

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the Study**

In the globalization era, businesses experience major changes in various aspects, for a business to be able to continue to operate and compete with other companies, business should be able to increase their firm value by generating profit, expanding their market and customer base through the release of new goods and services, and many other strategies in order to attract shareholder to invest or existing shareholders to increase their investment in the company. This topic is crucial as it is for stakeholders and investors since it frequently shows how well a company can attract customers and make money. It may be quite helpful when making strategic decisions about how to allocate resources and position the company in the market. In other words, this topic is crucial to understanding the wider effects of sales performance on company success and investment plans. Understanding the impact of sales growth on overall business success and how it influences decision – making for all stakeholders is important.

A high firm value is a sign of shareholder prosperity. As a matter of fact, the company's stock price reflects the firm value; hence, the greater the stock price, the higher the firm value (Fauziah et al., 2021). The firm's value might be used to characterize its current situation. Potential investors will see the company favorably if it has a strong company value, and vice versa. Strong business performance is indicated by a high company value. It is preferred for

high-growth businesses to benefit from investments with promising futures (Situngkir et al., 2023). The stock price and company's overall value will increase if more investors buy its shares. (Gustinyomansintyaadnyani et al., 2020).

Price – to – Book Value (PBV), which compares the company's current market price per share to its book value per share, is a frequently used indicator for determining a firm's value. (Yustrianthe & Mahmudah, 2021). PBV ratio shows how much value a company may create in comparison to the total amount of money invested in it. Based on PBV ratio, it can be shown that a company is profitable if its PBV is above one (overvalued), it indicated that the share's market price exceeds its book value. A rising PBV indicates that businesses are doing a better job of creating value or profit for investors. Conversely, if PBV falls below one (undervalued), it means that the market price per share is at discount compared to its book value. the businesses are not doing good in creating value or profit for investors. If its PBV is equal to one (fairly valued), it indicates that the share's book value and market price are equal.

One of the factor that impact the firm value is sales growth. Sales growth gives the company a strategic advantage because it is associated with an increase in the market share, which subsequently impacts the company's increasing sales and raises its profitability (Zuliyana et al., 2023). Rapid sales growth frequently indicates high customer demand for a business's goods or services and points to potential future profits. Businesses with strong growth prospects are more valuable to investors, which causes the firm's value to

increase. A company's stable and manageable growth trajectory is shown by sustainable revenue growth. A greater firm valuation is increased when growth is steady because it lowers the investor perceptions of risk and uncertainty.

The study of (Dang et al., 2019) investigated the effects of growth, capital structure, profitability, and business size on enterprise value in Vietnam and used ROA and ROE as the measurement for profitability. Unlike (Dang et al., 2019), this research only used ROE as profitability measurement. The study of (Ibrahim, 2020) aims to investigate the impact of financial leverage on firm value in Nigeria. This research used IBM SPSS to processed data while the research by Ibrahim used E-VIEWS to processed data. There is the research of (Taek Ho et al., 2021) emphasizes how diversification strategies and sales growth interact and how it impacts the firm value. Meanwhile, in this research the main focus is on the impact of sales growth to firm value. The research of (Sucuahi & Cambarihan, 2016) seeks to ascertain whether profitability and firm value are significantly influenced by one another using Tobin's Q as the measurement. In contrast, this research used Price to Book Value (PBV) to measure the firm value. There is this research (Arhinful & Radmehr, 2023) study on financial leverage that uses a variety of indicators. Nevertheless, the sole metric utilized in this research is the debt to equity ratio to measure leverage. Another research by (Febriyanto, 2018) used the real estate and property companies listed on the Indonesia Stock Exchange's as the data. However, the data source for this research was the manufacturing companies listed on the Indonesia Stock Exchange (IDX).

The object of this research will be manufacturing companies registered in the Indonesia Stock Exchange from the period of 2021 – 2023. The companies from the manufacturing companies relate to the capability of manpower, machinery, tools, and equipment, and chemical or biological processing to produce goods. The phrase can be used to describe a variety of human endeavors that entail the large – scale conversion of primary sector raw materials into finished goods. The products then can be supplied to other producers in order to create more products, or they can sell to consumers and end users through the tertiary sector. The manufacturing industry contributes significantly to the economy, and during the economic cycle, a company's earnings data can be used to assess its performance and determine its market equity worth, particularly at the start of the up and maturity stages (Santoso & Muda, 2020). Because of those reasons, manufacturing sector is fascinating to be research because it's always changing due to new inventions and technologies. The intricacy of manufacturing's worldwide supply chains offers an opportunity to examine how businesses adjust to shifting market conditions. This sector is diverse and relevant which makes it a great option to the study.

**Table 1. 1 Table of Phenomenon**

<b>Code</b>	<b>Year</b>	<b>Firm Value (PBV)</b>
AALI	2021	864
	2022	694
	2023	599
ADES	2021	2.001
	2022	3.171
	2023	3.299
CAMP	2021	1.663
	2022	1.913
	2023	2.483
GGRM	2021	0.993

ULTJ	2022	0.600
	2023	0.643
	2021	3.594
	2022	2.970
	2023	2.801

Source: Prepared by the writer (2024)

According to the information in Table 1.1. It is evident that from 2021 to 2023, the firm value of companies in the consumer non – cyclicals sector increases and decreases annually. The firm value of *PT. Astra Agro Lestari Tbk (AALI)* decreased between 2021 and 2023. There is a 19,60% decline from 2021 to 2022 and a 13,71% decline from 2022 to 2023. In contrast, the firm value of *PT. Akasha Wira International Tbk. (ADES)* increased between 2021 and 2023. There is an increase of 58,45% from 2021 to 2022, which is a significant amount, and an increase of 4,05% from 2022 to 2023. Additionally, from 2021 to 2023, *PT. Campina Ice Cream Industry Tbk. (CAMP)* had an increase in its firm value. There is a 15,03% increase from 2021 to 2022 and a 29,80% increase from 2022 to 2023. In addition, *PT. Gudang Garam Tbk.* witnessed both a decline and a rise in its firm value between 2021 and 2023. It falls by 39,58% between 2021 and 2022 and rises by 7,17% between 2022 and 2023. The firm value of *PT. Ultrajaya Milk Industry and Trading Company Tbk.* declined between 2021 and 2023. There was a 17,36% decline from 2021 to 2022 and a 5,69% decline from 2022 to 2023.

Investors' expectations regarding their earnings are unpredictable due to fluctuations in the firm's value. The primary problem in doing research is the unpredictable fluctuations in the firm value. Firm value is significant because it can make investments more appealing to potential investors. Investor caution

increases while making investments in companies due to the company's drop in value. To get a sense of the overall state of the business, investors require precise information.

Therefore, given the above study background, the author is motivated to carry out research with the title of **“The Impact of Sales Growth to Firm Value”**.

### **1.2 Problem Formulation**

Following the aforesaid study outline's background, the research problem is formulated as:

1. Does the Sales Growth have significant effect toward Firm Value?

### **1.3 Objective of the Research**

Given the study's background and the problem formulation, the research's objective is:

1. To analyze The Impact of Sales Growth to Firm Value.

### **1.4 Benefit of the Research**

It is anticipated that this research will either directly or indirectly improve education based on the goals that must be met. The following are the advantages of this study:



### **1.4.1 Theoretical Benefit**

In theory, the author anticipates that this research will act as a foundation for future research that are involved in conducting the research of similar or related topics by other scholars and as a source of literature for their own studies. The author also expects that more people will be aware of and gain insight into how sales growth impact firm values as a result of this research.

### **1.4.2 Practical Benefit**

The author anticipates that this research will be useful in the following ways:

#### **1. For Scholars**

This research's purpose is to offer future scholars conducting research in the same field with background information, citation and data.

#### **2. For Investors and Other Stakeholders**

The author expected that the research's conclusions will include information about the current state of the companies – especially the ones that were the study's primary focus – as well as illustrations. Furthermore, if the research findings are taken into account, they can serve as inputs for investment – related decision – making. Additionally, the author hopes to provide stakeholders with helpful information to help them understand better about this research.

#### **3. For Companies**

The goal of this research is to provide the company with knowledge on factors that impact firm value and the author believes by conducting this

research, the company may continue to grow in the future and increase their company's firm value.

### **1.5 Problem Limitation**

The author established the following problem limitations to prevent straying off topic:

1. The object of this research is manufacturing companies listed on the Indonesia Stock Exchange from 2021 – 2023. The sole reason the author chose manufacturing companies for this research is to determine how sales growth affects firm value. The author only included the years 2021 to 2023 because those were the most recent and up – to – date; nevertheless, it is advised to include additional period for future researchers as this could provide more precise data.
2. Sales growth will be the independent variable in this research, while firm value will be the dependent variable. Only one regression model was employed in this research.