

CHAPTER I

INTRODUCTION

1.1 Research Background

One of the important economic sectors of a country is the banking sector (Debora, 2021). According to Law of the Republic of Indonesia Number 10 of 1998, banking is defined as a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and/or other forms in order to improve people's living standards.

The final goal that must be achieved by the company from all its financial decisions is to maximize the prosperity of its shareholders through maximizing firm value (Sartono, 2010: 4). According to Syafitri et al., (2018) firm value is defined as a condition that has been successfully achieved by the company and is a reflection of public trust in the company in relation to the company's share price. The high value of a company indicates that investors or shareholders have more trust in the company over the company's activity processes over several years, so that this trust must always be sought to be increased by the company so that the company can achieve its long-term ultimate goals.

Inanda et al., (2018) stated that firm value is investors' perception of the company, which is often linked to share prices. The higher the share price, the higher the firm value, that by maximizing firm value means also maximizing shareholder prosperity which is the company's goal (Ningrum, 2022). Firm value is a reflection of share prices formed by capital market supply and demand which reflects the public's assessment of company performance. So, the decline in firm value by the company can be interpreted as weakening the company's performance that year.

Firm value describes certain conditions that have been achieved by a company, which is the public's trust in the company after going through a process of activities for several years, since the company was founded until now. Increasing the value of the company is an achievement that is in accordance with the wishes of shareholders, because as the value of the company increases, the welfare of shareholders will also increase.

Basically, Firm value can be measured through several aspects. One indicator that can be used to measure firm value is Price Book Value ratio atau Tobin's Q. PBV or often also

called the market to book value ratio, this ratio is the comparison between the share price and the book value of the shares. The greater the PBV ratio proves that the company is more trusted, which means the company's value is greater.

Firm value can be increased by improving the company's financial performance. One of the important aspects and factors for potential investors before investing is measuring the company's performance. Prospective investors will be more interested in companies that have quite good financial performance because companies that have very good financial performance means they are able to make profits and provide returns in line with the expectations of potential investors. This will certainly increase the interest of potential investors to invest in the company. Companies that have fairly good prospects in the future will therefore have a high firm value. However, on the contrary, if a company does not have prospects in the future then the value of the company will be low.

The company's financial performance is one of the factors that potential investors look at to determine stock investment (Ningrum, 2022). For a company, maintaining and improving financial performance is a must so that its shares continue to exist and remain in demand by investors. The financial performance of a company can be seen from the financial report which is the end of the accounting process with the aim of providing financial information that can explain the condition of the company in a period (Rajagukguk, 2017). Using financial information provided by a company, analysts or investors will usually calculate its financial ratios which include the company's liquidity, leverage, activity and profitability ratios as a basis for consideration in investment decisions.

Wulandari (2018) stated in his research that return on assets has no effect on firm value in property and real estate companies listed on the Indonesia Stock Exchange. Return on assets is used to measure a company's ability to utilize the company's assets to gain profits. However, in this research, the results showed that return on assets had no effect on firm value. This can be caused by the low average ROA which can be caused by the company's less than optimal performance in managing its asset turnover, so that the profit margin obtained by the company is also low. Several other studies on the influence of ROA on company value, namely, Ulfa and Asyik (2018), Suranto et al., (2017), state that ROA has a significant positive effect on company value. Meanwhile, according to Lesmana et al., (2020) ROA does not influence firm value.

The decline in firm value also can be influenced by a lack of banking filtration when providing credit to residents or the public. The banking industry has a very high risk of credit when compared to other industries. Credit risk is a loss that occurs due to the possibility of the debtor failing to fulfill its obligations, namely the remainder of the principal loan and also the interest when it is due in relation to payment. According to Sindy (2022), in his research using the credit risk variable concluded that credit risk has a positive and significant effect on firm value. This is different from research Sugiharto (2022), which concludes that credit risk has a significant negative effect on firm value. This research was also conducted by Kusnandar (2021) who stated that credit risk had no effect on firm value.

In the process of maximizing firm value, several problems arise where there are differences in interests and objectives between managers and shareholders, therefore GCG is very important to maximize company value. According to FCGI (2001), Good Corporate Governance (GCG) is a set of regulations that will connect between shareholders and company management, creditors, government, and employees as well as other internal and external stakeholders relating to their rights and obligations or with In other words, a system that will regulate and control the company. According to Latifah et al., (2019) states that the GCG has a significant positive effect on firm value. Meanwhile, according to Darniaty et al., (2023) GCG does not have a significant effect on firm value

The inconsistency of some of the research results above means that research needs to be carried out again. This research aims to examine whether disclosure of financial performance, GCG and credit risk is an appropriate measuring tool for increasing firm value and maintaining the company's existence from the economic crisis. Referring to the understanding above, the author is interested in conducting research on banking companies. A banking company is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and/or other forms in order to improve the standard of living of many people. Activities to collect funds from the public are carried out in the form of current accounts, savings and deposits. Savings from the public are usually given attractive compensation such as flowers and other gifts. Activities to distribute funds are carried out in the form of providing loans to the community. Meanwhile, other banking services are provided to support the smooth running of the main activities of collecting and distributing public funds.

Reporting from the site www.idx.co.id In 2024 the number of banking companies in 2023 will be 47 companies. Below is the data presented which are the selected companies:

Table 1.1 Price To Book Value Banking Company Listed on IDX 2018-2022

NO	CODE	COMPANY NAME	2018	2019	2020	2021	2022
1	BBNI	Bank Negara Indonesia Tbk.	1.47	1.16	1.01	0.98	1.21
2	BBYB	Bank Neo Commerce Tbk.	2,44	1.83	1.75	8.49	2.05
3	BBRI	Bank Rakyat Indonesia Tbk.	3.68	3.50	1.98	2.72	2.44
4	BMRI	Bank Mandiri Tbk	1.84	1.70	1.51	1.46	1.82
5	BRIS	Bank Syariah Indonesia Tbk	1.00	0.62	1.01	2.90	1.76
6	ARTO	Bank Jago Tbk	1.90	5.43	37.50	26.61	6.18
7	AGRO	Bank Raya Indonesia Tbk.	1.48	0.93	5.10	16.59	2.92
8	BBHI	Allo Bank Indonesia Tbk.	2.11	1.73	5.06	62.79	5.92
9	BBTN	Bank Tabungan Negara Tbk.	1.22	0.93	0,90	0.85	0.66
10	BDM N	Bank Danamon Indonesia Tbk.	1,72	0.84	0.70	0.50	0.56
11	BNGA	Bank CIMB Niaga Tbk.	0.91	0.55	0.60	0.55	0.65
12	BNLI	Bank Permata Tbk.	0.77	1.46	2.39	1.50	0.97

Source : idx.co.id

Based on the table above, it can be seen that Bank Negara Indonesia Tbk. Experienced an increase in firm value in 2022, namely 1.21, while Bank Neo Commerce Tbk. Experienced an decrease in firm value in 2022, namely 2.05. The Price Book Value (PBV) table shows company values that increase and decrease in each period. However, it is noted that there is a significant decline in the PBV value of each bank which can be a problem in the company. The decline in the PBV value reflects the market value and investor views on the firm's value in the span of the year. The decline in the company's value causes public trust in banking to decline, and the impact is a decline in potential investors' interest in banking shares on the stock market. The decline in the firm's value is an interesting issue, especially in banking, because it can cause undesirable consequences, such as the loss of the company's appeal on the stock market. Based on this phenomenon, there are several aspects that can have an impact on the firm's value, such factors as financial performance, good corporate governance and credit risk. so researchers are interested in conducting research to look at financial performance, corporate governance (GCG) and credit risk which influence the increase and decrease in firm value.

1.2 Research Problem

Firm value has an important role in evaluating the performance of a company. Therefore, researchers are very interested in studying what factors influence firm value. After sorting out the factors that influence firm value, the researchers chose several of them to be

used as independent variables, namely return on assets, good corporate governance and credit risk. So, the research problem formulation to be studied is as follows:

1. Does financial performance affect firm value in banking companies listed on the IDX in 2018-2022?
2. Does credit risk affect firm value in banking companies listed on the IDX in 2018-2022?
3. Does good corporate governance affect firm value in banking companies listed on the IDX in 2018-2022?

1.3 Research Purpose

Based on the research problem that has been formulated, researchers want to find the influence of ROA, GCG, and credit risk on firm value. Therefore, the research objectives of this study are :

1. To find out the effect of financial performance on firm value in banking companies listed on the IDX in 2018-2022.
2. To find out the effect of credit risk on firm value in banking companies listed on the IDX in 2018-2022.
3. To find out the effect of good corporate governance on firm value in banking companies listed on the IDX in 2018-2022.

1.4 Research Benefit

With this research it is hoped that it will provide benefits which in this case are divided into theoretical benefits and practical benefits as follows:

1. Theoretical Benefit

The results of this study can be used as a reference for further development by other researchers, can support knowledge in financial performance and credit risk so that it can be useful for interested parties, and as a source of advice for company operations in the future.

2. Practical Benefit

This study is useful for writers to be able to apply knowledge and theory that has been obtained from college into practice related to the effect of financial performance, credit risk and good corporate governance to firm value. This research is

beneficial for the company because it can provide information to the company as a source of considerations and suggestions that are useful in solving problems.

