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THE EFFECT OF LIQUIDITY, SOLVENCY AND ACTIVITY ON PROFITABILITY WITH SALES GROWTH AS A MODERATING VARIABLE IN PROPERTY AND REAL ESTATE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

Objective – This study aims to analyze empirically the effect of liquidity, solvency, and activity on profitability with sales growth as a moderating variable in property and real estate companies listed on the Indonesia Stock Exchange.
Design/Methodology/Approach – This research uses Quantitative research. Sampling was carried out by purposive sampling, and obtained a sample of 20 sample companies. The data analysis method used is SmartPLS software.
Findings – The results of this research analysis show that liquidity has no significant effect on profitability; solvency and activity have a significant effect on profitability; sales growth are not able to moderate the effect of liquidity, solvency, and activity on profitability.
Conclusion and Implications – The liquidity has no significant effect on profitability; solvency and activity have an influence and are significant to profitability; sales growth is not able to moderate the influence of liquidity, solvency and activity on profitability. The company needs to innovate and evaluate strategies to increase the contribution of sales growth to the company. Investors and potential investors are more selective in choosing companies to invest in by paying attention to the company's financial condition.

Keywords: Liquidity, Solvency, Activity, Profitability, Sales Growth

INTRODUCTION

The era of globalization has brought significant changes in the business world, triggering intense competition that encourages companies to continue to develop and adjust. The company's main focus is to achieve high profitability, which not only reflects operational success but is also an indicator of success in achieving the company's mission and vision. Accurate information on financial performance is key in making wise decisions. Profitability ratios, especially Return On Asset (ROA), are important indicators that reflect the efficient use of company resources (Iswandi, 2022).

Table 1. The profitability value of Property and Real Estate Companies and Manufacturing Sector listed on the Indonesia Stock Exchange

No	Subsector	Profitability (ROA)					Average
		2018	**2019**	**2020**	**2021**	**2022**	
1	Food and beverages subsector	11,81%	13,50%	8,24%	10,44%	11,04%	**11,01%**
2	Pharmaticeuticals subsector	7,03%	7,76%	8,35%	8,83%	7,78%	**7,95%**
3	automotive subsector	5,44%	4,82%	1,99%	5,79%	6,00%	**4,81%**
4	Cigarette subsector	8,11%	8,33%	3,51%	6,52%	8,25%	**6,94%**
5	property dan real estate sector	5,51%	4,45%	-1,63%	2,38%	3,79%	**2,90%**

Source : Indonesia Stock Exchange (IDX) (data processed 2023)

The table above shows that the food and beverage subsector achieves the highest level of profitability with an average of 11.01%. The pharmaceutical subsector is in second place with an average profitability value of around 7.95%, while the automotive subsector shows an average profitability of around 4.81%. The cigarette subsector has an average profitability value of around 6.94%. However, it is the property and real estate sector that shows the lowest level of profitability by only reaching 2.90%. These results illustrate that the financial condition of property and real estate companies on the Indonesia Stock Exchange over the past five years has been in poor condition.

The property and real estate sector is an attractive investment option, but has risks related to fluctuations in interest rates, inflation, exchange rates, and the impact of the pandemic. These conditions show that companies in this sector face major challenges, which can affect their financial performance and sustainability. Therefore, profitability analysis is important to assess the company's ability to generate profits related to assets and capital owned, as well as consider financial factors that affect profitability in property and real estate companies.

According to Henny and Susanto (2019) there are several factors that affect profitability including liquidity, solvency and activity. According to Wiksuana (2018) and Febransyah and Tobing (2023) liquidity has a significant effect on profitability. However, this contradicts the research conducted by Husniar (2022) and Sukmawati et al. (2022) which states that liquidity cannot have a significant effect on profitability. Like liquidity, according to tests conducted by Sari and Dewi (2019); Fadhilah (2017) states that solvency has a significant effect on profitability. However, it is different from the tests conducted by Husniar (2022) and Cahyani and Sihotang (2020) which state that solvency has no significant effect on profitability. According to Rahmah and Yudiaatmaja (2019); Darmayanti and Susila (2022) in their tests state that activity has a significant effect on profitability. However, this contradicts Setiawan and Suwaidi (2022); Putri (2018); and Sanjaya et al. (2015) which states that activity has no effect on profitability.

Some of the results of previous studies have inconsistent research results related to liquidity, solvency and activity on profitability. Because there are inconsistent results of previous studies, researchers added a new variable, namely sales growth or sales growth as a moderating variable that is thought to strengthen or weaken the effect of liquidity, solvency and activity on company profitability.

Based on the background previously described, the problem formulation in this study is whether liquidity, solvency, and activity affect profitability and whether sales growth is able to moderate the effect of liquidity, solvency, and activity on profitability in property and real estate companies listed on the Indonesia Stock Exchange.

METHODS

This research is an explanatory research with a quantitative approach. This research takes data from the official website of the Indonesian Stock Exchange, namely www.idx.co.id. The population in this research are property and real estate companies listed on the Indonesia Stock Exchange for the 2018-2022 period. Sampling in research used a purposive sampling method. The indicator variables used in this study are:

Table 2. Operational Definition of Variables

Variable	Definition	Measurement
Profitability (Y)	a ratio used to measure the company's ability to generate profits from its normal business activities.	Return On Assets $=\frac{NET\ INCOME}{TOTAL\ ASSETS}$
Sales growth (Z)	a change in the amount of sales that increases or decreases from year to year which is reflected in a company's income statement.	Sales growth $=\frac{S1-S0}{S0}$-1
Activity (X3)	a ratio used to assess the effectiveness and intensity of the company's assets in generating sales.	*Total Asset Turnover Ratio* $=\frac{TOTAL\ INCOME}{TOTAL\ ASSETS}$
Solvency (X2)	a ratio used to assess the company's ability to manage its debts in order to make a profit and also be able to pay back its debts.	*Debt to Equity Ratio* $=\frac{TOTAL\ LIABILITIES}{TOTAL\ EQUITY}$
ROA (X1)	Liquidity is a ratio used to measure the company's ability to meet its short-term obligations or measure how liquid a company is.	*Current Ratio* $=\frac{CURRENT\ ASSETS}{CURRENT\ LIABILITIES}$

Source : Kasmir (2018), Hery (2018), Harahap (2018)

RESULTS AND DISCUSSION

Descriptive Statistical Test

The tests that have been carried out show the average results and standard deviation in the following table:

Table 3. Descriptive Statistics

Variabel	Mean	Minimum	Maksimum	Standard Deviation
Likuiditas	3.022	0.143	12.769	2.406
Solvabilitas	0.784	0.043	2.519	0.565
Aktivitas	0.170	0.038	0.389	0.075
Sales growth	0.063	-0.745	1.746	0.377
Profitabilitas	0.029	-0.375	0.220	0.070

Source: Smart PLS output (data processed 2023)

Based on the table above, the amount of data used in this research is 100 observational data originating from financial reports which are included in the purposive sampling sample category. The following is a description of the table: (1) The Liquidity variable has an average value of of 3.022, a minimum value of 0.143, a maximum value of 12.769 with a standard deviation of 2.406; (2) The Solvency variable has an average value of 0.784, with a minimum value of 0.043, a maximum value of 2.519 and a standard deviation of 0.565; (3) The Activity variable has an average of 0.170, a minimum value of 0.038, a maximum value of 0.389 and a standard deviation of 0.075; (4)The EPS variable has an average value of 156.64 with a standard deviation of 215.46; (5) The sales growth variable has an average value of 0.063, with a minimum value of -0.745, a maximum value of 1,746 and a standard deviation of 0.377; (6)The profitability variable with a mean value of 0.029 with a minimum value of -0.375 and a maximum value of 0.220 and with a standard deviation value of 0.070.

Coefficient of Determination Test

Based on the analysis process, it produces information on the coefficient of determination of the model. In the table below:

Table 4. Coefficient of Determination Test

	R - Square	R Squared Adjusted
Y	0.319	0.267

Source: Smart PLS output (data processed 2023)

Referring to the results of the coefficient of determination test above which obtained a figure of 0.319 (weak category). It can be concluded that 31.9% of changes in profitability are influenced by liquidity, solvency and activity variables,. while 68.1%, the remainder can be explained by other variables that have not been processed in this research.

Research Hypothesis Test

The following is the PLS output table "Path Coefficients" to make hypothesis decisions in this study, which are:

Table 5. Path Coefficients

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Adv
X_1 -> Y	-0.081	-0.088	0.082	0.986	0.324	H1 rejected
X_2 -> Y	-0.448	-0.488	0.132	3.388	0.001	H2 accepted
X_3 -> Y	0.339	0.36	0.116	2.934	0.003	H3 accepted
Z x X_1 -> Y	-0.014	-0.012	0.108	0.127	0.899	H4 rejected
Z x X_2 -> Y	0.002	-0.032	0.102	0.021	0.983	H5 rejected
Z x X_3 -> Y	0.040	0.033	0.077	0.521	0.602	H6 rejected

Source: Smart PLS output (data processed 2023)

Based on the results obtained in the path coefficients table, it can be known that: (1) Liquidity has a negative effect on profitability, with an Original Sample value = -0.081 and has no significant effect, with a P-Values value = 0.324> 0.05 and a t-count of 0.986 < 1.96 t table. So this shows that H0 is accepted and H1 is rejected; (2) Solvency has a negative effect on profitability, with an Original Sample value = -0.448 and a significant effect, with a P-Values value = 0.001 <0.05 and a t-count of 3.388> 1.96 t table. So this shows that H0 is rejected and H2 is accepted; and (3) Activity has a positive effect on Profitability, with an Original Sample value = 0.339 and a significant effect, with a P-Values value = 0.003 <0.05 and a t-count of 2.934> 1.96 t table. So this shows that H0 is rejected and H3 is accepted.

Significance Test of Moderation Effect

Sales Growth has a negative effect with an Original Sample value = -0.014 and does not significantly moderate the effect of Liquidity on Profitability, with a P-Values value = 0.889> 0.05 and t-count 0.127 < 1.96 t table. So this shows that H0 is accepted and H4 is rejected.
Sales Growth has a positive effect with an Original Sample value = 0.002 and does not significantly moderate the effect of Solvency on Profitability, with a value of P-Values = 0.983> 0.05 and t-count 0.021 < 1.96 t table. So this shows that H0 is accepted and H5 is rejected.
Sales Growth has a positive effect with an Original Sample value = 0.040 and does not significantly moderate the effect of Activity on Profitability, with a value of P-Values = 0.602 <0.05 and t-count 0.521> 1.96 t table. So this shows that H0 is accepted and H6 is rejected.

The Influence of Liquidity on Profitbility

Based on the research results obtained that liquidity has no significant effect on profitability. This research is in line with previous research conducted by Kusumawati, et al. (2022), Puspitasari, et al. (2019). The management of current assets carried out by property and real estate companies is less than optimal so that it has the opportunity to generate idle funds (idle cash) which should be allocated efficiently for investment, idle assets actually become a fixed expense that reduces company profits. Company liquidity cannot be the basis for determining the effect of company profitability (Anissa, 2019).

The Influence of Solvency on Profitability

Based on the research results obtained that solvency has a significant effect on profitability. This research is in line with previous research conducted by Situmorang (2023) and Sari and Dewi (2019). Increasing debt levels can result in smaller company profitability because the solvency ratio has an inverse relationship with the profitability ratio. This explains that the use of a greater proportion of debt as corporate capital will cause the cost of debt and interest that must be borne by the company to increase, which in turn will reduce the amount of profit obtained by the company (Wahyuni and Suryakusuma, 2018).

The Influence of Activity on Profitability

Based on the research results obtained that activity has a positive and significant effect on profitability. This research is in line with previous research conducted by Rahmah et al. (2019) and Nurulhuda and Novianti (2022). A high activity ratio value indicates that the sales generated from managing the company's assets are greater. A high level of sales opens up opportunities to increase profits which in turn can increase the company's profitability. When the activity coefficient shows a positive value, it means that any increase in activity will contribute to an increase in profitability (Darmayati and Susila, 2022).

The Influence of Liquidity on Profitability with Sales Growth as a Moderating Variable

Based on the research results Sales growth is unable to moderate the effect of liquidity on profitability. This research is in line with research conducted previously by Mahendra et al (2022). According to the results of research conducted by Setiawan and Suwaidi (2022) that the effect of liquidity on profitability can be moderated by Firm Size, because the larger the size of the company the greater the assets it has, so the lower the possibility of the company defaulting on short-term debt, and this will have an impact on profits.

The Influence of Solvency on Profitability with Sales Growth as a Moderating Variable

Based on the research results, sales growth is unable to moderate the effect of solvency on profitability. This is because the use of corporate debt in financing is greater than the company's capital and results in increased financial risk. The impact is that the company's profit cannot be sufficient to pay debt interest and debt principal (Hendi and Sudradjat, 2021).

The Influence of Activity on Profitability with Sales Growth as a Moderating Variable

Based on the research results, sales growth is unable to moderate the effect of activity on profitability. According to Wardhani's research (2022), the effect of activity on profitability can be moderated by company size. Company size has an important role in strengthening the effect of total asset turnover on company profitability. In other words, the higher the total asset turnover, the company can more effectively use its assets in operational activities, which in turn can increase sales.

CONCLUSION

Based on the results of the research process, with the Smart PLS software analysis tool, the author comes to the following conclusion that liquidity has no significant effect on profitability; solvency and activity have an influence and are significant to profitability; sales growth is not able to moderate the influence of liquidity, solvency and activity on profitability.

Based on the research results and conclusions above, there are several suggestions that can be given by the author, namely as follows: The company is expected to be able to manage debt wisely and increase its efficiency in managing its assets in order to obtain maximum profit. The company also needs to innovate and evaluate strategies to increase the contribution of sales growth to the company. Investors and potential investors are more selective in choosing companies to invest in by paying attention to the company's financial condition. For further researchers, it is expected to conduct research on the subject of the company's industry and different year periods, as well as adding variables, so that information and knowledge can be developed.

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