

# The Effect of Company Size and Financial Distress on Firm Value in Conventional Banking Companies Listed on the Indonesia Stock Exchange

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## Abstract

This study aims to determine whether there is an effect of company size and financial distress on firm value in conventional banking companies listed on the Indonesia Stock Exchange. This research includes the type of associative research. The research population is conventional banking companies listed on the Indonesia Stock Exchange for the 2017- 2021 period, a total of 42 companies. The sample in this study were 12 companies with a total of 60 observational data, using a purposive sampling technique. The data used in this research is secondary data. Data collection method is a method of documentation. The analysis technique used is quantitative, with classical assumption test analysis techniques, multiple linear regression tests and hypothesis testing. The results of this study indicate that there is a significant effect of firm size and financial distress on firm value. The partial test results show that there is a significant effect of firm size on firm value and there is a significant effect of financial distress on firm value.

**Keywords:** company value, company size, financial distress.

## 1. Introduction

The main purpose of establishing a company is to seek profits by obtaining maximum profits. High profits can increase the welfare of shareholders and increase the interest of investors to invest their funds in the company. However, the company does not merely maximize profits but must pay attention to its responsibilities to shareholders, this responsibility is to maintain and maximize company value (Dirman, 2020).

The value of the company is the price that potential buyers or investors are willing to pay if the company is sold. The higher the value of the company, the more wealth the owner of the company receives. Firm value is a value that describes investors' perceptions of an issuer. In measuring company value, it has various measurement dimensions (Irawan & Kusuma, 2019).

One of the yardsticks that is widely used by investors to measure company value is by using the PBV ( *Price to Book Value* ) ratio, the reason is the relatively stable book value characteristics, this book value is a simple benchmark in applying comparisons, due to a lack of investor confidence on cash flow estimates. Another reason, many companies have proven that using the PBV ratio produces a signal of company value. This signal shows whether the value of a company is *undervalued* or *overvalued* (Saputri & Utiyati, 2020).

The value of the company is very important because the high value of the company can

prosper shareholders and the higher the share price, the higher the value of the company. According to Sovita & Sari (2022) this happened due to several factors that influenced one of them, namely the size of the company. According to Apriantini, et al (2022) company size is a description of the size or size of a company. The size of a company can be seen based on the total assets owned by a company. According to Sovita & Sari (2022) another factor that affects company value is *financial distress*. *Financial distress* is a condition in which a company's finances are in a state of illness or crisis that occurred before bankruptcy.

Based on data from the Deposit Insurance Corporation (LPS), 34 banks have been liquidated from 2017 to the first quarter of 2021 ([www.lps.go.id](http://www.lps.go.id)). This phenomenon of bankruptcy that occurs, it is important for banking companies to recognize the financial symptoms that lead to bankruptcy.

Based on the Financial Services Authority (OJK) report as of September 2021, there are 12 banks that control 74.5% of banking assets. This growth in banking assets provides a good signal and can increase the value of a banking company. The average value of the variable company value and *financial distress* of several conventional banking companies has fluctuated every year. In this case, it is different from the average value of the company size variable, which increases every year. In 2017 the company value variable has the highest value, which is 1.64, while the lowest value of the company value variable is in 2021, which is 1.26. Conversely, company size in 2021 has the highest value, which is 33.64, while the lowest value is in 2017, which is 33.37. In 2019 *financial distress* had the highest score of 1.79 while the lowest score of *financial distress* was 1.62 in 2017. Seeing the condition of the company's value and *financial distress*, which fluctuate every year, requires investors to be more careful when investing their funds in banking companies. Based on the description above, the researcher is interested in conducting a study entitled The Effect of Firm Size and *Financial Distress* on Firm Value in Conventional Banking Companies Listed on the Indonesian Stock Exchange.

## 2. Literature Review

The value of the company. According to Indrarini (2019) company value is an investor's assessment of the success of managers in managing company resources which is often associated with stock prices. The importance of company value is due to the increase in share value will be followed by an increase in share price which reflects the prosperity of shareholders.

According to Franita (2018) firm value is the value formed by stock market value indicators that affect investment opportunities. The existence of investment opportunities can provide a positive signal for the company's future growth to increase the value of the company. The value of the company can be seen from the stock price. The higher the stock price, it means that the higher the rate of return to investors, this shows the higher the value of the company.

Various models for measuring company value are compiled from various appraisal ratios or market ratios to overall performance measures of a company, including using the *Price to Book Value ratio* (Venolika, et al, 2022). *Price to Book Value* (PBV). How big the

market value is to the book value of a company's shares is shown in this ratio. The higher the PBV, the greater the market trusts the company's prospects. PBV can be obtained by the formula: (Venolika, et al, 2022: 1336)

**Company Size.** According to Effendi & Ulhaq (2021) company size is the size of a company which can be assessed from total sales, total assets and number of workers. A large value reflects that the company has a large company size. According to Apriantini, et al (2022) The large size of the company can attract investors' interest in the company. Companies that have a large size usually have more stable profits, this condition can increase the value of the company. between big or small company sizes. It can be formulated as follows: (Dwiastuti & Dillak, 2019)

**Financial Distress.** According to Irfani (2020) *financial distress* is a description of the condition of a company's failure to pay off debts that are due and accompanied by a reduction in dividend payments. *Financial distress* occurs due to continuous changes in earnings which tend to move in a negative direction. There are various ways to measure *financial distress*, one of which is by using the *Altman Z-Score method*. Altman (1968) put forward a formula that can be used to predict the possibility of *financial distress* in companies using the *Multivariate Discriminant Analysis* (MDA) method. Altman's model for measuring bankruptcy is not fixed but develops over time (Irfani, 2020). In this study, the modified 1995 Altman Z- *Score measurement was used*, which can be described as follows: 1. Modified Altman Z-Score 1995. As I progress from time to time. Altman made a modification to the bankruptcy prediction, namely the elimination of X5 ( *sales/total assets* ) because service companies do not recognize sales, ( *sales/total assets* ) this condition can increase the value of the company in this study using the measurement of total assets, the following measurement use total assets: Total Assets. Company size that is too large or company size that is too small can be assessed from the log of total assets. Because, it can reduce the significant differen . this illustrates asset turnover which is considered not too influential. The Altman Z Model " Modified *Score* is formulated as follows (Irfani, 2020).

### 3. Research Method

The type of research used is associative research. The type of data used in this research is secondary data. Data analysis used is quantitative analysis. While the data collection technique is using the document analysis method. The population in this study were 42 conventional banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period and a sample of 12 conventional banking companies using a *purposive sampling technique* using certain criteria. The analysis technique used in this research is using descriptive analysis test, multiple linear regression test, hypothesis testing, namely simultaneous test (F test) and partial test (t test), and the coefficient of determination.

### 4. Findings and Discussions

The results of the descriptive statistical test on the company value variable show that Bank Pan Indonesia Tbk has the lowest score of 0.40 in 2021. Meanwhile, Bank Central Asia Tbk has the highest score of 4.69 in 2019. With an average value of 1.4573. The results of the descriptive statistical test on the company size variable show that the

Regional Development Bank Jawa B Tbk has the lowest score of 32.38 in 2017 while the highest score is owned by Bank Mandiri (Persero) Tbk, which is equal to 35.08 in 2021. With an average score -the average is 33.5015. The standard deviation value is 0.85708 while the mean value is 33.5015 meaning that the data is less varied because the standard deviation value is smaller than the mean. The results of the descriptive statistical test show that the lowest value is 0.50 owned by Regional Development Bank Jawa B Tbk in 2017 while the highest value is 3.11 in 2018 owned by Bank Danamon Indonesia Tbk. With an average value of 1.6953. The standard deviation value is 0.49077 while the mean value is 1.6953 meaning the data is less varied because the standard deviation value is smaller than the mean. Of 33.5015 it means the data is less varied because the standard deviation value is smaller than the mean.

Based on the results of the analysis of Table IV.8, the regression equation is obtained as follows:  $Y = -12.505(a) + 0.382(X1) - 0.454(X2)$ . The constant value is -12.505. The negative sign means that the effect is in the opposite direction between the independent variable and the dependent variable. This shows that if all the independent variables which include company size and *financial distress* are 0 percent or do not change, then the value of the company's value is - 12.505. The value of the regression coefficient for firm size is positive at 0.382. This shows that firm size has a direct relationship with firm value or when firm size increases by 1%, firm value will increase by 0.382. The *financial distress* regression coefficient is negative at 0.454. This shows that *financial distress* has a relationship in the opposite direction with company value or when *financial distress* increases by 1%, the company value will decrease by 0.454.

Based on the results of the F test, the calculated F value in this study was 17.935, while the F table value was 3.16. Then  $F_{\text{count}} 17.935 > F_{\text{table}} 3,16$  or significant  $0,000 \leq \alpha 0,05$  so  $H_{0,1}$  is rejected and  $H_{a,1}$  is accepted. This means that there is a significant effect of company size and *financial distress* on firm value in conventional banking companies listed on the Indonesia Stock Exchange. Based on the results of the t test on the company size variable, it shows that the calculated t value in this study is 5.955 while the t table value is 2.00247. Then  $t_{\text{count}} 5.955 > t_{\text{table}} 2,00247$  or significant  $0,000 \leq \alpha 0,05$  so  $H_{0,2}$  is rejected and  $H_{a,2}$  is accepted. This means that there is a significant effect of company size on firm value in conventional banking companies listed on the Indonesia Stock Exchange. Based on the results of the t test on the *financial distress variable*, it shows that the calculated t value in this study is -2.133 while the t table value is 2.00247. So  $t_{\text{arithmetic}} -2.133 > t_{\text{table}} 2,00247$  or significant  $0,037 \leq \alpha 0,05$  so  $H_{0,3}$  is rejected and  $H_{a,3}$  is accepted. This means that there is a significant effect of *financial distress* on firm value in conventional banking companies listed on the Indonesia Stock Exchange. *Adjusted R Square* value of 0.365 or 36.5% indicates the ability of the independent variables, namely firm size (X1) and *financial distress* (X2) in explaining the dependent variable, namely firm value (Y) is 36.5% while the remaining is 63.5% influenced by other variables.

The Effect of Company Size and *Financial Distress* on Firm Value in Conventional Banking Companies Listed on the Indonesia Stock Exchange. Based on the results of the hypothesis test, it shows that  $H_{a,1}$  is accepted and  $H_{0,1}$  is rejected. This means that there is a significant effect of company size and *financial distress* on firm value in conventional

banking companies listed on the Indonesia Stock Exchange. Company size drawing-how big or small a company is. In this study, the size of a company size is seen from the total assets owned by the company. Companies that have large total assets tend to get stable profits, of course this will minimize the occurrence of *financial distress conditions* in the company. *Financial distress* is a condition in which a company is experiencing financial difficulties. If there is no *financial distress* in the company, it will attract the interest of potential investors and the welfare of shareholders. The more interest investors have to invest in the company, the higher the company's stock price, the higher the company's value. The more interest investors have to invest in the company, the higher the company's stock price, the higher the company's value. This is in accordance with the indicator of firm value, namely *Price to Book Value* (PBV). The PBV ratio shows the stock price to its book value, the higher the PBV ratio that is obtained, the higher the investor's assessment of conventional banking companies listed on the Indonesia Stock Exchange. This is evidenced by the company PT Bank Central Asia (persero) Tbk in 2019 having a book value company of 7.135 with a share price of 33.475 thus obtaining the highest PBV value of other banking companies, namely 4.69. The high PBV value for the company PT Bank Central Asia (Persero) Tbk in 2019 was due to the influence of the large company size, which was 34.45 and the high Altman Z- Score *obtained* , which was 2.02. The results of this study are in accordance with the theory according to Baros, et al (2022: 89) which states that a large company size can reflect the size of the company's total assets. Companies with large total assets tend to have a lower level of financial distress . If the company has large total assets and minimal *financial distress* , it will attract investors to invest in the company and this will affect the company value because the more people invest in the company, the higher the company value. The results of this study are in line with previous research conducted by Sovita and Sari (2022) and Saputra et al (2021) showing that company size and *financial distress* have a significant effect on firm value.

The Effect of Firm Size on Firm Value in Conventional Banking Companies Listed on the Indonesia Stock Exchange. Based on the results of the hypothesis test, it shows that  $H_{a.2}$  is accepted and  $H_{o.2}$  is rejected. This means that there is a significant effect of firm size on firm value in conventional banking companies listed on the Indonesia Stock Exchange. The company size indicator in this study is total assets. This shows that the greater the total assets owned by the company, the greater the company's wealth and good performance. In addition, with high total assets, it reflects that the stronger the company's health. With a large company size, it is easier for companies to obtain funding sources, both from internal and external funding sources, so that they can have a positive influence on company value. Large company size indicates that the company is experiencing good growth. In addition, the size of a large company is an attraction for investors to invest their funds in the company, because the bigger the company, the more stable and higher the profit will be. This is evidenced by the company PT Bank Mandiri (Persero) Tbk which has the highest total assets in 2021 of IDR 1,725,611,128,000,000 so that it obtains a company size of 35.08. This high company size affects the company value of PT Bank Mandiri (persero) Tbk, which in 2021 will obtain a PBV value of 2.14. Based on the phenomenon of company size which states that company size fluctuates with a tendency to increase but disproportionately, however, company size has an effect on firm value.

The size of the company which tends to experience this increase makes the size of the company have an influence on the value of the company. The results of this study are in accordance with the theory according to Apriantini, et al (2022) that company size can affect the growth of company value, this happens because large companies have better conditions. Then the company will become the target of potential investors, because by choosing a company with a larger company size, potential investors will get higher profits. The results of this study are in line with previous research conducted by Arsyada (2022) and Sovita & Sari (2022) showing that company size has a significant positive effect on firm value.

The Effect of *Financial Distress* on Firm Value in Conventional Banking Companies listed on the Indonesia Stock Exchange. Based on the results of the hypothesis test, it shows that  $H_{a.3}$  is accepted and  $H_{o.3}$  is rejected. This means that there is a significant effect of *financial distress* on firm value in conventional banking companies listed on the Indonesia Stock Exchange. The results of the hypothesis test show that if conventional banking companies experience *financial distress*, it will have a negative impact on banking companies. Because, *financial distress* gives a negative signal on the capital market and this will result in investors being reluctant to invest their funds in conventional banking companies. Lack of investor confidence to invest will cause the company's stock price to fall, resulting in a decrease in company value. The indicator for measuring *financial distress* in this study is using a modified Altman *Z-Score*. The modified Altman *Z-Score* is a method used to measure *financial distress* in service companies and banking itself is a service company. The higher the *financial distress*, the lower the value that will be obtained from the Altman *Z-Score method*, where a low value on the *Z-Score* indicates an area of *distress* or bankruptcy. Vice versa, if the company is not experiencing *financial distress* then the value on the *Z-Score* is high indicating that the company is considered healthy or not in a state of bankruptcy. This is evidenced by the company PT Bank Permata Tbk in 2018 which has a low *Z-Score value of 0.97*. The low *Z-Score* value of Permata Bank had a negative impact on Bank Permata's corporate value in 2018 by obtaining a low PBV value of 0.77. Based on the phenomenon of *financial distress* which states that *financial distress* fluctuates, but *financial distress* affects the value of the company. The causes of *financial distress* can be overcome by increasing working capital, the company manages its obligations well, namely by paying debts on time, scoring high retained earnings and managing profits from assets properly. The results of this study are in accordance with the theory according to Sovita & Sari (2022: 245) that this is a condition of *financial distress* where companies experience financial difficulties but have not yet reached the stage of bankruptcy. The high *financial distress* can affect the value of the company. This means that the increase or decrease in stock prices will cause *financial distress* so that it will affect investors to invest and will affect the value of the company. The results of this study are in line with previous research conducted by Anggraini (2020) showing that *financial distress* has a significant negative effect on company value.

## 5. Conclusion

This study aims to determine the influence of company size and *financial distress* on

company value in Conventional Banking Companies Listed on the Indonesia Stock Exchange. Based on the results of data analysis and discussion of this research, it can be concluded that: (1) There is a significant effect of Company Size and *Financial Distress* on Firm Value in Conventional Banking Companies listed on the Indonesia Stock Exchange. (2) There is a significant effect of Company Size on Firm Value in Conventional Banking Companies Listed on the Indonesia Stock Exchange. (3) There is a significant effect of *Financial Distress* on Firm Value in Conventional Banking Companies listed on the Indonesia Stock Exchange

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