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The Influence of Electronic Banking on Company Value with Profitability as a Mediator Variables

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Electronic Banking, Mobile Banking, Profitability, Company Value.

Abstract

This study examines the impact of electronic banking, specifically mobile banking, on profitability and its subsequent influence on firm value, drawing upon the Resource Based View (RBV) theory to elucidate the relationship between variables. The research is conducted using data from banking companies listed on the Indonesia Stock Exchange (IDX) during the period from 2017 to 2020. A total of 40 companies per year are sampled using purposive sampling methods, with documentary data sourced from annual reports and financial reports. The findings of the study reveal a positive and statistically significant effect of electronic banking on profitability. However, the relationship between electronic banking and firm value is positive yet not statistically significant. Utilizing the Sobel test, it is demonstrated that profitability acts as a mediator in the relationship between electronic banking and firm value. In summary, this research contributes to understanding how electronic banking, particularly mobile banking, impacts profitability and subsequently influences firm value within the Indonesian banking sector. The study underscores the importance of profitability as a mediating factor in the relationship between electronic banking and firm value, providing insights for banking industry stakeholders and policymakers.

1. Introduction

The rapid development of technology necessitates services that are accessible to customers wherever and whenever they require them. Information technology (IT) advancements are particularly advantageous for enhancing financial services, especially in the banking sector. Electronic banking, which involves the use of the internet to deliver products and services directly to customers through electronic communication channels (Vora & Motwani, 2021), exemplifies this trend.

The evolution of IT has propelled banks to provide more efficient services, eliminating the need for customers to visit physical branches for transactions. Instead, they can conduct transactions through electronic banking services, offering convenience in tasks such as fund transfers, bill payments, and balance inquiries via banking websites or smartphone applications.

Profitability demonstrates a company's ability to generate profit from its assets. Return on Assets (ROA) measures a company's efficiency in generating profits from the assets it employs. Increased industry ROA signifies growth potential (Khaerunisa, 2021). Technological utilization can streamline operational costs, thereby boosting bank profitability. The COVID-19 pandemic has accelerated the adoption of electronic channels for transactions, reducing reliance on cash and emphasizing the need for effective and efficient transaction services.

Market capitalization reflects a company's performance and growth prospects, influencing investor sentiment and share prices (Harahap et al., 2018). A company demonstrating strong performance and profitability attracts investor interest, leading to increased market capitalization. Electronic banking enhances banking profitability by providing secure, convenient, and comfortable transaction services. As the volume of electronic transactions and users increases, profitability rises, contributing to higher market capitalization.

Investments in technology, exemplified by PT Bank Negara Indonesia (Persero) Tbk, have enhanced the company's performance.

BNI's Director of IT and Operations, Mr. YB Hariantono, highlights the shift in consumer behavior towards digital services amid the pandemic, with mobile banking users increasing by 50.4% in Q1 2021 compared to the previous year. BNI's focus on sustainable business growth underscores the importance of leveraging digital innovations to maintain competitiveness (newssetup.kontan.co.id, 2021).

The Resource-Based View (RBV) theory posits that a company's strategic advantage lies in its unique and valuable resources, which, when utilized optimally, contribute to sustained competitive advantage (Wernerfelt, 1984; Barney, 1991). Companies with abundant and valuable resources can innovate in digital banking services, driving long-term profitability and attracting investor attention.

In conclusion, leveraging technology and embracing digital banking services enhance profitability, attract investors, and ensure sustainable business growth in the banking sector. As companies capitalize on their resources to innovate and improve service offerings, they position themselves for long-term success in the evolving digital landscape.

2. Literature Review

2.1. Theory (Resources Based View)

The Resource-Based View (RBV) theory, initially proposed by Wernerfelt in 1984, underscores the pivotal role of resources as the cornerstone of competitive advantage and their consequential impact on company performance. RBV serves as a managerial framework utilized to ascertain the strategic allocation of resources within an organization. According to Wernerfelt (1984), resources encompass a broad spectrum of tangible and intangible assets that contribute to a firm's strengths or weaknesses.

Tangible assets may comprise physical entities such as machinery, capital, and facilities, while intangible assets include intellectual property, knowledge, brand equity, and technological expertise. By highlighting the significance of resources, the RBV theory underscores their role as fundamental determinants of competitive prowess. Firms endowed with valuable and rare resources can leverage them to establish a sustainable competitive edge over their counterparts.

In essence, the RBV theory provides a structured approach for firms to evaluate their resource endowment, pinpoint sources of competitive advantage, and devise strategies that capitalize on their distinctive strengths. By recognizing the strategic importance of resources, companies can optimize their utilization to augment performance and attain enduring success in the marketplace.

2.2. Electronic banking

Electronic banking, as defined by Vora & Motwani (2021), refers to the utilization of the internet as a means of providing products and services directly to customers through electronic communication channels. This mode of banking offers several advantages to financial institutions, including cost reduction, enhanced service quality, and broader access to company offerings. Moreover, in line with the regulations set forth by the Financial Services Authority (OJK), digital banking, as outlined in regulation no. 12/POJK.03/2018, is characterized by the optimization of customer data to facilitate swift, convenient, and personalized service delivery that can be accessed independently. This definition underscores the potential of electronic banking to bolster profitability by streamlining operational processes and minimizing associated costs.

By leveraging digital platforms, banks can automate routine transactions, mitigate the need for physical infrastructure, and efficiently utilize customer data to tailor services to individual preferences. These advancements not only contribute to cost savings but also enhance customer satisfaction and retention, ultimately driving profitability for banking institutions. In essence, electronic banking serves as a catalyst for financial institutions to adapt to evolving consumer preferences, optimize operational efficiency, and foster

sustainable growth in an increasingly digital landscape. Through strategic adoption and innovation in electronic banking services, banks can realize tangible benefits, including heightened profitability and competitive advantage in the marketplace.

2.3. Profitability

Profitability, as described by Muchlis et al. (2021) and Khaerunisa (2021), is a metric that reflects a company's capability to generate profits from the business activities it conducts over a specific period. It signifies the proficiency or adeptness of a company in accruing earnings from its operational endeavors within a defined timeframe. This definition underscores that profitability represents the financial gains a company achieves through its endeavors undertaken during a particular period, serving as an indicator of the company's success.

2.4. The value of the company

Company value, as elucidated by Harahap et al. (2018) and Martha et al. (2018), encapsulates the performance achievements and growth prospects of a company, gauged through investor reactions and the fluctuations in its share price. A higher share price signifies elevated company value, reflecting shareholder prosperity. Company value embodies the reputation earned by a company through its operational endeavors. High company value serves as a magnet for investors, enticing them to allocate their capital into the company. This definition underscores the significance of company value as a crucial indicator within society. It portrays company value as a manifestation of the share price dynamics: a soaring share price denotes a lofty company value, whereas a plummeting share price signifies diminished company value.

2.5. Framework thinking theoretical

The success of a company, as underscored by the RBV theory posited by Wernerfelt (1984), hinges on the optimization of resources to enhance competitive prowess and performance. Electronic banking, particularly during the Covid-19 pandemic, has emerged as a catalyst for banking profitability by fostering a surge in online transactions, thereby bolstering financial services' efficiency and speed. This optimization of banking resources toward digital innovation not only garners superior competitiveness but also augments investor value perception.

Company success is gauged by profit increments, signifying robust performance, while profit declines indicate subpar performance. Company value, reflected in share prices, escalates with soaring share prices, enticing investor capital infusion, and depreciates with plunging share prices, indicating diminished company value. The proliferation of electronic transactions in banking augments profitability, thus amplifying company value in investors' eyes.

Optimal resource utilization to fortify competitive advantage and enhance company performance fuels share price escalation, bolstering investor confidence. The provision of efficient and effective services by banks underscores their capacity for continuous improvement, thereby appealing to investors seeking promising investment avenues. In conclusion, the theoretical framework delineates the interplay between variables, accentuating the symbiotic relationship between electronic banking, profitability, company performance, and investor value perception:

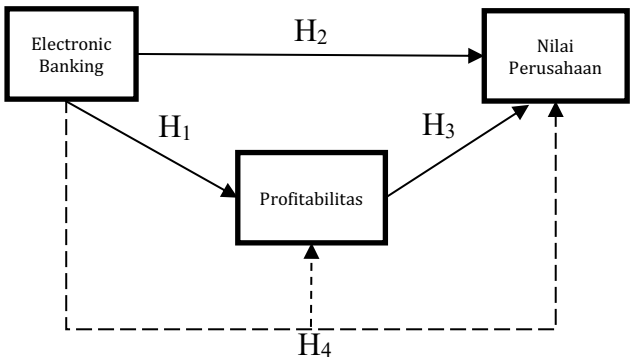

Figure 2.1
Research Framework

Based on the theoretical thinking above, the hypothesis in this research is:

H_1 : Electronic banking has a positive and significant influence on profitability.

H_2 : Electronic banking has a positive and significant influence on company value.

H_3 : Profitability has a positive and significant influence on company value .

H_4 : Profitability mediates electronic influence banking on company value .

3. Research Methods

The population under study comprises all banking companies listed on the Indonesia Stock Exchange (BEI) between 2017 and 2020. Data, sourced from financial and annual reports published by these companies during the stipulated period, served as the foundation for the research. Employing a purposive sampling method, the sample selection adhered to specific criteria aligned with the research objectives. The criteria encompassed banking companies listed on the BEI throughout the 2017-2020 timeframe, ensuring completeness of financial and annual reports, reporting in Indonesian rupiah, and providing comprehensive information relevant to the variables under investigation.

Documentary data, sourced from annual reports of banking companies listed on the IDX during 2017-2020, constituted the dataset for this study. Utilizing secondary data, acquired indirectly from the official website of the Indonesian Stock Exchange (www.idx.co.id), facilitated a comprehensive analysis. Electronic banking, defined as the utilization of internet and telecommunications networks to offer efficient services to bank customers, particularly through mobile banking, formed a central focus of this research. Measurement of electronic banking variables entailed the summation of mobile banking transactions.

Profitability, denoting a company's adeptness at accruing profits from its operational endeavors within a specified period, was gauged using the Return on Assets (ROA) ratio. Calculated as the quotient of Earnings After Tax to Total Assets, ROA signifies a company's efficiency in generating profits from its asset utilization. Company value, representing the achievements and growth prospects of a company as reflected in investor reactions and share price, was quantified using the Price to Book Value (PBV) ratio. A PBV exceeding one indicates market confidence, with high share prices compared to book values.

Data analysis encompassed various statistical tests. The normality test, conducted using the Kolmogorov-Smirnov test, confirmed the normal distribution of data. Multicollinearity testing, employing tolerance and Variance Inflation Factor (VIF), revealed the absence of multicollinearity in both substructures. Autocorrelation testing, utilizing the Durbin-Watson test, confirmed the absence of autocorrelation. Finally, the heteroscedasticity test, performed using the Glejser test, indicated no heteroscedasticity in both substructures, thereby affirming the reliability of the regression models utilized.

4. Results and Discussion

The research objects used in this research are all banking companies listed on the Indonesia Stock Exchange (BEI) as a population as outlined in the form of financial reports and annual reports for the 2017-2020 period. Sample selection used the purposive sampling method. The number of companies that meet the sample criteria for each year is 40 companies out of a total of 47 companies listed on the Indonesia Stock Exchange so that the total data analysis unit is 160 samples.

4.1 Research result

a. Descriptive Analysis

Descriptive analysis provides an overview or description of data that makes the information clearer and easier to understand, as seen from the average (mean), minimum, maximum and standard deviation values (Ghosali , 2012:19).

Table 4.2 Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Mobile Banking	160	0	6,321,000,000	102,070,400.7	613,894,710.2
Profitability	160	-0.1123	0.0313	0.003	0.0211
The value of the company	160	0.2124	38	1,936	3.1227

Source: SPSS Data Processing Results (2022)

The purpose of the descriptive analysis results is to evaluate the quality of research data, reflected in the mean and standard deviation. Generally, a higher mean compared to the standard deviation indicates better data quality. The descriptive statistics in table 4.2 indicate that there were 160 observations in total. Mobile banking, assessed by the number of mobile banking transactions, exhibits a mean value of 102,070,400.7 with a standard deviation of 613,894,710.2. This suggests that the data distribution is skewed, as the standard deviation exceeds the mean. The minimum and maximum values for mobile banking transactions are 0 and 6,321,000,000, respectively. Profitability, measured by ROA, has a mean value of 0.003 and a standard deviation of 0.0211. Similarly, the standard deviation surpasses the mean, indicating a skewed data distribution. The range for profitability extends from -0.1123 to 0.0313. Company value, evaluated via PBV, shows a mean value of 1.936 and a standard deviation of 3.1227. Again, the standard deviation exceeds the mean, indicating skewed data distribution. The company value ranges from 0.2124 to 38.

b. Coefficient of determination test results

The coefficient of determination (R2) aims to measure the ability of the independent variable to influence the rise and fall of the value of the dependent variable.

Table 4.4 Results of the Coefficient of Determination (R2)

	R	R Square	Adjusted R Square
Substructure 1	0.592	0.351	0.327
Substructure 2	0.802	0.644	0.617

Source: SPSS Data Processing Results (2022)

In substructure equation 1, the adjusted R-squared value is 0.327, indicating that 32.7% of the variability in the profitability variable (Y1) is explained by the electronic banking variable, especially mobile banking (X1). The remaining 67.3% of the variability is attributed to other unexamined variables in this research. In substructure equation 2, the adjusted R-squared value is 0.617, meaning that 61.7% of the variability in the company value variable (Y2) can be explained by both the mobile banking variable (X1) and profitability (Y1). The remaining 38.3% of the variability is accounted for by other variables not included in the model of this study.

c. F test

The F test is a test carried out to show whether the independent variables have a joint influence on the dependent variable (Ghozali, 2012:98).

Table 4.3 F Test Results

Variable Dependent	Variable Independent	F	Sig.
Profitability	Mobile Banking	15,114	0.001
The value of the company	Mobile Banking Profitability	24,394	0,000

Source: SPSS Data Processing Results (2022)

Based on the F-test or simultaneous test, substructure equation 1, which examines the influence of electronic banking, especially mobile banking, on profitability, yields a significance value of 0.001, indicating a significance level less than 0.05. This implies a significant and positive influence simultaneously between mobile banking and profitability. Therefore, it can be concluded that the model established in substructure equation 1 is robust. Similarly, in substructure 2, which investigates the combined influence of mobile banking and profitability on company value, the significance value is 0.000, also less than 0.05. This signifies a significant and positive influence of both mobile banking and profitability simultaneously on company value. Thus, the model constructed in substructure 2 is deemed satisfactory.

d. Path Analysis Results (Path analysis)

Path analysis involves utilizing a regression model to forecast the association between the independent and dependent variables. The structural equation formulated based on the path diagram model is as follows:

Substructure Equation 1

Y1 = py1x1 + ε1
= 0.592x1 + 0.820

Substructure Equation 2

Y2 = py2x1 + py2y1+ ε2
= 0.173x1 + 0.688y1 + 0.619

Information:

Error (ε) = $\sqrt{(1 - \text{adjusted } R^2)}$

$\varepsilon_1 = \sqrt{(1 - \text{adjusted } R^2)} = \sqrt{(1 - 0.327)} = 0.820$

$\varepsilon_2 = \sqrt{(1 - \text{adjusted } R^2)} = \sqrt{(1 - 0.617)} = 0.619$

Based on the formulated structural equation, substructure equation 1 indicates that electronic banking, particularly mobile banking, positively influences profitability. On the other hand, substructure equation 2 reveals that mobile banking does not directly affect company value. However, profitability exhibits a positive impact on company value. This suggests that an increase in profitability will statistically enhance company value.

Table 4.5 Results of Path Equation Analysis

Model Structure	Standardized Beta	Sig.	Information
Substructure 1			
(Influence to Profitability) Electronic Banking	0.592	0.001	Significant
Substructure 2			
(Influence to Mark Company)			
Electronic Banking	0.173	0.236	No Significant
Profitability	0.688	0,000	Significant

Source: SPSS Data Processing Results (2022)

The analysis results of the path model in table 4.5 show the results of data processing for the analysis model with two path equations used in this research, namely:

1. The influence of electronic banking, particularly mobile banking (X1), on profitability (Y1) yielded a positive path coefficient value of 0.592, with a significance probability of 0.001. Therefore, it can be statistically concluded that mobile banking significantly and positively influences profitability, with a coefficient of 0.592.
2. The influence of electronic banking, namely mobile banking (X1), on company value (Y2), resulted in a coefficient of 0.173 with a significance probability of 0.236. Thus, statistically, it can be concluded that mobile banking positively influences company value, but the influence is not significant, with a coefficient of 0.173.

3. The influence of the profitability variable (Y1) on company value (Y2) showed a positive coefficient of 0.688 with a significance probability of 0.000. Hence, it can be statistically concluded that profitability significantly and positively influences company value, with a coefficient of 0.688.
4. There is no direct influence of mobile banking variables on company value; instead, it influences company value indirectly through profitability, calculated as (0.592) * (0.688) = 0.407 or 40.7%.

e. t Test Results

The t-test is employed to assess the individual impact of independent variables on the dependent variable. The decision-making criterion for the t-test is based on the significance value: if it is > 0.05, the hypothesis is rejected; if it is < 0.05, there is a significant partial influence, and the hypothesis is accepted. The results of the t-test are discussed as follows:

1. Mobile banking has an influence coefficient of 0.592 with a significance probability of 0.001 < 0.05. Therefore, it can be concluded that mobile banking has a positive and significant influence on profitability. Hence, Hypothesis 1 stating that mobile banking significantly and positively influences profitability is acceptable.
2. Mobile banking has an influence coefficient of 0.173 with a significance probability of 0.236 > 0.05. Consequently, it can be concluded that while mobile banking has a positive influence on company value, it is not significant. Therefore, Hypothesis 2, which states that mobile banking significantly and positively influences company value, is rejected.
3. Profitability has an influence coefficient of 0.688 with a significance probability of 0.000 < 0.05. Hence, it can be concluded that profitability significantly and positively influences company value. Therefore, Hypothesis 3, which states that profitability significantly and positively influences company value, is accepted.

f. Testing Direct Effect, Indirect Effect, and Total Effect

The results of statistical testing regarding testing direct influence, indirect influence and total influence can be explained in table 4.6 below:

Table 4.6 Analysis of Direct Effect, Indirect Effect, and Total Effect

Influence Variable	Influence Direct	Influence No Direct (Via Y_1)	Total Influence
X_1 against Y_1	0.592	-	0.592
X_1 against Y_2	0.173	-	0.173
Y_1 against Y_2	0.688	-	0.688
X_1 against Y_2	-	0.407	0.407

Source: Processed Data (2022)

Information:
X_1 = Mobile Banking
Y_1 = Profitability
Y_2 = Company Value

Based on the results of the indirect influence analysis in table 4.6 above, it shows that the influence of mobile banking (X_1) to company value (Y_2) through profitability (Y_1) is 0.407. This indirect influence value is obtained from the product of the coefficient between the variables X_1 and Y_1.

g. Sobel Test Results (Sobel test)

Mediation hypothesis testing can be conducted using the Sobel test, which assesses the strength or significance of the indirect influence of the independent variable on the dependent variable through the mediator variable. The coefficient (ab) is derived by

multiplying the direct influence of the independent variable on the mediator variable (a) with the direct influence of the mediator variable on the dependent variable (b). To test the significance of the indirect effect (ab), the ratio between the coefficient (ab) and the standard error is calculated, yielding a t-statistical value.

Table 4.7 Sobel Test Results

Combination Variable	Estimated Value		Standard Error		p value of Sobel Test
Mobile banking against mark company through profitability	0.001	104,081	0.0003	21,566	0.00609311

Source: Calculations with the help of statistics programs calculators version 4.0, https://www.danielsoper.com/statcalc/calculator.aspx?id=31

Sobel test analysis in Table 4.7, the influence of mobile banking (X_1) on company value (Y_2) through profitability (Y_1) has a probability value of 0.00609311 < 0.05. This shows that profitability (Y_1) mediates the mobile relationship banking (X_1) to company value (Y_2), accepted.

4.2 Research Discussion

a. Influence of Electronic banking on Profitability

The findings of this study reveal that electronic banking, particularly mobile banking, exerts a positive and significant impact on profitability. As evidenced by the standardized regression coefficient of 0.592 and a significant probability of 0.001 < 0.05 displayed in Table 4.5, it is evident that the increasing adoption of mobile banking contributes to higher profits or profitability within the company.

These results align with previous research conducted by Arofany & Tandika (2019), Vora (2021), and Bochaberi & Job (2021), which similarly concluded that electronic banking, especially mobile banking, positively and significantly influences company profitability. However, these findings stand in contrast to the results obtained by Muchlis et al. (2021) and Chindudzi et al. (2020), who reported a negative impact of electronic banking on profitability. Their research suggested that electronic banking led to increased internet fees and commissions, thereby elevating costs and potentially diminishing profitability by reducing total bank assets.

b. Influence of Electronic banking on Company Value

The analysis reveals that electronic banking, specifically mobile banking, has a positive yet insignificant influence on company value. This is evident from table 4.5, which displays a standardized regression coefficient of 0.173 and a significance probability of 0.236 > 0.05. These findings suggest that an increase in electronic banking transactions does not directly impact company value. These results diverge from the findings of Moridu (2020), who investigated the influence of electronic banking on the value of banking companies.

Their research indicated that the surge in digital banking transactions, particularly mobile banking, only partially affected company value, attributed to customer discomfort and hesitancy in adopting electronic banking services. However, the present study suggests that while electronic banking, specifically mobile banking, does have a positive impact on company value, it is not statistically significant. This lack of significance may be attributed to the limited number of companies disclosing mobile banking transaction data in their annual reports, hindering a clearer understanding of the direct influence of mobile banking on company value.

c. The Effect of Profitability on Company Value

The Sobel test results demonstrate that profitability mediates the influence of electronic banking on company value. This is evidenced by the p-value of the Sobel test in Table 4.7, which is 0.00609311. Since this value is less than the significance level α = 0.05, it indicates a significant mediating role of profitability in the relationship between electronic banking and company value.

5. Closing

5.1 Conclusion

Based on the results of testing and data analysis conducted in this research, the following conclusions can be drawn:

1. Electronic banking, particularly mobile banking, has a positive and significant impact on profitability. This indicates that an increase in mobile banking transactions correlates with an increase in company profitability.
2. Electronic banking demonstrates a positive but insignificant influence on company value. This suggests that while mobile banking transactions are on the rise, they do not directly impact company value. Company value is influenced by various factors and processes, thus mobile banking does not have a direct effect on it.
3. Profitability has a positive and significant influence on company value. This implies that as profitability increases, so does the company's value.
4. Profitability serves as a mediator in the relationship between electronic banking and company value. The increased transactions through mobile banking contribute to profitability, fostering investor confidence in the company's ability to maintain and enhance profitability. This, in turn, positively affects the company's value.

These conclusions highlight the importance of profitability in enhancing company value and the role of electronic banking, particularly mobile banking, in driving profitability and ultimately influencing company value through investor perceptions and trust.

This research has several limitations which can be used as reference material for future researchers who wish to develop this research, namely:

1. Deep this research , electronic banking only be measured with using the mobile banking variable.
2. This research is limited on company registered banking on the Indonesian Stock Exchange in 2017-2020 so that No possible For generalization for other listed sector companies on the Indonesian Stock Exchange.
3. This research only uses 1 independent variable and 1 mediating variable , however Still Lots there are other variables that can used For support information For this research.

5.2 Suggestion

Based on the findings and limitations in this research, researchers can provide recommendations that can be taken into consideration for future research, namely:

1. It is hoped that further research can add several other variables that may have an influence on company value.
2. It is hoped that further research will add longer years of observation. Thus, the research results are expected to represent existing banking companies as a whole.

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