International Journal of Application on Economics and Business (IJAEB)
Volume 3, Issue 3, 2025. ISSN: 2987-1972

THE INFLUENCE OF BANKING HEALTH LEVELS BY USING RGEC METHOD ON BANKING FINANCIAL PERFORMANCE

Lareina Wijaya[1], Elsa Imelda[2*]

[1] Faculty of Economics and Business, Universitas Tarumanagara, Jakarta, Indonesia
Email: lareinawijaya23@gmail.com
[2] Faculty of Economics and Business, Universitas Tarumanagara, Jakarta, Indonesia*
Email: elsai@fe.untar.ac.id

*Corresponding Author

Submitted: 02-06-2025, Revised: 18-06-2025, Accepted: 04-07-2025

ABSTRACT

Financial performance being a sentimental sense of company's financial to facilitate bank management and investment decisions for mitigate risk and strengthen profitability. This study aim to analyze and to examine the impact of RGEC method on the profit growth of companies listed on IDX in five periods, 2019-2023. Determination of the sample by using the method of purposive sampling. The type of research used is quantitative using secondary data that acquired from company's annual reports from 2019 to 2023 periode with a total sample selected about 42 banking companies. The tool used is multiple linear regression assisted by eviews13. Results obtained in the research indicate that RGEC significantly impacted companies profit growth in 2019-2023 period. Risk profile proxied with non performing loan and good corporate governance proxied with board of independent commissioners has negative impact on profit growth. On the other side, capital proxied by capital adequacy ratio positively impact on companies profit growth. Whereas earnings proxied by net interest margin does not affect banking profit growth listed on IDX during 2019 and 2023.

Keywords: *Risk Profile, Good Corporate Governance, Earnings, Capital, Profit Growth*

1. INTRODUCTION

Banking sector contributes significantly on driving a success of a country. According to Financial Services Authority, Indonesian banking functions as a channel for collecting and disbursing public funds in order to assist national development efforts. Bank gathers funds from public through savings and allocates them to the society via credit or other means to enhance the standard living of a community. Banks, as intermediate institutions, must be able to sustain public trust and provide overall economic benefits. Bank health status is one of the primary indicators utilized in health assessments (Hadiwidjaja, Irma, & Widiastuti, 2016). The health level of a bank has significant impact on its financial banking performance. The yearly financial statements of each banking corporation offer real details about the bank's situation and status. According to Rohmah and Nasir (2023), profitability is a crucial factor influencing the continuation of banking activities. Profitability, as one of the main factors affecting investment and funding decisions, has an overall impact on bank health, serves as indicators of the health and stability of banking financial sectors.

Financial banking performance can be calculated by using RGEC Approaches. RGEC method is used to supervise an increase or decrease on company profits due to the influence of the ratios used. This is the research findings by Hadiwidjaja et al. (2016), Silaban et al. (2018), and Sholiha et al. (2020), and Marsella and Pangestuti (2023). Research was conducted to reassess the impact of RGEC to financial performance. Several previous studies have examined these variables with differences of opinion with results that support and oppose.

Signalling Theory

Signaling theory refers to actions taken by company management to convey information to investors regarding perspective on the company's future prospects (Marsella & Pangestuti, 2023). Signaling theory begins with the assumption of asymmetric information, which explains the internal motivations behind a company's decision to disclose financial information to external parties. First put forward by Spence (1973), signaling theory describes that the sender or data owner provides conditions or signs presented as information that reflects on company's situtation that benefits external parties. Signaling theory is expected on influencing the company values in the capital market, thereby obtaining positive signals from customers, creditors, and investors to place their funds or capital and pay off their loans (Baihaqi & Yulianti, 2021).

Financial Performance

Financial performance reflects the efforts made by executives to achieve company success and minimize the risk of failure (Zumente & Bistrova, 2021). The economic performance on banking companies is measured based on the percentage of company profit growth (Hadiwidjaja et al., 2016). Profit growth demonstrates a company's capability to achieve more considerable income than in the previous period. The higher the profit obtained, the more it can guarantee profits for creditors and shareholders.

Risk Profile

Risk profile is an evaluation carried out in bank operational activities and the effectiveness of risk management implementation (Aprilia & Hapsari, 2021). Ratio of non performing loan is a proxy for this study's risk profile. Research by Hadiwidjaja et al. (2016) states that NPL negatively affect company performance. The potential for default will increase the risk of losses for banking companies, which negatively influences banking company profits.

H1: Risk Profile negatively impacted Financial Performance

Good Corporate Governance

Good corporate governance evaluates characteristics of bank management in implementing regulations while considering the unique characteristics and operational complexity (Setiadi & S., 2020). GCG is measured by independent board of commissioners ratio. The findings by Hadiwidjaja et al. (2016), Silaban et al. (2018), and Sholiha et al. (2020) found that effective GCG significantly boosts company profit. The principles of good corporate governance consistently enable more objective decision-making and help companies avoid potential conflicts of interest.

H2: GCG positively impacted Financial Performance

Earnings

Earnings measure a company's ability to create profit or revenue from its capital. Earnings assessment in research is measured using the net interest margin ratio. Findings by Hadiwidjaja et al. (2016) and Putri and Yuliandhari (2020) showed positively effect on company profit. High net interest income affects the performance of banking companies because it attracts investors.

H3: Earnings positively impacted Financial Performance

Capital

Capital is an assessment on capital adequacy in a bank which includes the evaluation and analysis of both capital adequacy and effectiveness in capital management (Aprilia & Hapsari, 2021). Capital was proxied using the capital adequacy ratio. Research by Sholiha et

al. (2020) and Marsella and Pangestuti (2023) significantly influenced profit growth. Effectivity and efficiency of capital management on banking companies can improve their financial performance through increased company profits.
H4: Capital has a positive effect on Financial Performance

The framework of thought used to prove the impact of RGEC on financial performance. The appropriate framework of thought in this research is illustrated below:

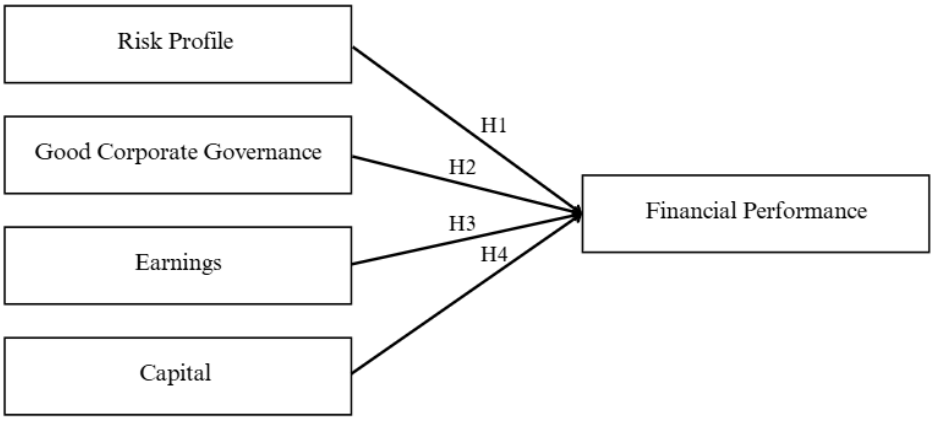

Figure 1. Thinking Framework

2. RESEARCH METHOD

Population and Sample

Research uses a descriptive design type with quantitative form of data. Research focused on the banking industry, with a population consisting of banking companies that listed on IDX website at https://www.idx.co.id/ during 2019 and 2023 period. The source of data utilized is secondary data, acquired indirectly through intermediary media, annual reports of each banking company listed on IDX the 2019-2023 period. Method of sample selection on research is method of purposive sampling, where a sample determination technique is based on specific considerations or predetermined criteria. Furthermore, the sample determination is determined by following criteria:

Table 1. Research Sample
Source: processed data

No.	Criteria	Total
1	Banking company being listed on IDX during 2019 – 2023 period	46
2	Banking company which lack of complete and relevant financial reports related to research data, including dependent and independent variables	-4
3	Banking company with financial reports that have not been audited as of December 31	0
4	Banking company that have never experienced a delisting process during the period of 2019 - 2023	0
	Total Company	42
	Year of Observation	5
	Number of Observation (x5 years)	210
	Outlier Data	29
	Total Sample	**181**

Based on the study's sampling criteria, 42 banking companies are the research observations that meet the criteria, with total sample of 181. The data used has limitations due to it is solely taken from the company's financial reports during relevant years.

Operationalization of Variables and Instruments

The variables in this study were assessed using quantitative parameters and various formulae. The summary of operasionalization of variables and instruments used in the research:

Table 2. Operationalization of Variables and Instruments
Source: processed data

Name and Type of Variable	Parameter	Scale	Reference
Financial Performance (Y)	$PG = \frac{Net\ Profit_{\ t} - Net\ Profit_{\ t-1}}{Net\ Profit_{\ t-1}}$	Ratio	Hadiwidjaja et al. (2016)
Risk Profile (X1)	NPL = Gross Non Performing Loans / Total Loans	Ratio	Putri dan Yuliandhari (2020)
Good Corporate Governance (X2)	IBC = Number of Commissioners / Total Independent Commissioners	Ratio	Hadiwidjaja et al. (2016)
Earnings (X3)	$NIM = \frac{Net\ Interest\ Income - Net\ Interest\ Expense}{Average\ Interest - Earning\ Assets}$	Ratio	Hadiwidjaja et al. (2016)
Capital (X4)	CAR = (Tier Capital 1 + Tier Capital 2) / Risk Weighted Assets	Ratio	Marsella and Pangestuti (2023)

3. RESULTS AND DISCUSSIONS

Descriptive Statistical Test

Descriptive statistics test transforms research data into tabular format, making it easier to analyze and interpret (Ghozali, 2018). This study measures median, mean, standard deviation, along with the max and min data. The study uses descriptive statistics to present information related to the characteristics of the variables studied. Descriptive statistical analysis aims to present data analysis from research variables by describing existing samples without providing a more in-depth detailed analysis of study's findings. Outcomes of descriptive statistical test are illustrated below:

Table 3. The Result of Descriptive Statistical Test
Source: processed data

	Financial Performance	Risk Profile	Good Corporate Governance	Earnings	Capital
Mean	13.51619	1.62469	55.46166	4.55111	44.69453
Median	10.52000	1.12000	50.00000	4.55000	25.00000
Maximum	235.1400	5.31000	100.0000	18.39000	2560.000
Minimum	-208.8100	0.00000	25.00000	-3.52000	9.01000
Std. Dev	69.71207	1.37713	11.50658	2.48893	189.0526
Observation	181	181	181	181	181

Classical Assumption Test

The research results using eviews13 software showed that all test of classical assumption, consists of normality, heteroscedasticity, autocorrelation, and multicollinearity, were

successfully met and passed. The study's results showed data followed a normal distribution and showed no signs of heteroscedasticity, multicollinearity, or autocorrelation.

Multiple Linear Regression Test

Regression seeks to determine the direction and strength the connection of independent and dependent variable (Ghozali, 2018:96). This study uses analysis of multiple linear regression. Multiple linear regression is statistical approach used to connect linearly two or several independent variables with one dependent variable. Test used to estimate the value of dependent variable relying on existing independent variables, assuming a linear relationship along them.

Table 4. Multiple Linear Regression Test
Source: processed data

Variabble	*Coefficient*	*Std. Error*	*t-Statistic*	*Probability*
C	58.58979	21.00914	2.788766	0.0059
X1	-11.12165	2.957022	-3.761099	0.0002
X2	-0.759048	0.337735	-2.247465	0.0260
X3	-2.144436	1.638765	-1.308568	0.1925
X4	0.708900	0.191630	3.699307	0.0003

R-Squared	0.542880	Mean dependent var	13.51619
Adjusted R-squared	0.492089	S.D. dependent var	69.71207
S.E. of regression	49.68231	Akaike info criterion	10.74822
Sum squared resid	399869.8	Schwarz criterion	11.08397
Log likelihood	-953.7138	Hannan-Quinn criter.	10.88434
F-statistic	10.68849	Durbin-Watson stat	2.139278
Prob (F-Statistic)	0.000000		

Based on the research testing using panel data regression, a multiple linear regression equation was developed for the panel analysis of data. The equation result of regression test is being determined by :

$$Y = 58.58978 – 11.12165*X1 – 0.75904*X2 – 2.14443*X3 + 0.70889*X4$$

Multiple linear regression results indicate a constant of 58.58978, meaning that if all independent variables are equal to zero, financial banking performance will be valued at 58.58978 units. The magnitude of the independent variable coefficients indicates that each 1% increase in these independent variables will decrease the banking financial performance value by the amount of the independent variable coefficient, assuming other independent variables remain constant.

Coefficient of Determination

Adjusted R2 determination coefficient test evaluates the degree of which variations in independent variables within the model influence on dependent variable, while the remaining portion reflects the impact of other variables that not accounted for in the model (Ghozali, 2018). The Adjusted R2 measure ranges with 0-1.

The adjusted R2 value is 0.492089. The value indicates that RGEC can only explain 49.21% of the information required to predict banking financial performance variables, with the remaining 50.79% accounted by another factor that are excluded from observed model.

F-Statistic Test

F-Statistic test evaluates if independent variables in the model collectively impact the dependent variable (Ghozali, 2018). The degree used is 0.05. The alternative hypothesis is accepted if the computed of F-value surpasses the critical of F-value.

F-Statistic profitability value is recorded as 0.00000. Profitability value of 0.00000<0.05, presents that independent variables collectively significantly impact dependent variable, namely financial banking performance proxied with profit growth.

t-Statistic Test

t-statistic test evaluates the degree to which an independent variable affects dependent variable (Ghozali, 2018:98). This test evaluates whether an independent variable significantly affects dependent variable, while assuming other variables remain constant. t-Statistic test is conducted by comparing the calculated t-value of each regression coefficient with the critical t-Table value.

Regression results indicate that risk profile and suitable good corporate governance variables negavitely impacts financial banking performance at 5% alpha level, with a significance level of 0.0002 and 0.0260 < 0.05, respectively. The earnings variable does not affect banking financial performance because it has significance level of 0.1925>0.05. Meanwhile, capital positively affects financial banking performance with significance level of 0.0003<0.05. The t-Statistic test results also indicate that three out of four independent variables significantly affect financial performance. The overview of tested hypothesis summary is presented below:

Table 4. The Result of t-Statistic Test
Source: processed data

Independen Variable	t-Statistic	Probability	Result
Risk Profile (X1)	-3.761099	0.0002	Negatively effect financial performance
Good Corporate Governance (X2)	-2.247465	0.0260	Negatively effect financial performance
Earnings (X3)	-1.308568	0.1925	No effect on financial performance
Capital (X4)	3.699307	0.0003	Positively effect financial performance

Discussion

Risk Profile impacts on Financial Performance

According to summary tests carried out, result found that risk profile variable shows an alpha coefficient of 5% and a significant risk profile regression coefficient of -11.12165. The regression result test shows a t-statistic score of 1.97331 > -3.761099 and significance level of 0.0002 <0.05. The value indicates that risk profile negatively impacts financial banking performance. Thus, hypothesis is accepted.

Non performing loan, as an indicator of risk profile, negatively impact profit growth. The results align with the research of Hadiwidjaja et al. (2016) and Silaban (2017), which stated the same result. High non performing loans reflect the potential for a more significant risk of default. This condition can be interpreted as a negative signal indicating that banks do not manage risk optimally. A higher NPL level will elevate risk of losses that have potential in resulting bank profits and profitabilities which indicate that more and more debtors are having difficulty fulfilling their obligations.

Good Corporate Governance impacts on Financial Performance
According to results of the tests carried out, result found that good corporate governance variable shows an alpha coefficient of 5% and a significant good corporate governance regression coefficient of -0.759048. The regression result test shows a t-Statistic test value of 1.97331 > -2.247465 and significance level of 0.0260 <0.05. The value indicates that good corporate governance negatively impacts financial banking performance. Therefore, hypothesis is rejected.

An Independent board of commissioners, as a measure of good corporate governance, negatively affects profit growth. These results align with Wahyuni, Mardani, and Khoirul (2018) and Mahrani and Soewarno (2018) research, who stated similar results. This is evidenced by the negative value in the t-calculated, indicating that the determination of an independent board of commissioners in a company often merely a formal provision. The more independent board of commissioners, the more vigilant independent board of commissioners will be in monitoring the performance and behavior of management, including the occurrence of earnings management. With strict supervision, financial reports become more transparent and purer, reflecting the company's financial condition without distortion or fraud (Mahrani & Soewarno, 2018). This can make profits that previously seemed high due to manipulative practices more realistic, which can sometimes be seen as a slowdown or even a decline in profit growth.

Earnings impacts on Financial Performance
According to summary of tests carried out, result found that earnings variable shows an alpha coefficient of 5% and a significant earnings regression coefficient of -2.1444436. The regression result test shows a t-statistic score of 1.97331 > -1.308568 and significance level of 0.1925 <0.05. The value means that earnings has no influence on financial banking performance. Consequently, hypothesis is rejected.

Net interest margin, as an indicator of earnings, has no impact on profit growth. According to the study's results, net interest margin has no effect because an increase or decrease in net interest margin does not show any correlation. These results are in line with Kusumawardani (2022), Faisal (2018), and Alamsyah (2018) research, which stated similar results. The company's capital is solely utilized to comply the provisions of Bank Indonesia. Increase or decrease will not impacted, due to banks must maintain a balance between credit growth and inherent risks. An increase on NIM often accompanied by an increase in loan interest rates which can slow down credit growth as borrowers become more cautious on taking new loans (Kusumawardani, 2022). Misalignment of credit growth with well-structured risk management strategy potentially lead to higher interest income. This situation can elevate the risk of defult and indirectly, does not guarantee company's profit growth.

Capital impacts on Financial Performance
According to summary of tests carried out, result found that capital variable shows an alpha coefficient of 5% and a significant capital coefficient of 0.708900. The result test shows a t-statistic score of 1.97331 < 3.699307 and significance level of 0.0003 <0.05. The value indicates that capital positively impacts financial banking performance. Therefore, hypothesis is accepted.

Capital adequacy ratio as a measure of capital, positively affects profit growth. The variable positively impacts because capital adequacy provides an overview of the capability of

banking company to protect their capital as support for assets that have the potential or already contain risk. The results are reliable with research findings by Sholiha et al. (2020), Wanuri and Sari (2022), and Marsella and Pangestuti (2023), which stated similar results. The capital adequacy ratio signals to the market that the bank has adequate capital to overcome the risk of loss that can threaten its operational sustainability.

4. CONCLUSIONS AND SUGGESTIONS

Independent variables such as risk profile, good corporate governance, earnings, and capital simultaneously influences financial performance. This research is valuable to corporations and investors because it provides extra information and allows them to evaluate company profit in banking sectors on IDX. Significantly, findings of this study help firm management assess the financial performance of banks based on characteristics such as risk profile, good corporate governance, earnings, and capital are quantified using RGEC approach. The study also acts as a resource for investors and potential investors in determining investment choices and allocating cash for minimizing investment risk.

For better strategies, bank need to enhance risk control and corporate oversight by enforcing stricter compliance policies. An efficient capital allocation and profitability are needed to optimizing loan and maintaining sufficient amount for sustainable growth. Moreover, regulators should promote extended financial performance assessments for better trend analysis and more informed investment decisions.
This research has a limitation in the observation time since it is too short to provide more accurate results. Thus, future research should utilize a more extended observation period to ensure the correctness results. Furthermore, for researchers exploring similar topics, it is advisable to use more varied ratios such as ratio of Loan to Deposit and ratio of Return On Asset to decribe more accurate values or conditions. Additional studies may cover additional characteristics that have a greater influence on profit growth.

REFERENCES

Alamsyah, S. (2018). Pengaruh Capital Adequacy Ratio (CAR), Non Performing Loan (NPL), Loan to Deposit Ratio (LDR), Return On Asset (ROA) dan Net Interest Margin (NIM) terhadap Pertumbuhan. *Jurnal Akuntansi Dan Keuangan*, *2*(1), 32–54.

Aprilia, W., & Hapsari, N. (2021). Pengaruh Tingkat Kesehatan Bank Melalui Metode RGEC Terhadap Nilai Perusahaan (Studi Kasus Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia Periode 2016-2020). *Jurnal Ilmiah Akuntansi dan Keuangan, 16*(2), 1–15.

Baihaqi, F., & Yulianti, N. W. (2021). Pengaruh Tingkat Kesehatan Bank Menggunakan Metode RGEC Terhadap Pertumbuhan Laba Perusahaan Perbankan. *Jurnal Akuntansi*. *16*(2), 125-135.

Faisal, Y. (2018). Pengaruh Tingkat Kesehatan Bank Syariah Dan Maqasyid Syariah Indeks Terhadap Pertumbuhan Laba Dengan Good Corporate Sebagai Variabel Moderating. *Al-Masraf: Jurnal Lembaga Keuangan dan Perbankan*, *3*(2).

Ghozali, I. (2018). *Aplikasi Analisis Multivariate Dengan Program Ibm Spss 25.* Semarang: Badan Penerbit Universitas Diponegoro.

Hadiwidjaja, I., Irma & Widiastuti, Y. (2016). Assessing the Effect of Bank Performance on Profit Growth Using RGEC Approach. *Review Of Integrative Business & Economics Research, 5*(3), 87–101.

Kusumawardani, A. (2022). Analisis Perubahan Rasio Profitabilitas Sebelum dan Pada Masa Pandemi Covid 19 dan Hubungannya Terhadap Pertumbuhan Laba. *Journal of Business and Economics Research, 3*(2), 209-214.

Mahrani, M. & Soewarno, N. (2018). The effect of good corporate governance mechanism and corporate social responsibility on financial performance with earnings management as mediating variable. *Asian Journal of Accounting Research*, *3*(1), 41–60.

Marsella, P. & Pangestuti, D. C. (2023). Assessment of Bank's Health Using Analysis Risk Profile, Good Corporate Governance, Earnings, Capital (RGEC). *International Journal of Research in Business and Social Science, 12*(3), 237-248.

Putri, D. A., & Yuliandhari, W. S. (2020). Pengaruh Tingkat Kesehatan Keuangan Bank Menggunakan RGEC Terhadap Pertumbuhan Laba (Studi pada Perusahaan Bank dalam Indeks Infobank15 yang Terdaftar di Bursa Efek Indonesia Tahun 2016-2018). *Jurnal Akuntansi Bisnis dan Ekonomi*. *6*(1).

Rohmah, I. N., & Nasir, M. (2023). Analisis Pengaruh Tingkat Kesehatan Bank Terhadap Profitabilitas dengan Menggunakan Metode RGEC Pada Bank Pemerintah dan Bank Swasta yang Terdaftar di BEI Periode 2017-2021. *Innovative: Journal Of Social Science Research, 3*(5), 5238–5253.

Setiadi, P. B. ., & S., R. U. . (2020). Assessment of Bank Health Levels using RGEC Methods on National Private Public Banks. *International Journal of Social and Administrative Sciences*, *5*(1), 42–53.

Sholiha, M., Askandar, N. S., & Sari, A. F. K. (2020). Pengaruh Tingkat Kesehatan Bank Terhadap pertumbuhan Laba dengan Metode RGEC (Studi Pada Bank BUMN yang Terdaftar di BEI Periode 2015-2018). *E-JJRA, 08*(01), 1–13.

Silaban, L. I., Rahadian, D., & Gustyana, T. T. (2018). Pengaruh Tingkat Kesehatan Bank terhadap Pertumbuhan Laba Perusahaan dengan Metode RGEC (Studi pada Bank Periode 2007-2016). *E-Proceeding of Management, 5*(2), 1986.

Silaban, P. (2017). The Effect of Capital Adequacy Ratio, Net Interest Margin and Non-Performing Loans on Bank Profitability: The Case of Indonesia. *International Journal of Economics and Business Administration*, *5*(3), 58–69.

Wahyuni, R., Mardani, R. M., & Khoirul, M. (2018). Pengaruh Good Corporate Governance (GCG), Earnings, dan Capital Terhadap Pertumbuhan Laba Perbankan yang Terdaftar di BEI Periode 2014-2017. *E–Jurnal Riset Manajemen, 7*, 86–97.

Wanuri, Fauziyanti, W., & Sari, C. T. (2022). Analysis of The Health Level of The State Saving Bank Tbk with The RGEC Method Approach. *International Journal of Economic, Business, and Accounting Research, 6*(3), 266.

Zumente, I., & Bistrova, J. (2021). ESG Importance for Long-Term Shareholder Value Creation: Literature vs. Practice. *Journal of Open Innovation: Technology, Market, and Complexity, 7*(2), 127.