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The Effect of Non-Performing Loan and GoodCorporate Governance on Firm Value (Study on Banking Companies Listed on the IDX and KRX 2018-2022)

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Abstract. This study aims to determine how firm value is influenced by non-performing loans and good corporate governance. The population of this study are banking companies listed on the Indonesia Stock Exchange (IDX)and banking companies listed on the Korea Exchange (KRX) in the 2018-2022 period. Based on the sample criteria obtained, 24 companies were obtained through purposive sampling method. This study uses data analysis methods with multiple linear regression analysis, which is carried out using the IBM SPSS Statistics 26 application. The results showed that non-performing loans have an effect on firm value and good corporategovernance has no effect on firm value. This study shows that the level of quality of non-performing loans of banking companies as indicated by the amount of NPL can increase the value of the company where investorsdo not risk bad credit but pay more attention to the return on investment and external factors that affect the condition of the company. Meanwhile, the existence of good corporate governance implemented by banking companies with higher self-assessment ratings causes the implementation of good corporate governance to notbe maximised, thus reducing investor interest in investing which has an impact on decreasing the value of the Company.

Keyword: Non Performing Loan; Good Corporate Governance; Company Value

I. INTRODUCTION

Globalization is a phenomenon that has influenced the process of economic, political, social,and cultural integration of countries around the world. The influence of globalisation can be found in various economic sectors, especially banking and finance. Banking companies are entities that play an important role in the structure of the global economy. According to Banking Law Number 10 of 1998, a bank is a business entity that collects funds from the public in the form of deposits anddistributes them to the public in the form of credit or other forms in order to improve the lives of many people.

Globalization in the banking sector refers to the phenomenon where banks and financial institutions actively operate and interact in the global market. Indonesia and Korea are among the countries that actively operate in the global market. Reporting from the website of the Ministry of Foreign Affairs of the Republic of Indonesia, in February 2023 the Indonesian Embassy in Seoul and the Korea Financial Supervisory Services organised a business forum aimed at strengthening collaboration in developing the financial sector in both countries. Other interactions carried out by the two countries in the banking sector are cooperation between Bank Negara Indonesia (BNI) and The Export Import Bank of Korea to support trade transactions between Indonesia and Korea, besides that Bank Indonesia and Bank of Korea also cooperate in promoting the use of their respective countries' currencies for bilateral transactions such as current accounts and investment transactions.

Indonesia's financial services sector looks promising in the eyes of the world's financial investors, not least for the Korean financial sector which has chosen Indonesia as one of their destination countries to expand their financial sector, especially banking. There are currently six Korean banks operating in Indonesia including Hana Financial Group, KB Bank, Woori Bank, Shinhan Bank, Industrial Bank of Korea (IBK) and Apro. The emergence of the phenomenon of foreign markets that are busy entering the Indonesian market certainly creates competition between.

Indonesian companies and foreign companies. This competition can encourage local companies to increase efficiency, innovation and quality that can increase the value of their companies. Mugi et al (2014) state that a company generally has a goal to maximize the wealth of its stakeholders by maximising the value of the company.

Firm value is the company's performance reflected by the stock price formed by the demandand supply of the capital market which reflects the public's assessment of the company's performance (Harmono, 2009). Husnan & Pudjiastuti (2016) argue that company value is the pricethat potential buyers or investors must pay if the company is sold. The high value of the company isthe hope for a company, because the higher the company value can show prosperity for shareholders,so that it can have a positive impact on the company (Anisa & Suryandari, 2021).

Banking is a financial institution that plays a major role in providing facilities to individualsand companies, but it is not uncommon for problems to occur regarding credit that will have an impact on company value. The ratio to assess non-performing loans is non-performing loans. According to Anisa & Suryandari (2021) non-performing loans show the bank's ability to manage non-performing loans from the total loans provided by the bank. The lower the credit risk, the lowerthe possibility of the bank experiencing losses, this can be a consideration for investors because it isconsidered that the company is able to manage its credit risk so that it can increase investor confidence in the company's future prospects and also have an impact on company value. Studies conducted by Murni & Sabijono (2018), Haq et al (2022), and Handayani et al (2023) show the results that Non Performing Loan affects firm value. However, studies conducted by Harrison (2020), Debora (2021), and Marsella & Pangestuti (2023) show research results that Non PerformingLoan has no effect on firm value.

Good corporate governance (GCG) is very important in banking, because banking has a veryvital role in the economy and society. According to Priharta et al (2022) Good Corporate Governanceor GCG is a system that regulates and controls the company to create value added for all parties involved (stakeholders). GCG can have a positive impact on company value. The implementation of GCG in accordance with regulatory requirements can increase the bank's corporate value becauseinvestors will believe that the bank can manage its funds properly (Marsella & Pangestuti, 2023). GCG in this study is measured using the Corporate Governance Perception Index (CGPI). Studies conducted by Hidayat et al (2019), Suryaningtyas & Rohman (2019), and Priharta et al (2022) showthe results that good corporate governance affects firm value. However, studies conducted by Susiloet al (2018), Anisa & Suryandari (2021), and Ristiani & Santoso (2018) show research results that good corporate governance has no effect on firm value.

Based on the background, the problem formulations in this study are: (1) Does Non Performing Loan affect the value of Indonesian and Korean banking companies? (2) Does Good Corporate Governance affect the value of Indonesian and Korean banking companies?

The objectives of this study are: (1) To determine and analyse the effect of Non Performing Loan on firm value. (2) To determine and analyse the effect of Good Corporate Governance on firmvalue.

II. LITERATUR REVIEW

The presence of signal theory originated from George Akerlof's article entitled "The Marketfor Lemons" in 1970, which introduced the term asymmetric information. Akerlof's thinking was then developed by Spance in 1973 in the basic equilibrium signalling model. Spence in his researchentitled "Job Marketing Singnaling" suggests that the sender (owner of information) provides a signal or signal in the form of information that reflects the condition of a company that is beneficialto the recipient.

According to Brigham & Houston (2006) a signal or signal is an action taken by a companyto provide clues to investors about how management views the company's prospects. Signals are given by the company regarding the company's performance in financial and non-financial aspects and the performance achievements that have been achieved by management in realising theexpectations and decisions of shareholders. The information provided by the company is generall a record or description of the company's past, current and future conditions, the company can providesignals related to authorized capital and financial ratios (Taniman & Jonnardi, 2020).

According to Ikhsan & Jumono (2022) signalling theory emphasises the importance of a company conveying information to the public regarding financial reports, policies and other relevant information relating to company activities. Signal theory is used to reduce information asymmetry. Information asymmetry is a condition where managers have financial information that is not ownedby outsiders. Through signal theory, it is hoped that certain information can be used by recipients tomake financial decisions and distinguish between high-value and healthy companies and low-valuecompanies. The relationship between signal theory and this study is to draw the relationship betweenthe influence of each independent variable on the dependent variable, namely the relationship between Non Performing Loan and Good Corporate Governance on firm value.

Bakhtiar et al (2020) explain that firm value is defined as the price that potential investors are willing to pay if a company is to be sold. The indicator of firm value is the share price, if the share price increases, it can be said that the company's management decisions are correct, because the key in financial management is to increase company value (Ibrahim & Muthohar, 2019). Firm value is defined as the price that potential investors are willing to pay if a company will increase theprosperity of company owners (Husnan & Pudjiastuti, 2016).

Firm value is an investor's assessment of the company based on the share price (Ikhsan & Jumono, 2022). A high company value indicates a high level of shareholder welfare. Based on someof the above definitions above, it can be concluded that firm value is the price that investors are willing to pay when a company is sold which is described through the stock price.

Increasing company value is an achievement, because increasing company value means thatthe welfare of investors also increases. Company value can be seen from various aspects. In this study, the proxy for firm value used is price to book value (PBV):

$$PBV = \frac{\text{Stock Market Price}}{\text{Book Value of Shares}}$$

Non Performing Loan is a ratio that shows the quality of lending. Friantin & Ratnasari (2019)explain that Non Performing Loan is a loan that is in arrears for more than 90 days, where NPL is divided into substandard, doubtful, and bad loans.

According to (Anisa & Suryandari, 2021) NPL is a ratio that shows the amount of non-performing loans (loans granted by banks from substandard, doubtful, and bad debts) of the totalloans (loans granted by banks consisting of current loans, special attention, substandard, doubtful,and bad debts) granted by the bank. Harrison (2020) states that NPL is the ratio between non-performing loans and total loans. Non-performing loans are defined as risks associated with thepossibility of client failure to pay their obligations or the risk that the debtor cannot repay their debt.Based on some of the above definitions, it can be concluded that Non Performing Loan (NPL) is a ratio used to determine an overview of the number of non-performing loans of the total loans granted by the bank.

Non Performing Loan (NPL) reflects credit risk, the smaller the NPL means that the smallerthe credit risk borne by the bank. Bank Indonesia as the supervisory authority sets the NPL ratio at no more than 5%. The calculation of NPL in this study refers to Bank Indonesia Circular Letter Number 13/30 / DPNP dated December 16, 2011 with the formula:

$$\text{Non Performing Loan (NPL)} = \frac{\text{Total non-performing loan}}{\text{Total Credit}} \times 100$$

According to (OECD, 2004), Good Corporate Governance (GCG) is a system used to conduct and control the company's business activities. Good corporate governance is very important in the banking sector, because banking has a very vital role in the economy and society. Good Corporate Governance (GCG) is a structural process of managing business and other company affairs in orderto increase corporate prosperity and corporate accountability with the main objective of realizing optimal shareholder value in the long term while taking into account the interests of other shareholders (Ahmar & Kurniawan, 2007). Anisa & Suryandari (2021) explain that Good Corporate

Governance (GCG) is good corporate governance used by companies in carrying out their operational activities so as to generate long-term sustainable economic value for shareholders and stakeholders.

Based on the description above, it can be concluded that Good Corporate Governance (GCG)is a framework, principles and practices used to manage and control companies that aim to increase the prosperity of corporations, shareholders and stakeholders.

In this study, the measurement of GCG refers to research conducted by (Priharta et al., 2022)using the results of the CGPI to measure the implementation of Good Corporate Governance (GCG)and (Byun et al., 2008) using the results of the KCGS to measure the implementation of GCG. CGPI (Corporate Governance Perception Index) and KCGS (Korea Corporate Governance Score) are indexes for assessing and evaluating corporate governance.

Based on the description above and the research conceptual framework formed, the hypothesis formed in this study is:
H_1: Non-performing loan affects the value of banking companies in Indonesia and Korea.
H_2: Good Corporate Governance affects the value of banking companies in Indonesia and Korea.

III. RESEARCH METHOD

The population in this study consisted of 47 banks listed on the Indonesia Stock Exchange (IDX) and 21 South Korean banks, so the total population in this study was 68 banking companies.The sample in this study consisted of 17 banking companies listed on the Indonesia Stock Exchange(IDX) and 7 banking companies listed on the Korea Exchange (KRX) in 2018-2022, so that the totalsample in this study was 24 banking companies. The purposive sampling technique was used to draw samples. The sample is selected on the basis of special considerations, meaning that the sample has characteristics that are in accordance with the research objectives. the following are thecharacteristics and conditions of the sample to be selected:

1. Indonesian banking companies listed on the Indonesia Stock Exchange (IDX).
2. Korean banking companies listed on the Korea Exchange (KRX).
3. Indonesian and Korean banking companies that publish financial reports in 2022.
4. Indonesian banking companies that are foreign exchange banks
5. Indonesian banking companies whose capital comes from Indonesia
6. Not a digital banking company
7. Banking companies that have ratio measurements that can be used in research.

The following is a table of Indonesian and Korean banking companies that became research samples:

Table 1
Research Sample Criteria

No	Bank Name	Total
1	Banking companies listed on the Indonesia Stock Exchange	47
2	Banking companies listed on the Korea Exchange (KRX)	21
Total banking population of both countries		**68**
3	Korean banking companies that are not listed on the Korea Exchange (KRX)	(14)
4	Indonesian banking companies that are not foreign exchange banks	(7)
5	Foreign banking companies in Indonesia	(19)
6	Islamic banking	(2)
7	Digital banking	(2)
	Total	**24**

(Source: data processed 2024)

Table 2
Indonesian Banking Sample

No	Nama Bank
1	PT Bank MNC Internasional Tbk
2	PT Bank Capital Indonesia Tbk
3	PT Bank Central Asia Tbk
4	PT Bank Negara Indonesia (Persero) Tbk
5	PT Bank Rakyat Indonesia (Persero) Tbk
6	PT Bank Tabungan Negara (Persero) Tbk
7	PT Bank Ganesha Tbk
8	PT Bank Mandiri (Persero) Tbk
9	PT Bank Bumi Arta Tbk
10	PT Bank Sinarmas Tbk
11	PT Bank Victoria International Tbk
12	PT Bank Artha Graha Internasional Tbk
13	PT Bank Multiarta Sentosa Tbk
14	PT Bank Mayapada Internasional Tbk
15	PT Bank Mega Tbk
16	PT Bank Nationalnobu Tbk
17	PT Bank Pan Indonesia Tbk

(Source: SPSS output, data processed 2024)

Table 3
Korean Banking Sample

No	Nama Bank
1	BNK Financial Group
2	Hana Financial Group
3	Industrial Bank of Korea
4	JB Financial Group
5	KB Financial Group
6	Shinhan Financial Group
7	Woori Financial Group

(Source: SPSS output, data processed 2024)

This research uses quantitative data. The data source in this study is secondary data. In this study, secondary data in the form of financial statements of the top eight banks based on total assetsfrom Indonesia and Korea listed on the stock exchanges of each country, namely the Indonesia StockExchange (IDX) and the Korea Exchange (KRX).

In this study, researchers used quantitative analysis. Quantitative analysis is a form of analysis intended for large data which is grouped into categories in the form of numbers. The data analysis method uses descriptive statistics, data quality tests, classical assumption tests and hypothesis testing with the help of IBM SPSS for windows computers. Hypothesis testing will be carried out using the coefficient of determination (R^2) test and the individual parameter significant test (T statistical test). Multiple linear regression analysis (multiple regression) is performed to testthe effect of two or more independent variables on one dependent variable. The multiple regressionmodel in this statement is expressed as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + e….(1)$$

Description:
Y : Company value
α : Constant
β 1 : Regression coefficient of Non Performing Loan
β 2 : Good Corporate Governance regression coefficient
X1 : Variabel *Non Performing Loan*
X2 : Variabel *Good Corporate Governanc*

e : Error term

IV. RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistics aim to describe or describe the characteristics or properties possessed by a group or series of data (both sample data and population data), without generalizing (ie drawinga conclusion that applies to the public based on sample data information that applies to the parent population). This study uses descriptive analysis to describe the variables used, namely non- performing loans, good corporate governance, and company value. Descriptive statistical results asfollows:

Table 4
Descriptive Statistics

N		Minimum	Maximum	Mean	Std. Deviation
Non Performing Loan	115	.00	4.33	1.1905	.99947
Good Corporete Governance	115	.50	.95	.7728	.10723
Company Value	115	.24	6.78	2.3830	1.59755
Valid N (listwise)	115				

(Source: SPSS output, data processed 2024)

Table 4 shows the amount of data observed is 115 data. Descriptive statistics for the non-performing loan variable get a minimum and maximum value of 0.00 and 4.33, respectively. The average for this variable is 1.19 with a standard deviation of 0.99947. For the good corporate governance variable, the average is 0.77 with a minimum value of 0.50 and a maximum of 0.95 witha standard deviation of 0.10723.

The results of descriptive statistics for the firm value variable show a minimum value of 0.24and a maximum value of 6.78 with an average of 2.38 and a standard deviation of 1.59755.

Classical Assumption Test

The purpose of the normality test is to determine whether the regression model, which consists of dependent and independent variables, has a normal or abnormal data distribution (Ghozali, 2016). The following Kolmogorov-Smirnov test is used in this study as follows:

Table 5
Normality Test Results

	Unstandardized Residual
N	115
Monte Carlo Sig (2-tailed)	.386[d]

(Source: SPSS output, data processed 2024)

Based on table 5, the level of significance (Monte Carlo, Sig. 2-tailed) obtained is 0.386greater than 0.05 (0.386> 0.05) which indicates that the data is normally distributed.

Multicollinearity Test

Multicollinearity testing is carried out to determine whether a good regression modelindicates that there is no correlation between independent variables. The test results are as follows:

Table 6
Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
Non Performing Loan	.997	1.003
Good Corporate Governance	.997	1.003

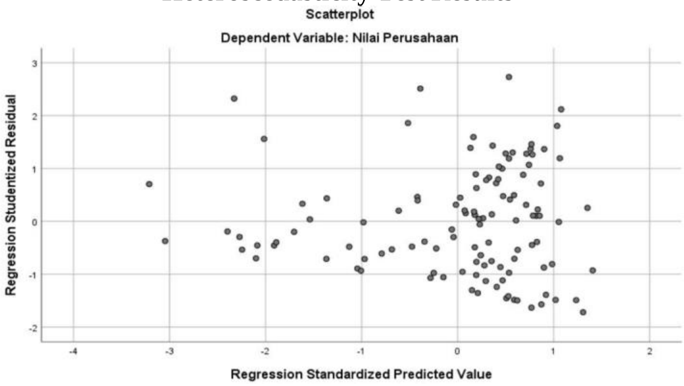
(Source: SPSS output, data processed 2024)

Based on statistical tests, the tolerance value of each independent variable shows 0.997 which means> 0.10 and the VIF value is 1.003 which means < 10, the multicollinearity test results show that there is no correlation between the variables in this study.

Heteroscedasticity Test

The heteroscedasticity test is used to determine whether in the regression model there is an inequality between the residual variables of one observation and another. This is done using the following Scatterplot graph:

Table 7
Heteroscedasticity Test Results



(Source: SPSS output, data processed 2024)

Based on the scatter plot graph, it can be seen visually that the residual values and predictedvalues do not form a certain pattern (random). This indicates that the regression model used in this study is free from heteroscedasticity problems, or in other words, there is no heteroscedasticity problem.

Autocorrelation Test

The purpose of autocorrelation analysis is to determine whether there is a correlation between residuals at time (t) and residuals at time (t-1) or the previous period. The results of the autocorrelation test are as follows:

Table 8
Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. of the Error Estimate	Durbin Watson
1	.329[a]	.108	.093	1.52184	.852

(Source: SPSS output, data processed 2024)

According to Santoso (2012), the Durbin Watson Test (DW-Test) can be used to test for autocorrelation. If DW ranges from -2 to +2, then there is no autocorrelation in decision making. Ascan be seen from the table above, the estimated value of DW is 0.852, and the range is -2 < 0.852 < +2, which indicates that autocorrelation does not occur in this study.

Hypothesis TestingT-test

The t test is used to determine how far the influence of each independent variable individuallyin explaining the variation in the dependent variable. If the t_{count}> t_{table} value or significance value <alpha = 0.05, it means that the independent variable has an influence on the dependent variable andvice versa. The test results are as follows:

Table 9
Results of the t-test

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.590	1.061		3.383	.001
	Non Performing Loan	-.524	.143	-3.28	-3.673	.000
	Good Corporate Governance	-.754	.1331	-.051	-.567	.572

(Source: SPSS output, data processed 2024)

Seen from the table above, the significance value of non-performing loans of 0.000 is smallerthan the probability value of 0.05 (0.000 < 0.05), while the t_{count} value is -3.673 and the t_{table} value is1.98137, so the t_{count} < t_{table} (3.673 > 1.981). Therefore, it can be concluded that non-performing loans have a negative effect on firm value, or **H_1 is accepted**. The significance value of the good corporate governance variable is 0.572 greater than 0.05 (0.572> 0.05), while the t_{count} is -0.567, where the t_{count} is smaller than the t_{table}, namely 1.98137 (0.567 < 1.981), so it can be concluded that**H_2 is rejected**.

Coefficient of Determination

The Coefficient of Determination (R2) is used to measure how well the independent variablecan explain variations in the dependent variable. The following are the statistical test results obtained:

Table 10
Test Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. of the Error Estimate	Durbin Watson
1	.329[a]	.108	.093	1.52184	.852

(Source: SPSS 26 output, data processed 2024)

The coefficient of determination test results show an Adjusted R-squared value of 0.093 or equivalent to 9.3%. This indicates that the independent variables, namely non-performing loans andgood corporate governance, are only able to explain 9.3%% of the variation in the dependent variable firm value. Meanwhile, as much as 90.7% of the variation is explained by other factors not includedin this study.

Multiple Linear Regression Analysis

To analyze the effect of independent variables, namely non-performing loans and goodcorporate governance on the dependent variable of firm value of banking companies listed in Indonesia and Korea during the 2018-2022 period, multiple linear regression analysis methods wereused. The following are the results of the multiple linear regression analysis:

Company Value = 3,590 - 0,524NPL – 0,754GCG + e

The multiple regression model can be explained as follows:

The constant value of 3.590 indicates that when all independent variables, namely non-performing loans and good corporate governance, have a value of 0, then profitability will have a value of 3.590. The coefficient value for the non-performing loan variable is -0.524, which means that each one unitincrease in the non-performing loan variable will result in a decrease in firm value of 0.524. Meanwhile, the coefficient for good corporate governance is -0.754 which indicates that each one unit increase in the environmental cost variable will cause a decrease in profitability of 0.754.

DISCUSSION

The Non Performing Loan variable has a value of 0.000 <0.05, so H1 is accepted, which means that Non Performing Loan has a significant effect on firm value. This is in line with the hypothesis built by the author, namely that Non Performing Loan affects the value of banking companies in Indonesia and Korea. Previous research conducted on Non Performing Loan states that if the Non Performing Loan value increases, the company value also increases and vice versa. The NPL ratio shows the ability of bank management to manage non-performing loans provided bythe bank. The higher the NPL ratio, the worse the credit quality which causes greater non-performing loans, causing losses or banks in problem conditions. However, any increase in NPL is in line withthe increase in company value (stock price) so that investors are still interested in investing in a bank as long as the bank earns profits without considering the level of credit quality reflected in the amount of NPL, this shows that investors do not see the risk of bad credit that will be received by the bank as the main concern, investors tend to see more the benefits that will be received from thestock investment they make and external factors that can affect the company's condition. Here investors are not too concerned about bad credit in making investment decisions because investors believe that there is a standard of NPL value set by BI so that the bank can plan or set a strategy if the NPL value is felt to be no longer within normal limits. The results of this study are in line with research conducted by Murni & Sabijono (2018), Haq et al (2022), and Handayani et al (2023) showing the results that Non Performing Loan affects firm value.

The Good Corporate Governance variable has a value of 0.572 <0.05, so H2 is rejected and cannot be accepted, which means that Good Corporate Governance has no significant effect on firmvalue. This is not in line with the hypothesis built by the author, namely Good Corporate Governanceaffects the value of banking companies in Indonesia and Korea. The results of this study indicate that the high and low level of good corporate governance has no effect on firm value. Because the bank's higher self-assessment rating shows that the company has not maximized the application of the principles of good corporate governance. In addition, there is still a lack of awareness and management carried out by management in implementing good corporate governance. The implementation of GCG is not good so that the management of company resources is less effectivein achieving company goals, namely profit. so that the company's financial performance has decreased. This can reduce investors' desire to invest in the company, causing the company's value to decrease. The results of this study are in line with research conducted by Susilo et al (2018), Anisa& Suryandari (2021), and Ristiani & Santoso (2018) showing the results of research that good corporate governance has no effect on firm value.

V. CONCLUSIONS

This study aims to determine the effect of Non Performing Loan and Good Corporate Governance on Firm Value. The population in this study consisted of 47 banks listed on the Indonesia Stock Exchange (IDX) and 21 South Korean banks, so the total population in this study was 68 banking companies. The sample in this study consisted of 17 banking companies listed on the Indonesia Stock Exchange (IDX) and 7 banking companies listed on the Korea Exchange (KRX)in 2018-2022, so that the total sample in this study was 24 banking companies. The purposive sampling technique was used to draw samples.

The results of the study explain that hypothesis 1 is accepted, which means that Non Performing Loan affects the value of Banking Companies in Indonesia and Korea. Meanwhile, hypothesis 2 is rejected, which means that Good Corporate Governance has no effect on the value of Banking Companies in Indonesia and Korea. The practical implications expected from this research are that this research is expected to be new reference material for further researchers relatedto Non Performing Loan, Good Corporate Governance and firm value. This research is also expectedto be able to provide information about what factors can affect firm value both positively and negatively. Where this can be a consideration for companies to evaluate company performance andreference material for investors in making investment decisions in order to reduce the risk of loss.

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