



**STAKEHOLDERS' CONFIDENCE IN BANKING PERFORMANCE: WHAT  
DRIVES THE VALUE OF INDONESIAN PUBLIC-LISTED BANKS**

**UNDERGRADUATE THESIS**

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## CHAPTER I - INTRODUCTION

### I.1. Background

The concept of business is to deliver value through the creation of products that satisfies people's needs. This can be done individually or through an organization. Products can be tangible and intangible. Capitals invested by investors establish business. The parties entitled to the ownership of the business from the capital they have contributed are called shareholders. Eventually, the aim of business is to maximize shareholder's value (Ferrel, Hirt, & Ferrell, 2014).

One of the most prominent business industries is the financial industry. Within the financial industry, there are ranging institutions providing the service. Financial institutions provide transactions such as loans, deposits and investments. Most of daily financial transactions are intermediated with financial institutions. From depositing money, acquiring loans, exchanging currencies even payment with credit cards are done through financial institution (Asmundson, 2017).

An institution directly deals with people's everyday transaction is commercial banks, which is proven to be the most important components of the whole banking system. It provides loans, accepts deposits and provides other services like transferring funds. . Another type of bank that is prominent is an investment bank. Different to commercial banks, an investment bank intermediates performance between businesses and governments, not direct customers like commercial banks. Some services provided include underwriting debt and equity offering (Pritchard, 2018).

As of 2017, there are 118 commercial banks listed in Indonesia (Bank Indonesia, 2017). Over 45 percent of bank the largest four banks hold assets. The Central Bank of Indonesia is Bank Indonesia, acting as an independent state institution. Another institution is the Financial Services Authority, which translates to Otoritas Jasa Keuangan (OJK) which regulates key aspects of the banking and financial system within the nation. Key drivers of the banking industry growth in Indonesia are the underpenetrated banking market, large consumer base and rising middle-class population. State-owned banks dominate the Indonesian banking sector (Ernst & Young, 2017).

**Table 1 - Indonesian Banking Key Players 2016**

	<b>Assets</b>	<b>Loans</b>	<b>TPF</b>	<b>Equity</b>	<b>Net Income</b>
<b>Bank Mandiri</b>	1,038.71	667,619	687,949	144,182	13,806
<b>Bank Rakyat Indonesia</b>	1,003.64	675,647	723,845	145,457	26,195
<b>Bank Central Asia</b>	660,144	406,152	527,843	109,068	19,777
<b>Bank Negara Indonesia</b>	603,031	401,874	412,147	83,549	11,338
<b>Bank CIMB Niaga</b>	241,571	182,097	170,031	33,629	2,081
<b>Bank Tabungan Negara</b>	214,168	164,446	147,991	18,969	2,618
<b>Panin Bank</b>	199,175	138,748	136,371	29,831	2,405
<b>Bank Danamon Indonesia</b>	174,086	134,444	101,567	36,221	2,669
<b>Bank Maybank Indonesia</b>	166,678	116,839	108,415	17,729	1,948
<b>Bank Permata</b>	165,527	107,996	118,486	19,021	-6,483

Source: (Ernst & Young, 2017)

Under the Jakarta Stock Industrial Classification (JASICA) – an integrated classification to indicate companies' performance listed in the Indonesian Stock Exchange, Banks are classified under the financial institution. The financial institution is categorized as number 8, and has 6 different sub classifications under the finance industry, which are: Bank, Financial Institution, Securities Company, Insurance, Investment fund/Mutual fund and others. Under the sub sector of Banks, there are 43 Commercial banks listed in the stock exchange (U.S. Department of Commerce, 2017).

Banks are established institution and are classified as an Oligopoly market due to the limited of dominant firms and significant barriers to entry and exit the market. Banks gained substantial part of its capital from savings, deposited by customers or businesses. Prior to deposit, banks must reflect credibility and security to gain customer's trust. Although the banking industry has been impaired but few scandals, to this day majority of banks still exist due to customer's trust. Customers are not the only stakeholders' banks shall sustain their trust to, governments and fellow businesses must also trust Banks in conducting sustainable business (Heuerman, 2017).



Trusts from banks can be measured accordingly. To its internal parties, employee engagement reflects the level of trust happening between the firm and its people. Meanwhile to the customer, trusted banks are entitled to formal ratings either by the government or rating institution and compliance to government regulations reflects an act of trust too (Pritchard, 2017). If the fundamental of the Banking business is trust, how impactful are they to the corporate value? This is the issue being examined in this study.

### **I.2. Research Problems & Questions**

<b>Research Problems</b>	<b>Research Questions</b>
1. Employee Engagement impacts Firm Value.	1. How are employee engagements impactful for Firm Value?
2. Stakeholders trust impacts Firm Value.	2. How is Stakeholders Trust impactful for Firm Value?

### **I.3. Research Purpose**

Referring to the above research problems and questions, this study aims for the following issues:

1. To analyze the impacts of employee's engagement and the firm value.
2. To analyze the impact of stakeholders' trust and the firm value.

### **I.4. Research Scope & Limitations**

The study is limited to the following circumstances:

1. The company data acquired for this research is under the Jakarta Stock Exchange Industrial Classification (JASICA) is under the Bank industry as part of the Finance Sector.
2. For the accessible data from publicly listed Banks, this research will cover the period from January 2012 to December 2017.
3. Data gathered for this research is acquired from the listed Bank's annual report – investor relations.



## CHAPTER II – LITERATURE REVIEW

### II.1 Employee Engagement

Employee engagement reflects the level of commitment, passion and loyalty an employee has towards their work and company. Studies dictate that the higher the engagement from an employee is, the more work they will contribute eventually impacting the company's overall performance (R, 2018). Since engagement is an interactive scenario, it can be measured by the firms' royalty (what it gives to the employee) and the employee's loyalty (Kappel, 2018).

**II.1.1 Royalty** - In order to get the best out of its employees, companies must motivate the employees. For an employee to excel, numerous kinds of rewards can be granted – promotion, awards, bonus, compensations, benefits and numerous other things. These factors given by the companies are usually recorded in the annual report under the expenses for employees (Sutton, 2015).

**II.1.2 Loyalty** – Employee loyalty is two-way engagement between the employee and the employer. It is a commitment contributed by the employee aligning company's growth based on his or her skills and role. To trigger or maintain employee loyalty, firms can take actions in investing their employee; sending them to workshops, industry events, invest in employee facilities etc. Although these are the starters for employee loyalty, to determine the employee loyalty eventually is by seeing the number of turnover and funds invested in the employee (Gartenstein, 2018). Eventually loyalty is earned when there are mutual admiration and respect (Murphy, 2017)

### II.2 Stakeholders' Trust

Business operates involving numerous external parties. All these parties having stakes in the success and outcomes of a business is called the stakeholder (Matuleviciene & Stravinskiene, 2015). For the relationship to sustain, it requires trust and this study focuses on three stakeholders of the banking business; The Government through Tax compliance, Citizens which are non-customer through the Corporate Social Responsibility, and Rating Institution which gives judgment regarding the banking trust worthiness.

**II.2.1 Tax Compliance** – Tax, obligation strictly enforced by government has its own comprehension particularly for companies. Because company's income and spending varies, the way a company is taxed heavily depends on its operation. Compliance by the firm is executed by payments, producing and submitting information to the tax authorities within the format, time and regulations required. Because tax plays vital role in government, violation of any tax regulations is taken as crime. Eventually, tax compliance can measure the trustworthiness of a company to government (McCaherty, 2014).



**II.2.2 Corporate Social Responsibility** - Corporate Social Responsibility (CSR), also called Corporate Citizenship, are actions by an organization or company to reflect its awareness in making positive impact towards society not just monetary (Anaejionu, 2018). Although CSR is not profit oriented, it still requires capital from the company hence it is allocated separately and recorded in its annual report under the classification of CSR (Winchell, 2018).

**II.2.3 Ratings** - Particularly for emerging countries, credit ratings are important as it reflects assurance to the market. In other words, ratings are reflection of trustworthiness of an institution based on past data and analysis or forecasts. One institution dictating ratings is the Standard & Poor, in which the ratings are updated weekly. Essentially, these rating assess ability of institutions to meet its financial obligation accordingly (Amadeo, 2018) (Ocran, 2015).

### **II.3 Firm Value**

Firm value is the market's assessment of the value of all assets of the company that is derived from the company's balance sheet. The factors that drive the firm value are the ones being examined in this study.

**II.3.1 Return on Assets** – Commonly abbreviated as ROA, shows the percentage of net earnings relative to the total asset of the company. Can also be described, for each dollar of the company asset, how much does it generate. The higher the ratio means the more each dollar of the total asset is able to generate (Corporate Finance Institute, 2017).

**II.3.2 Return on Equity** – As for this ratio, it expresses the percentage of net income to stockholder's equity or the rate of return on the money that has been invested by the investor into the firm. This ratio is commonly used in deciding whether to invest or not. High Return on Equity shows the capability of generating cash (Bennett, Coleman & Co. Ltd., 2018).

**II.3.3 Price Earning Ratio** - This equals to the price of a share stock divided by the company's earning per share. It tells how much is being paid for each dollar of earnings. Evidently, P/E Ratio indicates investors' confidence towards the firm. A high P/E could result if investor is confident to the firm, driving the price up while earnings remain stagnant. Hence this ratio used complimentary to signal growth opportunities of a firm (Schwab, 2017).



## II.4 Previous Studies

Title of Research or Article	Variables & Sub-Variables	Findings
<p>1. Employee Engagement &amp; Motivation: A Case Study (Mohanani, A.H.Sequeira, &amp; Kumar, 2016)</p>	<p>Variable 1: Sub variable: Supervisor, Benefits, Payment, Environment</p> <p>Variable 2: Sub variable: Satisfaction, attitude, commitment, loyalty</p> <p>Variable 3: Engagement &amp; Motivation</p> <p>Variable 4: Productivity &amp; Profitability</p>	<ul style="list-style-type: none"> <li>- 7% of employees are motivated solely by money.</li> <li>- Majority of employee are satisfied with engagement and motivation program provided by the company.</li> <li>- Team outing motivate greatly, hence drives productivity.</li> <li>- More than 62% of employee feels positively impacted by training program.</li> </ul>
<p>2. How Incentive Pay Affects Employee Engagement, Satisfaction and Trust (Ogbonnaya, Daniels, &amp; Nielsen, 2017)</p>	<p>Variable 1: Payment Scheme Sub variables: Workplace characteristics &amp; performance, training initiative, payment system</p> <p>Variable 2: Well Being Sub variables: Job satisfaction, Commitment, Trust in Management</p>	<ul style="list-style-type: none"> <li>- Performance-related pay positively affects job satisfaction, commitment and trust in management.</li> <li>- Profit-related pay results in less committed employees and less trust in management.</li> <li>- High level of participation impacts higher level of well-being.</li> </ul>
<p>3. Exploring Practitioners' Meaning of Ethics, Compliance and Corporate Social</p>	<p>Variable 1: Work Ethic &amp; Compliance Sub variable: Behavior, Volunteerism</p>	<ul style="list-style-type: none"> <li>- To manage variety of ethical challenges, managers conduct CSR within the community.</li> <li>- CSR is an ethical activity that managers see as form of</li> </ul>



Title of Research or Article	Variables & Sub-Variables	Findings
Responsibility (Weller, 2017)	Variable 2: Corporate Social Responsibility Sub variable: Human resources, marketing, function	compliance. - Few organizational structure links company compliance with CSR.
4. The Effect of Changes in ROA, ROE & EVA to the Stock Price Changes and Its Impact on EPS (Purnamasari, 2015)	Variable 1: Return on Asset  Variable 2: Return on Equity  Variable 3: Economic Value Added  Variable 4: Stock Price  Variable 5: Earnings Per Share Sub variable: Numbers of shares outstanding	- ROA, ROE & EVA affects Stock Price Changes & Earnings per share. - ROA, ROE and EVA can improve stock Prices. - Study was done during the period 2012 – 2013 with sampling from 18 companies under LQ 45.
5. The Role of Growth Opportunities in the Influence of Financial Decisions and Ownership Structure on Firm Value in Tehran Securities Exchange (Rahimian, Ghalandari, & Jogh, 2012)	Variable 1: Capital Structure Sub variable: long-term debt book value divided book value of assets  Variable 2: Dividend Policy Sub variable: Company regulation  Variable 3: Ownership Structure Sub variable: Shareholders' percentage.  Variable 4: Firm Value	- There was significant relationship between Capital Structure and Firm Value. - Dividend Policy positively impacts Firm value. - Non-linear significance between Ownership structure and firm value.

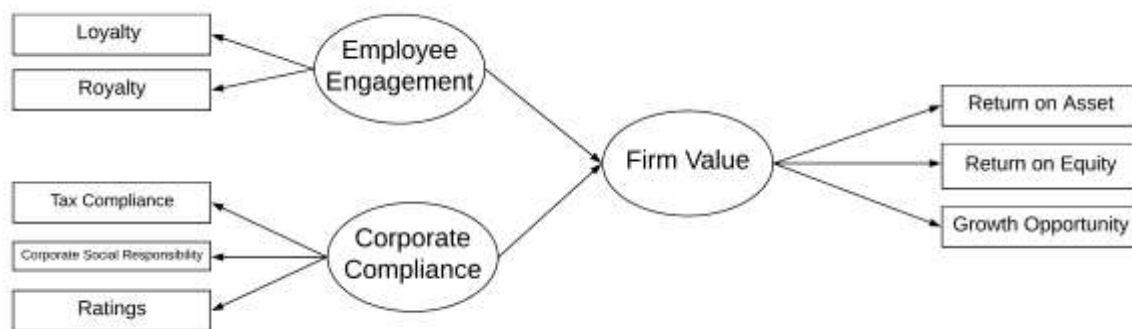


## II.5 Differences in Research

- Independent variables from previous studies differ from current studies. Current research. In this research, both independent variables are drawn from secondary data and are most likely acquired from both Annual Report and Financial Statements.
- Locations of previous studies were all outside South East Asia, in which current research samples are all from Indonesia.
- This study explicitly focuses on Public-Listed Banks, where previous studies were done on manufacturers, Securities Company, etc.
- Studies' being done about employee motivation compares the method of motivation and its effect on the company's profitability. Meanwhile in this study, the motivation theory is not examined but uses the amount of funds used to motivate the employees.
- This study uses the Ratio analysis of the company to indicate the dependent variable, meanwhile previous studies uses Ratio analysis as the independent variable.

## II. 6 Research Model & Hypotheses

Figure 2.1 – Research Model

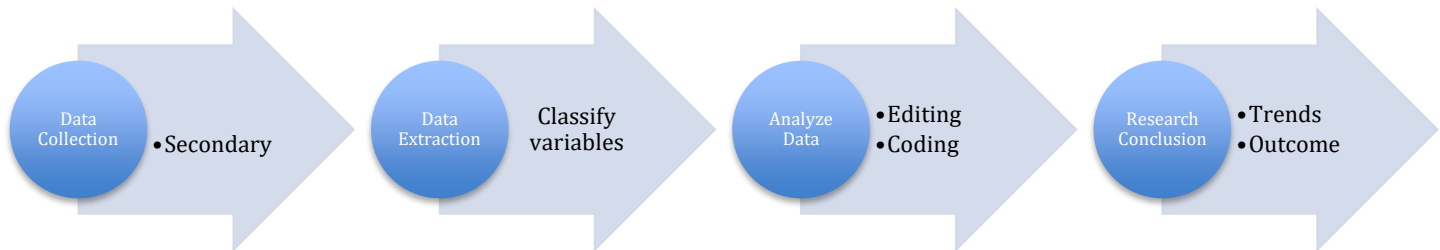


Hypothesis 1 : Employee Engagement strongly influences firm value.

Hypothesis 2 : Corporate Compliance strongly influences firm value.

## Chapter III – RESEARCH METHOD

Figure 3.1 – Research Process Overview



### III.1 Type of Study

Purpose of this study is to examine the significance of the employee and stakeholder's trust towards the firm value. Method used in this research is descriptive research method and the approach would be done deductively.

### III.2 Data Collection

First data collection will be done qualitatively through manual collection of public-listed Banks under the Finance Sector in the Indonesia Stock Exchange. This research is using secondary data collection. The data is collected through the Indonesia Stock Exchange website. Furthermore, the data will be analyzed to describe the state of the object of research. This research can be categorized as descriptive statistics as it will describe the phenomena or characteristics of the data.

### III.3 Source of Data

Data will also be acquired from each Banks' annual report, since all banks being examined here are publicly listed all the annual reports are available online from the Banks' website

### III.4 Population and Sampling Method

Based on the Jakarta Stock Exchange Industrial Classifications (JASICA), there are 87 listed firm under the Financial Sector. Within the Financial Sector, there are 43 Public-Listed Banks. The sample acquired for this study will be the Top Biggest Bank by Its Asset as of 2017 and has available financial statement from 2013-2017.



Because the study is quantitative, sampling method will be done with probability sampling.

1. **Clustering** Cluster all the available data. All the Banks studied are the public-listed ones. Public Listed Banks are all clustered in JASICA under the Financial Institution sector.
2. **Stratified** Once the cluster is clear, the data will stratify all **43 Banks** and ascend the **Top 10 Biggest Bank by their Asset**.

### III.5 Validity Pre-Test and Reliability Pre-Test

Pre-testing is done to see whether the data acquired is valid or reliable. To conduct the pre-test, the total data acquired is 30 from the top 5 biggest bank according to their asset.

### Component Matrix<sup>a</sup>

	Component 1
NI	.979
EQUITY	.917
ASSETS	.937
ROE	.673
ROA	.848
ROYALTY	.942
TAX	.944

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

This is the validity test. It mentions component matrix.



### Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.346	.957	7

From the reliability test, the Cronbach's Alpha is  $> .5$  meaning that the data is unreliable.

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Grammar	8	<ul style="list-style-type: none"><li>1 Incorrect Phrasing</li><li>1 Faulty Subject-Verb Agreement</li><li>2 Wrong or Missing Prepositions</li><li>4 Determiner Use (a/an/the/this, etc.)</li></ul>
Punctuation	3	<ul style="list-style-type: none"><li>2 Comma Misuse within Clauses</li><li>1 Closing Punctuation</li></ul>
Spelling	✓	
Enhancement	8	<ul style="list-style-type: none"><li>8 Word Choice</li></ul>
Style	4	<ul style="list-style-type: none"><li>1 Intricate Text</li><li>1 Wordy Sentences</li><li>2 Passive Voice Misuse</li></ul>
Sentence Structure	1	<ul style="list-style-type: none"><li>1 Incomplete Sentences</li></ul>