Research Article

The Effect of Profitability Ratios on Bank Soundness with GCG Reports as a Moderator: Case Study at PT. BPR BKK Purwodadi (Perseroda) 2020-2024

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Abstract: This study aims to determine the extent to which certain profitability ratios, such as ROA and ROE, influence bank health, moderating these variables using Good Corporate Governance reports. A quantitative approach is used in this study, and secondary data from previous years are required for testing, sourced from PT. BPR BKK Purwodadi's report data. These findings demonstrate that companies with high profitability have incentives to maintain bank health, as this reflects effective operational and managerial performance. Furthermore, organizations with good corporate governance (GCG) generally have greater resources and a robust organizational structure, providing them with more opportunities to maximize performance. This study is expected to provide new perspectives on bank health maintenance practices, particularly for business entities in the banking sector. Particularly in the strategically significant banking industry, the results of this study are crucial for authorities such as the Financial Services Authority (OJK) to understand the relationship between corporate profitability, good corporate governance (GCG), and bank health. This understanding helps in developing more appropriate policies to maintain economic stability and financial fairness. The emphasis on business entities in the regional government-owned banking sector (Perseroda) during 2020 to 2024, a dynamic period with economic fluctuations, banking policy transformations, and major geopolitical challenges, distinguishes this study.

Keywords: Bank Health Level; GCG; Profitability Ratio; ROA; ROE.

1. Introduction

Banks are financial institutions that play a crucial role in a country's economy as financial intermediaries (Ristiani & Santoso, 2018). Bank health is a crucial aspect in maintaining financial system stability in Indonesia. According to Novitasari & Yuliati (2022), bank health can be defined as a bank's ability to carry out its operational activities properly and fulfill all its obligations. Financial reports are closely related to bank health because they serve as an instrument for assessing a bank's condition. Financial reports contain various financial ratios that serve as a reference in assessing bank health. Through analysis of these ratios, a bank's health can be determined (Novitasari & Yuliati, 2022). Bank health assessments are typically measured using the CAMELS (Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk) approach, which encompasses aspects of capital, asset quality, management, profitability, liquidity, and sensitivity to market risk (Muchtar, 2022). Of these components, profitability plays an important role because it shows the extent to which the bank is able to generate sustainable profits to support its operations.

Profitability in banking is typically measured through financial ratios such as Return on Assets (ROA) and Return on Equity (ROE). The higher the profitability ratio, the better the bank's profit-generating performance, which in turn increases customer and stakeholder trust (Wulandari et al., 2020). However, profitability is not the only factor determining bank

health. Good corporate governance (GCG) is also a crucial element in ensuring the sustainability of banking operations.

GCG serves as an internal control mechanism that can moderate the relationship between profitability and bank health. The Organization for Economic Cooperation and Development (OECD) establishes four main principles of Good Corporate Governance: transparency, fairness, accountability, and responsibility (Auli, 2025). The OECD also provides guidelines regarding important aspects of implementing good corporate governance, such as the rights and obligations of shareholders, the rights and responsibilities of stakeholders, fair treatment of shareholders, information disclosure and transparency, and the authority and responsibilities of the board of directors. Banks with high profitability but without good governance potentially face problems such as weak risk management, non-transparent business practices, and the risk of default. Consistent GCG implementation can strengthen the positive impact of profitability on bank health by encouraging efficiency, accountability, and compliance with applicable regulations.

Several previous studies have shown a significant effect of profitability on bank health, but the results are still mixed. According to Soukotta et al., (2025), the ROA and ROE ratios are in the very healthy category, indicating a high level of efficiency and strong capital resilience. Although the ROE ratio declined due to the impact of the pandemic, recovery was clearly visible in 2022. A one-unit increase in ROE, assuming other variables remain constant, will increase the probability of a bank being in a healthy condition (Haryanto & Hanna, 2017). This research gap opens up space to re-examine the role of profitability ratios in relation to bank health, particularly by considering GCG as a moderating variable.

PT. BPR BKK Purwodadi (Perseroda) as a regional financial institution has a strategic role in supporting the local economy through credit distribution and public fundraising. With a business scope focused on the MSME sector, the health of this bank is crucial to maintaining the sustainability of financing in the region. The 2020–2024 period is a dynamic time for the banking sector, marked by the challenges of the COVID-19 pandemic, changes in OJK regulations, and the digital transformation of banking. Therefore, this study is relevant to evaluate how the profitability ratio affects the level of bank health with the GCG report as a moderator at PT. BPR BKK Purwodadi (Perseroda).

This research is expected to provide both practical and academic contributions. Practically, the results can be used as material for management evaluations to improve profitability while strengthening GCG implementation to maintain bank health. Academically, this research is expected to enrich the literature on the relationship between profitability, bank health, and corporate governance, particularly in rural banks in Indonesia.

2. Literature Review

Agency Theory

Agency theory, according to Jensen & Meckling (1976), explains the relationship between owners (principals) and management (agents). In the banking context, managers, as agents, are expected to manage the bank for the benefit of shareholders and other stakeholders. However, differing interests can give rise to agency conflicts. The implementation of Good Corporate Governance (GCG) plays a role in minimizing these conflicts by ensuring transparency, accountability, and adequate oversight. Thus, agency theory is relevant in explaining the relationship between profitability, bank health, and the role of GCG.

Profitability

Profitability reflects a bank's ability to generate profits from its assets (Profitability, n.d.). Commonly used profitability ratios are Return on Assets (ROA) and Return on Equity (ROE). According to Wijaya (2019), profitability indicates how effectively management utilizes resources to generate profits. In banking, profitability plays a crucial role as a health indicator because higher profits indicate a bank's greater ability to meet obligations, expand financing, and maintain financial stability.

H1: Profitability has a positive effect on the level of bank health.

Good Corporate Governance (GCG)

Good Corporate Governance is a system that regulates and controls a company to achieve a balance between the interests of management, shareholders, regulators, and the public. According to Environesia Global Saraya (2025), Good Corporate Governance (GCG) is a crucial element in running a responsible and sustainable business. GCG can strengthen the influence of financial performance on company sustainability by encouraging healthy, transparent, and responsible business practices. In banking, GCG not only increases customer trust but also ensures that profits are managed sustainably.

H_2: GCG reports moderate the relationship between profitability and bank health level.
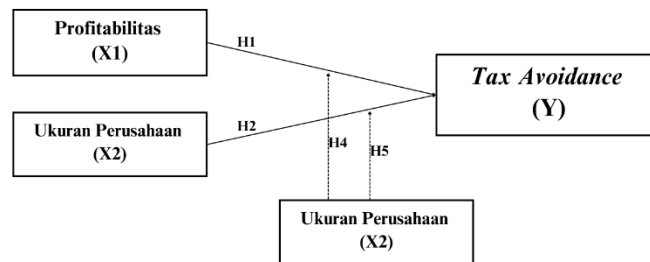

Figure 1. Conceptual Framework.

3. Research Method

This research uses a quantitative method with a case study approach at PT. BPR BKK Purwodadi (Perseroda) during the 2020–2024 period. The data used are secondary data obtained from annual financial reports and Good Corporate Governance (GCG) reports. The study population includes all financial reports and GCG reports for the period, while the sample was determined using a purposive sampling technique based on data completeness. The variables studied consist of profitability as an independent variable measured by the Return on Assets (ROA) and Return on Equity (ROE) ratios, bank health level as a dependent variable assessed using the CAMELS approach in accordance with OJK regulations, and the GCG report as a moderating variable that reflects the application of bank governance principles.

Table 1. Bank Health Level.

Year	Composite Value	Composite Predicate
2020	2.29	Pretty Good
2021	2.20	Good
2022	2.20	Good
2023	2.10	Good
2024	2.83	Pretty Good

Source: GCG Report

Variable Measurement

Table 2. Variable Indicators.

Variables	Indicators
Bank Level Health (Y)	Results of the RGEC method assessment
ROA (X1)	ROA= (Net Profit) / (Total Asset)
ROE (X2)	ROE= (Net Profit) / (Total Equity)
GCG Report (Z)	GCG self-assessment value

Source: Author's elaboration (2025)

4. Results and Discussion

In this section, the author needs to explain the hardware and software used, dataset sources, initial data analysis, results, and results analysis/discussion. Presenting the results with pictures, graphs and tables is highly recommended. Formulas or evaluation measuring tools also need to be included here. There must be discussion/analysis, and you can't just rewrite the results in sentence form, but you need to provide an explanation of their relationship to the initial hypothesis. In addition, this section needs to discuss and elaborate on important findings.

Descriptive Statistics

The following are the results of descriptive statistical tests on the data:

Table 3. Descriptive Statistics.

Variables	Min	Max	Mean	Standard Deviation
Bank Level Health (Y)	0.03	0.03	0.0316	0.00075
ROA (X1)	0.24	0.25	0.2431	0.00431
ROE (X2)	2.10	2.83	2.3240	0.29074

Source: SPSS, Self-processed data (2025)

Descriptive statistical measurements of these variables need to be carried out to see the general data overview such as the average value (Mean), highest (Max), lowest (Min), and standard deviation of each variable, namely X1 (ROA), X2 (ROE), Y (Bank Health Level).

Classical Assumption Test

The following are the results of the normality test on the data:

Table 4. Variable Indicators.

Assumption	Criteria	Results	Information
Normality	Shapiro Wilk Sig. Value (2-tailed) > 0.05	X1 Sig. 0.592 >0.05 X2 Sig. 0.895 > 0.05	Qualified
Autocorrelation	Run test Sig. > 0.05	Sig. 1.000 > 0.05	Qualified
Multicolleniarity	Tolerance > 0.1; VIF < 10	X1 Tolerance 0.620; VIF 1.612 X2 Tolerance 0.620; VIF 1.612	Qualified
Heterokedasticity	Spearman Rho with Sig > 0.05	X1 Sig 0.961 X2 Sig 0.985	Qualified

Source: SPSS, Self-processed data (2025)

From Table 4 in the classical assumption test shows that the research data meets the criteria of normality, indicated by the Shapiro-Wilk value for X1 of 0.592 and X2 of 0.895, both greater than 0.05. The Run Test result of 1.000 (> 0.05) indicates the absence of autocorrelation. In addition, the Tolerance value of 0.620 (> 0.1) and VIF of 1.612 (<10) prove that there is no multicollinearity. The heteroscedasticity test with Spearman Rho also produces a significance value of X1 of 0.961 and X2 of 0.985, both of which are greater than 0.05, so it can be concluded that there is no heteroscedasticity. Thus, all classical assumptions have been met so that the regression model is declared suitable for further analysis.

Hypothesis Testing

Coefficient of determination

The fxollowing are the results of the coefficient of determination test on the data:

Table 5. Coefficient of determination.

Model Summary				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	0.963 a	0.928	0.855	0.11069
a. Predictors: (Constant), X2, X1				

Source: SPSS, Self-processed data (2025)

Based on the Model Summary results, an R value of 0.963 was obtained, indicating a very strong relationship between the independent variables (X1 and X2) and the dependent variable. The R Square value of 0.928 indicates that 92.8% of the variation in the dependent variable can be explained by X1 and X2, while the remaining 7.2% is influenced by other factors outside the model. In addition, the Adjusted R Square value of 0.855 also confirms

that the model has good predictive ability. Thus, the regression model is proven to have a very strong relationship and is able to explain the dependent variable significantly, making it suitable for further analysis.

F-Test (Simultaneous)

The following are the results of the f (simultaneous) test on the data:

Table 6. ANOVA.

ANOVA [a]

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	0.314	2	0.157	12,798	0.072 [b]
Residual	0.025	2	0.012		
Total	0.338	4			

a. Dependent Variable: Y
b. Predictors: (Constant), X2, X1

Source: SPSS, Self-processed data (2025)

The F test is used to test whether the independent variables (X1 and X2) simultaneously have a significant effect on the dependent variable (Y). The results of the analysis in the ANOVA table show a calculated F value of 12.798 with a significance level of 0.072. Because the significance value is greater than 0.05, it can be concluded that X1 and X2 together do not have a significant effect on Y. Thus, although the regression model shows a strong relationship, statistically the simultaneous effect of X1 and X2 on Y is not significant at the 95% confidence level.

T-Test (Hypothesis)

The following are the results of the t-test (hypothesis) test on the data:

Table 7. t-Test Results.

Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	5,927	3.165		1,872	0.202
X1	-471,257	93,348	-1,220	-5,048	0.037
X2	46,485	16,313	0.689	2,850	0.104

a. Dependent Variable: Y

Source: SPSS, Self-processed data (2025**).**

The results of the partial test (t-test) show that variable X1 has a calculated t value of -5.048 with a significance of 0.037 (<0.05). This means that X1 has a significant effect on Y with a negative direction of influence, as indicated by the regression coefficient of -471.257. On the other hand, variable X2 obtained a calculated t value of 2.850 with a significance of 0.104 (>0.05), so it can be concluded that X2 does not have a significant effect on Y, even though the regression coefficient is positive at 46.485. Thus, the partial test indicates that only X1 has a significant effect on variable Y, while X2 does not show a significant effect.

Multiple Linear Regression

$$y = 5.927 - 471.257X1 + 46.485X2 + \epsilon \quad (1)$$

a. The constant value of 5.927 indicates that if variables X1 and X2 are zero, then the predicted value of Y is 5.927.

b. The regression coefficient of X1 of -471.257 indicates that every one unit increase in X1 will decrease the value of Y by 471.257, assuming other variables remain constant.

c. Meanwhile, the regression coefficient of X2 of 46.485 means that every one unit increase in X2 will increase the value of Y by 46.485, assuming other variables are constant.

The Durbin-Watson value obtained is 2.04, which is close to 2. This indicates that there is no autocorrelation in the residuals of the regression model, either positive or negative. The absence of autocorrelation indicates that errors in a particular period do not influence each other with errors in the following period, so the constructed regression model meets the assumption of error independence. This condition is especially important for time series data, because if autocorrelation occurs, the regression results can be biased and inefficient.

5. Comparison

The Positive Effect of Profitability on the level of bank health.

Based on the t-test results, the hypothesis 1 that profitability has a positive effect on bank health cannot be fully accepted. This is indicated by the ROA variable, which has a significant but negative effect, while the ROE variable has a positive but insignificant effect. Thus, in general, profitability has not been shown to have a significant positive effect on bank health.

GCG reports moderate the relationship between profitability and bank health level.

The hypothesis 2 that GCG reports act as a moderating variable in the relationship between profitability and bank health is accepted. This means that GCG implementation has been proven to strengthen the influence of profitability on bank health.

6. Conclusions

Based on the research results, it can be concluded that profitability has not fully positively influenced bank health. This is reflected in the significant but negative effect of ROA, while ROE shows a positive but insignificant effect. Therefore, both profitability indicators simultaneously fail to significantly influence bank health. Nevertheless, the Good Corporate Governance (GCG) report has been shown to act as a moderating variable, enabling the implementation of good corporate governance to strengthen the relationship between profitability and bank health. Therefore, bank management should not solely focus on achieving profitability but also improve the implementation of GCG principles to maintain sustainable bank health. For regulators such as the Financial Services Authority (OJK), the results of this study can serve as input to continue encouraging stronger GCG implementation in the banking sector, particularly rural banks (BPR). Meanwhile, future researchers are expected to add other variables, such as liquidity, credit risk, or bank size, as well as expand the sample scope and research period to achieve more comprehensive results and have greater generalizability.

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