

CHAPTER 1

INTRODUCTION

This chapter will explain about research background, research motivation in conducting this research and the differences with previous researchers, research problems, research objectives, research contribution of theory, empirical,policy and research systematics.

1.1. Research Background

The company's main objective is to maximize the firm value. Firm value used to measure successfulness of the company, due to the increasing of the firm value means that the increasing prosperity of the owner of the company (Brigham , 2010:7).

Shareholders need information regarding the condition of the company, particularly future investment returns from the company. Shareholders also need information about risk as well as expected value of return (Scott, 2000). The most accurate information would give insight to investors about the prospects and progress of return they get in the future.

The best source of information that can be used by investors as financial statement. Financial statements could provide the complete information to the investor in the process making decision to invest. In line with International Accounting Standard No. 1 (2011) financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial

position, financial performance and cash flows of an entity that useful to wide range of users in making economic decisions (IASB, 2001).

From the financial statement, one of explicit parameter that attracted the attention of investors to measure worth is firm value. Firm value can be seen in various methods. Share price of a company in the capital market can be one of the common and the best method to examine the firm value.

The firm value research has been a traditional topic in which both academics and practitioners pay much attention. But, nowadays the relationship between firm value and growth has become an interesting topic as well in order to examine as the emerging, imperfect, and widely open regarding world capital market. So, it is always needed the up-to-date study about market especially the firm value.

Firm value can be determined by three factors: internal factor, external factor, and a technical factor. In this research is mainly focused on the internal factor. Internal Factor analysis is often referred to as the company's critical factor, since its nature can be controlled by the manager. Financing decision, dividend policy, profitability and liquidity are examples of the critical internal factors.

Firm value will be value relevant if it has significant relation with market share price, only if the amount reflects information relevant to investors in valuing the firm and is reliable enough to be reflected in market price (Barth et al, 2000). So, in this research Tobin's Q is used as the tool to measure the firm value as the formula comprising the market value of shares.

On other hand, firm value is indicated not a stand-alone value. The research by Myers (1977) views the value of a firm as the total of the value of assets in place and the growth prospect of options to make future discretionary investments. The research by Jensen (1986) the growth opportunities has arises by underinvestment and overinvestment problem in the company.

Growth is expected to provide positive aspects for the company thereby increasing the demanded opportunity to invest of the company. For investors the company's growth is a favorable prospects, because the investment expected to provide a high return in the future. Growth oportunity also called as investment opportunities. Investment opportunities are options to invest in positive net present value project.

Growth is typically unobservable, a common proxy is to rely on several variables (Goyal et. al, 2007). Kallapur (2001) in his research has observed and identified the growth opportunities determinants, consequences and measurement. He said the best and common model to check the growth opportunities is using price-based proxies. Price-based proxies rely on the idea that if growth prospects of the firm are at least partially impounded in stock prices, then growing firms will have higher market values relative to assets in place. Market to book value of equity become the most used in identifying growth. Ghalandari (2013), de Andre (2010), Subagyo (2010) are several researcher which used market value of equity as representation of growth opportunities.

Based on the supporting background, the researcher is motivated to do the research titled “The Moderating Effect of Growth Opportunities on the Relationship Between Financing Decision, Dividend policy, Profitability and Liquidity toward Firm Value”. For this research the researcher will use four independent variable ; financing decision, dividend policy, profitability and liquidity.

The first motivation in this research is to expand on previous firm value research already done in the past. There are only few researcher who examined the interaction between internal factors and growth opportunity to the firm value. Also there are less research which aware about nature and type of growth opportunity as moderator effect to the firm value. Most of the research regarding this topic was conducted on overseas. So, this topic is need to conducted in Indonesia in order to examine comprehensively about firm value and it's relationship with growth opportunities.

The second motivation in this research, the result about firm value in the previous research have inconsistencies result and remain debatable. Therefore it become motivation to focus on further research about this topic.

The third motivation in this research is the sample of research. LQ-45 is famous index in the indonesia stock exchange. LQ 45 is a liquid stock market capitalization, has a high-frequency of trading, have variable growth prospects and good financial condition. This index consists of 45 company's stocks with high liquidity, selected through multiple assessment criteria. LQ 45 prove their competitiveness by maintain their stock in fairly good performances during the

crisis period that struck in indonesia in early 2008. LQ-45 contionous to maintain a great performance in the face of the economic situation in Indonesia is experiencing post-crisis era of the global economy crisis in 2008. Indonesian economy in 2009 until 2012 showed a good performance in the middle of the global economic situation. Still overshadowed by various uncertainties as the effect of global crisis in 2008. This LQ-45 competitiveness has attracted to study more deeply than previous research.

The first fundamental differences between this research with previous research is the use of growth opportunities as a moderating variable and also looking for the specific type of it's moderating effect. Second, is the use of stocks LQ-45 is used as object empirical research. Third, by the time dimension, this research focusing on the post 2008 crisis, which from 2010 until 2012 period. Which economical growth in indonesia was continually increase up to 6% a year.

1.2. Problem Statement

Based on the research background elaborated above, the problems will be discussed in this research are :

1. Does financing financing decision, dividend policy, profitability and liquidity effect firm value ?
2. Does growth opportunity moderate the relationship between independent variables toward firm value?

1.3. Research Purposes

Based in the research background raised above, the objective(s) of this research are :

1. To analyze the effect of financing decision, dividend policy, profitability and liquidity on firm value.
2. To examine whether growth opportunity could moderate the relationship between independent variable and firm value.

1.4 Research Contribution

1) Theoretical contribution

This research is expected contribute for accounting students to expand their knowledge in the field of capital markets, in particular the effect of dividend policy, financing decisions, liquidity, and profitability in the interaction with growth opportunities toward firm value.

2) Practical contributions :

- a) For the author, can increase knowledge about the effect of managerial accounting manner. The effect of fundamental analysis with interaction with growth opportunity toward firm value. Writing through this research is expected to be the stage for the author in order to achieve an accounting degree from Airlangga University.

- b) For the corporate manager, this study can be used as a material consideration in the determination of the optimal fundamental aspect for determining company firm value.
- c) For academics, this study can serve as a source of reference and information to enable further research on this topic and can provide insight and in-depth knowledge of the firm value.
- d) For investors, for consideration in the decision to invest. Giving more insight regarding the factor that may affect the firm value and its future prospects

1.5. Systematic Research Writing

This study is described in five chapters systematically as follows:

CHAPTER 1 INTRODUCTION

This chapter provides a summary of the overall research and provides an overview of problems in determining financing decisions, dividend policy of a company as well as the variables that affect firm value. This chapter describes the background of the problem, formulation of the problem, objectives of research, benefits research and systematic writing.

CHAPTER 2 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This chapter contains the basic theory underlying the study, previous research as a basic reference theory and analysis, as well as the framework and the

formulation of hypotheses. In this chapter the theories proposed based on grand theory. Also literature review about independent, dependent and moderator variable.

CHAPTER 3 RESEARCH METHOD

This chapter discusses the overview and sample population used in this study, identifying research variables and an explanation on how to measure these variables, types and sources of data, methods of data collection, and data analysis methods used in this research.

CHAPTER 4 RESULTS AND DISCUSSION

This chapter is the main content of the overall study. This chapter presents the results of data processing and analysis of the results of the data processing.

CHAPTER 5 CONCLUSIONS AND RECOMMENDATIONS

In this chapter will describe the conclusion of the study, limitations of the study, and suggestions that can be given with regard to this research