International Conference on Economics, Social Science and Humanities (ICESH) 2023
Volume 1, No 1, pp. 110-117 | ISSN 3047-9924

The Influence of Leverage, Profitability and Stock Price on Sustainable Growth Rate in Banking Companies on The Indonesian Stock Exchange

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ABSTRACT. This study aims to analyze the effect of leverage, profitability, and stock prices on the sustainable growth rate. The variables used are leverage, profitability, and stock prices as the independent variables and the sustainable growth rate as the dependent variable. This study also aims to describe the state of leverage as measured by the debt to equity ratio (DER), profitability as measured by the Ratio on Assets, Stock Price is measured by determining the closing stock price and the sustainable growth rate (SGR) of banking companies. This research was conducted at banking companies listed on the Indonesia Stock Exchange in 2020-2022. The data analysis technique used is multiple linear regression to examine the effect of each independent variable on the dependent variable partially and simultaneously. Previously, classical assumption tests were carried out which included data normality tests, multicollinearity tests, heteroscedasticity tests and autocorrelation tests. The results of the study show that leverage has no effect on the sustainable growth rate, profitability has an effect on the sustainable growth rate, and stock prices have no significant effect on the sustainable growth rate.

KEYWORDS: *Leverage, Profitability, Stock Price, Sustainable Growth Rate*

INTRODUCTION

Background

Indonesian Banking acts as a collector and distributor of public funds and aims to support the implementation of national development in the framework of increasing the distribution of development and its results, economic growth and national stability, towards increasing the standard of living of the people at large. Therefore, banking companies that have been listed on the Indonesia Stock Exchange (IDX) or those that have not been listed, these companies are trying to improve their financial performance to survive and also be able to continue to grow. So companies that have profit growth prospects on business performance will be in great demand.

Until now, consideration of profit growth is still often used to measure business performance. Apart from profit growth, there are other indicators that can also be used as a measure of financial performance, namely the sustainable growth rate (SGR). The concept of sustainable growth rate put forward by Higgins (2016), he stated that SGR is the maximum rate at which an entity's sales can grow without spending financial resources.

Several financial experts provide a different understanding of the Sustainable Growth Rate. The Sustainable Growth Rate (Ross et al., 2013) is the maximization of growth without increasing the ratio between debt and equity. The Sustainable Growth Rate is the maximum growth rate a company can achieve without having to increase loan funds. After a company passes this level, the company must borrow funds from other sources as a third party to facilitate growth (Rahmi, 2015). The Sustainable Growth Rate is a condition in which the capital structure is maintained but there is growth in corporate value that guarantees the sustainability of its business (Platt, H. D., Platt, M. B., & Chen, 1995).

According to Lockwood and Prombutr (2010) in Nasim & Irma, (2015) said SGR is a multifaceted indicator which is divided into several components that describe the entity's retention policy, ability to control costs (net profit margin), asset turnover efficiency, and funding strategy (financial leverage).), all of which are key determinants of entity performance. The reason SGR is considered very useful is because it can integrate operational elements (profit margin and asset

efficiency) and financial elements (capital structure and retention rate) into one comprehensive measure (Amouzesh, et al., 2011).

Sustained growth rate can be influenced by profitability ratios. According to Hery (2016: 192) the profitability ratio is a ratio that describes a company's ability to generate profits through all its capabilities and resources, namely from sales activities, use of assets and use of capital. One of the ratios that measure profitability is Return on Assets (ROA) to measure the level of profit on the assets used to generate that profit.

The leverage ratio according to Kasmir (2015: 151) is the ratio used to measure the extent to which a company's assets are financed with debt. One ratio that measures solvency is the Debt to Equity Ratio (DER). According to Hery (2016: 143) the debt-to-equity ratio (debt to equity ratio) is a ratio used to profitably measure the ratio between total debt and total equity.

According to Kariyoto (2017: 114) Return on Assets is often called economic profitability which is a measure of a company's ability to generate profits with all the assets owned by the company. The profitability ratio consists of retained earnings and total assets where if there is efficiency and effectiveness in the use of assets based on total profit it can increase ROA.

This study aims to re-examine the influence of the leverage variable which focuses on the debt to equity ratio, profitability which focuses on return on assets, and stock prices on the sustainable growth rate. This study uses the banking sector as a research object which is a difference from previous studies. In this study there is also an update of data, the data used in this study in 2020 - 2022. Based on the background of the problem that has been explained this research is entitled "Effect of Leverage, Profitability, and Stock Prices on Sustainable Growth Rate in Banking Companies on the Indonesia Stock Exchange ".

Identification Of Problems

a. Does leverage have a positive effect on the sustainable growth rate of banking companies?
b. Does profitability have a positive effect on the sustainable growth rate of banking companies?
c. Does stock price have a positive effect on the sustainable growth rate of banking companies?

Research Purposes

Based on the previous problem formulation, this study aims to :

a. To test and analyze the impact of the Debt to Equity Ratio on the Sustainable Growth Rate.
b. To test and analyze the impact of Return on Assets on the Sustainable Growth Rate.
c. To test and analyze the impact of stock prices on the Sustainable Growth Rate.

Research Usability

This research is expected to be able to contribute benefits, including :

1. Theoretical Benefits
   This research is intended to provide information, insights and references about the influence of debt to equity ratio, return on company assets, and stock prices on sustainable growth rates.
2. Practical Benefits
   a. For entities, this research is intended to be taken into consideration in determining the entity's financial policy in relation to the expected growth rate plan.
   b. For future researchers, it can be a reference and guideline for further studies, especially those related to the problem of measuring sustainable growth rates.

THEORITICAL REVIEW

The conceptual description consists of the theory that forms the basis of the research and the dependent variable (Y) associated with the three independent variables (X_1, X_2, X_3). The conceptual description of the theory and the four variables are :

Signal Theory (Signalling Theory)

Signaling theory or signaling theory is an action taken by company management that provides investors with guidance on how management views the company's prospects. This theory provides an explanation of the reasons companies have the urge to convey or provide information related to the

company's financial statements to external parties. The urge to submit or provide information related to financial reports to external parties is based on the existence of information asymmetry between company management and external parties (Bergh et al., 2014).

According to Brigham and Houston in Suganda (2018) explaining signal theory is an action taken by company managers to convey signals or instructions to investors regarding the financial condition and prospects of the company. In signal theory, financial reports can be used to give positive signals (good news) or negative signals (bad news) to their users. Based on the signal theory, sound financial reports show that the company has carried out its operational activities properly.

Sustainable Growth Rate (SGR)

Banking entities try to continue to develop to survive success in the future. Sustained growth rate is the maximum level at which an entity's sales can grow without a shortage of financial resources (Higgins, 2016). The concept of the Sustainable Growth Rate was put forward by C. Higgins. He pointed out that the financial policies of many entities may differ from their growth goals (Amouzesh, et al., 2011).

According to Ross et al. (2019) the ability of an entity to maintain its growth is influenced by the following four factors :

a. Profit Margins
   The higher the profit margin will increase the company's ability to generate funds internally and will increase the company's sustainable growth.
b. Dividend Policy
   The lower the percentage of net profit paid as dividends, the higher the retained earnings ratio.
c. Financial Policy
   The higher the ratio of debt to capital will increase the company's financial leverage.
d. Total Asset Turnover
   The higher the asset turnover means the greater the company's ability to generate sales by increasing every rupiah of assets. This means that the company's need to add new assets decreases due to increased sales, and therefore increases the rate of sustainable growth. (DER).
e. Leverag**e**
   According to Kasmir (2017) leverage ratio is the ratio used to measure the extent to which company assets are financed with debt. This means that the large amount of debt used by the company to finance its business activities when compared to using its own capital. The leverage ratio is an indicator that measures the level of corporate debt issuance with an indication of the level of security from creditors such as banks in accordance with accounting principles.
   The leverage ratio shows the amount of the entity's financial resource needs are met through debt (Sutrisno, 2012). According to Sutrisno (2012), the use of loan funds by entities has three aspects, namely:
   (1) Creditors focus on the amount of collateral for loans provided.
   (2) With funding through debt, if the entity earns a profit higher than fixed costs, the profit of the owner of the entity will increase.
   (3) With debt, owners can get funding without losing control of the entity.
f. Profitability
   Profitability is the ability of a company to generate profits, indicated by profits generated from sales and investment income. Apart from calculating the net length, gross profit or gross profit is also one of the indicators that is widely calculated in the profitability ratio. This type of ratio is used to calculate the percentage of gross profit to revenue that has been generated from the sale of the company.
   Profitability analysis uses profitability ratios, namely financial ratios used to measure a company's ability to earn profits in relation to sales, total assets, investment, and equity. Included in this ratio group are Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE) (Subramanyam, 2013:44-45).
g. Stock price
   The share price is the price set for a company for other parties who wish to have share ownership rights. The value of stock prices always changes all the time. The value of the share price is influenced by the supply and demand that occurs between sellers and buyers of shares.

There are two basic approaches to analyzing and choosing stocks, namely fundamental analysis and technical analysis. Fundamental analysis tries to estimate stock prices in the future by:

(1) Estimating the value of fundamental factors that affect stock prices in the future
(2) Applying the relationship of these variables so that an estimated share price is obtained.

In making a stock price forecasting model, an important step is to identify fundamental factors such as sales, sales growth, dividend policy costs which are expected to affect stock prices. Technical analysis is an attempt to predict stock prices by observing price changes in the past. The thinking underlying technical analysis is:

(1) Share prices reflect relevant information
(2) This information shows price changes in the past
(3) Changes in stock prices will have a certain pattern and repeat.

Hypothesis Development

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RESEARCH METHODOLOGY

Research Object and Scope

The objects studied in this study are banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2022. This research is a research using a quantitative approach. The data used is in the form of secondary data in the form of company annual reports obtained from the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id.

Research Methods

This study uses a quantitative research method, which is a type of research that uses numbers to process data to produce structured information. Then draw general conclusions to prove the influence of leverage, profitability, and stock prices on the Sustainable Growth Rate.

Population and Sample

The population in this study are all banking companies listed on the Indonesia Stock Exchange (IDX). From this population, the research sample was selected using the purposive sampling method, with the following criteria:

a. Included in the sector of banking companies listed on the Indonesia Stock Exchange (IDX).
b. Publish a complete annual financial report during the research period 2020-2022.
c. The company distributes dividends during the research year.

Based on the criteria for determining the sample above, 13 companies were obtained as samples. The financial report data used in this study is for three years, in 2020-2022. Therefore, the observation data in this study amounted to 39 banking companies.

Operationalization of Research Variables

In this study, there are four types of variables were used, leverage (X_1), profitability (X_2), stock prices (X_3), and Sustainable Growth Rate (Y).

Variable Operational Definitions

a. Leverage

Leverage is a ratio that describes the relationship between a company's debt and capital, where this ratio can see how far the company is financed by debt or external parties with the company's ability to be described by capital (Sofyan Syafri Harahap, 2013).

The leverage ratio is the ratio used to measure the extent to which a company's assets are financed with debt. This means that the large amount of debt used by the company to finance its business activities when compared to using its own capital (Kasmir, 2017).

Leverage in this study is proxied by Debt to Equity (DER), which is a financial ratio that compares the amount of debt to equity. So, the amount of debt and equity in the company must be proportional.

b. Profitability

Profitability is the ability of a company to generate profits during a certain period at a certain level of sales, assets and share capital. The profitability of a company can be assessed in various ways depending on profits and assets or capital that will be compared with one another.

The profitability ratio is a ratio for assessing a company's ability to seek profit or profit in a certain period (Kasmir, 2019). Profitability in this study is proxied by Return On Assets (ROA) used to measure the return on total assets after tax interest, the return on total assets shows management performance in using company assets to generate profits.

c. Stock price

The stock price is the price that occurs on the stock exchange at a certain time. Stock prices can change up or down in a matter of time so quickly. Stock prices can change in a matter of minutes and can even change in seconds (Darmadji & Fakhrudin, 2012). The stock market price is the price determined by investors through a meeting of supply and demand.

In this study, the determination of share prices uses the closing price.

d. Sustainable Growth Rate (SGR)

Sustainable Growth Rate (SGR) is the maximum sales growth by not receiving capital from investors or also issuing new shares and not increasing leverage (Snyman, 1999). The value of the Sustainable Growth Rate (SGR) can be calculated by :

$$\text{SGR} = \frac{\text{R x ROE}}{1 - (\text{R x ROE})}$$

R is the Retention Rate which is useful to assist in measuring the amount of net profit retained by the entity after distributing dividends. The Retention Rate (R) value can be calculated by :

$$\text{R} = 1 - \text{Dividend Payout Ratio}$$

The dividend policy is the Dividend Payout Ratio (DPR). The dividend payout ratio is a ratio that measures the ratio of dividends to company profits. (Darmadji and Fakhruddin, 2012).

Data Analysis Technique

a. Descriptive Statistics

Descriptive analysis is a form of research data analysis to test the generalization of research results based on one sample. This descriptive analysis was carried out by testing the descriptive hypothesis (Hasan, 2004).

b. Classic Assumption Test

The Normality Test is useful for determining the data that has been collected is normally distributed or taken from the normal population. The classic method of testing the normality of data is not that complicated. Based on the empirical experience of several statisticians, data with more than 30 digits (n>30) can be assumed to be normally distributed. Usually said to be a large sample.

However, to provide certainty, the data that is owned is normally distributed or not, it is better to use the normality statistical test. Because it is not certain that data with more than 30 are normally distributed, and conversely data with less than 30 are not necessarily normally distributed, for this we need a proof, a statistical normality test that can be used includes Chi-Square, Kolmogorov Smirnov, Lilliefors, Shapiro Wilk, Jarque Bera.

Multicollinearity test is the existence of a linear relationship between the independent variables X in the Multiple Regression Model. If the linear relationship between independent variables X in the Multiple Regression Model is perfectly correlated, then these variables have perfect multicollinearity.

The autocorrelation test is used to determine whether or not there is a deviation from the

classic assumption of autocorrelation, namely the correlation that occurs between the residuals in one observation and other observations in the regression model. The prerequisite that must be met is the absence of autocorrelation in the regression model. The test method that is often used is the Durbin-Watson test (DW test).

The heteroscedasticity test is the variance of the variance of the residuals for all observations in the regression model. The heteroscedasticity test is carried out by regressing the absolute residual values of the independent variables in the model.

Hypothesis testing

a. Partial Coefficient Test (t-test)

The t-test is an individual partial regression coefficient test that is used to determine whether the independent variables (X1 and X2) individually affect the dependent variable (Y). Meanwhile, the condition for the hypothesis to be accepted is if the t count > t table or Sig. < 0.05. If these conditions are not met then the hypothesis is rejected and the hypothesis is accepted.

b. Simultaneous Regression Coefficient Test (F Test)

The F test was carried out to find out whether all the independent or independent variables included in the model had a joint effect on the dependent/dependent variable (Priyatno, 2018). Meanwhile, the condition for the hypothesis to be accepted is if the calculated f value > f table or Sig. < 0.05. If these conditions are not met then the hypothesis is rejected and the hypothesis is accepted.

c. Determination Coefficient Test (R^2)

The Coefficient of Determination test (R^2 test) aims to measure the extent to which the independent variable can explain the variation in the dependent variable, either partially or simultaneously. This R^2 value reflects how much the variation of the dependent variable Y can be explained by the independent variable X.

RESULT AND DISCUSSION

Hypothesis Testing

Hypothesis 1, hypothesis 2, hypothesis 3

The test results above show that the calculated t-value of the DER variable is 0.980 with a significance number of 0.334 meaning that sig is 0.05 so it can be concluded that DER has no effect on SGR. The ROA variable has a t count of 2.752 with a significance value of 0.009 meaning that sig is 0.05 so it can be concluded that ROA has a partial effect on SGR. The stock price variable has a t-count of -0.592 with a significance number of 0.558 meaning that sig is 0.05 so it can be concluded that stock prices have no effect on SGR.

Hypothesis 3

Based on the output above, it is known that the significance value for the effect of X_1 and X_2 simultaneously on Y is 0.070 0.05 and the calculated F value is 2.572 F table 2.860, so it can be concluded that H4 is not accepted which means there is no effect of X_1, X_2, and X_3 simultaneously on Y.

Coefficient of Determination

From the results of the SPSS output, it shows that the Adjusted R Square value is 0.181. This shows that the contribution of the independent variables (DER, ROA, and stock price) in explaining the dependent variable (SGR) is 18.1%, while the remaining 42.5% is explained by other variables outside this research model.

DISCUSSION

Effect of Debt to Equity on the Sustainable Growth Rate

Based on the results of testing the hypothesis that has been tested on the Debt to Equity variable at the Sustainable Growth Rate, the t value is 0.980 with a significance number of 0.334. This means that Debt to Equity has no effect on the Sustainable Growth Rate, a high Debt to Equity has an adverse impact on company performance, because the higher the debt level indicates the company's interest expense will be greater and reduce profits otherwise the lower the DER ratio, it means that the financial condition of the business is getting better Good.

The regression coefficient with a positive direction means that any increase in Debt to Equity in financial industry entities will have a positive but not significant impact on increasing the sustainable growth rate.

Effect of Return on Assets on the Sustainable Growth Rate

Based on the results of this study, return on assets has an effect on the sustainable growth rate. The greater the return on assets, the sustainable growth rate will increase. This result occurs because the better or the increased return on assets caused by increased profits, then the profit is allocated to retained earnings to increase net worth. The increase in retained earnings can increase the sustainable growth rate.

Effect of Stock Prices on the Sustainable Growth Rate

Based on the results of this study, stock prices have no effect on the sustainable growth rate. The greater the stock price, the sustainable growth rate will increase.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the description above, it can be concluded :

1) The results of the study show that leverage has a negative and insignificant effect on the sustainable growth rate of banking industry companies listed on the Indonesia Stock Exchange for the period 2020-2022.
2) The results of the study show that profitability has a positive and significant influence on the sustainable growth rate of banking industry companies listed on the Indonesia Stock Exchange for the period 2020-2022. This means that if the company's profitability increases, the company's value will also increase.
3) The results of the study show that stock prices have a negative and insignificant effect on the sustainable growth rate of banking industry companies listed on the Indonesia Stock Exchange for the period 2020-2022.
4) The results of the study show that leverage and salam prices do not simultaneously affect the sustainable growth rate of the banking industry listed on the Indonesia Stock Exchange 2020-2022.
5) The results of the study show that profitability has a simultaneous effect on the value of banking industry companies listed on the Indonesia Stock Exchange 2020-2022.

Recommendations

1) For entities that have a high DER ratio, it is hoped that they can re-evaluate the leverage policy applied by the entity so that the entity can obtain high profits without incurring debt to other parties in order to optimize internal funds.
2) For entities that have ROA ratios, it is hoped that they can maintain the profitability they already have and continue to increase this profitability.
3) For future researchers, it is hoped that they can add to the sample studied, especially in other sectors and expand in terms of the variables studied so that future research can be better and useful for various parties.

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