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Research Paper

The Effect of Employee Stock Option Program (ESOP), Leverage, Non-Performing Loan (NPL) and Company Size on Financial Performance in Banking Sector Companies Listed on the Indonesia Stock Exchange, 2016 -2021

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ABSTRACT

Financial performance has an important role in achieving company goals. There are many factors that can affect a company's financial performance. The company's financial performance can provide an overview for investors regarding the level of profit to be obtained in the future or with a long-term orientation. Factors that are suspected of influencing the company's financial performance include the Employee Stock Option Program (ESOP), Leverage, Non-Performing Loans and Company Size on the company's financial performance. This study aims to determine the effect of the Employee Stock Option Program (ESOP), Leverage, Non-Performing Loans and Company Size on company financial performance as measured by return on assets (ROA). This study uses a purposive sampling method with several criteria and removes outlier data to obtain valid data. The sample used in this research is banking companies listed on the Indonesia Stock Exchange in 2016-2021. The analytical method used is multiple linear analysis. The results showed that partially ESOP had a positive but not significant effect on ROA. Meanwhile, Leverage and Non-Performing Loans have a negative and significant effect on ROA. While company size has a significant positive effect on company financial performance (ROA).

Keywords: Employee Stock Option, Leverage, Non Performing Loan, Company Size, Financial Performance

INTRODUCTION

Technological developments have changed human life, industry and civilization today, banking is no exception. The banking world must be prepared to face two big challenges in the 5G era ahead, namely Fintech and Neobank or The Challenger Bank. Fintech is a financial service combined with technology and Neobank is a bank that operates fully digitally without the presence of a branch office. Their presence has brought many changes to the banking industry in a number of countries.

Financial technology (Fintech) has mushroomed for both payment and funding or peer-to-peer (P2P) lending and Indonesian Banking Statistics data published by the Financial Services Authority (OJK) shows bank offices have fallen from 32,730 to 31,195 in the December 2016 period to September 2019. A survey conducted by PWC (2018) reported that the portion of customers who have a preference for conducting banking transactions through traditional channels (Branch, ATM and semi-digital) has decreased sharply from 73% to 55%. The portion of customers who prefer all digital banking (omni digital) increased from 27% to 45%.

It can be concluded that the challenges faced by banks are not only increasing competition with the number of shadow banking but also the market potential of the banking industry is also getting smaller. With the high competition in the banking world which is increasingly competitive, causing banks to have advantages or advantages over their competitors.

Steps that companies can take to maintain business continuity in the face of intense business competition is to improve their performance (Hutnelontina and Suputra, 2016).

Financial performance is an important part in achieving company goals. Many factors influence the financial performance of a company. Companies are required to continue to improve their performance not only to maintain business continuity, but also to be able to win the increasingly fierce business competition. Company performance, especially companies that have gone public, also has an impact on the economy in general, where good company performance will encourage industrial growth, increase capital market productivity, and increase national economic growth (Hutnaleontina and Suputra 2016).

The performance of a company is determined by the company's ability to create profitability. Profitability is not only used to measure the company's ability to generate profits, but also to determine the company's effectiveness in managing its resources. Profitability is the most important indicator to measure the performance of a bank.

Conflict within a company, either directly or indirectly, can affect the company's financial performance. One way to reduce the difference in interests between shareholders (principal) and management (agent) is to implement the Employee Stock Ownership Program (ESOP) (Hartono and Wibowo , 2014) which aims to align the interests of shareholders (principal) and management (agent). According to (Bapepam, 2002) the Employee Stock Option Program (ESOP) is a share ownership program by employees of the shares of the company where the employee works. (Anwar and Baridwan, 2006 in Isbanah, 2015), stated that implementing Employee Stock Ownership Programs (ESOP) is an effective effort to reduce conflicts of interest within companies. The next factor that is thought to influence financial performance is leverage. Leverage or solvency ratios are used to determine a company's ability to pay its obligations in the short and long term. The leverage ratio in this study is proxied by the debt to assets ratio (DAR). DAR is a ratio calculated by dividing the company's total debt by the company's total assets. The last factor that is thought to affect a company's financial performance is firm size, which describes the size of a company with various sizes, including stated in total assets, total sales, and stock market value (Sartono, 2010). Dang & Li (2015) revealed that firm size measurement can be proxied by total assets, total sales, and market capitalization. Each proxy has different characteristics to measure firm size.

LITERATURE REVIEW

Company Financial Performance

Company performance is a measuring tool in assessing the success of managers in running the company (Isbanah, 2015). Company performance is generally seen based on financial performance (Wiratman and Kristanto, 2010). So that from the financial performance assessment it can be seen whether the company's performance is good or not. Company performance can be measured from reports in the form of balance sheets, profit and loss, cash flow, and changes in capital which together provide an overview of the company's financial portion.

Performance is the most important thing that must be achieved by every company anywhere, because performance is a reflection of the company's ability to manage and allocate its resources. In addition, the main purpose of performance appraisal is to motivate employees in achieving organizational goals and in meeting predetermined standards of behavior, in order to foster the expected actions and results. The company's financial performance can be assessed using a financial ratio analysis approach. If the performance of public companies increases, the value of the company will be higher. Company performance can be measured by analyzing and evaluating financial reports.

ESOP (Employee Stock Ownership Plan)

According to the Financial Services Authority Regulation POJK.04/2013, the Employee Stock Ownership Program (ESOP) is a corporate program that allows employees to participate in owning shares of the company where they work, which is expected to increase their sense of belonging. can support the improvement of company performance. The ESOP program is also expected to overcome agency problems because the ESOP program can align the interests of principals and agents. By placing the company's employees as agents as well as principals, it is hoped that they will prioritize the interests of the company. The application of ESOP is one way for companies to appreciate the performance of their employees. However, not all employees will get this opportunity, because this share ownership will be given to employees who are performing well and achieving. This is because the company's income is influenced by the awarding in accordance with the work of the employees produced (Rahmat, 2016).

Leverage

According to Halim (2015: 89) leverage is the use of assets or funds, in which the company must bear a fixed burden in the form of depreciation or in the form of interest. Meanwhile, according to Sartono (2010: 257) states that leverage is the use of assets and sources of funds (source of funds) by companies that have fixed costs (fixed expenses) with the intention of increasing the potential profits of shareholders. In this case leverage can also be defined as a measure of assets financed with debt. To find out the amount of debt in the company's total assets, leverage ratios are usually used.

The leverage ratio is used to describe how much a company is financed by corporate debt. The leverage ratio in this study is proxied by the debt to assets ratio (DAR). DAR is a ratio calculated by dividing the company's total debt by the company's total assets. This ratio is said to be good if the company's debt is smaller than its assets. Because it will affect investor interest in company shares, where investors do not like companies that have too much debt, because it will affect their performance.

Non Performing Loans (NPL)

Non Performing Loan (NPL) is a measure of credit risk that compares the total non-performing loans to the total credit extended by debtors (Riyadi, 2006; 160). Bad credit can hinder income that should be received and increase costs due to debtors not being able to pay off their obligations. Bank Indonesia explains that the NPL or Non-Performing Loan category is credit with substandard, doubtful and bad quality. Non Performing Loan also refers to the condition where the debtor is unable to pay his obligations to the bank, namely the obligation to pay the installments that have been promised.

Non Performing Loans (NPL) or problem loans are proxies used to measure the credit risk of banking companies in assessing the ability of bank management to manage problem loans. Non-performing loans occur because the debtor cannot pay off the credit that has been given by the bank in a timely manner so that it can increase the cost of procuring productive assets. The amount or incurring cost of productive asset reserves can affect the income and profits that should be received by the bank. Banks with high NPL conditions indicate poor bank credit quality so that in order not to be classified as non-performing loans, bank management must anticipate and manage credit.

Company Size

Firm Size is a scale for determining the size of a company which can be proxied in several ways, including total assets (Total Assets) and total sales (Saemargani & Mustikawati, 2015). This definition explains that company size is a measurement scale that shows the size of a company through its total assets and total sales. According to Aprianingsih (2016) explains that the size of a company is reflected in the total assets owned, the greater the company's assets, the greater the size of the company, and vice versa.

This definition explains that company size can be assessed through the total assets owned. Assets have the same meaning as assets, namely assets owned by a company to run its business. According to Sari (2014) explained that what is commonly used to assess company size is the number of workers, total sales, total debt and total assets. Through this definition there is an element of assessment that is different compared to the two previous definitions, namely the number of workers and the amount of debt. The number of workers shows the number of workers owned by the company, either direct labor or indirect labor. Basically, company size is divided into 3 categories, namely small, medium and large businesses.

MATERIALS & METHODS

This research is a type of hypothesis testing research (explanatory research). namely ESOP, Leverage, NPL and Company Size on the dependent variable, namely financial performance, namely ROA for banking companies listed on the IDX. The total population in this study were 44 banking companies that had been included in the list of stocks during the observation period. Companies fulfilling the sampling criteria, namely the overall population of 27 companies. And in this study the period taken starts from 2016 to 2021, which is 6 years. Determination of the sample in this study by purposive sampling method, namely the sample used to estimate the characteristics of the population based on certain criteria. Thus the number of samples in this study amounted to 27 x 6 = 162. Data analysis techniques in this study used descriptive statistics and multiple linear regression analysis.

RESULT

Descriptive Statistical Analysis

Table 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ESOP (X1)	162	.00	1.00	.3704	.48440
Leverage (X2)	162	21.44	91.89	77.4498	17.72423
NPL (X3)	162	.00	7.83	2.3396	1.44600
Ukuran Perusahaan (X4)	162	14.20	21.27	18.0556	1.73121
ROA (Y)	162	.07	13.58	2.0513	2.02736
Valid N (listwise)	162				

Based on Table 1, it is known:

1. The Employee Stock Option Program (ESOP) is measured by a dummy variable where companies that implement ESOP are given a score of 1 and those that do not implement ESOP are given a score of 0, so the minimum value is 0 and the maximum value is 1. The standard deviation is 0.48440 which is larger than the mean is 0.3704 which indicates that the distribution of data is less wide and the deviation is quite high.

2. Leverage as measured by the debt to asset ratio (DR) has a standard deviation of 17.72423 which is lower than the mean of 77.4498 which indicates a wide distribution of data and low deviation. DR has a minimum value of 21.44 and a maximum value of 91.89.
3. Non-Performing Loans (NPL) have a standard deviation of 1.44600 which is lower than the mean of 2.3396 indicating a wide spread of data and low deviations. NPL has a minimum value of 0.00 and a maximum value of 7.83
4. It is known that the average value of firm size is 18.0556, with a standard deviation of 1.73121, the standard deviation is lower than the mean indicating a wide distribution of data and low deviation. Firm size has a minimum value of 14.20 and a maximum value of 21.27.
5. It is known that the average value of ROA is 2.0513, with a standard deviation of 2.02736, the standard deviation is lower than the mean indicating a wide spread of data and low deviation.

Data Analysis Results

Hypothesis test

In testing the hypothesis, an analysis of the termination coefficient will be carried out, testing the simultaneous effect (F test), and testing the partial effect (t test). Statistical values of the coefficient of determination, F test, and t test are presented in

Simultaneous Effect Significance Test (FTest)

The F test aims to examine the effect of the independent variables jointly or simultaneously on the dependent variable ROA.

Table 2 F test Result

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.222	4	8.305	71.291	.000[a]
	Residual	12.931	111	.116		
	Total	46.153	115			
a. Predictors: (Constant), Company Size (X4), NPL (X3), Leverage (X2), ESOP (X1)						
b. Dependent Variable: ROA (Y)						

Based on Table 2 it is known that the calculated F value is 71.291 and the Sig. is 0.000. It is known that the F count is 71.291 > the F table value is 2.453 and the Sig. 0.000 <0.05, then ESOP, leverage, NPL, company size simultaneously or together have a significant effect on ROA.

Partial Effect Significance Test (t test)

Table 3 presents the value of the regression coefficient, as well as the statistical value of t for partial effect testing.

Tabel 3 t test Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.039	.444		-2.341	.021		
	ESOP (X1)	.084	.083	.066	1.016	.312	.591	1.693
	Leverage (X2)	-.013	.003	-.255	-4.903	.000	.932	1.073
	NPL (X3)	-.286	.024	-.620	-11.860	.000	.923	1.083
	Company Size (X4)	.171	.023	.483	7.428	.000	.596	1.677
a. Dependent Variable: ROA (Y)								

Based on Table 3, the following results are obtained:

1. It is known that the value of the regression coefficient of the ESOP variable is 0.084, which is positive. This means that ESOP has a positive effect on ROA. It is known that the t or t statistic calculated from ESOP is

1.017 and the value of Sig. is 0.311, i.e. > 0.05 significance level, then ESOP has no significant effect on ROA. So it can be concluded that ESOP has a positive effect on ROA, but not significant.

2. It is known that the regression coefficient value of the Leverage variable is -0.013, which is negative. This means that Leverage has a negative effect on ROA. It is known that the statistical t or t count of Leverage is -4,903 and the value of Sig. is 0.000, i.e. < a significance level of 0.05, then leverage has a significant effect on ROA. So it can be concluded that leverage has a negative and significant effect on ROA.
3. It is known that the value of the regression coefficient of the NPL variable is -0.286, which is negative. This means that NPL has a negative effect on ROA. It is known that the statistic t or t count of NPL is -11.86 and the value of Sig. is 0.000, i.e. < a significance level of 0.05, then NPL has a significant effect on ROA. So it can be concluded that NPL has a negative and significant effect on ROA.
4. It is known that the value of the regression coefficient of the firm size variable is 0.171, which is positive. This means that company size has a positive effect on ROA. It is known that the statistical t or t count of Company Size is 7,431 and the value of Sig. is 0.000, i.e. < a significance level of 0.05, so company size has a significant effect on ROA. So it can be concluded that company size has a positive and significant effect on ROA.

DISCUSSION

Effect of ESOP on Financial Performance

The results show that the regression coefficient value of the ESOP variable is 0.084, which is positive. This means that ESOP has a positive effect on ROA. It is known that the t or t statistic calculated from ESOP is 1.017 and the value of Sig. is 0.311, i.e. > 0.05 significance level, then ESOP has no significant effect on ROA. So it can be concluded that ESOP has a positive effect on ROA, but not significant.

The relationship between ESOP and the company's financial performance is one-way and not significant. This shows that ESOP does not have strong evidence in influencing the company's financial performance. The existence of various criteria in accepting share ownership makes this program only able to be enjoyed by a small number of employees. This shows that the benefits of the ESOP program have not been felt by most employees so that there is no visible result of increasing the company's financial performance. The results of this research are not able to support the agency theory where ESOP is proposed as a solution to overcome the problem of differences in interests between principals and agents. This is in accordance with Isbanah (2015) who found no significant effect of the share ownership program on financial performance as measured by ROA.

Effect of Leverage on Return On Assets (ROA)

The results of this study indicate that leverage has a negative and significant effect on Return On Assets (ROA). It is known that the value of the regression coefficient of the leverage variable is -0.013, which is negative. This means that leverage has a negative effect on ROA. From the results of the statistical t or t calculation of leverage is -4,903 and the value of Sig. is 0.000, i.e. < a significance level of 0.05, then leverage has a significant effect on ROA. So it can be concluded that leverage has a negative and significant effect on ROA. This is in line with research by Yuyun Isbanah (2015) entitled Effects of ESOP, Leverage and Company Size on Company Financial Performance on the Indonesian Stock Exchange. The samples used in this study are non-financial companies listed on the Indonesia Stock

Exchange and announcing ESOP in the period 2010 to 2013. Partially, leverage and company size have a negative effect on ROA.

Effect of Non Performing Loans (NPL) on Return On Assets (ROA)

It is known that the regression coefficient value of the Non Performing Loan (NPL) variable is -0.286, which is negative. This means that Non-Performing Loans (NPL) have a negative effect on ROA. It is known that the statistic t or t count of NPL is -11.86 and the value of Sig. is 0.000, i.e. < a significance level of 0.05, then NPL has a significant effect on ROA. So it can be concluded that NPL has a negative and significant effect on ROA.

This is in line with research conducted by Purwako and Sudiyatno (2013) with a study entitled "Factors influencing bank performance" which shows that the greater the non-performing loans (NPLs) received by banks, the lower the profit, the greater the ROA. earned by the bank also decreased. Banks that have a low NPL percentage indicate high financial performance due to the small number of non-performing loans experienced by the Bank.

Effect of Firm Size on Return On Assets (ROA)

It is known that the regression coefficient value of the Firm Size variable is 0.171, which is positive. This means that company size has a positive effect on ROA. It is known that the statistical t or t count of Company Size is 7,431 and the value of Sig. is 0.000, i.e. < a significance level of 0.05, so company size has a significant effect on ROA. So it can be concluded that company size has a positive and significant effect on ROA.

This is in line with research conducted by Ni Wayan Ayu Mutiara Dewi and Made Reina Candradewi (2018) in the study "The Influence of Employee Stock Ownership Plans, Leverage, and Company Size on Company Financial Performance" in investment sub-sector companies for the 2013-2016 period showed that company size variable has a significant positive effect on the company's financial performance.

CONCLUSION

Based on the formulation of the problem, theoretical basis, hypothesis and research results that have been described regarding the effect of the Employee Stock Ownership Program (ESOP), Leverage, Non-Performing Loans (NPL) and Firm Size on financial performance which is calculated by Return on Assets (ROA)) in banking sector companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2021, it can be concluded as follows:

1. ESOP has a positive effect on ROA, but not significant.
2. Leverage has a negative and significant effect on ROA.
3. Non-Performing Loan (NPL) has a negative and significant effect on ROA.
4. Firm Size has a significant effect on ROA.

Declaration by Authors

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