Analysis Of Company Value Of Banking Sub-Sector On The Indonesian Stock Exchange

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Capital Adequacy Ratio (CAR); Loan to Deposit Ratio (LDR); Company Value; Operational Efficiency Ratio (OER)

Abstract
This study aims to examine the impact of the Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), and Operational Efficiency Ratio (OER) on firm value in the conventional banking sub-sector listed on the Indonesia Stock Exchange for the 2021–2023 period. This study uses a quantitative approach with purposive sampling techniques and multiple linear regression analysis methods. Data were obtained from the annual financial reports of sampled conventional banking companies over a three-year period, then analyzed using SPSS version 29. The results show that CAR contributes to increasing firm value, reflecting the importance of capital strength in attracting investor confidence. LDR is also proven to contribute to firm value, where the level of credit distribution is an important consideration for investors in assessing the health and viability of a bank. Meanwhile, OER does not make a significant contribution to firm value, so operational cost efficiency has not been a primary focus for investors in assessing banking performance in the capital market. These findings indicate that capital strength and the level of credit distribution play an important role in influencing investor perceptions of firm value, while operational efficiency has not been a primary factor in determining firm value

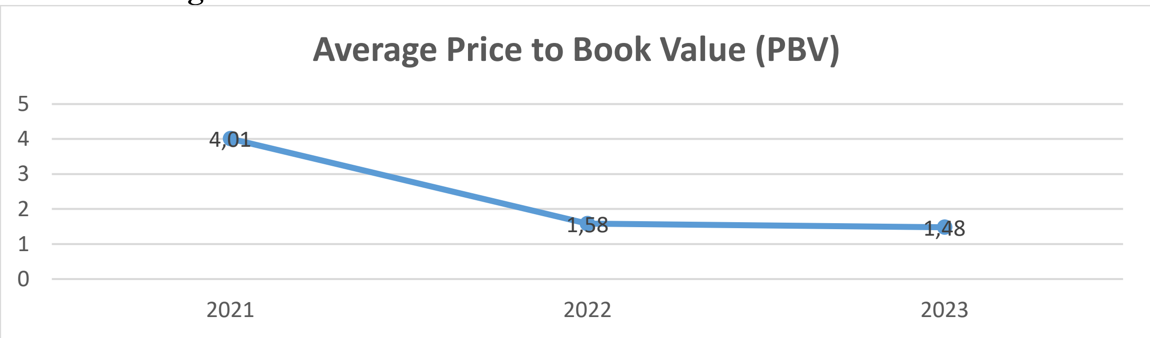
INTRODUCTION

Indonesia is the country with the largest economy in Southeast Asia and is ranked 17th in the world based on Gross Domestic Product (GDP), which is driven by trade, consumption, investment, and a large population.(Narasi, 2023). Among the important sectors, the banking industry plays a strategic role because of its functionas a collector and channel of money or funds to the community through media such as credit and other financial services (Law No. 10 of 1998).

As a mediator between owners of surplus funds and parties requiring financing, the banking sector plays a major role in supporting the national economic cycle.(Pridya, Takarini, and Wikartika 2021)In addition to supporting consumption and business expansion, banks also contribute to funding strategic government projects (Ceysa et al. 2024). Therefore, banking performance must be maintained at a stable level, as disruptions such as bad loans or liquidity issues can undermine public confidence and disrupt economic stability.(Syahrul and Mubarak 2022).

However, this stability faced pressure, particularly throughout 2023. Credit growth slowed to 8.96% from 11.35% previously. Meanwhile, third-party funds (TPF) increased by only 6.54%, a slight decrease of 0.08% year-to-date.(CNBC Indonesia, 2023) The increase in the benchmark interest rate to 6.00% and the global economic slowdown also depressed credit demand and corporate earnings, resulting in a decline in the Capital Adequacy Ratio (CAR) from 27.61% to 27.41% (CNBC Indonesia 2023). Furthermore, the decline was also reflected in the weakening Price to Book Value (PBV), which reflects investors' views on the bank's long-term performance.(Adamy, 2024).

Picture 1. Average Price to Book Value (PBV) of the Banking Sub-Sector on the Indonesia Stock Exchange for the 2021-2023 Period



Source :www.idx.co.id(Processed Data)

Picture 1 shows that the average PBV in the banking sub-sector decreased significantly from 4.01 times in 2021 to 1.58 times in 2022, and slightly decreased to 1.46 times in 2023. This decline indicates instability in market perceptions of the performance and prospects of conventional banking, which are not fully aligned with the banks' fundamental financial indicators.

This situation raises questions about the internal aspects of banking that play a role in determining company value. In this context, the three main ratios that are the focus of this research are the Capital Adequacy Ratio (CAR), the Loan to Deposit Ratio (LDR), and the Operational Efficiency Ratio (OER), as they represent aspects of capital, intermediation, and managerial efficiency. All three are also included in the CAMEL approach and are considered relevant in assessing bank health and performance. Dewi, Giovanni, and Verawati 2023 as well as Wangarry, Maramis, and Mangantar 2023).

However, previous empirical findings have not shown consistency. CAR was found to have a significant positive impact on firm value by Budiarta and Dewi (2023), but did not show a significant effect according to Roza and Aresteria (2024). Similarly, LDR has a positive effect according to Dewi, Giovanni, and Verawati (2023), but is not significant according to Kansil, Rate, and Tulung (2021). OER as an indicator of operational efficiency also shows different results Octesy (2021) found a significant effect, while Wangarry, Maramis, and Mangantar (2023) did not find a significant effect because investors tend to pay more attention to long-term prospects and profit stability.

These discrepancies in results indicate that no definitive conclusions have been reached regarding the impact of the three financial ratios on firm value. This opens the door for further studies with more recent data and different contexts. This research offers a novelty by focusing on conventional banks, as their operational structure is interest-based, unlike Islamic banks, which are contract-based, making the use of variables such as LDR and OER more appropriate. Furthermore, this study uses the most recent data from 2021–2023 and a quantitative approach using multiple linear regression testing in SPSS 29, providing a relevant empirical contribution to understanding the determinants of banking firm value. Based on this background, the objective of this study is to examine firm value in the banking subsector listed on the Indonesia Stock Exchange during the 2021–2023 period.

LITERATUR REVIEW

Signaling Theory

Signaling Theory, which was introduced by Spence (1978), explains the mechanism of presenting information from the company to parties outside the company as an effort to reduce information asymmetry. In the context of the capital market, management, as the party with access to internal information, conveys signals through financial reports, financial ratios, or strategic policies to indicate the actual condition and future prospects of the company (Ross 1977;Brigham and Houston 2019) For a signal to be effective, it must meet the criteria of being observable, credible, and consistent (Connelly et al. 2011). In the banking sector, which relies heavily on public trust, accurate, transparent, and continuous signaling plays a crucial role in building a positive market image and increasing a company's value in the eyes of investors.

Efficiency Theory

Efficiency theory emphasizes the company's ability to optimize the use of resources to maximize output or minimize costs. (Farrell, 1957). Efficiency is divided into technical, allocative, and economic efficiency. (Lovell 1993) In the financial sector, operational efficiency reflects the effectiveness of managing costs and resources to achieve profitability, especially important in the competitive and thin-margin banking industry. (Berger and Mester, 1997) Efficient companies are considered superior in maintaining productivity, controlling risk, and driving increased company value, as high efficiency is perceived as a positive signal by investors and strengthens market confidence.

Company value

Company value is an important benchmark that reflects investors' perceptions of the company's future prospects and performance. Harmono (2018), the value of a company is reflected through the movement of its share prices which are determined by market mechanisms, and reflect the success of management in managing assets to generate sustainable profits. Pradani, Nur, & Wikartika (2021)conclude that Company value reflects investors' views on the company's effectiveness in utilizing its resources. One commonly used measurement tool is the Price-to-Book Value (PBV) ratio, which compares the stock's market price to the company's book value. A high PBV indicates positive market expectations for the company's future.

Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is a ratio used to assess a bank's ability to provide sufficient capital to mitigate potential losses arising from a decline in the value of its productive assets. According to OJK regulations, the ideal CAR is above 8%. An increase in CAR indicates a bank's increasing ability to bear risk, demonstrating its capital health and investor confidence. According toPutri, Yuniningsih, and Wikartika (2020) CAR is also an important signal that shows a bank's readiness to face market pressures and maintain long-term stability.

Loan to Deposit Ratio (LDR)

The Loan to Deposit Ratio (LDR) illustrates a bank's role in channeling funds collected from the public into credit. According to Bank Indonesia regulations, a healthy LDR is in the range of 78%–92%. An LDR that is too high indicates aggressiveness in lending and has the potential to increase pressure on liquidity. Conversely, a suboptimal LDR indicates that the bank is not optimizing its intermediary function. The LDR is an indicator of efficiency in managing liquidity and a driving force for bank profit growth.

Operational Efficiency Ratio (OER)

Operational Efficiency Ratio (OER), or the ratio of operating expenses to operating income (BOPO), shows how optimally a bank's operations are used to generate profits. Nurmawan & Nur (2022) state OER is a ratio that reflects how efficient a bank is in controlling its operational activities. A lower OER indicates a more efficient bank operation. According to Bank Indonesia, the ideal OER is below 90%. This ratio reflects management's effectiveness in controlling costs and its ability to generate profits from core operations. According to Ismail (2018), cost efficiency directly contributes to profitability and plays a crucial role in shaping company value.

The Influence of Capital Adequacy Ratio (CAR) on Company Value

A high CAR indicates to the market that the bank is in a strong capital condition and is resistant to risk.Krisdianto & Takarini (2020) states that the higher the CAR, the greater investor confidence in the company. This reflects the principle of signaling theory, where management uses financial indicators to reflect positive growth opportunities in the eyes of investors. Several studies, such as by Budiarta and Dewi (2023), confirm that CAR positively contributes to increasing company value because investors view stable capital capacity as a guarantee of sustainable performance.

H1 : Capital Adequacy Ratio (CAR) has a positive effect on Company Value

The Influence of Loan to Deposit Ratio (LDR) on Company Value

The LDR reflects a bank's efficiency in distributing funds into loans. However, an excessively high LDR can actually undermine market confidence by increasing the risk of default. Research by Kansil, Rate, and Tulung (2021) shows that the LDR does not always have a significant impact, although in some cases, an increase in the LDR actually negatively impacts company value. This suggests that investors consider credit risk an important factor in investment decisions.

H2 : Loan to Deposit (LDR) has a negative effect on Firm Value

The Influence of Operational Efficiency Ratio (OER) on Company Value

A high operational efficiency ratio (OER) indicates a high cost burden in generating revenue, which ultimately reduces profitability and company value. Research by Nugroho and Setiawan (2022) and Putri and Dewi (2023) found that OER has a significant negative effect on company value. However, in this study, although the direction of the OER impact was negative, the effect was not statistically significant, indicating that operational efficiency is not yet a primary market concern in assessing bank performance.

H3 : Operational Efficiency Ratio (OER) has a negative effect on Company Value

METHODS

This research was conducted using quantitative methods with the aim of examining the effect of the Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), and Operational Efficiency Ratio (OER) on Price to Book Value (PBV) in banking sub-sector companies listed on the Indonesia Stock Exchange for the period 2021 to 2023. The study population included all banking companies in the sub-sector listed on the Indonesia Stock Exchange during the study period. The sample was selected using a purposive sampling method based on established provisions and the consistency of reporting complete CAR, LDR, OER, and PBV data for three consecutive years. The information used as the object of analysis was secondary information collected through financial report documentation and official information available on the Indonesia Stock Exchange. Data collection was carried out using the documentation method from these sources. Data analysis was carried out using multiple linear regression through the SPSS version 29 application. SPSS 29 helps in data processing, classical assumption testing, and accurate analysis of results to obtain valid and reliable conclusions regarding the influence of CAR, LDR, and OER on PBV.

RESULTS AND DISCUSSION

Hypothesis Testing Analysis

Multiple Linear Regression Analysis

Table 1. Results of Multiple Linear Regression Analysis

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	**255,997**	59		4,339	<0.001		
CAR	**1,951**	0.823	0.235	2,371	0.02	0.957	1,045
Long Distance Relationship	**-1,484**	0.46	-0.318	-3,227	0.002	0.969	1,032
OER	**-0.944**	0.529	-0.175	-1,785	0.078	0.979	1,021

Dependent Variable: PBV
Source: data processed by SPSS

The multiple linear regression equation obtained is:
PBV = 255,997 + 1,951 CAR – 1,484 LDR – 0.944 OER

Referring to the multiple linear regression equation that has been found, it can be described as follows:

a) Constant (α) = 255.997 indicates that if CAR, LDR, and OER are 0, then PBV is 255.997.; b) CAR = 1.951 means that every increase in CAR by one unit will increase PBV by 1.951, assuming other variables remain constant.; c) LDR = -1.484 means that every increase in LDR by one unit will decrease PBV by 1.484, assuming other variables remain constant.; d) OER = -0.944 means that every increase in OER by one unit will decrease PBV by 0.944, assuming other variables remain constant.

Partial Test Results (t)

Table 2. Test Results (t)

Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
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Dependent Variable: PBV

Source: data processed by SPSS

CAR has a positive and significant effect on PBV (p = 0.02 < 0.05), thus, hypothesis 1 can be accepted. LDR has a negative and significant effect on PBV (p = 0.002 < 0.05), thus, hypothesis 2 can also be accepted. Meanwhile, OER has a negative but insignificant effect on PBV (p = 0.078 > 0.05), so hypothesis 3 is rejected.

Coefficient of Determination (R2)

Table 3. Results of the Coefficient of Determination (R2) Test

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Change Statistics			Durbin-Watson
					R Square Change	F Change	Sig. F Change	
1	0.383a	**0.146**	0.118	105.90699	0.146	5,202	0.002	1.79

a Predictors: (Constant), OER, LDR, CAR

b Dependent Variable: PBV

Source: data processed by SPSS

The coefficient of determination (R^2) value isThe value of 0.146 indicates that CAR, LDR, and OER explain 14.6% of the variation in PBV, while 85.4% is influenced by other variables outside the model.

The Influence of Capital Adequacy Ratio (CAR) on Company Value

This study shows that the Capital Adequacy Ratio (CAR) plays a role in increasing company value, as measured by Price to Book Value (PBV). An increase in CAR indicates a company has a strong capital structure, which ultimately improves investors' perception of the company's value. A high CAR reflects a bank's ability to maintain financial stability and manage risk, thus providing a positive signal to the market. This finding is supported by a significance level of 0.02, indicating that the relationship between CAR and PBV is significant and can be relied upon as a basis for decision-making.

From the perspective of Signaling Theory (Spence, 1978), a high CAR provides a credible indication to investors regarding the strength of the capital structure and the quality of risk management. Companies with a stable capital base are considered more capable of facing external pressures and maintaining business continuity. Meanwhile, in Efficiency Theory (Farrell, 1957), companies with a high CAR are assumed to be able to manage risk and capital efficiently, reflecting managerial competence in achieving a balance between stability and profitability.

This finding is consistent with researchAprilia & Hapsari (2021), Budiarta & Dewi (2023), andHariyono (2024), which states that capital adequacy has a significant impact on firm value. A high CAR creates a positive perception in the market because it reflects the bank's readiness to face financial risks and maintain its financial health. Therefore, these results confirm that CAR can be used as an important measure to increase the attractiveness of banking companies in the capital market.

The Influence of Loan to Deposit Ratio (LDR) on Company Value

The research results show that the Loan to Deposit Ratio (LDR) has a negative and significant effect on firm value, as measured by Price to Book Value (PBV). This means that the lower the LDR, the higher the firm value. A low LDR fosters positive investor perceptions because it reflects adequate liquidity reserves and prudence in lending. Conversely, a high LDR is perceived as a signal of liquidity risk, which can undermine market confidence in a banking company's performance.

This finding aligns with the concept of Signaling Theory (Spence, 1978), which states that financial information such as the LDR is used by investors to assess a company's prospects and stability. Conversely, according to Efficiency Theory (Farrell, 1957), an excessively high LDR indicates inefficient fund management because banks do not leave enough liquidity to address unexpected risks. A healthy LDR indicates an efficient intermediation function and a balance between risk and return, which is positively valued by the market.

This research supports the results of previous studies, namely research by Roza & Aresteria (2024),Maryadi & Susilowati (2020), as well asGuidance & Sakti (2023) which also found a negative effect of LDR on firm value. With a significance level of 0.002, the relationship between LDR and PBV was proven strong and can be used as a reference. This finding confirms that LDR is an important indicator that investors consider in assessing the health and sustainability of bank operations, thus having a significant impact on market perception and firm value in the banking sector.

The Influence of Operational Efficiency Ratio (OER) on Company Value

The results of the study indicate that the Operational Efficiency Ratio (OER) does not have a significant negative effect on firm value (PBV), with a significance value of 0.078 (>0.05). This means that operational efficiency is not yet considered a major factor influencing firm value by investors. This finding is consistent with studies by Hidayah & Sakti (2023), Maryadi & Susilowati (2020), and Puspitasari (2024), but differs from the results of research by Octesy (2021). From the perspective of Signaling Theory (Spence, 1978), efficiency should provide a positive signal to investors, but in this context, the signal is not strong enough. Based on Efficiency Theory (Farrell, 1957), efficiency remains important internally, but has not shown a direct influence on market perceptions of firm value.

The results of the study indicate that the Operational Efficiency Ratio (OER) does not have a significant negative effect on firm value (PBV), with a significance value of 0.078 (>0.05). This means that operational efficiency is not yet considered a major factor influencing firm value by investors. This finding is consistent with studies by Hidayah & Sakti (2023), Maryadi & Susilowati (2020), and Puspitasari (2024), but differs from the results of research by Octesy (2021). From the perspective of Signaling Theory (Spence, 1978), efficiency should provide a positive signal to investors, but in this context, the signal is not strong enough. Based on Efficiency Theory (Farrell, 1957), efficiency remains important internally, but has not shown a direct influence on market perceptions of firm value.

CONCLUSION

This study provides evidence that the Capital Adequacy Ratio (CAR) has a positive and significant effect on Price to Book Value (PBV) in banking sub-sector companies listed on the Indonesia Stock Exchange during the 2021–2023 period. This finding confirms that a high level of capital adequacy in banks is directly proportional to increased firm value, as reflected in the PBV ratio, because strong capital fosters investor interest in the bank's stability and financial health. Conversely, the Loan to Deposit Ratio (LDR) has a negative and significant effect on PBV, meaning a lower LDR ratio actually contributes to increased firm value. A low LDR reflects more conservative credit management and better managed liquidity, thus making the bank's risks more manageable and positively impacting investor perceptions. Meanwhile, the Operational Efficiency Ratio (OER) does not have a significant effect on PBV, thus the hypothesis linking operational efficiency to firm value is rejected in the context of this study. Nevertheless, operational efficiency remains an important aspect of bank internal management, but it does not directly affect firm value during the period studied. The implications of these findings emphasize the need for bank management to prioritize strengthening capital structures and prudent credit risk management to sustainably increase corporate value. Furthermore, even if OER is not proven significant, management needs to continue improving operational efficiency as part of an effective resource management strategy. Therefore, it is recommended that banks conduct rigorous evaluation and oversight of capital adequacy and credit distribution policies, while maintaining operational efficiency to support overall corporate performance and value.

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