The Effect of Liquidity Management on the Company's Financial Performance

Rizki Amelia
Department of Management, Faculty of Economics and Business, Universitas Trisakti; Jakarta, Indonesia
E-Mail: 022002102012@std.trisakti.ac.id

Bayu Aji Pratama
Department of Management, Faculty of Economics and Business, Universitas Trisakti; Jakarta, Indonesia
E-Mail: 022002102034@std.trisakti.ac.id

Henny Setyo Lestari
Department of Management, Faculty of Economics and Business, Universitas Trisakti; Jakarta, Indonesia
E-Mail: henny_setyo_lestari@trisakti.ac.id

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ABSTRACT

This study aims to assess the impact of liquidity management on the financial performance of companies in the consumer cyclical sector listed on the Indonesia Stock Exchange (IDX) during the period of 2019-2023. The primary focus of the research is to examine the effect of three liquidity ratios—Current Ratio (CR), Quick Ratio (QR), and Cash Ratio (CR)—on Return on Capital Employed (ROCE). Using a purposive sampling method, 50 companies that met the criteria were included in the analysis, which was conducted using panel data regression. The results show that none of the liquidity variables had a significant impact on ROCE, indicating that the company's liquidity level does not directly determine the performance of the capital used to generate profits in this sector. These findings provide valuable insights for companies and investors, suggesting that liquidity is not the only determining factor in capital management and profitability strategies. Therefore, companies and investors need to consider other variables that may influence financial performance, such as capital structure, operational efficiency, and market conditions, when formulating business strategies and investment decisions.

***Keywords**: Liquidity Management, Current Ratio, Quick Ratio, Cash Ratio, Consumer Cyclical*

ABSTRAK

Penelitian ini bertujuan untuk mengevaluasi pengaruh manajemen likuiditas terhadap kinerja keuangan perusahaan di sektor consumer cyclical yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2019-2023. Fokus utama penelitian adalah menguji pengaruh tiga rasio likuiditas—Current Ratio (CR), Quick Ratio (QR), dan Cash Ratio (CR)—terhadap Return on Capital Employed (ROCE). Menggunakan metode purposive sampling, sebanyak 50 perusahaan yang memenuhi kriteria dimasukkan dalam analisis, yang dilakukan dengan regresi data panel. Hasil penelitian menunjukkan bahwa ketiga variabel likuiditas tersebut tidak berpengaruh signifikan terhadap ROCE, yang berarti tingkat likuiditas yang dimiliki perusahaan tidak secara langsung mempengaruhi kinerja modal yang digunakan dalam menghasilkan keuntungan di sektor ini. Temuan ini memberikan pemahaman penting bagi perusahaan dan investor bahwa likuiditas bukanlah satu-satunya faktor penentu dalam manajemen modal dan profitabilitas. Oleh karena itu, perusahaan dan investor perlu mempertimbangkan variabel lain yang dapat

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mempengaruhi kinerja keuangan, seperti struktur modal, efisiensi operasional, dan kondisi pasar, dalam merumuskan strategi bisnis dan keputusan investasi.

***Kata kunci**: Manajemen Likuiditas, Rasio Lancar, Rasio Cepat, Rasio Kas, Siklus Konsumen*

INTRODUCTION

The continuous growth of the global economy intensifies business competition across various sectors, urging companies to increase their value and competitiveness through enhanced management practices. A key objective for companies is to achieve consistent profitability while maintaining ideal liquidity levels, which ensures shareholder welfare and minimizes internal conflicts (Linh, 2024). Such conflicts often arise due to differing priorities between companies and shareholders, underscoring the need for clear communication and transparency within internal financial reporting.

In financial terms, liquidity management is crucial, both for investors and companies, as it directly affects a company's ability to fulfill its short-term obligations, which impacts profitability (Gunawan & Ramli, 2023). The challenge of liquidity management has increased as financial institutions grow reluctant to extend credit amidst rising non-performing loans and high interest rates (Alhassan & Islam, 2021). Liquidity is especially vital for short-term stability, with more liquid companies being less vulnerable to default on short-term debts (He & Xiong, 2009). Insufficient liquidity affects both operations and profitability, making it essential for companies to balance liquidity and profitability to sustain long-term performance (Dadepo & Afolabi, 2020).

Achieving optimal liquidity is particularly challenging in the consumer cyclical sector, where companies are highly sensitive to economic fluctuations and cycles (Panetta et al., 2009; Athanasoglou et al., 2014). As reported by CNBC Indonesia (2021), this sector contributed significantly to the Indonesian Stock Exchange Composite Index (IHSG), strengthening it by 14.09% in 2021, which indicated positive growth and increased investor confidence. However, the COVID-19 pandemic posed severe challenges to this sector, with consumer cyclical companies experiencing notable declines in liquidity and nearly a 20% drop in stock values. Research by Kristanto & Yanto (2022) and Azzahra et al. (2023) further reveals that the pandemic significantly impacted the financial performance of companies in this sector, amplifying the need for effective liquidity management strategies to withstand economic uncertainties.

This study examines the effect of liquidity management on financial performance, focusing on consumer cyclical companies listed on the Indonesia Stock Exchange from 2019 to 2023. Specifically, it assesses the impact of Current Ratio (CR), Quick Ratio (QR), and Cash Ratio (CR) on Return on Capital Employed (ROCE). By providing empirical insights, this study aims to support companies and investors in developing effective capital management strategies that enhance competitiveness in a volatile economic environment.

LITERATURE REVIEW

Company performance refers to the achievements or results of an organization's activities and operations, evaluated against its goals, objectives, mission, and vision (Taouab & Issor, 2019). This concept is vital in strategic organizational planning. Company performance is typically assessed using various financial metrics that reflect the effectiveness of an organization in utilizing its resources. According to Fareed et al. (2016); Sutriani et al. (2024), profitability is a critical factor for the sustainability of any company. One commonly used method for measuring company profitability is Return on Capital Employed (ROCE), which reflects the efficiency and profitability of a company's investments. ROCE is a profitability ratio that indicates how well a company is using its capital to generate profits. According to Har & Ghafar (2015) and Alkadrie & Khairunnisa (2023), ROCE shows how much profit is generated by the shareholders' investment in the company. Nissim & Penman (2001) further explain that ROCE is

driven by income statement line items that sum to net income in the numerator and balance sheet items that sum to net assets in the denominator. ROCE can be calculated by Earnings Before Interest and Tax (EBIT) divided by Working Capital or EBIT divided by Total Assets - Liabilities.

Liquidity management refers to the process of maintaining an optimal liquidity position to ensure that a company can meet its financial obligations when due (Almakura et al., 2024). Efficient liquidity management is necessary for reducing the reliance on external funding sources to pay short-term debts. Companies failing to maintain strong cash positions may be forced to rely on external financing. Various liquidity ratios are used to assess a company's liquidity (Wijaya et al., 2024)

The Current Ratio (CR) is a liquidity ratio that measures a company's ability to cover its short-term liabilities with its short-term assets. A high current ratio indicates a company's ability to meet short-term obligations, but excessively high values may indicate underutilized assets (Alfiani, 2022; Putri et al., 2024). The current ratio formula can be calculated by Current Assets divided by Current Liabilities. Studies have shown mixed results regarding the impact of the current ratio on financial performance. Almakura et al. (2024) found a significant effect on return on capital employed (ROCE), suggesting that a higher current ratio improves profitability. However, some researchers did not find a significant impact, indicating that the current ratio may not directly affect financial performance and may indicate underutilized assets (Firmansyah, 2017; Shah & Dave, 2022; Lisnawati & Susianto, 2024).

H1: Current ratio has a significant effect on return on capital employed

The Quick Ratio, or acid-test ratio, measures a company's ability to meet its short-term liabilities with its most liquid assets, excluding inventories. This ratio is useful for assessing the immediate liquidity of a company. Durrah et al. (2016) note that inventories are often the least liquid asset and may not quickly convert to cash in case of financial stress. The quick ratio can be calculated by Current Assets minus Inventories divided by Current Liabilities. Research on the quick ratio also shows mixed results and some researchers did not find a significant effect on financial performance, indicating that although a high quick ratio indicates good liquidity, it does not directly correlate with higher profitability (Dadepo & Afolabi, 2020; Ani et al., 2023; Almakura et al., 2024).

H2: Quick ratio has a significant effect on return on capital employed

The Cash Ratio measures a company's ability to cover its short-term liabilities with its cash and cash equivalents. A high cash ratio indicates a company's ability to pay its short-term debts with available liquid assets (Almakura et al., 2024). However, having a high cash ratio does not always indicate improved profitability, as it might reflect inefficiency in utilizing cash for investment opportunities (Juliana, 2020). The cash ratio can be calculated by dividing Cash & Cash Equivalents by Current Liabilities. Studies on the cash ratio show inconsistent results, as evidenced by some researchers finding no significant effect on financial performance, indicating that high liquidity (as indicated by the cash ratio) does not necessarily result in increased profitability if not used efficiently (Dadepo & Afolabi, 2020; Almakura et al., 2024; Patamuan et al., 2024).

H3: Cash ratio has a significant effect on return on capital employed

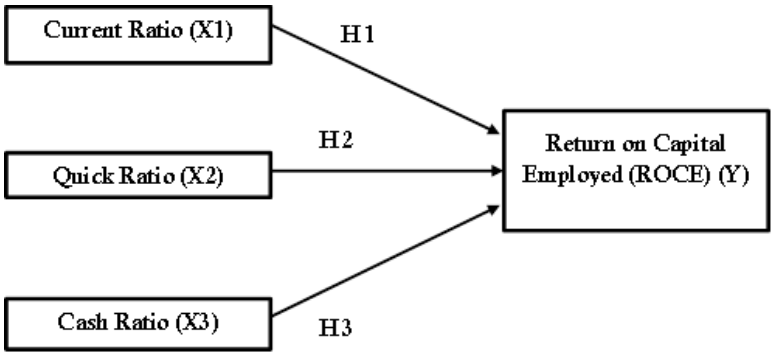

Figure 1. Conceptual Framework

METHODS

This study investigates the impact of liquidity management—measured by the Current Ratio, Quick Ratio, and Cash Ratio—on the financial performance of companies in the consumer cyclical sector listed on the Indonesian Stock Exchange (IDX) from 2019 to 2023. The analysis utilizes panel data regression, combining both cross-sectional and time-series data to examine the relationship between liquidity ratios and Return on Capital Employed (ROCE). Panel data regression is particularly suitable for understanding the influence of multiple independent variables over time, allowing for more accurate results when dealing with longitudinal data. EViews software was used for data analysis due to its robustness in handling time-series and panel data. The sample includes consumer cyclical companies listed on the IDX, selected using purposive sampling. The selection criteria include companies with complete financial data available from 2019 to 2023, which ensures the consistency and reliability of the dataset. Secondary data was sourced from annual financial statements, company reports, and public databases, ensuring a broad and comprehensive representation of the sector. The independent variables, namely the Current Ratio, Quick Ratio, and Cash Ratio, are used to measure liquidity management. The Current Ratio reflects a company's ability to cover short-term liabilities with its current assets, while the Quick Ratio provides a stricter liquidity measure by excluding inventory. The Cash Ratio assesses a company's ability to meet short-term obligations with its cash or cash equivalents. Each of these liquidity ratios is hypothesized to have a distinct influence on ROCE, which serves as the dependent variable, reflecting the company's ability to generate returns relative to its capital employed. Through this methodology, the study aims to provide insights into how liquidity management practices affect financial performance, offering valuable information for companies in the consumer cyclical sector and beyond.

RESULTS

The description of the research data provides an overview of the consumer cyclical companies that were the subject of this study. The focus of this research is on 50 consumer cyclical companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2023. The data were sourced from www.idx.co.id and the respective company websites. The sampling method employed is purposive sampling based on the following criteria: consumer cyclical companies listed on the IDX for five years (2019-2023 period), consumer cyclical companies not included on the special monitoring board, consumer cyclical companies listed using the rupiah currency, and consumer cyclical companies with complete data available for analyzing the changes in performance. Out of 163 consumer cyclical companies, only 50 companies met the eligibility criteria for the research sample, resulting in 250 data observations (50 companies x 5 years).

Table 1. Chow Test, Hausman Test, and Lagrange Multiplier (LM) Model

Dependent Variable		Chi-Square	Breusch-Pagan	Prob.	Conclusion
Chow Test	ROCE	140.880265		0.0000	Fixed Effect
Hausman Test	ROCE	1.325636		0.7231	Random Effect
Lagrange Multiplier Model	ROCE		40.03473	0.0000	Random Effect

In Table 1, the results of the Chow test, Hausman test, and Lagrange Multiplier test are presented sequentially. First, the Chow test results show a p-value for the Cross Section Chi-Square of 0.0000, which is below the 0.05 significance level. This outcome leads to the rejection of the null hypothesis (Ho), indicating that the Fixed Effect Model is more appropriate for the data. Following this, the Hausman test was performed. The analysis yields a p-value for the Cross Section Random of 0.7231, which is greater than 0.05. This result means the null hypothesis cannot be rejected, suggesting that the Random Effect Model should be chosen. Lastly, the Lagrange Multiplier test is conducted. This test produces a p-value for the Cross Section Random of 0.000, which, being less than 0.05, results in the rejection of the null hypothesis. Consequently, the conclusion is again in favour of the Random Effect Model.

Table 2. Descriptive Analysis Test Result

Variable	N	Mean	Median	Maximum	Minimum	Std. Dev
ROCE	250	0,035227	0.047941	0.802037	-2.789473	0.256837
CRR	250	2.664117	1.66705	24.7973	0.0398	2.947361
QR	250	1.514732	0.92495	11.5609	0.0394	1.645591
CR	250	0.673296	0.2395	8.4735	0,0017	1.136859

Based on the descriptive statistical analysis in Table 2, several variables exhibit notable characteristics. First, the ROCE (Return on Capital Employed) has an average of 0.035227 with a standard deviation of 0.256837, indicating that, on average, the companies in the sample generate a return of 3.52% on the capital employed. The high standard deviation suggests significant variability among the companies, with some firms performing considerably better or worse than the average. Second, the Current Ratio (CRR) has an average of 2.664117 and a standard deviation of 2.947361, suggesting a wide range in the liquidity levels of the companies. The Current Ratio measures the ability of a company to cover its short-term liabilities with its short-term assets, and the high standard deviation indicates that there is considerable variation in the liquidity levels across the sample. The Quick Ratio (QR), with an average of 1.514732 and a standard deviation of 1.645591, is another liquidity measure. It excludes inventory from the current assets, providing a more stringent assessment of a company's short-term financial health. The quick ratio's variation across companies also suggests differing levels of liquidity. Lastly, the Cash Ratio (CR), which measures the company's ability to cover its short-term obligations with its most liquid assets (cash), has an average of 0.673296 and a standard deviation of 1.136859. The relatively low average value, combined with the high standard deviation, indicates that most companies in the sample have a low level of cash on hand relative to their short-term obligations, but there is considerable variation in this measure across companies. The results of the panel data regression analysis are described as follows:

$$ROCE = 0{,}0518 + 0{,}0020(CRR) - 0{,}0136(QR) - 0{,}0022(CR)$$

The t-test aims to examine whether the independent variables, namely Current Ratio (CRR), Quick Ratio (QR), and Cash Ratio (CR), have a significant impact on the dependent variable, which is Return on Capital Employed (ROCE).

Table 3. Estimation Result with Random Effect Model

Variable	Coefficient	Prob.	Conclusion
Constanta	0.0518	0.1179	
CRR	0.0020	0.8880	Not Significant
QR	-0.0136	0.7507	Not Significant
CR	-0.0022	0.9604	Not Significant

The results of the statistical testing of the proposed hypotheses in Table 3, the following conclusions can be made. For H1, which hypothesizes that there is a significant influence between the Current Ratio (CR) and Return on Capital Employed (ROCE), the p-value is 0.8880, which is greater than the significance level of 0.05. As a result, H1 is not rejected, indicating that there is no significant effect of CR on ROCE. In H2, the hypothesis suggesting that the Quick Ratio (QR) influences ROCE is also tested, with a p-value of 0.7507. Since this value is higher than the 0.05 threshold, H2 is not rejected, which means QR does not significantly affect ROCE either. For H3, the hypothesis that the Cash Ratio (CR) has a significant influence on ROCE is tested, and a p-value of 0.9604 is obtained. This value also exceeds the significance level, so H3 is not rejected, suggesting that the Cash Ratio does not significantly affect ROCE. In conclusion, all three liquidity ratios—CR, QR, and CR—fail to show a significant influence on ROCE as per the statistical tests conducted. This implies that other factors beyond liquidity might be playing a more significant role in determining ROCE for the companies analyzed.

DISCUSSION

This study aimed to investigate the impact of liquidity ratios—current ratio, quick ratio, and cash ratio—on the financial performance of consumer cyclical companies listed on the Indonesian Stock Exchange. The results of the analysis show that none of the liquidity ratios, including the current ratio, quick ratio, and cash ratio, had a significant effect on Return on Capital Employed (ROCE). These findings suggest that while liquidity ratios are essential for evaluating a company's ability to meet short-term obligations, they may not directly correlate with profitability or efficiency in utilizing capital to generate returns. For the current ratio, the study found no evidence of a relationship with ROCE, indicating that higher liquidity may not necessarily translate to better financial performance. A high current ratio might suggest that a company holds excess liquid assets that are not efficiently utilized, leading to potential missed investment opportunities. This finding reflects the idea that a company's financial health should not solely be determined by liquidity levels but also by how well it manages its assets.

This finding does not align with Almakura et al. (2024), who state that there is an influence of the current ratio on ROCE. However, this study is in line with Shah & Dave (2022), who also found no influence of the current ratio on ROCE, suggesting that the current ratio might not have a direct correlation with the efficiency of capital usage in generating profit. Another study supporting this result was conducted by Firmansyah (2017), who concluded that the current ratio does not impact the financial performance of companies. This study proves that predicting and determining the level of financial performance cannot solely be based on the size of liquidity ratios. Lisnawati & Susianto (2024) also agree that the current ratio does not affect the financial performance of companies. A company is said to perform better with a higher current ratio and liquidity, as it indicates a greater ability to meet short-term liabilities with current assets. However, it should be noted that if the current ratio is too high, it could indicate that the company has excess idle assets that are not being used efficiently, which leads to the company being less productive in managing its assets, potentially losing opportunities to earn additional funds.

Similarly, the quick ratio, which excludes inventory from current assets, also did not show a significant effect on ROCE. While the quick ratio is often considered a more

stringent measure of liquidity, the lack of impact on performance in this study suggests that having high liquidity, even when inventory is excluded, does not automatically result in better returns. It could indicate that the company's cash or receivables are not being leveraged effectively to generate profit. This finding aligns with Almakura et al. (2024), who also state that there is no influence of the quick ratio on ROCE. Ani et al. (2023) also supports this, stating that the quick ratio does not significantly affect financial performance. This suggests that current liabilities dominate the company's capital structure compared to current assets. The dominance of debt will impact the company's sustainability, especially in terms of profit growth. It indicates that the increase in the company's debt used for working capital and operations does not result in optimal profit. Companies are also seen as ineffective in utilizing current assets to boost profits.

Dadepo & Afolabi (2020) have the same opinion, stating that there is no influence of the quick ratio on financial performance. The quick ratio only considers the most liquid current assets compared to current liabilities. An increase in the quick ratio shows a high level of liquidity in the company, indicating its ability to meet short-term obligations with easily convertible assets. However, the quick ratio excludes prepaid expenses and inventory from current assets, as these components are difficult to convert into cash quickly. The cash ratio, which reflects the company's ability to cover its short-term liabilities with cash and short-term investments, also did not influence ROCE significantly. This finding challenges the notion that a higher cash ratio directly correlates with improved profitability. While a high cash ratio signifies strong liquidity, it may also reflect a lack of investment or underutilization of available funds, which could hinder profitability if the company does not generate returns from its cash reserves.

This finding is in line with Almakura et al. (2024), who also state that there is no influence of the cash ratio on ROCE. Dadepo & Afolabi (2020) also support this, stating that there is no influence of the cash ratio on financial performance. This implies that the cash ratio does not significantly affect profitability, because although this ratio shows the company's ability to pay off short-term liabilities directly with cash and short-term investments, excessive liquidity can reflect inefficient use of funds. A large cash reserve should ideally be invested to generate higher profits, so a high cash ratio does not always lead to increased profitability, as measured by return on capital employed. Patamuan et al. (2024) also agree that the cash ratio does not affect financial performance. As the cash ratio increases, the profitability of the company also increases. The insignificant effect suggests that the cash ratio is not the main factor influencing profitability. In other words, the larger the cash reserves in a company, the smaller the profit obtained.

These results suggest that financial performance in the consumer cyclical sector is not solely driven by liquidity ratios but may be influenced by other factors such as asset management, investment strategies, or market conditions. For instance, companies with high liquidity but low asset utilization might not see the same returns as firms that effectively deploy their assets. Furthermore, the absence of a significant relationship between liquidity ratios and ROCE in this study could point to the importance of other financial metrics, such as asset turnover or operational efficiency, in explaining financial performance. In summary, while liquidity ratios are critical for assessing a company's short-term financial health, they may not directly drive performance in terms of profitability or capital efficiency. This study calls for a broader approach to financial analysis, where companies focus not only on maintaining liquidity but also on ensuring that their assets and resources are actively contributing to value creation and return generation. Therefore, financial performance should be assessed holistically, considering both liquidity and the efficiency with which a company utilizes its resources to drive growth and profitability.

CONCLUSION

This study examines the effect of liquidity ratios (Current Ratio, Quick Ratio, and Cash Ratio) on Return on Capital Employed (ROCE) in 50 consumer cyclical companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The results show that none of the liquidity ratios—Current Ratio, Quick Ratio, or Cash Ratio—have a significant impact on ROCE. These findings indicate that companies in this sector should focus more on strategies to optimize productive assets and operational expenditures rather than relying solely on liquidity ratios. For investors, this study suggests considering other factors such as profit margins and asset management when evaluating company performance in this sector. This research provides insights that liquidity is not the sole determinant of financial performance, especially in a dynamic sector like consumer cyclical. Future studies are recommended to expand the sample size and include additional variables, such as leverage, company size, and operational costs, to provide a more comprehensive understanding of the factors influencing financial performance. These findings are expected to serve as a reference for developing more effective business strategies and investment analyses.

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