YAYASAN SASMITA JAYA

CERTIFICATE

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CALL FOR PAPERS - 2nd INTERNATIONAL SEMINAR ON ACCOUNTING FOR SOCIETY

"The Impact Of Artificial Intelligence On Accounting For Society 5.0"

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SIZE OF BOARD EFFECT RETURN ON ASSET AND RETURN ON EQUITY OF BANKING SECTOR IN INDONESIA

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ABSTRACT

Good corporate governance, is one of the keys to the company's success to grow and be profitable in the long term while winning global business competition. One of a country's economic stability is affected by the health of the banking system. The purpose of this study is to examine the impact of governance on the performance of banking companies in Indonesia. A review of the previous literature presented in this study found that corporate governance is positively related to company performance or successful in improving company performance. The research sample contained 27 banking companies listed on the Indonesia Stock Exchange during the 2013-2018 period. Empirical results show that performance such as return on assets (ROA) and return on equity (ROE) are significantly related to banking corporate governance in Indonesia. However, earnings per share (EPS), as a measure of performance does not show significant changes as a result of corporate governance. Overall this study found a positive effect of board size as corporate banking governance mechanisms for all banks in Indonesia.

***Keywords** : Corporate governance, board size, firm performance, return on assets (ROA), return on equity (ROE), earnings per share (EPS).*

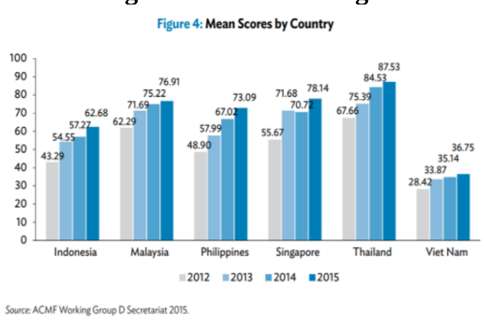
I. INTRODUCTION

As global financial reforms develop, competition becomes increasingly fierce and makes the banking industry increase their compliance with international standards. Banks are financial institutions whose operational activities depend on funds entrusted by service users or their customers. One of a country's economic stability is affected by the health of the banking system. Without bank institutions that can collect, manage and distribute funds from the public, the economic sector will not develop. Therefore, banks must find the most effective and efficient system in improving service quality, this is very important if operational management and its working principles are well developed and systematic. One way to assess a bank's work system is through an assessment of Good Corporate Governance (GCG).

Good corporate governance structures can help organizations to prevent external and internal risks. This can help protect the interests of shareholders. However, poor corporate governance structures can not only cause the performance of individual companies to deteriorate but also affect the market (Ibrahim et al., 2010).

Due to the influence of Good Corporate Governance which is very influential on companies, ASEAN countries have the initiative to form ACGS (ASEAN Corporate Governance Scorecard) to support the implementation plan of the ASEAN Capital Market Forum (ACMF), in the past 5 years, ACGS has become a recognized tool for measuring corporate governance in ASEAN (Putra et al., 2019). Based on data cited from ACGS from 6 countries that assessed, Indonesia ranks the 5th position after Thailand, Singapore, Malaysia and the Philippines.

Figure 1. ACGS Rating.



Data shows that Indonesia experienced a good increase in scores from 2012-2015 but was still lacking compared to other countries in ASEAN. The latest data for 2017 states that an increase from 2015 was 62.88 to 70.59. This is due to banks being a sector with high regulation compared to other sectors, and more able to invest in corporate governance because they have greater assets than other sectors.

However, judging by the study of the Indonesian Banking Development Institute (LPPI) Good Corporate Governance (GCG) in the banking industry in Indonesia is declined in the last ten years during 2017, the average value of GCG in the banking industry was 2.05 on a scale of 5.00. This analysis, can be seen that the bank's performance is considered to be less stable because of the decline and increase in performance seen from several variables as follows:

	CAR	**ROA**	**NIM**	**NPL**
2015	21.39 %	2.32 %	5.39 %	1.14 %
2016	22.69 %	2.17 %	5.47 %	1.24 %
2017	23.18 %	2.45 %	5.32 %	1.11 %
2018	22.97 %	2.55 %	5.14 %	1%

Table 1: Bank Performance Dec 2015-2018
(*Source : Publish Report, processed)*

Therefore, based on differences in the results of previous studies, the authors are interested in conducting research with the title **"The Impact of Good Corporate Governance on Banking Sector in Indonesia".**

II.LITERATURE REVIEW

Good corporate governance plays a key role in enhancing integrity and efficiency of companies, as well as financial markets in which company operates. Poor corporate governance weakens company potential and in worst care can open the way for financial dificulities and frauds, company which follows the best practice of GCG usually rise capital easier and in long term are more profitable and competitive than companies that have poor implications of GCG. (Lojpur, A., & Draskovic, 2013). Many studies around the world have investigated the impact of good corporate governance variables on firm performance, (Siddiqui, 2015) investigated the effect of corporate governance characteristic based on 25 previous recesarch studies and focused on three particular concerns there are the effects legal organisms, governance structures, and accounting or market performances that indicates the value of the markers of the business.

According to (Sapovadia, 2003) Countries with good and dependable corporate governance will tend to have developed markets which can stimulate economic growth, so it can be concluded that GCG is not only important for operating performance and corporate value but also for countries at the macro level.

Agency Theory

GCG can occur in organizations by placing a balance and control between the interests of the company and shareholders. One theory related to harmonizing the interests of owners and managers (Jensen & Meckling, 1976) based on the premise that there is an inherent conflict between company owners and their management (Fama & Jensen, 1983). Agency theory emerged after the phenomenon of the separation of duties between the owner of the company (principal) and the manager of the company (agent).The owner of the company wants the maximum benefit possible by the management of the company by the management. GCG is one of the efforts to bridge the conflict so as not to have a negative impact on the company.

(De Haan & Vlahu, 2013) found that there are regularities in the literature on corporate governance have such a positive impact on the number of independent board members and performance. Onakoya et al (2014) conducted a study to look at the effect of GCG characteristics on bank performance in Nigeria, found that the size or number of the board of directors and ownership structure had a positive impact on ROE. (Chirstopher, 2009) asserts that board size has a greater impact on bank profitability and good governance, ROE and ROA are used because they are a key variable to determine business performance. The analysis findings show that corporate governance variables significantly influence business performance.

Shareholders with a low proportion of ownership have little or no monitoring functions. In general the higher the number of shares owned by investors, the stronger their incentives to monitor and protect their investments (Shleifer&Vishny, 1986). But large shareholders can also endanger companies with conflicts between large shareholders and minorities.

CEO Duality or CEO duality refers to the situation when the company's CEO concurrently acts as the board of commissioners. (Saleh & Iskandar, 2005) prove that role duality has a positive and significant effect on company performance as indicated by increased profits (Ng'eni, 2015), in another extensive review of previous research on the relationship between corporate governance and company performance, found that corporate governance is one of the main factors influencing company performance. (Ng'eni, 2015) further states that previous research conducted on this topic can be divided into two broad categories namely focusing on a single component and many components of corporate governance.

III. RESEARCH METHOD

This research was taken from the sources of the financial statements of each bank listed on the Indonesian Stock Exchange (IDX). Based on a report quoted from the official website of the IDX as of 01 April 2019, it was stated that there were 45 banks registered, but in this study the data used were re-selected namely the bank data that was registered on the IDX before 2013 because the observations from this study were during 2013-2018 which consists of 27 issuers. The research model used to determine the relationship between Good Corporate Governance (GCG) on company performance, in this research we use three measurements as performance that is Return on Assets (ROA), Return on Equity (ROE), and Earning Per Share (EPS). The regression estimate model is as follows:

$$Perf = \beta_0 + \beta_1 SBoard + \beta_2 OLSh + \beta_3 OThLSh + \beta_4 ChCEO + \beta_5 Size + \beta_6 Age + \beta_7 Liquidity + \sum_{k=1}^{vie6} \beta_k Sector + \varepsilon_i$$

Latif et al., 2013 suggested that the results of his research showed a significant impact between GCG on ROA, where it showed a very large impact on company performance. However, the results Ibrahim et al., 2010 showed that there were insignificant results between GCG and ROA, but there was a significant impact between GCG and ROE.

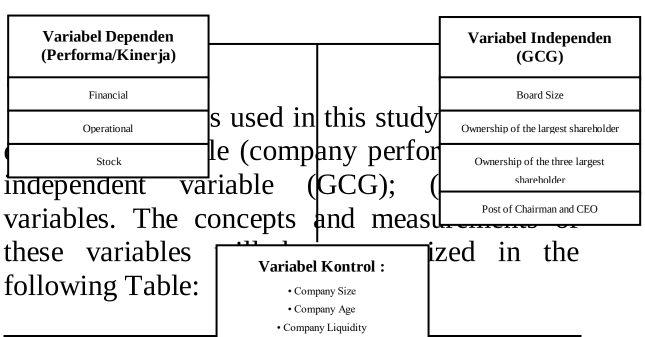
Therefore, the research hypothesis is as follows:

H0: There is no significant impact between Good Corporate Governance (GCG) on the Bank's performance in Indonesia

H1: There is a significant impact between Good Corporate Governance (GCG) on the Bank's performance in Indonesia

The structure of this research journal is as follows:

Figure 2. Research Structure



...s used in this study ...le (company perfor... independent variable (GCG); (... variables. The concepts and measu... of these variables ... ized in the following Table:

Variabel	Label	Definition and Measurement
Dependent Variable: Financial	ROE	The ratio is calculated by dividing net income with shareholder equity.
Operasional	ROA	The ratio is calculated by dividing net income by total assets
Stock	EPS	The ratio is calculated by dividing net income after tax and dividendsdistributed by the number of shares outstanding
Independent Variable Good Corporate Governance : Size Board	SBoard	Is a dummy variable, code 0 if the board of directors does not amount to 7-13 members and 1 if the opposite
Ownership of the largest shareholder	OLSH	Is a dummy variable, code 0 means shareholders have more than 20% share ownership and 1 if the opposite
Ownership of the three largest shareholder	OThLSh	Is a dummy variable, code 0 means ownership of the three largest shareholders of more than 50% and 1 if vice versa
Post of Chairman and CEO	ChCSEO	Is a dummy variable, code 0 if the chairman of the company also serves as CEO and 1 if vice versa
Control Variable: Company Size	Size	A measurement based on total assets

Company liquidity	Liquidit y	The ratio of total debt to total assets
Company Age	Age	is the number of years since the establishment of the company

Tabel 2: ***Measurement of the Variable***

IV. RESULT AND DISCUSSION

This study measures the impact of GCG by using indicators 1) Board Size (SBoard), 2) Ownership of the largest shareholder (OLSh), 3) Ownership of the three largest shareholders (OThLSh), 4) Position of Chair and CEO (ChCSEO). Table 4-9 contains descriptive statistical data from GCG for the study sample during the 2013-2018 period.

Label	Frequency of 1's		Frequency of 0's	
	Frequency	Percent	Frequency	Percent
SBoard	17	63	10	37
OLSh	2	7	25	93
OThLSh	2	7	25	93
ChCSEO	24	89	3	11
Mean (Corporate Governance Index)		41.5		58.5

Table 3 :Descriptive Statistics of GCG (2013)

Label	Frequency of 1's		Frequency of 0's	
	Frequency	Percent	Frequency	Percent
SBoard	15	56	12	44
OLSh	0	0	27	100
OThLSh	0	0	27	100
ChCSEO	24	89	3	11
Mean (Corporate Governance Index)		36.25		63.75

Tabe 4 :Descriptive Statistics of GCG (2014)

Label	Frequency of 1's		Frequency of 0's	
	Frequency	Percent	Frequency	Percent
SBoard	16	59	11	41
OLSh	0	0	27	100
OThLSh	0	0	27	100
ChCSEO	24	89	3	11
Mean (Corporate Governance Index)		37		63

Tabel 5 :Descriptive Statistics of GCG (2015)

Label	Frequency of 1's		Frequency of 0's	
	Frequency	Percent	Frequency	Percent
SBoard	17	63	10	37
OLSh	0	0	27	100

OThLSh	1	4	26	96
ChCSEO	24	89	3	11
Mean (Corporate Governance Index)		39		61

Tabel 6 :Descriptive Statistics of GCG (2016)

Label	Frequency of 1's		Frequency of 0's	
	Frequency	Percent	Frequency	Percent
SBoard	17	63	10	37
OLSh	1	4	26	96
OThLSh	1	4	26	94
ChCSEO	25	93	2	7
Mean (Corporate Governance Index)		41		59

Tabel 7 : Descriptive Statistics of GCG (2017)

Label	Frequency of 1's		Frequency of 0's	
	Frequency	Percent	Frequency	Percent
SBoard	16	59	11	41
OLSh	1	4	26	96
OThLSh	1	4	26	96
ChCSEO	25	93	2	7
Mean (Corporate Governance Index)		40		60

Tabel 8 :Descriptive Statistics of GCG ((2018)

The results of this study, found that the CEO duality variable in several banks made a policy that the owner of the company has a duty as CEO and also director of the company, namely a private bank that since its founding indeed has shares that are mostly owned by the owner's family. The OThLSh variable has ownership of more than 50% of the shares outstanding, on average SBoard commercial banks have a number of directors ranging from 7-11 BOD, but for private banks and regional banks have 1-6 BOD. This is also adjusted to the acquisition of the total assets of each bank.

Table 9 shows, descriptive data statistics of performance variable from 2013-2018 which show number of observation on average (mean), standard deviation, maximum and minimum value.

Variabel	Tahun	Mean	Minimum	Maximum	Std. Deviation
ROE	2013	0,166	(0,163)	0,341	0,095
	2014	0,113	(0,163)	0,312	0,102
	2015	0,086	(0,572)	0,299	0,155
	2016	0,029	(0,838)	0,231	0,250
	2017	0,060	(0,489)	0,201	0,138
	2018	0,079	(0,268)	0,205	0,090
ROA	2013	0,022	(0,009)	0,050	0,012
	2014	0,019	(0,016)	0,067	0,017

	2015	0,014	(0,053)	0,047	0,018
	2016	0,011	(0,112)	0,138	0,044
	2017	0,011	(0,075)	0,039	0,023
	2018	0,016	(0,016)	0,040	0,013
EPS	2013	184,760	(14,900)	865,620	239,506
	2014	175,635	(11,080)	982,670	271,773
	2015	175,944	(43,000)	1030,430	280,512
	2016	156,110	(485,000)	1071,510	319,178
	201	156,849	(93,000)	945,000	235,182
	2018	138,237	(1,560)	805,000	194,948
ASSET	2013	240438	3601	900312	271177
	2014	212311	5201	904086	265664
	2015	224297	6087	886974	271497
	2016	175982	4306	712117	207748
	2017	197930	4487	765892	240338
	2018	212202	3897	948213	274801
LDR	2013	0,872	0,574	1,044	0,093
	2014	0,843	0,102	1,089	0,172
	2015	0,870	0,651	1,088	0,094
	2016	0,866	0,554	1,105	0,105
	2017	0,858	0,565	1,111	0,112
	2018	0,911	0,672	1,453	0,140
AGE	2013	33	5	72	19
	2014	34	6	73	19
	2015	35	7	74	19
	2016	36	8	75	19
	2017	37	9	76	19
	2018	38	10	77	19

Table 9 :Descriptive Statistics of Company Performance with Control Variables

Standard deviation shows how the data deviates around the average, in accordance with the data in Table 9, the average ROE value was 0.155% during the 2013-2018 period, with a minimum value of -0.838 in 2016 and a maximum of 0.341 in 2013. ROA from banking companies continued to decrease from 2013 by 0.022% to 2017 by 0.011% and experienced an increase back in 2018 by 0.016%, the existence of a decline in value in 2013-2017 shows that management's performance has declined in getting profits from assets company. Based on observations, EPS values decreased and increased in the period 2013-2018, with a maximum value of 1071.5 and a minimum of -

485.00 in 2016. The average total assets in 2013 decreased and increased, with a maximum value of 948,231 in 2018 and a minimum value of 3,601 in 2013. Meanwhile, liquidity was seen from the LDR ratio with a maximum value in 2018 at 1,453 and a 2014 minimum of 0.102, an average LDR value the average for 2013-2018 was 0.87%, indicating that banks channel almost all of their funds or are relatively illiquid.

Empirical Analysis

Empirical analysis examines the impact of GCG variables on company performance. Ordinary Least Squares (OLS) is a multiple regression model used to export the relationship of GCG with the financial performance of banking companies in Indonesia. According to the performance dimensions, three regression models are used to determine the relationship between GCG and company performance using the following formula:

$$firm\ performance = \int_{i=1} corporate\ governance$$

Table 10 displays the results of multiple regression for the three models presented. The first column for each model shows a t-test, it identifies the level of significance shown in column two of each regression model. The F statistic presents the significance of the whole model and the p-value is profitability that can be used to determine whether populations have different meanings, while R square is the percentage that defines a sample of dependent variables.

Models Variables Indepentdent Var	Label	Model 1 ROE		Model 2 ROA		Model 3 EPS	
		t-test	Sig.	t-test	Sig.	t-test	Sig.
	SBoard	4.957	0,00	4.809	0,00	0,895	0,832
	OLSh	1.219	0,225	0,576	0,566	-0,003	0,997
	OThLSh	-0,494	0,622	-0.751	0,453	-0,224	0,823
	ChCSEO	-0,514	0,608	-0,607	0,545	0,277	0,782
Control Var :	CSize	0,068	0,946	0,117	0,907	2,039	0,043
	LDR	1,647	1,102	1,434	0,154	0,035	0,972
	FirmAge	3,207	0,002	4,143	0,0001	1,238	0,217
F-Statistics		6.296		5.912		0,253	
Sig. (*F*)		0,0001		0,0002		0,908	
R^2		0,138		0,131		0,006	
Adj.R^2		0,116		0,109		-0,019	

Table 10 :*Regression Result*

The regression results show for GCG variables that the SBoard variable has a positive influence on company performance of ROA and ROE, while insignificant on EPS. While the OLSh, OThLSh, and ChCSEO variables have no significant effect because most of these banking companies the three largest shareholders own more than 50% of the total combined shares which shows that the company's policy decisions are controlled by most only interests, and almost most CEOs and company owners are held by two different person so it does not affect the bank's performance.

The regression results show for the control variables that the CSize has a positive and significant impact only on EPS, it shows that the company size becomes the concerns of investor, the bigger business scale of the bank will give a bigger profit for investor. LDR have no sognificant effect on performance. The age of the company has a positive significant effect on ROA and ROE but not on EPS, it shows the more mature a company will make a better ability in managing business.

Adj R2 indicating the magnitude of the dependent variable in this model is up to 11.6%

for performance of ROA, 10.9% for performance of ROE, and only - 1.9% for performance of EPS. The F value for ROA and ROE shows that the model is good fit, which is less than 0.05. Thus it can be concluded that GCG has a significant impact on performance, it is in accordance with the results of previous studies, namely ones states that GCG has a significant positive effect on ROE, Prasinta (2012) and also in accordance with research proposed by Tjondro & Wilopo (2011) where GCG has a significant impact on increasing asset returns.

CONCLUSION

This study explains the relationship between GCG and the performance of banking companies in Indonesia. This research is seen from several reviews of theoretical and empirical literature on the characteristics of corporate governance in several other countries. Data sample of 27 companies with a research period of 6 years starting from 2013-2018. Company performance was tested with ROE, ROA and EPS ratios, while GCG variables were tested with SBoard, OLSh, OThLSh, and ChCSEO. Empirical results from this study indicate that there is a significant relationship between GCG variables and company performance as seen from the ROE and ROA ratios. The GCG variable which has a significant influence on company performance is SBoard. Judging from the control variable age of the company has an influence on financial performance.

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THE 2nd INTERNATIONAL SEMINAR COMMITTEE AND CALL FOR PAPERS
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Pamulang, January 4th, 2020

Number : 058/IS2/LOA/UNPAM/XII/2019
Subject : Letter of Acceptance

Dear : Ossi Ferli, Saffhira Nuriklima Fauzia, Adinda Emilia Christiani Ladjadjawa
In place

With respect

The 2nd International Seminar Committee and Call for Papers, Accounting Study Program S1 Faculty of Economics, Universitas Pamulang, to your paper with title "*THE IMPACT OF GOOD CORPORATE GOVERNANCE ON ROE, ROA AND EPS ON BANKING SECTOR IN INDONESIA"*, states:

"BE ACCEPTED"

To be presented to The 2nd International Seminar on Accounting for Society under the theme "*The Impact of Artificial Intelligence on Accounting for Society 5.0*" which will be held on Thursday, March 19th, 2020, at Auditorium, 8th floor Campus III, Universitas Pamulang.

Thus this statement, for your attention and cooperation, we thank you.

Best regards,
The 2nd International Seminar Committee and Call for Papers
S1 Accounting Study Program, Faculty of Economics
Universitas Pamulang
Chief of Organizer

Putri Nurmala
NIDN. 0425089201

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