



The Impact of Bank Health on the Value of Banking Sector Companies Listed on the IDX 2020-2023

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Received : September 10,
2025

Revised : September 25,
2025

Accepted : September 25,
2025

Online : October 14, 2025

Abstract

This study analyzes the impact of bank health on firm value using the RGEK framework, which includes Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital. Bank health is widely recognized as a crucial determinant of investor confidence and overall financial stability, making its relationship with firm value particularly relevant for the banking sector. The research focuses on banking companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023, a period marked by post-pandemic recovery and increased market uncertainty. An explanatory quantitative method was applied, utilizing financial report data from 47 banks. Based on purposive sampling, a final sample of 36 firms was selected. Multiple linear regression analysis was conducted using SPSS 25 software. The findings reveal that Risk Profile and Capital do not significantly affect firm value, while GCG and Earnings demonstrate a significant positive influence. These results suggest that strong governance practices and profitability are key drivers of investor perception and firm valuation. In contrast, capital adequacy and risk exposure appear to play a less decisive role in market assessments. The regression model is statistically significant ($F = 4.603$, $p = 0.002$) but explains only 11.7% of the variance in firm value, indicating that additional factors beyond RGEK contribute to valuation outcomes. Overall, the study emphasizes the significance of GCG and Earnings in enhancing firm value, while also highlighting the need for further research into other financial and non-financial variables that influence investor decision-making in the banking sector.

Keywords *Risk Profile, Good Corporate Governance (GCG), Earnings, Capital, Firm Value*

INTRODUCTION

The banking sector is crucial to Indonesia's economy, making significant contributions to financial services and economic development (Donev, 2021; Hayati et al., 2020). Data from Bank Indonesia (2024) shows that banks dominate Indonesia's financial sector, accounting for 77.71% to 78.57% of total assets from 2018 to 2022. This highlights the significance of bank health in promoting economic growth and stability (Prabawati et al., 2021). Bank health is a key determinant of firm value, influencing investor perceptions and stock prices (Lestari & Wirakusuma, 2018; Prabawati et al., 2021). Signaling Theory suggests that strong financial indicators send positive signals to investors, enhancing confidence and increasing stock prices (Oppusunggu & Simbolon, 2021; Widyowati et al., 2021). Conversely, poor health indicators can lower firm value (Daryanto et al., 2019; Widyastuti et al., 2021).

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LITERATURE REVIEW

Signaling Theory

Signaling Theory was first developed by Spence in 1973 and describes how two parties respond to differing levels of information. In this theory, signals are cues provided by the company through its management to external parties, such as investors, to influence their assessment of the firm. These signals may come in the form of direct information or information that requires further analysis to interpret. For signals to be effective, they must carry substantial informational value that can influence external perceptions of the company (Ghozali, 2020; Svetek, 2022).

The theory consists of two main components: the signal sender and the signal receiver. In the context of financial reporting, company management serves as the signal sender because it has access to information about the firm's condition and prospects that external parties, such as shareholders and investors, do not readily have (Scott, 2012). The information asymmetry between management and external stakeholders can be reduced through signals embedded in financial reports, thereby lessening the information imbalance and improving transparency (Ghozali, 2020; Yanto & Wati, 2020).

Firm Value

Firm value reflects the achievements and reputation built since a company's founding, as well as the level of investor confidence in it (Tandelilin, 2017). It is often represented by stock prices in the market, which illustrate investors' perceptions of the company's performance and prospects (Hanafi, 2016).

In this study, firm value is measured using Tobin's Q ratio. Tobin's Q is chosen based on the assumption that it is formulated by comparing the market value of assets with the estimated amount of money required to replace those assets at present value (Bringham & Gapenski, 1996). Tobin's Q reflects market assessment, which is captured in stock prices. Market conditions have the potential to influence Tobin's Q values, since favorable markets may increase stock prices, thereby raising Tobin's Q (Fahmi, 2014). According to Darniaty et al. (2023), firm value can be measured using the following formula:

$$Tobin's\ Q = \frac{Equity\ Market\ Value + Debt}{Total\ Asset}$$

Bank Health

Bank health refers to a bank's financial and operational condition, indicating its ability to meet obligations, support economic growth, and provide services (Djariyah et al., 2023; Sari, 2023). It is assessed through risk, Good Corporate Governance (GCG), profitability, and capital adequacy (Desiana & Aryanti, 2017; Triandaru & Budisantoso, 2016). OJK Regulation No. 04/POJK.As of 03/2016, measures bank health using the RGEC method (Risk Profile, GCG, Earnings, Capital), which evolved from CAMELS, for a comprehensive evaluation (PBI No. 13/1/PBI/2011).

Risk Profile

A risk profile refers to the evaluation of a bank's risk exposure, based on inherent risks and the quality of risk management practices within its operations (Desiana & Aryanti, 2017). In this study, the risk profile is assessed using credit risk analysis. Credit risk arises from borrowers or counterparties failing to meet their obligations to the bank (SEOJK No. 10/SEOJK.03/2014).

The ratio used to measure credit risk is the Non-Performing Loan (NPL) ratio, which reflects a bank's ability to manage problem loans through its productive assets (Desiana & Aryanti, 2017). The formula is:

$$NPL = \frac{\text{Nonperforming Loan}}{\text{Total Loans}} \times 100\%$$

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is one of the key indicators of a bank's health, encompassing its governance structure, processes, and outcomes. According to PBI No. 8/4/PBI/2006, GCG is based on principles of transparency, accountability, responsibility, professionalism, and fairness. Assessment of GCG is performed through self-assessment, where banks evaluate the quality of their management practices in applying GCG principles, taking into account the complexity and nature of their operations. Banks are considered healthy if their composite score is below 1.5, as per the composite rating guidelines in Bank Indonesia Circular Letter No. 15/15/DPNP (2013).

Earnings

Earnings serve as a measure of a bank's health in terms of profitability, indicating how well a bank generates income for operations and investments. Profitability reflects the income generated relative to invested capital and demonstrates how effectively banks manage their resources to produce profits (Hanafi, 2016; Sari, 2023).

The primary metric used here is Return on Assets (ROA), which measures net income relative to total assets, indicating how efficiently banks utilize their assets to generate earnings (Kasmir, 2018). Formula:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

Capital assessment covers both the adequacy of capital and its management, with banks required to meet minimum capital requirements set by Bank Indonesia. The key ratio here is the Capital Adequacy Ratio (CAR), which measures a bank's ability to absorb potential losses based on its risk profile (Desiana & Aryanti, 2017). Formula:

$$CAR = \frac{\text{Capital}}{\text{Risk Weighted Assets (ATMR)}} \times 100\%$$

A CAR above 12% indicates that the bank is in the "very healthy" category. Further, based on the description in the literature review that has been described, this research model can be explained in the following diagram:

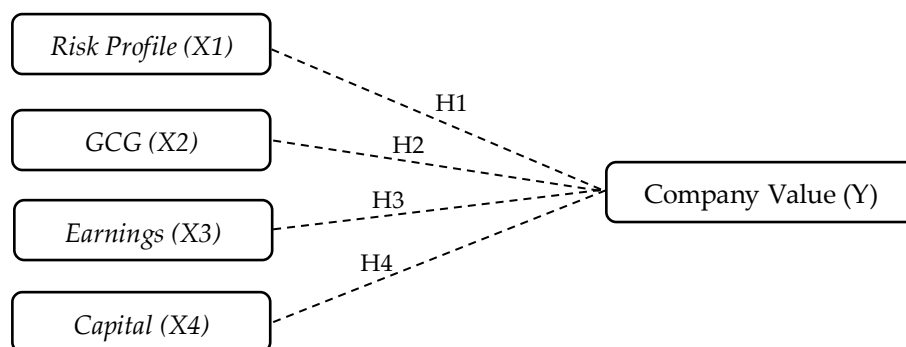


Figure 1. Conceptual Framework of the Research

Based on the conceptual framework of the research that has been described, the research hypothesis can be explained as follows:

H1: There is a significant influence of risk profile on company value.

H2: There is a significant influence of GCG on company value.

H3: There is a significant influence of earnings on company value.

H4: There is a significant influence of capital on company value.

RESEARCH METHOD

This study employs an explanatory research design with a quantitative approach to investigate the relationships between variables through hypothesis testing (Arikunto, 2015). Data were obtained from the financial statements of banking companies listed on the Indonesia Stock Exchange (IDX) for 2020–2023. The population consisted of 47 banks, and purposive sampling was applied using four criteria, resulting in a final sample of 36 companies.

Analysis Technique

The research employs multiple linear regression analysis, using SPSS version 25, to test hypotheses regarding the impact of bank health (Risk Profile, GCG, Earnings, and Capital) on firm value.

FINDINGS AND DISCUSSION

Descriptive Statistical Analysis

The descriptive statistical test provides an overview of the data in terms of sample size, minimum value, maximum value, mean, and standard deviation for each variable.

Table 1. Results of Descriptive Analysis of Research Variables

Variables	Mean	Standard Deviation
Risk Profile	2.75	1.58
GCG	1.97	0.42
Earnings	1.32	2.06
Capital	29.49	19.77
Firm Values	120.75	23.16

Table 1 shows notable variation across variables. Average Risk Profile is 2.75% (SD 1.58%), GCG 1.97 (SD 0.42), Earnings 1.32% (SD 2.06%), Capital 29.49% (SD 19.77%), and Enterprise Value 120.75% (SD 23.16%). Earnings, Capital, and Risk Profile show the highest variability, while GCG is more consistent across companies.

Classical Assumption Test

Normality Test

The normality test aims to determine whether the variables in the research model are normally distributed. This test uses a normal PPlot graph and the One-Sample Kolmogorov-Smirnov Test in SPSS 26. Data are considered normally distributed if the residuals have a significance level above 5% (Ghozali, 2016). This test is conducted to determine whether the residual values follow a normal distribution. The results of the normality test can be seen in the following table.

Table 2. Normality Test Results

Z Statistic	Sig. Kolmogorov	Information
0.065	0.200	Normally Distributed

The results of the Kolmogorov-Smirnov normality test show that the residual data of the Model of the Influence of Risk Profile, GCGC, Earnings, and Capital on Company Value has a significance value of 0.200. The significance value in the research model is greater than the standard alpha of 5% ($0.200 > 0.05$), so it can be concluded that the residual data of Model 1 is normally distributed.

Multicollinearity Test

Testing Multicollinearity testing aims to determine whether a regression model detects correlation between independent variables. Multicollinearity testing is performed by examining the VIF and tolerance values. If the tolerance is greater than 0.10 and the VIF is less than 10, multicollinearity does not occur (Ghozali, 2016). The results of the multicollinearity test can be seen in the following table:

Table 3. Multicollinearity Test Results

Variables	Tolerance	VIF	Information
Risk Profile	0.909	1,100	Non-Multicollinearity
GCG	0.939	1,066	Non-Multicollinearity
Earnings	0.847	1,180	Non-Multicollinearity
Capital	0.950	1,053	Non-Multicollinearity

The test results show that all independent variables have a VIF value of less than 10 and a tolerance greater than 0.10, so it can be concluded that there is no multicollinearity between the independent variables.

Heteroscedasticity Test

The heteroscedasticity test is conducted to determine whether there is unequal variation in the residuals from one observation to another in the regression model. The heteroscedasticity test in this study uses the Glejser model approach, which is conducted by regressing the absolute value of the residuals against the independent variables. If the independent variables do not significantly affect the residuals, then it can be concluded that there is no heteroscedasticity in the model (Ghozali, 2016).

Table 4. Results of Heteroscedasticity Test

Variables	t	Sig.	Information
Risk Profile	0.063	0.950	Homoscedasticity
GCG	-1,899	0.060	Homoscedasticity
Earnings	-0.73	0.467	Homoscedasticity
Capital	-1,181	0.240	Homoscedasticity

The results of the heteroscedasticity test indicate that all variables in this model are homoscedastic, because the significance value (Sig.) of each variable is greater than 0.05. For the variables Profile Risk (0.950), GCG (0.060), Earnings (0.467), and Capital (0.240), all show no heteroscedasticity problem, which means the residual variance is constant.

Autocorrelation Test

An autocorrelation test is performed to examine the correlation between variables between periods t and $t-1$. A regression model is considered good if there is no autocorrelation. The Durbin-Watson (DW) test is used to ensure the data is free from autocorrelation, with the criterion of no autocorrelation if the value of $du \leq d \leq 4-du$.

Table 5. Test Results Autocorrelation

	N	K	dL	dU	4-dU	DW	Information
Model 1	144	4	1,671	1,785	2,215	2,003	There is no autocorrelation

Based on the results of the autocorrelation test, it is known that the DW value obtained by Model 1 is 2,003. The DW value obtained from the autocorrelation test results after transformation shows that the DW value obtained lies between the $du \leq d \leq 4-du$ values so that it can be stated that there is no autocorrelation problem in the research model.

Research Hypothesis Testing

Partial effect testing was conducted using multiple regression to determine the extent to which the independent variables Risk Profile, GCG, Earnings, and Capital influence the dependent variable Firm Value. SPSS 25.0 was used as the analysis tool, and independent variables were considered significant if the P-Value was less than 0.05. The test results can be seen in the following table.

Table 6. Hypothesis Test Results

Variables	Coefficient	Simultaneous Hypothesis		Partial Hypothesis		Information
		F Count	Sig.	T Count	Sig.	
(Constant)	141,342			13,646	0,000	
X1_Risk	-1,356			-1,103	0.272	H1 Rejected
X2_GCG	11,009	4,603	0.002	2,415	0.017	H2 Accepted
X3_Earnings	2,061			2,119	0.036	H3 Accepted
X4_Capital	0.071			0.738	0.462	H4 Rejected
R² = 0.117						
Coefficient of Determination = 11.7%						

The study finds that: (1) Risk Profile does not significantly affect firm value ($T = -1.103$, $p = 0.272$), so H1 is rejected; (2) Good Corporate Governance (GCG) positively and significantly increases firm value by improving transparency and investor trust; (3) Earnings positively and significantly boost firm value, signaling strong performance and future prospects; (4) Capital does not significantly impact firm value, as investors focus more on profitability indicators and macroeconomic factors. The F-test shows the model is significant ($F = 4.603$, $p = 0.002$), but $R^2 = 11.7\%$, indicating other factors influence firm value.

The Influence of Risk Profile on Company Value in Banking Companies

The study finds that Risk Profile (X1) does not significantly affect firm value, likely due to macroeconomic factors, such as the Covid-19 pandemic, which led investors to focus on broader economic conditions. This aligns with He and Niu (2018) and Mielus et al. (2016) but contradicts Jagirani et al. (2023) and Miranti et al. (2024), who found that NPL hurts bank value.

The Influence of Good Corporate Governance on Company Value in Banking Companies

The study demonstrates that Good Corporate Governance (GCG) significantly enhances company value by increasing transparency, accountability, and investor trust, aligning with the findings of Kurnia et al. (2020), Najahiyah et al. (2022), and Sari & Daito (2024), while contradicting Darniaty et al. (2023).

The Influence of Earnings on Company Value in Banking Companies

The study finds that earnings have a positive and significant impact on firm value, with higher earnings leading to a higher company valuation. Strong earnings signal good profitability and prospects, which attract investors (Hanafi, 2016; Handayati et al., 2022). High profitability improves financial liquidity and security, strengthening investor confidence (Suteja et al., 2023). The study supports the findings of Choirunnisyah (2022), Guo et al. (2020), and Hà et al. (2021), but contradicts those of Rahayu and Sari (2018) and Soge and Brata (2021), who found no impact of profitability on firm value.

The Influence of Capital on Company Value in Banking Companies

The study reveals that corporate capital, as measured by CAR, does not significantly impact firm value, as investors tend to focus more on profitability ratios such as ROA and NIM. Additionally, macroeconomic conditions, including the COVID-19 pandemic, also influence perceptions. This finding aligns with Fauzi et al. (2020) but contradicts studies suggesting CAR boosts financial performance and value (Apriyanti et al., 2023; Goh et al., 2022).

CONCLUSIONS

The partial influence test reveals that, between 2020 and 2023, bank health factors had varying impacts on firm value in Indonesian banks. Risk Profile and Capital did not significantly influence firm value, with Risk Profile even showing a weak negative relationship and Capital only a minimal positive effect. In contrast, Good Corporate Governance (GCG) and Earnings had significant positive effects, indicating that stronger governance and higher profitability contribute to increased firm valuation.

LIMITATIONS & FURTHER RESEARCH

This study has a limitation in that it does not distinguish between conventional and Islamic banks; therefore, the findings are strong in terms of generalization but weak in terms of specification. Future research should include a comparative analysis between conventional and Islamic banks to make the conclusions more robust. In addition, it is recommended to incorporate other variables, such other financial and non-financial variables that influence investor decision-making in the banking sector. (e.g., inflation and others).

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