

Moderation of profitability against determinants company value

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Abstract

Banks in carrying out the intermediation function require additional capital. Therefore, part of the bank's ownership is sold to the public in the form of shares and debt securities. Firm value is one of the indicators for investors in assessing the performance of a company. The aims of this study are: 1) To determine the factors that influence the value of Indonesian banking companies. These factors are capital structure, efficiency and size of the bank. 2) To find out that profitability moderates the value of Indonesian banking companies. This research uses quantitative verification research. The research analysis technique with moderate variables uses the Moderated Regression Analysis (MRA) model. Using secondary data from the financial statements of each bank. The financial reports are downloaded through the Indonesia Stock Exchange (IDX) website. Processing data using the e-Views 11 application. The results of this study show that the capital structure and the size of the bank have a significant positive impact on corporate value. If a bank is inefficient, it will not have a significant impact on corporate value. Profitability as a mitigation variable cannot amplify the impact of capital structure, efficiency, or bank size on corporate value.

Keywords: *firm value, capital structure, efficiency, bank size, profitability.*

Introduction

The Covid-19 pandemic since the beginning of 2019 has had an impact on economic development in Indonesia, especially the Indonesian banking finance sector. Based on Indonesia Banking Statistics (SPI), banking asset growth from 2016 was 10.4 percent. In 2017 it grew by 9.77 percent, in 2018 it decreased to 9.22 percent, until in 2019 it began to slow down by 6.13 percent. Figure 1, describing Indonesia's banking performance until the third quarter of 2020.

Indonesia's banking performance based on efficiency levels has decreased. Based on the ratio of BOPO (Operating Expenses to Operating Income), banking efficiency tends to be increasingly inefficient until the end of the third quarter of 2020 at 86.15 percent. The decreased level of efficiency causes the level of ability to generate profits to decrease. The Net Interest Margin (NIM) ratio showed a decrease in profitability by 4.29 percent at the end of the third quarter of 2020. The decrease in efficiency and profitability was caused by the implementation of monetary policy by Bank Indonesia, namely

the decline in interest rates and credit policies during the Covid-19 pandemic. This is reflected in credit growth which is still slowing down only grew by 0.12 percent (Y.o.Y) in September 2020 even though third party Funds grew by 12.88 percent (Y.o.Y). This state causes the intermediation function to run sluggishly. Although in terms of profitability decreases, capital measured based on capital adequacy ratio (CAR) is above the minimum capital adequacy limit of 8 percent. At the end of the third quarter of 2020, Indonesia's banking CAR amounted to 23.41 percent.

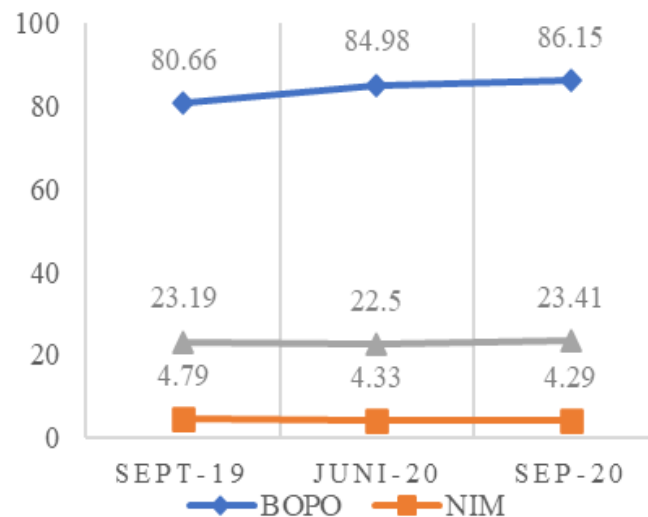


Figure 1. Indonesia Banking Performance as of Q3 2020

Source: www.ojk.go.id, processed.

On the other hand, based on data from the Indonesia Stock Exchange (IDX), the financial sector managed to rise 4.42 percent. The financial sector is still one of the supporting for the strengthening of JCI of 3.90 percent in the third quarter of 2020. Financial sector stocks that experienced a surge in high stock prices include PT. Bank BRI Syariah, Tbk (BRIS) which rose 78.70 percent, shares of PT. Bank Rakyat Indonesia Agroniaga, Tbk (AGRO) increased by 63.79 percent, PT. Bank Bukopin, Tbk (BBKP) increased by 60.67 percent, and PT. Bank Tabungan Negara (Persero), Tbk (BBTN) jumped by 24.51 percent (Puspitasari, 2020).

The stock price index reflects the strength of the company (Hirdinis, 2019). Banking performance conditions tend to decline in terms of asset growth, efficiency and profitability but the value of companies based on stock price indices increases. In fact, companies that have good profit growth are indicators of the company's good value. So, it is interesting to research about: determination of company value and the role of profitability as a moderate variable in increasing the value of Indonesian banking companies with the 2016-2020 data year.

Banking is everything related to banks. This understanding is used in the Law of the Republic of Indonesia Number 7 of 1992 concerning banking as amended by Law No. 10 of 1998. Banks are defined as entities that collect and redistribute funds from the community in the form of deposits to improve the standard of living of many people (Ikatan Bank Indonesia, 2013). A bank is an

institution whose business activities consist of lending and receiving deposits from the community. Law No. 10 of 1998 on banking states that banking activities other than intermediation are other services. Banks benefit from other bank service activities, the amount of which depends on the type of bank services used such as administrative fees, shipping costs and other costs. The advantages of these charges are called fee based income (Heffernan, 2005:3).

The bank in carrying out its functions requires additional capital in addition to Third Party Funds collected from the community. Therefore, the bank sells some of its ownership in the form of stocks and bonds (bonds). The increase in the sale of stocks and bonds as an additional source of capital must certainly be proven by the good performance of the bank. The bank's performance is reflected in the bank's ability to make a profit. An increased level of profit can increase the value of the company.

Banks need to pay attention to the factors that affect the value of the company. This study will examine several of these factors, namely: First, Corporate Value. It represents how investors perceive a company's level of success, often associated with its stock price. A higher stock price indicates a higher corporate value. This elevated value instills market confidence, not only in the company's current performance but also in its prospects. As the stock price rises, shareholders' welfare also increases. Therefore, management must focus on maximizing the present value of the expected future returns (Doorasamy, 2021). The value of the corporate uses Tobin's q ratio proxy. Tobin's q is an indicator to measure the corporate 's performance, especially about the value of the company that indicates a management pro forma in managing corporate assets (Almahadin & Oroud, 2020). Companies with a high value of Tobin's q describe the company's growing on prospect for getting better, so investors are willing to spend more sacrifices to own a corporate whose asset market value is greater than its book value (Ishaq et al., 2021), (Hutabarat & Senjaya, 2016).

Second, the capital structure is a picture of the company's financial proportions, namely between the capital owned by long-term debt and its own capital / equity (Hirdinis, 2019). Trade-Off Theory explains that the best capital structure can be found by balancing the benefits of leverage with higher interest rates and bankruptcy (Miglo, 2016). The sources of funds that can be obtained by banks are twofold, namely internal sources of funds (retained income) and external sources of funds (own capital and funds from third parties, such as savings, current accounts, deposits and other financial institutions). The greater the funds entrusted by the public to the bank, the greater the ratio of debt to capital itself. The Debt to Equity (DER) ratio reflects the company's ability to fulfill all its obligations demonstrated by the ability to pay debts using its own capital (Hirdinis, 2019; Taqi et al., 2016).

Third, efficiency. Achieving the greatest possible economic profit is the goal of every company. Therefore, the company will try as much as possible to enlarge the difference between total revenue and total cost. So making the maximum profit is assumed to be the driving force behind the basic goals of the decisions made by the company (Snyder, 2010: 271-273). Measurement of bank efficiency based on BOPO ratio. The BOPO ratio is the ratio used to measure a banker's ability to manage operating expenses to operating profit.

Operating income is used to accommodate all direct proceeds from the bank's business activities. While operational expenses are all expenses incurred in the framework of activities that are commonly carried out as a bank business. The higher this ratio, the less efficient the bank's operating costs. The operating expense ratio is used to measure the efficiency and effectiveness of a bank in doing business (Putri & Affandi, 2018). Lumbangaol et al., (2019) measures efficiently using the BOPO ratio. The results of his research found that the BOPO ratio had an insignificant negative effect on revenue (ROA) in banking companies listed on the Indonesia Stock Exchange. Bank efficiency measurement using BOPO ratio is also used by Putri and Affandi (2018), the findings of his research that bank efficiency (BOPO) has a significant effect on profitability.

Fourth, Bank Size. The size of the bank is measured based on the total assets held by the bank. Total assets come from the amount of deposits collected by the bank (Rose & Hudgins, 2020:87) Deposits by banks are used for cash assets, total loans and total securities (Miller & Vanhooose, 2007:192-193). Based on previous research Schildbach (2017), Nelly et al (2019), Varotto and Zhao (2018), Tharu and Shrestha (2019), Alfadhli and Alali (2021) The size of the bank is projected based on the number of assets owned by the bank. The amount of assets collected by the bank determines whether the size of the bank is large or small. Banks that are categorized as large in size are more competitive compared to small banks. Large banks tend to acquire capital at a cheaper cost because it comes from the diversification of business carried out by banks (Rose & Hudgins, 2020:190-191). Hirdinis (2019), argues that the company's enormous size shows that it is growing, thus investors will respond positively, and the company's value will rise. The higher the company's size or scale, the easier it will be to obtain capital, both internally and internationally. Research conducted by (Suffah & Riduwan, 2016) and (Almahadin & Oroud, 2020) proved that the size of the company has no effect on the value of the company. While Manoppo and Arie (2016) proved that the size of the company has a positive effect on the value of the company. Hirdinis (2019), stated that based on the results of his research, the size of the company has a negative influence on the value of the company.

Fifth, profitability is a measure of a firm's capacity to produce profits and operational efficiency in the use of its assets. The perspective and performance of management in managing the company is called profitability. Profitability is one of the aspects that influences the company's worth (Sucuahi & Cambarihan, 2016; Natsir & Yusbardini, 2017). The return on equity (ROE) ratio was chosen as the profitability measurement in this study because it is strongly linked to the company's capital structure, which is determined by the proportion of long-term debt and its own capital. ROE ratio is also used in the research of Hirdinis (2019), Putri & Affandi (2018) and Sucuahi & Cambarihan (2016).

Based on the above description, this study aims to analyze and test: 1) What factors affect the value of Indonesian banking companies. 2) Whether profitability moderates the value of Indonesian banking companies?

Research Methods

This type of research is quantitative verificative. This method is used to

find out how much profitability affects how much profitability affects the relationship between the bank's capital structure, bank efficiency, and the size of the bank on the value of the bank company.

The object of research is Indonesian banking. There are 110 banks registered with Bank Indonesia. Using purposive sampling methods to select bank samples that will be the object of research. The requirements to become a sample are: 1) Listed on the Indonesia Stock Exchange until 2021. 2) Publish Financial Statements from 2016 -2020. 3) During the data year 2016-2020 did not suffer any losses.

The type of data used is secondary data in the form of financial statements downloaded through the www.idx.co.id. The research employs Moderated Regression Analysis (MRA) as its analytical approach when dealing with moderate variables. MRA is a specialized form of multiple linear regression that incorporates interaction terms in the regression equation. This interaction element involves the multiplication of two or more independent variables (Lie, 2009). The data processing is carried out using e-Views 11 application.

Result and Discussions

Based on the results of the sample selection, there are 21 banks that are eligible for purposive sampling. Measurement of the bank's corporate value (NP) using Tobin's q ratio approach. Variable capital structure (capital structure) using debt to equity ratio (DER). The efficiency level (eff) of the bank is calculated based on the BOPO (Operating Expenses-Operating Income) ratio. Variable bank size (bank size-bs) is measured based on the total amount of bank assets logged. The moderate variable is profitability (profit) measured based on the Return on Equity (ROE) ratio.

Table 1 shows a description of the data that is the result of data processing using e-Views. The first stage of choosing a model is by comparing the model comment effect and fixed effect model. Based on the Chow Test probability of cross-section chi square < 0.05 then the selected model is a fixed effect model.

Table 1. Chow Test Results

Effects Test	Statistics	d.f.	Prob.
Cross-section F	11.297526	(21,82)	0.0000
Cross-section Chi-square	149.517403	21	0.0000

Source: data, processed.

The next step involves comparing the fixed effect model to the random effect model using the Hausman Test. If the probability value of the random effect on the cross-section is less than 0.05, then the fixed effect model is selected.

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statist	Chi-Sq. d.f.	Prob.
Random cross-section	40.803950	6	0.0000

Source: data is processed.

Table 3 shows the fixed effect of the model as a result of the selection of models in Table 1 and Table 2.

Table 3. Fixed Effect Model

Variable	Coeff t	Std.Error	t -Statistic	Prob.
C	5.761313	0.234837	24.53323	0.0000
BC	0.035950	0.008905	4.037168	0.0001
EFF	-0.000653	0.001608	-0.405889	0.6859
BS	0.153757	0.007570	-20.31045	0.0000
SM*PROFIT	0.000334	0.001893	0.176420	0.8604
EFF*PROFIT	0.000461	0.000765	0.602099	0.5488
BS*PROFIT	8.53E-05	0.000332	0.256890	0.7979

Source: data is processed.

Regression equations based on the results of data in Table 3, as follows:

$$Y_{NP_{i,t}} = \alpha + \beta_1 SM_{i,t} + \beta_2 Profit_{i,t} + \beta_3 BS_{i,t} \quad (1)$$

$$Y_{NP_{i,t}} = 5,761 + 0,035 SM_{i,t} - 0,0006 Profit_{i,t} + 0,154 BS_{i,t} \quad (2)$$

$\alpha = 5,761$, meaning that if all independent variables (capital structure, Profitability and Bank Size) are equal to 0, then the Company Value of the banking sector is 5,761.

Similarly, for the company value of each bank as follows:

$$Y_{NP_{i,t}} = \alpha + \alpha_{Bank_i} + \beta_1 SM_{i,t} - \beta_2 Profit_{i,t} + \beta_3 BS_{i,t} \quad (3)$$

Table 4. the company value of each bank

$Y_{NP_{i,t}}$	α	α_{Bank_i}	$\beta_1 SM_{i,t}$	$-\beta_2 Profit_{i,t}$	$B_3 BS_{i,t}$
BBRI	5,761	0,165	0,035	-0,0006	0,154
BMRI	5,761	0,443	0,035	-0,0006	0,154
BBNI	5,761	0,0350	0,035	-0,0006	0,154
NBBTN	5,761	-0,121	0,035	-0,0006	0,154
BJBR	5,761	-0,121	0,035	-0,0006	0,154
BJTM	5,761	-0,216	0,035	-0,0006	0,154
BTPN	5,761	0,034	0,035	-0,0006	0,154
MCOR	5,761	-0,273	0,035	-0,0006	0,154
BKSW	5,761	-0,233	0,035	-0,0006	0,154
BMAS	5,761	-0,325	0,035	-0,0006	0,154
BSIM	5,761	-0,077	0,035	-0,0006	0,154
BBMD	5,761	0,151	0,035	-0,0006	0,154
BCIC	5,761	-0,349	0,035	-0,0006	0,154
BNBA	5,761	-0,469	0,035	-0,0006	0,154
INPC	5,761	-0,315	0,035	-0,0006	0,154
NISP	5,761	0,032	0,035	-0,0006	0,154
BNGA	5,761	0,076	0,035	-0,0006	0,154
BNII	5,761	0,006	0,035	-0,0006	0,154
PNBN	5,761	0,085	0,035	-0,0006	0,154
BBCA	5,761	0,897	0,035	-0,0006	0,154
BDMN	5,761	0,202	0,035	-0,0006	0,154
BNLI	5,761	0,561	0,035	-0,0006	0,154

Source: data is processed.

If all independent variables (Capital structure, Profitability and Bank Size) are equal to 0, then the Company Value of each bank is:

Table 5. Bank Company Values

Bank Code	Company Value	Bank Code	Company Value
BBRI	5,926	BBMD	5,912
BMRI	6,204	BCIC	5,412
BBNI	6,111	BNBA	5,292
NBBTN	5,640	INPC	5,446
BJBR	5,640	NISP	5,793
BJTM	5,545	BNGA	5,837
BTPN	5,795	BNII	5,767
MCOR	5,488	PNBN	5,846
BKSW	5,528	BBCA	6,658
BMAS	5,436	BDMN	5,963
BSIM	5,684	BNLI	6,322

Source: data is processed.

Table 5 shows that the largest corporate value is BBCA, meaning that without the variable influence of capital structure, efficiency and bank size, BBCA has a company value of 6,658. The smallest company value is owned by BNBA. The higher the value of the company the higher the selling value of a company. The value of the company reflects the public's assessment of the company's performance, one of which is measured based on the value of the stock price in the market (Rodiyah & Sulasmiyati, 2018)

Based on the results of table 3 data, shows the influence between dependent and independent variables as follows:

First, the variable capital structure (SM) has a significant positive effect on the value of the company (NP), where the probability value is <0.05 . The findings of this study are the same as those studied by Hirdinis (2019) and Taqi et al. (2016). Measurements based on the DER ratio, describing the bank's ability to manage Third Party Funds and fulfill all its obligations are characterized by the bank's ability to process payments of all its obligations. The larger of the third parties Fund entrusted by the public to the bank, the greater the ratio of debt to its own capital. The greater the value of the company owned by the bank.

Second, Variable bank size (BS) has a significant positive effect on the value of the company (NP), where the probability value is <0.05 . The findings are in line with research conducted by Hirdinis (2019), Manoppo & Arie (2016). The greater the company's size, the more likely investors are to own shares, resulting in higher in the stock price. An increase in the stock price will result in an increase in the book price of value (PBV) or the value of the company. Large firms can encourage the market to be willing to pay more for their shares because they believe that the company will provide a good return (Brealey, et al, 2011).

Hirdinis (2019) according to his analysis, the bank's enormous size suggests that it is growing, therefore investors will respond positively, and the bank's stock value will rise. The larger the bank's size or scale, the easier it will be for it to obtain money.

Third, the efficiency variable (EFF) has a negative effect on the value of the company (NP) where the probability value > 0.05 . The findings of this study are the same as the research conducted by (Halimah and Komariah, 2017).

Previous and current research has proven that efficiency has a negative influence on the value of the company but is not significant. Further research is needed on these findings.

The profitability variable as a moderate variable, based on the results of the data in Table 3 shows that profitability is not able to strengthen the influence of capital structure (SM), efficiency (EFF) and bank size (BS) on the value of the company (NP). This is in line with research conducted by (Hirdinis, 2019).

Conclusion

Based on the results of the data and analysis theoretically concluded: 1) Capital Structure, Efficiency and Size of banks are factors that affect the value of Indonesian banking companies. 2) Profitability variables as moderation variables are not able to strengthen the influence of capital structure (SM), efficiency (EFF) and bank size (BS) on the value of the company (NP).

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