Strategic to Increase Firm Value with Earning Per Share and Current Ratio

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Abstract. This study aims to determine the strategy of increasing firm value with earnings per share and current ratio. The research method uses descriptive statistics, and SEM PLS analysis uses a moderation model. The sample of this research is the consumer goods industry listed on the Indonesia Stock Exchange for the 2016–2018 period. The sampling criteria used purposive sampling with 33 observations. The results of the study show that model I consists of Earning per share on firm value with a return of equity as moderating coefficient −0.47 and p-value < 0.01, which explains that return of equity weakens the relationship between Earning per share firm value. Model II has the result that the current ratio to solid deal with the return of equity as moderating is a coefficient of 0.36 and p-value < 0.01, which explains that the return of equity strengthens the relationship between the current ratio and firm value. Based on the results of the study that Model II states that companies with higher current ratios lead to the increased investor and creditor confidence in the company so that the company has the motivation to increase the value of the company to pay off the company's debts and can reduce the taxes that the company must pay.

Keywords: current ratio · earnings per share · firm value · return on equity

1 Introduction

The consumer goods industry sector is still a sector with superior performance throughout 2019. Based on data from the Indonesia Stock Exchange, the performance of the consumer goods sector index turned negative from the positive in the first quarter of 2019 of 1.20% YTD to −1.06% YTD. This condition is exciting because the financial performance of the consumer goods sector throughout 2018 has positive potential. In 2018 household consumption it is increased by 5.05%, higher than in 2017, 4.95%. Retail sales growth in 2018 increased to 3.7% from the previous year, namely 2017 at 2.9%. The decline in the performance of the consumption sector index is an excellent opportunity for investors because a decrease in actual performance does not support it. This means that stocks in the consumer goods sector have decreased. This is also supported by the existence of government policies that are oriented towards increasing economic growth by 5.2% and is a sector that is relatively stable and tends to be challenging because the consumer goods sector is a sector that is needed by the community so that it has the opportunity to increase in the current year [1].

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The establishment of a company aims to prosper its owners, namely the shareholders. Managers can achieve this goal by convincing their shareholders of improved performance by creating strategies that add value and are difficult for competitors to imitate [2]. Dependence on funding problems is one of the conditions that cannot be avoided, especially in companies undergoing a development process. Various sources of company needs which are essential factors make the company meet the capital needs so that the company can determine the capital that can benefit the company.

The company's value is one of the essential things and needs to be considered by investors for the investment decision-making process in a company. High company value is a goal for company owners because high company values indicate increased shareholder prosperity. This is the goal of investors in investing their funds in a company. Investment decisions are decision-making as an alternative for companies to issue funds outside of operational activities, which are expected to provide feedback in the form of profits to be obtained in the future. Investment decisions are the most crucial part of financial management because they are related to allocating a company's funds both inside and outside the company. This form of investment decision has the same goal, namely to obtain a higher return than the cost in the future [5].

Shareholders and potential investors will be encouraged to look at Earning Per Share (EPS) because EPS is one indicator of a company's success. EPS shows how much return in the form of profits investors will get from each share they own. Earning Per Share (EPS) describes the amount of money earned for each share. Based on the company's level of success, investors will pay attention to its influence in the future by looking at the prospects of an excellent company to be used by investors in making decisions to invest.

The current ratio is a commonly used measure of short-term debt, which explains how the company can meet the needs of debt obligations when they fall due (Utami and Welas, 2019). The current ratio is a ratio to measure the company's ability to pay short-term obligations or debts that are due immediately when billed in their entirety. The current ratio measures the level of liquidity in a company. The more liquid a company is, the higher the current ratio value. A high level of current balance reflects the adequacy of cash so that the more liquid a company is, the level of investor confidence will increase. This will improve the company's image in the eyes of investors to affect the value of the company.

Return on equity (ROE) shows the rate of return on investment on all invested capital. Suppose the company has a high level of Return on Equity (ROE). In that case, it will attract investors to invest in the company to increase the stock market price that investors are interested in [9]. Based on the above background, the formulation of the research problem is model I and model II regarding the moderation of Return On Equity (ROE) related to Earning Per Share (EPS) and current ratio to firm value.

2 Research Methodology

This research is quantitative research, with the object of study being consumer goods sector companies listed on the Indonesia Stock Exchange for the 2017–2019 period; the data source is secondary data were taken on the Indonesia Stock Exchange (www.IDX.co.id). Methods of collecting documentation data and literature review. Sample selection using purposive sampling and research samples as many as 39 samples. Operational definitions for measuring variables. According to Mamduh M Hanafi & Abdul Halim, 2016 the financial ratio formula:

Earning per Share:

$$Earning\ per\ share = \frac{Earning\ after\ tax - Preferen\ dividend}{Earning\ per\ share}$$

Price book value

$$Price\ Book\ Value = \frac{Stock\ Price}{Book\ Value\ per\ Share}$$

Return on Equity

$$Return\ On\ Equity = \frac{Earning\ After\ Tax}{Total\ equity} \times 100\%$$

The analytical method to answer the problems in the research, using SEM with the WarpPls analysis tool, by testing the inner and outer models of the research variables.

3 Discussion

3.1 Model I

The model I states that Earning per share affects firm value and return on equity as a moderating variable—the results of Model I research say that ROE weakens the effect of EPS on solid value. The increase and decrease in EPS cannot affect firm value because stocks with EPS are not always followed by high returns [11]. This result gives a negative signal to shareholders, not triggered by the higher return, not necessarily shareholders get the maximum profit so that the company's value decreases [12] (Fig. 1).

3.2 Model II

Model II states that the current ratio affects firm value and return on equity as a moderating variable. The study results indicated that ROE could strengthen the current balance and strong value relationship. Companies that are in debt to increase equity to develop their investments to increase the company's value. This is in line with the signaling theory that when a company issues new debt, it becomes a sign or signal for shareholders and potential investors about the company's prospects in the future [13]. According to

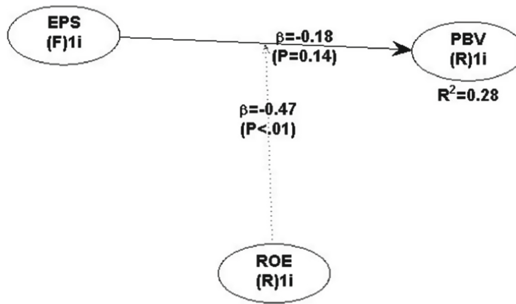

Fig. 1. Model I

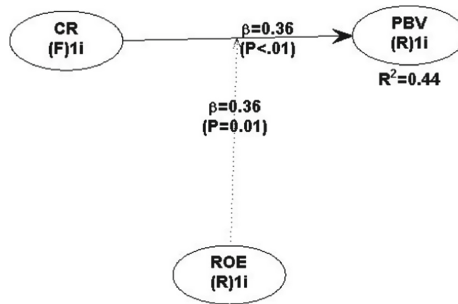

Fig. 2. Model II

Oktaviani et al., 2019, Zuhria Hasania et al., 2016 stated that there needs to be encouragement on the part of the company that gives a signal to investors that aims to provide information about the value of the company (Fig. 2).

The study results of two models between model I and model II concluded that increasing firm value is not necessarily from high EPS triggered by increased returns, but this is the opposite of shareholder prosperity, not from EPS and returns to increase the value of a company. Still, companies that have debt can increase the company's value from the increase in equity that can be adequately managed to attract shareholders to invest.

4 Conclusion

The research results entitled strategic to increase firm value, with earnings per share, and current ratio, with the assumption that Model I and Model II are the best. Model I states that ROE weakens the relationship between EPS and firm value, while model II says that ROE can strengthen the current ratio and total weight. From the two models, it can be concluded that shareholders' prosperity for high returns triggers the increase in firm value. On the other hand, debt can increase the company's deal with good equity management so that signals appear to shareholders.

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