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The Effect of Corporate Governance on Value Relevance moderated by CEO's Reputation

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Abstract

Purpose: This study was conducted to examine the impact of corporate governance and CEO's reputation toward value relevance. This study also examines how CEO's reputation moderates the impact of corporate governance toward value relevance. The object of this research are banks that listed in Bursa Efek Indonesia (BEI) from 2016 and 2019.

Design/methodology/approach: The purposive sampling method is used to select the research sample. The study use SmartPLS program to analyze data. The measurement of value relevance are share price, earning per share and net asset value per share. This study used board size, board independence, board activity, board gender diversity and staggered board to measure corporate governance. CEO's reputation index is used to measure CEO's reputation

Findings: The results of this study show that by maximizing the board size can improve the value relevance of banks at Indonesia

Practical implications: These findings will be very helpful to management to increase the company's value relevance by managing board of directors.

Originality/value: This article provides a new insight of value relevance research as to how CEO's reputation moderates the impact of corporate governance to value relevance.

1. Introduction

Corporate governance, a term that in the last decade or two did not mean much except to a handful of academics and shareholders, has become a major topic of discussion in corporate boardrooms, academic meetings, and various events responsible for the increased attention and interest in corporate governance (Claessens, 2006). During the 1998 financial crisis in Russia, Asia and Brazil, the behavior of the corporate sector had an impact on the economy. Deficiencies in corporate governance threatened global financial stability, after which confidence in corporations was weakened due to corporate governance scandals in Europe and the United States that triggered the largest bankruptcy in history. These events not only raise the profile of the term corporate governance, but also make researchers, firms, and policymakers realize the long-term consequences of weak corporate governance systems (Claessens & Yurtoglu, 2013).

After the monetary crisis that occurred in Indonesia in 1998 and 1997, the Indonesian government made efforts to improve corporate governance and the quality of financial reporting in Indonesia. One of the government's efforts to achieve this was the issuance of regulations on reporting and disclosure by BAPEPAM in 2002 (Siagian et al., 2013). One of the most important functions of corporate governance is to ensure the quality of accounting information by enforcing compliance with appropriate standards (de Almeida et al., 2009). Previous research has found that the market price of companies that comply with corporate governance is higher than those that do not (Alfraih et al., 2015).

Corporate governance is defined as something that affects corporate processes, including those that appoint controllers and regulators, including the production and sale of goods and services (Turnbull, 1997). The quality of the corporate governance framework affects not only the external financing of the firm, but also the cost of capital and the value of the firm; outsiders tend to be reluctant to provide financing and demand high returns when they feel uncertain about the return (Claessens & Yurtoglu, 2013). The positive externalities of corporate governance cause policymakers to explore the idea of enforcing corporate governance on a mandatory or voluntary basis because some corporate governance disclosures can increase firm value (Ararat & Yurtoglu, 2016).

In addition, accounting figures are defined as relevant if they have a predictable relationship with the market value of equity (Barth et al., 2001). Relevant is one of the four qualitative characteristics that financial statements must have. To be relevant, accounting information must be able to make a difference in a decision (Kieso et al., 2014). The importance of financial reports as a means of communicating the state of the company with shareholders and the public, relevant issues are one of the important objects worth exploring, the relevant value of accounting information has become the ability of financial data to summarize the enterprise value or become reflective information that affects the stock market (Fiador, 2013). The quality of a financial report can be measured by the company's stock price (Omokhudu & Ibadin, 2015). In the literature review, many examine the direct effect of corporate governance on the relevant value of the company (Almari, 2017; Almujamed & Alfraih, 2020; Fiador, 2013), previous researchers found mixed and weak results, the relationship between corporate governance and value. Relevant companies can be influenced by several factors that have been forgotten by previous research.

On the other hand, CEOs tend to be the strongest members of the corporate elite because of their legitimate hierarchical status and commitment to the organization (Brown & Sarma, 2007). CEOs tend to be primarily committed to the status quo, establishing the correctness of current strategies and persistence in certain leadership actions. In the organizational realm, the CEO's commitment to the organization is viewed as a moral imperative that demonstrates the strength of his or her identification and commitment to an organization (Yucel et al., 2014). Kitchen (2003); Murray & White (2005) consider the CEO to be the main person responsible for reputation management. CEOs are the human force behind the company's actions and results (Love et al., 2017). Recent studies have shown that positive CEO reputation can influence stakeholders' perceptions about the organization (Weng & Chen, 2017).

This study is motivated by the theory put forward by (Pfeffer & Salancik, 1979) namely the resource dependence theory, which states that companies depend on the external environment for their survival and the CEO's personal reputation is an indication of the environment outside the company. The existing literature review focuses on the research on the relationship between corporate governance and CEO reputation (Ljubojevic, C.;

Ljubojeví, 2008), on the other hand, many research also investigate the relationship between CEO reputation and relevant value of the firm (Nelson, 2005; Weng & Chen, 2017), can the relationship between corporate governance and relevant value of the firm be enhanced by CEO reputation? This question has not yet been discussed in the literature. Therefore, this study aims to contribute to the empirical literature on value relevance by examining the extent to which accounting information is related to corporate governance and the influence of CEO reputation on the relationship between corporate governance and relevance value of accounting information in Indonesia.

2. Literature Review and Hypothesis Development

2.1 Value Relevance

Relevance is one of the two fundamental qualities that make accounting information useful for decision making. Relevance has three components, namely predictive value, confirmatory value and materiality. To be relevant, accounting information must be able to make a difference in decisions (Ikatan Akuntan Indonesia (IAI), 2018). Relevant value can also be defined as the ability of accounting information to explain the value of the company (Kargin, 2013). Accounting information can be said to be relevant if it has a relationship with stock market prices (Barth et al., 2001). The main objective of relevance research is to investigate whether the financial statements prepared by the company are of good quality and whether they provide valuable accounting information for decision making by their users (Alfaraih & Alanezi, 2011).

If the numbers in accounting have a predictable relationship with the market value of the equity, they are known as relevant values (Barth et al., 2001). The stock value of a business may indicate the quality of a financial report (Omokhudu & Ibadin, 2015). As a result, share price, earnings per share, and net asset value per share are used to calculate the value relevance in this analysis. Share price is taken from the share price in company i in year t when the earnings per share are net profit after tax but before the abnormal item is divided by the number of shares in company i in year t and the total assets minus the total liabilities of company i in year t divided by the number of shares outstanding yields the book value net per share.

2.2 Board Size

Academics, regulators, and market investors have all paid close attention to the topic of board size as a corporate governance tool in recent years (Johl et al., 2015). The number of members of the company's board of directors with a nominal scale as an indicator of the board's size is referred to as the board's size. According to Tshipa *et al.,* (2018), the method for determining the size of the board of directors is as follows.

Board Size = The total number of directors on the board of directors

2.3 Board Independence

According to the agency's theory, having an independent board of directors on a company's board will help to control management on behalf of shareholders by bringing independent votes into the board room, which will eliminate a known conflict of interest between shareholders and the company's management (Kakabadse et al., 2010). Shareholders trust independent directors to represent them and help reduce agency issues (Fuzi et al., 2016). The independence of the board of directors is measured on a nominal scale. According to Tshipa *et al.,* (2018), the board of directors' independence formula is as follows.

Board Independence = Directors Independent/Total Directors on the Board

2.4 Board Activity

The number of board meetings during the year is used to describe the board's activity. The frequency of board meetings is one way to gauge board operation. The frequency of meeting bias is one criterion for determining whether a board of directors is active or inactive (Harvey Pamburai et al., 2015). The board of directors' operation is calculated on a nominal scale. The following is the formula for the board of directors' activity, according to Tshipa *et al.,* (2018).

Board Activity = The number of board meetings during a year

2.5 Board Gender Diversity

The larger the number of women on the board of directors, the higher the company's economic value Reguera-Alvarado *et al.,* (2017). The council's gender diversity is calculated on a nominal scale. According to Tshipa *et al.,* (2018) the formula for gender diversity on the board of directors is as follows.

Board Gender Diversity = Women Directors/Total Directors on the Board

2.6 Staggered Board

One of the most controversial issues in academic and business circles is the influence of shifting board positions on corporate value. Around 60% of US companies have introduced strong anti-acquisition provisions (ATPs), which enable them to influence the board of directors annual elections (Duru et al., 2013). The staggered board in this study is a dummy variable that receives number one if the board of directors rotates every three years, zero if it is not given.

2.7 CEO's Reputation

The CEO's reputation is one of the external environmental factors, and Pfeffer (1972) indicates that the company's survival is dependent on the external environment in his theory of resource dependence. As a result, CEO's reputation will help reinforce the connection between corporate governance and the company's relevant value. Since the evaluation of these ideas requires personal characteristics, determining a metric for the CEO's credibility is difficult. Several studies have attempted to identify these proxies, including:

- Press exposure: CEOs are seen as influential leaders by the media, as shown by the extensive press coverage (Park & Berger, 2004).
- CEO Award: Winners of the CEO Award go on to become superstar CEOs with a strong reputation in the business world (Shi et al., 2017).
- CEO's mandate: this is the length of time or amount of years that the CEO has been in his current position; a longer period for the CEO indicates that the company's board of directors has traditionally tended to keep this executive role (Bernstein et al., 2016).
- Outsiders vs. insiders: Outsider CEOs are more likely to adopt new company techniques and policies than insider CEOs (Zhang & Rajagopalan, 2010).
- Age of the CEO: it is a proxy for the market uncertainty about the CEO's credibility (Serfling, 2014).

People assess others based on subjective factors such as skills and education, as well as objective physical characteristics such as sex and age. These characteristics can affect the CEO's public profile (Fetscherin, 2015). Participation in a professional body demonstrates the CEO's integrity, which requires his or her experience (Men, 2012), which is one of the criteria used to evaluate the CEO's reputation. The length of the CEO's mandate affects market expectations of his or her abilities; the longer the CEO's mandate, the more chances for the board to evaluate the CEO's abilities. Since the CEO survived the previous retention or dismissal, a longer period for him means a higher ranking of his expertise on the board (Jian & Lee, 2011). The CEO's previous experience with organizational restructuring, as well as his previous role in the business, have helped to establish his credibility (Ranft et al., 2006). According to Niap & Taylor (2012), the CEO's reputation index, which is shown in the table below, is used to measure the CEO's reputation.

Table 1: CEO’s reputation index

Index	**Description**
CEO qualification	
1	Diploma or lower
2	Bachelor’s degree
3	Post graduate qualification
Participation in a professional body	
1	None
2	Membership of one professional body
3	Membership of more than one professional bodies
CEO tenure	
1	Not more than one year
2	Not more than three years
3	More than three years
CEO experience	
1	had previous management experience, but not as a company's president director or CEO
2	had previous management experience, as a company's president director or CEO of a non-listed company
3	had previous management experience, as a company's president director or CEO of a listed company

Source: Niap & Taylor (2012)

2.8 Board Size and Value Relevance

Due to the lack of definitive evidence on the effect of board size on firm valuation, researchers, regulators, and market participants have centered their attention on the topic of board size as a corporate governance tool (Johl et al., 2015). A large size of the board of directors helps to guide and advise the strategic decisions of the company and plays an important role in creating a corporate identity that increases the relevant value of the company (Tulung & Ramdani, 2018). A large board of directors also is more likely to have more knowledge, skills and experience than a smaller one (Krismiaji & Surifah, 2020). Almujamed & Alfraih (2020); Krismiaji & Surifah, (2020); Krismiaji & Kusumadewi (2019); Tshipa *et al.,* (2018); Tulung & Ramdani (2018) stated according to the agency theory, which claims that a larger board of directors improves firm value relevance by allowing for greater oversight by a wider group of individuals, as well as the resource dependence theory, which claims that a larger board of directors offers a wide range of benefits and greater tracking capability thanks to experience and information in a variety of fields. It also strengthens the firm's ability to build external ties (Kalsie & Shrivastav, 2016). From the statement above, the hypothesis was concluded as below:

H_1 = Board size has significant positive effect on value relevance.

2.9 Board Independence and Value Relevance

There are several theoretical and analytical controversies in the corporate governance literature regarding the efficacy of the non-executive board system (Ramdani & Witteloostuijn, 2010). The agency's hypothesis, on the other hand, contends that having a higher proportion of independent directors would improve company efficiency. This theory suggests that managers are egotistical, opportunistic, and greedy and that effective board oversight is the secret to ensuring that effective executives are more concerned with the interests of shareholders than with their own (Jensen & Meckling, 1976). Independent director on board will enhance oversight and have a more objective perspective that caused objective decision making which will boost the value relevance of the company (Ayodeji & Okunade, 2019; Krismiaji & Kusumadewi, 2019; Tshipa et al., 2018; Tulung & Ramdani, 2018; Uribe-Bohorquez et al., 2018). From the statement above, the hypothesis was concluded as below:

H_2 = Board independence has significant positive effect on value relevance.

2.10 Board Activity and Value Relevance

The number of board meetings in a year is known as board activity (Harvey Pamburai et al., 2015). Since there are costs associated with board meetings, such as management time, travel expenses, and director meeting costs, the relationship between the frequency of board meetings and the related statistics is not clear. However, there is also the benefit of more time for discussion, plan definition, and management monitoring (Vafeas, 1999). More meetings suggest a greater capacity for directors to track their participation, and wider discussions lead to better decisions, thus increasing the company's relevance value (Al-Daoud et al., 2016). The frequency of board meetings may be used to evaluate the efficiency of the board (Eluyela et al., 2018). Al-Daoud *et al.,* (2016); Eluyela *et al.,* (2018); Mandala (2019); Shittu *et al.,* (2016); Techan Demeke (2016) finds the agency's hypothesis, which states that as boards meet more often, their ability to track, counsel, study, and build a disciplined environment improves, allowing them to achieve their financial targets and optimize shareholder capital (Eluyela et al., 2018). From the statement above, the hypothesis was concluded as below:

H_3 = Board activity has significant positive effect on value relevance.

2.11 Board Gender Diversity and Value Relevance

Evidence of a direct relationship between the company's relevant values and the board's gender diversity is still elusive. Several recent studies have looked into this empirical problem, but no clear findings have been found (Chapple & Humphrey, 2014). Gender should not be an issue for the roles of the directors because the directors may have a positive impact on the company's success if analyzed from the agency's theory (Nielsen & Huse, 2010). Gender diversity on the board of directors has been shown to have a substantial positive impact on the company's relevant value in many previous studies (Agyemang-Mintah & Hannu, 2017; Green & Homroy, 2018; Owen & Temesvary, 2018; Taljaard et al., 2015; Valls Martínez & Cruz Rambaud, 2019). In Taljaard *et al.,* (2015) opinion, increasing diversity encourages self-sufficiency and decreases organization issues. The board's external network is also extended as a result of the increased diversity, allowing various stakeholders' needs to be met while reducing dependency on strategic capital. The combination of different skills and experiences is correlated with improved value relevance as human resources increase. Different viewpoints are also introduced from heterogeneous communities as a consequence of different abilities and backgrounds that lead to the increases of firm market value (Valls Martínez & Cruz Rambaud, 2019). Thus, these study validates the resource dependence hypothesis, which argues that gender diversity enhances decision-making and helps companies better integrate with external environments and resources, resulting in improved financial efficiency. These advantages incur because women can bring a range of attributes, backgrounds, and goals to the board, resulting in a stronger evaluation of the business's complexities, which enhances the company's profitability and corporate governance efficiency. From the statement above, the hypothesis was concluded as below:

H_4 = Board gender diversity has significant positive effect on value relevance.

2.12 Staggered Board and Value Relevance

The change in the board of directors is seen by shareholders as a classic weakness in corporate governance. In his view, isolating non-executive directors from the market discipline reduces the liability of directors (Bebchuk & Cohen, 2005). Changes in board positions, on the other hand, are seen as a tool for preserving board cohesion by proponents (Duru et al., 2013). Changing board positions in these businesses stimulates beneficial investment and creativity while reducing earnings control (Daines et al., 2017). The value of a company is positively associated with the existence of an alternate board of directors. Furthermore, it is related to the opacity of companies, the result become contradict when the opacity decrease (Duru et al., 2013). From the statement above, the hypothesis was concluded as below:

H_5 = Staggered board has significant positive effect on value relevance.

2.13 Board Size and Value Relevance with CEO's Reputation as Moderator

Larger boards have more expertise, skills, and experience than smaller boards, resulting in more tools available for sharing, making peer views more viable (Vandewaerde et al., 2011). Similarly, Van Den Berghe & Levrau (2004) argue that increasing the number of directors helps the board to attract a diverse range of viewpoints on company policy and reduces the CEO's influence. However, the increased costs of inefficient communication and decision-making associated with larger boards can outweigh the benefits (John & Senbet, 1998). The external environment, on the other hand, is one of the aspects of the resource dependence theory suggested by Pfeffer (1972), which explains that the external environment, such as the CEO's network and director interlock, has a positive impact on the company's value. You do not have to look any further than the daily paper or the evening news to see how the CEO's credibility affects shareholder value. The CEO's credibility plays an important role in deciding how stakeholders judge the business, whether by stock sales, crisis response, or the development of the best talent pool in the industry (Gaines-Ross, 2000). The use of the CEO's reputation as a moderating variable between corporate governance and the company's relevance value can help to improve the relationship between the two. From the statement above, the hypothesis was concluded as below:

H_6 = The reputation of the CEO can moderate the relationship between the board size and the value relevance of the financial statements.

2.14 Board Independence and Value Relevance with CEO's Reputation as Moderator

To reduce agency costs, especially for companies listed on national or international stock exchanges, an independent board of directors is required. Companies must follow good corporate governance standards, such as having a board of directors comprised of competent and knowledgeable independent directors, being accountable to shareholders, and having financial statements that are transparent (Kakabadse et al., 2010). According to the resource dependency theory, external environmental factors may affect a company's long-term viability (Pfeffer, 1972). A reduction in transaction costs associated with the company's external partnerships may be one of the benefits of connecting businesses to external environmental factors. Having an independent director with experience or legal expertise, for example, will lower the transaction costs of a regulatory agency. These directors' knowledge of the government contracting process, relevant contact persons, and the impact of proposed legislation will actually lower transaction costs between regulators and firms, giving the company a cost advantage over its rivals (Hillman et al., 2000).

Musteen *et al.,* (2010), on the other hand, based their research on the relationship between the characteristics of the board of directors and the company's reputation, finding that the higher the proportion of independent boards of directors, the better the company's reputation. A unidirectional relationship was also found between the reputation of the CEO and the reputation of the company, as stated by Love *et al.,* (2017). From the statement above, the hypothesis was concluded as below:

H_7 = The reputation of the CEO can moderate the relationship between the board independence and the value relevance of the financial statements.

2.15 Board Activity and Value Relevance with CEO's Reputation as Moderator

The intensity of the activity of the board of directors is a relevant attribute for the value in increasing the effectiveness of the board of directors. The number of board meetings was commonly used as an indicator of board involvement in previous studies. The activities of the board help to improve the oversight of the manager's decision-making (Brick & Chidambaran, 2010). As a result, decreasing the number of board meetings will decrease agency expenses and be seen as a symbol of good business conduct in the marketplace (Bravo et al., 2015). In his theory, Pfeffer (1972) claims that a company's long-term viability is determined by external factors, and that the CEO's job is to bind the company to its external environment. The CEO's reputation is a measure of the company's long-term stability, but the higher the CEO's reputation, the more likely he or she will be absent from board meetings (Karuna, 2011). From the statement above, the hypothesis was concluded as below:

H_8 = The reputation of the CEO can moderate the relationship between the board activity and the value relevance of the financial statements.

2.16 Board Gender Diversity and Value Relevance with CEO's Reputation as Moderator

The theory of resource dependency and agency theory have both been used to explain the position of women on boards of directors in the past. Women directors are encouraged to improve the board of directors' independence because women can ask questions and have fresh perspectives that directors with more conventional backgrounds cannot (Carter et al., 2003). By balancing the diversity of company directors with the diversity of potential clients and staff, greater diversity promotes a broader understanding of the industry. Furthermore, diversity boosts imagination and innovation (Francoeur et al., 2008). According to the resource dependence principle, gender diversity can be used to obtain access to resources that are vital to a company's success (Pfeffer, 1972). The inclusion of women on the board, on the other hand, will help a company's reputation (Bravo et al., 2015). This one-way relationship is identical to the one that exists between the company's reputation and the CEO's reputation (Weng & Chen, 2017). From the statement above, the hypothesis was concluded as below:

H_9 = The reputation of the CEO can moderate the relationship between the board gender diversity and the value relevance of the financial statements.

2.17 Staggered Board and Value Relevance with CEO's Reputation as Moderator

The change in the board of directors is seen by shareholders as a classic weakness in corporate governance. They claim that they shield non-executive directors from market discipline and restrict directors' liability (Bebchuk & Cohen, 2005). Changes in board positions, on the other hand, are seen as a tool for preserving board cohesion by proponents (Duru et al., 2013). In an opportunistic business, such as one with a change in board positions that needs good treatment from shareholders to create a good reputation, the manager tends to take root. Companies with a unitary council, on the other hand, do not need a reputation mechanism (Jiraporn & Chintrakarn, 2009). The CEO's job, according to resource dependency theory, is to link the business to external factors that trigger instability and external dependence for survival (Pfeffer, 1972). In the resource-dependent role, the CEO provides the business with resources such as knowledge, expertise, access to key stakeholders (for example, suppliers, customers, and public policymakers), and legitimacy (Hillman et al., 2000), as well as the CEO's personal reputation, which has a positive impact on the company's valuation (Weng & Chen, 2017). From the statement above, the hypothesis was concluded as below:

H_{10} = The reputation of the CEO can moderate the relationship between the staggered board and the value relevance of the financial statements.

3. Research Methodology

The object of this research is focused on banking companies listed on Indonesia Stock Exchange (BEI) for the period 2016 till 2019. The research focused on the banking sector is based on the consideration of how important the reputation of a bank CEO or president director is to the credibility of the bank, which affects the value of the company in the banking sector (Laurens, 2012), and considering that CEO awards in Indonesia are mostly given to companies in the banking sector, so bank CEOs receive more special attention in Indonesia, as evidenced by the award "Bankers of the year award", "Top National Bankers" and "The Most Admired CEO". On the other hand, corporate governance in the banking sector received special attention after the monetary crisis, as companies in the banking sector dominate the economies of developing countries such as Indonesia and play a role in providing financial support to companies in countries called underdeveloped stock trade and are the center for mobilizing government savings (Tulung & Ramdani, 2018). Purposive sampling method is used in this study which mean the sample drawn must meet several criteria based on the objectives of the study.

4. Research Finding

Table 2: Descriptive Statistics Result

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Share Price	160	50,00000	33.425,00000	2.077,97000	4.322,50300
Earnings Per Share	160	-485,00000	1.159,00000	106,87020	221,31334
Net Asset Value Per Share	160	-16.539,31000	9.177,69000	1.083,72310	2.840,83061
Board Size	160	3,00000	14,00000	6,58000	2,65500
Board Independence	160	0,00000	1.00000	0,06230	0,16044
Board Activity	160	4,00000	282,00000	31,07000	30,74400
Board Gender Diversity	160	0,00000	0,75000	0,18070	0,18430
CEO Reputation Index	160	5,00000	12,00000	7,31250	1,40613

Source: *Authors' calculations (2021)*

Table 3: Descriptive Statistics Result

		Frequency	Percentage
Staggered Board	1 = The board of directors rotates every three years	142	88,8
	0 = The board of directors does not rotate every three years	18	11,3
	Total	160	100,0

Source: *Authors' calculations (2021)*

Table 4: P Value Result & Summary of Hypothesis

No.	IV		DV	Original Sample	P value	Criteria	Description
H1	*Board Size*	→	*Value Relevance*	0,537	0,000	< 0.05	Significant
H2	*Board Independence*	→	*Value Relevance*	0,036	0,611	< 0.05	Not Significant
H3	*Board Activity*	→	*Value Relevance*	0,211	0,148	< 0.05	Not Significant
H4	*Board Gender Diversity*	→	*Value Relevance*	-0,062	0,342	< 0.05	Not Significant
H5	*Staggered Board*	→	*Value Relevance*	-0,233	0,265	< 0.05	Not Significant
H6	*Board Size*CEO Reputation*	→	*Value Relevance*	-0,220	0,103	< 0.05	Not Significant
H7	*Board Independence*CEO Reputation*	→	*Value Relevance*	-0,156	0,257	< 0.05	Not Significant
H8	*Board Activity*CEO Reputation*	→	*Value Relevance*	-0,041	0,786	< 0.05	Not Significant
H9	*Board Gender Diversity*CEO Reputation*	→	*Value Relevance*	0,054	0,456	< 0.05	Not Significant
H10	*Staggered Board*CEO Reputation*	→	*Value Relevance*	0,217	0,434	< 0.05	Not Significant

Source: *Authors' calculations (2021)*

This study find out that the size of the board of directors has a major positive impact on the company's relevance value. This demonstrates that the bigger the board of directors, the wider and more diverse the expertise and viewpoints in decision-making would be, resulting in an improvement in the company's relevant value (Tshipa *et al.,* 2018). This result support Jensen & Meckling (1976) agency theory, which argues that managers have vested agendas and do not behave in the best interests of shareholders. According to the agency's theory, a larger board of directors would increase oversight, which would lead to improved company performance (Kalsie & Shrivastav, 2016). These findings support the hypothesis and are in line with studies by Almujamed & Alfraih (2020); Krismiaji & Surifah (2020); Krismiaji & Kusumadewi (2019); Tshipa *et al.,* (2018); Tulung & Ramdani (2018).

While the independence of the board of directors has a positive impact on the relevance value of the company, the findings showed that the second hypothesis was rejected. This is likely to occur because independent directors in developed countries are appointed primarily to comply with the provisions and legislation, as well as to legitimize and promote business operations, including future connections and contracts (Hassan *et al.,* 2017). According to this study, the presence of an independent director would have little impact on the company's valuation if the independent director is selected outside of the established criteria (Fiador, 2013). The fit and proper test conducted by OJK as a prerequisite for the appointment of the board of directors that based on Indonesia Bank regulations no 12/23/PBI/2010 does not have the purpose of raising the company's relevance value. The results of this study are supported by the research by Fiador (2013); Makarov *et al.,* (2015); Tham Kah Marn & Romuald (2012); Wintoki *et al.,* (2012); Zabri *et al.,* (2016).

The results showed rejection of the third hypothesis, although the activity of the board of directors had a positive effect on the relevant value, but it was not significant. The findings indicate that the frequency of board meetings has no impact on the relevant valuation of Indonesian banking companies. This is possibly due to the fact that the number of board meetings is simply a proxy for action, since it provides no indication of the work performed during the meeting (Ponnu & Karthigeyan, 2010). This study also shows that the provisions of Article 15 POJK 73 / POJK.05 / 2016 and the Board of Directors' Job Guidelines, which mandate directors to meet at least once a month, or twelve times a year, do not serve the purpose of increasing the company's value. The findings of this study agree with Abdallah Mohammad Qadorah (2018); Bawaneh (2020); Chaudhary & Gakhar (2018); Gavrea & Stegerean (2012); Ponnu & Karthigeyan (2010); Akram Naseem *et al.,* (2017).

The findings indicate that reporting gender diversity on the board of directors has no effect on the company's relevant value, however between the variables indicated a negative association that rejecting the fourth hypothesis. In an uncertain environment like Indonesia, companies are advised to choose directors who have the ability, compared to several directors, to increase the company's relevant value (Wellalage & Locke, 2013). Diversity can also generate friction and have a detrimental impact on the efficacy of board communication (Marimuthu & Kolandaisamy, 2009). Gender diversity, on the other hand, should be measured not only from an economic standpoint, but also from a social and ethical standpoint (Reguera-Alvarado *et al.,* 2017). The findings of this study agree with Chandani *et al.,* (2018); Jhunjhunwala & Mishra (2012); Wellalage & Locke (2013).

The findings indicated a negative association between changes in the board of directors' status and the company's relevant value, but it was not significant. The fifth theory is then rejected. This study is consistent with the stewardship theory suggested by Davis *et al.,* (1997), which does not endorse a shift in board positions and views such a change as a systemic impediment to the board of directors. Since changes in the position of the board of directors will increase the value of a company that is not transparent while decreasing the value of a company (Duru et al., 2013) and banking companies in Indonesia appear to be transparent because they have been specifically supervised by OJK. The relationship between staggered board and the value relevance of the company shows negative results. The findings of this study are consistent with Amihud *et al.,* (2018); Tshipa *et al.,* (2018).

The findings showed that the CEO's reputation cannot moderate the relationship between the size of the board of directors and the value relevance of the financial statements. The sixth hypothesis is then rejected. The presence or absence of a well-known CEO has no effect on the relationship between the size of the board of directors and the company's relevant value. This finding contradicts Pfeffer (1972) theory of resource dependence, which states that a company's survival is contingent on external resources given by the board of directors, such as the CEO's reputation. Regardless of the president director or CEO's reputation, having a good board of directors can add considerable value to a company. The CEO's reputation changes the direction of the relation between board size and value relevance from positive to negative. This is most likely due to a major positive relationship between the CEO's image and his or her compensation (Fedaseyeu *et al.,* 2018), which increases the company's costs and results in the company's irrelevance (Nguyen *et al.,* 2016).

The role of the CEO's reputation in moderating the relationship between the board of directors independence and the financial statements' relevant value was investigated in this study. The findings indicate that the CEO's reputation cannot moderate the relationship between the board of directors' independence and the company's value relevance. The seventh hypothesis is then rejected. Indonesian banking companies with independent directors and reputational CEO does not imply a high value for the company. The CEO's reputation change the relationship between the board of directors' independence and the company value relevance from positive to negative. This is likely to occur because the CEO's reputation will minimize the board of directors' independence (Graham *et al.,* 2020), influencing decision-making in circumstances where the decision affects the company's relevant value.

This study indicate that the CEO's reputation does not moderate the relationship between the activities of the board of directors and the relevant value of the company's financial statements. Indonesian banks with frequent board meetings and well-known CEOs or CEOs do not necessarily reflect a high level of relevant value. This is most likely because the reputable CEO is more focused on running a one-man show, so the meeting is more about achieving administrative targets than reaching a degree of understanding.

The ability of the CEO's reputation to moderate the relationship between the board's gender diversity and the company's relevant values is explored in this study. The findings show that the CEO's reputation cannot moderate the relationship between the gender diversity of the board of directors and the relevant value of the company. As a result, it can be concluded that gender diversity on renowned boards of directors and CEOs in Indonesian banking companies does not mean that the business has high relevant value. This study supports Orozco *et al.,* (2018) view that a company's credibility has little bearing on its financial performance, and it contradicts the principle of resource dependency, which notes that businesses rely on external resources to survive.

The findings showed that the CEO's reputation was unable to moderate the relationship between changes in the board of directors and the relevant value. Changes in the board of directors' and reputable CEO's roles do not imply a high relevant value for the company. The CEO's reputation change the relationship between staggered board and value relevance from positive to negative. This may be due to the fact that having a reputable CEO who is judged on indications of a long term as CEO does not support a change in board positions (Dangé, 2017).

5. Conclusion

This study analyzes the effect of corporate governance and CEO's reputation on relevance value. CEO's reputation is also added to the research model as a moderating variable to be tested in explaining the effect of corporate governance on value relevance. The results found that board size was empirically proven to have a significant positive effect on value relevance. CEO's reputation does not have a moderating effect on the influence of the corporate governance towards value relevance.

The managerial implication of this research are suggesting the management of Indonesian banking companies by increasing the number of company directors to increase the company's value relevance. The recruitment of independent directors, multiple directors and changes in the position of the board of directors are not necessary because its do not affect the relevant value of the company. The company can reduce the number of board meetings which indirectly reduces the costs incurred with board meetings that do not in fact affect the relevant value of the company. When recruiting a CEO banking company, there is no need to pay attention to the reputation of the CEO, which apparently does not affect the relevant value of the company.

The limitation of this study is we only use CEO's qualifications, association of professional institutions, CEO's tenure and CEO's experience as measures of the CEO's reputation, which is only a fraction of a CEO's overall reputation. The further research can also try to use a more detailed indicator of reputation such as the CEO's social media and the article produced by the CEO.

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