# The Influence of Good Corporate Governance towards Company's Value: Case Study of Indonesian Banking Listed on the Indonesia Stock Exchange

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***Abstract---****This study aims to investigate the effect of Good Corporate Governance (GCG) toward the company's value. The object of the study is Indonesian banking listed on the Indonesia Stock Exchange (IDX). Tobin's Q is used as the dependent variable. Meanwhile, size of board directors, size of board of commissioner, independent shareholders, large shareholders and institutionalized shareholders are the independent variables. These variables are analyzed by the data panel regression method. The finding of this study is that size of board of directors and size of board of commissioner have a significant impact. Meanwhile, independent shareholders, large shareholders and institutionalized shareholders do not have a significant impact toward the company's value. This finding is believed to contribute to the development of the GCG in Indonesia.*

***Keywords:*** *GCG, Banking, Indonesia*

## I. INTRODUCTION

The banking industry has a goal to support national development in order to improve equality, economic growth and national stability by improving welfare which has a role as a support in the development of a country. In the Law of the Republic of Indonesia Number 10 of 1998 concerning Banking, it is stated that banking is everything that concerns banks, covers institutions, business activities and ways and processes in carrying out its business activities. While the bank is a business entity that collects funds from the community in the form of credit and other forms in order to improve the lives of many people. The principle of banks is to make a profit or try to increase their profits (Saudi, 2018).

The economic crisis in 1997 was the beginning of Corporate Governance being discussed and implemented in Asia, the crisis that hit most of the world as well as countries in East Asia including Indonesia due to fundamental problems that exist in the economic structure of the country. Apart from the external influences, the occurrence of the crisis was also caused by internal aspects such as lack of supervision in institutions and also inappropriate investment decisions (Harahap, 2003). As stated by Daniri, 2005, the occurrence of the economic crisis was due to the weak implementation of the principles of Corporate Governance. Another opinion stated by Herwidayatmo (2000) and Muntoro (2006) alleged that one of the causes of the crisis in Indonesia was the weak supervision carried out by the company's directors which should be the responsibility of the Board of Commissioners.

The implementation of GCG is also a demand for existing companies not to be overrun by increasingly fierce global competition. Because, basically the basic principles of GCG have the aim to provide progress towards the performance of a company that is more inclined to a series of corporate behavior patterns as measured by

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performance, growth, financing structure, treatment of shareholders, as well as stakeholders who can make it as basic analysis in reviewing corporate governance in a company by fulfilling transparency and accountability in systematic decision making that can be used as a more accurate measurement basis for company performance. As a result of research from the Indonesian Institute for Corporate Governance (IICG) in 2002, it was found that the main reason for companies to implement GCG is compliance with regulations, because the company believes that the implementation of GCG is another form of business ethics and work ethics that has long been a company commitment, and GCG implementation is related to improving the company's image. Thus, companies that practice GCG will experience improved image and increased corporate value.

Supported by research conducted by Brown and Caylor (2004) also Arcay and Va'zquez (2005) said that the implementation of Good Corporate Governance in running a company is expected to be able to make the company's performance better and also more transparent in providing the information needed by market. In addition Siagian (2011) said that Corporate Governance is predicted to minimize the existing Agency Problems in the company, because GCG will improve communication between managers and shareholders, increase the role of the board of commissioners and directors and independent committees, protect the interests of minority shareholders and can also increase the value of the company. And also in some cases the company's remuneration system is not in line with the company's strategy, risk appetite and long-term interests. Thus, the research provides recommendations on the importance of board oversight quality as well as a company's risk management as part of the implementation of GCG.

In the perspective of agency theory, agents who are risk adverse and who tend to be selfish will allocate resources that do not increase company value. This problem indicates that the value of the company will increase if the company owner can control his management behavior by not wasting company resources, either in the form of improper investment or in the form of shirking. Therefore, Corporate Governance is a system that regulates and controls companies that are expected to be able to provide and increase the value of the company to shareholders. Thus, the implementation of Corporate Governance is believed to increase the value of the company. In addition, effective Corporate Governance in the long term can improve the company's performance and benefit shareholders.

A high increase in company value is a long-term goal of a company which is reflected in the stock market price because the investor's assessment of the company can be observed through the company's stock price movements on the stock exchange for companies that have gone public. High company value can increase prosperity for shareholders, so that shareholders will invest their capital in the company (Tendi Haruman, 2008 at Wien Ika Permanasari, 2010: 1). In the process of maximizing the value of the enterprise there will be a conflict of interest between the manager and the shareholders which is often called the agency problem. This difference in interests between managers and shareholders results in a conflict commonly called the agency conflict, this happens because the manager prioritizes personal interests, whereas shareholders do not like the personal interests of the manager because it will add costs to the company, causing a decrease in company profits and influence on share price thus decreasing the value of the company (Jensen and Mecking, 1976 in Wien Ika Permanasari, 2010: 1)

This study uses Tobin 's Q in the measuring the value of the company, which was developed by Professor James Tobin (1967). According to Sukamulja (2004), one of the ratios that is considered to provide the best information is Tobin’s Q, because this ratio can explain various phenomena in company activities, such as the occurrence of cross sectional differences in investment decision making and the relationship between management share ownership and company value to be examined.

Based on the background description above, the problem related to this research is whether Good Corporate Governance affects the Value of the Company. The objects of this research are the Indonesian Banks that are listed on the Indonesia Stock Exchange (IDX) in the period of 2011-2015.

## II. RESEARCH FRAMEWORK

This study focused on the relationship between good corporate governance and company value. Good corporate governance will make it easier for companies to obtain external funding sources and gain investor confidence. This happens because the implementation of good corporate governance successfully reduces the level of information asymmetry and improves the company's overall system (Chung et.al., 2010). The company also becomes more attractive in the eyes of investors so investors are willing to invest in companies that implement good corporate governance.

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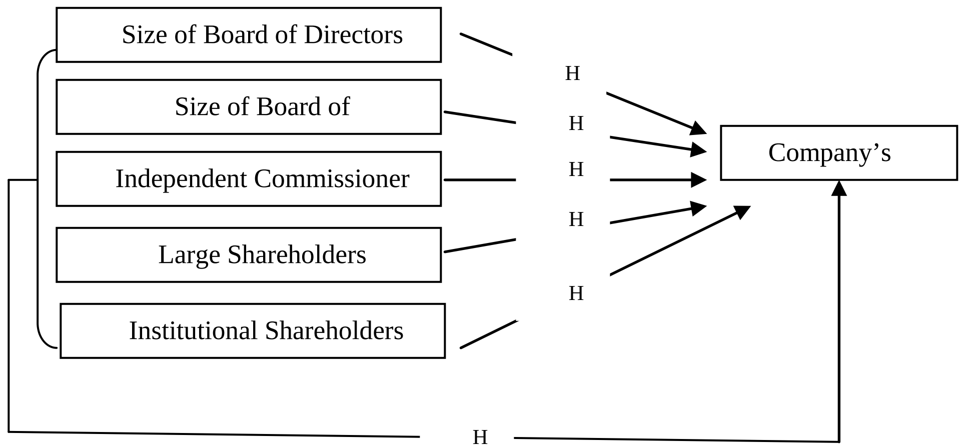


**Figure 1**: *Research Framework*

## III. RESEARCH METHODOLOGY

The method used in this research is descriptive verification method. This method is used in the study to determine the character of each variable examined in a situation. The purpose of using descriptive method in this study is to provide an overview of aspects that are appropriate for an event from the point of view of a person, organization and others (Sugiyono, 2013). The sampling method used in this research is purposive sampling technique, which is a sampling technique with certain considerations (Sugiyono, 2013). The process of determining the sample in accordance with the specified criteria is the bank that is listed on the Stock Exchange during the period 2011 to 2016 and has a publication report of the complete annual report. Data analysis techniques used in this study are Panel Data Regression Analysis. The Data Panel is a combination of Cross Setion and Time Series data that can provide more amount of data, so that it can also provide a greater Degree of Freedom.

The population used in this study are all companies listed on the Indonesia Stock Exchange (IDX) and there are 25 samples chosen based on the following criteria:

- Companies that have complete corporate governance data
- Companies that relate financial statements for the period ending December 31 during the observation period
- IPO less than 5 years is not selected

The dependent variable in this study is Corporate Value, one of the instruments used in assessing the value of a company is to use Tobin's Q. If the Q ratio is above one, this indicates that investment in assets generates profit that gives a higher value than investment expenditure, this will stimulate new investment. If the Q ratio is below one, investment in assets is not attractive (Herawaty, 2008). As for the independent variables used in this research are size of board of directors, size of board of commisioner, Independent Commsioner, Large Shareholders and Institutional Shareholders.

The analysis technique used in this study is Panel Data Regression Analysis. The data panel is a combination of cross section and time series data that can provide more data and can provide a greater degree of freedom. In the model data regression analysis there are several models that can be used, namely Common Effect, Fixed Effect and Random Effect. Model testing is done to find the best or right model for panel data regression in this study. In choosing the data panel model that will be used there are three trials that can be used, namely the Chow test, the lagrange multiplier test, and the Hausman Test (Widarjono, 2013).

## IV. RESULTS AND DISCUSSION

After the model test is conducted, it is decided that the model that is used in this research is the Common Effect Model. This is the result.

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|---|
| **Dependent Variable: TOBINS** |
| **Method: Panel Least Squares** |
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|---|---|---|---|---|
| **Sample: 2011 2015** | | | | |
| **Periods included: 5** | | | | |
| **Cross-sections included: 25** | | | | |
| **Total panel (balanced) observations: 125** | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 276.9313 | 116.5748 | 2.375568 | 0.0191 |
| BOD | 27.23598 | 7.36118 | 3.699947 | 0.0003 |
| BOC | -26.9044 | 12.57158 | -2.1401 | 0.0344 |
| INDP | -186.797 | 140.8718 | -1.32601 | 0.1874 |
| LRGE | -21.4422 | 97.17251 | -0.22066 | 0.8257 |
| INST | -16.113 | 87.63135 | -0.18387 | 0.8544 |
| R-squared | 0.126977 | Mean dependent var | | 197.5917 |
| Adjusted R-squared | 0.090295 | S.D. dependent var | | 150.5823 |
| S.E. of regression | 143.623 | Akaike info criterion | | 12.81907 |
| Sum squared resid | 2454682 | Schwarz criterion | | 12.95483 |
| Log likelihood | -795.192 | Hannan-Quinn criter. | | 12.87422 |
| F-statistic | 3.461597 | Durbin-Watson stat | | 0.663364 |
| Prob(F-statistic) | 0.005888 | | | |

Hypothesis testing is used to determine whether the effect of X to Y is significant (Hussain et al., 2019).

1) The effect of BOD on Company's Value

Based on the result of the data processing, the P-Value is 0.0003, which is lower than α (5%). So, we can conclude that PER does not have an effect to Stock Price.

2) The effect of BOC on Company's Value

Based on the result of data processing, the P-Value is 0.0344 which is lower than α (5%). So, we can conclude that Size of Board of Commisioners has an effect to Company's Value.

3) The effect of Independent Shareholders on Company's Value.

Based on the result of data processing, the P-Value is 0.1874 which is lower than α (5%). So, we can conclude that Independent Shareholders does not have an effect to Company's Value.

4) The effect of Large Shareholders on Company's Value.

Based on the result of the data processing, the value of P-Value is 0.8257 which is lower than α (5%). So, we can conclude that Large Shareholders does not have effect on Company's Value.

5) The effect of Institutional Shareholders on Company's Value.

Based on the result of the data processing, the value of P-Value is 0.8544 which is lower than α (5%). So, we can conclude that Large Shareholders does not have effect on Company's Value.

6) The effect of BOD, BOC, INDP, LRGE and ISNT on Company,s Value.

Based on the result of the data processing, the value of Prob (f-statistic) is 0.005888 which is lower than α (5%). So, we can conclude that BOD, BOC, INDP, LRGE and ISNT have an effect on Company's Value

## V. CONCLUSION

1) The Size of Board of Director has a significant effect toward the company's value of banks that are listed on the IDX. It shows that Board of Directors have a significant role in the management. Banks always correlated with complexity, the bigger the company, the more complex. This complexity then can be solved by bigger size of board of directors.

2) The Size of Board of Commissioner has a significant effect toward the company's value of banks that are listed on the IDX. Similar to the size of board of directors, the size board of commissioner also help the monitoring process of the management. Thus, the bigger the company, the bigger the boar commissioners.

3) The Independent Shareholders does not have an effect toward the company's value of banks that are listed on the IDX. In Indonesia the proportion of independent shareholders is govern by the rules. But the finding shows that it does not have any effect toward the company's value.

4) The Large Shareholders does not have an effect toward the company's value of banks that are listed on the IDX. Most banks in Indonesia does have a majority shareholder, thus control over the company mostly come from one party.

5) Institutional Shareholders does not have an effect toward the company's value of banks that are listed on the

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IDX. It is similar to large shareholders that most banks are owned by institutional shareholders. Thus, it does not differ and does not give an actual effect to the company's value.

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