

## THE EFFECTS OF ISLAMIC SOCIAL REPORTING IN RGECE RELATIONSHIPS ON COMPANY'S VALUE

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**Abstract:** The company's value is an assessment of investors, customers, and stakeholders on the company's condition that could be seen based on the market price value of the company's stock. This study aims to find out the influence of Risk Profile, Good Corporate Governance (GCG), Earnings and Capital (RGECE) on the value of companies with Islamic Social Reporting (ISR) as a moderation variable. This study used panel data regression analysis techniques from the annual report of 12 Indonesian Islamic banks in the period 2015-2019. In this study used quantitative data obtained from the Indonesia Stock Exchange (IDX) website and each Islamic bank website. The results of this study could be concluded that the risk profile has a positive and significant effect on the company's value. In contrast, Good Corporate Governance (GCG), earnings, and capital have a negative and insignificant effect on the company's value. Then, the ISR moderation variable also unable to moderate the relationship between earnings and company values. The contributions of this research are expected to provide a portrait to stakeholders for decision making in investing. This study has limitations on selecting variables that used only four financial ratios and one moderation variable, and the period used was limited. For further research, suggests to using variables other than NPF, the proportion of the board of commissioners, ROE, CAR and ISR , therefore the research results are different and enhance a research period.

**Keywords:** *ISR, Corporate Value, Banking, RGECE*

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### 1. Introduction

The bank is one of the financial institution sectors with a strategic position to support economic development. Therefore, these operational activities can work smoothly, the need for banks to maintain financial performance to remain healthy (Nurjanah *et al.*, 2017). The information presented in economic performance can reflect the actual condition of the company, therefore if the company can show the healthy conditions, it can affect public confidence. It can give an impact on the value of the company. Until mid-2019, it is known that the importance of the Capital Adequacy Ratio (CAR) in Indonesia's Banking is ranked the highest in Asia. However, the company's value is moving volatile. In addition, in 2014 the Financial Services Authority (OJK) in its annual report, revealed that from 2013 to 2014, there were 1,616 banking complaints, with details of 57.79 percent coming from lending, followed by third party funding problems of 16.75 percent (Prakarsa *et al.*, 2020). If the risks faced by banks are higher, there should be efforts to minimize these risks not to threaten their operational safety and maintain the the customers trust.

The company's high value will be followed by a high stock price, which indicates that the company's management has been able to manage their assets well. Assessment of the level of

banking health can be done by Risk Profile, Good Corporate Governance, Earnings, and Capital (RGEC) methods that have been regulated in *PBI* regulation No. 13/1/PBI/2011. RGEC is the latest method of assessing bank performance. As of January 2012, all Commercial Banks in Indonesia should use the newest bank health assessment guidelines. The health level of banks is evaluated by the RGEC Method with financial ratios including Non-Performing Financing (NPF), Good Corporate Governance (GCG), Return on Equity (ROE), and Capital Adequacy Ratio (CAR).

The company's value was seen based on financial factors and assessed based on non-financial disclosures such as disclosure of corporate social responsibility to Allah SWT, fellow humans, and the surrounding environment or shariah known as Islamic Social Reporting (ISR). The ISR was first introduced by Haniffa (2002), who initially seen the limitations of social disclosure in established companies. One of the benefit of ISR is as a form of accountability for the impact of the company on Allah SWT and society and increase the transparency of business activities by presenting relevant information by attention to the spiritual needs of Muslim investors or sharia compliance in decision making (IAEI, 2015 in Nugraheni & Yuliani, 2017). The information about ISR also beneficial for stakeholders such as shareholders, governments, investors, employees and even the public. More transparency of the company's disclosure will be increase the public confidence in the company's value.

Based on the results of previous research, independent variables are Non-Performing Financing (NPF), Good Corporate Governance (GCG), Return On Asset (ROA), and Capital Adequacy Ratio (CAR). Whereas the moderation variable namely, Islamic Social Reporting (ISR) as an indications of research gaps that affect the value of the company. First, in Aprilia & Hapsari (2021) and Nurjanah *et al.* (2017) their research showed that NPL did not affected the company's value. At the same time, Murni & Sabijono (2018) stated that NPL has a positive and significant effect on the company's value. Second, research by Aprilia & Hapsari (2021) and Agustiani (2016) stated that GCG did not affected on the company's value. In contrast to the study of Prabawati *et al.* (2021) and Nurjanah *et al.* (2017), which suggested that GCG has a positive and significant effect on the company's value. Third, research by Sondakh *et al.* (2019) and Lubis *et al.* (2017) showed that the Return on Equity (ROE) partially significantly affected the Company Value (*PBV*). Conversely, Ulfa & Asyik (2018) showed that the Return on Equity (ROE) did not affected the company's value. Fourth, Aprilia & Hapsari (2021) research showed that CAR affected the company's value. This has a difference with the results of Agustiani (2016) and Nurjanah *et al.* (2017), their stated that CAR did not significantly affected the company's value. Furthermore, the ISR variable found in Arum (2020) research proved that Islamic Social Reporting could not moderate financial performance to the company's value. In contrast to the results of Perwitasari research (2019), which showed that Islamic Social Reporting has a positive and significant influence on financial performance.

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

moderation variable in the form of Islamic Social Reporting (ISR). These was considered enhance the information, wherefore ISR can serve to provide an overview to the public about transparency and accountability to stakeholders for the capital given to the company. ISR can affect the company's value, wherefore the stakeholders such as companies that can transparently disclose ISR as a form of accountability based on sharia principles against Allah SWT and the community (Setiawan *et al.*, 2018).

The purpose of this study was to find out the effect of applying bank health assessment methods with RGEC with ISR variable as moderation to the value of Islamic banking companies during 2015-2019. The contributions of this research was expected to motivate the community, stakeholders to make the right decisions before invest their funds through banking health assessments. Based on the background, phenomena, and several different results of previous research, it is necessary to re-examine the "The Effect of Islamic Social Reporting in RGEC Relationships on Corporate Values".

## **Literature Review And Hypothesis Development**

### **Signalling Theory**

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

### **Company Value**

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

### **Risk Profile**

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

which stated that NPL has a positive and significant effect on the company's value. The hypotheses that can be write is:

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

#### ***Good Corporate Governance (GCG)***

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

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

#### **Earnings**

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

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

#### ***Capital***

Capital is a very crucial factor for the development and progress of a Bank. Capital can be obtained through shareholders when investing (Iskandar & Laila, 2016). The Capital Adequacy Ratio (CAR) became a measurement proxy in the study. CAR ratio results are a good signal for stakeholders in assessing banking performance (Wulandari & Mertha, 2017). Then the Banks are required to have a capital adequacy ratio of at least 8 percent to anticipate if the bank suffers a loss in future, at least the Bank has reserve capital. Following the results of Aprilia & Hapsari (2021) research, which suggests that CAR affects the value of the company, the hypothesis that can be compiled is:

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

#### **Islamic Social Reporting (ISR)**

ISR aims to allow the company to be held accountable for all the impacts that have been caused by all its activities on Allah SWT and can increase transparency. Measurement of Islamic Social Reporting in this study using the scoring method (value 1 if the item on the ISR index is in the annual report data, and the value of 0 is given if otherwise), after that the calculation of ISR level (Setiawan *et al.*, 2018). Assessment of Islamic Social Reporting is

usually used in companies, especially in Islamic banking. Wherefore, when the company can disclose the information on social responsibility to shareholders, it can increase the shareholder confidence. This has been proven through previous research by Perwitasari (2019), which showed that Islamic Social Reporting has a positive and significant influence on financial performance. From this statement, it can be concluded the following hypothesis:

**H5: ISR can moderate the relationship between earnings to company's value.**

### Frame of Mind

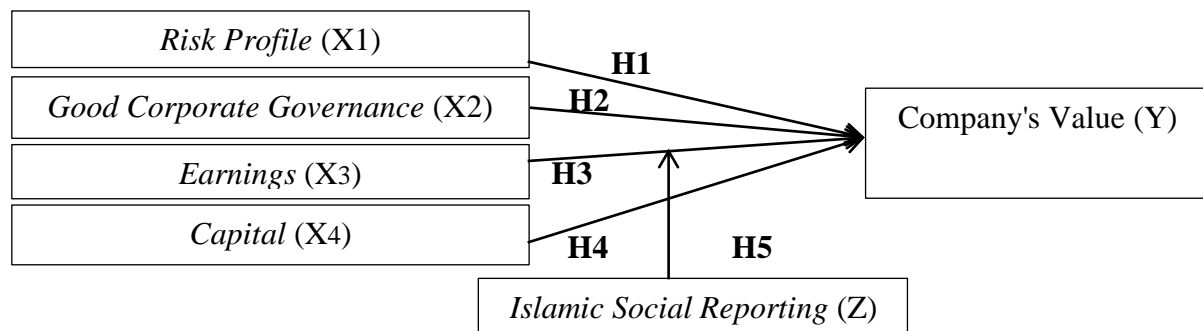


Figure 1. Research Hypothesis

## 2. Research Method

This research is a quantitative study using secondary data obtained from the Indonesia Stock Exchange and the official website of each Islamic bank. The population used in this study is Sharia Commercial Bank in Indonesia, as many as 12 Islamic banking companies. The type of data used panel data, these was chosen because the data was taken during five years from 2015-2019. The dependent variable in this study is the company's value and Independent variables are RGEC, and moderation variable is Islamic Social Reporting (ISR).

### Research Variables and Operational Definitions

#### Company Value

Company value is an assessment of investors, customers, and stakeholders on the company's condition, which can be seen based on the market price of the company's shares. Companies that can maintain company value well mean the welfare of their shareholders is also supported (Wulandari & Mertha, 2017). Many ratios can measure company value, one of which is Earning Per Share (EPS). The EPS ratio is follow (Susilawati, 2014):

$$EPS = \frac{\text{net income after interest and taxes}}{\text{number of shares outstanding}}$$

#### Risk Profile

In this study, one of the 8 risks is credit risk. Credit risk is a risk that might faced by Banks due to the failure of debtors in paying off their obligations (Lestari & Wirakusuma, 2018). The ratio used to measure credit risk is Non-Performing Finance (NPF) with the following calculation formula (Yusuf, 2017):

$$NPF = \frac{\text{financing}}{\text{total financing}} \times 100\%$$



### ***Good Corporate Governance (GCG)***

GCG is the result of an assessment to measure management's performance in manage the company in increase the company's profits, achieving shareholder prosperity and balancing with the wishes of other stakeholders (Wulandari & Mertha, 2017). This research used the proxies of an independent board of commissioners in a company. An independent board of commissioners is a board of commissioners who responsible for overseeing companies both internally and externally from the company. The formula for calculating the proxies of an independent board of commissioners is follow (Muniroh, 2014):

$$\text{Independent Board of Commissioners} = \frac{\text{number of independent commissioners}}{\text{number of board of commissioners}} \times 100\%$$

### ***Earnings***

Earnings are the company's ability to generate net income from activities carried out in an accounting period (Lestari & Wirakusuma, 2018). The small profit of the company can be measured using the Return on Equity (ROE) ratio. ROE is the rate of return on the owner's equity. The formula used is (Sopini, 2018):

$$\text{ROE} = \frac{\text{net income}}{\text{share capital}} \times 100\%$$

### ***Capital***

Capital or capital factor is the minimum amount of capital that should be owned by the Bank that can be used to cover the risk of losses that might arise from the investment of risk-containing assets and finance all fixed assets and bank inventory (PBI No. 10/15/PBI/2008 in Pramana & Artini (2016). The Capital Adequacy Ratio (CAR) is the ratio used in this study to measure the adequacy of capital held by Banks. The formula used is (Pramana & Artini, 2016):

$$\text{CAR} = \frac{\text{capital}}{\text{Assets Weighted By Risk (ATMR)}} \times 100\%$$

### ***Islamic Social Reporting (ISR)***

ISR measurements in Islamic Bank used to determine amount of disclosure that has been successfully made by each entity based on the Haniffa research index (2002), which has been modified by the next researcher, Othman & Thani (2010). ISR was measured by giving a score of 1 or 0. If the company has disclosed ISR items then given a score of 1. Conversely, if the ISR item has not been disclosed in the financial statements, then given a score of 0. Here is the formula for calculating the ISR value (Othman & Thani, 2010):

$$\text{ISR} = \frac{\text{number of disclosure scores met}}{\text{maximum number of scores}}$$

Sampling technique in the form of purposive sampling with the following criteria:

1. Indonesian Islamic Banking Companies that publish annual reports during 2015-2019 consecutively;
2. The annual report reveals NPF components, Independent Board of Commissioners, ROE, CAR, ISR and EPS in 2015-2019. The study used a panel data regression technique using

SPSS. The data collected will be analyzed by testing descriptive statistics, classical assumption tests (normality tests, multicollinearity tests, heteroskedasticity tests, autocorrelation tests and t-tests) and Moderating Regression Analysis (MRA) tests.

The regression equation in this study is follow:

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

$$Y_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_3 * Z$$

Description:

$Y_i$  = Company Value

$X_1$  = *risk profile*

$X_2$  = *Good Corporate Governance (GCG)*

$X_3$  = *earnings*

$X_4$  = *capital*

$Z$  = *Islamic Social Reporting (ISR)*

$X_3 * Z$  = Interaction between earnings and ISR

$\alpha$  = constant parameters

$\beta_1, \beta_2, \beta_3, \beta_4$  = Multiple regression coefficients

### 3. Results and Discussion

#### 3.1. Results

This descriptive analysis aims to describe the research variables to be easily understood by analyzing average, maximum, minimum, mean, and standard deviations values.

	N	Minimum	Maximum	Sum	Mean	Std. Deviation
NPF	29	0,00	0,08	1,19	0,0410	0,01858
Independent board of commissioners	31	0,25	0,75	17,00	0,5484	0,14290
ROE	31	-0,11	0,12	0,82	0,0264	0,03805
CAR	31	0,12	1,63	7,81	0,2519	0,27967
EPS	31	-56490,00	36,34	65247,92	-2104,7716	10220,80916
ISR	31	0,26	0,61	14,12	0,4555	0,08473

Figure 2. Descriptive statistics  
Source: SPSS Data Processed Results, 2021

In figure 2. The minimum, maximum, mean, and standard deviations values for each variables includes:

- NPF has a maximum value of 0.08, while the minimum value is 0.00, with an average (mean) of 0.0410 and a standard deviation value of 0.01858. NPF as an independent variable is free from outliers based on these data.
- The Independent Board of Commissioners has a maximum value of 0.75 while the minimum value is 0.25 with an average (mean) of 0.5484 and a standard deviation value of 0.14290. Based on these data, the Independent Board of Commissioners as an independent variable is free from outliers.

- c. ROE has a maximum value of 0.12, while the minimum value is -0.11, with an average (mean) of 0.0264 and a standard deviation value of 0.03805. Based on these data, ROE as an independent variable is free from outliers.
- d. CAR has a maximum value of 1.63, while the minimum value is 0.12 with an average (mean) of 0.2519 and a standard deviation value of 0.27967. CAR as an independent variable is free from outliers based on these data.
- e. EPS has a maximum value of 36.34, while the minimum value is -56490.00, with an average (mean) of -2104.7716 and a standard deviation value of 10220.80916. EPS as an independent variable is free from outliers based on these data.
- f. ISR has a maximum value of 0.61, while the minimum value is 0.26 with an average (mean) of -0.4555 and a standard deviation value of .08473. ISR as an independent variable is free from outliers based on these data.

### **t-Test**

The t-test was used to test the significance of each variables independently against the dependent variable. Here are the results of the t-test:

<b>Coefficients<sup>a</sup></b>					
Model	Unstandardized Coefficients		t		Sig.
	B	Std. Error			
1	(Constant)	-7,693		-0,719	0,479
	NPF	290,367	0,566	2,747	0,011
	dewan komisaris independen	3,129	0,047	0,216	0,831
	ROE	109,135	0,313	1,451	0,160
	CAR	-14,734	-0,075	-0,389	0,701

Figure 3. The t-Test  
Source: SPSS Data Processed Results, 2021

Hypothesis testing was done using a significance level of ( $\alpha = 5$  percent). Based on the results of the test above, these could be known that the significance of p-value =  $0.011 < 0.05$ , these could be concluded that H1 was accepted and H0 (X1) has a positive and significant effect on EPS (Y). Furthermore, these was known that the significance of p-value =  $0.831 > 0.05$  could be concluded that H1 was rejected and H0 was accepted or the Independent Board of Commissioners (X2) has a negative and insignificant effect on EPS (Y). Furthermore, the significance of p-value =  $0.160 > 0.05$  was concluded that H1 was rejected and H0 accepted or ROE (X3) has a negative and insignificant effect on EPS (Y). Furthermore, the significance of p-value =  $0.701 > 0.05$  then H1 was rejected and H0 accepted or CAR (X4) negatively and insignificantly affects EPS (Y).



### **Moderating Regression Analysis Test (MRA)**

The results of the MRA test aims to determine the relationship of ISR moderation variable with earnings to company values.

<b>Moderating Regression Analysis (MRA)</b>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		$\beta$	Std. Error	Beta		
1	(constant)	194,978	111,363			
	Z.X3	-1515,794	864,119	-2,002	-1,754	0,096

Figure 4. MRA test  
Source: SPSS Data Processed Results, 2021

Based on the table above in the MRA test results, there are ROE variable results (earnings) moderated by ISR obtained a significance value of  $0.096 > 0.05$  which means the ISR variable could not moderate the relationship between earnings and company values, therefore H5 was rejected.

### **3.2. Discussion**

#### **The Effect of Risk Profile on a Company's Value**

The NPF hypothesis has a positive and significant influence on the company (H1 is accepted). It could be said that the higher of the NPF value affected the higher of the company's value. These results showed that the increase in NPF will impact the value of the company. This research is in line with Murni & Sabijono (2018) and did not support Aprilia & Hapsari (2021) and Nurjanah *et al.* (2017). The influence of NPF on the company's value occurs due to the Banks could kept the NPF ratio below 5 percent, these became the reason in this study Non-Performing Loan (NPF) has a significant effect on the company's value. Credit quality can increase the risk if the conditions are poor, especially if did not balanced with applying the precautionary principle. The risk could be the difficulty of returning credit by debtors who could affected the banking performance if has the enough large amount (Murni & Sabijono, 2018). Following the statement means that the value of NPF in Islamic banks could be controlled by management even though the ratio value is high, therefore the feared risk did not occur. This NPF influences the value of the company.

#### **The Effect of Good Corporate Governance (GCG) on Company's Value**

GCG did not affect the value of the company (H2 rejected). These reason due to the high low GCG value projected by the proportion of the board of commissioners is usually done only to fulfil formality requirements. Following existing government rules stipulate that the proportion of an independent board of commissioners should be at least 50 percent of the entire company's board of commissioners. An independent board of commissioners is a board of commissioners who has the role of an independent supervisor in a company to oversee the absence of fraud in the company (Aprilia & Hapsari, 2021). The results of this study in line with the research of Aprilia & Hapsari (2021) and Agustiani (2016), which stated that GCG did not affect the company's value.

### **Effect of Earnings on a Company's Value**

Earnings did not affect the value of the company. This research supported by Ulfa & Asyik (2018) which showed similar results that ROE did not affect the company's value. ROE is useful for measure the rate of return of the company or the effectiveness of the company in make profits by utilizing the equity (shareholder's equity) owned by the company. However, the value of ROE produced in Islamic banking is less than optimal, therefore these did not affect the company's value. In addition, the profit from the stock was not too high, therefore these made the investors hesitant in investing, considering that financial performance is an aspect that prospective investors first assess as a reflection of the company's prospects in the future.

### **The Effect of Capital on a Company's Value**

Capital did not affect the value of the company. This research in line with previous research conducted by Agustiani (2016) and Nurjanah *et al.* (2017), which also suggested that CAR did not significantly affect the company's value. From these results, these was known that no matter how high the low value of CAR in a Bank will not affect the company's value. Investors tend to ignore the CAR factor and more focus on the other factors that can influence to the *return* will be receive. The stock price assesses the company's value indicator. Stock prices could be measured through economic conditions, i.e. by the law of supply-demand or bargaining power. In addition, the stock price was influenced by the market perception of the company's current condition and the achievements they expected in the future. In general, what could affected the stock price is sooner or later the information available in the community. Therefore, it was concluded that CAR could not influence investors to divest their money on stocks (Liyas, 2014).

### **Effect of Earnings on Company Values moderated by ISR**

ISR is unable to moderate the relationship between earnings and corporate values. The results of this study supported by Arum (2020). These was due to the ISR disclosure has not been able to be maximally done by the Banks. Moreover, the nature of the disclosure was still voluntary. From these results, could be said that prospective investors, when they want to invest, are not too concerned with how much ISR disclosure has been done. For them, the information about financial performance could influenced their decision (Fitriyah *et al.*, 2016). Therefore, ISR could not strengthen or moderate the relationship between earnings to the value of the company.

## **4. Conclusion**

Based on the results of the data analysis and discussions that have been done, it could be concluded as follows:

- 1) Risk Profile has a positive and significant effect on the company's value. The results of this study showed that any increased in NPF would affected the value of the company.
- 2) Good Corporate Governance (GCG) has a negative and insignificant effect on the company's value. GCG has no effect due to the proportion of the board of commissioners is usually done only for the fulfilment of formality requirements and could not affected the performance in the company, therefore it was did not affected the value of the company.

- 3) Earnings also have a negative effect and not on the company's value. The results showed that the high low ROE as the company's rate of return was not able to affect the condition of the company's value.
- 4) Capital has a negative and insignificant effect on the value of the company. The results showed that CAR was not yhe one of the factors that could influenced the investor decisions.

Islamic Social Reporting (ISR) could not moderate the relationship between earnings and company values. These was due to the ISR disclosure has not been able to be maximally done by the Banks. Moreover, the nature of the disclosure is still voluntary. discussion section describes the results of data processing, interpreting the findings logically, linking with relevant reference sources.

### **Suggestions**

Based on the research that has been done above, the advice proposed for the next researcher is to use other variables besides NPF, the proportion of the board of commissioners, ROE, CAR and also choose moderation variables other than ISR, therefore the results of the study are different and enhance a different period to obtaine the results more accurate. This study has several limitations: only one variable used in each RGEK method and a limited observation period of 2015-2019.

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