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The Effect of Financial Performance and Company Size on Company Value: A Review of Literature Studies

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ABSTRACT

The literature review article on the Effect of Financial Performance and Company Size on Company Value aims to formulate a research hypothesis that evaluates the relationship between these variables in future research. The method for writing this literature review article is based on the literature review research method, with data sources coming from various platforms such as Google Scholar, Mendeley, Semantic Scholar, and other online academic sources. The findings from this literature review article show that financial performance has a significant impact on company value, while company size has no effect on company value.

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1. INTRODUCTION

The main goal of every business is to increase the wealth of its owners and shareholders through increasing the value of the business. Because a company's value can generate more wealth for its shareholders, increasing company value also has the potential to provide shareholders with a higher rate of return on investment. Market confidence in a company's performance and its future prospects can be strengthened when the company's share price increases. The actual value of a business is the price that a potential buyer would pay if the business were sold [1].

Companies not only want to make the most money, but also want to increase company value. Therefore, company value is a measure that shows the company's performance and financial condition. This value is also an important component that potential investors consider when making decisions. A company's share price increases along with its value, which has a positive impact on shareholder profits. "Company value is a way for investors to assess the level of success of a company, and is often linked to share prices [2].

Company size is a factor that influences company value. Company size has an influence on company value because the larger the size or scale of the company, the easier it is for the company to obtain funding sources, both from internal and external sources [3].

One of the factors that influences company value is company performance. Company performance includes the company's ability to achieve profitability based on its assets, capital and debt. Company performance is also related to job satisfaction within the company. One of the indicators used to measure company performance is return on assets (ROA), which is a financial ratio that assesses the company's potential profitability and ability to generate profits [4], [5], [3].

In this context, the motivation for this research may stem from the need to understand the complex relationships between financial performance, firm size, and firm value, as well as to fill existing knowledge gaps in previous literature. Explanation of differences with previous research can strengthen the importance of this research, because it highlights the diversity of previous research results and shows the need for a deeper understanding of the factors that influence company value [6]–[9].

Thus, this research is important to conduct because it provides complex insights regarding the relationship between financial performance, company size, and company value, as well as filling knowledge gaps that exist in previous literature [6], [8].

2. LITERATURE REVIEW

2.1 *The value of the company*

Company value is a condition that reflects the level of trust that the company has obtained from the public [10]. This condition is the result of a number of years of experience that the company has gone through since its founding until now. Company value reflects the company's success in increasing the market value of its shares, which in turn can provide benefits to its shareholders [11]. The greater the growth in stock market value, the higher the company's market value. The main aim of the company is to maximize the value of the company, which can be considered as a promotional offer in the world of sustainable business carried out by the company [11]. This company value gives investors a view of the company's performance over the coming period, and this is related to the stock market value. The higher the market value of a company's shares, the greater the profits that investors can obtain."

2.2 *Financial performance*

Performance is the result of work that can be carried out by individuals or groups of individuals within a company in accordance with their duties and responsibilities, with the aim of achieving organizational goals legally, in accordance with the law, and in accordance with moral and ethical values [12]. One aspect that influences the value of a company is financial performance [10]. A company's financial performance is a very significant factor in investors' consideration when they decide to invest in shares. The financial performance of a company is closely related to the assessment of the sustainability and stability of the company.

Performance measurement is a method or tool used to assess the results of implementing activities based on important concepts. The aim is to measure the development of a group or organization and improve the quality of decision making and accountability. By using performance measurement, an entity can evaluate the extent to which goals and objectives have been achieved, as well as identify areas that require improvement or improvement [13].

The financial performance of a company has important value for the various parties involved (stakeholders), including investors, creditors, analysts, financial consultants, brokers, the government, and the management of the company itself [14]. Financial reports, such as balance sheets and profit and loss statements, which are prepared well and accurately can provide a clear picture of the achievements that have been achieved by the company in a certain period. This information is used to assess company performance.

Profitability reflects the extent to which management has successfully managed the company. The profitability ratio is a measure of a company's ability to generate profits using the resources it owns, such as assets, capital or company sales [14]. A company's financial performance can be measured using ROA (Return on Assets), because ROA provides information regarding the relationship between net profit and total assets, which measures the company's overall operational efficiency.

2.3 *Company Size*

Company size is the size of the company seen from the size of the equity value, sales value or asset value [12]. Company Size Criteria According to Law no. 20 of 2008 concerning small, micro and medium businesses, based on the size of their net worth and sales results. Larger companies tend to have greater access to various sources of funding, so they have a higher probability of obtaining loans from creditors [10]. This is due to the greater ability of larger companies to compete and survive in the industry, which increases their probability of success.

Company size is one of the benchmarks that is often used to assess the success of a company. Most companies have the ambition to have a significant company size. Companies that have a large amount of assets are considered large companies, while those with smaller assets are called medium companies, and those that are much smaller are called small companies. Companies with large profits also often have quite large retained profits, which can be used to support the company's business expansion using internal resources [15].

3. METHODS

The writing method in this Literature Review article uses a descriptive qualitative approach and relies on data sources from literature studies or library research [16]–[19]. Data is collected through online applications such as Google Scholar, Mendeley, Semantic Scholar, and other online sources. This Literature Review article limits data coverage from 2017 to 2023.

4. RESULTS AND DISCUSSION

Based on theoretical research and previous relevant research, the discussion of this literature review article is:

Financial Performance has a positive and significant effect on Company Value [12],[1];[21];[22];[15];[23];[14];[24]. Sustainable corporate value is the main goal for every organization. To achieve this goal, companies must focus on improving their financial performance. Financial performance can be measured through a number of key metrics, including Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI). When a company is able to achieve high levels in this metric, the company's value will increase significantly. ROA is an important indicator that measures a company's ability to generate profits from the assets it owns. The higher the ROA, the more efficient the company is in utilizing its assets to generate profits. This means that the company not only has high-value assets, but is also able to optimize their use.

In addition, ROE measures the level of return provided to shareholders. A high ROE shows that the company is able to provide significant profits to shareholders, which in turn can increase investor interest and confidence in the company. This means that the company not only generates profits, but is also able to provide fair returns to shareholders. Lastly, ROI is an important performance measure in assessing the efficiency of capital use. A high ROI shows that the investment made by the company produces good results. This shows that the company is able to manage its investments well, which in turn contributes to the growth of company value.

In a broader perspective, a company's value depends not only on the physical assets it owns, but also on its ability to generate revenue and profits on an ongoing basis. Earnings power from company assets is a key factor in determining company value. When a company can maximize the use of its assets and achieve strong financial performance, the company's value will grow sustainably. So, company value that is guaranteed to grow sustainably can be achieved by improving the company's financial performance, which is reflected in high ROA, ROE and ROI. Thus, companies must focus on strategies and actions that can improve their financial performance as an important step in achieving the goal of sustainable corporate value growth."

Company size has no effect on company value [25];[10];[22];[23];[14];[26]. A company's size, reflected in its total assets, is often considered a negative signal by investors or potential investors. It is believed that a company size that is too large can result in less efficiency in operational supervision and strategies implemented by company management, thereby potentially reducing company value. The negative influence of company size on company value is also related to investors' perceptions that large companies tend to retain most of the profits generated as retained earnings, rather than distributing them as dividends to shareholders. This may be caused by the belief that large companies are committed to continuing to improve their performance, so investors are willing to pay a higher premium to own shares in these companies. They believe that these investments will generate returns commensurate with the profits derived from the growth of company value, which in turn will maximize shareholder welfare.

Companies that are able to generate large profits do not always have to be large in size. Thus, it can be concluded that in the investment decision making process, company size is not the main factor that is the main consideration for investors. Apart from that, the findings of this research also show that company size can have a negative influence on company value assessments. This may be due to investors' perception that companies with large total assets tend to prefer to retain larger profits rather than distribute dividends to shareholders. Therefore, company size may be considered a less favorable indicator for investors seeking higher and immediate dividends.

In this case, it is important to consider other factors that can influence the assessment of company value, such as financial performance, growth prospects, management and company strategy. In conclusion, this research emphasizes that company size is only one of many factors that investors must consider in making investment decisions, and that it should not be the only consideration.

5. CONCLUSION

There is a positive and significant relationship between a company's financial performance and company value. Good financial performance, which can be measured through metrics such as ROA, ROE, and ROI, contributes to increasing company value. Companies that are efficient in managing assets and providing profits to shareholders will tend to have higher company value.

Company size has no effect on company value. Big companies don't always have to make big profits. Therefore, it can be concluded that investors do not consider company size as a major factor when making investment decisions. In addition, the results of this study indicate that company size can have a negative impact on the assessment of company value, perhaps due to investors' perception that companies with large total assets tend to prefer to retain larger profits than companies with smaller total assets.

Building on the findings that good corporate governance has a positive effect on firm value, while firm size and financial performance have a negative effect, it is recommended for further researchers to delve into the specific indicators within each of these factors to obtain valid findings. By reviewing various aspects such as specific governance practices, different measures of firm size, and nuanced aspects of financial performance, researchers can gain a deeper understanding of the complex relationship between these variables and firm value. This exploration could provide valuable insights for policymakers and practitioners aiming to enhance firm value through effective governance and financial strategies.

This research suggestion aims to address the need for a more nuanced understanding of the impact of good corporate governance, firm size, and financial performance on firm value, as indicated by the existing literature studies. Conducting such research could contribute to the development of more targeted and effective strategies for enhancing firm value in the context of diverse corporate environments.

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