The Effect of Sales Growth and Profitability on Company Value with Debt Policy as Moderating Variables

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ABSTRACT

Financial ratio have several function for strategic decision making. Several ratio such as profitability or sales growth are the most important for capital market signal. This Research aims to examine the effect of sales growth and profitability with debt policy as the moderating variable on the value of the manufacturing industry sub-sector of the consumer goods industry listed on the Indonesia stock exchange in 2018-2020. With a total sample of 165 companies. The research methodology is quantitative with multiple linear regression testing with SPSS V23 data processing tools. Based on the result of model 1 testing, the result showed that sales growth had no effect on firm value, and profitability has a positive effect on firm value. The result of model 2 testing, the resulting research shows that sales growth has a positive effect on firm value, Profitability has a positive effect on firm value, debt policy does not moderate the effect of sales growth on firm value and debt policy does not moderate the effect of profitability on firm value.

Keywords: Sales Growth, Profitability, Debt policy and Firm Value

Introduction

All companies are places to carry out production activities, both goods and services, and a gathering place for all factors of production. In addition, the company can also be defined as an institution in the form of an organization that is operated with the aim of providing goods and services to the community with incentives or profit motives. The main purpose of the company is to increase the prosperity of its owners in this case the shareholders by increasing the value of the company. The higher the share price of a company, the earnings of shareholders will also increase and have a good impact on increasing company value (Triyono, et al. 2017). Profitability is one of the factors that affect firm value (Amirya and Atmini, 2007). Profitability is the company's ability to generate profits at a certain level of sales, assets and capital (Hanafi, 2009). 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.

Firm value is a value that reflects what price investors are willing to pay for a company. High stock prices make the value of the company also high. Maximizing the value of the...
company is very important for a company, because maximizing the value of the company also means maximizing the prosperity of shareholders which is the company’s main goal. (Nurlela and Ishaluddin, 2008) and (Kusumadilaga, 2010) state that company value is the price that prospective buyers are willing to pay if the company is sold. The value of the company can describe the state of the company. With good company value, the company will be viewed favorably by potential investors, and vice versa. High company value indicates good company performance. High growth companies are preferred to take advantage of investments that have good prospects. The theory of free cash flow hypothesis presented by (Jensen, 1986) states that companies with higher growth opportunities will have low free cash flow because most of the existing funds are used for investment in projects that have a net value. Present Value (NPV) is positive. Managers in business companies by paying attention to sales growth prefer to invest after-tax income and expect the performance of dividends to be stronger in the overall growth of the company (Charitou and Vafeas, 1998).

Companies listed on the Indonesia Stock Exchange are still grouped into nine sectors including agriculture, basic industrial manufacturing, various industries, consumer goods industry, property, basic utility infrastructure, finance, trade in goods and services. In this study, researchers chose companies that are members of the manufacturing industry. Manufacturing companies are companies whose activities are buying raw materials, processing raw materials and then selling them. Based on the results of research (Hermuningsih, 2014) states that profitability has a positive and significant effect on firm value. The results of this study are consistent with the results of research conducted by (Susanti, 2010) which states that profitability has a positive and significant effect on firm value. High profitability gives an indication of good company prospects so that it can trigger investors to participate in increasing the demand for shares which can increase the value of the company. Debt policy, debt is an external funding source obtained by the company to run its operations. The company’s debt policy is an action by company management that will fund the company by using debt capital. (Brigham and Houston, 2011) debt policy is a policy regarding the decisions taken by the company to run its operations using financial debt or financial leverage. From this description, it can be concluded that the debt policy is a policy taken to fund the company’s operational activities.

This Research aims to examine the effect of sales growth and profitability with debt policy as the moderating variable on the value of the manufacturing industry sub-sector of the consumer goods industry listed on the Indonesia stock exchange in 2018-2020.

**Hypothesis Development**

**Effect of Sales Growth on Firm Value**

Research that examines sales growth on company value was conducted by (Dewi and Sujana, 2019), the results showed that sales growth had a positive effect on company value, the results of the study were similar to research conducted by (Apriliyanti, et al., 2019) which showed sales growth had a positive effect on sales value. Higher sales growth will have an impact on the better the value of the company, based on previous research, the hypothesis is as follows:

H1: Sales Growth has a positive effect on Firm Value

**Effect of Profitability on Firm Value**

The company in order to maintain its business continuity so that it can last in the long term, this is because profitability shows whether the company has good prospects in the future or not. According to (Kasmir, 2010) profitability is a factor that can affect company value. If managers are able to manage the company well, the costs incurred by the company will be smaller so that the profits generated will be greater. The size of this profit will affect the value of the company.

Profitability is the company’s ability to generate profits. (Susilawati, 2012) also explained that profitability describes a company’s ability to earn profits through all existing capabilities and resources such as sales activities, cash, capital, number of employees, number of branches, and so on. His. The high
profitability of the company can affect the value of the company and it depends on how investors perceive the company’s profitability to increase. Profitability is an indicator often used by investors to see the value of a company. Profitability is the main attraction for company owners (shareholders). Because profitability is the result obtained through management efforts for the funds invested by shareholders and profitability also reflects the distribution of profits that become their rights, namely how much funds are invested back and how much is paid as cash dividends or stock dividends to the shareholders (Jusriaini and Rahardjo, 2013).

H2: Profitability has a positive effect on firm value.

The Influence of Debt Policy as a Moderating Variable of Sales Growth and Profitability on Firm Value

The value of debt owned by the company reflects the risk to the company’s liquidity, this will have an impact on sales growth, profitability, dividend policy taken by the company or in this case there is a priority scale that is considered by management to be given to shareholders, so that the debt policy is assessed able to moderate the effect of dividend policy on firm value.

H3 and H4: Debt policy strengthens/weaken the effect of sales growth and profitability on firm value

Material and Methods

The population that will be used in this study is a sub-sector of consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the years 2018-2020. In this research, the data used in the preparation of this thesis is a quantitative research method with a descriptive and associative problem formulation approach, because of the variables to be studied in relation to it and its purpose is to present a structured, factual description of the facts and the relationship between the variables studied.

Result

First Model Hypothesis Test Results

Hypothesis testing in this study is used to test the effect of the independent variables, namely Sales Growth (X1), Profitability (X2) and Debt Policy (X3) on the dependent variable, namely Firm Value (Y). Hypothesis testing is done by using the F test and t test.

The Results of The First Model of The Joint Regression Coefficient Test (F test)

The joint regression coefficient test (F test) was conducted to determine the ability of all independent variables used in this study to influence the dependent variable together. The F test is also used as an explanation of the independent variable to the dependent variable and to test whether the research model is feasible to use. The basis for making decisions from the F statistic test is as follows:

a. If $F_{count} > F_{table}$ or Sig value < 0.05 then the research model is feasible to use.
b. If $F_{count} < F_{table}$ or Sig value > 0.05 then the research model is not feasible to use.

Based on table 1, it can be seen that the significance value is 0.000, this indicates that 0.000 <0.05. So it can be concluded that the independent variables consisting of Sales Growth and Profitability jointly affect the dependent variable, namely Firm Value. And the
variables in this study were declared suitable for use or included in the research model.

**Partial Coefficient Test Results (t-test) The First Model**

The partial coefficient test is used to show how far the influence of the independent variables individually affects the dependent variable. The t statistic test can be known from the calculated t value or the significance value (sig.) of each independent variable.

The basis for making decisions based on the t value is:

a. If t count > t table, then there is a partial effect between the independent variable and the dependent variable.

b. If t count < t table, then there is no partial effect between the independent variable and the dependent variable.

While the basis for decision making based on the level of significance, namely:

a. If the significance value is 0.05, it is stated that partially the independent variable has an effect on the dependent variable.

b. If the significance value is > 0.05, it is stated that partially the independent variable has no effect on the dependent variable.

The results of hypothesis testing by using a partial coefficient test (t test) can be seen in the following table:

**Table 2. Partial Coefficient Test Results (t-test) First Model**

<table>
<thead>
<tr>
<th>Model</th>
<th>UnStd B</th>
<th>Coef.Std Error</th>
<th>Std Coef B</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>9.482</td>
<td>3.875</td>
<td>2.447</td>
<td>.015</td>
<td></td>
</tr>
<tr>
<td>SG_ABS</td>
<td>18.595</td>
<td>15.096</td>
<td>.097</td>
<td>1.232</td>
<td>.220</td>
</tr>
<tr>
<td>ROE_Profit4</td>
<td>12.804</td>
<td>6.992</td>
<td>.144</td>
<td>1.831</td>
<td>.069</td>
</tr>
</tbody>
</table>

*Note: Dependent Variable: NP; Significance using 1%, 5% and 10% assumptions*

Based on table 2, the conclusions that can be drawn are as follows:

a. Sales growth (SG) has no effect on firm value at a significance level of 10% (0.220 > 0.10), thus H1 is rejected.

b. Profitability (ROE) has a positive effect on firm value at a significance level of 10% (0.069 < 0.10), thus H2 is accepted.

**The Results the Coefficient of Determination (R2) For the First Model**

The coefficient of determination test was conducted to find out how far the model’s ability to explain the variation of the independent variables was. If the research uses simple regression analysis, then what is used as a consideration is the R Square value. However, when using multiple regression analysis, what is used as a consideration is the Adjusted R Square value. In this study using multiple linear regression analysis, so that what is seen is the value of Adjusted R Square. The value of the coefficient of determination is between 0 to 1. If the value is close to 0, it shows that the independent variables in explaining the dependent variable are very limited. Meanwhile, if the value is close to 1, then the independent variable almost provides all the information needed to predict the dependent variable. The results of the coefficient of determination test can be seen in the following table:
Table 3. Determinance (R²) the first model

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>Adj R Square</th>
<th>Std Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.159</td>
<td>.025</td>
<td>35.7207</td>
</tr>
</tbody>
</table>

Note: Dependent Variable: NP; Predictors: (Constant), ROE_Profit4, SG_ABS. The Coefficient of mode 1 determination (13%)

Based on table 3, it can be seen that the value of Adjusted R Square is 0.013 or 1.3%. This means that the ability of the independent variable consisting of sales growth and profitability can explain the effect on the dependent variable, namely the firm value of 1.3%. While the remaining 98.7% (100% - 1.3%) was influenced by other independent variables that were not included in this study.

Second Model Hypothesis Test Results

Results of the Simultaneous Regression Test (F Test) of the Second Model

The results of hypothesis testing using the F test can be seen in the following table:

Table 4. Results of the Regression Coefficient Test Together (Test F) for the second model

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regres-</td>
<td>80508.323</td>
<td>5</td>
<td>16101.665</td>
<td>19.253</td>
</tr>
<tr>
<td>Resid-</td>
<td>131301.107</td>
<td>157</td>
<td>836.313</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>211809.430</td>
<td>162</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Dependent Variable: NP; Predictors: (Constant), VAR1, SG_DAR, ROE_Profit4, SG_ABS, ROE_DAR

Based on table 4 in the second model test, it can be seen that the significance value is 0.000, this indicates that the significance is 0.000 < 0.05. So it can be concluded that the independent variables consisting of Sales Growth, Profitability and debt policy together affect the dependent variable, namely Firm Value. And the variables in this study were declared suitable for use or included in the research model.

The Results of The Partial Regression Coefficient Test (t test) of The Second Model

The results of hypothesis testing by using a partial coefficient test (t test) can be seen in the following table:

Table 5. Partial Regression Coefficient Test Results (t-test)

<table>
<thead>
<tr>
<th>Model</th>
<th>UnStd B</th>
<th>Coef.Std Error</th>
<th>Std Coef B</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>7.478</td>
<td>4.122</td>
<td>1.814</td>
<td>.072</td>
<td></td>
</tr>
<tr>
<td>SG_ABS</td>
<td>36.198</td>
<td>19.812</td>
<td>.189</td>
<td>1.827</td>
<td>.070</td>
</tr>
<tr>
<td>ROE_Profit4</td>
<td>26.074</td>
<td>11.559</td>
<td>.294</td>
<td>2.256</td>
<td>.058</td>
</tr>
<tr>
<td>SG_DAR</td>
<td>-</td>
<td>12.145</td>
<td>-</td>
<td>-</td>
<td>.128</td>
</tr>
<tr>
<td>ROE_DAR</td>
<td>18.575</td>
<td>.340</td>
<td>1.529</td>
<td>.135</td>
<td></td>
</tr>
<tr>
<td></td>
<td>15.836</td>
<td>.360</td>
<td>1.502</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Dependent Variable: NP; Significance using 1%, 5% and 10% assumptions
Based on the table 5, the conclusions that can be drawn are as follows:

a. Sales growth (SG) has a positive effect on firm value at a significance level of 10% (0.07 < 0.10)

b. Profitability (ROE) has a positive effect on firm value at a significance level of 10% (0.025 < 0.10)

c. Debt policy is not proven to moderate the effect of sales growth on firm value at a significance level of 10% (0.128 > 0.10)

d. Debt policy is not proven to moderate the effect of profitability on firm value at a significance level of 10% (0.135 > 0.10)

The Results of the Coefficient Of Determination (R2) Test Results For The Second Model

The results of the coefficient of determination test can be seen in the following table:

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adj R Square</th>
<th>Std Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.200</td>
<td>.040</td>
<td>.016</td>
<td>35.7753</td>
</tr>
<tr>
<td>a</td>
<td></td>
<td>.004</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Dependent Variable: NP; Predictors: (Constant), ROE_Profit4, SG_ABS. The Coefficient of mode 1 determination (16%)

Based on table 6, it can be seen that the value of Adjusted R Square is 0.016 or 1.6%. This means that the ability of the independent variables consisting of sales growth, profitability and debt policy can explain the effect on the dependent variable, namely the firm value of 1.6%. While the remaining 98.4% (100% - 1.6%) is influenced by other independent variables that are not included in this study.

Discussion

The Effect of Sales Growth as Measured By sales Growth on Firm Value

The test results in the first model (without moderation) sales growth has no effect on firm value, but in the second model Sales Growth as measured by Sales Growth (SG) has a positive effect on firm value at a significance level of 10%. The results of this study are in line with previous researchers, namely (Hermuningsih, 2013), (Dyah and Lailatul, 2017), (Ayu and Ary Wirajaya, 2013), (Amhad et al, 2012), (Chandra et al, 2017) which states that Sales Growth has a positive influence on firm value. This study states that sales growth as measured by Sales Growth (SG) has a positive influence on firm value, this can be reflected in the better the value of a company's shares.

The Effect of Profitability Measured Using Return on Equity (ROE) on Firm Value

The test results on the first model and the second model show that Profitability as measured by Return on Equity (ROE) has a positive effect on firm value. The results of this study are in line with previous researchers, namely, (Prabowo & Ulil, 2018) which states that profitability has a positive and significant influence on firm value. (Rahayu, 2010) states that return on equity has a significant effect on firm value, the reason being that management works well and economic conditions. In this study, it is stated that profitability as measured by return on equity (ROE) has an influence on firm value, this positive effect indicates that profitability is a positive signal for investment decision makers. Profitability is the company's ability to be able to manage revenue and costs optimally so that shareholders will feel benefited. Shareholders who are satisfied because they get a profit share will be a signal for other potential investors so that the value of the company will be higher.
Debt Policy Can Strengthen/Weak the Influence of Sales Growth and Profitability on Firm Value

In the second model, namely the moderation test model, the test results show Debt policy as a moderating variable is not proven to moderate the effect of sales growth and profitability to the value of the company. This insignificant result can be this is possible because the closeness of the average debt level of 0.5 with a minimum value of 0.00 compared to the maximum value of 8.3, it is feared that the level of debt will not be able to be reflected in the sample of this study, where the relatively small value of debt also has an impact on the loss of exposure from investors, or in other words investors and the market do not see debt policy as something that has a significant impact in the sample of this study. Furthermore, the results of the monitoring variable of debt policy that are not proven to be moderating are also possible because the companies that are the sample of this study are public companies listed on the stock exchange, so it is possible that management is aware that adequate debt management is needed because debt and liquidity issues will have a bad impact on company's reputation.

Conclusion

The results of the research on testing models 1 and 2, the conclusions obtained are as follows:

1. Based on the test results of model 1
   a. Sales growth has no effect on company value in manufacturing companies in the consumer goods industry sub-sector listed on the IDX in 2018-2020.
   b. Profitability has a positive effect on firm value in manufacturing companies in the consumer goods industry sub-sector listed on the IDX in 2018-2020.

2. Based on the results of model 2 testing during moderation
   a. Sales growth has a positive effect on company value in manufacturing companies in the consumer goods industry sub-sector listed on the IDX in 2018-2020.
   b. Profitability has a positive effect on firm value in manufacturing companies in the consumer goods industry sub-sector listed on the IDX in 2018-2020.
   c. Debt policy has not been proven to moderate the effect of sales growth on firm value in manufacturing companies in the consumer goods industry sub-sector listed on the Indonesia Stock Exchange in 2018-2020.
   d. Debt policy is not proven to moderate the effect of profitability on firm value in manufacturing companies in the consumer goods industry sub-sector listed on the IDX in 2018-2020.

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References


