

# The Effect of Financial Performance on Company Value Banks Registered at Indonesia Stock Exchange:2014-2016

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## Abstract

This study aims to find empirical evidence of the effect of financial performance both partially and simultaneously, as measured by Return On Assets (ROA) and Return On Equity (ROE) on Firm Value. (An empirical study of banking companies listed on the Indonesia Stock Exchange). The sampling method used was purposive sampling method and obtained 16 sample companies that became the object of research. The technical analysis used in this study is multiple linear regression analysis using SPSS version 22. Data was tested using the coefficient of determination test, F test and t test at a significance level of 5%. In addition, there is also a classic assumption test consisting of normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. The independent variable used in this study is the financial performance reviewed from Return On Assets (ROA) and Return On Equity (ROE), while the Corporate Value as the dependent variable. The test results show that simultaneously, all independent variables in this study have a significant effect on firm value. Partially Return On Assets (ROA) and Return On Equity (ROE) have a positive and significant effect on firm value.

**Keywords:** Return On Assets (ROA), Return On Equity (ROE), and company value

## Introduction

In this era of globalization, economic conditions continue to develop, which is indicated by the increasing number of companies that stand either small or large. So that the number of companies that exist today certainly creates a business competition between each company. This certainly makes competition between companies increasingly tight. Competition between companies is no longer focused solely on sales or attracting consumers, but has spread to various other sectors such as banking companies that attract the attention of customers in a variety of different ways between banks.

Another goal of establishing a company is to maximize the value of the company which can be reflected in the price of its shares. Every company certainly wants a high corporate value because it also implies that shareholder prosperity is also high. High corporate value can increase prosperity for shareholders, so that shareholders will invest their capital in the company (Haruman, 2008).

According to Zuredah (2010) measurement of financial performance is one of the factors that are very important for companies, because these measurements are used as a basis for compiling a system of rewards in the company. Company performance that is known from the analysis of financial statements can be used as a basis for policy makers for owners, managers and investors. Ratio analysis is a very common thing used to analyze financial statements of a company. One form is to predict company performance. In operating a business, of course, companies are often faced with various problems, one of the problems often faced by a company is financial problems.

This research uses a banking company because stocks originating from banking companies are the most preferred stocks by investors. Banking profitability as indicated by the value of Return On Assets (ROA) Development of Commercial Bank ROA in May 2016 Reached 2.34%, lower than the previous month which reached 2.38%. While the development of Commercial Bank Net Interest income showed an increase in May 2016 reaching 5.50% compared to April 2016 which only reached 5.56%. In terms of intermediation and banking liquidity is reflected in the value of the Bank's Loan to Deposit Ratio (LDR) and Non-Performing Loans (NPL). Commercial Bank LDR developments in May 2016 reached 90.32%, higher than April 2016, which only reached 89.52%. The high LDR is due to the distribution of third party funds through large loans, so that the profits obtained are also getting bigger. While gross NPLs may increase to reach 3.10% compared to April 2016 which reached 2.93%. Even though the gross NPL value has increased, the value is still low and the NP value limit is 3.1% (gross). Banking efficiency is reflected in the Operational Costs of Operational Income which increased to reach 82.36% compared to April 2016 which only reached 82.30%. The more Operational Costs of Operating Income increases, indicating that operations are increasingly inefficient. So that the profit obtained is not so large it affects the value of ROA which shows a decline

Increasing company performance will affect the value of the company which will increase as well. Van Horne and James (1995) state that company value is indicated by the price of company greetings that reflect investment decisions, spending and dividends. The higher the company's stock price, the higher the company's value, on the contrary the lower the stock price, the lower the company's value.

The purpose of this study is :1. To find out whether there is an effect of Return On Assets (ROA) on the

value of banking sector companies that go public on the Indonesia Stock Exchange.2. To find out whether there is an effect of Return On Equity (ROE) on the value of banking sector companies that go public on the Indonesia Stock Exchange.3. To know together the effect of Return On Assets (ROA) and Return On Equity (ROE) on the value of banking sector companies that go public on the Indonesia Stock Exchange

### Literature Review

The value of the companyThe value of the company in this study is defined as market value, as well as research conducted by (Nurlela and Islahuddin, 2008), because the value of the company can provide maximum shareholder prosperity if the company's stock price increases.Measurement of company value. Price too Book Value (PBV)According to Prayinto in Afzal (2012) Price to Book Value (PBV) describes how much the market values the book value of a company's stock. The higher this ratio, the market believes in the prospect of the company. PBV also shows how far a company is able to create firm value relative to the amount of capital invested

Financial performance according to Irham Fahmi (2014) financial performance is an analysis conducted to see the extent to which a company has implemented it using the rules of financial implementation properly and correctly. Like by making a financial report that has met the standards and provisions in SAK (Financial Accounting Standards) or GAAP (General Accepted Accounting Principle), and others.Return on Assets (ROA)According to Dendawijaya (2009) this ratio is used to measure bank management skills in obtaining overall profits (profits) achieved by the bank and the better position of the bank in terms of asset use.

Return on Equity (ROE)According to Dendawawijaya (2009) ROE is a comparison between a bank's net income and its own capital. Return on Equity describes the ability of own capital to generate profits for shareholders, because in ROE that is used as a measure of efficiency is the amount of net income from the amount of own capital used by the company. So, ROE is the rate of return on investment for shareholders.

Effect of Return On Assets (ROA) on Company Values. The company's main goal is to provide prosperity to shareholders. The main measure of prosperity is value. The measure of corporate financial performance is how to help a company to maximize value. With the higher value of the company, the owner or investor increasingly prosper. One indicator that can be found if the company is a public company is the market value of the company's shares (Toto Prihadi: 2013: 8). The results of previous studies conducted by Handoko (2010) found that ROA had a significant positive effect on firm value. 2. Effect of Return On Equity (ROE) on Company Values. According to Ericson (2013) found that ROE has a positive effect on the value of the company. 3. Influence of Return On Assets (ROA) and Return On Equity (ROE) together on Company Values.

Investors do an overview of a company by looking at the profitability of the company. Because, profitability can measure how effective the company is for investors. One of the profitability ratios used by researchers is Return On Assets (ROA) and Return On Equity (ROE) as analysis tools for performance assessment indicators. Where ROA and ROE are used to measure the company's ability to overall and invested in activities used for company operating activities with the aim of generating profits (Ang: 2007 in Zuraedah: 2010

### Research Method

The type of research conducted is quantitative research. Quantitative research is research that shows the direction of the relationship between independent variables and dependent variables, in addition to measuring the strength of relationships. This study examines the effect of the relationship between company performance on company value in publicly listed banks listed on the Indonesia Stock Exchange for the 2014-2016 period.

Population and Samples. The population in the study is the area that researchers want to examine. As according to Sugiyono (2011: 80), population is a region of generalization consisting of objects / subjects that have certain qualities and characteristics set by researchers to be studied and then conclusions drawn. The population that will be used as a research is a Banking Company listed on the Indonesia Stock Exchange in 2014-2016 with a population of 43 banks.

The sample used by the author is 16 banks listed on the Indonesia Stock Exchange in 2014-2016. The sampling technique of this study was carried out using a purposive sampling technique that is through taking samples specifically based on certain criteria. The criteria used for this study sample are as follows:

- The company is listed on the Indonesia Stock Exchange during the 2014-2016 period in the group of go-public banking companies that publish annual reports in a row.
- Publish annual reports for the period ending December 31 during the 2014-2016 observation period.
- The company has all the data needed in full during the observation period.

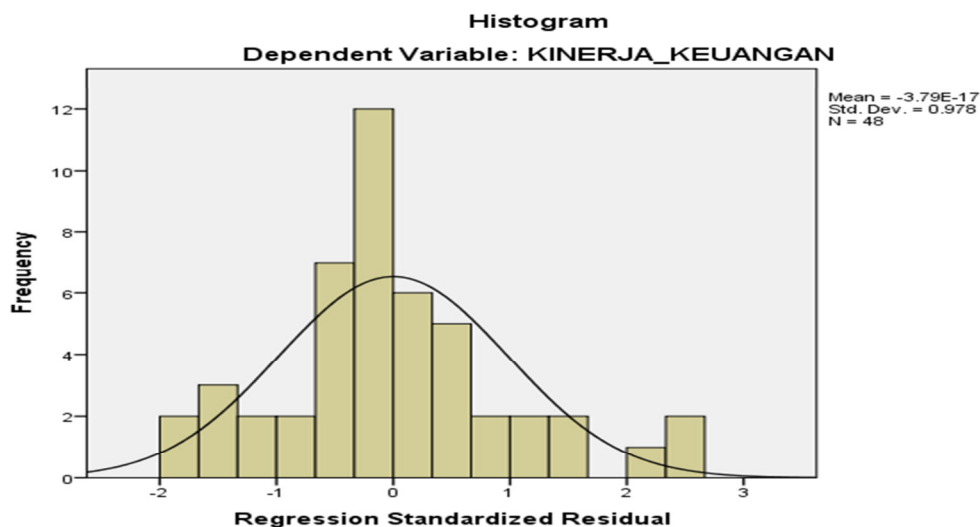
Based on the criteria above the banking sector companies that can be used as samples of this study amounted to 16 banks listed on the Indonesia Stock Exchange for the period 2014-2016. The type of data used in this study is in the form of secondary data, namely data taken from notes or other sources that have been there before. There are 2 types of data used in this study, namely qualitative data and quantitative data. While

quantitative data in the form of numerical data contained in annual reports of banks going public obtained from the official website of each bank and the site of the Indonesia Stock Exchange.

The data collection method used in this study is the study of documentation, namely the method of data collection conducted by collecting all secondary data contained in the financial statements and annual reports of banking companies listed on the Indonesia Stock Exchange in 2014-2016 and all information through journals, books, and other information media that can be used to solve problems that exist in this study such as information about ROA, ROE.

Descriptive statistics are used to describe the profile of sample data which includes, among others, maximum, minimum, mean (average) data on standard deviation. The data that has been studied is grouped into three, namely: return on assets, return on equity and firm value. Descriptive statistics describe data as a more clear and easily understood information. Descriptive statistics are used to develop a company profile which is a sample of descriptive statistics relating to the collection and improvement of data, as well as the presentation of the results of these improvements (Ghozali, 2006). Classical assumption testing aims to find out and test the feasibility of the regression model used for this study. This test is also intended to ensure that in the regression model used there is no autocorrelation, multicollinearity, and heteroscedasticity and to ensure that the data produced is normally distributed (Ghozali, 2006).

The normality test aims to test the independent variable data (X) and the dependent variable data (Y) in the resulting regression equation. Normal distribution or abnormal distribution. The regression equation is said to be good if it has independent variable data and the dependent variable data is normally close to normal or completely distributed. (Danang Sunyoto, 2013). This type of classical assumption test is applied to multiple regression analysis consisting of two or more independent variables (independent variables) ( $X_1, X_2, \dots, X_n$ ) where the closeness of the relationship between the variables is measured by the correlation coefficient  $R$ . It is said that multicollinities occur, if the correlation coefficients between independent variables ( $X_1$  and  $X_2$ ,  $X_2$  and  $X_3$  and so on) are greater than 0.60 (other opinions: 0.50; 0.70; 0.80; and 0.90). It is said that there is no multicollinearity if the correlation coefficient between independent variables is smaller or equal to 0.60 ( $r \leq 0.60$ ). (Danang Sunyoto, 2013)



In the multiple regression equation it is also necessary to test the same or not the variant of the residual from the observation with the other observation. If the residual has the same variant, Homoscedasticity occurs. And if the variance is not the same or not different it is called heteroscedasticity. Good regression equation if there is heteroscedasticity. The heteroscedasticity assumption test results from SPSS v.22 output through a scatterplot graph between Z prediction (ZPRED) which is an independent variable (X axis = Y predicted results) and the residual value (SRESID) is a dependent variable (Y axis = Y prediction - real Y). (Danang Sunyoto, 2013).

### Results and Discussion

Testing of Hypotheses, This analysis is used to determine the direction of the relationship between the independent variables and the dependent variable whether each independent variable is positively or negatively related to predicting the value of the dependent variable if the value of the independent variable increases or decreases. The independent variables contained in this study include ROA, ROE which is tested for its effect on the dependent variable of firm value that is proxied by PBV. Then obtained the multiple linear regression equation as follows:  $\hat{Y} = a + b_1ROA + b_2ROE + e$

Information

- $\hat{Y}$  = value of the company
- a = constants
- $b_1 b_2$  = regression coefficient
- ROA = Return on Asset
- ROE = Return on Equity.

**Descriptive Statistics Test Results.**

From the results of descriptive statistical analysis it can be concluded that financial performance is described by ROA (Return On Assets) and ROE (Return On Equity). ROA has a mean (calculated average) of 12.9617 with a standard deviation of 3.99363, and a minimum value of 7.46 and a maximum value of 19.70. While ROE (Return On Equity) has a mean of 10.9819 with a standard deviation of 3.96191, and a minimum value of 3.74 and a maximum value of 19.99.

Result of Normality Test : The results of the normality test using graph analysis is by using a histogram graph and probability graph. The plot shows that the graph gives a normal distribution pattern that is close to normal with spreading points around the diagonal line and the spread is still around the normal line so it can be concluded that the residual values generated from the regression are normally distributed. Whereas for the normality test using the One Sample Kolmogorov-Sminrov Test, it can be seen under the Kolmogorov-Sminrov value of 135 and a significant level of 0.123 means that it shows that the research variable is normally distributed because the significance level  $\geq 0,05$ .

Multicollinearity Test Results : The results of statistical tests that have been done are found to be obtained from the output table of large VIF calculated coefficients (financial VIF = 1.136 and nonfinance VIF = 1.136) < VIF = 10 and all tolerance is free (0.881 = 88.1%) above 10%. It can be concluded that there is no multicollinearity between independent variables.

Heteroscedasticity Test Results : Based on the results of the Iscatterplot graph, it was found that all points spread randomly and did not form a specific pattern and spread above or below zero on the Y axis. It can be concluded that the above independent variables did not occur eteroskedastisitas or homoskedastisitas.

**Autocorrelation Test Results**

Based on the test results of the Durbin-Watson value autocorrelation in the equation of 1,198. based on the explanation above the DW value is between -2 and +2, it can be concluded that there is no autocorrelation.

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.709 <sup>a</sup>	.503	.481	.72095	1.198

a. Predictors: (Constant), ROE, ROA

b. Dependent Variable: Financial Performance

**Hypothesis Testing Results Multiple Linear Regression Analysis**

Based on the above output, a value of -1.198 is obtained, the value of  $b_1$  is 0.103 and  $b_2$  is 0.114. Thus the multiple linear regression equation can be formed as follows:  $\hat{Y} = -1,198 + 0,103X_1 + 0,114X_2$  The values of a  $b_1$  and  $b_2$  in the above equation can be interpreted as follows:  $a = -1,198$  means: if ROA and ROE are worth 0 percent, the financial performance is worth -1,198 percent.  $b_1 = 0.103$  means: if ROA increases by 1 percent while ROE is constant then financial performance rises by 0.103 percent  $b_2 = 0.114$  means: if ROE increases by 1 percent while ROA is constant then financial performance decreases by 0.114 percent. The value of  $R^2$  is 0.503 this means that 50.3% of the company value variable (PBV) can be explained by the independent variables ROA and ROE. As for the rest, which is equal to  $(100\% - 50.3\% = 49.7\%)$  is the influence of other variables not examined.

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant)	-1.198	.402		-2.981	.005		
ROA	.103	.028	.411	3.666	.001	.881	1.136
ROE	.114	.028	.453	4.048	.000	.881	1.136

a. Dependent Variable: Financial Performance

The regression equation is as follows  $PBV = -1,198 + 0,103ROA + 0,144ROE + e$ . In this regression equation used to answer hypotheses 1 and 2, namely financial performance (ROA) and ROE) have a positive effect on firm value (PBV).

The results of hypothesis testing

The test results on regression indicate that the effect of ROA on firm value (PBV) produces a regression

coefficient of 0.103 and t count of 3.666 with a significance of 0.001 (less than 0.05). The results of this study indicate that the variable ROA has a significant effect on firm value. Thus H0 is successfully rejected and H1 which states ROA has a positive effect on the value of the company can be accepted. This is because ROA shows the results obtained by the company for the financial resources invested by the company. While company value is an investor's perception of the value of the company which is often associated with stock prices (Soliha and Taswan, 20012).

This research is in line with research conducted by (Agra Hermawanti 2010) which states that Return On Assets (ROA) has an influence on firm value. This shows that the more efficient asset turnover or the higher the profit margin obtained by the company, the higher the value of the company.

#### Effect of Financial Performance (ROE) on Corporate Values (Hypothesis 2)

The test results on regression indicate that the effect of ROA on firm value (PBV) produces a regression coefficient of 0.103 and counts of 6666 with a significance of 0.001 (less than 0.05). The results of this study indicate that the variable ROA has a significant effect on firm value. Thus H0 is successfully rejected and H1 which states ROA has a positive effect on the company can be accepted. This is because ROA is invested by the company. While the company's value is investor's perception of the company which is often associated with stock prices (Soliha and Taswan, 2012). This research is conducted by (Agra Hermawanti 2010) which states that Return On Assets (ROA) has an influence on firm value. This shows that the more efficient asset turnover or higher profit margin is the company, the higher the value of the company.

Effect of ROA and ROE on Firm Value (Hypothesis 3). Based on the results of the above research, it can be concluded that the Effect of Financial Performance as measured by Return On Assets (ROA) and Return On Equity (ROE) has a positive effect on overall Financial Performance. The results of this study are in line with (Angra Hermawati, 2010), the results of the study show that the independent variables tested significantly influence the value of banking companies on the Indonesia Stock Exchange.

Significance Test Results / Simultaneous Effect of Test (F) From the ANOVA test or F test in table 4, the calculated F value is 22.756 with a significance level of 0.000. Because the significant value is 0,000 5 0,05, then a decent regression model is used to predict PBV or it can be said that the variables ROA and ROE jointly influence PBV.

## Conclusion And Recommendation

### Conclusion

1. Return On Assets (ROA) has a positive effect on Company Value
2. Return On Equity (ROE) has a positive effect on Corporate Value.
3. Return On Assets (ROA) and Return On Equity (ROE) together have a positive effect on Company Value.

### Recommendation

It is expected that the results of this study can provide information about the factors that influence the value of the company, namely: Return On Assets (ROA) and Return On Equity (ROE).

Financial managers should consider both variables, namely: Return On Assets (ROA) and Return On Equity (ROE) which simultaneously have a significant effect on firm value. For Further Researchers : This study only uses a sample of LQ45 companies listed on the Indonesia Stock Exchange with a period of 3 years. For further research it would be better to expand the object of research such as multinational companies in other sectors that are listed on the Indonesia Stock Exchange for a longer period of time so that it will provide research results that are able to describe the actual conditions. This study only uses ROA and ROE as a proxy of one of the Financial Performance, therefore the results of this study have not reflected the effect of full financial performance, it is expected that further researchers can add another proxy for financial performance

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