

# Mediation effects financial performance toward influences of corporate growth and assets utilization

Corporate growth and assets utilization

981

Sri Mangesti Rahayu  
*Department of Business Administration,  
Faculty of Administrative Science, Brawijaya University, Malang, Indonesia*

Received 4 June 2018  
Revised 26 October 2018  
Accepted 4 December 2018

## Abstract

**Purpose** – The purpose of this paper is to measure the effects of corporate financial performance toward the influences of corporate growth and company asset utilization on the corporate market value.

**Design/methodology/approach** – This research is an explanatory research that describes the influences of one or more variables on other variables based on secondary data. This research took place in Indonesia and was carried out from 2011 to 2016.

**Findings** – The findings of this study are corporate growth has a significant influence on the corporate market value, implying that companies should consider the short-term and long-term profitabilities before making any investment decision; asset utilization has been confirmed to have a positive and significant influence on financial performance. Insights into asset utilization effectiveness and efficiency are important for company managers to consider in making strategic decisions upon operational activities of the company. Also, financial performance has a positive and significant influence on the corporate market value.

**Originality/value** – Research originality offered in this research is in the form of empirical evidence upon the influence of company asset utilization on the financial performance and corporate market value of a company. The finding of this research is expected to provide a better understanding on the role of company asset utilization in determining corporate financial performance which is known to be certain.

**Keywords** Financial performance, Corporate growth, Asset utilization, Corporate market value

**Paper type** Research paper

## 1. Introduction

Companies are established to achieve the main function, improving shareholders' wealth through the improvement of corporate market value (Keown *et al.*, 1999, p. 2). The board of managers is trusted to manage a company in order to obtain profits that eventually increase the wealth of company owners. Companies use private equity and debt at the same time, including short-term debts and long-term debts for fund operational activities of the companies.

The operational activities of a company utilize company's assets allocation of which has been determined. A better utilization of company assets increases the sales, resulting in higher profit (Gopal, 2009). The board of managers is in charge of making decisions related to asset utilization; besides, they are also required to maintain the operational activities of the company. Decisions to make investment determine the amount of assets to be spent on operational activities. Operational activities use the assets to run the sale in order to make profit, which contributes to the wealth of company owners. The utilization of company assets is an important key to achieve company goals. Assets utilization refers to the use of company assets that have been allocated in such ways to produce products or services offered to the consumers in order to achieve the company goals. For instance, activities in the management of company assets include maintaining supplies, accounts receivable, fixed assets and other assets in the most effective and efficient way to make profits as expected and to increase the wealth of company owners (corporate market value). The success and failure of a company in utilizing its assets are reflected by its financial condition. The financial conditions of manufacturing companies registered in Indonesia Stock Exchange are presented in Table I.



International Journal of  
Productivity and Performance  
Management  
Vol. 68 No. 5, 2019  
pp. 981-996  
© Emerald Publishing Limited  
1741-0401  
DOI: 10.1108/IJPPM-05-2018-0199

Table I shows the development and percentage of the change in assets of manufacturing companies registered in Indonesia Stock Exchange during 2010–2015. As presented in the table, the most significant change in assets occurred in 2013 as much as 21.69 percent, while the lowest change of 5.47 percent occurred in 2015. Viewed from its growth, the total Activa tends to decrease from 2013 to 2015. The decrease in company assets happened due to the decline in the sale and company profit. This condition reflected low market demand of the products offered by manufacturing companies. There was stagnancy in the development of company assets in 2015. The development and the change in the debt ratio of manufacturing companies in Indonesia Stock Exchange from 2010 to 2015 included the highest percentage of debt ratio occurring in 2013 as much as 25.46 percent, while the lowest one as much as 2.53 percent in 2015. There were decreases in the debt ratio of manufacturing companies in Indonesia Stock Exchange during 2011–2015 for market demands on the products were low, causing a major decline in the company sales. In such conditions, companies need to decrease their debts in order to decrease the debt interest they should pay and to avoid higher expenses. The development and changes in the percentage of company assets of manufacturing companies registered in Indonesia Stock Exchange during 2010–2015 included the highest change in company equity occurring (21.13 percent) in 2011 and the lowest change (8.42 percent) in 2015. Viewed from its growth perspectives, the total equity decreased from 2011 to 2015. There was a decline in the equity of manufacturing industries during 2010–2015 due to lower sales and profits, which led to a lower rate of corporate growth. Lower sales indicated lower market demands on the products offered by the companies. The development and changes in the sales of manufacturing companies in Indonesia Stock Exchange during 2010–2015 included the highest improvement in company sale occurring in 2011 exceeding 20.54 percent and the lowest one (0.96 percent) in 2015. The development and changes in the profit obtained by manufacturing companies in Indonesia Stock Exchange during 2010–2015 included the highest change occurring in 2011 (19.21 percent) and the lowest (–10.72 percent) in 2015. In 2015, the sales and profit obtained by manufacturing companies in Indonesia Stock Exchange were in crisis.

The rate of growth refers to the ability of a company to maintain its position in the economic and industrial development where the company operates (Pakpahan, 2010). Well-developing companies tend to show positive growth. A sustainable and positive development is the main goal of companies, which has to be achieved in order to maintain competitiveness, increase company owners' wealth and offer excellent products or service for the consumers.

Corporate growth can be achieved through gradual processes of expanding the enterprise, product development, diversification, increasing the number of workers, improving the sales, and increasing the company profit and assets (Vijayakumar and Devi, 2011). Corporate growth is indicated by increases in company sales, profit and asset development (Oppong-Boakye *et al.*, 2013; Saeed *et al.*, 2014). The owners of a company

**Table I.**  
The financial conditions of manufacturing companies in Indonesia stock exchange in 2010–2015 (in Billion Rupiah)

Variables	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015
(1) Activa Total	454.919	552.454	644.818	784.683	854.301	901.060
Growth (1)	–	21.44%	16.72%	21.69	8.87%	5.47%
(2) Dept Ratio Total	219.928	267.782	314.306	394.337	427.456	438.264
Growth (2)	–	21.76	17.37%	25.46%	8.40%	2.53%
(3) Equilty Total	235.013	284.671	330.512	389.499	426.845	462.796
Growth (3)	–	21.13%	16.10%	17.85%	9.59%	8.42%
(4) Income total	482.428	581.517	669.452	758.332	805.786	798.045
Growth (4)	–	20.54%	15.12%	13.28%	6.26%	–0.96%
(5) Profit Total	54.697	65.204	71.831	72.932	72.364	64.606
Growth (5)	–	19.21%	10.16%	1.53%	–0.78%	–10.72%

expect the company to have a better ability to maintain sustainable development and increasing the amount of company assets in running their enterprises. The amount of company assets can only be improved when the sales and profits are improved.

The growth rate of a company determines its funding mechanism. Funding mechanism leads to the preference for using internal or external fund resources. When a company decides to use external fund, it has to choose between using corporate debt or equity. The pecking order theory proposed by Myers and Majluf (1984) explains the ideal order of using fund resources considering the costs to pay. Based on the theory, internal fund should be the first choice as it is free of cost, followed by the use of debts as it costs less, and the last choice should be the issuance of new shares as it costs higher (Prihadi, 2011, 2013).

Research carried out by Oppong-Boakye *et al.* (2013), Masoud (2014), Balmer (2017) found a negative and significant influence of corporate growth on the corporate capital structure. On the contrary, Sangeetha and Sivathaasan (2013) and Anake *et al.* (2014) found a negative but insignificant correlation between those variables. A company with an adequate amount of internal fund but lower investment may use its internal fund to decrease its debts.

In addition to the corporate capital structure, corporate growth also determines the amount of profit expected by a company. Furthermore, corporate growth increases the corporate profitability that is the indicator of the corporate financial performance (Kouser *et al.*, 2012; Çoban, 2014). The measurements of company financial performance can be observed from the financial ratios of the company (Keown *et al.*, 1999, pp. 77-78).

Financial performance is the result of continuous attempts made by a company in utilizing and managing its resources in the most effective and efficient way to achieve certain goals. The indicators of financial performance include return on asset (ROA), return on equity (ROE), and net profit margin (NPM). The return of asset reflects the ability of a company to manage its asset to obtain higher net profit for a better corporate financial ability to make investments in projects which are considered "present net in a positive value" (Barakat, 2014).

Chandler and Jansen (1992) and Cowling (2004) stated that corporate growth positively influences the corporate profitability. In addition, Jang and Park (2011) believed that improving corporate growth increases the corporate profitability at the same time. Kouser *et al.* (2012) also found out that corporate growth has a positive and significant influence on profitability. These facts give a theoretical implication that improvement in corporate growth improves the financial performance of a company.

Otherwise, Reid (1995) found that corporate growth negatively and significantly influences corporate profitability. This leads to theoretical implication in which improvement in corporate growth decreases the profit obtained by a company. Markman and Gartner (2002), Smith (2016) and Coad (2007) stated that as an indicator of profitability, productivity does not correlate with corporate growth. The higher corporate growth and higher amount of investment also take a longer time to receive the return. A company might not make sufficient amount of profit within a short-term period, yet it will make higher profit in the future.

Corporate growth determines the corporate market value as better corporate growth is expected to give a higher profit that improves the wealth of company owners in the future. The corporate market value is reflected in the stock price of a company. The total corporate market value is calculated by the number of shares times the price per share. The increase in the stock price improves the corporate market value and vice versa (Kamaludin and Indriani, 2012, p. 4).

Myers (1977) and Kester (1986) explained that corporate growth plays an important role in the improvement of the corporate market value. Both internal and external developments of a company should be seen as future investment opportunities. Companies with higher growth opportunities are able to give positive signs of their prospective future. Investors are

always interested in investing their fund in companies with higher growth opportunities than in the ones with lower growth opportunities (Al-Najjar and Peter, 2008).

The utilization of company assets influences its corporate market value. Leverage irrelevance theory (Modigliani and Miller, 1958) explains that the corporate market value is determined by the success of investment made by a company, while the success of an investment cannot be separated apart from the utilization of company assets in funding operational activities including the production of goods or services that give a company income or profit. The profit from the sale adds up to the wealth of company owners. Therefore, the main objective of company asset utilization is to obtain higher profit that improves the corporate market value. How a company utilizes a higher amount of assets shows the efficiency of its asset management (Kamaludin and Indriani, 2012, p. 44). Thus, besides decisions to make investment, the utilization of company assets also determines the success of a company in achieving the expected profit which at the same time improves the corporate market value. The theoretical implication of assets utilization toward the corporate market value is the increase in the ratio of asset utilization that improves the corporate market value.

Leverage signaling theory (Ross, 1977) mentions that debt is a credible sign reflecting the quality and the prospects of a company in the future, triggering positive reactions from the market upon the stock price of the company. A research carried out by Chowdhury and Chowdhury (2010), Bleck (2018), Oluwagbemiga (2013), Vengesai and Kwenda (2018) and Isaac (2014) confirmed that the capital structure has a positive and significant influence on the corporate market value. Trade-off theory (Modigliani and Miller, 1963), pecking order theory (Bhama *et al.*, 2016), and leverage signaling theory (Ross, 1977) have been empirically proven. The theoretical implication from the fact is that the increase in the capital structure up to a certain level is able to improve the corporate market value of a company.

On the other hand, research carried out by Ghalandari (2013), Adi *et al.* (2013), Asiri and Hameed (2014) and Chen (2018) found out that the capital structure has a negative and significant influence on the corporate market value, which is contradictory to the trade-off theory (Modigliani and Miller, 1958), pecking order theory (Myers and Majluf, 1984) and leverage signaling theory (Ross, 1977).

Financial performance influences the corporate market value as explained in the signaling theory (Ross, 1977) in which it is stated that the publication of information related to companies' financial performance is seen as a sign of trustworthiness among those who need to know the financial report of the companies. Investors also believe that companies with a better financial performance tend to have better prospects in the future, leading to a higher stock price of the companies. In addition, companies that make high profits tend to use internal fund in financing the corporate development and their dividends are expected to increase the wealth of the owners.

Many investors are interested in buying the shares of companies with high performance. In companies with high performance, a higher number of investors who are interested in buying the shares increase the stock price. However, it will happen the other way around for companies with low performance. Ghosh and Arijit (2008) stated that financial performance positively influences the corporate market value. Increase in the profit obtained by a company reflects better control and operational activities performed by a company, resulting in higher equity. Adi *et al.* (2013) and Asiri and Hameed (2014) found out that financial performance has a positive and significant influence on the corporate market value. The theoretical implication of this fact is that the improvement in financial performance increases the corporate market value.

Irrelevance theory (Modigliani and Miller, 1958) proposes that the decisions to make investment and the utilization of company assets determine the company performance and influence the corporate market value. High utilization of company asset reflects the efficiency of a company in managing its assets which later increases its corporate market value.

Regarding the current theories and the results of previous research, there has not yet been any agreement (gaps still exist) upon variables that determine the financial performance and corporate market value. This research was conducted upon the belief that there has been an agreement whether or not corporate decisions to make investment maintain, decrease or improve the corporate growth, improve the asset utilization, precisely maintain the corporate liquidity, effectively manage the business risks and how it influences the capital structure with low costs and how it determines the financial performance and corporate market value of a company. It is assumed that there is a comprehensive link among corporate growth, asset utilization, financial performance and corporate market value. Thus, this research involved those four aspects as the research variables that were investigated based on the available theories and previous research.

The weakness of previous research, where only one indicator was employed to represent other indicators in the variable measurement, was revised in the model developed in this research. This revision was made because the use of only one indicator would not be able to analyze the data related to the research variable in the most structured way for too many indicators were being measured (weakness related to the data analysis instruments). In this research, a more comprehensive concept was being developed, in which more indicators were added to represent each research variable, and a new research variable was involved. In analyzing the data, the generalized structured component analysis (GSCA) was carried out as it is regarded as an effective technique in analyzing research data of a certain research variable in the most structured way, in which a more number of indicators were included into the analysis.

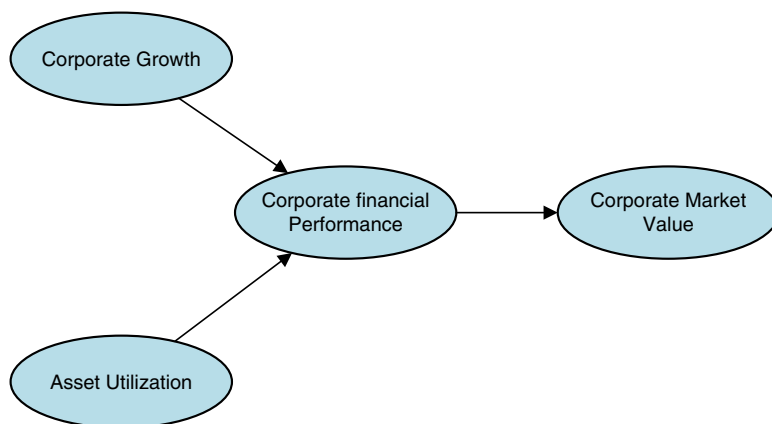
The novelty of this research can be seen from the involvement of the utilization of company assets as a new variable that is assumed to have certain influences on the corporate financial performance and corporate market value, the variable of which has never been taken into consideration in previous research. As a matter of fact, the utilization of company assets determines the corporate financial performance and corporate market value as well. The utilization of company assets refers to the use of company assets to fund any operational activities of the company to obtain more income and higher profit that are expected to improve the financial performance and the corporate market value of the company. Research originality offered in this research is in the form of empirical evidence upon the influence of company asset utilization on the financial performance and corporate market value of a company. The finding of this research is expected to give a better understanding on the role of company asset utilization in determining corporate financial performance which is known to be certain.

Regarding this explanation, this research was carried out to measure the effects of corporate financial performance toward the influences of corporate growth and company asset utilization on the corporate market value. This research objective was then implemented in a model that reflects three relationships: first, the influence of corporate growth on corporate financial performance; second, the influence of company asset utilization on corporate financial performance; and third, the influence of corporate financial performance on the corporate market value.

This research involved manufacturing companies which have been registered in Indonesia Stock Exchange within the consideration that manufacturing industries play vital roles in the economic development of Indonesia. As stated by the Ministry of Industry, the government targets the growth of non-oil/gas manufacturing industries by 2016 to be around 6.9 percent. This sector is expected to contribute up to 21 percent in the GDP of Indonesia by 2016 (Strategic Plans of the Ministry of Industry Year 2016).

## 2. Conceptual framework and hypothesis building

This research was carried out to measure and explain the influences of corporate growth, company asset utilization toward the corporate financial performance and corporate market value (Y2), as illustrated in Figure 1. Theoretical foundation underlying the hypothesis formulation in this study is presented in this section.



**Figure 1.**  
Conceptual framework  
of the research

### *The influence of financial performance on corporate market value*

Financial performance has been known to have certain influences on the corporate market value as stated in the signaling theory (Ross, 1977) in which conveying company financial report to the public is seen as a positive sign that might enhance the trust of the reader upon the company. Investors also share a belief that companies with high financial performance also have a better prospect in the future, making the price of company shares higher. It is also important to note that companies with high profitability have a sufficient amount of internal funds that can be used for the growth of the companies, while the dividend improves owners' wealth.

Many investors are interested in buying the shares of companies, the performances of which are considered excellent. The more the investors are interested in the shares, the higher the price of the shares will be. Yet, in companies with poor performances, the opposite phenomena occur. Ghosh and Arijit (2008) explained that financial performance positively affects the corporate market value. Improvement in the amount of company profit reflects that a company applies better control and operational activities that improve the equity value. Research carried out by Adi *et al.* (2013) and Asiri and Hameed (2014) confirmed that financial performance has a positive and significant influence on the corporate market value. This fact generates a theoretical implication that improvement in financial performance improves the corporate market value:

*H1.* Financial performance significantly influences corporate market value.

### *The effect of mediation in financial performance on the influences of corporate growth on the corporate market value*

The true intention of a company making more investment is to rapidly grow the company to be able to face competitions in a broader economic scale in order to make more profit and to generate maximum wealth for the company owners. Corporate growth is able to improve the corporate financial performance (Kouser *et al.*, 2012; Çoban, 2014). Better corporate growth reflects the ability of a company to dominate broader market, making higher sale and obtaining higher corporate profit.

The permanent income hypothesis (Friedman, 1957) explains that the expected amount of income to be obtained in the future determines the amount of the current assets to be used for funding the company. The expectation of a certain amount of profit can be achieved by making more investments which potentially give sufficient income that finally improves the

corporate market value in the future. Chandler and Jansen (1992) and Cowling (2004) used the increase in sales to predict company growth, the result of which shows that corporate profit and increase in sales are positively correlated. A study carried out by Kouser *et al.* (2012) has confirmed that corporate growth has a positive and significant influence on corporate profitability. The theoretical implication that can be inferred from the fact is that improvement in corporate growth improves corporate profitability. Regarding the essence of the permanent income hypothesis (Friedman, 1957) and the findings of previous research, corporate growth has certain influence on corporate growth. In accordance with the explanation on *H1* testing, the second hypothesis of this research was formulated as follows:

- H2.* Corporate growth has a significant influence on corporate financial performance; besides, it indirectly influences the corporate market value, which indicates that corporate financial performance mediates the influence of corporate growth on the corporate market value.

#### *The influence of company asset utilization on corporate financial performance*

As stated by Gopal, improvement in company asset utilization improves corporate financial performance. Company assets are used to fund sales from where a company earns its profit. More efficient asset management improves the sales, which at the same time improves the profit. The activity ratio is also called the turnover ratio. The activity ratio is calculated by dividing total sales by total asset. The activity ratio is used to evaluate the efficiency of company asset management. The capability of a company in managing its assets determines the increase in sales (Gopal, 2009, 2012). Higher sales generate higher profit, making corporate financial performance better.

The leverage irrelevance theory (Modigliani and Miller, 1958) states that investment decision determines the amount of profit. Investment decision considers the type, amount, timing and place of making investments. After an investment is made, a company should focus on enhancing the production process using the predetermined amount of asset allocated for production sector to produce quality goods or services for consumers in order to make higher profits from the sales. Investment decision makes company asset utilization more effective and efficient in obtaining higher profit, leading to a better corporate financial performance.

DuPont analysis provides an analytical framework that relates the activity ratio and NPM to determine the ROA. Furthermore, the ROA and debt ratio determine the ROE (Hanafi, 2010, pp. 51-52). An intensive use of company asset reflects the effectiveness and efficiency of a company in managing its assets and decreases its costs, leading to higher profits and significant improvement in company owners' wealth (Kamaludin and Indriani, 2012, p. 44).

The effectiveness of a company in managing its current assets, fixed assets and asset structure determines the return on the investment. The activity ratio is an item that measures the effectiveness of corporate operational activities. The activity ratio shows the extent to which a company uses its assets to finance their sales in order to get higher profit. More effective and efficient asset utilization leads to increases in sales which results in a higher profit. The theoretical implication generated by this insight is that better asset utilization improves corporate financial performance. Regarding the result of *H1* testing, *H3* was formulated as follows:

- H3.* Company asset utilization significantly influences corporate financial performance, and it indirectly influences the corporate market value which indicates that financial performance mediates the correlation between asset utilization and corporate market value.

**3. Research method**

This research is an explanatory research that describes the influences of one or more variables on other variables based on secondary data. This research took place in Indonesia and was carried out from 2011 to 2016. The period of 2011–2016 was chosen to be studied because, during the years, Indonesia experienced a lot of economic turmoil. A purposive sampling was employed to select samples that matched these following criteria: samples were manufacturing companies as classified by Indonesia Stock Exchange, samples were registered as permanent manufacturing companies in Indonesia Stock Exchange in 2011–2016, samples regularly published their yearly financial reports during 2010–2016. A total of 146 companies were selected from the multi-stage sampling using the purposive sampling and saturated sampling techniques. Purposive sampling is a sampling technique that allows researchers to select their samples based on certain criteria or objectives as determined by the researchers (Indriantoro and Supomo, 1999). From the list of research population, the researcher determined the number of samples from the population. Since there were only 84 companies matching the criteria, all of them were taken as research samples (saturated sampling). The 84 companies were then observed for six years, resulting in 504 yearly financial reports to be analyzed. Codes of the 84 sample companies listed in Indonesia Stock Exchange are shown in Table II.

These reports were analyzed using a structural equation model with the GSCA approach. The advantages of GSCA are that it can be used to analyze freely distributed data that can be in the form of nominal data, categories, intervals and ratios; assess the overall model ability; analyze both large and small sample data; confirm theories with empirical data and explain whether there is a relationship between latent variables; analyze constructs formed by reflexive indicators and formative indicators all at once; estimate large and complex models with hundreds of variables and thousands of indicators; analyze mutually correlated variables (indicating a multicollinearity); and analyze variables with a recursive relationship pattern in which the causal relationship is unidirectional and maybe reciprocal (Hwang, 2009). A latent variable is a construct formed by the indicator group. A construct can be solved by variance-based structural equation modeling. The measurement criteria needed to accept or reject research hypotheses are based on the significance level of loading factors or path coefficients (standardized  $\beta$ ) referring to *t*- and *p*-values. If the (CR\*) value is equivalent to the statistical *t*-value of  $\geq 1.96$  and the *p*-value of  $\leq 0.05$ , it can be concluded that the hypothesis is significant and accepted. If a structural model measurement is significant, it means that the effect of one latent variable on another latent variable can be generalized (Solimun, 2008, p. 8).

Company code	Company code	Company code	Company code	Company code	Company code
SMCB	BUDI	MAIN	MASA	VOKS	GGRM
INTP	DPNS	SIPD	NIPS	ADES	HMSP
ARNA	EKAD	FASW	PRAS	CEKA	DVLA
AMFG	SRSN	INKP	SMSM	DLTA	KLBF
KIAS	UNIC	TKIM	INDR	ICBP	KAEF
TOTO	AKPI	SPMA	UNIT	INDF	MERK
BTON	APLI	ASII	PBRX	MYOR	PYFA
CTBN	BRNA	AUTO	ADMG	MLBI	SQBB
GDST	IGAR	GJTL	RICY	ROTI	TSPC
INAI	IPOL	GDYR	BATA	PSDN	TCID
JPRS	TRST	BRAM	JECC	SKLT	MRAT
LION	YPAS	IMAS	KBLM	STTP	UNVR
LMSH	CPIN	INDS	KBLI	AISA	KIC
PICO	JPFA	LPIN	SCCO	ULTJ	KDSI

**Table II.**  
Codes of  
sample companies



This research measured four research variables: corporate growth, asset utilization, financial performance and corporate market value. The operational definition of each variable is described as follows: first, corporate growth refers to the capability of a company in creating sustainable development that increases its assets from time to time. The indicators of corporate growth include sales growth, profit growth and asset growth. Second, asset utilization refers to how a company uses its assets which have been allocated to produce quality product or services to achieve company goals. Asset utilization is measured from current asset turnover (CATO), inventory turnover (ITO), accounts receivable turnover (RTO), fixed asset turnover (FATO) and total asset turnover (TATO). Third, financial performance refers to the extent to which a company successfully manages its assets to make higher profit. Financial performance is measured from the ROA, ROE, NPM and gross profit margin. Fourth, corporate market value refers to the company's shares price and book value of equity. The indicators upon corporate market value include closing price (CP), price to book value, and Tobin's  $q$ . CP is the final price per share of a company in the stock market in a trading day (Yulianto *et al.*, 2014).

#### 4. Results of data analysis

There were four variables used in this research, namely, Corporate Growth, Asset Utilization, Corporate Financial Performance and Corporate Market Value. Each variable was measured by several indicators. The results of the descriptive statistical test are shown in Table III.

GCSA analysis measures the preciseness of an indicator (outer model) in measuring its latent variable and to find out the influence or correlation among latent variables, or to test the hypothesis (inner model). Inferential statistical analysis is used in hypothesis testing. In this research, a structural equation model through the GSCA was employed. GSCA is a variance-based or component-based approach which is a predictive analysis that is used to confirm certain theory using empirical data.

Variable	Indicator	Total	Minimum	Maximum	Mean	SD
Corporate growth	PP	225	-0.683	1.145	0.157	0.230
	UP	225	24.204	32.119	27.888	1.450
	KM	225	0.000	0.208	0.008	0.028
<i>Explanation: PP = sales growth; UP = asset growth; KM = profit growth</i>						
Asset utilization	CATO	225	0.002	0.240	0.037	0.028
	ITO	225	0.279	1.640	1.077	0.181
	RTO	225	-0.066	0.574	0.056	0.076
	FATO	225	-1.254	3.000	0.351	0.409
	TATO	225	0.000	0.314	0.043	0.049
<i>Explanation: CATO = asset turnover; ITO = inventory turnover; RTO = accounts receivable turnover; FATO = fixed asset turnover; TATO = total asset turnover</i>						
Corporate financial performance	AD	225	-0.296	0.690	0.020	0.122
	BDA	225	-0.493	1.433	-0.009	0.262
	BPA	225	-2.430	0.878	0.008	0.353
	PA	225	-1.030	1.678	0.054	0.298
<i>Explanation: AD = the return on asset; BDA = return on equity; BPA = net profit margin; PA = gross profit margin</i>						
Corporate market value	CP	225	0.060	11.769	1.526	1.533
	PBV	225	3.689	12.408	7.262	1.704
	TQ	225	-345.000	65,000.000	304.712	4,332.539
<i>Explanation: CP = Closing price; PBV = price to book value; TQ = Tobin's q</i>						

**Table III.**  
The result of statistics  
test description

The result of the goodness of fit model shows the FIT value at 0.819 which means that the latent dependent variable is explained by latent independent variable within the structural model up to 81.9 percent. In another word, the model explains the empirical phenomena as much as 81.9 percent within the variables observed in this research, while the rest 18.1 percent is explained by other variables which were not included in this research or by errors.

The result of analysis using the GSCA shows the result of hypothesis testing as presented in Table II (CR > 1.96 shows significant correlation): the influence of financial performance (Y1) on the corporate market value (Y2) is positive and significant, the influence of corporate growth (X1) on financial performance (Y1) is positive and significant, financial performance (Y1) mediates the influence of corporate growth (X1) on the corporate market value (Y2), asset utilization (X2) has a positive and significant influence on financial performance (Y1), financial performance (Y1) mediates the influence of asset utilization (X2) on the corporate market value (Y2) (Table IV).

### 5. Discussions

*The effect of financial performance in mediating the influence of corporate growth on the corporate market value*

First of all, the influence of corporate growth (X1) on financial performance (Y1) has been found to be significant with a positive coefficient. It implies that higher corporate growth improves financial performance. Second, the influence of financial performance (Y1) on the corporate market value (Y2) is significant with a positive coefficient, generating a theoretical view that better financial performance improves the corporate market value since it allows companies to have a better capability in earning higher profits that contribute to a higher equity value.

Corporate growth guarantees higher profit in the future; besides, it is one of corporate goals to be achieved through various attempts. Investment makes a company grow to a certain level where a company has better capability to compete in a broader economic market to earn higher profit. Corporate growth can be accelerated by improving the corporate financial performance (Kouser *et al.*, 2012; Çoban, 2014) for better financial performance gives maximum contribution to the wealth of company owners. The result of this research supports the permanent income hypothesis (Friedman, 1957) which states that expectation toward future income determines the amount of assets to utilize. The target income can be achieved by making more investment that generates higher income in the future. The finding of this research also goes in line with Kouser *et al.* (2012) and Çoban (2014) who also found that corporate growth has a positive and significant influence on corporate profitability. Chandler and Jansen (1992) and Cowling (2004) also stated that corporate growth positively influences corporate profitability. The result of this research goes contradictory with the one found by Reid (1995) which stated that the influence of corporate growth on profitability was negative and significant, resulting in a theoretical view that improvement in corporate growth decreases the amount of profit

Hypothesis	Structural path	Path coefficients			Remark	
		Estimate	SE	CR		
H1	Y1 → Y2	0.959	0.009	106.56*	Significant	Accepted
H2	X1 → Y1	0.223	0.023	9.69*	Significant	Accepted
H2	X1 → Y1 → Y2	0.214	0.043	4.97*	Significant	Accepted
H3	X2 → Y1	0.714	0.027	26.44*	Significant	Accepted
H3	X2 → Y1 → Y2	0.685	0.039	17.56*	Significant	Accepted

**Note:** CR\*, significant at 0.05 level

**Table IV.**  
The result of hypothesis testing

obtained by a company. Meanwhile, Markman and Gartner (2002), Goddard *et al.* (2004) and Coad (2007) believed that productivity as a means to measure profitability did not positively correlate with corporate growth.

The result of this research shows that corporate growth influences the corporate market value through financial performance. The theoretical implication of this empirical fact is an insight that better corporate growth increases the corporate market value. Positive corporate growth results in a higher company asset which is the main goal of every company. The corporate growth of a company attracts investors to buy the shares of the company that leads to higher stock prices.

The finding of this research also supports the permanent income hypothesis (Friedman, 1957) which states that a company's expectation of its future profit determines the amount of assets to be allocated for operational activity. Future expected profit can be obtained by making a more profitable investment which increases the corporate market value later on. Corporate growth is able to determine the corporate market value for it will give higher profit that increases the wealth of company owners in the future.

Myers (1977) and Kester (1986) also added that corporate growth plays an important role in the improvement of corporate market value. Any kind of corporate development either internal or external development should be seen as investment opportunities. Companies that display a stronger sign of higher growth tend to have more prospective development in the future. Thus, more investors will be interested in investing their fund in companies where growth opportunities are higher compared to those with low growth opportunity (Al-Najjar and Peter, 2008).

This finding is in line with Ghalandari (2013) and Oluwagbemiga (2013) who investigated the influence of corporate growth on the corporate market value, results of which show that corporate growth positively and significantly influences the corporate market value. Investors perceive the corporate market value as an aspect which is closely related to the stock price. Market price refers to the price of shares offered. In the capital market, the stock price is formed by the elasticity of demand and supply.

The result of this research does not support Chowdhury and Chowdhury (2010) and (Pakpahan, 2010) who found that corporate growth negatively influences the corporate market value. In this sense, the negative correlation proposed that improvement in corporate growth decreases the corporate market value. Meanwhile, a number of theoretical and empirical explanations confirm the existences of both positive and negative influences of corporate growth on the corporate market value.

#### *The effect of financial performance in mediating the influence of corporate growth on the corporate market value*

First of all, the influence of corporate growth (X1) on the corporate market value (Y2) has been found to be significant with a positive coefficient. This implies that improvement in asset utilization triggers better financial performance as the improvement in the NPM reflects the effectiveness of a company in running its operational activities that accelerates the cash receipts. Promptly cash receipts give a higher amount of fund to be re-invested in order to make profit. Second, the influence of financial performance (Y1) on the corporate market value (Y2) has been found to be significant with a positive coefficient. Thus, the higher the number of investors who are interested in buying a company's share within the consideration that the company has adequate financial performance, the higher the price of the shares. However, the other way around occurs to companies with poor financial performances. Ghosh and Arijit (2008) stated that financial performance positively influences the corporate market value. Improvement in the amount of profit obtained by a company makes its financial performance better and increases the equity value of company owners.

Company assets should be utilized in the most effective and efficient way because they give maximum profit for the company. A better utilization of company assets takes good planning, controlling the use of company assets including current assets and fixed assets and a proper amount of fund allocated for each of asset element. An inadequate amount of fund allocated for operational activities might obstruct the liquidity and continuity of the enterprise, whilst an excessive amount of fund would lead to a higher amount of idle fund. Companies with intensive operational activities do not have idle funds, thus requiring lower costs for management policies, which lead to higher profits.

Leverage irrelevance theory (Modigliani and Miller, 1958) states that investment decisions determine corporate profit. After an investment is made, a company should focus on enhancing production process using the predetermined amount of asset allocated for the production sector to produce quality goods or services for consumers in order to make higher profits from the sales. Investment decision makes company asset utilization more effective and efficient in obtaining higher profit, leading to better corporate financial performance.

Investment decisions also result in a better use of company assets in terms of effectiveness and efficiency in giving a company higher profit and enhanced financial performance. DuPont analysis proposes an analytical framework which connects the activity ratio and NPM in determining ROA. Furthermore, the ROA and debt ratio determine the ROE (Hanafi, 2010, pp. 51-52).

Intensive utilization of company assets reflects the effectiveness and efficiency of a company in managing its assets, decreasing the amount of costs which result in higher profit and stronger contribution to the wealth of company owners (Kamaludin and Indriani, 2012, p. 44). The effectiveness of a company in managing its current assets, fixed assets and asset structure enhances the return on investment. The activity ratio is used to measure the effectiveness of operational activities performed by a company. The activity ratio reflects the extent to which a company utilizes its aspect to improve its sales in order to obtain higher profit. A more effective and efficient use of company assets improve the sales, leading to higher profit.

Asset utilization influences the corporate market value through financial performance. It implies that improvement in asset utilization increases the corporate market value. This phenomenon occurs since higher sales accelerate cash receipts. Promptly cash receipts deposit a higher amount of fund available to be re-invested in order to make more profit and improve the corporate market value. The corporate market value is determined by the ability of a company in utilizing its available assets to make higher sales and obtain higher profit.

## 6. Research findings and contributions

### *Research findings*

This research is expected to give practical contribution to companies and investors in making business decisions. The findings of this research also give beneficial recommendations for companies in making proper decisions, effective financial policies, and efficient asset utilization. This research has resulted in these following findings: first, corporate growth has a significant influence on the corporate market value, implying that companies should consider the short-term and long-term profitabilities before making any investment decision. The growth of current investment will result in company profit in the future. Corporate growth and corporate profitability can be used as indicators to predict corporate prospects in the future. Second, asset utilization has been confirmed to have a positive and a significant influence on financial performance. Insights into asset utilization effectiveness and efficiency are important for company managers to consider in making strategic decisions upon operational activities of the company. Companies with effectively and efficiently managed operational activities are able to reduce costs and improve the profit. The utilization of company asset and financial performance is crucial in determining the corporate market value. Thus, financial performance is a valid sign that reflects companies' future market prospects. Financial performance

described in companies' yearly financial reports also reflects the attitude of company managers in managing company assets. Third, financial performance has a positive and significant influence on the corporate market value. This information is beneficial for company managers in making strategic decisions for the best financial performance considering the fact that those aspects determine the stock price in the market. Decisions made for better operational activities will be able to improve corporate profitability and enhance the financial performance which shows better credibility of the company in the market. Companies are also able to use financial information as a mechanism to create a financial report in such a way to meet the needs of certain subjects and the needs of capital market.

### *Implications*

Practically, this research has positive implications. For future researchers, this research can be as a reference in adding other variables that were not included in this research model. For manufacturing companies listed in Indonesia Stock Exchange, this research can provide inputs in making financing decisions or policies and asset utilization activities. Theoretically, this research can contribute to the development of financial management science, especially about the decision-making process of capital structure, especially theories about the capital structure decision-making process after going through the process of understanding the variables influencing capital structure decisions that can improve financial performance and corporate values optimally or increase the welfare of corporate owners and stakeholders.

### *Research contribution*

This research is expected to give a significant contribution to companies in making certain business decisions or policies related to corporate finance. The board of managers should take corporate growth, liquidity, business risks and asset utilization into account before making any relevant decisions. The results of this research suggest that first, corporate growth opportunity can be used as an indicator to determine corporate funding mechanism, either a company should use internal funds or external funds. It is suggested that companies use internal fund as the most-preferred choice before using external fund considering the fact that the use internal fund does not add the cost of debt interest. Second, companies should also put business risk into consideration for business risk is a gamble that might give negative influences on corporate financial performance and corporate market value. Third, companies are also able to enhance their asset utilization by improving their sales and making their operational activities more effective and efficient in order to decrease the amount of debt interest. Within this ideal condition, companies will be able to enhance their financial performances that lead to a higher corporate market value. Fourth, companies are recommended to use debt at the lowest amount possible in order to avoid generating higher expense for the company to pay and to prevent the risk of failure from occurring. Fifth, it is suggested that companies maintain and enhance their financial performance as financial performance is a strong variable that determines the corporate market value. Investors also tend to value the shares of companies with adequate financial performance at significantly higher rates.

### **References**

- Adi, T.W., Suhadak, Handayani, S.R. and Rahayu, S.M. (2013), "The influence of corporate governance and capital structure on risk, financial performance and firm value: a study on the mining company listed in Indonesia stock exchange in 2009–2012", *European Journal of Business and Management*, Vol. 5 No. 29, pp. 200-217.
- Al-Najjar, B. and Peter, T. (2008), "The relationship between capital structure and ownership structure, new evidence from Jordanian panel data", *Managerial Finance*, Vol. 34 No. 2, pp. 919-933.

- Anake, A.F., Obim, E.N. and Eke, F.A. (2014), "Determinants of financial structure: evidence from Nigerian quoted firms", *Research Journal of Finance and Accounting*, Vol. 5 No. 16, pp. 53-66.
- Asiri, B.K. and Hameed, S.A. (2014), "Financial ratios and firm's value in the Bahrain bourse", *Research Journal of Finance and Accounting*, Vol. 5 No. 7, pp. 1-9.
- Balmer, J.M.T. (2017), "Advances in corporate brand, corporate heritage, corporate identity and corporate marketing scholarship", *European Journal of Marketing*, Vol. 51 Nos 9/10, pp. 1462-1471.
- Barakat, A. (2014), "The impact of financial structure, financial leverage and profitability on industrial companies shares value (applied study on a sample of Saudi industrial companies)", *Research Journal of Finance and Accounting*, Vol. 5 No. 1, pp. 55-66.
- Bhama, V., Jain, P.K. and Yadav, S.S. (2016), "Testing the pecking order theory of deficit and surplus firms: Indian evidence", *International Journal of Managerial Finance*, Vol. 12 No. 3, pp. 335-350.
- Bleck, A. (2018), "Regulating bank leverage", *Journal of Financial Economic Policy*, Vol. 10 No. 2, pp. 264-274.
- Chandler, G.N. and Jansen, E. (1992), "The founder's self-assessed competence and venture performance", *Journal of Business Venturing*, Vol. 7 No. 3, pp. 223-236.
- Chen, H.L. (2018), "Supply chain risk's impact on corporate financial performance", *International Journal of Operations & Production Management*, Vol. 38 No. 3, pp. 713-731.
- Chowdhury, A. and Chowdhury, S.P. (2010), "Impact of capital structure on firm's value: evidence from Bangladesh", *Business and Economic Horizon*, Vol. 3 No. 3, pp. 111-122.
- Coad, A. (2007), "Testing the principle of growth of the fitter': the relationship between profits and firm growth", *Structural Change and Economic Dynamics*, Vol. 18 No. 3, pp. 370-386.
- Çoban, S. (2014), "The interaction between firm growth and profitability: evidence from Turkish (listed) manufacturing Firms", *Bilgi Ekonomisi ve Yönetimi Dergisi*, Vol. 19 No. 2, pp. 73-82.
- Cowling, M. (2004), "The growth-profit nexus", *Small Business Economics*, Vol. 22 No. 1, pp. 1-9.
- Friedman, M. (1957), "The permanent income hypothesis", *A Theory of the Consumption Function*, Princeton University Press, pp. 20-37.
- Ghalandari, K. (2013), "The moderating effects of growth opportunities on the relationship between capital structure and dividend policy and ownership structure with firm value in Iran: case study of Tehran securities exchange", *Research Journal of Applied Sciences, Engineering and Technology*, Vol. 5 No. 4, pp. 1424-1431.
- Ghosh, S. and Arijit, G. (2008), "Do leverage, dividend policy, profitability influence future value of firm? Evidence from India", available at: <http://ssrn.com/abstract=1158251> (accessed January 17, 2017).
- Goddard, J., Molyneux, P. and Wilson, J. (2004), "Dynamics of growth and profitability in banking", *Journal of Money, Credit and Banking*, Vol. 36 No. 6, pp. 1069-1091.
- Gopal, C.A.C.R. (2009), *Accounting for Managers*, New Age International (P) Ltd. Publishers, New Delhi.
- Gopal, E. (2012), *Specific Heats at Low Temperatures*, Springer Science & Business Media.
- Hanafi, M.M. (2010), *Manajemen Keuangan*, Edisi Pertama Fakultas Ekonomi Universitas, Yogyakarta.
- Hwang, P.P. (2009), "Ion uptake and acid secretion in zebrafish (*Danio rerio*)", *Journal of Experimental Biology*, Vol. 212 No. 11, pp. 1745-1752.
- Indriantoro, N. and Supomo, B. (1999), *Metodologi Penelitian dan Bisnis*, BPFE Yogyakarta, Yogyakarta.
- Isaac, L. (2014), "Corporate capital structure and firm's market value in Nigeria", *Research Journal of Finance and Accounting*, Vol. 5 No. 12, pp. 16-31.
- Jang, S. and Park, K. (2011), "Inter-relationship between firm growth and profitability", *International Journal of Hospitality Management*, Vol. 30 No. 3, pp. 1027-1035.

- Kamaludin, I.R. (2012), *Manajemen Keuangan Konsep Dasar dan Penerapannya*, Revision ed., CV. Mandar Maju, Bandung.
- Keown, A.J., Scott, D.F. Jr, Martin, J.D. and Petty, J.W. (1999), *Dasar-Dasar Manajemen Keuangan*, (translated by C.D. Djakman), Salemba Empat, Jakarta.
- Kester, C.W. (1986), "Capital and ownership structure: a comparison of United States and Japanese manufacturing corporations", *Financial Management*, Vol. 15 No. 1, pp. 5-16.
- Kouser, R., Bano, T., Azeem, M. and Masood-ul-Hassan, S. (2012), "Inter-relationship between profitability, growth and size: a case of non-financial companies from Pakistan", *Pakistan Journal of Commerce and Social Sciences*, Vol. 6 No. 2, pp. 405-419.
- Markman, G.D. and Gartner, W.B. (2002), "Is extraordinary growth profitable? A study of Inc. 500 high-growth companies", *Entrepreneurship Theory and Practice*, Vol. 27 No. 1, pp. 65-76.
- Masoud, N. (2014), "The determinants of capital structure choice: evidence from Libyan firms, research", *Journal of Finance and Accounting*, Vol. 5 No. 1, pp. 67-83.
- Modigliani, F. and Miller, M.H. (1958), "The cost of capital, corporate finance and the theory of investment", *American Economic Review*, Vol. 48 No. 4, pp. 261-297.
- Modigliani, F. and Miller, M.H. (1963), "Corporate income taxes and the cost of capital: a correction", *The American Economic Review*, pp. 433-443.
- Myers, S.C. (1977), "The determinants of corporate borrowing", *Journal of Financial Economics*, Vol. 5 No. 2, pp. 147-175.
- Myers, S.C. and Majluf, N.S. (1984), "Corporate financing and investment decisions when firms have information that investors don't have", *Journal of Financial Economics*, Vol. 13 No. 2, pp. 187-222.
- Oluwagbemiga, O.E. (2013), "Perceived relationship between corporate capital structure and firm value in the Kenyan listed companies", *Research Journal of Finance and Accounting*, Vol. 4 No. 19, pp. 157-165.
- Opong-Boakye, P.K., Appiah, K.O. and Afolabi, J.K. (2013), "Determinants of capital structure: evidence from Ghanaian firms", *Research Journal of Finance and Accounting*, Vol. 4 No. 4, pp. 999-1005.
- Pakpahan, R. (2010), "Pengaruh Faktor - Faktor fundamental Perusahaan dan kebijakan Dividen Terhadap Nilai Perusahaan", *Jurnal Ekonomi, Keuangan, Perbankan dan Akuntansi*, Vol. 2 No. 2, pp. 211-227.
- Prihadi, D.J. (2011), "Pengaruh jenis dan waktu pemberian pakan terhadap tingkat kelangsungan hidup dan pertumbuhan kerapu macan (*Epinephelus fuscoguttatus*) dalam karamba jaring apung di Balai Budidaya Laut Lampung", *Jurnal Akuatika*, Vol. 2 No. 1.
- Prihadi, T. (2013), *Analisis Laporan Keuangan Lanjutan: Proyeksi Dan Valuasi*, PPM, Jakarta.
- Reid, G.C. (1995), "Early life-cycle behaviour of micro-firms in Scotland", *Small Business Economics*, Vol. 7 No. 2, pp. 89-95.
- Ross, S.A. (1977), "The determination of financial structure: the incentive signaling approach", *Bell Journal of Economics*, Vol. 8 No. 1, pp. 23-40.
- Saeed, R., Munir, H.M., Lodhi, R.N., Riaz, A. and Iqbal, A. (2014), "Capital structure and its determinants: empirical evidence from Pakistan's pharmaceutical firms", *Journal of Basic and Applied Scientific Research*, Vol. 4 No. 2, pp. 115-125.
- Sangeetha, M. and Sivathaasan, N. (2013), "Factors determining capital structure: a case study of listed companies in Sri Lanka", *Research Journal of Finance and Accounting*, Vol. 4 No. 6, pp. 236-247.
- Smith, T.A. (2016), "Customer value proposition, corporate transformation and growth in Caribbean financial firms", *International Journal of Bank Marketing*, Vol. 34 No. 6, pp. 885-903.
- Solimun (2008), *Memahami Metode Kuantitatif Mutakhir Structural Equation Modeling dan Partial Least Square*, Program Studi Statistika Fmipa, Universitas Brawijaya, Malang.

- 
- Vengesai, E. and Kwenda, F. (2018), "The impact of leverage on discretionary investment: African evidence", *African Journal of Economic and Management Studies*, Vol. 9 No. 1, pp. 108-125.
- Vijayakumar, A. and Devi, S.S. (2011), "Growth and profitability in Indian automobile firms – an analysis", *Journal for Bloomers of Research*, Vol. 3 No. 2, pp. 168-177.
- Yulianto, A., Suhadak, Darminto and Handayani, S.R. (2014), "The role of corporate governance, dividend policy, and capital structure on ownership structure toward the firm value", *European Journal of Business and Management*, Vol. 6 No. 8, pp. 134-141.

---

For instructions on how to order reprints of this article, please visit our website:

[www.emeraldgroupublishing.com/licensing/reprints.htm](http://www.emeraldgroupublishing.com/licensing/reprints.htm)

Or contact us for further details: [permissions@emeraldinsight.com](mailto:permissions@emeraldinsight.com)



Reproduced with permission of copyright owner. Further reproduction prohibited without permission.