EFFECT OF CAPITAL STRUCTURE AND CORPORATE GOVERNANCE ON FIRM VALUE (STUDY OF LISTED BANKING COMPANIES IN INDONESIA STOCK EXCHANGE)

Timotius Hadiwijaya
Axsel Group
Jalan Mekarwangi Bandung, 401
Email: timotius.hadiwijaya@yahoo.com

Laura Lahindah
Program Studi Manajemen
Sekolah Tinggi Ilmu Ekonomi Harapan Bangsa Bandung
Jalan Dipatiukur No.80-84 Bandung, 40132
Email: laura@ithb.ac.id

Inugrah Ratia Pratiwi
Program Studi Akuntansi
Sekolah Tinggi Ilmu Ekonomi Harapan Bangsa
Jalan Dipatiukur No.80-84 Bandung, 40132
Email: inugrah@ithb.ac.id

ABSTRACT

The growth of banking industry in 2010-2013 was duly followed by an increase of firm value proxied by Price to Book Value (PBV). Data from Fact Book shows that banking industry used relatively larger portion of debt (proxied by Debt-Equity Ratio) if it is compared to the financial industry as a whole. This indicates the use of non-optimal capital structure and it influences firm value. A decrease in banks' average rating of Good Corporate Governance (GCG) also indicates a decrease in quality of GCG' values implementation which became one of the causes of the declining value of banking companies. This research examines the influence of capital structure and corporate governance on firm value. The populations of this research are banking companies listed on Indonesia Stock Exchange (IDX) in period 2010-2013 with total sample of 22 companies. The data are analyzed by using multiple regressions linear. Statistical tests show that partially capital structure doesn't influence firm value while corporate governance does. While simultaneously, both influence firm value.

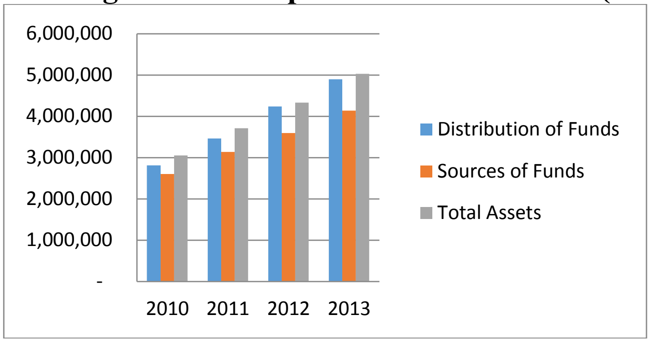
Keywords: banking, capital structure, corporate governance, firm value.

Introduction

Increasingly fierce competition in business drives companies to expand. Data from *Badan Koordinasi Penanaman Modal* (Capital Investment Coordinating Board) showed that there was increasing investment in recent years (Kementerian Perindustrian, 2014). Companies that want to expand would require additional capital to expand. One alternative of long-term financing is bank loan. If a company do borrow, the company not only obtain the funds needed to expand, but also would gain leverage, in which the funds obtained from the debt increases the company's capital to fund its operation so as increase return, but in the other hand it also increase risk (if the company could not pay its debt) (Gitman & Zutter, 2012). The use of debt also provides tax shield to the company because the company's net operating profit (earnings before interest and taxes) (EBIT) will be deducted first by interest expense (which arise due to the use of debt) so that the earnings before taxes (EBT) is getting less and thus the amount of tax to be paid (by multiplying tax rate with earnings before taxes) is also getting less (Ehrhardt & Brigham, 2011).

The increase of loan needs made the banking credit (loans) demand continued to increase and indirectly indicates that banking industry continues to grow. Banking industry's growth can be seen through the growth of its indicator, such as distribution of funds, sources of funds, and total assets (Bank Indonesia, 2013).

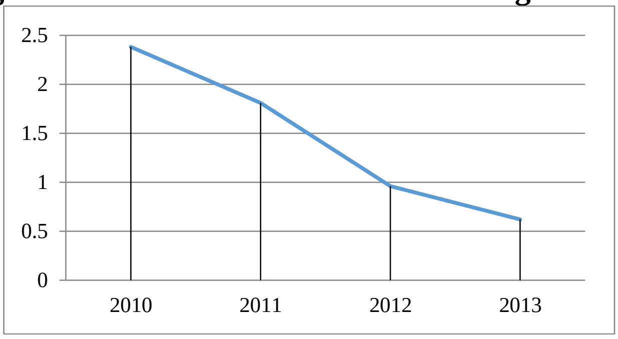
Figure 1. Banking' Business Operations in Indonesia (Billion IDR)



Source: Data processed (2015)

The growth of banking industry was duly followed by an increase in firm value, which is characterized with an increase of price to book value (PBV), but, based on data released from Indonesia Stock Exchange in Fact Book, banking industry' PBV decreased from 2010 to 2013. It indicates that there is a decrease in firm value of banking industry during the period.

Figure 2. Price to Book Value of Banking Industry

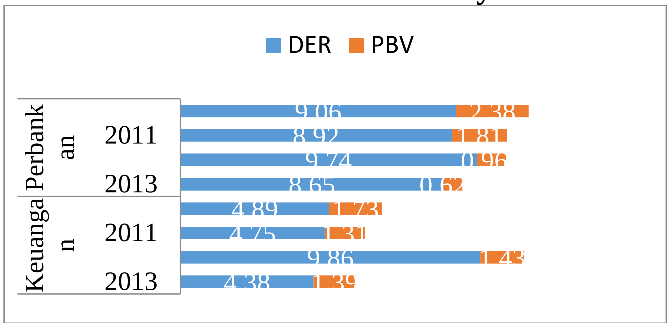


Source: Data processed (2015)

Firm value could be affected by several factors. One of those is capital structure, which is specific mixture of debt and equity the firm uses to finance its operations (Ross, Westerfield, & Jordan, 2010). Capital structure is a very important managerial decision because it affects shareholder wealth. If a company could make a combination of optimal capital structure, this would maximize the value of the firm and hence shareholder wealth as well as minimize cost of capital (Priya, Balasundaram, & Pratheepan, 2015).

Capital structure can be measured by debt-equity ratio (DER), which is how much debt is used compared with equity. (Ross, Westerfield, & Jordan, 2010). Based on data released from Indonesia Stock Exchange in Fact Book, during period 2010 to 2013, the use of debt in banking industry relatively larger than average in financial industry (as a whole), while the banking' PBV continued to decrease consistently, as shown by the following figure. It is indicated that capital structure of banking industry is not optimal yet or not efficient so that the PBV continues to decrease.

Figure 3: DER and PBV Comparison between Banking Industry and Financial Industry



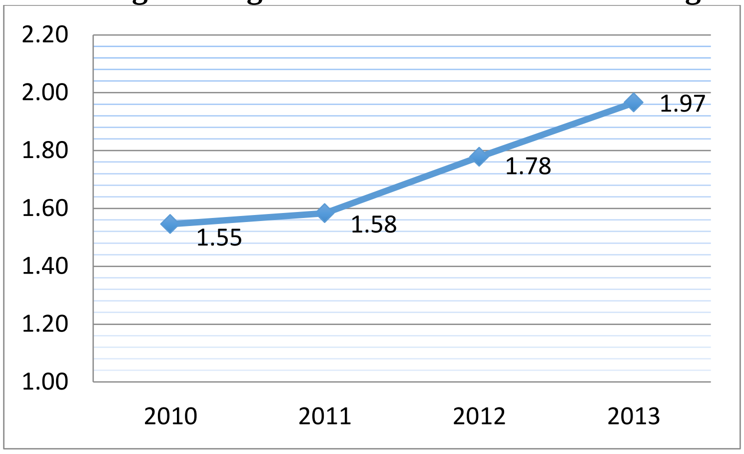
Source: Fact Book (2015)

The other factor which could affect firm value is corporate governance (Bursa Efek Indonesia, 2012). Currently, *Otoritas Jasa Keuangan* (OJK/*Financial Services Authority*) asked financial services industry, including banks, to continue to promote Good Corporate Governance (GCG) values, because the core of financial business is credibility, and high credibility will increase the stability of the country's financial services sector (Otoritas Jasa Keuangan, 2015). OJK said that GCG is important to drive sustainable business growth, maintain resilience of the company, and competitive so that the companies become more resistant to shock in the future (Bisnis Indonesia, 2014). Implementation of GCG standard is important for financial industry, especially banking, to be able to protect themselves from crisis, because financial industry is very vulnerable affected by global economic turmoil (Bisnis Indonesia, 2014).

Companies in Indonesia are required to implement GCG in welcoming Asean Economic Community (AEC) (Bisnis Indonesia, 2014). When compared with ASEAN, GCG implementation in Indonesia is still lagging behind. Therefore, OJK revised GCG regulations, in cooperation with relevant parties such as World Bank and Asean Corporate Governance Scorecard, and formed a team to create a roadmap implementation of GCG (Bisnis Indonesia, 2013).

Currently, banks in Indonesia become model of GCG roadmap issued by OJK for issuers and public companies. This is because banks have started to implement GCG since 2003 (Bisnis Indonesia, 2014). At the time OJK keep increasing efforts to improve GCG implementation in banking industry, and banking is declared as a roadmap model of GCG, data precisely indicate that there is a decrease in average rating of GCG assessment during 2010-2013 (with the category 1 = excellent, 2 = good, 3 = fairly good, 4 = poor, 5 = not good). GCG ratings downgrade shows that there is a decline in quality of GCG implementation in banks. This is indicated as one of the causes of the decrease of banking companies' value characterized by decrease in PBV.

Figure 4: Average Rating of GCG Assessment in Banking Industry



Source: Data processed (2015)

Formulation of the problems that become focus of this research are how much capital structure and corporate governance affect the value of banking companies listed in Indonesia Stock Exchange period 2010-2013 both partially and simultaneously.

Capital Structure

Capital structure is specific mixture of debt and equity the firm uses to finance its operations. There are two things that become concern of financial manager. First, what mixture of debt and equity is best, because it will affect both the risk and the value of the firm. Second, what the least expensive sources of funds are. Capital structure decision can be seen through debt-equity ratio, which is computed (Ross, Westerfield, & Jordan, 2010):

$$\textit{Debt-Equity Ratio} = \frac{\textit{Total Debt}}{\textit{Total Equity}}$$

Capital structure is one of the most complexes in financial decision making because it is associated with cost of capital. Cost of capital is divided into two, namely cost of debt and cost of equity. Cost of debt is lower than other forms of financing, because creditors have the lowest risk of long-term capital contributor. They have highest priority to claim revenue or available assets for the payment of debts. Tax deduction from interest payment on debts also reduces the cost of debt. The use of debt in the company will provide financial leverage. If the company increase financial leverage, cost of debt will be even greater because creditors have a risk that their loans couldn't be paid. Meanwhile, equity capital is not paid back to the shareholders, but remains invested in the company indefinitely. The equity capital consists of common stock and preferred stock (Gitman & Zutter, 2012).

Corporate Governance

Corporate governance is a set of mechanism that direct and control the company so that the company's operation can be run in accordance with expectations of stakeholders. Good corporate governance is structure, system, and process that sought to add value for the company sustainably in the long-term, by concern about stakeholders' interests, based on moral, ethics, culture, and other applicable rules (The Indonesian Institute for Corporate Governance, 2015). Corporate governance also can be defined as a set of laws, rules, and procedures that affect operational activities and motivate decisions made by managers. (Ehrhardt & Brigham, 2011). There is no one corporate governance approach suitable to be implementing to all kind of company, big and small, listed and family, as well as companies in different industries (Hilb, 2012). Corporate governance can be affected, either by internal factors such as shareholders, directors, and officials as well as external factors such as clients, creditors, suppliers, competitors, and government regulations (Gitman & Zutter, 2012).

Corporate governance is important to prevent agency problem, which occurs when managers deviate from the goal of maximization of shareholder wealth by placing their personal goals ahead of the goals of shareholders (Gitman & Zutter, 2012). Agency problem is caused by separation between ownership and control, in which the owner of the company (shareholders) cannot control what managers do. Managers can make decisions that are not based on maximizing shareholder value, but to secure their jobs (Brealey, Myers, & Allen, 2011). GCG directs attention on company performance improvement through supervision and monitoring of management performance. There are five main principles of GCG, including transparency, accountability, responsibility, independency, and fairness. (Komite Nasional Kebijakan Governance, 2015).

Bank Indonesia issued *Peraturan* (Regulation) Bank Indonesia No 8/4/PBI/2006 regarding "*Pelaksanaan GCG bagi Bank Umum*" (Implementation of GCG for Commercial Banks. According the regulations, banks are required to conduct GCG self assessment against 11 factors, each with weights as follows (Bank Indonesia, 2007).

Table 1: Factors of Banking GCG Self Assessment

No	Factor	Weight (%)
1	Performance of duties and responsibilities of the Board of Commissioners	10.00
2	Performance of duties and responsibilities of the Board of Directors	20.00
3	Adequacy and the performance of duties by the Committees.	10.00
4	Management of Conflicts of Interest	10.00
5	Implementation of Compliance function	5.00
6	Implementation of internal audit function	5.00
7	Implementation of external audit function	5.00
8	Implementation of risk management including internal control system	7.50
9	Provisioning of funds to related parties and large exposures	7.50
10	Transparency of the Bank's financial and non-financial conditions, report of GCG implementation, and internal reporting	15.00
11	The Bank's strategic plan	5.00

Source: Bank Indonesia (2006)

Every of the factor above will be assessed 1 = excellent, 2 = good, 3 = fairly good, 4 = poor, 5 = not good. The value of each factor is then multiplied by the weight and summed to produce a composite score. Here is the predicate composite value.

Table 2: Composite Score's Predicate of Banking GCG Self Assessment

Composite Score	Composite Predicate
Composite Score < 1,5	Excellent
1.5 ≤ Composite Score < 2.5	Good
2.5 ≤ Composite Score < 3.5	Fairly Good
3.5 ≤ Composite Score < 4.5	Poor
4.5 ≤ Composite Score < 5	Not Good

Source: Bank Indonesia (2006)

In 2013, the regulation is renewed that banks use the same factors for the assessment, but bank will make a final conclusion as a rating 1 = excellent, 2 = good, 3 = fairly good, 4 = poor, 5 = not good. Bank with rating 3, 4, and 5 are required to prepare and submit action plan containing corrective measures comprehensively and systematically along with the target to Bank Indonesia. Self Assessment Report of GCG Implementation equipped with Self

Assessment Working Paper of GCG Implementation submitted to Bank Indonesia to be evaluated. If there is difference between bank and Bank Indonesia assessment, bank have to revise the Report of GCG Implementation. Report of GCG Implementation published as a separate chapter in banks' Annual Report or presented separately and submitted together with Annual Report (Bank Indonesia, 2013).

Firm Value

Firm value is investor perception of the level of success of the firm in the future. Stock price is a reflection of the value of the firm, where the higher stock price shows the higher value of the firm as well. The higher stock price increase market confidence both on firm current performance and future prospects of the firm (Hermuningsih, 2013). Therefore, the firm seeks to increase firm value by maximizing its stock price (Pangulu & Maski, 2014).

Firm value can be measured by price to book value (PBV) or which is also called market/book (M/B) ratio, which is the ratio of stock price in the market and book value of the shares. (Ehrhardt & Brigham, 2011). PBV is computed by:

$$\textit{Price-to-Book Value} = \frac{\textit{Market price per share}}{\textit{Book value per share}}$$

While book value per share can be computed by:

$$\textit{Book Value per Share} = \frac{\textit{Common Equity}}{\textit{Shares Outstanding}}$$

PBV becomes an important indicator, because it indicates how investors regard the company. The higher PBV indicates the higher shareholder wealth and investor trust to the company's prospect in the future.

Effect of Capital Structure on Firm Value

A company's operational activities are financed either with debt or equity. Capital structure is a thing that becomes a concern for financial managers because it affects firm value (Ross, Westerfield, & Jordan, 2010). Optimal capital structure is combination of debt and equity that leads to maximum value of the firm and thus maximizes shareholder wealth (Priya, Balasundaram, & Pratheepan, 2015). So, firm value will be maximized if cost of capital minimized (Gitman & Zutter, 2012). Debt additional policy gives positive signal for investors and affects firm value (Hermuningsih, 2013). The use of debt in capital structure allows the firm to grow so as increase investment that affects value of the firm (Pangulu & Maski, 2014). Managers considered capital structure as an important think because of the tax factor (Thakor, 2011).

Effect of Corporate Governance on Firm Value

Issue of corporate governance started to emerge in Indonesia when Indonesia suffered prolonged economic crisis in 1998. Implementation of corporate governance which was still very weak that time led to a long process of economic recovery. This encouraged both government and investors to provide significant attention to corporate governance practices as an effort to recover from the economic crisis (Suhartati, Warsini, & Sixpria, 2011). Corporate governance is also important to prevent agency problem that occurs when managers put their own goals above shareholders' interests (Gitman & Zutter, 2012). Therefore, it is necessary to supervise and monitor the performance of management by implementing five principles of good corporate governance, namely transparency, accountability, responsibility, independency, and fairness (Komite Nasional Kebijakan Governance, 2015). A research found that board independent director (proxy of corporate governance) positively significant related with return on assets and return on equity (proxy of firm value) (Rouf, 2011). It is supported by another research that found that independent board could improve firm performance, so the more number of independent boards could increase firm value. (Suhartati, Warsini, & Sixpria, 2011).

Effect of Capital Structure and Corporate Governance on Firm Value

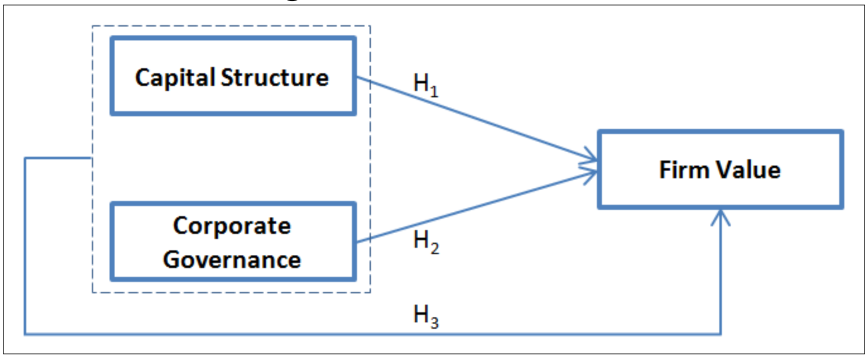
The primary goal of a firm and managers is to maximize value of the firm and thereby maximize the wealth of its owners for whom it operates, that is shareholders (Gitman & Zutter, 2012). It is important for the firm to maximize shareholder wealth because firms operate in a highly competitive financial market environment that offers shareholders many alternatives for investing their funds. The simplest and best measure of shareholders' wealth is share/stock price (Gitman & Zutter, 2012).

The use of combination of optimal capital structure will lead to maximum firm value and thus maximize shareholder wealth (Priya, Balasundaram, & Pratheepan, 2015). If the firm implements good corporate governance, it will foster mutual trust between firm and stakeholders and thus maintain image and reputation of the firm (Komite Nasional Kebijakan Governance, 2015). And if the firm has good image and reputation in investors' sight, it will be able to increase the value of the firm, because firm value itself is investors' perception of the level of the success of the company in the future. A research found that both capital structure and corporate governance affect firm value (Javeed, Hassan, & Azeem, 2014) .

Research Model

Here is the research model and hypotheses of this study.

Figure 5: Research Model



H_1: capital structure affects firm value.
H_2: corporate governance affects firm value.
H_3: capital structure and corporate governance simultaneously affects firm value.

Research Methodology

Population of this study is banking companies listed on Indonesia Stock Exchange period 2010-2013. The sampling method of this study is purposive sampling method, that is using multiple criteria determined by researcher (Sugiyono, 2011). The samples of this study are 22 banking companies listed on Indonesia Stock Exchange period 2010, which published annual report consistently during the period as well as reported result of GCG self assessment either include it in annual report or reported separately during the period. Analysis using multiple linear regression model by first doing the classical assumption test to test the feasibility of the model.

Result And Discussion

Before testing the hypothesis, first tested the classical assumption of normality test (using the Kolmogorov-Smirnov test), multicollinearity test (using the Tolerance and VIF), heteroscedasticity test (using test Park), and autocorrelation test (using the Durbin-Watson test.

Result of Hypothesis Testing

The accuracy of the sample regression function in assessing the actual value can be measured from its Goodness of Fit, which statistically can be seen from the value of the coefficient of determination, the F statistic value, and the value of the t statistic. Statistical calculations stated significant if the statistical test value is within the critical reception area (where H_0 is rejected). Likewise, no significant statistical calculation stated if the value of the statistical test to be in the area where H_0 is accepted (Ghozali, 2013).

Coefficient of Determination

The coefficient of determination (R^2) essentially measures how much the ability of the model to explain variations in the dependent variable. The higher the value of R^2 (approaching 1) means the independent variable provide almost all the information needed to predict the variation of the dependent variable. Weakness coefficient of determination is that the figure of R^2 certainly increased with the addition of independent variables even if the variable is has no significant effect on the dependent variable (Ghozali, 2013). Therefore, this study saw figure of Adjusted R^2 which can go up or down when there are additional independent variables, to test the regression model. Here is the coefficient of determination regression model research:

Table 3: Coefficient of Determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,383[a]	,147	,127	1,04464

a. Predictors: (Constant), SM, TKP

Source: SPSS (2015)

Based on the table above, Adjusted R^2 value is 12.7%. This means that the independent variables, namely capital structure and corporate governance can explain the variable firm value amounted to 12.7%. Meanwhile, the remaining balance of 87.3% (100% -12.7%) can be explained by other factors (which are not discussed in this study).

Standard Error of the Estimate (SEE) equals to 1.04464. The smaller value of SEE means more precise regression model in predicting the dependent variable (Ghozali, 2013).

Simultaneous Regression Coefficient Test

The test is performed to determine whether all the independent variables included in the model have influence simultaneously (together) on the dependent variable (Ghozali, 2013). Here is the result of a statistical test F for the regression model research:

Table 4: F Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15,965	2	7,982	7,315	,001[b]
	Residual	92,758	85	1,091		
	Total	108,723	87			

a. Dependent Variable: FV

b. Predictors: (Constant), CS, CG

Source: SPSS (2015)

Based on the table above, F value equals to 7.315 with a significance level of 0.001. Therefore, the level of significance is less than 0.05 then H_0 is rejected, H_A is rejected so that "capital structure and corporate governance simultaneously affect the value of the company".

Partial Regression Coefficient Test

This test is performed to show how much the effect of the independent variables individually in explaining variations of dependent variable (Ghozali, 2013). Here is the result of a statistical test t for the regression model research:

Table 5: t Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,972	,851		-1,142	,257
	CS	,035	,043	,083	,815	,417
	CG	,616	,161	,391	3,825	,000

a. Dependent Variable: FV

Source: SPSS (2015)

Based on the table above, the results of the hypothesis 1 and 2 are:

1. Variable capital structure has a coefficient of 0.035 with a significance level of 0.417. Significance level is larger significance value (equal to) of 0.05, therefore H_0 is accepted, H_A is rejected so that "capital structure does not affect firm value".
2. Variable corporate governance has a coefficient of 0.616 with a significance level of 0.000. Significance level is less than significance value of 0.05, then H_0 is rejected, H_A is accepted so that "corporate governance affects firm value".

Based on the figures of unstandardized coefficients from the table above, it can be formulated mathematical regression model with the following equation:

$$FV = -0{,}972 + 0{,}035CS + 0{,}616CG$$

Description:
FV = Firm value
CS = Capital structure
CG = Corporate governance

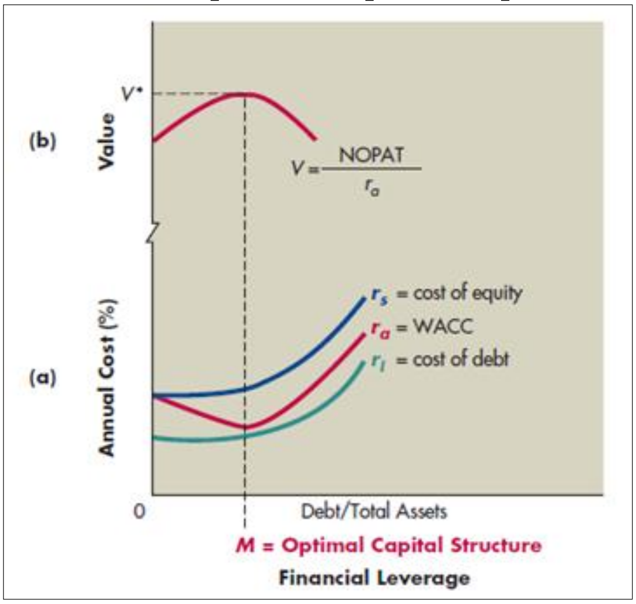
Capital Structure Affects Firm Value

Based on Table 5, the independent variable capital structure has a coefficient of 0.035 with a significance level of 0.417 ($\geq$0,05), then H_0 is accepted, H_A is rejected, so that "capital structure does not affect firm value". Coefficient of capital structure equals to 0.035 means that each additional 1 point in capital structure (DER) will increase 0,035 to firm value (PBV). Results of this study are not consistent with research of Priya, Balasundaram, and Pratheepan (2015) which found that the capital structure as measured by Debt Ratio and Equity Ratio significantly affects correlates to the firm value (manufacturing companies in Sri Lanka) as measured by Earnings per Share and Price/Earnings Ratio. The results also refute Sri Hermuningsih study (2013) which found a significant effect of the capital structure as measured by Debt Ratio to the firm value (public companies in Indonesia) as measured by Tobin's Q. The results of this study are also different when compared with research of Javeed, Hassan, & Azeem (2014) which found that the capital structure as measured by leverage significantly affects firm value (non-finance companies in Pakistan) as measured by Tobin's Q.

Capital structure becomes a concern for financial managers because it affects firm value (Ross, Westerfield, & Jordan, 2010). Firm value, which is present value of cash flows in the future, will be maximized if the cost of capital is minimized (Gitman & Zutter, 2012). When the capital structure is optimal, the cost of capital will be minimized and firm value will be maximized (and thereby increase shareholder value) (Priya, Balasundaram, & Pratheepan, 2015).

However, if a company uses too much debt (exceeding the optimal point), addition of debt will increase the cost of capital so that the value of the firm declined. This is due to the increased risk to the creditors so that the company could not pay its debts to creditors, so that creditors increase the interest rate that leads to an increase in cost of capital (Gitman & Zutter, 2012).

Figure 6: Cost of Capital and Optimal Capital Structure



Source: Gitman & Zutter (2012)

The partial test (t test) results stated that the capital structure does not affect (sample) firm value in banking industry (during the observation period). Here is the data DER & PBV during observation period.

Table 6: DER & PBV of Sample Companies 2010-2013

No.	Stock Code	DER				PBV			
		2010	2011	2012	2013	2010	2011	2012	2013
1	INPC	15,18	15,62	9,61	7,11	0,87	0,71	0,49	0,45
2	BBKP	15,45	12,07	12,15	10,18	1,39	1,05	0,99	0,79
3	BNBA	5,12	5,22	5,67	6,17	0,87	0,67	0,73	0,64
4	BBCA	8,51	8,09	7,54	6,76	4,63	4,69	4,32	3,66
5	BNGA	9,43	8,08	7,72	7,45	3,32	1,67	1,22	0,88
6	BDMN	5,4	4,49	4,42	4,84	2,6	1,52	1,88	1,14
7	SDRA	7,25	9,75	13,17	13,24	1,71	1,08	2,89	3,53
8	BNII	9,36	10,93	10,98	10,33	6,07	2,97	2,36	1,51
9	BKSW	13,54	3,03	4,38	6,3	3,66	2,83	2,85	1,81
10	BMRI	9,81	7,81	7,31	7,26	3,29	2,51	2,47	2,04
11	MEGA	10,82	11,7	9,41	9,86	2,31	2,62	1,95	2,31
12	BCIC	12,93	12,1	11,25	9,6	1,83	1,41	1,14	1,02
13	BBNI	6,5	6,9	6,66	7,11	2,18	1,87	1,59	1,53
14	NISP	8,81	8,08	7,84	6,23	2,18	1,15	1,46	1,04
15	PNBN	7,81	6,85	7,43	7,22	2,24	1,18	0,86	0,79
16	BNLI	8,31	10,09	9,55	10,74	2,04	1,34	1,13	0,94
17	BBRI	10,02	8,43	7,5	6,89	3,53	3,34	2,64	2,23

No.	Stock Code	DER				PBV			
		2010	2011	2012	2013	2010	2011	2012	2013
18	BSIM	11,32	11,86	7,3	5,33	2,52	1,89	1,26	1,13
19	BSWD	3,93	5	5,8	6,92	1,63	1,5	3,62	1,23
20	BBTN	9,61	11,17	9,87	10,35	2,22	1,46	1,46	0,79
21	BTPN	7,19	7,31	6,64	6,03	3,55	3,43	3,96	2,51
22	MCOR	7,35	10,57	7,6	6,65	1,08	1,27	1,01	0,72

Source: Fact Book (2011-2014)

Based on the table above, column marked in green color means change in one direction, while column marked in red color means change in DER contrary with PBV (when DER increase, PBV decrease). Only a few banks are consistently moving in the same direction (up/down together). There are also some banks that do not consistently move in the same direction, such as the Bank Artha Graha (INPC), which may already have an optimal capital structure in 2010 with the DER at 15.18, so when next year DER increased to 15.62, then the capital structure passes optimal points, thus the cost of capital increases and decreases the value of the company. however, it is still conjectural, and based on the table above, capital structure does not have a common pattern (one direction or not) that can be used as a conclusion to give a general statement (generalization) whether in banking industry, particularly period 2010-2013 capital structure (significantly) affects firm value positively or negatively.

A study conducted in primary sector companies (mining and agriculture) listed in Indonesia Stock Exchange 2010-2012 found that the capital structure does not significantly affect the value of the company (proxied by the market/book ratio, other terms of PBV) when proxied by long-term debt to equity (but positive and significant impact when proxied by long-term debt to assets) (Manu, Ronni, & Malelak, 2014). Another study found that the capital structure proxied with leverage does not affect firm value (on listed companies in Kenya) which is proxied by Tobin's Q (Kodongo, Mokoaleli-Mokoteli, & Maina, 2014). In fact, there is a study that analyzes the theories of capital structure and concluded that capital structure does not affect firm value (Thakor, 2011).

Bank Indonesia as the central bank in Indonesia do not provide rules about banks' capital structure in terms of how large a portion of debt (compared to equity) to be used by banks. Bank Indonesia only regulate banks' capital structure in terms of capital adequacy, or better known as the capital adequacy ratio (CAR), that is equal to 8%, to ensure that the bank has sufficient funds to be distributed to the debtor. The capital adequacy is very important in maintaining the resilience of banking industry (Bank Indonesia, 2015). Capital structure may not affect the value of banking companies because the banking company as a financial institution has a capital structure that is fundamentally different to non-financial companies, due to different characteristics of business or operations (Siringoringo, 2012).

In the introduction of this study, it is discussed that the use of debt can increase the value of the company when the capital cost is minimized. Figures of debt-equity ratio (DER) that describes how many portion of debt used compared to its equity, focusing solely on the amount of the debt portion. While the level of DER not only from changes in the amount of debt, but it can also change the amount of equity. For example, Bank QNB Indonesia, which first went public with the name of PT Bank Kesawan Tbk., experienced the decrease of debt portion drastically from 13,54x in 2010 to 3,03x in 2011 was not due to Bank QNB Indonesia to pay their debts, but since the issuance of a number of new shares which increases the amount of equity, that is, when PT Bank Kesawan Tbk. was acquired by Qatar National Bank S.A.Q. Decline in firm value as measured by PBV is not solely affected by not optimal capital structure, but may also due to a decrease in confidence or trust of investors when Bank Kesawan taken over (acquired) by the foreign party.

Banking companies are required to pay attention to the CAR as a regulation of Bank Indonesia that banks have sufficient capital in distributing third party funds to the debtor to avoid rushing (condition in which the customer panic and withdraw cash in large numbers because the bank is considered to have not sufficient capital to be returned to customers). Capital structure does not affect the value of the company when market conditions are not efficient (weak market efficiency), a condition in which stock prices reflect only the information that contains a record of past prices. These conditions make the stock price is so volatile or also called random walk (Brealey, Myers, & Allen, 2011). Stock prices can also fluctuate due to bias information in investing, or when the investors do technical analysis (by trying to detect and interpret the pattern of stock price) so that supply and demand for shares is not determined by the information regarding the company's future prospects and thus affect stock price which is the numerator in the calculation of PBV.

Corporate Governance Affects Firm Value

Based on Table 4.3, the independent variable corporate governance has a coefficient of 0.616 with a significance level of 0.000 (<0.05), then H_0 is rejected, H_A is accepted, so that "corporate governance affects firm value". Coefficient of corporate governance equals to 0.616 means that each additional 1 point in corporate governance (GCG ratings) will increase 0.616 to firm value (PBV). The results are consistent with research of Javeed, Hassan, and Azeem (2014) which found that corporate governance as measured by board independence and ownership concentration significantly affect firm value as measured by Tobin's Q. The results of this study also supports research of Suhartati, Warsini , & Sixpria (2011) which found that corporate governance as measured by the number of commissioners and the number of independent board affects firm value as measured by the age of the company, sales growth, and the size of the company. Results of this study are also consistent with research of Rouf (2011) which found that corporate governance as measured by independent board director and CEO Duality affects firm value as measured by Return on Assets and Return on Equity.

Corporate governance aims to optimize firm value for shareholders and other stakeholders in the long term (Bursa Efek Indonesia, 2012). Corporate governance can foster mutual trust between the company and stakeholders so that the image and reputation of the company maintained, which then can increase the value of the firm because firm value itself is investors' perception of the level of success of the company in the future (Komite Nasional Kebijakan Governance, 2015). Results of this study confirmed the statement that corporate governance affects firm value.

Otoritas Jasa Keuangan (OJK/Financial Services Authority) asked financial services industry, including banks, to continue to fix the corporate governance, because the core of financial business is credibility, and high credibility will increase the stability of the country's financial services sector (Otoritas Jasa Keuangan, 2015). The implementation of corporate governance standards, especially banking industry is very important to protect banks from crisis because financial industry is very vulnerable affected by global economic turmoil (Bisnis Indonesia, 2014). OJK continued to revise the regulations of corporate governance so that the corporate governance of banks in Indonesia is getting better and banks are ready to welcome the Asean Economic Community (effective on 2016), in which corporate governance can prepare banks in Indonesia to compete with banks all around ASEAN. OJK efforts should be appreciated because the results of this study prove that corporate governance positive and significant affects firm value, and by continuing to fix the corporate governance in accordance with the regulations set by Bank Indonesia, banks in Indonesia can have a good credibility to be able to compete globally.

Corporate governance of banking companies which decreased (characterized by the decrease of average rating GCG self assessment in accordance with the regulations of Bank Indonesia), as discussed in introduction, is proven affected on the decline in firm value in recent years. The issue of corporate governance becomes so important because good corporate governance can help companies to always consider the interests of all its stakeholders in carrying out its operational activities (The Indonesian Institute for Corporate Governance, 2015). Banking companies are no longer just pay attention to corporate governance as a form of Bank Indonesia requirement, but also become one of the means to become a company that is recognized and trusted by the people, as with the ranking of corporate governance by the Indonesian Institute of Corporate Governance, namely the category of most trusted companies, trusted companies, and fair trusted companies (The Indonesian Institute for Corporate Governance, 2014). In addition, every year it is held Annual Report Awards where corporate governance is an assessment factor with the greatest weight, that is 35% (Otoritas Jasa Keuangan, 2015). Hopefully, banking companies in Indonesia continue to fix, maintain, and improve the corporate governance, so as maximize the value of firm.

Capital Structure and Corporate Governance Simultaneously Affects Firm Value

Based on Table IV.4, the independent variable capital structure and corporate governance affect firm value with a significance level of 0.001 (<0.05), then H_0 is rejected, H_A is accepted, so that "capital structure and corporate governance simultaneously affectfirm value". Variable capital structure and corporate governance affect the value of the company when both were tested simultaneously (together), although partially only variable corporate governance that affects firm value. Both independent variables affect firm value with a coefficient of determination (Adjusted R^2) of 12.7%. From the number (12,7%), then the firm value can be affected by other factors of 87.3% which are not discussed in this study.

Conclusion

Based on the results of research and discussion in the previous chapter, it can be concluded:

1. Variable capital structure has a significance level of 0.417 (≥0,05), then H_0 is accepted, H_A is rejected, so that the capital structure does not affect firm value. Coefficient of capital structure equals to 0.035 means that each additional 1 point in capital structure (DER) will only increase 0,035 to firm value (PBV).
2. Variable corporate governance has a significance level of 0.000 (<0.05), then H_0 is rejected, H_A is accepted, so that corporate governance affects firm value. Coefficient of corporate governance equals to 0.616 means that each additional 1 point in corporate governance (GCG ratings) will increase 0.616 to firm value (PBV).
3. Variable capital structure and corporate governance has a significance level of 0.001 (<0.05) then H_0 is rejected, H_A is accepted, so that capital structure and corporate governance simultaneously affect firm value. The coefficient of determination (Adjusted R^2) of 12.7% means that the variable capital structure and corporate governance can only explain the variable firm value amounted to 12.7%**.**

Suggestion

From the conclusions above, researchers can provide some suggestions:

1. For investors
   Investors can make corporate governance as one of the indicators that may be taken into consideration in investing, in which the companies (in this case the bank) that implement corporate governance in accordance with the regulations of Bank Indonesia is more credible and more convincing that the interests of all stakeholders, including shareholders, will be considered properly.
2. For companies
   With proof (from this study) that corporate governance affects firm value of banking companies, banks are expected to continue to fix the corporate governance so that firm value of banking company could again increase. Corporate governance is not a regulation set by Bank Indonesia as a formality, but rather a tool to create mutual trust between the company and stakeholders, and maintain the credibility of the banks as a part of the

financial industry. It is expected that banks may also implement its compliance to the regulations of Bank Indonesia in terms of corporate governance to be able to prepare themselves in a broader competition, namely the ASEAN Economic Community which would effectively enforced in January 2016.

3. For further research
   a) This study can be researched further, for example using the Capital Adequacy Ratio as an indicator of the bank's capital structure.
   b) Research can be developed further by analyzing the corporate governance of banking regulations set by Bank Indonesia, seen from the perspective of New Corporate Governance.
   c) Further researchers can also extend the period of research and using more samples so the results may provide a statement or general conclusions (generalizations) of the variables studied in research object. Research can also use other indicators or research conducted on different objects; either financial industry non-bank or companies in other industries.

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