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Research Article

The Influence of Earnings Per Share and Interest Rate on Stock Prices in the Mediation of Firm Value (Study on Financial Companies Listed on the Indonesia Stock Exchange)

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Abstract.
This study aimed to examine and analyse a company's characteristic variables. Its earnings per share and interest rates were the macroeconomic variables, and their effect on stock prices was mediated by firm value. This study used quantitative methods and path analysis of 30 financial companies belonging to banks and non-banks that have been listed on the Indonesia Stock Exchange. The results showed that the direct effect of earnings per share on stock price had a positive and significant coefficient. Indirectly or through mediation (intervening) the firm value variable showed that the effect of the earning per share variable on the stock price was obtained by a positive and significant coefficient value. Furthermore, the results showed that the direct effect of interest rate on stock price had a positive direction coefficient and was not significant. The results of the research indirectly or through mediation (intervening) of firm value variable indicated that the effect of interest rate variable on stock price was obtained by positive and insignificant coefficient value. Meanwhile, the firm value directly on the stock price has a significant effect.

Keywords: firm value, macroeconomic, Indonesia Stock Exchange

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1. Introduction

The financial industry especially banking has an important role in maintaining the economic stability of a country. In its 2013 Global Financing Development report, on how to rethink the role of financial institutions, the World Bank concluded that the non-bank financial sector would hinder national economic growth goals. This statement emphasizes that current banking sector companies can support a country's economic condition and s, can be a comparison for the country's achievements [1]. Based on a developing phenomenon, the weakening of the exchange rate causes the performance of the banking sector listed on the Indonesia Stock Exchange to decline, this is illustrated by the stock price index. In addition, several influencing factors such as company management, earnings per share and company value, and interest rates need attention.

Government policies through the G20 program related to financial distribution continue to encourage a stronger economic recovery by responding to global strategic issues. The response to these strategic issues is realized through monetary policy and the financial sector for stability and recovery. Monetary policy needs to be redirected to price stability in a pre-emptive and forward-looking manner to control inflation expectations adjusted to the conditions of each country. Then interest rate policy remains the main instrument, complemented by exchange rate intervention and capital flow management, especially in developing countries with financial markets.

The importance of an increasingly granular and micro approach to maintaining financial stability, especially in the corporate and household sectors. In addition to monetary policy, the macroprudential policy also needs to be implemented to mitigate risks to financial stability. Furthermore, considering that the current issue of price stability stems from the supply side, coordination between the central bank and the government is increasingly needed. The coordination is not limited to the synergy of monetary policy and fiscal policy but is also related to structural reforms. The G20 succeeded in combining the Integrated Policy Framework (IPF) from the IMF with the Macro-Financial Stability Framework (MFSF) from the Bank for International Settlement (BIS) to accelerate the realization of global price stability [2].

The condition of the financial industry in Indonesia is quite conducive because a management system with the principles of good governance systems has been implemented so the non-bank financial sector such as insurance, pension funds, multifinance, and bank financial institutions have worked hard to date, and was able to survive in the era of the economic crisis. As part of the economic system, economic growth through companies or the financial industry has contributed greatly to economic and business development through the results as well as the ability to earn profits and increase the value of the company.

The progress of financial services companies or financial businesses is strongly influenced by economic conditions, further economic policy support will affect the value of the company (value of the firm) which is reflected in the value of the company's stock securities (stock price). Economic indicators, in this case, interest rates and earnings, are fundamental approaches that are usually used to predict and estimate the movement of securities prices in the capital market [3]. One of the factors that drive the increase in the company's share price is through increasing the firm value. Firm value reflects the company's stock market price [4].

Stock prices and macroeconomic performance have a strong relationship, that changes in stock prices always occur before economic changes occur [5]. Variations in the company's stock price or price volatility are determined by many factors, either internal or external. The movement of shares in the Indonesian capital market depends on macro and micro-economic developments and economic and political stability. Usman [6] states that stock prices as an indicator of firm value will be directly influenced by fundamental and technical factors. Stock prices are closely related to, among others, earnings and interest rates [7-9] state that interest rates affect stock prices, and that stock market conditions are significantly related to interest rate fluctuations. Purnomo [10] concluded that earnings per share (EPS) has a significant positive effect on stock prices. The interest rate and earnings per share (EPS) simultaneously have a significant (significant) effect on the stock price of the Aneka Industry Company [11].

Financial management implies that the company's goal is to maximize shareholder wealth. Increased prosperity will be achieved by increasing the value of the company. Jensen [12] explains in stakeholder theory that maximizing firm value is a trade of firm value received in the long term. Firm value is the present value of the expected cash flows with a discount rate that describes the risk of the company. The value of the company also reflects the share price, where if the company's share price decrease, then the value of the company also decreases so it has an impact on decreasing the prosperity of shareholders and increasing the risk that the company will face in the future [13]. The primary goal of financial management should be to maximize the stock price over the long run, not to maximize measures such as net income or EPS. The main objective of financial management, apart from increasing stock prices, and not only net income, but macroeconomic elements is an important factor for long-term performance by looking at the company's advantages. If management is to maximize a firm's value, it must take advantage of the firm's strengths and correct its weaknesses [14].

In connection with the decline in the value of stock indexes, the factors that affect globally are complex issues that need to be addressed with economic and financial policies. However, fundamental problems related to financial ratios and intrinsic value can be overcome with the ability to manage the company's financial managers, where the company's success depends on how to implement it correctly and improve appropriate management practices on financial performance which are influenced by internal factors [7].

Based on fundamental analysis, security in the market has intrinsic value or the correct estimated value for investors. The value function is used as the main variable of a company combined with risk to increase the value or stock price, in which the analysis of the stock value uses data on earnings, sales, interest, and others. The stock price reflects how much revenue is due to the sacrifices made during the investment process. Analysis of stock value is a fundamental step that must be done by investors before investing [5]. Fluctuations in the value or price of shares are usually influenced by the considerations of buyers and sellers related to the financial performance and condition of the company. Husnan [15] states that the price of a stock is the present value and cash flow that will be received in the future.

Several research journals conducted by previous studies [16-18] found a number of gaps in this case there were different results, there were significant and insignificant influences for variables such as interest rates, earnings per share and firm value on stock prices. Therefore, the author needs to conduct studies and analysis, by formulating the problems and objectives of the research. Related to the decline in the value of stock indices, the factors that affect globally are complex issues that need to be addressed with economic and financial policies. Matters related to financial information needed by external parties are very important, in accordance with the signalling theory and information asymmetry, in the context of making investment financial decisions [19]. However, fundamental problems related to financial ratios and intrinsic value can be overcome with the capability to manage the company's financial managers, where the success of the company depends on how to apply it correctly and improve appropriate management practices on financial performance, which is influenced by, among others, internal factors [20].

2. Methods

Based on the problems that have been raised previously, the purpose of this study is to determine and analyse the effect of interest rates and earnings per share (EPS) on stock prices mediated by firm value in companies financial institutions listed on the Indonesia Stock Exchange. This research is expected to be useful for the following parties: For academics, the results of this research are expected to provide additional insight into the concepts of investment and finance. For issuers and investors, the results of this study are expected to provide material for consideration and accurate analysis of the financial condition of a company in the context of investment and expansion. For institutions, it is hoped that they can provide study material in the development of science, especially in the field of finance and investment. In connection with the background, problems, and literature review that have been stated above, the following hypothesis is formulated: Ha1. The interest rate has an indirect effect on stock prices mediated by firm value. Ha2.

Earnings per Share (EPS) has an indirect effect on stock prices mediated by firm value. Hb1. The interest rate has a direct effect on the stock price non-mediating firm value. Hb2. Earnings per Share (EPS) has a direct effect on the stock price non-mediating firm value. Hb3. Firm value has a direct effect on stock prices.

This study uses an analytical tool called path analysis or path model [11]. Path analysis is used to analyse and determine the effect of exogenous variables on endogenous variables. Path analysis was developed by Sewal Wright (1934) in Sarwono [21]. The purpose of this analysis is to explain the direct and indirect effects of a set of variables, namely the causal variable on other variables which are effect variables. This analysis has differences from regression analysis techniques, path analysis allows testing using mediating (intervening) variables [21]. In addition, used in this study is the method of regression analysis and multiple correlations. Regression analysis was used to determine the effect between variables X1 and X2 on variable Y. While correlation analysis was used to measure the close relationship between variables X1 and X2 with variable Y.

3. Result and Discussion

3.1. Overview of the Indonesian capital market

The Indonesia Stock Exchange is an institution that accommodates securities trading activities in the capital market. The stock exchange is also often referred to as the secondary market which handles securities transaction activities. Exchange activities have been started since December 14, 1912, or around the XIX century. Amsterdamse Effectenbueurs established a stock exchange branch in Batavia. This exchange is the fourth oldest market in Asia, after Bombay, Hong Kong, and Tokyo. This stock market is called Vereniging Voor de Effectenhandel which trades shares and bonds of Dutch plantation companies operating in Indonesia. Bonds are issued by provincial and municipal governments, share certificates of American companies are issued by administrative offices in the Netherlands, and other Dutch company securities [22]. The stock exchange is an organized market where brokers carry out buying and selling of securities using various sets of rules set out on the stock exchange. A trader is a broker or securities company. While the buyer is called an investor or financier. Activities on the Indonesian stock exchange are carried out by the supply and demand of investment products, such as the auction of securities (the securities market) which is called the auction market.

3.2. Hypothesis test

The purpose of this study is to examine and analyse the relationship and influence between variables and then examine the depth of the concept. By the model, which explains the effect of characteristic variables as company fundamental factors such as earnings and interest rate on stock prices, firm value is considered as a mediating variable. Testing the model of the relationship and influence between these variables using path analysis (path analysis). Below is a summary of the results of the analysis of the model testing between variables using the path coefficient (standardized) and p-value with the level of significance of each variable.

Table 1: Results of testing the direct effect hypothesis model.

Relationship Between Variables		Path Coefficient (Standardized)	p-value	Information
Interest Rate (X1)	Firm Value (Y1)	-0.143	0.016	Not significant
Earnings Per Share (X2)	Firm Value (Y1)	0.679	0.000***	significant
Interest Rate (X1)	Stock Price (Y2)	0.060	0.220	Not significant
Earnings Per Share (X2)	Stock Price (Y2)	0.809	0.000***	Significant
Firm Value (Y1)	Stock Price (Y2)	0.573	0.000***	Significant
Level of Significant: 0.01 *** 0.05 ** 0.10 *				

Table 2: Direct influence, indirect influence, and total influence.

Exogen Variable	Endogen Variable	Intervening Variable	Influence						Infor.
			Direct	p-value	Info.	Indirect	p-value	Total	
Interest Rate	Stock Price	Firm Value	-0,143	0,016	Not Significant	0,03438	0,020	0,004916	Not Significant
Earning Per Share	Stock Price	Firm Value	0,679	0,000	Significant	0,463557	0,000	0,314755	Significant

3.3. The influence of earnings per share on the stock price

3.3.1. Direct influence

The results show that the direct effect of earnings per share on stock price has a positive and significant coefficient (Table 1). By these findings, the hypothesis that explains the higher earnings will be the higher the stock return is supported, so this significant finding becomes meaningful and can be explained empirically. High earnings or changes in income should indicate that the company's earnings will cause a positive signal to the public regarding healthy and strong financial conditions. However, the high risk becomes the company's investment opportunity to increase share prices by stakeholders.

The company will take advantage of the variability of income (earnings) as a strategy to divide the risk into several portfolios and investments to increase the stock price. Regarding funding and investment decisions, internal companies will use this strategy to signal to investors that there will be an increase in prices in the future. The concept of "risk and return trade-off" explains that the higher the stock price is expected, the higher the risk faced which becomes the impetus to take risks [3]. It was emphasized that the profile of the owner of capital in investment policy tends a risk taker, as evidenced by the company's investment which continues to increase significantly. As an anomaly or deviation from previous findings, the results of this study also refute the concept proposed by Bathala et al. [23] which states that the high volatility of earnings due to income variability will lead to a decrease in stock prices.

The results of this study support the findings of Tirapat & Nittayagasetwat [24], that earnings volatility has a positive and significant effect on stock prices. The results of the study stated that earnings, as measured by earnings per share (EPS) of companies, are sensitive to the market because they are easily affected technically and economically when crisis conditions become a company's business risk. Consistent with the findings of Syafriont [20] which explain that earnings changes as a fundamental characteristic have a relationship with and predict future stock prices and returns. To measure the business risk and the potential for bankruptcy of the company in the capital structure policy, earnings are used to predict changes in the level of stock prices. The results of the study support the findings of Lewellen [25] that high earnings volatility can estimate an increase in expected stock prices. Earnings changes are used in technical analysis to see the pattern (trend) of stock price movements to estimate the expected return in the next period. Consistent with the findings of previous studies [14,17,26], that earnings change when the company's development fast has a positive and significant effect on the stock price.

3.3.2. Indirect influence

The results of the research indirectly or through the mediation (intervening) of the firm value variable (Table 2) indicate that the effect of the earning variable on the stock price has a positive and significant coefficient value. This means that the influence of the two variables is unidirectional, namely the higher earnings mediated by financial performance, the higher the stock price. This means that the higher the income per share, the higher the stock price mediated by firm value can be proven and can be explained empirically.

Earnings describe the standard deviation of the company's risk meaning. The results of this study indicate changes in earnings affect the return on equity or the company's financial performance. Firm value has a mediating effect between earnings and stock price increases. The firm value measured by ROE is considered a factor that causes changes in public perception for consideration of funding sources, investments, and prospects for future income. It was emphasized that the increase in earnings related to earnings announcements is positive information on financial performance that investors (stockholders) have been waiting for. Thus, firm value information as a performance description becomes important as a positive signal for investment decisions and causes changes in earnings or increases in stock prices.

The results of this study support the findings of Barton & Mercer [27] which explain that earnings have a direct impact on financial performance, where the correct disclosure of earnings per share information has a significant effect on financial performance which causes an increase in stock prices. Likewise, research by Chambers et al. [28] found that the ratio of earnings changes to net profit to equity had a significant positive effect on stock prices. Supporting the findings of Junaidi [29] in his research explaining that earnings performance can predict future earnings and stock price patterns, it is found that the ability to predict earnings in predicting earnings patterns and stock prices is supported statistically because of the positive influence of earnings changes. Consistent with technical analysis that the estimated return (stock price) can be seen from the pattern of stock price movements at a certain time, whether it is a bullish trend or a bearish trend [22]. The results of this study do not support the findings of Dragomir [30] who explains that return on equity (ROE) as a measure of firm value has no significant effect on stock prices.

In the theory of capital structure, the signalling concept explains that earnings cause negative information about the company because management failure has an impact on the company's performance. The effect of unbalanced information from managers or internal companies (asymmetry information) can change the public image of the company's financial condition resulting in a positive or negative signal that affects the stock price.

Earnings are part of the company's fundamentals that have a relationship and influence on firm value and stock price. The level of change in the pattern of earnings causes changes in the level of stock prices. Earnings are related to earnings management reports, where earnings performance is an illustration of how much the company's ability to manage profits or profits is a measure of company value. This means that earnings changes due to the tendency of rising stock prices with market conditions in the manufacturing industry, causing funding and investment decisions through company financial information will increase company performance and value.

3.4. The influence of interest rates on stock price

3.4.1. Direct influence

The results show that the direct effect of interest rate on stock price has a positive direction coefficient and is not significant (Table 1). By these findings, the hypothesis that explains the greater the interest rate, the higher the stock price, is unable or becomes meaningless to be explained empirically.

The results of this study indicate that changes in interest rates do not cause changes in stock prices. Payment of interest expense as a loan obligation cannot increase income and profit changes. Interest rate information is not a determinant that the perception of companies and investors (public) in making funding and investment decisions that can affect stock prices. The interest rate is more of an internal policy that is influenced by interest rates more accurately predicting how much funding is needed using debt. The high-interest rate indicates that the company's high debt ratio will cause the company's financial condition to be high risk and cannot predict the stock price. Economic conditions have the effect of systematic risk that cannot be overcome by financial diversification. Interest rate risk associated with the amount of interest expense causes the financial burden to be higher.

When viewed from the direction coefficient, this study supports the findings of George [31], when there is an increase in interest rates, funding and investment decisions are shifted to securities that provide high income by taking the difference in profits. On the other hand, due to rising interest rates, the decision to source funds shifts to other funding preferences such as equities with higher returns, which causes the demand for shares to increase which means an increase in share prices. This is in line with Rahmiati [32] which found that a higher interest rate causes an increase in the profitability ratio, the ability to earn profits as an increase in stock prices.

This study does not support Adjasi [16] research which found that under conditions of macroeconomic uncertainty, interest rates have a significant effect on stock prices. The main reason why macroeconomic uncertainty variables affect the stock market will cause changes in stock prices, this is an implication of risk management, because the burden of interest rates paid can change or fluctuate according to market conditions. Empirical research related to external variables found that there is a relationship between interest rates and stocks [33]. The ups and downs of interest rates have the effect of financial burdens, which will cause price movements or stock values which will also cause changes in stock prices.

This study does not Adjasi [16] who found that interest rate significantly affects stock prices, as well as Rehman et al. [34] found that stock market conditions have a negative relationship with interest rates. With the multiple regression model, the interest rate and stock market prices have a strong correlation, indicating that the stock market return is a function of the interest rate, that the interest rate as measured by the ratio of interest expense paid by the company is an estimate of an increase in income.

Collectively, interest rates have positive predictive power for stock prices but weak predictive power for earnings changes. This means that collectively it is found that the interest rate has a strong positive predictive power on stock prices. The interest rate has a significant effect on stock prices. That the rise and fall of interest rates will cause price movements or stock values.

In the concept of capital structure, the interest rate describes the level of company risk because of changes in interest rates in the market. In this study related to the interest rate, there is no significant effect on increasing profits (net profit). The company's financial condition explains that although the research periods show that economic conditions provide an opportunity to develop more promisingly for companies in the financial industry, the interest rate becomes information that is not a consideration that can change funding or investment decisions.

3.4.2. Indirect influence

The results of research indirectly or through mediation (intervening) firm value variable (Table 2) indicate that the effect of the interest rate variable on the stock price obtained a positive and insignificant coefficient value. The findings are not significant meaning that the interest rate with firm value mediation is not able to explain the stock price. Firm value does not mediate the effect of interest rate on the stock price. The high ability to pay interest of the company as an illustration of internal financial conditions related to interest rate policies is not able to influence funding and investment decisions that have an impact on return on equity (ROE) as a proxy for firm value and the company's stock price. This means that the description of the company's performance and value does not cause the company's internal perception and investors (public) to change for funding or investment decisions. Interest rate affects financial management (firm value) related to investment choices. This means that if there is an increase in interest rates, payments/expenses increase, then the decision to source funds from the money market will shift to capital market securities in the form of shares which also provide a capital gain [31]. The implication is that the source of loan funds becomes useless because investing in bonds or stocks is the goal of obtaining funds and profits.

This study does not support Panjaitan [35] which states that there is an influence of internal and external variables on financial performance, it is found that the higher the interest rate, the higher the ROE as a proxy for financial performance. In the financial concept, the rise and fall of the interest expense rate will cause price movements or stock values to also change the return on equity. Therefore, changes in interest rates affect the value of the company which directly affects the stock price. Not supporting Adjasi [16] found that under conditions of macroeconomic uncertainty, interest rates have a significant effect on stock prices. The main reason why macroeconomic uncertainty variables affect the stock market will cause changes in stock prices. This is an implication of risk management in managing as an illustration of the value of the company because the interest rate is identical to a fixed expense that can fluctuate or fluctuate according to market conditions.

In the concept of capital structure, the trade-off approach or balancing theory recommends stopping the use of debt as a result of high fixed burdens. Management's policy of diverting investment funds is to share risk as an indication of financial performance and prudent financial management. In the pecking order theory approach, interest rate risk factors related to sources of financing require financial performance management through the safest source (low-risk financing), namely internal funding of retained earnings and operating results, then debt by maintaining/controlling the ratio, and then stock equity. The company's financial condition (Table 3) in this study is related to the interest rate, it can be seen that the firm value data increased from 2012 to 2016. The results of this research show that economic conditions have a positive influence on the management or value of the company which has an impact on the company's stock price in the manufacturing industry. The results of the study explain that financial performance information related to interest payments is not a concern that can affect the perception of investors (the public) for making funding and investment decisions. It is indicated that the possibility of information asymmetry regarding the condition of the company's financial management does not cause a positive response or perception of the prospect of price and company value.

3.5. The influence of firm value on stock prices

Based on the results of the study indicate that directly (Table 1) firm value on the stock price has a significant effect. This means that the hypothesis that the higher the firm value will be the higher the stock price is proven and can be explained empirically. Good financial management indicates increasing company performance will cause a positive signal as an opportunity for funding sources and company investment to increase stock prices. It can be said that the value of the company is the main consideration in making funding and investment decisions. Confirming the signalling concept found Connely et al. [19], a positive signal will reduce information asymmetry which causes stockholders to take advantage of information related to management activities or financial performance as an opportunity for investment and in turn will increase stock prices.

The results of this study support the finding of Karagiorgos [36] that firm value affects the value of stock returns, it is found that financial performance as measured by return on equity has an effect where the higher the ROE, the higher the stock price. Strengthening [18] explains that the higher the value of the company increases the stock price. The results of this study support the findings of Barton & Mercer [27] that the disclosure factor of true financial statements shows good firm value performance and can predict earnings as an increase in stock prices. Supporting Junaidi [29] in their research found that performance measured by return on equity has a significant effect on stock prices. The company's financial performance indicator is a ratio related to revenue management that describes the profitability aspect. This ratio is used to measure the company's ability to generate profits (profitability), from the utilization of certain assets and share capital [37]. Consistent with the financial concept that the greater the ROE of a company, the better the position of the company in terms of the level of equity.

In modern investment theory, the ratio of net profit operating income to total equity as a measure of ROE is a potential growth factor that is expected to have a positive relationship with stock prices, supporting Gujarati [13] which explains that return on equity is obtained by dividing profit after tax by shareholder equity, This is expected to have a positive influence on the value of the company as an illustration of stock prices. This study does not support the findings of Chambers et al. [28] and Susilowati [38] that ROE as a measure of financial performance has no significant effect on stock prices. The results of this study contradict and are not by the theory that return on equity is a measure of profitability, where shareholders generally expect several benefits from investment returns. Even though sometimes decisions or policies have retained earnings, stockholders will still be waiting for profits (earnings). The results of this study explain that firm value as proxied by return on equity is important information that gives a signal about the financial condition of the manufacturing company. Financial information will cause changes in the assessment and response of internal companies, stockholders, and investors (stakeholders) to decisions on funding and investment sources. This means that the best considerations for making decisions are based on perceptions or information published by the company.

4. Conclusion

The high earnings per share cause the stock price to increase. A negative signal due to high volatility or high risk provides an opportunity for the company's investment to obtain a level of income. The pattern of rising and falling income (earnings) is the variability of income as a meaning of risk. Earnings per share is one of the determinants of the company's stock price because financial risk or company business risk is minimized by diversification. The higher earnings per share will increase the firm value. Income variability will increase risk. High risk becomes an opportunity to increase the stock price. This means that the high risk due to earnings, the company will diversify by dividing the risk, choosing profitable stock equity investments. The high-interest rate does not determine the increase in stock price. The interest rate, which is influenced by the interest rate (macro) more accurately describes how much funding is needed using debt. The high-interest rate indicates that the debt ratio or high company liabilities will cause the company's liquidity to be lower and cannot predict the stock price. High-interest rates encourage an increase in firm value. The company's high-interest rate as an illustration of the internal financial condition related to the policy on loan interest rates is not able to influence funding and investment decisions that have an impact on return on equity (ROE) as a proxy for firm value and company stock prices. Firm value as a description of the company's performance in the financial industry is an important source of information for all parties (stakeholders) as the basis for making funding and investment decisions. The better the financial performance described by the increase in the return on equity (ROE) of a company, the better the company's position in terms of equity level. According to modern investment theory, the ratio of net profit/operating income to total equity as a measure of ROE is a potential growth factor that is expected to increase stock prices. Good financial management indicates increasing company performance will cause a positive signal as an opportunity for funding sources and company investment to increase stock prices.

Acknowledgment

Based on the results of the discussion and conclusions that have been described previously, this study provides the following suggestions: Companies need to improve financial management because earnings per share and interest rates that are used appropriately as capital or sources of funding, investment, and operations will affect stock prices. The firm value must be increased because the increase in company income/profit, through financial data allows promising prospects. Companies must be able to provide information about the correct financial condition as a report that can be accounted for by stakeholders. Future research related to the signalling concept can develop a variable degree of information asymmetry within the company, it can be a moderator that allows it to be a strength or vice versa.

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