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# Dynamic Interaction of Company Size, Risk Management, and Financial Performance on Company Value: The Moderating Role of Corporate Governance in Indonesian Conventional Banks (2012-2017)

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**Abstract:** This study analyzes the complicated interactions among Firm Size, Risk Management, Financial Performance, and Firm Value in conventional Indonesian banks, focusing on the moderating function of Corporate Governance. Analyzing panel data from 14 IDX (Indonesia Stock Exchange) from 2012-2017 via Structural Equation Modeling (WarpLS 8), the study reveals that while larger firm size enhances performance and value, it inversely affects Risk Management.

Conversely, Risk Management clearly has a negative effect on each Financial Performance and Firm Value. Extensively, corporate governance acts as a moderator by using dampening the tremendous link among size and performance in large banks, whilst intensifying the negative impact of risk management on performance. however, the moderating impact of Corporate Governance isn't sizeable within the relationships among Firm Size-Risk Management, Firm Size-Firm Value, Risk Control-Firm Value, and Financial Performance- Firm Value. The results of this research show empirical support for the Resource-Based View, Signaling, Agency, and Value Relevance theories within an emerging market context. In practice, these findings offer strategic implications for financial institution management and regulators to optimize growth, risk management, and governance for long-term firm stability and value.

**Keywords:** Firm Size, Risk Management, Financial Performance, Firm Value, Good Corporate Governance, Conventional Commercial Banks, Indonesia.

## Introduction

The financial system is a fundamental pillar of a country's monetary system, by facilitating the flow of funds between surplus and deficit units, and is important for economic stability and expansion. As a bank-based economy, Indonesia's financial landscape is heavily dominated by the banking sector. The 2012-2017 period showed significant increase in this sector, but turned into observed by way of internal and external challenges. Internal challenges such as low credit growth capacity, a suboptimal banking structure with high asset concentration in a handful of large banks, and weak banking capabilities in implementing Good Corporate Governance (GCG) and Risk Management. From an external perspective, the formation of the ASEAN Economic Community (AEC) at the close of 2015 created new opportunities and heightened competition, while Indonesian banks continue to fall short in asset management when compared to their counterparts in other ASEAN nations.

**Table 1: Development of the Indonesian Financial System 2012-2017**

Financial System	2012	2013	2014	2015	2016	2017
Capital Market (Rp m)	813,605	902,271	1,093,357	1,211,354	1,440,653	1,374,321
Intermediary Institution (Rp m)	4,852,339	5,623,811	6,353,702	6,928,753	7,604,154	8,347,462
Total (Rp m)	5,665,945	6,526,082	7,447,059	8,140,107	9,044,807	9,721,783

Source: Financial Services Authority, 2018

**Table 2: Assets And Capital Of The 100 Largest Banks in ASEAN**

Country	Number of Banks	Assets (USD m)	Composition (%)	Growth (%)	Tier 1 (USD m)	Growth (%)
Singapore	4	872,049	28.64	2.72	69,757	5.05
Malaysia	22	677,587	22.25	-1.07	56,013	4.68
Thailand	18	561,740	18.45	3.88	55,848	8.63
Indonesia	21	393,803	12.93	14.18	53,410	29.71
Vietnamese	18	286,371	9.40	15.41	16,176	4.09
Philippines	14	239,087	7.85	7.25	19,814	7.29
Cambodia	2	7,928	0.26	18.62	1,065	19.65
Brunei	1	6,540	0.21	22.94	853	-0.89
Total	100	3,045,105	100.00	4.91	272,936	9.94

Source: The Banker, 2018

Existing literature on the links between firm size, risk, performance, and market value has yielded inconsistent conclusions, pointing toward the need for a moderating factor like corporate governance. This inconsistency suggests the existence of a moderating factor, specifically effective corporate governance. Consequently, this study seeks to explore a comprehensive and holistic conceptual model that integrates these variables into a unified analytical framework, which has not been extensively investigated previously. The originality of this study is reflected in the enhancement of a more thorough measurement model aimed at understanding the elements that affect bank's financial success and overall valuation.

### Theoretical Framework and Hypothesis

The theoretical foundation of this research integrates the Resource-Based View Theory (RBV), Signaling Theory, Agency Theory, also Value Relevance Theory. RBV posits that a competitive edge is derived from unique and hard-to-replicate internal resources (VRIO: Valuable, Rare, Inimitable, Organized). Signaling Theory indicates that firms offer credible signals to the market to diminish information asymmetry and shape value perceptions. Agency theory navigates ability conflicts that may rise up between the ones in control and those with ownership, which can be

alleviated via oversight mechanisms including Good Corporate Governance (GCG). Value Relevance Theory asserts that accounting disclosures closely affect stakeholder judgments on investor picks and the market value of the company.

### Hypothesis Development

In light of prior research and theoretical frameworks, we hypothesize that:

H1: Company size influences risk management.

H2: Company size affects financial performance.

H3: Company size influences company value.

H4: Risk Management affects Financial Performance.

H5: Risk Management affects Company Value.

H6: Financial performance affects company value.

H7: Company size influences Risk Management with Corporate Governance as a moderator.

H8: Company size influences financial performance with Corporate Governance as a moderator.

H9: Company size influences Company Value with Corporate Governance as a moderator.

H10: Risk Management influences Financial Performance with Corporate Governance as a moderator.

H11: Risk Management influences Company Value with Corporate Governance as a moderator

H12: Financial Performance influences Company Value with Corporate Governance moderation.

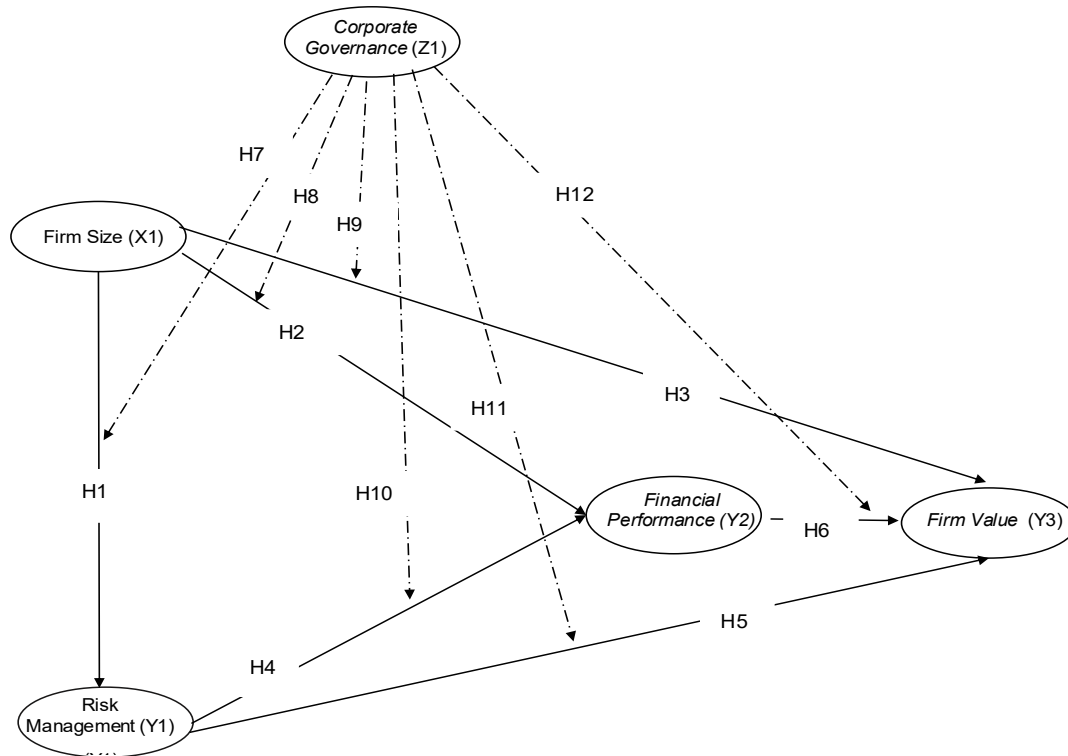
**Table 3: Hypothesis, Theoretical Basis, Research Concept, and Previous Study Findings**

Research Hypothesis	Theoretical Basis and Research Concept	Previous Study Findings
H1: Firm Size influences Risk Management	Resource-Based View Theory (Wernerfelt, 1984 and Barney 1991)	Ranjan and Dahl (2003), Ha (2020) and Mada and Arfinto (2015): Significantly negative; Juliani (2022): Significantly positive
H2: Firm Size has an effect on Financial Performance	Resource-Based View Theory(Wernerfelt, 1984 and Barney 1991)	Kantharia and Biradar (2022): positive Căpraru and Ilnatov (2015), Saputri and Supramono 2021): no effect
H3: Firm Size influences Firm Value	Signaling Theory (Spence, 1973)	Selly et al. (2022): significantly positive; Santoso, Aries and Carunia Mulya Firdausy (2021): no effect; Saputri dan Supramono (2021) ): negative
H4: Risk Management has an effect on Financial Performance	Resource-Based View Theory (Wernerfelt, 1984 and Barney 1991)	Marshal, Iwedi and Onuegbu Onyekachi (2014): significant positive; Siddique et al. (2022): significant negative; Saputri and Supramono (2021): No effect

H5: Risk Management influences Firm Value	Signaling Theory (Spence, 1973)	Fatma (2020) and Saputri and Supramono (2021): no effect; Santoso, Aries and Carunia Mulya Firdausy (2021): significant negative
H6: Financial Performance has effect on Firm Value	Value Relevance Theory (Ohlson, 1995 and Veltri, et al 2011)	Hai (2024), Dhani and Utama (2017) and Rivandi (2018): positive; Saputri and Supramono (2021): no effect
H7: Firm Size has an effect on Risk Management with Corporate Governance as its moderation.	Resource-Based View Theory (Wernerfelt, 1984 and Barney 1991) and Agency Theory (Jensen and Mecling, 1976).	-
H8: Firm Size has an effect on Financial Performance with Corporate Governance as a moderation factor.	Resource-Based View Theory (Wernerfelt, 1984 and Barney 1991) and Agency Theory (Jensen and Mecling, 1976).	-
H9: Firm Size has an effect on Firm Value with Corporate Governance as a moderation factor.	Signaling Theory (Spence, 1973) and Agency Theory (Jensen and Mecling, 1976)	-
H10: Risk Management has an effect on Financial Performance with Corporate Governance as its moderation.	Resource-Based View Theory (Wernerfelt, 1984 and Barney 1991) and Agency Theory (Jensen and Mecling, 1976).	-
H11: Risk Management has an effect on Firm Value with Corporate Governance as its moderation.	Signaling Theory (Spence, 1973) and Agency Theory (Jensen and Mecling, 1976)	-
H12: Financial Performance has an effect on Firm Value with Corporate Governance as a moderation factor.	Value Relevance Theory (Ohlson, 1995 and Veltri, et al 2011) and Agency Theory (Jensen and Mecling, 1976)	-

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Figure 1: Research Hypothesis



Caption: Researcher Processed (2025)

(Figure 1. visually represents the hypothesized relationships tested in the study, including direct and moderated paths between Firm Size, Risk Management, Financial Performance, Firm Value, and Corporate Governance)

**Materials and methods**

This study employed a quantitative explanatory design to test causal relationships between variables. Secondary data from 14 conventional commercial banks listed on the Indonesia Stock Exchange (IDX) between 2012 and 2017 were used, resulting in 84 data points. The sample was selected using purposive sampling based on the criteria of consistent listing on the IDX, annual report publication, and ASEAN CG Scorecard achievement.

Table 4: Sample of Conventional Commercial Banks Listed on the Indonesia Stock Exchange 2012–2017

No.	Issuer Code	Bank Name
1	BBCA	Bank Central Asia
2	BBRI	Bank Rakyat Indonesia
3	BDMN	Bank Danamon Indonesia
4	BMRI	Bank Mandiri
5	BNGA	Bank CIMB Niaga
6	BNI	Bank Negara Indonesia

7	BNLI	Bank Permata
8	BTPN	Bank Tabungan Pensiun Nasional
9	MEGA	Bank Mega
10	NISP	Bank OCBC NISP
11	PNBN	Bank Panin
12	BJBR	Bank Jawa Barat dan Banten
13	BJTM	Bank Jatim
14	BBTN	Bank Tabungan Negara

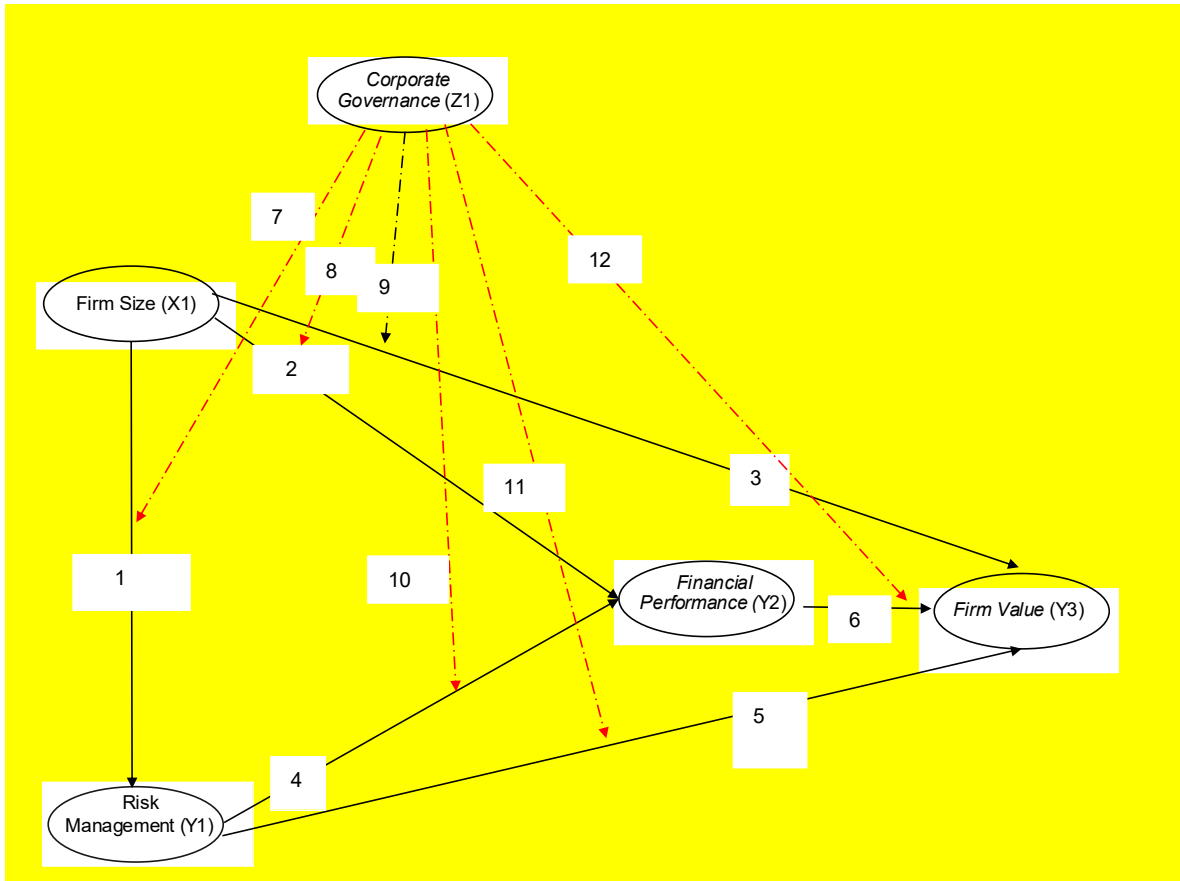
The research variables include Company Size (X1), Risk Management (Y1), Financial Performance (Y2), Company Value (Y3), and Corporate Governance (Z1) as moderating variables. All latent variable indicators are formative.

**Table 5: Variables, Indicators and Calculation Formulas**

No	Variables	Indicator	Symbol	Formula	References
1	Firm Size (X1)	Total assets	X.1.1.	$\ln(\text{Total Assets})$	Vithessonthi and Jittima (2015)
		Equity	X.1.2.	$\text{Common Equity} + \text{Additional Tier 1}$	POJK No. 27 of 2021
2.	Risk Management (Y1)	Credit risk (NPL)	Y.1.1.	$(\text{Total NPL} / \text{Total Credit}) \times 100\%$	SE BI No/30 /DPNP/2011
		Liquidity Risk (LDR)	Y.1.2.	$(\text{Total credit} / \text{Third party funds}) \times 100\%$	SE BI No/30/ DPNP/2011
3.	Firm Performance (Y2)	Return on Assets(ROA)	Y.2.1.	$(\text{Profit after tax} / \text{Total assets}) \times 100\%$	SE BI No/30/ DPNP/2011
		Return on Equity(ROE)	Y.2.2.	$(\text{Profit after tax} / \text{Capital}) \times 100\%$	SE BI No/30/ DPNP/2011
4.	Firm Value (Y3)	Tobin's Q	Y.3.1.	$(\text{EMV} + \text{D}) / (\text{EBV} + \text{D}) \times 100\%$	Weston and Copeland, 2001.
		Price to Book Value (PBV)	Y.3.2	$\text{Stock Market Price} / \text{Book Value per Share}$	Fama, E.F., & French, K.R., 1993
5.	Corporate Governance (Z1)	Composite Value	Z.1.1	Total value of 11 aspects assessed	POJK No. 55 /POJK.03/2016
		ASEAN CG Score	Z.1.2.	Total value of the 5 aspects assessed	IICD

Data analysis was performed using Structural Equation Modeling (SEM) with WarpPLS 8 software, which was chosen because of its robustness to data distribution assumptions and sample size.

**Figure 2: Research Structural Model**

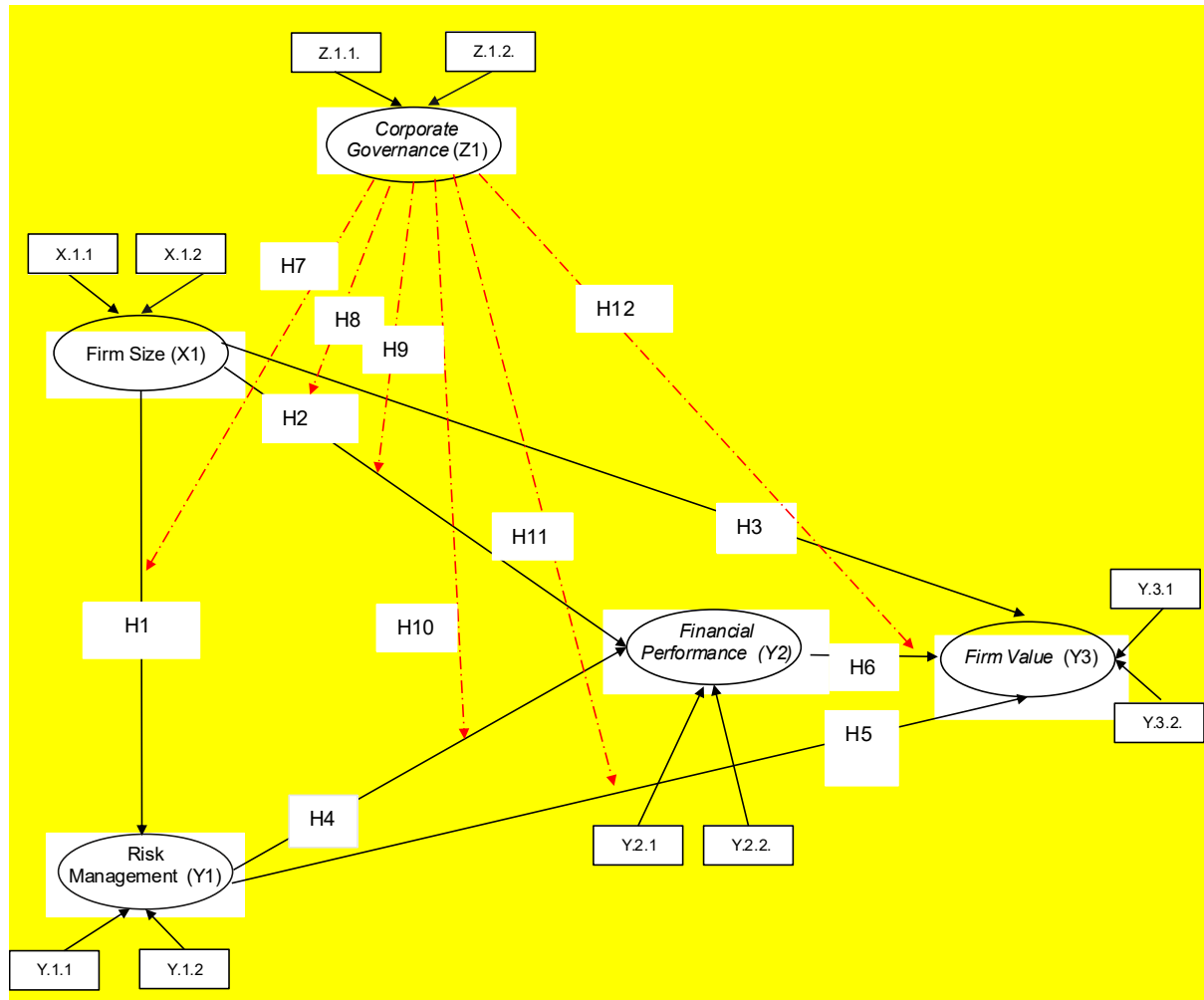


Caption: Researcher Processed (2025)

(Figure 2. shows the causal relationship between latent variables: Company Size (X1), Risk Management (Y1), Financial Performance (Y2), Company Value (Y3), and Corporate Governance (Z1) as a moderator)

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Figure 3: Research Path Diagram Model



Caption: Researcher Processed (2025)

Figure 3	X1.1 : Total Assets	Y3.1 :Tobin's Q
	X1.2 : Total Equity	Y3.2 : PBV
	Y1.1 : Credit Risk	X2.1 : Self Assessment
	Y1.2 : Liquidity Risk	X2.2 : ASEAN CG Scorecard
	Y2.1 : ROA	
	Y2.2 : ROE	

Visualizes the formative indicators that make up each latent variable, as well as the relationship paths among the latent variables in the model.

## Research Results

### Model Feasibility Test

The model shows good Goodness of Fit, with all criteria met. 1 Value Average Path Coefficient (APC) = 0.242 ( $p < 0.001$ ), Average R-squared (ARS) = 0.453 ( $p < 0.001$ ), and Tenenhaus GoF = 0.617 (large category). The predictive-relevance value (Q2) of 0.8662 (86.62%) shows that the model is able to give an explanation for most of the phenomena of bank behavior that contribute to Company Value.

**Table 6: Model Fit and Quality Indices**

Quality Index	Criteria	Mark	Information
Average Path Coefficient (APC)	Significant if $p < 0.05$	0.242	$p < 0.001$
Average R-squared (ARS)	Significant if $p < 0.05$	0.453	$p < 0.001$
Average Adjusted R-squared (AARS)	Significant if $p < 0.05$	0.442	$p < 0.001$
Average Block VIF (AVIF)	Acceptable if $\leq 5$ , Ideal if $\leq 3.3$	1,464	
Average Full Collinearity VIF (AFVIF)	Acceptable if $\leq 5$ , Ideal if $\leq 3.3$	2,184	
Tenenhaus GoF (GoF)	Small $\geq 0.1$ , Medium $\geq 0.25$ , Large $\geq 0.36$	0.617	
Sympson's Paradox Ratio (SPR)	Acceptable if $\geq 0.7$ , Ideal if = 1	0.833	
R-squared Contribution Ratio (RSCR)	Acceptable if $\geq 0.9$ , Ideal if = 1	0.944	
Statistical Suppression Ratio (SSR)	Accepted if $\geq 0.7$	1,000	
Nonlinear Bivariate Causality Direction Ratio (NLBCDR)	Accepted if $\geq 0.7$	0.750	

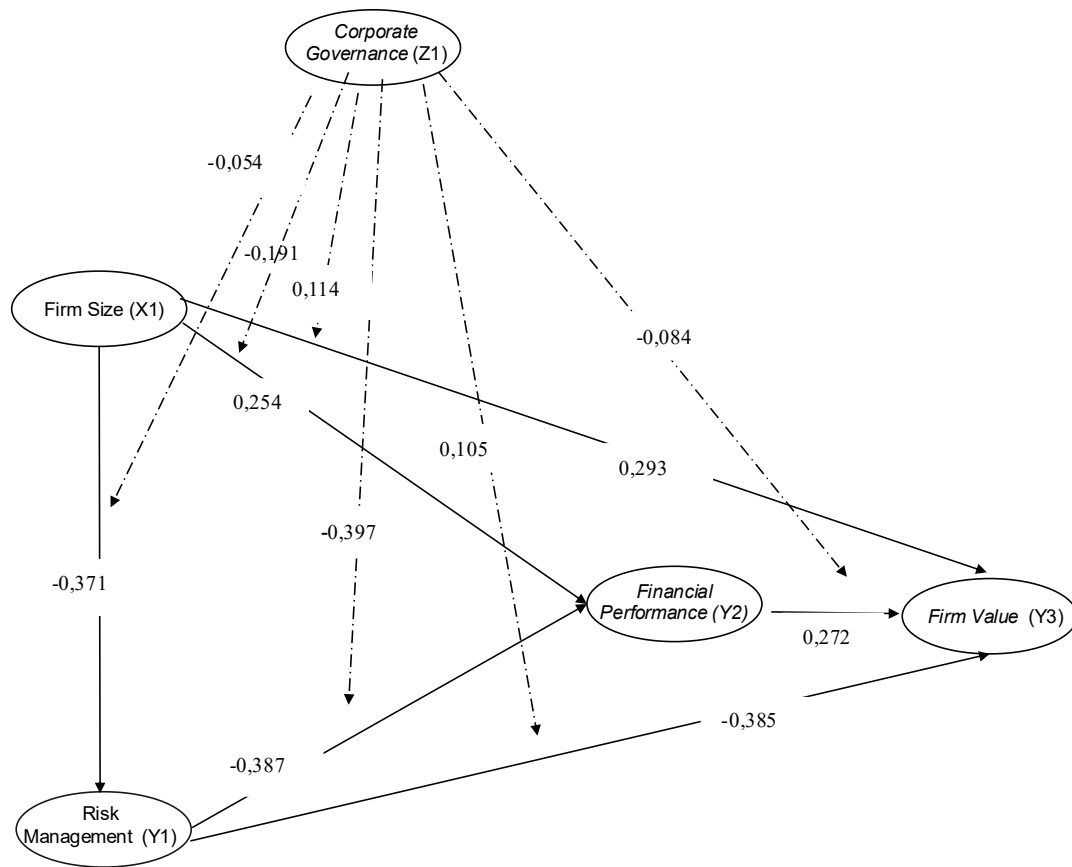
### Hypothesis Testing

The results of the hypothesis testing are presented in Table 7

**Table 7: Results of Research Hypothesis Testing**

<b>Relationship between Variables</b>	<b>Path Coefficient</b>	<b>P-Value</b>	<b>Information</b>
<b>Direct Influence</b>			
Firm Size (X1) -> Risk Management (Y1)	-0.371	<0.001	Significant
Firm Size (X1) -> Financial Performance (Y2)	0.254	<0.001	Significant
Firm Size (X1) -> Firm Value (Y3)	0.293	<0.001	Significant
Risk Management (Y1) -> Financial Performance (Y2)	-0.387	<0.001	Significant
Risk Management (Y1) -> Firm Value (Y3)	-0.385	<0.001	Significant
Financial Performance (Y2) -> Firm Value (Y3)	0.272	<0.001	Significant
<b>Moderation Influence</b>			
Corporate Governance (X2)* Firm Size (X1) -> Risk Management (Y1)	-0.054	0.242	Not Significant
Corporate Governance (X2)* Firm Size (X1) -> Financial Performance (Y2)	-0.191	0.005	Significant
Corporate Governance (X2)* Firm Size (X1) -> Firm Value (Y3)	-0.144	0.066	Not Significant
Corporate Governance (X2)* Risk Management (Y1) -> Financial Performance (Y2)	-0.397	<0.001	Significant
Corporate Governance (X2)* Risk Management (Y1) -> Firm Value (Y3)	0.105	0.083	Not Significant
Corporate Governance (X2)* Financial Performance (Y2) -> Firm Value (Y3)	-0.084	0.135	Not Significant

The results of the hypothesis testing presented in Table 7 are also provided visually as can be seen in Figure 4.

**Figure 4: Results of Hypothesis Testing using SEM-WarpPLS Analysis**

(This diagram shows path coefficients and significance for all hypothesized relationships, including moderation effects, with insignificant paths marked)

## Discussion

### Direct Influence

This study employed a quantitative explanatory design to test causal relationships between variables. Secondary statistics from 14 conventional commercial banks listed on the Indonesia Stock Exchange (IDX) between 2012 and 2017 have been used, resulting in 84 data points. The sample turned into selected the usage of purposive sampling based on the standards of consistent listing on the IDX, annual report publication, and ASEAN CG Scorecard success.

- **Company Size on Risk Management (H1 Accepted):** Company size has a significant negative effect on risk management (coefficient -0.371,  $p < 0.001$ ). Large banks have abundant resources for complex risk mitigation strategies, advanced technology investments, and access to hedging instruments, thus reducing risk levels. This aligns with the RBV, where size is a competitive advantage in risk management.
- **Company Size on Financial Performance (H2 Accepted):** Firm size has a significant positive effect on financial performance (coefficient 0.254,  $p < 0.001$ ). Large financial institutions benefit from greater access to more affordable funding, economies of scale, and the capacity to reduce lending rates, thereby enhancing profitability. The Resource-Based View (RBV) posits that size serves as a resource that leads to increased profits.
- **Company Size on Company Value (H3 Accepted):** Company size has a significant positive effect on firm value (coefficient 0.293,  $p < 0.001$ ). Large banks have high market capitalization, broad access to external

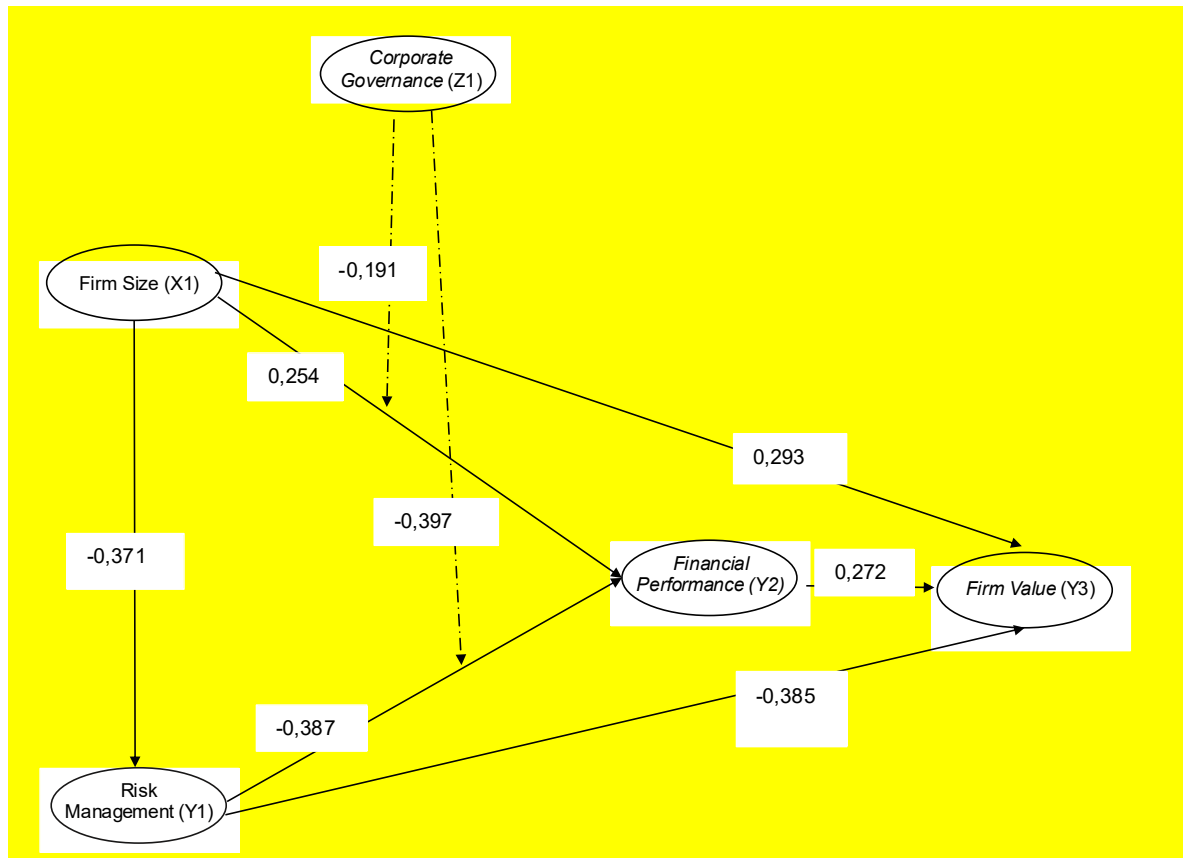
capital, a diversified customer base, and a robust financial infrastructure, which enhances investor perceptions. Signaling Theory elucidates that a substantial size serves as an indicator of stability and credibility, thereby attracting investors and enhancing value.

- **Risk Management on Financial Performance (H4 Accepted):** Risk Management has a significant negative effect on Financial Performance (coefficient -0.387,  $p < 0.001$ ). The rise in non-performing loans (NPLs) and the ineffectiveness of loan-to-deposit ratios (LDRs) lead to a decline in interest income and an increase in loss allowance expenses, ultimately diminishing profitability. The Resource-Based View (RBV) suggests that proficient risk management serves as a resource that generates profit.
- **Risk Management on Firm Value (H5 Accepted):** Risk Management has a significant negative effect on Firm Value (coefficient -0.385,  $p < 0.001$ ). Poor risk management increases the likelihood of bankruptcy and litigation, damages reputation, and lowers stock prices.
- Signaling Theory shows that good risk management increases investor confidence and company value.
- **Financial Performance on Firm Value (H6 Accepted):** Financial performance has a significant positive effect on firm value (coefficient 0.272,  $p < 0.001$ ). Steady and substantial profitability enhances investor trust, promotes the rise of stock prices, and offers financial flexibility for fruitful investments. Value Relevance Theory emphasized that good financial performance is a relevant indicator of a corporation's market value.
- **The Moderating Influence of Corporate Governance**
- **Company Size on Risk Management (H7 Rejected):** Corporate Governance did not significantly moderate this relationship (coefficient -0.054,  $p = 0.242$ ). This is because large banks have already established risk management structures and systems, so GCG does no longer provide an enormous additional effect.
- **Company Size on Financial Performance (H8 Accepted):** Corporate Governance significantly moderates this relationship (coefficient -0.191,  $p = 0.005$ ). GCG weakens the positive effect of company size on financial performance. In small banks, GCG can strengthen the performance-enhancing effect, but in large banks, GCG can actually weaken it due to organizational complexity and bureaucracy.
- **Company Size on Company Value (H9 Rejected):** Corporate Governance does not significantly moderate this relationship (coefficient -0.144,  $p = 0.066$ ). Company size dominantly influences on Company Value, so the additional effect of GCG is insignificant.
- **Risk Management on Financial Performance (H10 Accepted):** Corporate Governance significantly has a moderating role in this relationship (coefficient -0.397,  $p < 0.001$ ). GCG strengthens the negative influence of Risk Management on Financial Performance. Good GCG can minimize the risk of NPL and LDR, thereby amplifying the negative impact of unmanaged risk on performance.
- **Risk Management on Firm Value (H11 Rejected):** Corporate Governance does not significantly moderate this relationship (coefficient 0.105,  $p = 0.083$ ). The lack of integration between risk management practices and corporate governance, as well as investors' focus on specific risk indicators, results in GCG not significantly moderating this relationship.
- **Financial Performance on Firm Value (H12 Rejected):** Corporate Governance did not significantly moderate this relationship (coefficient -0.084,  $p = 0.135$ ). Financial performance is the cumulative result of resource and risk management, hence directly reflecting a corporation's capability to create value, making the moderating impact of GCG less significant.

### Research Result Model

Based totally on Trimming Theory, insignificant relationships have been removed from the model. The delicate studies model is as follows:

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**Figure 5: Research Result Model**

Caption: WarpPLS Output, Processed (2025)

(Figure 5. shows the remaining significant paths after the trimming process, representing the relationship between Company Size, Risk Management, Financial Performance, Company Value, and the significant moderating role of Corporate Governance.)

This model demonstrates that firm size plays a strategic function in developing firm value, each directly and through its impact on risk management and financial performance. Risk management performs an essential role within the firm value enhancement model through its impact on financial performance. Financial performance is the primary driver of firm value, both directly and as an intermediary for the impact of other variables. Larger firms with established operational structures tend to be less affected by the additional impact of corporate governance on their financial overall performance.

## Conclusions and Implications

### Conclusion

This study concludes that:

1. Company Size significantly and negatively affects Risk Management but positively affects Financial Performance and Company Value.
2. Risk Management significantly and negatively impacts Financial Performance and Firm Value.
3. Financial Performance significantly and positively affects Company Value.
4. Corporate Governance substantially moderates the relationship among Firm Size and Financial Performance (weakening), in addition to between Risk Management and Financial Performance (strengthening).
5. Corporate Governance does not have a significantly moderating role in the relationship between Firm Size-Risk Management, Firm Size-Firm Value, Risk Management-Firm Value, and Financial Performance-Firm Value.

## Implications

### Theoretical Implications

This study enhances the Resource-Based View Theory by demonstrating how firm size (assets and capital) becomes a competitive advantage that influences risk management and financial performance. Signaling Theory is strengthened by evidence that firm size and sound risk management serve as positive signals to investors, increasing firm value. Agency Theory is supported by using the function of GCG in mitigating agency troubles and increasing performance. Value Relevance Theory is strengthened by the finding that transparent and relevant financial performance increases firm value.

### Practical Implications

- **For Companies (Banks):** Banks need to continuously increase their size through asset expansion and strengthening core capital to enhance long-term corporate value. Risk management must be optimized and integrated with governance to mitigate potential risks and improve financial performance. Improving financial performance must be a top priority to maximize corporate value.
- **For Regulators:** Regulators need to strengthen GCG regulations that are adaptive to bank characteristics, encourage routine self-assessments and the ASEAN CG Scorecard, and focus on strengthening risk management and capital adequacy systems.

### Limitations and Further Research

This study has boundaries within the sample (conventional banks listed on the IDX 2012-2017), the limited time period, and the measurement of variables that may not be fully comprehensive (e.g., GCG and risk management). The moderating variable is limited to Corporate Governance, whereas other factors including macroeconomic situations or organizational culture also have the potential to moderate the relationship. Future research is recommended to expand the sample, time period, and moderating/mediating variables, as well as use a qualitative or quantitative approach. Mixed methods for a deeper understanding.

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