

FIRM VALUE IN BANKING SECTOR : THE ROLE OF SIZE, PROFITABILITY, RISK PROFILE AND DIVIDEND POLICY

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ABSTRACT

This study explores how internal aspects of companies namely size, profitability, risk profile, and dividend impact firm value Indonesian banking sector listed on the IDX from 2013 to 2022. Using multiple linear regression analysis, the research analyzes 100 data points gathered from the financial statements of banking. The results indicate that both the company's size and its profitability significantly enhance firm value. In contrast, the risk profile has a detrimental effect, suggesting that higher risk undermines investor confidence. The dividend policy does not seem to have a meaningful effect, indicating it is not a vital factor for investors in this industry. These results highlight the necessity of maintaining operational effectiveness and financial soundness to boost the value of firms. This study offers empirical insights into the elements that affect firm value, particularly within the banking industry, and provides useful information for investors and managers to formulate effective strategies.

Keywords : Firm Size; Profitability; Risk Profile; Dividend Policy; Firm Value

ABSTRAK

Studi ini mengeksplorasi bagaimana aspek internal perusahaan yaitu ukuran, profitabilitas, profil risiko, dan dividen berdampak pada nilai perusahaan sektor perbankan Indonesia yang terdaftar di BEI dari tahun 2013 hingga 2022. Dengan menggunakan analisis regresi linier berganda, penelitian ini menganalisis 100 data yang dikumpulkan dari laporan keuangan perbankan. Hasilnya menunjukkan bahwa ukuran perusahaan dan profitabilitasnya secara signifikan meningkatkan nilai perusahaan. Sebaliknya, profil risiko memiliki pengaruh menurunkan nilai perusahaan, menunjukkan bahwa risiko yang lebih tinggi merusak kepercayaan investor. Kebijakan dividen tidak memiliki pengaruh terhadap nilai perusahaan, menunjukkan bahwa variabel kebijakan dividen bukan merupakan faktor utama bagi investor di industri ini. Hasil ini menyoroti perlunya menjaga efektivitas operasional dan kesehatan keuangan untuk meningkatkan nilai perusahaan. Studi ini menawarkan wawasan empiris ke dalam elemen-elemen yang memengaruhi nilai perusahaan, khususnya dalam industri perbankan, dan memberikan informasi yang berguna bagi investor dan manajer untuk merumuskan strategi yang efektif.

Kata Kunci : Ukuran Perusahaan; Profitabilitas; Risk Profile; Kebijakan Dividen; Nilai Perusahaan

INTRODUCTION

Firm value serves as a key indicator of an entity's perceived performance and future potential, making it an essential consideration for investors when making investment decisions. Within the banking sector, firm value is shaped significantly by

the institution's financial robustness, operational efficiency, and capacity to manage risk. A frequently used measure for evaluating a company's worth is Tobin's Q, which reflects the ratio of a firm's market capitalization to the cost required to replace its assets. (Hayes, 2021).

The Indonesian banking sector continues to be an attractive destination for investment due to its dominant presence in the capital market. Several leading banks such as BCA, BNI, BRI, and Mandiri are among the country's top 20 largest stocks by market capitalization (CNBC, 2023). Banks play a pivotal role in enhancing public welfare through fund mobilization and credit distribution activities (Undang-Undang, 1998). A stable firm value is essential for banks, as a substantial portion of their funding comes from investor deposits. Hence, maintaining investor trust is a critical concern.

Fluctuations in share prices often mirror changes in firm value. A rise in stock prices reflects heightened investor confidence in the company's potential, whereas a drop indicates diminished expectations. For instance, data from the Infobank 15 index between 2019 and 2020 revealed a downward trend in the stock prices of several prominent banks, as shown in Table 1.

The decline in bank share prices during that period reflects a broader reduction in firm value across the sector. According to CNBC Indonesia, numerous IDX-listed banks experienced significant drops, some approaching the lower auto-reject (ARB) limit of 7% due to global economic instability, rising credit risk, and challenges associated with digital transformation and regulatory adjustments (Putra, 2020).

Given these conditions, it becomes imperative to investigate the internal determinants of firm value within banking companies. Firm size may signal asset strength and market competitiveness; profitability reflects efficiency in operations; and risk profile reveals exposure to financial uncertainty. Additionally, dividend policy is often interpreted as a signal of managerial confidence, although its effectiveness in the banking sector remains contested.

This study seeks to examine how company size, profitability, risk profile, and dividend policy influence firm value among banks listed on the IDX during the period 2013 to 2022. Data were sourced from publicly available financial statements, and the analysis is expected to provide both theoretical insights and practical implications for strengthening firm value in Indonesia's banking industry.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Firm Value

Firm value represents the market's overall evaluation of a company's financial condition and future growth potential. It is often measured through market-based indicators such as stock price levels. A higher firm value reflects greater investor confidence in the company's capacity to deliver long-term, sustainable returns (Henisz, 2023). Enhancing firm value requires aligning corporate strategies with shareholder interests and effectively managing both financial and operational risks.

Firm Size

Company size is generally seen as a reflection of a firm's resource base and its ability to compete in the industry. Firms with large asset holdings often have greater operational capacity, which can translate into stronger market confidence if these assets are efficiently utilized. Conversely, inefficient use of large assets may lead to undervaluation by the market (Hidayat, 2019). In general, investors tend to perceive larger firms more favorably due to their presumed financial stability and growth potential.

Profitability

The ability of a company to convert its assets into net income is commonly referred to as profitability (Prihadi, 2019). This financial performance indicator is often assessed using the ROA ratio. A high ratio of ROA indicates that the company is successfully leveraging its assets to produce profit, potentially attracting more attention from investors. According to prior studies, profitability is considered one of the most influential elements in shaping investor perceptions and is frequently associated with stronger firm valuation (Alqatan, Chbib, & Hussainey, 2019).

Risk Profile

Risk profile represents the level of exposure a bank faces in its operational and financial activities. In the banking industry, a commonly utilized metric is the NPL ratio, which reflects the proportion of debt that may become uncollectable or are at risk of default. A high NPL ratio suggests deteriorating credit quality, which can weaken investor confidence and hurt firm valuation. Indonesian financial authorities, such as the OJK, consider NPL ratios exceeding 5% as a warning sign and subject such banks to closer supervision (OJK, 2023)

Dividend Policy

Dividend policy outlines the manner in which a business allocates its net profits between shareholder dividends and retained earnings, with DPR often serving as a metric for assessing this strategy. A higher DPR signals that a firm is returning a significant portion of its profits to shareholders, which can attract income-seeking investors. However, in capital-intensive or highly regulated industries like banking, dividend decisions often reflect strategic liquidity management rather than merely investor preferences (Chen, 2023).

Signaling and Bird in the Hand Theory

The signaling theory posits that firms convey crucial information to external parties especially investors through formal disclosures such as annual reports. These disclosures help reduce information asymmetry and can enhance investor perception when the conveyed information is favorable (Prabawati, Pradnyani, & Suciwati, 2021). When management provides credible positive signals, such as improved performance, it strengthens the trust of shareholders and can lead to an increase in firm valuation.

Gordon and Lintner put forward the bird-in-hand theory in 1963, indicates that investors favor receiving dividends currently rather than uncertain future profits from capital gains. The theory suggests that dividends are viewed as more reliable and therefore more valuable, which may result in an increase in the company's market value (Barone, 2022).

Hipotesis

The Effect of Firm Size on Firm Value

According to Husna & Satria (2019), companies with substantial total assets are typically seen as having entered a mature phase, indicating strong and stable future prospects as well as a greater ability to generate profits compared to firms with smaller asset bases. According to signaling theory, a firm's growth in size, as demonstrated by a greater volume of total assets, suggests robust business progress, which consequently enhances the firm's value (Nila & Suryanawa, 2018). The explanation above aligns with the findings of previous studies, which consistently demonstrate that company size positively affects firm value (Dang, Nguyen, & Tran, 2020; Al-Slehat, 2020; Dang H., Vu, Ngo, & Hoang, 2019; Adiputra & Hermawan, 2020). According to the previously mentioned theory and research, the hypothesis stated below is put forward:

H1: Firm size has a positive influence on firm value

The Effect of Profitability on Firm Value

Profitability can be evaluated through the return on assets ratio, which indicates the effectiveness of a company in using its assets to produce income (Hakim & Sugianto, 2018). A rise in profitability serves as a positive indicator for investors, encouraging investment and thereby enhancing the company's value (Mukti & Winarso, 2020).

According to signaling theory, higher profitability reflects stronger future prospects for a company, serving as a positive signal (good news) that attracts investor interest. When the market responds favorably to such signals, it can lead to a continuous increase in firm value (Felicia, Edward, Simorangkir, & Ginting, 2022). This interpretation aligns with earlier research that identified a positive correlation between profitability and the value of a firm (Diana, 2020); (Dang H., Vu, Ngo, & Hoang, 2019); (Azaro, Djajanto, & Sari, 2020); (Alqatan, Chbib, & Hussainey, 2019). According to the previously mentioned theory and research, the hypothesis stated below is put forward:

H2: Profitability has a positive influence on firm value

The Effect of Risk Profile on Firm Value

In this study, the risk profile is represented by the NPL ratio, which reflects loans in default due to the borrower's failure to make payments within the agreed period. NPL is calculated as the percentage of non-performing loans to the total loans issued by a bank. Over time, high NPL levels can deteriorate a bank's performance. A higher NPL ratio indicates greater credit risk, which tends to reduce firm value. Conversely, a lower risk level suggests that bank management is effectively controlling risk, and when such information is disclosed in financial statements, it sends a positive signal to stakeholders. This positive perception can lead to an increase in stock prices, thereby boosting firm value. Thus, there is a negative relationship between the risk profile and firm value. This aligns with prior research findings that suggest the risk profile negatively impacts company value (Boussaada, Hakimi, & Karmani, 2023); (Sulbahri, Fuadah, Saftiana, & Sidiq, 2023). According to the previously mentioned theory and research, the hypothesis stated below is put forward:

H3: Risk profile has a negative influence on firm value

The Effect of Dividend Policy on Firm Value

As per the bird in the hand theory, investors generally favor receiving dividends since they view dividend payments as a more reliable source of income in contrast to the unpredictability of future capital gains (Barone, 2022). The distribution of dividends is expected to positively influence stock prices, which may then lead to an increase in the company's value. This explanation are backed by earlier study results that show dividend policy positively influences firm value (Adiputra & Hermawan, 2020); (Handriani & Robiyanto, 2018); (Siregar, Toni, & Ariesa, 2023). In light of the theory and the empirical research conducted, the ensuing hypothesis is suggested:

H4: Dividend policy has a positive influence on firm value

RESEARCH METHODS

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020:229).

Sample and Data Collection

This research examines banking sector firms that are listed on Bursa Efek Indonesia or IDX from 2013 to 2022. The overall population includes 49 banks. A purposive sampling approach was employed with defined criteria to ensure the data's reliability and applicability. The selection process eliminated:

- 120 data points from banks not consistently listed during the study period,
- 40 data points from Islamic banks,
- 220 data points from banks that did not regularly distribute dividends, and
- 10 data points identified as statistical outliers.

After applying these exclusion criteria, the final sample consisted of 100 observation points, derived from selected banks meeting all conditions.

Measurement

This research includes one dependent and four independent variables. The dependent variable considered in this research is the company's worth, represented by the following formula:

$$\text{Tobins Q: } \frac{\text{MVE} + \text{D}}{\text{TA}}$$

Information:

MVE : Market Value Equity
D : Debt
TA : Total Asset

The following independent variable is size of company, utilizing the ratio bellow
Size; Ln (Total Aset)

The following independent variable is profitability, determined by the ratio below:

$$ROA: \frac{\text{Net Profit}}{\text{Total Aset}}$$

The following variable pertains to the risk profile, utilizing the ratio outlined below:

$$NPL: \frac{\text{Kredit bermasalah}}{\text{Total Kredit}}$$

This study employed multiple regression analysis as the primary method for data analysis, with data processing carried out using SPSS software. The multiple linear regression model employed in this study is structured as presented below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Y	: Firm Value
α	: Intercept
$\beta_1 - \beta_4$	: Coefficients for the independent variables
X1	: Firm Size
X2	: Profitability
X3	: Risk Profile
X4	: Dividend Policy
ε	: Standard Error

RESULTS AND DISCUSSION

Deskriptive Analysis

Table 2 presents the descriptive statistics from this research. The mean score was 32.778, with a standard deviation of 1.620. The average company size stands at 32,778, which is equivalent to Rp.171,807,592,000,000; this indicates that the average company size falls into the large category (Rp.171,807,592,000,000 > Rp10,000,000,000). Therefore, it can be concluded that the average banking company listed on IDX from 2013 to 2022 has shown robust growth and possesses substantial total assets.

As per Bank Indonesia Circular Letter No. 6/23/DPNP from 2004, a Return on Assets benchmark for banks is deemed optimal if it surpasses 1.5%. The average profitability stands at 0.017 or 1.7%, with a standard deviation of 0.007. This indicates that the average ROA of banking companies listed on IDX from 2013 to 2022 is above the benchmark set for banks (1.7 > 1.5), signifying that these banks effectively manage their assets to generate profits.

As stated in Bank Indonesia Regulation number 21/12/PBI/2019, the benchmark for Non-Performing Loans (NPL) is established at 5%. This indicates that if the NPL exceeds 5%, the bank is deemed unhealthy. A higher value of Non-Performing Loans suggests a deterioration in the bank's credit quality, necessitating oversight from OJK. The average NPL rate stands at 0.023 or 2.39%, with a standard deviation of 0.010, indicating that the average banking institution listed on the Indonesia Stock Exchange from 2013 to 2022 maintains an NPL rate below the established banking standard ($2.39 < 5.00$), indicating that the financial status of these banks is still regarded as stable.

The average dividend policy identified in this research is 0.383, with a standard deviation of 0.178. This suggests that, on average, firms in the banking sector registered on the Indonesia Stock Exchange from 2013 to 2022 allocate dividends equal to 38.3% of their net earnings.

The typical value of the company stands at 1.087 with a standard deviation of 0.212, indicating that the average share price is 1.0879 times its book value. Thus, it is evident that the average valuation of banking firms listed on the Indonesia Stock Exchange from 2013 to 2022 exceeds 1 ($1.09 > 1.00$), signifying that the average banking company holds a relatively strong company value.

Classic Assumption Test

Before beginning hypothesis testing, a variety of traditional assumption tests were performed to confirm the appropriateness of the regression model. The evaluations examined the normality of the data, the presence of heteroscedasticity, the level of multicollinearity, and the occurrence of autocorrelation. The results indicated that all assumptions were sufficiently met, satisfying the necessary statistical requirements. The results of the classical assumption test have been summarized in tables 3 to table 6.

Uji F dan Uji t

Based on Table 7, the value of the F Test shows that the overall regression model is fit, with an F-statistical value of 30.31 and a p-value of 0.0000, significant at the level of 0.05. The t-test is shown in Table 8. The variables Size, ROA, NPL showed a significant influence at the level of 0.05 while the $DPR > 0.05$ showed a value of insignificant.

Discussion

According to the findings from the model test presented in Table 8, the probability value for Company Size is 0.003, which is less than 0.05. This indicates that Company Size has a significant positive impact on Company Value. Companies with large total assets accompanied by asset management dominated by loans that are channeled to third parties optimally will generate high profits so as to contribute to increasing the company's value. Therefore, if the size of the company is large, investors will think wisely to invest their wealth because the size of the company reflects financial strength and investors will be tempted by the returns they will receive (Adiputra & Hermawan, 2020). This aligns with the study carried out by Al-Slehat (2020), which indicates that a company with substantial size and optimal asset management will enhance the overall value of the firm.

The profitability of a firm has a statistically significant positive effect on its value, reflected by a p-value of 0.000, which is lower than the 0.05 threshold, thus reinforcing the acceptance of the alternative hypothesis. When a company generates high profits, it tends to attract more investors, which drives up demand for its shares and ultimately enhances firm value. Strong financial performance signals favorable future prospects, increasing investor confidence. When predictions for future growth increase, the stock price of the company generally increases as well, resulting in a greater valuation (Sudimas, Ramdany, & Ispriyahadi, 2023). These findings align with the results published by (Alqatan, Chbib, & Hussainey, 2019).

The risk profile shows a considerable adverse effect on the value of the firm, as reflected by a p-value of 0.034, which is below the 0.05 significance threshold. Information reflecting a low-risk profile in financial statements serves as a signal to stakeholders and tends to be reflected in the market through changes in banking stock prices, ultimately impacting the perceived soundness of the institution. When share prices increase due to positive risk indicators, the value of the firm goes up; however, this opposite relationship indicates that a reduced risk profile correlates with a greater firm value. Despite the challenges posed by the Covid-19 pandemic, data from 2013 to 2022 reveal that non-performing loan (NPL) ratios among banking firms remained below regulatory thresholds, with an average of 2.39%, indicating that most banks were in sound financial condition. These results align with the study conducted by (Boussaada, Hakimi, & Karmani, 2023).

The company's value is unaffected by its dividend policy. This is supported by the p-value, which is 0.469, greater than 0.05. The findings of this research indicate that the dividend policy does not notably influence the value of banking sector companies during the period of the COVID-19 pandemic. These findings are in line with global economic conditions affected by the health crisis and widespread systemic uncertainty, particularly in the financial sector. In theory, under typical circumstances, a company's dividend policy is frequently viewed as an optimistic indication from management to shareholders about the organization's future potential and financial health (signaling theory). However, in a pandemic situation, the signal function of the dividend policy becomes blurred. Investors no longer make dividends the main indicator in assessing the value of the company, but rather prioritize fundamental aspects such as capital stability, risk management, and the operational resilience of banks in the face of economic pressures (Li, Fang, He, & Shan, 2021).

In addition, during the COVID-19 pandemic, financial sector supervisory authorities in Indonesia such as the Otoritas Jasa Keuangan together with Bank Indonesia encouraged financial institutions to hold back dividend distributions in order to maintain capital adequacy and liquidity. OJK Circular Letter No. 14/SEOJK.03/2020 explicitly advises banks to strengthen capital through restrictions on dividend distribution. This policy suggests that dividend decisions during the pandemic were more the result of regulation and managerial prudence than strategies to increase the value of the company. The findings of the study are consistent with the research carried out by (Sumarno & Setiawan, 2023).

According to the findings of the Adjusted R-squared hypothesis test, the factors of company size, profitability, risk profile, and dividend policy accounted for 54.2% or 0.542 of the company's value, while the remaining 45.8% was affected by other factors that were not examined in this research.

CONCLUSION

Based on the findings and prior discussion, it can be concluded that firm size significantly influences firm value. These results suggest that banks with larger asset bases and more extensive resources tend to be perceived more positively by the market in terms of their long-term prospects and value sustainability. This positive relationship persists throughout the observation period, which includes both the pre-

pandemic and COVID-19 periods. The consistency of this effect highlights that larger banks are generally more capable of maintaining operational stability, financial robustness, and investor trust, even during periods of global economic disruption. Therefore, firm size emerges as a critical factor in shaping sustainable firm value within the Indonesian banking industry.

Profitability has a positive influence on the company's value. These findings indicate that banks that are able to generate profits consistently and optimally will be seen as more valuable by investors as well as financial markets. In the research time span that includes normal conditions and crises due to the COVID-19 pandemic, the positive relationship between profitability and company value was maintained. This shows that profitability is the main indicator in assessing the bank's ability to maintain performance, financial resilience, and create long-term value for shareholders. Thus, the high level of profitability reflects the bank's operational efficiency and competitiveness, which ultimately strengthens the market's perception of the company's value.

Risk Profile has a negative influence on the company's value. These findings show that the higher the NPL rate, the lower the value of the company. This is due to the high risk of bad loans which has an impact on declining investor confidence and negative market perception of bank financial stability. However, in the observation period that covers the period before and during the COVID-19 pandemic, the banking NPL rate in general was still below the 5% threshold. This reflects that the banking sector remains in a healthy condition and is able to manage credit risk effectively amid global economic pressures. The relatively controlled NPL condition also encourages an increase in the company's value, as it provides positive signals regarding asset quality and good risk management. Thus, the results of this study confirm that effective credit risk management, reflected in low NPLs, is one of the important factors in creating and maintaining corporate value in the banking sector, even in the midst of challenges such as the pandemic.

The study found that dividend policy does not have a significant effect on firm value. This indicates that decisions regarding dividend distribution, as measured by the Dividend Payout Ratio (DPR), do not directly shape market perceptions of a company's worth. Throughout the period examined, which includes both pre-

pandemic and pandemic conditions, investors in the banking sector appear to rely less on dividend policy when evaluating a company's long-term performance and future outlook. Instead, they tend to prioritize other fundamental aspects such as profitability, risk profile, and overall financial health. Therefore, the lack of influence of dividend policy on firm value during this timeframe supports the notion that dividend decisions are not the primary driver of corporate value, particularly in highly regulated industries like banking and during periods of economic uncertainty such as the COVID-19 pandemic.

This study only selected samples from specific categories, limiting the scope of information to those particular groups. For future research, it is recommended to include samples from a broader range of categories to allow for comparative analysis and to enrich the overall data and insights.

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GAMBAR, GRAFIK DAN TABEL

Table 1. Bank Stock Price Movement

Code	Stock Price	
	2019	2020
BBNI	7.850	6.175
BBRI	4.400	4.170
BDMN	3.950	3.200
BJBR	2.050	1.185

BMRI	7.675	6.325
BTPS	4.250	3.750
NISP	845	820
PNBN	1.335	1.065
SDRA	830	740

Source: Bursa Efek Indonesia

Table 2. Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std Deviation
Firm Size	29,030	35,230	32,778	1,620
Profitability	0,001	0,038	0,017	0,007
Risk Profile	0,002	0,048	0,023	0,010
Dividend Policy	0,100	0,850	0,383	0,178
Firm Values	0,240	1,780	1,087	0,212
Observasi	100	100	100	100

Source: Data processed with SPSS application (2025)

Table 3. Normality Test

	Unstandardized Residual
Asymp. Sig. (2-tailed)	0,140

Source: Data processed with SPSS application (2025)

Table 4. Multicollinearity Test

Variabel	Tolerance	VIF
Company Size	0,746	1,341
Profitability	0,605	1,653
Risk Profile	0,735	1,361
Dividend Policy	0,796	1,256

Source: Data processed with SPSS application (2025)

Table 5. Heterokedasticity Test

Variabel	Sig
Company Size	0,802
Profitability	0,178
Risk Profile	0,063
Dividend Policy	0,957

Source: Data processed with SPSS application (2025)

Table 6. Autocorrelation Test

Model	Durbin-Watson
1	2,106

Source: Data processed with SPSS application (2025)

Table 7. F Test

<i>F-statistik</i>	30.316
<i>Prob (F-satistik)</i>	0.000

Source: Data processed with SPSS application (2025)

Table 8. Hypothesis Test Result

Variable	Coeff.	Prob.	Hypothesis
Company Size	0,242	0,003	Accepted
Profitability	0,551	0,000	Accepted
Risk Profile	-0,171	0,034	Accepted
Dividend Policy	0,055	0,469	Rejected
Adj. R-Squared	0,542		
Observations	100		

Source: Data processed with SPSS application (2025)