

The Role of Financial Performance in Determining The Firm Value

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The Role of Financial Performance in Determining The Firm Value

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Abstract—This study aims to determine the effect of CAR, LDR, NPL, DER and ROE on the Firm Value simultaneously or partially on the Banking Sector listed on the Indonesia Stock Exchange. The method of analysis used in this research is the associative method with multiple regression analysis techniques the aims of classical assumptions. The data used are secondary data sourced from Indonesian Capital Market Directory (ICMD) and Annual Report from Indonesia Stock Exchange (IDX) in form of financial statements for 2010-2015 period in Banking Sector listed on Indonesia Stock Exchange. This research is expected to be especially for investors as a consideration in making investment decisions in the capital market, as well as for company management is expected to be a consideration in making decisions on stock prices in order to maximize the value of the company. The result showed that simultaneously CAR, LDR, NPL, DER and ROE have a significant effect on Firm Value. DER partially have a negative and significant effect on Firm Value, CAR and NPL have positive and significant effect to Firm Value, while LDR and ROE have insignificant influence to Firm Value.

Keyword—CAR; LDR; NPL; DER; ROE; firm value

I. INTRODUCTION

Capital market investors do not have to worry about the imposition of the Asean Economic Community (AEC). Investors are even more confident that they will be lucky if capital market integration becomes one of the priorities of AEC. National activities must also play an active role in anticipating the implementation of the AEC. This market-free era, ensured to open the flow of goods and services traffic wider, therefore regional economic growth must be integrated with the global economy. Thus, the national banking needs a common view in view of regional economic growth. With the similarity of view, Indonesia is expected to be able to complete the plan, strategy, right target for the economic progress of Indonesia.

In the current era of globalization there are many financial institutions that grow and develop rapidly in the Indonesian economy, among others, bank financial institutions that are business entities that function to collect funds from the public in the form of savings and channeled to the community in the form of credit and or other forms in order to improve people's standard of living. The role of banks for the development of the Indonesian economy are very important, many investors

who are interested to invest in the banking sector and in making investments, investors need to see the health level of bank.

Currently there are some banks that have a good level of financial performance, which is categorized to have assets with a relatively large amount and also a good financial performance, so with a relatively large assets are able to attract investors to invest. In addition, the company must also be able to increase the value of the company so that potential investors are interested to invest their funds in the capital market. If it is assumed that the investor is a rational one, then the investor will definitely pay great attention to the fundamental aspect to assess the expected returns to be earned. For banking companies that go public are required to include the relevant financial ratios in accordance with the Decree of the Chairman of Bapepam Number KEP-51 / PM / 1996 dated January 17, 1996 (BEI).

The stock price of a company reflects the value of the company in the eyes of society, if the stock price of a company is high, then the value of the company in the eyes of society is also good and vice versa. Therefore the stock price is very important for the company. For companies that go public, an important element of Firm Value is the stock price, so in the financial literature known the name of the market value of the stock. The value of a company can provide maximum shareholder wealth if the stock price increases. Higher the stock price of a company means the higher the shareholder's wealth. The average value of banking CARs in 2014 and 2015 amounted to 15.53% and 18.04%, CAR obtained by banks in the year above the Bank Indonesia provisions, which stipulated a minimum CAR (Minimum Capital Requirement Needs) ratio of 8%. While the NPL earned in the year under the terms of the banking system indicates that banking performance when viewed from the CAR and NPL is good enough. The ROE also shows the result that the profit achieved for those years is above 15%. LDR is the ratio between loans disbursed with Third Party Funds collected by banks (Giro, Saving, and Deposit). Good LDR is in the range of 80 - 110%. The higher ROE indicates the ability of banks to generate better profits which means that the performance of banks is improving so that it can affect the stock price of banks. Financial performance simultaneously has significant effect to firm value, but partially DER has significant influence on Value of Food and Beverage Industry

Company [1]. Partially LDR and CAR have a significant effect on Firm Value [2]. Profitability affect the Value of Pharmaceutical Companies. Search results provide information that CAR, LDR, NPL, DER, and ROE, fluctuated over the last 2 years indicating that the financial performance of each bank tends to fluctuate [3].

This study aims to determine and examine the influence of Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non-Performing Loan (NPL), Debt to Equity Ratio (DER), and Return on Equity Ratio (ROE) simultaneous and partial to the banking sector in the Indonesia Stock Exchange.

A. Theoretical Framework

• Firm Value

Company is defined as a commercial company (a commercial company) and size is defined as magnitude (quantity). While value is defined as the monetary worth of something: market price (monetary wealth of a: market price). Abdurachman defines Value or value: (1) in economic terms is generally the strength or power of things, goods or services to control goods or other services in exchange (2) in finance is the value of something, as determined accordingly with either a rule or a conception. The term value generally means the price of something that can be obtained in the open market or market value.

In the theory of finance and economics, fair and fair prices are market prices, i.e. prices that occur because of the demand and supply of a large number of buyers or sellers. Yet other methods also see the price of what side is written or recorded in the financial statements, this is called the book value. Stock market prices reflect the real value of the company [4]. The stock market price is influenced by several factors, namely the profit per share, risk-free interest rate and the level of uncertainty of the company's operations. The value of a firm as an investor expectation about the effect of the firm's investment and financial policy. (Firm Value is the investor's expectation of the impact of the company's financial investment policy). This theory explains that firm value is a function of the dividend and the rate of return of equity. Basically, this theory states that the value of the company is the result of the assessment and the investor's expectation of the company's stock in the capital market.

For go public companies, an important element of corporate value was the value of shares, so that in the financial literature it was known as the value of the stock market [5]. The value of a company depends not only on the value of the stock, but also on the value of the debt. The value of a firm as an investor expectation about the effect of the firm's investment and financial policy [6].

II. METHOD

A. Sampling and Procedure

The population in this study is the banking sector listed on the Indonesia Stock Exchange. Sampling technique used in this research is Judgment Sampling method which is part of purposive sampling [7]. As the purpose of this method to get

the sample in accordance with predetermined criteria. The procedure of selecting the research sample is as follows: first identification of the number of banks that publish themselves on BEI consistently last 5 years then have positive profit and equity. The research sample is taken after meeting several criteria that apply to the application of variable operational definition. The sampling technique is taken by purposive sampling technique that is the selection of sample members based on certain criteria.

1. Banking Industry registered in Indonesia Stock Exchange (IDX) since 2011 until 2015.
2. Banking Industry that distributes dividends in the period of observation that is the period 2011 - 2015.
3. Take a bank that has a positive profit and equity.

The numbers of samples that meet the criteria in this study are a number of 7 banks, the banks that are sampled in this study are as follows:

1. Bank Central Asia Tbk.
2. Bank Negara Indonesia Tbk.
3. Bank Rakyat Indonesia Tbk.
4. Bank Mandiri Tbk.
5. Bank Danamon Tbk.
6. Bank Tabungan Negara Tbk.
7. Bank Pan Indonesia Tbk.

Source: ICMD and IDX 2016

The analytical technique used in this research is quantitative analysis technique, which is a technique of data analysis using the numbers for problem solving can be calculated with certain mathematical calculation. The analytical tool used is a classical assumption test and followed by multiple linear regression analysis.

B. Multiple Linear Regression

This study uses multiple regression analysis in conducting hypothesis testing.

Based on the mechanism of relationship between variables then the mathematical formulation in this study are as follows:

$$\text{Firm Value} = \alpha + b_1 (\text{CAR}) + b_2 (\text{LDR}) + b_3 (\text{NPL}) + b_4 (\text{DER}) + b_5 (\text{ROE}) + e$$

Where:

α = constants.

b_1, b_2, b_3, b_4, b_5 = regression coefficients of each independent variable.

e = error factor.

III. RESULTS AND DISCUSSION

TABLE I. HYPOTHESIS TEST RESULT

Variable	Coefficient	Sig	t-test
Constanta	-54953.867	.007	-3.016
X 1CAR		.007	2.993
X 2LDR		.171	1.424
X 3NPL		.004	3.274
X 4DER	.000		-5.597
X 5ROE		.681	-.418
R Square			.903
Adjusted Square	R		.877
F-Statistic			35.176
Prob (F-Statistic)			.000 ^b

Source: processed secondary data

The results of testing the regression equation can be explained as follows:

$$Y = (54953.867) + 2686.523X_1 + 436.384X_2 + 662.351X_3 + (2429.992)X_4 + (34.234)X_5$$

- The regression coefficient for the CAR variable is 2686,523 and is positive, this explains that any change of one percent in CAR while LDR, Non-Performing Loan (NPL), DER and Return On Equity (ROE) are assumed to be fixed, then the stock price will experience the change is an increase of 2686,523. For the variable CAR obtained t count of 2.993 > t Table on $\alpha = 0.05$ of 1.72913 and the level of significance is smaller than $\alpha = 0.05$ that is 0.007, thus H1 is accepted, it means there is a positive and significant influence of CAR variable on Firm Value. (CAR) has a positive effect on Firm Value. This means that an increase in CAR will be followed by an increase in firm value, otherwise a decrease in CAR will be followed by a decrease in Firm Value. Test results showed CAR proved to have a positive effect on Firm Value. The results of this study in accordance with previous estimates and in accordance with the theory of investment. The results of this study provide empirical understanding for management that if CAR rises, then the value of the company also rises, this condition illustrates that the acquisition of CAR increased impact on rising Firm Value. The greater the Capital Adequacy Ratio (CAR) of a company will have an effect or provide an appeal to investors to trust and willing to invest funds which, in turn causes the stock price to rise.
- So the greater the RRR will decrease the value of the CAR and otherwise the smaller the ATMR will increase the value of CAR. On the other hand, the loans granted to the public may open the bank's opportunity to earn income from the loan interest. Thus other possibilities CAR does not affect the ROA is the bank has not been able to throw credit as expected or not optimal.
- The regression coefficient for LDR variables is 436,384 and is marked positive, it is clear that any change of one percent in LDR while CAR, Non-Performing Loan (NPL), DER and Return On Equity (ROE) are assumed to be fixed, then the stock price will experience a change that is an increase of 436,384. For LDR variable obtained t count is 1.424 < t Table at $\alpha = 0.05$ equal to 1.72913 and the level of significance is greater than $\alpha = 0.05$ i.e. 0.171, thus H2 is rejected, meaning there is no positive and insignificant influence of LDR variable to Value Company. LDR variable has an effect on Firm Value. This means that the increase in LDR will be followed by the value of the company otherwise the decline in LDR will be followed by a decrease in the value of the company. Test results show that LDR has a positive effect on firm value. The standard used by Bank Indonesia for Loan to Deposit Ratio (LDR) ratio is 80% to 110%. If the Loan to Deposit Ratio (LDR) ratio of a bank is below 80% (say 70%), then it can be concluded that the bank can only channel 70% of all funds collected. If the bank's Loan to Deposit Ratio (LDR) ratio reaches more than 110%, then the total loan provided by the bank exceeds the funds raised. The higher Loan to Deposit Ratio (LDR) indicates the more risky liquidity of the bank, whereas the lower Loan to Deposit Ratio (LDR) indicates the lack of bank effectiveness in distributing credit resulting in loss of bank opportunity to earn profit. The higher Loan to Deposit Ratio (LDR), the bank's profit increases (assuming the bank is able to channel its credit effectively), with the increase of bank profit, the bank's performance also increases. Thus large-small ratio of Loan to Deposit Ratio (LDR) of a bank will affect the performance of the bank. The result of research stated that LDR has significant effect to Firm Value. This LDR is likely due to the large asset ownership of banks in Indonesia. And the second possibility is the revenues of Bank Persero not only from the interest income from loans provided to the public but also generated from commission based income. The regression coefficient for the NPL variable is 662,351 and is marked positive, it explains that every change of one percent in NPL while CAR, LDR, DER, and Return On Equity (ROE) is assumed to be fixed, then the stock price will change i.e. an increase of 662,351. For the NPL variable, the t-calculated is 3.274 > t Table at $\alpha = 0.05$ of 1.72913 and the significance level is smaller than $\alpha = 0.05$ which is 0.004, thus H3 is accepted, it means that there is a positive and significant influence of the NPL variable on Firm Value.
- The NPL variable has a positive effect on Firm Value. This means that the increase in NPLs will be followed by an increase in Firm Value, whereas the decrease in NPL will be followed by a decrease in Firm Value. Test results show that NPL has a positive effect on firm

value. The results of this study are not in accordance with previous estimates and not in accordance with the theory of investment. The results of this study provide an empirical understanding for management that if NPLs rise, then the value of the company will go down, this condition illustrates that the acquisition of NPLs increased the impact on impairment of Firm Value. From the results of the description of the variables indicate that at this time the level of Non-Performing Loan (NPL) banking companies are still relatively low, i.e. below 5%. Banking companies always keep the amount of Non-Performing Loan (NPL) is below 5%, this is also the cause why in this study Non-Performing Loan (NPL) significant effect on Firm Value. Poor credit quality will increase the risk, especially if the lending is done by not using prudential principles and expansion in the provision of credit that is less controlled so that banks will bear a greater risk as well. The risk is the difficulty of credit repayment by the debtor which, if the amount is large enough can affect the performance of the banking system.

- The regression coefficient for the DER variable is -2429.992 and is negative. This explains that every change of 1 percent in DER while Firm Value, Capital Structure, Non-Performing Loan (NPL), and Return on Equity (ROE) are assumed to be fixed, then the magnitude The price of shares will change if the decrease of 2429.992. For the DER variable we get the t count of (5,597) > t Table at $\alpha = 0.05$ of 1.72913 and the significance level is smaller than $\alpha = 0.05$ which is 0.000, thus H4 is accepted, it means there is a negative and significant influence of the DER variable to the Firm Value. DER variable has a negative effect on Firm Value. This means that the DER decrease will be followed by an increase in the value of the firm otherwise the DER increase will be followed by a decrease in the value of the company. Test results showed DER proved to negatively affect the value of the company. The results of this study in accordance with previous estimates and in accordance with the theory of investment. The results of this study provide an empirical understanding for management that if DER rises, then the value of the company will go down, this condition illustrates that the acquisition of DER increased impact on the decline in Firm Value. Capital structure decisions related to the selection of sources of funds both from within and from outside greatly affect the value of the company. Debt financing provides three important implications; namely 1) obtaining funds through debt allows shareholders to maintain control over a company with limited investment; 2) the lender sees the equity to provide a safety margin so that if the shareholder gives only a small portion of the total financing, then the risk of the firm is mostly there to the creditor. 3) if the company obtains a greater return on the investment financed by the loan of interest payments, then the return on owner's capital will be greater and vice versa.

- The regression coefficient for the ROE variable is -436.384 and is negatively marked, it explains that any change of one percent in the interim ROE while the CAR, LDR, Non-Performing Loan (NPL) and DER are assumed to be fixed, then the stock price will change i.e. decrease of 436,384. For the variable ROE obtained t count for (0.418) < t Table at $\alpha = 0.05$ of 1.72913 and the level of significance greater than $\alpha = 0.05$ that is equal to 0.681, thus H5 is rejected, meaning there is no negative and insignificant influence of ROE variable against the value of the company. The ROE variable has a positive effect on Firm Value. This means that the increase in ROE will be followed by an increase in Firm Value otherwise the decrease in ROA will be followed by a decrease in the value of the company. Test results show ROE has no effect and significant to Firm Value. The results of this study are not in accordance with previous estimates and not in accordance with the theory of investment. The results of this study provide an empirical understanding for management that if the ROE rises, then the value of the company will decrease, this condition illustrates that the acquisition of ROE increased impact on the decline in Firm Value. These results indicate, the greater the Return On Equity (ROE) of a company does not affect / and does not provide the appeal to investors to believe and want to invest their capital by buying shares, this causes the stock price down.

IV. CONCLUSION

Capital Adequacy Ratio (CAR) has a positive and significant impact on firm value, Loan to Deposit Ratio (LDR) has no significant effect on firm value. Non-Performing Loan (NPL) has a significant and significant effect on Firm Value, Debt to Equity Ratio (DER) has negative and significant effect on firm value, Return On Equity (ROE) has no effect on Firm Value, Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Non-Performing Loan (NPL), Debt to Equity Ratio (DER), Return On Equity (ROE) simultaneously have a significant effect on Firm Value.

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