A CORRELATIONAL STUDY OF MACROECONOMIC INDICATORS TO PERFORMANCE ANALYSIS WITH VALUE BASED MANAGEMENT AND MARKET VALUE OF LQ45 INDONESIAN PUBLICLY-LISTED CONSUMER GOODS COMPANIES

UNDERGRADUATE THESIS

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CHAPTER I

I.1.   INTRODUCTION

The two broad sub-areas of economics studies, microeconomics and macroeconomics, applied the basic tools of supply and demand in which buyers create demand of goods and/or services then production or manufacturing companies will supply them. Together, supply and demand model resolve the market prices and product quantities in any given market. Microeconomics is the study of how households and organizations make decisions and how they collaborate with the market. Meanwhile, studying the economy-wide phenomena, involves inflation, unemployment, and economic growth is all about macroeconomics (Mankiw, Quah, & Wilson, 2013; Agarwal, 2017). Moreover, as part of the economic growth, it is important for a country to maintain the well-being of society which could be measured through the total income that everyone in the economy is receiving (Hamilton, 2018).

Figure 1: The Circular Flow Diagram
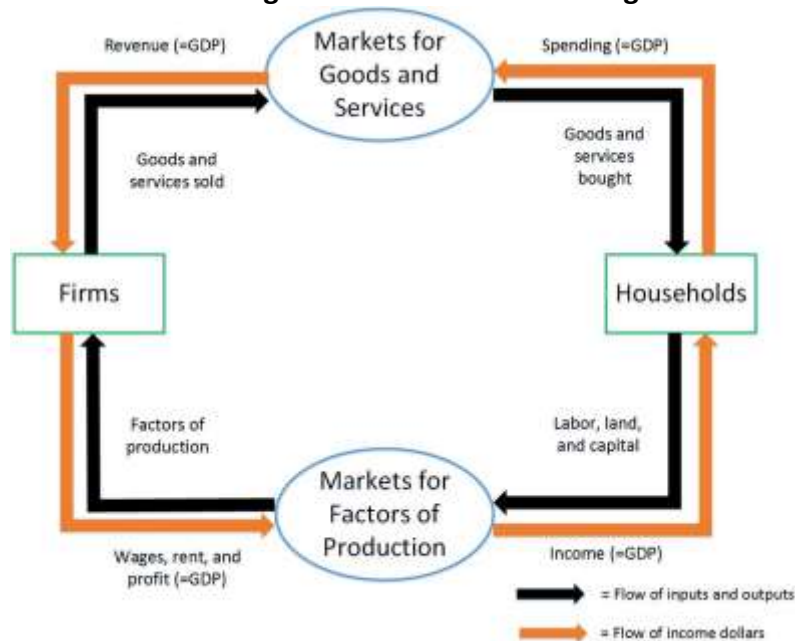
Source: (Mankiw, Quah, & Wilson, 2013; Hamilton, 2018)

World Bank is confident at Indonesia's economic outlook considering the recent economic performance due to the growing of private and government consumption (Indonesia Investments, 2018). Supported by the fact that Indonesia is an immense, sprawling country, with 261 million people lasting across more than 6,000 inhabited islands. Also, with more than 240 million residents, Indonesia has become an investment target for many overseas companies. In 2016, the country recorded the world's fourth largest middle class with 19.6 million households trailing behind China, India and the US, which is expected to rise to 23.9 million in 2030, making this group a prominent consumer force in the country. The continued expansion of middle class can be mainly attributed to falling poverty, improved income equality

and government measures to boost middle class purchasing power (Thapa, 2017; Otto & Sentana, 2018).

In addition, consumer goods industries have been successful in contributing the national income of Indonesia (Cekindo, 2018). Consumers are the basic economic entities of an economy which are crucial as they create demand in the market and producers produce goods or services accordingly (Seth, 2017). The statistic showed that Indonesian consumer price index increased to 132.6 Index Points in March from 132.3 Index Points in February of 2018 (Indonesia Investments, 2018; Fauzia, 2018). Moreover, due to the high demand for US dollars as foreign selling of local bonds, investors convert their proceeds. It means that inflation is happening which weaken the value of rupiah itself and threaten monetary stability. Regardless, Bank Indonesia will apply an increase in BI's benchmark seven-day reverse repo rate (News Desk, 2018; Rahmah, 2018).

Understanding the macroeconomic conditions of Indonesia is valuable due to upcoming event of the 32nd Association of Southeast Asian Nations (ASEAN) community that will be implemented in 2020 under the theme "Resilient and Innovative" (Xinhua, 2018), which is about advocating regional cooperation in Southeast Asia in the spirit of equality and partnership in accordance to peace, progress and prosperity in the region (Association of Southeast Asian Nations, 2012). This has been the priority goal for Indonesia Stock Exchange in becoming the largest stock exchange in the ASEAN region by 2020. In 2016, the daily transaction value is Rp. 5.6 trillion and the number of listed companies are only 531 companies. The Indonesia Stock Exchange would make it possible by raising the daily transaction value to Rp. 35 trillion and increasing the number of listed companies at least to 751 companies by 2020. They are positive about this change since Indonesian government has ambitious plans to improve foreign investment as well as infrastructure development which eventually attract more potential stock investors. This will surely replace Singapore which held the position of the largest stock exchange in the ASEAN region with a market capitalization of approximately Rp. 8.9 trillion in 2015 (Indonesia Investments, 2016; Hermansyah, 2017).

This study would analyze deeper on how macroeconomic indicators such as GDP, inflation, and BI rate will impact the LQ45 Indonesian publicly-listed consumer goods industries based on Indonesia Stock Exchange. Also, how value-based management and market value would assess its organizational performance for the period of 2013-2017.

I.2. RESEARCH PROBLEMS & QUESTIONS
I.2.1. RESEARCH PROBLEMS
The main issues to be investigated are; (1) how GDP, inflation and BI rate of Indonesia have affected the LQ45 Indonesian publicly-listed consumer goods industries performance measured and analyzed as well as evaluated in a certain period of time (2013-2017), (2) analyzing the organizational performance through 5 value drivers and market value management toward company's performance, and (3) evaluating the preferred factors toward company's performance.

I.2.2. RESEARCH QUESTIONS

Therefore, the probable research questions are as follows;

Question #1: How much is the impact of GDP, inflation and BI rate of Indonesia towards the LQ45 Indonesian publicly-listed consumer goods companies since 2013?

Question #2: How good was the performance of LQ45 Indonesian publicly-listed consumer goods industries since 2013 as assessed by 5 value drivers and market value?

Question # 3: What were the dominant factors of the 5 value drivers and market value on organizational performance since 2013?

I.3. RESEARCH PURPOSES & SIGNIFICANCE

Referring to the above research problems and questions, this study attempts to achieve the following purposes;

1. To identify and learn the effect of Indonesia's economy towards LQ45 Indonesian publicly-listed consumer goods companies through collecting data of GDP, inflation, and BI rate of Indonesia since 2013.

2. To determine the market value of LQ45 Indonesian publicly-listed consumer goods companies since 2013. Also, to explore the influence of value creation indicators as 5 value drivers mentioned above to the Indonesian publicly-listed consumer goods industries based on LQ45 by Indonesian Stock Exchange since 2013. The study is significant because it provides approaches in determining value creation and highlights the connections among value creation, competitive advantage and value-based management. It is expected that this study is able to contribute a valuable knowledge on understanding the importance of value creation in generating the success of the business.

3. To identify the preferred factors from 5 value drivers and market value towards the organizational performance of LQ45 Indonesian publicly-listed consumer goods companies since 2013.

I.4. RESEARCH LIMITATION

In this study, the applicable limitations are as follows; (1) financial reports of LQ45 Indonesian publicly-listed consumer goods industries, which are consisted in Indonesia Stock Exchange, (2) the focus is on the organizational performance including other appropriate key performance indicators typically used by companies across industries, and (3) the data spans only during 2013-2017.

I.5.   REPORT STRUCTURE

This research is divided into 5 main chapters, and each chapter has several sub categories. There are consists of:

1. CHAPTER 1: Introduction, which discusses about the general statement of problem area covering stores, facts and phenomena of Indonesia, research problem, research questions, research purpose, significance study, scope limitation, and thesis structure.

2. CHAPTER 2: Literature Review, which focuses on the literature studies, relevant and related to the main topic of this research paper. The literature studies will include a brief explanation of variables and sub-variables of the study namely macroeconomic indicators: 1) GDP, 2) Inflation, and 3) BI rate. Also, the organizational performance: 1) 5 value drivers from value-based management, and 2) market value.

3. CHAPTER 3: Methodology, frameworks used to conduct the research toward hypothesis testing. This chapter includes the research objectives and sources of data.

4. CHAPTER 4: Data Analysis, shows the result of the data that has been analyzed using the necessary statistical tools.

5. CHAPTER 5: Conclusion and Recommendation, which outlines the conclusion of the research and the recommendation that can be used for the future enhancement.

CHAPTER II

I. LITERATURE REVIEW

II.1. ECONOMY OF INDONESIA

Indonesia is committed to robust growth over the past few decades. Its abundant natural resources and its dynamic labor force in the industrialization sector of Indonesia eventually creates trade openness alongside its neighboring countries (Elias & Noone, 2018). Indonesia's economy is accelerating throughout the years as shown by Indonesian GDP which will be discussed further in the next sub chapter. The government has succeeded in collecting more taxes through its Tax Amnesty program, while the growing number of capital goods and raw materials indicate bustling investment and manufacturing activities in Indonesia. The encouraging growth means that Indonesia economic pulse is beginning to increase. Also, as expected by the World Bank and Asian Development Bank, the largest economy in Southeast Asia rises by 5.3% in 2018 (Jakarta Globe, 2018).

Figure 2: Share in GDP of 3 Main Sectors in Indonesia
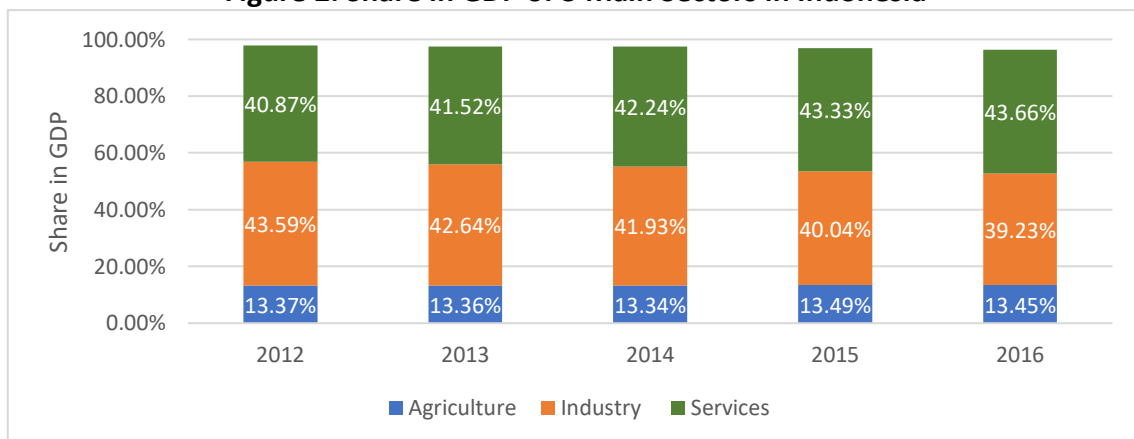

Source: (Statista, 2018)

Indonesia solid improvements have been shown since 2015, Joko Widodo as the President of Republic Indonesia, set current medium-term development plan which consist of improving Indonesia's infrastructures and social assistance programs related to education and health-care. The government declares policy reforms to cut red-tape in order to support the country's investment climate and economic growth. Also, investors should be able to welcome the policy reforms, mainly in opening sectors for investment and cutting down the high logistics costs (The World Bank, 2018).

II.1.1. GROSS DOMESTIC PRODUCT

When measuring an income of a person, we must calculate how much money he or she has received on that month minus all the costs he or she has to pay. The higher the income, the more luxurious and expensive brands can the person buy. For example, when a company is cutting back their production, unemployment rises, finding a good job will be hard to find where he or she will receive less income compare to the year before. Therefore, changes in economy affects all of us (Investopedia LLC, 2018; Mankiw, Quah, & Wilson, 2013). A nation experiences positive economic growth when

there is a positive change in the position of goods and services produced by a country over a clear period of time. It does not mean that all sectors such as property and real estate, transportation and infrastructure, and more are improving at the same time but rather a significant increase in one of the sectors (Nitisha, 2018; Mankiw, Quah, & Wilson, 2013). Entire economy means that income must equal expenditure. Theoretically, Gross Domestic Product (GDP) means the market value of all final goods and services produced within a country in a certain period of time (Mankiw, Quah, & Wilson, 2013). The components which affect GDP are consumption, investment, government purchases, and net exports.

Figure 3: Indonesian GDP
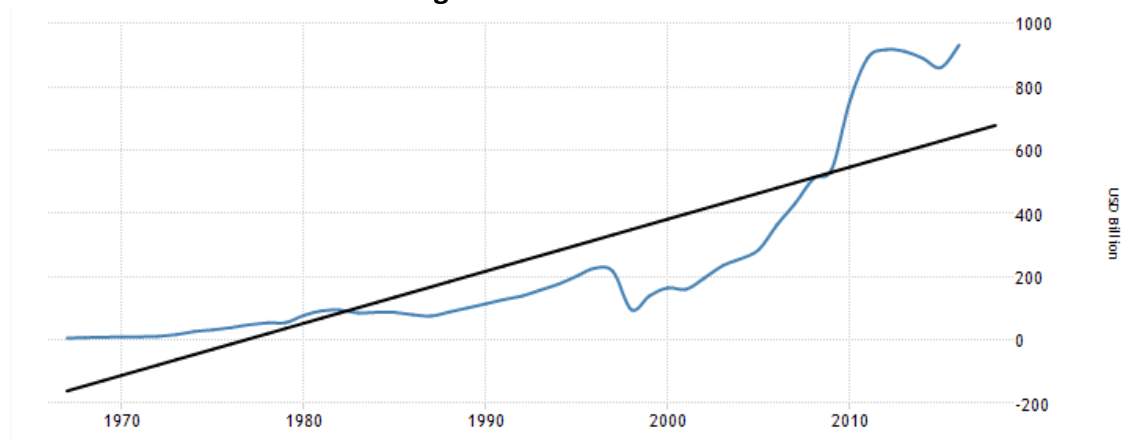
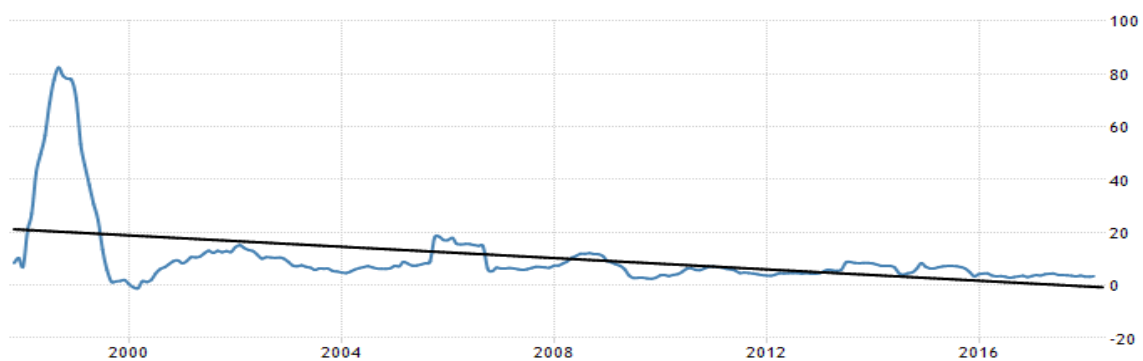**Source: (Trading Economics, 2018)**

As one of the contributors towards Indonesia GDP, consumer goods industry is part of the nation's demand side with sub-sector of food & beverages, tobacco, pharmaceutical, cosmetic & household utilities according to Jakarta Industrial Classification (JASICA) set by Indonesia Stock Exchange since 1996 (Ekovestora, 2018; Saham OK, 2017). In addition, Indonesia's consumer confidence index, which measures consumer sentiment regarding current and expectations for the immediate future due to economic situation (Organisation for Economic Co-operation and Development, 2018), is rising from the year of 2008-2018. Currently, Indonesia's consumer confidence index came in at 126.1 in January of 2018, barely unchanged from an all-time high of 126.4 in December. The continued consumer optimism was driven by the increase in current income as well as income expectations over the next six months (Trading Economics, 2018). In addition, as well as Indonesia Consumer Spending or voluntary private consumption increases significantly from 2010-2018. To support the reason, Consumer Spending in Indonesia averaged Rp. 1,138,148.53 billion from 2010 until 2017 this shows that Indonesian people have a high disposable income (Amadeo, 2017).

II.1.2. INFLATION

When there is general increase in price level of goods and services, the country experiences an inflation. When inflation occurs, people need to spend more money in order to buy the same quantity of goods and/or services which happened to be lower in price yesterday. Moreover, inflation is seen to have economic costs such as decline in

value of savings, uncertainty for business leading to less investment and a decrease in the competitiveness of exports which will impact the GDP (Economics Help, 2018). Economists believed that there are two types of inflation which are the demand-pull inflation and the cost-push inflation. Basically, when central bank increases rapidly the supply of money, then there will be increase demand for goods and services. However, since in the short run, suppliers could not increase production, the supply will have to remain constant which makes price to rise. Furthermore, when everything is now expensive, not only raw material prices increase but employees will demand more for their wage. Higher production costs led to a decrease in aggregate supply and an increase in the overall price level (Mankiw, Quah, & Wilson, 2013).

Figure 4: Indonesian Inflation Rate

Source: (Trading Economics, 2018)

Historically, Indonesia's inflation rate is higher compare to its emerging neighboring countries. Indonesia had an average annual inflation rate of around 8.5% over the period of 11 years. Fortunately, Indonesian inflation has been under control since 2015 (Indonesia Investments, 2018). It is believed that administered price adjustments relate to Indonesia's inflation volatility as a result economic costs, such as the country's higher (domestic and international) borrowing costs compared to its emerging market peers. Indonesia's consumer price inflation consists of raw food, transport, clothing, housing and utilities, processed food, education and health. It contributes to rise of 3.4% year-on-year in March of 2018, which has exceeded the expectations of 3.3%. To say, the inflation rate in Indonesia averaged 10.3% from 1997 until 2018, reaching an all-time high of 82.40% in September of 1998 and a record low of -1.2% in March of 2000 (Trading Economics, 2018; Indonesia Investments, 2018).

II.1.3. BI RATE

When people borrow money, they do not only pay the principal but interest as well to the lender. Interest is computed as a percentage of a loan balance, paid to the bestowed periodically for the right of using their money. The BI Rate is the policy rate following the monetary policy stance accepted by Bank Indonesia and announced to the public (Bank Indonesia, 2013).

On April 19th 2018, Indonesia central bank kept interest rate at 4.25% with its benchmark 7-day reverse repo rate as in line with market expectations. In order to

maintain macroeconomic and financial stability amid rising external pressures, policymakers stated that the current policy stance needed to be consistent. Indonesia interest rate might be influenced by the uncertainties in world financial markets, rising oil prices, and the possibility of a continuing US-China trade war as main global risks. Moreover, the lending and the deposit facility rates were also left steady at 5 percent and 3.5 percent respectively. Interest Rate in Indonesia averaged 7.19 percent from 2005 until 2018, reaching an all-time high of 12.75 percent in December of 2005 and a record low of 4.25 percent in September of 2017 (Trading Economics, 2018; Sipahutar, Listiyorini, & Salna, 2018; Pritchard, 2017).

Figure 5: Indonesian Interest Rate

Source: (Trading Economics, 2018)
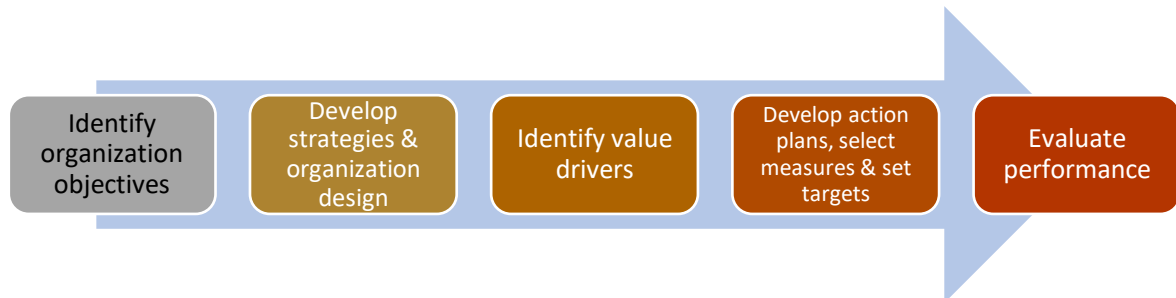
II.2.   VALUE-BASED MANAGEMENT

There are lots of factors that determine a company's bad performance and one of them is failure in delivering clear objectives which eventually suppress value. Throughout years, businesses have seen a surfeit of management approaches but none of them aimed that problems. However, value-based management is a part of management approach that the sole purpose is to maximize shareholder value for longer-term effects by create, manage and measure value itself which ultimately will be reflected in the company's future cash flows (Tang, 2017). Moreover, creating value for shareholders, in the form of increases in stock price, insures the future availability of investment capital to fund operations.

Value-based management is all about developing economic or intrinsic firm value. Combination of shareholder-centric orientation of traditional value-based management and the society-centric orientation of the corporate social responsibilities movement. Enormous advantage in building a company's ability to achieve profitable and long-lasting growth through value creation first in the right way, so that all of the company's employees will know where and how to grow; they will deploy capital better than competitors and they will develop more talent than company's competitors (Hillstrom, 2018).

The concept of value-based management is combining a value creation mindset and management processes and systems. This will help companies to perfectly execute and ensure long-term and sustainable success through their investment and growth

opportunities. It gives a deeper focus for company's management decision making on the key drivers of value such as margin, turnover, pullover, leverage and book to value ratio (Koller, 2017; Value Based Management, 2016; Weygandt, Kimmel, & Kieso, 2013).

Figure 6: Value Creation Process

Source: (Lucintel , 2017)

This paper will analyze the value-based management of LQ45 Indonesian publicly-listed consumer goods companies as listed by Indonesian Stock Exchange with its 5 value drivers such as margin, turnover, pullover, leverage and book to value ratio to improve the company's performance. Those 5 value drivers as mentioned above held important meanings which will create value creation strategy.

II.2.1. 5 VALUE DRIVERS
II.2.1.1. PROFIT MARGIN

Every organization should run efficiently meaning doing things right, and effectively meaning doing the right things (Ferrell, Hirt, & Ferrell, 2009). Therefore, to assess this a company should be able to increase its margin by either increasing net income or lowering the sales. Increasing net income means that the company should be able to maximize the revenue and minimize its expenses (Weygandt, Kimmel, & Kieso, 2013). The profit margin ratio, also called the return on sales ratio or gross profit ratio, is a profitability ratio that measures the amount of net income earned with each dollar of sales generated by comparing the net income and net sales of a company. In other words, the profit margin ratio shows what percentage of sales are left over after all expenses are paid by the business. Margin ratio indicates whether the company has operated efficiently (My Accounting Course, 2018; Brigham et al., 2014).

Equation 1: Profit Margin

$$\frac{Net\ Income}{Sales}$$

Source: (My Accounting Course, 2018)

II.2.1.2. ASSET TURNOVER

In addition, turnover is the net sales generated by a business, while profit is the residual earnings of a business after all expenses have been charged against net sales. Thus, turnover and profit are essentially the beginning and ending points of the income statement. Business turnover is one of many ways to analyze the quality

and efficiency of a business and provides a nice retrospective look at the revenue for a specific time period (Bell, 2018). A company should be able to increase its sales volume for every asset or invested capital that it has. Turnover ratio indicates whether the company has managed its asset efficiently (Accounting Tools, 2018; Brigham et al., 2014).

Equation 2: Asset Turnover

$$\frac{Sales}{Total\ Asset}$$

Source: (Weygandt, Kimmel, & Kieso, 2013)

II.2.1.3. LEVERAGE

Meanwhile, boosting the capital structure efficiency through leverage. It means that the company could borrow as much money as they can as long they are able to pay its principle and interest back. Leverage ratios measure how leveraged a company is, and a company's degree of leverage is often a measure of risk. When the debt ratio is high, for example, the company has a lot of debt relative to its assets. It is thus carrying a bigger burden in the sense that principal and interest payments take a significant amount of the company's cash flows, and a hiccup in financial performance or a rise in interest rates could result in default. When the debt ratio is low, principal and interest payments don't command such a large portion of the company's cash flow and the company is not as sensitive to changes in business or interest rates from this perspective. When high risk is involved, thus investors are expecting higher return (Investing Answers, 2018; Weygandt, Kimmel, & Kieso, 2013).

Equation 3: Leverage

$$\frac{Total\ Asset}{Equity}$$

Source: (Weygandt, Kimmel, & Kieso, 2013)

II.2.1.4. PULLOVER

Furthermore, tax management is convoluted and risky undertaking at the best of times, but these days businesses also have to argue with economic uncertainty and ever-growing regulatory oversight (Price Waterhouse and Coopers, 2016). Conducting a proper tax planning, one not only cut down the tax liability but also end up saving towards the various goals one has set at different life stages. By using the pullover ratio, we could determine the company's tax saving as long as it does not break the law. Efficient tax planning should ideally begin at the start of every financial year (Dhawan, 2017).

Equation 4: Pullover

$$1 - tax\ rate$$

Source: (Weygandt, Kimmel, & Kieso, 2013)

II.2.1.5. BOOK TO VALUE RATIO

One of the most important ratios used for relative valuations or identifying growth opportunities is the Book Value Ratio or P/E ratio. Price to book value compares the current market price of the share with its Book value so that investors would be able to know whether the company's stock is overvalued or undervalued (Vaidya, 2018).

Equation 5: P/E Ratio

$$\frac{Market\ Value\ per\ Share}{Earnings\ per\ Share}$$

Source: (Weygandt, Kimmel, & Kieso, 2013)

II.3. MARKET VALUE

Market value is different from the market price because the market value of a good or services is the amount that would be paid for it in a fair market, meaning no distress, price is negotiated and acceptable information and market exposure. The willingness of buyer to buy at the highest price and the willingness of seller to sell at the lowest price should be accounted. Then, both seller and buyer should have all the appropriate information concerning the purchase and the good or service that has been exposed to the market for a reasonable time (Grimsley, 2018). Market value is calculated by multiplying the number of shares outstanding by the current market price of a firm's shares (Nasdaq, 2018).

II.3.1. EARNING PER SHARE

One of the ratio that is beneficial to the investors is the earning per share ratio or EPS ratio. It measures the amount of a company's net income that is theoretically available for payment to the holders of its common stock in form of dividend. A company with high earnings per share ratio is qualified of generating a significant dividend for investors or retained earnings when company funds back into its business for more growth. The higher the earnings per share of a company, the better is its profitability. Although high ratio indicates a potentially worthwhile investment, it also depends on the market price of the stock (Accounting Tools, 2018; The Economic Times, 2018).

Equation 6: Earnings Per Share Ratio

$$\frac{(Net\ income\ after\ tax - Preferred\ stock\ dividends)}{Average\ number\ of\ common\ shares\ outstanding}$$

Source: (Brigham, Houston, Jun-Ming, Kee, & Bany-Ariffin, 2014)

II.3.2. MARKET TO BOOK VALUE RATIO

One of the financial valuation metric that is used in this study is the market to book value ratio. It is used to appraise a company's current market value relative to its book value. The market value is the current stock price of all outstanding shares, meaning the price that the market believed is worth. The book value is the total that would be left if the company liquidated all of its assets and repaid all of its liabilities. In other words, the ratio is used to compare a business's net assets that are accessible in

relation to the sales price of its stock (CFI, 2018). The market price to book ratio of a company that far exceeds its competitors may be overvalued. On the other hand, it may display a company's history of superior earnings growth and the confidence that investors place in its competency to continue to outperform its competitors (Peavler, 2017).

Equation 7: Market to Book Value Ratio

$$\frac{Market\ Capitalization}{Total\ Book\ Value}$$

Source: (Brigham, Houston, Jun-Ming, Kee, & Bany-Ariffin, 2014)

II.3.   PREVIOUS STUDIES

This section contains of several studies that has been done previously to support the current research. The relevant theories as well as information in the previous study will be used in further analysis to strengthen such findings in this research.

Table 1: Selected Previous Studies

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings

1. Effect of Macro-Economic Variables on Financial Performance Indicators (Cyril & Okechukwu, 2014)	• Macro-economic:
	  ○ Monetary Policy Rate
	  ○ Exchange Rate
	  ○ Inflation Rate
	
	• Financial Performance:
	  ○ EPS
	  ○ ROE
	  ○ ROA
		• A positive significant relationship between MPR and EPS
		• A weak negative relationship between exchange rate and company returns
		• A weak negative relationship between inflation and ROE

2. The Effect of Macroeconomic Factors on Financial Performance of Commercial Banks in Kenya (Illo, 2012)	• Macro-economic:
	  ○ Lending Interest Rate
	  ○ Exchange Rate
	  ○ Inflation Rate
	  ○ GDP
	  ○ Money Supply
	
	• Financial Performance:
	  ○ ROA
		• GDP growth influences ROA as much as 13%
		• Inflation influences ROA as much as 0.09%
		• Exchange rate to ROA influence is 0.08%
		• Money supply to ROA influence is 1.22%
		• Interest rate to ROA influence is 1.45%

3. Value Creation of Intellectual Capital: Financial Performance	• Value Added Intellectual Capital (VAIC):	• VAIC influences AV as much as 19.0%.

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings
Analyses in Indonesian Publicly-Listed Consumer Goods Industry (Feimianti & Anantadjaya, 2014).	o Value Added Capital Employed Coefficient (VACA) o Value Added Human Capital Coefficient (VAHC) o Value Added Structural Capital Coefficient (STVA) • Accounting Value (AV): o Debt Ratio (DR) o Return on Equity (ROE) o Net Working Capital (NWC to TA) o Asset Turnover (ATO) • Market Value (MV): o Earnings per Share (EPS) o Market to Book Value Ratio (M/B) o Price Earnings Ratio (P/E)	• VAIC has only 8.0% explanatory power toward VACA. • VAIC has 100% explanatory power toward VAHC • VAIC has only 54.0% explanatory power toward STVA. • VAIC influences MV as much as 95.0%. • AV has only 85.0% explanatory power toward DR. • AV has only 36.0% explanatory power toward ROE. • AV has only negative 87% explanatory power toward NWC to TA. • AV has only 9.0% explanatory power toward ATO. • MV has only 35.0% explanatory power toward EPS. • MV has only 45.0% explanatory power toward M/B. • MV has only 4.0% explanatory power toward P/E.
4. Ratio vs. EVA: A Performance Analysis in Indonesian Publicly-Listed Banks (Soemitro & Anantadjaya, 2013).	• Ratio Analysis (RA): o Capital Adequacy Ratio (CAR) o Non-Performing Loan (NPL) o Return on Assets (ROA)	• RA negatively influences PER as much as 8.1%. • CAR has only 5.7% explanatory power toward RA. • LDR has only negative 40.4% explanatory power toward RA.

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings
	o Net Interest Margin (NIM) o Loan to Deposit Ratio (LDR) • Economic Value Added (EVA): o Net Operating Profit After Tax (NOPAT) o Weighted Average Cost of Capital (WACC) o Performance (PER): o Total Assets (TA) o Total Liabilities (TD) o Interest Expense (IE)	• NIM has only 52.3% explanatory power toward RA. • NPL has only negative 36.0% explanatory power toward RA. • ROA has only 80.2% explanatory power toward RA. • EVA influences PER as much as 96.4%. • IC has only 91.8% explanatory power toward EVA. • NP has only 93.5% explanatory power toward EVA. • WAC has only negative 58.2% explanatory power toward EVA. • PER has only 98.5% explanatory power toward TA. • PER has only 98.7% explanatory power toward TD. • PER has only 90.3% explanatory power toward IE.
5. Economic Indicators and Organizational Performance (Soekasah, 2018).	• Economic Indicators: o GDP o BI Rate o Exchange Rate o Inflation Rate • PTFI's Revenue: o Advertising Production (AdvertProd)	• TicketS has the highest correlation value towards revenue which is 92.0% • Radio has the lowest correlation value towards revenue which is 7.0%. • GDP has the highest correlation value

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings
	o Graphic Design (GraphicD) o Ticket Sales (TicketS) o Public Relations (Public R) o Travel (Travel Etc.) o Television (TV) o Newspapers (Newspap) o Radio	towards revenue which is 29.2%. • Inflation has the weakest correlation value towards revenue which is 21.0%. • Fluctuations in selected economic indicators in Indonesia, indicated by GDP, inflation, interest rates per Bank Indonesia and exchange rates of Rupiah value towards US dollar has little impact towards the revenue of PTFI. • The correlation between GDP and performance of PTFI is only 1%, which is weak.
6. The Effect of Macroeconomic Variables on the Financial Performance of Non-Bank Financial Institutions in Kenya (Ongeri, 2014)	• Macroeconomic Variables: o Exchange rate o GDP o Inflation rate o Interest rate • Financial Performance: o Return on Assets o Return on Capital Employed	• The findings of the study indicate Return on Assets of NBFIs has a strong positive relationship with currency exchange growth rate (2.504) and a weak positive relationship with quarterly GDP (0.284), inflation rate (0.655) and average quarterly interest rate (1.107). • In addition, it can be stated that macroeconomic variable affected ROA with an adjusted R^2 of 0.119 meaning 11.9% is the variable in the

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings
		regression model while 88.10% could not be explained by the variables. • The main policy recommendation was that the government should control the interest rates charged by the NBFIs to encourage borrowing and investments which in turn improves the ROA of NBFIs.

7. Influence Analysis of Fundamental Factors of Companies, Macroeconomic Factors and Investor Sentiment on Stock Return: Empirical Study on Companies listed in LQ45 Index Year 2008-2015 (Rahmanda, 2017).	• Stock returns:
	  o Current Ratio
	  o Return on Equity
	  o Price Equity Ratio
	  o Inflation
	  o Economy Growth
	  o Investor sentiment
		• Results shows that return on equity and investor sentiment have a positive influence towards stock returns.
		• Variables of current ratio, price earnings ratio, inflation and economy growth have no influence towards stock returns.
		• Investors still use fundamental factors such as return on equity as a based to predict stock returns in LQ45 companies.

8. Analysis of the Influence of Transaction Cost (Bid-Ask Spread), Market Value and Standard Return Deviation on Holding Period of Shares for	• Transaction cost:
	  o Spread (bid-ask spread)
	
	• Market Value:
	  o Price-to-Book Value
	
	• Volatility:
	  o Stock returns
		• Statistical tests showed that the transaction cost has a positive influence to both stock holding period for foreign and domestic investors, which means that all investors in IDX will hold stocks with high

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings
Foreign and Domestic Investors: Study on LQ45 Index Stocks Period 2012-2015 at Indonesia Stock Exchange (Styawan, 2017).	• Holding period: ○ Foreign Investor ○ Domestic Investor	transaction costs in a longer period of time. Market value also has a positive influence to holding period, but only for foreign
9. Value Drivers in Oil Companies: An Application of Variance Based Structure Equation Model (Kumar & Sukumaran, 2017)	• Earning Potential: ○ Enterprise Value to Earnings Before Interest, Tax, Depreciation and Amortization ○ Enterprise Value to Earnings Before Interest and Tax Ratio • Growth Potential: ○ Growth of Reserve ○ Reserve Replacement Ratio • Investment Intensity: ○ Capital Expenditure Sales Ratio ○ Net Working Capital • Management Efficiency: ○ Ratio of Cost of Goods Sold and Total Assets ○ Fixed Asset Turnover ○ Total Assets Turnover • Cash Flow Measures: ○ Ratio of Free Cash Flow to Equity and Total Sales	• Higher earning potential was associated with greater value creation for oil firms. Markets view high capital investments by oil companies, which indicate value creation for oil and gas firms, positively. • Higher cash flows lead to greater value creation for energy firms. It can also be implied that higher cash flows lead to greater profitability and hence greater value creation. • Furthermore, profitability determines value creation in oil and gas firms.

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings
	o Margin Barrels of Oil Equivalent o Ratio of Free Cash Flow to Equity and Total Assets o Liquidity • Cash Ratio: o Quick Ratio o Current Ratio • Leverage: o Ratio of Long Term Debt to Capital o Debt Equity Ratio • Profitability: o Net Profit Margin o Return on Assets o Return on Capital Employed o Return on Equity • Value Creation: o Price Earnings Ratio o Price Sales o Holding Period Returns o Share price	
10. Strategic Intention & Financial Support on MSMEs: An Investigative Study in Indonesian Creative Industry (Sasongko & Anantadjaya, 2014)	• Generic Strategies: o Focus o Differentiation o Low Cost • Access to External Financing: o Experience with Credit o Ownership of Bank Account and Credit Card o Credit History	• Path analysis shows that the use of generic strategies has a 7% statistical influence on improving value-based management. • Creative entrepreneurs tend to adopt differentiation focus to maximize their business' value in order to ultimately, albeit not

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings

	• Value Based Management:
	   o Total Assets
	   o Operational Expense
	   o Profit
	   o Sales
		significantly, increase performance.
		 • Generic strategies also have a 12% statistical influence on increasing access to external finance.
		 • Access to external financing has an 8% statistical influence on improving value-based management.

11. Consumer Behaviors and Customer Satisfaction: Any Value Created? (Anatandjaya, Nawangwulan, Widayatmoko, & Seancho, 2012)	• Consumer Behavior:
	   o Affection & cognition
	   o Product knowledge & involvement
	   o Attention & comprehension
	   o Attitude and intentions
	
	 • Customer Satisfaction:
	   o Tangibility
	   o Reliability
	   o Responsiveness
	   o Assurance
	   o Empathy
	
	 • Value Based Management:
	   o Margin
	   o Turnover
	   o Leverage
	   o Tax
	   o Growth
		• Indicators used for consumer behaviors, customer satisfaction, and VBM are different from each other
		 • Product knowledge/involvement, and attitude/intention are better measurements of consumer behaviors
		 • Tangibility represent the lowest contributor toward customer satisfaction
		 • Tax savings, and growth opportunities denote the lowest contributors of VBM
		 • The available data for consumer behavior influences the level of customer satisfaction
		 • The higher the level of customer satisfaction, the higher the VBM.

12. Creating Value in Retail Business:	• ROE: o Asset Turnover	• Operational excellence brings more gross

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings
Evidence from the Russian Food Retail Market (Teimuraz, Emil, & Anastasia, 2018)	○ Net Margin ○ Gearing • Price to Book Value	marginality and the ability for the retail chains to grow organically by investing in self-growth from their own working capital. • Commercial conditions for the suppliers are the basis for retail margin generation and these should be regularly reconsidered to find the mutual balance (win-win) with the partner, which will allow the supplier to operate at a profit.

Source: various

II.4. DIFFERENCES OF STUDY

The difference between those previous studies and this current study is on dependent variables. The independent variables however are quite similar since the researcher are focusing on organizational performance. However, from a dependent variables perspective, this study uses both value-based management and market value measurement through 7 ratios in total. This study will evaluate the consumer goods industry mainly on LQ45 stock index, while the majority of prior studies analyzed the financial and oil industry. Differences are as follow;

1. Subject of study is LQ45 Indonesian publicly-listed consumer goods companies namely PT. Gudang Garam Tbk (stock code: GGRM), PT. H.M. Sampoerna Tbk (stock code: HMSP), PT. Indofood Sukses Makmur Tbk (stock code: INDF), PT. Kalbe Farma Tbk (stock code: KLBF), PT. Unilever Indonesia Tbk (stock code: UNVR), and PT. Indofood CBP Sukses Makmur Tbk (stock code: ICBP).

2. Data is taken from the period of 2013-2017.

3. Sub variable for the Macroeconomic Indicators are GDP, Inflation, and BI Rate.

4. Sub variable for the Organizational Performance are as follows;

    a. Value Drivers: Margin, Turnover, Leverage, Pullover and P/E Ratio.
    b. Market Value: EPS and M/B Ratio.

II.5. RESEARCH MODEL

Figure 7: Framework of Thinking
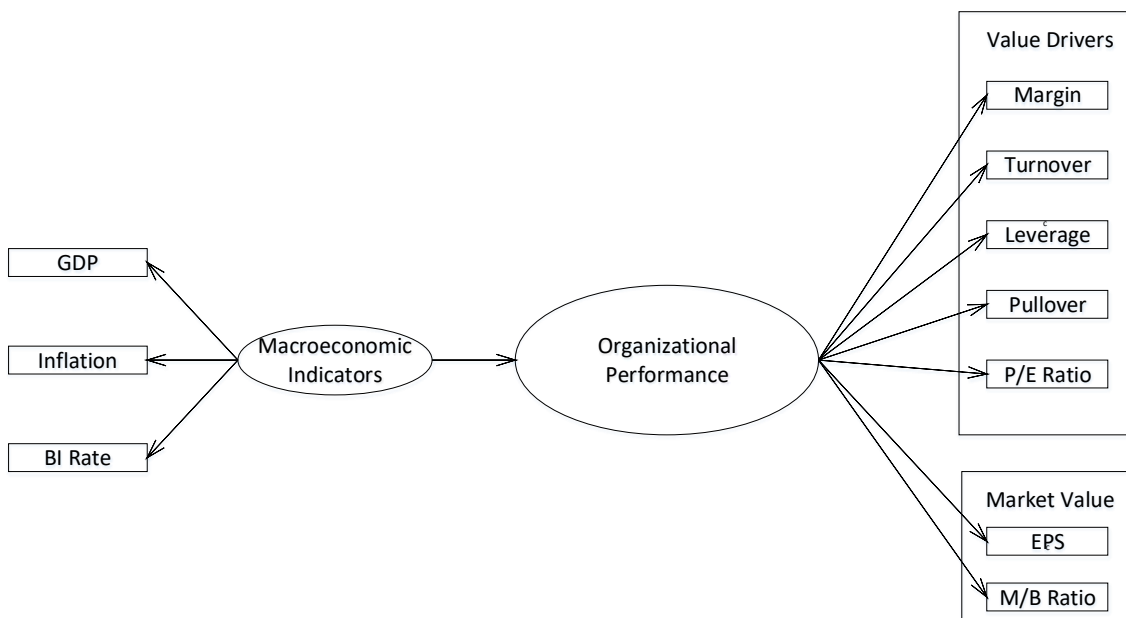
II.5. RESEARCH HYPOTHESIS

The background, research problem, research purpose and previous studies that have been discussed above lead to the formulation of research model and hypothesis in this study.

Based on the following research model, hypothesis in this study is formulated as follow;

Hypothesis 1 : The macroeconomic indicators have a strong influence toward organizational performance.

CHAPTER III

III. METHODOLOGY

This chapter contains of research method, which underlines the steps on performing research as shown in the figure below. Beginning with problem identification, where the background details of the topic is discussed up to conclusions and recommendations where the results will then be presented and analyzed thoroughly.

III.1. RESEARCH PROCESS

This chapter will outline the research methodology implemented in this research paper. The author conducted the research in three segments which include data collection, data analysis and conclusion. Each segment will be explained more below;

1. In the first segment of the research, quantitative data will be collected by searching on the internet and by using annual reports and financial statements provided by Indonesian publicly-listed consumer goods industries based on LQ45 by Indonesian Stock Exchange in the span of 2013-2017.

2. The next segment covers the analysis of data collected in the first segment. To assist the author, Microsoft Excel, SPSS and AMOS statistical programs will be used for solving the hypotheses and to help calculate the correlation value. The variables will cover performance management aspect of the company towards shareholder values.

3. Other variables that represent the macroeconomic indicators namely GDP, Inflation and BI Rate. The author will also use the quantitative data from Indonesian publicly-listed consumer goods industries to calculate margin, turnover, leverage, pullover and price to book value, earnings per share and market to book value all which represent the performance measurement of 6 consumer goods industries based on LQ45 by Indonesian Stock Exchange.

4. The last segment covers the conclusion and recommendations regarding the analysis results.

III.2. TYPE OF RESEARCH

The type of research in this study is exploratory research. Since this study is aiming at the relationship among variables or the correlational study, thus exploratory research is suitable to answer the cause and effect. Conducted in order to determine the nature of the problem, exploratory research is not intended to provide conclusive evidence, but helps us to have a better understanding of the problem (Dudovskiy, 2018).

III.3. TYPE OF DATA

This study is using secondary data as the data collecting method. The secondary data consists of information that has been discussed in literature review. The data is

obtained from the official websites such as www.idx.co.id and www.bi.go.id. Moreover, company's financial statements and its annual report from 2013 are also included. So quantitative is being used in this study.

III.4.   DATA GATHERING
III.4.1.   SECONDARY DATA COLLECTION

The data is collected from the financial statements and annual report of LQ45 Indonesian publicly-listed consumer goods companies by Indonesia Stock Exchange for the period of 5 years. Moreover, additional secondary data was collected from course books relating to accounting, corporate finance, economy, introduction to business and marketing. Moreover, the data includes annual reports as the main source for analysis.

III.5.   POPULATION AND SAMPLE
III.5.1   POPULATION

Nowadays, it is easier for a company to do the initial public offering in order to go public. The Indonesia Stock Exchange and Financial Services Authority has aimed to increase the number of listed companies in Indonesia. There are 539 companies listed in Indonesia Stock Exchange that represents the 9 sectors as mentioned before by Jakarta Stock Exchange Industrial Classification.

- o   Indonesian Publicly-traded Companies

    The population of this study is the 539 Indonesian publicly-listed companies based on Indonesia Stock Exchange. It is best to obtain financial data from a publicly-traded companies which are more available and transparent compare to private companies. Listed in the table below are the numbers of publicly-listed companies for each of the sectors;

Table 2: Indonesian Publicly-listed Sectors and Number of Companies

No.	Sectors	Number of Publicly-listed Companies
1.	Undefined	100
2.	Agriculture	19
3.	Basic Industry and Chemicals	70
4.	Consumer Goods Industry	45
5.	Finance	90
6.	Infrastructure, Utilities and Transportation	64
7.	Mining	44
8.	Miscellaneous Industry	43
9.	Property, Real Estate and Building Construction	64
	Total	539

Source: (PT. Bursa Efek Indonesia, 2018)

- o   Consumer Goods Industry

    There are 45 Indonesian publicly-listed consumer goods companies based on Indonesia Stock Exchange. Consumer goods industry is then divided

into 5 sub sectors which are food and beverages, cigarette, pharmacy, cosmetics and household goods, and household appliances. Table below shows 27 consumer goods companies who are listed in main board by the Indonesia Stock Exchange.

Table 3: Main Board Consumer Goods Companies

No	Code	Name	Listing Date	Share	Listing Board
1	AISA	Tiga Pilar Sejahtera Food Tbk.	11/06/1997	3,218,600,000	UTAMA
2	ALTO	Tri Banyan Tirta Tbk.	10/07/2012	2,191,870,558	UTAMA
3	BUDI	Budi Starch & Sweetener Tbk.	08/05/1995	4,498,997,362	UTAMA
4	CEKA	Wilmar Cahaya Indonesia Tbk.	09/07/1996	595,000,000	UTAMA
5	DLTA	Delta Djakarta Tbk.	12/02/1984	800,659,050	UTAMA
6	DVLA	Darya-Varia Laboratoria Tbk.	11/11/1994	1,120,000,000	UTAMA
7	GGRM	Gudang Garam Tbk.	27/08/1990	1,924,088,000	UTAMA
8	HMSP	H.M. Sampoerna Tbk.	15/08/1990	116,318,076,900	UTAMA
9	HOKI	Buyung Poetra Sembada Tbk.	22/06/2017	2,365,811,790	UTAMA
10	ICBP	Indofood CBP Sukses Makmur Tbk	07/10/2010	11,661,908,000	UTAMA
11	INAF	Indofarma Tbk.	17/04/2001	3,099,267,500	UTAMA
12	INDF	Indofood Sukses Makmur Tbk.	14/07/1994	8,780,426,500	UTAMA
13	KAEF	Kimia Farma Tbk.	04/07/2001	5,554,000,000	UTAMA
14	KICI	Kedaung Indah Can Tbk	28/10/1993	276,000,000	UTAMA
15	KLBF	Kalbe Farma Tbk.	30/07/1991	46,875,122,110	UTAMA
16	MBTO	Martina Berto Tbk.	13/01/2011	1,070,000,000	UTAMA
17	MLBI	Multi Bintang Indonesia Tbk.	17/01/1994	2,107,000,000	UTAMA
18	MRAT	Mustika Ratu Tbk.	27/07/1995	428,000,000	UTAMA
19	MYOR	Mayora Indah Tbk.	04/07/1990	22,358,699,725	UTAMA
20	RMBA	Bentoel Internasional Investam	05/03/1990	36,401,136,250	UTAMA
21	ROTI	Nippon Indosari Corpindo Tbk.	28/06/2010	6,186,488,888	UTAMA

No	Code	Name	Listing Date	Share	Listing Board
22	SIDO	Industri Jamu dan Farmasi Sido	18/12/2013	15,000,000,000	UTAMA
23	TCID	Mandom Indonesia Tbk.	23/09/1993	201,066,667	UTAMA
24	TSPC	Tempo Scan Pacific Tbk.	17/06/1994	4,500,000,000	UTAMA
25	ULTJ	Ultra Jaya Milk Industry & Tra	02/07/1990	11,553,528,000	UTAMA
26	UNVR	Unilever Indonesia Tbk.	11/01/1982	7,630,000,000	UTAMA
27	WIIM	Wismilak Inti Makmur Tbk.	18/12/2012	2,099,873,760	UTAMA

Source: (PT. Bursa Efek Indonesia, 2018)

o LQ45

The LQ45 index comprises of 45 liquid Indonesian stocks. This is where the abbreviation of LQ, which represents liquid, comes from. Moreover, only 6 companies out of 27 main board consumer goods companies mentioned before are listed on the LQ45 stock index. The criteria that have to be fulfilled by firms in order to be eligible to be included in the LQ45 index are as follows;

o Being among the top 60 companies with the highest market capitalization over the past 12 months.
o Being among the top 60 companies with the highest transaction value over the past 12 months.
o Having been listed on the Indonesia Stock Exchange for at least three months.
o Having good financial conditions, future prospects and corporate management.

The 6 companies as listed in LQ45 stock index are PT. Gudang Garam Tbk (stock code: GGRM), PT. H.M. Sampoerna Tbk (stock code: HMSP), PT. Indofood Sukses Makmur Tbk (stock code: INDF), PT. Kalbe Farma Tbk (stock code: KLBF), PT. Unilever Indonesia Tbk (stock code: UNVR), and PT. Indofood CBP Sukses Makmur Tbk (stock code: ICBP).

Table 4: Population Selection

Criteria	Number of Companies
Indonesian publicly-listed companies	539
Indonesian publicly-listed consumer goods companies	45
Indonesian publicly-listed consumer goods companies by main board	27

Criteria	Number of Companies
LQ45 Indonesian publicly-listed consumer goods companies by main board	6

III.5.2. SAMPLE SIZE

Unfortunately, various barriers to data availability occurs for this study. Most of these barriers is the lack of financial data such as financial statements and annual report for the period of 2013-2017. Therefore, the number of samples for this study will be calculated using online sample size calculator.

The steps listed below are the ones used in *Raosoft, Inc.* to measure the sample size needed;

1. Open Google Chrome or another internet browser
2. Type on the website: *http://www.raosoft.com/samplesize.html*
3. Fill-in the boxes with (a) 9.78% margin of error, (b) 95% confidence level, (c) 20,000 population size as default setting, (d) 50% of response distribution as default setting.
4. The recommended sample size as show on the table below;

Table 5: Sample Size

Data	
Sampling Error	0.0978
Confidence Level	95%
Sample Size Needed	**100**

Figure 8: Sample Size based on Raosoft, Inc.

III.5.3. SAMPLING METHOD

Before moving on to an explanation on the sampling method, extra parameters for sampling representation will be discussed. This study is using the probability sampling due to the presence of calculations and/or consideration of probability (Anantadjaya & Nawangwulan, 2018). First of all, clustered sampling will be applied as it refers to the members of population being selected randomly from naturally

appearing in groups or 'clustered' and stratified sampling will be employed in this study. The table below will outline the sampling method:

Table 6: Revised Sample

Sample	Sampling Method
Indonesian publicly-listed companies	Clustered
Indonesian publicly-listed consumer goods companies	Clustered
Indonesian publicly-listed consumer goods companies by main board	Clustered
LQ45 Indonesian publicly-listed consumer goods companies by main board	Stratified

III.6.   VALIDITY AND RELIABILITY
III.6.1. VALIDITY

Validity testing is a tool to measure whether the data gathered can be used in the research. It identifies whether the relationship that the research aims to present can be depicted from the data using the secondary approach. A valid data is one where the relationship to be measured is significant. The one used in this study will be the KMO & Bartlett's Test and Component Transformation Matrix test using SPSS software. A valid data is one where the relationship to be quantified is significant (Anantadjaya & Nawangwulan, 2018). KMO is used for evaluating sampling adequacy and evaluates the correlations and partial correlations to determine if the data are likely to coalesce on components (i.e. some items highly correlated, some not). Meanwhile, the Bartlett's test evaluates whether or not our correlation matrix is an identity. Essentially, the Kaiser-Meyer-Olking (KMO) statistic should be greater than 0.600 and the Bartlett's test should be significant (e.g. $p < .05$). The Component Transformation Matrix should provide the biggest value for only each column and row in order for the data to be valid (Starkweather & Herrington, 2016). The steps for validity test are as follows;

1. Hover the cursor over "File" and pick "Dimension Reduction" then "Factors".
2. In the pop-up box, move all the variables namely GDP, Inflation, CCI, Profit Margin, ROA, Equity Multiplier, Debt-to-Equity Ratio and P/E Ratio from the left to the right side.
3. Click "Descriptive", mark all the options available and click "Continue".
4. Click "Extraction", check "Factors to Extract" and change the value according to the number of research's variables.
5. Click "Ok"
6. On the output screen, scroll down to the section titled "Component Transformation Matrix" and "KMO Test" (Sarwono, 2012; Statistics How To, 2018)

Table 7: Example of Component Transformation Matrix

Component Transformation Matrix

Component	1	2	3	4	5
1	.583	.467	.486	.453	-.011
2	-.631	.676	.307	-.212	.072
3	.476	.110	.105	-.832	.240
4	-.180	-.559	.804	-.054	.074
5	-.051	-.030	-.105	.232	.965

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Source: (Starkweather & Herrington, 2016)

Table 8: Example of KMO and Bartlett's Test

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.833
Bartlett's Test of Sphericity	Approx. Chi-Square	1606.172
	df	105
	Sig.	.000

Source: (Starkweather & Herrington, 2016)

III.6.2. RELIABILITY

Reliability is the degree to which measurements and results using a research instrument are consistent and yield low level of errors. The approach taken to measure the reliability of the research instrument for pretesting in this study will utilize the method of Cronbach's Alpha (Anantadjaya & Nawangwulan, 2018). The Cronbach's Alpha in SPSS is one of the approaches to measure data reliability level. Reliability is differed from validity in terms of error level instead of significant relationship level. If the value of Cronbach's Alpha > 0.50 then it is reliable, if the value of Cronbach's Alpha < 0.50 then it is not reliable. The steps for reliability test are as follows;

1. On the menu bar, highlight "Analyze", scroll down to "scale" and click "Reliability Analysis".
2. On the new pop-up, make sure that it is set for model "Alpha" and move all variables from the left box to the right.
3. Click on the "Statistic" box and check "Item", "Scale", "Scale if item deleted", and click continue.
4. Click "OK" and the results will be displayed in the output window.

5. Scroll down to the section with the header "Reliability Statistics". The reliability value is the under "Cronbach's Alpha" items. Value greater than 0.5 is considered as reliable (Sarwono, 2012).

Table 9: Example of Cronbach's Alpha

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.577	.647	5

Source: (Starkweather & Herrington, 2016)

III.7. DATA ANALYSIS METHOD

With the help of SPSS and AMOS software, the 5 year's data from 6 LQ45 Indonesian publicly-listed consumer goods companies are analyzed for statistical inferences.

Table 10: Variables and Its Explanation

Variables	Indicators	Explanation	Scale
Value Drivers	Profit Margin	To represent the value drivers in terms of operating efficiency, this study uses Profit Margin.	Ratio
	Total Asset Turnover	To represent the value drivers in terms of asset efficiency, this study uses Total Asset Turnover.	Ratio
	Leverage	To represent the value drivers in terms of capital structure efficiency, this study uses Leverage.	Ratio
	Pullover	To represent the value drivers regarding tax saving, this study uses Pullover.	Ratio
	P/E Ratio	To represent the value drivers in terms of growth opportunities, this study uses P/E Ratio.	Ratio
Market Value	EPS	To represent the market value as the portion of a company's profit allocated to each outstanding share of common stock.	Ratio
	M/B Ratio	To represent the market value by comparing the book value of a firm to its market value by looking at the firm's historical cost or accounting value.	Ratio
Macroeconomic Indicators	GDP	To represent the macroeconomic indicators in terms of total value of	Interval

Variables	Indicators	Explanation	Scale
		goods produced and services provided in a country during one year.	
	Inflation	To represent the macroeconomic indicators in terms of a general increase in prices and fall in the purchasing value of money.	Interval
	BI Rate	To represent the macroeconomic indicators in terms of the proportion of a loan that is charged as interest to the borrower.	Interval

III.7.1. STRUCTURAL EQUATION MODELLING

This study is using a technique for multivariate statistical analysis that is used to examine structural relationships what is called as Structural Equation Modeling or SEM. By using a combination of factor analysis and multiple regression analysis, and it is used to determine the correlation between measure variables and latent constructs. This method is favored by the researcher because it assesses the multiple and interrelated dependence in a single analysis (Statistics Solutions, 2018; Statsoft, 2018; Bechger & Hox, 2018). In this study, macroeconomic indicators are considered as latent constructs, meaning a variable that cannot be measured directly. The manifested variables to measure macroeconomic indicators are; GDP, Inflation and BI Rate. Moreover, SEM must be tested for its validity first, which has to have a minimum requirement of fit level. Hence, this study will use several methods to test the validity of the measurement and structural model.

To measure the reliability and validity of variables used in this study, SPSS student version is assimilated. The value of r is required to measure the reliability of a certain variable. The value of r is to be compared with the critical values of r (Pearson correlation coefficient) and it is dependent on the level of df (degrees of freedom). The r value will be significant if the calculated value of r is higher than the critical value of r, which can be compared in the table; hence, the variable is reliable to be used (Sigma Plus Consulting, 2018; Frederica, 2018).

To test the validity of the variables used in this study, AMOS is assimilated. The first phase is testing SEM's measurement model. If it is considered reliable, then the structural model will be tested. The details of the validity test of the SEM are show in the Chapter 4.

Table 11: The Criteria of Goodness of Fit

Index Size Criteria	Reference Value
Chi Square Statistics (X^2)	As low as possible
P-Value	≥ 0.05
CIMN/df	≤ 2.00
RMSEA	≥ 0.08

Index Size Criteria	Reference Value
GFI	Close to 1

Source: (P. & Visvavidyalayam, 2018)

III.7.2. TOOLS

This research will be using statistical software to assist the calculations. SPSS and AMOS are statistical software that used to analyze the co-relational. SEM can be used to test the correlation level between two variables properly. The steps are as follows;

1. Input all data into Excel
2. Transferred the data into SPSS software
3. Input the SPSS data into AMOS software
4. Create Structural Equation Model by using AMOS.

Within the result, several variables will be reviewed; those are CMIN, Root Mean Residual, Goodness of Fit index and other variables.

III.7.3. PATH DIAGRAM

A visual representation of a model and the complete set of relationships among the model's construct. Path diagram is used for studying the direct and indirect effects of variables hypothesized as causes of variables treated as effects. Path diagram is the relationship structure between the exogenous and endogenous variables. The independent (X) variables are called exogenous variables. The dependent (Y) variables are called endogenous variables (Frederica, 2018).

AMOS builds models that realistically reflect complex relationship with the ability to use observed variables such as survey data or latent variables like GDP, Inflation and BI rate that could influence macroeconomic indicators. SEM sometimes called path analysis to gain additional insight into causal models and strength of variable relationship (Frederica, 2018).

CHAPTER IV

IV. **PRE-TESTING**

IV.1. **DESCRIPTIVE STATISTICS**

Table 12: Descriptive Statistics

	N	Mean		Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
NI	120	3.291.656.666.666,67	232.880.785.095,84	2.551.081.184.130,06	6.508.015.208.022.400.000.000.000,00	1,696	,221	3,034	,438
S	120	31.835.833.333.333,30	2.045.829.876.143,06	22.410.943.439.631,00	502.250.385.854.342.000.000.000.000,00	,996	,221	,267	,438
Mar	120	0,11	0,00	0,04	0,00	,130	,221	-,836	,438
TA	120	38.715.833.333.333,40	2.365.077.087.542,53	25.908.121.421.713,30	671.230.755.602.241.000.000.000.000,00	,811	,221	-,658	,438
TO	120	0,97	0,06	0,62	0,39	1,076	,221	,551	,438
Eq	120	21.633.333.333.333,30	1.263.660.556.426,22	13.842.707.835.683,40	191.620.560.224.090.000.000.000.000,00	,376	,221	-1,419	,438
Lev	120	1,92	0,06	0,65	0,43	1,378	,221	1,332	,438
TR	120	0,26	0,00	0,03	0,00	1,659	,221	2,510	,438
P	120	0,74	0,00	0,03	0,00	-1,659	,221	2,510	,438
P/E	120	59,46	3,68	40,33	1.626,37	1,495	,221	2,022	,438
Valid N (listwise)	120								

Source: SPSS

The explanations are as of follows;

- On the first column, the variables that are being tested:
  - NI – Net Income
  - S – Sales
  - Mar – Profit Margin
  - TA – Total Assets
  - TO – Total Assets Turnover
  - Eq – Equity
  - Lev – Leverage
  - TR – Tax Rate
  - P – Pullover
  - P/E – P/E ratio
- The N Statistics shows that the researcher has 120 data being input and measured by SPSS software.
- The mean, part of the central tendency, simply shows the sum of the values in the data set and then divide by the number of values that the researched added.
- From skewness and kurtosis, majority of the numbers are below +/- 2 which means the data are somewhat normally distribute. However, looking at the Kurtosis:
  - Net Income is 3.034 (higher than 2) because of the difference in size that the companies are being chosen for the study sample. Some companies may generate more or less revenue/expenses that affects the net income.
  - Tax rate (income tax expense/profit before income tax) and pullover (1-tax rate) are related to one another. Both of the results are 2.510 (higher than 2) because the government may impose different tax rate to each of the company which depends on its profit before

income tax. The higher the tax rate then the higher the company has generated profit before income tax.

o P/E ratio (Market value per share/EPS). Meanwhile, EPS = ((Net Income - Dividends on Preferred Stock) / Average Outstanding Shares)). It depends on how much the company wants to give out its shares. There are also a lot of factors which influence the market value per share namely company's performance throughout years.

IV.3. VALIDITY

Table 13: Component Transformation Matrix

Component	1	2	3
1	**,920**	,131	-,370
2	-,076	**,984**	,161
3	,385	-,120	**,915**

Source: SPSS

The table shows that the correlation value of component 1 is 0.920 > 0.5; component 2 is 0.984 > 0.5; component 3 is 0.915 > 0.5. Therefore, all the factors are proper to summarize all the 10 items.

IV.3. RELIABILITY

Table 14: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
,600	,115	10

Source: SPSS

The Cronbach's Alpha value shows 0.600 which means that the 120 data is 60.0% reliable. The researcher is accepting this level of reliability.

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