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The Effect of Liquidity, Leverage and Company Size on Profitability

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A B S T R A C T

The purpose of this research are to determine the description of liquidity, leverage, company size and profitability and than description of the effect of liquidity, leverage, and company size on the profitability at company Sub Sector Hotel, Restaurant, and Tourism Listed in BEI either simultaneously or partially. This research uses descriptive qualitative and quantitative. This research found the results that liquidity, company size, and profitability increased, while average leverage tended to decrease. Either simultaneously, liquidity, leverage, and company size has positive and not significant effect on profitability. T-test results that liquidity has a positive and not significant effect, results that leverage have a negative and not significant, results that company size has a positive and significant effect on profitability. liquidity, leverage, and company size able to explain most of profiability in Companies Sub Sector Hotel, Restaurant, and Tourism.

1. INTRODUCTION

The existence of the current economy encourages the increase and growth of the business world which makes competition between companies even tighter. The company's competition is usually carried out in achieving company goals. One of the fundamental goals of the company is to maximize profit. To achieve these goals, companies are required to be able to improve company performance by generating profit.

Profitability is the company's ability to generate returns on assets used. Factors that affect profitability include liquidity, leverage and company size. Liquidity is the company's ability to pay short-term liabilities with available current assets. Apart from being affected by liquidity, profitability is also influenced by leverage. Leverage is the ratio used to measure how much a company is financed with debt.

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Furthermore, profitability is also influenced by company size. Company size is the size of the company which can be seen from the level of sales and total assets owned by the company. Table 1 presents an overview of liquidity, leverage, company size, and profitability in the hotel, restaurant and tourism sub-sector companies listed on the IDX for the period 2016 - 2018.

Table 1. Description of Liquidity, Leverage, Company Size, and Profitability

Period	Liquidity	Leverage	Company Size	Profitability
2016	0,596	0,419	27,885	0,037
2017	0,476	0,412	27,941	0,040
2018	0,605	0,406	27,991	0,042
Average	0,559	0,412	27,939	0,040

Source: Processed data (2020)

Based on Table 1, it can be seen that the average value of liquidity has fluctuated and tends to increase, the average value of leverage has decreased, the average value of company size and profitability has increased. This is in line with the research of (Mailinda, Riska Azharsyah, 2018) and (Ratnasari, 2016), but not in line with the research conducted by (Manullang, Maya Rani, 2016) and (Febria, 2014). The existence of the above phenomena and the inconsistencies between the results of previous studies, the authors are interested in conducting this research.

This study aims to: 1) determine the description of liquidity, leverage, company size and profitability in the hotel, restaurant and tourism sub-sector companies listed on the IDX, 2). determine the effect of liquidity, leverage and company size on profitability in the hotel, restaurant and tourism sub-sector companies listed on the IDX either simultaneously or partially.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Financial Statement Analysis

According to (Kasmir, 2015), financial statement analysis is an analysis that must be carried out carefully by using appropriate analysis methods and techniques and provides information about the company's weaknesses and strengths.

Financial Ratios

According to (Kasmir, 2015), financial ratios are an activity of comparing numbers in the financial statements by dividing one number by another." The purpose of financial ratios is to assess the performance of management in a period whether it has achieved the target as set. Then also can be assessed the ability of management in utilizing company resources effectively ". There are six types of financial ratios, namely: liquidity ratio, leverage ratio, activity ratio, profitability ratio, growth ratio and valuation ratio.

Liquidity

According to (Sudana, 2011), liquidity refers to a company's ability to meet its short-term obligations. Liquidity is the ability to convert assets into cash or the ability to obtain cash. The types of liquidity ratios are current ratio, quick ratio or acid test and cash ratio. Meanwhile, according to Munawir (2010:32), there are several factors that need to be considered in determining company liquidity, the volume of company activities and controlling current assets.

Leverage

According to (Sudana, 2011), the leverage ratio is used to measure how much debt is used in company spending". The types of leverage ratios are debt ratio, debt to equity ratio, time interest earned ratio, long term debt to equity. According to (Brigham, 2010), the factors that affect the leverage ratio, namely raising funds through debt, creditors see equity or funds and if the results obtained from company assets are higher than the interest rate paid, the use of debt will elevate or increase the return on equity.

Company Size

According to (Sartono, 2010), "the size of the company is that large companies that are well established will find it easier to obtain capital in the capital market compared to small companies". According to (Riyanto, 2009), "company size can be measured by Size = Ln of Total Assets. The bigger the company, the greater the access to enter the capital market, while new companies will experience difficulty to access the capital market. Meanwhile, several factors that influence company size can be seen from the amount of equity value, company value, or the results of the total asset value of a company".

Profitability

According to (Sudana, 2011), profitability is a measure of the company's ability to generate profits by using company-owned resources such as assets, company capital. Types of profitability, namely Return on Assets (ROA), Return on Equity (ROE) and Profit Margin Ratio. The factors that influence profitability according to (Brigham, 2010) among others, are liquidity, asset management and debt management.

The Effect of Liquidity, Leverage and Company Size on Profitability

According to (Brigham, 2010), "if the liquidity ratios, asset management, debt management and profitability look good, and if these conditions continue to be stable then the market value ratio will also be high, the stock price is likely to be high as predicted, and management has done a good job so it should better be rewarded. Meanwhile, according to (Hery, 2016) states that the higher return on assets the higher the net profit generated from each rupiah of funds invested in total assets. The results of the research are (Mailinda, Riska Azharsyah, 2018), states that leverage and liquidity have a positive and significant effect on profitability. As well as the results of the research conducted by (Ratnasari, 2016), states that company size has a positive and insignificant effect on profitability.

The hypothesis in this study is as follows:

H_1 : liquidity, leverage, and company size have a significant effect on profitability both simultaneously and partially.

3. RESEARCH METHOD

This research is designed with literature research where the object is the financial profit report of the hotel, restaurant and tourism sub-sector companies for the period of 2016-2018 which is obtained from the official website of the IDX (www.idx.co.id). A population of 35 with a sample drawn amounting to 13. The types of data are secondary data collected through a documentation method where the analysis technique used is classical assumption test, qualitative and quantitative descriptive analysis.

4. RESULTS

Normality test

In this study, the normality test was carried out with the Kolmogorov Smirnov test, the results of which can be seen in Table 2.

Table 2.
Kolmogorov-Smirnov Test

		CR	DAR	SIZE	ROA	Unstandardized Residual
N		39	39	39	39	39
Normal Parameters[a,b]	Mean	,55908	,41221	27,93905	,03964	0E-7
	Std. Deviation	,478565	,136484	1,413580	,028989	,02669488
Most Extreme Differences	Absolute	,159	,140	,104	,091	,095
	Positive	,159	,118	,072	,078	,095
	Negative	-,136	-,140	-,104	-,091	-,057
Kolmogorov-Smirnov Z		,992	,877	,649	,570	,591
Asymp. Sig. (2-tailed)		,279	,425	,793	,901	,876

Source: Data Processing (2020)

Autocorrelation Test

In this study, the Autocorrelation Test was carried out by the Durbin Wetson test, the results of which can be seen in Table 3.

Table 3.
Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,390[a]	,152	,079	,027815	2,425

Source: Data Processing (2020)

Multicollinearity Test

In this study, the Multicollinearity Test was carried out by VIF and TOL testing, the results of which can be seen in Table 4.

Table 4.
Multicollinearity Test

Model	Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
	B	Std. Error	Beta	Tolerance	VIF
(Constant)	-,155	,096			
CR	,013	,010	,222	,962	1,039
DAR	-,002	,034	-,011	,930	1,076
SIZE	,007	,003	,328	,957	1,045

Source: Data Processing (2020)

Qualitative Descriptive Analysis

Liquidity fluctuates and tends to increase due to an increase in cash and cash equivalents that are higher than current debt. Leverage decreases due to decreased total debt while total assets have increased. The value of the company size increases due to an increase in the company's total assets such as current assets and fixed assets. Profitability increases due to the net profit after tax generated by the company which increases every year.

Quantitative Descriptive Analysis

Multiple Linear Regression

Multiple linear regression testing in this study uses SPSS (Statistical Product and Service Solution) which is presented in Table 5.

Table 5.
Results of Multiple Linear Regression

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta
1	(Constant)	-,155	,096	
	Cash Ratio	,013	,010	,222
	DAR	-,002	,034	-,011
	SIZE	,007	,003	,328

Source: Processed data (SPSS 21), 2020

From these results, a multiple linear regression equation is formed, as follows:

$$\mathbf{Y = -0{,}155 + 0{,}013X_1 - 0{,}002X_2 + 0{,}007X_3}$$

The equation shows that liquidity and company size have a positive effect, while leverage has a negative effect on profitability in the hotel, restaurant and tourism sub-sector companies listed on the IDX.

Correlation Coefficient and Determination Coefficient

The results of the correlation and determination coefficient in this study can be seen in Table 6.

Table 6.
Correlation and Determination Coefficient Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,390[a]	,152	,079	,027815

Source: Processed data (SPSS 21), 2020

As seen from the results above, the correlation coefficient (r) is 0.390, which means that there is a low correlation or relationship between the variables of liquidity, leverage, company size with the variable profitability. The determination coefficient value (R) is 0.152 (15.2%), which means that the variables of liquidity, leverage, company size are able to explain the variable (profitability) of 0.152 (15.2%), while the remaining 0.848 (84.8%) is explained by other variables not examined in this study such as sales, working capital efficiency, capital structure, dividend policy, financial policy, and total assets turnover.

Hypothesis Testing

Simultaneous Test (F Test)

The results of the estimates of the F_{count} value in this study are presented in Table 7.

Table 7.
F_{count} Test Result

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,005	3	,002	2,091	,119[b]
	Residual	,027	35	,001		
	Total	,032	38			

Source: Processed data (SPSS 21), 2020

According to the results above, it can be concluded that the significance value is 0.119> 0.05, then H_0 is accepted, meaning that liquidity, leverage, and company size have no significant effect on profitability in the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX.

Partial Test (t Test)

The results of the estimates of the t_{count} value in this study are presented in Table 8.

Table 8.

t_{count} Test Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,155	,096		-1,613	,116
	CR	,013	,010	,222	1,399	,171
	DAR	-,002	,034	-,011	-,070	,945
	SIZE	,007	,003	,328	2,060	,047

Source: Processed data (SPSS 21), 2020

Based on Table 8, it is known that the results of the partial test (t test) on the liquidity variable with the Cash Ratio (CR) parameter have a significance value of 0.171> 0.05, therefore H_0 is accepted, meaning that liquidity has a positive and insignificant effect on profitability in the Hotel, Restaurants and Tourism Sub Sector Companies listed on the IDX. While the results of the partial test (t test) on the leverage variable with the Debt to Assets Ratio (DAR) parameter have a significance value of 0.945> 0.05, therefore H_0 is accepted, meaning that leverage has a negative and insignificant effect on profitability in the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX. In addition, the results of the partial test (t test) on the company size variable with the Size parameter have a significance value of 0.047 <0.05, so H_0 is rejected, meaning that company size has a positive and significant effect on profitability in Hotels, Restaurants and Tourism Sub-Sector Companies. listed on the IDX.

Evaluation

Liquidity Evaluation

The research results show that the liquidity conditions of the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX for the 2016-2018 period fluctuated and tended to increase. This is due to the increase in cash and cash equivalents that are higher than current debt. The downward trend can be seen from the average liquidity for the 2017 period of 0.476 time. The average value of liquidity is 0.559 time, which means that during the study period the average ability of companies to pay current debts using cash and cash equivalents is 0.559 time. It is known that the minimum liquidity value is 0.034 time that was found in PT Island Concepts Indonesia Tbk in 2018. This means that every Rp. 1.00 of current debt is guaranteed by cash and cash equivalents of Rp. 0.034. This is because cash and cash equivalents have decreased while current debt has increased. The increase in current payable came from third party debts, trade payables, tax payable and finance lease payable.

Leverage Evaluation

The research results show that the leverage conditions in the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX for the 2016-2018 period experienced a decline. This is because total debt decreases more than total assets. The downward trend can be seen from the average leverage for the 2017 period of 0.412 time, and continued to decline until the 2018 period of 0.409 time. The average value of leverage for the 2017 period is 0.412 times, which means that every Rp. 1.00 of total assets used to guarantee a total debt of Rp 0.412. The minimum value of leverage is 0.153 time found in PT Pembangunan Graha Lestari Indah Tbk in 2016. This means that every Rp. 1.00 the total assets is used to guarantee a total debt of Rp. 0.153. This is because total debt increases more than total assets. The increase in total debt originated from trade payables, accrued expenses, related party payables, and provision for equipment replacement.

Company Size Evaluation

The research results show that the condition of the company size in the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX for the 2016-2018 period experienced an increase. The increasing trend can be seen from the average size of the company at the beginning of the 2017 period is 27,941, and continues to increase until the 2018 period as many as 27,991 times. This is due to the increase in the company's total assets, both current assets and non-current assets. The minimum value of company size is 24,984 times in PT Pembangunan Graha Lestari Indah 2016. This is due to the decrease in total assets originating from cash and cash equivalents and other receivables.

Profitability Evaluation

The research results show that the profitability conditions for the 2016-2018 period tended to increase. This is because the net profit after tax generated by the company increases every year due to increased sales and controlled operating expenses. The increasing trend can be seen from the average profitability at the beginning of the 2017 period of 0.040 time, and continues to increase until the 2018 period of as many as 0.042 time. The minimum profitability value is 0.001 time in PT Panorama Sentrawisata Tbk in 2016 and 2018 and PT Hotel Sahid Jaya International Tbk in 2016-2018 which means every Rp. 1.00 total assets results in a loss of Rp. 0.001. This is due to the company's net profit after tax experienced a loss.

Evaluation of the Effect of Liquidity, Leverage and Company Size on Profitability

Based on the results of multiple linear regression, it is known that liquidity and company size have a positive effect on profitability while leverage has a negative effect on profitability. This can be seen from the following regression equation:

$$\mathbf{Y = -0{,}155 + 0{,}013X_1 - 0{,}002X_2 + 0{,}007X_3}$$

Every time liquidity increases by one unit, then profitability will increase by 0.013 unit, assuming the other independent variables are considered constant or equal to zero. While every time leverage increases by one unit, then profitability will decrease by 0.002 unit, assuming the other independent variables are considered constant or equal to zero. In addition, every time company size increases by one unit, then profitability will increase by 0.007 unit, assuming the other independent variables are considered constant or equal to zero.

From the correlation and determination coefficient test, it is known that the correlation coefficient (r) is 0.390, which means that there is a low correlation or relationship between the independent variables (liquidity, leverage and company size) and the dependent variable (profitability). The coefficient of determination (R) is 0.152 (15.2%), which means that the independent variables (liquidity, leverage, and company size) are able to explain the dependent variable (profitability) of 0.152 (15.2%), while the rest is 0.848 (84, 8%) is explained by other variables not examined in this study such as sales, working capital efficiency, capital structure, dividend policy, financial policy, total assets turnover.

Based on the F test, it is known that the significance value is 0.119> 0.05, therefore H_0 is accepted, meaning that liquidity, leverage, and company size have no significant effect on profitability in Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX. The results of this study are in line with the opinion of (Ratnasari, 2016) and (Manullang, Maya Rani, 2016), but contrary to the research results of (Mailinda, Riska Azharsyah, 2018) and (Febria, 2014).

5. CONCLUSION

The value of liquidity fluctuates and tends to increase, the value of leverage decreases, the value of the company size experiences an increase, and the value of profitability in the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX for the 2016-2018 experiences an increase. The results of multiple linear regression states that liquidity and company size have a positive effect, while leverage has a negative effect on profitability in the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX. Simultaneously, it is known that liquidity, leverage, and company size have no significant effect on profitability in the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX. While partially, it is known that the liquidity variable has a positive and insignificant effect, leverage has a negative and insignificant effect, and the company size variable has a positive and significant effect on profitability in the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX.

For Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX, they should immediately fulfill and control their financial obligations, control asset management and increase sales and streamline the company's operating expenses so that they are not too high, therefore the profit that will be generated is maximized in the future. Meanwhile, investors and potential investors should be more observant in analyzing the company's financial performance in terms of profitability. Because from the researchers' observations, there are many companies that are not optimally managing their finances.

Limitation

In connection with the authors' limitation, this study still has several weaknesses and has not used all the research variables in the Hotel, Restaurant and Tourism Sub-Sector Companies listed on the IDX. Therefore, the authors hope that the next researches add or replace the variables in order to further improve in the future, such as activities, company value or adding years of research, for example 5 or 10 years. By changing variables or adding years, it is hoped that maximum research results will be obtained.

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