The Effect Of Financial Performance And Firm Size On Firm Value (Case Study of Banking Companies Listed on the Indonesia Stock Exchange in 2018-2020)

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A B S T R A C T

The aim of this study is to determine the correlation between Non-Performing Loans (NPL), Loan Deposit Ratio (LDR), Return on Assets (ROA), and Firm Size to Firm Value in the banking sector listed on the Indonesia Stock Exchange in 2018–2020. Using the SPSS Release 23 application, multiple linear regression is used as the analytic method. The findings of this study suggest that Return on Asset (ROA) and Loan to Deposit Ratio (LDR) substantially impact business value. Otherwise, Non-Performing Loans (NPL) and Firm Size have little impact on the Firm Value.

1. Introduction

The financial crisis in 2020 was caused by the *Covid-19* pandemic, increasing fear among the people because the instability of the Indonesian economy caused prices to rise, and people tended to experience panic buying to make ends meet. Following this incident, the government undertook financial reforms, which effectively kept Indonesia's economy stable until the 2020 financial crisis occurred.

The company's main objective is to maximize the value of the business to promote the welfare of business owners. Firm value is a certain state that a firm has attained as evidence of the public's confidence in the company after going through an activation process for many years, from the company's founding to the present (Hery, 2017). Investors' opinions of the company's level of success, which is frequently correlated with the stock price, are reflected in the firm value.

According to earlier research, variables, including business size and financial success, affect firm value. One of the indicators of a company's efficacy and efficiency in attaining its objectives is financial performance. The company's financial performance serves as an example of its success as a result of its operations or actions that it has undertaken (Tumandung et al., 2017). According to the Decree of the Director of Bank Indonesia No. 6/10/PBI/2004 of 2004, five evaluation factors, namely CAMEL (Capital, Assets, Management, Earnings, and Liquidity), can be utilized to evaluate the financial performance of a bank. In addition, to assess a bank's financial condition, The RGEC (Risk profile, Good Corporate Governance, Earnings, and Capital) technique can also be used to evaluate a bank's financial standing. The RGEC ratio consists of 4 ratios, consist of 4 ratio: Non Performing Loans, Loan to Deposit Ratio, Return on Assets, and Capital Adequacy Ratio.

The size of the business is another element that influences its worth. A scale known as "firm size" can categorize a business's size into several categories, such as total assets, log size, stock market value, and others. (Firmansah, 2017). The total assets a firm owns and uses for its business operations can be used to determine its size. Therefore, the management will be more adaptable in utilizing the company's assets if it has a high total asset base. The management's latitude in using assets is inversely correlated with the ownership's level of concern. In other words, from the business owner's perspective, the more assets a firm has, the less valuable it is. From a management standpoint, however, the simplicity with which management can run the company will raise the company's value. (Sri et al., 2013).

According to Jama'an in Suroto (2016) the Signalling Theory illustrates how a business should communicate with those who utilize financial accounts. This signal takes the form of information that details any attempts made by management to carry out the owner's objectives. For a company's value to serve as a good signal for investors to invest, signaling theory may also provide information about internal company characteristics such as funding structure, profitability, firm size, and sales growth that can affect changes to company stock prices on the stock market.

For the observation period of 2018–2020, a banking firm listed on the Indonesia Stock Exchange serves as the study sample. The study's aim is to ascertain how Non-Performing Loans (NPL), Loan Deposit Ratios (LDR), Return on Assets (ROA), and Firm Size to Firm Value affect each other. The results of the study demonstrate that return on assets and the loan-to-deposit ratio has a considerable impact on the firm's worth. On the other hand, firm size and non-performing loans have little effect on firm value. This study has two contributions. First, to advance signal theory by consolidating the findings of earlier studies on the effects of business financial performance and firm size on firm value. Second, it provides empirical evidence that firm value can be reflected in financial performance and firm size.

2. Theoretical Framework and Hypothesis

In accordance with Brigham, E. & Houston (2009), the signal theory is a management action that advises investors on how management views the company's prospects. Asymmetry theory, which explains why parties connected to a firm do not have the same knowledge about the company's prospects and hazards, is closely related to signal theory. In most cases, stakeholders, including management, have more accurate knowledge than outsiders or investors. Consequently, there may be an informational imbalance between management and investors. Investors who have less information will try to understand the behavior of managers. Manager's behavior is included in the factors that determine capital structure, which can be considered as a signal by outsiders or investors (Putra & Fidiana, 2017). Figure 1 describes the theoretical framework of the research observation.

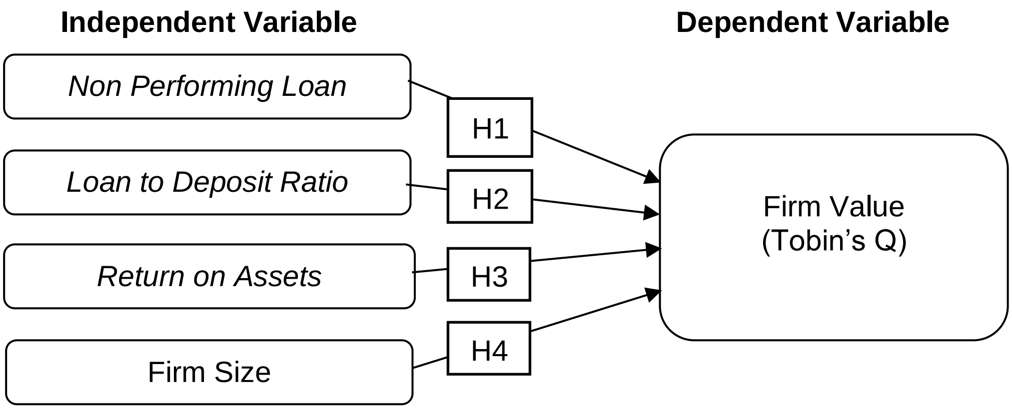

Figure 1
Theoretical Framework

Non Performing Loans reflect the collectibility of credit owned by banking companies in extending credit to the public. According to the idea of signals, information about a corporation may be a signal describing the financial health of that organization. The more quickly a company repays its debt, the better its standing with investors will be, which will increase the firm's value. This idea is in line with Repi (2016), which shows that NPL has no discernible impact on business value. From this idea, the following hypothesis may be formed:

H1: Non-Performing Loans (NPL) has a significant effect on Firm Value

The loan to deposit ratio determines the degree of liquidity held by banking organizations. A company's credit funding affects the company's profits because the existence of credit funding can increase interest income. Based on signal theory, an increase in interest income from lending can reflect a company's performance level so that it can signal investors to see the company's prospects in the future and can have an impact on increasing the company's value. This idea aligns with research by Halimah & Komariah (2017) which shows that LDR significantly affects business value. From this idea, the following hypothesis might be stated:

H2: Loan to Deposit Ratio (LDR) has a significant effect on Firm Value

Return on Assets in a company reflects the level of effectiveness of a banking company in utilizing its assets to generate profitability. Profitability can show how the company's performance. Based on signal theory, an increase in company profitability can be a positive signal for investors to see the company's prospects in the future. Thus, with increased profitability and prospects for the company in the future, it can impact increasing the value of the company. This idea is consistent with studies by Debora (2021), which demonstrate that ROA considerably impacts firm value. From this idea, the following hypothesis might be stated:

H3: Return on Assets (ROA) has a significant effect on Firm Value

The total assets of the corporation are a good indicator of the size of the banking organization. Investors are more likely to invest shares in a firm that is large by size. Based on signal theory, the total assets of a company can give a positive signal to investors because large companies can influence investors to pay more to get more profitable returns from these companies. This concept is in accordance with I Gusti Bagus Angga Pratama & Wiksuana (2018), which proves that firm size has no significant effect on firm value. So that from this concept, the hypothesis can be formulated as follows:

H4: Firm size has a significant effect on firm value

3. Research Methodology

Quantitative approaches are used in observation to establish research. Purposive sampling is used as part of the sampling approach. The study sample consists of the banking companies registered on the Indonesia Stock Exchange between 2018 and 2020. The source of the data is the firm's annual report, which is made available on the www.idx.co.id website or on the official website of each company.

Tobin's Q determine firm value (the dependent variable). This size was chosen because it can provide very good information for the company and explain various phenomena that occur in the company (Widyanti, 2014). Non-performing loans, loan to deposit ratio, return on assets, and firm size are used as proxy measures of corporate performance.

Table 1
Variable Measurement

Variable	Size
Firm Value	(Number of Shares Outstanding x Closing Prices of Shares) + Total Debt / Total Assets
Non Performing Loan	Uncollectible accounts / total credit
Loan to Deposit Ratio	Total Credit / Third Parties
Return on Assets	Net Income / Total Assets
Firm size	Ln(Total Assets)

Kasmir (2015) defines the Non-Performing Loan (NPL) as a ratio used to gauge a bank's capacity to manage the risk of debtors' inability to repay loans. Loan to Deposit Ratio (LDR), measures how much credit or payments the bank has extended overall against the money it has

(Dendawijaya, 2009). *Return on Assets* (ROA) is the return result on assets is a ratio that shows how much the contribution of assets is in creating net profit (Hery, 2017). Firm Size, on the other hand, is a scale that may categorize the size of the business in a several categories, such as total assets, log size, stock market value, and others (Firmansah, 2017). The dimensions of the research variables are shown in Table 1.

As a method for analyzing research data, multiple linear regression is employed with the following model:

$$\text{Tobin's Q} = \alpha + \beta 1\text{NPL} + \beta 2\text{LDR} + \beta 3\text{ROA} + \beta 4\text{Firm Size} + \varepsilon$$

Where Tobin's Q is a firm value. α is a constant. $\beta_{1\text{-}4}$ is the regression coefficient $X_{1\text{-}4}$; ε=error

4. Results and Discussion

The average non-performing loan in the research sample, as shown in Table 2's descriptive statistic, comprised 2,41. The average loan to deposit ratio was 89,78. Return on asset with an average score 1,25. Firm size with an average value 32,68. Firm value with an average value 99,32. Multicoleniarity testing demonstrates no multicollinearity concern because all study variables have a VIF value <10 in Table 3.

According to Table 4, the loan-to-deposit ratio and business size significantly affect firm value. The hypothesis H_2 and H_3 are accepted. This indicates that using the loan-to-deposit ratio and return on asset representations as financial performance metrics can help a company's financial performance be optimized. These findings support Debora (2021), Halimah & Komariah (2017), Repi (2016), and Atika Farhana (2022).

Table 2
Descriptive Statistics

	Total Observations	Min	Max	Mean	Std Dev
NPL	41	0,72	4,85	2,41	1,00
LDR	41	60,55	114,16	89,78	12,57
ROA	41	0,08	2,50	1,25	0,65
Firm Size	41	30	35	32,68	1,47
Firm Value	41	80	124	99,32	9,40

In line with signaling theory, the LDR ratio is considered a signal that describes the level of credit extended by a company. Even though the credit level raised affects the bank interest income level, this can increase the risk of default or bad debts that the company will bear. So this can affect investors' judgment in assessing the company's performance related to the performance of the business and the management of its finances. Research findings also prove that investors can use companies with good performance and prospects as a positive signal to consider investment decisions, which can increase the company's value. High prospects and company profits are expected to generate large profits to provide high returns to investors.

Table 3
Multicollinearity

	BRIGHT
NPL	1,520
LDR	1,167
ROA	2,308
Firm Size	1,655

Table 4
Results of Multiple Linear Regression Analysis

	B	Sig.
NPL	0,937	0,536
LDR	-0,322	0,004
ROA	6,644	0,025
Firm Size	1,894	0,084

Non-Performing Loans and firm size does not affect firm value (Table 4). H_1 and H_4 are rejected. It means that the representation of non performing loan and firm size representation as a financial performance can't be a tool to optimize the company's financial performance. These findings support Kansil (2021), I Gusti Bagus Angga Pratama & Wiksuana (2018), Nurangraini (2022), and Muhammad Arridho (2022).

In line with signaling theory, the LDR ratio is considered a signal that describes the level of credit extended by a company. Even though the credit level raised affects the bank interest income level, this can increase the risk of default or bad debts that the company will bear. So this can affect investors' judgment in assessing the company's performance related to its ability to manage its funds. Research findings also prove that companies of a large size can open up opportunities to use assets effectively and efficiently to generate company net income that can attract the attention of investors. If managed appropriately, the company's assets will be lucrative. In addition, investors can also assess the company based on the number of assets owned by the company so that it can affect the increase in company value.

5. Conclusion

To determine how non-performing loans, loan to deposit ratio, return on assets, and firm size impact firm value, this study will examine these variables. The study's findings indicate that the Loan Deposit Ratio (LDR) considerably impacts a company's value and Return on Assets (ROA). Otherwise, neither non-performing loans (NPL) nor business size significantly affect the company's value. The results of this study have several limitations, according to the results of the analysis of the coefficient of determination, the firm value of 32.7% shows that the variables non-performing loans, loan to deposit ratio, return on assets, and firm size can only be used to interpret the dependent variable. Also, during the study period, several banking companies owned a return on assets, which was negative, affecting the sample reduction on research.

The authors offer recommendations for more research based on the limitations that have been discussed. The following study is hoped to prolong the research time and broaden the research population to include other industries, making the assessment of firm worth more meaningful. Additionally, future researchers are anticipated to be able to add several other proxies that were not included in this study to improve the study's ability to measure corporate worth.

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