



## The Effect of Corporate Governance, Dividend Policy and Firm Size on Financial Performance and Firm Value of the Banking Industry Listed On the Indonesian Stock Exchange

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**ABSTRACT:** The aims of this research are : (1) to analyze effect of corporate governance on financial performance; (2) to analyze effect of dividend policy on financial performance; (3) to analyze effect of firm size on financial performance; (4) to analyze effect of corporate governance on firm value; (5) to analyze effect of dividend policy on firm value; (6) to analyze effect of firm size on firm value; (7) to analyze effect of financial performance on firm value. The population in this reseach is banking industry listed in Indonesian Stock Exchange 38 companies. Sample are 28 companies, in the period 2011 to 2017. The analysis tehniqie in research used program Structural Equation Modeling (SEM). Based on results of data analysis show that: (1) corporate governance has a negative not significant effect on financial performance; (2) dividend policy has a negative significant effect on financial performance; (3) firm size has a positive significant effect on financial performance; (4) corporate governance has a negative not significant effect on firm value; (5) dividend policy has a positive significant effect on firm value; (6) firm size has a positive significant effect on firm value; (7) financial performance has a negative significant effect on firm value.

**Keywords :** Corporate Governance, Dividend Policy, Firm Size, Financial Performance and Firm Value.

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### I. INTRODUCTION

Good corporate management aims to provide adequate protection and fairness to shareholders and other interested parties. Corporate governance is a system used to direct and control a company's business activities. Corporate governance includes the division of tasks, rights and obligations of the parties in the organization of the life of the company, including shareholders, the board of directors, managers and all members of non-shareholder stakeholders. In the banking industry, Corporate governance is an important factor in maintaining the trust and confidence of shareholders and customers. Good corporate governance is becoming very important because of the increasing business risks and challenges faced by the banking industry.

Dividend is information that gives a signal to investors in the capital market. Dividends paid reflect the company's ability to earn income and good prospects in the future. Lintner (1956:97) states that companies try to maintain the dividend paid ratio because a decrease in dividends will give a bad signal (companies need funds). Companies that have a high profit fluctuation enables also has a high dividend payout fluctuations. This will give a bad signal, especially if dividends go down. To avoid this, companies that have high profit fluctuations (high risk) usually tend to pay low dividends, so that

dividends are not deducted if the company's profits decline.

Firm size shows the scale of a company that is indicated by total assets, capital, total sales and the average total assets owned by the company. Companies with larger sizes have bigger sales (consequently more customers). In other words, the larger the company, the greater the involvement or interest, and the larger company is usually the target of attention. According to Weston and Copeland (2010: 100), companies that are large or established tend to give a higher level of dividend payments than small or new companies. Larger companies are also more likely to pay attention to better performance, because they tend to be the subject of more rigorous public research so that they need to respond more openly to stakeholders' requests.

Financial performance is one of the factors seen by prospective investors to determine stock investment. It is a necessity for every company to maintain and improve its financial performance so that the company will survive and be attractive to investors. The financial statements issued by the company are a

reflection of the company's financial performance. To find out the financial performance of banks, it can be seen from the level of liquidity. Liquidity ratio in the form of quick ratio and loan to deposit ratio. Quick ratio (QR) shows the ability of banks to repay depositors' withdrawals with the most liquid assets owned by banks. While loan to deposit ratio (LDR) shows the level of bank liquidity by relying on credit returns. The financial performance of the company can be seen from the level of liquidity achieved, it can also be seen the level of profitability. Profitability is the ability of a company to earn profits through its business operations by using assets owned by the company. Profitability in this study is measured using profitability ratios, namely return on assets (ROA), return on equity (ROE).

The higher the ratio means the more efficient use of capital by the management of the company. If this ratio increase from year to year in the company means an increase in net income from the company concerned. The increase in net income can be used as an indication that the value of the company increase, because the increase in the net profit of a company in question will cause the stock price to rise which means also an increase in the value of the company.

#### **a. Corporate Governance**

### **II. LITERATURE REVIEW**

Prospective agency relationships are the basis used to understand corporate governance. According to Jensen and Meckling (1976), agency theory discusses the relationship between members in companies, principals and agents as the main actors. Principals are mandating the agent to act on behalf of the principal, while the agent is the party that was mandated by the principal to manage the company. The agent is obliged to account for what has been mandated by the principal. The existence of different and mutually opposite positions, functions, interests and backgrounds of principals and agents, but mutual need often creates conflict. Problems arise when there are differences of interests between agents and principals (Emirzon, 2007: 76). One of the causes of agency problems is asymmetrical information, which arises because of the unequal distribution of information between principals and agents.

In principle, the two theories about agency problems explain how to resolve conflicts of interest between various parties in a company. To avoid conflicts and losses that may arise due to the conflict, the basic principles of company management are needed. There are several definitions of corporate governance according to experts, as follows.

According to Jensen and Meckling (1976), corporate governance is expected to function as a tool to give investors confidence that they will receive returns on the funds they have invested. Corporate governance relates to how investors believe that managers will benefit them, confident that managers will not embezzle or invest in unprofitable projects related to funds invested by investors. Corporate governance is also related to how investors control managers (Shleifer and Vishny, 1997).

Mitton (2002) defines that corporate governance as a tool so that minority shareholders are protected from the pressure imposed by managers or majority shareholders. This definition is in accordance with the opinion of La Porta, et al (1998) which defines corporate governance as a set of mechanisms so that outsiders are protected from insider pressure.

Shleifer and Vishny (1986), defines that corporate governance as part of a way or mechanism to convince capital owners in obtaining returns that are in accordance with invested investment. Corporate governance basically contains the principles of good corporate governance. These principles include: (1)

Fairness which includes (a) protection of all shareholder rights and (b) equal treatment of shareholders;

(2) Transparency that includes (a) disclosure of important information, (b) information must be prepared, audited and disclosed in accordance with quality accounting, and (c) the dissemination of information must be fair, timely and efficient; (3) Accountability which includes the notion that (a) members of the board of directors must act on behalf of the interests of the company and shareholders, (b) independent assessments regardless of management and (c) only access to accurate, relevant information and on time; and (4) Responsibility which includes (a) guaranteeing the respect of all rights of the parties concerned; (b) interested parties must have the opportunity to obtain effective compensation for violations of their rights; (c) the opening mechanism of the development of achievement for stakeholder participation; and (d) if necessary stakeholders must have access to relevant information.

According to Eitemann, et al (2010) that the principles of good corporate governance cover five main areas, namely: (a) shareholder rights: the corporate governance framework must protect the rights of shareholders; (b) Fair treatment for shareholders: The corporate governance framework must guarantee equal treatment from all shareholders, including minority and foreign shareholders. All shareholders must have the opportunity to get effective compensation for violating their rights; (c) the role of stakeholders in corporate governance: the corporate governance framework must recognize the rights of stakeholders as stipulated by

law and encourage active collaboration between companies and stakeholders in creating wealth, employment and financial sustainability of the company; (d) openness and transparency: the corporate governance framework must ensure that timely and accurate disclosures are made about all matters relating to the company, including financial, performance, ownership, and corporate governance situations; and (e) board responsibilities: a corporate governance framework must ensure the company's strategic guidelines, effective monitoring of the management by the board, and board accountability to the company and shareholders.

#### **b. Dividend Policy**

Dividend policy is related to the distribution of profits generated by the company for one year.

This policy is a very important financial policy because it is related to management decisions about the size of cash flow that must flow to investors or must be maintained by the company for the purpose of reinvestment. Related to the relationship between dividend policy and stock price or firm value, Brigham

& Houston (2006), explains that there are three theories that provide different and even conflicting explanations, the three theories are; (1) dividend irrelevance theory dari Miller dan Modigliani (1961), (2) bird in the hand theory dari Gordon Lintner (1963), dan (3) tax preference theory dari Farrar dan Slewyn (1967).

The irrelevance dividend theory of Miller and Modigliani (1961), explains that dividend policy is irrelevant, because it does not effect on the firm value or the cost of capital. The firm value depends on the investment policy and not on some profits divided for dividends and profits are not shared. This opinion is based on two thoughts. First, it is assumed that investment decisions and the use of debt have been made and do not affect the size of the dividends paid. Second, capital markets are perfect.

Gordon and Lintner (1963), with bird in the hand theory, argue that dividends yield are better than capital gains, because dividends are low risk, therefore, companies should maintain high dividend

yield in order to maximize their share prices. Dividend yeild is more certain or predictable than capital gains. Management can control dividends but cannot dictate the price of their shares on the exchange. This means that the level of risk of capital gains is greater. Therefore, the rate of return used when discounting capital gains must be higher than dividend income.

Tax preference theory from Farrar and Slewyn (1967) and Brennan (1970), explains that investors prefer retained earnings rather than dividends, because consideration of taxes imposed on

capital gains is lower. This theory suggests that companies pay a low dividend if they want to maximize their share price. In other words, Farrar and Slewyn (1967) and Brennan (1970) explained that the best policy is not to pay dividends at all, shareholders better sell their shares several times at a time and pay lower capital gains tax. This opinion is based on differences in tax treatment of dividend yield and capital gains. A fact that all investors have to pay income tax, while the goal that must be achieved is maximizing the level of investment returns after tax deduction without having to bear too much risk.

#### **c. Firm Size**

Firm size is the average net sales for the year up to several years. In this case the sales greater than the variable costs and fixed costs, the obtained amount of income before taxes. Conversely, if sales

are smaller than variable costs and fixed costs, the company will suffer losses (Brigham and Houston 2001).

Firm size is a proxy for operational volatility and inventory controllability which should on an economical scale the firm size show the achievement of smooth operations and inventory control (Mukhlasin, 2002). Whereas according to Ferry and Jones (2001), company size describes firm size as indicated by total assets, total sales, average total sales and average total assets. Thus, firm size is a measure of the amount of assets owned by the company.

Francis (1986), Grubber and Elton (1995) and Fama and French (1995) in Panjaitan, et al (2004:

42) argue that companies that have small scale values tend to be less profitable than large-scale companies. Small companies only have supporting factors to produce limited quantities of goods. Therefore, small-scale companies have a greater risk than large companies. Companies that have large risks usually offer large returns to attract investors.

According to Riyanto (2010: 53), a large company whose shares are so widespread, the share capital will only have a very small effect on the possibility of loss or displacement of the dominant control of the company concerned. Whereas, a small company, where the shares are only spread in a small environment, the addition of the number of shares will have a large influence on the possibility of loss of dominant party control over the company concerned. Thus, large companies will be more daring to issue new shares in meeting the need to finance sales growth compared to small companies.

#### **d. Financial Performance**

Sucipto (2003), argues that financial performance as a determination of certain measures that can measure the success of an organization or company in generating profits. Meanwhile, according to the Indonesian Accounting Association (2002), financial performance is the company's ability to manage and control the resources it has.

According to Horngren (2009: 825), performance measurement can be grouped into measurements of non-financial performance and financial performance. So far, to measure a company's financial performance, it is usually assessed by accounting profits, with a measurement tool commonly used to measure profitability ratios is a return on assets and return on equity (Palepu, 2004: 55). Furthermore Garrison and Noreen (2003: 42) measure profitability ratios only with return on investment, while Horgen (2009: 827) divides profitability ratios into return on investment, residual income, and return on sales.

Bambang Riyanto (2001: 331) also classifies financial ratios into liquidity ratios, leverage ratios, activity ratios, and profitability ratios, namely; (a) liquidity ratio is the ratio measuring company liquidity (current ratio, acid test ratio); (b) leverage ratio is a ratio to measure how far the company's assets are financed by debt (debt to total assets ratio, network to debt ratio and so on); (c) activity ratio is a ratio to measure how much the effectiveness of a company is in working on its resources (inventory turnover, average collection period, etc.); (d) profitability ratios are ratios that show the final results of a number of policies and decisions (profit margin on sales, return on total assets, return on net worth, etc.).

Brealey, Myers & Marcus (2008: 72) argue that there are four types of financial ratios, namely; (a) leverage ratio shows how heavy the company's debt is; (b) liquidity ratio measures how easily the company can hold cash; (c) efficiency ratio or turnover ratio measures how productive the company uses its assets; and (d) profitability ratio is used to measure the rate of return on a company's investment

#### **e. Firm Value**

Firm value is an investor's perception of the company, which is often associated with stock prices. High stock prices make the firm value also high. According to Brigham and Houston (2001), there are several approaches to ratio analysis in market value assessment, consisting of the approach of price earnings ratio (PER), price book value ratio (PBV), market book ratio (MBR), dividend yield, and dividend payout ratio (DPR). Firm values commonly indicated by high price to book value will make the market believe in the company's future prospects. The ratio of stock price to book value (PBV), indicates the level of the company's ability to create value relative to the amount of capital invested.

A high PBV ratio reflects a high share price compared to the book value of a share. The higher the stock price, the more successful the company creates value for shareholders. The success of the company creating this value certainly gives hope to shareholders in the form of greater benefits (Sartono, 2001). It is also the desire of the owners of the company, because the company's high value indicates prosperity shareholders also high.

This study develops previous research that produces different findings, as follows; Agnes (2012) found that managerial ownership has a negative and not significant effect on firm value, firm size has a positive and significant effect on firm value. Akinyomi Oladele and Olagunju Adebayo (2013), that there is a significant positive influence between firm size and financial performance. Nendi Juhandi et al., (2013), found that ownership structure had a significant effect on firm value. Odongo Kodongo et al., (2014), found that for small companies, sales growth and firm size are important factors that drive firm value (tobin's Q), but the same variables do not seem to encourage large firm value. Charles Yegon et al., (2014) found that there is a significant positive relationship between company dividend policy and company profitability. J. Aloy Niresh and Velnampy (2014) found that there was no indicative relationship between firm size and profitability. Stefan Cristian Gherghina et al., (2014) found that a lack of statistically significant effect between corporate governance and firm value. Abdullah Al Masum's research (2014) stating that dividend policy has a significant positive effect on stock prices Sunday O. Kajola et al., (2015) revealed that a positive and significant relationship between dividend payment policies and financial performance. Untung Haryono and Ardi Pamindo (2015) found that financial performance has a significant positive effect on firm value. Olawe et al., (2016) found that firm size in terms of total assets has a negative effect on the financial performance, while its total sales into positive effects. Egbeonu Oliver C. and Edori Daniel S. (2016) found that dividends per share are significant and inversely proportional to the value of the company's shares, Jubaeda et al., (2016) found that financial performance is a contribution factor affecting the value of the firm, the better the financial performance of a company, the higher its value. Setiadharna S. And Machali M (2017) found that there were no direct or indirect effects of firm size on firm value. Nida Nur Fikri et al., (2017) found that financial performance has a negative and significant effect on firm value.

### III. CONCEPTUAL FRAMEWORK AND HYPOTHESIS

The conceptual framework of this research is shown in Figure 1 as below;

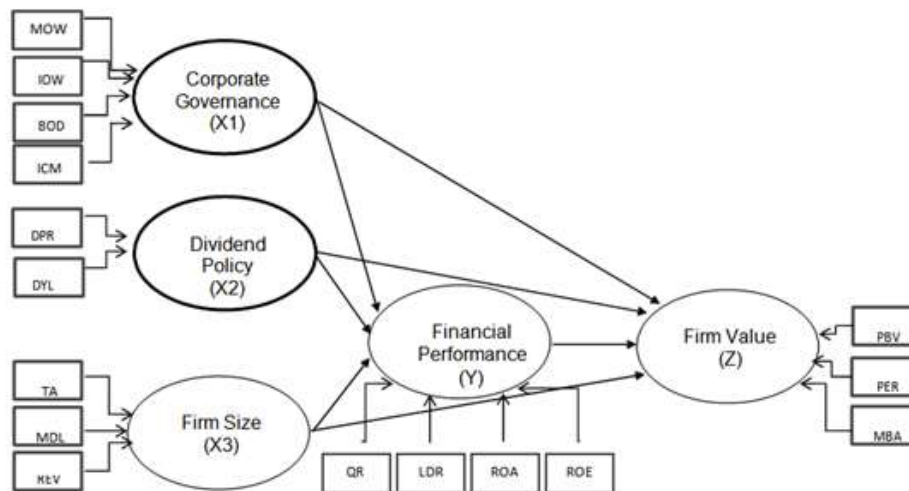


Figure 1. Research conceptual framework description :

- MOW = Managerial ownership IOW = Institutional ownership BOD = Board of director  
 ICM = independent commissioners  
 DPR = Dividend payout ratio  
 DYD = Dividend yeild TA = Total assets MDL = Equity  
 REV = Revenue  
 QR = Quick ratio  
 LDR = Loan to deposit ratio  
 ROA = Return on assets ROE = Return on equity PBV = Price book value PER = Price earning ratio  
 MBA = Market to book value of assets

follows ;

- Based on the conceptual framework of Figure 1 above, the research hypothesis can be stated, as1. Corporate governance has a positive and significant effect on financial performance in the banking industry.  
 2. Dividend policy has a positive and significant effect on financial performance in the banking industry.  
 3. Firm size has a positive and significant effect on financial performance in the banking industry.  
 4. Corporate governance has a positive and significant effect on firm value in the banking industry.  
 5. Dividend policy has a positive and significant effect on firm value in the banking industry.  
 6. Firm size has a positive and significant effect on the firm value in the banking industry.  
 7. Financial performance has a positive and significant effect on firm value in the banking industry.

#### a. Data

### IV. RESEARCH METHODOLOGY

The population of this research is all banking companies listed on the Indonesian Stock Exchange (IDX) for the period 2011 - 2017, with population of 38 banks and sample of 28 banks. The sampling technique used in this study was purposive sampling, with the criteria in taking a sample of banking companies listed on the Indonesian Stock Exchange (IDX) that present and publish financial statements every year during the research year which was in 2011 - 2017, and did not lose during 2011 - 2017.

#### b. Data Analysis Method

The analytical method used in this research is Structural Equation Modeling (SEM). The reason behind is as follows:

- Judging from the models created, seen causality tiered, for example, corporate governance affect the financial performance and then onwards affect firm value of the banking industry.

2. The variables analyzed are latent variables are variables that are unobservable for example, the firm value indicators are formative, as if the variables that affect the latent variables, so that if one indicator increases should not be followed by an increase in other indicators in a single latent variable. SEM models used in this study to analyze the effect of corporate governance, dividend policy and firm size on financial performance and firm value, with the formulation as follows:

1.  $KK = \beta_0 + \beta_{1.1}TKP + \beta_{1.2}KD + \beta_{1.3}UP + \epsilon$
2.  $NP = \beta_0 + \beta_{2.1}TKP + \beta_{2.2}KD + \beta_{2.3}UP + \beta_{2.4}KK + \epsilon$

where:

KK = Financial performance

NP = Firm value

TKP = Corporate governance

KD = Dividend policy

UP = Firm size

$\beta_0$  = Intercept

$\beta_{2.1} - \beta_{2.4}$  = Regression coefficient X1 – X4

$\epsilon$  = Error Term

### **c. Variable Operational definition**

1. Corporate governance variables, the indicator is as follows;

- Managerial ownership, describes share ownership by management, which is measured by the percentage of shares owned by management.
- Institutional ownership, describes the ownership of shares by institutional investors which is measured by the percentage of shares owned by institutional investors.
- Board of Directors, in this research were obtained from a number of boards of directors in the company
- Independent Commissioner, measured using the proportion of independent commissioners sitting on the board of commissioners.

2. Dividend policy variables, the indicator is as follows;

- Dividend Payout Ratio (DPR) is the ratio of dividends paid by company on its earnings, with the formulation:
- Dividend yield is a ratio that connects a dividend paid to the common share price, with the formulation:

3. Firm size variables, the indicator is as follows;

- Total Assets are all resources owned by the company to be used in its operations, measured in value in rupiah.
- Capital is the overall capital value of the company's liabilities that are used to create revenue measured in rupiah.
- Total revenues are income achieved by the company measured in rupiah.

4. Financial performance variables, the indicator is as follows;

- Quick Ratio, this ratio is used to measure the ability of banks to fulfill the obligation to withdraw third party funds from the most liquid assets
- Loan to Deposit Ratio (LDR), this ratio is used to measure the ability of banks to fulfill loan withdrawals from depositors through repayment of loans given
- Return on Assets (ROA), this ratio shows the ability of management to manage all assets owned to generate pre-tax profits
- Return on Equity (ROE), this ratio measures the ability of banks to generate net income from equity owned

5. Firm Value variables, the indicator is as follows;

- Price to Book Value (PBV), used to measure a company's value through a comparison of share market price to its book value.
- Price Earning Ratio (PER), this ratio is the ratio between the stock's closing price per share to net income per share.
- Market to Book Value of Assets (MBA), shows that the company's growth prospects reflected in market prices.

## **V. RESULT AND DISCUSSION**

The results of SEM analysis in the form of path diagrams are shown as below;;

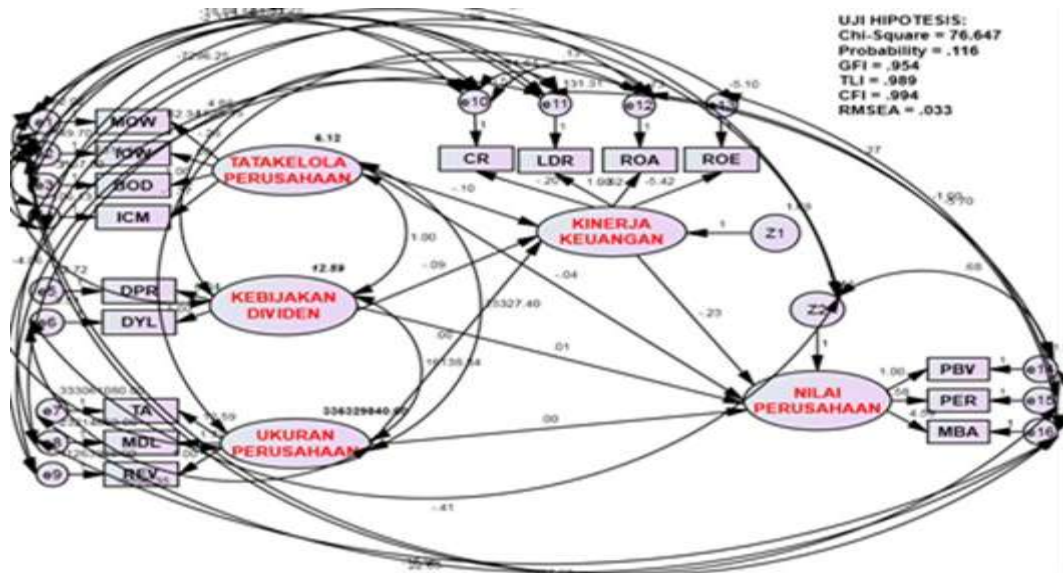


Figure 2 : Goodness of Fit Model

The model test results shown in the picture above are evaluated based on the goodness of fit indices in table 1 below, which presents the model criteria and the critical value of the data suitability.

Table 1. Evaluation Criteria Goodness of Fit Indices Overall Model

Goodness of Fit	Model Result	Cut-off Value	Remarks
Khi Kuadrat	76,647	Expected smeller	Good Model
Probability	0,116	$\geq 0,05$	Good Model
RMSEA	0,033	$\leq 0,08$	Good Model
GFI	0,954	$\geq 0,90$	Good Model
AGFI	0,901	$\geq 0,90$	Good Model
TLI	0,989	$\geq 0,95$	Good Model
CFI	0,994	$\geq 0,95$	Good Model
CMIN/DF	1,217	$\leq 2,00$	Good Model

Source: Results of data processing

Based on table 1, it can be explained that the significance level (p) of 0.116 shows that hypothesis null which states that there is no difference between the sample covariance matrix and the estimated population covariance matrix is acceptable. the acceptance of hypothesis null means that there is no difference between the sample covariance matrix and the estimated population covariance matrix so that the model is feasible to use. Other indices (CMIN / DF, GFI, AGFI, TLI, CFI, and RMSEA) also indicate the level of acceptance of the model.

After obtaining the overall model is declared fit, then the significance test of the effect on the construct is carried out. This test uses the value of critical ratio (CR) or probability (P) on standardized regression weights, the relationship between variables is said to have a significant effect if the P value is  $\leq$

0.05 (5%). Analysis of direct effects to evaluate the effect of each construct on direct effects is nothing but the coefficient of all coefficient lines with one-arrows, in the test results presented. To find out how much influence between variables, an analysis of the direct effect and indirect effect and total effect was carried out.

**Tabel 2.** Direct Effect, Indirect Effect and Total Effect between Variable

No	Variabel			Direct Effect	In- direct Effect	Total Effects	P-Value	Remarks
	Variabel Independen	Variabel Intervening	Variabel Dependen					
1	Tata Kelola Perusahaan	Kinerja Keuangan	-	-0,175	0,000	-0,175	0,142	Negative Not Signifikan
2	Kebijakan Dividen	Kinerja Keuangan	-	-0,222	0,000	-0,222	0,019	Negative Signifikan
3	Ukuran Perusahaan	Kinerja Keuangan	-	0,197	0,000	0,197	0,039	Positive Signifikan
4	Tata Kelola Perusahaan	Kinerja Keuangan	Nilai Perusahaan	-0,084	0,045	-0,039	0,119	Negative Not Signifikan
5	Kebijakan Dividen	Kinerja Keuangan	Nilai Perusahaan	0,031	0,058	0,089	0,043	Positive Signifikan
6	Ukuran Perusahaan	Kinerja Keuangan	Nilai Perusahaan	0,197	0,051	0,248	0,039	Positive Signifikan
7	-	Kinerja Keuangan	Nilai Perusahaan	-0,260	0,000	-0,260	0,049	Negative Signifikan

Source: Results of data processing

Mathematical models in the form of Structural Equation Modeling (SEM) obtained the formula as follows:

- Effect of corporate governance, dividen policy, and firm size on financial performance, the formula as follow :

$$KK = -0,175TKP - 0,222KD + 0,197UP + \epsilon$$

- Effect of corporate governance, dividen policy, firm size and financial performance on firm value, the formula as follow :

$$NP = -0,084TKP + 0,031KD + 0,197UP - 0,260KK + \epsilon$$

where:

KK = Financial performance

NP = Firm value

TKP = Corporate governance

KD = Dividend policy

UP = Firm size

$\epsilon$  = Error Term

#### a. Effects Corporate Governance on Financial Performance

SEM analysis shows that corporate governance has a negative and not significant effect on financial performance with a path coefficient -0.175 and p-value 0.142. then the hypothesis 1 of this study was rejected. This means that financial performance is not determined by corporate governance.

The results of this study support the results of research by Mugisha Shema et al., (2015) and Stephanie Lukas et al., (2015), finding that there is no significant effect between corporate governance and financial performance. The research object of Mugisha Shema et al., (2015) and Stephanie Lukas et al., (2015) have similar objects and theories used in this study, but this study does not support agency theory by Jensen and Meckling (1970) , which states that if the good corporate governance, the financial performance is also good that the agency conflict does not occur.

These results do not support the research of Obigbemi Imoleayo Foyeke et al., (2015) which reveals that there is a significant relationship between corporate financial performance and corporate governance. The results are also different from the results of the research by Jauhar Arifin et al., (2016) which found that corporate governance has a significant effect on financial performance. This means that the good governance of the banking industry is getting a good financial performance. Then, that this research is different in measuring financial performance. This study uses QR, LDR, ROA and ROE, while Jauhar Arifin et al., (2016) research uses ROA and ROE as indicators, so it seems that the research of Jauhar Arifin et al., (2016) measures financial performance from profitability only.



**b. Effects Dividend Policy on Financial Performance**

SEM analysis shows that dividend policy has a negative and significant effect on financial performance with path coefficient -0.222 and p-value 0.019. This can be interpreted that a large dividend payment will reduce financial performance, then the hypothesis 2 of this study was rejected.

The results of this research reinforce the dividend irrelevance theory of Miller and Modigliani (1961) which explains that dividend policy is irrelevant, because it does not affect the firm's value or capital costs. Therefore the complete information about a company always available, then investors do not need to see a special announcement regarding the payment of dividends as an important indicator of the condition of the company's financial performance.

The result of this study does not support the results of research of Charles Yegon et al., (2014) found that there is a significant positive relationship between company dividend policy and company profitability. The same thing was stated by Sunday O. Kajola et al., (2015) revealed that a positive and significant relationship between dividend payment policies and financial performance.

**c. Effects Firm Size on Financial Performance**

SEM analysis shows that firm size has a positive and significant effect on financial performance with path coefficient 0.197 and p-value 0.039. Therefore hypothesis 3 of this research is accepted.

The results of this study support to the research of Akinyomi Oladele and Olagunju Adebayo (2013), Gita A. Tisna and Siviana Agustami (2016) that there is a significant positive influence between firm size and financial performance.

This study does not support to research J. Aloy Niresih and Velnampy (2014) found that there was no indicative relationship between firm size and profitability. The same thing was stated by Olawe et al., (2016) found that firm size in terms of total assets has a negative effect on the financial performance, while its total sales into positive effects.

**d. Effects Corporate Governance on Firm Value**

SEM analysis shows that corporate governance has a negative effect and no significant corporate value with path coefficients -0.084 and p-value 0.119. This means that corporate governance does not contribute to the value of the company. Therefore the research hypothesis 4 was rejected.

These results support to the research of Agnes (2012) found that managerial ownership has a negative and not significant effect on firm value. The same thing also was stated by Stefan Cristian Gherghina et al., (2014) found that a lack of statistically significant effect between corporate governance and firm value.

These results do not support the research results of Untung Haryono and Ardi Pamindo (2015) which state that corporate governance has a significant influence on firm value through financial performance. The same thing was stated by Nendi Juhandi et al., (2013), Ni Nyoman Tri S. Muryati and I Made Sadha Suardhika (2014), Abukosim et al., (2014) found that ownership structure had a significant effect on firm value.

**e. Effects Dividend Policy on Firm Value**

SEM analysis shows that dividend policy has a positive and significant effect on firm value with path coefficient 0.031 and p-value 0.043. This means that increasing dividend payments causes the company's value to increase. Therefore the research hypothesis 5 is accepted.

These results support to the the result of research of Abdullah Al Masum's research (2014) stating that dividend policy has a significant positive effect on stock prices. The same thing was also stated by Vidiyanna Rizal Putri and Arini Rachmawati (2017) that dividend policy had a significant positive effect on firm value.

The results of this study do not support the research of Egbeonu Oliver C. and Edori Daniel S. (2016) found that dividends per share are significant and inversely proportional to the value of the company's shares. The same thing was stated by Kartika Chandra et al., (2017) found that dividend policy had no significant effect on the intrinsic value of the company.

**f. Effects Firm Size on Firm Value**

SEM analysis shows that company size has a positive and significant effect on firm value with path coefficient 0.197 and p-value 0.039. This means that the larger the size of the company, the value of the company will increase. Therefore the research hypothesis 6 is accepted.

The results of this research support to the study of Agnes (2012) found that firm size has a positive and significant effect on firm value. The same thing stated by Odongo Kodongo et al., (2014),

found that for small companies, sales growth and firm size are important factors that drive firm value (tobin's Q), but the same variables do not seem to encourage large firm value. The results of this study do not support the research of Setiadharna S. And Machali M (2017) found that there were no direct or indirect effects of firm size on firm value.

#### **g. Effects Financial Performance on Firm Value**

SEM analysis shows that financial performance has a negative and significant effect on firm value with a path coefficient of -0.260 and p-value 0.049. Therefore the research hypothesis 7 was rejected.

The results of this study support to the research of Nida Nur Fikri et al., (2017) found that financial performance has a negative and significant effect on firm value

The results of this study do not support the research of Untung Haryono and Ardi Pamindo (2015) found that financial performance has a significant positive effect on firm value. While William Sucuahi et al., (2016), Jubaeda et al., (2016) found that financial performance is a contribution factor affecting the value of the firm, the better the financial performance of a company, the higher its value..

## **VI. CONCLUSION**

Based on the results of SEM analysis conducted on 28 banks listed on the Indonesia Stock Exchange in 2011-2017, the conclusions are as follows;

1. Corporate governance which includes indicators of managerial ownership, institutional ownership, board of directors and independent commissioners has a negative and not significant effect on the financial performance of the banking industry listed on the Indonesia Stock Exchange.
2. Dividend policies which include dividend payout ratio and dividend yield indicators has a negative and significant effect on financial performance in the banking industry listed on the Indonesia Stock Exchange.
3. Firm size which includes indicators of total assets, capital and total income has a positive and significant effect on the financial performance of the banking industry listed on the Indonesia Stock Exchange.
4. The corporate governance which includes indicators of managerial ownership, institutional ownership, board of directors and independent commissioners has a negative and insignificant effect on the firm value in the banking industry listed on the Indonesia Stock Exchange.
5. Dividend policy which includes dividend payout ratio and dividend yield indicators has a positive and significant effect on firm value in the banking industry listed on the Indonesia Stock Exchange.
6. Firm size which includes indicators of total assets, capital and total income has a positive and significant effect on firm value in the banking industry listed on the Indonesia Stock Exchange.
7. Financial performance which includes indicators of quick ratio, loan to deposit ratio (LDR), return on assets (ROA) and return on equity (ROE) has a negative and significant effect on firm value in the banking industry listed on the Indonesia Stock Exchange.

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