The Effect of Liquidity and Profit Management of Stock Returns in Manufacturing Companies that have been an IPO with its Size as a Moderated Variable 2012-2017

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Running Title: Effect of Liquidity and Profit Management

Abstract: *This purpose of this study was to examine the effeect of liquidity and earnings management on stock returns with company size as a moderating variable. The total population of this study is 142 companies with a total sample of 57 manufacturing companies listed on the Indonesia Stock Exchange and have conducted an IPO for the period 2012-2017. The data used is secondary data from various trusted sources. The sampling technique used was the purposive random sampling method. Including the independent variables are liquidity and earnings management while the dependent variable is stock returns and moderator variables are company size. Data collection in this study uses the documentation method. The method of analysis of this study uses multiple linear regression analysis and t test. Based on the t test shows that (1) liquidity has a significant effect on stock returns (2) earnings management has an effect on stock returns (3) liquidity that is moderated by company size has an influence on stock returns and (4) earnings management moderated by company size does not affect stock returns.*

Keywords: Liquidity, Earnings Management, Stock Return, Firm Size

1. Introduction

In connection with the selection to invest, according to Meri Arisandi (2014: 35) there are two factors that affect the return of an investment, the first is the company's internal factors and the company's external factors. Internal factors can be seen from fundamental analysis. This study focuses more on the fundamental approach related to the liquidity aspects represented by Current Ratio, earnings management represented by Directionary Accruaal and company size or Firm Size.

The importance of the liquidity aspect in influencing stock returns can be seen by considering the impact stemming from the company's inability to meet its short-term obligations. Another important thing is earnings management, earnings management will add bias in the financial statements and can interfere with users of financial statements that trust.

In addition to liquidity and earnings management, the size of the company measured by the amount of assets is believed to be considered by investors and managers in use of company information. By considering the size of the company, the manager's earnings management will vary depending on the size of the company so that it will affect the consideration of investors to invest. This certainly supports companies to get a greater return, compared to smaller companies.

Several previous studies on the effect of liquidity and earnings management on stock returns are as follows, Surya's study (2012) suggests that earnings management has a significant effect on stock returns, but company size is not able to moderate the relationship between earnings management and stock return. Oktavia's research (2016)

conducted on telecommunications companies that went public on the Indonesia Stock Exchange found that earnings management did not have a significant effect on stock returns in these companies, while liquidity ratios and company size significantly influenced stock returns on telecommunications companies that went public on the Indonesia Stock Exchange.

From the background and the phenomenon that occurs it can be concluded that the liquidity ratio and earnings management affect stock returns because liquidity ratios are able to predict stock returns through financial statements while earnings management can affect returns through management engineering as much as possible so that companies do not experience losses and gain profits or stock returns as large as possible and the size of the company will affect managers' drive to increase bonuses through efficient earnings management so that it will indirectly affect the market response in the form of stock returns

2. Literature Review

Research on the Effect of Liquidity and Earnings Management on Stock Returns with Company Size as Moderation Variables is based on the following theoretical studies:

a) Entity Theory
In this concept the company as a business organization is treated differently or legally separate from the owner of the business. This includes that transactions the business must be taken as a whole to be separated from the personal affairs of an owner.

b) Signaling Theory

The theory of liquidity is explained by signal theory, according to (Hartono, 2013) in signal theory the manager provides information about their company to external parties. The information is in the form of the company's ability to meet its short-term obligations such as debt repayment.

c) Agency Theory

The emergence of earnings management practices can be explained by agency theory. Agency problems can illustrate why company management voluntarily discloses information. With this voluntary disclosure, management gives confidence to shareholders of their work activities that always strive to optimize the welfare of shareholders, because management knows that their performance and company activities will always be monitored by shareholders.

Stock Returns

According to Halim (2015: 300), stock returns are also referred to as stock income and are changes in the value of period t stock prices with t-1. And means that the higher the change in stock prices, the higher the return generated. Meanwhile according to Hartono (2013: 141) stock returns are the results obtained from investment. According to Brigham and Houston (2016), stock returns are positively proportional to risk, meaning that the greater the risk borne by shareholders, the greater the profits will be, too.

Liquidity

According to Mardiyanto (2013: 54) liquidity can measure the company's ability to pay off short-term obligations (debt) on time, including paying off the portion of long-term debt that is due in the year. According to Arief and Edi (2016: 57) Liquidity ratio is the ratio which aims to measure the company's ability to meet its short-term obligations. According to its statement (2015: 37) Liquidity ratio is the ratio used to meet short-term financial obligations.

Profit Management

According to Badruzaman (2013: 1) earnings management is the way taken by management in managing companies through the selection of certain accounting policies with the aim of increasing or decreasing net profit and company value according to management's expectations. According to Irham Fahmi (2014: 321) earnings management is: "... an action that regulates earnings in accordance with what is desired by certain parties or especially by company management".

Firm Size

According to Brigham & Houston (2012: 4) the size of the company is the size of the size of a company that is indicated or valued by total assets, total sales, total profits, tax expenses and others. According to Hartono (2013: 14) the size of the company (firm size) is the size of the company can be measured by the total assets / large assets of the company by using the logarithm value calculation of total asset.

Hypothesis

The hypotheses in this study are:

H1: Liquidity (Current ratio) has a positive effect on stock returns on companies that have conducted an IPO on the Indonesia Stock Exchange for the 2012-2017 Period.

H2: Earnings Management has a positive effect on stock returns on companies that have conducted an IPO on the Indonesia Stock Exchange in the 2012-2017 period.

H3: Company Size Moderates the Liquidity Relationship to Stock Returns at companies that have conducted an IPO on the Indonesia Stock Exchange in the period 2012-2017

H4: Company Size Moderate the relationship between Earnings Management and Stock Returns on companies that have conducted IPOs listed on the Indonesia Stock Exchange in the period 2012-2017

Research Methods

1) Type of Research

In this study using a quantitative approach in the form of associative. Sampling techniques are generally carried out randomly, collecting data using research instruments, quantitative or statistical data analysis with the aim of testing the hypotheses that have been set.

2) Population and Sampling Techniques

The population in this study is a manufacturing company. The total data population of the companies studied is 142 companies (data of companies on the Indonesia Stock Exchange that have conducted IPOs or Initial Public Offerings in 2012-2017.

The sample technique in this research is using purposive sampling method with the following criteria:
a) The company is not classified as a type of financial services industry.
b) The company does not belong to the hospitality, travel and real estate industries.
c) The company has a prospectus that contains financial statements two years before the IPO, not including the financial statements for the period of the IPO.
d) The variables to be studied is available in full in the company's financial statements.

3) Collection Methods

Collection methods in this study use non-participant observation methods. Data processing in this study uses SPSS software (Statictical Program of Social Science) Version 24., with the hope that there will be no error rate

a) Analysis Methods

The analysis used in this study are as follows: Descriptive Analysis, in this study the descriptive statistics used are in the form of: Minimum, Maximum and Mean. And verification analysis which consists of normality test, multicollinearity test, autocorrelation test and heteroscience test. And hypothesis analysis using multiple linear regression analysis and t test.

The equations of the multiple regression model are (Suharyadi and Purwanto, 2013: 210):

$$Y = a + b_1X_1 + b_2X_2 + \dots + b_kX_k + b_1X_1Z + b_2X_2Z + e$$

Keterangan :
Y: Stock Returns
a: Constant
X1: Liquidity
X2: Profit Management

Z: Firm Size
b1b2: Partial regression coefficient
e: error term

3. Results and Discussion

1) Normality Test

Normality test is done to see whether in the regression model the dependent variable and the independent variables both have normal distributions or not.

Table 1: Normality Test

		Unstandardized Residual
N		342
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,34271772
Most Extreme Differences	Absolute	,140
	Positive	,140
	Negative	-,182
Test Statistic		,328
Asymp. Sig. (2-tailed)		,189

Based on the normality test table above shows the Kolmogorov-Smirnov value of 0.328 and the Asymp value. Sig. equal to 0.189 which means greater than 0.05. Thus it can be concluded that the data is normally distributed and can be continued for research

2) Multicollinearity Test

Multicollinearity means that one independent variable with another independent variable in the regression model occurs in a near perfect relationship.

Table 2: Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Liquidity	,906	1,104
	Profit Management	,984	1,016
	Firm size	,904	1,107

From the VIF value obtained in the table above, it shows that the data on the independent variable does not contain any symptoms of strong correlation between independent variables.

3) Autocorrelation Test (Durbin Watson)

Table 3: Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,938[a]	,879	,768	2,56020940	1,925

From the SPSS results above it can be seen that the Durbin Watson value at a significance of 5% is equal to 1,925, it can be concluded that this regression model shows no autocorrelation.

4) Heterokesdasticity Test

Heterokesdastisitas test is to determine whether the absolute residual variable is the same or not for all observations
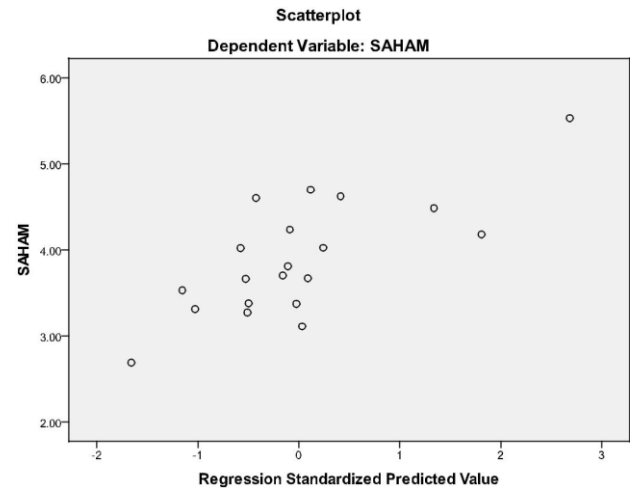
Picture 1: Heterokesdasticity Test

Based on the flow diagram it can be seen that no symptoms of homoscedasticity or regression equations satisfy the assumption of non heterokesdasticity.

5) Coefficient of Determination

Analysis of the coefficient of multiple determination is used to find out how closely the relationship between the independent variable and the dependent variable

Table 5: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,938[a]	,879	,768	2,56020940	1,925

Based on Table 4.5 it can be seen that the value of Adjusted R Square of 0.768 means that 76.8% of the dependent variable variation can be explained by the variation of the independent variable.

6) Test F

The F test is used to determine the value that gives the strong influence or relationship of two or more variables together.

Table 6: Uji F

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4,697	3	1,566	6,494	,004[a]
	Residual	3,857	16	,241		
	Total	8,554	19			

Based on Table 6 it can be seen that F arithmetic = 6.494 with a significant level of 0.004 <0.05 so that it can be concluded that the variables of liquidity, earnings management, and company size affect stock return.

7) Hypothesis testing

Analysis Multiple Linear Regression

Table 7: Analysis Multiple Linear Regression Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13,109	5,058		2,592	,014
	Liquidity	,276	,061	,464	2,912	,006
	Profit Management	-,650	,490	-,760	-1,340	,001
	Firm Size	,065	,049	,076	1,340	,011
	Liquidity*Firm Size	,594	,240	,2679	2,477	,019
	Profit Management *Firm Size	,014	,007	,2700	1,978	,057

Based on table 4.7 above we can find out the regression equation:

$Y = \alpha + b_1 (LQ) + b_2 (PM) + b_3 (FS) + b_4 (LQ*FS) + b_5 (PM*FS) + e$

$Y = 13.109 + 0.276 (LQ) - 0.650 (PM) + 0.065 (FS) + 0.594 (LQ*FS) + 0.014 (PM*FS)$

Keterangan:
Y= Return Saham
α = Constant
LQ= Liquidity
PM= Profit Management
FS= Firm Size

The linear regression equation above can be explained as follows:
a) 13,109 constant means that if all variables = 0, the value of stock returns is 13,109.
b) Liquidity variable regression coefficient of 0.276, meaning that if the value of liquidity rises 1% means the value of stock returns rose 0.276%.
c) The regression coefficient of earnings management variable is -0,650, meaning that if earnings management goes up by 1% means the stock return will decrease by 0.650%.
d) The regression coefficient of the moderated liquidity variable with the size of the company is 0.594, if the value of liquidity moderated by the company size increases by 1% means the value of stock returns increases by 0.594%.
e) The regression coefficient of a moderated earnings management variable with a firm size of 0.014, meaning that if the earnings management value of a moderated company size increases by 1% means the value of stock returns increases by 0.014%.

T Test (Partial)
The t test statistic is used to test the significance of the effect of the independent variable on the dependent variable. T-test results of the influence of independent variables on the dependent variable are as follows:
a) Effect of Liquidity on Stock Returns
To find out the significance of the effect of the liquidity ratio on stock returns using the t test, the Sig. 0.006 or smaller than 0.05, partially shows that liquidity has an effect on stock returns.
b) Effect of Earnings Management on Stock Return
To find out the significance of the effect of earnings management on stock returns using the t test, the Sig. 0.001 or smaller than 0.05, partially shows that earnings management has an effect on stock returns.
c) Effect of Liquidity on Stock Returns with Firm Size as Moderation Variables
To find out the significance of the effect of liquidity on stock returns with company size as a moderating variable using the t test, the Sig. 0.019 or smaller than 0.05, then partially liquidity moderated by company size affects stock returns.
d) Effect of Earnings Management on Stock Returns with Firm Size as Moderation Variables

To determine the significance of the effect of earnings management on stock returns with company size as a moderating variable using the t test. Sig. values obtained. 0.057 or greater than 0.05, then partially liquidity moderated by company size has no effect on stock returns.

4. Discussion

Effect of Liquidity on Stock Returns
The test results prove that the variable liquidity has a significant value of 0.006 <0.05. This proves that liquidity affects stock returns. The theory of liquidity is explained by signal theory, according to (Hartono, 2013) in signal theory the manager provides information about their company to external parties. Logically, if a company is able to fulfill its obligations, then the company is considered as a good company the value of liquidity increases, the value of stock returns also increases.

The results of this study are supported by previous research conducted by Mahendra (2016), research by Andi, Pardomuan, Sri Marti P (2017) states that liquidity affects stock returns, Intan (2016) is supported by Abdel Wahid (2014), Novia (2018) Hartini (2012), Corry (2013) and Fadhli (2015) who found partially and simultaneously liquidity had an influence on stock returns which were reflected in the stock price. partially and simultaneously liquidity has an influence on the company's stock returns which are reflected in the stock price.

Effect of Earnings Management on Stock Return
The results prove that the earnings management variable has a significant value of 0.001 <0.05. This proves that earnings management has a significant effect on stock returns. The emergence of earnings management practices can be explained by agency theory. Agency problems can illustrate why company management voluntarily discloses information.

Harnovinsah & P Indriani's research (2014) states that earnings management can affect the value of the company but it is very weak will directly affect the weak stock returns, other research is supported by Fadhli (2015), Nana (2014) and Corry (2013) with the results partially research earnings management variables negatively affect stock returns.

Effect of Liquidity on Stock Returns with Firm Size as Moderation Variables
The test results prove that the variable liquidity has a significant value of 0.019 <0.05. This proves that liquidity

which is moderated by company size affects stock returns. Large size companies have greater and broader access to outside funding sources. This causes the company to be more able to reach the economic of scale, which is directly related to the company's liquidity ratio. Liquidity illustrates the ability of a company to meet its financial obligations that must be met immediately. Liquidity will have a big effect on the size of the level of stock returns to investors.

Effect of Earnings Management on Stock Returns with Firm Size as Moderation Variables

The test results prove that the earnings management variable moderated by company size has a significant value of $0.057 > 0.05$. This proves that company size is not able to moderate the effect of earnings management on stock returns. In large companies managers are more careful about reporting earnings. Based on this, the size of the company is not able to increase stock returns when high earnings management (Makaombehe, 2014).

The results of this study support research conducted by Intan (2016) also supported by research by Zauji (2016) and Fadhli's research (2015) which states that company size is not able to moderate the effect of earnings management on stock returns

5. Conclusion

After conducting research the conclusions can be obtained as follows:
1) There is a significant positive effect of liquidity on stock returns, the results of the study indicate that the higher the liquidity, the higher the stock returns and the lower the liquidity, the lower stock returns.
2) There is a significant negative effect on earnings management on company returns, which means that the high earnings management carried out by the company affects the level of corporate stock returns. The size of the company is able to moderate liquidity on stock returns, which means that the size of the company is able to increase stock returns when liquidity is high and company size can reduce stock returns when liquidity is low.
3) The size of the company is not able to moderate the effect of earnings management on stock returns which means that the size of the company is not able to increase stock returns when the level of earnings management is high and cannot reduce stock returns when earnings management is low.

6. Suggestion

The researcher provides suggestions for further researchers, namely:
1) Next Researcher
   a) Re-examine the effect of earnings management on stock returns with company size as a moderating variable.
   b) Add research variables because there are still many factors that contribute to influencing stock returns in addition to liquidity and earnings management.

2) For Academics: The results of this study are expected to increase accounting knowledge, especially regarding the effect of liquidity and earnings management.
3) For people who invest in publicly traded companies should pay attention to the company's financial performance and influence on stock returns as material for decision making.

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