The Factors that Influence on Firm Value and Company Performance as Mediation Variables (Study Manufacturing Companies period 2015-2017)

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Abstract: This study examined the influence of Leverage and Size on Firm Value that was measured by Price to Book Value and Company Performance that measured by Return on Assets as a mediating variable. The sample of this study used 60 manufacturing companies listed on Indonesian Stock Exchange period 2015-2017. This study was tested using Warp Partial Least Square program to prove the hypothesis proposed. The results showed that Leverage had no effect on Return on Assets and had a significant positive effect on Price to Book Value. Meanwhile Size had a significant positive effect on Return on Assets but it did not have a direct effect on Price to Book Value. Returrn on Assets had a positif and significant effect on Price to Book Value. Return on Assets did not act as a mediating variable in the relationship between Leverage and Price to Book Value, but in the Size and Price to Book Value relationship, the Return on Assets variable act as a mediating variable.

Keywords : The firm value, leverage, size, company performance

1. Introduction

Firm value is the investor's perception the success of a company. The higher stock price of a company gives the higher value of the company. The increase in the value of the company will improve the welfare of shareholders with a high return on investment (Suharli, 2006). Modigliani & Miller (1958) said that firm value determined by firm assets power and the company leverage to get greater profit. The efficient asset turnover and policy debt company can cause higher stock price. Higher stock price increased firm value.

Companies that have high firm value will attract investor interest and foster the trust of stakeholders in the company. The firm's value is believed not only to reflect the company's current performance but also the company's prospects in the future. Therefore, companies that listing on the stock exchange will try to convey the best possible information to the public about the condition of their company as a basis for consideration in investment decisions. Stock price is usually used as relevant information as a reflection of company value.

Information about the value of the company made through annual reports submitted by the company to the stock exchange, to the investors and the public. Through the financial statements obtained various information for investors as one of the basic considerations for making investment decisions in the capital market. Laksitaputri (2012) said that in an efficient capital market, stock prices reflect all relevant information and the market will react if there is new information.

Firm value creation is done by improving company performance. The company's ability to work more efficiently and be able to generate profits will attract investors. Return on Assets

describes the company's financial performance to generate net income from assets used for operations. According to Suharli (2006), the higher Return on Assets shows that the company's performance is getting better in generating profits so as to improve the image of the company that has an impact on increasing the value of the company.

Previous research measures firm value used financial ratios with Price to Book Value proxies. The Price to Book Value ratio is a rational measurement because book value can be used to measure all types of companies. This ratio can be used for all types of companies and compares between companies that have the same accounting standards (Reilly & Brown, 2012). The book value used to reflect the stock market value per share, so that Price to Book Value can be theoretically used as to determine the value of shares.

Factors that influence the value of the company have been tested in various studies. Debt policy can be linked to company value. Policy of debt as a source of funding. Choi & Richardson (2016) stated financial leverage has influence on equity volatility can be used that was carried out by the company to generate profits as well as the company's ability to pay its obligations in the future. Distribution of leverage can used to maximize firm performance (Kumar, Sunder, & Sharma, 2015). This activity will be positively responded by the market so that changes in capital structure using leverage will increase profitability and will have a positive effect on the value of company (Hadijaya, Lahindah, & Pratiwi, 2016; Ibhagui & Olokoyo, 2018).

Big companies that have large total assets show that the company has developed well and had the prospect of sustainability in the future. Large companies considered to have the ability to generate profits and the increased profits generated by the company can make the higher value of the company. Mule, Mukras, & Nzioka (2015) in his research proved that firm size has a significant positive effect on company performance. Then Pratama & Wiksuana (2016) and Islam & Khandaker (2015) proved that firm size had a significant positive on firm value.

Research on the positive influence of leverage factor, and company size factor on company performance, proved have an impact on firm value, but findings differently evidenced by Lemmon & Lins (2003) have found that leverage had a negative and significant effect on Return on Assets.This research is supported by the research of Aggarwal & Zhao (2007) and Fosu, Danso, Ahmad, & Cof (2016) had negative significant influence on firm value.

According to Mule et al (2015) the size of the company did not affect significantly on the value of the company. This study supports the results of study Laksitaputri (2012) showed that firm size had no significant effect on firm value.

The factors that influence the firm value become interesting and important to be re-examined. The existence of inconsistencies in the results of previous studies have proven that leverage and size have an effect on company performance, while leverage and size can also directly influence firm value so in this study will tried to develop a model by placing company performance as a mediating variable that connects leverage and size to firm value.

2. Literature Review And Hypothesis Development

Signalling theory was developed by Ross (1977), stated that corporate executives have better information about their companies will be motivated to convey this information to prospective investors so that the company's stock price increases. It is positive in signaling theory where companies provide good information, will differentiate them from companies that do not have "good news" by informing the market about their situation. Divident policy in companies can be used as a sign of future projections of corporate profits. A stable dividend

policy, where dividends per share can be increased if the company believes that the company's growth will guarantee the dividend policy that has been set. Signals about the good future performance provided by companies whose financial performance if not good will not be trusted by the market.

Signal is an action taken by the company to provide guidance for investors how management views the company's prospects as symmetrical information between investors and companies. The ease of accessing the capital market means the company has the flexibility and ability to be able to get funds. So that the information can captured by investors as a signal that has a good influence on the value of the company.

2.1. Firm Value

Firm value is the investor's view of the company which is usually associated with stock prices. High stock prices make the value of the company also high. High company value makes the market believe that not only the company's performance is good but also that the company has good future prospects as well. Maximizing firm value means maximizing shareholder welfare while achieving company goals.

Price to Book Value used in this study as a proxy of firm value (Laksitaputri, 2012). The ratio of stock prices to the book value of a company shows the ability of a company to create value relative to the amount of capital invested. A high Prie to Book Value reflects a high share price per share.

2.2. The effect of Leverage on Company Performance

Capital of fhe company's comes from debt and own capital. The policy of using debt in the companies has the advantage that the interest paid can be used as a tax deduction. Creditors will get a fixed amount of return, and shareholders did not have to share the profits if the company runs well.

Leverage can be measured by the company's debt ratio in using the assets. The more debt will cause the company to try to increase profits to increasing. Barbosa & Louri (2005) found that leverage had a positive effect on return on assets, so the hypothesis 1 revealed :
H1 : Leverage has significant positive effect on company performance

2.3. The effet of Leverage on Firm Value

Debt is an external source of financing used by companies to finance company operations. Ahn, Denis, & Denis (2006) and Astianah & Aji (2017) found that debt had a positive effect on firm value because the debt will be able to control the use of free cash flow excessively by management so as to avoid futile investments. Increasing leverage will give a positive signal to the market, and will increase Price to Book Value. For this reason the hypothesis 2 derived:
H2 : Leverage has significant positive effect on Firm Value

2.4. The effect Size on Company Performance

Size of company describes the size of assets owned by the company. The larger the company shows the more assets it has to be used operationally and make a profit. Brawn & Aleksandar (2018) said that firm size appear to be the dominant predictor of whether a firm pays a devident. The results of research by Mule et al. (2015), size companies have a positive relationship with company performance. Hypothesis 3 prepared based on the reasons:
H3 : Size has positive significant effect on Company Performance

2.5. The effect Size on Firm Value

If the company has a large amount of assets, investors will be more confident that the company was developed and managed well. Pratama & Wiksuana (2016) found a positive relationship between firm size and firm value. Based on the reasons above, the hypothesis 4 developed:

H4 : Size has positive significant effect on Firm Value

2.6. The effect of Company performance on the Firm value

Company performance used to judge by the company's ability to generate profits. Profitability can provide an illustration of how effective the company is managing the company. One of the proxies used to measure profitability is Return on Assets which is the ratio of the ratio between net income and company assets. Laksitaputri (2012) showed that the higher return on assets the better the company's performance. Based on the reasons above, the hypothesis 5 below is compiled:

H5 : Company performance has positive significant effect on Firm Value

2.7. The effect of mediation the Company's Performance on the relationship between leverage on the Firm Value.

If debt usage in the company will increase the company's ability to generate profits, increased profits will increase the value of the company. Increased profits are a positive signal to the market indicates that the company well managed. Barbosa & Louri (2005) said that increasing corporate debt will increase company profits and can have a positive effect on increasing firm value. Based on the explanation above, hypothesis 6 developed:

H6 : There is a mediating effect of the Company's performance on the relationship between Leverage and the Firm value.

2.8. The effet of mediation the Company's Performance on the relationship between Size on the Firm Value.

Size affects the company's ability to use company assets to generate profitability.Miyajima, Omi, & Saito (2003) found that size has a positive effect on Return on Assets, so that the company's financial performance has a positive impact as information that will affect the company's value. Based on the explanation above, hypothesis 7 developed:

H7 : There is a mediating effect of the Company's performance on the relationship between Size and the Firm value.

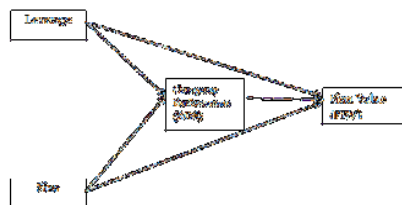The research model presented in figure 1

Fig.1. Research model

3. Methodology

This study used annual report data of manufacturing companies listing on the Indonesia Stock Exchange period 2015-2017. Data obtained from the company's annual report publication www.idx.com and other publications relevant to this research. The research sample was used as 60 manufacturing companies.

4. Result And Discussion

The test results used Warp Partial Least Square obtained the output results in table 1 and table 2

Table 1. Path coefficient

	Size	Leverage	ROA	PBV
Size				
Leverage				
ROA	0.179	0.072		
PBV	0.105	0.124	0.410	

Table 2. P values

	Size	Leverage	ROA	PBV
Size				
Leverage				
ROA	0.001*	0.208		
PBV	0.051	0.004*	<0.001*	

The results of the indirect relationship test between the variable Size and Leverage on PBV could be seen in table 3 and table 4

Table 3. Indirect relationship coefficient

	Size	Leverage	ROA	PBV
Size				
Leverage				
ROA				
PBV	0.073	0.030		

Table 4. P value indirect relationship

	Size	Leverage	ROA	PBV
Size				
Leverage				
ROA				
PBV	0.15	0.222		

4.1 Hypothesis tested

4.1.1 Hypothesis testing the Leverage on Return on Assets

Based on the output in table 1. and table 2. it can be seen that the Leverage variable has a direct effect on Return on Assets with a coefficient of 0.072 and is not significant at p value 0.208. So the hypothesis 1 which stated that leverage has a significant positive effect on Return on Assets did not be accepted.

4.1.2 Hypothesis testing the Leverage on Price to Book Value

Based on the output in table 1. and table 2. it can be seen that the Leverage variable has a direct effect on Price to Book Value with a coefficient value of 0.124 and is significant at p value 0.004. So the hypothesis 2 which said that leverage has a significant positive effect on Price to Book Value is accepted.

4.1.3 Hypothesis testing Size on Return on Assets

Based on the output in table 1. and table 2. it can be seen that the variable Size has a direct effect on Return on Assets with a coefficient value of 0.179 and is significant at p value 0.001. So hypothesis 3 which stated that Size has a positive effect on Return on Assets accepted.

4.1.4 Hypothesis testing Size on Price to Book Value

Based on the output in table 1. and table 2. it can be seen that the variable Size has a direct effect on Price to Book Value with a coefficient value of 0.105 and is not significant at p value of 0.051. So the hypothesis 4 which stated that Size has a significant positive effect on Price to Book Value was not accepted.

4.1.5 Hypothesis testing Return on Assets on Price to Book Value

Based on the output in table 1. and table 2. it can be seen that the variable Return on Assets has a direct effect on Price to Book Value with a coefficient value of 0.410 and is significant at p value <0.001. So the hypothesis 5 which stated that Return on Assets has a positive and significant effect on Price to Book Value accepted.

4.1.6 Hypothesis testing the role mediating Return on Assets in the relationship between Leverage and Price to Book Value.

Based on the output in table 3 and table 4, the indirect relationship coefficient from Leverage to Return on Assets then to Price to Book Value is 0.030 and not significant at P value 0.222 so it can be concluded that Return on Assets is not a mediating variable on the relationship of leverage to Price to Book Value. Hypothesis 6 rejected.

4.1.7 Hypothesis testing the role mediating Return on Assets in the relationship between Size and Price to Book Value

Based on the output in table 3 and table 4, the indirect relationship coefficient from Size to Return on Assets then to Price to Book Value is 0.073 and significant at P value 0.015 so it can be concluded that Return on Assets is a mediating variable on the size relationship to Price to Book Value. Hypothesis 7 accepted.

5. Conclution

This study aimed to analyze the effect of Leverage and Size on Firm Value (PBV) with Company Performance (ROA) as a mediating variable in manufacturing companies listed on the Indonesia stock exchange for the 2015-2017 period. From the results of the analysis, it can be concluded that hypothesis 1 which states that the leverage variable has a significant positive effect on Return on Assets based on the test results has a coefficient value of 0.072 and is not significant at p value 0.208. So hypothesis 1 which states that leverage has a positive effect on Return on Assets is not accepted. Hypothesis 2 which states that leverage has a significant positive effect on Price to Book Value, based on the test results of 0.124 coefficient and significant at p value 0.004. So the hypothesis 2 which states that leverage has a significant positive effect on Price to Book Value is accepted.

Hypothesis 3 states that Size has a significant positive effect on Return on Assets. The test results show that the Size variable has a direct impact on Return on Assets with a coefficient value of 0.179 and significant at p value 0.001. So hypothesis 3 which states that Size has a positive effect on Return on Assets is accepted. Hypothesis 4 states that Size has a significant positive effect on Price to Book Value. The results of variable size testing directly affect the Price to Book Value with a coefficient of 0.105 and not significant at p value 0.051. So hypothesis 4 which states that Size has a significant positive effect on Prie to Book Value did not accepte.

Hypothesis 5 states that Return on Assets has a significant positive effect on Price to Book Value, the test results show the variable Return on Assets has a direct effect on Price to Book Value with a coefficient value of 0.410 and is significant at p value <0.001. So the hypothesis 5 which states that Return on Assets has a positive and significant effect on Price to Book Value is accepted. While the test results show that the indirect relationship of Leverage to Return on Assets variable and then to Price to Book Value have coefficient of 0.030 and not significant at P value 0.222 so that Return on Assets is not a mediating variable on Leverage to Price to Book Value relationship and hypothesis 6 is rejected. Hypothesis 7 test results show the indirect relationship variable Size to Return on Assets then to Price to Book Value coefficcient of 0.073 and significant at P value of 0.015 so that Return on Assets is a mediating variable in the relationship of Size to Price to Book Value.

The value of Adjusted R-squared generated by the Price to Book Value dependent variable is 0.187. This means that Price to Book Value or Firm Value can be explained by three independent variables Leverage, Size and Return on Assets of 18.7%. The Q-squared value generated by the model is 0.205> 0, which means the model has predictive validity. While the adjusted R-squared value generated by the Return on Assets dependent variable is 0.017, this shows that the Return on Assets variable can be explained by two independent variables Leverage and Size of 1.7%. The Q-squared value generated by the model 0.036> 0 means that the model has predictive validity.

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