

Intervening Profitability Influence of Liquidity on Corporate Values in Food and Beverage Companies Which is listed in Indonesia Stock Exchange

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Intervening Profitability Influence of Liquidity on Corporate Values in Food and Beverage Companies Which is listed in Indonesia Stock Exchange

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Abstract:- The purpose of this study is to find the direct and indirect goals of profitability as an intervening variable of liquidity on firm value, the sample in this study is companies in the food and beverage sub-sector on the Indonesia Stock Exchange, this study uses panel data from 2014 to 2018 and cross-section so that the number of samples is 70, using WarpPLS software. The research findings show partial liquidity on profitability and firm value determine positively and significantly, then profitability has a positive and significant effect on firm value while directly showing that profitability does not provide a significant direction of liquidity on firm value.

Keywords:- Liquidity, Profitability, Company Value.

I. INTRODUCTION

Companies that go public in the pace of globalization, are required to provide progress in increasing their competitiveness. The company exists to provide prosperity for the owner of the company by increasing the value of the company. Salvatore (2005) explains that the main purpose of companies going public or that have been listed on the Indonesia Stock Exchange is to generate profits to increase the prosperity of the owner or shareholder by increasing the value of the company. Company value is a reflection of investors in investing, Brigham and Gapenski (2006: 120) explain that company value is very important because with high company value will be followed by high shareholder prosperity. the greater the prosperity to be received by shareholders (Husnan and Pudjiastuti, 2006: 5). According to Keown et.al (2010: 74), for shareholders, the stock market price will reflect the value of the company. In addition to the company's value, the company's liquidity is also a view of investors in seeing the company's ability to meet its short-term obligations. This research emphasizes that the company's liquidity ratio will provide very important information for the company's growth and development in the short term (Syamsuddin, 2011: 64). Company liquidity shows the company's ability to fund its operational activities and pay its short-term obligations. The higher the level of liquidity, the better the company's position in the eyes of creditors because most likely the company will be able to pay its obligations on time. A good company condition will certainly attract investors to invest their capital in the company so that the stock price will increase. Gap research in previous studies seen in the

research of Hera, M. D. E., & Pinem, D. (2017), Tra, Y. Y. D., & Wiagustini, N. L. P. (2019). Dewi, A. S. M., & Wirajaya, A. (2013). Sudiani, NKA, & Darmayanti, NPA (2016) which states that liquidity has a negative and insignificant effect on increasing company value, different things revealed by Adita, A., & Mawardi, W. (2018), Ardiana, E., & Chabachib, M. (2018), Safitri, M., Chabachib, C., & Mahfud, MK (2015) that liquidity has a positive and significant effect in increasing company value. Aside from this, researchers also include profitability as an intervening variable wherein, investors' views also concern the company's ability to generate profits. The valuation of a company can be seen from the company's ability to generate profits. The company's profit is not only an indicator of the company's ability to meet obligations to funders, but it is also an element of corporate value creation that shows the company's prospects in the future (Nafarin, 2007). Consumer purchasing decisions in using online shop media such as Tokopedia, Bukalapak, and Shopee, are influenced by various factors. Trust is the first factor that focuses on changing consumer purchasing decisions because if a consumer has trust in the product at the Online Shops, they will decide to purchase products at the online shops, as some research has shown that trust has a significant effect on purchasing decisions (Alnemah, 2019; Hosseini & Norouzi, 2017; Kore, Lamalewa, & Mulyaningsih, 2018; Rachbini, 2018; Wibowo, Sari, & Saidani, 2017).

II. LITERATURE REVIEW

➤ Liquidity

Warren et.al. (2014: 174) explains the liquidity of the ability to convert assets into cash called liquidity. According to Michaels. Ehrhardt and Eugene F. Brigham (2011: 110) explained that liquidity is liquidity shows the relationship of a firm's current assets to its current capabilities and thus its ability to meet maturing debts. According to Fred Weston in Kasmir (2012: 129) explaining about liquidity is liquidity ratio (liquidity ratio) is a ratio that illustrates the company's ability to meet short-term obligations (debt).

➤ Profitability

Riyanto (2012: 35) profitability is the ability of a company to produce Lana Selma for a certain period. Another opinion from Kamaludin and Rini (2012: 45) states that the profitability ratio illustrates the level of

effectiveness of company management in generating profits.

➤ Value Firm

Rising stock prices in a company will also automatically increase the value of the company. Although there are other objectives of the company the most important goal is to increase stock prices (Brigham and Houston, 2006: 215). Suad Husnan and Pudjiastuti (2012: 7) the value of a company is the price a prospective buyer is willing to pay if the company is sold, the higher the value of the company the more prosperity the company will receive.

Based on the above theory, the following framework can be described in this study:

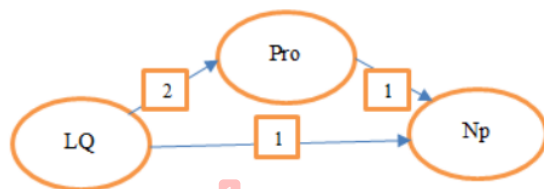


Fig 1:- Framework

III. RESEARCH METHOD

The research method used is empirical research with an associative research approach, which aims to determine the effect directly and indirectly, where the population is 14 food-beverage sub-sector companies, with a cross-section sample method and panel data (2014-2018) so that the

number of samples is 70. By using the WarpPLS application.

IV. RESULTS

Convergent validity is part of the Measurement Model (measurement model) which in SEM-PLS is usually referred to as the outer model while in Covariance-based SEM it is called Confirmatory factor analysis (CFA) (Mahfud and Ratmono, 2013: 64). There are two criteria to assess whether the outer model meets the convergent validity requirements for reflective constructs, namely (1) loading must be above 0.7 and (2) significant p-value (<0.05) (Hair et al. In Mahfud and Ratmono, 2013: 65) but in some cases, loading conditions above 0.7 are often not met, especially newly developed questionnaires. Therefore, loading 0.40-0.70 must still be considered to be maintained (Mahfud and Ratmono, 2013: 66). The following advice is given by Hair et al in the decision to maintain or remove reflective indicators (Hair et al in Mahfud and Ratmono, 2013: 66). Indicators with loading below 0.40 must be removed from the model. However, for indicators with loading between 0.40 and 0.70, it is better to analyze the impact of the decision to delete the indicator on average variance extracted (AVE) and composite reliability above the threshold (Mahfud and Ratmono, 2013: 67). The AVE restriction value is 0.50 and composite reliability is 0.7. Another consideration in removing indicators is their impact on the construct validity (content validity). Indicators with a small loading are sometimes retained because they have a contribution to the construct validity of the content (Mahfud and Ratmono, 2013: 67).

Indicator	LQ	Profit	NP	P value
Cr	0.986			<0.001
Qr	0.986			<0.001
NPM		0.891		<0.001
ROA		0.978		<0.001
ROE		0.967		<0.001
Per			0.788	<0.001
PBV			0.788	<0.001

Table 1:- Testing of Convergent Validity Based on Loading
Source: Processed Primary Data, 2020

Based on testing the convergent validity with the loading approach in the picture above, the results are obtained:

- There are 2 indicators on latent liquidity variables, they are the current ratio, and quick ratio, where all loading values > 0.70 are known.
- There are 3 indicators on latent profitability variables, namely net profit margins, return on assets, and return on equity, where all loading values > 0.70 are known.

- There are 2 indicators on the latent variable of company value, namely price earning ratio and price to book value, where all loading values > 0.70 are known. As for seeing the amount of contribution given from the variables of trust, promotion and e-service quality to purchase decisions, it can be seen from the determination coefficient (R²). Obtaining a determination value (R²) can be seen in the following table:

No	Variabel	Composite reliability coefficients	composite reliability coefficients
1	LQ	0.986	0.7
2	Pro	0.962	0.7
3	NP	0.742	0.7

Table 2:- Composite Reliability Variabel
Source: Primary Data processed, 2020

From the data above, it can be seen from the overall value of the composite reliability coefficients showing

values above 0.70 which can be interpreted that all data are said to be reliable.

No	variabel	Composite reliability coefficients	composite reliability coefficients
1	X1	0.971	0.6
2	Y1	0.940	0.6
3	Y2	0.611	0.6

Table 3:- Cronbach's alpha coefficients Variabel
Source: Primary Data processed, 2020

Cronbach's alpha coefficients of all variables show values greater than 0.60. This means that the questionnaires for all variables meet the consistency of internal reliability.

➤ Testing the Hypothesis with the t-Test

To obtain the partial test results can be seen in the coefficients table which is a multiple regression analysis as seen in the following table.

Variabel	LQ	Profit	Sig	Sig
LQ				
Profit	0.487		0.001	
NP	0.354	0.285	0.014	0.041

Table 4:- (Direct Effect)

Source: Primary Data processed, 2020

Based on the results of the calculation of the data in the table above, the author will then derive the structural equation as follows:

$$Y_1 = 0.487(LQ) + e$$

$$Y_2 = 0.354(LQ) + 0.285(Profit) + e$$

The results of testing the hypothesis in this study are as follows:

- Effect of liquidity on profitability firm sub-sector food and beverage

The hypothesis proposed in this study are:

This study shows that liquidity provides a direction of a positive and significant impact on profitability, in the sense that the ability of a company's liquidity affects the company's desire to increase profitability. the findings of this study answer the accepted hypothesis

- Effect of liquidity on firm value sub-sector food and beverage

The hypothesis proposed in this study are:

Ha: has a positive and significant effect on the of liquidity on firm value

The findings of this study answer the research hypothesis, where the proposed hypothesis is accepted, it can be seen in the results of the study that liquidity has a positive and significant direction on the value of the company, this shows that the company's ability to meet its

short-term obligations can be met so that an increase in the company's value is also reflected the price earning ratio and price to book value have increased in the food and beverage sub-sector companies

- Effect of profitability on firm value sub-sector food and beverage

The hypothesis proposed in this study are:

Ha: has a positive and significant effect of profitability on firm value

The findings in this study indicate that profitability has a positive and significant effect on firm value, this indicates that the increase in profits in the food and beverage sub-sector companies can provide a good reflection of the company's value in the eyes of investors

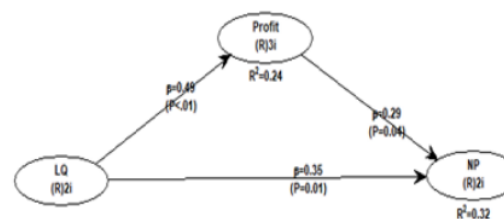


Fig 2:- Path Analysis

- The indirect effect of liquidity on firm value through profitability sub-sector food and beverage

The hypothesis proposed in this study are:

H₀: has a positive and no significant effect of liquidity on firm value through profitability sub-sector food and beverage

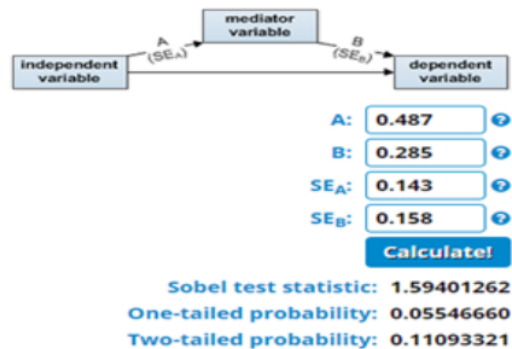


Fig 3:- Sobel Test

It was found that profitability was not able to have a significant effect although it still had a positive effect if tested from liquidity on firm value.

V. CONCLUSIONS

From the data above shows that liquidity has a significant positive effect on profitability and firm value, then profitability on firm value shows a positive and significant direction while indirectly found that profitability is not able to have a significant effect although it still has a positive effect if tested from liquidity on value company sub-sector food and beverage.

In this study, it was found that the R square value between liquidity to profitability was 0.240 or 24%, which means that the magnitude of the effect of liquidity on profitability was 24% while the magnitude of the effect of liquidity, profitability on company value was 0.320 or 32% meaning that it could be said that liquidity and profitability gives an effect of 32%.

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