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Banking Company Value Through Company Size, Growth Assets and Profitability

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Abstract

This study aims to test the influence of company size,growth assetsand profitability on company value.This type of research is quantitative research. The population used in this study is all banking companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2024 period, taken from their official websites totaling 40. The sample used in this study is banking companies listed on the Indonesia Stock Exchange (IDX). in accordance with the sample selection criteria up to 34. The data collection technique used in this study is documentary research by collecting and studying research-related documents obtained from the Indonesia Stock Exchange (IDX) or other websites (www.idx.co.id and company websites). financial reports (annual reports) that have been published by the company. This study uses descriptive statistical analysis and multiple linear regression analysis. The results of the study found that company size and asset growth do not have a significant effect on company value, while profitability has a significant effect on company value.

Keywords: company size, asset growth, profitability, company value.

A. INTRODUCTION

The banking sector plays a crucial role in driving economic development and improving the welfare of the wider community. In addition to managing payment transactions and acting as an intermediary, the banking industry also serves as a primary channel for transmitting monetary policy. This strategic role significantly impacts the performance and stability of the banking sector and other sectors. Therefore, changes in banking sector performance significantly impact the economy as a whole, including investor perceptions of corporate value.

Company value is an important indicator that reflects the level of investor and market confidence in a company's future prospects (Cahyaningrum & Ahmadi, 2024). In the context of capital markets, a company's value is often reflected in its share price, which fluctuates over time (Dang et al., 2020). Low stock prices can lower a company's value and create negative perceptions among investors. Anita et al., (2022), He stated that company value is closely related to the company's profits and share prices. Increases in share prices generally increase company value, thereby creating prosperity for shareholders (Mentari & Idayati, 2021). One of the measures often used to measure a company's value is Price to Book Value (PBV). Sari & Jufrizen (2019), where a PBV ratio of more than one generally indicates that the company is in good condition (Putri, 2019).

The following is the value of banking companies as measured by the PBV ratio, which can be seen in Table 1 below:

Table 1. Banking company value

Year	PBV
2019	2.50
2020	1.61
2021	1.37
2022	2.02
2023	1.59

Source :https://www.idx.co.id, 2024

Table 1 above shows that the value of banking companies, as measured by the PBV ratio, fluctuated between 2019 and 2023. The average Indonesian bank had a PBV of 2.50 in 2019, then increased to 1.61 in 2020, then increased to 1.37 in 2021, then decreased to 2.02 in 2022, and decreased to 1.59 in 2023. This could lead to a decline in investor confidence in the company. Although this value does not fall significantly, if it occurs continuously, it will cause company losses.

Company value is one of the main considerations for investors when investing (Amin & Sulfati, 2024). According to corporate theory, the primary purpose of establishing a company is to maximize its value. A company's value can be seen in its share price, where a high share price will provide large profits and relatively low risk, thereby improving investor welfare (Mardiyati et al., 2015).

Signaling theory provides a conceptual framework for understanding this relationship. This theory explains that companies send signals to investors through public information such as financial reports, asset growth, and profitability levels. Large company size, consistent asset growth, and high profitability are positive signals that the company has bright future prospects (Anggraini & Agustiningsih, 2022). Investors who perceive this signal will be more confident in investing, thereby increasing demand for shares and driving up the company's value (Zulkifli & Dewi, 2024). Conversely, negative signals will dampen investor interest.

The urgency of this research lies in the importance of understanding the influence of company size, asset growth, and profitability on company value in the banking sector, which plays a vital role in the national economy. Changing global economic conditions, financial technology disruption, and interest rate fluctuations require banks to maintain their performance and reputation to continue to convey positive signals to the market. This research is crucial to assist bank management in formulating appropriate strategies to maintain and enhance company value.

Optimizing company value can be achieved through the performance of financial management functions, as every financial decision will influence and impact the company's value. Company size is a crucial factor influencing company value. Companies with large total assets indicate that the company has reached maturity, has positive cash flow, and is considered to have good long-term prospects (Dina & Wahyuningtyas, 2022). This reflects stability, productivity, and the ability to generate higher profits compared to companies with small total assets (Khamisah et al., 2020). A well-established company with a large size, both in terms of total assets and revenue (Amin et al., 2023), tend to have a dividend policy that is more oriented towards shareholder profits.

Research conducted by (Dwiastuti & Dillak, 2019), (Dewi & Ekadjaja, 2020) and (Arfin Taniman, 2020) states that company size has a significant effect on company value. This indicates that increasing company size makes it easier for the company to obtain funding, which management can then use to increase company value. Meanwhile, research conducted by (Lumoly et al., 2018) and (Amro & Asyik, 2021) shows that company size does not have a significant effect on company value.

Besides company size, asset growth can also influence company value. Asset growth is defined as the annual change (growth rate) in total assets. Asset growth indicates the growth of assets, where assets are used for the company's operational assets (Rizka & Ulfida, 2024). Meanwhile, the results of research conducted by (Husna & Rahayu, 2020) and (Aripin & Handayani, 2020) stated that asset growth has a significant positive effect on company value. This indicates that the greater the company's growth rate, the higher the investment costs required, requiring the company to generate substantial profits. A growing company will require more funds than a company that has not yet grown (Mandjar & Triyani, 2019). Increased assets will be followed by increased operational results, which will increase investor confidence and increase the company's value (Ramdhonah et al., 2019). However, this is different from the results of research conducted by (Arizki et al., 2019) and (Oemar, 2022) shows that asset growth does not affect company value.

Besides company size and asset growth, profitability can also influence a company's value. Profitability is a financial ratio analysis that measures a company's ability to generate profits or earnings using a percentage measure to gauge how likely the company is to generate profits (Nuramal et al., 2024). The results of this study are in line with the results of research (Hertina et al., 2019) and (Husna & Rahayu, 2020) shows that profitability influences company value. This suggests that the better a company's profitability, the better its future prospects are perceived to be, which means the company's value increases in the eyes of private investors. If a company's ability to generate profits increases, its share price will also increase (Nuridah et al., 2022). Rising stock prices reflect a company's positive value for investors. Shareholder value will increase if the company's value increases, as evidenced by a high rate of return on investment for shareholders (Hidayat, 2019). However, this is different from the research results (Palupi & Hendiarto, 2018) shows that profitability does not have a significant effect on company value.

Based on the phenomena and differences in previous research results, this study aims to analyze the influence of company size, asset growth, and profitability on company value in the banking sector. This study focuses on examining the extent to which company size, as reflected in total assets, asset growth indicating business expansion, and profitability, which reflects profit-generating ability, can provide positive signals to investors and ultimately increase company value. This study is expected to gain a more comprehensive understanding of the factors influencing the value of banking companies. The results can contribute to the development of theory and serve as a practical reference for management and investors in strategic decision-making.
The conceptual framework chart can be seen as follows:

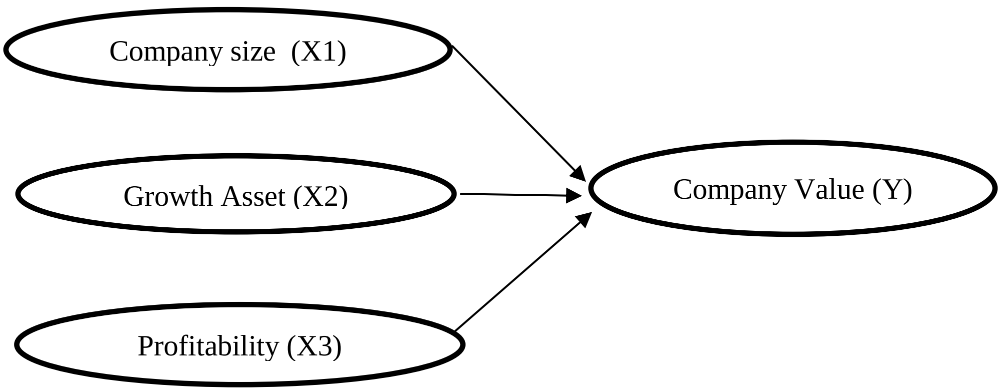

Figure 1. Conceptual Framework

So the hypothesis can be formulated as follows:
Hypothesis 1: Company size has a positive and significant effect on company value.
Hypothesis 2: Asset growth has a negative and significant effect on company value.
Hypothesis 3: Profitability has a positive and significant effect on company value.

B. RESEARCH METHODS

This type of research is quantitative research. Quantitative research is a method for testing a particular theory by examining the relationship between variables. These variables are often measured with research tools so that data including numbers can be analyzed using statistical procedures.

The population used in this study were all banking companies listed on the Indonesia Stock

Exchange (IDX) for the 2020-2024 period taken from their official websites totaling 40. The sample used in this study were banking companies listed on the Indonesia Stock Exchange (IDX). in accordance with the sample selection criteria up to 34. The data collection technique used in this study was documentary research by collecting and studying documents related to the research obtained from the Indonesia Stock Exchange (IDX) or other websites (www.idx.co.id and the company website). financial reports (annual reports) that have been published by the company. Analysis and presentation of information in this study using SPSS (Statistical Package for Social Science) software. This study uses descriptive statistics and multiple linear regression analysis.

Research results

Results Normality Test

The following are the results of the one-sample Kolmogorov Smirnov normality test for the variables of company size, assets growth, profitability and company value. This study uses a one-way Kolmogorov Smirnov test. The conclusion to determine whether the data follows a normal distribution is if the significance is > 0.05, the variable is normally distributed.

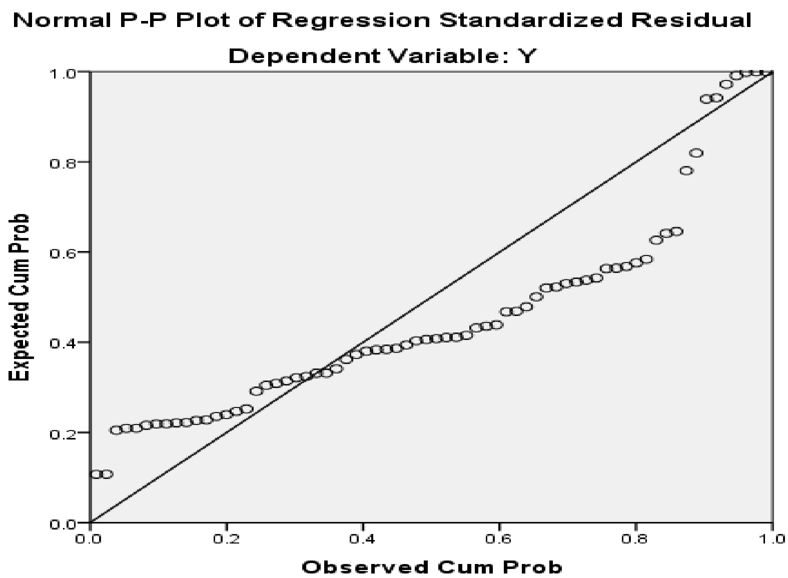

Figure 2. Normality Test

Multicollinearity test is applied to multiple regression analysis consisting of two or more independent variables. It measures the association (closeness) or effect between the independent variables with the magnitude of the correlation coefficient (r). A good regression model should not show any correlation between the independent variables.

Table 2. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Company size (X1)	.952	1,054
	Growth Asset (X2)	.950	1,053
	Profitability (X3)	.981	1,022

Table 2 shows that the tolerance value of the three independent variables is more than 0.10. This means that there is no relationship between the independent variables. While the VIF value of the three independent variables also shows a value smaller than 10, indicating the absence of multicollinearity symptoms.

Table 3. Autocorrelation Test

Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.686a	.625	.410	18.9235	2.335

a. Predictors: (Constant), X3, X1, X2

b. Dependent Variable: Y

The results of the autocorrelation test using the Durbin-Watson test on the regression model between company size, assets growth and profitability on company value obtained a Durbin-Watson value of 2.335 which means it is between -2 and +2, thus it can be said that the data used in this study does not have autocorrelation interference.

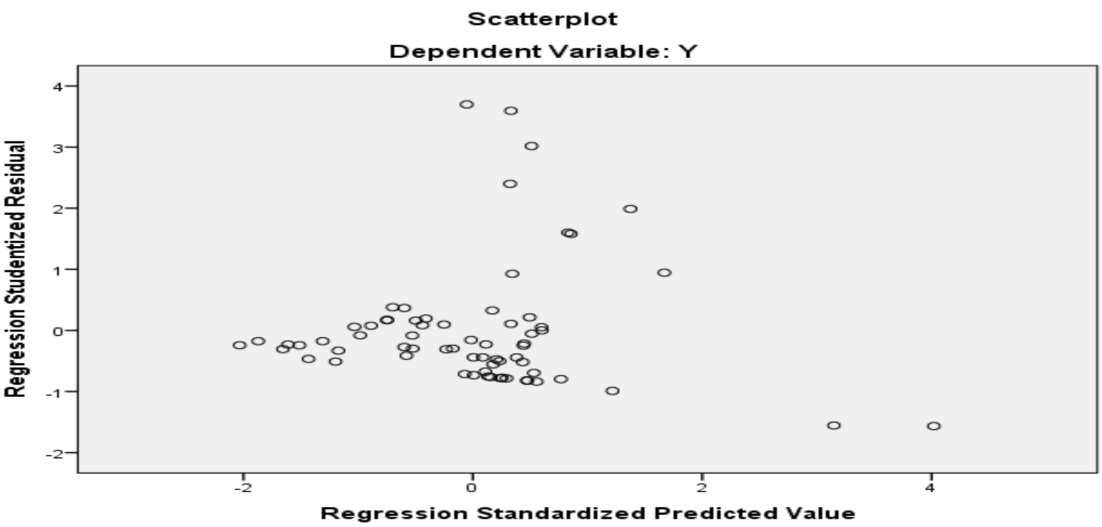

Table 3. Heteroscedasticity Test

Multiple Linear Regression Analysis

This analysis is conducted to determine whether there is a positive or negative relationship or no relationship between the independent variable and the dependent variable. The results of the multiple linear regression analysis are as follows:

Table 4. Coefficientsa

Model		Unstandardized Coefficients B	Std. Error	t	Sig.
1	(Constant)	2,082	1.233	2,688	.025
	Company size (X1)	.461	.138	1.224	.176
	Growth Asset (X2)	-.166	2.187	-1,380	.142
	Profitability (X3)	.482	.196	2.428	.037

a. Dependent Variable: Y

From the table above, it is found that the resulting linear regression model is:

Firm Value = 2.082 + 0.461 firm size - 0.166 asset growth + 0.482 profitability + ε.

a. Constant value = 2.082 means the company value has a value of 2.082 even though all independent variables have a value of 0.
b. The company size value of 0.461 means that for every 1 unit increase, the company value increases by 0.461 units.
c. An asset growth value of -0.166 means that for every 1 unit increase in asset growth, the company's value decreases by 0.166 units.
d. The profitability value of 0.482 increases by 1 unit, so the company value increases by 0.482 units.

Table 5. Coefficient of Determination

Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.686a	.625	.410	18.9235

a. Predictors: (Constant), X3, X1, X2

b. Dependent Variable: Y

Based on the results above, it can be seen that the Adjusted R Square in this study is 0.410 or 41.00%. This value indicates that the ability of the independent variables in this study, namely company size, assets growth and profitability to explain the dependent variable, namely the company's value, is 41.00%.

C. DISCUSSION

The Influence of Company Size on Company Value

The first hypothesis indicates that company size does not significantly influence company value. The results of the hypothesis testing using the t-test prove that H1 is rejected, which means that company size does not significantly influence company value. This indicates that company size cannot influence company value. This is because large companies cannot necessarily attract investors to invest their capital because large companies do not necessarily have the ability to generate good profits and do not have large debts. This is inconsistent with the theory that the larger the company size, the easier it will be for the company to obtain funding sources that can then be used by management to increase company value.

From a Signaling Theory perspective, these results suggest that large company size does not always convey a positive signal to investors. The signal sent through company size can be weakened or even irrelevant if it is not accompanied by strong financial performance, high profitability, and sound debt management. Investors tend to pay more attention to the quality of the signal, rather than simply the size of a company's assets. In other words, without the support of other strong performance indicators, company size alone is insufficient to provide investors with confidence in the company's future prospects.

Based on the results of this study, it shows that company size does not significantly influence company value. This research is in line with research conducted by (Lumoly et al., 2018) and (Amro & Asyik, 2021) shows that company size does not have a significant effect on company value. However, the results of this study contradict the results of research conducted by (Dwiastuti & Dillak, 2019), (Dewi & Ekadjaja, 2020) and (Arfin Taniman, 2020) states that company size significantly influences company value. This suggests that increasing company size makes it easier for the company to obtain funding, which management can then utilize to increase company value. This difference indicates that while in theory, larger companies have easier access to funding sources that can be used to increase company value, in practice, this positive signal is not always accepted by the market if it is not supported by convincing fundamental performance.

The Influence of Asset Growth on Company Value

The second hypothesis indicates that asset growth has no significant effect on firm value. The results of the t-test hypothesis test prove that H2 is rejected, meaning that asset growth has no significant effect on firm value. This indicates that asset growth cannot influence firm value. This is because low asset growth indicates low company development. Low asset growth experienced by a company reflects that the company is in a state of poor performance. Consequently, the company experiences a decline in development, which is a negative signal for investors to refrain from investing in the company. Therefore, high asset growth is not very attractive to investors and therefore does not affect changes in firm value. The insignificant effect could also be due to the influence of internal and external factors of the company, as well as company policies that are not in line with the company's growth, thus not affecting the company's value.

From a Signaling Theory perspective, high asset growth should be a positive signal for investors because it reflects business expansion or increased production capacity. However, if asset growth is not accompanied by increased profitability, efficiency, or sound asset management, the signal weakens and can even become negative. Investors will perceive asset growth that is not accompanied by commensurate returns as only increasing costs, increasing the risk of investment failure, and ultimately not contributing to increasing company value.

The results of this study are in line with research conducted by (Arizki et al., 2019) and (Oemar, 2022) shows that asset growth has no effect on company value, possibly due to the level of asset growth, which indicates that in certain contexts, asset growth can be a positive signal if supported by effective management strategies and financial performance. However, this differs from the results of research conducted by (Husna & Rahayu, 2020) and (Aripin & Handayani, 2020) states that asset growth has a significant positive effect on company value.

The Influence of Profitability on Company Value

The third hypothesis indicates that profitability significantly influences firm value. The results of the hypothesis testing using the t-test prove that H3 is accepted, meaning that profitability significantly influences firm value. This indicates that profitability can influence firm value. The profitability ratio is a ratio used to measure overall management effectiveness, indicated by the level of profit earned in relation to sales and investments. A company's profitability, proxied by ROA, illustrates the company's ability to utilize its assets to generate profits.

From a Signaling Theory perspective, high profitability is one of the strongest positive signals a company can send to investors. High profits demonstrate operational efficiency, market strength, and the company's ability to deliver returns on invested capital. This positive signal will increase investor confidence in the company's future prospects, thereby driving stock demand and ultimately increasing the company's value. Conversely, low profitability is a negative signal that can discourage investor interest because it is perceived as reflecting suboptimal financial performance.

The results of this study indicate that Return on Assets significantly influences firm value, meaning that the higher the Return on Assets, the higher the firm value. Conversely, if Return on Assets does not significantly influence firm value, the lower the Return on Assets, the lower the firm value. The results of this study indicate that profitability significantly influences firm value. This research aligns with research conducted by (Hertina et al., 2019) and (Husna & Rahayu, 2020) shows that profitability influences company value. The better the profitability ratio, the better it reflects the company's ability to generate high profits. However, the results of this study contradict those of research conducted by (Palupi & Hendiarto, 2018) shows that profitability does not have a significant effect on company value.

D. CONCLUSION

Based on the research results, it was found that company size does not significantly influence company value. This indicates that large companies are not necessarily able to attract investors, as large size does not always reflect the ability to generate optimal profits or have a healthy capital structure with low debt levels. Furthermore, asset growth also does not significantly influence company value. Companies with low asset growth rates tend to be less attractive to investors. Although investors often assume that high asset growth will be directly proportional to the potential for increased company profits, the results of this study indicate that changes or increases in total assets do not necessarily affect company value. Meanwhile, profitability has been shown to significantly influence company value. The higher the profitability ratio, the better the company's ability to generate profits. A high ROA indicates effective management performance in utilizing assets, thus positively impacting company value.

Suggestion

Based on these conclusions, investors are advised to comprehensively analyze a company's financial performance before making investment decisions. The analysis should not only focus on company size or asset growth, but also consider profitability as a key indicator. Future researchers can expand this study by adding other variables, expanding the research object, and using a longer observation period to obtain more comprehensive results.

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