Effect of Implementation of Good Corporate Governance, Risk Management and Profitability of Corporate Value towards 4 (Four) BUMN Banks in Indonesia Listed Indonesia Stock Exchange for Period 2014-2018

Pandu Adhitya H.
Student of Magister Management, Perbanas Institute
Jakarta, Indonesia

Abstract:- This study aims to examine corporate governance, risk management, and profitability of the company's value. This research was conducted in 4 (four) banking companies listed in Indonesia Stock Exchange in the observation period from 2014 to 2018 with a total sample of 4 BUMN banking companies. Technical data collection using the method of documentation on the official website of Indonesia Stock Exchange, and Yahoo Finance. This research data using panel data. The results of this study prove that a comprehensive GCG does not affect the value of the company; risk management negatively affect the value of the company: profitability affect the value of the company: GCG no effect on the risk management and GCG does not affect the profitability.

Keywords:- Good Corporate Governance, Risk management, Profitability

I. INTRODUCTION

The purpose of this study alone that is to investigate the influence of GCG implementation, Risk Management and Profitability Against Corporate Value on Company listed in Indonesia Stock Exchange in Indonesia. GCG implementation itself can be measured by a composite score of GCG is the result of self-assessment in the bank concerned. Management of risk is measured by non-performing loans (NPL), and a healthy bank performance can be measured by Return on Equity (ROE) and Return on Assets (ROA), while Corporate Value measured by Tobin's Q (is the ratio between a physical asset;s market value and its replacement value).

In the stock market, the market price means the price that investors are willing to pay for each share of the company. Therefore, the value of the company is investor perception of the company that has always been associated with stock prices. If the company develops and runs smoothly, then the company's stock value will increase, while the value of the company's debt in the form of bonds is not affected at all. So it can be concluded that the value of stock holdings can be an appropriate index to measure the level of effectiveness of the company. Based on these reasons, the financial management objectives expressed in terms of maximizing the value of ownership shares of the company or to maximize the stock price.

The objective of maximizing the stock price does not mean that managers should seek an increase in the value of the shares at the expense of bondholders.

Currently, as a financial institution that plays an important role in supporting the economy in Indonesia, the bank faces risk and increasingly complex challenges. The risks and challenges faced by a bank can be both internal and external.

The internal challenge of a bank can be derived from the management of the bank itself, and the bank external challenges may come from a country's economy where the bank operates. The country's economy which is the holding of a foreign bank operating in Indonesia has also become a challenge for the bank concerned.

With the risks and challenges faced by a bank, it should be carried out assessment or reviews related to the soundness of commercial banks in Indonesia.

Ratings and reviews were done so that commercial banks operating in Indonesia can survive in the face of challenges and mitigate the risks that today's increasingly complex. Currently, the rating of a commercial bank is set up in Bank Indonesia Regulation Number 13/1 / PBI / 2011 on the Assessment for Commercial Banks. The assessment includes the integration of the bank's risk profile, Good Corporate Governance (GCG), profitability, and capital of a bank.

In this study, GCG is represented by a composite score taken from the bank's annual report published by the bank as an independent variable in conjunction with the Corporate Value. Furthermore, risk management and profitability will be the independent variable in conjunction with the Corporate Value. Until now, no consensus has Me-accurately stated on the measurement of banking risks.
However, in this study using of Non-Performing Loans (NPLs) as a proxy of risk management. NPL is one indicator for measuring credit risk. According to Maartin and Repullo (2010), a lot of loans granted by banks who eventually jammed (default), NPL is also less affected by changes related to the applicable accounting standards. Other than that, NPL also uses theoretical models that consider bad loans as the main source of bank instability. For the management of liquidity risk, market risk, operational risk, legal risk, strategic risk, compliance risk, and reputation risk are not examined in this study. It is considering the seven risk is the impact of credit risk.

Earnings are one of the indicators to see the performance of the banking system. According to Joen and Miller (2006), the performance of the bank's profitability. Therefore, the earnings performance represented by ROE and ROA. ROE shows the rate of return provided by the bank to shareholders. The higher the ROE, the better the state of the bank. However, the lower ROE, the worse the bank concerned. While ROA indicates the level of ownership of the assets owned by the bank's corporate value.

Based on the above authors wanted to research state-owned enterprises listed on the Indonesia Stock Exchange in the period 2014-2018 under the title "THE EFFECT OF IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE, RISK MANAGEMENT AND PROFITABILITY OF CORPORATE VALUE IN INDONESIA ON BUMN LISTED IN BEI IN 2014-2018 ".

Based on the above, the formulation of the problem set formulation of the problem in this research are:

- Is there any influence of the Good Corporate Governance Company Values?
- Is there any influence of risk management to the Company Values?
- Is there any influence on the profitability of the Company Values?
- What is the effect of good corporate governance to risk management?
- What is the effect on the profitability of Good Corporate Governance?

II. LITERATURE REVIEW AND HYPOTHESES

- Agency theory A.

Agency theory emphasizes the importance of company owners (shareholders) handed over the management of companies to professionals who understand the daily business running. Based on agency theory, the application of good corporate governance or corporate governance can be explained by the relationship between the management (agent) by the owner (principal).

Party management as an agent has a moral responsibility to improve the profitability and well-being of the owner (principal) and by the management contract as an agent will receive compensation from the owner. The issue of corporate governance can be understood by making the perspective of agency theory as a basis or guideline.

The asymmetric relationship between owners and managers caused by agency theory can be avoided and minimized by creating a framework or concept of Good Corporate Governance (GCG), which will make the company more healthy as a primary goal. According to Jensen and Meckling (1976), the relationship between the owner and the management contract is in line with the agency theory. In the Agency's theory of human nature, there are three assumptions used in the explanation. Three assumptions of human nature, among other human beings, generally concerned yourself (self-interest), humans have limited the power of thought regarding the future perception (bounded rationality), and human beings always avoid the risk (risk-averse) (Eisenhardt (1989)).

Conflicts of interest can occur in business organizations because of the principal as the owner can not always monitor the activities of management to ascertain whether management has worked by the wishes of the principal (Pradnyaswari and Daughter, 2015).

- Risk Management

According to Hanafi (2006), the management of risk is a process to identify, measure, monitor and control the risk and take corrective measures to adjust risk at an acceptable level, so that the bank has a composition of portfolios with risk and return are balanced. Management risk can also be defined as a system of management of the risks comprehensively faced by the organization to enhance shareholder value.

Indonesian banking risk management supervised by Bank Indonesia, the central bank in Indonesia, namely Bank Indonesia Regulation No. 5/8 / PBI / 2013 which is about the implementation of the bank's risk management. Banks are required to manage banking risks through risk identification, risk measurement, risk monitoring, and risk control. Banks are required to manage risks in an integrated and make system management structure necessary to achieve that goal.

According to the Indonesian Bankers Association (2015), the application of risk management in the banking system becomes very important in creating a healthy banking industry and integrated. The role of risk management as a partner of the business unit in achieving business goals becomes an increasingly important bank, where the bank's business is run in the corridors of the risks under control. Application of disciplined risk management at every bank, in turn, will help the process of creating a healthy more and more banking industry. Internal and external environment of banking is growing rapidly along with the risk of a bank's business activities are increasingly complex, requiring banks to apply disciplined risk management and consistent.
The objective of risk management is risk management that includes procedures and methodologies used so that the business of banks remain under control at the limit or the limit of acceptable and profitable bank. The application of risk management will provide benefits to both the banks and bank supervisory authority (Hanafi, 2006).

For banks, the application management risk may increase stakeholder value, give an idea to the managers of the bank regarding the possible losses in the future, improve the methods and decision processes that systematically based on the availability of information, is used as the basis for more accurate measurement of the performance of the bank and assess the risks inherent in the business of banks is complex, Mandatory risk assessed according to the Financial Services Authority Regulation No. 65 / POJK.03 / 2016 concerning Application of Risk Management for Islamic Banks and Islamic Business Unit consists of ten (10) types of risk are credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk, compliance risk, the risk returns, and investment risk. However, some indicators can be measured from ten such risks and required by Bank Indonesia as stipulated in the SEBI 13/24 / DPNP: 2011 Assessment for Commercial Banks to be managed by using ratios such as credit risk, liquidity risk, operational risk, and market risk.

**Signaling theory**

This theory was developed by Ross in 1979. Ross advises companies with substantial leverage could be used as a signal manager optimistic about the future of the company. The signaling theory emerged due to problems of asymmetrical information (a situation where the manager is better informed about the operations and prospects of the company compared to outside investors). In other words, companies that receive credit, giving a positive signal that the company is trusted by banks, so the debt will add value to the company.

**A. Good Corporate Governance**

Good Corporate Governance is defined by IICG (The Indonesian Institute for Corporate Governance) as structures, systems, and processes used by the company's organization to provide value-added companies sustainable in the long term, with due regard to the interests of other stakeholders based on laws and norms which Blake.Berdasarkan Organization for Economic Cooperation and Development (OECD, 2004), Good corporate governance is defined as a system used to direct and control the company's business activities. Corporate Governance regulates the division of duties, rights, and obligations of those concerned about a company, including shareholders, board members, managers, and all the members of non-shareholder stakeholders. The presence of good corporate governance for a company will support the operational activity, in addition to the GCG implementation mechanism of a company should be a major concern of the company to the smooth operation of the company. Each bank must ensure that GCG principles apply to every aspect of business and at all levels of the bank. GCG principles that must be ensured implementation include transparency, accountability, responsibility, independence, and fairness. GCG principles required to achieve sustainability (sustainability) banks by paying attention to the interests of our shareholders, customers, and other stakeholders. Each bank must ensure that GCG principles apply to every aspect of business and at all levels of the bank. GCG principles that must be ensured implementation include transparency, accountability, responsibility, independence, and fairness.

**B. Influence of Good Corporate Governance of the Company Value**

Good Corporate Governance or GCG is a structure that sets the pattern for a harmonious relationship between the role of the Board of Commissioners, Board of Directors, shareholders and other stakeholders. Or can also be summed up as a transparent process for determining the company's goals, achievements, and performance measurement. According to the Forum for Corporate Governance in Indonesia (FCGI, 2001) the purpose of corporate governance is to create added value for all interested parties (stakeholders). Implementation of corporate governance consistently principled on fairness, transparency, accountability, and responsibility are proven to improve the quality of financial reporting.

Some studies that specifically examined the relationship between the application of good corporate governance on firm value, among others carried out by Kawatu (2009) states that the influence commissioners on firm value are significantly positive, while Wahyudi (2010) states that the size of the board significant negative effect on the value of the company. And research conducted by Siallagan and Machfoedz (2006) proved that the independent commissioner significant positive effect on firm value.

Based on the understanding and the results of previous investigators then formed above the first hypothesis, namely:

H1 = Suspected of Good Corporate Governance affect the Company Value

**C. Influence of Risk Management of the Company Value**

Management of risk can occur in every company, management risk can be a barrier to the continuity of the company. Management of risk in this study is proxied on operational risk management in Company listed in Indonesia Stock Exchange as measured using Bank NPL is inseparable from happening. The number of various risks that banks are not active should also be taken with a wide range of operational risk. The risk can be used to determine
the health of the bank itself. The smaller the bank's NPL indicates more efficient in carrying out its business activities so that the better the bank. H2: Risk Management allegedly affects the value of the company.

**D. Effect of Profitability To Value Companies**

Companies that have fairly high profitability will get enough funding so that the company can improve its performance resulting in the increased value of the company. The company generates a profit, then the value of the company will rise as seen from the rise in stock prices. Companies that managed to improve the profitability of each year, it will create a lot of investor interest.

An investor will trust the company that can generate big profits because the return obtained is also large, so it is a positive signal for investors of the company. The state will use the company's managers to obtain sources of capital in the form of shares. From the description above can be hypothesized that the effect on the profitability of the company's value.

**H3: Suspected Profitability affect the value of the company.**

**E. GCG influence on Risk Management**

This study will look at the relationship between the value of the composite GCG with credit risk management in the banking sector. After looking at the relationship between corporate governance with the management of credit risk, then it will be the relationship with earnings management of credit risk and bank capital. Final results are expected from this research is to show the influence of corporate governance on the management of risk is proxied by the ratio of NPL.

**Iannotta, et al (2007)** suggest that GCG positive effect on credit risk management. GCG in the study is proxied by the ownership structure. While Laeven and Levine (2009) state that managerial ownership positively affects risk-taking by banks. Managerial ownership is one indicator of good corporate governance ratings. This is consistent with the theory that a strong incentive equity holders increase risk-taking so that the bank's risk management will also be improved.

**H4: Suspected GCG effect on Risk Management**

**F. Effect on Profitability**

The profitability ratio aims to measure the effectiveness of management by analyzing the performance of large and small levels of corporate profits to the level of sales. Good corporate performance is measured in the value of high profitability will illustrate the high ability of the acquisition of profit (profit) of the company. This study uses indicators ROA, where this ratio aims to measure and assess the managerial ability to make profits by allocating the total assets owned companies. Thus, managers of the company will optimize the effectiveness and efficiency of resource companies with a large profit and the impact on the increase in ROA (Melia, 2015). This is supported by research Abdillah (2015); Lieu (2015); Pratama (2016); and Sarafina & Saifi (2017) found a significant effect on profitability GCG proxied by the ROA. Based on these descriptions, then the hypothesis proposed in this study are as follows:

**H5: Suspected GCG influential Profitability**

![Fig 1: Thinking Framework](image)

**III. RESEARCH METHODS**

**A. Data and Samples**

Research subjects examined in this study is a kind of industrial banking companies listed in Indonesia Stock Exchange in the period 2014 - 2018. The data used in this research is secondary data. Data collection techniques in this study using techniques of documentation, namely collecting secondary data from the annual financial statements (annual report) and the historical stock data.

The financial statements (annual report) downloaded via the official website of the Stock Exchange that www.idx.co.id and through the official website of banking companies in the research samples. And the company's historical stock data downloaded via the website www.yahoofinance.com banking. Sampling in this study using purposive sampling. This study to directly test using panel data regression.

**B. Operationalization Variable**

- **Tobin's Q**

There are several ratios to measure the value of the company, one of Tobin's Q. This ratio is judged to provide the most information is good, because it is used as a measure of the value of the company, and the calculations are not only involving all elements of debt and equity, but all assets owned by the company (Sulistiio and Saifi, 2017).

The reason this study using Tobin's Q, because the elements of the calculation are the market value of common stocks (common stock) and financial liabilities (debt financing). Companies with high Tobin's Q or q> 1.00 indicate that the company has better investment opportunities, has high growth potential, and indicates management is considered good in managing the assets of the company so that in the eyes of investors the company more attractive. Formula Tobin's Q used Sudiyatno and Puspitasari (2010) are as follows:

\[
Q = \frac{MVE + D}{TA}
\]
Corporate Governance (The number of audit committee members)

The Audit Committee is an entity that is different under Commissioner board at least one commissioner, and two experts who are not employees of Company listed in Indonesia Stock Exchange concerned and which is independent both in the implementation of tasks and reporting.

The task of the audit committee includes examining the accounting policies adopted by the company, have internal control, examine the system of external reporting and compliance with regulations. The proxy is measured by the number of audit committee members by Oemar (2014)

AU_quantity: the number of members of the audit

Corporate Governance (Meetings audit)

Audit committee meeting held to discuss the problems that exist in the company's internal financial problems and problems such as violation of regulations. The number of audit committee meetings held to evaluate the quality of financial reporting and improvements that need to be done (Ariningtika and Kiswara, 2013) meeting of the audit committee is required to evaluate management companies in terms of financial statement reporting and adherence to regulations that can improve the quality and effectiveness of the company.

The audit committee meeting also provides an increase in exercise control over the company so that the transparency of the company can be even better. In this study audit Meetings variable-frequency proxy for audit committee meetings in a year (Suharjanto, 2010)

AU_Meet = Number of Audit Committee Meetings In 1 Year

Risk Management

Management of risk in banking is conducted on risk on a few things such as credit risk, liquidity, capital, and operational costs. In this study in use is the credit risk which is the risk faced by the bank due to the debtor is not able to repay the loan principal and interest.

The increase in non-performing loans caused a decline in revenue and earnings, ROA and ROE also decreased (Setiawan, 2016). Therefore, banks need to improve the management of credit risk that the level of problem loans or non-performing loans (NPL) does not exceed the provisions of Bank Indonesia (BI) is a maximum of 5% of total loans. The NPL ratio, under the terms of Bank Indonesia (BI), shows that the bank can manage risk.

Analyzing the problem loans NPLs can use the appropriate formula Circular Letter No. 21/11 / DNPD / 2010:

\[
\text{NPL} = \frac{NPL}{\text{Total Loans}}
\]

Profitability

The company's financial ratios relating to profitability by measuring the ability of companies making a profit or profit on the level of income, assets, equity and share capital certain. By knowing the ROA and ROE, we can assess whether the company has been efficient in using its assets to generate profitable operations. The larger the ROE and ROA, the greater the level of profit achieved by the company and the better the company's position in terms of the use of assets and equity. This, in turn, would increase the company's attractiveness to investors. In this study, Return On Equity (ROE) is used as an indicator of the performance or the performance of the bank. Return On Equity (ROE) is the ratio of net profit after tax measures with their capital. This ratio shows the efficiency of the use of capital owners. The higher this ratio, the better the position means that the owner of the company is getting stronger, and vice versa (Kashmir, 2014). The formula to find the Return On Equity (ROE) can be used as follows:

\[
\text{ROE} = \frac{\text{Net Income}}{\text{Total Equity}}
\]

Return on Assets (ROA) in Kashmir (2014) is a ratio that shows the results (returns) on the number of assets used in the company. Also, the ROA provides a better measure for the profitability of the company as it shows the effectiveness of management in using assets to generate revenue. ROA is getting closer to 1, which means the better the profitability of the company for every existing asset to generate earnings.

\[
\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}
\]

C. Model Research

\[
\text{Tobin’s Qt} = \beta_0 + \beta_1 \text{AU_Quantity} + \beta_2 \text{AU_Meet} + \beta_3 \text{NPL} + \beta_4 \text{ROA} + \beta_5 \text{ROE} + \epsilon
\]

Information :
- Tobin’s Q = Value of the Company
- ROA = Return on Asset
- ROE = Return on Equity
- \(\beta_0\) = Constant
- \(\beta_1, \beta_2, \beta_3\) = The regression coefficient of each independent variable masig.
- AU_Quantity = Number of Audit Committee Member
- AU_Meet = Number of Audit Committee Meetings
- Non-Performing Loan = Management of risk
- \(\epsilon\) = Value mistake or error
IV. RESULTS AND DISCUSSION

Testing the Effect of GCG, RISK management, and profitability Against Corporate Values (H1, H2, and H3).

Best of hypothesis testing results on this model by Chow Test, Hausman and LM Test shows that for appropriate testing models is the Fixed Effects Model.

Overall, this model significantly by Prob F (stat) of 0.000000, which means all independent variables in the model jointly statistically significant affect the dependent variable. This shows that good corporate governance, risk management, and profitability together with a significant explanatory value of the company.

Testing Results Effect Against GCG enterprise value (H1). The results of calculations that test data for the H1 GCG effect on firm value shows the value of the coefficient -1.556610 with prob t-stat 0.1236 (sig at α = 5%). GCG significance value is above 0.05, so it can be concluded that GCG does not affect the value of the company, this means that the hypothesis H1 is rejected. The results of this study indicate that GCG does not affect the value of the company. Variability GCG conducted by the company is not much emphasis on the value of the company. Emphasis on gains or profits derived.

Effect Testing Results from The value of enterprise risk management (H2). The results of the testing data for the calculation of the H2 that examine the effect of risk management to the enterprise value shows the value of the coefficient -4.061713 with prob t-stat 0.0001 (sig at α = 5%). The significant value of risk management is under 0.05, so it can be concluded that the risk management significant negative effect on the value of the company, this means that the hypothesis H2 is rejected. The results of this study showed that the greater the risk management, the lower the value of the company. This may be due to the average banking enterprise risk management caused by bad loans caused by the majority of private companies and government so that the value of the company less attractive to investors.

Effect Testing Results from The value of the company's profitability (H3). The results of the testing data for the calculation of H3 test the effect of profitability on the company's value indicates the coefficient of 3.345280 to 0.0013 prob t-stat (sig at α = 5%). Profitability significance value is below 0.05, so it can be concluded that the profitability of a significant positive effect on the value of the company, this means that the hypothesis H3 is received. The results of this study showed that the greater the profitability of a company, the broader investor in plant shares, reflecting the clarity in the expected revenue of the company investors.

GCG Test Results Against Risk Management (H4). The results of the testing data for the calculation of H4 that evaluated the effects of the Risk management GCG shows 0.160130 with prob coefficient t-stat 0.8731 (sig at α = 5%). GCG significance value is above 0.05, so it can be concluded that GCG does not affect risk management, this means that the hypothesis H4 is rejected. The results of this study indicate that GCG does not affect risk management.

Testing Effect Against profitability GCG (H5). Best of hypothesis testing results by Chow Test, Hausman Test, and LM Test shows that for appropriate testing models is the Random Effect Model. The test result from data for H5 testing the effect of GCG to Profitability, -0.551468 with prob coefficient t-stat 0.5823 (sig at α = 5%). The profitability significance value is above 0.05, so it can be concluded that GCG does not affect profitability, this means that the H5 hypothesis is rejected.

V. CONCLUSION

Based on testing, processing, and analysis has been done, it can be concluded from this study is a comprehensive GCG does not affect the value of the company; risk management negatively affect the value of the company: profitability affect the value of the company; GCG does not effect on the risk management and GCG does not effect on profitability.

REFERENCES


