on Financial Performance

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Abstract
This study aims to examine the effect of Profitability and liquidity on financial performance. The findings indicate that Profitability has a significant positive effect on financial performance, while liquidity does not have a significant effect when examined individually. However, Profitability and liquidity jointly influence financial performance. These findings suggest that Profitability plays a more important role than liquidity in improving financial performance. The study implies that companies should prioritize strategies that enhance Profitability while maintaining adequate liquidity to support sustainable financial performance.

Keywords: Liquidity, Profitability, Financial Performance, Current Ratio, Return on Equity

Introduction

Amid globalization and increasing business competition, efforts to improve financial performance have become crucial for corporate sustainability. Financial performance is influenced by several factors, including Profitability and liquidity. Profitability reflects the extent to which a company is able to generate profit, while liquidity describes the company's capacity to meet its short-term obligations. In Indonesia, many companies have not been able to achieve their financial targets in recent years. Some have recorded losses, while others have experienced difficulties in fulfilling short-term obligations. This indicates that the analysis of Profitability and liquidity plays an important role in encouraging improvements in corporate financial performance.

Indonesia's economic system is dominated by business activities. The business world is strongly influenced by external factors, particularly the level of competition. Intense competition among business actors creates various impacts that companies must face. To remain sustainable, companies are required to continuously innovate and develop creative ideas. Rapid progress in the business sector also reflects an improvement in public welfare, which affects the increase in consumer purchasing power. This increase in purchasing power also expands marketing coverage and encourages economic growth. One form of this can be seen in the development of the industrial sector *(Ardyansyah dkk., 2022)*.

Industry is a business unit that focuses on economic activities to produce goods or services and usually operates in a particular location. The rapid development of the industrial sector has caused the global market share to increase. In Indonesia, many new companies have emerged, making business competition increasingly intense. In order for companies to survive and grow amid such competition, primary attention must be given to investors. Investors are key factors that can determine the sustainability and progress of a company through capital support and the trust they provide *(Cahyono & Anwar, 2024)*.

Since the post-COVID-19 pandemic period, the Food and Beverage sector in Indonesia has shown significant development dynamics. During the 2021 to 2024 period, the number of Food and Beverage subsector companies listed on the Indonesia Stock Exchange increased, reflecting industrial recovery and growing business confidence in the prospects of this sector. The increase in the number of companies indicates that the F&B industry is one of the sectors that is relatively resilient in facing economic pressure and is able to continue developing after the pandemic *(BPS, 2024)*. In addition to growth in the number of business actors, the Food and Beverage sector also shows a strategic role in the national economy. Data indicate that the food and Beverage industry continued to strengthen its contribution to Indonesia's non-oil and gas Gross Domestic Product throughout the 2021 to 2024 period. Despite challenges such as changing consumption patterns and global supply chain pressures, this sector remains one of the main pillars of national economic growth (BPS, 2024). In 2024, the performance of the Food and Beverage sector became increasingly visible through the increase in export value and investment realization. The export value of the F&B industry reached approximately IDR 237 trillion, indicating that Indonesian food and Beverage products are not only able to meet domestic market needs, but also have competitiveness in international markets. The increase in investment in this sector also indicates long-term growth opportunities and investor confidence in the prospects of the F&B industry.

However, these positive developments cannot be separated from the various challenges faced by Food and Beverage companies. During the 2021 to 2024 period, F&B companies faced pressures in the form of rising production costs, increasing prices of imported raw materials, logistics costs, and supply chain disruptions. This condition has an impact on the increase in operational cost structures and has the potential to suppress corporate financial performance, particularly in maintaining a balance between the ability to generate profit and fulfill short-term obligations *(Asia, 2024a)*. In addition to cost challenges, changes in consumer behavior and preferences have also become an important phenomenon in the Food and Beverage industry. Consumers tend to choose products that are healthier, more practical, and supported by digital services such as online ordering and delivery services. These changes encourage F&B companies to carry out digital transform *(Institute, 2024)*.

The Food and Beverage industry in Indonesia is a manufacturing sector that plays an important role in the national economy. This sector contributes significantly to Gross Domestic Product and shows stable growth potential along with increasing domestic consumer demand and the contribution of the processing sector to the structure of the national economy. According to industry research, the contribution of the F&B industry to Indonesia's GDP in 2023 reached more than 7% and is projected to continue growing in 2024, despite facing production cost pressures and dynamic regulations that require companies to adapt in order to remain competitive *(Asia, 2024b)*. Financial performance as the dependent variable becomes an important measure in assessing the success of F&B companies in maintaining operational sustainability. Indicators such as revenue growth, net income, Profitability margins, and cost management efficiency serve as the main benchmarks in determining the extent to which a company is able to survive and grow in a competitive market environment. Fluctuations in raw material costs, changes in consumer preferences, and competitive pressures both domestically and internationally are external factors that can affect the level of Profitability and financial stability of F&B companies.

This phenomenon can be seen in several F&B issuers listed on the Indonesia Stock Exchange. For example, PT Garudafood Putra Putri Jaya Tbk recorded a net profit of IDR 580.41 billion in 2023, growing by 36.5% compared to the previous year, even though net sales growth was only moderate. This indicates a pattern of Profitability growth that was not proportional to revenue growth *(Bisnis.com, 2024a)*.

In addition, Garudafood's performance report also shows that although the domestic F&B sector grew, the growth rate of the Food and Beverage industry slowed in 2023 due to fluctuating macroeconomic conditions *(Garudafood, 2024)*. As a comparison, market reports stated that in 2024, other major F&B companies such as PT Mayora Indah Tbk faced uncertainty in the following year's performance due to input cost pressures and high market risks, although annual financial reports showed revenue and Profitability growth in the previous period *(Bisnis.com, 2024b)*.

Based on the phenomenon above, it can be concluded that although the Food and Beverage sector in Indonesia has a large economic contribution and shows growth potential, companies in this sector still face significant challenges in maintaining and improving financial performance. Therefore, further analysis is needed regarding internal company factors that influence financial performance as a measure of corporate success and competitiveness.

Financial performance is the main foundation for the sustainability and growth of a company. The ability of a business entity to manage resources effectively and generate profit is a vital indicator observed by various parties, ranging from investors and creditors to internal management. In Indonesia, the Food and Beverage industry is one of the manufacturing sectors that has a strategic role in the national economy, as indicated by its significant contribution to Gross Domestic Product (BPS, 2024). However, this industry is also known to be highly dynamic and competitive, requiring companies to continuously adapt to change.

Although many studies have discussed Profitability and liquidity analysis, several weaknesses remain in previous studies. One of the main weaknesses is the tendency of prior studies to discuss Profitability and liquidity separately, without directly relating them to efforts to improve corporate financial performance. In fact, several studies have shown that there is a close relationship between Profitability and liquidity and a company's financial performance. Profitability and liquidity do not stand alone merely as financial indicators, but also influence each other and contribute to the achievement of optimal financial performance.

Food and Beverage companies are business entities engaged in the production, processing, distribution, and sale of food and Beverage products. This industry has an important role in the global economy because demand for food and Beverage products continues to increase along with population growth and changes in people's lifestyles. F&B companies can be classified based on several main factors, namely business scale, type of product produced, and target market.

Based on business scale, F&B companies can be divided into micro, small, medium, and large enterprises. In terms of product type, F&B companies include producers of ready-to-eat and semi-finished food and Beverage products, such as instant noodles, packaged drinks, and frozen foods. Meanwhile, in terms of target market, F&B companies may target individual consumers, families, and corporate or institutional segments. This, the F&B industry is highly diverse and dynamic, and continues to develop in line with consumer needs and preferences. F&B companies play an important role in providing employment opportunities, encouraging economic growth, and improving people's living standards. F&B companies continue to experience movement and development, which can be seen from the emergence of new trends such as healthy food, organic food, and ready-to-eat food.

Financial ratio analysis techniques aim to provide an overview of the good or poor financial condition of a company within a certain period. The ratios used in this study are Profitability ratios and liquidity ratios. To determine the condition of a company, financial ratio analysis can be used to measure the level of the company's financial performance.

Several previous studies have examined the relationship between liquidity and Profitability and financial performance. For example, a study by (Rustam dkk., 2023) showed that liquidity ratios tend to be good, but Profitability remains below industry standards. Similarly, (Shidiq dkk., 2024) found a positive impact of liquidity ratios on company performance. However, another study by (M. A. Putri dkk., 2021) stated that corporate liquidity was relatively stable, but Profitability had not yet reached an optimal level. These differences in findings indicate inconsistencies in previous studies, creating a gap that needs further investigation. In addition, not many studies have explicitly examined the simultaneous relationship between liquidity and Profitability and financial performance in the specific context of large food and Beverage sector companies in Indonesia, especially in the post-pandemic period of 2021 to 2024. Most previous studies only examined data up to 2020 or early 2022, without considering the influence of recent economic dynamics such as global inflation and shifts in consumer behavior.

In this study, the author collects and processes data obtained from company financial statements published by the Indonesia Stock Exchange. Based on the background described above, the author intends to conduct an analysis of the financial statements of companies in the Food and Beverage sector for the 2021 to 2024 period. This analysis uses financial ratios, particularly Profitability and liquidity ratios, as measurement tools to assess the financial performance of these companies. Therefore, this study is expected to provide a comprehensive overview of the financial condition and performance of F&B companies during the research period. This study is also expected to provide current empirical contributions and practical implications for company management in managing financial aspects to achieve optimal performance.

Literature Review

Agency theory

Agency theory, introduced by Jensen and Meckling in (Hendrastuti & Harahap, 2023) discusses the contractual relationship between one or more persons, referred to as principals, and agents who perform actions on behalf of the principals. In the corporate context, shareholders as principals are the parties who delegate authority to management as agents to manage the company in the interests of shareholders. The main objective of shareholders is to maximize firm value, which is often reflected in good financial performance. However, conflicts of interest often arise between principals and agents. Agents, namely management, may have personal objectives that differ from those of principals, such as maximizing personal compensation, avoiding risk, or maintaining their positions. This conflict may lead to agency costs. To minimize agency costs, principals need to design monitoring and incentive mechanisms. In the context of this study, corporate financial performance, measured by ROA, reflects the effectiveness of management as agents in managing assets and resources entrusted by shareholders as principals. Liquidity and Profitability ratios are important tools for principals to monitor the extent to which agents have worked efficiently and effectively. Poor liquidity management may harm principals because it has the potential to cause financial difficulties, while low Profitability indicates that company assets are not optimally used to generate profit. This means that agents do not act in accordance with the interests of principals. Therefore, liquidity and

Profitability can be viewed as important indicators in assessing agent performance and measuring the effectiveness of agency cost reduction.

Hypothesis development

The effect of liquidity on financial performance

Liquidity reflects a firm's capacity to settle short-term obligations using its current assets. In the context of the food and beverage sector, where operational cycles involve rapid inventory turnover and volatile raw material costs, maintaining adequate liquidity is crucial for ensuring uninterrupted production and distribution. Companies with sound liquidity are better positioned to avoid costly asset liquidations, negotiate favorable payment terms with suppliers, and respond swiftly to emergent investment opportunities all of which contribute to operational efficiency and, ultimately, enhanced financial outcomes.

From the perspective of agency theory, this relationship is particularly salient. Principals (shareholders) delegate operational control to agents (management) with the expectation that firm resources are managed prudently to maximize shareholder value. Insufficient liquidity creates significant agency costs by exposing the firm to the risk of financial distress or default, which directly jeopardizes shareholder wealth. Conversely, when agents maintain an optimal liquidity level, they reduce this risk, ensure smooth operational continuity, and demonstrate effective stewardship of current assets. Thus, prudent liquidity management aligns managerial actions with the principal's objective of sustaining stable financial performance.

This positive association is empirically corroborated by consistent findings from (Panjaitan, 2025), (Yemri Tanapuan, 2022), and (Nurwita & Lisdawati, 2025), which collectively affirm that robust liquidity ratios significantly contribute to improved corporate financial performance.
H1: Liquidity has an effect on financial performance

The effect of Profitability on financial performance

Profitability serves as the ultimate barometer of a firm's operational success, as it directly reflects management's ability to convert sales revenues into net earnings while efficiently controlling production and operating costs. In the food and beverage industry, where raw material price fluctuations and intense market competition are prevalent, robust Profitability provides a critical buffer against external economic shocks. Firms that consistently generate high profits are able to strengthen their retained earnings, thereby expanding their equity base. A stronger equity position not only reduces dependency on external debt financing but also amplifies returns to shareholders, which is precisely reflected in financial performance indicators such as Return on Equity (ROE). Consequently, superior Profitability enables firms to reinvest in innovation, expand market reach, and enhance overall operational sustainability.

From the perspective of agency theory, Profitability functions as a primary evaluative metric through which principals (shareholders) assess the effectiveness of agents (management). Shareholders delegate control over corporate assets to management with the fundamental expectation of maximizing returns on their invested capital. When agents successfully manage cost structures, optimize pricing strategies, and drive revenue growth to achieve high profit margins, they unequivocally demonstrate alignment with shareholder interests. This alignment minimizes agency costs, as principals are less compelled to impose costly monitoring mechanisms when financial outcomes are favorable. Conversely, persistently low Profitability serves as a salient signal of potential agency conflicts, indicating possible managerial inefficiency, misallocation of resources, or pursuit of self-serving objectives that diverge from shareholder wealth maximization. Thus, high Profitability reassures principals that their entrusted capital is being managed effectively and in accordance with their interests.

This positive relationship is empirically corroborated by consistent findings from (Widia Ningsih, 2024) and (Putri Rahayu & Hwihanus Hwihanus, 2025), which collectively affirm that Profitability exerts a significant and positive influence on corporate financial performance.
H2: Profitability has an effect on financial performance

Method

In this study, financial performance is measured using Return on Equity, or ROE. ROE is a ratio used to measure a company's ability to generate net income based on its own capital or equity. This ratio shows the rate of return obtained by shareholders on their investment in the company. The use of ROE as an indicator of financial performance is supported by research showing that financial ratios, such as liquidity and Profitability, have a relationship with ROE as a proxy for corporate performance. In addition, ROE is also used as a main indicator in assessing management effectiveness in managing company equity (Fuadhina and Agustin 2025).

$$ROE = \frac{Net\ Profit}{Total\ Equity}$$

The higher the ROE value, the better the company's ability to generate profit from the capital it owns.

In this study, Profitability is measured using Gross Profit Margin, or GPM. GPM is a ratio that shows a company's ability to generate gross profit from sales after deducting the cost of goods sold. This ratio places greater emphasis on the company's operational efficiency, particularly in controlling production costs. The selection of GPM is considered more relevant, especially in the Food and Beverage sector, because this sector is highly influenced by raw material costs and production processes. Therefore, GPM is able to provide a more specific overview of the company's operational efficiency compared to other ratios.

Empirically, the use of GPM as an indicator of Profitability has been applied in studies examining corporate financial performance together with ROE as the main indicator. In addition, other research also shows that Gross Profit Margin has a relationship with Return on Equity in explaining corporate financial performance (Wildan, *et al*. 2025).

$$GPM = \frac{Sales - Gross\ Profit}{Sales}$$

In this study, liquidity is measured using the Current Ratio, or CR. Current Ratio is a ratio that compares current assets with current liabilities, so that it can describe the company's ability to meet its short-term obligations. The use of Current Ratio as an indicator of liquidity has been widely applied in empirical research. Research shows that Current Ratio has an effect on Return on Equity as an indicator of corporate financial performance (Riska and Hermawan 2025). In addition, Current Ratio is also frequently used in financial performance analysis because it is able to show the company's short-term financial security level (Putri and Sulistyani 2025).

$$CR = \frac{Current\ Assets}{Current\ Liabilities}$$

The population used as the object of this study consists of Food and Beverage companies listed on the Indonesia Stock Exchange and that have published financial statements for the 2021 to 2024 period. These companies are considered able to provide the data required in relation to financial performance, Profitability, and liquidity.

The sampling technique applied in this study is purposive sampling, namely the selection of samples based on certain considerations or criteria. The criteria include:

1. Food and Beverage sector companies listed on the Indonesia Stock Exchange and consistently publishing annual financial statements during the 2021 to 2024 period.
2. Food and Beverage companies included in the main board and development board of the Indonesia Stock Exchange.
3. Companies that generated profit during the 2021 to 2024 period.
4. Companies that present financial statements in rupiah and have complete data in accordance with the research variables.
5. F&B companies with incomplete financial statement data or data that cannot be processed using SPSS.

Based on these criteria, 13 Food and Beverage companies meet the requirements, and this study uses these companies as Samples with a total of 52 observations over four years. This analytical technique is applied to obtain verified data output, so that its accountability can be ensured. The data are processed using a supporting tool, namely the Statistical Package for the Social Sciences, commonly known as SPSS.

Results and Discussion

Results

This study aims to determine the effect of liquidity and Profitability on financial performance in Food and

Beverage sector companies listed on the Indonesia Stock Exchange during the 2021 to 2024 period. The research data were processed using SPSS with a multiple linear regression approach. The independent variables in this study consist of liquidity and Profitability, while the dependent variable is financial performance. Based on the results of data processing, the number of data used in the analysis was 52 observations.

Table 1. One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			52
Normal Parameters[a,b]	Mean		
	Std. Deviation		
Most Extreme Differences	Absolute		
	Positive		
	Negative		
Test Statistic			.122
Asymp. Sig. (2-tailed)[c]			.051
Monte Carlo Sig. (2-tailed)[d]	Sig.		.048
	99% Confidence Interval	Lower Bound	.042
		Upper Bound	.054

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. Lilliefors' method based on 10000 Monte Carlo Samples with starting seed 334431365.

Source: SPSS Output Result, 2026

Before conducting multiple linear regression analysis, this study first performed the classical assumption test. The normality test was conducted using the One-Sample Kolmogorov-Smirnov Test on the residual values. The test results show an Asymp. Sig. value of 0.051. Since this value is greater than 0.05, the residuals in the regression model are declared to be normally distributed. Therefore, the regression model has fulfilled the normality assumption and can be used for the next stage of testing.

Table 2. Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	.002	.029		.081	.936		
	Likuidity	.006	.006	.098	.888	.379	.999	1.001
	Profitability	.356	.062	.629	5.718	.000	.999	1.001

a. Dependent Variable: Financial Performance

Source: SPSS Output Result, 2026

The multiCollinearity test was conducted by examining the Tolerance and Variance Inflation Factor values. The test results show that the liquidity and Profitability variables have a Tolerance value of 0.999 and a VIF value of 1.001. Since the Tolerance value is greater than 0.10 and the VIF value is less than 10, it can be concluded that there is no multiCollinearity symptom in the regression model. This means that the independent variables do not have an excessively high correlation with each other, so each variable can still properly explain its effect on financial performance.

Table 3. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.781[a]	.610	.585	.04362	1.761

a. Predictors: (Constant), LAG_Y, Likuidity, Profitability
b. Dependent Variable: Financial Performance

Source: SPSS Output Result, 2026

The autocorrelation test was conducted using the Durbin-Watson value. The test results show a Durbin-Watson value of 1.761. With a dU value of 1.633 and a 4-dU value of 2.367, the Durbin-Watson value lies within the range of 1.633 < 1.761 < 2.367. Based on these criteria, the regression model is declared free from autocorrelation symptoms. This, the residuals in the model do not have correlation between periods, so the regression model meets one of the feasibility requirements in time series or simple panel data analysis.

Table 4. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.054	.014		3.817	.000
	Likuidity	-.002	.003	-.091	-.643	.523
	Profitability	-.005	.030	-.024	-.166	.869

a. Dependent Variable: ABS_RES

Source: SPSS Output Result, 2026

The test results show that the liquidity variable has a significance value of 0.523, while the Profitability variable has a significance value of 0.869. Both values are greater than 0.05, so it can be concluded that there is no heteroscedasticity symptom in the regression model. Therefore, the regression model fulfills the homoscedasticity assumption, meaning that the residual variance is constant across all observations.

Table 5. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.002	.029		.081	.936
	Likuidity	.006	.006	.098	.888	.379
	Profitability	.356	.062	.629	5.718	.000

a. Dependent Variable: Financial Performance

Source: SPSS Output Result, 2026

After all classical assumption tests were fulfilled, the analysis continued with multiple linear regression. Based on the SPSS output, the following regression equation was obtained:

$$Y = 0.002 + 0.006X1 + 0.356X2$$

The equation shows that the constant value of 0.002 means that if liquidity and Profitability are constant or have a value of zero, financial performance will be at 0.002. The liquidity regression coefficient of 0.006 indicates a positive relationship with financial performance. This means that every one-unit increase in liquidity will increase financial performance by 0.006, assuming that other variables in the model remain constant. However, this positive direction needs to be further examined through the results of the partial significance test. The Profitability regression coefficient of 0.356 indicates a positive relationship with financial performance. This means that every one-unit increase in Profitability will increase financial performance by 0.356, assuming that other variables in the model remain constant. This coefficient value indicates that Profitability has a greater contribution than liquidity in explaining changes in corporate financial performance.

Table 6. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.639[a]	.408	.384	.05460

a. Predictors: (Constant), Profitability, Likuidity
b. Dependent Variable: Financial Performance

Source: SPSS Output Result, 2026

The coefficient of determination test shows an R Square value of 0.408. This value means that liquidity and Profitability are able to explain 40.8 percent of the variation in financial performance. Meanwhile, the remaining 59.2 percent is explained by other variables outside this research model, such as solvency, company size, capital structure, asset efficiency, sales growth, production costs, and external economic factors. This, the regression model has a fairly adequate explanatory ability in measuring the effect of liquidity and Profitability on financial performance.

Table 7. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.101	2	.050	16.899	.000[b]
	Residual	.146	49	.003		
	Total	.247	51			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Profitability, Liquidity

Source: SPSS Output Result, 2026

The simultaneous test, or F test, shows an F value of 16.899 with a significance value of 0.000. Since the significance value is less than 0.05, it can be concluded that liquidity and Profitability simultaneously have a significant effect on financial performance. This result indicates that the combination of the company's ability to maintain liquidity and generate profit plays an important role in determining the financial performance of Food and Beverage sector companies.

Table 8. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.002	.029		.081	.936
	Likuidity	.006	.006	.098	.888	.379
	Profitability	.356	.062	.629	5.718	.000

a. Dependent Variable: Financial Performance

Source: SPSS Output Result, 2026

The partial test, or t test, shows that the liquidity variable has a t value of 0.888 with a significance value of 0.379. Since the significance value is greater than 0.05, liquidity does not have a significant effect on financial performance. Therefore, the first hypothesis, which states that liquidity affects financial performance, is not accepted. Although the liquidity regression coefficient is positive, this effect is not statistically strong enough to explain changes in corporate financial performance. Meanwhile, the Profitability variable has a t value of 5.718 with a significance value of 0.000. Since the significance value is less than 0.05, Profitability has a positive and significant effect on financial performance. Therefore, the second hypothesis, which states that Profitability affects financial performance, is accepted. This result indicates that the higher the company's ability to generate profit, the higher the financial performance achieved.

Simultaneously, liquidity and Profitability have a significant effect on financial performance. This is proven by the F test significance value of 0.000, which is less than 0.05. Therefore, the third hypothesis, which states that liquidity and Profitability jointly affect financial performance, is accepted.

Discussion

The empirical result of this study indicates that liquidity, proxied by the Current Ratio, does not have a significant effect on financial performance, as evidenced by a significance value of 0.379 (> 0.05). Consequently, the first hypothesis (H1) is rejected. This finding implies that variations in a firm's short-term debt-paying ability, within the observed sample, do not materially explain differences in financial performance, measured by Return on Equity (ROE).

This insignificant effect can be logically explained through the lens of agency theory. Principals (shareholders) are primarily concerned with maximizing their returns on invested capital, which is ultimately reflected in Profitability and ROE. While agents (management) are tasked with managing current assets to ensure liquidity, an excessively high level of current assets does not necessarily align with shareholder interests. In fact, holding large amounts of cash or near-cash assets creates significant opportunity costs, as these funds could otherwise be deployed into productive, high-return investments to generate profit. Moreover, from an agency perspective, excess liquidity provides managers with discretionary funds that may incentivize perquisite consumption, over-investment in unprofitable projects, or the buildup of "organizational slack" all of which increase agency costs without proportionally enhancing firm value. Therefore, liquidity primarily functions as a risk-mitigation tool to ensure short-term solvency, rather than as a direct value-creation driver.

In the specific context of the Food and Beverage (F&B) sector, this finding is particularly plausible. Current assets for these companies are predominantly composed of raw material inventories and trade receivables. A high Current Ratio may simply reflect excessive inventory accumulation due to ineffective supply chain management or obsolete products, rather than operational efficiency. Similarly, high receivables may indicate lenient credit policies that tie up capital without generating immediate returns. Thus, a large stock of current assets does not guarantee that these assets are being managed productively to generate profits. Liquidity, in this sense, ensures the company's ability to survive (avoiding bankruptcy), whereas Profitability ensures the company's ability to thrive.

This logical conclusion is consistent with previous empirical findings. (Septinia, 2022) demonstrated that financial ratios such as the Current Ratio are not always the primary determinants of company performance if they are not accompanied by effective asset utilization and operating profit. Likewise, (Ningsih, 2024) confirmed that while liquidity is an important supporting factor, it fails to act as a dominant driver of financial performance when Profitability is introduced into the model. These studies corroborate the view that liquidity serves more as a safeguard for short-term financial security than as a strategic determinant of long-term financial success. Therefore, management should maintain liquidity at an optimal, proportional level sufficient to meet obligations without sacrificing the efficiency of asset utilization or increasing unnecessary agency costs.

In contrast to liquidity, Profitability is proven to have a positive and significant effect on financial performance. This is evidenced by the Profitability regression coefficient of 0.356, the t value of 5.718, and the significance value of 0.000 < 0.05. This means that the higher the company's Profitability, the higher the financial performance achieved. This result shows that the company's ability to generate profit is a more dominant factor than the company's ability to maintain liquidity. In the proposal, Profitability is explained through Gross Profit Margin, which is a ratio that shows the company's ability to generate gross profit from sales after deducting the cost of goods sold. This indicator is relevant for the Food and Beverage sector because this sector is highly influenced by raw material prices, production costs, and operational efficiency.

The positive effect of Profitability on financial performance indicates that Food and Beverage companies that are able to maintain profit margins have greater opportunities to increase return on capital and strengthen their financial position. In this sector, Profitability is strongly influenced by the company's ability to control the cost of goods sold, maintain production cost stability, determine selling prices, and adjust products to changes in consumer preferences. When a company is able to generate profit consistently, financial performance will increase because profit becomes the main source for strengthening equity, supporting business expansion, and increasing investor confidence. This result is in line with the study by Ningsih (2024), which found that Profitability ratios affect the financial performance of food and Beverage manufacturing subsector companies listed on the Indonesia Stock Exchange (Ningsih, 2024).

This finding is also supported by the study of Cahyono and Anwar (2024), which specifically discusses the effect of Profitability and liquidity on the financial performance of Food and Beverage companies. This study is relevant because it uses the same sector as its object, namely food and Beverage companies, so it can strengthen the result that Profitability is one of the important indicators in assessing the success of corporate financial performance. In the proposal bibliography, the study by Cahyono and Anwar (2024) is included as a study that discusses the relationship among Profitability, liquidity, and financial performance in Food and Beverage companies (Cahyono & Anwar, 2024).

Simultaneously, liquidity and Profitability are proven to have a significant effect on financial performance. This is indicated by the F value of 16.899 with a significance value of 0.000 < 0.05. This, although liquidity does not have a significant partial effect, liquidity and Profitability together are still able to explain changes in financial performance. The R Square value of 0.408 shows that these two variables are able to explain 40.8 percent of financial performance, while the remaining 59.2 percent is explained by other variables outside the research model, such as solvency, leverage, company size, asset efficiency, sales growth, and cost structure.

The simultaneous result shows that corporate financial performance is not determined by only one financial ratio, but by a combination of several interrelated ratios. Liquidity provides an overview of the company's ability to maintain short-term financial stability, while Profitability shows the company's ability to generate profit from its operational activities. When these two aspects are managed in a balanced manner, the company has a greater opportunity to maintain smooth operations while improving financial performance. The study by Rambe (2021) also supports the importance of simultaneous analysis of financial ratios, because the Current Ratio and other financial ratios are jointly used to explain company performance proxied by Return on Assets (Rambe, 2021).

From the perspective of agency theory, the results of this study show that management as agents has the responsibility to manage company assets, liabilities, and profits effectively in the interests of shareholders as principals. Profitability, which has a significant effect, shows that shareholders pay more attention to management's ability to generate profit than merely maintaining current assets. Meanwhile, liquidity remains important as a support for operational stability so that the company does not experience difficulties in meeting short-term obligations. The research proposal also places agency theory as the basis that financial performance reflects the effectiveness of management in managing company resources.

Thus, the results of this study confirm that Profitability is the main factor affecting the financial performance of Food and Beverage companies, while liquidity acts more as a supporting factor for short-term financial stability. Jointly, liquidity and Profitability still have a significant effect on financial performance. Therefore, companies need to focus on improving operational efficiency, controlling production costs, optimizing sales, and managing profit margins, without ignoring liquidity adequacy to maintain smooth business activities.

Conclusion

This study concludes that liquidity, as measured by the Current Ratio, does not exert a significant influence on financial performance, as proxied by Return on Equity. This indicates that while liquidity remains relevant for ensuring short-term solvency, its contribution to enhancing financial performance is not empirically substantiated in this study. From the perspective of agency theory, this outcome suggests that maintaining excessive current assets may reflect idle funds or managerial slack, which creates opportunity costs and fails to align with principals' objective of maximizing firm value. Consequently, the first hypothesis is rejected.

In contrast, Profitability, as measured by Gross Profit Margin, exerts a significant and positive influence on financial performance. This confirms that management's ability to control production costs efficiently and generate earnings serves as the primary engine of value creation. High Profitability signals strong managerial alignment with shareholder interests, thereby minimizing agency costs. Thus, the second hypothesis is accepted.

Simultaneously, liquidity and Profitability together demonstrate a collective influence on financial performance. However, the dominant role of Profitability suggests that financial performance is primarily enhanced through operational efficiency and margin expansion, while adequate liquidity serves fundamentally as a safeguard against short-term financial distress.

Theoretically, these findings imply that while Profitability is empirically proven as the dominant driver, the non-significant role of liquidity opens a critical avenue for future research. Subsequent studies should investigate potential mediating or moderating variables such as working capital efficiency, inventory turnover, or firm size that might clarify the specific conditions under which liquidity contributes to firm value. Moreover, extending the research period or conducting comparative studies across various economic cycles and sub-sectors within the food and beverage industry could provide deeper insights. Future studies are also encouraged to integrate additional financial metrics, including leverage, asset turnover, sales growth, and corporate governance mechanisms, to enhance the explanatory power of the model.

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