

# The Influence of Corporate Governance on Firm Value and Bank Performance in The Pandemic Crisis in Indonesia

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DOI: 10.29322/IJSRP.11.03.2021.p11128

<http://dx.doi.org/10.29322/IJSRP.11.03.2021.p11128>

**Abstract-** The purpose of this study was to determine the effect of GCG on firm value and bank performance in a crisis pandemic in Indonesia. The approach in this research is to use a quantitative approach. Data analysis techniques in this study include 1) descriptive statistics 2) classical assumption tests: normality test, multicollinearity test, heteroscedasticity test, autocorrelation test 3) multiple regression analysis 4) F statistical test and coefficient of determination. The results showed that there was a significant effect of Good Corporate Governance (GCG) on firm value. In addition, testing conducted by researchers shows that the effect of GCG from 29 companies from 2017 to 2019 is around 46%.

**Index Terms-** Good Corporate Governance, Firm Value, Bank Performance, Pandemic Crisis

## I. INTRODUCTION

The bank is one of the economic institutions[1]. Companies use banks to store their funds and, besides that, as a place for credit and other services in carrying out financing and payments for all sectors [2][3]. The current economic crisis has harmed the company's financial performance. Like the impact of COVID-19, the spread of this virus is a new challenge for companies and banks worldwide. This pandemic has also disrupted economic activity in many countries and spurred a significant movement.

Corporate governance is the organizational rules and standards in the economic field that regulate the behavior of company owners, directors, and management, as well as the details and description of their duties and authorities and their responsibilities to investors (shareholders and creditors) [4][5]. Corporate governance aims to create a control and balance system (checks and balances) to prevent misuse of company resources and continue to encourage company growth [6].

In Indonesia, the concept of good corporate governance (GCG) began to be discussed a lot in mid-1997, when the economic crisis hit the region [7]. The impact of the crisis shows that many companies have not been able to survive. One of the reasons is that the growth achieved so far has not been built on a solid foundation according to healthy company management [8]. In other words, inadequate corporate governance practices have made companies fail in facing this crisis. Research conducted by the Asian Development Bank (ADB) can be concluded that in Asian countries, including Indonesia, conditions that often occur in the implementation of corporate governance are; (1) malfunction of the supervisory mechanism of the board of commissioners (board of commissioners) and an audit system. The company virtually protects the interests of shareholders, and (2) the company has not been managed professionally (Wahyudin & Solikhah, 2017). On the other hand, poor corporate governance implementation increases the risk of investing, which implies a low interest in investors or creditors to channel their investment or credit. With the implementation of GCG, it is hoped that it can foster investor confidence [9].

There are several approaches to assessing company performance, including accounting-based performance measurement and market-based performance measurement[10]. The company's accounting performance includes profitability, return on assets, and earnings per share. Meanwhile, the company's market performance includes stock price growth, stock liquidity, share distribution, and market capitalization [11].

## II. RESEARCH ELABORATIONS

### Corporate Governance

Corporate governance or corporate governance is a system consisting of structures, procedures, and mechanisms designed for company management based on the principle of accountability that can increase corporate value in the long run [12]. The corporate governance system leads to a set of rules and encouragement that management uses to direct and oversee company activities. Therefore, good corporate governance can increase the opportunity to increase long-term corporate profits and value for shareholders.

Good corporate governance is a form of good company management, which includes protecting the interests of shareholders (public) as company owners and creditors as external funders [13]. A good corporate governance system will provide adequate protection to shareholders and creditors to obtain returns on investment reasonably, precisely, and efficiently as possible, and ensures that management acts as well as it can for the benefit of the company [14][15]. The four foundations are then developed into several dimensions including; The company's commitment to corporate governance, Shareholders' rights, Board of commissioners governance, Functional committees (which help with corporate governance), Directors, Transparency, Relationships with stakeholders. These indicators are used in this study to obtain a value in the form of a corporate governance index with an interval scale of 0-100. If the company has a score of or close to 100, it will be better at implementing corporate governance.

**Firm Value**

The main objective of the company, according to the theory of the firm, is to maximize the wealth or value of the company (value of the firm) [16][17]. Maximizing company value is significant for a company because maximizing company value also means maximizing shareholders' prosperity, which is the company's primary goal [18]. Firm value is the market value of debt securities and company equity in circulation [19].

Firm value is the investor's perception of its success rate, which is often associated with the stock price[20]. According to Nurlela and Islahuddin, company value is an essential indicator for investors to assess the company as a whole [21]. The higher the company value, the better the public's perception of the company's performance. Thus the company will fulfill the wishes of shareholders with prosperity [22].

The measurement of firm value is usually based on book value and market value [23]. The value of the book value of equity is calculated by subtracting the book value of total assets and total liabilities. Meanwhile, the company value based on the market value of equity can be calculated by multiplying the company's shares and the number of shares outstanding [24]. Measurement by book value and market value is considered less representative because book value measurement often occurs in the practice of manipulating financial transactions, while speculators often play games to get profit [25].

**Bank Performance**

The measures used to assess performance depend on how the organizational unit will be assessed and how goals will be achieved [26]. Assessment of banking performance is critical because banking operations are susceptible to the back and forth of a country's economy[27]. Banking performance can be assessed using a financial ratio analysis approach [28]. Bank Indonesia regulates the soundness level of a bank in Bank Indonesia Circular Letter Number 6/23 / DPNP May 31, 2004, to all commercial banks that carry out conventional business activities regarding a commercial bank soundness rating system and Bank Indonesia Regulation Number 6/10 / PBI / 2004 April 12, 2004, concerning the commercial bank soundness rating system, banks are required to conduct a quarterly assessment of the bank soundness level for the positions of March, June, September, and December.

III. RESEARCH METHODS

The type of research used is explanatory research with a quantitative approach, where the approach is used to explain and determine the effect of good corporate governance (GCG) and company size on profitability. Good corporate governance (GCG) is proxied by the board of directors, the board of independent commissioners, the supervisory board and the audit committee, company size, and profitability. The data analysis method used in this study used three methods, namely the classical assumption test, multiple linear regression analysis, and F-test & determination test. Sample used in this study were 29 conventional banks with a period of 3 years 2017-2019.

IV. RESULT AND DISCUSSION

**Descriptive Statistics**

Statistical tests on research variables can be explained as in the following statistical table:

**Table 1. Descriptive Statistics**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Dewan_Direksi	87	4.00	6.00	4.7241	.83094
Komisaris_Independen	87	.20	.60	.3684	.13010
Pengawas	87	.20	.50	.3040	.08612
Audit	87	.17	.50	.3067	.10382
Profitabilitas	87	.00	.07	.0128	.00954
PBV	87	.36	5.70	1.6767	1.10638
Valid N (listwise)	87				

Based on table 1, it is known that the descriptive statistics of research variables can be explained as follows:

1. The Board of Directors variable shows that the minimum value of the board of directors is four and the maximum value is 6. The average value obtained is 4.72, and the standard deviation is 0.83. The standard deviation smaller than the mean indicates that the data used in the board of directors variable can be good, and there are no outliers (data that is too extreme).
2. Independent Commissioner Variable shows that the minimum score for independent commissioners for directors is 0.20, and the maximum value is 0.60. The average value obtained is 0.36, and the standard deviation is 0.13. The standard deviation smaller than the mean indicates that the independent commissioner variable's data can be said to be good, and there are no outliers (data that is too extreme).
3. The Supervisory Board variable shows that the supervisory board's minimum value is 0.20, and the maximum value is 0.50. The average value obtained is 0.30, and the standard deviation is 0.08. A standard deviation smaller than the mean indicates that the supervisory board variable's data can be said to be good, and there are no outliers (data that is too extreme).
4. The audit committee variable shows that the audit committee's minimum value is 0.17, and the maximum value is 0.50. The average value obtained is 0.30, and the standard deviation is 0.10. A standard deviation smaller than the mean indicates that the data used in the audit committee variable can be said to be good, and there are no outliers (data that is too extreme).
5. Variable Profitability shows that the minimum profitability value is 0.00 and the maximum value is 0.07. The average value obtained is 0.012, and the standard deviation is 0.009. The standard deviation that is smaller than the mean indicates that the profitability variable's data can be said to be good, and there are no outliers (data that is too extreme).
6. The PBV variable shows that the minimum PBV value is 0.36 and the maximum value is 5.70. The average value obtained is 1.67, and the standard deviation is 1.10. A standard deviation that is smaller than the mean indicates that the PBV variable's data can be said to be good, and there are no outliers (data that are too extreme).

**Classic Assumption Test**

**a. Normality Test**

The normality test aims to test whether, in a regression model, the independent variable and the dependent variable have a normal distribution or not. The measurement of normality can be done with the Kolmogorov Smirnov test. Kolmogorov Smirnov test by looking at the Asymp indicator. The sig, where the number must be greater than 0.05.

**Table 2. Normality Test Results**

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		87
Normal Parameters <sup>a,b</sup>	Mean	.0E-7
	Std. Deviation	.80095542
	Absolute	.134
Most Extreme Differences	Positive	.134
	Negative	-.084
Kolmogorov-Smirnov Z		1.247
Asymp. Sig. (2-tailed)		.089

a. Test distribution is Normal.  
 b. Calculated from data.

Table 2 above shows that the Kolmogorov Smirnov Z value is 0.089, where this number is more significant than 0.05. So it can be said that this data has been normally distributed and meets the normality test.

**b. Multicollinearity Test**

Multicollinearity testing aims to test whether there is a linear relationship between one independent variable and other independent variables. Detection of multicollinearity is done by looking at the tolerance value and its opposite, namely VIF.

**Table 3. Multicollinearity Test**

Coefficients <sup>a</sup>		
Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
1 Dewan_Direksi	0.598	1.673
Komisaris_Independen	0.779	1.283
Pengawas	0.753	1.329
Audit	0.658	1.519

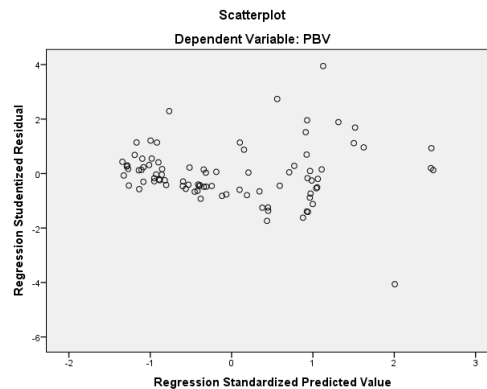
Profitabilitas	0.644	1.553
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a. Dependent Variable: PBV

Multicollinearity test results can be seen by looking at the VIF and the tolerance value obtained. If the tolerance value is greater than 0.10 and the VIF value is smaller than 10, it can be concluded that there is no multicollinearity. The test results show that all VIF values are less than ten and tolerance values are greater than 0.10.

**c. Heteroscedasticity Test**

A heteroscedasticity test is carried out to test whether the regression model has an unequal variation from the residuals of one observation to another. Heteroskedaxity test in this study was tested with scatterplots. The data does not experience heteroscedasticity if, in the scatterplot, the points are spread above and below zero and do not form a particular regular pattern.



**Figure 1. Scatterplots Diagram**

The variable heteroscedasticity test results for the Board of Directors, Independent Commissioners, Supervisory Board, Audit Committee, and Profitability on PBV show that the dots are spread above and below zero. The dots spread out and do not form a specific regular pattern so that it can be concluded that heteroscedasticity does not occur in the regression model.

**d. Autocorrelation Test**

The autocorrelation test aims to test whether in linear regression there is a correlation between errors in the current period (t) and errors in the previous period (t-1). If there is a correlation, it is called an autocorrelation problem.

**Table 4. Autocorrelation Test Results**

Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.690 <sup>a</sup>	.476	.444	.82531	1.790

a. Predictors: (Constant), Profitabilitas, Komisaris\_Independen, Pengawas, Audit, Dewan\_Direksi

b. Dependent Variable: PBV

Table 4 shows the amount of Durbin Watson's value of 1,790. The D-W value according to the table with n = 87 and k = 5, the value of dl = 1.6902, and the value of du = 1.7729 is obtained. Hence the value of du < d < 1.790.

**Regression Analysis**

Multiple linear regression analysis is intended to determine the effect or relationship of the independent variable ethics health workers and service quality on the dependent variable patients' satisfaction.

**Table 5. Regression Analysis**

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-2.131	.642		-3.319	.001		
1 Dewan_Direksi	.384	.139	.289	2.774	.007	.598	1.673
Komisaris_Independen	2.208	.775	.260	2.850	.006	.779	1.283

Pengawas	.457	1.191	.036	.384	.702	.753	1.329
Audit	3.084	1.057	.289	2.919	.005	.658	1.519
Profitabilitas	28.979	11.619	.250	2.494	.015	.644	1.553

a. Dependent Variable: PBV

- The variable regression coefficient for the Board of Directors (X1) is 0.384; This means that if the other independent variables are fixed in value and the Board of Directors variable has an increase of 1 unit, the PBV (Y) will increase by 0.384 because the coefficient value is positive. Furthermore, the significance value is  $0.007 < 0.05$ . It can be concluded that there is a positive and significant influence of the Board of Directors on PBV.
- Independent Commissioner variable regression coefficient (X2) of 2,208; This means that if the other independent variables are fixed in value, and the Independent Commissioner variable has increased by 1 unit, the PBV (Y) will increase by 2,208 because the coefficient value is positive. Furthermore, the significance value is  $0.006 < 0.05$ . It can be concluded that there is a positive and significant effect of the Independent Commissioner on PBV.
- Supervisory Board variable regression coefficient (X3) of 0.457; This means that if the other independent variables are fixed in value and the Supervisory Board variable increases by 1 unit, then the PBV (Y) will increase by 0.457 because the coefficient value is positive. Furthermore, with the significance value of  $0.702 > 0.05$ , it can be concluded that there is a positive and insignificant influence of the Supervisory Board on PBV.
- Audit Committee variable regression coefficient (X4) of 3.084; This means that if other independent variables are fixed in value and the Audit Committee variable has increased by 1 unit, then PBV (Y) will increase by 3.084 because the coefficient value is positive. Furthermore, the significance value is  $0.005 < 0.05$ . It can be concluded that there is a positive and significant effect of the Audit Committee on PBV.
- Profitability variable regression coefficient (X4) of 28,979; This means that if the other independent variables are fixed in value and the profitability variable has increased by 1 unit, the PBV (Y) will increase 28,979 because the coefficient value is positive. Furthermore, with the significance value of  $0.015 < 0.05$ , it can be concluded that there is a positive and significant effect of profitability on PBV.

**F-Test and Determiation Test**

The F statistical test shows if all the independent or free variables included in the model have the model's accuracy on the dependent or dependent variable.

Table 7 F-Test and Determiation Test

Model	F-Count	Sig
Regression	14.711	.000 <sup>b</sup>
R2	0.476	
Determiation Coefficient	47.6%	

Based on the results of the F statistical test, the statistical value f counted 14.711 and a significance value of 0.000 where this result is greater than F table (2.74) at n of 87 so that Ho is rejected, which can be concluded that there is a positive and significant effect of 47.6%.

**V. DISCUSSION**

Corporate governance or corporate governance is a system consisting of a set of structures, procedures, and mechanisms designed for company management based on the principle of accountability that can increase corporate value in the long term[29]. The results of research conducted on 29 banks from 2011-2019 show that the value obtained is a significant value in terms of GCG on firm value. The determination test coefficient shows a R2 value of 0.476 which indicates the effect of Good Corporate Governance (GCG), which is 47.6%. In part, GCG is projected by the Board of Directors, Independent Commissioners, and the Audit Committee which have a positive and significant effect on company value. Meanwhile, the supervisory board variable has no significant effect on firm value. These results are consistent with research Bonson where GCG has an effect on firm value[30]. According to Siahaan, several things that can cause corporate governance to affect company value, namely: (1) the high awareness of companies to implement GCG as a necessity, not just compliance with existing regulations, (2) company management is interested in the long-term benefits of implementing it. GCG, (3) the increase in share ownership by management and institutional investors has led to greater pressure on companies to implement GCG, (4) the existence of the board of commissioners and audit committees within the company can monitor the company in implementing GCG [31].

Based on the results of the correlation analysis, it can be seen if the variables of good corporate governance, firm value, and bank performance have a significant correlation with the pandemic crisis in Indonesia. This is in line with research from Purwani which states that the implementation of GCG will have a positive influence on company performance[32].

## VI. CONCLUSION

The results showed that the Good Corporate Governance (GCG) from 29 banks from 2017 to 2019 had a significant effect on firm value. The determination test coefficient shows that the R<sup>2</sup> value is 0.476, indicating the effect of Good Corporate Governance (GCG) is 47.6%. Partially, good corporate governance (GCG), which is proxied by the Board of Directors, independent commissioners, and the audit committee, positively and significantly affects firm value. Meanwhile, the supervisory board variable has no significant effect on firm value.

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