The Role of Leverage, Company Size and Retention Ratio on Banking Companies Value in Indonesia

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Abstract : This research aims to determine the effect of leverage, company size and retention ratio on company value in banking companies listed on the Indonesian Stock Exchange during the 2020-2023 period. The population taken and used in this research is annual data from 45 companies for four (4) periods totaling 180 data. This research uses the Eviews 12 analysis tool. Applying the Multiple Regression Analysis research method with the data type in the form of panel data with a Fixed Effect Model. The results of this company value research show that leverage and company size have a significant effect on company value, while the retention ratio has an insignificant effect on company value.

Keywords: Leverage, Company Size, Retention Ratio, Company Value, EViews 12.

INTRODUCTION

Economic movements and turnover are closely related to the existence of banking companies. We can say that banking is the main actor in driving the economy of a country, whether it is Indonesia or other countries in the world. An example of one of the functions that this institution has is as a financial intermediary that brings together economic actors who need funds with those who have excess funds (Dandung et al., 2020). Banking has long-term business prospects and very rapid growth, which has resulted in competitive conditions in this sector becoming more competitive than before. This condition triggers banks to optimize company value with the aim of increasing demand (Apriantini et al., 2022). Banking is said to be healthy if it has good financial performance, and performance evaluations are always carried out so that the condition of the company is known from one time to time.

One of the reasons companies continue to be run and developed is to increase and maximize company value. Buying and selling activities with company objects are closely related to the value of the company because it is an important factor in determining how valuable the company is and is also an agreement between the seller and the buyer regarding the price paid and received when buying and selling (Amalia et al., 2017). A company becomes more valuable and has a high status if the value of the company it produces is within a fairly large value range. Thus, company owners compete to increase the value of their company in the hope that their company will become more attractive in the eyes of consumers, shareholders and potential investors (Hidayat, M., 2021). The following is an image of a graph of the average value of banking companies which has been summarized

for the 2018-2023 period.

Picture 1. Average Value of Banking Companies for the 2018-2023 Period
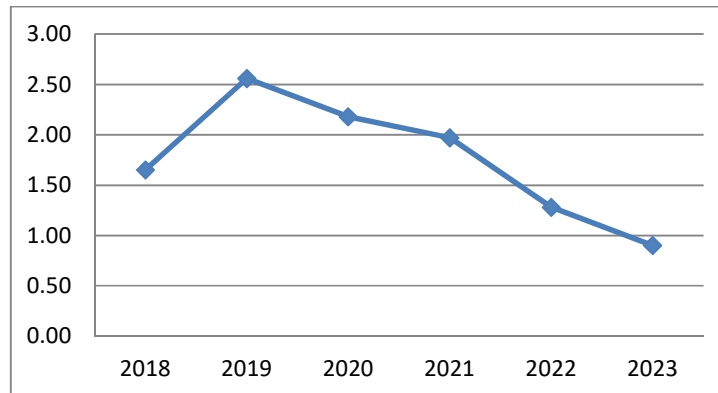
Source : IDX, 2024 (processed)

The picture shows the depiction of the average value of banking companies which experienced ups and downs, in 2019 it experienced a quite large increase of 36%, but in the following year, namely 2020, the average value of banking companies experienced a decrease of 17%, and continued with successive declines. in the following years. In 2021, the average company value decreased by 11%, then in 2022 it decreased sharply by 54%, and at the end of 2023 the average company value decreased again by 42%. This successive decline in company value indicates a negative signal regarding the condition of investor confidence in banking in Indonesia. Factors that play a role in influencing can come from various factors, including leverage, company size, and retention ratio.

Referring to previous research (Simanjuntak et al., 2019), shareholders in a company experience corporate risk which appears as a burden due to the portion of debt costs in the company which is usually called leverage. Companies must be able to be wise in responding to debt issues in their business activities, because a shift, either up or down in the proportion of debt, will also result in a shift in the company's value, but negatively or inversely. The significant effect of leverage on company value has been proven by previous research (Himawan H. M., 2019; Simanjuntak et al., 2019; Dewantari et al, 2019). However, there are inconsistencies or discrepancies in different results as proven by other studies (Fitrianingrum A. A., 2018; br Ginting, R. A., 2020).

Br Ginting R. A. in his 2020 research explained that the easier it is for companies to obtain capital costs in large nominal amounts, whether sourced from investment or debt, they are able to carry out their business activities effectively and optimally so that the impact can be seen with reference to share prices and company value which also increases simultaneously with the company assets. The significant effect of total assets proven by on

company value has been previous research (Fitrianingrum A. A., 2018; Dewantari et al, 2019; Fransiska & Jonathan, 2021). However, there are inconsistencies or discrepancies in different results as proven by other studies (Mubyarto N., 2019; Akbar & Fahmi, 2020).

Through research by Safira and Dillak in 2021, share prices are also influenced by the retention ratio factor, where this ratio is defined as the opposite of the dividend payment ratio. The size of the proportion of retained earnings or dividends that are not paid to shareholders is the definition of this ratio. The assessment carried out by investors before deciding to choose a company is to pay attention to various factors, one of which is the share price (Prayogo et al, 2022). However, there were inconsistencies or discrepancies in different results which were proven by other research (Ali et al., 2017), where the researchers proved that this retention ratio had no correlation.

Seeing the many inconsistencies among the already conducted research, in order to test and prove the role of leverage, company size and the retention ratio of a company on the value of banking companies over four (4) periods, namely 2020 to 2023, thus this research is carried out.

LITERATURE REVIEW

Financial Performance

Within a company's operational period, which generally has a lifespan of one year, the company has certain work achievement targets that have been approved by the stakeholders in it. These work achievement targets become a reference in providing financial performance evaluation scores, whether they are classified as healthy and good performance, or vice versa (Fibriyanti, Y. V., 2018). Meanwhile, from Fahmi's point of view in his research in 2012, the company has established procedures and regulations for work within the company's divisions without exception, and whether or not the established procedures are fulfilled is seen as material for assessing the company's performance, whether all activities are is in accordance with existing procedures, whether the company has complied with all the regulations made or not, so that the overall and detailed condition of the company can be seen through its financial performance. Analyzing company financial performance will bring us to delve deeper about the healthiness the company's financial condition and the effectiveness of the company while generating profits.

In previous research (Sakia et al., 2019), the correlation between the successiveness of the company is closely related to share prices and often potential investors who have not yet made a choice regarding which company to invest their funds in weigh their decisions

based on the relationship between these two aspects. Not only investors, but the market as a whole is stated to have a greater level of confidence in companies with high value and high share prices as well, and vice versa, when a company is in a share price range that can be said to be cheap, doubts will arise in the market and minds. potential investors whether the company is a good company or not.

What becoming the reflection ofpublic's trust is what we call with company value assessed since its inception. Trust in the company that they are performing well and have great opportunities in the future (Pambudi & Ahmad, 2022). Referring to research by Uffiah & Kadarningsih in 2021, researchers used the PBV formula as an indicator of company value as follows:

$$PBV = \frac{Market\ Price\ per\ Common\ Stock}{Book\ Value\ per\ Common\ Stock}$$

$$Book\ Value\ per\ Common\ Stock = \frac{Common\ Stock\ Equity}{Total\ of\ Outstanding\ Common\ Stock}$$

Leverage (*Debt Equity Ratio*)

Companies that carry out operational activities using costs originating from debt can have their leverage ratio measured. The proportion of financing in a company is measured by calculating the leverage ratio. When a company has increasingly large debts, financial risks will arise whether it is desired or not, then if the value is relatively very high then the company will be in a precarious situation and prone to experiencing financial distress (Fitrianingrum, A. A., 2018). Researchers determine the DER ratio as an indicator used in measuring leverage. DER is a measurement ratio of the cost of capital used to finance companies originating from debt. If the DER ratio is higher, it can be said that the proportion of funds provided by shareholders is lower than the proportion of funds from creditors, and vice versa. The DER formula is:

$$DER = \frac{Total\ Liability}{Total\ Equity}$$

Therefore:

H1 : Leverage affects Company Value significantly.

Company Size (Total Assets)

In research conducted by Widajatun in 2020, the maturity of a company is not seen from how long the company has been established, but rather based on the overall substance of a company, or in this context it can be called the total amount of assets owned, and this aspect is then used as one one factor depicting picture of the company size. They can assess investors' views regarding the financial risk of a company by evaluating or conducting an assessment of the total amount of assets with an inverse relationship. Referring to research by Uffiah & Kadarningsih in 2021, researchers used the natural logarithm formula as a method for calculating the overall substance of a company. The formula used to determine the company size is:

$$Company\ Size = \ln(Total\ Assets)$$

therefore:

H2 : Company Size affects Company Value significantly.

Retention Ratio

The dividend payout ratio subtracted from one will produce a value called the retention ratio. The retention ratio is the inverse of the dividend payout ratio. When the retention ratio value of a company is high, the proportion of profits received by shareholders will be low (Safira & Dillak, 2022). By lowering the retention ratio, company is raising its dividend payment ratio, and increases the interest of potential shareholders in the company, and conversely, a soaring retention ratio has the potential to drastically reduce the interest of potential shareholders in investing. The formula used to determine the retention ratio is:

$$Retetion\ Ratio = \frac{Net\ Profit - Dividen}{Net\ Profit}$$

therefore:

H3 : Retention Ratio affects Company Value significantly

Referring to theoretical studies, researchers compiled a conceptual framework for this research:

Conceptual Framework 1.
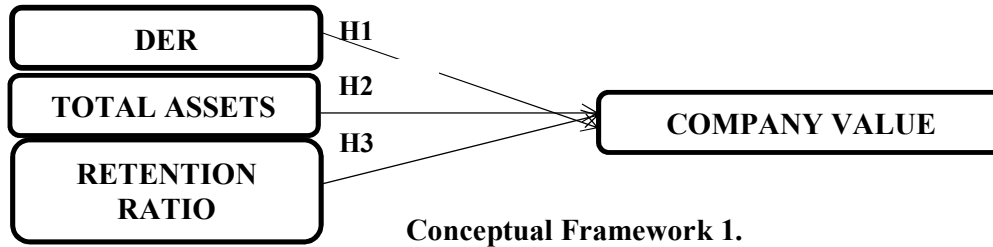
RESEARCH METHOD

Through the Indonesian Stock Exchange or IDX page, researchers collected annual population data consisting of banking companies for four (4) periods, namely 2020 to 2023. The population used was 45 companies, and the data collected was 180 qualitative data, which will later be The analysis will be processed using the Eviews 12 analysis tool. In this analysis using Eviews 12, the researcher determined a certain analysis method, namely Multiple Linear Regression Analysis with the type of data used is panel data. The classical assumption test was not used in this research because the test is optional when dealing with panel data types, and some researchers ignore this classical assumption. Gujarati stated in his book, published in 2012, that panel data has complexity regarding the behavior in the model so that panel data does not require classical assumption tests, besides that the complexity of panel data tends to cause bias in research results. Therefore, with the advantages of panel data regression, the implications do not necessarily require testing classical assumptions (Verbeek, 2000; Gujarati 2012 and Wibisono, D., 2005). The author obtained all of the data analyzed via the Indonesian Stock Exchange website plus data from the banking company's own website as a complement.

RESULT AND DISCUSSION

Table 1. Chow Test

	Value
Cross-section F	0.0001

Cros-section Chi-square	0.0000

Based on tests using the Chow test, the cross-section F value is 0.0001 (<0.05), plus the cross-section chi-square value is 0.0000 (<0.05). In testing criteria that use the Chow Test, when the value is below the threshold, the research must be carried out using the FEM (Fixed   Effect Model).

Table 2. Hausman Test

	Value
Cross-section random	0.0215

Based on testing using the Hausman Test, the value of the random cross-section is 0.0215 (<0.05). In testing criteria using the Hausman Test, when the value is below the threshold, the research must be carried out using the Fixed Effect Model or what is usually abbreviated as FEM . The similarity of decisions resulting from the two tests that have been carried out above means that the research can proceed directly to Panel Data Regression Analysis without having to undergo one more test, namely the Lagrange Multiplier Test or what is usually abbreviated as the LM Test.

Table 3. Panel Data Regression Analysis

Variable	Value	Prob.
C	12.44247	0.0263
Leverage (X1)	0.682700	0.0278
Company Size (X2)	-3.395641	0.0158
Retention Ratio (X3)	0.000503	0.9812

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Based on the results of the panel data regression above, it can be concluded that the regression formula for the Fixed Effect Model is:

$$Y = 12.44247 + 0.682700X_1 - 3.395641X_2 + 0,000503 \, X_3$$

The explanations for the result of regression analysis above are:

1. **The Effect of Leverage / DER on Company Value**

Based on the test results, the researchers found that the regression coefficient for variable Leverage had a positive (+) value of 0.682700, so it could be interpreted that if variable X1 is increased by 1 unit, the variable Y will be increased by 0.682700 unit. Then with a probability result of 0.0278 > 0.05, this quantity illustrates the positive and significant influence of leverage on company value. The average value of the DER ratio is 4.86, and is considered quite high because this shows that for every rupiah in equity, the company has 4.86 rupiah in liabilities. Meanwhile, if the ratio is 1, it indicates that creditors and investors have an equal position in company ownership. Therefore, the DER ratio is considered a key financial matrix because it indicates the potential financial risk of a company. Financial risks will become greater when banks have a relatively high DER ratio, which is caused by high debt interest charges that must be paid periodically, and this impact can spread to the share price, because net profits will be allocated more heavily to payments. debt compared to dividend distribution, so that the proportion of dividends that shareholders can receive becomes smaller. However, because the object of this research is banking, the DER value of 4.86 is understandable, because in the banking and financial services sector, relatively high DER values are normal. Banks have higher debt because they have quite large fixed assets in the form of their company branch networks. Researchers draw conclusions based on the results of this test that significance occurs in the relationship between leverage and company value in a positive direction due to the coefficient value as stated in the results of the analysis. This conclusion strengthens the results of previous research (Himawan H. M., 2019; Simanjuntak et al., 2019; and Dewantari et al, 2019), where the research results of these researchers also stated the same results, so that acceptance of hypothesis H1 is the conclusion in this research.

2. The Influence of Company Size on Company Value

Based on the test results, the researcher found that the regression coefficient obtained from variable Company Size was negative (-) at 3.395641, so it can be interpreted that if variable X2 is increased by 1 unit, the variable Y will be decreased by 3.395641 unit. Then with a probability result of 0.0158 < 0.05, this quantity illustrates a significant negative influence between company size and value. The overall substantial average value of banking which is the object of this research is worth 188.44 billion rupiah, and the research results show negative results, indicating that the greater the total asset value of a company, the impact will be seen in the smaller the rights of shareholders in the form of dividends. Apart from that, large total assets will also cause the company's fixed costs to increase and reduce

the portion of profits generated by the company, and this will also indirectly affect the share price or company value negatively. This conclusion strengthens the results of previous research (Fitrianingrum A. A., 2018; Dewantari et al, 2019; Fransiska & Jonathan, 2021), where the research results of these researchers also stated that the relationship between company size and value has a significant influence, so the researchers concluded that hypothesis H2 is accepted.

3. The Effect of Retention Ratio on Company Value

In the calculation results of this research, the regression coefficient obtained from variable Retention Ratio is positive (+) at 0.000503, so it can be interpreted that if variable X3 is increased by 1 unit, the variable Y will be increased by 0.000503 unit. Then, with a probability result of $0.9812 > 0.05$, it shows that there is insignificance of the retention ratio to company value, which means that H3 is rejected. Many object companies do not distribute dividends to shareholders, but for banks that have quite large profits, they distribute dividends regularly to shareholders. For investors, the amount of dividends distributed by the company

has an influence on their decision in choosing a company to invest in. If the retention ratio is low, investors tend to avoid the company as a place to invest and this can have a negative effect on share prices. Investor interest also influences fluctuations in share price developments, but share prices are not only seen from investor interest, but other factors also have an influence, such as debt ratio levels, earnings per share, profit levels, political, economic, social issues and many other influencing factor. Therefore, the effect of a negative retention ratio on company value is not significant and the author concludes that hypothesis H3 is rejected.

T Test (Partial) or Hypothesis Test

Table 4. T Test (Partial) or Hypothesis Test

Variable	Value	Prob.
Leverage (X1)	2.224695	0.0278
Company Size (X2)	-2.445221	0.0158
Retention Ratio (X3)	0.023566	0.9812

Based on testing with the T test or hypothesis test listed in the table above, it can be interpreted as follows: (1) The leverage coefficient (X1) value is 2.224695 with a probability value of 0.0278 which is below the threshold of 0.05. So, based on this value, the conclusion is drawn that variable X1 has significant effect on variable Y; (2) The company size coefficient (X2) value is -2.445221 with a probability value of 0.0158 which is below the threshold of 0.05. So, based on this value, the conclusion is drawn that variable X2 has significant effect on variable Y; (3) The retention ratio coefficient (X1) value is 0.023566 with a probability value of 0.9812 which is above the threshold of 0.05. So, based on this value, the conclusion is drawn that variable X3 has no significant effect on variable Y.

Table 5. F Test (Simultaneous)

	Value
F-statistics	2.484246
Prob. (F-statistics)	0.000026

Based on the results of the F Test (Simultaneous) listed in the table above, the F-Statistic value is 2.484246 with the Prob value. (F-Statistic) 0.000026 which is below the threshold of 0.05. So, it can be concluded that simultaneously or together, the dependent variable Y is significantly influenced by the independent variable X.

Table 6. Determinant Coefficient Test (Adj R^2)

	Value
R-squared	0.469367
Adjusted R-squared	0.280430

Based on the Coefficient of Determination Test, the value of Adjusted R-Squared is 0.280430 when seen from the table above, which indicates that X as an independent variable, together has an influence of 28.04% on the dependent variable, while the remaining 71.96% is influenced by the other variables outside this research.

CONCLUSION

Eviews 12 plays a role in research and testing activities on banking by applying FEM

or Fixed Effect Model. From all the variables provided, where the first variable is leverage, then the second variable is company size and the last variable is retention ratio, it is proven that leverage and total assets have a significant impact on company value, but the opposite happens to the retention ratio variable where these variables provide insignificant impact on company value. High leverage poses a financial risk to the company, and this risk is an important concern for shareholders or potential investors, so that an increase or decrease in leverage will have a direct impact on the value of the company. Companies must also be able to manage the assets they own effectively so that they are able to provide optimal profits and benefits, so that the burden that occurs due to the large total value of assets can be minimized by the benefits they produce. Meanwhile, companies are also expected to be able to formulate policies regarding dividend distribution by paying attention to existing aspects, so that these policies can help increase company growth and satisfy investors in their investment activities, so that company growth can be maximized.

SUGGESTION

The suggestion that researchers can make regarding the research results is that companies should try to pay more attention to the nominal total assets of the company, because the coefficient value is quite large compared to the other two variables, which reflects that the effect or impact of total assets on the high and low value of the company is greater than the variable other. Total assets that are too large will place too large a burden on the company, so that increasing the burden will directly reduce the amount of profit obtained by   the company. In addition, for other future research, it is recommended to add the development of other variables that are believed to have an impact or role on company value in an effort to produce appropriate and valid research results.

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