



## IOS, Capital Structure and Growth: The Value of Banks in Indonesia

Vika Dwi Utami<sup>1</sup>, Asih Purwana Sari<sup>2</sup>, Puspita Rama Nopiana<sup>3\*</sup>

STIE Galileo, Batam

**Corresponding Author:** Puspita Rama Nopiana [ramanopiana@gmail.com](mailto:ramanopiana@gmail.com)

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### ABSTRACT

Analyzing this study is the goal to the influence of IOS, CS, and GW on CV both partially and simultaneously. The banking sector in Indonesia is the object to be analyzed where the object financial statement data is taken from issuers listed on the Indonesia Stock Exchange (IDX) starting from the period 2017 to 2021. The research method used is a descriptive research quantitative approach, where the population is 47 issuers by determining sample criteria so that there are 14 companies that meet the research elements. The test tool in analyzing the effect on this study uses partial analysis for the t-test and simultaneous analysis for the F-test. The analysis produced in the study has explained that CS and GW have a positive and also significant effect, while IOS has a positive but not significant value on CV. The resulting Adjusted R Square value of 0.571 (57.1%) explains that the contribution of IOS, CS and GW variables to CV is 51.1%, while the remaining 42.9% is not explained in this study variable

## INTRODUCTION

Basically, there are two types of goals of the company, namely short-term goals that generate profits in a period of less than 1 year or a planned time while long-term goals for the sustainability of the company so that the stock price can maximize the value of the company. This explains that a high share price will give an idea that the company's future prospects are good. In essence, the value of the company is one of the company's orientations in addition to maximizing profits. A high company value will make the market believe that the company's future performance and prospects are very good (Myers, 1997) in (Fitriyana, 2018). Furthermore, it is also explained that maximizing the value of the company is important for the company, because it can improve the welfare of shareholders which is reflected in the company's share price (Rahmayani, 2018).

Company market value will give rise to investment opportunities. The existence of investment opportunities can provide positive signals about the company's future growth, thus increasing the company's value. The value of a company can be seen in the stock market price and book value (PBV), where PBV aims to evaluate the company's tangible assets. This can also show that stocks are relatively expensive/cheap. High *price to book value* (PBV) will increase market confidence in the company's prospects and reflect high shareholder prosperity (Brigham and Gapenski, 2006) in (Dwijayanti, 2017). Therefore, the company's value is very important for investors and creditors to know in making investment decisions. Mark Companies can be measured by several aspects, one of which is with the company's stock market price, because the stock market price is a reflection of investors' assessment of the total equity owned by a company (Wahyudi And Prawesti, 2006 ).

The Investment Opportunity Set, abbreviated as IOS, has a close relationship with the company's achievements and goals. Corporate Value is the main goal of the company where the value of the company depends on future expenditures. IOS is also a reflection of the company's opportunity to grow. Company growth *is* how far a company can position it self in the overall economic system for the same industry (Rahmayani, 2018). The company's growth rate can be described by growth its assets. Growth company can become indicator of future company development. Decision structure capital has a direct influence on risks borne by shareholders and the amount of expected return, but the capital structure decisions made influential company manager on company financial risk. Capital structure is balance between amount debt term long with amount of own capital (Riyanto, 2010).

On era globalization and competition business which the more strict, company in various economic sectors seek to optimize their company value. In the midst of a dynamic business environment, the banking sub-sector is one of the most vital in supporting a country's economic growth. In this context, strategic decision-making by banking management becomes very important in an effort to increase their company's value. One of the major challenges faced

by companies, including banks, is how to manage resources. their financial resources appropriately to achieve long-term goals, especially in terms of increasing the company's value. In this context, factors such as IOS, Capital Structure (CS) and Growth (GW), and firm growth has been an important concern in the finance literature. In the context of the Indonesian stock market (BEI), these factors can interact with macroeconomic conditions and monetary policy that affect banking performance and company value. Companies going public aim to for prosper holder share with method increase mark company (Salvator, 2012).

Study study this discuss about how about the variables IOS, CS , and GW have a partial or simultaneous influence on the company value (CV) in the banking on the Indonesia. The results of this study are expected to provide valuable input for company management, regulators, investors, and interested parties in making investment and strategic decisions in the banking sector.

## LITERATURE REVIEW

IOS affects CV, where IOS is a company's investment opportunity, which reflects a positive signal on the company's growth in the future. Management in considering investment decisions must be able to predict that the investment to be made can increase the company's profitability. A good investment is an investment that produces a positive NPV. The management in making investment strategy decisions can provide investors with an overview and assessment of the stock market price of a company. Investment decisions made by the company can be value from the investment opportunities it has. This study is in line with research conducted by (Dwijayanti, 2017) which proves a positive and significant influence between IOS and CV.

CS affects CV optimal CS or maximizing company value can improve the company to be good. The concept of cost off capital explains that a company tries to minimize the cost of using capital, where external capital is greater than its own capital. Determination CS with the use of debt at a certain level as long as the benefits are greater, then additional debt is still permitted as a source of funding with the aim of increasing the company's value (Syardiana, 2015). With thus company try for give signal which positive to investors that the company has good prospects in the future.

Influence GW to CV describe productivity company and an expectation desired by both internal and external parties of the company. If the GW rate increases, investors will see this as a good indicator for the company's growth prospects in the future. Companies with high growth rates have so many investment opportunities that will ultimately attract investors to invest their investments. Investment decisions this will affect the CV which is the result of investment activities. That itself, so that GW has a positive effect on the CV. All study can also seen on figure framework conceptual as following:

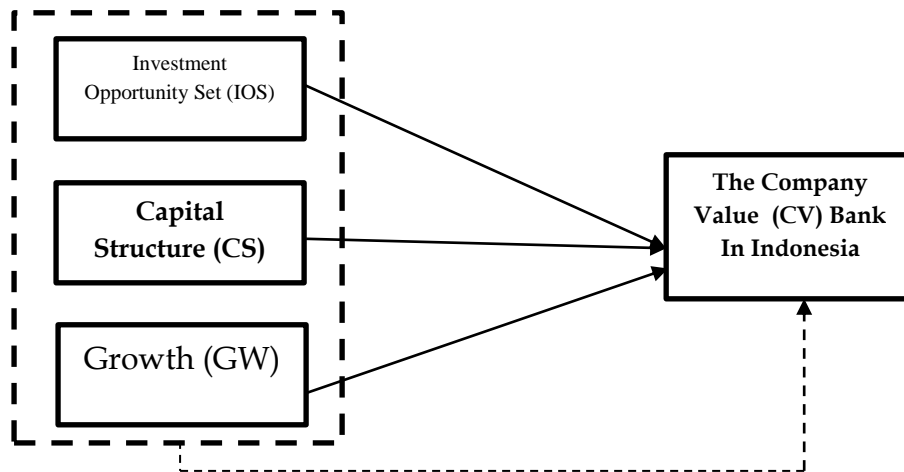


Figure 1. Framework Conceptual

**METHODS**

This study uses a quantitative research method where in measuring variables for testing the theory using numbers and data analysis with statistical procedures. The dependent variable is the CV and the independent variables are IOS, CS and GW. The indicators used are for measure data as following:

Table 1. Variables Study and Scale Measurement

Research Variables	Information	Formula	Scale
Company Values	Comparison of market price and book value per share of a company	$PBV = \frac{\text{Price Market Stock Book}}{\text{Value Stock}}$	Ratio
Investment Opportunity Set	<ul style="list-style-type: none"> <li>- Market assessment of returns from investment company in the future front/return that expected from its equity</li> <li>- Market assessment of returns from investment company in the future front/return that expected from its assets</li> <li>- This ratio shows the amount of company capital flow used for acquire its fixed assets</li> </ul>	$MBVE = \frac{\text{Share Circulating} \times \text{Closing Price}}{\text{Total Equity}}$ $MBVA = \frac{(TA-TE) + (\text{Share Circulating} \times \text{Closing Price})}{\text{Total Asset}}$ $CABVA = \frac{\text{This. Book AT t} - \text{This. Book AT th}}{\text{Total Assets}}$	Ratio

Capital Structure	The proportion between the number debt and capital share which companies use to finance long-term investments length	DER = $\frac{\text{Total Total Debt}}{\text{Equity}}$	Ratio
Company Growth	The difference between the company's total assets in the current and previous periods with the total assets of the previous period	Change in Total Assets = $\frac{\text{Total assets t} - \text{total assets t-1}}{\text{Total Assets-1}}$	Ratio

The research sample technique used is the purposive sampling technique, where decisions can be made based on the screening of predetermined criteria which can be explained in the following table:

Table 2. Criteria Sample Study

NO	Criteria Sample	Amount
1	Company sector banking which listed on the Indonesian stock exchange	47
2	Company sector banking Which publish L/K in a way consecutive during year study	(7)
3	Data report finance which served in unit Rupiah money	(8)
4	Company which experience profit during year study	(11)
5	Company which experience growth assets during year Study	(7)
<b>Total</b>		<b>14</b>

Based on the considerations and criteria that It has been determined that the mining companies used as samples in this study are as many as 14 companies. Data analysis that used in this study include factor analysis, descriptive analysis, classical assumption tests, analysis regression linear multiple, test-F as well as test-t.

**RESULTS**

Multiple regression analysis has the benefit of informing the influence of IOS, CS and GW on CV. The results are presented in the following table:

Table 3. Results Testing Partial (Test t)

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.
	B	Std. Error	Beta			
1 (Constant)	.522	.267			2,954	.055
Ln_IOS	.107	.154	.083		1,690	.052
Ln_CS	.118	.097	.088		1,744	.045
Ln_GW	.170	.072	.282		2,350	.022

Source : Data Secondary Which Processed With SPSS Version 23, 2023

From table 3. above it can be seen that the multiple linear regression equation can served as follows:

$$\hat{Y} = 0.522 + 0.107 X_1 + 0.118 X_2 + 0.170 X_3 + \epsilon$$

Explanation from symbol Y= Value Company, X1 = Investment Opportunity Set, X2 = Capital Structure. X3= Growth Company. The results of the multiple linear regression equation explain that the constant value is 0.522. If the variables IOS, CS, GW are 0, then the CV is positive at 0.522. Furthermore, the value of the regression coefficient of the IOS variable is 0.107, indicating a positive direction, so that if IOS experiences an increase of 1%, the CV will also increase by 0.107.

The result of the CS regression coefficient value is 0.118 with a positive direction. This means that if the CS increases by 1%, the CV also increases by 0.118. Furthermore, the regression results of the GW coefficient of 0.170 show a positive direction. This means that GW increased by 1%, so CV also increased by 0.170.

**Results Testing Partial (Test t)**

Test partial used for know influence each variable independent to variable dependent. Results testing partial at table 3. Can seen that t-value for each variable, with amount observation or sample (n=70) and amount variable independent and also dependent (k=4), then degree of freedom value (df) = n-k (70-4=66) with level significance ( $\alpha=0.05$ ) then got t table value is 1.668. The IOS variable has mark of 1,690 with significance as big as  $0.052 > 0.05$  (more big from  $\alpha$ ) means that IOS has influence positive however no significant to CV hypothesis 1 is rejected.

Results test t-statistics explain CS has mark of 1,744 with significance of  $0.045 < 0.05$  (more small from value  $\alpha$ ) where t table value is 1.668. It means CS variable has direction positive and significant to CV hypothesis 2 is accepted. Furthermore, GW has mark of 2,350 with significance of  $0.022 < 0.05$  (more small from  $\alpha$  value). This means GW has direction positive and significant to CV hypothesis 3 is accepted.

**Results Test F Statistics**

The F-test shows the magnitude of the effect simultaneously. The F-test can be seen as follows:

Table 4. Results Test F Statistics

Model	Sum of Squares	df	Mean Square	F	Sig.
<b>1</b> Regression	2.149	3	.716	42,380	<b>.047<sup>b</sup></b>
Residual	19,862	66	.301		
<b>Total</b>	<b>22,012</b>	<b>69</b>			

Source: Data Secondary Which Processed with SPSS Version 23, 2023

Based on table 4. The F-count value is 42.380 and the F-table is 2.746.  $F_{count} > F_{table} = 42.380 > 2.746$ . With level of significance 0.047 where is the value this smaller compared to 0.05, this means that there is a joint influence between the variables IOS, CS, GW and variables with variable CV.

**Results Test Coefficient Determination (R<sup>2</sup>)**

R<sup>2</sup> aims to measure the ability of the research model to explain the variation of independent variables. The result of the adjusted R-square value can be presented as follows:

Table 5. Results Test Coefficient Determination (R<sup>2</sup>)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
<b>1</b>	<b>.312<sup>a</sup></b>	<b>.098</b>	<b>.571</b>	<b>.54859</b>

Source: Data Secondary Which Processed with SPSS Version 23, 2023

Based on table 5. in on show mark adjusted R square as big as 0.571. This indicates that IOS, CS and company GW variables can explain 57.1% of the variation in CV. Meanwhile, 42.9% (100%-57.1%) were influenced by variables outside the study model.

## **DISCUSSION**

Influence of IOS on enterprise values shows that IOS has a positive but not significant influence. This is because investment opportunities provide a study of the company's future prospects, so that income can be predicted for the future. The information is not relevant to the company's current value. This study does not support the signaling theory, which states that investment spending provides a positive signal regarding growth companies in the future, so that it will be able to increase the share price which is used as an indicator of the company's value (Wahyudi and Pawestri, 2006) in (Hidayah, 2015). However, the results of this study are in line with the opinion of (Fitriana, 2018) which states that the IOS has a positive but insignificant effect on CV.

Influence CS to CV state that structure capital influential positive And significant regarding the company's value is accepted as true. The results of CS have a positive and significant effect on CV, where CS with this measurement shows that the increase in corporate debt can provide a positive signal study for investors and affect CV. This means that the company assumes that the existence of debt can help and control the use of funds in cash and excessive use by management. Thus, debt is a positive sign or signal. This study is in line with research conducted by (Dwijayanti, 2017). The study of the results of the study supports the research statement (Dwijayanti, 2017) which also explains that increasing debt can affect the value of the company reflecting an increase in stock prices if the company has the opportunity to have high investment. This explanation is also the same as theoretical trading which outlines that debt is a signal that managers send to the market. If the manager has confidence that the company's prospects are good and the stock price is increasing, then the manager conveys it to the investor. It means that a manager has given a more trustworthy signal.

Influence GW to CV has a significant positive effect on company value. This shows that the GW variable has a positive and significant direction on the dependent variable of CV. The results of this study are supported by research conducted (Syardiana, 2015). From an investor's point of view, GW is a sign that the company has profitable aspects because investors expect a rate of return from the investment made by showing good GW, so that will increase investor confidence and also increase the CV.

## **CONCLUSIONS AND RECOMMENDATIONS**

Based on the discussion that has been presented, it can be concluded that the results of this study prove that IOS has a positive but not significant influence on CV. This means that the higher the value of IOS in providing information on the future prospects of a bank, especially revenue, it is irrelevant to the value of the company that occurs in the current conditions. The results of this study provide an overview of CS variables that have a positive and significant effect on CV. This shows that debt is a positive thing for investors and affects CV. Furthermore, the results of this study prove that GW has a significant positive effect on the company's value. That is, the higher the GW, the higher the CV .



From the conclusion above, it can be suggested that bank companies in Indonesia must be able to improve financial performance and optimize the use of debt. Banks not only focus on increasing profits but also try to increase the value of the company. This aims to make investors more interested in investing their capital. For investors or potential investors, it is expected not only to pay attention to the amount of the company's profit without knowing the ability of the profit to generate cash for the company. Investors or potential investors can make investment decisions in issuers by paying attention to and considering the value of IOS, company growth and company funding decisions. This can later be the basis for making investment decisions.

### **FURTHER STUDY**

Study this special discuss about IOS, CS, and GW in influence CV. Research this still own limitations object only on bank issuers only, then for further researchers are expected to study other variables that include the company's value. Furthermore also can using more complete and accurate test tools so that more valid results are obtained. Research furthermore also can using other objects as a comparison and expanding the study by adding research samples as well as extend year study for researcher which will come.

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