

# The effect of Sales Growth, Financial Performance, and Firm Size on Firm Value: Using Indonesian Infrastructure Companies

## ABSTRACT

*This research was carried out to describe the impact of sales growth, company financial performance, and company size on the value of all infrastructure companies registered in Indonesia from 2017 to 2020. Purposive sampling is the sampling method used. The survey data is taken from the 2017–2020 Indonesian Capital Market Index (ICMD). In collecting data, we used the documentation method. Statistical testing was carried out using the t-test and multiple linear regression analysis. Classical assumptions were tested first. The results of this study indicate that sales growth and operational efficiency have no effect on firm value, while profitability and firm size have a positive effect on firm value.*

**Keywords:** *operating capacity, company value, profitability, sales growth, company size.*

## 1. INTRODUCTION

Increasingly growing business competition makes companies develop their businesses more efficiently if they want to compete in the globalization era. In the current economic conditions, many companies are founded, which makes competition more intense in some areas. Companies are also competing to create innovations and strategies to avoid bankruptcy. The company's economy depends on financial matters, especially for growing companies, to expand their product market and achieve efficient operating levels. Equity is an investor's perception of a company as associated with the stock price. An entity with good value has good performance too. The higher the stock price, the higher the company's value. High corporate value creates desire in entrepreneurs because high value indicates that shareholder welfare is also high (Dewi et al. 2019).

Increased sales growth offers good prospects for investors and can increase profits for the company. Sales growth means changes in turnover in the annual financial statements. Sales growth can also be interpreted as an increase in numbers from year to year or from season to season (Dewi et al., 2019). The company's growth is reflected in the growth in sales volume. The company's turnover growth rate affects its ability to maintain profits.

“Assets owned by the company are calculated together with the rotation of the total assets owned by the company. Operating capacity measures how well a company manages its assets to generate sales or revenue. Operating capacity is the ratio of turnover to the balance sheet, which is often used in business operations. This ratio describes the strength of the company's assets relative to total turnover” (Widodo, 2018). The higher the value of the operating capacity ratio, the better the reaction to the company's investment, which of course will lead to an increase in the value of the company's shares. Previous research on the impact of operational capabilities on firm value by Utami and Prasetyono (2016) and Firdaus (2020) concluded that operational capabilities have a significant influence on firm value. This research is not in line with the statements of Utami and Welas (2019) and Lestari and Mustika (2019) that operational capacity does not affect company value. Profit is the bottom line of many company policies and decisions. The key figures discussed so far can provide useful indicators for assessing the efficiency of a company's operations, but the profit figures show the combined effect of liquidity, financial management, and debt on business performance (Agustin and Wahyuni, 2020).

Profitability is a ratio used to describe a company's ability to earn profits. This ratio also measures the efficiency of company management. This is evidenced by the sale and return on investment. In conclusion, this comparison is used to show efficient companies (Kasmir 2019). Relatively large companies are increasingly using external funds; this is because the need for money is increasing along with the company's growth.

Company size shows the total statement of financial position, company size, total sales, and average. Company size is also an important factor that companies consider when making financial decisions. Firm size has a very large influence on firm value. (Agustin and Wahyuni, 2020).

The purpose of scientific writing is to provide an understanding of how sales growth, financial performance, and company size affect the value of infrastructure companies. Therefore, the formulation of the problem in this study is as follows:

1. Does sales growth affect the value of the company?
2. Does operating capacity affect the value of the company?
3. Does profitability affect the value of the company?
4. Does company size affect company value?

## A. LITERATURE REVIEW

### **Signaling theory**

"Signaling theory is a measure of corporate governance that guides investors on how management views the company's future prospects" (Bringham and Houston, 2020). For business owners, information about the business is very important because this information can be considered as a signal that can determine the owner's behavior, where investors decide whether to invest in the business or not.

Information provided by the company can be a signal for outsiders, especially investors, namely financial reports. Financial statement information is information received by the company that can reflect the results of the company's operations and can influence or determine the value of the company. According to investors, performance management is a way for companies to effectively manage their financial resources to generate profits. Income information determines investment behavior. If the company's performance is high, it encourages investors to increase their mutual funds because investors benefit from the company's performance and prosper, and vice versa (Hasangapon et al. 2021).

### **Firm Value**

"The value of a company is the price investors are willing to pay if the company is sold. The value of a company can be reflected in the capital market through the share price of the company that issued the shares. The higher the stock price, the higher the return for investors" (Harmono, 2017).

"PBV (price book value) in this study will be used to project firm value. Investors will assess a company from the PBV level as a promising or prospective company to invest in their assets in the future. PBV is the ratio between a stock's prices per page compared to the book value per share in a company. Company value can be calculated using the formula" (Harmono, 2017).

$$PBV = \frac{\text{Share price}}{\text{Share book value}}$$

### Sales Growth

Sales growth is the change in total sales, either increasing or decreasing from year to year, which is reflected in a company's income statement. Sales growth reflects a company's past performance and can be used as a forecast for future growth. Sales growth is an increase in sales volume from year to year or periodically. Sales growth can be measured by comparing turnover with net income. Sales growth can be calculated using the following formula (Pantow et al., 2015).

$$Growth = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$$

### Operating Capacity

Operating capacity expressed as total asset turnover (TATO) is used to measure a company's ability to generate profits, with total turnover calculated based on sales volume to determine how well all assets are able to generate sales. The higher the value of TATO, the more efficiently the company uses all of its assets to support sales activities. The more efficient, the better the company's performance. The TATO calculation formula is: (Kashmir 2019).

$$TATO = \frac{Total\ Sales}{Total\ Aset}$$

### Profitability

“One of the bases for assessing the condition of the company is its profitability. This evaluation requires tools such as financial ratios to analyze the business. Profitability is the ability of a company to generate profit over a period of time” (Harry, 2017). According to Frimansah and Suwitho (2017), “profitability is the ability of any company to earn as much profit as possible to achieve the company's long-term and short-term goals. In this study, profitability is calculated based on return on asset (ROA)”. According to Harry (2017), “the ROA ratio shows how much assets contribute to generating net income. It can be said that ROA is a ratio that measures how much net profit can be earned for every rupee sunk into the balance sheet. ROA is calculated using the ratio of net profit to balance sheet volume”.

### Size of the company

Company size is the size of the company based on the total amount of assets owned by the company. According to Widyantar and Yadnya (2017), firm size is measured by transforming the total assets owned by the firm into natural logarithms. Due to the size of the company's balance sheet, Natura Log aims to reduce excessive data fluctuations. Natura Log simplifies the ratio of the actual number of assets without changing the size of assets into hundreds of billions or even trillions. The bigger the total assets, the bigger the company. This survey measures company size based on the following criteria:

$$Firm\ size = Ln(Total\ Asset)$$

### Framework

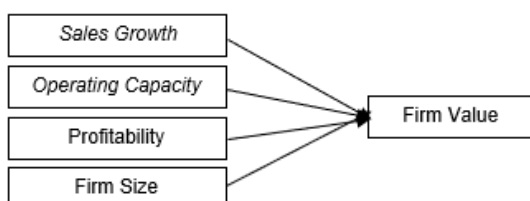


Figure 1, Framework

## Hypothesis

Based on existing problems and achievable goals, the authors present the following hypothesis:

H1: Sales growth is positively related with firm value .

H2: Operating capacity is positively related with firm value.

H3: Profitability is positively related with firm value.

H4: Firm size is positively related with firm value.

## 2. Methods

In this population survey, all companies in the infrastructure sector were listed on the Indonesia Stock Exchange (IDX) from 2017 to 2020. The sample was based on purposive sampling, where the sample was based on certain factors that can be explained as follows:

1. Infrastructure companies listed on the Indonesia Stock Exchange (IDX) for 2017–2020
2. Infrastructure companies that are not listed on the stock exchange. to the stock market and just entered the IDX in the reference year.

This study uses a time series from 2017 to 2020. This information was collected using documentary methods from various research sources and financial reports of companies in the infrastructure sector of the Indonesian Stock Exchange for the years 2017–2020. This study is based on quantitative data using secondary data. Although the analysis method used is multiple linear analysis.

## 3. RESULTS AND DISCUSSION

Description of the research material Descriptive statistics consist of the minimum, maximum, mean and standard deviation obtained from Table 1 as follows:

1. Highest sales growth value of 731% with a minimum value of -39.90%. Average value is 0.3743 and standard deviation value is 1.16586. This indicates that the sales growth variable is not normally distributed because the standard deviation is greater than the mean of these variables.
2. The Minimum value of operating capacity was 0.00% while maximum value was 362%. The mean value is 0.7904. Although the value of the standard deviation is 0.55938, it indicates that operating capacity variable is normally distributed because the standard deviation is less than the mean of these variables.
3. The minimum value of profitability is -4%, while the maximum value is 46% and the average is 0.0829. Although the standard deviation value is 0.09652, it indicates that the profitability variable is not normally distributed because the standard deviation value is greater than the mean of these variables.
4. The minimum value of the company size is 27.31 or 725,663,914,382 for PT Golden Eagle Energi Tbk in 2017 and up to 32.26 or Rp. 102,246,793,155,000 PT. Adaro Energy Indonesia Tbk in 2018. Average 29.9753. The standard deviation value is 1.27079. This indicates that the variable firm size is normally distributed because the value of the standard deviation is less than the mean of these variables.
5. The minimum value of the company is -76% while the maximum value is 675%, average 1.2919. Although the value of standard deviation is 1.29179. This indicates that the value variable of the company is normally distributed because the standard deviation value is less than the mean of these variables.

The table 2 shows that the coefficient of determination R-squared is 0.479, which, when converted into a percentage, shows that 47.9% of the variable firm value is influenced by sales growth, operating capacity, profits, and company size, while the rest is influenced by other variables outside this model.

From Table 2 below, the significance F test shows that all independent variables as a whole can explain the dependent variable (firm value) significantly.

**Table 1, Descriptive Statistics Results**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
GROWTH	92	-0,40	7,31	0,3743	1,16586
TATO	92	0,00	3,62	0,7904	0,55938
ROA	92	-0,04	0,46	0,0829	0,09652
SIZE	92	27,31	32,26	29,9753	1,27079
VP	92	-0,76	6,75	1,2919	1,29179
Valid N (listwise)	92				

**Table 2. The results of the model suitability test  
Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	6,521	2,623		2,486	0,015
GROWTH	0,104	0,087	0,094	1,192	0,236
1 TATO	0,35	0,239	0,152	1,464	0,147
ROA	10,472	1,318	0,782	7,949	0,000
SIZE	0,242	0,085	0,238	2,837	0,006

a. Dependent Variable: VP

F Test : 0,000

R Square = 0,479

### Effect of sales growth on firm value

The results of the t-statistical test in **Table 2** show a positive t-count value of sales growth of 1.192 with a probability of 0.236, which is greater than the significance level (0.05), which means that sales growth has no effect on the company. mark.

From the results of the multiple regression analysis conducted in this study, it can be concluded that sales growth does not have a significant effect on firm value. This indicates that infrastructure companies have stable sales levels and tend to grow. A large increase in sales does not always follow an increase in company value. because the higher the increase in sales revenue, the more debt there is, and the company cannot manage this debt properly, so the value of the company cannot increase. This infrastructure company has many competitors because it provides the largest contribution to the economic sector and the country's export value. High sales growth can increase investors' valuation of the company, and in the end, the company's value will also increase. Companies with high sales growth are considered ready to compete so that market share increases, which directly increases the value of the company.

This research is supported by the results of research conducted by Agustin and Wahyuni (2020), which found that sales growth has no effect on company value. **However, in contrast to the results of**

research conducted by Lingga (2015) stated that sales growth had no significant negative effect on the value of the company.

#### **Effect of operating capacity on firm value**

From table 2 above, it can be seen that the t value of work ability is 1.464 and the probability is 0.147, where the significance level is greater than 0.05, which means that work ability does not have a positive effect on firm value.

This study shows that operational capability has no significant positive effect on firm value. The results of this study are supported by the research of Setyawati et al. (2022), who found that operating capacity has no effect on firm value. A high operating capacity value indicates that the company has not effectively used its total assets to accumulate capital gains. Effective asset management may not increase firm value. However, this research differs from the results of research conducted by Hasangapon et al (2021) which states that operating capacity has a positive effect on firm value.

#### **Effect of profitability on firm value**

The results of the t test in Table 2 show that the positive t value is 7.949 and the probability is 0.000 if the significance level is less than 0.05, which means that profitability has a positive effect on firm value.

This study shows that profitability has a significant positive effect on firm value. Companies in the infrastructure sector are one of the sectors that support increasing the value of public investment. A higher value indicates that the company is able to grow net profit using only the funds invested. If the company can maintain and increase this ratio from year to year, it will attract the attention of investors to invest in the company and increase its value. This research is supported by the research findings of Agustin and Wahyuni (2020), which show that profitability has a significant positive effect on company value. However, In contrast to the results of research conducted by Herawati (2013) stated that profitability has a significant negative effect on firm value.

#### **Effect of firm size on firm value**

The results of the t test in Table 2 show that the t value of firm size is 2.387 with a probability of 0.006, where the significance level is less than 0.05, which indicates that firm size has a positive effect on firm value.

The results of this study indicate that the larger the company, the easier it is for the company to obtain both internal and external funding sources. Companies generally have more funding sources to support their operations. So that the company has more opportunities to earn more profits. The higher the profitability, the higher the company's stock price, which in turn increases the value of the company. Large company size can be followed by an increase in company value. The bigger the company, the more capital it needs to finance its operations, and the company can manage its assets properly so that it is possible to increase its value.

This research is supported by the research findings of Hasangapon et al. (2021) that company size has a significant positive effect on firm value. This result is not in line with research conducted by Hasangapon et al (2021) which states that the size of a company has no significant effect on Firm Value.

### **Conclusions, Implications, and Limitations of the research**

#### **Conclusion**

Based on the results of the analysis and discussion, the following conclusions can be drawn:

1. Sales growth and operating efficiency do not affect the value of the company.
2. Profit and company size have a positive effect on firm value.

### Implications

Future researchers are advised to use a larger sample with more diverse characteristics from different industrial sectors and extend the research time.

### Research limitations

In this study, one variable was used and the time limit was only 2017-2020. Other independent variables must be added in further research, which also affects company value and increases research time.

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