THE EFFECT OF LIQUIDITY ON FIRM VALUE WITH FINANCIAL DISTRESS AND PROFITABILITY AS MEDIATION VARIABLES

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Abstract

Good company conditions will attract investors to invest, good liquidity is important in investor assessment. Higher liquidity will reduce the possibility of a company experiencing financial distress. This study aims to examine the mediating effect of financial distress and profitability in the relationship between liquidity and firm value. The population and sample in this study are companies listed on the Indonesia Stock Exchange for the 2017-2021 period in the consumer and non-consumer goods (cyclical and non-cyclical) sectors with a total of 89 for the cyclical sector and 64 for the cyclical consumer sector. The results of the study show that partially liquidity affects financial distress. financial distress on firm value. liquidity on profitability, profitability has a positive and significant effect on firm value while liquidity has no effect on firm value. then financial distress is not able to mediate liquidity on firm value, but profitability is able to mediate liquidity on firm value.

Keywords*: Liquidity, Firm Value, Financial Distress, Profitability*

1. INTRODUCTION

One of the factors driving the development of companies going public is the high market capital. Market capital is the value of the company's overall assets in the market, this means that investors will see market capital as one of the considerations for investing. Companies with high market capital will give a signal to stock buyers (investors) about a good company condition. This is in accordance with the signaling theory where investors will catch good or bad signals from the object being the signal, the signal object in question is the value of the company. Various observations can be made to assess the capacity of the company, one of which is to look at the growth in a certain period through the movement of stock prices. Stock price movements usually refer to the Jakarta Composite Index. The JCI during the study period experienced fluctuations, this occurred as a result of economic ties that started from the Covid-19 pandemic to the recession. Several companies listed on the Indonesia Stock Exchange are either very vulnerable or immune to these conditions. The cyclical sector is a sector that has a negative Stock Price Index in 2020 to 2021, with an index record at -11.61% and -16.4% below the JCI which was recorded at -5.09% and 10.08%. However, if we review it throughout 2017-2019, this sector recorded a strengthening in the third quarter of 2018 because the company received a 25% increase in net profit. (Kevin, 2018). Although the consumer cycle is not the lowest sector, in this condition it is feared that it can trigger financial distress. Financial distress is a condition of a company's financial health that is not good which is known through financial ratios. In fact, the cyclical sector can be optimized by the existence of profitable companies. Unlike the cyclical sector, the non-cyclical sector is a sector that is immune to the economy. Findings (Fredrick, 2019), stated that investors will tend to pursue stocks that have a good charm when the pandemic occurs. Soaring stocks are everyday items. Based on sectoral stock price index data from 2020 to 2021 the company experienced an increase of 1.84%, and from 2017 to 2019 the company's price index was positive and above the JCI. Although the non-cyclical consumer sector is immune to economic conditions, it does not prevent companies in this sector from being

financially distressed. The movement of the sectoral index data states that the consumer goods sector in 2020 experienced a price drop to -5.84%, during the pandemic year more than fifty percent of companies This sector is classified as in a state of distress (Masdupi et al., 2018) conditions of distress or company profits become a factor that determines the choice of investors in assessing a company. Companies that are able to avoid financial distress are companies that have good liquidity, meaning that if the company is able to meet short-term obligations, earn high profits and is able to use funds effectively and efficiently, it is unlikely that the company will experience financial distress. Therefore, liquidity is seen as one way to determine the value of a company. (Dewi et al., 2021) found that there is an intermediary that connects liquidity and value by looking at financial distress conditions. The relationship between the three can be explained when companies tend to use cash flow for operational expenses, this indicates that companies that tend to allocate their current assets to cover financial difficulties that occur are seen as companies that cannot provide unequal results by investors so that it will reduce the value of the company.. (Lukman Chalid, Ummu Kalsum, 2022)

The relationship between firm value and other variables is found through profitability (Anita Chaudhari, Brinzel Rodrigues, 2016) that the higher the company's ability to utilize its assets and equity, ceteris paribus, the higher the value of the company. If profitability is high, the trust of creditors and investors will increase which will have an impact on increasing the value of the company. The higher the company's profitability will also increase the company's earnings per share. The increase will make investors interested in investing their capital by buying company shares. (Monoarfa, 2018) Therefore, the purpose of this study is to see whether the profits or health of financial companies that are proxied by financial distress are able to mediate the relationship between liquidity and firm value in sectors that are vulnerable and resistant to uncertain economic conditions.

2. LITERATURE REVIEW

Signaling Theory

Signaling theory has been applied and developed in various scientific fields, in terms of management and economics. Signaling theory provides information related to company ownership, start-up developments, IPO and so on, but signaling theory is an opportunity for companies to give signals or not to give signals. regarding the actual quality or condition to outsiders. In other words, signaling theory is asymmetric information between companies and investors or customers. (Connelly et al., 2011) Signaling theory is often associated with the quality of a company, quality refers to an organization's unobservable ability to generate positive cash in the future, which may be characterized by financial structure and or managerial incentivesl. (Ross, 1977) If the object of the signal is the lower quality of the company, it means that the company will find it difficult to make these payments (Gupta, 2021).

The Relationship between Liquidity and Financial Distress

Companies that are able to pay and pay off short-term obligations can avoid financial difficulties, which means that the relationship between liquidity and financial difficulties is reversed. (Diyanto, 2020) goes along with it (Masdupi et al., 2018) and (N. Susanti et al., 2020), (Fredrick, 2019), (M. Susanti & Samara, 2021) states that if a company is able to meet short-term obligations, earn high profits and is able to use company funds effectively and efficiently, it is less likely to experience financial distress. Findings differ in the relationship between liquidity and financial distress by (Dianova & Nahumury, 2019) that decreased liquidity did not cause financial difficulties cash and cash assets were higher than acquisitions and inventories. Short-term financial performance, such as liquidity, cannot be directly related

to the company's profit ability, which is an indicator of financial difficulties (Sudaryanti & Dinar, 2019).

H1: Likuiditas Significant Influence on Financial distress

The Relationship between Financial Distress and Firm Value

Financial Distress is a condition in which a company experiences financial difficulties. Several other terms are also used in providing an explanation of financial distress such as describing failure, or the company's inability to pay off debts. (Idarti & Hasanah, 2018) The lower the soundness level of the company, the greater the company's risk in the future, this certainly raises concerns for investors if the company will go bankrupt. Furthermore, it will make investors reluctant to invest in companies which will have an impact on company value (Ina Fitriani, Muhammad Toaha, 2021). Companies that are in distress have the ability to generate declining profits so that it will reduce the value of the company, this results in investors taking back their funds from companies that are experiencing distress. Based on signaling theory, if financial information is good, it will have an impact on firm value. Therefore, bad financial information will automatically reduce the value of the company. (Yana, Purwanto, 2022) On the other hand, company value is also associated with a description of the level of performance and success of the company. If there is an indication that a company is experiencing distress, the market will respond badly, this signal will then determine whether investors decide to invest or not (Yemima & Jogi, 2020) seen through stock prices. A high stock price can also show good value to investors, so it is hoped that it will provide a good return.

H2: Financial distress Significant Influence on Firm Value

The Relationship between Liquidity and Firm Value

Research related to the relationship between liquidity and firm value has been carried out and shows inconsistent results. Research states that investors ignore the variable liquidity, this is because a liquidity value that is too high indicates that many company funds are disruptive and not used efficiently by management. As a result, it will reduce the company's ability to generate maximum profits. In addition, the profits owned by the company cannot reflect the size of the company. (Sukmawardini & Ardiansari, 2018). Liquidity is not used by investors as a consideration in investing, because investors see the company's business activities and do not see the company's ability to pay short-term debt. (Markonah et al., 2020) a significant negative relationship was also found in research (Batten & Vo, 2019) which stated that there are companies that are more pleasing to investors who tend to be interested in the long term and rarely trade on the stock market. (Tahu & Susilo, (2017) found no significant positive effect on firm value. The company's external party does not really consider liquidity in assessing a company. The smaller the cash owned by the company will have an impact on increasing the value of the company with excess cash value or high cash ownership, the company tends to make acquisitions and mergers.

Liquidity has a positive and significant influence on firm value, (Jihadi et al., 2021) (Aru & ListyoriniWahyu Widati, 2022) The higher the liquidity ratio of a company, the higher the liabilities borne by current assets, so that it will increase public trust. Mechanisms governing firm liquidity and value seem to support a price-based theoretical approach. If investors assess liquidity, then liquid stocks must sell at a higher price, this will increase the value of market equity and increase company value as measured by the Q ratio. (District, 2015) companies divert funds to finance companies and investments so that investors' perceptions operate the company's performance is getting better. This is because companies that have a high level of liquidity have large internal funds so that companies also use internal funds to finance their investments before using external financing through debt (Sondakh, 2019).

H3: Liquidity has a Significant Impact on Firm Value

Liquidity Relationship with Profitability

A high level of liquidity will reduce the company's opportunity to obtain maximum profit. (Adam et al., 2018)) liquidity risk can be reduced by maintaining sufficient cash and foreign exchange, increasing the deposit base, and reducing liquidity (Arif & Nauman Anees, 2012) in the case of risky financial liquidity companies that will reduce profitability.. (Chen et al., 2018), (Saleh & Abu Afifa, 2020) and (Arif & Nauman Anees, 2012) no significant relationship was found in research (Bintara, 2020) that the high or low ability of companies to pay short-term obligations has no significant effect small profit received by the company. Cash and inventory turnover owned by the company from its working capital is used to pay short-term obligations without affecting the company's profits.

H4: Liquidity Has a Positive and Significant Effect on Profitability

Profitability Relationship with Firm Value

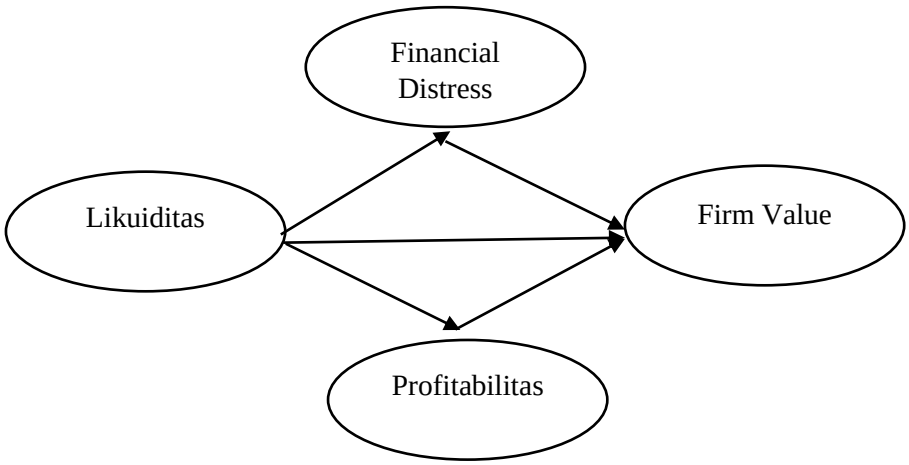
Profitability has a significant positive effect on firm value, the higher the profitability the higher the firm value. high profitability shows the company's ability to generate profits, therefore investors will respond positively to profit information. one reflection of an increase in stock prices. (Kanta et al., 2022), (Putri, 2020) Profitability has a significant positive effect on firm value as reflected in its stock price. High profitability shows good company prospects so that investors will respond positively, and company value will increase. This study supports the theory which is the Moddigliani-Miller agreement that the value of the company is determined by the profit from the company's assets. Positive results indicate that the higher the asset turnover the more efficient or the higher the profit margins obtained by the company so that it will have an impact on increasing the value of the company. Tahu & Susilo (2017), stated the same thing, profitability has a positive and significant effect on company value (Zuhroh, 2019) reveals that profitability has a positive and significant effect on company value. The results of (Fajaria, 2018), reveal that profitability can increase company value significantly. The higher profits generated by the company is a good signal for investors to decide to invest in the company. The demand for a company's shares increases will be accompanied by rising prices, then the value of the company will rise. (Pratiwi, 2020)

H5: Profitability has a significant effect on firm value.

Investors cannot only look at the Profitability and Liquidity values to determine the value of a company, because Profitability and Liquidity cannot show the overall financial condition. For this reason, investors must also look at the company's financial condition whether it is under pressure or not, which can become an intermediary for Profitability and Liquidity in increasing fimr value (Sukmawardini & Ardiansari, 2018).

H6: Liquidity Affects Firm Value with Financial Distress as a mediating variable

H7: Liquidity affects firm value with Profitability as a mediating variable.



Source: data processed by researchers in 2023

Figure 1 Load Conceptual

3. RESEARCH METHOD

This study uses a quantitative method with an explanatory research paradigm. The population in this study are companies listed on the Indonesia Stock Exchange for the 2017-2021 period in the consumer and non-consumer goods sector (cyclical and non-cyclical) with a total of 89 for the cyclical sector and 64 for the cyclical consu mer sector. The consumer goods industry sector was chosen because it is a sector that is strong against economic shocks and has good performance. The choice of the non-cyclical sector is because although it is vulnerable to conditions of economic sentiment, the company has received good appreciation from investors for being able to grow in the short to medium term.

The observed samples used a purposive sampling technique with characteristics that matched the samples used. Table 1 presents the selected research sample.

Table 1 Research Sample

No	Sample Criteria	Does not meet the Condition	Number of Samples
1	There are audited financial reports for 2017-2021		151
2	In the company's financial statements have inventory	(38)	
3	In the company's financial statements have been withheld	(57)	
	Total		**56**

Source: data processed by researchers in 2023

The data source used is secondary data obtained through the company's annual report which consists of a statement of financial position and income statement. The company's financial report data is obtained through the Indonesian Stock Exchange website. Next, perform statistical data analysis using inferential with Partial Least Square (PLS) with the steps of measuring the outer model to assess validity and reliability, and evaluating the structural model that displays a picture of the relationship between latent variables. (Ghozali and Latan, 2015). Operational Variables determine the nature of the constructor to be examined into measurable variables. So that the operational definition describes a certain way

used to research and operate constructs, making it possible for other researchers to replicate measurements in the same way or develop different ways of measuring constructs so as to produce better results.

4. RESULT AND DISCUSSION

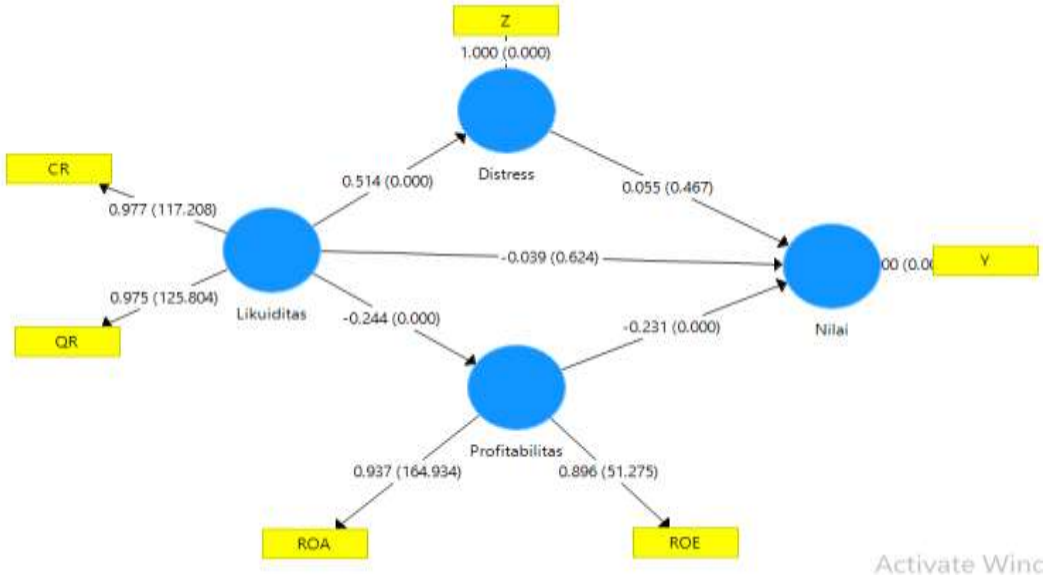
Evaluation of Measurement Models or Outer Models

Measurement models evaluation needed for evaluate indicator reflecting variable something construct. Model evaluation can be done through validity test convergent, validity discriminant, and reliability composite. The following are results from the measurement model.

Validity convergent is a test showing connection between reflective items and latent variables. Something indicator said Enough If contain value 0.5 to 0.7 indicator for every sufficient construct big (Ghozali, 2014). Following can see mark loading factor in the table below this.

The test results using smartpls 3.0 software with algorithms and bootstrapping produce measurements of the output model, structural model and the significance of the influence between variables.

Figure 2 Bootstrapping PLS



Source: data processed by researchers in 2023

Table 2 Loading Factor

Variable	Indicator	Loading
Likuiditas	CR	0.977
	QR	0.975
Profitabilitas	ROA	0.937
	ROE	0.896
Financial distress		1.000
Firm Value		1.000

Source: data processed by researchers in 2023

Table 2 shows the resulting loading *factors* of each variable indicator more from 0.7. Thus, indicator considered valid as gauge latent variable.

Composite Reliability is used for test mark reliability indicator from construct constituent. Something variable said Good If composite reliability value is more of 0.7 and value Recommended Cronbach's alpha > 0.6 (Ghozali, 2014). Following significance reliability composite and value Cronbach's alpha in the table below.

Validity test (outer model) on smartPLS can be done using convergent validity. Assessment of convergent validity is carried out by looking at the results of the Average Variance Extracted (AVE) and or cross loading values. If the loading and AVE values are > 0.50, it can be said that the model meets convergent validity.

Table 3 Composite Reliability dan Cronbach Alpha

Variabel Laten	Composite Reliability	Cronbach Alpha	AVE
Likuiditas	0.976	0.950	0.976
Profitabilitas	0.913	0.813	0.917
Financial distress	1.000	1.000	1.000
Firm Value	1.000	1.000	1.000

Source: data processed by researchers in 2023

Table 2 shows mark Composite Reliability more latent variables of 0.7 whereas mark Cronbach's alpha latent variable shows mark bigger from 0.6 up all variable show good reliability.

Structure Models Evaluation (Inner Model)

Testing the structural model (inner model) helps determine connection between mark significant construct with the R-square research model. Structural models estimated use R-square for every independent latent variable or dependent. R-Square test results with SmartPLS are shown in the table below this.

Table 6 R-square

	R square	R Square Customized
Financial Distress	0.495	0.491
Firm Value	0.518	0.505
Profitabilitas	0.031	0.022

Source: data processed by researchers in 2023

From the table above, the R-square value shows that the ability of the liquidity variable to explain financial distress is 0.495, which means the model is weak. the liquidity variable in explaining profitability is 0.031 which means it is weak. The variable liquidity, financial distress and profitability in explaining the value of the company is 0.518 which includes a moderate or moderate model.

Hypothesis Test Results

For test the presented hypothesis is required t-statistics and p-value, hypothesis accepted if p-value < 0.05. The basis of testing hypothesis direct is the contained return in coefficient or mark track output and influence no direct. Structural model testing is used to explain the connection between variables.

Table 4 Path Coeffient

	Original Sample	Sample Mean	Standard Deviation	T Statistic	P Values
Financial Distress -> Firm Value	0.055	0.066	0.075	0.727	0.467
Likuiditas ->Financial Distress	0.514	0.519	0.064	8.054	0.000
Likuiditas -> Firm Value	-0.039	-0.050	0.080	0.490	0.624
Likuiditas -> Profitabilitas	-0.244	-0.243	0.036	6.711	0.000
Profitabilitas -> Firm Value	-0.231	-0.237	0.031	7.435	0.000

Source: data processed by researchers in 2023

Financial distress has no direct significant effect on firm value as seen from the p value of 0.467 > 0.05. liquidity directly has a significant effect on financial distress with a p value < 0.05. Liquidity does not directly affect firm value with a p value of 0.637 > 0.05. liquidity directly has a significant effect on profitability with a p-value of 0.000 < 0.05. profitability directly has a significant effect on the value with a p value of 0.000 < 0.05.

Table 5 Uji Mediation

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
Likuiditas -> Financial Distress -> Firm Value	0.028	0.030	0.043	0.657	0.512
Likuiditas -> Profitabilitas -> Firm Value	0.056	0.057	0.012	4.823	0.000

Source: data processed by researchers in 2023

The mediation of financial distress, the relationship between liquidity and firm value has no significant effect as seen from the p value > 0.05. Meanwhile, liquidity indirectly affects firm value through profitability with a p-value of 0.000 <0 .05.

DISCUSSION

Liquidity Has a Positive and Significant Impact on Financial Distress

The results show that the P-Values of Liquidity is 0.000 and the t-statistic value 8.054 > t estimate 1.982. while the magnitude of the effect is 0.514, so that the liquidity variable has a positive and significant effect on financial distress. Then H1 is accepted. Companies that are able to fulfill short-term obligations, and are able to manage company funds in accordance with what has been decided tend to avoid financial distress. (Masdupi et al., 2018), (Diyanto, 2020). In line with that (N. Susanti et al., 2020) explains that the effect of liquidity on financial distress is also related to cluster companies, the research sample used is also a number of retail companies whose financing management has more influence on the use of short-term funds. However, the results are different in research (Sudaryanti & Dinar, 2019) where companies that have the ability to manage finances in the short term are not related to the company's ability to maximize or manage these funds.

Financial Distress Has A Positive And Significant Impact On Firm Value

The results showed that the P-Values of Financial distress was 0.467 and the t-statistic value 0.727 < t estimate 1.982. while the magnitude of the effect is 0.055, then H2 is rejected. so that the financial distress variable has no effect on the company value of the consumer

cyclical and non-cyclical sectors, the same results were found by(Sovita & Sari, 2022) dan (Sulistiyowati & Devinaya, 2021) while the research results were different from (Maulina & Murtadha, 2019), (Idarti & Hasanah, 2018), (Yemima & Jogi, 2020). (Sulistiyani et al., 2020). One indicator of whether a company is healthy or not is through retained earnings, if the company does not distribute dividends and decides to use profits for business expansion, it will affect investors' assessment of the company. Conversely, if retained earnings are small and the company distributes larger dividends, this will attract investors (Halim et al., 2015).

Liquidity Has No Effect on Firm Value

The results show that the P-Values of Liquidity is 0.624 and the value of the t-statistic 0.490 < t estimate 1.982. while the magnitude of the influence is -0.039. so that the liquidity variable has no effect on firm value, the direction of influence is negative, then H3 is rejected. These results are in line with the findings of (Markonah et al., (2020), Batten & Vo, (2019) that liquidity is not used by investors as a consideration in investing, because investors see the company's business activities and do not see the ability company to pay short-term debt. a significant negative relationship was also found in research which stated that there were companies that were more vulnerable to the vulnerability of investors who tended to apply long terms and rarely traded in the stock market. did not find a significant positive effect on firm value.

Liquidity Has a Positive and Significant Effect on Profitability

The results show that the P-Values of Liquidity is 0.000 and the t-statistic value 6.711 > t estimate 1.982. while the magnitude of the effect is -0.244, so that the liquidity variable has a negative and significant effect on financial distress, then H4 is partially accepted because the direction is different. Companies with high financial tensions will switch to using liquid assets to meet company funding.. (Saleh & Abu Afifa, 2020), (Arif & Nauman Anees, 2012), liquidity is a risk that can reduce profitability where companies with high levels of illiquid assets will be compensated with high profits (Chen et al., 2018).

Profitability Has a Positive and Significant Influence on Firm Value

Based on the partial test results, the profitability variable has a negative and significant effect on the firm value of the cyclical and non-cyclical consumer sectors. high profitability which is proxied by ROA and ROE will reduce the value of the company, this is because investors are not only looking more and more at the return on assets but there are other factors that are taken into consideration for investing. (Ali & Faroji, 2021) In addition, companies with low profitability are considered less attractive to investors (Robiyanto et al., 2020).

Liquidity Has No Effect on Firm Value With Financial Distress As A Mediating Variable

Based on the results of the indirect test, the financial distress variable has no significant and positive effect on the relationship between liquidity and firm value in the consumer cyclical and non-cyclical sectors, so the hypothesis (H6) is rejected. A healthy company is not always indicated by high liquidity, but there are other considerations such as profit ratios, debt to equity working capital ratios and so on. In assessing a company to invest capital, investors also do not always judge based on their assets alone but can also consider the ratio of long-term debt to assets. These results are different from research conducted by (Lukman Chalid, Ummu Kalsum, 2022).

Liquidity has a positive and significant impact on firm value with profitability as a mediating variable

Based on the results of the profitability mediation test on the relationship of liquidity to firm value, it shows results that have a positive and significant effect, then H6 is accepted. The influence of profitability mediation is classified as regular partial mediation or competitive mediation, which means that profitability can reduce the magnitude of the relationship between liquidity and firm value. However, there is a possibility that profitability can also increase the magnitude of the relationship between liquidity and firm value. Liquidity is not the only consideration for investors in assessing a company, but the results will influence and increase when investors see the company's performance in providing high levels of return on assets and equity through good stock returns. (Ardiana & Chabachib, 2018).

5. CONSLUSION

Based on the results of Smart PLS analysis to determine the effect of liquidity variables on company value with financial distress and profitability as mediation, with research data on the Indonesia Stock Exchange for the 2017-2021 period the consumer and non-consumer sectors (cyclical and non-cyclical) with a total of 89 for the two sectors for the cyclical sector and 64 for the consumer cyclical sector. The results of the study show that liquidity partially affects financial distress. financial distress on firm value. liquidity on profitability, profitability has a positive and significant effect on firm value while liquidity has no effect on firm value. then financial distress is not able to mediate liquidity on firm value, but profitability is able to mediate liquidity on firm value.

This study has several limitations that can be overcome by other authors in future studies. This study only involved one independent variable and two mediating variables, and it is suggested for further research to include more independent variables such as opinion shopping, going concern audits and so on. Finally, the object of this research is limited to companies in the consumption and non-consuming goods (cyclical and non-cyclical) sectors with a total of 89 of these two sectors for the cyclical sector and 64 for the consumer cyclical sector which are listed on the Indonesia Stock Exchange (IDX). 2017 to 2021.

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