The Influence of Corporate Governance on Financial Performance and Firm Value of Bank Sector Companies Listed at Indonesia Stock Exchange in Period 2008-2012

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ABSTRACT
This study was aimed to assess the influence of corporate governance on financial performance and firm value of Bank Sector companies. The unit of analysis in this study is bank sector companies listed at Jakarta Indonesia Stock Exchange in period 2008-2012. This unit data is represented by the audited corporation's financial statements and historical data of stock prices in Indonesian Stock Exchange. Financial Statement data and historical data of the corporation's stock price are used from the year of 2008 to 2012. Companies' samples in the study are only companies which meet the sampling criteria as many as 130 companies. Data analysis used Generalized Structured Component Analysis. Result of research indicates that Corporate Governance significantly influences Financial Performance. Corporate Governance significantly influences firm value, and Financial Performance significantly influences firm value.

Keywords: Corporate Governance, Financial Performance and Firm Value.
1. INTRODUCTION

Global economic era requires corporation to be able compete in the new global economic challenge where corporate governance is one of the most discussed topics. Corporate governance becomes current trend in economic world as the effect of a number of scandalous cases which reveal the weakness of corporate governance. Enron and WorldCom in the United States of America, Marconi in United Kingdom, Royal Ahold in Netherlands scandals brought the attention of financial expert to start focusing on the role of corporate governance. Institutional investors begin to evaluate the role of corporate governance for their investing policy. There are a large number of economics scandals in Indonesian banks, for example Lippo Bank, Summa Bank, National Indonesian Bank (Bank BNI), and Century Bank, because of unhealthy banking system and Indonesian banking system puts aside corporate governance principles (Suhardjanto et al., 2012).

Competition from foreign companies forces Indonesian corporation to improve the value and performance of their companies. Good implementation and management of corporate governance is a necessity in developing a corporation’s value and performance.

Banking industry plays an important role in economic development of a developing country like Indonesia. There are some reasons to choose banking sector as the object of the study, i.e. (a) Bank is an “intellectually intensive” business, (b) Bank is categorized as service sector that relies heavily on human intellectual capacity to guarantee customer satisfaction, (c) Bank is well-known as risk taking entities (Van Oorschot, 2009), (d) In doing its activities, bank is involved with risk more than manufacturing companies or other companies, and (e) Banking is considered to have high regulation rate as stated in Indonesian Bank Regulation.

Based on our observation, studies on the influence of corporate governance towards financial performance and firm value have not been conducted extensively yet. Taliyang and Mariana (2011) conducted a study entitled Intellectual Capital Disclosure and Corporate Governance Structure: Evidence in Malaysia to 5 (five) kinds of industries (information technology, consumer product, industrial product, trading/service and financial), with 150 samples and Ordinary Least Square (OLS) as data analysis. The result is corporation’s intellectual disclosures are 72.6%, however Malaysian corporation’s intellectual disclosures are only 3.45 that percentage is relatively lower. Besides that, it was revealed that there is a positive correlation between corporate governance and intellectual capital and corporate governance significantly influences intellectual capital. On the other hand, audit committee measurement does not have any correlation with intellectual capital.

Another study entitled Intellectual Capital Performance and Board Characteristics of GCC between 2008 to 2010 was conducted by Al-Musalli and Ku-Ismail (2012). The study was using 147 (one hundred and forty seven) observers where independent commission becomes independent variable and Intellectual capital bank working performance is dependent variable. The results showed that (1) Intellectual Capital of bank registered in Gulf Corporation Council (GCC) is low; (2) independent commission proportion has negative, significant correlation with the working performance of Intellectual Capital of bank registered in Gulf Corporation Council (GCC).

Furthermore, Lee et al. (2010) study about accumulated influence of intellectual capital and corporate governance towards corporation’s value, a case study of electronic companies listed in Taiwan reveals that there is a positive, significant correlation between intellectual capital accumulation and corporate governance towards corporation’s value. As an addition, Safieddine et al. (2009) study shows (1) intellectual capital improves the capability of American University of Beirut (AUB); (2) there is significant correlation between corporate governance and intellectual capital; and (3) there is a low correlation between intellectual capital and corporate governance in American University of Beirut (AUB).
2. LITERATURE REVIEW

2.1 Corporate Governance

Jansen and Meckling (1976) define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are of maximum utility, there is good reason to believe that the agents will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs design to limit the aberrant activities of the agent. In addition, in some situations it will pay the agent to expend resources (bonding costs) to guarantee that he will not take certain actions which would harm the principal or to ensure that the principal will be compensated if he does take such actions. Corporate governance principles developed by the OECD consists of the rights of shareholders, the role of stakeholders, disclosure and transparency, and the responsibilities of the boards.

2.2 Financial Performance

The ability of a corporation to launch and trade its stocks in stock market reflects its financial condition and operating result which are measured using financial ratio (Siregar, 2010). It is vital to measure financial performance of a corporation since it is an indicator to determine the annual growth of a corporation. Reports on financial performance can also be used to decide which policy management should take. Studies on financial performance use ROA and ROE as the indicator.

Return on Assets (ROA) is key profitability that measures the amount of profit a corporation makes from every asset it has. ROA shows how efficient a company is in utilizing its total assets to run the company. ROA also provides some information to shareholders how a company convert their investment into profits. In conclusion, ROA is an indicator of a company’s profitability to utilize their assets to earn net income. ROA is measured by dividing net income with the total assets.

Return on Equity (ROE) is the amount of net income returned as a percentage of shareholders equity. ROE measures a corporation’s profitability by revealing how much a company generates with the money shareholders have invested. Brigham and Houston (2011) stated that ROE is ratio of net income after tax divided by shareholders equity. The use of ROE is (1) to measure how efficient a company is based on how much profit it generates from each unit of shareholder equity; (2) ROE shows how well a company uses its investment to generate the growing income; (3) ROE is used to compare profitability rate among companies by comparing different companies in the same industrial sector.

2.4 Firm Value

Modigliani and Miller (1963) explain that firm value is the total amount of debt at market value and stock market value. Meanwhile, Myers et al. (2011) stated that firm value equals to corporation present value or total amount of separated assets. Furthermore, Ross et al. (2008) mention that firm value equals to market value of debt and equity, minus cash and cash equivalents. A goal of a corporation is to maximize shareholders equity not only for the interest of the shareholders, but also people in general (Keown et al., 2011). Every corporation wants to achieve the goal because corporate owners are getting more prosperous when a corporation reaches its maximum firm value (Husnan and Pudjiastuti).

2.4.1 Market to Book Ratio (MBR)

Market to Book Ratio (MBR) measures firm value financial market gives to corporate management and growing organization (Weston & Copeland, 1997). The ratio also shows the comparison between market value equity and book value equity.

2.4.2 Tobin's Q

Weston and Copeland (1997) state that tobin’s Q is a more accurate measurement about how effective a corporation utilizes all economic resources it has. In the study, Tobin’s Q is measured by the total of market value equity and book value of debt divided by the total of book value equity and book value of debt.

2.4.3 Closing Price

Closing Price means closing price or final price of stock traded on certain trading period (daily, weekly, monthly and tri-monthly). The price has to be mentioned in each annual report (every three month). Closing price is the most up-to-date information about stock price until the following trading day begins (Investopedia, 2013). Salvatore (2013) states that closing price is an indicator of people's expectation about
3. HYPOTHESIS

3.1. The Influence of Corporate Governance towards Financial Performance and Firm Value

Theoretically, corporate governance enhances corporation’s performance. Brickley et al. (1994) and Coleman (2007) supports the theory and highlight the important role of boards of direction to protect the shareholders by making effective control decision. Boyd (1995) conducts a study entitled Corporate Governance and Firm Performance: A Contingency Model and the result is that negative corporate governance results in insignificant performance of a corporation. Furthermore, Abdullah et al. (2008) study entitled Impact Corporate Governance on Financial Performance on Firms: Evidence from Pakistan shows that governance committee audit independence variable influence performance variables (Tobin’s Q, MVA, ROA and ROE).

Kumar and Singh (2012) conducts a study of which title is Outside Directors, Corporate Governance and Firm Performance: Empirica Evidence from India and it reveals that independent director proportion has positive and significant influence towards firm value in India. Besides that, Gill and Obradovich (2012) also conduct a study entitled The Impact of Corporate Governance and Financial Leverage on the Value of American Firms. The finding is audit committee has positive impact towards firm value manufacture in the United States of America. Fallatah and Dickins (2012) study, Corporate Governance and Firm Performance and Value in Saudi Arabia, show that there is no correlation between corporate governance and corporation performance, and, on the other hand, there is a positive correlation between corporate governance and firm value. Based on the findings, two sets of hypotheses are formulated as follow:

**H****1**: There is significant influence of Corporate Governance towards Financial Performance.

**H****2**: There is significant influence of Corporate Governance towards Firm Value.

3.2. The Influence of Financial Performance towards Firm Value

Modigliani and Miller established a theory which states that corporation value is determined by earning power of the corporation’s assets. Positive result shows the higher the earning power is, the more efficient asset rotation is and or the higher profit margin the corporation has. These aspects determine corporation value. Ulupui (2007), Carlson and Bathala (1997) study show that ROA has positive influence towards corporation value. Demsetz and Villalonga (2001) in their study indicate that there is a significant correlation between financial performance measured using profit rate and firm value measured using Tobin's Q. The finding is consistent with Chung et al. (2003) study of which result is there is a positive significant correlation between Tobin’s Q (firm value) ratio and profitability (financial performance) and a negative correlation between Tobin’s Q (firm value) and risk. Gill and Obradovic (2012) study, entitled The Impact of Corporate Governance and Financial L on the Value-of American Firms reveals that board size has negative influence towards corporate value in America, and ROE has positive influence towards corporate value in America. Furthermore, Gill and Neill (2011) conducted a study entitled Board Size, CEO Duality, and the Value of Canadian Manufacturing Firm show that size of corporation, potential growth and financial performance has positive influence towards Canadian manufacturing corporation value. Finally, the finding of Adi et al. (2013) study entitled The Influence of Corporate Governance and Capital Structure on Risk, Financial Performance and Firm Value: A Study on the Mining Company Listed in Indonesian Stock Exchange in 2009-2012 shows that the better financial performance a corporation has the more improved its firm value is as recorded in Indonesian Stock Exchange.

Studies conducted by Suranata and Pratana (2004) claim that ROA has negative influence towards corporate value. Raharjo (2005) points out that ROE does not have any influence towards return exchange. It is caused by the fact that investors do not take ROE into consideration when they made investment. Sasongko (2006) study about the factors that influence the price of stock and return on asset (ROA), return of equity (ROE), return on sale (ROS), earning per share (EPS), basic earning power (BEP) as well as economic value added (EVA) are the factors involve in the study. After several tests, it is concluded that earning per share (EPS) is the only factor that influences the price of stock. In other words, the other five factors do not influence the stock price. It means ROA, ROE, ROS, BEP and EVA cannot be used to determine corporate value. Based on those theories and the findings of the studies, the last hypothesis of the study is formulated as follow:
H3: There is a significant influence of financial performance towards firm value.

4. RESEARCH METHODOLOGY

Since the purpose of the study is to test the influence of Corporate Governance towards Financial Performance and firm value, the design of the study is explanatory study which means a study of which purpose is to explain causal relationship between variables through hypothesis testing (Cooper and Schindler, 2001). From legal data point of view, the study is an ex post facto study because the data used are financial and annual reports of a corporation and the researchers take the data as they are (non-manipulative data). The study is an observational study based on data collection method because the researchers only conduct an analysis towards certain variables in the financial and annual reports.

4.1. Setting of the Study

Research analysis unit is financial and annual reports of banking sector companies registered in Indonesian Stock Exchange. These reports are taken from ICMD. The setting of the study is Indonesian banking sector companies registered in Indonesian Stock Exchange in the period of 2008-2012.

4.2. Population and Samples

The population is 35 (thirty-five) go-public banking sector companies registered in Indonesian Stock Exchange between 2008 until 2012. Purposive sampling method is used as to select which companies selected as the samples of the study.

There are several criteria to select the samples of the study i.e.:

1. Companies registered in Indonesian Stock Exchange from 2008 until 2012
2. Companies of which stock is actively traded in Indonesian Stock Exchange during the study
3. Companies that published their annual and financial reports regularly from 2008 until 2012
4. Companies should implement corporate governance, which consists of Audit Committee Proportion and Independent Commission Proportion

Based on the criteria, 26 (twenty six) out of 35 (thirty-five) are selected as samples of the study. The rest 9 (nine) companies was not registered in Indonesian Stock Exchange in 2008. Table 4.1 is the list of 26 (twenty-six) companies that become the samples of the study.

The samples of the study are banking sector companies still registered in Indonesian Stock Exchange in 2007 and publish their annual, financial and ICMD reports regularly and continuously between the period of 2008-2012. The total number of samples are 130 (one hundred thirty) or 26 (companies) x 5 years = 130
Table 4.1 Banking Sector Companies Selected as the Samples of the Study

<table>
<thead>
<tr>
<th>No.</th>
<th>Code</th>
<th>Corporation Name</th>
<th>Date of Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>AGRO</td>
<td>Bank Rakyat Indonesia Agro Niaga Tbk.</td>
<td>08-08-2003</td>
</tr>
<tr>
<td>2.</td>
<td>BABP</td>
<td>Bank ICB Bumi Putera Tbk.</td>
<td>15-07-2012</td>
</tr>
<tr>
<td>3.</td>
<td>BACA</td>
<td>Bank Capital Indonesia Tbk.</td>
<td>08-10-2007</td>
</tr>
<tr>
<td>4.</td>
<td>BBKP</td>
<td>Bank Bukopin Tbk.</td>
<td>10-07-2006</td>
</tr>
<tr>
<td>5.</td>
<td>BBNI</td>
<td>Bank Negara Indonesia (Persero) Tbk.</td>
<td>25-11-1996</td>
</tr>
<tr>
<td>6.</td>
<td>BBNP</td>
<td>Bank Nusantara Parahyangan Tbk.</td>
<td>10-01-2001</td>
</tr>
<tr>
<td>7.</td>
<td>BBRI</td>
<td>Bank Rakyat Indonesia (Persero) Tbk.</td>
<td>11-10-2003</td>
</tr>
<tr>
<td>8.</td>
<td>BCIC</td>
<td>Bank Mutiara Tbk.</td>
<td>25-06-1997</td>
</tr>
<tr>
<td>9.</td>
<td>BDMN</td>
<td>Bank Danamon Indonesia Tbk.</td>
<td>06-12-1989</td>
</tr>
<tr>
<td>10.</td>
<td>BEKS</td>
<td>Bank Pundi Indonesia Tbk.</td>
<td>13-07-2001</td>
</tr>
<tr>
<td>11.</td>
<td>BKSW</td>
<td>Bank Kesawan Tbk.</td>
<td>21-11-2002</td>
</tr>
<tr>
<td>13.</td>
<td>BNBA</td>
<td>Bank Bumi Artha Tbk.</td>
<td>31-12-1999</td>
</tr>
<tr>
<td>14.</td>
<td>BNGA</td>
<td>Bank CIMB Niaga Tbk.</td>
<td>29-11-1989</td>
</tr>
<tr>
<td>15.</td>
<td>BNII</td>
<td>Bank Internasional Indonesia Tbk.</td>
<td>21-12-1989</td>
</tr>
<tr>
<td>16.</td>
<td>BNL</td>
<td>Bank Permata Tbk.</td>
<td>15-01-1990</td>
</tr>
<tr>
<td>17.</td>
<td>BSWD</td>
<td>Bank Swadesi Tbk.</td>
<td>01-05-2002</td>
</tr>
<tr>
<td>18.</td>
<td>INPC</td>
<td>Bank Artha Graha International Tbk.</td>
<td>29-08-1990</td>
</tr>
<tr>
<td>19.</td>
<td>MCOR</td>
<td>Bank Windu Kentjana International Tbk.</td>
<td>03-07-2007</td>
</tr>
<tr>
<td>20.</td>
<td>NISP</td>
<td>Bank NISP OCBC Tbk.</td>
<td>20-10-1994</td>
</tr>
<tr>
<td>21.</td>
<td>SDRA</td>
<td>Bank Himputan Saudara Tbk.</td>
<td>15-12-2007</td>
</tr>
<tr>
<td>22.</td>
<td>BVIC</td>
<td>Bank Victoria Internasional</td>
<td>30-06-1999</td>
</tr>
<tr>
<td>23.</td>
<td>MAYA</td>
<td>Bank Mayapada Internasional</td>
<td>20-03-1997</td>
</tr>
<tr>
<td>24.</td>
<td>MEGA</td>
<td>Bank Mega Tbk.</td>
<td>17-08-2000</td>
</tr>
<tr>
<td>25.</td>
<td>PNBN</td>
<td>Bank Pan Indonesia Tbk.</td>
<td>29-12-1982</td>
</tr>
<tr>
<td>26.</td>
<td>BBCA</td>
<td>Bank Central Indonesia Tbk.</td>
<td>31-05-2000</td>
</tr>
</tbody>
</table>

(Data was taken in 2014)

4.3. Type and Source of Data

The type of data in the study is quantitative data because it uses secondary data. The source of data is annual, financial and ICMD reports of banking sector companies still registered in Indonesian Stock Exchange in 2007 and publish their annual, financial and ICMD reports regularly and continuously between the periods of 2008-2012 downloaded from www.idx.co.id.

The data of the study is documentation study in the form of ICMD, financial and annual reports from the year 2008 to 2012. The documentation process is conducted by collecting, taking notes, and counting the data related to the study.

4.4. Definition of Operational Variable of the Study

There are three variables involved in the study i.e. Corporate Governance, Financial Performance and Firm Value. They are as follow:

4.4.1. Corporate Governance

Corporate Governance is a set of rules or system to direct and control companies used by the authorities in a corporation. Corporate Governance is measured using Committee Audit Independence Proportion and Independent Commission Proportion.

a. Audit Independence Committee Proportion

The underlying idea of the establishment of audit committee is to utilize the commission to perform its supervising roles. An effective audit committee is going to create a transparent, qualified financial reporting process, obedience towards regulations and an appropriate internal supervision (Lie et al., 2010). Audit committee is another form of internal corporate governance of which effect is to improve the quality and performance of one corporation’s financial management (Coleman, 2007). In the study, the proportion of Audit Independence Committee is the percentage of total number of Audit Independence Committee a corporation has.
The following formula is adopted from Lie et al. (2010)

\[
\frac{\Sigma \text{Audit Independence Committee}}{\Sigma \text{Audit Committee}} \times 100\%
\]

b. Independent Commission Proportion

In order to have a good management, Indonesian Stock Exchange requires every registered corporation to have independent commission. Independent commission gives an independent and objective judgment to help the board in decision making process (Tricker, 1994). Independent commission works best to perform monitoring process to create good corporate governance. Independent commission will enhance the effectiveness of board to supervise the management and prevent false financial report (Beasley, 1996). The proportion of independent commission in the study is the percentage of the total number of independent commission members against the total number of commission board members. Eng & Mak (2003)’s study is used as a reference for the percentage.

\[
\frac{\Sigma \text{Independent Commission}}{\Sigma \text{Commission}} \times 100\%
\]

4.4.2. Financial Performance

Financial Performance is a record on what a corporation has achieved in certain period of time, for example one fiscal year. Annual financial report is the form of financial performance. In the study, financial performance is measured using Return On Assets (ROA) and Return On Equity (ROE) as the indicators.

a. Return On Assets (ROA)

Return On Assets (ROA) reflects profit and level of efficiency of a corporation in utilizing total assets. According to Brigham & Houston (2011), ROA can be measured using the following formula, namely:

\[
\frac{\text{Total Profit after Tax}}{\text{Total Assets}} \times 100\%
\]

b. Return On Equity (ROE)

Return on Equity (ROE) is the ratio of profitability that is related to investment profit. ROE measures a corporation's profitability by revealing how much profit a corporation generates with the money shareholders have invested. In other words, the ratio indicates how profitable shareholder's investment is and it is used to compare two or more companies in one industry continuously (Van Horne, 1989). According to Chen et al. (2005), the formula to obtain ROE is as follow:

\[
\frac{\text{Total Profit before Tax}}{\text{Total Equity}} \times 100\%
\]
4.4.4. Firm Value

Firm Value reflects the market value of a whole business. It shows how much trust people have toward a corporation since the corporation was first established up to the present. In this study, firm value is measured using the following indicators:

a. Market to Book Ratio (MBR)

Market Book Ratio measures corporation’s value given by financial market to the management and the corporation itself (Weston & Copeland, 1997). The ratio also shows the comparison between market value equity toward book value equity. The ratio is in line with Weston & Copeland (1997) formula, that is shown as follow:

\[
\frac{\text{Market Value Equity}}{\text{Book Value Equity}} \times 100\%
\]

b. Tobin’s Q

Weston and Copeland (1997) state that tobin’s Q is a more accurate measurement about how effective a corporation utilizes all economic resources it has. In the study, Tobin’s Q is measured by the total of market value equity and book value of debt divided by the total of book value equity and book value of debt. Hemmelberg et al. (1999) study is used as a reference for the formula mentioned previously. The formula is as follow:

\[
\frac{\text{Market Value Equity + BV of Debt}}{\text{Book Value Equity + BV of Debt}} \times 100\%
\]

c. Closing Price

Closing Price is the final price at the end of certain trading period (daily, weekly, monthly, and tri-monthly) in a stock exchange. Closing Pricing is determined using the following formula

\[
\text{CP} = \log N \text{ CP}
\]

4.5. Inferential Statistical Analysis

General Structure Component Analysis (GCSA) is the data analysis technique used to test the hypotheses in the study. There are several reasons to use GCSA as the technique of data analysis, namely:

1. GCSA can substitute factor with linear combination from indicator (variable manifest) in SEM analysis
2. The analysis is developed to avoid the shortcoming of PLS (Partial Least Square), which is equipped with global optimum procedure but keeps local optimum procedure (like the one in PLS)
3. GCSA can be applied to the correlation between complex variables (recursive and non recursive), involve high-order component (factor) and multi group comparison (Tenenhaus, 2008)
4. GCSA is the most current component-based SEM method, and can be used to measure score (instead of scale) as well as very small number of samples.
5. Singularity and multicolinearity often becomes serious obstacles in using the structural model analysis of covariance-based SEM. Hwang (2009) states that, in the practice, GCSA allows the occurrence of multi coloniarity, which is a strong correlation between ecsogen variables
6. GCSA can be used to model structural that involves variable with reflective and formative variables.
5. FINDINGS OF THE STUDY

5.1. Description of Variables

5.1.1. Corporate Governance Variable (X₁)

Based on Table 5.1, corporate governance variable (X₁), with Independent Audit Committee and Independent Commission Proportion as its indicators can be interpreted as (1) minimum score of Independent Audit Committee (X₁₁) is 0.25; (2) minimum score of Independent Audit Committee (X₁₁) is 1; and (3) mean score of Independent Audit Committee Proportion (X₁₁) is 0.56 or 56%. Thus, the mean score of Independent Audit Committee Proportion in banking sector corporation registered in Indonesian Stock Exchange between the period of 2008-2012 is 56%.

Based on the Kep-305/BEJ/07-2004 decree of Indonesian Stock Exchange, audit commission is supposed to give independent, professional input to board of commission as well as identify any aspects the boards of commission have to pay attention to. The establishment of independent commission in audit committee is expected to improve quality of supervision to the management so that the management will run the corporation more effectively based on existing rules and regulations. Independent audit committee will also make monitoring function more efficient because the committee can file a report on any findings they have to boards of commission anytime. Based on Anderson et al. (2004) a company which has Independent Audit Committee will have lower debt financing cost, while Wild (1994) claims that a company will react better to the net income report after the establishment of independent audit committee. Klein (2006) finds out a negative, non-linear correlation between independent audit committee and earning management. Further, Klein suggests that the establishment of board should be more independent than CEO so that supervising process towards financial report of a corporation can be more effective.

The minimum score of Independent Commission Proportion (X₁₁) is 0.14, the maximum score is 0.14 and the mean score is 0.58 or 58%. It shows that banking sector companies registered in Indonesian Stock Exchange between 2008-2013, the samples of the study, has 0.58 or 58% Independent Commission members out of the total number of their board commission members. Article 120 paragraph 1 of the 2007 Decree number 40 about limited liability company states that the company can arrange to have one or more independent commission and one or more non independent commission. Furthermore, the Kep-305/BEJ/07-2004 Decree of Indonesian Stock Exchange directors stated that a company should have at least 30% of Independent Commission from the total number of board commission. Based on the findings of the study, the banking sector companies has followed the decrees and regulations stated previously in terms of their Independent Commission Proportion.

Independent commission has an access to a company’s financial report; however they do not have any right to alter the report. Since the goal of independent commission is to improve corporation performance and value, supervising role the commission has is vital to improve working performance of the management. High proportion of independent commission will enhance corporate financial performance and firm value in the future.

5.1.2. Financial Performance Variable (Y₁)

Financial performance variable (Y₁) is represented using two variables, ROA (Y₁₁) and ROE (Y₁₂). Based on Table 5.1, the following information is obtained (1) the minimum score of ROA is -52.9, (2) the maximum score is 5.15 and (3) the mean score is 1.2. ROA shows how efficient a company is to utilize its total assets. The mean score 1.2 is represents the power of banking sector companies registered in Indonesian Stock Exchange in the year of 2008-2012. The number shows investors how corporations turn their invested money into net income. ROA shows how profitable a company is so the higher ROA score is, the more efficient is a company in using its assets. In other words, a high score in ROA means a company can generate more earnings using minimum amount of investment.

The minimum score of Return On Equity (ROE) is -135.64; the maximum score is 474.21 and the mean score 14.50. The mean score of Return On Equity (Y₁₂) of banking sector companies registered Indonesian Stock Exchange in the year of 2008-2012 is 14.5. The score means each rupiah in corporate equation of the banking sector companies will make 14.5% profit each fiscal year. Therefore, the higher ROE score is the better. According Bringham & Houston (2011), ROE is net income ratio after tax towards investment to measure returning rate of shareholder investment.
5.1.4. Variable Firm Value (Y2)

Firm Value variable (Y2) in the study is represented by by 3 indicators i.e. Market to Book Ratio/MBR/ PBV (Y2.1), Tobin’s Q (Y2.2) and Closing Price (Y2.3). Based on Table 5.1, the minimum score of MBR is -1.74, the maximum score is 8.55 and the mean score is 1.81. It means market value equity of banking sector companies registered in Indonesian Stock Exchange in the period of 2008-2012 is 1.81 times bigger than their book value equity. MBR is the ratio that measures growing firm value given by financial market to a corporate management and organization (Weston & Copeland, 1997). The ratio also shows the comparison between market value equity and book value equity.

Based on Table 5.1, minimum score of Tobin’s Q is 0.14, the maximum score is 1.70 and the mean score is 0.52. Based on Ross et al. (2008), a company with high Q ratio will likely have more interesting chance of investment or significant, competitive advantageous or both. Having 0.52 as Tobin’s Q mean score means it is worth a try to have investment in banking sector companies registered in Indonesian Stock Exchange.

Based on Table 5.1, minimum score of closing price is 1.69, the maximum score is 4.02 and the mean score is 2.79. The scores show that banking sector companies registered in Indonesian Stock Exchange in the year 2008-2012 has good prospect. Closing Price means closing price or final price of stock traded on certain trading period (daily, weekly, monthly and tri-monthly). Closing price is the most up-to-date information about stock price until the following trading day begins (Investopedia, 2013). Closing price is an indicator of people’s expectation about how much profitable the stock is going to be in the future (Salvatore, 2005).

5.1 Result of Confirmatory Factor Analysis

Score of loading factor of each indicator from every variable is presented in Table 5.1 until Table 5.3. To see complete result of confirmatory factor analysis, go to Appendix 3.

<table>
<thead>
<tr>
<th>Table 5.1</th>
<th>Loading Factor Indicators from Corporate Governance Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>Indicator</td>
</tr>
<tr>
<td>1.</td>
<td>X1.1</td>
</tr>
<tr>
<td>2.</td>
<td>X1.2</td>
</tr>
</tbody>
</table>

Table 5.1 shows that the independent audit committee proportion (X1.1) has 0.368 loading/ weight score and independent commission proportion (X1.2) has 0.368 loading/ weight score. These scores that independent audit committee proportion (X1.1) and independent commission proportion (X1.2) has the same proportion of contribution which influence Corporate Governance.

<table>
<thead>
<tr>
<th>Table 5.2</th>
<th>Loading Factor Indicators from Financial Performance Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>Indicator</td>
</tr>
<tr>
<td>1.</td>
<td>Y1.1</td>
</tr>
<tr>
<td>2.</td>
<td>Y1.2</td>
</tr>
</tbody>
</table>

Table 5.2 shows that ROA (Y1.1) has 0.537 loading/ weight score, and ROE (Y1.2) has -0.537 loading/ weight score. The scores shows that ROA (Y1.1) is as dominant as ROE (Y1.2) towards Financial Performance despite the fact that these two are of the opposite direction.

<table>
<thead>
<tr>
<th>Table 5.3</th>
<th>Loading Factor Indicator from Firm Value Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>Indicator</td>
</tr>
<tr>
<td>1.</td>
<td>Y2.1</td>
</tr>
<tr>
<td>2.</td>
<td>Y2.2</td>
</tr>
<tr>
<td>3.</td>
<td>Y2.3</td>
</tr>
</tbody>
</table>

Table 5.3 shows that MBR (Y2.1) has -0.450 loading/ weight scores that is dominant, Closing Price (Y2.3) has 0.420 loading/ weight score and Tobin’s Q (Y2.2) has 0.414 loading/ weight score. The scores indicate that MBR (Y2.1) is the most dominant factor that influences Firm Value, followed by Closing Price (Y2.3) and Tobin’s Q (Y2.2) which has the lowest score.
5.2 GCSA Analysis
5.2.1. Hypothesis Testing

GCSA analysis results in 0.315 as FIT score. In other words, variables in the model are able to explain variance or existed phenomena as much as 35%, whereas the remaining 68.5% can be explained by variables not involved in the model. Hypothesis testing is conducted by examining significant paths in structural model. T-test is conducted to find out significant causal and co-relational path in coefficient path test. The advantage of re-sampling is that it results in small standard error, and bootstrapping is a practice of estimating properties of estimators using simulations. The underlying reason of using the method is curiosity about how much different result given from one experiment to another. Since repetition is difficult to conduct, the method is utilized to overcome the difficulty.

Decision making principles uses P score as reference and 0.05 as real level score (α). When P < α, then H₀ is rejected, but when P > α, then H₀ is accepted. Estimated score and P score in each coefficient path can be seen in Table 5.6. while Figure 5.1 shows the diagram of model path (hypothesis) after trimming is conducted. Based on Figure 5.1, the result of the hypothesis testing is as follow:
1. Corporate Governance has negative significant influence towards Financial Performance.
2. Corporate Governance has negative significant influence towards Firm Value
3. Financial Performance has significant influence towards Firm Value

<table>
<thead>
<tr>
<th>Coefficient Path</th>
<th>Estimate</th>
<th>SE</th>
<th>CR</th>
<th>p</th>
<th>Ket.</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1-&gt;Y1</td>
<td>-0.065</td>
<td>0.015</td>
<td>4.2</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>X1-&gt;Y2</td>
<td>-0.164</td>
<td>0.032</td>
<td>5.1</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Y1-&gt;Y2</td>
<td>0.407</td>
<td>0.017</td>
<td>24.46</td>
<td>0.000</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Figure 5.1 Path Diagram
5.5 Discussions

5.5.1 The Influence of Corporate Governance towards Financial Performance

The analysis results in -0.065 as coefficient path and P score is 0.00 that can be considered as significant. It means corporate governance has negative, significant influence towards financial performance in banking sector companies listed in Indonesian Stock Exchange in the period of 2008-2012. The coefficient path marks negative which means corporate governance does not have direct, immediate influence towards financial performance in Indonesian banking sector companies. The finding is consistent with related studies conducted by Abdullah et al. (2008), Kumar and Singh (2012), Gill & Obroadovich (2012), Syriopoulos & Tastsaronis (2012), and Adi et al. (2013); all studies show that corporate governance has influence towards or significant correlation to financial performance.

The analysis about the influence of corporate governance towards financial performance results in -0.065 as coefficient path or 6.5%. Considering that the coefficient path marks negative, every time corporate governance variable in banking sector companies registered in Indonesian Stock Exchange changes by 1 point, there is a 6.5% decrease in financial performance variables in the companies and vice versa when there is an increase.

The implementation of corporate governance in the banking sector companies registered in Indonesian Stock Exchange has negative influence towards financial performance. It indicates there is another variable that influences financial performance variable in the companies. It happens because Indonesian banking practice has put aside corporate governance principles (Suhardjanto et al., 2012).

Corporate governance practice using Independent Audit Committee Proportion and Independent Commission Proportion as indicators has negative, significant influence towards financial performance. It happens because increasing member of Independent Audit Committee and Independent Commission Board is performed to fulfill formal requirement only and the founders or majority of stockholders are the ones that run the companies; as the consequences, board performance does not improve (Gideon as cited in Carningsih, 2010). The finding is also in line with Tirta (as cited in Carningsih, 2010) who states that the establishment of Independent Audit Committee and Independent Commission Board is not more than a requirement and is not meant to apply the practice of Good Corporate Governance (GCG) in a company. The condition is confirmed by Asian Development Bank survey in Carningsih (2010) that shows the dominancy of founder and majority of stockholders will result in dependent audit committee and board of commission. They cannot perform their supervising role completely and will sacrifice the corporation performance.

5.5.2. The Influence of Corporate Governance towards Firm Value

The analysis shows -0.164 as coefficient and P score is 0.00; the numbers shows that corporate governance has significant value towards firm value in banking sector companies registered in Indonesian Stock Exchange in the year of 2008-2012. The finding is consistent with the findings of previous related studies conducted by Hiraki et al. (2003), Kumar and Singh (2012), Abdullah et al. (2008), Gill & Obroadovich (2012), Syriopoulos & Tastsaronis (2012), Gill & Neil (2011), Fallatah & Dickins (2012), serta Adi et al. (2013) which state that corporate governance has significant value towards firm value.

The analysis of the influence of corporate governance towards firm value shows -0.164 or -16.4% as coefficient path. Since the coefficient path is negative, every time corporate governance variable in banking sector companies registered in Indonesian Stock Exchange changes by 1 point, there is a 16.4% decrease in firm value variables in the companies and vice versa.

The negative influence of the implementation of corporate governance in the banking companies indicates that there are other variables besides those using in the study that has bigger influence towards their firm value. Global economic condition, government policy, regulations, and political situation are to name a few.

Corporate governance practice using Independent Audit Committee Proportion and Independent Commission Proportion as indicators has negative, significant influence towards firm value. It happens because increasing member of Independent Audit Committee and Independent Commission Board is performed to fulfill formal requirement only and the founders or majority of stockholders are the ones that run the companies; as the consequences, board performance does not improve (Boediono & Gideon, 2005). The finding is also in line with Tirta (as cited in Carningsih, 2010) who states that the establishment of Independent Audit Committee and Independent Commission Board is not more than a requirement and is not meant to apply the practice of Good Corporate Governance (GCG) in a company. The condition is confirmed
by Asian Development Bank survey in Gideon (2005) that shows the dominancy of founder and majority of stockholders will result in dependent audit committee and board of commission. They cannot perform their supervising role completely and will sacrifice the corporation performance. When the performance of a corporation decreases, their firm value will also decrease.

Corporate governance variable has yet been able to influence firm value in a positive manner. Good Corporate Governance (GCG) will affect stock price in the long term. The phenomenon takes place since it takes some time for stock market to respond to the implementation of corporate governance. It requires a relatively long time to see the influence of corporate governance towards firm value since it is related to gaining the investors trust. Even though the mean score of the implementation of corporate governance is considered high, 56% and 58% (Independent Audit Committee Proportion and Independent Commission Proportion), and positive, investors prefers market response. When market response is positive, the investors will response in a positive manner and vice-versa. Moreover, the investors still find the result of CGPI survey untrustworthy since Century Bank and BNI Bank cases emerge to the surface. These two banks are two of the best ten banks in Indonesia in one year, yet their performance plummeted the following year. As the effect, IICG should put more effort to create more credible CGPI function as a reference for investors before they start making an investment.

5.5.3 The Influence of Financial Performance towards Firm Value

The analysis results in -0.407 as coefficient path and P score is 0.00 and, therefore, it can be concluded that financial performance has significant influence towards firm value in banking sector companies registered in Indonesian Stock Exchange in the year of 2008-2012. Since the coefficient path is positive, every time financial performance variable in banking sector companies registered in Indonesian Stock Exchange changes by 1 point, there is a significant 40.7% increase in firm value variables in the companies and vice versa, when there is a decrease.

The finding is in line with MM theory which state that two aspects that influence firm value are profit rate and corporate risk. Furthermore, the findings of the study, financial performance has significant influence towards firm value, is consistent with previous related study by Ulupui (2007), Chung et al. (2003), Gill & Obradovich (2012), Gill & Neil (2011), and Adi et al. (2013).

ROA is a ratio measuring corporate power to generate net income based on certain level of assets. ROA is pivotal for investors to predict the growth and the future of a company. ROA is important because it gives information on how much profit a company can make from investment it has as well as whether or not the profit meet some standard set by investors when they make the investment. It is one aspect investor pay attention to prior to making an investment.

The higher ROA a company has the more effective it is in converting investment into net income after tax. In other words, higher ROA is in line with good corporate reputation. The condition is going to attract more investors because they believe that the company has a high return rate. Such company will also have higher stock price, or in other words, ROA also affects stock price.

The goal of a corporation is to maximize firm value, not only for the benefit of shareholders but also people in general (Keown et al., 2004). Firm value will increase when a company can achieve an estimated net income.

6. CONCLUSION

Corporate governance has significant influence towards financial performance in banking sub-sector corporations registered in Indonesian Stock Exchange in the period of 2008-2012. The finding supports the findings of previous studies which state that corporate governance and intellectual capital has positive influence towards financial performance, using ROA and ROE as indicators. It means the change in corporate governance has influence, even though a negative one, towards financial performance in banking sector corporations registered in Indonesian Stock Exchange.

Corporate governance has significant influence towards firm value in banking sector corporations registered in Indonesian Stock Exchange in the period of 2008-2012. It means the implementation of corporate governance principles (transparency, accountably, responsibility, independency and fairness) has significant influence, even though a negative one, towards firm value in banking sector corporations registered in Indonesian Stock Exchange.

Financial performance has significant influence towards firm value in banking sector corporations registered in Indonesian Stock Exchange in the period of 2008-2012. It means financial performance,
ROA (Return On Asset) and ROE (Return On Equity) as indicators, has significant influence towards the increase of firm value using Market to Book Ratio (MBR), Tobin's Q and closing price as indicators.

7. SUGGESTIONS

7.1. Suggestions for Further Related Studies

Further researchers should conduct studies on the influence of corporate governance towards financial performance and firm value of companies in other industrial sectors. Further studies should also take banking sector corporation's rank and index of corporate governance into consideration.

Further studies should involve other indicators, for example shareholder percentage, education background of boards of commission, and number of meeting board of commission has. Further studies should involve other indicators such as Return on Investment (ROI), Growth in Revenue (GR) and Debt to Equity Ratio (DER), to measure financial performance variable.

Further studies should use financial data or profit with positive value. In the study, the researchers did not distinguish whether the data have positive or negative value, and, as the consequences, some of the findings of the study are not significant.

7.2. Suggestions for Corporations and Practitioners

Corporate owners and management of banking sector companies should implement corporate governance principles and their regulations consistently and continuously. The financial service authority and Institute of Indonesia Chartered Accountants should set a standard and regulations in order to manage good corporate governance.
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