

THE EFFECT OF FINANCIAL PERFORMANCE ON THE COMPANY VALUE CASE OF BANKING INDUSTRY IN INDONESIAN STOCK EXCHANGE

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ABSTRACT

This study aims to determine the effect of banking financial performance on company value on the Indonesia Stock Exchange for the 2017-2020 period. Financial performance is measured using the Risk Based Bank Rating (RBBR) method with 4 factors: Risk Profile, Good Corporate Governance (GCG), Earning, and Capital (RGEC). This research use quantitative data, the data taken from banking annual reports for the 2017-2020. The data analysis techniques used in this study were statistical descriptive analysis, Chow test and Hausman to test the model, classical assumption test (normality test, multicollinearity test, and autocorrelation test), and multiple linear regression analysis (MRA) to test the hypothesis. The results showed that the non-performing loan (NPL) ratio had a negative effect on firm value, the loan to deposit (LDR) ratio had insignificant effect on firm value, GCG, NIM, and CAR had insignificant effect on the firm, and the ROA ratio had a significant negative effect on firm value. Based on the empirical results only NPL has effect on banking company value while the other variables were not. Future research suggest to use other independent variables or add new independent variables, use longer observation periods and using better testing tools for a better results.

Keywords: Financial Performance, Risk Based Bank Rating (RBBR), Company Value.

INTRODUCTION

One of the important economic sectors of a country is the banking sector (Debora, 2021). The function of banking is to collect and distribute funds to the people with the aim of assisting national development in increasing equitable development, economic growth and national stability, in improving the standard of living of the entire community.

The Indonesian economy is in turmoil due to the spread of the Covid-19 pandemic that occurred in early 2020. The Covid-19 pandemic poses a significant threat to global banking developments and disrupts the stability of the banking system (Simanjuntak, 2022). In *Tempo Bisnis* (2020) the Minister of Finance of the Republic of Indonesia, Mrs. Sri Mulyani, stated that the Covid-19 pandemic caused economic growth in the first quarter of 2020 to decline. In addition, the Covid-19 pandemic has also caused a decline in stock prices and the company's financial performance (Rahmani, 2020). However, in 2021 the financial performance of most

banking companies has increased (Hatauruk, 2022).

Indonesian banks continue to improve their financial performance in order to increase public confidence in banks and increase company value. One of the methods used to assess bank health and financial performance is the Risk-based Bank Rating (RBBR) approach. The assessment consists of a Risk Profile that can be measured using the Non-Performing Loan ratio and Loan to Deposit Ratio, Good Corporate Governance is assessed using a self-assessment from each company, Earnings measurement using the Return on Assets ratio and Net Interest Margin, and the last measurement of Capital using the ratio Capital Adequacy Ratio.

This study refers to previous research, which is owned by Ristiani & Santoso (2018). The results show that of the five independent variables there is only one (ROA) which has a positive and significant effect on the dependent variable Price to Book Value. Then the NPL and CAR variables have no significant effect on PBV

and LDR and GCG variables have a significant negative effect on PBV. Looking at the results of this study, the researcher intends to do research again by adding one independent variable, namely the Net Interest Margin (NIM) ratio to increase the ratio in measuring Earning and using the 2017-2020 period.

THEORETICAL BASIS

Signaling theory

Signaling Theory was first introduced by Spence in 1973. The theory explains that the owner of the information will send a signal in the form of information that describes the state of a company that will be useful for investors.

Bank

The definition of bank according to the Law of the Republic of Indonesia Number 10 of 1998 is:

"Bank is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and other forms in order to improve the standard of living of the people at large."

Financial performance

Financial performance is defined as the achievement of a company within a certain period that describes the company's health level and the company's ability to manage its resources.

Risk-based Bank Rating (RBBR)

Risk-based Bank Rating (RBBR) is used as a system for assessing bank health and bank financial performance as regulated in Bank Indonesia Regulation Number 13/1/PBI/2011. The assessment elements in the Risk-based Bank Rating (RBBR) are:

Risk Profile

The risk profile is a description of the risks that exist in the bank's operational activities. Therefore the Risk Profile is used as an assessment of bank performance. One of the risks used is credit risk and liquidity risk. The NPL ratio is a reflection of credit

risk and LDR is a reflection of liquidity risk.

NPL is a percentage of the number of non-performing loans to the amount of loans granted by banks. One of the consequences of non-performing loans is that banks cannot earn interest on loans, so that they can reduce their profits (Maimunah & Fahtiani, 2019).

LDR is one of the ratios as a measurement tool for all loans given compared to all funds received, both funds from the public and their own capital (Kasmir, 2012).

Good Corporate Governance (GCG)

This assessment is carried out on the quality of bank management on the implementation of the principles of Good Corporate Governance. Based on the Circular Letter of Bank Indonesia Number 15/15/DNP dated April 29, 2013 regarding the implementation of Good Corporate Governance which requires commercial banks to conduct periodic self-assessments. The assessment covers three main aspects consisting of Governance Structure, Governance Process, and Governance Outcome.

Earning

The assessment is based on the bank's ability to generate profits. The assessment in this element based on two kinds of ratios, namely the ratio of Net Interest Margin and Return on Assets.

NIM is the ratio between net interest income and total earning assets. Then the higher the value of the Net Interest Margin ratio means the better the company's performance.

Return on Assets is a financial ratio that can be used by banks to assess management's ability to generate returns on the use of all assets owned.

Capital

Capital ownership has an important role in advancing the bank and absorbing losses from the activities carried out. Banks are required to have sufficient capital to cover their business risks. One of the

assessments is to use the Capital Adequacy Ratio (CAR) method.

Company Value

The value of the company becomes an investor's perception of the company, which is usually associated with stock prices. The Price to Book Value (PBV) ratio is used as a measure of company value, because this ratio is widely used in making sound investment decisions (Sulastiningsih & Sholihati, 2018).

HYPOTHESIS

This ratio is a ratio that compares non-performing loans with total loans. NPL can be said to be high if the bank has a total non-performing loan that is greater than its total credit (Sari & Priantinah, 2018). If this ratio is higher, the PBV will decrease. So the following hypothesis is formed:

H1: Non-Performing Loan (NPL) has a negative effect on company value (Price to Book Value).

The Loan to Deposit Ratio can be measured by comparing the amount of credit extended to third parties against the funds received by the bank. The higher the LDR ratio value, the lower the company's liquidity will be. This is because the total funds to finance loans given to debtors are getting bigger (Debora, 2021). So that the following hypothesis is formed:

H2: Loan to Deposit Ratio (LDR) has a negative effect on company value (Price to Book Value).

Good Corporate Governance can be measured using Self-assessment. The low self-assessment results indicate that bank management is able to implement GCG principles properly and correctly (Ristiani & Santoso, 2018). Based on this, the researcher made the following hypothesis:

H3: Good Corporate Governance (GCG) has a negative effect on company value (Price to Book Value).

The NIM ratio has the aim of providing an assessment of a bank in controlling the risks that may arise in its interest rate. A high Net Interest Margin

ratio indicates that interest income is high, so it can affect the increase in a bank's profit. Then the following hypothesis is formed:

H4: Net Interest Margin (NIM) has a positive effect on company value (Price to Book Value).

Return on Assets can show how much the company's ability to earn a profit based on the total assets owned. The higher the ROA, the better perception will emerge from investors about the financial performance of banks in the future. This can increase stock trading activity which will then increase stock prices. The increase in the company's stock price will further increase the Price to Book Value. So that the hypothesis can be formulated as follows:

H5: Return on Assets (ROA) has a positive effect on company value (Price to Book Value).

CAR is one of the bank's performance ratios as a measure of the adequacy of capital owned by banks to support risky assets, such as loans (Debora, 2021). A banking company that has a high CAR ratio means that the company is able to use capital efficiently to finance assets that contain risks and will increase profit growth (Sari & Priantinah, 2018). Based on the explanation above, the following hypotheses are formed:

H6: Capital Adequacy Ratio (CAR) has a positive effect on company value (Price to Book Value).

METHOD

The population in this study are banking companies listed on the Indonesia Stock Exchange in the 2017-2020 period. In this study the authors used secondary data. The data was obtained from the IDX website and the websites of each company.

Descriptive Statistical Analysis

This analysis produces a description or description of a data seen from the minimum, maximum, average, number and standard deviation values (Priyatno, 2012).

Chow Test

This test is used to choose between the CEM model or the FEM model which is the best and most appropriate to use. In this test, H_0 will be accepted if Prob. > 0.05 then the correct method is CEM and H_0 will be rejected if Prob. <0.05 then the correct method is FEM.

Hausman Test

This test is used to choose between the FEM model or the best REM model to use. In this test, H_0 will be accepted if Prob. > 0.05 then the correct method is REM and H_0 will be rejected if Prob. <0.05 then the correct method is FEM.

Multiple Linear Regression Analysis Test

The equation model is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e$$

Information:

Y : Company Value (PBV).

a : Constanta.

$b_1, b_2, b_3, b_4, b_5, b_6$:Regression coefficient.

X_1 : Non Performing Loan.

X_2 : Loan to Deposit Ratio.

X_3 : Good Corporate Governance.

X_4 : Net Interest Margin.

X_5 : Return on Asset.

X_6 : Capital Adequacy Ratio.

e : Error.

F Test

This test aims to see whether the model described can be used, by determining the level of significance. If the significance is more than 0.05 then the model cannot be used.

Coefficient of Determination Test

The coefficient of determination test is an important measure in regression, because to inform whether or not the estimated regression model is good.

T Test

This test is used to determine whether there is a significant effect or not between independent variables on the dependent variable partially. If the significance is less than 0.05 (sig < 0.05), then the independent variable has a partially significant effect.

RESULTS AND DISCUSSION

The results of the analysis show that the PBV variable has the lowest value of 0.00 and the maximum value of 4.50.

Table 1. Descriptive Statistics Test Results

| | PBV | NPL | LDR | GCG | NIM | ROA | CAR |
|--------------|--------|--------|----------|--------|--------|--------|---------|
| Mean | 1,42 | 3,41 | 87,84 | 2,08 | 4,59 | 0,98 | 25,84 |
| Median | 1,03 | 2,94 | 86,82 | 2,00 | 4,61 | 0,84 | 21,61 |
| Max | 4,50 | 7,83 | 135,46 | 4,00 | 8,90 | 13,60 | 58,78 |
| Min | 0,00 | 0,81 | 51,96 | 1,00 | 0,82 | -14,74 | 12,58 |
| Std. Dev | 1,20 | 1,91 | 19,30 | 0,48 | 1,99 | 3,06 | 12,34 |
| Sum | 266,05 | 642,43 | 16514,10 | 392,28 | 863,84 | 185,72 | 4858,48 |
| Observations | 188 | 188 | 188 | 188 | 188 | 188 | 188 |

Then the average value is 1.42, the value is greater than the standard deviation, which is 1.20. This indicates that the distribution of the data varies. The NPL variable has the lowest value of 0.81 and the highest value of 7.83. Then for the average value of 3.41 on the NPL variable, which is greater than the standard deviation of 1.91, it shows that the data distribution is even or varied. LDR variable the lowest value is 51.96 and the highest value is 135.46. The average value of the LDR variable is 87.84 while the standard deviation value of 19.30 is smaller than the average value, which means that the data is evenly distributed. 4. The GCG variable is known that the lowest composite value is 1.00 and the highest value is 4.00. Then for the average value or mean on this variable, which is 2.08 and the standard deviation of 0.48 is not greater than the mean, it can be said that the data distribution is even or varied. The NIM variable has the lowest value of 0.82 and the highest value of 8.90. The average value for this variable is 4.59 which is higher than the standard deviation value of 1.99. This means that the data is evenly distributed. ROA variable has the lowest value of -14.74 and the highest value of 13.60. The ROA variable has an average value of 0.98 which is smaller than the standard deviation of 3.06, which means that the data distribution is less evenly distributed. CAR variable has the smallest value of 12.58000 and the maximum value of 58.78000. The average value for this variable is 25,84298, which is greater than the standard deviation

of 12,34993. It can be said that the data distribution is evenly distributed.

Table 2. Chow Test Results

| <i>Effects Test</i> | <i>Statistic</i> | <i>d.f.</i> | <i>Prob.</i> |
|---------------------------------|------------------|-------------|--------------|
| <i>Cross-section F</i> | 8,213461 | (46,135) | 0,0000 |
| <i>Cross-section Chi-Square</i> | 250,913940 | 46 | 0,0000 |

From the results of the Chow test, it can be concluded that the FEM model is better and more appropriate to use than the CEM model, because it has a Chi-Square cross-section of $0.0000 < 0.05$.

Table 3. Hausman test results

| <i>Test Summary</i> | <i>Chi-Sq. Statistic</i> | <i>Chi-Sq. d.f.</i> | <i>Prob.</i> |
|-----------------------------|--------------------------|---------------------|--------------|
| <i>Corss-section random</i> | 4,539039 | 6 | 0,6041 |

Based on the results of the Hausman test, the prob value is $0.6041 > 0.05$, so it can be concluded that the right model to use is the REM model.

Table 4. Multiple Linear Regression Analysis Test Results

| <i>Variable</i> | <i>Coefficient</i> |
|-----------------|--------------------|
| C | 2,104698 |
| X1 | -0,137135 |
| X2 | -0,005446 |
| X3 | 0,056544 |
| X4 | 0,043152 |
| X5 | -0,069836 |
| X6 | 0,000394 |

Based on the table above, the multiple linear regression equation is formulated as follows:

$$Y = 2,104689 - 0,137135X_1 - 0,005446X_2 + 0,056544X_3 + 0,043152X_4 - 0,069836X_5 + 0,000394X_6 + e$$

The above regression can be explained as follows:

1. The constant value of 2.104698 means that if NPL (X1), LDR (X2), GCG (X3), NIM (X4), ROA (X5), and CAR (X6) have a value of 0, then Price to Book Value (Y) will have a value of 2.104698.
2. The regression coefficient of the Non-performing Loan (X1) variable is negative at 0.137135. This shows that

NPL has a negative effect on PBV. If the NPL increases by one unit and the other independent variables are considered constant, it can reduce the PBV value by 0.137135.

3. The Loan to Deposit Ratio (X2) variable has a negative coefficient value of 0.005446, meaning that LDR has a negative effect on PBV. If the NPL increases by one unit and the other independent variables are assumed to be constant, then the PBV will also increase by 0.005446.
4. The Good Corporate Governance (X3) variable has a positive coefficient value of 0.056544, meaning that GCG has a positive effect on PBV. This means that if GCG increases by one unit and the other variables are considered constant, it will increase the PBV value by 0.056544.
5. The positive coefficient value of 0.043152 is owned by the Net Interest Margin (X4) variable. This shows a positive relationship between NIM and PBV. If there is an increase in NIM by one unit, then the PBV will also increase by 0.043152 assuming the other independent variables are held constant.
6. The regression coefficient of Return on Assets (X5) has a negative value of 0.069836. This indicates that ROA has a negative effect on PBV. If the ROA increases by one unit and the other independent variables are held constant, it will increase the PBV value by 0.069836.
7. The variable Capital Adequacy Ratio (X6) has a positive coefficient value of 0.000394, meaning that CAR has a positive effect on PBV. The value of 0.000394 means that if the CAR increases by one unit and the other independent variables are assumed to be constant, it will decrease the PBV value by 0.000394.

F Test Results

The results of the F test which has an

F-statistics probability of 0.024653 a significance value of less than 0.05. So it can be concluded that the variable is feasible to use.

Coefficient of Determination Test Results (R-Square)

The results of the Adjusted R-Square test are 0.045489 or 4.5489%. This means that the PBV that can be explained by NPL, LDR, GCG, NIM, ROA, and CAR is 4.5489%. While the remaining 95.4511% is explained by other variables.

Table 5. t test results

| Variable | Coefficient | Sig. | Prob | Description |
|----------|-------------|------|--------|---------------------|
| X1 | -0,137135 | 0,05 | 0,0036 | (-) Significant |
| X2 | -0,005446 | 0,05 | 0,2018 | (-) Not significant |
| X3 | 0,056544 | 0,05 | 0,7578 | (+) Not significant |
| X4 | 0,043152 | 0,05 | 0,4433 | (+) Not significant |
| X5 | -0,069836 | 0,05 | 0,0119 | (-) Significant |
| X6 | 0,000394 | 0,05 | 0,9642 | (+) Not significant |

Based on the ABOVE table, it can be explained as follows:

1. NPL has a probability value of 0.0036 <0.05 and a negative coefficient value of 0.137135 which means that NPL has a significant negative effect on firm value (PBV).
2. LDR has a probability value of 0,2018 which is greater than 0,05. The LDR variable has a negative coefficient value of 0.005446. This means that LDR has a negative and insignificant effect on PBV.
3. The positive coefficient value of 0.056544 is owned by the GCG variable and has a probability value of 0.7578 > 0.05. So it can be concluded that GCG has a positive effect on PBV although it is not significant.
4. NIM has a positive coefficient of 0.043152 and a probability value of 0.4433 which is greater than 0.05. This shows that the NIM ratio has a positive and insignificant effect on firm value (PBV).
5. ROA has a probability value of 0.0119 <0.05. However, it has a negative coefficient of 0.069836. These results indicate that the ROA ratio has a negative and significant effect on PBV.

6. The positive probability value of 0.000394 is owned by the Capital Adequacy Ratio (CAR) variable and has a probability value of 0.9642 > 0.05. This shows that CAR has a positive but not significant effect on PBV.

Effect of Non-Performing Loan (NPL) on Company Value (PBV)

NPL has a negative and significant effect on firm value so that the first hypothesis is supported. NPL has a negative and significant effect, meaning that if the NPL increases, the company value will decrease significantly. If the NPL has a high value, it indicates the greater the number of non-performing loans and the credit risk that arises. When this happens, profits will decrease and cause investor interest to invest less. This will reduce the value of the company.

Effect of Loan to Deposit Ratio (LDR) on Company Value (PBV)

LDR in this study has a negative and insignificant effect on firm value so that the second hypothesis is not supported. This means that if the LDR increases, the value of the company will also decrease, but the effect is not significant. If the credit extended to the public is bad credit, the more the amount of credit granted but the less income received by the bank. This means that the LDR can reduce the PBV if the credit distributed has a lot of bad credit, although it is not significant.

The Effect of Good Corporate Governance (GCG) on Company Value (PBV)

Good Corporate Governance variable has a positive effect, although not significant to firm value. The third hypothesis in this study is not supported. This shows that if GCG increases it will be directly proportional to the increase in company value. However, the effect is not significant. Good Corporate Governance shows the quality of bank management in implementing GCG principles to manage

the company. GCG assessed by self-assessment will produce a composite score. A low composite value indicates that the bank is healthy. This makes investors more confident to invest and can have an effect on increasing the value of the company.

Effect of Net Interest Margin (NIM) on Company Value (PBV)

The Net Interest Margin variable has a positive but not significant effect on firm value, so it can be concluded that the fourth hypothesis is not supported. This means that if the NIM ratio increases, the value of the company will also increase, although not significantly. A high NIM ratio can be a positive signal to investors that the company is able to generate large amounts of net interest income and will increase profits. NIM can be used by investors to see bank performance and as an investment consideration.

Effect of Return on Assets (ROA) on Company Value (PBV)

ROA in this study can have a negative and significant effect on firm value, so the fifth hypothesis is not supported. If the ROA increases, the PBV will decrease significantly. ROA ratio that is too high can mean that management has not been able to invest the profits earned into assets properly. So that it will reduce investor interest and become a negative signal for investors. So the higher the ROA ratio, the lower the PBV value.

Effect of Capital Adequacy Ratio (CAR) on Company Value (PBV)

In this study, CAR has a positive and insignificant effect on PBV, in other words the sixth hypothesis is not supported. If the CAR increases, it will be directly proportional to the PBV. PBV will increase although not significantly. A high CAR ratio indicates that credit disbursement is not good and there is a lack of investment. Then it can result in a decrease in investor interest, so it is not able to significantly affect the value of the company. So that the

funds that are not used will be more and more.

CONCLUSION

Based on the empirical results, it can be concluded that the ratio of NPL has a negative effect on company value. However, the ROA, LDR, GCG, NIM and CAR have no effect on company value.

Further research is expected using other independent variables or add independent variables, researchers can use other dependent variables because there are still many variables that can reflect firm value, and further researchers are advised to use a longer number of observation periods.

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