

THE INFLUENCE OF OPERATIONAL EFFICIENCY, COMPANY SIZE, AND LEVERAGE ON FINANCIAL PERFORMANCE

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ABSTRACT

In recent years, banking companies have begun to try to recover. This happened due to the recovery of conditions after the Covid-19 pandemic that occurred. Customer or customer trust is important in the financial performance of banking companies, so it is important to optimize indicators that are deemed capable of optimizing company profits. There are three indicators that are predicted to influence a company's financial performance, namely operational efficiency, company size and leverage. This research aims to determine the influence of operational efficiency, company size and leverage on financial performance in banking companies listed on the Indonesian Stock Exchange for the 2020-2023 period. The novelty of the research in this research is the use of operational efficiency variables to suspect that have a significant effect on company performance. New evidence or new knowledge about the influence of company operational efficiency, especially on banking in Indonesia, is novel in this research because this variable has not been used by previous researchers. Updated financial report data from 2020 to 2023 which has never been used by researchers before. The data analysis method used in this research is multiple regression where time series data from 2020 to 2023 is used and sourced from the Indonesian stock exchange. Based on the research results, operational efficiency influences banking financial performance while company size and leverage have no effect on company performance.

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1. Introduction

In recent years, the situation has improved much due to the Covid-19 pandemic. This can be seen from the world economic recovery process. However, several series of important events in the world also had an impact on the macro economy, resulting in inflation in several countries in the world. Conditions like this are a challenge for a number of companies due to the surge in inflation which has an impact on global economic growth. Prolonged impacts such as potential recession and slowing economic growth have occurred in addition to a decline in people's purchasing power that has never recovered. Therefore, many companies are currently competing

to encourage people to use their products and services, one of which is from the banking industry sector. Public trust is key in banking operations. Banks also need to pay attention to operational aspects that are running well through performance evaluations, especially on ongoing financial performance. Evaluation of banking financial performance can be reflected in various indicators, one of which is the profitability ratio which is able to provide an accurate picture of the real financial condition and financial health of banks (Adisti and Mauliani, 2023).

A banking industry that has high profitability is the most important achievement. This is because the condition of a company's performance in general can be seen from the situation or conditions of profits generated by banks. The higher banking profits resulting from its ability to provide profitability will be in line with the banking system's ability to survive in economic conditions that are assumed to be competitive (Narwal and Jindal, 2015).

The company's operational efficiency is shown in the indicator value of Operational Costs to Operational Income, which is a ratio that describes banking efficiency in carrying out its activities. Operational costs are the bank's operational costs while operational income is the bank's operating income. The smaller the value of Operational Costs to Operational Income means the more efficient the banking is in operating (Rahmat and Ruhayat, 2021).

Company size is synonymous with determining how big and small the company is. A company's total assets that are higher or larger indicate that the company's asset ownership is large so it is classified as a large company. However, on the contrary, the low total assets owned by the company indicate that the company's total assets are small so it is classified as a small company. The size of the total assets owned by the company reflects the company's assets so that it becomes attractive for investors to invest in the company. One of the sources of banking income is the amount of credit distributed to the public. One of the main focuses of banking company management is optimizing credit service activities so that this is a strategic step that must be taken in order to strengthen the size of the company. The main objective of credit management is so that banks can maximize their financial health and performance by increasing the quantity and quality of credit (Nurany et al., 2013).

Leverage is a description of the relationship between a company's debt and its equity and assets. In general, or ideally, equity has a higher value than debt. Leverage can also be interpreted as whether or not a company is able to settle its long-term debt obligations. The purpose of calculating leverage in banking is to see how big the ratio is, which shows the company's ability to manage its finances during the liquidity period. A banking company that has good responsibility will of course have a good leverage ratio too. In fact, a debt ratio at a certain level is also able to provide company benefits, especially in managing short-term and long-term opportunities (Nurhadiyah and Suryadi, 2024).

The use of existing variables from several journals is a research gap in this research which was created when several existing variables in different previous studies were combined and made into variables in one study. There are several indicators commonly used to measure the financial performance of banking institutions, namely company size and leverage. Both are projected to be able to have an influence on banking financial performance as reflected in their profitability ratios. Company performance in this study is shown in the ROA (Return on Assets) ratio. New evidence or new knowledge about the influence of company operational efficiency, especially on banking in Indonesia, is something new in this research because this variable has not been used by previous researchers. Updated financial report data from 2020 to 2023 which has never been used by

researchers before. Therefore, this research aims to determine the influence of operational efficiency, company size and leverage on financial performance in banking companies listed on the Indonesian Stock Exchange for the 2020-2023 period.

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2. Literature Review

The company's financial performance can be projected against several indicators, one of which is the profitability ratio. A reflection of a company's ability to earn profits at a certain time is called profitability. Of course, every company has its own profit target to achieve, including banking companies. One of the ratios used in the financial performance of banking companies is the return on assets (ROA) ratio (Kusmana and Sumilir, 2019). This ratio describes the ability of bank management to obtain overall profits. Apart from that, this ratio is also able to show the ability of banking management to regulate and manage its assets to gain profits. The greater the ROA, the better the banking performance (Prasetyo and Darmayanti, 2015).

The operational efficiency of a banking company can be seen from how large the ratio of operating expenses to operating income is. One of the important financial indicators in measuring efficiency can be seen from the value of operating expenses to operating income. This is closely related to how much costs the company sacrifices to gain profits. The more efficient a banking company is in reducing costs, the greater the profits generated. (Satrio, 2022). Banks that are efficient in reducing their operational costs can reduce losses due to inaccuracy in managing their business, so that profits will increase (Soares & Yunanto, 2018: 43).

The influence of company size on banking financial performance has been the subject of extensive research in the fields of accounting and finance. Various studies have been conducted to determine how company size affects banking financial performance. Research conducted by Iskandar and Zulhilmi (2021) found that companies that are larger have a stronger incentive to present a high level of profile compared to smaller companies. This is because the large size of the company indicates the company's very rapid development. Research conducted by Ibhagui and Olokoyo (2018) found that leverage has a significant positive influence on company financial performance. Leverage has a greater impact on larger companies. The hypothesis of this research is as follows:

- H1: Operational Efficiency has a negative effect on Company Financial Performance
- H2: Company size has a positive effect on company financial performance
- H3: Leverage has a negative effect on the Company's Financial Performance

A company's operational efficiency can be shown from the ratio between operational costs and operating income. The lower the level of operational efficiency ratio, the better the performance of the bank's management, so that operational costs become more efficient. Therefore, Operational Efficiency has a negative and significant influence on Financial Performance in Banking Companies (Soares & Yunanto, 2018).

H1: Operational Efficiency has a negative effect on Company Financial Performance

Company size is closely related to company asset ownership. The size of the assets owned by the company will be in line with the company's ability to obtain funding sources. Large company assets also indicate that the company is able to make products in high quantities so that the opportunity to create profits is also higher (Maharani and Ekadjaja, 2023). Therefore, company size has a positive impact on the company's financial performance.

H2: Company size has a positive effect on company financial performance

Leverage is an important indicator of a company's financial performance. Companies that ignore this indicator by using debt that is too high for the company's operational activities may have a negative impact on the company (Nazir et al., 2021). A neglected proportion of leverage will cause a decrease in the company's profitability because the debt used results in a fixed interest expense (Yilmar, 2021). Too high debt will reduce cash flow. Therefore, leverage has a negative effect on the company's financial performance

H3: Leverage has a negative effect on the Company's Financial Performance

3. Method, Data, and Analysis

This research is quantitative descriptive. This research uses secondary data originating from relevant sources, namely the Indonesian Stock Exchange. The data used is time series data starting from 2020 to 2023. The banking companies selected in this research are the top 10 banking companies based on several indicators such as asset ownership and profits in the 2020-2023 period. The variables used in this research consist of the dependent variable, namely the company's financial performance which is reflected in the return on assets (ROA) value, while the independent variable consists of three variables, namely operational efficiency which can be seen from the ratio of operating expenses to operating income, company size and leverage. Company performance is symbolized by the ROA (Return on Assets) value which is found from the value of net income divided by the company's total assets. A company's operational efficiency can be shown from the ratio between operational costs and operating income. Company size is found by calculating the natural logarithm of the company's total assets. The leverage ratio is obtained by dividing total liabilities by total assets owned by the company. Multiple regression analysis is used in this research as a data analysis method. Mathematically, multiple regression can be seen in the following calculation (Gujarati, 2003).

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where:

Y = ROA

X_1 = operating expenses to operating income

X_2 = company size

X_3 = leverage

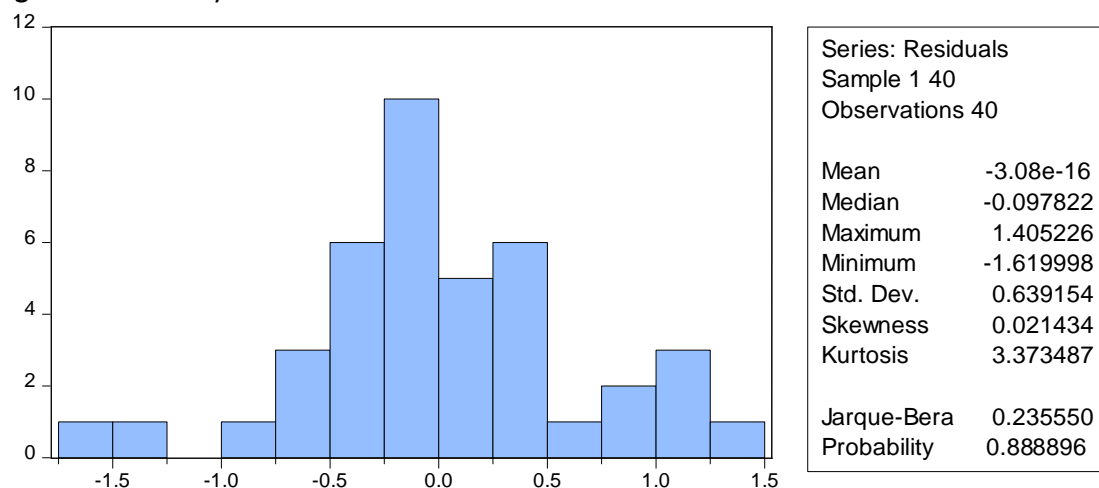
α = constanta

$\beta_{1,2,3}$ = Regression coefficient
 e = Error

4. Result and Discussion

Before the data goes through a multiple regression test, the researcher first carries out a normality test and a classical assumption test. The normality test is important before regression because it ensures that the data used in statistical analysis such as regression meets the necessary assumptions. Multiple linear regression requires the assumption that the data used has a normal distribution. If the data is not normal, then linear regression cannot be used and may produce inaccurate results. The normality test helps determine whether the data used in regression meets the assumptions of normality, thereby allowing a more accurate and reliable analysis (Gujarati, 2003). Based on the results of the normality test analysis, it can be seen in the following image.

Figure 1. Normality Test



Source: Secondary Data Analysis (2024)

A regression equation is said to have a normal distribution if the Jarque-Bera probability value is greater than alpha. If the Jarque-Bera probability value is smaller than alpha, it can be said that the data used is not normally distributed. Based on Figure 1, it can be seen that the Jarque-Bera probability value of 0.8889 or 88.89% is greater than alpha 5%, so that H_0 fails to be rejected, so the residual regression data used is normally distributed. Based on the results of the analysis, it is known that the heteroscedasticity and multicollinearity tests can be seen in the following table.

Table 1. Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.612596	Prob. F(4,6)	0.1119
Obs*R-squared	2.590453	Prob. Chi-Square(4)	0.2159
Scaled explained SS	2.490104	Prob. Chi-Square(4)	0.3199

Source: Secondary Data Analysis (2024)

Based on table 2, it shows that the heteroscedasticity test produces an Obs*R-squared probability value of 0.219. This shows that the Obs*R-squared probability value is greater than alpha 5%, so that H_0 fails to be rejected, so the data used is not heteroscedastic. Based on the results of the multicollinearity test, it can be seen in the following table.

Table 2. Multicollinearity Results

Variable	Colinearity Statistics	
	Tolerance	VIF
Operational Efficiency	0,359	1,277
Company Size	0,264	1,006
Leverage	0,348	1,282

Source: Secondary Data Analysis (2024)

According to the results in table 2, the results of calculating the Tolerance value, there are no independent variables that have a Tolerance value of less than 0.10 with the tolerance value of each variable having a value of more than 0.10. Meanwhile, the results of calculating the Variance Inflation Factor (VIF) value also show the same thing, namely the absence of a VIF value from independent variables that have a VIF value of more than 10. Referring to the results of calculating the Tolerance and VIF values, it can be concluded that there is no multicollinearity between the independent variables in the model. regression. Based on the results of the autocorrelation test, it can be seen in the following table.

Table 3. Breusch-Godfrey Serial Correlation LM Test:

F-statistic	10.30400	Prob. F(2,34)	0.0003
Obs*R-squared	15.09523	Prob. Chi-Square(2)	0.0005

Source: Secondary Data Analysis (2024)

The LM test results show in the table 3 that the p value of Obs*R-squared = 0.0005 is statistically significant (less than 0.05), so H0 is rejected while H1 is accepted, meaning that autocorrelation occurs. The results of multiple regression analysis can be seen in the table below.

Table 4. Results of Multiple Regression Analysis

No.	Factor	<i>Expected Sign</i>	Regression Coefficients	<i>Std.Error</i>	<i>Probability t</i>
1	Operational Efficiency (X ₁)	-	-3,010***	0,590	0,000
2	Company Size (X ₂)	+	0,081	0,059	0,181
3	Leverage (X ₃)	+	0,078	0,514	0,880
Konstanta Regresi			1,794	1,510	0,242
R ²			0,5494		
<i>Adjusted R²</i>			0,5118		
<i>S.E. of regression</i>			0,0665		
F _{hit}			14,632**		
<i>Probability F</i>			0,0002		

Source: Secondary Data Analysis (2024)

In table 4 it can be seen that the Adjusted R² value is 0.5118. This means that 51.18 percent of the variation in the dependent variable (financial performance of banking companies) can be explained by the independent variables (operational efficiency, company size and leverage). Meanwhile, the remaining 48.82 percent is explained by other variables outside the model.

Based on table 4, it can be seen that the partial test indicates that there is only one variable that influences banking financial performance, namely operational efficiency. This can be seen in

the operational efficiency variable probability of 0.000. The meaning of this figure states that the probability is less than the alpha value of 5% so that the operational efficiency variable has a significant influence on the dependent variable, namely the financial performance of banking companies. From the resulting regression equation, it can be seen that if operational efficiency is increased by 1 unit, the financial performance of banking companies will actually decrease by 3.01 units. This indicates that the influence shown is negative or the opposite. The results of this research are proven to be in accordance with existing expectations or hypotheses that there is a negative relationship between operational efficiency and the company's financial performance. This is in line with research by Kansil et al (2017) which states that a negative influence occurs on the relationship between operating expenses and operating income on financial performance. In fact, this phenomenon is in accordance with the theory which states that banks will receive increasing profits if they are able to reduce operational costs in managing their business (SE. Internal BI, 2006).

Banking's cost efficiency will reduce the effects of losses that occur due to bank inefficiency in managing business. That way the profits obtained will increase. The ratio shown in operating expenses to operating income indicates how capable the banking company is in managing the use of its production factors as a whole. Apart from that, according to Haryati and Widyarti (2016), smaller banking operational costs will indicate good banking financial performance. With various banking efforts to produce low operating expenses to operating income, profits will automatically increase so that the management of banking company operational costs becomes more effective. According to Evina and Pian (2022) that ultimately banking companies will compete to increase profitability by making their operational activities more efficient.

Banking institutions must also know that increasing the value of operating expenses to operating income will actually reduce ROA so that banking companies must be able to reduce the operational costs used. The large operational costs can be triggered by the existence of a number of reserves for impairment losses to cover the loss of productive assets. This makes banking companies have to find concrete steps to reduce operational costs and increase operational income so that the hope is that ROA will continue to increase throughout the year. Meanwhile, based on table 4, it can also be seen that the other two variables, namely company size and leverage, have a probability above the alpha value of 5% so that they do not have a partial influence on the company's financial performance. This indicates that the research allegations or hypotheses do not match the existing results. These results are in line with research conducted by Suryandani (2018) which states that company size has no effect on the company's financial performance. This shows a lack of solvency between assets and debts which raises concerns for investors. The high risk in the company is considered to increase the potential for bankruptcy. Apart from that, Jumantari et al (2022) also stated that leverage has no effect on the company's financial performance. The company will be in bad shape if it uses too much debt and the burden the company bears on the debt provider will be greater because more of the company's assets are generated from debt. Thus, it can be concluded that the size of leverage has no effect on the ups and downs of the company's financial performance.

5. Conclusion and Suggestion

Based on the research results, it can be seen that from a partial test there is only one variable that influences banking financial performance, namely operational efficiency as seen in the ratio of operating expenses to operating income. Meanwhile, the other two variables, namely company size

and leverage, have a probability above an alpha value of 5% so that they do not have a partial influence on the company's financial performance. Based on the results of this research, banking companies must be able to formulate strategies on how to reduce company operational costs so that they are more effective and efficient but can still generate high operational income. Under these conditions, banking companies will get profits or profits that increase every year.

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