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Financial Performance and Firm Value: The Role of Signaling Theory

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Abstract
The purpose of this study is to analyze and explain empirical evidence in the automotive industry about the effect of company size, company growth, and intellectual capital on financial performance and company value. The approach used in this research is quantitative. The results showed that company size, company growth, and intellectual capital have an effect on financial performance. Firm size and intellectual capital, and financial performance have a significant effect on firm value. While the company's growth has no significant effect on firm value. Judging from the indirect effect, financial performance mediates the influence of company size, company growth and intellectual capital on firm value. Future research can also conduct further research on automotive companies using the same variables and in measuring company size and company growth can add indicators and also use primary data by conducting interviews with the company, so that the results of measuring company size and company growth are more comprehensive.

Keywords: Financial Performance, Company Value, Company Size, Company Growth, Intellectual Capital

Introduction

The main goal of the company is to maximize the value of the company [1, 2]. The value of the company is the present value or the present value of free cash flow in the future at a discount rate according to the weighted average cost of capital. Free cash flow is the availability of cash flow for investors (owners and creditors) after calculating all expenses for net current assets and for investments and expenses for company operations [3]. Company value, namely the actual value per share that will be obtained if the sale of company assets is carried out according to the share price [4]. Firm value is also defined as market value because firm value in this case can provide maximum prosperity to shareholders if there is an increase in the company's share price. Firm value is very important because it affects investors' perceptions of investing in a company. This is because the company value is a condition that the company has achieved as an illustration of public trust in the company after going through a certain process for several years, namely since the founding of the company until now [5]. The company value shows the selling value of the company as an operating business. So that a high company value will attract investors to invest in the company. The high value of the company will be accompanied by an increase in shareholder wealth [6]. The high value of this company is the hope of all shareholders, because it will be able to show the high prosperity of shareholders. The increase in shareholder wealth is reflected in the share price [7].

Company value can be measured using the Price Earning Ratio (PER), measuring how much the ratio is between the company's stock price and the profits earned by shareholders [8]. Price Book Value (PBV), describes how much the market appreciates the book value of a company's shares. Tobin's Q, is a comparison between the market value of the company's stock and the company's book value [9]. This is in line with research that measures firm value using Price earning ratio (PER), Price to Book Value (PBV) and Tobin's Q [10]. The Price Earning Ratio (PER) shows how much total money investors are willing to spend in order to make payments for all reported profit dollars. The function of the Price Earning Ratio (PER) is also a measure of changes in expected profit ability in the future. Increasing the PER, the possibility of the company's growth will also increase, so that the value of the company can increase. Price to Book Value (PBV) is a ratio that shows whether the price of the shares being traded is undervalued (below) or overvalued (above) the book

value of the existing shares. Price to Book Value (PBV) provides an overview of how much the market appreciates the book value of a company's shares. The higher this ratio, means that the market has more confidence in the company's prospects. PBV in this case also shows the extent to which the company can form a company value relative to the amount of capital invested. Another alternative that is used as a measure of company value is the Tobin's Q method from James Tobin. Calculation of Tobin's Q by comparing the ratio of the market value of the company's shares to the book value of the company's equity [3].

To find out the ups and downs of the company's value, which is reflected by the stock price, investors can find out through the capital market [11]. The Capital Market is a market that operates in an organized manner where there is trading activity in securities such as stocks, equities, debentures, bonds and other securities issued by the government and private companies by utilizing the services of intermediaries, commissioners and underwriters. According to Law no. 8 of 1995, the meaning of the capital market is an activity related to trading in securities and public offerings, public companies related to the securities issued, as well as institutions and professions related to securities. The existing capital market in Indonesia is called IDX (Indonesian Stock Exchange). The IDX provides complete information on stock price developments to the public, by disseminating data on stock price movements through print and electronic media. So that the existence of IDX is very beneficial for investors, namely as a source of information in making investment decisions in a company.

Based on data obtained through the IDX, out of a total of 13 automotive stocks listed on the Indonesia Stock Exchange, 8 stocks posted negative yields from January 2 to September 30 2020. Meanwhile, 4 stocks recorded gains and 1 stock remained constant. The share price of PT Multi Prima Sejahtera Tbk (LPIN) fell the most by falling 71.28%, followed by PT Multistrada Arah Sarana Tbk (MASA) which fell 27.81%, PT Indomobil Sukses Internasional Tbk (IMAS) fell 25.12%, and PT Nipress Tbk (NIPS) fell 21.23%. Then the share price of PT Astra International Tbk (ASII) fell 19.51%, PT Astra Otoparts Tbk (AUTO) fell 15.82%, PT Prima Alloy Steel Universal Tbk (PRAS) fell 15.73%, and PT Garuda Metalindo Tbk (BOLT) fell 9.79%. According to Brigham and Houston (2014:18), company value is often associated with stock prices. The higher the stock price, the higher the company value, and vice versa. So based on the data obtained it is known that the value of companies in the automotive sector has decreased due to a decrease in stock prices.

In addition to the decline in share prices, the trend of company value in the automotive sector as measured by PBV during 2014-2020 has decreased. The trend of declining company value in the automotive sector can be seen in Figure 1 below:

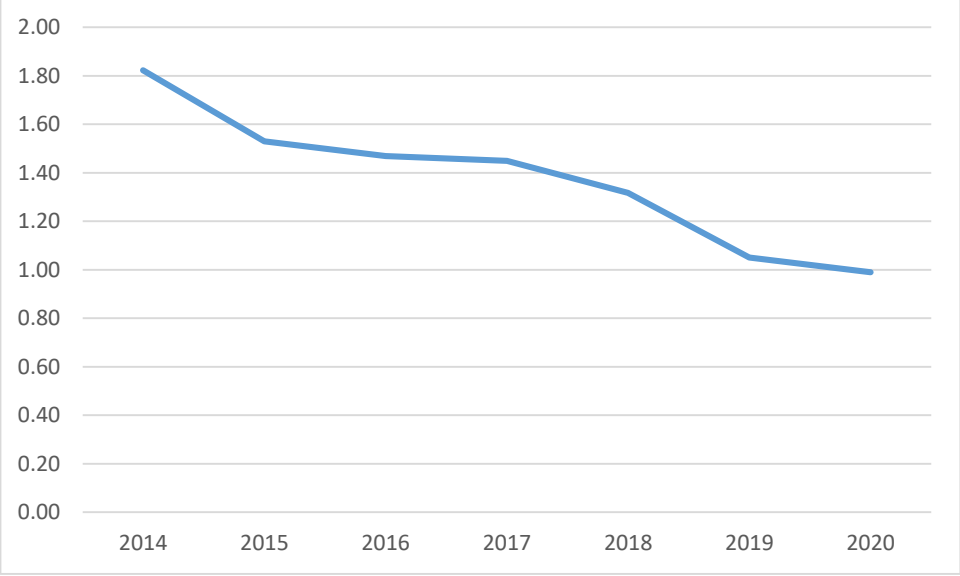

Figure 1. Price Book Value of Automotive Companies in 2014-2020
Source: Data Processed (2021)

The decline in share prices and PBV of automotive companies reflects the decreasing value of investors in appreciating the book value of automotive company shares. It can also be interpreted that the stock prices of automotive companies are getting cheaper. The decline in share prices and PBV in automotive companies will have an impact on investor confidence in investing in automotive companies. Investors will experience doubts

about investing in automotive companies, and choose to invest in other sector companies. Decreasing share prices and PBV of automotive companies can result in a decline in the financial performance of automotive companies, so that the company's ability to generate cash flow from available resources also decreases. If the financial performance of an automotive company decreases, the ability to generate profits also decreases. When there is a continuous decline in the profits generated, the receipt of dividends by investors will also decrease or it can be stated that the welfare of shareholders decreases, and makes investors think that automotive companies cannot increase their prosperity or stakeholder wealth maximization in the long run [3]. This can disrupt the progress and stability of existing business processes in automotive companies, and if it is not resolved immediately it can have an impact on the going concern of automotive companies.

Increases and decreases in company value are generally influenced by external and internal factors [12]. Internal factors are factors that arise from within the company, including company size, company growth, funding decisions, dividend decisions [13]. While external factors are factors that come from outside the company, for example, problems related to macroeconomics such as inflation, interest rates, economic growth and the rupiah exchange rate against the dollar [14]. As for internal factors, financial managers have an important role in determining the ups and downs of the company's value [15].

Apart from internal and external factors, firm value is also influenced by several other factors. Factors that influence firm value include financial performance and company growth are factors that also influence firm value [16]. Other factors that affect firm value are intellectual capital, capital structure, financial performance, growth and size [17]. In addition, funding decisions, investment decisions, and dividend decisions are also factors that affect the ups and downs of company value [3]. It also explains the factors that influence firm value, including: insider ownership, Debt to Equity Ratio, Profitability, Growth and dividend policy [18].

In this study, company size, company growth, intellectual capital and financial performance are used as variables that affect firm value. This is due to differences in research results (gap research) on these variables, where there is research which explains that these four variables affect firm value, but there are also research results which explain that these three variables do not affect firm value. As research shows that company size has no effect on firm value [19-21]. Small or large company size will not be able to affect the value of the company because investors do not judge the company based on the size of the company which is reflected in the total asset ownership in the company. However, investors pay more attention to aspects such as the good name of the company, the performance of the companies involved in the financial statements, and dividend policies before choosing to invest their funds in the company concerned. Today's investors tend to pay attention to companies that carry out CSR (Corporate Social Responsibility) because this activity reflects more on outsiders' assessment of the company [22]. This is contrary to research explaining that company size has an effect on firm value [6, 23].

The company's growth in the form of asset growth and sales growth is highly expected for the company's development, because high growth indicates the company's development. This is in accordance with the Signaling Theory, the increase in growth experienced by the company reflects that the company has good performance, thereby developing within the company, this is a positive signal for investors to invest in the company, so that the value of the company will be high which can be seen from the price shares are in the company [3].

Based on the phenomena that exist in automotive companies, namely the decline in company value during 2014-2020 and the differences in research results on variables that affect company value, further research is carried out entitled Financial Performance and Firm Value: The Role of Signaling Theory.

The purpose of this study is to analyze and explain empirical evidence in the automotive industry about the effect of company size, company growth, and intellectual capital on financial performance and company value. The benefits of this research are expected to support the signaling theory, which states that the information provided by companies can give negative or positive signals to the wearer. In addition, it is also expected to be able to support the resourced based theory, which states that in order to create value for the company, managers must be able to utilize all the company's potential, both structural capital, physical assets (physical capital), or employees (human capital).

The hypothesis in this study was developed as follows:

H1 = Company size has a significant effect on financial performance

H2 = Company Growth has a significant effect on Financial Performance

H3 = Intellectual capital has a significant effect on financial performance

H4 = Company Size has a significant effect on Firm Value

H5 = Company growth has a significant effect on company value
H6 = Intellectual capital has a significant effect on firm value
H7 = Financial Performance has a significant effect on Firm Value
H8 = Financial Performance mediates the effect of firm size on Firm Value
H9 = Financial Performance mediates the effect of company growth on Firm Value
H10 = Financial Performance mediates the effect of Intellectual capital on Firm Value

Materials and Methods

The approach used in this research is quantitative. This study describes and tests the hypothesis of the effect of firm size, firm growth and intellectual capital on financial performance and firm value. The data used in this study is secondary data obtained from the Indonesia Stock Exchange through the address http://www.idx.co.id. To test the hypothesis used Partial Least Square (PLS) analysis.

The population in this study were all automotive companies listed on the Indonesia Stock Exchange during 2014-2020, totaling 13 companies. Based on the observations of researchers, not all automotive companies submitted successive financial reports during the 2014-2020 period. Therefore, before taking the sample, the population criteria were determined and as many as 11 companies fulfilled it. The following are the names of automotive companies that were used as research samples:

Table 2. Automotive Companies That Become Research Samples

No.	Code	Company name
1	ASII	PT. Astra Internasional Tbk.
2	AUTO	PT. Astra Otoparts Tbk.
3	INDS	PT. Indospring Tbk.
4	SMSM	PT. Selamat Sempurna Tbk.
5	GJTL	PT. Gajah Tunggal Tbk.
6	IMAS	PT. Indomobil Sukses Internasional Tbk.
7	LPIN	PT. Multi Prima Sejahtera Tbk.
8	PRAS	PT. Prima Alloy Steel Universal Tbk.
9	GDYR	PT. Goodyear Indonesia Tbk.
10	BRAM	PT. Indo Kordsa Tbk.
11	MASA	PT. Multistrada Arah Sarana Tbk.

Source: IDX (2022)

The exogenous variables in this study are company size, company growth and intellectual capital. Endogenous variables are financial performance and firm value. The indicators used to calculate company size are the logarithm of total assets and the logarithm of sales [24]. Company growth in this study is measured by 2 indicators, namely asset growth and sales growth [25]. The indicators used to measure Intellectual capital are capital employes efficiency, human capital efficiency, relational capital efficiency, and structure capital efficiency [26]. The indicators used to measure the company's financial performance are ROA and ROE. There are 4 indicators used in determining the value of the company, namely EPS, PBV, PER, and Tobin's Q [18].

The data analysis technique used is descriptive and inferential statistical analysis. Descriptive analysis in this study provides an overview or description relating to the maximum, minimum and average values of each indicator of each variable [27]. Inferential statistical analysis is used to test research models, assumptions, model feasibility and hypothesis testing [28]. Inferential analysis in this study uses Partial Least Square (PLS) analysis with a calculation process assisted by the SmartPLS application program.

Results and Discussion

The results of the descriptive statistical analysis were obtained as follows:

Table 2. Results of Descriptive Statistical Analysis

No	Variable	N	Min	Max	Standard Deviation	Average Per Indicator	Variable Average
1	Company Size						

	Ln. Asset	77	23,481	33,495	2,405	28,627	28,468
	Ln. Sale	77	21,077	35,938	2,649	28,308	
2	Company Growth						
	Asset Growth	77	-0,439	0,975	0,158	0,058	0,031
	Sales Growth	77	-0,374	0,322	0,136	0,003	
3	Intellectual Capital						
	CEE	77	-0,316	0,852	0,222	0,271	0,649
	HCE	77	-0,254	7,513	1,416	1,820	
	RCE	77	-0,058	0,448	0,062	0,041	
	SCE	77	-8,968	2,557	1,245	0,463	
4	Financial Performance						
	ROA	77	-0,134	0,716	0,104	0,044	0,044
	ROE	77	-1,241	0,829	0,199	0,043	
5	Company Value						
	EPS	77	-3013,528	1806,849	453,582	60,122	11,447
	PBV	77	0,094	4,758	1,051	1,129	
	PER	77	-724,846	560,897	100,969	-16,579	
	Tobin’s Q	77	0,339	4,252	0,736	1,117	

Source: Data Processed (2022)

Based on the data in table 2 shows the following meaning:

1. The average company size as measured by Ln Assets and Ln sales is 28,468. For the Ln Assets indicator the average value is 28.627 with a minimum value of 23.481 and a maximum value of 33.495. For the Ln Sales indicator the average value is 28.308 with a minimum value of 21.077 and a maximum value of 35.938.
2. The average company growth as measured by asset growth and sales growth is 0.031. The average asset growth indicator is 0.058 with a minimum value of -0.439 and a maximum value of 0.975. The average sales growth indicator is 0.003 with a minimum value of -0.374 and a maximum value of 0.322.
3. The average Intellectual Capital as measured by CEE, HCE, RCE and SCE is 0.649. For the CEE indicator, the average is 0.271 with a minimum value of -0.316 and a maximum value of 0.852. For the HCE indicator, the average is 1.820 with a minimum value of -0.254 and a maximum value of 7.513. For the RCE indicator, the average is 0.041 with a minimum value of -0.058 and a maximum value of 0.448. For the SCE indicator, the average is 0.463 with a minimum value of -8.968 and a maximum value of 2.557.
4. The average financial performance as measured by ROA and ROE is 0.044. The average ROA indicator is 0.044 with a minimum value of -0.134 and a maximum value of 0.716. For the ROE indicator, the average is 0.043 with a minimum value of -1.241 and a maximum value of 0.829.
5. Firm value in this study was measured using 4 indicators, namely: PBV, Tobin's Q, PER and EPS. Table 5.4 shows that the average firm value is 11.447. The average EPS value is 60.122 with a minimum value of -3013.528 and a maximum value of 1806.849. The average PBV value is 1.129 with a minimum value of 0.094 and a maximum value of 4.758. The average PER value is -16,579 with a minimum value of -724,846 and a maximum value of 118,774. The average Tobin's Q is 1.117 with a minimum value of 0.339 and a maximum value of 4.252.

The results of the inferential statistical analysis in this study are explained in table 3. The results of the evaluation of the measurement model (outer model) are as follows:

Table 3. Evaluation Results of the Measurement Model (Outer Model)

Variable	Indicator	Weight	ρ value
Company Size	Ln. Total Assets	-1,206	0,029
	Ln. Total Sales	1,909	0,000

Company Growth	Asset Growth	0,725	0,011
	Sales Growth	0,776	0,003
Intellectual Capital	CEE	1,155	0,000
	HCE	-0,482	0,029
	RCE SCE	0,190 0,321	0,017 0,031
Financial Performance	ROA	0,862	0,000
	ROE	0,346	0,029
Company Value	EPS	0,302	0,003
	PBV	0,277	0,008
	PER	-0,158	0,010
	Tobins'Q	0,933	0,000

Source: Data Processed (2022)

Based on table 3 it can be seen that the significance value of the weight for each indicator on the variable company size, company growth, Intellectual capital and company value has a value of ρ value ≤ 0.05. Thus the indicators that measure the variables of company size, company growth, Intellectual capital and company value are stated to be valid, or meet the criteria for indicator reliability.

In this study the results of hypothesis testing are described in table 4 as follows:

Table 4. Hypothesis Testing Results

Direct and indirect influence	Original Sample	P Values	Information
Company Size -> Financial Performance	0,224	0,030	Sig
Company Growth -> Financial Performance	0,188	0,048	Sig
Intellectual Capital -> Financial Performance	0,381	0,003	Sig
Company Size -> Company Value	0,251	0,002	Sig
Company Growth -> Company Value	0,046	0,465	Not. Sig
Intellectual Capital -> Company Value	0,469	0,000	Sig
Financial Performance -> Company Value	0,434	0,000	Sig
Company Size -> Financial Performance -> Company Value	0,097	0,041	Sig
Company Growth -> Financial Performance -> Company Value	0,082	0,041	Sig
Intellectual Capital -> Financial Performance -> Company Value	0,165	0,036	Sig

Source: Data Processed (2022)

Based on table 5.8, the effect of company size on financial performance produces a path coefficient of 0.224 with ρ value = 0.030. From the results of these tests, the value of the path coefficient is positive indicating that the larger the size of the company, it will have a direct influence on improving financial performance. The path coefficient has a ρ value ≤ level of significance (alpha = 5%). This means that company size has an effect on financial performance at a significance level of 5%. Thus the hypothesis which states that company size affects firm performance (HI) is accepted.

The effect of company growth on financial performance produces a path coefficient of 0.188 with ρ value = 0.048. From the results of these tests, the value of the path coefficient is positive indicating that the greater the company's growth, it will have a direct influence on improving financial performance. The path coefficient has a ρ value ≤ level of significance (alpha = 5%). This means that the company's growth affects financial performance at a significance level of 5%. Thus the hypothesis which states that company growth affects company performance (H2) is accepted.

The effect of Intellectual capital on financial performance produces a path coefficient of 0.381 with ρ value = 0.003. From the results of these tests, the path coefficient value is positive, indicating that the greater the intellectual capital, the more direct influence it will have on improving financial performance. The path coefficient has a ρ value ≤ level of significance (alpha = 5%). This means that Intellectual capital affects

financial performance at a significance level of 5%. Therefore the hypothesis which states that Intellectual capital has an effect on firm value (H3) is accepted.

The effect of firm size on firm value produces a path coefficient of 0.251 with a ρ value of 0.002. From the results of these tests, the value of the path coefficient is positive indicating that the larger the size of the company, it will have a direct effect on increasing the value of the company. The path coefficient has a ρ value ≤ level of significance (alpha = 5%). This means that firm size has an effect on firm value at a significance level of 5%. Thus the hypothesis which states that firm size has an effect on firm value (H4) is accepted.

The effect of company growth on firm value produces a path coefficient of 0.046 with a ρ value of 0.465. From the results of these tests, the value of the path coefficient is positive indicating that the greater the company's growth, it will have a direct effect on increasing firm value. The path coefficient has a ρ value > level of significance (alpha = 5%). This means that the company's growth cannot be statistically proven to have an effect on firm value at a significance level of 5%. Therefore the hypothesis which states that company growth affects firm value (H5) is rejected.

The effect of intellectual capital on firm value produces a path coefficient of 0.469 with a ρ value of 0.000. From the results of these tests, the path coefficient value is positive, indicating that the greater the intellectual capital, the more direct it will affect the increase in firm value. The path coefficient has a ρ value ≤ level of significance (alpha = 5%). This means that intellectual capital affects firm value at a significance level of 5%. Therefore the hypothesis which states that intellectual capital has an effect on firm value (H6) is accepted.

The effect of financial performance on firm value produces a path coefficient of 0.434 with a ρ value of = 0.000. From the test results, the path coefficient value is positive, indicating that the greater the financial performance, the greater the direct influence on increasing firm value. The path coefficient has a ρ value ≤ level of significance (alpha = 5%). This means that financial performance affects firm value at a significance level of 5%. Therefore the hypothesis which states that financial performance affects firm value (H7) is accepted.

The effect of firm size on firm value through financial performance produces a path coefficient of 0.097 with a ρ value of 0.041. The test results show that the path coefficient has a ρ value > level of significance (alpha = 5%). This means that financial performance mediates the effect of firm size on firm value at a significance level of 5%. Therefore the hypothesis which states that financial performance mediates the effect of firm size on firm value (H8) is accepted

The effect of company growth on firm value through financial performance produces a path coefficient of 0.082 with a ρ value of 0.041. The test results show that the path coefficient has a ρ value > level of significance (alpha = 5%). This means that financial performance mediates the effect of company growth on firm value at a significance level of 5%. Therefore the hypothesis which states that financial performance mediates the effect of company growth on firm value (H9) is accepted.

The effect of intellectual capital on firm value through financial performance produces a path coefficient of 0.165 with a ρ value of 0.036. The test results show that the path coefficient has a ρ value ≤ level of significance (alpha = 5%). This means that financial performance mediates the effect of Intellectual capital on firm value. Therefore the hypothesis which states that financial performance mediates the effect of Intellectual capital on firm value (H10) is accepted.

Conclusions

This study analyzes the effect of company size, company growth on financial performance and company value. The conclusion from this study is that company size, company growth, and intellectual capital have an effect on financial performance. Firm size and intellectual capital, and financial performance have a significant effect on firm value. While the company's growth has no significant effect on firm value. Judging from the indirect effect, financial performance mediates the influence of company size, company growth and intellectual capital on firm value.

The research was conducted during 2014-2020, where during that time span, there were 2 years of observations that were included in the pandemic period, namely in 2019 and 2020, where in both years all industries experienced a decline in performance. Therefore, for further research, it is possible to spend both years in order to obtain good results. The next suggestion is to add other variables that can affect financial performance such as capital structure, GCG and CSR. Future research can also conduct further research on automotive companies using the same variables and in measuring company size and company growth can add

indicators and also use primary data by conducting interviews with the company, so that the results of measuring company size and company growth are more comprehensive.

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