

## Factors Affecting Profitability of Food and Beverage Industries: A Resource-Based View and Competitiveness Approach

Novian Chrisnando <sup>1)</sup>; Nilmawati <sup>2)</sup>; Hendro Widjanarko <sup>3)</sup>; Khoirul Hikmah <sup>4)</sup>

<sup>1)</sup> novian.chrisnando@jogjaprov.go.id, Faculty of Economics and Business, UPN Veteran Yogyakarta, Indonesia

<sup>2)</sup> nilmawati@upnyk.ac.id, Faculty of Economics and Business, UPN Veteran Yogyakarta, Indonesia

<sup>3)</sup> hendro.widjanarko@upnyk.ac.id, Faculty of Economics and Business, UPN Veteran Yogyakarta, Indonesia

<sup>4)</sup>\* khoirul.hikmah@upnyk.ac.id, Faculty of Economics and Business, UPN Veteran Yogyakarta, Indonesia

<p><b>Article Information:</b></p> <hr/> <p><b>Keywords:</b>                  Profitability;                  Food and Beverage;                  Firm Size;                  Liquidity;                  Efficiency;                  Leverage;                  Market Power.</p> <hr/> <p><b>Article History:</b>                  Received : February 10, 2024                  Revised : March 10, 2024                  Accepted : March 28, 2024</p> <hr/> <p><b>Cite This Article:</b>                  Chrisnando, N., Nilmawati, N., Widjanar H., &amp; Hikmah, K. (2024). Factors Affect Profitability of Food and Beverage Industr A Resource-Based View and Competitiver Approach. Indikator: Jurnal Ilmiah Manajer dan Bisnis, 8(2), 39-5861                  doi:http://dx.doi.org/10.22441/indikator.v8i5861</p>	<p><b>Abstract</b></p> <hr/> <p><i>This study examines the determinants of profitability within Indonesia's food and beverage industry, specifically analyzing the role of firm size, liquidity, efficiency, leverage, and market power. Utilizing data from 24 companies listed on the Indonesia Stock Exchange from 2018-2022, the research employs multiple linear regression analysis to investigate these factors' impact on profitability, as indicated by Return On Assets (ROA). Results reveal that firm size, liquidity, efficiency, leverage, and market power collectively influence profitability, with market power emerging as the most significant determinant. While firm size and efficiency are positively associated with profitability, leverage negatively impacts it, and liquidity does not significantly affect it. The study's findings highlight the importance of strategic market positioning, operational efficiency, and prudent financial management in enhancing profitability.</i></p>
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### INTRODUCTION

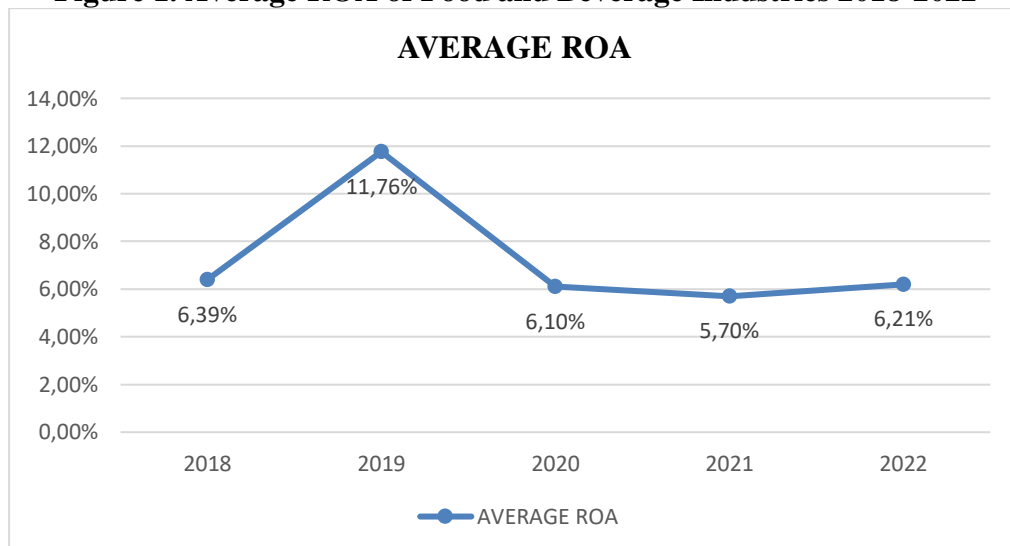
Indonesia's food and beverage industry is a rapidly growing sector crucial to the nation's economy. With the increasing population, demand for food and beverages is on the rise. This industry impacts the supply chain of food materials and contributes significantly to Indonesia's Gross Domestic Product (GDP), indicating economic interdependence. As of the second quarter of 2021, the food and beverage industry was the most significant contributor to the non-oil and gas processing industry, accounting for 38.42% and 6.66% of the national GDP. In 2022, the industry's GDP grew by 4.90% (BPS Indonesia, 2023). Additionally, it ranks among the top five industries in export contributions. From 2010 to 2022, the GDP of this industry showed an overall positive trend, rising from 360.4 trillion Rupiah to 813.1 trillion Rupiah, despite some fluctuations due to external factors like government policies and global economic conditions. Demographic projections by BPS anticipate Indonesia's population will surpass 278.8 million in 2023, with a significant demographic bonus period between 2024 and 2030 (BPS Indonesia, 2023). This population growth, urbanization, and a young demographic position Indonesia as a rapidly expanding consumer market, especially in the food and beverage industry (Tan Jacqueline & Santoso Roland, 2021). By 2030, the consumer class is projected to reach 90 million, significantly impacting consumer spending, which accounts for 61 per cent of the GDP (Razdan Rohit et al., 2013).

The contribution of the food and beverage industry to Indonesia's economic growth is significantly influenced by the profitability of companies within this sector. Understanding the nuances of profitability is essential for corporate managers and executives. Profitability, distinct from mere profit, is a relative measure of a company's efficiency and performance. It provides a more accurate evaluation of a company's operational efficiency than profit, which reflects revenue minus expenses (Fonseca et al., 2022). Profitability is defined as the net result of various policies and decisions, highlighting its role in assessing the overall effectiveness of a company's operations, including liquidity, asset, and debt management (Brigham & Houston, 2019). It is vital in performance analysis and future business performance predictions (Dahmash et al., 2021).

This study uses the financial ratio Return On Asset (ROA) to measure profitability, focusing on how efficiently a company uses its assets to generate profit. ROA is a comprehensive indicator considering a company's income generation and asset management effectiveness (Arhinful & Radmehr, 2023). It is a universally accepted metric, useful for comparative analyses across different industries, and has been widely used in various research studies (Ali et al., 2019; Anton & Afloarei Nucu, 2021; Lim & Rokhim, 2020; and Zambrano Farías et al., 2022).

The profitability levels of food and beverage companies listed on the Indonesia Stock Exchange, as depicted in Figure 1, highlight significant fluctuations in Return on Assets (ROA) during 2018-2022. The peak ROA in 2019 indicates strong performance with high asset returns. However, subsequent years witnessed a decline and volatility, potentially due to industry-specific (internal) and economic (external) factors.

**Figure 1. Average ROA of Food and Beverage Industries 2018-2022**



Source: Indonesia Stock Exchange, 2023, processed.

The research gap identified in this study stems from the varying results found in previous research regarding the impact of internal factors on company profitability. While the profitability levels of food and beverage companies in Indonesia show significant ROA fluctuations during 2018-2022, existing literature presents inconsistent findings on how internal factors like firm size, liquidity, efficiency, and leverage affect profitability.

The relationship between firm size and profitability presents mixed findings: positive effects are reported by Ahmed et al. (2023), Akram et al. (2021), Aydın Unal et al. (2017), Lim

& Rokhim (2020), while Kartikasari & Merianti, 2016 observed no significant impact. Liquidity's impact on profitability is also varied, with Ayoush et al. (2021) suggesting a negative relationship, in contrast to the positive findings of Jolly Cyril & Singla (2020), Nguyen & Nguyen (2020), and Samo and Murad (2019). Leverage's relationship with profitability is equally conflicted, with Durrah et al. (2016), Nguyen & Nguyen (2020) noting positive effects, and Ayoush et al. (2021), Chang et al. (2019) reporting negative ones. For efficiency, the disparity continues as Lim & Rokhim (2020) indicate a negative impact, whereas Jolly Cyril & Singla, 2020; Lina Warrad & Rania Al Omari, 2015) found positive effects. These inconsistencies underscore a research gap in how these factors correlate with profitability across different contexts.

This inconsistency in previous research findings points to a gap in our comprehensive understanding of the influence of internal, resource-based determinants on the profitability of food and beverage companies in the Indonesian context. The resource-based view suggests that a company's competitive advantage is derived from its unique resources (Wernerfelt, 1984), but how these resources translate to profitability in the fluctuating economic environment of Indonesia's food and beverage industry still needs to be explored.

Previous studies have utilized the concept of market power, measured by a company's Lerner Index, to depict the level of business competition. A greater market power often leads to lower competition and, subsequently, higher profitability. Research by Mirzaei et al. (2013) indicated that lower levels of competition correlate with higher bank profitability. Similarly, Tan (2017) found that reduced competition in the deposit market leads to increased profitability. However, research on the relationship between market power and profitability has been predominantly limited to the banking industry. For instance, a study by Lim & Rokhim (2020) in the Indonesian pharmaceutical industry showed a positive impact of market power on profitability, suggesting the need to explore this relationship in different industry contexts.

This research aims to explore and understand the factors influencing profitability in the Indonesian food and beverage industry. Specifically, it seeks to:

1. Analyze the Collective Impact: Determine how firm size, liquidity, efficiency, leverage, and market power jointly affect the profitability of food and beverage companies in Indonesia.
2. Examine Individual Factors: Assess the individual contributions of firm size, liquidity, efficiency, leverage, and market power to the profitability of these companies.
3. Identify Key Drivers: Identify the most influential factor(s) that predominantly affect profitability in this industry.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### Resource-Based View (RBV)

The Resource-Based View (RBV) suggests that a firm's internal resources are critical to its competitive advantage and performance (Barney, 1991; Wernerfelt, 1984). This theory focuses on leveraging unique resources that are valuable, rare, inimitable, and non-substitutable to sustain a competitive edge. According to RBV, these resources, including all assets, capabilities, and knowledge, enable firms to develop strategies that improve their efficiency and effectiveness. Based on the foundational principles of RBV, this research proposes a comprehensive hypothesis that encapsulates the collective impact of various factors on profitability. These factors include firm size, liquidity, leverage, efficiency, and market power, each having demonstrated significant individual effects on profitability as evidenced by studies such as Ahmed et al. (2023); Akram et al. (2021); Aydın Unal et al. (2017); Lim & Rokhim,

(2020); and Mirzaei et al. (2013). Given these theoretical perspectives, the collective impact hypothesis is formulated as follows:

H<sub>1</sub>: Firm size, liquidity, leverage, efficiency, and market power collectively affect profitability.

Under RBV, firm size, liquidity, and efficiency reflect a firm's distinctive resources, influencing its profitability. Larger firms benefit from economies of scale and broader market reach, improving Return on Assets (ROA). High sales volumes indicate a firm's ability to capture market share, driving competitive advantage and profitability. Research by Ahmed et al. (2023), Akram et al. (2021), Aydın Unal et al. (2017), and Lim & Rokhim (2020) indicate a positive relationship. Therefore, the hypothesis is:

H<sub>2</sub>: Firm size positively affects profitability.

Liquidity is viewed as an essential resource. A high current ratio suggests a firm has ample liquid assets to meet short-term liabilities, providing strategic flexibility, reducing financing costs, and better managing operational uncertainties. This can contribute to improved ROA as firms can invest excess cash into value-generating investments or reduce debt, ultimately enhancing profitability. Studies by Jolly Cyril and Singla (2020), Nguyen and Nguyen (2020), and Samo and Murad (2019) suggest a positive impact. Therefore, the hypothesis is stated:

H<sub>3</sub>: Liquidity positively affects profitability.

In RBV, a firm's efficiency reflects how effectively it uses its assets to generate sales. Higher asset turnover ratios imply more efficient use of assets to produce revenue. Such efficiency is considered a valuable and rare capability that offers a competitive edge, indicating skilled asset management that may be challenging for competitors to replicate, potentially leading to higher profitability, as measured by ROA, due to generating more revenue per unit of asset investment. According to Jolly Cyril and Singla (2020), there is a positive correlation. RBV views efficiency as a valuable resource contributing to profitability. Then, the hypothesis is stated:

H<sub>4</sub>: Efficiency positively affects profitability.

### **Pecking Order Theory**

The Pecking Order Theory, established by Donaldson (1961) and further developed by Myers & Majluf (1984), explains firms' preferences for financing sources. It suggests that firms prioritize internal funding, followed by debt, and consider equity only as a last resort. This theory highlights how companies structure their capital based on available resources and strategic needs.

In the context of Return on Assets (ROA), which assesses how efficiently a company generates profit from its assets, the Pecking Order Theory becomes particularly relevant. Profitable companies with higher ROA tend to rely on accumulated internal funds like retained earnings for investment and growth activities, favouring this over external debt or equity due to cost-effectiveness.

The theory also sheds light on a firm's leverage, defined by its use of debt financing. Less profitable firms with lower ROA often depend on external financing, leading to higher leverage. Conversely, profitable firms with internal solid funding capabilities, reflected in higher ROA, are less likely to increase leverage, aligning with the Pecking Order Theory's principles on financing behaviour and capital structure. Findings from Ayoush et al. (2021) show a negative effect. Higher leverage, indicative of financial challenges, can negatively impact profitability. Therefore, the hypothesis is:

H<sub>5</sub>: Leverage negatively affects profitability

### **Porter's Five Forces Model**

Porter's Five Forces Model, developed by Porter (1979), offers a framework for analyzing industry competition and assessing market dynamics. This model identifies five fundamental competitive forces that shape strategy and impact a firm's profitability and overall competitive positioning.

1. **Threat of New Entrants:** This force examines the barriers to entry for new competitors. High entry barriers, such as significant capital requirements, economies of scale, established distribution channels, regulatory policies, brand loyalty, and technological demands, can protect existing players from new entrants, influencing profitability. A firm's market power can deter new entrants, allowing established companies to maintain higher prices and secure market share, leading to potential profitability advantages.
2. **Bargaining Power of Suppliers:** This force assesses how suppliers can influence the terms and pricing of their goods and services. Strong supplier power can affect an industry's profitability, especially if suppliers command higher prices or limit quality and quantity. Factors like supplier concentration, substitute inputs, and the uniqueness of the supplier's products contribute to this power, impacting companies' profitability within the industry.
3. **Bargaining Power of Buyers:** This force considers the pressure buyers can exert on businesses to provide better quality, service, and pricing. Strong buyer power can influence industry profitability by reducing prices and increasing costs. Factors like a small number of large buyers, standardized products, low switching costs, and market transparency can enhance buyer power, affecting firm profitability.
4. **Threat of Substitutes:** This force refers to the risk of external products or services replacing those of the industry. High substitution threats can pressure companies to innovate, improve quality, and lower prices to maintain customer loyalty. A firm's market power can mitigate the impact of substitutes by controlling prices and market dominance, leading to more stable market conditions and higher profitability.
5. **Competitive Rivalry:** This force describes the intensity of competition within an industry. High competition can lead to price wars, advertising battles, product innovation, and enhanced customer service offerings, affecting profitability. Factors contributing to high competitive rivalry include market saturation, slow industry growth, high fixed costs, low product differentiation, and high exit barriers. Firms with significant market power face less competitive pressure, enabling them to maintain profit margins and overall profitability.

Research by Mirzaei et al. (2013) and Tan (2017) shows a positive association. Market power allows firms to control industry dynamics, impacting profitability per Porter's Five Forces Model. Therefore, the hypothesis is stated:

H<sub>6</sub>: Market power positively affects profitability.

## **RESEARCH METHOD**

The study's population comprised 84 Food and Beverage Industry Companies in Indonesia that were listed on the Indonesia Stock Exchange (IDX) in 2022. Employing purposive sampling, the initial pool of 84 companies was narrowed down by excluding those not consistently registered on IDX from 2018-2022, resulting in a final sample of 24 companies. These were consistently registered on IDX during these five years, from 2018 to 2022, totalling 120 observations. The sample includes notable companies such as Indofood CBP Sukses Makmur Tbk. (ICBP), Mayora Indah Tbk. (MYOR), Tri Banyan Tirta Tbk. (ALTO), among

others, ensuring a comprehensive analysis of the industry. This research uses the following variables:

**Table 1. Variables and Measurements**

Variable	Measurements	Explanation	Supported Studies
<b>Dependent (Y)</b>			
Profitability	Return On Assets (ROA)	EAT/Asset	Ali et al. (2019); Anton & Afloarei Nucu (2021); Zambrano Farías et al. (2022)
<b>Independent (X)</b>			
Firm Size (X <sub>1</sub> )	Total Sales	Ln Sales	Ahmed et al. (2023); Akram et al. (2021); Kartikasari & Merianti (2016)
Liquidity (X <sub>2</sub> )	Current Ratio	Current asset/ current liability	Alarussi & Alhaderi (2018); Jolly Cyril & Singla (2020)
Efficiency (X <sub>3</sub> )	Asset Turnover Ratio (ATR)	Sales/Total Asset	Alarussi & Alhaderi (2018); Jolly Cyril & Singla (2020)
Leverage (X <sub>4</sub> )	Debt To Equity Ratio (DER)	Total Debt/Total Equity	Ayoush et al. (2021); Chang et al. (2019); Nguyen & Nguyen (2020)
Market Power (X <sub>5</sub> )	Lerner Index	(Sales – COGS)/Sales	Lim & Rokhim (2020); Tan (2017)

The study employs multiple linear regression analysis using SPSS to examine the relationships between the independent variables: Firm Size (X<sub>1</sub>), Liquidity (X<sub>2</sub>), Efficiency (X<sub>3</sub>), Leverage (X<sub>4</sub>), and Market Power (X<sub>5</sub>), and the dependent variable, Company Profitability (ROA). The regression model is expressed as:

$$ROA = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where  $\alpha$  represents the constant term,  $\beta_1$  to  $\beta_5$  are the regression coefficients for each independent variable, and  $\varepsilon$  is the standard error.

## RESULTS AND DISCUSSION

### Result

Based on the descriptive analysis test results, profitability ranged from -0,19 (PT Inti Agri Resources Tbk, 2022) to 0,61 (PT Tiga Pilar Sejahtera Food Tbk, 2019), with an average of 0,0723 and a standard deviation of 0,11905. Firm Size values varied from 22,61 (PT Inti Agri Resources Tbk, 2022) to 32,34 (PT Indofood Sukses Makmur Tbk, 2022), averaging 28,2032 with a standard deviation of 0,87064. Liquidity metrics ranged from 0,15 (PT Tiga Pilar Sejahtera Food Tbk, 2018) to 98,63 (PT Inti Agri Resources Tbk, 2020), with an average value of 4,0924 and a standard deviation of 10.56991. Efficiency ranged from 0.02 (PT Pratama Abadi Nusa Industri Tbk, 2021) to 5.35 (PT Pratama Abadi Nusa Industri Tbk, 2019), averaging 1.0774 with a standard deviation of 0,81107. Leverage had a minimum of -2,13 (PT Tiga Pilar Sejahtera Food Tbk, 2019) and a maximum of 27,04 (PT Pratama Abadi Nusa Industri Tbk, 2021), with an average of 1,2268 and a standard deviation of 3,07604. Lastly, Market Power

varied from -2,10 (PT Inti Agri Resources Tbk, 2022) to 5,35 (PT Delta Djakarta Tbk, 2018), with an average value of 0,2420 and a standard deviation of 0,31453

**Table 2. Normality Test Result**

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		120
Normal Parameters <sup>a,b</sup>	Mean	0,0000000
	Std. Deviation	0,06217485
Most Extreme Differences	Absolute	0,078
	Positive	0,078
	Negative	-0,043
Test Statistic		0,078
Asymp. Sig. (2-tailed)		0,070 <sup>c</sup>

Source: Output of SPSS 27, processed (2024)

The normality test results using the Kolmogorov-Smirnov test indicate that the Asymp. Sig (2-tailed) value is 0.070, greater than the significance level of 0.05. Thus, it can be concluded that the data residuals are normally distribute

**Table. 3 Multicollinearity Test Results**

Variables	Collinearity Statistics	
	Tolerance	VIF
Firm Size	0,694	1,441
Liquidity	0,680	1,472
Efficiency	0,809	1,236
Leverage	0,763	1,310
Market Power	0,702	1,425

Source: Output of SPSS 27, processed (2024)

Based on the multicollinearity test results, the independent variables indicate that the tolerance values are greater than 0.10 and the VIF (Variance Inflation Factor) values are less than 10. Therefore, the variables tested are free from multicollinearity.

**Table 4. Autocorrelation Test Results**

Durbin-Watson (d)	k	n	dU	4-dU
2,127	5	120	1,7896	2,2104

Source: Output of SPSS 27, processed (2024)

Based on the autocorrelation test results, it was found that the position of the Durbin-Watson (d) value is within  $dU < d < 4-dU$ . Therefore, there is no autocorrelation.

**Table 5. Heteroskedasticity Test Results**

Variables	Sig.
(Constant)	0,158
Firm Size	0,599
Liquidity	0,074

Variables	Sig.
Efficiency	0,972
Leverage	0,428
Market Power	0,752

Source: Output of SPSS 27, processed (2024)

The heteroskedasticity test results found that all variables have a significance level greater than 0,05, leading to the conclusion that there is no heteroskedasticity issue in the regression model.

**Table 6. Hypothesis Test Result**

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0,433	0,106		-4,100	0,000
Firm Size	0,016	0,004	0,286	4,056	0,000
Liquidity	-0,004	0,003	-0,095	-1,337	0,184
Efficiency	0,046	0,012	0,253	3,868	0,000
Leverage	-0,049	0,011	-0,310	-4,603	0,000
Market Power	0,177	0,030	0,412	5,874	0,000
F-test result. : 0,000					
R <sup>2</sup> : 0,605					
Adjusted R <sup>2</sup> : 0,588					

Source: Output of SPSS 27, processed (2024)

Based on the Table 6, the results of the F-test with a Sig. F probability of 0,000 were obtained. Thus, it can be observed that the Sig. F value (0,000) is less than  $\alpha$  (0,05), leading to the rejection of  $H_0$ . This indicates that Firm Size, Liquidity, Leverage, Efficiency, and Market Power have a simultaneous or joint effect on profitability. Therefore, it can be concluded that hypothesis 1 is accepted.

Firm Size significantly impacts profitability, as indicated by a t-value of 4.056 and a positive coefficient direction. The table above shows that the significance value (p-value) is 0,000, which is less than the significance level (0,05), meaning that firm size positively affects profitability. Therefore, hypothesis 2, which states that Firm Size has a significant positive effect on profitability, is accepted.

Liquidity significantly impacts profitability, as indicated by a t-value of -1.337 and a negative coefficient direction. The table above shows that the significance value (p-value) is 0,184, more significant than the significance level (0,05), meaning that liquidity does not affect profitability. Therefore, hypothesis 3, which states that liquidity significantly negatively affects profitability, is rejected.

Efficiency significantly impacts profitability, as indicated by a t-value of 3,868 and a positive coefficient direction. The table above shows that the significance value (p-value) is 0,000, less than the significance level (0,05), meaning that efficiency positively affects profitability. Therefore, hypothesis 4, which states that efficiency significantly affects profitability, is accepted.



Leverage significantly impacts profitability, as indicated by a t-value of -4,603 and a negative coefficient direction. The table above shows that the significance value (p-value) is 0,000, less than the significance level (0,05), meaning that leverage positively affects profitability. Therefore, hypothesis 5, which states that leverage significantly negatively affects profitability, is accepted.

Market Power significantly impacts profitability, as indicated by a t-value of 5,874 and a positive coefficient direction. The table above shows that the significance value (p-value) is 0,000, less than the significance level (0,05), meaning that market power positively affects profitability. Therefore, hypothesis 6, which states that Market Power has a significant positive effect on profitability, is accepted.

Based on the table presented, it is observed that the highest value of the standardized beta coefficient is for Market Power, which is 0,412. Consequently, Market Power is the independent variable most significantly influencing the dependent variable (profitability).

## Discussion

The study underscores the collective influence of Firm Size, Liquidity, Leverage, Efficiency, and Market Power on profitability, particularly emphasising the substantial explanatory power (58.8% adjusted  $R^2$ ) of these variables. This collective effect suggests that profitability within the industry is significantly determined by these factors, underlining the multifaceted nature of financial performance determinants.

The positive relationship between Firm Size and profitability suggests that larger firms benefit from economies of scale, brand recognition, and operational efficiencies. This finding aligns with existing literature, indicating that growth in firm size is conducive to increased profitability, likely due to enhanced market reach and production capacities. The results of this study are consistent with those of Ahmed et al. (2023), Akram et al. (2021), Aydın Unal et al. (2017), and Lim & Rokhim (2020). However, they differ from the findings of Kartikasari and Merianti (2016), who found no influence of firm size on profitability.

Contrary to expectations, liquidity does not significantly impact profitability, challenging the assumption that higher liquidity directly contributes to financial success. This suggests that other operational or strategic factors play a more pivotal role in shaping profitability in this sector. These findings align with the research results of Alarussi & Alhaderi (2018) and Ayush et al., (2021)), which found no impact of liquidity on profitability. However, the results of this study differ from the research findings of Jolly Cyril & Singla (2020), Nguyen & Nguyen (2020), and Samo & Murad (2019), which identified a positive influence of liquidity on profitability.

Efficiency positively influences profitability, indicating that effective asset utilization is crucial for revenue generation. This supports the Resource-Based View (RBV), which posits that competitive advantage and profitability stem from efficient resource management. This is consistent with Jolly Cyril and Singla's (2020) findings, which show a significant positive effect. However, it differs from the research results of Lim and Rokhim (2020), which indicate a significant negative impact of efficiency on profitability.

The negative correlation between leverage and profitability highlights the potential drawbacks of reliance on debt financing. This aligns with the Pecking Order Theory, suggesting that increased financing costs associated with higher leverage can erode profitability, emphasizing the need for strategic financial management. This aligns with the research of Ayoush et al. (2021) but contrasts with the findings of Nguyen & Nguyen (2020)

Market Power is identified as the most influential factor affecting profitability. This dominance suggests that the ability to negotiate favourable terms, command premium pricing, and protect market share significantly contributes to financial performance. The findings indicate that companies with substantial market power are better positioned to navigate competitive pressures and consumer preferences. The analysis reveals Market Power as the variable with the most significant impact on profitability. This underscores the importance of strategic market positioning, brand strength, and the ability to adapt to consumer trends and technological advancements in securing competitive advantage and enhancing profitability. These findings reinforce the results of previous research in different industries, such as Lim & Rokhim (2020), Mirzaei et al. (2013), and Tan (2017), specifically in the finance and pharmaceutical sectors. This highlights that in Indonesia's food and beverage industry, market power positively influences profitability.

## CONCLUSION

The comprehensive analysis of Indonesia's food and beverage industry concludes with significant insights into the determinants of profitability within the sector. The study establishes that firm size, liquidity, leverage, efficiency, and market power collectively impact company profitability. Notably, it is found that firm size positively influences profitability, highlighting the benefits of scale in operations. Contrary to expectations, liquidity does not significantly affect profitability, suggesting that other factors play more pivotal roles. Efficiency emerges as a critical positive contributor to profitability, emphasizing the value of operational optimization. Leverage is seen to have a negative impact, indicating the potential risks associated with high debt levels. Among these factors, market power stands out for its dominant positive effect on profitability, underscoring the importance of strategic market positioning and brand strength.

Given these findings, future research directions are proposed to unravel the complexities of profitability in this sector further. There is a call for investigations into additional variables that influence profitability, considering the significant portion of unexplained variability. Longitudinal studies are suggested to observe the evolution of these relationships over time, providing insights into their long-term stability and impact. Comparative analyses across different industries could shed light on the universality of these determinants, offering broader economic insights.

For business practitioners, this research offers actionable insights. The significance of strategic financial management is emphasized, with a particular focus on the need for careful expansion and leverage management. Companies are encouraged to invest in technological and process innovations to enhance efficiency and to leverage their market position through strong branding and customer engagement strategies. Furthermore, there is an acknowledgment of the need to navigate external factors proactively, such as economic fluctuations and policy changes, to secure long-term growth and stability.

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