The Effect of Company Growth on Firm Value with Debt Policy as Moderation in Service Sector Industries

Muhammad Syahrial[1]; Yuliansyah[2]; Sudrajat[3]

[1]Faculty of Economics and Business, University of Lampung, Indonesia,
msyahrial1313@gmail.com

[2]Faculty of Economics and Business, University of Lampung, Indonesia

[3]Faculty of Economics and Business, University of Lampung, Indonesia

Accounting Department, Faculty of Economics and Business, Lampung University.

ABSTRACT

This research aims to analyze the effect of asset growth, revenue growth on Firm value, and moderated by leverage. The population in this study is non-banking service companies listed on the Indonesia Stock Exchange in the period 2014 - 2018. Sampling in this study uses a purposive sampling method which consists of 55 research samples. The data used in this study are secondary data. The analysis technique uses multiple linear regression analysis and moderated regression analysis using the classic assumption test. Test result shows (i) assets growth has a positive significant effect on firm value, (ii) revenue growth does not affect firm value, (iii) As for moderation, leverage strengthens the effect of the relationship between asset growth and firm value, (iv) However, leverage weakens the relationship between revenue growth and firm value.

Keywords: Asset Growth, Revenue Growth, Leverage, Firm Value.

INTRODUCTION

Company growth is the most important part of a business. The company needs good growth that useful for the company's survival following going concern principle. Good company growth will produce a good performance and company value. Every company business is not only determined by external factors, but also internal factors.

The competition in the business world is getting tougher and requires a lot of effort to improve in developing the company, this can be seen from the company's growth. Company growth can be measured by two indicators, revenue growth, which is higher sales growth compared to cost increases, will result increasing company profits and asset growth, which shows the level of asset development from the previous period.

Every company growth has an important meaning to continue in business activities, it is because when the company has difficulties to grow and develop, it will have an impact on the company's operational activities and can affect all aspects of the company. The growth of company assets appears as an economically significant predictor and statistic of stock returns (Cooper et al., 2008). Li et al. (2012) had a predictions of

Return for steps related to asset growth. The effect of asset growth also exists in the capital market and also the effect of asset growth also exists among the largest stocks (Gray, 2011). This makes asset growth is an important indicator in the company's activities to see developments within the company. Some previous research makes the growth of the company have the effect on firm value.

It is important to see the extent assets growth and company revenues in increasing firm value, because the assets and revenues growth make to assess the company well and keep running in accordance with the going concern principle. In addition to earning profits, the company also aims to develop and grow to increasing its value. If a company has good growth, it will get good value and can increase and attract investor. The previous research about the existence of the effect of asset growth on the equity market and the effect of significant asset growth is when using returns (Bettman et al., 2011). Good asset and revenue growth will keep the company innovated and have confidence in capital market. It also always need additional funds such as a loan from creditors or investors in addition to its own capital.

The company's growth occurs along with the company's business activities, the higher the company's growth the more valuable the company in the capital market. Capital is needed in running a business, sometimes the company must be in debt. The debt policy is a policy taken by management to obtain sources of funding from outside the company so that it can be used to finance the company's operational activities.

THEORETICAL AND DEVELOPMENT HYPOTHESES

Pecking Order Theory

Management knows more about company value than potential investors. Investors interpret the company's actions rationally. Several aspects of company financing behavior, including the tendency to rely on internal funding sources, and debt over capital if external financing is needed (Myers and Majluf, 1984). Pecking Order Theory adopted policy by a company to seek additional funds by selling its assets (Fahmi, 2014).

This theory illustrates a hierarchy of company fund planning where the level of financing starts from the company's retained earnings, followed by financing with debt and finally equity from external parties. This theory is important in this study because this theory underlies in the research that is financing the company's growth planning with debt makes the company get additional funds for additional company assets or in carrying out the company's operational activities, so the company can continue business and grow.

Signaling Theory

The market gives responding to positive and negative signals is very influential in market conditions, it will react in various ways in responding signals from managers (Spence, 1973). This theory discusses the up and down of prices in the market such as the prices of shares, bonds, and so that will influence investor's decisions (Fahmi, 2014). However, seen from the reaction of investor's signals reacting to avoid risks that will arise from market conditions that have not been profitable for investors. Managers can use more debt as a signal to investors. If debt increases, the possibility of companies going to increase bankrupt, therefore companies that increase debt are considered quite confident in managing the company, it gives a signal to investors.

Asset Growth

Growth is inseparable from going concern and profitability of a company. The growth that measures the company's ability to maintain its position within the industry and in the general economic development. The companies's development can be seen by the development of its assets and revenue, the greater the assets expected by management, the greater the operational results obtained by the company. Parta and Sedana (2018) examined the effect of company growth on firm value and the results is company growth had a positive and significant effect on firm value. So that the higher rate growth company, the greater firm value, based on these descriptions then formulated the following hypotheses:

H1: The company assets growth has a significant positive effect on firm value

Revenue Growth

Company growth is not only measured by asset growth but also revenue growth. Company growth can be measured by two indicators, revenue growth and asset growth. Sales are often used in manufacturing companies while service companies are called revenue, because service companies carry out service activities to generate income. Previous research has examined sales growth on firm value. Ermanda and Purnamawati (2017) sales growth have a significant positive effect on company profitability. Hendratmoko and Muid (2017) examine that sales growth is proven have a significant effect on Islamic Corporate Social Responsibility. Thus, the higher revenue growth level in company, the greater firm value, so that the growth rate of the company has an effect on firm value. Based on these descriptions then formulated the following hypotheses:

H2: Revenue growth has a significant positive effect on firm value

The Moderating Between Asset Growth and Firm Value

An effective debt can increase company value. However, debt that continues to grow without control will only cause a decrease its value. The debt makes control between the ability to pay or cannot pay. The higher company growth, which also means that the opportunity to grow the company is higher, the greater funds needed. For this reason, it is necessary to increase capital in form of debt. Leverage is a description of debt using by a company. Debt are more effective in reducing bankrupt risk because of management's planning responsibilities. For this reason, debt can influence to weaken or strengthen the relationship of growth and value company. so that the hypothesis can be formulated as follows:

H3: Leverage moderates the effect of asset growth on firm value

The Moderating Between Revenue Growth and Firm Value

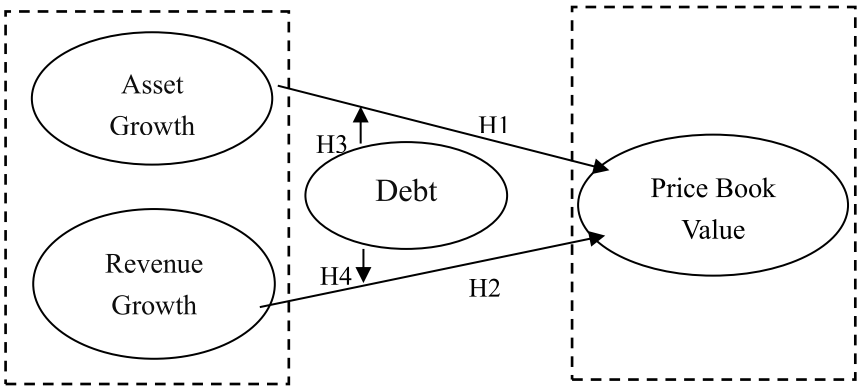
The effect of the relationship of company revenue growth on firm value is expected to be other factors that effect debt to revenue growth. Previous research has tried to examine the effect of revenue growth on firm value by moderation or intervening, as conducted by Zuhair and Nurdiniah (2018) evidence revenue growth

as a moderation and has results strengthen the effect of leverage on earnings management. Andriani (2018) examine the growth company on firm value with dividend policy as intervening and the result was sales growth having a positive effect on firm value. The higher operational needs require big capital, to get big capital can be done with leverage. To increase the higher growth rate of the revenue company, the higher value company level, and moderation with leverage is needed. Then revenue growth can get higher, or it can also be vice versa. For this reason leverage can effect to weaken or strengthen the relationship of revenue growth to firm value. Based on these descriptions then formulated the following hypotheses:
H4: Leverage moderates the effect of revenue growth on firm value.

Framework

The effect of independent variables on the dependent variable using moderating that has been described above, it can be described the framework of theoretical thought as follows:

Figure 1 Framework



METHODS RESEARCH

Sampling in this study were the service companies listed on the Indonesia Stock Exchange from 2014 to 2018. This research analyzed the effect of company growth on firm value with debt policy as a moderating on the service company by observing the financial statements form financial position reports, profit/loss statements, cash flow statements, note of financial statements, also the number of shares outstanding and prices stock.

Table Sample Research Period 2014-2018

Criteria	Number
Service companie listed on the Stock Exchange in 2014 - 2018	172
Companies that have negative assets growth	(47)
Companies that have negative revenue growth	(32)
Companies that have loss statements	(28)
Companies that do not provide complete data	(54)
Total sample of companies	11
The number of observations sample study	55

Source: Data Processed in years (2020)

Testing Data

This study using multiple linear regression with the help of software SPSS 25 application program assistance. Linear Regression equation:

PBV = α + β1 AG + β2 RG + β3 Lev + e .... (1)

PBV = α + β1 AG + β3 Lev + β4 AG*Lev + e .... (2)

PBV = α + β2 RG + β3 Lev + β5 RG*Lev + e .... (3)

Description :

PBV = Price Book Value

AG = Asset Growth

RG = Revenue Gowth

Lev = Leverage

α = Constanta

β = Regression coefficient

e = *Error*

Measurement of Variable

Variable	Measurement variable
Asset Growth	Total Asset – Total Asset t-1 / Total Asset t-1
Revenue Growth	Total Revenue –Total Revenue t-1 / Total Revenue t-1
Leverage	Total Debt / Total Asset
Price Book Value	Stock Price / Book Value

DISCUSSION AND ANALYSIS

Descriptive Statistics

Analyzing descriptive statistics to explain the average value of statistics and standard deviations that compare between Assets Growth, Revenue Growth, Leverage, and Prive Book Value variables. More specifically, a further explanation regarding statistics can be seen in the following table.

Descriptive Statistics

Variable	N	Range	Min	Max	Sum	Mean	Standart Deviation
Asset Growth	55	0.6946	0.0975	0.7921	23.5098	0.427451	0.5097468
Revenue Growth	55	0.6589	0.0938	0.7527	23.3548	0.424632	0.1639457

Leverage	55	1.1918	0.4109	1.6027	55.8451	1.015365	0.1466048
PBV	55	1.8902	0.6306	2.5208	75.7091	1.376528	0.3208222

Source: Data Processed Results (2020)

The result show the maximum and minimum values of each variable in 11 companies multiplied by 5 years of observation. There is a minimum value of asset growth at a value of 0.0975 and maximum of 0.7921 with a total of 23,508 with an average of 0.427451 and a standard deviation of 0.50974 during the research period of 2014 - 2018.

The minimum value on revenue growth is at 0.938, the maximum at 0.7527 with a total of 23.3548, an average of 0.424632 and a standard deviation of 0.16394 during the research period of 2014 - 2018 on service companies listed on the Indonesia Stock Exchange. The minimum value on Leverage is at 0.4109, the maximum at 1.6027, the total of research data 55.8451, an average research data of 1.015365, and a standard deviation of 0.1466048 during the research period of 2014 - 2018 In service companies listed on the Indonesia Stock Exchange. The minimum value on the Prive Book Value (PBV) is at the value of 0.6306, the maximum value is 2.5208, a total of 75.7091, an average research data of 1.376528, and a standard deviation of 0.3208222.

Test Results Coefficient of Determination

Table Test Results Coefficient of Determination

Model	*R*	R^2	Adjusted R Square	F	Sig
1	0.486	0.237	0.192	5.268	0.003
2	0.518	0.268	0.225	6.219	0.001
3	0.402	0.162	0.113	3.286	0.028

Source: Data Processed Results (2020)

The results regression of the model 1 testing explained that the R square value of 0.237 or 23.7%. While Adjusted R Square of 0.192 or of 19.2%, and the remaining 80.2% is explained by causes outside the model. After moderation in model 2, there was an increase that obtained R square value of 0.268 or 26.8%, which was previously 0.237 or 23.7% an increase of 3.1%. Adjusted R Square of 0.225 or 22.5% also increased from 0.192 or 19.2%, up 3.3% from the previous, while the remaining 77.5% was explained by causes outside the model. In Model 3 After moderation, there was a decrease after moderation, it was found that the value of R square decreased to 0.162 or 16.2% which was previously 0.237 or 23.7% an or decreased by 7.5% from before with the indicated weakening of the model. Adjusted R Square of 0.113 or 11.3% also decreased from 0.192 or 19.2%, down 7.9 % from the previous, while the remaining 88.7% was explained by causes outside the model.

The results show that the level of significance for Asset Growth, Income Growth, Leverage and Prive Book Value variables. The result in model 1 F-value of 5,268 with a significance value of 0.003 indicates that the P-value is less than 0.05, the dependent variable is PBV statistically acceptable because it is significant at 0.05. This shows that there is significance between the independent variable has a significant effect on the dependent variable.

The Results Statistics

Hypothesis testing determine the significance effect of the independent variables and dependent variable after testing the classical assumptions. This test is carried out using multiple linear regression at 95% confidence level and an error in the analysis of 5%. Following are the results of hypothesis testing:

Table The Results Statistics test

Model		Unstandardized		Standardized	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.134	0.299		3.787	0.000
	AssetGrowth	1.055	0.453	0.339	2.327	0.024
	RevenueGrowth	0.378	0.507	0.109	0.745	0.460
	Leverage	-0.363	0.195	-0.228	-1.857	0.069

Source: Data Processed SPSS Results (2020)

Effect of asset growth on firm value

Hypothesis testing shows that the regression coefficient (β) is 1.055, while in the column significance shows that the value of asset growth has 0.024 less than 0.050, the results can be stated that the asset growth variable effect to Price Book Value. Thus, it can be concluded that Hypothesis 1 can be accepted. Based on data analysis, it is proven that asset growth has a significant positive effect on firm value**.**

Effect of Revenue growth on firm value

The result shows that the value of the regression coefficient (β) is 0.378, while in the column sig (significance) shows that the value of income growth has 0.460 more than 0.05, the results can be stated that the income growth variable does not effect to Price Book Value.

The Moderating Between Asset Growth and Firm Value

Table The Results Statistics Test (Moderation)

Model		Unstandardized		Standardized	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	1.996	0.538		3.712	0.001
	AssetGrowth	-0.594	1.164	-0.191	-0.510	0.612
	Leverage	-1.207	0.540	-0.760	-2.237	0.030
	Mod_GAssetLeverage	2.002	1.206	0.782	1.661	0.103

Source: Data Processed SPSS Results (2020)

Testing Results in the table explains that the value of asset growth of 0.612 is higher than 0.05, which means it is not significant, while the leverage variable with a value of 0.030 is smaller than 0.05, which means significant and the moderation value of assets and leverage of 0.103 is higher than 0.05, which means it is not significant.

The Moderating Between Revenue Growth and Firm Value

Table The Results Statistics Test (Moderation)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
3	(Constant)	1.757	0.736		2.387	0.021
	RevenueGrowth	0.005	1.673	0.001	0.003	0.998
	Leverage	-0.823	0.730	-0.518	-1.128	0.264
	Mod_GRevenueLeverage	1.059	1.692	0.391	0.626	0.534

Source: Data Processed SPSS Results (2020)

The result explain that revenue growth value is 0.998 higher than 0.05 which is not significant, while the leverage variable with a value of 0.264 is higher than 0.05 and the moderation value of revenue growth and leverage is 0.534 higher than 0.05. This means that those variables have not a significance value, moderating regression test weaken the relationship between revenue growth and firm value.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The research aims to determine the Asset Growth, Revenue Growth, and Firm Value With Leverage as a Moderating in service company in 2014 to 2018 on the Indonesia Stock Exchange. From the results, it can be concluded that:

1. Asset growth has positive effect firm value, which mean that higher asset growth make higher firm value.
2. There is a strength relationship between asset growth and firm value when moderated by leverage.
3. Revenue growth has no effect firm value.
4. The relationship between revenue growth and firm value statistically when moderated by leverage weaken the relationship between revenue growth and firm value.

Suggestion

For further research to enhance the study were as follows:

1. The study further recommended adding other variables such as business risk in debt and strengthen the investment decision making for investor.

2. The study further recommended used larger sampling company on future studies to enhance the reseach.
3. This study only uses financial statement by projecting each ratio to one variable used, it can be expanded by using other variables, such as intervening variables or moderation variables based on research analysis.

References

Andriani, Leang. 2018. Pengaruh Profitabilitas Dan Pertumbuhan Penjualan Terhadap Nilai Perusahaan Dengan Kebijakan Deviden Sebagai Variabel Intervening. Jurnal Ekobis Dewantara.

Bettman, Jenni L. Mitch Kosev and Stephen J Sault. 2011. Exploring the asset growth effect in the Australian equity market. Australian Journal of Management.

Cooper, Michael J. Huseyin Gulen and Michael J Schill. 2008. Asset Growth and the Cross-Section of Stock Returns. The Journal of Finance.

Ermanda, Yulisa. Hilda Purnamawati. 2017. Pengaruh Perputaran Modal Kerja Dan Pertumbuhan Penjualan Terhadap Profitabilitas. Jurnal SIKAP.

Fahmi, Irham. 2014. Manajemen Keuangan Perusahaan dan Pasar Modal. Jakarta: Mitra Wacana Media.

Gray, Philip. Jessica Johnson. 2011. The Relationship Between Asset Growth and The Cross-Section of Stock Returns. Journal of Banking & Finance.

Hendratmoko, Agung. Abdul Muid. 2017. Pengaruh Profitabilitas, Ukuran Perusahaan, dan Pertumbuhan Penjualan Terhadap Pengungkapan ICSR Lembaga Keuangan Syariah di Indonesia. Diponegoro Journal of Accounting.

Li, Xi. Ying Becker and Didier Rosenfeld. 2012. Asset Growth and Future Stock Returns: International Evidence. Financial Analysts Journal.

Myers, Stewart C. Nicholas S Majluf. 1984. Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have. Journal of Financial Economics.

Spence, Michael. 1973. Job Market Signaling. The Quarterly Journal of Economics.

Parta, Kadek Ayu Citra Pradnya Paramita. Ida Bagus Panji Sedana. 2018. Peran Struktur Modal Dalam Memediasi Pengaruh Pertumbuhan Perusahaan Terhadap Nilai Perusahaan Pada Perusahaan Properti di BEI. Jurnal Manajemen Unud.

Zuhair, Muhammad Sayyid. Dade Nurdiniah. 2018. Dampak Konvergensi IFRS dan Leverage Terhadap Manajemen Laba Dengan Pertumbuhan Penjualan Sebagai Variabel Moderasi. Jurnal Riset Manajemen dan Bisnis.