

Fundamental Factor of Firm due to the Firm Value

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ABSTRACT

The objective of this research is to examine factors that influence firm value which is mediated by firm leverage as intervening variable. This research also examines the effect of firm leverage to firm value as well as the factors that influence firm value through firm leverage. Purposive sampling method was used in this study. The sample period was between 2005 -2009 and there were 44 firms that fulfilled the criteria. Data of this research were analyzed by using the method of path analysis. Result indicated that profitability, firm size, asset tangibility, inflation rate had positive influence to the firm leverage and the other variables except GDP (Gross Domestic Brute) Growth had negative influence to the firm leverage. The positive influence on value of the firm was showed by profitability, asset tangibility, and GDP growth. In addition, inflation rate and leverage indicated the negative impact. Specifically on path analysis, leverage can be intervening variable on relationship between interest rate and value of the firm.

Keywords: profitability, sales growth, firm size, asset tangibility, liquidity, GDP growth, inflation rate, interest rate, leverage, and value the firm

INTRODUCTION

Performance measuring has an aim to measure the business performance and management that is compared with the goal and objective of a firm. In other words, performance measuring is a tool of management for controlling the business. However, the performance size itself can be divided into 3 types of quantitative size such as single criteria, multiple criteria, and composite criteria [1]. Based on the firm internal condition, fundamental analysis expressed that share rate of a firm is reflected in the firm performance. If the firm financial performance indicated good prospect so the stock share will be interested by investor and the rate will be increasing [2] and the increasing of accepted share rate by investor will also increase the stock share return.

There is different with fundamental analysis, technical analysis makes an effort to predict the profit growth in the next period by observing the profit change in the last period. Technical analysis which is also mentioned as charting is as the pattern of finding technique in the history of harfa or share volume for predicting the moving of share rate in the next period. Generally, industrial analysis is as the first step due to the prospect and structure of industry very determine the firm profitability. Industrial analysis frequently uses the scheme of Porter or value chain. Based on the scheme, an industry is looked as competitive group which race to win the strength of plain position to the customer and supplier and to have active competition among them and faces the new comer and substitution product. However, strategically analysis is an evaluation of firm business decision and the firm success to develop competitive speciality

The objective of this study was to observer the influenced factor to the firm value that mediated by leverage. Samples that were used in this study were some firms that registered in BEI on the certain periods. Results of study was be hoped as the contribution of developing capital structure theory in agency problem and these can be used as a fundamental base in making decision by manager to act the disciplinary for optimizing the prosperity of stock share owner and holder.

MATERIALS AND METHODS

Purposive sampling was used to select sample in this study and based on judgment sampling with the criteria as follow:

1. Manufacture firm with financial report from 2005 to 2009.
2. Registered in BEI (Bursa Efek Indonesia) from 2005 to 2009.
3. There has not negative equity of total saldo during 2005 to 2009.
4. There did not suffer harm during 2005 to 2009.

The third and forth criteria was added by researcher which expressed that firm with negative equity saldo and suffered a harm has not strong meaningful in the determining process of asset structure. Table 1 presented the procedure of sample selection.

Table 1 Procedure of sample selection

No.	Sample selection	Total
1.	Manufacture firm that is registered in BEI from 2005 to 2009	141
2.	Manufacture firm with negative equity saldo	(56)
3.	Manufacture firm which suffers a harm	(41)
	Sample – Target of population	44

Source: analysis of secondary data

Some studies illustrated the fundamental factor influence of internal and external firm due to the firm value which can be projected with share return. These researches indicated interested result because there were different outputs. Debt Equity Ratio (DER) had non significant positive influence to the share return. Price Earning Ratio (PER) has positive significant influence to the share return but Claude *et.al* [3] expressed the non significant positive influence. Some researchers expressed that Return On Assets (ROA) had positive significant influence to the share return and the others presented the negative one. It was also occurred in Current Ratio (CR) which some researchers expressed that it has positive significant influence to the share return and the others presented the negative one. According to some previous researchers, Quick Assets to Inventory (QAI) had positive significant influence to the share return and the others expressed the negative one.

Ulupui [4] studied about “Ratio Effect Analysis of Liquidity, Leverage, Activity, and Profitability to the Share Return”. He used the ratio variables of liquidity, debt, activity, and profitability as independent variables and share return as dependent variable. Multiple regression analysis was used in this study. Result showed that current ratio, return on asset had positive significant influence to the share return, but debt to asset ratio indicated positive non significant influence and total asset turn over indicated negative non significant influence. The calculated value of t for debt to asset ratio (DAR) was higher than the table value ($0.994 > 0.008$), so it concluded that DAR had non significant value to the share return.

Some previous researchers also found the empirical proof about the influence of fundamental factor such as Current Ratio (CR), Return on Equity (ROE), and Cash Flow from Operation to Debt (CFOD), Price Book Value (PBV), and Firm Size (SIZE) to the share return in the asset market of Indonesia. Analysis result indicated that fundamental factors had simultaneously significant influence to the share return. Partially, it indicated that variable of ROE with explained variation in adjusted of R2 was 32.1% but rest of 67.9% was influenced by the other variable and these variables did not give influence partially.

The relation between profitability, selling growth, firm size, asset tangibility, and liquidity to the firm value

Evaluation of firm performance is intended to measure and evaluates the firm aim such as for increasing the prosperity of shareholder or firm value. Siegel and Shim [5] expressed that the measuring of performance was as an analysis due to the effectiveness and efficiency level of a firm in the certain period for reaching the optimal result. Therefore, if performance of firm was good, it meant that the firm has carried out its operational activity effectively and efficiently, so that the profit level was optimal reached. As described before that the measuring if firm performance can be carried out by using some indicators like ROA, ROE, EPS, PER, Residual Income, EVA, and many others. This study used one of the indicators such as ROA for measuring the firm performance because this concept has accommodated some interesting sides of the firm such as the manager, creditor, and investor. In addition, the previous study has placed ROA as performance measurer which was better than the others to the share return or rate. Therefore, the share-actors look ROA as a signal to put their infestation expectant.

Firm performance can be also measured from selling growth, company size, asset tangibility, and liquidity. Selling growth reflected installed productivity level which is ready operating and reflects the capacity at this time that can be absorbed by market and reflects competitive power of firm [6]. The more increasing of selling growth which is reflected in selling level now compared with the previous one will make the position of firm is stronger in the market or dominant market and it will be positively reacted by asset holder because high sales will cause high net income which gives the possibility of high asset return. Nagano [7] presented that big or small firm scale which is indicated by the natural log of net sales has enough variety. The big scale can be used by the firm as the beginning protection tool when it is happened demand decreasing from time to time so that will decrease the potency of bankrupt occurrence in the fast time and it becomes as the attractive power of asset holder which will cause the share rate increases and gives an impact of firm value increasing.

Asset tangibility that is measured by the result of total fixed asset compared with total assets indicated that asset property was in the form of firm. The more total assets belonging to a firm will save big capacity for developing in making effort to maximize firm value compared with small total asset. Firm capacity that is managed optimally can give the profit to the management or share holder. Liquidity is an ability to change active into cash or to obtain cash in the short period and to confirm how far important the liquidity can be seen

by considering the impact from firm inability to fulfil its duty in the short period. For the share holder of firm, less liquidity is frequently started by the low profit and the less chance of infestation. Less liquidity will cause the missing of owner controlling or harm of asset infestation when firm owner has unlimited duty such as firm or union, less liquidity dangers the personal active themselves. On the contrary, high liquidity will give profit to share holder because the firm will be able to face the fluctuation of business [8].

The relation between Gross Domestic Brute (GDP) growth, inflation rate, and interest rate tio the firm value

Systematically risk or market risk is also as the outcome variable from the uncontrollable condition factor of economical-macro. Economical macro is as an important factor which has to be considerate because this factor is as the part of condition caused by external condition of a firm like political and security stability, law, social, culture, education, and the uncertainty environment. This factor more colours firm policy especially the problem of external funding usage. Instability external factors will cause the infestation has more risk and it will give impact in decreasing of asset market performance. Economical-macro performance has wide implication such as due to the firm policy, asset market performance, and economical micro performance.

Firm performance (ROA) as an unsure of micro (internal) fundamental variable which comes from firm inside will get the impact directly because firm performance is the result on implementation of firm policy that can influence share rate as the indicator of firm value. Risk due to the external fundamental factor with systematically risk or market risk is measured by market Beta (β). Beta of a security is relative to market risk [9]. The usage of market beta as a risk measuring is caused by market beta that measures the response of each security to market moving. Therefore, the returns of a security statistically follow the returns of market, so the characteristic of market will determine Beta value of each security. Systematic risk has the potency to influence the performance of firm value. A firm with Beta value more than one is classified as high risk firm because only small return has changed will cause bigger share return. Being remember that basically investor is afraid with the risk, so investor will considerate to carry out the infestation on the firm which has small Beta of one. The reason has been predicted that share market rate of a firm will experience decreasing.

Performance of asset market can be seen from the index of united share rate (IHSG) which illustrates the whole share rates in asset market through the transaction of share trading. If the transaction of share trading decreases, so the volume and rate of share trading are also decreases, so IHSG is also decrease. For the share holder, condition like that is making the manager carries out hard thinking for eliminating the decreasing of firm performance and value such as by making accurate policies related to the operational.of firm especially policy of infestation, funding, and dividend. Therefore, the firm policies will not release from uncontrollable external fundamental factor. Some previous researchers has discussed the cases of inflation, interest rate, curs, economical growth, and systematically risk such as being studied by Claude *et. al.* [3], Eduardus [10], Suryanto [11], Gudono [8], Shin & Stulz [12], Syahib [13], Hutchinson [14], Dewi [15], Sudjono [16], Anuchitworawong [17], Ritter [18], Coles, *et al* [19], Siti [20], Nieuwerburgh, *et al* [21]. Many studies about that indicated that external fundamental factor was very important related to firm performance and value.

Firm Value

The measuring of firm value can be carried out by looking the development of share rate in secondary market. If share rate increases, it means that firm value increases because firm value actually is share market rate plus obligation market value or long term credit. The increasing of share indicated that society trust to the firm is good, so they will higher pay and it is suitable with their expectant to get high return too.

Firm performance can be measured by using some approaches such as ROA, ROE, PER, Residual Income, and more modern approach like Economic Value Added (EVA). EVA can be used to measure the creation of firm value if EVA is not only in this period but it included the next period, because EVA on the certain year indicates how big value creation in this period but firm value indicates present value on total value of creation during the firm life time that is since the firm is built. However, some researchers in asset market of Indonesia found that EVA has not significant influence to share return [22][23] because may be the investor in asset market of Indonesia do not based on their sell-buy- decision on the fundamental approach [24]. Therefore share rate in asset market of Indonesia has a trend to be determined by the other factors like market sentiment, speculation, etc., even what happens in ROA is still assumed as the better measurer of firm performance than EVA [23][24][25]. Therefore, this study used ROA as one of the firm performance measurer in the relation with the increasing of firm value.

Firm value can also be measured with share return. Jogiyanto [9] said that return was as the reached result of infestation. This expression was also supported by Gitman [26] which presented that return was as total profit of infestation harm during the certain period. Return period of infestation in a certain period included capital gain (loss) and yield. Capital gain (loss) was as the value difference between relative present infestations in the certain period of an infestation. The formula is as follow

$$\text{Return} = \text{capital gain (loss)} + \text{yield} \dots\dots\dots (1)$$

$$\text{Capital gain (loss)} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \dots\dots\dots (2)$$

$$\text{Yield} = D_t / P_{it-1} \dots\dots\dots (3)$$

Note:

- P_{it} = present share rate
- P_{it-1} = last period share rate
- D_t = present dividend

Fisher and Jordan [27] also said that return included two components such as yield and capital gain. Capital gain was as the difference between relative present share rate and last period share rate, but dividend yield was as division result between present dividend and last period share rate [27].

Firm value can also be measured by adding obligation market value or long period credit to the share market value. Relative obligation market value is stable relatively, but share market value is very fluctuating because share market value is moving along the time. Firm value can be peroxided by Tobin's Q and it is measured by calculating ratio total market value of the firm with replacement costs of assets [28].

RESULTS AND DISCUSSION

Figure 1 presented the development curve of share rate average from 2005 to 2009

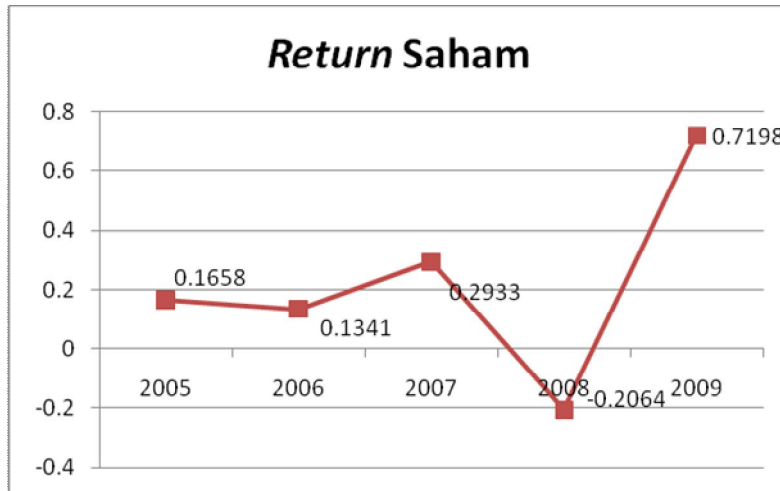


Figure 1 Development of share return
Source: analysis of secondary data in 2011

The share return average of 44 firms in this study was always changed among the firms that experienced increasing and decreasing every year. The lowest of share return average was happened in 2008 such as -0.2064, but the highest share return average was happened in 2009 such as 0.7198. Figure 2 presented the line of analysis result

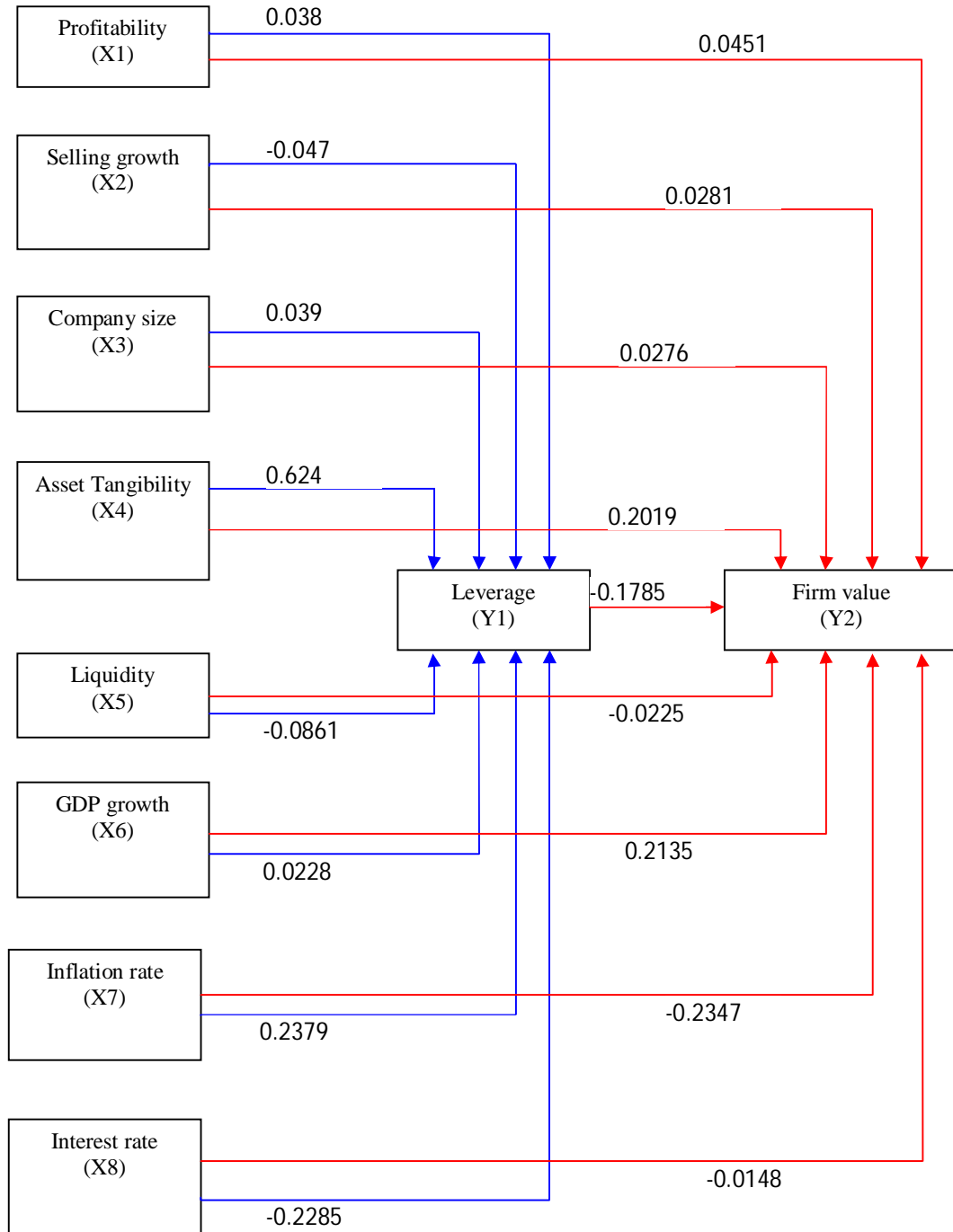


Figure 2 Line of analysis result

Based on the Figure 2 as above, there were obtained the line equations as follow:

1. $Y1 = 0,038X1 - 0,047 X2 + 0,039 X3 + 0,624 X4 - 0,086 X5 + e$
2. $Y1 = 0,023 X6 + 0,238 X7 - 0,229 X8 + e$
3. $Y2 = 0,045 X1 + 0,028 X2 + 0,028 X3 + 0,202 X4 - 0,023 X5 + e$
4. $Y2 = 0,214 X6 - 0,235 X7 - 0,015 X8 + e$
5. $Y2 = -0,179 Y1 + e$

Table 1 was presented the analysis coefficient of direct, indirect, and total influence line.

Table 1 Analysis coefficient of direct, indirect, and total influence

Direct influence		
Variable	Line coefficient	
	Leverage	Firm value
Profitability	0.038	0.045
Selling growth	-0.047	0.028
Company size	0.039	0.028
Asset Tangibility	0.624	0.202
Liquidity	-0.086	-0.023
GDP growth	0.023	0.214
Inflation rate	0.238	-0.235
Interest rate	-0.229	-0.015
Leverage	0.000	-0.179
Indirect influence		
Variable	Firm value	
Profitability	-0.00675	
Selling growth	0.00835	
Company size	-0.00691	
Asset Tangibility	-0.11133	
Liquidity	0.01537	
GDP growth	-0.00407	
Inflation rate	-0.04247	
Interest rate	0.04079	

Source: analysis of secondary data in 2011

The influence of leverage to the firm value

The influence of leverage to the firm value was statistically proved with the significant value of 0.0031. Because of the significant value was $-0.0031 < 0.05$, it meant that leverage had negative significant value to the firm value. The investor will always face to two main things such as expectant profit and risk [29]. One of the risk that can not be avoided is the business risk of credit usage as the main funding in a firm. The more credit of a firm will cause the more possibility of firm failure for not being able to pay the credit, so the risk was it experiences bankrupt. The impact is the decreasing of share holder value [30].

The influence of profitability to the firm value mediated by leverage

On the line analysis, there was found that the coefficient value of profitability to the firm value was mediated by leverage of -0.007 (it was obtained by multiplying profitability coefficient to the leverage of 0.038 with leverage coefficient to the firm value of -0.179). This value was less than direct coefficient value of profitability of 0.045, so leverage as the intervening variable was still weak because direct influence coefficient value was bigger than indirect one.

The influence of selling growth to the firm value mediated by leverage

On the line analysis, there was found that coefficient value of selling growth to the firm value was mediated by leverage of 0.00835 (it was obtained by multiplying selling growth coefficient to the leverage of -0.047 with leverage coefficient to the firm value of -0.179). This value was less than direct coefficient of selling growth to firm value of +0.028 so leverage as the intervening variable was weak because direct influence coefficient value was less than indirect one.

The influence of company size to the firm value

Company size had significant influence of +0.0666 to the firm value. The significant value of 0.0666 was less than 0.05, it meant that company size did not influence firm value. This result was opposite with the positive influence result of Nagano [7]. Nagano expressed that big or small company scale which was indicated by the natural log of net sales was variety enough. Big scale could be used by a firm as the beginning protection tool when there was demand decreasing from time to time so that decreased the potency of bankrupt in fast time. This was as the attractive power of asset holder.

The influence of company size to the firm value mediated by leverage

On the line analysis, there was found that coefficient value of company size to the firm value mediated by leverage was -0.007 (it was obtained by multiplying firm size coefficient to the leverage of -0.039 with leverage coefficient of firm value of -0.179). This value was less than direct selling growth coefficient to the firm value of 0.028, so leverage as the intervening variable was weak because direct influence coefficient was less than indirect one.

The influence of asset tangibility to the firm value mediated by leverage

Asset tangibility influenced firm value with significant value of +0.015. The significant value was less than 0.05, it meant that asset tangibility influenced firm value. By having big asset indicated good firm solvability level and it was positive reacted by investor.

The influence of asset tangibility to the firm value mediated by leverage

On the line analysis, there was found that coefficient value of asset tangibility to the share return mediated by leverage was -0.111 (it was obtained by multiplying asset tangibility value to the leverage of -0.624 with leverage coefficient to the share return of -0.179). This value was less than direct coefficient value of asset tangibility to the share return of 0.202, so leverage as the intervening variable was weak because direct influence coefficient value was less than indirect one.

The influence of liquidity to the firm value

Liquidity influenced firm value with the significant value of +0.0728. The significant value was less than 0.05, it meant that liquidity did not influence firm value. This analysis result was opposed with previous researcher such as Gudono [8].

Liquidity had ability to change activa into cash or to produce cash in short time. How important the liquidity can be seen by considering the impact from inability company to fulfill its duty in short time. For shareholder of a firm less liquidity was frequently started with low profit and less chance for investment. Less liquidity will cause the control missing of holder controlling or asset investment harm. When company owner had unlimited duty such as firm or union, less liquidity endangered their personal active. On the contrary, high liquidity will give profit for shareholder because firm will be able to face business fluctuation [8].

The influence of liquidity to the firm value mediated by leverage

On the line analysis, there was found that coefficient value of liquidity to share return mediated by leverage was 0.015 (it was found by multiplying liquidity coefficient to the leverage of -0.086 with the leverage coefficient of leverage to the firm value was -0.179). This value was smaller than direct liquidity coefficient to the firm value of -0.0023 so leverage as intervening variable was weak because direct influence coefficient value was bigger than indirect one.

Less liquidity will avoid the firm to get the profit of discount or chance for getting profit. It also meant that there was limitation of chance and manajemen action. The poorer liquidity problem was reflected by inability of firm to fulfill its duty. This problem can direct to investment selling and compulsory activa even it can direct to insolvension and bankrupt. This condition had to be avoided by management side more for asset owner and debholders. Asset owner will be very difficult to get return of his investment. For debholders, less liquidity can cause the delay of interest payment and credit asset or even it can not be collected. On the contrary, if the firm condition with very good level, the whole sides will give positive response even agregately the organization of credit usage will be eliminired. Therefore, cost of credit will decrease. The cost decreasing can increase firm profit and the aim of firm will be reached.

The influence of GDP growth to the firm value

GDP growth influenced firm value with significant value of +0.003. The significant value was less than 0.05, it meant that GDP growth influenced firm value. Firm value in this study was proxied with share return and it was defined as obtained result of investment [9]. Share was one of the securities with high risk. The high risk was reflected from uncertainty of accepted return in the next period. Investment was funding commitment with the certain amount for getting uncertainty return in the next period. If the uncertainty was related with economical condition in a country, it had to be related with economic growth of this country which was reflected in GDP growth.

The influence of GDP growth to the firm value mediated by leverage

On the line analysis, there was found that coefficient value of GDP growth to the firm value mediated by leverage was -0.0004 (it was found by multiplying GDP growth coefficient to the leverage of -0.023 with leverage coefficient to the share return of -0.179). This value was less than direct coefficient value of GDP growth to share return of -0.214 so leverage as interening variable was still weak because direct influence coefficient value was bigger than indirect one.

The influence of inflation to the firm value

Inflation rate influenced the firm value with significant value of -0.0191. This significant value was less than 0.05, it meant that inflation rate influenced firm value. This result confirmed the study of Booth *et.al.* [31]. Firm of a country that had high inflation level did not like credit than in the firm of a low inlation level country. Beside the increasing of production cost, a firm will not also be loaded by the decreasing of net profit

which had the implication on the decreasing of ability to pay dividend and this could give negative influence to the firm value.

The influence of inflation rate to the firm value mediated by leverage

On the line analysis, it was found that coefficient value of inflation rate to the share return mediated by leverage was 0.042 (it was found by multiplying inflation rate coefficient to the leverage of 0.238 with leverage coefficient to the share return of -0.179). This value was less than direct coefficient value of inflation rate to the share return of -0.235 so leverage as the intervening variable was still weak because direct influence coefficient value was bigger than indirect one.

The influence of interest rate to the firm value

Interest rate influenced the firm value with significant value of -0.0931. The significant value was more than 0.05, it meant that interest rate did not influence firm value. Interest rate do not only influence firm profit through interest cost but it will cause the investors pull their share and move them to the other investment which bargains the better return level such as deposito by bargaining higher profit and low risk. If the investors carry out selling action and demand of the share was little so it will happen over supply of share that will cause share rate will be dropped and by the end causing the low share return for the firm.

The influence of interest rate to the firm value mediated by leverage

On the line analysis, it was found that coefficient of interest rate to the share return mediated by leverage was 0.04079 (it was found by multiplying interest rate coefficient to the leverage of -0.229 with leverage coefficient to the share return of -0.179). This value was less than direct coefficient of interest rate to share return of 0.04079 so leverage as the intervening variable was strong because direct influence coefficient value was less than indirect one.

CONCLUSION

Based on the analysis as above, it was concluded as follow:

The direct influence of profitability to share return through leverage had coefficient value more than indirect one, so it could be concluded that intervening function was still weak. The direct influence of selling growth to firm value through leverage had coefficient value more than indirect one, so it could be concluded that intervening function was still weak. The direct influence of company size to firm value through leverage had coefficient value more than indirect one, so it could be concluded that intervening function was still weak. The direct influence of asset tangibility to firm value through leverage had coefficient value more than indirect one, so it could be concluded that intervening function was strong. The direct influence of liquidity to firm value through leverage had coefficient value more than indirect one, so it could be concluded that intervening function was still weak. The direct influence of GDP growth to firm value through leverage had coefficient value more than indirect one, so it could be concluded that intervening function was still weak. The direct influence of inflation rate to firm value through leverage had coefficient value more than indirect one, so it could be concluded that intervening function was still weak. The direct influence of interest rate to firm value through leverage had coefficient value less than indirect one, so it could be concluded that intervening function was strong.

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