

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Investing money has always been a common thing in Indonesia. Generally, the simplest way of investing mostly known is saving money through Bank. As the changing eras both socially and technologically, the manner and knowledge of investing happens to become diverse. The investing behavior occurs into many ways, including investing in stock market is one of the alternatives.

In 2015, the culture of investing in stock market started to be promoted in Indonesia community. Therefore, the outcome is it impacts to society's interests to learn more about stock market and take part to become an investor. Indonesia Stock Exchange (IDX) has been encouraging people to invest in stock market. Although stock market has been established officially by President Soeharto in 10th August 1977, still it has not become a very common market for Indonesian society. The realization of needs for educating Indonesian society emerges by government in 2015. According to the head of trading support and development of IDX, Erna Dewayani (2015), "the literation and inclusion regarding stock market in Indonesia is still very small."

The '*Yuk Nabung Saham*' campaign started since 2015, the number of investors has reached from more than 200 thousand to 613 thousand investors by the end of October 2017. From that campaign, IDX aim is to change the society's mindset that investing in stock market is not a very complex, expensive, and risky thing to do. The outcome is in 2017, IHSG had reached the highest level in history which is 6000 point.

The whole reason of that campaign to be held was because for the attraction of more investors in stock markets. Investors needed to

be educated with the knowledge of stock markets. The investors are the people that could give strength to businesses, by investing their money for the listed companies. As the investing occurs, investors intention is to have some advantage in return, that could be in the form of dividend and capital gain. Moreover, some investors even consider the long-term prosperity of the company, whether it would expand and growth in certain period of time.

All investors, either institutional or individual, hold one common goal when they invest in shares and hope to maximize expected return at some preferred level of risk. Researchers have tried to use different types of information to explain firm value. For example, the financial factors have been commonly used to explain the behavior of different stock markets around the world. As suggested by signaling theory, the stock price should reflect the expectation of corporate performance. This is because investors seek to maximize their returns by purchasing stocks of firms that report high profits.

There are many companies listed in the stock markets, that investors could take part of as becoming one of their shareholders. In the process of investing in certain company, shareholders could consider many factors. It is very important to learn about the firm characteristics, because it will have the impact to their invested money. The problem is companies are so hard to be evaluated, because each has different financial situations that could be seen from their financial statement.

The type of industries is also varied in the stock markets, based on its business sector. In Indonesia Stock Exchange market, there are companies that considered as LQ45. These companies are the top companies that have good financial condition, prospect of growth, and high transaction value. According to Zulbiadi Latief (2018), "LQ45 is 45 indexes the most liquid in Indonesia Stock Exchange."

There are many diverse types of industry appears to be in LQ45, including the Bank companies. Banking industries in Indonesia are assessed to become one of the promising factors of its outgrowth. According to PwC's Indonesia Banking Survey in 2017, "Indonesia bankers clearly feel they are in the most attractive market in Southeast Asia. After all, margins are not only good in comparison, they are excellent. The survey highlights that more immediate prospects for loan growth and economic growth are not the main drivers for that attraction, but rather the longer-term upside potential of a large market with low penetration."

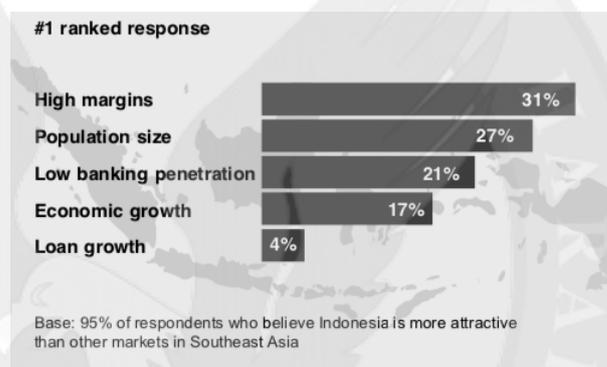


Figure 1.1 High margins are a driving attraction for Indonesia

Source: PwC's Indonesia Banking Survey 2017

In stock markets, throughout the years Bank companies appears to become the part of standout industries among the others. Bank is fairly put into that position because it has liquid transactions and requires high market capitalization.

Banks are financial intermediaries that have so many functions; one of them is agent of trust meaning Bank's main operational system is to obtain funds from the community excess funds (depositors or creditors) and channel on parties who need funds (borrowers of funds or debtor) (Sigit Triandaru & Totok Budi Santoso, 2006: 9).

Besides, Banking industries are becoming as the one of the most sensitive one because they have specific elements in its financial statement, compared to the other industries that has been listed in

stock markets. For example, the cash assets for Bank companies consist of various accounts such as cash, current accounts with Bank Indonesia, current account with other Banks.

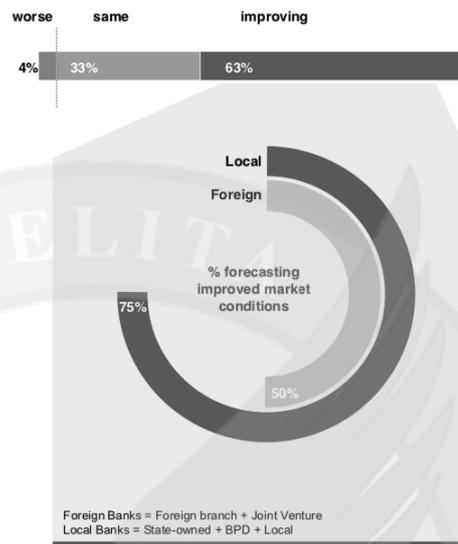


Figure 1.2 Banks feel market conditions are improving

Source: PwC's Indonesia Banking Survey 2017

As such a promising industry to buy stocks from, shareholders must know the Bank's characteristics through their financial statement. The Bank's financial statement are very specific that it even has one standard called *Pedoman Akuntansi Perbankan Indonesia (PAPI)*, and has the legal basis Bank Indonesia Circular Letter Number 11/4/DPNP dated 27 January 2009 concerning Implementation of Indonesian Banking Accounting Guideline. Besides, there are also provision regulates about commercial bank ownership number 56/POJK.03/2016 about Commercial Bank Share Ownership.

As a very wide and large sector, Bank firms need large amount of funds to support their daily basis operation. That is the one of many indicators that mostly banking firms are listed in stock markets, to get more funds as open as possible from the public.

Each banking firms even though are in the same sector, have their own difference in terms of characteristics. Empirical studies have

been carried out to examine the relationship between firm characteristics and performance of business entities around the globe. Dean, Bulent & Christopher (2000) posited that firm characteristics are essential determinants of a firm's performance as well as its success in business. According to Mohammed (2005), firm characteristics seem to play an important role in determining the overall performance of corporate entities.

The price of a commodity is determined by the forces of demand and supply in a free market economy. In the securities market, whether the primary or the secondary market, the price of shares is significantly influenced by a number of firm characteristics (factors) such as book value of the firm, dividend per share, earnings per share, price earnings ratio and dividend cover (Somoye, Akintoye & Oseni, 2009).

There are many researches that have been done on the type of firm characteristics that influence the firm value. For example, according to Gabra Tahir Mohammed (2017), firm characteristics consist of size, leverage, liquidity, operating efficiency and firm growth. The result is that only firm's size that has positive significant effect on firm's value. The remaining factors are proven to have negative relationship towards firm's value.

The other research by Nita and Silviani (2016), firm characteristics consist of liquidity, solvability, profitability, market ratio, and size. The outcome of this study is liquidity and solvability has negative effect on share price, while the profitability, market ratio and size have positive effect on share price.

The researches that have been done about firm characteristics and its impact to the firm value have diverse result. Although these variables of firm characteristics have prominently featured in prior literature, the result of the previous studies does have inconsistent findings. Therefore, this research would use firm characteristics such

as liquidity, leverage, operating efficiency, firm size, and firm growth as the determinants towards firm value of banking firms in Indonesia Stock Exchange in the period of 2015-2017.

1.2 Problem Limitation

There are many ways to measure the value of each banking firms. Prior studies have examined the influence of firm characteristics on firm value in various sectors. However, most of these studies did not done research about the Banking industries. Based on the above phenomenon and the gap in research, the author is interested in doing research on the banking firm's characteristics toward their values. Firm characteristics variables examined by this study include firm size, liquidity, operating efficiency, firm growth and leverage.

In this research, the writer is focusing on the banking firm characteristics and sees whether there's any impact of those characteristics to the firm's value. The aim is about shareholders intention to receive capital gain of the banking company they invested in. Therefore, the banking firm value would be initiated as share's price of each banking companies in stock market.

1.3 Problem Formulation

The problems in this study can be formulated as follows:

1. Does liquidity significantly affect the firm value of the listed bank firms in Indonesia?
2. Does leverage significantly affect firm value of the listed bank firms in Indonesia?
3. Does operating efficiency significantly affect firm value of the bank firms in Indonesia?
4. Does firm size significantly affect firm value of the listed bank firms in Indonesia?
5. Does firm growth significantly affect firm value of the listed bank firms in Indonesia?

6. Do liquidity, leverage, operating efficiency, firm size, and firm growth simultaneously have significant affect firm value of bank firms in Indonesia?

1.4 Research Objective

There are some objectives of the research, which are:

1. To ascertain the significant impact of firm size on firm value of the listed bank firms in Indonesia;
2. To ascertain the significant impact of liquidity on firm value of the listed bank firms in Indonesia;
3. To ascertain the significant impact of operating efficiency on firm value of the listed bank firms in Indonesia;
4. To ascertain the significant impact of firm growth affect the firm value of the listed bank firms in Indonesia;
5. To ascertain the significant impact of leverage impact the firm value of the listed bank firms in Indonesia;
6. To ascertain the significant impact of liquidity, leverage, liquidity, operating efficiency, firm size, and firm growth simultaneously towards firm value of listed bank firms in Indonesia.

1.5 Benefit of the Research

The benefits from conducting this research are as follows:

1.5.1. Theoretical Benefit

1. This research is expected in giving contribution for adding reading material for student of Universitas Pelita Harapan.
2. This research can give benefit in understanding the theory of accounting and finance in Banking.

1.5.2. Practical Benefit

1. This research is expected in giving input and suggestion for company in conducting its financial management by paying attention to certain firm characteristics.
2. This research is expected in giving the information to shareholders for understanding the factors that have impact on Banking company's value
3. This research can be used as reference for other researchers in conducting research with same topic.

1.6 Systems of Writing

The system of writing would be as follows:

CHAPTER I INTRODUCTION

In the first chapter, writer would discuss about the backgrounds of this research, including the phenomenon of shareholders who have their purposes to invest in companies that has good characteristics and considering prosperous company growth. Besides, there are certain gaps between the various past researches.

CHAPTER II LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The second chapter is about theoretical backgrounds. In this chapter, there are some theories about firm characteristics and firm value's definitions. The understandings about those matters are also as necessary as the grand theory and developing the hypothesis based on previous research and writer's own framework of thinking.

CHAPTER III RESEARCH METHODOLOGY

In the chapter three, writer explores about the research design, the data analysis method which is quantitative, and the variable measurements. The information including population and sample about the research from Indonesia Stock Exchange (IDX) would be discussed in this chapter.

CHAPTER IV DATA ANALYSIS AND DISCUSSION

The chapter four is explanation about the way data would be analysed. The analysed data from IDX would be discussed further through descriptive statistics. In this chapter, the research then finally generates some result of the hypothesis and data quality testing.

CHAPTER V CONCLUSION

And in the last chapter five, there should be about final statements. Finally after all the data had been collected, processed, and analysed, writer could deliver the final thoughts of research. This chapter is the part which explains about some conclusion, implication, and recommendation.