IJSSCS
International Journal of Social Science and Community Service
https://ijsscs.com/index.php/journal
Online ISSN 3047-5406

The Influence of Company Size and Debt Ratio on the Financial Performance of Bank Subsector Companies Listed on the Indonesian Stock Exchange (IDX) in 2020-2023

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ARTICLE INFO

Article History
Received : 20.07.2025
Revised : 31.08.2025
Accepted : 09.09.2025
Article Type: Research Article

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ABSTRACT

This research analyzes how Company Size and Debt Ratio affect the Financial Performance of banking subsector companies listed on the Indonesia Stock Exchange from 2020 to 2023. Using quantitative regression analysis on financial statement data, the study employed purposive sampling to select 36 banking companies meeting the research criteria. The findings reveal that Company Size significantly and positively influences Financial Performance, with a t-value of 2.425 exceeding the t-table value of 1.987 and significance of 0.017 below 0.05, confirming hypothesis H1. Conversely, Debt Ratio shows no significant individual effect on Financial Performance, with a t-value of -1.410 below 1.987 and significance of 0.162 above 0.05, rejecting hypothesis H2. However, simultaneous testing demonstrates that Company Size and Debt Ratio together significantly affect Financial Performance, with an f-value of 3.612 surpassing f-table value of 3.103 and significance of 0.031 below 0.05, accepting hypothesis H_3. The study concludes that Company Size plays a crucial role in enhancing banking sector financial performance, indicating that larger banks tend to achieve better financial outcomes. While Debt Ratio lacks individual significance, suggesting that debt levels alone do not meaningfully impact performance, the combined effect of both variables proves statistically significant. This suggests that when analyzed collectively, Company Size and Debt Ratio contribute to explaining variations in banking financial performance, though Company Size emerges as the more influential factor among Indonesian banking companies during the examined period.

Keywords: Company Size, Debt Ratio, Financial Performance, Banking Subsector Companies, Indonesia Stock Exchange.

1. Introduction

Indonesia's continuously developing economic growth makes the banking sector an important element in supporting the economy. Banks not only serve as fund providers but also drive the economic wheel through various financial services such as investment financing, consumption credit, and financial transactions. Bank financial performance becomes a major concern because it impacts public trust, banking system stability, and the national economy. One factor that affects bank performance is company size, which reflects business scale, assets, and the ability to manage risk and operational efficiency. In addition, debt ratio also plays a role in determining the balance between equity and external funding sources, which can affect profitability and financial risk.

The objective of this research is to examine key issues surrounding the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023, with the intention of advancing prior findings. Among the areas explored, this research focuses on investigating the potential

relationship between company size and financial performance. Another aspect under scrutiny is the influence of debt ratio on the financial performance of banking subsector companies operating under similar conditions during the specified period. Furthermore, the investigation also delves into the combined effects of company size and debt ratio on the financial performance of banking subsector entities listed on the IDX from 2020 to 2023.

In alignment with the problem formulation outlined above, this study aims to achieve several specific research objectives. Focusing on the banking subsector, this research explores how variations in company size may shape the financial performance of publicly traded firms on the Indonesia Stock Exchange between 2020 and 2023. Additionally, this research will explore how the level of debt affects the financial performance of banking companies over the specified timeframe. Likewise, the paper also examines how company size and debt ratio, when considered together, affect the financial performance of banking companies listed on the Indonesia Stock Exchange from 2020 to 2023, with the goal of delivering a comprehensive analysis of their interconnected influence.

2. Literature Review

Financial statements are one of the branches in accounting discipline that plays a role in preparing, analyzing, and presenting financial information of an entity. Through this process, financial statements can produce a product that provides an overview of the financial condition and company performance in a certain period (Nirwana & Ardeski, 2022). A form of financial communication that presents information about the condition and financial performance of an entity or company in a certain period. This paperwork includes information about the economic status, money movements, and business performance that can serve as a reference for decision-making by different groups such as executives, shareholders, and lenders, constituting a financial report (Poetra, 2019).

There are various kinds of financial statements, such as the statement of financial position, income statement, statement of changes in equity, cash flow statement, and notes to financial statements. Financial performance is the outcome of the accomplishments made by company management in effectively handling assets, resources, and various financial aspects within a specific timeframe, demonstrating the company's ability to reach established objectives (Donny et al., 2023). Financial performance is determined by examining how well a company has applied proper financial regulations and practices (Esislahyenti et al., 2023).

Financial performance refers to assessing how effectively a company uses its resources to reach its long-term strategic objectives. In addition to profits, this effectiveness encompasses the handling of assets, debts, and ownership stakes. The Indonesian Institute of Accountants (IAI) asserts that financial performance is indicative of a company's aptitude for managing its resources. Besides being an indicator of success, financial performance helps identify potential problems that can threaten the company's sustainability. Therefore, good financial management is needed to prevent fund imbalances that could lead to bankruptcy (Loho et al., 2021)

In addition, company performance achievement reflects business conditions from time to time. ROA is a metric that measures how effectively a company is using its assets to produce earnings. Return on Assets (ROA) measures the company’s effectiveness in converting assets into net income and is a critical indicator for shareholders assessing the firm’s profitability and operational efficiency. A higher ROA value indicates stronger company performance (Monika & Hartono, 2023). Company size is determined based on various indicators, one of which is total assets. Companies with large assets are categorized as large companies with better capacity in managing debt, while companies with small assets tend to have limitations in obtaining external resources. Therefore, company size affects debt management strategies and financial stability (Mursalini et al., 2022). An alternative viewpoint proposes that the scale of a business can be ascertained by calculating the average net sales over a timeframe ranging from one year to several years ahead. This assessment is an indication of the size of the business and can be assessed using either its total assets or net revenue (Nanda, 2022).

Three classifications of company size are:

a. Large corporations are defined as companies with assets valued at more than Rp 10 billion, which includes property and buildings, and generate yearly revenue surpassing Rp 50 billion.

b. Medium-sized enterprises are categorized as companies with assets ranging from Rp 1 to 10 billion, including land and buildings, and annual earnings between Rp 1 billion to just under Rp 50 billion.

c. Small businesses are limited to a maximum asset value of Rp 200 million, excluding property and buildings, with a minimum annual income of Rp 1 billion (Purwanti, 2021).

Debt ratio quantifies the percentage of company assets that are financed by external debt. This ratio becomes an important indicator in assessing funding structure and the company's dependence on debt in financing its assets (Muhammad & Roza, 2019). The debt ratio is a measure that is utilized to evaluate how much a company depends on borrowing money to fund its investments. Investors can assess the financial risk of a company by examining the ratio of debt to total assets. A high level of debt indicates a strong dependence on loans, which can increase the risk of running out of funds, whereas a low ratio indicates a preference for more secure and stable equity (Mursalini et al., 2024).

Good debt management is very important because high debt usage can reduce profits distributed to investors, considering that part of the profits are used to pay off debts. Debt-related decisions directly affect fluctuations in company value, so balance in debt ratios is needed to protect investor interests and welfare (Puspitaningrum & Hanah, 2024). The objective of this research was to investigate the independent variables: company size (X1) and debt ratio (X2) on the dependent variable: Company Financial Performance (Y).

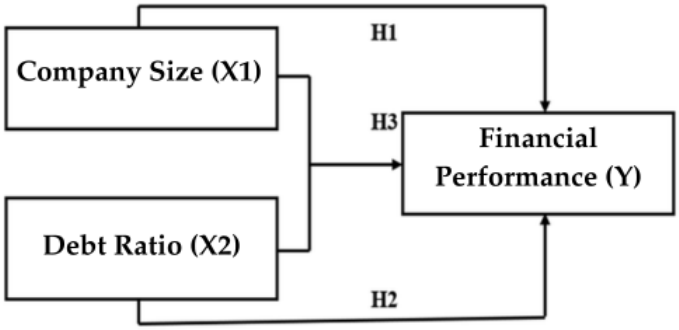

Figure 1. Conceptual Framework

The hypothesis for this research are developed according to the conceptual framework:

H1: Company size is expected to affect the financial performance of banking subsector companies on the IDX from 2020 to 2023.

H2: Debt ratio is expected to affect the financial performance of banking subsector companies on the IDX from 2020 to 2023.

H3: Company size and debt ratio together are expected to affect the financial performance of banking subsector companies on the IDX from 2020 to 2023.

3. Methodology

The study concentrates on the evaluation of financial statements from banking subsector companies listed on the Indonesia Stock Exchange between 2020 and 2023. The research scope encompasses banking subsector firms listed on the IDX, with data sourced online through downloading financial statements from the website https://lembarsaham.com/daftar-emiten/klasifikasiindustri-idx. The methodology employed in this investigation is quantitative research. This approach represents a systematic process for knowledge discovery that utilizes numerical data as an analytical instrument to examine desired information. The information provided includes financial statements from companies in the Banking Subsector that are listed on the Indonesia Stock Exchange for the years 2020 through to 2023.

The research utilized existing data obtained from the yearly financial reports of banking companies within a specific sector that are publicly traded on the Indonesia Stock Exchange from 2020 to 2023, as accessed from the official IDX website (www.idx.co.id). The method employed to gather information in this research involves utilizing the documentation approach, specifically by locating and retrieving yearly financial report data released by Banking Subsector firms between 2020 to 2023. Data collection from company financial statements is done by recording the required data according to the variables studied.

Population is the entire unit or individuals who have certain characteristics that are the focus of research. This research focuses on publicly traded companies in the banking sector on the Indonesia Stock Exchange from 2020-2023, totaling 40 companies. The sample is purposively selected using specific criteria to ensure accurate population representation

4. Results and Discussion

4.1. Assumption Tests

4.1.1. Normality Test

This study evaluates normality using the P-P plot. Points clustering around the diagonal line indicates that the regression model meets the normality assumption. The result is displayed in the graph below.

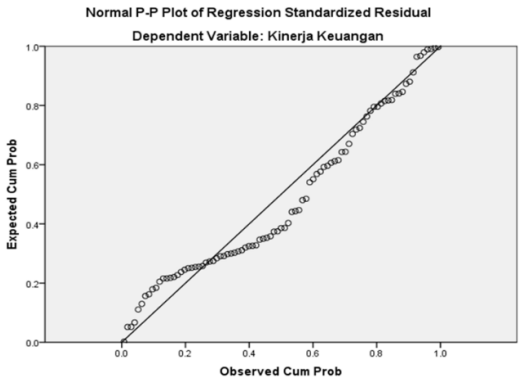

Figure 2. P-P Plot Graph of N Testing

Source: Processed data using SPSS version 19

The curve graph presented above indicates that the variables Company Size and Debt Ratio align with the diagonal line, pointing towards meeting the normality test. This suggests that further investigation into this research is warranted. The findings are supported by the one-sample Kolmogorov-Smirnov Test, which also confirms the normality of the data.

Table 1. One-Sample Kolmogorov-Smirnov Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		89
Normal parametera[a,b]	Mean	.0000000
	Std.deviation	.00803707
Most extreme differences	Absolute	.132
	Positive	.132
	Negative	-.090
Test statistic		1.243
Asymp. Sig. (2-tailed)		.091
Test Distribution Is Normal		
Calculated From Data		
Lilliefors significance correction		
This is a lower bound of the true significance		

Source: Processed data using SPSS version 19

The table displays findings indicating a significance level of 0.091, surpassing 0.05. The residual values follow a normal distribution, meeting the conditions of the Normality Test. Prior to conducting the normality test, the data was carefully examined for outliers and appropriate measures were taken to address them. This process helps to remove the impact of outliers that could disrupt the distribution of data and compromise the validity of the analysis.

4.1.2. Multicollinearity Test

The assessment for multicollinearity involves analyzing the VIF value of each variable. In order to determine if multicollinearity is absent, the VIF value of a variable should not go over 10. If the test value does not surpass 10 in the analysis, then it can be inferred that the model is not impacted by multicollinearity issues.

Table 2. Multicollinearity Test Results

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Company Size	.989	1.011
	Debt Ratio	.989	1.011
Dependent variable: Financial Performance			

Source: Processed data using SPSS version 19

As indicated in Table 2, the multicollinearity test reveals that each variable's tolerance value is greater than 0.1, while VIF values remain below the threshold of 10. Specifically, Company Size and Debt Ratio demonstrate tolerance and VIF values of 0.989 and 1.011, respectively. Consequently, the regression model does not suffer from multicollinearity and is deemed suitable for the study.

4.1.3. Heteroscedasticity Test

A regression model is considered successful if it does not show any signs of heteroscedasticity. Heteroscedasticity is assessed by examining the relationship between the IV and DV. A significance value greater than 0.05 indicates the absence of heteroscedasticity in the model. This assessment involves creating a scatterplot of SRESID against ZPRED, where the presence of heteroscedasticity is signaled by a specific pattern in the graph. The findings of the heteroscedasticity test conducted in this research are shown below:

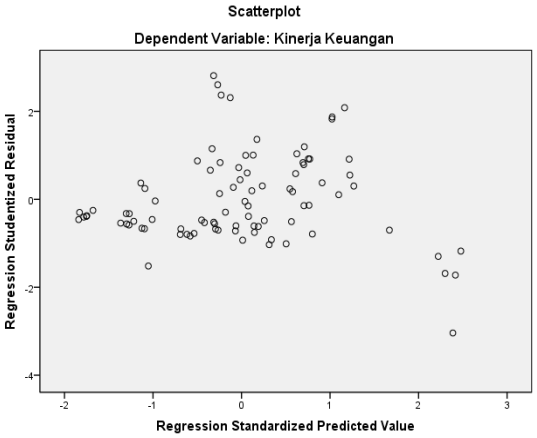

Figure 3. Heteroscedasticity Test Results Graph

According to the scatterplot chart shown, the data points are spread out in a uniform manner above and below zero on the Y-axis, without any discernible pattern or clustering in a specific area. This suggests that the regression model is not affected by heteroscedasticity. Thus, the independent variables, namely company size and debt ratio, can be used to predict financial performance.

4.1.4. Autocorrelation Test

The purpose of the Autocorrelation Test is to determine whether residuals in a linear regression model are correlated across successive time periods. This assessment is commonly conducted using the Durbin–Watson test. The analysis findings will be outlined in the following manner:

Table 3. Durbin Watson Test Results

Model Summary[b]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.278[a]	.077	.056	.008130	.634

a. Predictors: (Constant), Debt Ration , Company Size

b. Dependent Variable: Financial Performance

Source: Processed data using SPSS version 19

The value of 0.634 in the Durbin-Watson test results table falls within the range of -2 to +2, indicating the absence of both positive and negative autocorrelation. Therefore, it can be inferred that this study is not affected by autocorrelation and the model is suitable for implementation.

4.2. Multiple Linear Regression Analysis

This method utilizes statistics to examine how one dependent variable (Y) is connected to multiple independent variables (X1, X2). The method seeks to estimate the dependent variable by taking into account the independent variables. This study evaluates how Company Size and Debt Ratio influence financial performance. To determine the regression equation as well as the correlation coefficient values, the data presented in the following table is used:

Table 4. Multiple Linear Regression Test Results

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig**
		B	**Std. Error**	**Beta**		
1	(Constant)	.004	.015		.298	.767
	Company Size	.001	.000	.253	2.425	.017
	Debt Ration	.000	.000	-.147	-1.410	.162

a. Dependent Variable: Financial Performance

Source: Processed data using SPSS version 19

According to the table 4, there is evidence suggesting that firm size is positively associated with financial performance, with larger companies demonstrating better outcomes than smaller firms. The Debt Ratio, on the other hand, does not seem to have any impact on financial performance. This results in the formation of the subsequent multiple regression equation. Formula:

$$\mathbf{Y = a+b_1X_1+b_2X_2 + e}$$

$$\mathbf{Y = 0.004+0.001X_1+0.000X_2+e}$$

Where:

Y = Financial Performance
a = Constant Value
b_1/b_2 = Regression Coefficient
X_1 = Company Size
X_2 = Debt Ratio
E = Error (error rate)

As per the formula for multiple linear regression, the explanation of regression coefficients can be described in the following manner:

a. The constant value (a) of 0.004 indicates that if Company Size (X1) and Debt Ratio (X2) are valued at 0, then Financial Performance (Y) will have a value of 0.004.

b. The Company Size regression coefficient (b1) of 0.001 indicates that each one-unit increase in Company Size, assuming Debt Ratio remains constant, will increase Financial Performance by 0.001.

c. The Debt Ratio regression coefficient (b2) of 0.000 indicates that changes in Debt Ratio do not have a significant effect on Financial Performance.

4.3. Hypothesis Testing

4.3.1. Determination Test / R^2

The coefficient of determination gauges how effectively a regression model clarifies changes in the dependent variable. It is sometimes called adjusted R2 and ranges from zero to one, reflecting the impact of independent variables (X) on the dependent variable (Y). A high value signifies a substantial impact, whereas a low value suggests a weaker or one-sided effect of IV and DV. To grasp this idea more thoroughly, consult the table below:

Table 5. Determination R Square (R^2) Test Results

Model Summary[b]				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.278[a]	.077	.056	.008130

a. Predictors: (Constant), Debt Ratio , Company Size

b. Dependent Variable: Financial Performance

Source: Processed data using SPSS version 19

The Model Summary reports an R value of 0.278, which reflects a relatively weak relationship between Debt Ratio and Company Size as predictors and Financial Performance as the outcome variable. This value suggests that there is not a strong correlation between the predictors and the response in the regression model. Results from the model indicate an R Square of 0.077, meaning that only 7.7% of the variation in Financial Performance is explained by Company Size and Debt Ratio. The majority of the variance (92.3%) is likely driven by external factors, such as Capital Structure and Good Corporate Governance (GCG), which are excluded from the current analysis.

An Adjusted R Square of 0.056, lower than the R Square, suggests that once the number of predictors is considered, the model's ability to explain variability in Financial Performance diminishes marginally. This indicates that the model may not be sufficiently good at explaining the data. The standard error of estimate value of 0.008130 shows how far the model's predictions can vary from the actual values. The smaller this value, the more accurate the model is in predicting Financial Performance. Overall, this regression model shows that Company Size and Debt Ratio contribute only very minimally to Company Financial Performance.

4.3.2. t Test

Table 6. t Test Results

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig**
		B	**Std. Error**	**Beta**		
1	(Constant)	.004	.015		.298	.767
	Company Size	.001	.000	.253	2.425	.017
	Debt Ratio	.000	.000	-.147	-1.410	.162

a. Dependent Variable: Financial Performance

Source: Processed data using SPSS version 19

The results from the t-test shown in the table indicate that this can be further explained using the following regression model:

1) The initial test of hypothesis (H_1) yielded a t-value of 2.425, surpassing the t-table of 1.987 at a significance level of 0.017, suggesting that the size of a company has a positive impact on its financial performance. As a result, the first hypothesis (H_1) is confirmed.

2) Conversely, the second hypothesis examination (H_2) displayed a t-score of -1.410, falling below the t-table, and a significance level of 0.162, exceeding 0.05. Consequently, it can be inferred that the debt ratio does not have a significant influence on financial performance, leading to the rejection of H_2.

The principal result reveals that company size is a major determinant of financial performance, in contrast to the debt ratio, which exhibits negligible influence.

4.3.3. F Test

Table 7. Simultaneous Test Results

ANOVA[b]						
Model		**Sum of Squares**	**df**	**Mean Square**	**f**	**Sig.**
1	Regression	.000	2	.000	3.612	.031[a]
	Residual	.006	86	.000		
	Total	.006	88			

a. Predictors: (Constant), Debt Ratio , Company Size

b. Dependent Variable: Financial Performance

Source: Processed data using SPSS version 19

The statistical analysis reveals that the F-value (3.612) is higher than the table value (3.103) and the significance value (0.031) is below 0.05. This confirms that company size and debt ratio simultaneously influence financial performance, leading to the acceptance of H_3.

5. Conclusion

Results show that company size has a positive and significant effect on the financial performance of banking sector firms between 2020 and 2023. This is evidenced by the t-value (2.425) exceeding the t-table value (1.987) and a significance level (0.017) less than 0.05. This suggests that larger companies tend to achieve better financial results. Consequently, the size of a company significantly influences its financial performance. As a result, hypothesis H1 is deemed to be valid.

The Debt Ratio does not appear to have a notable impact on the Financial Performance of Banking Subsector Companies between 2020 and 2023. This is indicated by a t-value of -1.410, which is lower than 1.987, and a significance level of 0.162, which is higher than 0.05. This means that changes in Debt Ratio do not significantly affect company financial performance. Thus, hypothesis H2 proposed is rejected. The analysis shows that company size and debt ratio together have a influential effect on financial performance among banking subsector firms from 2020 to 2023. The F-value (3.612) is greater than the F-table value (3.103), and the significance level (0.031) is less than 0.05. This means that although the effect of each variable individually differs, together they both affect company Financial Performance. Thus, hypothesis H3 proposed is accepted.

After analyzing the findings and conversations previously mentioned, the following recommendations can be put forward. Bank executives are encouraged to enhance the financial performance of their company in order to entice potential investors to invest their funds. For investors who want to make investments, they should pay attention to the company's financial performance including internal and external elements of the company, because it can provide a good picture regarding management's ability to increase added value for investors. For future researchers, it is recommended to incorporate additional factors like Capital Structure and Effective Corporate Governance in order to demonstrate their impact on a company's financial success, in order to get more varied and interesting results.

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