Daengku: Journal of Humanities and Social Sciences Innovation *ISSN: 2775-6165 (online)*
Vol. 3 No. 2 (2023)
https://doi.org/10.35877/454RI.daengku1476

Analysis of the Relationship between Corporate Governance and Firm Value in Islamic Banks in Indonesia

Devi*, Antong, & Halim Usman

University Muhammadiyah Palopo, Kota Palopo, Sulawesi Selatan, Indonesia

Abstract

This study aims to determine how the relationship between the independent variables, namely corporate governance proxied by managerial ownership, ownership, independent board of commissioners, audit committee, and board of directors based on ASET, BOPO, CAR, and DPK. This study uses a sample of Indonesian Islamic Banks, ASET, BOPO, CAR, and DPK used, namely the last 4 years (2018-2021) in Indonesia, while the data used is secondary data taken from the official government website of the central statistics agency (BPS), annual financial reports collected from BSI (Bank Syariah Indonesia), processed using the reviews application. The data carried out several data analysis tests including a correlation test and a granger causality test. The results of this study are in the correlation coefficient table, ASET has a very weak correlation with CAR and DPK, while BOPO has a perfect negative correlation with AET, CAR, and DPK, CAR has a moderate correlation with DPK, and DPK has a very weak correlation with ASET. Meanwhile, in the granger causality test table BOPO has no significant effect on ASET in Islamic banks in Indonesia, and vice versa, ASET has no significant effect on BOPO. CAR has no significant effect on assets and vice versa, assets have no significant effect on CAR. DPK has no significant effect on assets, and vice versa, assets have no significant effect on DPK. DPK has no significant effect on BOPO and vice versa BOPO has no significant effect on DPK.

Keywords: Governance; Firm Value; Islamic Banks.

1. Introduction

Corporate Governance is a set of processes, practices, policies, rules, and mechanisms designed to manage companies by the principles of accountability to increase company value in the long term. The corporate governance system refers to the rules and incentives that management uses to guide and monitor the course of company activities. Therefore, good corporate governance can increase shareholders' opportunities to increase profits and company value in the long term.

Agency problems are a matter of interest between shareholders and managers in the process of maximizing firm value. Agency problems arise due to differences in interests between managers and shareholders, this is because managers focus on personal interests, which will result in increased costs and decreased profits, which will have a major impact on stock prices, thereby reducing the value of the company. The financial performance of Islamic banks must also be measured from the level of profitability of the company which can be used as a basis for measuring the company's financial performance. Therefore, financial performance must identify the strengths and weaknesses of the company through financial reporting to measure the extent to which financial neutrality is being or has been achieved. The financial performance of a Bank can also be assessed by analyzing its financial statements so that it can calculate its financial ratios to determine the value of the Bank's health level. In conducting banking financial performance, Bank Indonesia refers to asset funds mostly obtained from public deposits so that it can be considered more representative of measuring banking financial performance (Rikasari & Hardiyanti, 2022)

The implementation of Good Corporate Governance (GCG) principles is the main foundation in running a business to maximize added value for stakeholders and maintain business continuity. Therefore, BSI continuously strives to improve its governance systems and practices to remain accountable, transparent, and fair. BSI (Bank Syariah Indonesia) is committed to strengthening and improving the implementation of GCG principles in all aspects of its

* Corresponding author.
E-mail address: devimanawia@gmail.com

business activities. The Bank periodically reviews and adjusts its governance policies as a commitment to improving the quality of governance throughout the organization. The principles become a reference in decision-making, performance optimization, avoidance of conflicts of interest, information disclosure, and increased accountability. BSI applies these principles to add value and maintain the trust of various stakeholders including shareholders.

Corporate Governance Forum Indonesia formulates Corporate Governance (CG) as a system of corporate governance that explains the relationship between various actors in determining the direction and performance of the company. The purpose of the company implementing good corporate governance is to build the company's image and fulfill its responsibilities to shareholders, society, and employee welfare. (Mir'atun et al., 2019). Good corporate governance greatly affects the survival of a company. To achieve good company performance to increase company value, a corporate governance mechanism is needed. There are several mechanisms for implementing good corporate governance, namely management ownership, institutional ownership, independent supervisory boards, audit committees, and boards of directors. This corporate governance mechanism will increase supervision of the company so that its performance is expected to be better.

2. Literature Review

2.1. Company Value

Corporate governance can be defined as a long-term process and structure of corporate bodies (shareholders/capital owners, supervisory committees/boards and directors) to improve corporate success and corporate accountability to achieve shareholder value while continuing to focus on other interests based on regulations and ethical values of stakeholder interests (Evan Hamzah Muchtar et al., 2019). Firm value is the value that reflects the equity and book value of the company, which can be expressed as the market value of equity, the book value of total debt, and the book value of total equity. Firm value is an important indicator of shareholder wealth.

High company value will be accompanied by prosperity for investors and owners. If the value of the company increases, then shareholder value increases, which is reflected in high returns on investment for shareholders. Growth in firm value is essential to maximize wealth for shareholders and achieve the overall goals of the firm. Therefore, it is very important to explore all possible factors that have an impact on firm value. The main goal of the company is to increase its value of the company. Indonesia Corporate Governance Forum (FCGI, 2002) The purpose of preparing corporate governance is to increase added value for all parties involved. (Jurnali, 2014).

2.2. Corporate Governance Mechanism

A good corporate governance mechanism based on corporate governance principles is expected to reduce agency problems in the company. The company's ability to disclose more financial, legal and management information to other parties will send positive signals to the market, making market participants willing to buy more shares of the company. The greater the demand for company shares, the higher the company value, and the higher the degree of implementation of corporate governance, the higher the company value (Yunita et al., 2018). Corporate governance promises a balance between various interests, thus bringing benefits and added value to the company as a whole. Corporate governance mechanisms consist of management shareholding, institutional shareholding, independent supervisory board, audit committee, and board of directors. The need to implement corporate governance is an important part of the company to create added value for all stakeholder (Putri & H, 2016).

Independent Commission. Management supervision activities are more effective when the number of independent boards is very large. The independent committee maximizes firm value by avoiding moral hazards committed by directors for their interests through ownership accruals that affect earnings management. This shows that the more independent the committee members are, the less revenue management, thereby increasing firm value. An independent supervisory board is one of the most important corporate governance mechanisms. This is because the Supervisory Board oversees the activities of the directors, receives reports from the audit committee regarding internal control weaknesses, oversees the financial reporting process, and focuses on management's performance in running the business.

Institutional ownership. Institutional share ownership is the number of shares owned by an institution out of the total number of shares outstanding. The presence of institutional shareholding allows for professional oversight of investment development, which results in a high level of control over management, which in turn reduces the likelihood of fraud.

Institutional shareholders include insurance companies, pension funds, and mutual funds. The greater the institutional ownership, the more efficiently the company's assets are used and, it is hoped, prevent waste from management (Negara, 2019).

Supervisory activities against managers will be more effective if the number of independent boards is dominant. The independent committee will maximize firm value by avoiding moral hazards that will be carried out by company directors for their benefit through accrual-based ownership which has an impact on earnings management. This shows that the more independent the committee members are, the fewer earnings management will increase firm value. An independent supervisory board is one of the most important corporate governance mechanisms. This is because the supervisory board oversees the activities of the board of directors and receives reports from the audit committee regarding internal weaknesses, oversees the financial reporting process, and focuses on management performance in carrying out its work (Sarawana & Destriana, 2015).

The audit committee plays a role in the oversight mechanism to improve the quality of information flows between shareholders and managers, which helps minimize agency problems and earnings management practices. This will improve the quality of reported returns and thus increase firm value. Therefore, the more members of the audit committee, the higher the company value. Board size and board structure can limit the level of earnings management practices through the control function of management operations, resulting in good earnings quality and company performance, with an increase in stock prices and company value. Therefore, the larger the board size, the higher the value of the company.

2.3. The Effect of Corporate Governance on Firm Value

Company value according to is a goal that managers in a company want to achieve through investment decisions that have been implemented from financial decisions to increase company value, also argue that the level of success of a company based on investor perceptions is seen to be associated with stock prices. From the share price, the company can attract all investors because in general, before buying shares, an investor will find out in advance about the estimated value of the company.

Firm value is one of the benchmarks used by investors to assess the performance of a company and is closely related to the stock price .When a company's share price grows, the value of an issuer can also provide maximum wealth to shareholders. A high share price indicates that the issuer is valuable. To advance and maintain the value of the company, management must focus on the challenges that affect the company itself, one of which is Corporate Governance. It can be said that the implementation of Good Corporate Governance is a factor that investors and creditors consider in determining investment choices.

3. Research Method and Materials

This research uses quantitative methods with descriptive analysis. The quantitative descriptive research method is a method that aims to make a description or descriptive of a situation objectively using numbers, starting from data collection, and interpretation of data. While the data source used in this research is secondary data. Secondary data is taken from the financial statements of companies listed in 2021. In this study, secondary data is based on annual reports collected from BSI (Bank Syariah Indonesia).

The population used in this study were 4 (four) Islamic banks, namely BMS, BSM, BNI, and BRI. This study tries to determine how the relationship between the independent variables, namely corporate governance proxied by managerial ownership, institutional ownership, independent board of commissioners, audit committee, and board of directors based on ASET, BOPO, CAR, and DPK.

4. Results and Discussions

4.1. Research Results

Table 1. Correlation Coefficient

	ASSETS	BOPO	CAR	DPK
ASSETS	1	-0.795	0.187	0.115
BOPO	-0.795	1	-0.226	-0.381
CAR	0.187	-0.226	1	0.348
DPK	0.115	-0.381	0.348	1

In more detail, to see the interpretation of the correlation between two variables, the following calculation criteria are quoted from (Sarwono, 2006).

Description:

0 : There is no correlation between two variables

>0 - 0,25 : Very weak correlation

>0,25 - 0,5 : Moderate correlation

>0,5 - 0,75 : Strong correlation

>0,75 - 0,99 : Very strong correlation

1 : Positive perfect relationship correlation

-1 : Perfect negative correlation relationship

Based on the research results in the correlation coefficient table, ASET is very weakly correlated to CAR and DPK with coefficients of 0.187 and 0.115 respectively, while BOPO is correlated with a perfectly negative relationship to ASET, CAR, and DPK with coefficients of -0.795, -0.226, and -0.381 respectively, CAR is moderately correlated to DPK with a coefficient of 0.348, and DPK is very weakly correlated to ASET with a coefficient of 0.115,

Table 2. Granger Causality Test Table;

Null Hypothesis:	Obs	F-Statistic	Prob.
BOPO does not Granger Cause ASET	11	0.36325	0.7097
ASET does not Granger Cause BOPO		0.27339	0.7698
CAR does not Granger Cause ASET	11	2.30539	0.1808
ASET does not Granger Cause CAR		0.82637	0.4820
DPK does not Granger Cause ASET	11	0.11937	0.8895
ASET does not Granger Cause DPK		1.83505	0.2389
DPK does not Granger Cause BOPO	11	2.04764	0.2099
BOPO does not Granger Cause DPK		3.88419	0.0828

From the granger causality test table, BOPO is not significantly affected by ASET, this can be seen from the calculated F value of 0.36325 < F table 2.34 with a probability value of 0.7097 > cut-off value 0.05, so it can be concluded that BOPO does not cause ASET. Similarly, BOPO has no significant effect on ASET, this can be seen from the calculated F value of 0.27339 < F table 2.34 with a probability value of 0.7698 > cut-off value 0.05, so it can be concluded that ASET does not cause BOPO.

CAR has no significant effect on ASET, this can be seen from the F value of 2.30539 < F table 2.34 with an ASET value of 0.1808 > cut-off value 0.05, so it can be concluded that BOPO does not cause ASET. Similarly, CAR has no significant effect on ASET, this can be seen from the value of F count 0.82637 < F table 2.34 with a probability value of 0.4820 > cut-off value 0.05, so it can be concluded that ASET does not cause CAR.

DPK has no significant effect on ASET, this can be seen from the calculated F value of 0.11937 < F table 2.34 with an ASET value of 0.8895 > cut-off value 0.05, so it can be concluded that DPK does not cause ASET. Similarly, ASET has no significant effect on DPK, this can be seen from the value of F count 1.83505 < F table 2.34 with a probability value of 0.2389 > cut-off value 0.05, so it can be concluded that ASET does not cause DPK.

DPK has no significant effect on BOPO, this can be seen from the calculated F value of 2.04764 < F table 2.34 with a BOPO value of 0.2099 > cut-off value 0.05, so it can be concluded that DPK does not cause BOPO. Similarly, BOPO has no significant effect on DPK, this can be seen from the value of F count 3.88419 < F table 2.34 with a probability value of 0.0828 > cut-off value 0.05, so it can be concluded that BOPO does not cause DPK.

4.2. Discussion

In conducting research "Analysis of the Effect of Governance on Firm Value in Islamic Banks in Indonesia", the first thing to do is to look for data related to the research. The data is taken from the official government website of the central statistics agency (BPS). Data taken from 2018-2021 after obtaining the data, then analyze the data using the reviews application. In analyzing the data, several data analysis tests were carried out, including a correlation test and a granger causality test.

Correlation test, this test aims to determine whether the variables have a relationship and how strong the relationship between these variables is. The variable will be declared correlated if the value resulting from the analysis is more than 0.5. From the results of the correlation test that has been carried out, the correlation results of the ASET, BOPO, CAR, and DPK variables, and financing in Indonesia from 2018-2021 have been obtained. Where the analysis test results produce a correlation value of less than 0.5. This means that the three variables do not have a correlation level or can be said to be not interconnected.

The granger causality test, this test aims to determine the existence of a reciprocal relationship between variables. After conducting analytical tests on the ASET, BOPO, CAR, and DPK variables in Indonesia from 2018-2021, the results are different from the previous analytical tests. Whereas the stationary analysis test and correlation analysis test state that ASET, BOPO, and CAR do not have a significant effect on DPK and there is no mutually influencing relationship between variables. This is to the results obtained from the granger causality test which states that there is no reciprocal relationship between variables. Because the provisions of the granger causality test variables are declared to have a reciprocal relationship if the prob F-statistic value> 0.1. In the test results on the three variables getting the prob F-statistic value> 0.1, it is stated that these variables do not have a reciprocal relationship or do not affect each other.

5. Conclusion

Based on the results of the research and discussion that has been carried out, it can be concluded that BOPO has no significant effect on assets in Islamic banks in Indonesia, and vice versa ASET has no significant effect on BOPO. CAR has no significant effect on assets and vice versa, assets have no significant effect on CAR. DPK has no significant effect on assets, and vice versa, assets have no significant effect on DPK. DPK has no significant effect on BOPO and vice versa BOPO has no significant effect on DPK. Therefore ASET, BOPO, CAR, and DPK do not cause each other.

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