

The Effect of Leverage, Growth, and Profitability of the Company on Company Value

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Abstract: This study aims to determine the effect of leverage, growth, and company profitability on firm value. which is the object of research, namely trading companies that have gone public during 2018 to 2020. This research is a quantitative descriptive study. The sample in this study were 28 companies with purposive sampling technique in taking the sample. The data analysis technique used multiple linear regression test, t test, and F test. The results showed that leverage and profitability did not have a significant effect on firm value partially, while firm growth had a significant effect on firm value partially. Leverage variables, growth variables, and profitability variables have a significant effect on firm value simultaneously or together.

Keywords: *leverage; growth; profitability; the value of the company*

INTRODUCTION

The business world that is growing rapidly is required to adapt quickly in order to be able to provide the expectations that the community and consumers want to obtain and even the expectations of investors for the company. The creation of various kinds or types of business businesses certainly creates increasingly fierce competition among business actors, whether in the form of industry, trading business, or service business. Every company in this field of course has a goal of maximizing profit. In order to maintain the survival of its business, the company must have carried out various short-term business strategies and long-term business strategies in a planned, structured, and systematic manner. The company continues to strive to increase profits in order to fulfill various company obligations that must be fulfilled to related parties. This business strategy is of course very much needed for the company so that the expected profits can be achieved according to what was previously planned. In this country, there are many companies that are classified or entered as companies in the trading sector, and many of these companies are controlled by the general public, which of course anyone can become an investor through share ownership.

The shares owned will be able to provide benefits that are commensurate with the risks. The opportunity for a high level of profit is even very high, but with the opportunity for profit, the stock also has a high risk or even a very high risk. Investors must always analyze their shares carefully and precisely in order to minimize various unwanted risks. The analysis can be done technically or financially. Analysis of the company's financial statements by using various financial ratios can certainly be useful as a consideration in determining both the stock price itself and whether or not to buy the company's shares that have been offered in general. The leverage ratio is to compare the company's liabilities with the total assets of the company as the view expressed by Fender and Lewrick (2015) and Brei and Gambacorta (2014). Fulfillment of the need for funds for companies that come from debt, it is hoped that the company can invest the funds as well as possible into the assets needed in the company's operations, so that the profits from the investments made increase in the end will also increase the value of the company itself (Fallah, 2018); (Utami, 2015); (Barth, 2018).

The company's growth is an increase in the total assets of the company concerned in the current period of time (Suwardika & Mustanda, 2017); (Kusumajaya, 2011). The rapid growth of the company certainly forces its human resources to be able to contribute to the

company as much as possible (Hanggraeni, 2012); (Huemann, et.al., 2007). So that fast growth does not mean uncontrolled cost growth, companies must have operational control by emphasizing cost control (Dhani & Utama, 2017). Growth in this research study is one of the independent variables that can affect the value of the company because the higher the company's ability to earn profits, the greater the rate of return on investment expected by investors. Therefore, companies that have high growth are generally more interested in their shares by investors so that it will automatically have an impact on increasing the value of the company (Akhmejanova, et.al., 2015); (Goyal, & Sharma, 2014).

Profitability is the company's ability to generate profits at a certain level of sales, assets and capital (Sudana, 2019). One of the important indicators for investors in assessing the company's prospects in the future is to see how far the company's profitability is growing. The higher the growth of the company's profitability, the greater the rate of return on investment expected by investors, so that the shares are more attractive to investors, which in turn will increase the value of the company (Serrasqueiro, 2009).

Company value is the selling value of a company as a business venture that is currently operating/running its business. The existence of an excess of selling value above the liquidation value is the value of the management organization that runs the company (Moniaga, 2013). Company value is the perception of shareholders (investors) on the level of success of the company in running its business which is often associated with the share price itself (Andianto, 2014); (Orens, et.al., 2009); (De Jong, et.al., 2014). High stock prices, of course, also make the company value high and increase market trust. This is not only on the company's performance that has been achieved today, but also on the company's prospects in the long term in the future. Maximizing this value is of course very important for the company, because maximizing value means maximizing the company's main goal.

RESEARCH METHODS

This research uses quantitative methods in its implementation. The population in this study are trading companies listed on the IDX during 2018 to 2020. This study uses a purposive sampling technique obtained from trading companies listed on the Indonesian stock exchange with a total of 28 companies, for a 3 year period there are 84 company data. The data collected in this study is secondary data. The data obtained in this study were obtained from the website www.idx.co.id/, the data used in this study were the financial statements of trading companies. The data collection technique used in this research is using secondary data. The dependent variable in this study is the value of companies listed on the Indonesia Stock Exchange in 2018-2020. The independent variables in this study, namely Leverage, Company Growth, Profitability. Statistical analysis method using SPSS computer program. Hypothesis testing in this study using multiple linear regression test, partial test, simultaneous test, and test the coefficient of determination.

RESEARCH RESULT

Multiple Linear Regression Analysis

Multiple linear regression analysis in this study was used to determine the effect of the independent variables leverage, firm growth, and profitability on the dependent variable firm value. The results of multiple linear regression can be seen in the table below:

Table. 1
Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	16,936	2,287		7,406	0,000
DER	-0,015	0,010	-0,162	-1,530	0,131
GROWTH	0,230	0,045	0,534	5,099	0,000
ROA	-0,128	0,140	-0,097	-0,920	0,361

Source: Secondary data processed

The multiple regression equation is as follows:

$$Y = 16.936 - 0.015 X_1 + 0.230 X_2 - 0.128 X_3$$

Information:

Y = Firm Value

X₁ = Leverage (DER)

X₂ = Company Growth (Growth)

X₃ = Profitability (ROA)

Based on the table above, the multiple linear regression test can be concluded that:

- The constant value of 16.936 indicates that if the leverage, firm growth and profitability are zero, then the firm value is 16.936.
- The value of the leverage regression coefficient is -0.015, meaning that if the leverage increases by one unit, it can reduce the firm value by 0.015.
- The value of the company's growth regression coefficient is 0.230, meaning that if the company's growth has increased by one unit, it can increase the company's value by 0.230.
- The value of the profitability regression coefficient is -0.128, meaning that if profitability has increased by one unit, it can reduce the firm value by 0.128.

Partial t Test Results

Table. 2
Partial t Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	16,936	2,287		7,406	0,000
DER	-0,015	0,010	-0,162	-1,530	0,131
GROWTH	0,230	0,045	0,534	5,099	0,000
ROA	-0,128	0,140	-0,097	-0,920	0,361

Source: Secondary data processed

Based on the table above, it can be concluded that the partial results of each independent variable on the dependent variable are as follows:

- Effect of Leverage (DER) on Firm Value

Based on the calculations presented in table 2 above, leverage has a significance value of $0.131 > 0.05$ and a t_{count} value of $1.530 < t_{\text{table}} 1.998$, which means that leverage has no significant effect on firm value.

b. The Effect of Company Growth (Growth) on Firm Value

Based on the calculations presented in table 2 above, the company's growth has a significance value of $0.000 < 0.05$ and the t_{count} value is $5.099 > t_{\text{table}} 1.998$, meaning that the company's growth has a significant effect on firm value.

c. The Effect of Profitability (ROA) on Firm Value

Based on the calculations presented in table 2 above, profitability has a significance value of $0.361 > 0.05$ and a t_{count} value of $0.920 < t_{\text{table}} 1.998$, which means that profitability has no significant effect on firm value.

F Test (Simultaneous)

Table. 3
Simultaneous Test Results

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2439,320	3	813,107	9,688	0,000
	Residual	5202,852	62	83,917		
	Total	7642,173	65			

Source: Secondary data processed

Based on the test results above, it can be seen that the significance value is $0.000 < 0.05$ and the F_{count} is $9.688 > F_{\text{table}} 2.75$. So it can be concluded that leverage, firm growth, and profitability have a simultaneous effect on firm value.

Coefficient of Determination

Table. 4
Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,565	0,319	0,385	9,16062

Source: Secondary data processed

Testing with multiple regression analysis that has been done obtained Adjusted R^2 value of 0.385. This means that 38.5% of the variation of firm value can be explained by the variables of leverage, firm growth, and profitability. While the remaining 61.5% of the firm's value can be explained by other variables not included in this research model.

Discussion

a. The Effect of Leverage on Firm Value

The results of the data analysis above, the leverage variable has a significance level of > 0.05 , which is 0.131. This shows that leverage has no significant effect on firm value. The results of this study contradict the theory put forward by several experts. Based on the trade off theory, assuming the target point of the optimal capital structure is achieved, the use of debt (leverage) reduces the value of the company. Debt will add fixed expenses regardless of the amount of income. The greater the debt, the higher the probability of bankruptcy because the company cannot pay interest and principal. The management must pay attention to the use of debt, because the amount of debt can reduce the value of the company. With the high leverage ratio indicates the company is not solvable, this shows a negative response to investors, the company value decreases.

b. The Effect of Company Growth on Firm Value

The results of the data analysis above, the company's growth variable has a significance level of <0.05 , which is 0.000. This shows that the growth of the company has an effect on the value of the company. These results prove that the better the company's growth can increase the value of the company. Company growth can be an indicator of company value. In general, companies that grow rapidly get positive results in terms of strengthening their position in the world of business competition, enjoying significantly increased sales and accompanied by an increase in market share. From the investor's point of view, the company's growth shows a positive signal and good development where the growth of a company has a beneficial impact and the company also expects a rate of return from the investment made.

c. The Effect of Profitability on Firm Value

The results of the data analysis above, the profitability variable has a significance level of >0.05 , which is 0.361. This shows that profitability has no effect on firm value. The results of this study contradict the theory put forward by experts which state that a high profitability value indicates that the company's ability to earn profits also increases, so that the company's ability to distribute dividends to shareholders will also increase. This activity will be positive information captured by investors so that it can increase market assessment of the company.

d. Effect of Leverage, Growth, and Profitability Simultaneously on Firm Value

The results of the data analysis above, the variables of leverage, company growth, and profitability simultaneously have a significance level of <0.05 , which is 0.000. This shows that leverage, firm growth, and profitability have a simultaneous effect on firm value. These results prove that the right combination of leverage, firm growth, and profitability will be able to increase firm value. The results of the analysis prove that leverage, firm growth, and profitability can explain the variation of the firm value of 38.5%. Meanwhile, 61.5% explained other variables outside this research model.

CONCLUSION

Based on the results of the study, it can be concluded that partially shows that leverage and profitability have no significant effect on firm value, while firm growth has a significant effect on firm value. Leverage, growth and profitability variables have a significant effect on firm value. So the model used is in accordance with the goodness fit model, with an effect of 38.5%. While the remaining 61.5% is explained by other variables outside the research model.

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