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# Understanding Financial Leverage: The Effect of Operating Leverage and Financial Leverage on EPS

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## Abstract

This study aims to investigate the impact of operating leverage and financial leverage on earning per share (EPS) in the property and real estate sector of companies listed on the Indonesian Stock Exchange from 2017 to 2019. The results show that operating leverage has a positive and significant effect on EPS, while financial leverage has no significant effect on EPS. Simultaneously, both operating leverage and financial leverage have a positive and significant impact on EPS. The study suggests that investors should pay attention to the EPS of a company before making any investment decisions, as well as consider the use of debt on EPS to avoid potential losses. Additionally, the findings can assist companies in planning their operational funding through operating and financial leverage, and EPS can help maintain shareholders' trust and ensure their continued investment in the company. Thus, companies are advised to use debt wisely and consider EPS as a reference for investors when selecting company stocks.

**Keywords:** Operating Leverage, Financial Leverage, Earning Per Share

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## Introduction

The Indonesia Stock Exchange (IDX) is one of the fastest growing stock exchanges, this can be seen from the increasing number of stock exchange members who have survived the last 3 years continues to increase, such as in 2014 there were 509 exchanges. members, increased in 2015 by 525 companies, and in 2016 the number of stock exchange member companies was 539, this can also be seen from changes in market capitalization which continues to increase from year to year. There are 9 sectors on the Indonesia Stock Exchange, namely Agriculture, Mining, Basic Industry and Chemicals, Various Industries, Consumer Goods Industry, Property, Real Estate and Building Construction, Infrastructure, Utilities and Transportation, Finance, and Trade, Services and Investment. The Indonesia Stock Exchange is a forum for the capital market as an alternative company, including being able to raise large amounts of funds, the funds can be received at once when the initial market is completed, there are no agreements so that management can be more free in managing funds or companies, high corporate solvency

so as to improve the company's image, and reduce the issuer's dependence on banks.

Stocks have become an attractive alternative for investors to invest and have become one of the most popular financial market instruments (Tjahjadi et al., 2021). Stocks have added options for local investors, who previously only invested their money in banking institutions. Today's increasingly fierce competition requires every company to be able to adjust to the circumstances that occur and requires every company to be able to manage the functions that exist in the company so that it can excel in the competition it faces. Basically, companies need funds to run their business, regardless of the type of business run by the company, in every operational activity it always optimally utilizes its resources and sources of funds to obtain profits in order to increase growth and maintain its business continuity by increasing company value. (Zhang et al., 2021) state that "The fulfillment of these funds comes from internal sources (internal sources) and from external sources (external sources)". Funds originating from internal sources are funds formed or generated by the company itself, namely retained earnings and depreciation. Funds obtained from external sources are funds that come from creditors, owners and stakeholders in the company. Capital from creditors is debt for the company concerned which is often referred to as foreign capital.

Property is one of the sectors that is very important for human life, in carrying out their daily activities humans cannot be separated from this sector and the most important thing is the house or apartment where they live (Pienaar et al., 2019). Property, especially housing, is a housing need which is one of the basic needs (primary) of humans, in addition to the need for food and clothing, so that everyone must be related to this one property sector, in today's economic conditions everyone must have a house where they live to fulfill one of their main needs. (Caballero-Miguez et al., 2012) The property sector industry has a high risk, this is because the main source of financing or funding for this sector is generally obtained through bank credit, while this sector operates using fixed assets in the form of land and buildings. Although land and buildings can be used to pay off debts, these assets cannot be converted into cash in a short time, so many developers cannot pay off their debts at a predetermined time. The main problem often experienced by property companies is where the price of the product is due to the increasingly limited land available for various property products including houses, hotels, shop houses and other buildings due to high consumer demand. (Greasley & Oxley, 2007). The growth of the property industry sector can be used as a benchmark to assess the economic growth of a country. This sector is highly dependent on economic conditions. If inflation is high, mortgage interest rises, then sales decline. After the banking sector, this sector is most affected if interest rates rise. An increase in interest rates in a country can encourage the movement of funds from currencies with low interest rates to currencies with higher interest rates. Business capital is a major aspect in running and developing a company. Business capital for company activities can be in the form of capital originating from within the company or from outside the company. Often companies that grow fast enough get venture capital from investors.

Currently the company uses sources of funds in the form of capital used to meet short-term costs and long-term costs, with these costs will cause an effect called leverage. Leverage is defined as the use of funding sources in the company's operations with the aim of covering fixed costs or paying off fixed costs (Mearns, 2012). The company in carrying out all its business requires the strength of funds by increasing assets and fulfilling the obligations that must be borne. Financial management of companies usually uses three types of leverage,

namely financial leverage, operating leverage, and combination leverage (T. Li et al., 2022). In this study, there are only two leverages used, namely financial leverage and operating leverage. First, financial leverage is the use of corporate assets and sources of funds by companies that have fixed costs with the aim of increasing shareholder returns (de Haan & Poghosyan, 2012). A company is said to carry out financial leverage if in its activities it uses sources of funds from outside the company in the form of debt, so that the company must bear the fixed costs that have been charged to the debt. Second, operating leverage is an increase in funding from production costs to total operating costs at various levels of sales volume (Guthrie, 2011). Companies that experience or perform operating leverage when in its operations the entity uses fixed assets so that it must bear the fixed costs of operating the company.

According to (Imran et al., 2013) earnings per share is a form of proceeds from the sale of goods and services obtained by the company to be given to shareholders or it can be said that income is generated from each share owned. EPS is the most widely used indicator to assess the profitability of a company. EPS is a tool used to measure company performance in a certain period from the point of view of ordinary shareholders. Based on the results of research conducted previously (Z. Li et al., 2020) with the title of the effect of financial leverage and operating leverage on earnings per share in property and real estate companies listed on the Indonesian stock exchange. Based on the results of research and discussion in this study, it can be concluded that financial leverage has a positive effect on earnings per share while operating leverage has no effect on earnings per share and financial leverage and operating leverage simultaneously have a positive effect on earnings per share. Meanwhile, according to (Cao, 2015) entitled The Effect of Operating Leverage, Financial Leverage and Combined Leverage on Earning Per Share. Based on the results of research and discussion in this study, it can be concluded that partially operating leverage has no effect on earnings per share, financial leverage also has no effect on earnings per share and combined leverage also has no effect on earnings per share. .

This is because there are indications that the company is differentiating products or making new forms of investment so that it will encourage public interest in buying these products. The object chosen in this study is a property and real estate company listed on the IDX. The existence of the property and real estate sector in Indonesia has improved the country's economy. The increase occurred as a result of soaring supply and demand in the property market. However, because there are several obstacles in terms of financial factors, property and real estate companies to focus their income are payments made through banks or commonly called bank loans. Payment delays often occur so that it will affect the company's income. Fixed assets in property and real estate companies usually use land and buildings as the main object, but land and buildings cannot be used as cash in a short time so that companies cannot pay off debts quickly using fixed assets in the form of land and buildings. This research will focus on discussing financial leverage and operating leverage that affect EPS. Both variables relate to the source of funds and fixed expenses for the company's operational activities that will affect EPS.

With reference to the background described above, the problems to be studied in this study can be formulated as follows (1) Do Operating Leverage and Financial Leverage affect earnings per share in property and real estate sector companies listed on the IDX; (2) Do operating leverage and financial leverage simultaneously affect earning per share in property

and real estate sector companies listed on the IDX.

## Research Methods

This research uses a quantitative approach. This research was conducted at the Indonesia Stock Exchange (IDX) through the investment gallery exchange corner; The research time taken in carrying out and completing this activity is scheduled for a period of 3 (three) months, namely July to September 2022. The population in this study were property and real estate sector companies listed on the Indonesia Stock Exchange (IDX) 2019-2021 totaling 62 companies. The number of samples used based on 3 years of experience is  $12 \times 3 = 36$ . The type of data used in this study is quantitative data. The data source of the data used in this study is secondary data. Secondary data in this study were obtained from the official website of the Indonesia Stock Exchange, namely [www.idx.co.id](http://www.idx.co.id). Secondary data is obtained from documenting the annual financial statements of property and real estate sector companies listed on the Indonesia Stock Exchange.

**Table 1. Operational Definition of Variables, Measurement and Scale**

Variables	Definition	Proxy	Scale
Operating Leverage	How much fixed costs are used in a company's operations. Operating leverage works in two directions, it can either increase the company's profits or increase the company's losses..	$DOL = \frac{\text{Percentage Change in EBIT}}{\text{Percentage Change in Sales}}$	Comparison
Financial Leverage	The use of funds with fixed costs in the hope that it will provide profits that will increase earnings per share.	$DFL = \frac{\text{Percentage Change EAT}}{\text{Percentage of EBIT Change}}$	Comparison
Earnings Per Share	The company's ability to generate income for shareholders who have participated in the company. The higher the company's ability to distribute income to shareholders, this shows the greater the success of the business run by the company..	$EPS = \frac{\text{Earning After Tax}}{\text{Number of Shares}}$	Comparison

### Normality test

Normality testing in this study used the One Sample Kolmogorof-Smirnov test. In the Kolmogorov-Smirnov test, data is said to be normal if it has a significance assumption of more than 0.05 and vice versa.

### Multicollinearity Test

Multicollinearity occurs in multiple regression analysis when the independent

variables are correlated with each other as seen from the tolerance value and the inverse of the Variance Inflation Factor (VIF). This measure shows which independent variables are explained by other independent variables. Tolerance measures the variability of the selected independent not explained by the other independent variables. A low tolerance value equals a high VIF value (because  $VF=1/\text{tolerance}$ ). The cut off value commonly used to indicate the presence of multicollinearity is a tolerance value  $< 0.10$  or equal to a VIF value  $> 10$  (Ghozali, 2011).

#### *Heteroscedasticity Test*

This analysis is done by looking at the significance level of the independent variable on the absolute value of the dependent variable. If a statistically significant independent variable does not affect the absolute value of the dependent variable (the probability of significance is above 5% confidence), then it indicates that there is no heteroscedasticity.

#### *Descriptive Statistical Analysis*

Descriptive statistics serve to describe or provide an overview of the object under study through sample or population data as it is without analyzing and making general conclusions.

#### *Inferential Statistical Analysis*

This study uses multiple linear regression analysis which is used to determine the direction of the relationship between the independent variable and the dependent variable whether positive or negative and to predict the value of the dependent variable if the value of the independent variable increases or decreases. In this study, the variables used are Operating Leverage ( $X_1$ ) and Financial Leverage ( $X_2$ ) as independent variables on Earning Per Share ( $Y$ ) as the dependent variable. Thus, the multiple regression equation in this study is as follows (Kustiyaningrum, et al., 2016):

$$Y = a + b_1 X_1 + b_2 X_2 + e$$

Information:

Y = Earnings Per Share

X1 = Operating Leverage

X2 = Financial Leverage

a = Constant

b1 - b2 = Regression coefficient

e = Error

#### *t-test*

The hypothesis is carried out as follows: (a). If  $t\text{-calculated} > t\text{-estimated}$ , then  $H_0$  is rejected and  $H_a$  is accepted. This means that there is an influence of the independent variable on the dependent variable. (b) If  $t\text{-calculated} < t\text{-estimated}$ , then  $H_0$  is accepted and  $H_a$  is rejected. This means that there is no effect of the independent variable on the dependent variable.

#### *Simultaneous Test (F-Calculated Test)*

The decision-making criteria for the F-calculated test are as follows: (a) If the

significance value > 5%, it can be concluded that  $H_0$  is accepted and  $H_a$  is rejected. (b) If the significance value is < 5%, it can be concluded that  $H_a$  is accepted and  $H_0$  is rejected.

*Adjusted Coefficient of Determination ( $R^2$ )*

The calculation of the coefficient of determination is done by formula:

$$R^2 = \frac{JK (reg)}{\Sigma y^2}$$

Where:

$R^2$  = Coefficient of Determination

JK (Reg) = Sum of squares of regression

$\Sigma y^2$  = Sum of squares of the total correction

The coefficient of determination is 0 to 1. A small Adjusted  $R^2$  value means that the ability of the independent variables to explain the variation in the dependent variable is very limited. An Adjusted  $R^2$  value close to 1 means that the independent variables provide almost all the information needed to predict variations in the dependent variable. (Ghozali, 2011). The coefficient of determination is 0 to 1. A small Adjusted  $R^2$  value means that the ability of the independent variables to explain variations in the dependent variable is very limited. An Adjusted  $R^2$  value close to 1 means that the independent variables provide almost all the information needed to predict variations in the dependent variable (Ghozali, 2011).

**Results and Discussion**

*Normality test*

Data is normally distributed if the sig value > 0.05. The results of the normality test can be seen in the following table:

**Table 2. Normality Test Results**

Uji Kolmogorov-Smirnov One Sample		
N		Non-standard residue
		36
Normal Parameter The Most Extreme Difference	Sig.	.0000000
	Std. Deviation	21.70173816
	Valid	.110
	Positive	.110
	Negative	-.101
Statistical Test		.110
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>
A. Normal test distribution. B. Calculated from the data. C. Lilliefors Significance Correction. D. This is the lower limit of true significance.		

Based on table 2, it can be seen that the Kolmogorov-Smirnov with an Asymp.sig (2-tailed) value of 0.200 is greater than 0.05 so it can be said that the data is normally distributed.

*Multicollinearity Test*

**Table 3. Multicollinearity Test Results**

Coefficient <sup>a</sup>								
Model		Non-standardized coefficient		Standardized Coefficient	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			tolerance	VIF
1	(Constant)	-.991	8.376		-.118	.907		
	DOL	16.108	3.142	.644	5.126	.000	.714	1.401
	DFL	11.823	6.442	.231	1835	.075	.714	1.401
Dependent Variable: EPS								

Based on table 3, it is known that the tolerance value of the operating leverage (X<sub>1</sub>) and financial leverage (X<sub>2</sub>) variables is 0.714 greater than 0.10 and the VIF value of the operating leverage (X<sub>1</sub>) and financial leverage (X<sub>2</sub>) variables is 1.401 smaller than 10. So, it can be said that it does not have multicollinearity problems.

*Heteroscedasticity Test*

**Table 4. Heteroscedasticity Test Results**

Coefficient <sup>a</sup>						
Model		Non-standardized coefficient		Standardized Coefficient	T	Sig.
		B	Std. Error	Beta		
1	(Konstan)	12006	4.498		2.669	.012
	DOL	-2.665	1687	-.307	-1.579	.124
	DFL	6.531	3.459	.367	1888	.068
Dependent Variable: Hetero						

Table 4 shows that the independent variable operating leverage has a sig value of 0.124 > 0.05, and the financial leverage variable has a sig value of 0.068 > 0.05. Thus, all independent variables are free from heteroscedasticity problems.

*Descriptive Statistical Analysis Results*

**Table 5. Descriptive Statistical Analysis Test Results**

Statistik deskriptif					
	N	Minimum	Maximum	T-Statistic	Std. Deviation
DOL	36	-2,97	4.95	1.2625	1,42325
DFL	36	.35	2.97	1.3717	.69426
EPS	36	-43,84	97.22	35.5617	35.57134
N valid	36				

Based on the output data of IBM SPSS version 22, it shows that the amount of data studied (N) is 36 data. The 36 data can be explained as follows:



Discussion

Earning per share (Y)

Based on table 5, it can be seen that the minimum value of the Earning per share variable is measured using the 12 rank classification for manufacturing companies in the property and real estate sector from 2019 to 2021 and the maximum value is 97.22. These results indicate that the amount of sample EPS in this study ranges from -43.84 to 97.22 with an average value of 35.5617 and a standard deviation of 35.57134.

Operating Leverage (X<sub>1</sub>)

Based on table 5, it can be seen that the minimum value of the Operating Leverage variable is measured using the 12 rank classification for manufacturing companies in the property and real estate sector from 2019 to 2021 and the maximum value is 4.95. These results indicate that the amount of Operating Leverage sampled in this study ranges from -2.97 to 4.95 with an average value of 1.2625 and a standard deviation of 1.42325.

Financial Leverage (X<sub>2</sub>)

Based on table 5, it can be seen that the minimum value in the Financial Leverage variable is measured using the 12 rank classification for manufacturing companies in the property and real estate sector from 2019 to 2021 and the maximum value is 2.97. These results indicate that the amount of Financial Leverage sampled in this study ranges from 0.35 to 2.97 with an average value of 1.3717 and a standard deviation of 69426.

Multiple Linear Regression Analysis

In this study, the variables used are Operating Leverage (X<sub>1</sub>) and Financial Leverage (X<sub>2</sub>) as independent variables on Earning Per Share (Y) as the dependent variable. The results of multiple linear regression based on data processing using IBM SPSS 22 are as follows:

**Table 6. Multiple linear regression analysis results**

Model		Coefficient <sup>a</sup>			T-Statistic	Sig.
		Non-standardized coefficient		Standardized Coefficient		
		B	Std. Error	Beta		
1	(Constant)	-.991	8.376		-.118	.907
	DOL	16.108	3.142	.644	5.126	.000
	DFL	11.823	6.442	.231	1835	.075

Dependent Variable: EPS

Based on table 5, the regression equation can be formulated to determine the effect of Operating Leverage and Financial Leverage on Earning per share as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

$$Y = -0.991 + 16.108 X_1 + 11.823 X_2$$

This model shows that the regression coefficients of Operating Leverage (X<sub>1</sub>) and Financial Leverage (X<sub>2</sub>) are positive. These results illustrate that there is a positive relationship between operating leverage and financial leverage on earning per share, which

means that an increase in operating leverage and financial leverage will increase earning per share.

- 1) The operating leverage variable (X1) has a positive regression coefficient of 16.108, meaning that if operating leverage increases by 1%, earning per share will increase by 16.108% when other variables do not change (constant).
- 2) The financial leverage variable (X2) has a positive regression coefficient of 11.823, meaning that if financial leverage increases by 1%, earning per share will increase by 11.823% when other variables are constant.
- 3) Then the multiple regression coefficient for the constant is -0.991, meaning that when the Operating leverage and Financial leverage variables are equal to zero (0), Earning per share is 0.991%.

*Simultaneous Test Results (F-Test)*

The F-test is used to test the effect of independent variables consisting of Operating leverage (X1) and Financial leverage (X2) simultaneously. The following table shows the results of simultaneous research testing:

**Table 6: Simultaneous Test Results**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27802409	2	13901.205	27.830	.000 <sup>b</sup>
	Residu	16483790	33	499.509		
	Total	44286.200	35			
Dependent Variable: EPS						
Predictor: (Konstan), DFL, DOL						

Ho :  $\beta_1$  : DOL, DFL simultaneously have no significant effect on Earning per share.

Ha:  $\beta_1$ : DOL, DFL, simultaneously have a significant effect on Earning per share.

F test testing criteria: If F-calculated > F-estimated: then Ha is accepted and Ho is rejected. Based on table 6 where the F-calculated value is 27.830 with df1 and df2 = 2,33, the F-estimated value is 3.285. This value can be found in MsExcel by typing empty cell = FINV (0.05,2,33) then enter. Because F-calculated 27.830 is greater than Ftab 3.285, with an error degree of 5% ( $\alpha = 0.05$ ) Ha is accepted Ho is rejected (hypothesis accepted) and with a significant value of  $0.000 < 0.05$ . This means that with a confidence level of 95% it can be said that the assessment of Operating leverage (X1) and Financial leverage (X2) simultaneously has a significant effect on Earning per share (Y) in property and real estate companies listed on the Indonesia. Stock Exchange.

*Partial Test Results (t Test)*

To find out the t-estimated value with a significant level  $\alpha = 0.05$  and degrees of freedom (df) = 33, the t table in the attachment is 2.035. This value can be found in MsExcel by typing = TINV (0.05,33) in an empty cell and then entering. The following is a table of partial research results:

**Table 7. T-Test Results**

Koefisien <sup>a</sup>						
Model		Non-standardized coefficient		Koefisien Standar	T-Statistic	Sig.
		B	Std. Error	Beta		
1	(Konstan)	-.991	8.376		-.118	.907
	DOL	16.108	3.142	.644	5.126	.000
	DFL	11.823	6.442	.231	1835	.075
Dependent Variable: EPS						

Based on table 7, it can be seen that the results of data processing contained in the table obtained tcount for each independent variable, namely DOL of 5.126 and DFL of 1.835. Thus, hypothesis testing to determine whether the independent variables partially have a significant effect on the dependent variable in this study can be explained as follows:

Effect of Operating leverage (DOL) on Earning per share.

$H_0: \beta_1 < 0$  : Operating leverage has a significant effect on Earning per share.

$H_a: \beta_1 > 0$  : Operating leverage has no significant effect on Earning per share.

1) Effect of Operating Leverage ( $X_1$ ) on Earning Per Share (Y)

The results of research on the assessment of operating leverage ( $X_1$ ) on Earning per share (Y) obtained data, namely tcount 5.126 greater than t-estimated 2.035, then at a 5% error rate  $H_0$  is rejected and  $H_a$  is accepted (hypothesis accepted) and with a significant value of  $0.000 < 0.05$  means significant. So, it can be said that Operating leverage ( $X_1$ ) partially has a positive and significant effect on Earning per share (Y).

The effect of Financial leverage (DFL) on Earning per share.

$H_0: \beta_1 < 0$  : Financial leverage has a significant effect on Earning per share.

$H_a: \beta_1 > 0$  : Financial leverage has no significant effect on Earning per share.

2) The Effect of Financial Leverage ( $X_2$ ) on Earning Per Share (Y)

The results of the study Financial leverage ( $X_2$ ) on Earning per share (Y) obtained data, namely t-calculated 1.835 is smaller than t-estimated 2.035, so at an error rate of 5%  $H_0$  is accepted and  $H_a$  is rejected (hypothesis rejected) and with a significant value of  $0.075 > 0.05$ , it means insignificant. So, it can be said that Financial leverage ( $X_2$ ) partially has no effect and is not significant to Earning per share (Y).

*Test Coefficient of Determination ( $R^2$ )*

The coefficient of determination test is used to explain how large a percentage of the independent variable is able to explain the dependent variable. The  $R^2$  value which is getting closer to 1 indicates that the influence of the independent variable on the dependent variable is getting bigger.  $R^2$  test results can be seen in the following table 8.

**Table 8:  $R^2$  test results**

Model Summary <sup>b</sup>				
Model	R	R-Square	R Square Adjusted	Std. Error Estimated
1	.792 sebuah	.628	.605	22.34969
Predictor: (Constant), DFL, DOL				

Based on table 8, it can be seen that the  $R^2$  result is 0.628 or 62.8% of the amount of Earning per share which is influenced by the Operating leverage variable and the Financial leverage variable. While 37.2% of Earning per share is influenced by variables outside the research conducted.

### Discussion

#### 1. Effect of operating leverage on Earnings per share

Operating leverage is how much fixed costs are used in the company's operations. Operating leverage works in two directions, which can increase company profits or increase company losses. The operating leverage ratio is proxied by the degree of operating leverage (DOL). Based on the results of multiple linear regression analysis that has been carried out, it shows that Operating leverage has a (positive) effect on Earning per share in property and real estate sector manufacturing companies listed on the Indonesia Stock Exchange, which means that increasing Operating leverage will increase Earning per share. Shares, and vice versa. Based on the results of partial hypothesis testing (t test), it is known that the Operating leverage variable in this study has a significant effect on Earning per share in property and real estate sector manufacturing companies listed on the Indonesia Stock Exchange, so the hypothesis in this study states that Operating leverage has a significant positive effect on Earning per share in property and real estate sector manufacturing companies listed on the Indonesia Stock Exchange, the hypothesis is accepted (Guthrie, 2013). This happens because an increase in DOL means that on the other hand it also increases the value of net income, which means increasing the value of sales and operating profit of the company. Companies whose sales increase will encourage an increase in profits which shows the company's operations are healthy and good. This will be favored by investors. Rational investors will certainly choose to invest in companies that have high operating leverage, so that it will encourage an increase in Earning per share which in turn will encourage an increase in operating profit that will be received by investors. The results of this study are in accordance with the results of previous research conducted by Fahmi (2013) which shows that partially Operating leverage has a significant effect on Earning per share, but in contrast to the results of research conducted by Indo ratmana putera (2013) which shows that Operating leverage has no effect on Earning per share.

#### 2. Effect of Financial leverage on Earning per share

Financial leverage is the use of fixed expense funds in the hope that it will provide benefits that will increase earnings per share. The financial leverage ratio is proxied by Degree of Financial Leverage (DFL). Based on the results of multiple linear regression analysis that has been carried out, it shows that financial leverage has no effect on Earning per share in property and real estate sector manufacturing companies listed on the Indonesia Stock Exchange, which means that the lower the financial leverage, the Earning per share will decrease, and vice versa. Based on the results of partial hypothesis testing (t test), it is known that the financial leverage variable partially has no effect and is not significant to Earning per share in property and real estate sector manufacturing companies listed on the Indonesia Stock Exchange, so that the hypothesis in this study which states that financial leverage has a significant positive effect on Earning per share in property and real estate

sector manufacturing companies listed on the Indonesia Stock Exchange, the hypothesis is rejected (Buchuk et al., 2014).

This happens because there are different views on the value of DFL. Some investors assume that the higher the DFL reflects the high level of corporate debt, thus increasing the risk received by investors due to the debt interest burden borne by the company. Seeing this causes investors to tend not to invest in the company which results in a decline in stock prices which ultimately has an impact on the decline in the company's financial leverage. Investors with different views argue that debt is needed to increase the company's operating capital and if its use is optimized by the company such as managing assets, then the company has the opportunity to increase sales. Increased sales result in high corporate profits, so this information receives a positive response from investors which results in an increase in demand for the company's shares (Bouvard & de Motta, 2021). The results of this study are in accordance with the results of previous research conducted by (Z. Li et al., 2020) which shows that the Financial leverage ratio variable has no effect and is not significant to Earning per share, but is different from the results of research conducted by (Z. Li et al., 2020) which shows that Financial leverage has a positive and significant effect on Earning per share.

### 3. *Effect of Operating leverage and Financial leverage simultaneously on Earning per share*

Operating leverage and financial leverage are financial ratios used to measure the company's financial performance. Based on the results of multiple linear regression analysis that has been carried out, it shows that operating leverage and financial leverage affect earning per share in property and real estate sector manufacturing companies listed on the Indonesia Stock Exchange, which means that an increase in operating leverage and financial leverage will increase earnings per share, and vice versa. Based on the results of simultaneous hypothesis testing (F test), it is known that the operating leverage and financial leverage variables in this study have a significant effect on earning per share in property and real estate sector manufacturing companies listed on the Indonesia Stock Exchange. Stock Exchange, so the hypothesis in this study states Operating leverage and financial leverage affect Earning per share in property and real estate sector manufacturing companies listed on the Indonesia Stock Exchange, then the hypothesis is accepted. This happens because investors measure the company's financial performance using financial ratio analysis. The better the financial performance of a company, the better the investor's assessment. A good assessment will attract investors to buy shares, so that the stock price increases and the return received by investors also increases. The results of this study are in accordance with the results of previous research conducted by (Eilon, 1978) which shows that simultaneously Operating Leverage, Financial Leverage and Financial Leverage have a significant effect on Earning per share, but in contrast to the results of research conducted by (Alam et al., 2020) which shows that simultaneously Operating leverage and financial leverage have no positive effect on Earning per share.

## 78 Conclusion

Based on the research sample obtained from the results of the analysis conducted to determine the effect of operating leverage and financial leverage on earning per share in property and real estate sector companies listed on the Indonesia Stock Exchange, it can be concluded that: (1) based on the results of data analysis, it is stated that operating leverage has a positive and significant effect on Earning per share in property and real estate companies listed on the Indonesia Stock Exchange for the 2017-2019 period. (2) Based on the results of data analysis, it is stated that financial leverage has no effect and is not significant to Earning per share in property and real estate companies listed on the Indonesia Stock Exchange for the 2017-2019 period. (2) Based on the results of data analysis, it is stated that operating leverage and financial leverage simultaneously have a positive and significant effect on Earning per share in property and real estate companies listed on the Indonesia Stock Exchange for the 2017-2019 period.

Suggestions from this research are as follows: Before investing in any company, an investor needs to pay attention to the level of Earning per share (EPS) value owned by the company. Where when investors are afraid of the risks that will come, then an investor also needs to pay attention to the use of debt on earning per share in order to avoid the risk of loss on their investment. Apart from that, this research can help companies in planning the funding of the company's operational activities through operating leverage and financial leverage. Earning per share can also maintain the trust of shareholders to remain in share ownership in order to obtain profits in accordance with expectations, so companies are advised to maintain company value through the use of debt by paying attention to EPS because it is a reference for investors in choosing shares to remain in share ownership in order to obtain profits in accordance with expectations, companies are advised to maintain company value through the use of debt by paying attention to EPS because it is a reference for investors in choosing company stocks. The results of this study can be used as teaching material in adding insight and it is hoped that this research can contribute, references for further researchers related to financial management about the effect of Operating Leverage and Financial Leverage on Earning Per Share.

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