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EXAMINING IMPACT OF MANAGERIAL PRACTICES AND ESG DISCLOSURE ON FIRM VALUE IN INDONESIAN BANKING SECTOR

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Abstract

Managerial practices and governance are critical to a bank's success, as damage to customer trust can severely harm its reputation. Under the supervision of the OJK, banks must adhere to sound principles to meet stakeholder needs and maintain customer trust. This study examines the impact of managerial practices and ESG factors on firm value, using panel data regression to assess the significance of each variable. The analysis includes data from 42 conventional banks listed on the Indonesia Stock Exchange between 2020 and 2024. The variables analyzed—loan growth, NPL, RPT, OEI, HCE, independent commissioners, and ESG—are assessed for their effects on firm value. The results indicate that only size and loan growth are not significantly related to firm value, while other factors exhibit significant impacts. These findings suggest that banks should prioritize effective managerial practices, risk management, and a strong focus on ESG to enhance firm value.

Keywords: Managerial Practices, Governance, ESG, Firm Value, Panel Data Regression

INTRODUCTION

Indonesia's economic development in recent years has led to an increased demand for market funding. The current economic pressures do not allow for the absence of funding, as it is essential to sustain the economic cycle. Strong banking performance contributes to a country's economic development, whereas weak banking performance can lead to a slowdown in economic development (Pokhrel & Poudel, 2025). Maintaining the stability of the banking sector is crucial to keeping customers' trust. The Century Bank case, which occurred in the past, is a clear example of how losing customer trust can lead to significant losses for the country (Melati et al., 2025).

The banking sector in Indonesia faces several challenges, including illegal funding, which arises from weak financial literacy (Hadiyati, 2021). This weakens the financial services sector, as the funds used come from third parties. The Covid-19 pandemic has also contributed to this situation, not only causing a health crisis but also creating instability for customers, making it difficult for them to repay their bank loans (Chakraborty & Maity, 2020).

The banking sector is different from other types of companies because it manages public funds based on trust. In Indonesia, the Financial Services Authority (OJK) plays a key role in ensuring that the banking sector operates effectively and efficiently (Azizah et al., 2025). Understanding the factors that affect the banking sector is crucial, as it provides valuable insights for banking management to improve sector management and increase public trust.

When a bank faces financial difficulties, depositors may panic and trigger a “bank run” (Toft & Jenssen, 2025), threatening both the bank’s stability and the broader economy. Since banks lend out deposits as credit (Pratama et al., 2025), they cannot repay all depositors simultaneously. A mass withdrawal due to loss of trust can cause the bank to default, potentially leading to an economic crisis. This underscores the importance of public confidence and robust risk management in maintaining banking and economic stability.

Following the financial crisis of 2008, which led to a deterioration in the financial services sector, attention to the firm value of banks has increased due to stock market movements (Jallad et al., 2025). The banking sector must disclose information transparently to maintain public and investor trust, thereby managing firm value (Irfan et al., 2024). Firm value is an indicator of the effectiveness of bank management and is crucial for both the public and investors. In this context, Tobin’s Q serves as a key measure for valuing firm's value, providing a comprehensive understanding of the public appraisal of a company (Irfan et al., 2024).

The banking sector is closely linked to the disbursement of credit to the public. In the current economic situation in Indonesia, the provision of credit remains essential to ensure the continuity of business activities (Laratmase et al., 2024). Commercial banks act as intermediaries by collecting funds from third parties and disbursing them as credit to households and businesses (Pratama et al., 2025). For banks, credit disbursement constitutes a core activity, as the primary source of revenue is derived from interest income. Moreover, banks are expected to distribute credit broadly (Abdeljawad et al., 2024), contributing to the overall economic development of the country (Li et al. 2025).

Loan growth indicates the capability of the banking sector to identify investment opportunities, thereby increasing revenue and enhancing the firm value of the bank (Hoang et al., 2020). Bank management should pay close attention to loan growth, as it reflects the essential development of their business activities. Li et al. (2025) found that loan growth has a positive effect on firm value. This finding is consistent with the results of Lai and Goh (2025) and Đàng and Lê (2023). Similarly, Hoang et al. (2020) also reported that loan growth positively impacts bank firm value. Research conducted in Indonesia by Alwi and Fadil (2023) supports the same conclusion as Li et al. (2025), who examined the banking sector in Taiwan.

Moral hazard is a significant concern in the banking sector, particularly when asymmetric information exists between management and stakeholders (Gupta & Jain, 2022). This situation arises when management prioritizes their own interests, neglecting the needs of stakeholders, especially when focusing on credit disbursements without considering the associated risks. Proper risk management must accompany credit disbursements to prevent them from turning into Non-Performing Loans (NPLs). According to Li et al. (2025), NPLs negatively affect firm value. Similar findings were reported by Boussaada et al., (2023) in Europe and Jagirani et al., (2023) in Pakistan. On the other hand, a study conducted in Indonesia by Pracoyo and Ladjadjawa (2020) suggests that NPLs are positively correlated with loan growth, indicating that higher NPLs are associated with increased credit expansion. In contrast, research by Olalere et al. (2020), Kansil et al., (2021), and Halawa et al., (2024) found no significant relationship between NPLs and firm value. Based on the various findings, there is a need to better understand the impact of NPLs on firm value.

Banking sector also has a specific indicator to describe a condition on this banking condition. Related party transactions, the ratio of Operating Expense to Operating Income (OEI), and Human Capital Effectivity (HCE) is some of the indicators that can create the firm value (Li, 2025).

Related Party Transactions (RPTs) can reduce transaction costs, but they may also create conflicts of interest (Supatmi & Batubara, 2022). The banking crisis of 1998 highlighted the issue of excessive related-party credit, which led to ineffective supervision of credit distribution (Sunardi et al., 2024). A study by Farhan and Almaqtari (2023) found that related party transactions have a negative effect on firm value, consistent with the findings of Almaqtari et al. (2022). However, Li et al. (2025) argued that related party transactions do not affect firm value, suggesting that the market does not consider these transactions when valuing firms. Given the varying results in the literature, related party transactions remain an interesting and complex topic for further discussion.

The Operating Expense to Operating Income (OEI) ratio reflects operational efficiency in banking companies. This ratio indicates how effectively financial services are managed. A lower OEI suggests more efficient banking management (Hasanah & Muniarty 2024), while a higher OEI signals inefficiencies in management. Li et al. (2025) found that OEI negatively affects firm value, implying that greater efficiency in bank management can enhance firm value. This finding is supported by studies from Jagirani et al. (2023), Olalere et al. (2020), and Albi et al., (2025), who conducted research in Indonesia. However, Đàng and Lê (2023) argued that OEI has no effect on firm value, suggesting that investor perceptions are not influenced by the operational efficiency of the banking sector.

In the banking sector, employee effectiveness is a crucial factor. Employees who fail to meet targets or fall below minimum productivity levels may face termination, an unwritten policy in many banks (Li et al. 2025). Employees are vital to creating firm value (Kasoga, 2020). According to Li et al. (2025), Human Capital Efficiency (HCE) positively affects firm value, suggesting that the more efficiently resources are allocated to employees, the better the firm's value. This finding is supported by research from Nsour et al., (2021), Barak and Sharma (2024), and Al Ahmed and Aloutaibi (2025), which indicates that improved employee efficiency leads to more optimal productivity and increased firm value. However, Mustafa et al. (2024) found contrary results, suggesting that increased efficiency can reduce firm value, as it may lead to reduced investment in employees, negatively impacting firm performance. Kasoga (2020) warns that budget cuts in employee investment could jeopardize a company's long-term sustainability. The mixed results from various studies highlight the need for further research to better understand the impact of employee effectiveness on the performance of banking sector firms.

The assets of the banking sector reflect the stability of a bank, where larger asset holdings indicate greater prospects for engaging in broader markets (Chowdhury et al., 2024). Several studies have examined the effect of bank assets on firm value. Li et al. (2025) reported that bank assets, when treated as a control variable, have a negative effect on firm value. This finding is consistent with the research conducted by Karim et al. (2024) and Omotoye et al. (2021). On the other hand, Mansour et al. (2025) presented contrasting evidence, showing that bank assets have a positive effect on firm value. The variation in these results highlights an important research gap and makes this topic particularly interesting to explore further.

Corporate governance is also considered an important factor influencing the professionalism and competitiveness of the banking sector (Li et al. 2025). The presence of independent commissioners plays a key role in ensuring that operational activities run effectively and optimally, while also safeguarding stakeholders' interests. Studies by Jagirani et al., (2023a), Ishaya et al., (2025), and Nugroho et al. (2025) found that independent commissioners have a positive effect on firm value. However, Fariha et al. (2022) revealed the opposite, suggesting that independence of commissioners may negatively affect firm value. These mixed findings indicate that the impact of independent commissioners can vary, either enhancing or diminishing firm value, which again makes the issue worthy of deeper investigation.

This research introduces a novel variable, namely Environmental, Social, and Governance (ESG), which is particularly relevant in the current context. Since 2015, the United Nations has declared the Sustainable Development Goals (SDGs) to promote business activities that contribute to the well-being of humanity. The introduction of ESG is aimed at ensuring that businesses focus not only on financial profit but also on balancing social needs. However, the implementation of ESG faces numerous challenges, despite it being a tool for attracting investors (Sutopo, 2025).

Some studies show that ESG has a positive effect on firm value, one of which was conducted by Mansour et al. (2025). This finding is consistent with Prasad and Mondal (2025) and Zheng et al. (2025), who conducted research in China and the USA. Previous studies by Rastogi (2023) and Bakri et al. (2022) also revealed similar results. However, Sutopo (2025) argues that the implementation of ESG in Indonesia still faces many challenges. A study by Negara et al. (2024) suggests that ESG has no significant effect on firm value, which aligns with the findings of Oluwakemi and Mishelle (2025) in South Africa and Chams et al. (2021) in several developing countries across Asia, Europe, and America.

These mixed results highlight the complexity of ESG implementation, particularly in developing countries, where its impact on firm value may be limited. Nevertheless, the ongoing development of ESG practices presents an interesting avenue for further exploration. In Indonesia, the Financial Services Authority (OJK) has already mandated the disclosure of sustainability reports, which provide greater transparency on ESG efforts, offering new perspectives on the topic.

The banking sector plays a crucial role in the economic development of a country, and professionalism in its management should be prioritized. To gain the trust of the public and foster growth, banks must uphold high standards of governance. This research will explore various aspects of banking activities, including managerial practices and ESG, by considering variables such as Non-Performing Loans (NPL), loan growth, related party transactions, Operational Efficiency Index (OEI), Human Capital Efficiency (HCE), and corporate governance factors such as commissioner independence. The aim is to identify the factors that influence firm value and contribute to achieving optimal performance.

This study highlights that while banks must maintain customer trust through effective managerial practices, they also bear responsibilities toward social and environmental sustainability. Focusing solely on managerial practices is insufficient in the current era, as companies are expected to contribute positively to society (Song, 2025), despite some stakeholders perceiving these obligations as burdens or costs. This research addresses the challenge banks face in balancing sound managerial practices with social and environmental responsibilities, in compliance with OJK regulations. The novelty of this study lies in its dual focus—not only on risk management and governance but also on the bank’s role in supporting community and environmental welfare.

REVIEW OF LITERATURE

Loan Growth

Loan growth signals the potential for an increase in a banking company's revenue, as it is closely tied to the disbursement of credit to the public (Hoang et al., 2020). The disbursement of credit is a critical factor for the banking sector to generate revenue and profit (Alwi & Fadil, 2023).

A study by Li et al. (2025) in Taiwan found that loan growth positively impacts firm value, with an increase in loan growth leading to a higher firm value. Similarly, research by Lai and Goh (2025) in the United States produced comparable findings. Furthermore, Alwi and Fadil (2023), in their research conducted in Indonesia, also confirmed this relationship, which aligns with the results of studies conducted outside Indonesia.

Bank revenues largely originate from lending activities, making credit growth a critical aspect of banking operations. Credit growth reflects the bank’s potential to increase earnings, and numerous studies indicate that shareholders consider it a key factor in enhancing profitability and, consequently, firm value. Therefore, credit growth is an important aspect for stakeholders in assessing a bank’s performance and prospects.

Non-Performing Loans

A bank, as a company, cannot focus solely on loan growth without also considering the quality of its loan portfolio. Non-performing loans (NPLs) serve as an important indicator of both the health of the banking sector and the overall economy of a country (Kalkan, 2025).

Research conducted by Li et al. (2025) in Taiwan indicates that NPLs have a negative effect on firm value, with higher levels of NPLs leading to a decrease in firm value. Similarly, Boussaada et al. (2023), in a study conducted in Europe, found comparable results, which were further supported by Jagirani et al. (2023b) in their research on developing countries. On the other hand, Pracoyo and Ladjadjawa (2020) argued that NPLs are a sign of loan growth, suggesting that NPLs may have a positive impact on credit expansion. Their research posits that a higher level of NPLs indicates more aggressive credit sales by banks, which, in turn, can balance the quality of the loan portfolio.

When credit growth occurs rapidly without adequate risk management of non-performing loans (NPLs), it can lead banks into significant losses. Although some studies suggest that NPLs may increase alongside loan growth, their level must be carefully managed to prevent future problems that could undermine customer trust. As NPLs are a critical aspect of banking, poor management of loan quality can erode stakeholder confidence in the bank.

Related Party Transactions (RPTs)

Credit disbursement can be made to both third parties, who have no relation to the bank, and related parties, who are connected to the bank. However, related party transactions (RPTs), which involve credit disbursement to entities with a relationship to the bank, may provide efficiency in transaction costs but also pose the risk of conflicts of (Supatmi & Batubara, 2022). Disbursing credit to related parties may lead to credit analyses being conducted without the application of the precautionary principle.

A study by Farhan and Almaqtari (2023) found that a higher volume of RPTs is associated with a decrease in firm value, indicating a negative impact of RPTs on firm value. These findings are consistent with the research of Bhandari et al. (2022) conducted in developed countries, specifically in the United States. However, this study contrasts with the earlier work of Almaqtari et al. (2022), which showed that related party transactions (RPTs) have a positive effect on firm value. Their results suggest that RPTs can reduce costs and simplify processes, making operations more efficient and potentially increasing banks' income. Nevertheless, other studies have reported opposite results, demonstrating that RPTs may create conflicts of interest that could harm the banking sector if not implemented carefully and properly.

Operating Expense to Operation Income

The effectiveness of banking management should be an important consideration for banking corporations in running their operations. The Operating Expense to Operating Income (OEI) ratio is used to measure operational effectiveness in the banking sector. A study conducted by Li et al. (2025) in Taiwan showed that a lower OEI is associated with a higher firm value, indicating that more efficient management can positively influence the firm's value. This finding is supported by research from Jagirani et al. (2023b) in Pakistan, Olalere et al. (2020) in Southeast Asia, and Albi et al. (2025) in Indonesia. The study shows that more efficient bank management leads to better firm value because shareholders perceive it as an indicator of a promising future for the bank.

Human Capital Efficiency

Human capital Efficiency is an important indicator for measuring the performance of human resources in achieving the goals and objectives of a company. Human capital plays a vital role in banking companies, acting as an intangible asset (Li et al. 2025).

A study conducted by Li et al. (2025) in Taiwan found that the more efficient the expenditure on human capital, the higher the firm value, indicating a negative effect. This suggests that by efficiently utilizing human capital, a company can maximize its workforce's potential, enabling them to achieve organizational goals, which in turn increases firm value. Greater effectiveness in managing human capital can also help avoid layoffs and enhance stakeholder value. This finding is supported by research from Nsour et al. (2021) in Jordan, Barak and Sharma (2024) in India, and a study conducted by Al Ahmed and Aloutaibi (2025) in Arab countries. However, Mustafa et al. (2024), in a recent study in Jordan, presents an alternative view, arguing that more efficient expenditure on human capital may negatively affect performance, thereby leading to a decrease in firm value. It shows that the utilization of human capital needs to be carefully considered, where the company must invest in human capital for development, while also ensuring the effectiveness that human capital contributes to the company in their respective roles.

Independent Commissioner

Corporate governance is also an important factor in the banking sector to ensure the proper functioning of a bank (Ito, 2024). By implementing corporate governance, a company can enhance its reputation, as the presence of independent commissioners plays a key role in ensuring its effective implementation (Zahrani et al., 2025).

Research conducted by Jagirani et al. (2023a) in developing countries, Pakistan, Desmiza (2023) in Indonesia, Ishaya et al. (2025) in Nigeria, and Nugroho et al. (2025) in Indonesia, shows that the presence of independent commissioners positively affects firm value. On the other hand, studies by Fariha et al. (2022) in Bangladesh and Otekunrin et al. (2024) in Nigeria suggest that a higher number of independent commissioners may negatively impact firm value. This is because an excessive number of independent commissioners can lead to ineffective coordination and communication, potentially hampering the decision-making process and lowering the firm's value.

Environmental, Social, and Governance

The implementation of Environmental, Social, and Governance (ESG) practices is one of the strategies endorsed by the UN in 2015 for sustainable development, emphasizing that companies should focus not only on financial aspects but also on governance and humanism.

A study conducted by Mansour et al. (2025) in Jordan indicates that ESG has a positive impact on firm value. This finding is supported by additional research conducted by Prasad and Mondal (2025) in India, Zheng et al. (2025) in the United States and China, as well as Rastogi and Singh (2023) in India and Bakri et al. (2022) in Malaysia. On the other hand, the research conducted by Prabawati & Rahmawati (2022) reveals the opposite. The differing understanding across countries reflects the varying perceptions of stakeholders regarding the impact of ESG on firm value. Several studies show a positive influence, as ESG focuses on improving social aspects of society, while the negative impact observed is due to the weak understanding and implementation in certain developing countries.

Firm Size

Banking assets reflect the stability and ability of banks to engage with the broader market (Chowdhury et al., 2024). Many studies have examined the effect of firm size on firm value as a control variable. A study conducted by Li et al. (2025) found that firm size, as a control variable, has a negative effect on firm value. This result is supported by research from

Karim et al. (2024) and Omotoye et al. (2021), which suggest that a larger firm size can lead to more complex operations and management, potentially negatively impacting firm value. However, on the other hand, research by Mansour et al. (2025) revealed that a larger firm size can have a positive effect on firm value, indicating that greater size provides more opportunities for development.

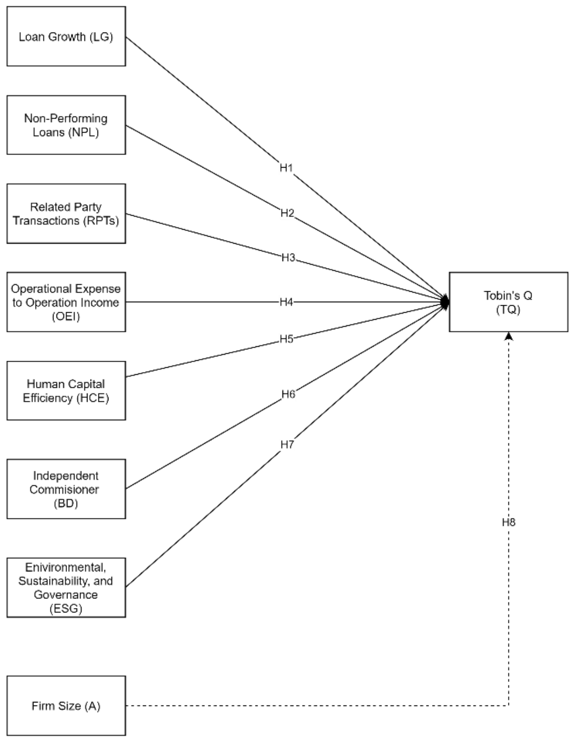

Figure 1
Research Framework

RESEARCH METHOD

This study is conducted using data from banks in Indonesia, utilizing quantitative data from the Indonesia Stock Exchange (IDX) through financial reports, annual reports, integrated reports, or sustainability reports. A purposive sampling method was employed to collect the data, as it focuses on specific objectives. The banks included in this study must meet the following criteria outlined below:

1. Banking companies listed on the Indonesia Stock Exchange since at least 2020.
2. Stocks of the banking companies have not been suspended by the Indonesia Stock Exchange from 2020 to 2024.
3. The banking companies published annual reports, sustainability reports, or integrated reports from 2020 to 2024.
4. The companies provided information about ESG in their sustainability reports, or if not published separately, included it in their annual or integrated reports.
5. The financial reports were published in Indonesian Rupiah (IDR) and not in any other currency.
6. The banks are commercial banks that do not operate under Islamic principles.

Table 1. Sample Selection Criteria

Description	Amount
Banking companies listed on the Indonesia Stock Exchange as of 2020 until 2024	**47**
Sharia banks listed on the Indonesia Stock Exchange	**(4)**
Banking companies that were suspended by the Indonesia Stock Exchange (IDX) between 2020 and 2024	**(1)**
Eligible banks as research subjects	**42**

Source: Data Processing (2025)

This study employs quantitative research using panel data regression to examine the relationship between several independent variables—namely loan growth, non-performing loans (NPL), related party transactions, the ratio of operational expenses to operational income, human capital efficiency, independent commissioners, and environmental, social, and governance (ESG) performance—and the dependent variable, firm value, while controlling for firm size. The analysis is conducted using EViews 13.

Model selection is performed by evaluating three approaches: the common effect, fixed effect, and random effect models. The Chow Test is applied to determine whether the common effect or fixed effect model is more appropriate. A p-value below 0.05 indicates that the fixed effect model is preferred, while a p-value above 0.05 supports the use of the common effect model. Subsequently, the Hausman Test is used to choose between the fixed effect and random effect models; a p-value below 0.05 favors the fixed effect model, whereas a higher p-value suggests adopting the random effect model. Finally, the Lagrange Multiplier Test is used to decide between the common effect and random effect models, where a p-value below 0.05 indicates the random effect model is more suitable, and a higher p-value supports the common effect model. It is a statistical procedure to ensure that the model used in this research is valid, allowing for accurate results in the analysis and the examination of the significance of each parameter.

An F-test is also conducted to assess whether the independent variables collectively influence the dependent variable. The model's explanatory power is further evaluated through the Coefficient of Determination (R-squared), which measures how well the independent variables explain the variance in the dependent variable. An adjusted R^2 value closer to 1 suggests stronger explanatory power, while a lower value implies weaker explanatory capacity. Additionally, descriptive statistical analysis is performed to provide an overview of the data distribution and to detect potential outliers or irregular patterns that might affect the regression results.. The regression model used in this study is shown below:

$$TQ_{it} = \alpha + \beta_1 LG_{it} + \beta_2 NPL_{it} + \beta_3 RC_{it} + \beta_4 BOPO_4 + \beta_5 EY_5 + \beta_6 BD_6 + \beta_7 ESG_7 + \beta_8 A_8 + \varepsilon_{it}$$

Table 2. Operational Definition of Variables

Variable Type	Variable Name	Symbol	Formula	Reference
Dependent Variable	Firm Value (Tobin's Q)	TQ	$\frac{MVE + D}{TA}$	Li et al. (2025)
Independent Variable	Loan Growth	LG	$\frac{Loan_t - Loan_{t-1}}{Loan_{t-1}} X\ 100\%$	Li et al. (2025)
	Non-Performing Loans	NPL	$\frac{Non\ Performing\ Loans}{Total\ Credit}$	Li et al. (2025)
	Related Party Transactions	RPTs	$\frac{Relationship\ Credit}{Total\ Credit}$	Li et al. (2025)

Variable Type	Variable Name	Symbol	Formula	Reference
	Operating Expense to Operating Income	OEI	$\frac{Operational\ Expense}{Operational\ Income}$	Li et al. (2025)
	Human Capital Efficiency	HCE	$\frac{Profit + Employee\ Cost}{Employee\ Cost}$	Al Ahmed and Aloutaibi (2025)
	Independent Commissioner	BD	Number of independent commissioners in the observation years	Mulenga, et al., (2025)
	Environment, Sustainability, Governance	ESG	ESG index	Anis et al. (2023)
	Asset	A	Ln (Total Asset)	Li et al. (2025)

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

According to Sekaran and Bougie (2016), descriptive analysis is employed to identify and understand trends and patterns in the data, as well as to detect potential anomalies that may warrant further investigation. In this study, the results of the descriptive statistical analysis are presented in the table below.

Table 3. Descriptive Statistic

Variable	Mean	Maximum	Minimum	Std. Dev.	Observations
TQ	1.206259	10.66286	0.100677	0.893296	200
LG	0.132937	7.474598	-0.99882	0.612634	200
NPL	0.033191	0.222700	0.000100	0.026215	200
RPTs	0.059390	0.829963	0.000000	0.143927	200
OEI	0.876405	20.83851	0.103288	1.499863	200
HCE	1.480969	5.370659	-11.95032	1.850748	200
BD	2.830000	7.000000	1.000000	1.207639	200
ESG	1.638867	2.640625	0.976563	0.310009	200
A	31.57408	35.42552	27.99652	1.742871	200

Source: Data Processing (2025)

The results of the descriptive statistical analysis provide several insights that support further investigation. The data show that Tobin's Q (TQ) has an average value of 1.20, with a maximum of 10.66—recorded during the rapid development of digital banks in Indonesia around 2021—and a minimum of 0.10 during the economic slowdown around 2024.

Loan growth shows a minimum value close to zero, indicating that some banks experienced stagnant or no growth in loan disbursement, suggesting that credit expansion was not widespread. The maximum non-performing loan (NPL) ratio reached 22% at Bank Banten, which experienced financial deterioration during the COVID-19 crisis in 2020. Some banks reported no related party transactions (RPTs), such as Bank of India in 2024, Bank Banten in 2024, and Bank Nobu in 2020, resulting in RPT values of zero. Several banks also recorded losses, which caused negative values in human capital efficiency, as the calculation compares employee-related expenses against firm earnings (and losses produce negative outcomes).

In terms of Environmental, social, and corporate governance (ESG) scores, the lowest values were mostly observed in 2020, as this was the initial stage of ESG reporting implementation, when many banks provided only minimal disclosure. The distribution of bank sizes in the sample also varies widely, ranging from small to large institutions, reflecting the diverse structure of the Indonesian banking industry.

Panel Data Model Selection

The study by Fariska and Khaerunisa (2024) indicates that the Chow test and Hausman test need to be conducted when performing regression analysis. This study uses a panel data model.

Chow Test

This test is conducted to analyze the most appropriate model, determining whether to use the common effect model or the fixed effect model. The hypothesis states that if the p-value > 0.05, H0 is accepted, meaning the common effect model is more suitable. Otherwise, if the p-value ≤ 0.05, H1 is accepted, indicating that the fixed effect model is more appropriate. This test helps identify the suitable model to be used in this study.

Table 4. Chow Test

Dependent Variable	Chi-Square	Prob	Decision
TQ	144.289429	0.0000	H_0 *rejected*, use Fixed Effect Model

Source: Data Processing (2025)

Based on the table above, the Chi-square value is 0.0000, which is less than 0.05. Therefore, H_0 is rejected, and the fixed effect model is determined to be the best model to use. Once the fixed effect model is selected, the Hausman test is conducted to determine whether the fixed effect model or the random effect model is more appropriate.

Hausman Test

Since the analysis continues with the Hausman test, this test is used to determine whether the fixed effect model or the random effect model is more appropriate. The study shows that if the p-value > 0.05, H0 is accepted, indicating that the random effect model is appropriate. Conversely, if the p-value ≤ 0.05, H1 is accepted, suggesting that the fixed effect model is more appropriate. This decision helps ensure precision in panel data regression analysis.

Table 5. Hausman Test

Dependent	*Chi-square*	Prob	Decision
TQ	52.696652	0.0000	H0 is rejected, Fixed Effect is selected

Source: Data Processing (2025)

As shown in the table above, the fixed effect model is selected, indicating that the data is consistent for analysis. Since the fixed effect model has been chosen, there is no need to further analyze the Lagrange Multiplier test.

F-Test (Simultaneous Test)

To evaluate the significance in regression, the F-test needs to be conducted. It shows that if the F-test p-value < 0.05, there is a significant simultaneous relationship between the independent and dependent variables. Otherwise, the opposite condition holds. The result is shown below:

Table 6. F-Test

Dependent	F-Statistic	Prob	Decision
TQ	12.20341	0.000000	H_0 Rejected

Source: Data Processing (2025)

Based on the test result above, with a p-value of 0.000 < 0.05, it indicates that all independent variables—loan growth, non-performing loan, related party transactions, operational expense to operating income, human capital efficiency, independent commissioners, ESG, and firm size—are suitable to be used in this research.

Panel Data Regression Model

Based on the research by Fariska and Khaerunisa (2024), regression data analysis is used to determine the significance of each variable. Panel data is employed to assess the impact of each variable, with the results shown below:

Table 7. Panel Data Regression Model

Independent Variable	Dependent Variable		
	Firm Value		
	Coefficient	Probability	Summary
Constanta	2.788786	-	-
LG	0.001853	0.8950	No Significance
NPL	-1.349653	0.0226*	Negative Significance
RPTS	0.407892	0.0196*	Positive Significance
OEI	-0.113964	0.0272*	Negative Significance
HCE	-0.059001	0.0397*	Negative Significance
BD	0.039611	0.0111*	Positive Significance
ESG	-0.577802	0.0000*	Negative Significance
A	-0.017106	0.7537	No Significance

*α = 5%

Source: Data Processing (2025)

Based on the regression data above, the results are as follows:

1. The P-value for loan growth (LG) is 0.8950, which exceeds the significance level of α = 0.05. This indicates that Loan growth does not have a significant effect on firm value. Therefore, this finding does not support the hypothesis that loan growth has a relationship with Firm Value.
2. The P-value for Non-Performing Loans (NPL) is 0.0226, which is below the significance level of α = 0.05 and coefficient -1.349653. This indicates that NPL has a significant negative effect on firm value and supports the hypothesis that NPL has a significant impact on firm value.
3. The P-value for Relationship Party Transactions (RPTs) is 0.0196, which is less than α = 0.05, with a coefficient of 0.407892. This indicates a positive and significant relationship, showing that RPTs have a significant positive impact on firm value.
4. Operating Expense to Operating Income (OEI) has a p-value of 0.0272, which indicates a significant effect. With a coefficient of -0.113964, it shows a negative relationship, meaning that OEI has a negative significant effect on firm value. This result suggests that as OEI increases, firm value decreases.
5. Human Capital Efficiency (HCE) shows a p-value of 0.0397, which is below 0.05, indicating a significant effect. With a coefficient of -0.059001, this result demonstrates that Human Capital Efficiency has a negative significant effect on firm value.

6. Independent Commissioner (BD) has a p-value of 0.0111, which is below 0.05, indicating a significant effect. With a coefficient of 0.039611, this result shows that Independent Commissioners have a positive significant effect on firm value.
7. Environmental Sustainability and Governance (ESG) has a p-value of 0.0000, which is less than 0.05, showing a significant effect. With a coefficient of -0.577802, this result indicates a negative relationship between ESG and firm value.
8. Firm Size (A) has a p-value of 0.7537, which is greater than 0.05, indicating no significant effect. This result suggests that Firm Size does not have any significant impact on firm value.

Loan Growth to Firm Value

The hypothesis posited that loan growth has a significant effect on firm value, as measured by Tobin's Q. However, the analysis revealed a p-value of 0.8950 for loan growth, which exceeds the significance level (α = 0.05), indicating no significant relationship between loan growth and firm value. This result contrasts with the findings of Li et al. (2025), Lai and Goh (2025), Đàng and Lê (2023), and Hoang et al. (2020). On the other hand, it aligns with the study by (Purnomo, 2023). It is crucial to note that loan growth in banks should be accompanied by high-quality loan bookings. Without a focus on the quality of bookings, loan growth alone may pose risks to the bank's performance. Therefore, this research underscores the importance of balancing loan growth with quality, as loan growth by itself does not appear to significantly affect firm value. In banking companies, it is possible that credit growth alone cannot improve the bank’s performance, as the business operations of the company are inherently full of risks.

Non-Performing Loan to Firm Value

The hypothesis posited that Non-Performing Loans (NPL) have a significant effect on firm value, and the results of this research confirm that NPL has a negative significant effect on firm value. Specifically, higher NPL levels are associated with a decrease in firm value. This finding is consistent with the previous discussion that loan growth alone does not affect firm value, but booking quality, as reflected in NPL, does have a significant impact. When a bank’s loan quality deteriorates, it can lead to instability, which may eventually result in bankruptcy and erode customer trust. These results are in line with the studies of Li et al. (2025), Boussaada et al., (2023), and Jagirani et al., (2023).

When a bank is able to maintain the quality of its loan bookings, as reflected in the Non-Performing Loan (NPL) ratio, the company will gain the trust of its shareholders, thus ensuring that its firm value remains in a good condition. Additionally, maintaining high-quality loan bookings reflects strong moral governance in management. Good moral standards foster trust and help preserve the company’s value, whether in conventional or sharia economic contexts. (Kamal, 2025).

Related Party Transactions to Firm Value

The results of this research indicate that related party transactions have a positive and significant effect. This contrasts with the findings of Farhan and Almaqtari (2023), Almaqtari et al. (2022), and Bhandari et al. (2022). Related party transactions can lead to more efficient transaction costs (Supatmi & Batubara, 2022). However, to ensure that related party transactions remain beneficial, it is important to maintain proper risk management practices, especially in relation to credit disbursement. This ensures that despite engaging in related party transactions, the quality of loan booking can still be effectively managed.

Operating Expense to Operating Income (OEI) to Firm Value

The results of this research indicate that OEI has a negative significant effect, suggesting that a lower OEI is associated with a higher firm value. This finding aligns with the research conducted by Li et al. (2025), which states that lower OEI leads to more efficient management. A lower OEI is beneficial for banking corporations as it enhances operational efficiency, contributing to a more sustainable and effective company. This outcome also aligns with the studies by Jagirani et al. (2023b) in Pakistan, Olalere et al. (2020) in Southeast Asia, and Albi et al. (2025) in Indonesia.

Efficiency levels need to be carefully considered to ensure that bank management operates effectively in generating revenue. By working efficiently, the company's earnings can increase by utilizing available resources, ensuring that expenditures are not wasted but instead contribute to generating good income. This reflects strong moral principles in work, which are emphasized in both conventional economic concepts and, particularly, in the implementation of Islamic economics (Suandi et al., 2025).

Human Capital Efficiency to Firm Value

Human Capital Efficiency (HCE) shows a negative significant effect on firm value. This indicates that higher efficiency levels among employees are associated with more effective utilization of human capital, which in turn generates greater profit for the company. A more effective workforce in achieving organizational goals leads to better performance and, ultimately, an increase in firm value. This result is consistent with the findings of Li et al. (2025) in Taiwan, Nsour et al. (2021) in Jordan, Barak and Sharma (2024) in India, and Al Ahmed and Aloutaibi (2025) in Arab countries.

By utilizing the workforce to achieve the company's objectives, shareholders can recognize that employees working effectively contribute additional value to the company. Companies that employ workers must do so optimally to generate added value, rather than merely employing them without producing measurable results.

Independent Commisioner to Firm Value

Independent commissioners are closely related to the implementation of corporate governance. Their presence ensures that the company operates effectively (Zahrani et al., 2025). This finding aligns with the results of this research, which show that the presence of independent commissioners has a positive significant effect on firm value. Their role is crucial in ensuring that the company functions ideally, thereby enhancing firm value. This research is consistent with the studies by Jagirani et al. (2023a) in developing countries, Pakistan, Desmiza (2023) in Indonesia, Ishaya et al. (2025) in Nigeria, and Nugroho et al. (2025) in Indonesia.

Environment, Social, and Governance (ESG) to Firm Value

The results of this research contradict those of other studies, such as the one conducted by Mansour et al. (2025) in Jordan, Prasad and Mondal (2025) in India, Zheng et al. (2025) in the United States and China, Rastogi and Singh (2023) in India, and Bakri et al. (2022) in Malaysia. While their research found a positive effect of ESG (Environmental, Social, and Governance) on firm value, this study shows that ESG has a significant negative effect on firm value. This result is consistent with research conducted by Prabawati & Rahmawati (2022) in ASEAN countries as a whole. The implementation of ESG in Indonesia still faces several challenges (Sutopo, 2025), who argues that stricter ESG regulations may limit the flexibility of banking companies. For instance, requirements to support green initiatives or green credit could restrict business expansion. While ESG can offer long-term benefits, early-stage implementation in Indonesia has led investors to not yet perceive it as a factor that can increase firm value.

Firm Size to Firm Value

The results of this research show that firm size has no significant impact on firm value. This contrasts with the findings of Li et al. (2025), Karim et al. (2024), and Omotoye et al. (2021). The study suggests that, regardless of whether the bank is large or small, managerial practices should be prioritized for implementation to ensure smooth operations. Firm size does not control managerial practices or ESG implementation. This indicates that everyone should focus on ensuring that banking practices, such as maintaining quality bookings, maximizing human capital utilization, ensuring corporate governance, and properly implementing ESG practices, are carried out effectively regardless of the bank's size.

Goodness of Fit Test

This test is conducted to determine whether the independent variables collectively affect the dependent variable. The results of the simultaneous model are shown below:

Table 8. Goodness of Fit Test

Dependent Variable	R Squared	Model Summary Adjusted R-Squared
TQ	0.790507	0.725729

Source: Data Processing (2025)

The results show that the adjusted R-squared value is 0.725729, indicating that the independent variables—such as loan growth, non-performing loans, related party transactions, the ratio of operational expenses to operating income, human capital efficiency, independent commissioners, environmental sustainability, governance (ESG), and firm size—can collectively explain approximately 72.57% of the variation in firm value. The remaining 27.43% is attributed to other factors. Therefore, a strong relationship exists between the independent variables and the dependent variable, firm value.

This result highlights the novelty introduced in this study, demonstrating that management practices focused on ensuring effective banking operations must also consider factors related to governance, community empowerment, and other relevant aspects. When these factors are addressed simultaneously, they can positively influence the firm's value.

CONCLUSION

This research shows that specifically, Non-Performing Loans (NPL), Operational Expense to Income ratio (OEI), Human Capital Efficiency (HCE), and Environmental, Social, and Governance (ESG) performance have a negative significant effect. This suggests that maintaining the quality of loan bookings and increasing efficiency in banking operations will enhance the firm value of banks. On the other hand, Related Party Transactions (RPT) show that efficient transaction practices can positively influence the bank's value, while independent commissioners have a positive significant effect, indicating that effective corporate governance, when properly implemented and monitored, leads to an increase in firm value. The lack of significance for loan growth suggests that growth alone cannot be considered a significant factor, as it needs to be balanced with the quality of loan bookings.

A bank, as an institution, must prioritize public trust to ensure its long-term sustainability. Therefore, managerial practices must be emphasized to ensure smooth operations. Banks in Indonesia are also regulated by the OJK (Financial Services Authority) to ensure that banking operations are conducted properly, with a focus on maintaining corporate governance, effective managerial practices, and the proper implementation of ESG standards. This study shows that, whether large or small, banks must focus on managerial practices, as this is crucial for a trust-based business that must cater to shareholder needs.

This research was conducted in conventional banks, but the same principles can be applied to Islamic banks, especially given their adherence to stricter regulations. Therefore, aspects related to morality and managerial practices should receive even more attention in this context. This research did not consider macroeconomic or microeconomic factors, which provides an opportunity for future studies to incorporate these factors and examine their impact on managerial practices. Such an approach would broaden the scope of the discussion, extending beyond managerial practices within the banking sector. Future research could consider adding factors such as the capital adequacy ratio, macroeconomic variables like GDP and inflation, or exploring other ESG-related variables like Corporate Social Responsibility (CSR) to further enrich the findings. By incorporating these factors, future research could provide a more comprehensive analysis, considering broader aspects of the real economy.

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