Effect of Return on Assets and Company Growth on Company Value (A Case Study of Manufacturing Companies Listed on Indonesia Stock Exchange)

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ABSTRACT

This study aims to determine the effect of profitability and growth on the value of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2017-2019 period. This paper involved the population is 189 companies with a total of 55 companies purposively selected as the samples. For the five-year data observation, we have collected 165 sample data. The multiple linear regression analysis shows that return on assets and company growth bring positive effects on company value. This implies that the level of profitability through return on assets and company growth realizes shareholder prosperity and improves company performance.

Keywords: Company value, Profitability, Return on Assets

INTRODUCTION

The Covid19 pandemic has brought a huge impact on the Indonesian economy, which at the end of 2019 displayed signs of a recession. The Indonesian economy of 2020 had been facing a recession for two consecutive quarters. Based on statistical data from the Central Statistics Agency, the Indonesian economy in the third quarter of 2020 was -3.49 percent (year on year/yoy), figuring a better condition than that of the second quarter of 2020 which reached minus 5.32 percent. The government's policy of loosening large-scale social restrictions (PSBB) has an impact on changes in numbers from the second quarter to the third quarter. The transportation and warehousing sector stood at -16.7% (yoy) and trade at 5.03% (yoy). The import sector was -21.86% (yoy) and the export sector was -10.82% (yoy). Household consumption as one of the drivers of the Indonesian economy declined at -4.04% (yoy) (Jayani in Ferwati, et al., 2021).

Companies are essentially in competition with each other to show their best performance and provide shareholders with a sense of security. Thus, they share business strategies to avoid bankruptcy. The increase of company value is highly vital as it affects investor perceptions of company success rate, which is frequently associated with stock prices. The values of companies listed in the stock exchange are available in the market price of the company's shares, while the values of those unlisted are seen in their total assets and prospects, business risks, and business environment (Margaretha, 2014, p.1).
Company value is measured by the price-book value (PBV), the level of company prosperity creating value relative to the amount of invested capital. It reflects the high share price compared to the book value of the shares (Afzal & Rohman, 2012). The higher share price indicates that the company managed to create shareholder value.

The success of the company in creating company value certainly will give auguring favorable greater profits to shareholders. It may be simply be said that the price-book value (PBV) is the market ratio used to measure the performance of the stock market price upon the company value. Book value is used to measure the value of shareholders' equity or each share. Its amount is calculated by dividing the total shareholders' equity by the number of shares outstanding. PBV offers several advantages. First, it has a relatively stable intuitive measure that can be compared with market prices. Investors who do not believe in the discounted cash flow method can use the price book value as a comparison. Second, it provides consistent accounting standards for all companies. Similar company PBVs can be compared as an indication of under or overvaluation. Third, it can evaluate companies with negative earnings, which cannot be assessed using the price earnings ratio (PER).

Company value is influenced by the level of company profitability. It is an indicator of company performance in managing the assets, which is indicated by its generated profits. According to Munawir in Syukriyah, Maharani, and Putri (2020), the level of profitability in a company shows its ability to generate profit during a certain period by using assets or productive capital, both overall capital and own capital. The profitability ratio is a ratio to assess the company's ability to make a profit (Kasmir, 2010, p. 115). Profitability analysis is vital for creditors since profit is the source of interest payments and principal of loans. As for investors, it is one of the determining factors of changes in the value of securities.

Profitability is measured by the ratio of return on assets, which is a comparison result of net income and total assets. According to Hanafi and Halim (2012, p. 98), for the company and its external parties, the profitability ratio is to determine the company's profit level in one period, the company's profit position in the previous and current year, the profit development, the amount of net profit after tax with own capital, and the productivity of all company funds (loan and owned capital).

Some components of return on assets (ROA) are:
1. Income: an inflow of assets or other increases in the assets of an entity or the settlement of its liabilities during a period arising from the delivery or production of goods, services, or other activities that are part of the company's main operations;
2. Loads: an outflow or other decrease in the assets of an entity or an increase in its liabilities during a period, resulting from the delivery or production of goods, services, or other activities that are part of the company's main operations;
3. Profit/Loss: an increase or decrease in the total equity (net assets) of the company from transactions, except for transactions resulting from income or investment by the owner (Kieso & Jerry, 2008).
High profitability indicates good company prospects and investors will positively respond and the company value increases. Some research proved profitability’s positive effect on company value (e.g., Dhani & Utama, 2017; Jusriani, 2013; Prapaska, 2012; Rusmini, 2016; Septia, 2015; Suwardika & Mustanda, 2017). However, Rusiah et al (2017) contended profitability negative effects on company value.

Another factor that can also affect company value is the company's growth. It is a change in total assets forming increases and decreases experienced by a company one year. Growth shows the company's ability to get itself within the overall economic system or the economic system of the same industry (Kasmir, 2010, p. 116).

The company's growth promises both internal and external parties to provide positive aspects as investors assume that the company has a favorable aspect and expect high returns from their investment. The value of companies shown in stock market value is strongly influenced by investment opportunities giving positive signals about the company's future growth.

This paper measured company growth by the proportion of asset growth, to compare the increase and decrease of the total assets, which are used for operational activities. Large assets are supposed to improve operating results. Increased assets will be followed by increased operating results. This will increase investors’ confidence in the company. Thus, company growth increases company value.

According to Samsul (2011), company growth is measured by the following formula:

\[
\text{Growth} = \frac{\text{Assets } t - \text{Assets } t-1}{\text{Assets } t-1}
\]

(1)

Where,

Assets t : Total assets for a certain period
Assets t-1 : Total assets of a certain period minus the previous period

Asset growth illustrates the growth of company assets, which the percentage change in total assets is a better indicator in measuring company growth. Dhani & Utama (2017) and Gustian (2017) argued that company growth has a positive influence on company value. However, Suwardika & Mustanda (2017) suggested that when the company's growth increases, the company's value decreases. This is contradicted with Meidiawati and Meldawati (2016) that the company's growth does not affect the company value.

Brigham and Houston (2006, p. 40) stated that a signal is the actions taken by companies to provide investors with guidance on how management views the company’s prospects. This paper used to signal theory to explain notes or descriptions, for the companies’ past, present, and future conditions allowing investors to know more about the companies’ images and catch their attention. Based on the description that has been stated above and the inconsistency of the results of previous research, this
paper examines the effect of return on assets and company growth on company value of the manufacturing companies listed on the Indonesia Stock Exchange of 2017-2019.

As in the view of Signaling Theory which is used in this study to explain notes or descriptions, both for the past, present, and future conditions about the company, so that investors will know more about the company's image so that investors are more interested in investing in the company. Based on the description that has been stated above and the inconsistency of the results of previous research, it encourages research on: "The effect of return on assets and Company Growth on Company value (case study on Manufacturing Companies listed on the Indonesia Stock Exchange 2017-2019 Period)"

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This paper aims to determine the effect of company profitability and growth on the value of manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019. Figure 1 below illustrates the research model.

Figure 1. Research Model

On that basis, this research makes the following hypotheses:

H₁: Profitability (Return on assets) has a positive effect on company value.
H₂: Growth has a positive effect on company value.
RESEARCH METHOD

This research involved manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019, with 55 samples selected by purposive sampling method. It is a sampling technique with certain considerations and criteria (Sugiyono, 2014, p. 122). With the 3-years observation, we had a total of 165 sample data to observe. The research data collection method is non-participant observation method (Sugiyono, 2014, p. 76). It was conducted by observing, recording, and studying documents such as reports of company profitability and growth and company value. The data were then analyzed by multiple linear regression analysis aided with SPSS. The data analysis included descriptive statistics, classical assumption tests, multiple regressions analysis, and model feasibility tests.

A descriptive statistical test is an overview of the research object sample. The data are to provide an initial picture of the problem under study. It focuses on the maximum, minimum, mean, and standard deviation values.

The classical assumption test aims to determine and test the feasibility of the regression model. According to Sugiyono (2014, p. 189), it comprises tests of data normality, multicollinearity, heteroscedasticity, and autocorrelation.

The normality test was carried out using the Kolmogorov-Smirnov statistic. The sample data is normally distributed if the Asymp coefficient. Sig (2-tailed) is greater than α = 0.05. The multicollinearity test is to determine the correlation between independent variables within the regression model (Sugiyono, 2014, p. 239). It is evident from the tolerance value or Variance Inflation Factor (VIF). If it is higher than 10 percent or the VIF is less than 10, it is said that there are no symptoms of multicollinearity.

The heteroscedasticity test is to examine the variance inequality of the residuals from one observation to another within the regression model (Sugiyono, 2014, p. 329). If the residual variance is constant, it is called homoscedasticity or heteroscedasticity. If none of the independent variables is greater than α> 0.05 or has a significant effect on the absolute residuals, there is no heteroscedasticity. The autocorrelation test aims to determine a correlation between the confounding error in period t and the error in period t-1 (Sugiyono, 2014, p. 314). The autocorrelation test used is the Durbin Waston Test (DW Test).

If its value already exists, the value is compared with the table value with a confidence level of 95 percent.
- If du < dw <(4-du), there is no autocorrelation,
- If dw < d1, a positive autocorrelation occurs,
- If dw > (4-s), negative autocorrelation occurs,
- If d1 < dw < du or (4-4du) < dw < (4-s), no conclusion can be drawn about the presence or absence of autocorrelation.
The multiple linear regression equation formula is:

\[ Np = \alpha + b_1Ps + b_2Pp + e \]

where,
- \( Np \): Company value (PBV)
- \( Ps \): Return on Assets (ROA) (profitability)
- \( Pp \): Growth (Company Growth)
- \( \alpha \): Constants
- \( e \): Residual Error

**RESULTS AND DISCUSSION**

The descriptive test results show that the number of observations (N) in this study is 165. The minimum profitability (Ps) value is -0.16, and the maximum value is 0.93. The mean value of profitability is 0.0990. The standard deviation is 0.14953. The minimum value for company growth (Pp) is 0.21, and the maximum value is 66.40. The mean value of company growth is 3.6142. The standard deviation is 8.40645. The minimum value of the company (Np) is -12.00, and the maximum value is 49.47. The mean of the company value is 8.6719. The standard deviation is 8.86816. The results of descriptive statistics are presented in Table 1 below.

**Table 1. Descriptive Statistics (N = 165)**

| Construct | Min.  | Max.  | M     | SD    |
|-----------|-------|-------|-------|-------|
| Y         | -12.00| 49.47 | 8.679 | 8.86816 |
| Ps        | -.16  | .93   | .0990 | .14953 |
| Pp        | .21   | 66.40 | 3.6142| 8.40645 |

*Note: M = Mean; SD = Standard Deviation*

The results of the classical assumption test, namely the normality test of the sample data distribution, were performed using the Kolmogorov-Smirnov statistic. Unstandardized Residual of figures is in the Asymp.Sig. (2-tailed) is a 0.194, which means that the residual data in this study are normally distributed. The results of the normality test are presented in Table 2 below.

**Table 2. NPar Tests**

| Construct               | Unstandardized Residual |
|-------------------------|-------------------------|
| N                       | 165                     |
| Kolmogorov Smirnov      | .218                    |
Asymp. Sig. (2-tailed) | .194

The multicollinearity test results show that the tolerance value of each independent variable is greater than 10% (0.10) and the Variance Inflation Factor (VIF) value is less than 10. This implies that the model used does not indicate multicollinearity between the independent variables. The multicollinearity test results are presented in Table 3 below.

Table 3. Collinearity Statistics

| Construct | Tolerance | VIF |
|-----------|-----------|-----|
| Ps        | .942      | 1.061 |
| Pp        | .942      | 1.061 |

Dependent Variable: Y

Furthermore, the results of the heteroscedasticity test show that the significance value of all independent variables is > 0.05, thus the independent variables do not affect the dependent variable, which means that heteroscedasticity does not occur. The results of the heteroscedasticity test are in Table 4 below.

Table 4. Heteroscedasticity Test

| Construct | T  | Sig |
|-----------|----|-----|
| Constant  | 1.609 | .109 |
| Ps        | .630 | .530 |
| Pp        | -307 | .759 |

Dependent Variable: ABRES

The autocorrelation test resulted in the Durbin-Watson value of 1.962 with 2 numbers of predictors (k = 2) and a sample size of 165 company data (n=165). Based on the DW table with a significance level of 5%, it can be determined that the value (du) is 1.7700 and (4-du) is 2.2702. Thus, the value of du < (4-du) is 1.7700 < 1.962 < 2.230. This signifies that there is no autocorrelation occurs.
Table 5. Model Summary

| Construct | Adjusted R Square | Durbin-Watson |
|-----------|-------------------|---------------|
|           | 0.581             | 1,962         |

Predictors: (Constant), Pp, Ps, Dependent Variable: Y

Table 6 presents the results of multiple linear regression.

Table 6. Regression Result

| Construct | B     | SE B  | β     | t     | Sig. |
|-----------|-------|-------|-------|-------|------|
| Constant  | 5,675 | .489  |       | 11,604| 0.000|
| Ps        | 2,069 | .583  | .185  | 3,552 | 0.001|
| Pp        | .738  | .055  | .700  | 13,429| 0.000|

Dependent Variable: Y

The results of the multiple linear regression analysis produced the following equation:

\[ Np = \alpha + b_1Ps + b_2Pp + e \]

\[ Np = 5,675 + 2,069Ps + 0,738Pp + e \]

This equation explains that the constant value (\(\alpha\)) of 5.675 is positive. This means that if the variables of profitability and company growth are assumed to be constant or equal to zero, the company value level is 5,675.

The profitability regression coefficient (Ps) of 2.069 is positive and has a significance value of 0.001 indicating that profitability has a positive effect on company value. This means that if the profitability increases by one unit while the other variables are assumed to be constant or equal to zero, the company value will increase by 2.069 units. The company growth coefficient (Pp) of 0.738 indicates a positive sign with a significance value of 0.000. This means that company growth has a positive effect on company value.

The model feasibility test of the determination (\(R^2\)) coefficient shows an important measure in regression as it tells the estimated regression model is good or not. The coefficient determination value (\(R^2\)) reflects how the variation of the dependent variable can be explained by the independent variable (Gozali, 2015, p. 97). The results of the adjusted \(R^2\) test are presented in Table 5. The value of Adjusted \(R^2\) of 0.581 or 58.1%, means that the variation of the dependent variable (company value), can be 58.1% explained by Profitability (Ps) and Company Growth (Pp), while the remaining 41.9% is influenced by other factors excluded in the research model.
The result of the F statistical test produces a value of 114.551 with a significance of 0.000. The significance value less than 0.05 indicates that the independent variable has a significant effect on the dependent variable. This concludes that the simultaneous company profitability and growth have a significant effect on the company value of manufacturing companies listed on the Indonesia Stock Exchange. The results of the F test are presented in Table 7 below.

Table 7. Anova Test Result Regression

| Construct     | F       | Sig. |
|---------------|---------|------|
| Regression    | 114,511 | 0.000|

Dependent Variable: Y, Predictor (Constant), Pp, Ps

The t-test was conducted to determine the effect of each independent variable partially on the dependent variable. Based on the regression results in Table 6, the t-test results show that the profitability (Ps) has a t-value of 3.552 and a significance value of 0.001 less than 0.05, which means that profitability has a positive and significant effect on company value. The company growth variable (Pp) has a t-value of 13.429 and a significance value of 0.000, less than 0.05, which means that company growth has a positive and significant effect on company value.

CONCLUSIONS

Our analysis leads to the conclusion that profitability affects company value. This means that the higher the company’s profitability, the higher the company’s value. High company profitability indicates the company’s good prospects thus triggering investors to join in increasing demand for shares and increasing the company value. The results of this study are in line with Dhani & Utama, (2017), Firda, Novitasari, & Dewi (2021), Jusriani (2013), Prapaska (2012), Rusmini (2016), Septia (2015), and Suwardika & Mustanda (2017) contending that profitability has a positive effect on company value. Also, company growth has a positive and significant effect on company value. High company growth increases company value. This corroborates Dhani & Utama (2017), Gustian (2017) and accords with signal theory.

Finally, a number of potential weak points of this paper need to be considered. First, this study solely conducted research on manufacturing companies listed on the Indonesia Stock Exchange (IDX). It would be beneficial that further research involved all companies on the IDX. Second, this research measured profitability and company growth effects on company value. Other variables such as foreign ownership, public ownership, company size, investment opportunity set, and liquidity need to be taken into account to develop the research and put novel insight into the company value and its determining factors.
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