The Effect of Good Corporate Governance Mechanism and Financial Performance on Firm Value of Banking Sector Listed on Indonesia Stock Exchange (BEI) Period of 2012 – 2016

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Abstract:- This study aims to determine the effect of Good Corporate Governance mechanism and Financial Performance on firm value in banking companies. The method used in this research is research method of descriptive associative. The analytical tool used is multiple linear regressions, processed by using SPSS program version 23. The results obtained are partially there is a negative influence of Good Corporate Governance mechanism (independent board of commissioner, institutional ownership, and audit committee) on the value of the company and there is positive influence profitability (ROE) on firm value. While simultaneously, there is influence together mechanism of Good Corporate Governance and profitability to company value. The suggestion is that companies should consider the implementation of Good Corporate Governance and to measure the company's financial performance can use other measurements such as ROA and NPM. While to measure the company's value can also use other measurements such as Price Earnings Ratio (PER) or Tobin's Q.

Keywords:- *Good Corporate Governance, Profitability, Firm Value.*

I. INTRODUCTION

One of the purposes of establishing a firm is to maximize the firm value that can be reflected in its share price. High firm value can increase prosperity for shareholders, so shareholders will invest capital into the company (Haruman, 2008). The firm value formed through the stock market indicator is heavily influenced by investment opportunities (Rakhimsyah and Gunawan, 2011). High stock prices indicate high firm value. In this study, using Price to Book Value (PBV) as a proxy of firm value. The higher the ratio of Price to Book Value, it will have a positive effect on stock prices of the companies concerned because the higher the ratio the more successful the company creates the value (return) for shareholders and the greater the ratio of its PBV, the higher the company is assessed by the investors.

In the process of maximizing the firm value will arising conflict of interest between manager and shareholder (owner of company) which often called agency problem. This ultimately urges the existence of a good oversight system known as Good Corporate Governance (GCG) to provide security for the funds or assets that are embedded in the company as well as its efficiency. The implementation of Good Corporate Governance is considered to improve the bad banking image, protect the interests of stakeholders and improve compliance with prevailing laws and regulations and common ethics in the banking industry in order to image the sound banking system. In this study GCG is proxied with the proportion of Independent Commissioners Board, audit committee and institutional ownership.

In addition to Good Corporate Governance, financial performance is also one of factors that can affect the firm value. Financial performance is the result of many decisions made continuously by the company’s management to achieve a certain goal effectively and efficiently (Anwar et al., 2010). The ratio is often used by researchers in conducting research to measure the financial performance of a company is the ratio of profitability. In this research, profitability ratios to be used are Return on Equity (ROE). Return on Equity reflects the influence of all other ratios and is the single best measure of performance viewed from the point of view of accounting. Investors are sure to like companies that have high ROE values because high ROE generally has a positive correlation with high stock prices (Brigham and Houston, 2010).

➢ *Research purposes*

The purposes of this study are as follows:

- To determine the effect of the proportion of Independent Commissioners Board on Firm value on the Banking Sector listed on the Indonesia Stock Exchange.
- To determine the effect of Institutional Ownership on Firm value in the Banking Sector listed on the Indonesia Stock Exchange.
- To determine the effect of the Audit Committee on Firm value on the Banking Sector listed on the Indonesia Stock Exchange.
- To determine the effect of Return on Equity (ROE) on Firm value in the Banking sector listed on the Indonesia Stock Exchange.
- To determine the effect of jointly the proportion of Independent Commissioners Board, Institutional Ownership, Audit Committee and ROE to Firm value in

the Banking sector listed on the Indonesia Stock Exchange.

II. LITERATURE REVIEW

A. The Firm Value

The firm value is created by the company through its activities from time to time in order to achieve maximum firm value above the book value (Nofrita, 2013). Wijaya and Wibawa (2010), said that the firm value as a market value, the reason is because the firm value can provide prosperity or profit for shareholders if the price of the company increases. Meanwhile, according to Sartono (2010) is, “Firm value is the selling firm value as a business that is operating. Excess value over the value of liquidation is the value of the management organization that runs the company”.

B. Good Corporate Governance

The definition by Cadbury, cited by Sutedi (2011) explains that Good Corporate Governance is directing and controlling the company to achieve a balance between the strength and authority of the company. Corporate governance also emphasizes the importance of efficient use of company resources and accountability to the shareholders in particular, and the stakeholders in general. Of course, this is meant to set the powers of directors, managers, shareholders, and others related to the development of the company in a particular environment.

C. Institutional ownership

According to Rimardhani, et al (2016) institutional ownership is shares owned by the government, institutions incorporated, representative funds, foreign institutions, and others that can monitor management in the management of the company. Institutional ownership within a company has an important role in minimizing agency conflict that occurs between managers and shareholders and able to monitor management in managing the company. A high degree of institutional ownership will result in greater oversight by institutional investors in order to impede opportunistic behavior by managers. With the higher level of institutional ownership, the greater the voice and encouragement of institutions to exercise oversight.

D. Independent Commissioner Board

Based on Bank Indonesia Regulation Number 8 / 4PBI / 2006 concerning the Implementation of Good Corporate Governance for Commercial Banks, independent commissioners are members of boards of commissioners who have no financial, management, share ownership and / or family relationships with other members of the board of commissioners, directors and / or controlling shareholder or other relationship that may affect his ability to act independently.

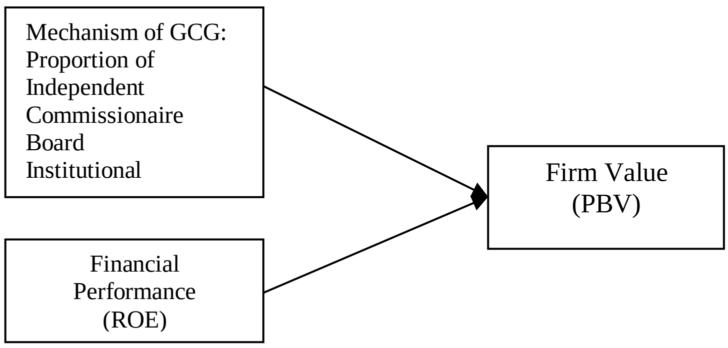
E. Audit Committee

Based on the decision of the Chairman of BAPEPAM Kep. 29 / PM / 2004 clarifies that the audit committee established by the board of commissioners to perform the task of supervising the management of the company. The audit committee is also responsible for overseeing the financial reporting process. In addition, the audit committee is a liaison between shareholders and the board of commissioners with the management in handling control issues. According to Sitorus (2012) explained that the establishment of an audit committee can improve the oversight function of the board of commissioners as one of the governance structures. The audit committee in this study is measured using the number of audit committee members present in the company.

F. Financial Performance

According to Rudianto (2013), financial performance is the result or achievement that has been achieved by the company's management in carrying out its function of managing the company's assets effectively during a certain period. Financial performance is needed by the company to know and evaluate until the level of success of the company based on financial activities that have been implemented. Meanwhile, according to Rudianto (2013), "Financial performance is the result or achievement that has been achieved by the company's management in carrying out its function of managing the assets of the company effectively for a certain period".

The framework of thought in this study can be seen in the following framework:



G. Hypothesis Formulation

Based on the theoretical basis and framework above, the hypothesis proposed in this research is as follows:

- Suspected there is a positive and significant influence of Proportion of Independent Commissioners Board to Firm value.
- Suspected there is a positive and significant influence of Institutional Ownership on Firm value.
- Suspected there is a positive and significant influence of the Audit Committee on Firm value.
- Suspected there is a positive and significant influence of Financial Performance (ROE) on Firm value.
- Suspected simultaneously influence of Proportion of Independent Commissioners Board, Institutional Ownership, Audit Committee and ROE on Firm value.

III. RESEARCH METHODOLOGY

The object of research in this study is a banking company listed on the Indonesia Stock Exchange in the period 2012 to 2016. Objects that become observations of this research is Good Corporate Governance is proxied with institutional ownership, the proportion of Independent Commissioners Board and Audit Committee, further financial performance and firm values from the banking companies that were sampled.

Sampling method in this research use purposive sampling method. Purposive sampling is the determination of samples on certain criteria, the criteria aims to provide maximum information (Sugiyono, 2012). Data analysis in this study using descriptive statistics, namely statistical techniques used to analyze data by describing or describing the data that has been collected as it is without intending to make conclusions that apply to the public or generalization.

A. Multiple Linear Regression Equation

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Explanation:

Y = Firm Value
α = Constanta
β_1, β_2 = Regression Coefficient
X_1 = Institutional Ownership
X_2 = Proportion of Independent Commissioners Board
X_3 = Audit Committee
X_4 = Financial Performing
e = Standard of Error

B. Coefficient of Determination Test (R^2)

The coefficient of determination (R^2) essentially measures the extent of the model's ability to explain the variation of the dependent variable. The small value of R^2 means that the ability of independent variables in explains variation of dependent variable is very limited. A value close to one means the independent variables provide almost all the variables needed to predict the variation of the dependent variable.

$$K_d = r^2 x\ 100\%$$

C. Hypothesis Testing

- *t Test Statistical*

The t Test Statistical shows how far the influence of one explanatory or independent variable individually in explaining the variation of dependent variable and used to know whether or not the influence of each independent variable individually to the dependent variable tested at a significant level of 0.05.

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

Explanation:

t = Value of *t* test
r = Coefficient of Pearson Correlation
r^2 = Determination Coefficient
n = Total of sample

- *F Test Statistical*

The F Test Statistical shows whether all the independent variables included in the model have a mutual influence on the dependent variable. The F statistic test is used to find out all the independent variables included in the regression model together with the dependent variable tested significantly 0.05.

$$Fh = \frac{R^2/k}{(1-R^2)/(n-k-1)}$$

Explanation:
R = Coefficient of Multiple Correlation
k = Total of independent variable
n = Total of sample member

IV. ANALYSIS AND DISCUSSION

A. Descriptive statistics

Descriptive statistics are used to determine the description of a data. Descriptive statistical analysis is done by looking at minimum value, maximum value, and mean value and standard deviation of data. Based on the research data can be known descriptive analysis as follows:

	N	Minimum	Maximum	Mean	Std. Deviation
Proportion of Independent Commissioner Board	70	,40	,75	,5644	,10327
Institutional Ownership	70	,01	,65	,2117	,18133
Audit Committee	70	2	7	3,91	1,189
Return on Equity	70	,70	27,44	12,4633	6,23146
Firm Value	70	,00002	,04482	,0029006	,00690739
Valid N (listwise)	70				

Table 1. Descriptive statistics

Source: Data processing, SPSS 23.0 version

The proportion of Independent Commissioners Board has a mean value of 0.5644 and a standard deviation of 0.10327. Institutional ownership has a mean value of 0.2117 and a standard deviation of 0.18133. The Audit Committee has an average rating of 3.91 and a standard deviation of 1,139. Return on Equity (ROE) has a mean value of 12.4633 and a standard deviation of 6.23146. The firm value has an average value (mean) of 0.0029006 and the standard deviation of 0.00690739.

B. Classic Assumption Test

To detect the normality of data can be done by using graph analysis Normal P-P Plot and Histogram curve analysis. Based on the Normal P-P chart the plot shows that the points are following the normal line. Thus it can be concluded that the distribution of residual data otherwise normal. In the histogram curve, the histogram curve shows that the shape of the curve looks symmetrical not deviated to

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the right or left so that the regression model is declared normal distribution.

Multicollinearity test aims to test whether the regression model found a correlation between independent variables. A good regression model should not occur correlation between independent variables. The result of multicollinearity test above shows that in the regression model does not occur multicollinearity because the value of Tolerance on each independent variable whose value> 0.1 and VIF value on each independent variable whose value is <10. Thus in this research the assay of multicollinearity to the data from each variable has been met.

Autocorrelation test aims to determine the presence or absence of correlation or correlation between intruder errors in period t with errors in the period t-1 (previous). Based on the test that has been done then obtained Durbin-Watson test value of 1.954 so it can be concluded there is no correlation between interrupters that occur between periods or no autocorrelation occurred. It is based on the general rule that the D-W Value is between -2 to +2 which means there is no autocorrelation.

Heteroskedasticity test is used to test whether in a regression model there is similarity or inequality of variance between one observations with other observation. Heteroscedasticity test using scatterplot chart. Based on the results of heteroscedastisity test in Figure 4.3 above shows that the spots spread above and below the zero of the Y axis and does not form a certain clear pattern. Based on the Scatter-Plot drawings above can be concluded that all independent variables in this study are free from testing the classical assumption so it does not need to be excluded from the regression model.

C. *Multiple Linear Regressions*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,021	,007		3,030	,004
	Proportion of Independent Commissioner Board	-,022	,008	-,330	-2,776	,007
	Institutional Ownership	-,014	,005	-,359	-2,713	,009
	Audit Committee	-,002	,001	-,275	-2,145	,036
	Return on Equity	,0001	,000	,276	2,297	,025

Table 2. Multiple Linear Regressions

Source: Data processing, SPSS 23.0 version

Based on the results of multiple linear regression test above obtained the regression equation as follows:

$$Y = 0.021 - 0.022X_1 - 0.014X_2 - 0.002X_3 + 0.0001X_4$$

Constanta (a) of 0.021 means that if there is no change in the proportion of Independent Commissioner (X_1), Institutional Ownership (X_2), Audit Committee (X_3), and Return on Equity (X_4) or equal to 0, of 0.021. The regression coefficient of the Proportion of the Board of Commissioners is negative which indicates that there is an unidirectional change between the Proportion of Independent Commissioners Board and the Firm value. The regression coefficient of Institutional Ownership is negative, indicating that there is a non-directional change between Institutional Ownership and Firm value. The regression coefficient of the Audit Committee is negative, indicating that there is an unidirectional change between the Audit Committee and the Firm value. The regression coefficient of Return on Equity is positive indicating that there is a direct change between Return on Equity and Firm value.

D. *Hypothesis testing*

- *t – test (Partial)*

t – test statistic known as partial test, namely test to know how influence each independent variable individually to dependent variable. The result of t Test Statistical if probability value t <0, 05 then Ha is accepted, whereas if probability value t> 0, 05 Ha is rejected.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
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	Institutional Ownership	-,014	,005	-,359	-2,713	,009
	Audit Committee	-,002	,001	-,275	-2,145	,036
	Return on Equity	,0001	,000	,276	2,297	,025

Table 3. Result t – test (Partial)

Source: Data processing, SPSS 23.0 version

- *Hypothesis 1*

The count value of t equal to -2.776 with a significance value of 0.007 <0.05, therefore the decision is Reject H0. So it can be concluded that there is a negative influence between the Proportion of Independent Commissioners Board (X_1) on Firm value (Y).

- *Hypothesis 2*

The count value of t equal to -2.713 with a significance value of 0.009 <0.05, therefore the decision is Ho rejected. So it can be concluded that there is a negative influence between Institutional Ownership (X_2) on Firm value (Y).

- *Hypothesis 3*

The count value of t equal to -2.145 with a significance value of 0.036 <0.05, therefore the decision is Ho rejected. So it can be concluded that there is a negative influence between the Audit Committee (X_3) on Firm value (Y).

- *Hypothesis 4*

The count value of t equal to 2,297 with significance value is 0.025 <0.05, therefore the decision is Ho rejected. So it can be concluded that there is a positive influence between Return on Equity (X_4) to Firm value (Y).

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E. F Test (Simultaneous)

F Test is a test to see how the influence of all independent variables together on the dependent variable.

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	,001	4	,000	4,067	,005[b]
Residual	,003	65	,000		
Total	,003	69			

Table 4. Result of F test (Simultaneous)
Source: Data processing, SPSS 23.0 version

- *Hypothesis 5*

The count value of 4.067> F table of 2510 with significance level is 0.005 which is smaller than α = 0.05, therefore the decision is Reject H0. So it can be concluded that there is influence jointly Proportion of Independent Commissioner Board (X_1), Institutional Ownership (X_2), Audit Committee (X_3), and Return on Equity (X_4) on Firm Value (Y).

F. Determination Coefficient Test

The value of the determination coefficient can be measured by the R-Square value when the independent variable is only 1, or Adjusted R-Square is used when the independent variable is more than two.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,447[a]	,200	,151	,00636470	1,954

Table 5. Determination Coefficient Test
Source: Data processing, SPSS 23.0 version

From the table above obtained coefficient of determination or Adjusted R Square valued at 0.151 or 15.1% means the variation of independent variables used in the model of Proportion of Independent Commissioners Board (X_1), Institutional Ownership (X_2), Audit Committee (X_3), and Return on Equity (X_4) able to explain by 15.1% dependent variable that is Firm value (Y). While the remaining 84.9% influenced by other factors outside the variables studied.

V. DISCUSSION

1) The Influence of Proportion of Independent Commissioners Board on Firm value

The reason of the Independent Commissioners Board negatively affects the firm value, according to Puspitasari and Ernawati (2010) indicating that the Independent Commissioner Board does not contribute to the improvement of financial performance. The more commissioners coming from outside the company resulted in less knowledge of the members of the Commissioners Board on the issues and ins and outs of the company. This research is in accordance with research conducted by Haruman. Thus the research hypothesis proposed in the research is untested.

2) The Influence of Institutional Ownership on Firm value

The reason according to Pound cited Permanasari (2010) is that majority institutional investors have a tendency to compromise or side with management and ignore the interests of minority shareholders. This research is in accordance with research conducted by Nina Thaharah and Nur Fadjrih Fun (2016). Thus the research hypothesis proposed in the research is untested.

3) Influence of Audit Committee on Firm value

The reason of the Audit Committee negatively affects Firm value according to Guna and Herawaty (2010) because the existence of an audit committee within the company cannot perform its duties in monitoring financial reporting so that the existence of the audit committee fails to detect earnings management. The failure of the audit committee to detect earnings management is a reflection of the failure of the audit committee in overseeing the process of financial reporting by management so that the quality of the financial statements is bad. The poor quality of financial statements that contain earnings management results in the decline in firm value, thus audit committee negatively affect the firm value. The results of this study in accordance with the results of research conducted by Ni Ketut Karlina Prastuti and I Gusti Ayu Nyoman Budiasih (2015). Thus the research hypothesis proposed in the research is untested.

4) Effect of Return on Equity on Firm value

The reason for ROE has a positive effect on firm value, according to Puspitasari and Ernawati (2010) ROE which is one of profitability has causality relation to firm value. The relationship of causality to firm value. This causality relationship shows that ROE that can describe a company's financial performance as measured using the dimensions of profitability in good condition, it will give positive impact to investor decision in capital market to invest its capital in the form of equity. This research is in accordance with research conducted by Haruman (2008). Thus the research hypothesis proposed in the research is true.

VI. CONCLUSION

Based on the results of research and discussion in the previous chapter, the conclusion of the results of this study are as follows:

- The influence of Good Corporate Governance mechanism proxied with Proportion of Independent Commissioners Board, Institutional Ownership, and Audit Committee partially negatively affect Firm value.
- The influence of financial performance as measured by profitability (ROE) partially has a positive effect on Firm value.
- There is simultaneously influence of Good Corporate Governance mechanism (Independent Commissioners Board, Institutional Ownership, Audit Committee and ROE) on Firm value.

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