



The Influence of Liquidity, Profitability and Leverage on Profit Management and Its Impact on Company Value in Manufacturing Company Listed on Indonesia Stock Exchange Year 2011-2015

Ayu Mulyana¹, Zuraida², Mulia Saputra^{3,*}

¹ Master economic and business faculty, Syiah Kuala University

^{2,3} Economic and Business Faculty, Syiah Kuala University

***Corresponding Author:** *Mulia Saputra, Economic and Business faculty, Syiah Kuala University, Indonesia*

Abstract: *This study examines the effect of liquidity, profitability, and leverage on earnings management and its impact on the value of the company. The study uses hypothesis testing on secondary data obtained from corporate website and the official website of the Indonesia stock exchange. The firm-year observation of this study consists of 150 manufacturing companies listed on the Indonesia stock exchange from the period of 2011-2015. The result shows that liquidity, profitability, and leverage jointly affect earnings management; liquidity, profitability, and leverage individually affect earnings management; liquidity, profitability, leverage and earnings management together affect company value; liquidity, profitability, leverage and earnings management individually affect company value; earnings management partially mediates the effect of liquidity, profitability, and leverage on company.*

Keywords: *Likuiditas, Profitability, Leverage, Earnings management, enterprise value*

1. INTRODUCTION

The Company is a unit of production activity that processes economic resources to provide goods and services for the community to gain profit and satisfy the needs of society. Wahyudi and Pawestri (2006), the company's main objective is to increase the value of the company. The higher the value the company describes the more prosperous the owner. The increase in corporate value is always accompanied by an increase in corporate profits. Directly increase in profits will prosper the owner.

The company's value can be seen from the *price to book value* (PBV). PBV is a value that can be used to compare whether a stock is more expensive or cheaper than other stocks. According to Ahmed and Nanda (2004) in Jefriansyah (2013), almost all investment decisions in the capital market are based on the development of the PBV. High PBV will make investors believe in the company's future prospects. The amount of PBV cannot be separated from the policies taken by the company. One of the factors that may affect the value of the company is *earnings management* (earnings management). Earnings management is a condition in which the management to intervene in the process of preparation of financial statements for external parties so as to flatten, raise, and lower earnings (Schipper, 2012 in Ningsaptiti, 2010). Scott (2003) defines profit management as an action made through the choice of accounting policies to obtain certain goals, for example, to meet its own interests or increase the market value of the company. Managers tend to do more earnings management by controlling accrual transactions, ie transactions that do not affect cash flow (Friedlan, 1994). While on the other hand, investors also tend to concentrate in the income statement as investors found earnings stability will affect the stability of dividends.

Profitability is the company's ability to generate profits. Profit is often a measure of company performance, where when a company has a high profit means it can be concluded that the company's performance is good and vice versa. Income smoothing is one form of earnings management. Managers tend to do the activity because with low profits or even suffering losses, will worsen the performance of managers in the eyes of the owner and will worsen the company's image in

the public eye. Husni (2011), shows that profitability has a positive effect on earnings management. In the research of Ershad (2008) concluded that the profitability of the company does not significantly affect the practice of income smoothing (earnings management).

Leverage is debt used by the company to finance its assets in order to carry out its operational activities. The greater the company's debt the greater the risk faced by the owner so that the owner will ask for higher profit levels so that the company is not threatened in liquidation. If a company is threatened with liquidation then the immediate action that management might take is profit management. By doing earnings management, the company's performance will look good in the eyes of shareholders and the public even though the company is in danger of being liquidated. In research Widyaningdyah (2001) concluded that leverage has a significant effect on earnings management. Unlike the case with research conducted by Irsyad (2008) which concluded that leverage does not significantly affect the practice of income smoothing (earnings management).

Liquidity is the company's ability to pay short-term financial obligations just in time (Sartono, 2011). Companies that have high liquidity levels will provide a picture of the company able to meet its short-term obligations. Such circumstances make investors will be interested in investing capital to distribute profits in the form of dividends. According to Sartono (2001) liquidity has a direct relationship with the dividend policy where the greater the liquidity of a company will be the greater the company's ability to pay dividends, This is in line with research conducted by Andriyani (2008), Mohammed et al (2008), Diana (2009), Mehta (2012), Wicaksana (2012) and Adnyana and Badjra (2014) which states that liquidity is positive and significant effect on the dividend policy. Different from the results expressed by Griffin (2010), Franklin and Muthusamy (2010), Sunarto and Kartika (2003) and Kapoor (2009) that the liquidity negatively affects dividend policy.

From the data obtained showed the same phenomenon, namely the decrease in the value of the company in all the sample companies from 2011 until 2015. The ups and downs of the value of the company into a phenomenon that interesting to talk about, this is related to the growth of the company itself.

2. RESEARCH METHODS

This research uses causality design. The design of causality is useful for measuring the strength of the relationship between two or more variables. This study is hypothesis testing using secondary data obtained from the official website of the stock exchange or corporate website with www.idx.co.id. The population in this research is manufacturing companies listed on the stock exchange from 2011-2015, with sampling based on predetermined criteria. The number of samples in this study were 30 companies multiplied by 5 years of observation so that the number of sample of this research was 150.

3. RESULTS AND DISCUSSION

3.1. Classic Assumption Testing

Testing assumption classic does for determining model regression can be received on a regular basis econometrics. Testing assumption classic this composed from testing normality, heteroscedasticity, and multicollinearity. The assumption test results initially occur symptoms of classical assumptions. Due to this, the data that has been tabulated in Ln first to eliminate the classical assumption symptoms. After the data in Ln, the data already Ln re-done the classical assumption test. Results will not happen again the classical assumption of normality test, heteroscedasticity, and multicollinearity.

3.2. Test Results Correlation

Results test Correlation explains there whether or not the relationship between variables the one with other variables. Test correlation between variable in research this could seen on Table 4. 1.

Table 4. 1. Results Test Correlation

No.	Relationship between Variables	Value	Information
1.	X1 and Y	0.006	No connection
2.	X2 and Y	0.154	Positive less powerful
	X3 and Y	0.196	Positive less powerful
3.	Y and Z	0.283	Positive less powerful
4.	X1 and Z	0.134	Positive less powerful
5.	X2 and Z	0.403	Positive is
	X3 and Z	0.573	Positive is strong

Source: Data processed 2017

Based on Table 4.6 could noted that existence relationship the strong one between liquidity (X_1) with profit management (Y) of 0.006 which means liquidity (X_1) not related to earnings management(Y), the relationship is between profitability (X_2) with earnings management (Y) of 0.154 which means that the profitability of (X_2) is related less strongly with earnings management (Y), leverage (X_3) with earnings management (Y) amounted to 0.196 meaningful leverage (X_3) has a less strong relationship with earnings management (Y).

Profit management (Y) with firm value (Z) of 0.283 which means that earnings management (Y) has the less strong relationship with firm value (Z). Liquidity (X_1) with the value of the company (Z) of 0.134 meaningful liquidity (X_1) has a less strong positive relationship with the enterprise value (Z). Profitability (X_2) the value of the company (Z) of 0.403 has a meaning that profitability (X_2) has a positive relationship with the company's medium (Z). While leveraging (X_3) with the value of the company (Z) of 0.573 which means that the leverage (X_3) have a strong positive relationship with the enterprise value (Z)

3.3. Results Test Mediation

Results test mediation could seen from linkages coefficient path between mediation model as it is that presented on Table 4. 2.

Table4. 2. Results Test Mediation

Regression	Coefficient X1	Coefficient X2	Coefficient X3	Information
II	0.031 *	0.137 *	0.190 *	Mediation applies perfectly if the regression coefficient value II < regression I
III	0.207 **	0.330 **	0.555 **	

* The value of beta coefficient obtained from the table Regression I

** The value of the beta coefficients obtained from the regression table II

Source: data processed, 2017

Based on Table 4. 2 could is known that value coefficient which are contained in regression II all larger of the in regression I. This shows that earnings management is not apply perfect as variable mediation (intervening) for influence liquidity, profitability, and leverage against the value of the company.

3.4. Hypothesis Testing Substructure I

The results of hypothesis testing are shown in Table as follows:

Table. Regression Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	-3,503	, 321	-10.914	, 000	
	Liquidity (X1)	, 059	, 157	, 377	, 707	
	Profitability (X2)	, 142	, 083	, 137	1,699	, 092
	Leverage (X3)	, 175	, 075	, 190	2,324	, 021

Big coefficient residue for $\epsilon_1 \sqrt{1 - R^2} = \sqrt{1 - 0,242} = \sqrt{0,758} = 0,871$. With There obtained equation for substructure I. That is $Y = 0,031 X_1 + 0,137 X_2 + 0,190 X_3 + 0,871 \epsilon_1$.

3.5. Hypothesis Testing Substructure II

For test hypothesis substructure II could do by counting value coefficient path that used from results processing data by using SPSS as it is presented on Table 4. 5.

Table14. 5. Coefficients Substructure II

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	2,324	, 361	6,441	, 000	
	Liquidity (X1)	, 460	, 131	, 207	3,522	, 001
	Profitability (X2)	, 394	, 070	, 330	5,607	, 000
	Leverage (X3)	, 591	, 064	, 555	9,244	, 000
	Earnings management(Y)	, 140	, 069	, 122	2.034	, 044

a. Dependent Variable: company value (Z)

Source: Data processed 2017

Big coefficient residue for ϵ_2 adalah $\sqrt{1 - R^2} = \sqrt{1 - 0,513} = \sqrt{0,606} = 0,698$. With so obtained equation for substructure II that is $Z = 0,207 X_1 + 0,330 X_2 + 0,555 X_3 + 0,122 Y + 0,698 \epsilon_2$.

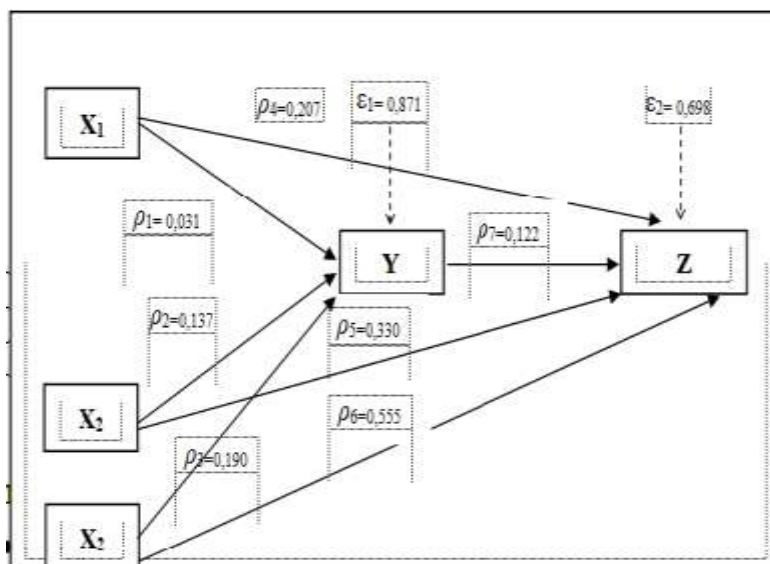


Fig. Model research from results structural testing complete.

3.6. The Influence of Liquidity, Profitability and Leverage is together to Earnings Management

The results of the first hypothesis testing is H_a be accepted. this means that the liquidity (X_1), profitability (X_2), and leverage (X_3), jointly effect on earnings management (Y). The determination criterion is based on value coefficient ρ lane $\rho_1 (X_1 \rightarrow Y)$, $\rho_2 (X_2 \rightarrow Y)$ or $\rho_3 (X_3 \rightarrow Y) \neq 0$, that is 0.031, 0.137 and 0.190. Variables profit management that could explained by the variable independent liquidity, profitability, and leverage together is of 5.9%;

3.7. The Influence of Liquidity to Earnings Management

Results testing hypothesis second is H_a be accepted. This means that liquidity (X_1) take effect to profit management (Y). Criteria determination based by value coefficient path $\rho_1 (X_1 \rightarrow Y) \neq 0$, is 0,031. The magnitude influence variable X_1 Y is $(0,031)^2 \times 100\% = 0,091\%$;

3.8. The Influence of Profitability to Earnings Management

Results testing hypothesis third is H_a be accepted. P it means that profitability (X_2) take effect to earnings management (Y). Criteria determination based by value coefficient path $\rho_2 (X_2 \rightarrow Y) \neq 0$, ie 0.137. The magnitude influence variable X_2 to variable Y is $(0,137)^2 \times 100\% = 1,88\%$.

3.9. The Influence of Leverage to Earnings Management

Results testing hypothesis fourth is H_a be accepted. P this means that leverage (X_3) effect on earnings management (Y). Criteria determination based by value coefficient (Y). $\rho_3 (X_3 \rightarrow Y) \neq 0$, ie 0.190. The magnitude influence variable X_3 to variable Y is $(0,184)^2 \times 100\% = 3,61\%$.

3.10. The Influence of Liquidity, Profitability, Leverage and Earnings Management is together to Company Value

Results testing hypothesis fifth is H_a be accepted. This means liquidity, profitability, leverage and earnings management on together take effect of company value. Criteria determination is based by path coefficient value $\rho_4 (X_1 \rightarrow Z)$ or $\rho_5 (X_2 \rightarrow Z)$ or $\rho_6 (X_3 \rightarrow Z)$ or $\rho_7 (Y \rightarrow Z) \neq 0$ that is 0.207, 0.330, 0.555, and 0.122. The variable of the company's value can be explained by variable liquidity, profitability, leverage and earnings management on together is as big 51.3%;

3.11. The Influence of Liquidity to Company Value

Results testing hypothesis sixth is H_a be accepted. ρ it means that liquidity effect to company value. Criteria determination based by value path coefficient $\rho_4 (X_1 \rightarrow Z) \neq 0$, that is 0.207. The magnitude influence variable X_1 to variable Z is $(0,207)^2 \times 100\% = 4,28\%$;

3.12. The Influence of Profitability to Company Value

This means that profitability take affect to company value. Criteria determination based by value path coefficient $\rho_5 (X_2 \rightarrow Z) \neq 0$, that is 0.330. The magnitude influence variable X_2 variable Z is $(0.330)^2 \times 100\% = 10.89\%$;

3.13. The Influence of Leverage to Company Value

Test result hypothesis eight is H_a be accepted. This means that leverage (X_3) take effect to company value (Z). Criteria determination based by value path coefficient $\rho_6 (X_3 \rightarrow Z) \neq 0$, that is 0.555. The magnitude influence variable X_3 Z is $(0.555)^2 \times 100\% = 30.80\%$;

3.14. The Influence of Earnings Management to Company Value

Results testing hypothesis ninth is H_a beaccepted. This matter means that earnings management (Y) take effect to company value (Z). Criteria determination based by value path coefficient $\rho_7 (Y \rightarrow Z) \neq 0$, namely - 0.093. The magnitude influence variable Y against the variable Z is $(0.122)^2 \times 100\% = 1.49\%$.

3.15. The Earnings Management Mediates the Effect of the Liquidity on Company Value

Results testing hypothesis tenth is H_a beaccepted. This means that the earnings management (Y)mediates the effect of liquidity (X_1) against company value (Z).Criteria determination is based by path coefficient value $\rho_1 (X_1 \rightarrow Y) \neq 0$, or $\rho_7 (Y \rightarrow Z) \neq 0$, 0.031 and 0.122. Value $(\rho_1 \times \rho_7) \leq \rho_4 = \leq 0.0038$ 0.207, then Y mediates partially the effect of X_1 to Z . management partially mediates the effect of liquidity on the value of the company;

3.16. The Earnings Management Mediates the Effect of the Profitability on Company Value

The results of the eleventh hypothesis testing are H_a accepted. This means that the earnings management mediates the effect of profitability to firm value. Criteria determination based by value coefficient path $\rho_2 (X_2 \rightarrow Y) \neq 0$ or $\rho_7 (Y \rightarrow Z) \neq 0$, that is 0.137 and 0.122. Value $(\rho_2 \times \rho_7) \leq \rho_5 = \leq 0.017$ 0.330, then Y mediate on partially the effect of X_2 to Z . Earnings management partially mediates the effect of profitability on the value of the company.

3.17. The Earnings Management Mediates the Effect of the Leverage on Company Value

The result of hypothesis testing of twelve is H_a accepted. This means that the earnings management (Y) mediates the effect of leverage (X_3) to firm value (Z). Criteria determination is based by value coefficient path $\rho_3 (X_3 \rightarrow Y) \neq 0$ or $\rho_7 (Y \rightarrow Z) \neq 0$, namely 0.190 and 0.122. Value $(\rho_3 \times \rho_7) \leq \rho_6 = \leq 0.023$ 0.555, then Y mediate on partially the effect of X_3 to Z . Earnings management partially mediates the effect of leverage on the value of the company.

4. CONCLUSION

Based on the results research that obtained and the discussion, then it can take conclusion as following: 1). Liquidity, profitability, and leverage jointly effect on earnings management ; 2). Liquidity effect on earnings management; 3). Profitability take effect to earnings management; 4). Leverage effect on earnings management; 5). Liquidity, profitability, leverage and earnings management together take effect to use values p company; 6). Liquidity effect company value; 7). Profitability take effect on company value; 8). Leverage take to effect company value; 9). Profit management take effect on the enterprise value; 10). Earnings management partially mediate the effect of liquidity against company value; 11). Management earnings partially mediate the effect of profitability to firm value; 12). Management earnings partially mediate the effect of leverage to firm value.

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