

RGEC INFLUENCE ON COMPANY VALUE (CASE STUDY ON ISLAMIC BANKING COMPANIES IN INDONESIA 2015-2019)

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RGEC INFLUENCE ON COMPANY VALUE (CASE STUDY ON ISLAMIC BANKING COMPANIES IN INDONESIA 2015-2019)

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ABSTRACT

The company's value is an assessment of investors, customers, and stakeholders on the company's condition that can be seen based on the market price value of the company's stock. This research aims to find out the influence of Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital (RGEC) on corporate value (Earning Per Share). This study uses regression analysis techniques panel data from the annual report of 12 Indonesian Islamic banks in the period 2015-2019. The data used in this study used quantitative data obtained from the Indonesia Stock Exchange (IDX) website and each Islamic bank website. The results of this study can be concluded that risk profiles have a positive and significant effect on the company's value. At the same time, good corporate governance (GCG), earnings, and capital are known to have a negative and insignificant effect on the company's value. Advice for further research is to use variables other than NPF, the proportion of board of commissioners, ROE, or CAR so that the study results are different and add research time. The conclusion of this study is that the RGEC method in addition to being used for bank health assessment can also be used to assess companies through all four ratios.

Keywords: Corporate Value, Banking, RGEC

1) INTRODUCTION

In Indonesia, the higher the banking growth, the more the bank's existence shows that competition is also getting tighter. To maintain its position, it is necessary to keep its value well so that public trust will not decrease. The good judgment of the company can be observed by assessing the level of health of the bank. Until mid-2019, it was known that the value of the Capital Adequacy Ratio (CAR) in banking on Indonesia is ranked the highest in Asia. But the company's value is moving volatile. In addition, on 2014 the Financial Services Authority (OJK), in its annual report, revealed that from 2013 to 2014, there were 1,616 banking complaints, with details of 57.79% derived from lending, followed by third party funding problems of 16.75% (Prakarsa *et al.*, 2020). If the risks faced by banks are higher, there should be efforts to minimize these risks not to threaten their operational safety and maintain customer trust. If the company can maintain the bank's health following PBI guideline No. 13/1/PBI/2011, then the prospective investor will feel safer and hope to get the appropriate return.

The RGEC method is the latest method to replace the old way of Capital, Assets, Management, Earnings, Liquidity, Sensitivity (CAMELS). As of January 2012, all Commercial Banks in Indonesia must use the latest bank health assessment guidelines. Each bank is required to assess the health level of the bank independently utilizing a risk-based bank rating approach, which includes an assessment of factors, namely risk profile, Good Corporate Governance (GCG), vulnerability (earnings), and capital (Aprilia & Hapsari, 2021).

Based on the results of previous research, independent variables are Non-Performing Financing (NPF), Good Corporate Governance, Return On Equity (ROE), and Capital Adequacy Ratio (CAR), which are indicative of research gaps that affect the value of the company. Aprilia & Hapsari's research (2021) showed that NPL does not affect the company's value. But in the study, Murni & Sabijono (2018) suggested that NPL has a positive and significant effect on the company's value. Aprilia & Hapsari's research (2021) stated that GCG does not affect the company's value. In contrast to the study, Prabawati *et al.* (2021) suggested that GCG has a positive and significant effect on the company's value. In research, Sondakh *et al.* (2019) showed the results that Return On Equity (ROE) partially has a significant effect on the Company Value (PBV). Conversely, Ulfa & Asyik's (2018) research shows that Return on Equity (ROE) does not affect the company's value. Aprilia & Hapsari's study (2021) suggested that CAR affects the value of the company. This has a difference with the results of (Nurjanah *et al.*, 2017), where it is stated that CAR does not significantly affect its value.

This research is a development of previous research conducted by Prabawati *et al.* (2021) in the title of Influence of RGEC (Risk Profile, Good Corporate Governance, Earnings, and Capital) on Corporate Value (Case Study of Banking Companies in IDX 2016-2018). The difference between this study and previous research is in the object used and the year of observation. If the previous research used things in conventional banking listed on the Indonesia Stock Exchange, this study used objects in Islamic Commercial Banks with observation years from 2015 to 2019.

This study aimed to find out the effect of applying bank health assessment methods with RGEC on the value of Islamic banking companies during 2015-2019. Contributions in this research are expected to motivate the community, stakeholders to make the right decisions before planting their funds through banking health assessments. Based on the background, the phenomena that have been described above, and some of the results of previous research that are different, it is necessary to re-research "RGEC INFLUENCE ON COMPANY VALUE (Case Study on Islamic Banking Companies in Indonesia 2015-2019)".

Research Questions

Based on the background above, the formulation of the problems in this study, as follows:

1. Do the risk profiles have a positive and significant effect on the company's value?
2. Does good corporate governance have a positive and significant effect on the company's value?
3. Do earnings have a positive and significant effect on the company's value?
4. Does capital have a positive and significant effect on the company's value capital?

Literature Reviews

Signalling Theory

Signal theory describes the management position as an agent always try to show information about the company's results through financial statements as a signal to the company's future ability as a consideration to investing (Muniroh, 2014 in Prabawati *et al.*, 2021). Signal theory was chosen wherefore it fits into this study to describe the RGEC's relationship to the value of banking companies. The results of this assessment will be helpful as material for the analysis of banking performance as investment interest. If there is a change in the value of RGEC, it will automatically provide information to investors in provide an assessment of the company value (Prabawati *et al.*, 2021).

Company Value

The value of a good company is characterized by an increase in the stock price. If the company's stock price is getting higher, it shows that it has surprised investors. This indicates that the company's management has managed assets well (Setyawan, 2012 in Yulianti & Zakaria, 2016). One of the benefit of a good company value is the company can increase their image and existence in society prominent. Earnings Per Share (EPS) is use as an indicator in research in measure the company value that can be seen through the amount of net income earned in each outstanding share.

Risk Profile

Assessment of risk profile can be done through 8 risks, namely credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, and compliance and reputational risk (PBI No.13/1/PBI/2011 article 7). This study used one type of profile risk, namely on credit risk. Credit risk can occur in banking companies due to the inability of debtors/borrowers to pay off their obligations. Credit risk is projected through Net Performing Financing (NPF). The credit criteria are less smooth, doubtful, and bad (Aprilia & Hapsari, 2021). If the NPF ratio is getting higher, it describes the condition of the bank's credit quality deteriorating. NPF is one part of the RGEC method, therefore it is assessed that NPF can affect the company's value. The statement follows the previous research, (Murni & Sabijono, 2018), which stated that NPL has a positive and significant effect on the company's value. The hypotheses that can be write is:

H1: Risk profiles have a positive and significant effect on the company's value

Good Corporate Governance (GCG)

According to the Forum for Corporate Governance In Indonesia (FCGI), GCG aims to create the enhance value for stakeholders. GCG has five principles that should be fulfilled of each company: transparency, accountability, responsibility, independence, and fairness (Prabawati *et al.*, 2021). The better of the manager's performance in implementing GCG will affect the company's value. The statement is in line with research conducted by Prabawati *et al.* (2021) and (Nurjanah *et al.*, 2017), where GCG has a positive and significant effect on the company's value. The hypotheses that can be write is:

H2: Good Corporate Governance has a positive and significant effect on the company's value.

Earnings

Earnings measure a company's performance assessed through profit in one book closing period (Riyanto,2001:35 in Wulandari & Mertha, 2017). Improvements to the company's ability to earn profits can be used as an excellent signal to stakeholders, wherefore the enhance of cash inflows to the company will be used as a funds to develop these business or increase the number of dividends on profits earned. The profit generated can be used as a benchmark for optimizing operational control to guarantee the future business continuity (Wulandari & Mertha, 2017). The statement supported by Sondakh *et al.* (2019) and Lubis *et al.* (2017) showed that the result of Return On Equity (ROE) partially had a significant effect on the Company's Value (PBI). From this statement can be compiled the following hypotheses:

H3: Earnings have a positive and significant effect on the company's value.

Capital

Capital is a very crucial factor for the development and progress of a Bank. Capital can be obtained through shareholders when investing (Iskandar & Laila, 2016). The Capital Adequacy Ratio (CAR) became a measurement proxy in the study. CAR ratio results are a good signal for stakeholders in assessing banking performance (Wulandari & Mertha, 2017). Then the Banks are

required to have a capital adequacy ratio of at least 8 percent to anticipate if the bank suffers a loss in future, at least the Bank has reserve capital. Following the results of Aprilia & Hapsari research (2021), which suggests that CAR affects the value of the company, the hypothesis that can be compiled is:

H4: Capital has a positive and significant effect on the company's value.

Frame of Mind

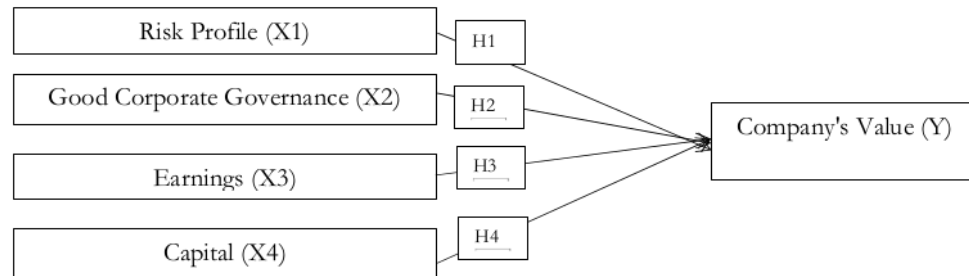


Figure 1. Research Hypothesis

2) METHODS

This research is a quantitative study using secondary data obtained from the Indonesia Stock Exchange and the official website of each Islamic commercial bank. The population used in this study was Sharia Commercial Bank in Indonesia, and 12 banking companies used a sample. The type of data used is panel data because the data is taken using five years from 2015-2019. The dependent variable in this study is the company's value. The independent variable is RGEC. Sampling technique in the form of purposive sampling with the following criteria:

1. Indonesian Islamic Banking Companies that publish annual reports during 2015-2019 consecutively;
2. The annual report reveals NPF components, Independent Board of Commissioners, ROE, CAR, and EPS in 2015-2019.

The study used a panel data regression technique using SPSS. The data collected will be analysed by testing descriptive statistics, classical assumption tests (normality tests, multicollinearity tests, heteroskedasticity tests of autocorrelation tests, and t-tests). The regression equation in this study is as follows:

$$NP = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Information:

NP = Company value

α = Constant

X1 = NPF

X2 = Independent board of commissioners

X3 = ROE

X4 = CAR

β = Regression coefficient

ϵ = Other factors (confounding factors)

3) RESULTS

Descriptive Statistics

This descriptive analysis aims to describe research variables to be easily understood by analyzing average, maximum, minimum, and standard deviation value.

Table 1. Descriptive statistics

Descriptive Statistics						
	N	Minimum	Maximum	Sum	Mean	Std. Deviation
NPF	29	0,00	0,08	1,19	0,0410	0,01858
Independent board of commissioners	31	0,25	0,75	17,00	0,5484	0,14290
ROE	31	-0,11	0,12	0,82	0,0264	0,03805
CAR	31	0,12	1,63	7,81	0,2519	0,27967
EPS	31	-56490,00	36,34	-65247,92	-2104,7716	10220,80916

Source: SPSS Data Processed Results, 2021

In table 1. Each of the minimum values, maximum values, mean values, and standard deviations for each variable includes:

- NPF has a maximum weight of 0.08, while the minimum value is 0.00 with an average (mean) of 0.0410 and a standard deviation value of 0.01858. Based on these data, NPF as an independent variable is free from outliers.
- The Independent Board of Commissioners has a maximum value of 0.75 while the minimum value is 0.25 with an average (mean) of 0.5484 and a standard deviation value of 0.14290. Based on these data, the Independent Board of Commissioners as an independent variable is free from outliers.
- ROE has a maximum value of 0.12, while the minimum value is -0.11, with an average (mean) of 0.0264 and a standard deviation value of 0.03805. Based on these data, ROE as an independent variable is free from outliers.
- CAR has a maximum value of 1.63, while the minimum value is 0.12 with an average (mean) of 0.2519 and a standard deviation value of 0.27967. Based on these data, CAR as an independent variable is free from outliers.
- EPS has a maximum value of 36.34, while the minimum value is -56490.00, with an average (mean) of -2104.7716 and a standard deviation value of 10220.80916. Based on these data, EPS as an independent variable is free from outliers.

The t-Test

The t-test is used to test the significance of each variable independently against the dependent variable.

Table 2. The t-Test

Model	Coefficients ^a		t		Sig.
	Unstandardized Coefficients				
	B	Std. Error			
1	(Constant)	-7,693	-0,719		0,479
	NPF	290,367	0,566	2,747	0,011
	Independent board of commissioners	3,129	0,047	0,216	0,831
	ROE	109,135	0,313	1,451	0,160
	CAR	-14,734	-0,075	-0,389	0,701

Source: SPSS Data Processed Results, 2021

Hypothesis testing will be done using a significance level of ($\alpha = 5\%$). From the results of the test t above, it can be known that the significance of p-value = $0.011 < 0.05$ it can be concluded that H1 is accepted means NPF (X1) has a positive and significant effect on EPS (Y). The results of the second t-test are known to be the significance of p-value = $0.831 > 0.05$, then H0 is accepted means the Independent Board of Commissioners (X2) has a negative and insignificant effect on EPS (Y). The result of the following t-test, the significance of p-value = $0.160 > 0.05$, then H0 is accepted, which means ROE (X3) has a negative and insignificant effect on EPS (Y). Lastly, the test result t known significance p-value = $0.701 > 0.05$ then H0 which means CAR (X4) negative and insignificant effect on EPS (Y).

4) DISCUSSION

The Effect of Risk Profile on a Company's Value

NPF influences the value of the company. The results show that any increase in NPF will have an impact on the value of the company. This research supports (Murni & Sabijono's study (2018). The influence of NPF on the company's value occurs because bank can keep the NPF ratio below 5%, which is why in this study, Non-Performing Loan (NPF) has a significant effect on the company's value. Following the statement means that the value of NPF in Islamic banks can be controlled by management even though the ratio value is high so that the feared risk does not occur, so this NPF influences the company's value.

The Effect of Good Corporate Governance (GCG) on Corporate Values

GCG has a negative and insignificant effect on the value of the company. This is due to the high low GCG value projected by the proportion of the board of commissioners, which is usually done to fulfill formality requirements only. Following existing government rules stipulate that the ratio of independent committees of commissioners must be at least 50% of the entire board of commissioners of a company. The results of this study are in line with Aprilia & Hapsari's research (2021) which states that GCG does not affect the company's value.

Effect of Earnings on a Company's Value

ROE has a negative and insignificant effect on the value of the company. This research supports Ulfa & Asyik's study (2018). The ROE value produced by Islamic banking is less than the maximum, so it cannot affect its value. In addition, the profit from the stock is not too high, so it

makes investors hesitant in investing, considering that financial performance is an aspect that prospective investors first assess as a reflection of the company's prospects in the future.

The Effect of Capital on the Value of the Company

CAR has a negative and insignificant effect on the value of the company. This research supports Nurjanah *et al.* (2017). The stock price assesses the company's value indicator. Stock prices can be measured through economic conditions, i.e., by the law of supply-demand or, in other words, bargaining power. In addition, the stock price is also influenced by the market perception of the company's current condition and the achievements they expect in the future. In general, what can affect the stock price is sooner or later the information available in the community. Therefore, it was concluded that CAR could not influence investors to divest their money on stocks (Liyas, 2014).

5) CONCLUSION & SUGGESTION

Based on the results of data analysis and discussions that have been done, it can be concluded that the Risk Profile has a positive and significant effect on the company's value. The results of this study show that an increase in NPF will impact the value of the company. Good Corporate Governance (GCG) has a negative and significant effect on the value of the company. Earnings also have a negative and little impact on the value of the company. Capital has a negative and negligible impact on the value of the company. Based on the research that has been done and the results of the conclusions, the proposed advice is to use variables other than NPF, the proportion of the board of commissioners, ROE, or CAR so that the results of the study are different and increase the periods in the survey so that the results obtained are more accurate. This study has several limitations: the variables used in each RGEC method are only one and a limited observation period of 2015-2019

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