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The Good Corporate Governance Effect towards FirmValue Mediated by Bank Soundness Ratio

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Abstract:- This research objectives to determine the good corporate governance effect toward the firm value mediated by the bank soundness ratio. This research became performed on commercial bank companies which registered on the Indonesia capital market (IDX) between 2017-2021. The sampling method using the purposive sampling. The sample used was 175 data from 35 commercial bank companies. The panel regression analysis as data analysis technique consisting of 3 variables, specifically the dependent, the independent, and the intervening variable. The outcomes of this research indicated that the good corporate governance affected significantly toward the capital adequacy, the non-performing loan, the return on asset, and the firm value. However, good corporate governance does not affect toward a loan to deposit. The capital adequacy, and the non-performingloan affect the firm value. However, the return on asset and loan to deposit does not affect toward firm value. Furthermore, only the capital adequacy which able to mediate the good corporate governance effect toward the firm value. However, the non-performing loan, the return on asset, and the loan to deposit ratio are unable to mediate the good corporate governance effect toward firm value.

***Keywords**:- Capital Adequacy, Firm Value, Good Corporate Governance, Loan to Deposit, Non-Performing Loan, Return on Asset.*

I. INTRODUCTION

In the 21st century, as widely known, banking management very important to implement good corporate governance. The main trigger for the development of these demands was the crisis that occurred in the banking sector in 1997-2001 which affected a great number of conventional banks, wherein that period as many as 89 conventional banks had to be liquidated (Siswanti, 2021)

Corporate governance has been in the news during the last decade because of many scandals that hit companies that resulted in the collapse of their business due to fraud and unprofessional actions. Public companies in the world such as enron, world com and tyco in the United States, hh insurance and one-tel in Australia, London & commonwealth in the UK as well as jiwasraya and bumiputera in Indonesia, and other countries have sparked discussions about the implementation ofcorporate governance in around the world.

Good corporate governance is a company's effort to create a conducive pattern of relationship between stakeholders and shareholders which is a requirement to realizing better companyperformance to increase firm value. Firm value is an important issue highlighted by investors, shareholders, employees, managers, consumers, and suppliers. The excessive firm value will make the market not only believe the current performance but also the possibilities inside the future.

II. LITERATURE REVIEW

A. Agency Theory

Agency theory is a principle that used to explain and solve the problems in the relationship between business principles and their agents. Jensen and Meckling (1976) describe the agency relationship as an agreement in which one or more persons (principals) employ another individual (agent) to carry out some services on their behalf which includes delegating a few selection-making authority to agents.

B. Signaling Theory

Signaling theory which advanced by Ross (1977), this theory relates to the information asymmetry between company management and other parties who needs information. The signaling theory according to Spence (1974) describes that the sender (the information owner) supply a signal or indication that reflects the circumstance of a corporation that useful to the recipient.

C. Firm Value

The main purpose of the firm value is to increase the value of the firm. So, it will be increasing the owner's or shareholder's welfare (Brigham, 1996). Firm value could be measured by price to book value. A high PBV will increase market confidence in the organization's possibilities and indicate shareholder prosperity. A good PBV also could be a positive signal for investors, where a high PBV reflects the market's willingness to sell or buy shares at a high price because the market believes that the corporation has an awsome prospect.

D. Good Corporate Governance

According to the finance committee of corporate governance (FCCG), good corporate governance is the process and structure that use to manage the company's business activities to increase business growth and corporate accountability (Rahmawati, 2021). The system called Good corporate governance (GCG) regulates the relationship among the roles of shareholders, the role of directors, the board of commissioners, and other stakeholders. Good corporate governance is referred as an obvious system for figuring out the organization's goals, achievement, and performance appraisal.

E. Capital Adequacy Ratio

Capital adequacy is the important bank performance ratio that measures the capital adequacy owned by the bank to help belongings assets that contain or generate risk. For example, credit, investments, securities, bank bills, and others (Saputri & Supramono, 2021).

Furthermore, the capital adequacy means the amount of own capital required to cowl the risk of losses that arise from investing in risky assets and all fixed assets and bank inventories.

F. Non-Performing Loan

A non-performing-loan ratio is the total of non-performing loan to total loans disbursed to the public. Hakim and Sugianto (2018)explain that non-performing-loans is one of the important bank indicators in assessing the function of the bank itself, as an intermediary institution of liaison among parties who have extra finances and the people who need funds. In accordance to the Indonesian Central Bank regulation no.13/24/DPNP 2013, the maximum non-performing-loan is 5%.

G. Return On Asset

The return on asset is the financial ratio that indicates the return onused corporation assets. The higher return on asset, the betterproductivity of assets in obtaining profits. The return-on-asset could help investors to see how well the company converts its investment in assets into profit. Higher return on asset will be positive information for shareholders. Otherwise, the lower return on asset describes the company was not efficient in utilizing its resources in generating profits (Debora, 2021).

H. Loan to Deposit Ratio

The loan-to-deposit ratio is the level of assessment of the bank'sfinancial performance in measuring the level of bank liquidity by comparing total credit with total third-party funds. The loan to deposit aims to measure how far the bank's ability to paid all the public funds and their capital by doubling the loansthat have been distributed to the public (Sarjono & Suprapto, 2018).

III. RESEARCH METHOD

This studies method has whose cause to analyze statistic data with certain techniques and begins with the data collection stage. The causal model used as studies design. A causal analysis used as causal relationship that descriptive to check the hypothesis approximately the effect of one or more independent variable toward the dependent variable. This analysis explains how the independent variable (good corporate governance) can affect the dependent variable (firm value) with the mediating variable in this study, specifically the bank soundness ratio (the capital adequacy, a non-performing loan, the return on asset, and the loan to deposit).

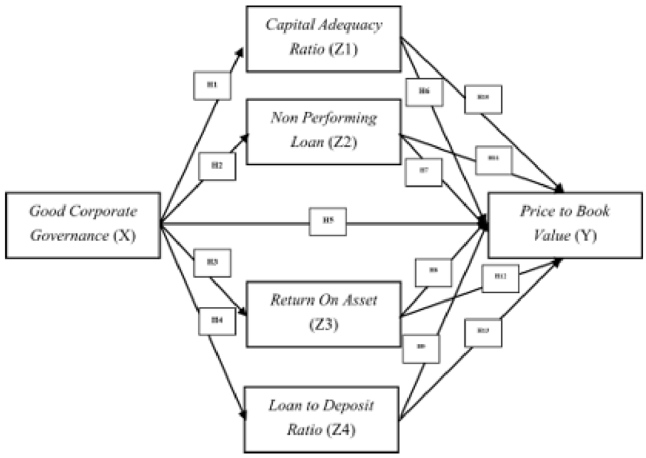

Fig 1. Conceptual Framework

Eviews 10 software program used as data processing to carried out and to decide which the best model of regression as well as to test the chosen model.

A. Population

The population means the whole subject or anything that is the focal point of the study. The populationin this research are commercial bank companies registered on the Indonesia capital market for the period 2017 – 2021. 43 commercial banks registered on the capital market of Indonesia (Indonesia Stock Exchange) are the population in this research.

B. Sample

This research using a purposive sampling method. Specifically samples that will be taken primarily based on certain standard to get a representative sample in accordance with predetermined standard or criteria. The sample in this research can be visible in table 1.

Criteria	Number
Commercial bank companies registered on the Indonesia capital market in 2021	43
Commercial banks whose did not publish the financial report for the period 2017 - 2021	(4)
Commercial banks whose did not publish the corporate governance report on theirwebsite for the period 2017 - 2021	(4)
Studies Samples	**35**

Table 1. Population & Sample

IV. RESULT AND DISCUSSION

The data in this research are all of information from commercial bank's financial statements and good corporate governance reports from 2017 - 2021 are 35 companies registered in the Indonesia Stock Exchange.

The data has been gathered by way of the steps in the data collection method discussed in advance then processed into facts that can be analyzed statistically.

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❖ *Statistic Descriptive Analysis*

	GCG	CAR	NPL	ROA	LDR	PBV
Mean	1.942857	25.14526	3.564971	0.928457	86.16394	1.740343
Median	2.000000	21.64000	2.940000	1.060000	84.76000	1.200000
Maximum	3.000000	98.07000	22.27000	4.740000	163.1000	14.67000
Minimum	1.000000	9.010000	0.080000	-8.500000	29.67000	0.130000
Std. Dev.	0.463796	11.86340	2.538402	1.919047	20.45211	1.715724
Skewness	-0.205148	2.396490	3.286054	-1.380998	0.889557	3.578610
Kurtosis	4.553726	11.69053	20.74491	6.735139	5.641146	22.55805
Jarque-Bera	18.83006	718.2141	2610.959	157.3533	73.94402	3162.711
Probability	0.000081	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	340.0000	4400.420	623.8700	162.4800	15078.69	304.5600
Sum Sq. Dev.	37.42857	24488.81	1121.166	640.7969	72782.24	512.2056
Observations	175	175	175	175	175	175

Table 3. Result Statistic Descriptive

The statistic descriptive analysis is a wellknown description of theresearch variables. The following is study data that has beenanalyzed descriptively.

- The outcomes of the analysis descriptive of the good corporate governance variable shows that the mean value is 1.94. The minimum value is 1.00, while the maximum value is 3.00.
- The outcomes of the analysis descriptive of the capital adequacy ratio variable shows that the mean value is 25.14, the minimum value is 9.01, while the maximum value is 98.07.
- The outcomes of the analysis descriptive of the non-performing loan variable shows that the mean value is 3.56, the minimum value is 0.08, while the maximum value is 3.56.
- The outcomes of the analysis descriptive of the return on asset variable shows that the mean value is 0.92, the minimum value is 8.50, while the maximum value is 4.74.
- The outcomes of the analysis descriptive of the loan to deposit variable shows that the mean value is 1.74, the minimum value is 29.67, while the maximum value is 163.10.
- The outcomes of the analysis descriptive of the price to book value variable shows that the mean value is 1.74, the minimum value is 0.13, while the maximum value is 14.67.

A. *Panel Data Regression Analysis Results*

The regression of the panel data analysis turned into executed with three process, particularly checking out the common effect model, fixed effect model, and the random effect model estimation which is the application of the model carried out in this research to select which technique is the first-class to select in selecting regression of panel data.

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.939336	(34,135)	0.0000
Cross-section Chi-square	141.444012	34	0.0000

Fig. 4 Chow Test

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	16.042716	5	0.0067

Table 4. Hausman Test

To select one of the fittest models from the 3 types of panel data models above, a test is executed on each model. The best model used in this research is the fixed effect model (FEM) due to after going through another two model selection tests, FEM is the pleasant version model selected for this research.

➢ *R-Square Test Result*

To specify the quality model of research in this research used the coefficient of determination or R^2 test that can be visible from the coefficient of determination value (adjusted R-Squared). The following are the calculation outcomes using Eviews 12:

R-squared	0.604218	Mean dependent var	1.740343
Adjusted R-squared	0.489881	S.D. dependent var	1.715724
S.E. of regression	1.225416	Akaike info criterion	3.442069
Sum squared resid	202.7219	Schwarz criterion	4.165449
Log likelihood	-261.1810	Hannan-Quinn criter.	3.735492
F-statistic	5.284530	Durbin-Watson stat	1.916544
Prob(F-statistic)	0.000000		

Table 5. R-Square Test

The outcomes of the R-square test which shows in table 5, explained that model of the fixed effect has an Adjusted R-squared value of 0.489 or 48.9% that means the influence of the variables in this research is 48.9% and the remaining 51.1% is influenced by other variables which are not explained and excluded in this research model.

B. *T- Statistical Test Results*

To prove whether or not the independent variable is significant on the dependent variable individually using the T statistical test.

➢ *The good corporate governance effect toward the capital adequacy*

Dependent Variable: CAR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.54827	4.225893	3.442649	0.0008
GCG	5.454333	2.155601	2.530308	0.0125

Table 6. GCG on CAR t Test result

The outcomes of t-test which shows in table 6, it could be visible that the probability value is 0.01. At a significance level lower than 0.05. This means good corporate governance affects on the capital adequacy ratio. In addition, hypothesis 1 is accepted. It could be concluded that the good corporate governance has a positive effect toward the capital adequacy ratio.

➢ *The good corporate governance effect toward the non-performing loan*

Dependent Variable: NPL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.185295	1.064489	1.113488	0.2674
GCG	1.224833	0.542989	2.255725	0.0256

Table 7 GCG on NPL t Test result

The outcomes of t-test which shows in table 7, it could be visible that the probability value is 0.02. At a significance level lower than 0.05. This means good corporate governance affects toward the non-performing loan. In addition, hypothesis 2 is rejected. It could be concluded that good corporate governance has a positive effect toward non-performing loan.

- *The good corporate governance effect toward the return on asset*

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.713581	0.684230	-1.042896	0.2988
GCG	0.845167	0.349021	2.421532	0.0167

Table 8. GCG on ROA t Test result

The outcomes of t-test which shows in table 8, it could be visible that the probability value is 0.01. At a significance level lower than 0.05. This means good corporate governance affects toward return on asset. In addition, hypothesis 3 is accepted. It could be concluded that good corporate governance has a positive affect toward return on asset.

- *The good corporate governance effect towardthe loan to deposit*

Dependent Variable: LDR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	76.82851	7.516965	10.22068	0.0000
GCG	4.805000	3.834355	1.253144	0.2123

Table 9. GCG on LDR t Test result

The outcomes of t-test which shows in table 9, it could be visible that the probability value is 0.21. At a significance level higher than 0.05. This means good corporate governance does not affect toward loan to deposit. In addition, hypothesis 4 is accepted.It could be concluded that good corporate governance does not affect on loan toward deposit ratio.

Dependent Variable: PBV

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.331380	0.983482	-1.353741	0.1781
GCG	1.039519	0.382111	2.720464	0.0074
CAR	0.049612	0.014670	3.381989	0.0009
NPL	-0.130146	0.064509	-2.017465	0.0456
ROA	0.175590	0.094828	1.851674	0.0663
LDR	0.001225	0.008239	0.148633	0.8821

Table 10. GCG, CAR, NPL, ROA & LDR on PBV t Test result

- *The good corporate governance effect toward firm value*

The outcomes of t-test which shows in table 10, it could be visible that the probability value is 0.00. At a significance level lower than 0.05. This means good corporate governance affects toward the price to book value. In addition, hypothesis 5 is accepted. It could be concluded that good corporate governance has a positive effect toward the price to book value.

- *The capital adequacy effect toward firm value*

The outcomes of t-test which shows in table 10, it could be visible that the probability value is 0.00. At a significance level lower than 0.05. This means the capital adequacy affects toward the rice to book value. In addition, hypothesis 6 is accepted. It could be concluded that the capital adequacy ratio has a positive effect toward the price to book value.

- *The non-performing loan effect on firm value*

The outcomes of t-test which shows in table 10, it could be visible that the probability value is 0.04. At a significance level lower than 0.05.This means the non-performing loan affects toward the price to book value. In addition, hypothesis 7 is accepted. It could be concluded that the non-performing loan does not affect toward price to book value.

- *The return on asset effect on the firm value*

The outcomes of t-test which shows in table 10, it could be visible that the probability value is 0.06. At a significance level higher than 0.05. This means the return on asset does not affects toward the price to book value. In addition, hypothesis 8 is rejected. It could be concluded that the return on asset does not affect toward the price to book value.

- *The loan to deposit effect on the firm value*

The outcomes of t-test which shows in table 10, it could be visible that the probability value is 0.88. At a significance level higher than 0.05. This means the loan to deposit does not affect toward the price to book value. In addition, hypothesis 9 is accepted. It could be concluded that the loan to deposit ratio does not affect toward the price to book value.

C. Sobel Test Results

The Sobel test was used to prove whether the intervening variables (the capital adequacy ratio, the non-performing loan, the return on asset, and the loan to deposit ratio) were able to mediate the good corporate governance effect as an independent variable on the price to book value as a dependent variable.

	t-Count	t-Table
GCG → CAR → PBV	2.06562	1.97385
GCG → NPL → PBV	-1.55418	1.97385
GCG → ROA → PBV	1.46460	1.97385
GCG → LDR → PBV	0.13937	1.97385

Table 11. Sobel Test result

- *The good corporate governance effect toward the firm value mediated by the capital adequacy*

The results of sobel test which shows in table 11, it could be visible that the capital adequacy as an intervening variable t-count value of 2.065 is higher than t-table value of 1.973. This means the capital adequacy is capable to mediate the good corporate governance effect toward the firm value. In addition, hypothesis 10 is accepted.

- *The good corporate governance effect toward the firm value mediated by the non-performing loan*

The outcomes of sobel test which shows in table 11, it could be visible that the non-performing loan as an intervening variable t-count value of -1.554 lower than t-table value of 1.973. This means the non-performing loanis unable to mediate the good corporate governance effect toward the firm-value. in addition, hypothesis 11 is accepted.

- *The good corporate governance effect toward the firm value mediated by the return on asset*

The outcomes of sobel test which shows in table 11, it could be visible that the return on asset as an intervening variable t-count value of 1.464 lower than t-table value of 1.973. This means the return on asset is unable to mediating the good corporate governance effect toward the firm value. In addition, hypothesis 12 is rejected.

- *The good corporate governance effect toward the firm value mediated by the loan to deposit*

The outcomes of sobel test which show in table 11, it could be visible that the loan to deposit as an intervening variable t-count value of -1.554 lower than t-table value of 0.139. This means the loan to depositis unable to mediate the good corporate governance effect toward the firm value. In addition, hypothesis 13 is accepted.

V. CONCLUSION

In this study, there are 1 dependent variable, 1 independent variable, 4 intervening variables. Data analysis using the regression method of the panel data, which is a combination of the time series and cross-sectional data. The good corporate governance and the capital adequacy has a positive significant effect toward the firm value, the non-performing loan has a negative significant effect toward the firm value. Otherwise, the return on asset and the loan to deposit ratio has no significant effect toward the firm value. Furthermore, good corporate governance has a positive and significant effect toward the capital adequacy, the non-performing loan, and the return on asset, otherwise the good corporate governance has no significant effect toward the loan to deposit. Based on the above outcomes, it could be concluded that commercials bank in Indonesia has to increase the level of good corporate governance, and asset efficiency to maximize profits, andalso decrease the level of a non-performing loan. The capital adequacy becomes one of performed ratio. However, commercial banks still hold the cash, consequently loan distribution is stagnant which making banks could not generate profit from the loan interest as one of the biggest income in the banking business. The Sobel test outcomes define only the capital adequacy which capable to mediate the good corporate governance effect toward the firm value. Otherwise, a non-performing loan, the return on sset, and the loan to deposit ratio unable to mediate the good corporategovernance effect toward the firm value. It could be explained that commercialbanks in Indonesia needs to use the deposit as efficiently aspossible to generate profit. The higher deposit out, the higher income. The collection department have to fix thecollection system due to increase performed loan. Higherperformed loan, higher profit will be taken.

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