Changes in Banking Industry Stock Prices: The Role of Risk, Good Governance, Earnings, and Capital

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ABSTRACT: *This research, with direct implications for banking professionals and investors, aims to empirically test and analyze the RGEC components, which consist of risk profile, good corporate governance, earnings and capital, and their influence on banking stock prices listed on the Indonesian Stock Exchange (BEI). The sample for this research was determined using a purposive sampling technique, resulting in a total sample of 21 companies over 3 periods, namely 2016-2018. The data analysis technique used is Partial Least Square (PLS). The research results, which have immediate relevance for investment strategies, show that earnings proxied using ROA positively affect stock prices, while risk profile, good corporate governance, and capital do not. This indicates that earnings are still a strong signal for investor investment decisions. Therefore, the company must succeed in maintaining and increasing its earnings to become an investment choice for investors. However, even though good corporate governance and capital do not influence stock prices, it doesn't mean that banking companies should ignore their governance and capital. These two factors are essential in maintaining good performance.*

Keywords: *capital, earnings, good corporate governance, risk profile, stock price.*

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INTRODUCTION

Every investor or prospective investor has certain goals they want to achieve through their investment decisions. In general, their investment motive is to obtain profit, security, and growth of invested funds. When investing in the form of stocks, investors must analyze the factors that can influence the company's condition to get a clearer picture of the company's ability to generate profits and growth in the future. Fluctuating stock prices at any time can be influenced by internal and external factors of the company. These always-moving stock prices will always be monitored by investors and potential investors who will invest capital in the company. One of the sectors listed on the stock exchange is banking sector companies. The banking sector is one of the important sectors in improving a country's economy because of its function as an intermediary institution that collects and distributes returns in the form of credit or other forms.

In a dynamic business environment such as the banking sector, the factors influencing a company's stock price are the center of attention for investors, financial analysts, and decision-makers. Research on the influence of various fundamental variables on banking company stock prices has become an interesting and relevant topic in economic and financial literature (Karki, 2018; Narayan et al., 2014; Zuhroh & Veronika, 2021). In this context, this article explores the impact of key factors on banking company stock prices, namely risk, corporate governance, profits, and capital.

The stock price phenomenon occurred in November 2018; according to Kevin (2018), the Composite Stock Price Index (IHSG) decreased by 1.45% to 5,890.02. Bank stocks PT Bank Mandiri Tbk (BMRI) fell 3.67%, PT Bank Rakyat Indonesia Tbk fell 2.03%, PT Bank CIM Niaga Tbk (BNGA) fell 0.55% and PT Bank Central Asia Tbk (BBCA) down 0.1%. The decline in stock prices is the weakening of the rupiah value of IDR 14,640/US dollar or 0.72%, which is feared to cause an increase in the Non-Performing Loan (NPL) ratio if this occurs over a long period. However, Bank Indonesia Regulation No.17/ 11/PBI/2015 states that the gross NPL ratio limit is less than 5%. According to Zakaria et al. (2018), several factors can influence the movement of the IHSG on the Indonesian Stock Exchange and the performance of banking companies.

According to Cahyani & Putri (2018), banks that can maintain good performance and have business prospects for development can be in good health. One indicator for assessing the performance of banking companies is to use the RGEC method, which assesses the risk profile, good corporate governance, earnings, and capital as stated in PBI Number 13/1/ PBI/2011 concerning Assessment of the Soundness Level of Commercial Banks. Bangun & Rahadian (2018) research shows that ROA affects stock prices. However, research by Naftali et al. (2018) shows that ROA does not significantly affect stock prices because it only focuses on short-term investment goals and cannot provide an overview of the company's overall profits in the future. According to Hendrayana & Yasa (2015), capital shows the adequacy of existing capital in a company, proxied by the capital adequacy ratio (CAR). CAR is used to measure the ability of existing capital to cover the possibility of risks arising in credit activities. Research conducted by Bangun & Rahadian (2018) and research conducted by Satria & Hatta (2017) shows that CAR has a partially significant effect on stock prices. Research conducted by Irawan (2017) and Atiningsih & Royham (2017) shows that CAR does not affect stock prices.

Although much research has been conducted in this domain, as explained in the previous paragraph, there is still a need for a deeper understanding of how these factors influence each other and contribute to investors' assessments of banking company stock prices. Previous studies often focused on one or two independent variables, such as risk or profit, without considering the interactions between these variables. In addition, little research specifically addresses the relationship between corporate governance and banking company stock prices, even though effective governance has major implications for a company's long-term performance.

Thus, this article fills a research gap by holistically exploring the interactions between risk, corporate governance, profits, and capital and how these influences influence banking company stock prices. This holistic approach is expected to provide a more comprehensive and in-depth understanding of the factors that influence the valuation of banking companies in the capital market. In addition, this article also enriches its contribution to the literature by analyzing the banking context, which has unique characteristics and complexity in terms of regulations, capital structure and risks that must be faced.

With this background, the main objective of this research is to analyze the impact of fundamental variables such as risk, corporate governance, earnings, and capital on banking company stock prices. Specifically, we will explore whether there is a relationship between corporate governance and banking company stock prices, as well as how interactions between other variables influence market valuations of banking companies. The results of this research can provide valuable insight for investors, decision makers

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and regulators in understanding banking dynamics and company value in the capital market. With a solid conceptual framework and appropriate research methodology, we are confident that this research will significantly contribute to the finance and economics literature and provide valuable insights for practitioners and academics in understanding the factors that influence banking company stock prices.

LITERATURE REVIEW

Signaling Theory
Signal theory states that information obtained is useful regarding disclosure, which can be a signal for investors and other parties when making economic decisions (Biwott, 2021; Connelly et al., 2011). Signal theory emphasizes the importance of information released by the company on the investment decisions of parties outside the company (Doukas & Zhang, 2020; Rokhlinasari, 2015). The signal is information about management's actions to realize the owner's wishes. Managers will announce to investors when they get good information to increase company value.

Risk Profile
Risk profile assesses inherent risks and the quality of risk management implementation in bank operations. Stock prices can experience a decline if the company faces high risks (Cahyani & Putri, 2018). Bank risk is the potential for an event that could cause losses for the bank.

Good Corporate Governance
According to Agoes & Ardana (2014, p. 101), good corporate governance (GCG) is a mechanism that regulates the relationship between managers, the board of commissioners, directors, shareholders, and other stakeholders. In Bank Indonesia Circular Letter No.15/15/DPNP of 2013, the ranking of GCG factors is categorized into 5 rankings, namely: Rating 1: very good, Rating 2: good, Rating 3: quite good, Rating 4: not good, and Rating 5: not good. A small ranking of GCG factors reflects better GCG implementation. So, it can be concluded that if a company has a small GCG factor rating, it can be said that the implementation of GCG in that company is better or more effective and vice versa.

Earnings
Earnings or profitability is the company's ability to create profits in a certain period. ROA is a ratio used to determine company performance based on the results of the total assets the company uses (Kasmir, 2017, p. 201).

Capital
Capital or capital in this research uses the Capital Adequacy Ratio (CAR). This ratio is effective when a bank experiences losses because it shows how capable the bank is of covering assets that experience a decrease in its capital adequacy (Putri & Wibisono, 2022).

Stock Price
The stock price is the stock price that occurs on the stock market at a certain time, which is determined by market players and by the demand and supply of the stocks concerned in the capital market (Hartono, 2017, p. 208). Changes in stock prices always experience upward or downward movements, which are influenced by the secondary market's forces of demand and supply. The more investors want to buy a stock, the more the company's stock price will rise, and vice versa.

The Effect of Risk Profile on Stock Prices
In risk assessment, this research looks at credit risk as proxied by the Non-Performing Loan (NPL) ratio because one of the functions of banks is to channel third-party funds into credit (Elly & Krisnawati, 2023; Naftali et al., 2018). In carrying out this function, risks will arise. The influence of the risk profile as proxied by the NPL ratio is supported by signaling theory. If investors receive a signal in the form of a high level of bank non-performing loans, it can cause investors to tend to invest, so investor demand for bank stocks can decrease, resulting in a decline in bank stock prices. So, it can be concluded that the higher the NPL, the greater the credit risk distributed by the bank, which causes stock prices to fall.

The Effect of Good Corporate Governance on Stock Prices
Every company must ensure that GCG is implemented properly and in accordance with applicable regulations. Bank Indonesia determines the GCG value to indicate a bank's governance score, which shows the quality of management in generating profits. According to Bank Indonesia Circular Letter No.15/15/DPNP, the lower the GCG score in a bank, the better the bank's performance in its operational activities to generate profits (Adzroo & Suryaningrum, 2023; Elly & Krisnawati, 2023; Raflis & Arita, 2021). The influence of good corporate governance on stock prices is supported by signaling theory. Suppose investors get a positive signal in the form of increasing bank GCG. In that case, it shows that the bank is getting better and more effective in managing capital to gain profits, and the investor response is positive so that there is an increase in demand or supply of banking stock prices, which influences the increase in banking stock prices.

The Effect of Earnings on Stock Prices.
Earnings are how the company's ability to generate profits is proxied by the return on assets (ROA) ratio. If the ROA value is high, the company can generate high profits. The influence of earnings as proxied by ROA is supported by signaling theory. If investors get a signal in the form of a high ROA value, then the investor's response will be positive and cause positive changes in stock prices as well (Adzroo & Suryaningrum, 2023; Qureshi & Siddiqui, 2021). So it can be concluded that an increase in the ROA value impacts increasing demand or supply of stock prices, thus increasing the stock price of a company.

The Effect of Capital on Stock Prices
Capital is one source of company funding. Companies must be able to profit from managing assets where assets are a source of funds. Banks are expected to have sufficient capital to avoid risks in their operational activities. This research uses the capital adequacy ratio (CAR), which measures a bank's resilience in facing risks that may arise. If the CAR is high, the bank has sufficient capital and financial resources to manage assets and pay off its obligations (Cahyani & Putri, 2018; Putri & Wibisono, 2022). It can be concluded that a high CAR value indicates that the bank has sufficient capital to carry out its operational activities, which can be a positive signal and can increase the demand or supply of stock prices.

Based on the relationship between variables, the hypotheses of this research are:
H1: Risk Profile influences changes in stock prices.
H2: Good Corporate Governance influences changes in stock prices.
H3: Earnings influence changes in stock prices
H4: Capital influences changes in stock prices

RESEARCH METHODS

Types of research
This type of research is included in quantitative research with the aim that the variables observed and studied can be identified and the relationship between one variable and another variable can be measured clearly. The variables observed in this research are Risk Profile, Good Corporate Governance (GCG), Earnings and Capital as independent variables, and stock prices as the dependent variable in banking sector companies listed on the Indonesia Stock Exchange in 2016-2018.

Operational Variables
Risk Profile (X1)
Credit risk can be measured using the Non-Performing Loan (NPL) ratio, which is the percentage of non-performing loans to the total credit disbursed. The measurement scale used is the ratio with units of percent (%). The NPL formula is as follows:

$$Gross\ NPL = \frac{Non\ Performing\ Loan}{Total\ credit}\ x\ 100\%$$ .... (1)

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Good Corporate Governance (X2)
Good Corporate Governance (GCG) is a company management system that improves a company's performance, protects stakeholder interests, and increases compliance with applicable regulations and ethical values. This research uses the results of a bank self-assessment. The measurement scale used is ordinal, with ratings 1: very good, rating 2: good, rating 3: quite good, rating 4: less good, and rating 5: not good.

Earnings (X3)
The earnings or profitability used in this research is the return on asset (ROA) ratio. Return on assets measures management's ability to manage its assets to earn profits. ROA calculates profit after tax. The measurement scale used is the ratio with units of percent (%). The ROA formula is as follows:

$$ROA = \frac{Net\ income\ after\ tax}{Total\ assets} \ x\ 100\%$$ …………………………………………………………………………. (2)

Capital (X4)
Capital or capital in this research uses the Capital Adequacy Ratio (CAR). CAR is a ratio that shows how capable a bank is of covering assets that have decreased due to the bank's capital adequacy. The measurement scale used is the ratio in percent units (%). The CAR formula is as follows:

$$CAR = \frac{Bank\ Capital}{Weighted\ average\ risk} \ x\ 100\%$$ …………………………………………………………………………. (3)

Population and Sample
The population in this research is represented by financial reports audited by conventional general banking companies and listed on the Indonesia Stock Exchange (BEI) from 2016 to 2018. The population in this study was 39 companies. The sampling technique used in this research was purposive sampling. Purposive sampling was used with the following criteria: First, Banking company financial reports were submitted periodically from 2016 to 2018. Second, Financial reports of banking companies that provide data regarding the level of risk profile and data regarding the composite value of good corporate governance assessments from 2016 to 2018. Lastly, financial reports show that banking companies experienced profits from 2016 to 2018. Based on these criteria, the number of samples in this research was 21 companies.

Data collection technique
The data used to obtain the information required in this research is secondary data in the form of audited financial reports on conventional general banking companies listed on the Indonesia Stock Exchange during 2016-2018. The data collection method is documentary, namely by downloading audited financial report data from the official website of the Indonesia Stock Exchange (www.idx.co.id).

Analysis and Hypothesis Testing Techniques
Data analysis uses the Partial Least Square (PLS) approach in this research. PLS is a component or variant-based Structural Equation Modeling (SEM) model. PLS is a powerful analysis method (Ghozali, 2015) because it is not based on many assumptions. In PLS path modeling, there are two models, namely the outer model and the inner model, where these two criteria are used in this research.

Outer Model
Outer model analysis (outer relation or measurement model) aims to ensure whether the variables used are suitable for measurement Ghozali (2015, p. 37). Regarding the reflexive indicators that form the latent variables in this research, the evaluation of the measurement model (measurement model/outer model) to measure the validity and reliability of these indicators is convergent validity, discriminant validity, and composite reliability.

Inner Model
Inner model analysis or structural modeling describes the relationship between latent variables (Ghozali, 2015, p. 37). This structural model will be evaluated using, among other things, the R-Square (R^2) value or coefficient of determination and Path Analysis.

RESULTS AND DISCUSSION

Outer Model Evaluation
Convergent Validity
The correlation between the indicator and construct scores shows the measurement model's convergent validity with reflective indicators (Table 1). An individual indicator is considered valid if it has an AVE value > 0.50 and an outlier loading above (> 0.70).

Table 1. Convergent Validity

	Loading Factor	*Average Variance Extracted* (AVE)
Stock Price	1.000	1.000
Non-Performing Loan	1.000	1.000
Good Corporate Governance	1.000	1.000
Return On Asset	1.000	1.000
Capital Adequacy Ratio	1.000	1.000

Source: Data processed

Table 1 shows that the AVE and outer loading values of all indicators that reflect each construct have an Outer Loading value of > 0.70 and an AVE value of > 0.50. Thus, it can be concluded that all variables have fulfilled the rule of thumb of convergent validity.

Discriminant Validity
Assessed based on the measurement's cross-loading with the construct, if the construct's correlation with the measurement item is greater than the size of the other construct, then the latent construct predicts the measure in their block better than the measure in the other block. Table 2 shows the discriminant validity test. Discriminant validity can be assessed using another method: comparing the square root average variance extracted (AVE) value.

Table 2. Discriminant Validity

	Loading Factor	**Root Average Variance Extracted (AVE)**
Stock Price	1.000	1.000
Non-Performing Loan	1.000	1.000
Good Corporate Governance	1.000	1.000
Return On Asset	1.000	1.000
Capital Adequacy Ratio	1.000	1.000

Source: Data processed

Based on Table 2 Discriminant Validity, each variable has a cross-loading value greater than 0.70 (>0.70) and a square root AVE value higher than the correlation between variables. Thus, it can be concluded that all variables have fulfilled the rule of thumb of discriminant validity.

Composite Reliability
Reliability tests prove the instrument's accuracy, consistency, and precision in measuring the construct. Two methods, Cronbach Alpha and Composite Reliability, can be used to measure the reliability of a construct with reflexive indicators, which must be greater than 0.7. Table 3 shows the results of the composite reliability test.

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Table 3. Composite Reliability

	Cronbach Alpha	Composite Reliability
Stock Price	1.000	1.000
Non-Performing Loan	1.000	1.000
Good Corporate Governance	1.000	1.000
Return On Asset	1.000	1.000
Capital Adequacy Ratio	1.000	1.000

Source: Data processed

Based on Table 3 Reliability Test, each variable has a Cronbach alpha value and a composite reliability value of more than 0.70. So, it can be concluded that all variables have fulfilled the rule of thumb of Composite Reliability.

Inner Model
Coefficient of Determination (R^2)
The coefficient of determination (R^2) value is used to explain the influence of the independent variable on the dependent variable. This research groups the R^2 value into categories. Table 4 shows the output value of R^2 and adjusted R^2.

Table 4. Composite Reliability

	R^2	Adjusted R^2
Stock Price	0.272	0.221

Source: Data processed

Based on Table 4, the coefficient of determination (R2) of 0.272 means that stock prices can be explained by 27.2% by risk profile, good corporate governance, earnings, and capital. In contrast, the remaining 72.8% is explained by other variables not examined in this research. Therefore, further research can add other variables not tested in this study, such as Operating Expenses Operating Income (BOPO) (Zuhroh & Veronika, 2021), dividend policy (Karki, 2018), and interest rate (Narayan et al., 2014).

Path Analysis
The significance value or path coefficient determines the influence between variables. Table 5 is the output path coefficient value.

Table 5. Path Analysis

	Original Sample	t-statistic	p-value
Non-Performing Loan	-0.167	1.851	0.065
Good Corporate Governance	0.030	0.194	0.846
Return On Asset	0.346	3.258	0.001
Capital Adequacy Ratio	-0.290	1.466	0.143

Source: Data processed

Based on Table 5 path coefficient, the following results are:
1) Non-performing loans have no significant effect on stock prices with a parameter coefficient of -0.167 at a significance level of more than 5% (T statistics <1.96 and p values >0.05).
2) Good Corporate Governance has no significant effect on stock prices with a parameter coefficient of 0.030 at a significance level of more than 5% (T statistics <1.96 and p values >0.05).
3) Return On Assets has a significant and positive effect on stock prices with a parameter coefficient of 0.346 at a significance level of 5% (T statistic > 1.96 and p values < 0.05).
4) The Capital Adequacy Ratio has no significant effect on stock prices with a parameter coefficient of -0.290 at a significance level of more than 5% (T statistic <1.96 and p values >0.05).

Discussion
The Effect of Risk Profile on Stock Prices
The results of data analysis show that the risk profile proxied by the non-performing loan (NPL) ratio does not affect stock prices, meaning that high or low NPL values do not affect banking company stock prices. Based on these results, the first hypothesis (H1) in this research is not proven, namely that there is an influence between risk profile and changes in stock prices.

The results of this research support the research of Naftali et al. (2018), Atiningsih & Royham (2017), who said that the risk profile has no effect on banking stock prices. This is not in line with the research of Bangun & Rahadian (2018), Cahyani & Putri (2018), and Hendrayana & Yasa (2015), Irawan (2017) stated that the risk profile influences stock prices.

The Effect of Good Corporate Governance on Stock Prices
The results of data analysis show that Good Corporate Governance, as proxied by it, does not affect stock prices, meaning that high or low GCG values do not affect banking company stock prices. Based on the results of this discussion, the second hypothesis (H2) in this research is not proven, namely that there is an influence between good corporate governance and changes in stock prices.

The results of this research support the research of Naftali et al. (2018) and Bangun & Rahadian (2018), who say that the good corporate governance variable does not significantly affect stock prices. This is not in line with the research of Atiningsih & Royham (2017), Cahyani & Putri (2018), and Hendrayana & Yasa (2015), who say that good corporate governance influences stock prices.

The Effect of Earnings on Stock Prices
The results of data analysis show that Earnings, which is proxied by Return On Assets (ROA), affects stock prices, meaning that a company has a high ROA value, so it can be said that the company can generate high profits and has an impact on increasing investor interest in investing which causes stock prices to rise. Based on the results of this discussion, the third hypothesis (H3) in this research is proven: there is an influence between earnings and changes in stock prices.

The results of this research support the research of Bangun & Rahadian (2018), Cahyani & Putri (2018), and Hendrayana & Yasa (2015), who say that the earnings variable has a significant and influential effect on stock prices. This is not in line with research conducted by Atiningsih & Royham (2017), which states that earnings do not affect stock prices.

The Effect of Capital on Stock Prices
The results of data analysis show that Capital, which is proxied by the Capital Adequacy Ratio (CAR), does not affect stock prices, meaning that high or low CAR values do not affect banking company stock prices. Based on the results of this discussion, the fourth hypothesis (H4) in this

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research is not proven, namely that there is an influence between capital and changes in stock prices.

The results of this research support the research of Naftali et al. (2018), Atiningsih & Royham (2017), and Cahyani & Putri (2018), who said that capital as proxied by the capital adequacy ratio (CAR) does not affect stock prices. This is not in line with research conducted by Bangun & Rahadian (2018), Hendrayana & Yasa (2015), and Satria & Hatta (2017), who say that capital influences stock prices.

This research examines the relationship between fundamental and internal factors in predicting the stock prices of banking companies. Based on the coefficient of determination (R^2) value of 27.2% and the remaining 72.8%, stock prices are influenced by other factors not examined in this research. Apart from internal factors, there may be external company factors that can influence stock prices. For example, market and industry conditions, macroeconomic factors, government regulations and policies, extraordinary events, and sentiment and news. Apart from the internal factors studied, several other internal factors that were not studied could be company management. Company management shows that the quality of company management, business strategy, and managerial decisions can influence investors' perceptions of the company's prospects and, consequently, stock prices.

Internal factors such as corporate governance and capital adequacy did not influence banking stock prices in this research, possibly due to the lack of precision in the proxies chosen to measure these two factors. In this research, corporate governance is proxied by the bank's health rating on an ordinal scale. Good corporate governance cannot only be shown by the bank's rating. Research by Adzroo & Suryaningrum (2023) measures good corporate governance by managerial and institutional ownership ratio. Therefore, further research must consider various proxies that can measure fundamental factors and add external ones.

CONCLUSION

This research presents interesting findings regarding the influence of fundamental variables on banking company stock prices. Based on the analysis's results, risk and profit have been proven to significantly influence the stock prices of banking companies. At the same time, corporate governance and capital adequacy do not show a significant influence. These findings illustrate that investors tend to pay great attention to the level of risk faced by banking companies and the potential profits that can be obtained from investing in banking stocks. Risk is a factor considered when making investment decisions because investors tend to prefer investments with lower risk. Meanwhile, profit, as an indicator of company performance, directly influences investors' perceptions of investment prospects.

On the other hand, although corporate governance and capital adequacy are important factors in maintaining a company's health and sustainability, this research shows that their influence on banking company stock prices is insignificant. This may be because investors may consider corporate governance and capital adequacy to be basic prerequisites that banking companies should have, thus not significantly impacting stock prices. It should be noted that this study has several limitations that need to be considered. First, this research uses secondary data from a specific period, so the results may not directly apply to different market situations. In addition, other factors not considered in this study, such as external macroeconomic factors or unpredictable market factors, can also influence banking company stock prices.

Although corporate governance and capital adequacy do not directly influence banking company stock prices in the context of this research, it is important to pay attention to these factors when managing banking companies. Adequate capital and effective corporate governance are fundamental factors in maintaining a company's stability and long-term performance. For practitioners and decision-makers, it is important to continue improving corporate governance and ensuring adequate capital in accordance with the risks faced by the company. This research's implications also highlight the importance of transparency and accountability in financial reporting, as well as effective risk management policies, in maintaining investor confidence and minimizing investment risk.

Abbreviations
Good Corporate Governance (GCG), Return On Assets (ROA), Capital Adequacy Ratio (CAR), Non-Performing Loan (NPL), Operating Expenses Operating Income (BOPO), Composite Stock Price Index (IHSG).

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Conflicts of interest
The authors declare no competing interests.

Availability of data and materials
Research data and materials are available from the IDX website and banking companies' sites.

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