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Corporate governance, company size, and firm value banking company in Indonesia

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Abstract

This research aims to analyze the effect of corporate governance (CG) and corporate size (CS) on the Firm Value (FV) of banking companies. The dependent variables in this study are FV, which uses the CFROA calculation formula; independent variables are the board of commissioners, the board of directors, and CS. The population of this study is a banking company listed on the Indonesia Stock Exchange (IDX). The selection of research samples was using purposive-sampling methods. Twenty-six companies meet the criteria, so the total obtained research data is 78 data. The data analysis method used in this study is the multiple regression analysis. The results of this study show that the variables of the board of commissioners and CS, which affects FV. On the other hand, the board of directors does not affect FV. The limitation of this study is that the R square value is too low, at 36.6%. The implication of the findings of this study is the importance of the application of CG to improve FV.

Keywords: Corporate governance, the board of commissioners, the board of directors, company size.

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1. Introduction

The issue of skimming has been on the rise since a scandal that indicated weak security of the banking industry in recent times. In Indonesia, there is still a case of ATM BRI break-in in mid-2018 by skimming methods that threaten the reputation of banking. Skimming is a theft of credit or debit card information by illegally copying it, which is contained on the magnetic stripe of a credit or debit card. The case for the breach of the customer's funds immediately got a momentary market reaction, which was reflected in BRI's share price. According to the news of portal Tirto.id, BRI shares fell dramatically above JCI on March 15, 2018. BRI's share price at the time fell 2.93 percent to IDR 3,640 from IDR 3,750, deeper than JCI, which fell 0.95 percent to 6,321 from 6,382, which will undoubtedly affect the company's performance report.

Good financial performance can be used as one of the guidelines for investors in determining the decision to invest their funds in a company. Fahmi (2012) stated that financial performance is a representation of the company's success in the form of results that have been obtained by various activities carried out. It is an analysis to measure how far a company is doing activities based on the application of financial regulations. Many aspects can affect FV, some of which is the implementation of CG and CS.

CG is the achievement of business success and the process of overseeing the performance of its goals. I this study, CG is represented by the board of commissioners and board of directors as a significant factor. As a part of the corporate structure, they are collectively responsible for overseeing, managing, and ensuring the company conducts corporate governance effectively and efficiently. Supervision is an effort of the board of commissioners to support the improvement of the company's performance.

Meanwhile, the board of directors is obliged to establish accountability in managing the company in the form of annual reports containing financial statements, company activity reports, and CG implementation reports. Besides, the board of directors is assigned to observe the risk and to manage the company; controlling to keep the working atmosphere under control; to maintain productivity and professionalism to be better; to manage employees. Also, they have to disclose the company's full performance to shareholders at the general meeting of shareholders and ensure consistency of CG implementation. Related to this explanation, the board of directors has an essential role in managing the company and is indicated to affect the company's performance.

In addition to CG factors, other aspects can affect FV; among them is CS. CS is an important indicator

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for assessing financial performance and determining the size of a company. It is because CS is one of the benchmarks for shareholder valuation to investing. Parameters that can be used in measuring the company are sales, number of assets, total employees, value-added, market capitalization, and various other indicators. CS is the scale of the company assessed from the number of company assets in the current year. It represents the active volatility and inventory controllability that should be in comparison to the broad economy, revealing the acquisition of current operations and management of the company, according to Mukhlisin (2002) in Santioso and Halim (2013). The larger CS represents, the more resources the company has. With so many resources, large companies tend to dominate the market because of their ability to meet the product demand and also easier to get funding. It will help large companies to be able to grow their businesses and produce useful financial performance reports. This research is related to the banking business. Based on this explanation, CS is indicated to have an influence on financial performance based on the analysis that the higher company has a massive increase in sales, and the higher profit earned by a large company will affect the return to be obtained.

Ekaningtias' research (2017) states that the quality of CG, both the board of commissioners and the board of directors, partially does not affect performance. Similarly, in Goldwin and Christiawan's research (2017), CS has no impact on FV. The findings are indisputable with the research conducted by Khairunnisa (2016) that the internal CG mechanism variable proved by the proportion of independent commissioners, which has a positive influence on ROA. The results are in agreement with Veno's research (2015), which found that CG represented by the board of directors showed the significant results, with the higher on the board of directors of manufacturing companies going public from the 48 companies which are used as a sample for leading to an increase in Return on Equity (ROE) levels. Other results from previous research from Windah and Andono (2013), which shows that CG partially does not affect FV either represented ROE, ROE, and Tobin's Q. It is contrary to Widyaningsih and Utomo's research (2013) that shows different results where CG statistically has a positive impact on the company's performance. The results are in line with Rohmah's research (2013), which revealed that based on t-test results, cs showed a positive impact on Cash Flow Return on Assets (CFROA). Based on the explanation, it can be seen that there are many opinions, and mixed results from previous studies on CG and CS can affect FV, so the research question is whether CG and CS affect FV?

Agency theory is served as the basis for this research. Jansen & Meckling (1976), as the pioneer of the theory agency, made it clear that there was a separation between shareholders and the management of the company. The principal employs the agent in a contract-based working bond where the agent is obliged to do the job following the shareholders' wishes. The bond between principal and agent can trigger a conflict of information between each other. Agents become a party whom more informed about the company so that it can produce benefits for them. Some information known by the agent submitted to the principal sometimes does not correspond to the results or circumstances that occur within the company. This assumption finds that the division between the owner and the manager of the company can present an agency problem. Conflicts of interest between principals and agents arise because agents do not always act as they would so that incurring the agency costs to address them.

The board of commissioners is one of the few parts in CG that is considered in solving problems in agency theory. One of the core problems in agency theory is the asymmetry of information. In these circumstances, the board of commissioners, as the main organ of CG, implements to participate in supervising the implementation of CG. They serve as a tool to discipline the stakeholders, both principals, and agents, to comply with the agreed regulations. Therefore, the supervision of the board of commissioners based on CG principles is aimed at minimizing agency conflicts. The duties' implementation of the board of commissioners in the supervisory function uses data from financial statements provided by the managerial (agent) to assess the performance of the company. However, the potential for cheating and manipulation in FV reports will always exist. The supervision and performance of the board of commissioners in the effective and efficient implementation of CG in the company are believed to grow FV for getting profit. The previous studies conducted by Putri (2016) and Khairunnisa (2016) found evidence that the board of commissioners influenced the company's performance. Based on the explanation above, the research hypothesis presented in this study is as follows: H_1: The Board of Commissioners affects FV.

The company's management is inseparable from the role of the board of directors to smooth the implementation of CG. Based on agency theory, the board of directors is responsible for the management of operations that take place within the company, including on the corporate driving organs by the basic principles of CG. The board of directors must be able to spur the performance of management (agents) under it to work correctly to get the most out of it to provide improved results to the company's financial statements. On the other hand, with the pressure and demands from the board of directors on the agent can lead to fraud where the agent will allow various ways to achieve the targets and demands of the company. In order to avoid it occurs, the board of directors must create conducive conditions in and ensure that managing the company ef-

Table 1. F-test.

Model	Sum of Square	Df	Mean Square	F	Sig.
Regression	.003	3	.001	15.631	.000[b]
Residual	.004	74	.000		
Total	.007	77			

a. Dependent Variable: CFROA
b. Predictors: (Constant), CS, COM, BOARD
Source: SPSS output, processed secondary data, 2020.

fectively, to motivate and regulate agents to be able to work following ethics and regulations in CG to avoid the cheating that can harm and affect the company's performance. The reason provides the basis which is expected that the role of the board of directors in the implementation of CG will make the company's performance stable even improved as expected by shareholders. The previous research underpinning hypothetical decisions in this study is research from Masitoh and Hidayah (2018), Eksandy (2018), and Putri (2016), which proves that there is an influence of the board of directors on FV. Based on it, the hypotheses presented in this study are: H_2: The board of directors influences FV.

CS is an essential factor in providing the right image within the company. The small size of the company can convince the shareholders to invest their funds in a company. According to the theory of agency, where if the company's executives, as the drivers of the company, can order the management under him to work on managing and running his business correctly, then it can be assured that the company will get greater acceptance. The greater acceptance that a company gets will show that the company is considered to have promising business prospects for an extended period. Therefore, it will be more able to provide profit results when compared to companies that have low amounts of assets. It will attract the shareholders to invest their shares to make a significant return as well, which will have a good impact on the company's funding receipts and raise FV. The previous research that became the basis of the hypothesis in this research is the research by Rohmah (2013) and Windah and Andano (2013), which proves that CS affects FV. Based on this explanation, the research hypothesis presented in this study is as follows: H_3: CS affects FV.

2. Research Method

The population taken for this research is companies included on the Indonesia Stock Exchange (IDX). The selection of samples used is a purposive sampling method. The reason for using this method is for the sample of information taken can qualify as requested. The determination of samples in this research is based on the criteria specified, including 1) banking companies registered in IDX for consecutive 2017 – 2019 period, 2) availability of banking company data required in this study, both financial and non-financial, 3) financial statements of banking companies that did not have losses during 2017 – 2019.

Table 2. t-test.

Model	Sig.
(Constants)	.000
COM	.004
BOARD	.520
CS	.000

a. Dependent Variable: CFROA
Source: SPSS output, processed secondary data, 2020.

The financial performance measurement in this research is calculated by the Formula of Cash Flow Return on Assets (CFROA). Here is the CFROA formula:

$$\text{CFROA} = \frac{EBIT + Dep}{Assets}$$

Description: $EBIT$ = earnings before interest and taxes, Dep = depreciation, $Assets$ = total assets

The size of the board of commissioners used in this research is measured through the overall indicator of the total members of the board of commissioners of a company. It is also the same as the size of the board of directors, which is calculated through the total of them contained in a company. CS (size) serves to be used as a calculation tool in measuring assets owned in the company. The following is a CS formula:

$$\text{CS} = \text{Ln Total Aset}$$

Description: Ln = Natural logarithm

3. Result and Discussion

Based on the total banking companies recorded in the IDX period 2017 – 2019 and the sample criteria that have been set obtained by 43 companies. However, some companies did not meet the criteria, so a sample of 26 banking companies was obtained. Therefore, there are 78 observation data used in this research. This multiple analysis test has the aim of knowing whether the board of commissioners, the board of directors, and CS affect FV. Multiple regression analysis is done with the help of SPSS 20 software. The f test results state that simultaneously the variables of the board of commissioners, the board of directors, and CS affect FV.

The t-test is carried out through the results of the assessment of the significance obtained by each variable. Table 2. presents the partial test results of each variable:

Determinant coefficient tests have the goal of determining the proportion of bound variables that free variables can describe simultaneously.

Table 3. indicates an adjusted R^2 of 0.363, which indicates 36.3% of financial performance variables (CFROA) can be disclosed by the variables of the board of commissioners, the board of directors, and CS. Reverse the remaining 63.7% (100% - 36.3%) expressed by other variables outside of the regression model category.

Based on the measurement and analysis values already implemented (see Table 2), the variables of the board of commissioners affect the CFROA. The results of the t-test are obtained a significance value of 0.004, smaller than the significance level of 0.05. The results indicate that the board of commissioners has an influence on FV, which can be interpreted as H_1. It is under the agency's theory that the board of commissioners has the function and responsibility for corporate supervision that takes place in line with CG principles in order to grow the company's performance and effectiveness. If the board of commissioners is responsible for carrying out its duties in overseeing the performance of the board of directors, then it can minimize fraud or agency conflicts within the company. This condition causes the company to suppress the expenses that should be used to resolve the agency conflicts that occur, thus benefiting the company. The larger the board of commissioners, the tighter the oversight in every action and decision that will be taken by the board of directors so that they will be more careful in managing the company; as a result, it will increase FV. This research is consistent with the previous research conducted by Putri (2016) and Khairunisa (2016) that proves that the board of commissioners influences FV. However, these results contradict the research conducted by Ekaningtias (2017), Veno (2015), and Rohmah (2013), which found results if the board of commissioners did not affect financial performance.

Based on the results and analysis, the variables of the board of directors do not affect FV. The measurement of the t-test obtained a significance of 0.520 more significant than the significance level of 0.05 (see Table 2). The results showed that the board of directors had no effect on FV, which could mean that H_2 was rejected. This research shows that the total size of the board of directors in the company does not determine the efficient running of CG. More and more boards of directors within the company can cause agency conflicts, which can lead to the emergence of agency costs to overcome conflicts that will harm the company. It is because each director has their ideas in managing a company that does not necessarily have a vision and mission that is in line with the board of directors so that it will cause conflict within the company. The difference in the interests of each director who has his/her purpose for personal gain also influences the implementation of CG principles well. The number of members of the board of directors will not give the result of influence on FV. This research supports the previous research from Ekaningtias (2017) and Muchtar and Darari (2013), which suggests that the board of directors does not affect FV. However, the results of this research do not support the observations of Eksandy (2018), Khairunisa (2016), and Veno (2015), which prove that the board of directors influences FV.

Table 3. R^2-test

Model	Adjusted R Square
1	.363

Source: processed secondary data, 2020.

Based on the measurement results and analysis that has been implemented, CS variables affect FV. The testing of the t-test obtained a significance of 0.000, smaller than the significance level of 0.05 (see Table 2). The results indicate that CS has an impact on the company's financial performance, which can mean that H_3 is accepted. CS is an essential factor for the right image in the company. Based on this research reveals if the size of the small size person can be used as an input factor for shareholders in investing in a company. It is because a large CS indicates a healthy financial performance condition, so it is expected to provide a high return on capital invested in the relevant company so that investors will be interested in investing. These conditions will undoubtedly benefit from getting corporate funding that will certainly have an impact on FV improvement. These results are consistent with the research conducted by Khairunisa (2016), Rohmah (2013), and Windah and Andano (2013), which says if CS affects FV. However, this observation is countered by previous observations from Goldwin and Christiawan (2017) and Addiyah (2014), which show that CS did not affect FV.

4. Conclusion

Based on the results of the analysis that has been carried out, it can be concluded that the board of commissioners and CS affects FV. Nevertheless, the board of directors does not affect FV. There are limitations to note in this research, which is the results of this research show that the low adjusted value of R square is 36.6%. Based on the limitations of research, so the advice presented for future research is to add variables used as factors to uncover the influence of FV, such as audit committee variables, institutional ownership, managerial ownership, or company age.

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