

The Effect of Liquidity, Leverage, and Inflation on Profitability (Case Study in Construction and Building Companies Listed on the Indonesia Stock Exchange)

Yana Hendayan*, Nada Dhiya Salsabila, Sarah Rizki Sabila, Jihan Arij Hisanah F, Anggi
Dwi Lestari
Widyatama University, Indonesia
*yana.hendayana@widyatama.ac.id

Abstract

This study aims to determine the effect of leverage liquidity and inflation on profitability. This research was conducted on 9 companies in the construction and building sub-sector listed on the Indonesia Stock Exchange for the 2014-2018 period. The research method of verification with a population quantitative approach in this study is construction and building companies listed on the Indonesia Stock Exchange. The number of samples is 9 companies and a population of 18 companies. The method used is a purposive sampling method, data processing using the program Eviews'9. Statistical data analysis was used by using the classical assumption test, normality test, multicollinearity test, and hypothesis testing. Based on the results of this study it can be concluded that partially the Current Ration variables have a significant effect on ROE. Meanwhile, the Debt Equity Ratio variable has no significant effect on ROE and the Consumer Price Index has a significant effect on ROE. The results of this research are expected to have an impact on the company, especially the construction sector in increasing profitability. The company should see liquidity and inflation which affect company profits. Profitability fluctuations that occur in this study are mostly caused by decreased profits experienced by the company.

Keywords: Profitability, Leverage, Inflation, Liquidity.

INTRODUCTION

Profitability is a type of ratio used to measure how big a company is to get the maximum level of profit. Profitability is a net result of several, policies and decisions (Brigham & Daves 2010). Development of the Profitability Ratio proxied by Return on Equity mining sector companies has decreased every year for 2011-2015 period (Hendayana, 2016).

In this study, I used Return on Equity to measure how much profit investors would get. Investors must also know in detail about the profit-sharing of investors. The second is to know the benefits that can be obtained from year to year. And the third is to measure the rate of increase in profit that year.

In this study, the researcher chose the construction sector company in the construction and building sub-sector as the sample company to be studied. The reason the researchers chose the construction sector company in the construction and building sub-sector was that there were decreased profitability and increased debt. In part, this construction and construction

sub-sector company profit experienced a drop. The movement of profit in construction and building subsector companies has decreased, which is an interesting phenomenon to discuss. One of the ups and downs of profitability occurs in the construction and development sub-sector companies listed on the Indonesia Stock Exchange (IDX). The profitability of this company has also increased and decreased from the price of shares outstanding in the 2014-2018 period. Due to the instability of the profits earned by 9 companies, the results of their profitability also decreased, which is illustrated in the graph below.

Literature Review

Profitability

Profitability is the company's ability to earn profits about sales, total assets, and its capital (Agus Sartono, 210). Profitability is the main factor that must be considered by every business entity if such a company wants to continue operating for its survival. and the satisfaction of its stakeholders. Profitability is the most common measure of organizational growth and progress in terms of efficiency and productivity (Foyeke et al., 2016). Profit can also be further defined as the ability of certain investments to get returns from their use (Tulsian, 2014).

Liquidity

The liquidity ratio measures the company's ability to meet its short-term obligations. The size of this ratio is influenced by 1) Current Asset Ratio; 2) Cash Ratio; 3) Quick Ratio (Al-Ajmi, et al., 2009; Chowdury & Paul, 2010; Kasmie, 2011; Paydar & Baejayaibin, 2012). Liquidity is a ratio that describes the company's ability to meet short-term obligations. These obligations are short-term or long-term obligations that are due (Kasmir 2013).

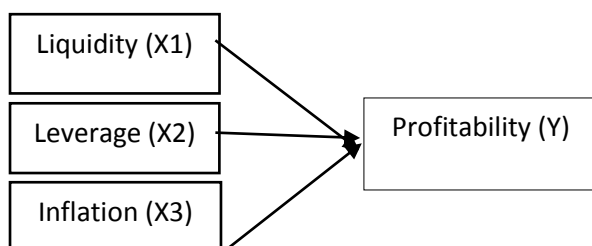
Leverage

Leverage is a proportion that describes the relationship between company debt and goodwill, this proportion can see the extent to which the company is constrained by debt or beyond the competence of the actor has company competence described by goodwill (Harahap, 2013). Leverage is used to measure the ratio of debt to assets and equity owned by the company (Chasmere, 2011).

Inflation

Inflation is the process of increasing the price level prevailing in the economy, and the price level is the average price -averages that weigh various goods and services or the accumulation of previous inflation (Dornbusch et al., 2008). Inflation is best described as a general price increase, in which inflation reduces the purchasing power of a currency (McConnel & Brue, 2008)

Hypothesis



- X1: Is there a significant effect between liquidity on profitability
- X2: Is there a significant influence between leverage on profitability
- X3: Is there a significant influence between inflation on profitability

METHODOLOGY

The research method used by the author is verification research, because of the limitations of the author is researching so that the authors decide only to use a partial method. The number of samples is 9 companies and a population of 18 companies. The method used is purposive sampling method and data processing using the Eviews'9 program.

RESULTS AND DISCUSSION

The discussion includes the results of linear regression analysis and interpretation of the results of hypothesis testing. Before testing the hypothesis through model testing, this study first tested the quality of the data to be used. This test is used to determine the fulfillment of the assumptions required in testing the linear regression model.

RESULTS AND DISCUSSION

Normality Test

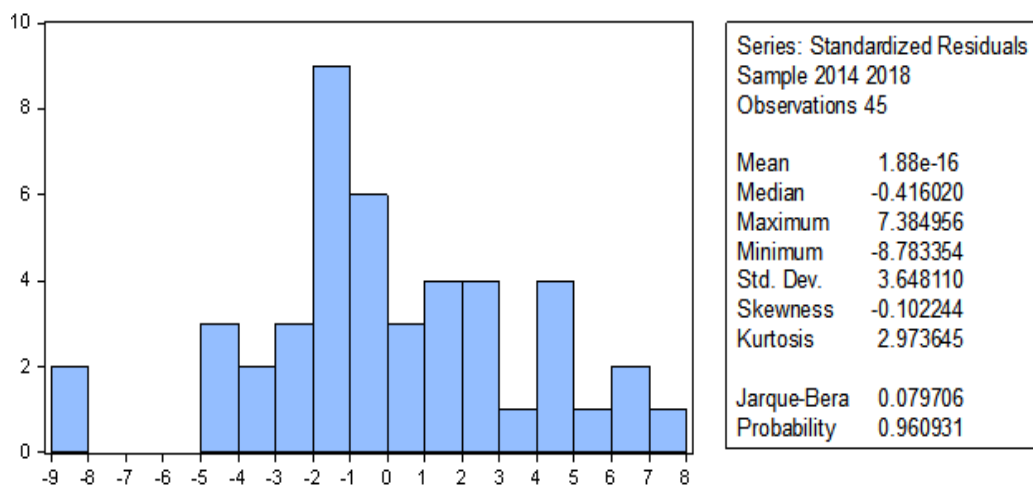


Figure 1. Normality Test Results

Based on Figure 1, it is known that the profitability value of the JB statistic is 0.79706 and the profitability value is 0.960931, which is greater than the significance value of 0.05. then the research data is normally distributed.

Multicollinearity Test

Table 1. Multicollinearity Test Results

	X1	X2	X3
X1	1.000000	0.035292	0.095388
X2	0.035292	1.000000	0.198432
X3	0.095388	0.198432	1.000000

In this research data, no correlation matrix value is above or greater than 0.90. So, it can be concluded that the data used do not experience multi-collinearity.

Hypothesis Test (T-Test)

The T-test was conducted to determine the effect of each independent variable on the fixed variable. This test is performed using a one-way test. The test of the regression results is carried out at a confidence level of 95% or $\alpha = 5\%$. The T-test on the basis shows how much influence one independent explanatory variable has on the dependent variable.

Test results for each independent variable that used in this study are shown in the following table:

Table 2. Hypothesis Test

Variable	T Calculate	Prob T-calculate	Description
Current Ratio	0.0129	2.600644	significant
DER	0.4189	0.816630	Not Significant
CPI	3.008342	0.0045	Significant

Data in the above table can be described as follows:

1. Current Ratio

The test results as shown in Table 2 show that the volume of capital has a positive effect on the intrinsic value of the company with a profitability value of $2,600644 > 0.05$.

2. Debt Equity Ratio

The test results as shown in Table 2 show that asset growth has a positive effect on the company's intrinsic value with a profitability value of $0.816630 > 0.05$.

3. Consumer Price Index

The test results as shown in Table 2 show that sales growth has a positive effect on the company's intrinsic value with a probability value of $3.008342 > 0.05$.

CONCLUSION

Statistical data analysis was used by using the classical assumption test, normality test, multicollinearity test, and hypothesis testing. Based on the research results, it can be concluded that partially the variable Current Ratio has a significant effect on ROE. Meanwhile, the Debt Equity Ratio variable has no significant effect on ROE and the Consumer Price Index has a significant effect on ROE.

REFERENCES

1. Al-Ajmi et al. (2009). Decision on Capital Structure in a Zakat Environment with Prohibition of Riba: The Casse of Saudi Arabia. *Journal of Risk Finance*, 10(5), 460-476.
2. Brigham, E. A. (2010). *Intermediate Financial Management*. Cengage Learning. South-Western.
3. Cashmere. (2001). *Financial Statement Analysis*. PT Raja Gafindo Persada, Jakarta.
4. Cashmere. (2014). *Financial Statement Analysis*. Jakarta: PT Raja Grafindo Persada.
5. Dornbusch et al. (2008). *Macroeconomics Indonesian*. PT. Medina Global Education Jakarta.
6. Foyoke, OI (2016). Financial Structure and the Profitability of Manufacturing Companies in Nigeria. *Journal of Accounts, Finance, and Auditing*, 2(3), 56-63.
7. Harahap, SS (2013). *Critical Analysis of the 11th Edition of Financial Statements*. Jakarta: Rajawali Pers.
8. Hendayana, Y. (2017). Rasio Profitabilitas, Rasio Leverage, dan Risiko Sistimatis Terhadap Return Saham Pada Sektor Pertambangan. *Jurnal Riset Akuntansi dan Keuangan*, 4(3), 1177-1188.

9. McConnel. Campbell R. & Brue. Stanley L. (2008). Economics, McGraw-Hill International Edition.
10. Tulsian, M. (2014). Profitability Analysis (A comparative study of SAIL & TATA Steel). IOSR Journal of Economics and Finance, 3(2), 19-12.
11. <https://idx.co.id/>.
12. <https://www.emerald.com/insight/>.
13. <https://scholar.google.com/>.