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Financial Performance and Company Values: A Study in the Banking Sector

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Abstract

A company aims to boost its overall value by maximizing stock prices. The significance of banking in an economy, especially for fund intermediation and credit, makes banking companies on the Indonesia Stock Exchange valuable subjects for research. This research aims to examine the factors influencing the value of companies in the banking sector listed on the Indonesia Stock Exchange from 2016 to 2022. The study employs a quantitative method, collecting data from the annual financial reports of banks listed on the Indonesia Stock Exchange. The research results indicate that Profitability, Liquidity, and Company Growth significantly influence Company Value, while Capital Structure does not significantly affect Company Value. Thus, it implies that financial performances give partial impact to the researched company values. Unlike the other from the financial performances being discussed, the capital structure does not give significant impact towards the company value.



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1. Introduction

The primary goal of any company is to maximize shareholder wealth, translating to increasing the company's value. For banks, maintaining public trust is crucial, given their pivotal role in economic activities. Understanding factors influencing banking company value on the Indonesia Stock Exchange is vital for stakeholders, including investors, regulators, and bank management. In a dynamic economic and regulatory environment, banking company value is influenced by complex factors, including financial performance, macroeconomic stability, technology changes, credit and operational risks, and market sentiment. Financial indicators directly impact company valuation, reflecting a bank's ability to generate income and manage risks. External factors like interest rates, inflation, and

economic growth also affect banking portfolio health and business performance [1–4].

The rise of information technology and fintech has brought about significant changes in the banking sector globally, including Indonesia [5, 6]. Digital transformation has led to the enhancement of online banking services and the adoption of technologies like fintech and digital payments to meet the increasing digital demands of consumers [7–9]. Banks that successfully adapt to these changes may have an impact on their overall company value [8, 10, 11].

Despite the relative stability in the sector, banks face credit and operational risks, which, if managed effectively, can strengthen the position of a company's value [12–14]. Psychological factors and market sentiment also play a crucial role in the assessment of

company value [15–17]. Investor perceptions of the banking sector and overall market conditions can influence stock prices and company value [18–20].

The Indonesian government has actively promoted financial inclusion through initiatives such as the "Gerakan Nasional Non-Tunai" (GNNT) to expand financial access [7–9]. With 46 banking companies listed on the Indonesia Stock Exchange (IDX), it is evident that public trust in the banking sector is high, as reflected in the public's interest in owning bank stocks [21, 22].

The Infobank15 stock index gauges the performance of 15 banking stocks with strong fundamentals and high trading liquidity [7, 8]. Company value is influenced by various financial performance factors, including profitability, liquidity, capital structure, and company growth. Research findings on the impact of these factors on company value vary [12, 13].

Liquidity is a critical factor for meeting short-term obligations promptly, which is essential for maintaining investor interest [12, 13]. Adequate liquidity is crucial for banking stability, ensuring smooth transactions, and providing seamless customer services [7, 8]. Some studies indicate a significant impact of liquidity on company value, while others find no significant effect [12].

Examining a company's value necessitates assessing its capital structure and growth, pivotal factors influencing investors' perspectives on potential development and long-term financing [12, 22], and its growth, which serves as a benchmark for investors evaluating potential development [18–20]. Research findings on the impact of capital structure and company growth on overall company value vary [13, 23].

Given the inconsistency in prior results, this study aims to re-examine the influence of profitability, liquidity, capital structure, and company growth on the value of banking companies listed on the Indonesia Stock Exchange from 2016 to 2022. This study hopes to contribute valuable insights into the interplay of profitability, liquidity, capital structure, and asset growth on the value of banking companies listed on the Indonesia Stock Exchange from 2016 to 2022. By exploring these dynamics, it aspires to offer meaningful information for investors, policymakers, and stakeholders, fostering a deeper understanding of factors influencing the banking sector's value and contributing to informed decision-making in the financial landscape.

2. Literature Review

2.1. Business Finance Concepts: Profitability, Liquidity, Capital Structure, Asset Growth, and Company Value

In the business world, financial concepts serve as the primary foundation for assessing a company's performance. Profitability, an essential element in corporate activities, plays a vital role in ensuring the business's sustainability in the future. The success and progress of a company are evident in its ability to compete and innovate in the market. Profit, as a measure of success, is used to gauge a company's performance. The concept of profitability encompasses ratios that depict a company's efficiency, performance, and competitiveness in generating profits. Experts define profitability as the result of a company's decisions and policies [24–26].

Liquidity is a crucial factor in business decision-making [27]. In the short term, liquidity depicts a company's ability to meet financial obligations. In the banking world, liquidity refers to a bank's readiness to pay liabilities in cash or assets that can quickly be converted into cash. Sufficient liquidity is a critical factor in maintaining the financial stability of a bank and smooth services for customers [28]. Liquidity indicators help measure the extent to which a company or bank can meet its obligations [29]. A company's profit is not only an indicator of its funder's ability but also an element in the creation of corporate value that shows prospects in the future. In measuring financial performance, investors usually look at financial performance reflected in various ratios, one of which is Return on Equity (ROE) which is an example of an important indicator that is often used by investors to assess the level of profitability of the company [30].

Capital structure influences a company's financial position, with long-term funding through debt, preferred stock, and common stock. Decisions regarding capital structure have a significant impact on the stability of the company [31]. Experts explain capital structure as the proportion between foreign capital and equity. Ratios such as Debt to Assets Ratio (DAR) and Debt to Equity Ratio (DER) are used to analyze the proportion of debt and equity in a company's financial structure [32].

Asset growth reflects a company's ability to allocate funds and optimize its assets. This growth also impacts company profitability. Experts define asset growth as the annual change in a company's total assets [33]. Through the Asset Growth Ratio indicator, companies can observe the evolution of their assets over time [34].

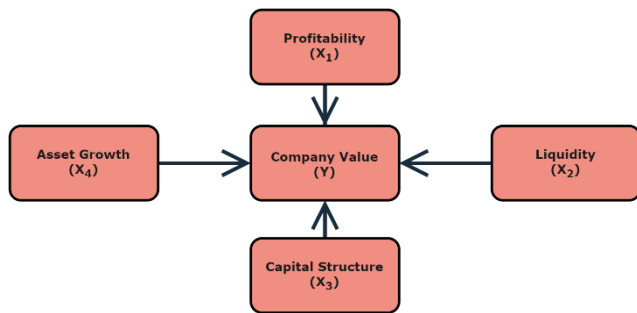


Figure 1. Research framework.

Table 1. Sample selection procedure.

No	Research Sample Criteria	Total
1	Banking companies listed on IDX in 2016-2022	46
2	Publishing consecutive financial statements during 2016-2022	46
3	Infobank15 stock index	15
4	Consistently included in Infobank15 stock index	8
Sample Company		8
5	Observation period of 2016-2022	7
Test samples		56
Outlier samples		6
Number of Sample Tests after outliers		50

Lastly, company value reflects investor perspectives and management performance. Company value is defined as the combination of the market value of equity and the company's debt. Indicators such as Price to Book Value (PBV) and Price Earnings Ratio (PER) are used to evaluate the relationship between the company's value, stock prices, and generated profits.

2.2. Framework of the Research

Based on theoretical studies and empirical findings from previous research, these serve as a reference in developing the thought process framework for this study. The researcher determines the variables: Profitability, Liquidity, Capital Structure, and Company Growth as independent variables to be examined for their potential to construct the dependent variable, which is the company's value. To clarify the research concept, the conceptual framework developed for this study is outlined in Figure 1.

2.3 Hypothesis Development

The study posits several hypotheses aimed at investigating the relationships between key financial indicators and company value. Firstly, the research examines the influence of profitability on company value. Notably, companies with higher profitability are believed to demonstrate superior operational performance and yield attractive returns for investors. While prior studies have suggested a positive correlation between profitability and company value [7-9], conflicting findings

prompt a re-evaluation [10]. Thus, the study proposes the hypothesis: H1 - profitability influences company value.

Secondly, the impact of liquidity on company value is explored. Liquidity, denoting a company's ability to meet short-term obligations, has been associated with positive effects on company value [22]. However, divergent results from studies necessitate further investigation [12, 13]. Consequently, the study formulates the hypothesis: H2 - liquidity influences company value.

The third hypothesis examines the relationship between capital structure and company value. Efficient capital utilization and financing through debt are purported to positively impact company value, as indicated by previous research [12, 22]. Nevertheless, contradictory findings [13, 23] prompt a closer examination, leading to the formulation of hypothesis H3: Capital Structure influences Company Value.

Lastly, the study investigates the influence of company growth, measured through changes in total assets, on company value. While prior research [18] suggests a positive correlation between company growth and value, conflicting results necessitate a re-evaluation [19, 20]. Thus, the study proposes the hypothesis: H4 - Company Growth influences Company Value.

3. Materials and Methods

3.1. Selection Criteria and Sample Composition

The data is sourced from the annual financial reports of 46 banking companies listed on the exchange. The selection criteria for companies, detailed in Table 1, involve being in the banking sector, having consistent financial reporting between 2016 and 2022, and being regularly featured in the Infobank 15 stock index over the same period. The Infobank15 index evaluates the performance of 15 banking stocks chosen for their strong fundamental factors and high trading liquidity.

For this study, a purposive sampling method is applied to select a subset of banking companies continuously listed on the Infobank15 index on the Indonesia Stock Exchange (BEI) from 2016 to 2022. Following the criteria, the sample consists of 8 companies from the Infobank15 index listed on the Indonesia Stock Exchange (BEI) during the specified period, resulting in a total of 50 observation data points.

3.2. Methodology

The research methodology involves conducting various tests, including classical assumption tests, to analyze the relationship between each independent variable and the dependent variable. Multiple regression analysis is used

Table 2. Interpretation of the Coefficient of Correlation Value R.

Variable	Indicator	Average Growth (%)							Average
		2016	2017	2018	2019	2020	2021	2022	
Profitability	ROE	-	0.1461	0.0188	-0.0253	-0.3755	0.3403	0.325	0.1188
Liquidities	CR	-	-0.0131	0.0044	0.0083	-0.0179	0.0045	0.0004	1.2062
Capital	DER	-	-0.1575	0.0071	-0.0566	0.1006	0.0005	0.0001	6.6824
Asset Growth	AGR	-	-0.0143	-0.2443	0.6043	0.6043	0.0286	-0.1479	0.0934
Company Value	PBV	-	3.5007	-0.0122	-0.0797	-0.0797	-0.0024	0.2345	11.8609

to test hypotheses related to each variable and the equation model is presented in Equation 1:

$$Value = a + Profit + Liquid + Capital + Asset + e \quad (1)$$

where a is the constant value and e is the error value.

4. Results and Discussion

4.1. Results

4.1.1. Data Description for the Research

In order to analyze the research data, the collected financial data is processed into financial ratios, including profitability (ROE), liquidity (CR), capital structure (DER), asset growth (AGR), and company value (PBV).

Profitability in this study is represented by the ROE (Return on Equity) financial ratio. The data in Table 2 illustrates the fluctuating average ROE of eight banking companies from 2016 to 2022. Notably, there was a decline in average growth from 2017 to 2020, followed by an increase from 2020 to 2022. The average ROE over these seven years for the companies is 0.1188.

For the liquidity aspect, the study utilizes the CR (Current Ratio) financial ratio. According to Table 2, the average CR of the eight banking companies varied during the same period. There were periods of growth, particularly from 2017 to 2019 and 2020 to 2021, interspersed with declines from 2019 to 2020 and 2021 to 2022. The overall average CR over seven years is 1.2062.

The Capital Structure variable is examined through the Debt-Equity Ratio (DER). The average DER for the eight banking companies, as shown in Table 2, also experienced fluctuations from 2016 to 2022. The periods from 2017 to 2019 and 2020 to 2022 saw a decrease in average growth, contrasting with an increase during 2019 to 2020. The cumulative seven-year average DER is 6.6824.

Company Growth is analyzed using the AGR (Asset Growth Ratio) financial ratio. Table 2 reflects the fluctuating average AGR of these eight banking companies over the same period. The average growth diminished during 2017 to 2019 and again in 2021 to

2022, while an increase was noted in 2019 to 2020. The overall average AGR for the seven years is 0.0934.

Lastly, the Company Value variable uses the PBV (Price Book Value) financial ratio. The average PBV of the eight banking companies, as detailed in Table 2, showed fluctuations throughout 2016 to 2022. There were periods of decreased average growth, notably from 2017 to 2018 and 2019 to 2020, with an increase observed from 2020 to 2022. The aggregate average PBV for the companies over these seven years is 11.8609.

4.1.2. Descriptive Statistic

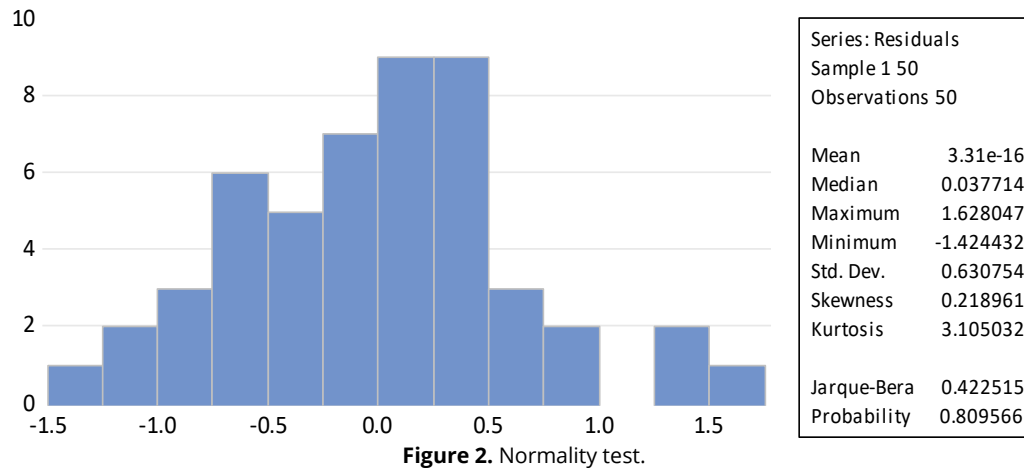
Based on the results of descriptive statistical analysis, for the profitability variable (X1) using the Return on Equity (ROE) approach, the lowest value is 0.087 with stock code BBTN in 2019, with a net profit of Rp 209,263 (in millions IDR) and total equity of Rp 23,836,195 (in millions IDR). The highest value is 0.184 with stock code BBKA in 2012, with a net profit of Rp 40,755,572 (in millions IDR) and total equity of Rp 221,181,655 (in millions IDR), with an average value of 0.115 and a standard deviation of 0.042.

Based on the results of descriptive statistical analysis, for the Liquidity variable (X2) using the Current Ratio (CR) approach, the lowest value is 1.123 with stock code BBTN in 2020, with current assets of Rp 361,208,406 (in millions IDR) and current liabilities of Rp 321,376,142 (in millions IDR). The highest value is 1.315 with stock code BDMN in 2022, with current assets of Rp 197,729,688 (in millions IDR) and current liabilities of Rp 150,251,206 (in millions IDR), with an average value of 1.207 and a standard deviation of 0.054.

Based on the results of descriptive statistical analysis, for the Capital Structure variable (X3) using the Debt Equity Ratio (DER) approach, the lowest value is 3.164 with stock code BDMN in 2022, with total liabilities of Rp 150,251,206 (in millions IDR) and equity of Rp 47,478,482 (in millions IDR). The highest value is 16.078 with stock code BBTN in 2020, with total liabilities of Rp 321,376,142 (in millions IDR) and equity of Rp 19,987,845 (in millions IDR), with an average value of 6.813 and a standard deviation of 3.073.

Table 3. Results of multicollinearity test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.340540	39.30380	NA
X1	6.963204	12.13590	1.426493
X2	0.168668	2.321791	1.210521
X3	0.013699	4.002762	1.218413
X4	0.014323	12.91199	1.429862



Based on the results of descriptive statistical analysis, for the Asset Growth variable (X4) using the Asset Growth Ratio (AGR) approach, the lowest value is -0.074 with stock code BDMN in 2016, with total assets in 2015 amounting to Rp 188,057,412 (in millions IDR) and total assets in 2016 amounting to Rp 174,086,730 (in millions IDR). The highest value is 0.246 with stock code BBTN in 2016, with total assets in 2015 amounting to Rp 171,807,592 (in millions IDR) and total assets in 2016 amounting to Rp 214,168,479 (in millions IDR), with an average value of 0.091 and a standard deviation of 0.068.

Based on the results of descriptive statistical analysis, for the Asset Growth variable (Y) using the Price Book Value (PBV) approach, the lowest value is 0.054 with stock code BNGA in 2016, with a market price of Rp845 and a book value of Rp15,588. The highest value is 19,850 with stock code BMRI in 2022, with a market price of Rp4,940 and a book value of Rp50, with an average value of 3.316 and a standard deviation of 4.959.

4.1.3. Results of Classical Assumption Testing

In our comprehensive analysis, we subjected our dataset to a series of crucial tests to ensure the reliability of our results. This assessment encompassed normality testing, multicollinearity examination, heteroskedasticity test, regression analysis, and the application of the F-test.

The normality test aims to determine whether the disturbance or residual variables in the regression model have a normal distribution. The test is conducted by using the Jarque-Bera method. The result of the normality test

for residuals is: the Jarque-Bera probability value is $0.809566 > 0.05$, indicating that the residual data follows a normal distribution (Figure 2).

Multicollinearity test is conducted to examine whether there is a high or perfect correlation among independent variables in the regression model. From the test results in Table 3, the Value of Variance Inflation Factor for each variable is less than 10. So, it can be concluded that there is no multicollinearity among independent variables in the regression model.

Heteroskedasticity test aims to examine whether there is inequality in the variance of residuals from one observation to another in the regression model. The results of the heteroskedasticity test is $0.0788 > 0.05$, which means there is no heteroskedasticity issue (Table 4).

The regression analysis was conducted to test the hypotheses in this study, aiming to analyze the influence of independent variables on the dependent variable. The researcher performed a multiple regression statistical test to examine the impact of independent variables on the dependent variable. The results of the coefficient of determination (R^2) test are presented in Table 5. It shows that the Adjusted R^2 for the Profitability, Liquidity, Capital Structure, and Company Growth variables is 0.499. This means that the ability to explain the four independent variables (ROE, CR, DER & AGR) in increasing the dependent variable (PBV) is 49.9%. In other words, there are 50.1% other variables that can increase the

Table 4. Results of heteroskedasticity test.

F-statistic	2.263468	Prob. F (4,45)	0.0771
Obs*R-squared	8.374859	Prob. Chi-Square (4)	0.0788
Scaled explained SS	7.139885	Prob. Chi-Square (4)	0.1287

Table 5. Results of correlation coefficient test.

R-squared	0.540696	Mean dependent var	1.452622
Adjusted R-squared	8.374859	S.D. dependent var	0.930701

Table 6. Result of F-test.

F-statistic	13.24359	Durbin-Watson stat	1.267480
Prob(F-statistic)	0.000000		

Table 7. Result of t-test.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.140860	0.583558	2.413812	0.0104
X1	6.393542	2.638788	2.422908	0.0195
X2	1.867724	0.410692	4.547750	0.0000
X3	-0.278860	0.117042	-2.382561	0.0215
X4	0.295676	0.119681	2.470544	0.0173

The regression equation is as follows:

$$Y = 0.140860 + 6.393542 \cdot X1 + 1.8677240 \cdot X2 - 0.278860 \cdot X3 + 0.295676 \cdot X4$$

company's value. In simple terms, ROE, CR, DER, and GR are not the only factors that can generate PBV, but there are other variables that also contribute to increasing PBV, such as solvency, dividend policies, corporate social responsibility, Free Cash Flow, and so on.

The F test is used to determine whether there is a simultaneous (together) influence given by independent variables (X) on the dependent variable (Y). The result of the F test (Table 6) is 13.24 with the condition that the F table is at $Df1 = K-1$, $Df1 = 4-1 = 3$, and $Df2 = n-k$, $Df2 = 50-3=47$, so the result is 2.80. Therefore, $13.24 > 2.80$, indicating that the F test has a simultaneous influence.

This regression analysis essentially shows the individual influence of each explanatory or independent variable in explaining the variation in the dependent variable. The regression equation in Table 7 provides insights into the relationship between Company Value and key factors such as Profitability, Liquidity, Capital Structure, and Company Growth. The constant in the equation is 0.1408, representing its value when all independent variables are considered. Moving on to the regression coefficients, Profitability has a coefficient of 6.393, suggesting that a one-unit increase in Profitability corresponds to a substantial 639.3% increase in Company Value, assuming other variables remain constant. Similarly, Liquidity has a coefficient of 1.867, indicating a 186.7% increase in Company Value with a one-unit rise in Liquidity. On the other hand, the Capital Structure coefficient is -0.278,

implying a 27.8% decrease in Company Value for a one-unit increase. Lastly, Company Growth has a coefficient of 0.295, reflecting a 29.5% increase in Company Value for a one-unit growth in Company Growth, assuming other variables remain constant. These coefficients provide valuable insights into the impact of each variable on Company Value within the specified regression model.

In evaluating the influence of each independent variable on the dependent variable in the regression model, a partial or t-test was conducted, with degrees of freedom (Df) calculated as $N-4$, resulting in 46 degrees of freedom for the given study with $N=50$. The Profitability variable yielded a t-value of 2.422, exceeding the critical t-table value of 1.678. As a result, the alternative hypothesis (H_a) is accepted, indicating a significant influence with a significance value of 0.019, which is less than the 0.05 threshold. Similarly, the Liquidity variable produced a t-value of 4.547, surpassing the critical t-table value. Consequently, H_a is accepted, signifying a significant influence, supported by a significance value of 0.00, which is below the 0.05 threshold. Conversely, the Debt Structure variable exhibited a t-value of -2.382, falling below the critical t-table value. Therefore, the null hypothesis (H_0) is accepted, suggesting no significant influence. For the Company Growth variable, the t-value was 2.470, exceeding the critical t-table value. Thus, H_a is accepted, indicating a significant influence, supported by a significance value of 0.01, below the 0.05 threshold. These test results provide insights into the significance of

each independent variable's impact on the dependent variable within the regression model.

4.2. Discussion

4.2.1 The Influence of Profitability on Company Value

Profitability is one of several financial ratios that assist companies in analyzing financial statements closely related to the company's profit. Since this study uses the banking sector, meaning all sample companies are of the same type, profitability in this research uses the Return on Equity (ROE) ratio approach.

In financial statement analysis, profitability serves as the basis for analyzing that the management of operating profit against capital can impact the company itself. The higher this profitability ratio, the higher the company's profit, indicating an increase in the management of profit and operational activities. If profitability decreases, attention needs to be paid to managing the operational performance of the company related to its survival. A company should avoid experiencing losses that could threaten its value.

Profitability reflects a company's performance, and an increase in profitability indicates good company performance. This good performance sends a positive signal to investors, boosting their confidence in the company. Investor confidence is reflected in the demand for company stocks, leading to an increase in stock prices. An increase in stock prices is an indicator that the company's value is also increasing.

This research's results also indicate that the company's capital structure can influence the profitability on company value. High debt levels can increase a company's financial risk and negatively impact its value. However, this research also shows that the direct impact of the capital structure on company value is not always significant.

Furthermore, there are findings indicating that the company's capital structure can moderate the influence of profitability on company value. High leverage can increase a company's financial risk and negatively impact its value. However, the direct impact of the capital structure on company value is not always significant.

Additionally, this research highlights that high debt levels can affect investor behavior. Companies with an excessively leveraged capital structure can raise concerns for investors, and this can impact the company's stock price.

In the banking context, research indicates that profitability is one of the main factors influencing the

value of a bank. Banks with high profitability levels tend to have higher company values, sending a positive signal to investors.

These results overall support the hypothesis that profitability has a positive impact on company value, especially in the context of the Indonesian capital market. However, it is essential to remember that the impact of the company's capital structure on company value can vary depending on the conditions and other factors influencing the company.

4.2.2 The Influence of Liquidity on Company Value

Liquidity is one of several financial ratios used to manage the financing of a company's operations. In this study, the Current Ratio (CR) approach is employed, comparing current assets to current liabilities. CR is used to analyze a company's ability to meet its obligations in the short term.

In managing corporate financing, liquidity ratios are crucial. Higher liquidity increases the likelihood of meeting short-term obligations, while lower liquidity raises the risk of default, impacting the company's value. The systematic analysis of the impact of liquidity on company value is the aim of this research. Several relevant concepts in the literature focus on the positive relationship between liquidity and company value. In theory, higher liquidity correlates with higher company value because strong cash reserves positively affect a company's ability to meet short-term obligations. The statistical test results of this research show that liquidity has a significant impact on company value.

4.2.3 The Influence of Capital Structure on Company Value

Capital structure is one of several financial ratios to determine the funding sources used by a company to finance its operations. In this study, the Debt Equity Ratio (DER) is used to measure the capital structure, comparing total debt to total equity.

If a company's DER increases, it may negatively impact operational performance, indicating reliance on debt for operational funding. Additionally, the burden of interest payments on debt can reduce a company's income. Conversely, a decreasing DER signals improved company performance, relying on operational funds rather than debt. The research findings indicate that capital structure does not significantly impact company value.

4.2.4 The Influence of Asset Growth on Company Value

Asset growth is one of several financial ratios to determine the rate of increase or decrease in a company's assets. Asset Growth Ratio (AGR) is used in

this study, serving as a benchmark for the percentage increase or decrease in assets. The research findings show that asset growth significantly influences company value.

5. Conclusions, Implications and Limitations

This research investigated the impact of key factors on the value of banking companies listed on the Indonesia Stock Exchange between 2016 and 2022. Findings from the analysis and hypothesis testing led to the following conclusions: a) Profitability significantly influences Company Value, signifying that increased profitability corresponds to heightened company value; b) Liquidity plays a significant role in influencing Company Value, underlining its substantial impact on the banking sector's overall value; c) Capital Structure, however, does not significantly influence Company Value, indicating a limited impact on value in this context; and d) Company Growth significantly affects Company Value, suggesting that elevated growth leads to an increase in overall value.

Thus, it implies that financial performances give partial impact to the researched company values. Unlike the other from the financial performances being discussed, the capital structure does not give significant impact towards the company value.

The limitations of this research include the specific focus on banking companies listed on the Indonesia Stock Exchange, potentially limiting the generalizability of findings to other sectors. Additionally, the study's timeframe (2016-2022) may not capture long-term trends or immediate changes beyond the specified period. The research's reliance on quantitative data analysis might overlook qualitative nuances that could provide a more comprehensive understanding. External factors impacting the banking sector, such as regulatory changes or economic shifts, may not be fully accounted for. Finally, the study assumes a linear relationship between the examined factors and company value, potentially overlooking nonlinear complexities.

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