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Effect of Financial Performance on Company Growth with Company Size as Moderating Variable

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Abstract*—The purpose of this research is to analyze the effect of financial performance on company growth with the company size as a moderating variable on companies that entered the Jakarta Islamic Index stock which registered on the Indonesia Stock Exchange 2014-2016. This study measures the financial performance by using Return On Equity (ROE), company growth by using Price Earning Ratio, company size by using log natural. The sample of this research is a manufacturing company listed on Indonesia Stock Exchange 2014-2016. By using panel data analysis with moderating regression, the results of this study indicate that financial performance has positive effect on the growth and size of the company as a moderating variable financial performance on the company with significant growth. Therefore, the conclusion of this research is company size serves as moderating variable between financial performance on company growth.

***Keywords*—Financial Performance, Company Size, Company Growth**

I. INTRODUCTION

Indonesia begins to enter the era of ASEAN Economic Community (MEA). Goods and services from all over ASEAN countries will be freer to enter Indonesia. Viceversa, the export of goods and services from Indonesia to those countries will be freer as well. Not to mention the rapid growth of globalization era causes many new comapnies invest their shares in Indonesia. The shares can provide high profit opportunity, yet with a high risk as well. The development of economic growth has important roles investment opportunity for the companies [1]. Investors need to analyze stocks appropriately to minimize the expected risk.

One way to improve Indonesia's economy at this time is by investing in the capital market.The capital market is the market for various long-term financial instruments that can be traded either bonds, stocks, mutual funds, derivative instruments or other instruments. Investing activities of investors require a complete information about the condition and performance of the company to be invested in order to minimize losses on risks that may arise in their investment activities. One of the media that is frequently used by investor to analyze company performance is financial report. Financial condition and operational results of the company are reflected in the company's financial statements, in essence the financial statements is a summary of the end result of a company's accounting activities in a certain period. Before analyzing financial data, investors need the analysis of these financial statements in order to create a policy in their investment activities. For investors, the most important is the rate of return of capital that has been or will be invested in a company [2] [3].

The financial statements are prepared in order to provide information on the condition of the company to various parties consisting of balance sheet, income statement, own capital report, and statement of financial position changes. The purpose of the company in general is to seek maximum profits and pursue growth for the sake of the company. Growth percentage represents the change in total assets owned by the company either up or down. The financial performance has an effect on the growth of the company. It means that the amount of assets owned by the company can affect the productivity and efficiency of the company.

The abundance of resources in Indonesia, triggered investors to invest their capital in Indonesia, especially in the property and real estate sectors. Basically Price Earning Ratio (PER) shows us when it is approximately the price of a stock will be a turnover. Price Earning Ratio (PER) will also be changing, following market price changes and the company's net profit projection. If the price rises, then the profit projection will remain, then the Price Earning Ratio (PER) will rise. Conversely, if the profit projection rises, the price in the market does not move then the Price Earning Ratio (PER) will fall [4].

Price Earning Ratio (PER) describes the market's appreciation to the company's ability to generate profit. For the investors, the smaller Price Earning Ratio (PER) of a stock is, the better it is, because the stock is cheap [5]. Financial performance in this research use Return On Equity. Return On Equity (ROE) is return on equity of ordinary shares resulting from shareholders' investation [6]. If ROE increases due to shareholder equity that indicates the company is moving more toward to debt financing [7]. Based on the description above, the author is interested in conducting research entitled Effect Of

Financial Performance To Firm Growth With Firm Size As A Moderating Variable.

In order to clarify the understanding, in this article has been summarized theoretical framework as follows:

A. Financial performance

Financial performance is an analysis conducted to see how far a company has implemented by using the rules of financial implementation properly and correctly [8]. Financial performance is the determination of certain measures that can measure the success of a company in generating profit. Company financial performance at the end of the period should be evaluated to determine the development of the company. This competitive benchmarking approach is a comparative process on company performance [9]. *Return On Equity* can be used to measure a company's ability to earn profits available to its shareholders [10]. ROE is important for investors, because *Return on equity* is an important indicator to assess the prospects of the company in the future, so the higher the value of *Return on equity* then the better the prospects of the company in the future will be, because the profit generated by the company increased. This will attract investors to buy shares of the company that will increase stock demand so that the stock price increases, and vice versa**.** *Return on equity* effects on stock prices that ultimately also can affect *Price Earning Ratio*. The company's financial performance is useful for evaluating changes on the basis of the company's resources whether it shows an increase, static, or decline. Then with the information about these changes, the company's managers can know the advantages and disadvantages of the companies they manage. So that managers can immediately take decisions that are pleased with the advantages and disadvantages of the company they lead. If there is a shortage, the manager must correct the disadvantage and if it is good already, the manager must mantain or even increase it. Financial performance can be said as a result achieved by the company for various activities undertaken in utilizing available financial resources. Financial performance can be seen from the analysis of financial statements or financial ratio analysis [11].

B. Company size

The size of the company shows the ability of companies to make business activities to generate profits that will affect the stock price of the company. The size of the *total assets* is the entire assets owned by the company, consisting of current assets and fixed assets. Company size is a scale which can be classified large or small of a company is [12]. The size of the company can be classified in various ways such as the size of income, number of employees, log size, total assets, and total capital. Company size is basically grouping companies into several groups, including large, medium and small. Company scale is a measure used to reflect the size of the company that is based on the total assets of the company [13].

The size of the company is determined based on its business field and the scale of company size is determined based on total sales, total assets, average sales rate [14]. Large firms have greater and extensive access to obtain outside funding sources, so getting a loan will be easier because it is said big opportunity to win the competition or to survive in the industry [15]. The Company size that can be used to determine the level of the company are:

1) Labor is the number of permanent employees and honorary workers registered or working in the company at any given moment.
2) Sales level, is the sales volume of a certain period
3) Total debt is the amount of debt the company has for a certain period
4) Total assets are all assets owned by the company at any given time [16].

The large *total assets* of a company shows its ability to fund profitable investments, demonstrate capabilities in funding corporate activities, as well as the ability to expand market share, leading to better prospects for earnings and dividends growth in the future. Then, the greater the totalassets, positively affect the greater the value of PER companydemonstrate capabilities in funding corporate activities, as well as the ability to expand market share, leading to better prospects for earnings and dividends growth in the future. Therefore, the greater of total assets are, will positively affect the great value of PER company.

C. Company Growth

Asset growth represents an assumption of future assets against an increase or decrease in a company's assets by comparing the assets of the current year to the assets of the previous year. Nevertheless, in this research the author only uses the Price Earning Ratio.

Price Earning Ratio is a measure of stock performance based on the comparison between the stock market price to earnings per share [17].

Price Earning Ratio used in this study is to assess the fairness of stock prices, because Price Earning Ratio facilitates or helps judgment analyst. Although the Price Earning Ratio is recognized as a relatively simple analysis, yet it helps stock analysts to centralize their judgment on important variables.

The purpose of Price Earning Ratio is to see how the market appreciates the performance of the company reflected by Earning Per Share [18]. Price Earning Ratio shows the relationship between the common stock market with Earning Per Share . The greater the Price Earning Ratio of a share then the share price will be more expensive to the net income per share. The growth rate of a company is a determinant of stock prices, the higher the growth rate the higher the Price Earning Ratio. Therefore, the Price Earning Ratio can be used as an indicator of expected growth rate. The high growth opportunity of the company usually has a high Price Earning Ratio as well, and this indicates that the market is expecting Future Earning growth. Conversely, the low company growth level tends to have a low Price Earning Ratio as well. The lower the Price Earning Ratio of a share, then the better or cheaper price to be invested. Price Earning Ratio becomes low in value could be due to stock prices tend to decrease or due to increased net profit of the company. Thus, the smaller the value of Price Earning Ratio the cheaper the stock price to be purchased and the better

the performance per share in generating profit for the company. The better performance per share will affect many investors to buy the stock.

D. Conceptual Framework

1) The Influence of Financial Performance on Company Growth: Return on equity shows the effectiveness of the company in utilizing funds derived from the owner and/or the effectiveness of the company using funds originating from other sources for the benefit of the company. The increasing of the EPS causes the price-sharing of shares with EPS to decline, so this causing the value of Price Earning Ratio to decline as well. This ratio shows the efficiency of own capital use [19]. The higher Return on Equity owned, the greater and more effective the company's performance in obtaining profit. The high Return on Equity often reflects the company's acceptance of good investment opportunities and cost-effective management [20]. The higher the ratio, the better position of the company owner is getting stronger. This is supported and in accordance with the results of previous research found that ROE has a significant effect on Price Earning Ratio [21]. The higher this ratio, the better it will be, because it gives higher rate of return to the shareholders. The increasing of Return on Equity is due to an increase in corporate profits, because stock prices reflect capitalization of expected earnings, thus it certainly will lead to an increase in Price Earning Ratio. The results of this study in accordance with the results of research which concluded that the Return On Equity has positive effect on Price Earning Ratio [22] [23].

2) The Influence of Financial performance on company growth with company size as moderating variable: If by including company size variable will be able to improve the relationship between financial performance and growth of the company, then the size of the company is said to successfully moderate the relationship between finance and growth of the company and conversely if by including company size variable lower the relationship between the finance and the growth of the company, then the company size is moderation variable of relationships between the finance and the company growth. Various variable things such as Return on Equity, total assets, earnings before interest and taxes, income ratio, and net profit margin [24]. Hypothesis in this research are *return on equity positively affects the growth of the company* [24].

II. RESEARCH METHODS

This research aims to analyze the effect of financial performance on company growth with the company size as a moderating variable on companies that entered the Jakarta Islamic Index stock which registered on the Indonesia Stock Exchange 2014-2016.

This study measures the financial performance by using Return On Equity (ROE), company growth by using Price Earning Ratio, company size by using log natural.

The sample of this research is a manufacturing company listed on Indonesia Stock Exchange 2014-2016.

III. RESULTS AND DISCUSSION

A. Descriptive Statistics

The following descriptive statistics can be seen in table 4 below:

Table 1. Descriptif Statistic

	N	Mean	Std.Deviation
Company Growth	90	3.0778	0.76658
Financial Performance (ROE)	90	2.4984	0.57304
Company Size	90	356630	4908130
Company Size Interaction and Financial Performance	90	615590	9191360
Valid N (Listwise)	90		

Based on the results of descriptive statistics that have been presented in the table, it can be known the picture of the dependent variable and each independent variable as follows :

1) *Company Growth:* Company growth is derived from the calculation using the proportion of *P/E* Ratio. Based on the descriptive statistic table above, the growth of the company has a minimum value of 1.64, the maximum value of 6.50, the mean 3.0778 and the standard deviation 0.76658
2) *Financial Performance:* Financial performance is derived from calculation using proxies *Return on Equity* ratio based on descriptive statistic table above, financial performance has minimum value 0.90, maximum value 3.45, mean 2.4984 and standard deviation 0.57304.
3) *Company Size*: Company size is obtained from calculation using proxies ratio of total assets based on descriptive statistic table above, company size has minimum value 20674, maximum value 434090, mean 356630 and deviation standard 4908130.
4) *Company Size Interaction and Financial Performance:* Company Size Interaction and Financial Performance is obtained from the calculation using the company size ratio proxies multiplied by the financial performance based on descriptive statistics table, the company size has minimum value 67425, maximum value 434090, mean 615590 and standard deviation 9191360.

B. Regression Analysis

The steps taken are as follows:

1) Regressing between the financial performance on company growth: $Y = \alpha_1 + \beta_1 x_1 + e$
2) Regressing between financial performance and company size and interaction of financial performance and company size on corporate growth: $Y = \alpha_3 + \beta_4 x_1 + \beta_5 . X_2 + \beta_6 . X_1 . X_2 + e$

Table 2. Moderator Regression Results

Variables	Regression Coefficient	R Square
Constant Financial Performance (X_1)	4.161 0.036	0.096
Constant Financial Performance (X_1) Company Size (X_2) Financial Performance Interaction and Company Size ($X_1.X_2$)	4.441 0.044 7142E-9 3.366E-10	0.168

From the calculation of moderator regression with the help of SPSS 17.00 program, obtained the equation for:

1. *Regression Stage 1:* Y = 3.551 + $0.036X_1$ dan R^2 = 0.096. The constant (α_1) of 3,551 indicates that without the variable of the Financial Performance (X_1), or mathematically X_1 = 0, the variable of the company growth (Y) will only be 3.551. The coefficient (β_1) financial performance variable (X_1) of 0.036 indicates that the financial performance variable (X_1) tends to have a positive influence on the variable (Y).
2. The better the profitability, then the value of the company will also be higher, and vice versa the worse the profitability, then the value of the company will also be lower. The coefficient of determination (R^2) of 0.315 shows the effect of profitability variables on the change of company value is equal to 0.315 or 31.5 and the rest of 69.5% is influenced by other variables besides the variables used.
3. *Regression Stage 2*: Y = 3.712 $+0.044X_1+7142E-94X_2$ + $3.366E-10X_3$ dan R^2 = 0.168. The constant (α_2) of 3.712 indicates that without the financial performance variables (X_1), company size (X_2) and financial performance interactions with company size ($X_1.X_2$) or mathematically $X_1.X_2$ and $X_1.X_2$ = 0, then the variable value of the firm (Y) will only be worth 3.712.

The regression coefficient (β_2) financial performance variable (X_1) of 0.044 indicates that the financial performance variable (X_1) tends to have a positive influence on company growth (Y). The worse the financial performance, the company's growth is also lower with the assumption that the company size variable and the interaction of financial performance with company size is constant.

The regression coefficient (β_3) of company size variables (X_2) of 7142E-94 indicates that company size variables (X_2) tend to have a positive influence on company growth variable (Y). The higher the size of the company, then the company growth is also higher, and vice versa the lower the size of the company, then the company growth will also lower with the assumption financial performance variable and financial performance interaction with company size is constant.

The regression coefficient (β_4) the interaction of financial performance variable and company size ($X_1.X_2$) of 3,366E – 10 indicates that the interaction of financial performance variable and company size ($X_1.X_2$) tends to have a positive influence to company growth variable (Y). The higher the interaction of financial performance and company size, then the company growth will also be higher, and vice versa, the lower the interaction of financial performance and company size, the company growth will also be lower with assumption that financial performance variable and company size are constant. The determination coefficient (R^2) of 0,168 shows the effect of financial performance variable, company size and interaction of financial performance and company size to company growth is 0,168 or 16,8% and the rest 83,2 is influenced by other variables than variable used in this research.

Table 3. Hypothesis Test Results

Variables	Regression Coeffiecient	t-counted	Significance
Constant Financial Performance (X_1)	3.551 0.036	19.423 3.065	0.000 0.003
Constant Financial Performance (X_1) Company Size (X_2) Financial Performance Interaction and Company Size ($X_1.X_2$)	3.712 0.044 7.142E-9 3.366E-10	19.640 3.681 2.696 2.328	0.000 0.000 0.008 0.022

Explanations of hypothesis test result are as follow:

1. *Hypothesis Test Results 1:* Based on the table above, on the first stage regression obtained t-count value of 3.065 with a significant level of 0.003 which is smaller than 0.05, then H_0 accepted and H_a rejected. This means that financial performance affects the company growth.
2. *Hypothesis Test Results 2:* Based on the table above, obtained t-count value of 2.328 with a significant level of 0.022 which is smaller than 0.05, then H_0 rejected and H_a accepted. This means that company size affects the relationship between financial performance and company growth.

From the description of this research variables, can be seen that the company growth has an average value (mean) of 3,0778. In this case, the financial performance is measured with Return on Equity shows the average value of 2.4984. The size of the company has an average of 356630

In the hypothesis test of the first regression stage table, obtained the result of the financial performance is 0.003. The significance value is smaller than the significant level of 0.05, thus it can be concluded that the financial performance affects the company growth. The results show that the first hypothesis which indicates that the financial performance affects company growth is proven, so that the first hypothesis is accepted. The high ROE often reflects the company's acceptance of good investment opportunities and cost-effective management. The higher the ratio, the better position of the company owner is getting stronger [20].

Based on the table data hypothesis test result to interaction variable between financial performance and company size, obtained result 0,022. The significance value is smaller than the

0.05 significant level so that proxied to the size of the company is able to moderate the relationship of financial performance with the growth of the company. Significant results indicate that the market is able to use information about the company size in assessing the company.

IV. CONCLUSIONS AND RECOMMENDATIONS

Based on the findings posited in the study the following are hereby concluded : (1) Financial performance affects the growth of the company. This indicates that the higher the financial, performance the higher the growth of the company is; (2) The company size which is proxied by the size of the company moderates the influence of financial performance to the company growth. Based on the findings and conclusions made in the study, the following recommendations are hereby presented. This study also uses only *total assets* as a proxy for financial performance and company size. Based on the limitation of the research that has been mentioned then the next research is expected to increase the number of samples and prolong the observation time so that the research can be generalized. In addition, further research can use other financial performance proxies.

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