

Evaluating How Profitability, Growth, and Size Influence Company Value

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ABSTRACT

This study aims to examine the impact of profitability, company growth, and company size on the value of consumption sector firms from 2019 to 2022. The research will utilize panel data regression analysis through the EViews application. Profitability will be measured using Return on Assets (ROA), company growth will be assessed by the percentage change in asset value, company size will be represented by the natural logarithm of total assets, and company value will be measured using the Price-to-Book Value (PBV) ratio. The findings from the Chow test indicate a Cross Section Chi square value of 0.000, while the Hausman test shows a random Cross Section probability value of 0.0001. Consequently, the fixed effect model will be employed for the panel data regression analysis. Results from this model reveal that profitability does not significantly impact firm value, while company growth and size both exhibit an insignificant negative relationship with firm value.

Keywords: ROA, Company Growth, Firm Size, Firm Value

INTRODUCTION

The primary objective of a company is to enhance the welfare of its shareholders (Rama dhani & Oktoviani, 2022). A high company value indicates a high level of prosperity for its shareholders as well (Dessriadi, Harsuti, Muntahanah, & Murdijaningsih, 2022). When a company's value is high, it is considered good; however, if the company's value is low, it will certainly be regarded as poor. Therefore, with a high company value, investors will be attracted to invest in that company, and they will be confident of obtaining high returns as well (Husna, Rahayu, & Yuliasuti, 2020). Several studies have identified factors that influence a company's value, including profitability, company growth, and company size.

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Profitability indicates the extent to which assets contribute to generating net income (Thian, 2021). Research conducted by Nagayu & Mujiyati (2022) and Shalini W. et al. (2020) explains that profitability has a significant positive effect on company value. This implies that a company that can generate substantial profits will have a higher value in the eyes of investors, thereby increasing the company's value. Conversely, a study by Tiara Indah Febiyanti (2022) states that profitability does not affect company value, while research by Hidayat & Khotimah (2022) indicates that profitability has a significant negative effect on company value.

Company growth refers to the increase or decrease in a company's total assets. According to research conducted by Husna & Rahayu (2020), significant positive results were found. This indicates that companies with strong or continuously improving growth from period to period will attract attention. The higher the company's growth, the more it can enhance its value. However, a study by Faizra, Lubis, Ifazah, & Muthmainnah (2022) presents different findings.

Company size refers to the scale of the company, which can be seen from the amount of assets owned (Kammagi & Veny, 2023). Research by Hidayat & Khotimah (2022) shows that company size has a significant positive effect on company value. The larger the company size, the more resources it has to develop, which will increase the company's value. However, different results are presented in studies by Kammagi & Veny (2023) and Suryandani (2018), which state that size does not affect company value.

The phenomenon underlying this research is that on March 31, 2023, the stock price of PT HM Sampoerna experienced a significant decline, hitting the auto reject lower level (CNBC Indonesia Research Team, 2023). This condition was due to PT HM Sampoerna releasing its performance for 2022, which was less than favorable. Although sales at the end of 2022 increased by 13.2%, the cost of goods sold rose by 14.6%, resulting in a profit decline of 11.4%. This phenomenon indicates that investors still consider company performance as a benchmark in their stock purchase decisions.

LITERATURE REVIEW AND HYPOTHESES

Signaling Theory

Signaling theory explains how companies communicate signals to investors regarding their future prospects (Brigham & F., 2019). Companies strive to convey positive messages to the public in order to elicit a favorable response (Setiawan & Venona, 2023). Profitability, company size, and growth can serve as distinct signals for investors. A company that demonstrates strong profitability, experiences good growth, and has a large size will signal

positively to investors about its future. Positive signals from the company will undoubtedly impact its value, while negative signals can lead to a decline in the company's value.

The Effect of Profitability on Company Value

Profitability refers to a company's ability to generate profits and improve efficiency in utilizing its assets (Widyastuti, Wijayanti, & W, 2022). High profitability sends a positive signal to investors that the company is in a favorable condition with good future prospects (Nagayu & Mujiyati, 2022). Continuous improvement in profitability is likely to be accompanied by an increase in company value (Inggrida, Setiawan, & Veny, 2023). The level of profitability generated by a company will enhance trust and the perceived value of that company.

H1: Profitability has a significant positive effect on company value.

The Effect of Company Growth on Company Value

Company growth refers to the increase in total assets, which correlates with the company's future profitability (Elizabeth, 2022). A company is considered to be growing when it experiences annual growth in its operations (Husna & Rahayu, 2020). From an investor's perspective, a company's growth is a sign that it possesses advantageous aspects, and they anticipate a higher rate of return through this growth (Faizra, Lubis, & Ifazah, 2022). Companies that experience growth will enhance trust in their value.

H2: Growth has a significant positive effect on company value

The Effect of Company Size on Company Value

Company size is a scale that indicates the magnitude of a company (Hery, 2017). A large company suggests that it has the resources to advance its operations, thereby increasing its value and boosting investor confidence. Larger companies also instill long-term trust, which can enhance investor interest and subsequently increase company value. Research conducted by Kristiadi & Herijawati (2023) and Suardana, Endiana, & Arizona (2020) indicates that company size has a significant positive effect on company value.

H3: Company size has a significant positive effect on company value.

RESEARCH METHODOLOGY

Research Procedure

This study employs a quantitative research design using secondary data from the annual reports of consumer companies from 2019 to 2022. The research will utilize two types of variables: independent variables and a dependent variable. The independent variables in this study are profitability, company growth, and company size, while the dependent variable is company value.

The analysis will be conducted using panel data regression analysis. The results from the panel data regression will serve as the basis for hypothesis testing in this research. The sampling method used in this study is purposive sampling, where the companies included as research samples are those with complete financial reports from 2019 to 2022 and have sufficient data for the measurement of the variables.

Variable Definition

The measurement of variables used in this study is as follows:

Variable Measurement Scale

Closing Stock Price

Firm Value Ratio

Equity/ Outstanding share

Net Profit

Profitability Ratio

Company
Total Assets

$$\frac{\text{Total Assets } t}{\text{Total Assets } t-1}$$

Growth Ratio

Total Assests t-1

Company Size Ln (Total Assets) Ratio

Descriptive Statistical

Descriptive statistical analysis is used to provide a descriptive overview of the data. Common values in descriptive statistics include the mean, standard deviation, minimum value, maximum value, and sum. These values are useful for giving a general picture of the variables being studied, thus explaining the characteristics of the data (Sarwono, 2016).

Model Fit Testing for Panel Data Regression

In panel data regression, there are three types of panel data regression models: pooled least squares, fixed effect model, and random effect model. This testing will be conducted using three levels of tests: Chow test, LM test, and Hausman test. These tests aim to determine whether the panel data regression in this study is based on the fixed effect model or the random effect model (Nuryanto, 2018).

The decision-making criteria for the Chow Test, LM Test, and Hausman Test are as follows:

Chow Test (cross-section f)	
Prob. > 0.05	pooled least square
Prob. < 0.05	fixed effect model
LM Test (cross-section chi-square)	
Prob. > 0.05	pooled least square
Prob. < 0.05	random effect model
Hausman Test (cross section random)	
Prob. > 0.05	random effect model
Prob. < 0.05	fixed effect model

Analysis of Panel Data Regression

This study will conduct a panel data regression test to examine the relationship between institutional ownership, public ownership, profitability, and growth on company value, using the following formula:

$$NP = \alpha + \beta_1.PF + \beta_2.PP + \beta_3.SIZE + \varepsilon$$

NP = Firm Value

PF = Profitability

PP = Company Growth

SIZE = Firm Size

Correlation Coefficient

The Correlation Coefficient Test (R^2) is used to determine how well the model explains the variation in the dependent variable. The result of R^2 ranges from 0 to 1. If the R^2 value approaches 1, it indicates that all the information needed to explain the dependent variable is provided by the independent variables. Conversely, if R^2 approaches 0, the independent variables have limited ability to explain the dependent variable (Ghozali, 2017).

Simultaneous Significance Test

The F-statistic test shows whether all the independent variables included in the model have a joint effect on the dependent variable. If the Prob.(F-Statistic) value is less than 0.05, it indicates that the independent variables collectively influence the dependent variable. Conversely, if the Prob.(F-Statistic) value is greater than 0.05, the independent variables do not collectively influence the dependent variable (Ghozali, 2017).

Individual Significance Test

The Individual Significance Test, or t-test, is used to observe whether there is an individual effect of each independent variable on the dependent variable. If the probability value for each

independent variable is less than 0.05, it indicates that the independent variables have a significant individual effect on the dependent variable. Conversely, if the probability value for each independent variable is greater than 0.05, the independent variables do not have an individual effect on the dependent variable (Ghozali, 2017).

Results and Discussion

Description Analysis

The Results of Descriptive Analysis are as Follows:

Table 2: Description Analysis

ROA GROW SIZE PBV

<i>Mean</i>	0.073672	0.067904	29,631370	1
<i>Median</i>	0.416320	9.546.171	32,826380	5
<i>Maximum</i>	0.000112	-0.178176	27,374660	0
<i>Minimum</i>	0.075716	0.929470	1,427759	8
<i>Std. Dev.</i>	108	108	108	1
<i>Observations</i>				

Source: Eviews 9

0.094724	0.172834	29,697380	3.942541
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The results of the descriptive analysis, it can be observed that:

- The average profitability in this research data is 9.47%. The maximum value is 41.63%, and the minimum value is 0.112%, with a standard deviation of 0.075716.
- The average company growth in this research data is 17.28%. The maximum value is 40.74%, and the minimum value is -17.82%, with a standard deviation of 0.929470.
- The average company size in this research data is 29.70. The maximum value is 32.83, and the minimum value is 1.43, with a standard deviation of 1.43.
- The average Price-to-Book Value (PBV) is 3.942541. The maximum value is 5.679190, and the minimum value is 0.150498, with a standard deviation of 8.259323.

Panel Data Model Suitability Test

Chow Test

The Results of the Chow Test in This Study Are as Follows:

Table 3: Uji Chow

Effects Test Prob.
Cross-section F 0.0000

Cross-section Chi-square 0.0000

Source: Eviews 9

From the Results AboveThe probability of the cross-section F is below 0.05, indicating that the Fixed Effects Model (FEM) is preferred over the Common Effects Model (CEM). This suggests that there are significant differences across the individual cross-sections, making FEM the more appropriate choice for this analysis.

Hausman Test Results

The results of the Hausman test in this study are as follows:

Table 4: Uji Chow

Test Summary Prob.
Cross-section random 0.0000

Source: Eviews 9

From the results above, it can be observed that the probability for the cross-section random is below 0.05. Therefore, between the Random Effects Model (REM) and the Fixed Effects Model (FEM), the model that will be chosen is FEM.

F Test Results

The results of the F test in this study are as follows:

Table 5

F Test

Prob (F-Statistic) 0.0000

Source: Eviews 9

From this research, it can be observed that the value of Prob (F-Statistic) is 0.000, which is less than 0.05. This indicates that the research model is suitable for use.

Correlation Coefficient Test Results

The results of the correlation coefficient test in this study are as follows:

Table 6: Correlation Coefficient Test

Adjusted R-squared	0.769888
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Source: Eviews 9

From the results above, it can be observed that the dependent variable in this study can be explained by the independent variables by 76.99%, while the remaining 23.01% is explained by other variables outside the research model.

Panel Data Regression Test Results

The results of the panel data regression in this study are as follows:

Table 7: Uji Regresi Data Panel

Variable Coefficient Std. Error t-Statistic Prob. Hipotesis

5.822.837	8.306.674	0.070098	0.9443
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ROA H1 reject

1.812.983	1.092.681	1.659.206	0.1011
-0.082445	0.472123	-0.174625	0.8618
-0.120663	2.794.780	-0.043174	0.9657

GROW H2 reject

SIZE H3 reject

Source: Eviews 9

Conclusions Based on Coefficients and Probability Values

1. **Profitability** has a positive but insignificant effect on firm value. As the company's profit level increases, it sends a positive signal to investors, causing them to react and potentially increase the company's stock price and value. However, this effect is insignificant because investors also consider the company's ability to survive under various conditions. This finding is consistent with studies by Nagayu & Mujiyati (2022) and Faizra, Lubis, & Ifazah (2022), which also indicate that profitability has a positive but insignificant effect on firm value.
2. **Company Growth** has a significant negative but insignificant on firm value. Greater growth in a company requires substantial resources, meaning that profits do not necessarily correlate with asset growth or the company's ability to manage those assets effectively, which can lower the firm's value. This result aligns with research by Fauziah & Sudiyatno (2019), which states that company growth negatively and significantly affects firm value.
3. **Company Size** has a negative but insignificant effect on firm value. Larger companies typically have sufficient resources to fund their operations internally, which may lead to lower expected returns for investors. However, this effect is insignificant because investors continue to trust larger companies, which are perceived to be more resilient in various conditions. This finding is in line with the research conducted by Suryandani

(2018).

Conclusion and Suggestions

In this study, it can be concluded that: Profitability has a positive but insignificant effect, while company growth and company size have a negative but insignificant effect on the firm value of consumption sector companies from 2019 to 2022.

This research focused solely on consumption sector companies using the variables of profit ability, company growth, and company size. Future research could explore additional factors such as corporate actions, including merger decisions and dividend policies.

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