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The Impact of External Factors on Values Manufacturing Company Listing in Indonesia Stock Exchange

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Abstract: ***The purpose of this study are: 1) Analyzing the external factors that affect the value of manufacturing companies listed in the Indonesian Capital Market. 2) Examine the impact of external factors on the value of the manufacturing company listed in the Indonesian Capital Market. The analytical method used is multiple regression analysis using SPSS version 21 software aid. The results showed that the variable interest rate obtained statistical test t = 1.315 with significance 0.004. Because the value of sig <from 0.05 then H0 rejected and received Ha which means the interest rate affect the value of the company. Inflation variable get test statistic t = 0.374 with significance 0.002. Because the sig value <0,05 then H0 is rejected and accept Ha which means inflation rate influence to company value. The variable of rate of exchange get test statistic t = 0,538 with significance 0,001. Because the sig value <from 0.05 then H0 rejected and accept Ha which means the inflation rate affects the value of the company.***

Keywords: External Factors, Corporate Value, Manufacturing, Listing

1. Introduction

The existing capital market in Indonesia in this case the Indonesia Stock Exchange (BEI) is an emerging market capital which in its development is very vulnerable to macroeconomic conditions in general. The economic crisis that began in 1998 was the beginning of the collapse of the pillars of Indonesia's national economy. This is marked by the decline of public confidence in Indonesian banks in the form of withdrawal of funds by rush by depositors to be deposited abroad (capital flight). The interest rate of 70% and the exchange rate depreciation against the US dollar of 500% resulted in almost all economic activities disrupted. Another impact of the decline in public confidence impacts to the capital market. Stock prices have declined sharply, causing significant losses for investors. How not, if the stock is sold at a price of only Rp 10, - per share and Composite Stock Price Index (CSPI) never dropped below 300.

Similarly to the conditions that in the year 2008 ago where the world recession caused by the crisis that occurred in the United States. The crisis caused the US economy to experience a severe recession whose impact is still felt today. Even this crisis also hit some world-class banks like Lehman Brothers. Similarly, the US stock exchange Wall Street also fell. The same condition also occurred in Indonesia where in December 2008 the Indonesian capital market experienced a two-day closing. Chen et. al. (2006) proves that macroeconomic variables have a systematic effect on stock market returns. Economic strength affects the discount rate, the company's ability to drive cash flow, and future dividend payouts. Such a mechanism shows that macroeconomic variables are crucial factors in equity markets (Maysami and Sim Koh, 2000).

According to Osoro (2014), that corporate activity will be greatly influenced by macroeconomic variables. Macroeconomic variables greatly determine the business environment. This is in line with research conducted Ravindran (2015), Ratnawati (2007), Akingunola (2012) stating that external factors have a significant and positive impact on investment decisions. According Bialowolski (2012) there are external factors that affect the value of companies such as law, economic growth, taxes, interest rates and stock market conditions. Macroeconomic factors are very big influence on stock performance. As noted by Taofik (2010), macro conditions are very influential, one of which is inflation, then the market index is also affected by inflation. Caroline (2012) also convey the same thing, where inflation shows a significant influence on stock performance.

2. Literature Review

Exchange rate

Based on some literatures, there are several factors that influence the movement of exchange rates, namely fundamental factors, technical factors, and market sentiment. Fundamental factors relate to economic indicators such as inflation, interest rates, the relative differences in inter-country revenues, market expectations and central bank interventions. Technical factors relate to conditions of supply and demand of foreign exchange at certain times. If there is an excess demand, while the offer is fixed, the forex price will go up and vice versa. More market sentiment is caused by incidental rumors or incidental political news, which could push up forex prices sharply or decrease in the short term. If rumors or news have passed, then the exchange rate will return to normal.

Ou and Penman (1999) in his research found that the addition of Earning Per Share (EPS), Cash Flow and Revenue are positive financial indicators that affect the relationship between stock prices and exchange rate losses. Kim (2007) conducted research and analysis of securities of international investment on the value of the company and the effectiveness of branch operations abroad. The results show that international investment decisions vary according to industry characteristics, exchange rate changes and the degree of branch involvement prior to the activity.

From the descriptions of the exchange rate can be concluded that the exchange rate has a causality relationship with stock returns. The size of the stock return is reflected in the performance of the company in carrying out its operations. One of the benchmarks of company performance success is net income. Therefore there should be a strong correlation between exchange rate changes and changes in net income. Theoretical research reveals that inflation will tend to increase the production costs of the firm. It means that the profit margin of the company is lower and the further impacts make the stock price in the stock market decline. If so, then the decline tends not to take place instantaneously but through the time process. In terms of investors, high inflation will reduce the value of profits and also reduce the purchasing power of investment capital. Thus if the inflation rate rises, then the JCI will decrease and vice versa.

Inflation

Inflation is an ongoing process of increasing the prices of goods. The price increase of each item need not be the same (either absolute or percentage). Similarly, the rise time does not need to coincide. It should be noted that the general price increase of the goods occurs continuously over a period of time. A one-off increment is not inflation. Unless a rise in one price of goods drives up the price of other goods. This price increase is measured using the price index. Some price indexes that are often used to measure inflation include:

1) Consumer Price Index (Consumer Price Index)
2) Wholesale Price Index (Wholesale Price Index)
3) GNP Deflator

Macroeconomic factors are very big influence on stock performance. As noted by Taofik (2010), macro conditions are very influential, one of which is inflation, then the market index is also affected by inflation. Caroline (2012) also convey the same thing, where inflation shows a significant influence on stock performance.

Interest rate

According to Wardane (2003) in Prawoto and Avonti (2004), interest rates are payments made for the use of money. Interest rate is the amount of interest to be paid per unit of time. In other words, people have to pay the opportunity to borrow money. According to Samuelson and Nordhaus (1995: 197) in Wardane, interest rates are the cost of borrowing money, measured in dollars per year for each borrowed Dollar. According to Wardane (2003), the interest rate is determined by the demand and supply of money (specified in the money market). Changes in interest rates will subsequently affect the desire to invest, for example on securities, where prices may rise or fall depending on the interest rate (if interest rates go up then securities down and vice versa), so there is the possibility that the holder of the securities will suffer capital loss or gain. Interest rates are divided into two, namely:

1) The nominal interest rate is the interest rate in the money value. This interest rate is generally readable. This interest rate represents a certain amount of rupiah for every one dollar invested.
2) The real interest rate is the interest rate that has been corrected due to inflation and is defined as the nominal interest rate less the rate of inflation.

The result of empirical research of the influence of interest rate on JCI in the period of 2003 until now, it turns out the result shows significant evidence that the interest rate negatively affect the JCI. The higher rate hikes will further undermine the performance of the Indonesia Stock Exchange. The sensitivity of about 0.5 means if the interest rate rises 1% then the composite share price index will fall 0.5%. Conversely, if the interest rate drops by 1% then the JCI will rise by 0.5%.

One of the variables that is believed to be strongly tied to the performance of the Indonesian capital market is the change in interest rates (Harianto: 1998). Evidence of other empirical studies conducted by Wand (1970) and Fama (1990) in American capital markets, they say that the increase in interest rates was followed by the performance of the stock market negatively. Interest rates have a negative relationship with the Composite Stock Price Index, while the money supply and inflation provide a positive influence for JCI, on the other hand forex does not give a significant effect for JCI (Daryono: 2003).

The value of the company

The company's value can be measured from the company's success in managing its resources reflected in share price in the next year (Sujoko and Soebiantoro, 2007). The function of financial management consists of three important decisions: investment decisions, funding decisions and dividend policies. Modigliani and Miller, 1958 argue that firm value is closely related to funding decisions, where companies that use debt have higher corporate value than non-debt companies. The funding decision is related to the selection of sources of funds, both from within the company and from outside the company.

The stock price is used as a proxy of the firm's value because the stock price is the price that the prospective buyer wants to pay if the investor wants to have a proof of ownership of a company. So the higher the value of the company the greater the prosperity that will be received by the owner of the company. Still according to Wright & Ferris (1997), stock return is a reflection of the ability of business units to generate profits that have used the company's resources efficiently. Thus the higher the company's profit the higher the value of the company.

3. Methodology

Population and Sample

The population is all manufacturing companies listed on the stock exchanges of Indonesia in 2010 - 2015 as many as 149 companies. The sample that will be used in this research is 45 companies listed in Indonesia Stock Exchange. Sampling method used is purposive sampling.

Data analysis

1) The method used in this research is descriptive method where this method aims to examine the status of human groups, an object, a condition, a system of thought or an

event at the present moment (Natsir, 2005). Descriptive research methods can compare certain phenomena to become a comparative study.

2) Multiple regression using SPSS version 21 software.

4. Results and Discussion

1) Multiple Linear Regression Analysis Table 1 shows the results of regression estimation through the processing of SPSS 12.0 for window

Table 1: Multiple Linear Regression Analysis

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.209	7.002	0.139	1.315	0.19
	Tingkat Suku Bunga	1.714	2.052		0.835	0.004
	Inflasi	0.411	1.099	0.054	0.374	0.002
	Kurs	0.371	0.69	0.057	0.538	0.001

a. Dependent Variable: PBV

From the result of multiple linear regression test, we get the equation y = 9.209 + 1.714 X1 + 0, .411X2 + 0, .371 X3 which shows that:

- Constant value shows the value of 9,209 means if the value of independent variable (free) zero then the dependent dependent value (bound) is 9209 in this case if the interest rate, inflation and exchange rate is 0 (zero), the value of the company will increase by 92%.
- The value of the variable interest rate shows the value of 1.714 means that each increase of Rp. 1, - the interest rate will increase the company's value by 1,714, or any 1% increase in the interest rate will increase the company's value by 17.14%.
- Inflation variable value shows the value of 0, .411 which means every increase of Rp. 1, - the inflation will add the company value of 0, .411, or every 1% increase in inflation it will add the company's value of 41.1%.
- The value of currency variables shows the value of 0, .371 which means any increase of Rp. 1, - the exchange rate will add the company value of 0.371, or any increase of 1% exchange rate then it will increase the company's value by 37.1%.

2) Correlation Coefficient

Table 2: Correlation Coefficient

Correlations

		PBV	Tingkat Suku Bunga	Inflasi	Kurs
Pearson Correlation	PBV	1.000	.047	.030	.014
	Tingkat Suku Bunga	.047	1.000	.883	.777
	Inflasi	.030	.883	1.000	.683
	Kurs	.014	.777	.683	1.000
Sig. (1-tailed)	PBV	.	.242	.328	.418
	Tingkat Suku Bunga	.242	.	.000	.000
	Inflasi	.328	.000	.	.000
	Kurs	.418	.000	.000	.
N	PBV	225	225	225	225
	Tingkat Suku Bunga	225	225	225	225
	Inflasi	225	225	225	225
	Kurs	225	225	225	225

Based on data obtained from SPSS can be interpreted the relationship between variables as follows:

- The correlation between the interest rate and the firm's value is .0.047 and is at the coefficient interval of 0.00 - 0.199, which means the interest rate has a very low level of relationship to firm value.
- The correlation between inflation and firm value is 0.030 and is at the coefficient interval of 0.00 to 0.199 which means that inflation has a low level of relationship to firm value.
- The correlation between exchange rate and firm value is .0,014 and is in coefficient interval 0,00 - 0,199 which means exchange rate has low relation level to firm value.

3) Test Analysis t

Table 5: Test Analysis t

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	9.209	7.002	0.139	1.315	0.19
Tingkat Suku Bunga	1.714	2.052		0.835	0.004
Inflasi	0.411	1.099	0.054	0.374	0.002
Kurs	0.371	0.69	0.057	0.538	0.001

a. Dependent Variable: PBV

Based on SPSS processed data above, we get the following explanation:

- The interest rate variable obtained the test statistic t = 1,315 with the 0.004 significance. Because the sig value <from 0.05 then H0 rejected and accept Ha which means the interest rate affect the value of the company.The result of empirical research of the influence of interest rate on JCI in the period of 2003 until now, it turns out the result shows significant evidence that interest rates negatively affect the JCI. The higher rate hikes will further undermine the performance of the Indonesia Stock Exchange. The sensitivity of about 0.5 means if the interest rate rises 1% then the composite share price index will fall 0.5%. Conversely, if the interest rate drops by 1% then the JCI will rise by 0.5%.
- Inflation variable get test statistic t = 0,374 with significance 0,002. Because the sig value <from 0.05 then H0 rejected and accept Ha which means the inflation rate affects the value of the company. This research is in line with research by Taofik (2010) that macroeconomic factor is very big influence on stock performance. Macro conditions are very influential, one of which is inflation, then the market index is also affected by inflation. Caroline (2012) also convey the same thing, where inflation shows a significant influence on stock performance.
- The exchange rate variable obtains the test statistic t = 0.538 with the 0.001 significance. Because the sig value <from 0.05 then H0 rejected and accept Ha which means the inflation rate affects the value of the company.

Ou and Penman (1999) in his research found that the addition of Earning Per Share (EPS), Cash Flow and

Revenue are positive financial indicators that affect the relationship between stock prices and exchange rate losses

4) Test F (Silmultan Test)

Table 6: Test F

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	49.639	3	16.546	.304	.000[b]
	Residual	12014.955	221	54.366		
	Total	12064.594	224			
a. Dependent Variable: PBV						
b. Predictors: (Constant), Kurs, Inflasi, Tingkat Suku Bunga						

In the table shows the number of F test results yield Fhitung of 0.304. 5% significance level, with a significance level of 0.000. Because the sig value <0,05 then H0 is rejected and accept Ha which means the interest rate, inflation and exchange rate have a significant effect to company value.

This study is in line with research conducted by Bialowolski (2012) which states that there are external factors that affect the value of companies such as law, economic growth, taxes, interest rates and stock market conditions. Macroeconomic factors are very big influence on stock performance. Similarly, research conducted by Taofik (2010), macro conditions are very influential, one of which is inflation, then the market index is also affected by inflation.

5. Conclusions

Conclusion
1) interest rates significantly influence the value of the company in manufacturing companies listed on the Indonesia Stock Exchange (BEI)
2) inflation significantly affects the value of companies in manufacturing companies listed on the Indonesia Stock Exchange (BEI)
3) the exchange rate has a significant effect on the value of the company in the manufacturing company listed on the Indonesia Stock Exchange (IDX)

6. Suggestion

External factors in this case interest rates, inflation and exchange rates have a significant effect on the company's nialai, therefore the company must be observant of the changes.

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