

THE INFLUENCE OF COMPANY SIZE, LEVERAGE, AND GOOD CORPORATE GOVERNANCE ON THE COMPANY'S VALUE IN GO PUBLIC BANKING

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Abstract

This study aims to examine the influence of company size, leverage, managerial ownership, and institutional ownership on firm value in publicly listed banking companies in Indonesia. This research applies a quantitative approach using panel data regression. The study includes 20 banking firms listed on the Indonesia Stock Exchange from 2017 to 2023, generating 140 firm-year observations. The common effect model was selected based on Chow, Hausman, and Lagrange Multiplier tests. The results indicate that company size has a significant positive effect on firm value, while leverage has a significant negative effect. Managerial ownership shows no significant effect, whereas institutional ownership surprisingly demonstrates a significant negative impact. These findings challenge the conventional expectations of ownership structures enhancing firm value, suggesting potential agency issues or ineffective monitoring mechanisms. The results suggest that corporate governance practices, especially related to institutional ownership, may not always lead to enhanced firm value. Stakeholders and regulators should reassess the effectiveness of ownership structures in the banking sector and promote governance reforms tailored to local market dynamics. This research contributes to the literature by offering empirical evidence from the Indonesian banking sector, an emerging market, and by challenging the presumed benefits of institutional ownership for enhancing firm value.

Keywords: Firm Value, Company Size, Leverage, Ownership, Corporate Governance

1. Introduction

Since the signaling theory was first proposed by Lintner (1956), this theory explains that changes in dividend payments change the value of a company. Along with the increase in dividend payouts, Lintner (1956) provided information (signals) to investors that the company had positive prospects for the future. Signal theory is one of the pillar theories to understand financial management. Signals are generally defined as signals provided by a company (manager) to a third party (investor). These signals can take many forms, both those that can be observed directly and those that require further investigation to find them. Whatever the form or type of signal, it is meant to suggest something in the hope that the market and outsiders will make a difference in the value of the company. In other words, the selected signal must contain meaning (content of information) in order to change the company's value rating.

Various further studies continue to develop which also make an important contribution to signal theory in predicting the value of a company. Some researchers support this opinion and argue that the value of a company on the stock exchange is positively influenced by changes in fundamental values that provide information signals to investors, which include dividend factors, profitability, company size and leverage (Poterba, 1986; Long, 1978; Chauvin & Hirschey, 1994; Tarczyński et al 2020; Ghosh,

2007, Fosu, et al 2016). But in reality, the value of a company on the stock exchange often does not reflect its fundamental value. Kuo, et al (2022); Han & Suk (1998); Chaney & Lewis (1995); stated that factors such as managerial ownership, institutional ownership, profit management, have an influence on the value of the company. These factors reflect the existence of conflicts of interest within the company itself, in line with what is described in agency theory by Jensen and Meckling (1976).

Fahlenbrach & Stulz (2009); Fabisik et al (2021) show several important things related to company value, namely managerial ownership and institutional ownership can affect company value. In a study by Fahlenbrach & Stulz (2009) from 1988 to 2003 in his research results it was found that if a company performs well, it is likely that managerial will reduce its holdings significantly, and if the company is financially poor, it is likely to increase its holdings, but there is no evidence that a large decline in ownership adversely affects the value of the company.

Studies from previous research have explained that there are still other factors that empirically have an impact on company value, namely the influence of managerial ownership, ROA, DAR, Leverage, firm size (Katper et al, 2018). In addition, factors such as free cash flow; Leverage; agency cost; Earning Management It is also able to influence the value of the company (Kamran, 2018). Then Almari et al (2021) explain that factors such as earnings management, managerial ownership, institutional ownership able to have a significant influence on the company's value. Furthermore, factors such as Leverage, size, profitability, tangibility, growth, GDP, inflation It is also able to influence the value of the company (Aggarwal & Padhan, 2017).

2. Theoretical Background

2.1 The Effect of Company Size on Company Value

Firm size is considered to be one of the factors in influencing the value of the company. Companies with large-scale firm sizes will be faced with greater demands from stakeholders in compiling financial statements according to actual financial conditions than companies with small-scale firm sizes. Although many of the findings of the fraud scandal took place involving large-scale companies. This is because large companies receive more attention from various parties. Although in order to maintain their existence in the business world, there should be no need for these companies to commit fraud that will ultimately destroy the company. The results of Yermack's (1996) research explain that firm size has a significant positive influence on the value of the company. Yermack (1996) took a research sample of 452 U.S. industrial corporations from 1984 to 1991. Based on the explanation of the previous research above, the researcher proposed the following hypothesis:

H1: The size of the company has a positive effect on the value of the company

2.2 The Effect of Leverage on Company Value

Leverage describes the source of external funds used as the company's operational capital and leverage also indicates the company's risk. Leverage is a ratio that shows the extent to which the company is financed by debt. The larger the leverage ratio indicates that the greater the level of dependence on the company's external parties (creditors) and the greater the debt burden (interest costs) that must be paid by the company. The amount of the company's debt (leverage) can affect the company's value. Leverage that is too high due to the lack of careful management or the implementation of inappropriate strategies from the management in managing the company's finances. Corporate financing derived from debt will encourage the company to further improve its performance so as to be able

to increase the company's value, in terms of eliminating the doubts of bondholders about the fulfillment of their rights as creditors to the company in fulfilling its obligations. The relationship between leverage and company value can be explained in the research of Fosu et al (2016) showing the results that leverage has a significant negative influence on company value. Fosu et al (2016) took samples from UK companies from the Worldscope and IBES International databases during 1995 to 2013. The research of Fosu et al (2016) is supported by Ghosh's (2007) research that leverage has a negative effect on the value of the company. Ghosh (2007) took a research sample of 696 companies on the National Stock Exchange in 2000-2005. Based on the explanation of the previous research above, the researcher proposed the following hypothesis:

H2: Leverage Negative effects on the company's value

2.3 The Influence of Managerial Ownership on Company Value

Managerial ownership is another type of ownership that plays an important role in the management of a company. In fact, business executives can be managers and shareholders in the companies they manage. Agency conflicts often occur when there is a separation between ownership and control. Jensen and Meckling (1976) argue that, as the amount of equity held by managers increases, they (themselves and shareholders) will be more responsible in using capital. However, when the ownership ratio increases to a certain degree, managers will face the phenomenon of entrenchment. When managers hold a large proportion of shares, they are more influential and have voice power, and they can focus more on personal interests than on the interests of public investors as shareholders. This is in line with the empirical evidence described in previous research by Fahlenbrach & Stulz (2009) that increased managerial ownership leads to a significant decline in the value of the company. Fahlenbrach & Stulz (2009) took a sample of research on American firms during the observation period from 1988 to 2003. Based on the explanation of the previous research above, the researcher proposed the following hypothesis:

H3: Managerial ownership has a negative effect on the value of the company

2.4 The Influence of Institutional Ownership on Company Value

One of the variables used to predict the value of a company is institutional ownership. Institutional ownership is the ownership of shares owned by companies/institutions such as insurance companies, banks, investment companies, governments, and other institutional owners. Institutional ownership has the ability to control management through an effective monitoring process thereby increasing the value of the company. Institutional investors have more time to analyze investments and have access to expensive information compared to individual investors. Therefore, the analysts of institutional investors have the ability to supervise management actions better than individual investors. According to Jensen and Meckling (1976), institutional ownership is the main corporate governance mechanism that helps control agency problems (agency conflicts). High institutional ownership can be used to reduce agency issues. The ownership of institutions such as insurance companies, banks, investment companies and ownership by other institutions will encourage performance management monitoring to be more optimal, so as to increase the value of the company. The relationship between institutional ownership and company value was explained in a previous study conducted by Han & Suk (1998) where in his research the institutional ownership had a significant positive effect on the company's value. This means that the more institutional ownership increases, the more the value of the company increases. Han & Suk (1998) took a sample

of companies from 301 companies in CRSP NYSE/AMEX in 1988-1992. Based on the explanation of the previous research above, the researcher proposed the following hypothesis:

H4: Institutional ownership has a positive effect on the company's value

3. Methods

3.1 Research Variables

The approach carried out in this study uses a type of quantitative research. This quantitative approach prioritizes numerical data (numbers) processed using statistical methods. In this study, the panel data regression method was used in data processing. This study examines the causal relationship or influence of each variable consisting of independent variables, and dependent variables. That is to test the influence of independent variables which include company size, leverage, managerial ownership and institutional ownership on dependent variable, namely banking profit management listed on the Indonesia Stock Exchange. The size of the company in this study uses the total assets of the sample companies presented in the balance sheet each year. In measuring "Company Size" the formula of Baker & Wurgler (2002) is used. Variable leverage uses a ratio that indicates the amount of debt used to finance the company's assets. The calculation of leverage is calculated by means of total debt divided by total assets. In this study, the indicator of managerial ownership measurement uses the percentage ratio of managerial ownership by dividing the percentage of the number of shares owned by management by the percentage of the number of shares outstanding. The indicator refers to the research of Nia et al. (2017) as well as the indicator for measuring institutional ownership using the percentage ratio of institutional ownership by dividing the percentage of the number of shares owned by the institution by the percentage of the number of shares outstanding. The indicator refers to the research of Nia et al. (2017). For profit management, it is measured using the Modified Jones (1995) formula to find discretionary accrual value.

3.2 Sample Determination

The population used in this study is 47 banking companies listed on the Indonesia Stock Exchange during the period 2017 to 2023. From the existing population, a certain number will be taken as samples. The names of companies to be used in the sample were obtained from data on the Indonesia Stock Exchange (IDX). Non Probability Sampling is a process of sampling that is subjective, in this case the probability of selecting population elements cannot be determined and purposive sampling is a form of sample sampling based on certain criteria (Sugiyono, 2013).

The sample withdrawal criteria used by the researcher are:

- 1) Banking companies that are continuously listed on the Indonesia Stock Exchange during the period of 2017-2023.
- 2) Banking companies that have IPO before 2017 and have never been delisted by the Indonesia Stock Exchange
- 3) Banking companies that have complete financial statements and publish complete stock price data for 7 years during the 2017-2023 period.

3.3 Analysis Method

In this researcher, panel data was used. According to Gujarati (2017:195) states that the panel data technique is to combine the types of cross-section and time series data. Regression using panel data is called the panel data regression model:

$$PBV_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 LEV_{it} + \beta_3 KEPM_{it} + \beta_4 KEPI_{it} + \epsilon_{it};$$

4. Results and Discussion

4.1 Population and Sample

The population used in this study is 47 banking companies listed on the Indonesia Stock Exchange during the period 2017 to 2023, Based on the criteria mentioned earlier, the number of samples in this study can be explained in table 1. as follows:

Table 1. Sampling Process

No.	Sample Characteristics	Sum
1	The population is companies engaged in the banking sector listed on the Indonesia Stock Exchange for the period 2018-2023.	47
2.	Companies engaged in the banking sector that are not consecutively listed on the Indonesia Stock Exchange for the period 2018-2023	7
3.	Companies engaged in the banking sector that are no longer listed (delisting) on the Indonesia Stock Exchange for the period 2018-2023	3
4.	Banking companies that do not have complete financial statements for 6 years during the 2018-2023 period	8
5.	Banking companies that are Islamic banks.	3
6.	A local government-owned banking company that goes public.	3
7.	Banking companies that have IPO before 2018 and have never been delisted by the Indonesia Stock Exchange	38
Final Sample Count		20
Year of Observation		7
Number of Observations		140

4. 2 Descriptive Statistical

Table 2. Descriptive Statistical Analysis Results

	PBV	SIZE	LEV	KEPM	KEPI
Mean	1.340454	32.60204	6.087193	0.015036	0.751396
Median	0.851183	32.81221	5.662150	0.000000	0.820700
Maximum	4.987307	35.31545	16.08000	0.560000	0.999900
Minimum	0.206077	29.57903	1.560000	0.000000	0.333700
Std. Dev.	1.140238	1.507494	2.502728	0.069494	0.186454
Skewness	1.595937	-0.206039	1.688885	7.109584	-0.316366
Kurtosis	4.828501	2.318829	6.423730	55.15388	1.713998

Source: Data Processed, 2025

The table above provides an overview or description of a data viewed from the mean value, standard deviation, maximum value, and minimum value. The average value of the company's value is 1.340454 with a standard deviation of 1.140238. The company size has an average value of 32.60204 with a standard deviation of 1.507494. The leverage has an average value of 6.087005 with a standard deviation of 2.502697. The average value of institutional holdings is 0.751396 with a standard deviation of 0.186454. Managerial holdings have an average value of 0.015150 with a standard deviation of 0.068897.

4.3 Discussion of Research Results

The selection of panel data regression estimation techniques is known to three types of estimation approaches, namely common effect models, fixed effect models and random effect models. Based on the three tests, namely the test, the chow test, the thirst test and the lagrange multiplier test, the right model for the research model is the common effect. The following is the conclusion table of the model selection:

Table 3. Conclusion of Model Testing in the 2017-2023 Period

No	Method	Testing	Result
1	Chow-Test	Common Effect vs Fixed Effect	Common Effect
2	Hausman Test	Fixed Effect vs Random Effect	Random Effect
3	LM Test	Random Effect vs Common Effect	Common Effect

Source: Data Processed, 2025

Table 4. Common Effect Model

Table 4: Common Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.204834	0.987588	-8.307952	0.0000
SIZE	0.341670	0.032181	10.61702	0.0000
LEV	-0.053779	0.015489	-3.472083	0.0007
KEPM	0.476109	0.596532	0.798127	0.4262
KEPI	-1.903929	0.285954	-6.658173	0.0000
IMPURITY	0.504378	0.652430	0.773076	0.4408
Weighted Statistics				
R-squared	0.798213	Mean dependent var		2.074909
Adjusted R-squared	0.779863	S.D. dependent var		2.033060
S.E. of regression	0.968256	Sum squared resid		125.6277
F-statistic	27.69515	Durbin-Watson stat		1.803749
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.211163	Mean dependent var		1.340454
Sum squared resid	142.5585	Durbin-Watson stat		0.521524

Source: Data Processed, 2025

Based on the results in table 7 above, it shows that the company size variable partially has a significant positive effect on the value of banking companies going public in the 2017-2023 period, this means that the larger the company size, the higher the value of the company. Firm Size can be interpreted as the size of the company, which is seen from the total value of the company's assets. Firm Size can be seen from the total assets owned by the company, which can be used for various company operations. If the company has a large firm size, then the management will be freer to use the assets in the company.

The size of the company is one of the very important factors for management in presenting financial statements. A company with a large number of assets (Firm Size) reflects the company's stability. Established companies generally have stable financial conditions. Large companies that have large resources will also make wider disclosures, and are able to finance the provision of information for internal and external purposes of the company. Large companies will face demands for information transparency more than small companies. So that if the size of the company increases, the public interest in the presentation of financial statements will also be great, so that the company's value for investors will also be higher. Therefore, the larger the company assumes the company's

value will be higher and the company does not need to cheat on the presentation of financial statements just to maintain the company's presence in business competition.

The leverage variable partially has a significant negative effect on the value of banking companies that go public in the 2017-2023 period. The negative influence of leverage on a company's value, found in the hypothesis test, suggests that high levels of debt can lower investors' positive perception of the company, which in turn can lower the value of the company. Modigliani-Miller's (1958) theory states that in a perfect market (without taxes and bankruptcy fees), capital structure (including the use of debt) does not affect the value of a company. However, this theory has been expanded to consider taxes and bankruptcy costs. Companies with high leverage face a greater risk of bankruptcy, which can lower the value of the company, especially if they have difficulty in paying interest on debt or other debt obligations. High leverage can increase financial costs and the risk of bankruptcy, which is detrimental to the value of the company. Meanwhile, according to the Trade-Off theory, it is argued that there are positive and negative influences of the use of debt. On the one hand, debt provides tax benefits because the interest on the debt is deductible, but on the other hand, debt increases the risk of bankruptcy. If the company uses too much debt (high leverage), the risk of bankruptcy increases. This risk has the potential to hurt a company's value, as investors are more likely to avoid companies that have a capital structure that relies heavily on debt. This is consistent with the results of hypothesis tests that show the negative influence of leverage on the company's value. High debt usage can be a negative signal for investors. The excessive use of debt suggests that companies rely more on more expensive and risky external funding, which can reduce their attractiveness in the eyes of investors and lower the market value of the company.

The variable of managerial ownership partially has no effect on the value of banking companies going public in the 2017-2023 period. According to the Agency Theory, the existence of managerial ownership should be able to reduce conflicts between shareholders and managers, since managers who own shares are more likely to act in the long-term interests of the company, which also benefits them. However, in the 2017-2023 period, despite the managerial ownership relationship, other external factors (such as stable market conditions) may be more dominant in influencing the company's value. Therefore, the influence of managerial ownership on the company's value is not very significant.

The variable of institutional ownership partially has a significant negative effect on the value of banking companies going public in the period 2017-2023. The results of the research on hypothesis testing are in line with previous research by Han & Suk (1998) but in the opposite direction. This suggests that although institutional investors are often considered good controllers with the ability to improve a company's performance, in reality, large institutional ownership can lower a company's value.

Institutional ownership is the proportion of shares owned by an institution or institution in an issuer. The existence of institutional ownership has an important role, this is because institutional ownership will encourage and spur companies to improve the monitoring process of management. Institutional ownership also has the ability to control and monitor the role of company management so that the company is able to improve management performance for the better.

5. Conclusion

The results of the study show that the size of the company partially has a significant positive effect on the value of banking companies going public in the 2017-2023 period. Leverage partially has a significant negative effect on the value of banking companies going public in the 2017-2023 period. Partial managerial ownership has no effect on the value of banking companies going public in the 2017-2023 period. Institutional ownership has a significant negative effect on the value of banking companies going public in the 2017-2023 period.

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