

The Role of Internal Factors in Determining the Value of Manufacturing Company

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Abstract—The objective of this study was to determine the effect of internal factors in the cases of liquidity, activity, leverage, asset size to the value of manufacturing company. This research was conducted at the Indonesia Stock Exchange. The object of research was the financial statements of manufacturing companies in the form of financial statements for the period 2010 - 2015 contained in the Indonesian Capital Market Directory, as well as other data. To test the hypothesis of the effect of variable X to variable Y, the F test was simultaneously used and to test the hypothesis of the effect of variable X to variable Y, the t test was partially used. The data used in this research were involving the secondary data obtained from Indonesian Capital Market Directory for the period of 2010 – 2015, Webb Jakarta Stock Exchange, Bank Indonesia and the Central Bureau of Statistics. Samples were taken by purposive sampling as many as 38 companies for 6 years observation. The result of the research showed that liquidity and activity had no effect to Company's Value. However, the asset size had positive and significant influence to Company's Value. In addition, leverage had negative and significant effect to Company's Value.

Keywords—activity; asset size; company's value; leverage and liquidity

I. INTRODUCTION

Indonesian capital market investors were not worried about the implementation of the ASEAN Economic Community (MEA). Investors were confident that they would get benefit if the integration of capital markets becoming one of the priorities of MEA 2015 could be done. In the road map of MEA 2015 arranged by ASEAN, the capital market was one of the priority sectors of integration. ASEAN capital market integration was the main requirement for the smooth flow of capital and investment. Capital market as the market in general was the place where sellers meet and buyers. Here the trade was a long-term financial instrument for more than 1 (one) year, either in the form of own capital (stock) or debt (bond), both issued by the government (public authorities) or by private sector. Therefore, the capital market was the bridge for both sellers and buyers of capital or funds. The buyer of capital or funds was individual and institutional or business entity, either domestic or foreign investors.

The domestic manufacturing industry had a chance to grow, as the Indonesian government had tightened the imported products in 2009. Tight manufacturing products were including

electronics, textiles, food and beverages, footwear and toys. On the other hand, the government had also taken a policy to provide fiscal stimulus and reduce fuel prices. Central Bank of Indonesia (BI) also began to lower the BI rate expected to reach 7.5% before the financial crisis struck. Implementation of the policy became an opportunity for manufacturing business actors. The determination of this research object was focused on manufacturing companies listed on the Indonesia Stock Exchange (ISE) because of an assumption that the industrial sector, especially the manufacturing industry as a driving force and booster of economic growth, occupied a strategic position to improve continuous performance. The increase in the manufacturing sector was intended to encourage the growth of a quality national economy. However, since the economic crisis of 1997, the performance of the manufacturing industry had decreased drastically. The condition was mainly due to the heavy foreign debt burden, especially in large companies that were larger due to the declining Exchange Rate of the rupiah and the declining competitiveness of many export products. Even until the third quarter of 2009 the manufacturing industry was considered very apprehensive compared to other sectors. Manufacturing companies listed on the ISE were selected as research objects because: (1) Number of manufacturing companies listed on IDX were more than other sectors, because the analytical ability in a sector was expected to produce conclusions that can be compared between one company and other companies. (2) Manufacturing companies had a simpler disclosure criterion compared to banking companies, in addition to banking companies tending to have relatively high capital debt ratios.

Internal factor was a fundamental factor that was often used as a basis by investors in the capital market to take investment decisions. Fundamental factors were very complex and wide, encompassing not only macro fundamental factors that were beyond the control of the company, but also the micro-fundamental factors within the company [1]. This micro fundamental factor was controllable so it can be controlled by the company.

The average liquidity development was in the range of 200 - 300%, this indicated that some manufacturing companies were liquid. For an average leverage, above 100% were indicating the composition of debt on own capital exceeding 100%, which meant that more than IDR 1 debt was secured by

own capital of IDR 1, -. The activity was in the range of 150 - 200%, meaning that the sale was greater than the assets owned. For asset size, it indicated that assets owned by manufacturing companies mostly had assets of more than IDR 20 trillion.

This concept had undergone many developments, in addition to conventional traditional accounting concepts and other performance indicators. There was a concept considered to have a better ability to measure the performance of a company as the Economic Value Added (EVA). Based on Table 1 above, EVA values for the period 2010 - 2015 were also fluctuating, although the average value of the company was at a positive rate meaning that a company earning more profit from the cost of capital invested. The results of Table 1 also provided information that the internal factors of the company tended to increase, while the company's EVA fluctuated contradicting with Jerry, Rinati, and Wahyudi [2-4]. They stated that internal factors were proven to influence the value of the company. Effect of EVA, ROA and EPS variables on stock return were not significant [5]. From the empirical condition, Indonesian microeconomic indicator and condition of manufacturing industry and research gaps, researcher was keen and interested in conducting an empirical study of the role of internal factors in determining the value of manufacturing companies in Indonesia Stock Exchange. The internal factors were including liquidity, activity, leverage, and asset size, all potentially influencing the value of manufacturing companies in Indonesia Stock Exchange partially and simultaneously.

A. Theoretical Framework

1) Company value and economic value added

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 [1]. 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].

This theory explained that firm value was a function of the dividend and the return rate of an equity. Basically, this theory stated that the value of the company was the result of the assessment and the investor's expectation of the company's stock in the capital market. An investor should determine the present value of an equity by specifying its expectations for a change of assets and liabilities of a company.

A newer approach in company valuation was to calculate the economic value added (EVA) of a company [7]. EVA was a measure of the company's management success in improving value added for the company. The assumption was that if the performance of management was good / effective, it would be reflected on the increase in stock price of the company [8].

EVA was first popularized by Stern Steward through its Service Management firm, a consulting firm from the United States, Britain and Germany. Unlike the ratio analysis, EVA as a new concept to assess the performance of the company, can stand alone and simultaneously can measure profitability and growth [1]. EVA was intended to be more than just measuring financial performance, but in fact, it also served an intensive compensation system and integrated financial management.

Through EVA, all the principles of financial management processes were tied to just one measure of making the whole system much easier to administer and understand. In this case, EVA was a simple but more integrated measure of the entire financial management system. One size served all the units and functions within the company and made clearer responsibility for the mission of creating value. The negative EVA meant company earn less profit from capital cost. It meant that the company was failed to increase profits from the authorized capital and to make new investments, which also further gained less capital.

EVA was calculated by subtracting the operating profits of the company at the cost of the company's capital, both for the cost of debt and equity. If the difference was positive it meant there was the added value to the company, and this would usually be responded by rising stock prices. Similarly, it was vice versa if EVA negatively meant the company experiencing a decrease in performance, which usually would be responded by the decline in stock prices of the company.

Mathematically, the formula for calculating EVA of a company can be written as follows:

$$EVA = \text{Net operating profit after tax deductible} - \text{capital operating cost in rupiah net of tax.}$$

$$EVA = EBIT(1 - \text{tax}) - (\text{operating capital}). \text{ (Percentage of after-tax capital cost).}$$

This corresponds suggesting that the size of EVA can be positive, negative or zero. This means that:

- EVA > 0 means adding value to the company. In this case, the employee was entitled to a bonus, the creditor still earned interest, and the shareholders can get a return equal to or more than the planted.
- EVA = 0 means economically break even because all profits were used to pay liabilities to both the creditor and the shareholder, so that the employee did not get a bonus.
- EVA < 0 means no added value for the company, because the profit can't meet the expectations of the funder. In this case, the employee did not get the bonus only. The creditor still got the interest and the shareholders did not get a refund of the funds invested.

There were 3 (three) ways to increase EVA according: to grow a business with new investment that promises greater returns than the cost of capital, to develop EVA by not growing / creating new business but increasing efficiency and adding profit to existing capital, and to eliminate business units that did not promise anything or did not develop. EVA would be created if the return was obtained from the used capital producing better profits without resulting in more capital. The additional capital invested in the project generated more than the cost of capital to be closed.

From both opinions, those indicated there were 3 (three) strategies to increase EVA namely:

- Strategies to create value by achieving profit growth. This can be achieved by adding capital invested in projects with high returns.
- Value creation strategies by increasing efficiency. In this case, increase the profit without using additional value.
- A value creation strategy by rationalizing and leaving a non-promising business, meaning the pulling unproductive capital from capital for low returning activity and removing a business unit that did not promise the results.

From the description above, it can be taken a conclusion that EVA as a comprehensive financial concept can be used as a criterion as follows:

- In a given budget year, employees and managers were entitled to a bonus or not.
- It was appropriate to assess the operational workings of an enterprise and at the same time responding to the desire of executives in presenting a measure fairly considering the expectations of creditors and shareholders,
- Assist in strategic management decision considerations.

II. METHOD

A. Sample and Procedure

The population was all companies in the category of manufacturing industries that have been listed on Indonesia Stock Exchange. In this study, the samples used were 38 companies in the period 2010 to 2015. The consistent samples taken throughout the study period was used to maintain the consistency of data which was a combination of time series and cross section or pooling data. Besides, some companies were not taken as samples because the data were not enough or the data were not disclosed in detail or perfect. The purposive sampling was the technique used in sample selection. This technique was used because of the assessment or certain requirements of the researcher, as the basis of the determination of which the company deserved to be sampled. In this research, the sample companies must have the following requirements: 1) listed on the Indonesia Stock Exchange (ISE) continuously over the period 2010-2015; 2) the audit reported data from the independent auditor were available during the research period; 3) companies actively paid dividends; 4) they had no profit and total negative equity in 2010-2015.

The data used were secondary data obtained from Indonesian Capital Market Directory 2010 - 2015 and Webb Jakarta Stock Exchange, as well as Bank Indonesia and the Central Bureau of Statistics. A period of 6 years aimed to prevent the uniqueness of the results in a particular year only.

1) Multiple linear regression analysis

This study used multiple regression analysis for hypothesis testing. The formula of multiple regression in general was as follows:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e_i \quad (1)$$

Where:

- Y = Corporate Value
- X1 = Liquidity
- X2 = Activity
- X3 = Leverage
- X4 = Asset Size
- b0 = Constanta
- b1-b4 = Coefficient Regression
- ei = Error

III. RESULTS AND DISCUSSION

A. Measurement Procedures and Results

TABLE I. HYPOTHESIS TEST RESULT

Variable	Coefficient	Sig	t-test
Constanta	-54953.867	.007	-3.016
X 1Liquidity		.158	-1.413
X 2Activity		.404	0.834
X 3Leverage		.007	-2.684
X 4Asset Size	.000		4.905
R Square			.938
Adjusted R Square			.879
F-Statistic			29.176
Prob. (F-Statistic)	.000b		

Source: processed secondary data

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

$$Y = (54953.867) - 0.087X_1 + 0.052X_2 + 0.164X_3 + 0.309X_4$$

The coefficient of influence of liquidity variable (X1) to Company Value (Y) was -0,087 at significance level of 0.158. The coefficient showed that the liquidity variable (X1) had a negative effect on Corporate Value (Y). The statistical value of t arithmetic liquidity (X1) to Corporate Value (Y) was -1.413 with significance of 0.158 or above 0.05. This meant that liquidity (X1) had no significant effect on Corporate Value (Y). The result of the research showed that liquidity had no effect on Corporate Value. The results of this study were not in accordance with previous estimates and theories, that liquidity affected the value of the company. This provided an empirical understanding for management increasing liquidity did not affect the firm's value. This condition indicated that the current ratio information changes that can be obtained from the financial statements, did not affect the decision on stock prices. This might happen because investors sometime did not consider the importance of company's liquidity. Research by Endang Kurniati stated that the current ratio had a significant influence with stock returns.

The coefficient showed that the activity variable (X2) had a positive effect on Corporate Value (Y). Statistical value (t) arithmetic influence of activity (X2) to Company Value (Y) was 0.834 with significance of 0.404 or above 0.05. This meant that activity (X2) had no significant effect on Corporate Value (Y). The results of this study were not in accordance with previous estimates and did not support the theory of

investment, that activity should have a positive effect on the value of the company. The result of this study provided an empirical understanding for management that if the activity increases, the market participants would not respond to changes in activity. Activities measured by assets turn over were used to measure how efficient the company's assets in supporting sales activities. Total asset turnover showed how effective the company to use the overall assets to create sales in relation to earn profit [9]. The higher the effectiveness of companies in using assets to obtain sales, the bigger the profit expected and this would show the better company's performance. Better company's performance would have a positive impact on the company's stock price and higher stock prices would give high returns for the company. Based on the results of research description, the company's activity measured by Asset Turn Over (ATO) was above 100%. It indicated that the sale exceeded the assets owned. With sales exceeding assets meant the company had shown good performance, so that investors wanted to invest funds in the company. The results showed that ATO had no effect on Company Value.

The coefficient of influence of leverage variable (X3) to Company Value (Y) was -0.164 at significance level of 0.007. The coefficient showed that the leverage variable (X3) had a negative effect on Corporate Value (Y). The statistical value t arithmetic leverage (X3) effect on Company Value (Y) was -2.684 with significance of 0.007 or below 0.05. This meant leverage (X3) had a significant effect on Corporate Value (Y). The test results showed that the capital structure had a negative and significant effect on the value of manufacturing companies. The results of this study were in accordance with previous estimates that leverage negatively affected the value of the company. The results of this study provided an empirical understanding for management that if leverage raised, then the value of the company would drop. This condition illustrated that the use of debt by the company affected the value of the company. The leverage measured by the Debt to Equity ratio (DER) in most manufacturing companies listed on the Indonesia Stock Exchange was above 100%, indicating that the company was applying the concept of debt financing.

The coefficient of influence of Asset Size (X4) variable to Company Value (Y) was 0.309 at significance level of 0.000. The coefficient showed that Asset Size (X4) variable had positive effect to Company Value (Y). The statistical value t arithmetic influence Asset Size (X4) on Corporate Value (Y) was 4.905 with a significance of 0.000 or below 0.05. This meant that Asset Size (X4) had a significant effect on Corporate Value (Y). Assets Size variable had a positive effect on Corporate Value. This meant that an increase in Assets Size would be followed by an increase in Corporate Value. On the other hand, the decrease in Assets Size would be followed by a decrease in Corporate Value, assuming other factors affecting the size of Company Value were considered constant. The findings indicated that firm's asset size significantly influenced firm value. This result supported the opinion of Short and First, the financial effect, large companies were internally easier to generate funds and easier to access to external funding sources. Thus, large companies could realize any profitable project. Second was economic scale. Large companies would be able to

create barriers to entry in the industry. This provided benefits to the performance of the company. The bigger the company, the higher the value of the company [10]. The question was why. There were two causes that was first, the bigger the company, the higher the access to the source of financing and also the higher the potential to generate cash flow. Both of these would make it possible for large companies to finance profitable future investment projects. The more profitable investment opportunities company finances, the higher the value of the firm. This was because the company would generate a prospective future (profit) fund flow. This would get a positive response from the market in the form of an increase in the company's stock price. So, it can be said that the greater the asset of the company, the greater the ability to finance a profitable future investment and the higher the value of the company. Second, the greater the company's asset, the higher the company operates on an economical scale. According to them, this economical scale would create entry barriers for competitors in the product market. This would greatly benefit the company, which would ultimately increase the value of the company. High corporate performance can lead to increase corporate value. Because the high value of the company would give a good signal in the market. Consequently, stock market prices would increase. Automatically, the value of the company would increase as well.

IV. CONCLUSION

The Leverage ratio had a negative and significant effect on Corporate Value, while Asset Size ratio had positive and significant influence to Corporate Value. Liquidity Ratio and Activity did not have any impact on Corporate Value so that the former hypothesis stating Liquidity and Activity had positive and significant impact to Corporate Value that was not acceptable.

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