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Determinants of Firm Value in Commercial Banks of Nepal

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Abstract:
The study aim has analyzed to determine the firm value in commercial banks in Nepal. The study based on the balance panel secondary data in commercial banks of Nepal from period of 2013/ 14 to 2017/18. The descriptive, correlational and casual comparative research design has been employed in this study. Firm value taken was taken as dependent variables and whereas financial decision, investment decision, dividend decision, profitability and firm size were independent variables. The Pooled OLS and Fixed Effects regression model have been employed. The result reveal that financial decision, investment decision, profitability have positive and significant effects on firm value. The dividend policy has negative and statistically significant effects on firm value. The bank size has not significant role to determine firm value of commercial banks in Nepalese context. The study recommended that the commercial banks board of directors, chief executive officer and marketing officer, stakeholders are taken carefully decision about financial decision, investment decision, profitability and dividend policy variable to increase the firm value.

Keywords: Firm value, financial decision, investment decision, dividend policy, profitability, bank size, commercial bank, Nepal, Pooled OLS, Fixed Effects

1. Introduction

Firms always have a target to increase their value, because the value of the firm is an attractive factor for investors (Sondakh, 2019). Each company must take into account the advantages obtained, as well as with investors who want to profit from the capital that they grow in the company. A company can be said to be included in the company an attractive one from the company's ability not only generate a profit, but also able to maintain and increase profits. This advantage is known as corporate profits. Management of the company believes and is confident that consistent profits to attract and retain investors to invest in the company, which in turn will increase Firm Value (Fajaria, A.Z. & Isnalita, 2018). The primary objective is that with more value of the company, political prosperity shareholders increases. Many parties involved with company have several interests. To meet the expectations of all the shareholders, financial managers are trying to maximize the welfare of investors. Taking financial decision significantly affect value of the company (Kusiyah & Arief, 2017).

The company establishment is to generate maximum profits and these profits will be used to develop the company, thereby improving value and increasing prosperity for its owners or shareholders. The more profit generated, the higher the stock price of a company. The increasing stock price will show an increase in company values (Mareta, & Yanti, 2019).

No study has been seen at this topic in context of Nepal. This study has value added in the Nepalese literature in the country and outside of the world. The study is also valuable to the commercial banks board of directors, chief executive officer and marketing officer, stakeholders.

The researcher found the importance of finding out firm value of Nepal based commercial banks. Basically, panel based secondary data have collected from a time-period of 2013-2014 to 2017-2018. Both descriptive and causal designs of experiment have been adopted. The value of the firm plays the role of dependent variable. Independent variables include decision of financial, investment, and dividend profitability and size of the firm. Financial and investment decisions found to be positively associated with firm value. Negative association found between dividend policy and firm value.

The sections second and third have described literature review and research methodology. The section four has highlighted results and discussion. Finally, summary and conclusion completed this study.

2. Literature Review

The major literature in this study has been explained in the year wise order as follows. The association between the market value of banks' common equity and fair value has been computed by Nelson (1996) to estimate disclosed under Statement of Financial Accounting Standards No. 107, 'Disclosures about Fair Value of Financial Instruments.' It was found that fair values of investment securities have incremental explanatory power relative to book value.

Lam (1997) has investigated the impact of foreign ownership restrictions on firm value. A unique event on the Stock Exchange of Singapore (SES) simultaneously tightened and relaxed such restrictions. I find that imposing (relaxing) such restrictions reduce (increases) firm value.

Baek, Kang and Park (2004) have explained during the 1997 Korean financial crisis, firms with higher ownership concentration by unaffiliated foreign investors experienced a smaller reduction in their share value. Firms that had higher disclosure quality and alternative sources of external financing also suffered less. In contrast, chaebol firms with concentrated ownership by controlling family shareholders experienced a larger drop in the value of their equity. Firms in which the controlling shareholders' voting rights exceeded cash flow rights and those who borrowed more from the main banks also had lower returns. Our results suggest that change in firm value during a crisis is a function of firm-level differences in corporate governance measures.

Chan and Li (2008) have analyzed by using a sample of Fortune 200 companies and defining top executives of other publicly traded firms as expert-independent directors and controlling for firm specifics, board features, and individual director characteristics, they found the presence of expert-independent directors on board and in the audit committee enhances firm value.

Juhandi, Sudarma, Aisjah and Rofiaty (2013) have analyzed the effects of internal factors and stock ownership structure on dividend policy and their impacts on company's value and examine the influence of dividend policy on company's value. Free cash flow and company size, Return on Equity, Debt, asset growth and financial risk, Managerial ownership found to have significant impact.

Lawal (2014) observed that debt instrument play significant role for the Nigerian commercial banks from 2007 to 2012. Ayako and Wamalwa (2015) analyzed the firms listed on the Nairobi Securities Exchange (NSE) from 2002 to 2012. Assets, capital structure, cash flows, dividend ratio are found to be statistically significant. Giang and Tuan (2016) have studied the relationships between dividend payment and the market value of listed firms in the food and drink industry in the period 2010 to 2014 in Vietnam. The research finds empirically applicable factors in corporate finance and the management of stock listings in the stock exchange.

Firm value of the BSE listed Indian hospitality firms have been evaluated by Aggarwal and Padhan (2017) from 2001-15. The significant factors are leverage, liquidity, size and economic growth. Gharaibehand Qader (2017) has investigated the endogenous (firm-specific) determinants of firm value, as measured by Tobin's Q for companies listed on the Saudi Stock Exchange (TADAWUL).

The Ordinary Least Square (OLS) found the relationships between firm value and each of the hypothesized nine explanatory variables. The results of the OLS regression found that market capitalization, growth opportunities, profitability, and solvency of the firm have statistically significant relationships with firm value.

Kusiyah and Arief (2017) have examined the impact of investment decisions, financing decisions and dividend policy on firm value. The secondary data were used from six public banking financial services company of the period of 2011 to 2015. The results revealed that the investment decisions and dividend policy affected the firm value.

Jacob and Taslim (2017) highlighted the impacts of liquidity, activity and profitability towards the company value with dividend policy as intervening variables. The result shows that liquidity (CR) gives positive impact to the company value. Tobins-Q, liquidity (CR) also gives significant impacts to the company value through dividend policy (DPR) with negative direction.

Gunawan, Pituringsih and Widyastuti (2018) have analyzed the effect of capital structure, dividend policy, company size, profitability and liquidity of the company's listed on Indonesia Stock Exchange. The results showed that the capital structure, dividend policy, company size, profitability and liquidity and significant positive effect on firm value.

Mbugua, Oluoch and Ndambiri (2018) revealed positive and significant relationship between profitability, investment decision, financing decision and firm size on firm value. Noormansyah, Seviyani and Takada (2018) highlighted how market evaluates the firm as a whole for the banks listed in the Indonesia Stock Exchange. This research uses secondary data by collecting information from 45 financial data sources. This research concludes that partially, Dividend Payout Ratio, Firm Size, Return on Equity, Price Earnings Ratio has significant influence to firm values.

Juhandi, Fahlevi, Abdi, and Noviantoro (2019) considered the banks listed on the Indonesia stock exchange using the purposive sampling technique. Size to value, financial related factors, size and risk factor are found to be significant.
Ebenezer, Islam, Junoh and Yusoff (2019) highlighted the non-performing credit and bank solvency. The analysis of panel data has been computed for commercial banks in Nigeria and Malaysia from 2009 to 2017. The bank solvency has been found to be influenced by NPLs, loan growth and leverage. The firm value for Malaysian banks is getting affected by solvency, loan growth, leverage, efficiency, size, GDP and inflation.

Triani and Tarmidi (2019) found the effect of funding decisions and dividend policies on the firm value. Investment decisions are not found to be significantly associated. Liquidity found to be significantly affected the firm, has been found to be a study conducted by Mareta and Yanti (2019). The result has shown significant impact of liquidity.

The effect of all the independent variables on the same dependent included in this study has been studied by Sondakh (2019). The results of this study indicate that dividend policy has a negative and significant effect on firm value, liquidity and firm size partially influence positively and significantly on firm value while profitability is not appropriate and not significant to firm value.

Markonah, Salim and Franciska (2020) have found the effect of profitability, leverage and liquidity on corporate value in food and beverage Jakarta Stock Exchange enlisted manufacturing companies. With fixed effect model showed that profitability and leverage have significant effect to company value variable.

Renaldi, Pinem, and Permadhy (2020) have conducted research on the Manufacturing Industry Company because of fluctuations in stock prices with the signaling theory, trade-off theory, and dividend policy theory. The data used are secondary data with a sample collection method using purposive sampling.

Hence, the thoroughly studies and reviewed the literature in the different countries and different firm, the study has been conceptualized. The concept for formally investigation, the study has been formulated following research methodology as follows.

3. Research Methodology

The study based on the balance panel secondary data in commercial banks of Nepal. The data were collected from the annual report of the respective ten sample commercial banks from period of 2013/ 14 to 2017/18. The descriptive and casual comparative research design has been employed in this study. Firm value taken was taken as dependent variables and whereas financial decision, investment decision, dividend decision, profitability and firm size were independent variables. The results were drawn from the Gretl Statistical software 1.9.4 version. The regression model was employed in this study as follows.

3.1. The Model

$FV_{it} = \beta_0 + + \beta_1 PER_{it} + \beta_2 LEV_{it} + \beta_3 DPR_{it} + \beta_4 ROA_{it} + \beta_5 SIZE_{it} + e_{it}$

Where,

FV_{it} = Face value of i^{th}ank in year t

PER_{it} = Investment decision of ith bank in year t

LEV_{it} = Financial decision of ith bank in year t

DPR_{it} = Dividend policy of ith bank in year t

ROA_{it} = Profitability ratio of ith bank in year t

$SIZE_{it}$ = Bank size of ith bank in year t

B_0 = Constant

β_1 to β_5 = coefficients

e_{it} = error term

3.2. Variables and Hypothesis

The variables, notation, measurement, hypothesis and source of findings for variables employed in this study have been presented in the following Table 1.

Variable	Notation	Measurement	Hypothesis	Source of Findings
Dependent Variable				
Firm Value	FV	FV= SP/ BV	-	Kusiyah & Arief, (2017),
Independent Variables				
Investment Decision	PER	PER = SP/ EPS	H1: The investment decision has significant positive relationship with firm value.	(+) Kusiyah & Arief, (2017), Mbugua, Oluoch and Ndambiri (2018) (-)
Financing Decision	LEV	DER = TL/TE	H2: The financing decision has significant positive relationship with firm value.	(+) Juhandi, Fahlevi, Abdi, and Noviantoro (2019), Triani and Tarmidi (2019), Lawal (2014), Sondakh (2019), Juhandi, Fahlevi, Abdi, and Noviantoro (2019), Mbugua, Oluoch and Ndambiri (2018), Markonah, Salim and Franciska (2020), Renaldi, Pinem, and Permadhy (2020) (-) Mareta and Yanti (2019)
Dividend Policy	DPR	DPR = DPS/ EPS	H3: The dividend policy or decision has significant positive relationship with firm value.	(+) Kusiyah & Arief, (2017), Triani and Tarmidi (2019), Gunawan, Pituringsih and Widyastuti (2018), Juhandi, Sudarma, Aisjah and Rofiaty (2013) (-) Juhandi, Fahlevi, Abdi, and Noviantoro (2019), Noormansyah, Seviyaniand Takada (2018), Sondakh (2019), Juhandi, Fahlevi, Abdi, and Noviantoro (2019)

Variable	Notation	Measurement	Hypothesis	Source of Findings
Profitability (ROA)	ROA	Return on Total Assets	H4: The profitability (ROA) has significant positive relationship with firm value.	(+) Gunawan, Pituringsih and Widyastuti (2018), Mbugua, Oluoch and Ndambiri (2018), Markonah, Salim and Franciska (2020) (-)
Firm Size	SIZE	Natural Logarithm of Total Assets	H5: The firm size has significant positive relationship with firm value.	(+) Sondakh (2019), Gunawan, Pituringsih and Widyastuti (2018), Mbugua, Oluoch and Ndambiri (2018), Juhandi, Sudarma, Aisjah and Rofiaty (2013) (-) Noormansyah, Seviyaniand Takada (2018)

Table 1: Variables, Hypothesis and Source of Study
Source: Literature Survey by Researcher (2020)

4. Results and Discussion

4.1. Descriptive Statistics

The Table 2 shows that summary statistics of study variables that has used in this study. The summary statistics are minimum, maximum, mean and standard deviation of dependent and independent variables. The average firm value is 4.51 with minimum and maximum values were 1.01 and 13.5 respectively. The average proportion of investment decision (PER) is 26.9.

Variable	Min	Max	Mean	S.D.
FV	1.01	13.5	4.51	2.84
PER	5.48	83.9	26.9	16.4
LEV	4.12	13.7	8.27	2.44
DPR	0.139	2.97	0.807	0.476
ROA	0.970	3.12	1.87	0.402
SIZE	17.2	25.9	24.6	1.74

Table 2: Summary Statistics, Using the Observations 1:1 - 8:5
Source: Annual Report of Sample Commercial Banks and Results Are Drawn from Gretl Software 1.9.4.

The minimum and maximum financial decision (LEV) were 4.12 and 13.7 respectively. The average dividend policy –dividend payout ratio was 0.807. The average profitability (ROA) was 1.87 percent. The average size of commercial bank was Rs. 24.6 million (from natural logarithm).

4.2. Correlation Analysis

The Pearson's correlation coefficient of study variables has been presented in Table 3. The firm value (FV) has been taken as dependent variable whereas investment decision (PER), financial decision (LEV), dividend policy (DPR), profitability (ROA), and bank size (SIZE) were independents variables.

FV	PER	LEV	DPR	ROA	SIZE	Variables
1.0000	0.8727	0.3932	0.3080	0.0554	-0.0251	FV
	1.0000	0.2384	0.5893	-0.1645	-0.0294	PER
		1.0000	0.0677	-0.4756	-0.1819	LEV
			1.0000	-0.3688	-0.0408	DPR
				1.0000	0.2671	ROA
					1.0000	SIZE

Table 3: Correlation Coefficients, Using the Observations 1:1 - 8:5
5% Critical Value (Two-Tailed) = 0.3120 for N = 40
Source: Annual Report of Sample Commercial Banks and Results Are Drawn From Gretl Software 1.9.4.

The relation between the firm value (FV) and investment decision (PER), financial decision (LEV), dividend policy (DPR), and profitability (ROA) were positive. However, the relation between firm value (FV) and bank size (SIZE) was negative. The correlation between independent variables less than 0.80. Hence, the study further proceeds multiple regression models diagnosis test.

4.3. Model Test Diagnosis

The model test has been done for choice of appropriate model among Pooled OLS model and Fixed Effects model.

- H0: Null Hypothesis: Pooled OLS Model
- H1: Alternative Hypothesis: Fixed Effects Model

The joint significance of different group means has been calculated for choice of appropriate model among Pooled OLS model and Fixed Effects model. The result of the test is $F(7, 27) = 1.30311$ with p-value 0.28659. The p-value of Joint significance of differing group means is greater than 0.05, it shows that null hypothesis is accepted. Hence, the Pooled OLS model is appropriate for this case.

Again, Hausman test statistic has been done for choice of appropriate model among Random Effects Model and Fixed Effects Model.

- H0: Null Hypothesis: Random Effects Model
- H1: Alternative Hypothesis: Fixed Effects Model

The Hausman test statistic: $H = 11.7487$ with p-value = prob (chi-square $(5) > 11.7487$) = 0.0383985, It gives the p-value is less than 0.05. The p –values is less showing that alternative hypothesis is accepted. Hence, the fixed effect model is selected among random and fixed effect model.

Therefore, this study has been explained about the Pooled OLS model and Fixed Effects Model. The result has been presented in the Table 4.

4.4. Regression Analysis

Table 4 represents the rest of regression result by model test Pooled OLS and Fixed Effects Models. The VIF of all independent's variables were less than 2.0. It shows that there is no problem of multi-collinearity problem of independents variables. The value of adjusted R^2 is 0.90335. The independents variables have been used in these studies are explained 90.34 percent to firm value. The remaining 9.66 percent only explained by the other variables. It reflected that the model very strong to determine the firm value of banks. The results both models have been explained as follows.

There is significantly positive relation between firm value and investment decision. It shows that investment decision has positive association with firm value. The higher the investment higher will be the firm value of banks. The study has supported by the studies were Kusiyah&Arief, (2017) and Mbugua, Oluoch and Ndambiri (2018).

The financial decisions are positive and statistically significant with the firm value. The result consistent with the study of Lawal (2014),Mbugua, Oluoch and Ndambiri (2018),Uhandi, Fahlevi, Abdi, and Noviantoro (2019), Triani and Tarmidi (2019),Sondakh (2019), Juhandi, Fahlevi, Abdi, and Noviantoro (2019), Markonah, Salim and Franciska (2020) and Renaldi, Pinem, and Permadhy (2020).

The dividend policy (dividend payout ratio) has negatively significant with the firm value. It shows that dividend payout has negative role to firm value. The study has consistent with previous studies were uhandi, Fahlevi, Abdi, and Noviantoro (2019), Noormansyah, Seviyani and Takada (2018), Sondakh (2019), and Juhandi, Fahlevi, Abdi, and Noviantoro (2019). Although, the result contrary with the study ofKusiyah&Arief, (2017), Triani and Tarmidi (2019), Gunawan, Pituringsih and Widyastuti (2018), Juhandi, Sudarma, Aisjah and Rofiaty (2013).

Model 1: Pooled OLS, using 40 observations						
Variables	*Coefficient*	*Std. Error*	*t-ratio*	*p-value*	Sig. Level	VIF
Constant	−5.29642	2.32701	−2.276	0.0293	**	
PER	0.161582	0.0112893	14.31	<0.0001	***	1.718
LEV	0.380153	0.0703546	5.403	<0.0001	***	1.471
DPR	−0.886643	0.410315	−2.161	0.0378<0.05	**	1.906
ROA	2.24289	0.454767	4.932	<0.0001	***	1.670
SIZE	−0.0474411	0.0844500	−0.5618	0.5780		1.085
No of Observations: 40, R-Square: 0.915741, Adjusted R-square: 0.903350, F(5,34): 73.90370,DW: 1.166533						
Model 2: Fixed-effects, using 40 observations						
Variables	*Coefficient*	*Std. Error*	*t-ratio*	*p-value*	Sig. Level	
Constant	−5.79707	3.30861	−1.752	0.0911	*	
PER	0.158147	0.0147376	10.73	<0.0001	***	
LEV	0.405790	0.0998658	4.063	0.0004	***	
DPR	−1.05429	0.425234	−2.479	0.0197<0.05	**	
ROA	1.88609	0.574377	3.284	0.0028	***	
SIZE	0.000741802	0.107704	0.006887	0.9946		
LSDV R-squared: 0.937019, Within R-squared: 0.856305, LSDV F(12, 27): 33.47504, P-value(F): 4.55e-13, DW: 1.557373						

Table 4: Regression Result of Study Variables

The profitability has positive and statistically significant with firm value of sample banks. It shows that which banks have higher profit the firm will be higher. The profitability has strong positive role to increase the firm value. The result is similar with priori studies were Gunawan, Pituringsih and Widyastuti (2018), Mbugua, Oluoch and Ndambiri (2018) and Markonah, Salim and Franciska (2020).

5. Summary and Conclusions

The study determines the Nepal based commercial banks' firm value. The study based on the balance panel secondary data in commercial banks of Nepal from period of 2013/ 14 to 2017/18. The descriptive, correlational and casual comparative research design has been employed in this study. Firm value taken was taken as dependent variables and whereas financial decision, investment decision, dividend decision, profitability and firm size were independent variables. The results were drawn from the Gretl Statistical software 1.9.4 version. The Pooled OLS and Fixed Effects regression model have been employed. The result reveal that financial decision, investment decision, profitability have positive and significant effects on firm value. The dividend policy has negative and statistically significant effects on firm value. Although the bank size has not significant role to determine firm value of commercial banks in Nepalese context. The study recommended that the commercial banks board of directors, chief executive officer and marketing officer, stakeholders are taken carefully decision about financial decision, investment decision, profitability and dividend policy variable to increase the firm value.

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