



The influence of corporate governance on the performance of public companies included in the CGPI rating for the 2005-2007 period

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ABSTRACT

The purpose of this research is to investigate the influence of corporate governance implementation on firm performance. The samples of this research is non financial public companies which include the CGPI rating in 2005, 2006 and 2007. The dependent variable are ROE and Tobin's Q as operating and market performance. Independent variable of this research is corporate governance perception index and this study uses leverage and firm size as control variables. This study use 34 objects that meet some criteria. Using multiple regression analysis, this research found that corporate governance implementation has a positive significant influence to ROE as operating performance and also found that corporate governance implementation has a positive significant influence to Tobin's Q as market Performance.

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1. INTRODUCTION

Protection of investors is an important thing to do to keep the wheels of the economy running well. Often investors experience the risk of not returning the funding they provide to the company because managers expropriate (the use of control to maximize their own welfare with the distribution of wealth from other parties) against them (Darmawati et al, 2004). One of the problems that are often faced by companies in general is agency problems. The separation of management and ownership in a company can cause differences in interests between owners and agents, causing moral hazard conflict (Scott, 2006 p.267). Corporate governance is believed to be one way to overcome these problems. Many adverse cases occur due to the lack of good corporate governance (Young et al., 2008) (Dyck et al., 2008). Some of the most talked about examples of cases are about Enron and WorldCom. These two companies are examples of real events that poor corporate governance will be fatal (Clarke, 2007) (Simkins & Ramirez, 2007). The profits reported by these companies at the time proved to be the result of accounting fraud, in this case the accounting fraud scandal committed by the company's top brass caused a sharp fall in stock prices which led to the bankruptcy and dissolution of one of the largest public accounting firms in the world. This incident reminds us of the importance of oversight in corporate governance. As a result of these events, an increase in regulations in the management of the company began.

This was marked by the emergence of the SarbanesOxley Act which was inaugurated by the United States congress in 2002. This is done to increase public trust and improve the quality of the company's performance towards effective operational activities that provide the best results (best

practices). The Sarbanes Oxley Act does it all by improving corporate governance and tightening audit functions. Furthermore, the establishment of the Public Company Accounting Oversight Board (PCAOB) which has the authority to regulate audit standards, examine and discipline auditors of public companies (Scott, 2006 p.7). In East Asia when these countries are in good economic condition, investors ignore the weaknesses of companies, but in times of crisis investors quickly withdraw their investments, because investors believe that the country does not have adequate institutional protection for the investments they invest in (Rajan and Zingales, 1998 in Darmawati, 2004). In the Organization for Economic Cooperation and Development (OECD) principles (2004) it is said that regulators are now more aware of the contribution of good corporate governance (GCG) to market stability, investment growth and the economy. Meanwhile, the company understands better that GCG contributes to the company's competitiveness.

The concept of corporate governance began to strengthen in Indonesia after the economic crisis at the end of 1997, marked by the signing of a Letter of Intent (LOI) between the Indonesian government and the IMF which required improved governance as a condition of assistance provided (Syakhroza, 2005 p. 4). These improvements continue to be made through national policy setting, refining the regulatory framework, and building private sector initiatives. Related to national policy, the government through the Coordinating Minister for Economic Affairs has issued a ministerial decree for the establishment of the National Committee for Corporate Governance Policy (KNKCG), through Decree Number: KEP-10/M.EKUIIN/08/1999. KNKCG then changed to the National Committee for Governance Policy (KNKG) by decree KEP-49/M.EKON/11/2004. Meanwhile, in terms of the regulatory framework, there are several achievements related to GCG implementation, such as the enactment of the 1998 law on Bank Indonesia, the anti-corruption law in 1999, the competition law in 1999, and the SOE law in 2003 (Daniri, 2006). Meanwhile, private sector initiatives are seen in the activities of corporate governance organizations in the form of socialization efforts, education, training, ratings, research and advocacy. These organizations include The Indonesian Institute for Corporate Governance (IICG), Forum for Corporate Governance in Indonesia (FCGI), the Indonesian Audit Committee Association (IKAI), and the Institute for Advocacy, Proxi, and Investor Protection (LAPPI). Although improvements have been made, in reality Indonesia still remains at the bottom of the ranking of good corporate governance implementation among Asian countries. This can be seen from the results of research on the implementation of GCG in Asian countries in 2006 conducted by the Asian Corporate Governance Association, Indonesia always occupies the last position, far below Hong Kong and Singapore which are in the top position. From the results of this research, it shows that there is still a low awareness of the importance of implementing GCG in Indonesia compared to other countries in Asia. All regulations and the existence of institutions to create good corporate governance indicate the importance of good corporate governance for the benefit of all parties, especially external parties of the company who do not know the condition of the company as a whole, but in fact there are still many companies that are reluctant to carry it out voluntarily, most companies carry it out on the basis of obeying the existing rules. A survey conducted by IICG of 53 public companies that entered LQ45 from July 2000 to June 2001 showed that 65% of respondents stated that they implemented corporate governance because regulations wanted this, while another 30% of respondents stated that they had implemented corporate governance as part of the corporate culture. Companies are still reluctant to do so because they consider the cost of implementing GCG to be more expensive than the benefits they get (Mustika, 2005). In fact, the principles of good corporate governance support openness, responsibility, accountability, independence and fairness to all company stakeholders (Welford, 2007) (West, 2009) (Bandsuch et al., 2008). Good corporate governance should be able to guarantee the company's performance that will protect parties interested in the company such as investors, creditors, and the public (Rachagan & Satkunasingam, 2009) (Madhani, 2007) (Mihaela, 2009).

The purpose of corporate governance is to create added value for stakeholders (FCGI). In addition, by implementing good corporate governance, the company can get several benefits, including improved performance. Several companies that have successfully implemented GCG have

benefited greatly. Bumiputera managed to achieve sales above the market, increase profits, facilitate relationships and maintain shareholder trust. The management of Bank Niaga also feels that GCG has a big role in improving the company's overall performance, including in the eyes of shareholders. These performance improvements include soaring market share, rising profits, credit growth and an increase in ROA and ROE (SWA Sembada, 2005). These various things are in accordance with the results of previous studies that prove the relationship between the implementation of GCG to performance (Darmawati et al, 2004; Klapper and Love, 2002). However, there are also research studies that conclude that the relationship between corporate governance and performance is not proven (Darmawati, 2005; Sayidah, 2007). Because of the difference in these results, in this study will be discussed the influence of corporate governance on company performance.

2. RESEARCH METHOD

The data used in this study is secondary data, meaning that the data refers to information collected from existing sources (Sekaran, 2006). In this case, the data for corporate governance variables is in the form of scores of companies included in the ranking of the corporate governance perception index in 2005, 2006, 2007, other data in the form of stock prices and financial ratios obtained in the company's financial statements.

The population in this study is all issuers included in the ranking of the corporate governance perception index from 2005 to 2007. The samples in this study were companies listed as issuers on the Indonesia Stock Exchange and obtained scores on the CGPI rankings in 2005, 2006, and 2007. The sampling technique in this study is purposive sampling, meaning that the sample taken is one that meets certain criteria. The sampling criteria in this study were: 1) The company entered and obtained a score in the ranking in 2005, 2006, 2007. 2) The company that is the sample is a company that was listed as an issuer on the Indonesia Stock Exchange in the rating year. 3) Non-financial companies. 4) Financial Statement data at the time of the research year can be obtained. Based on the sampling criteria, there were 51 issuers who took part in the survey and obtained scores conducted by IICG, but the sample used in this study was 34 samples because there were 15 financial companies and two companies that had not been listed in the ranking year.

The data used in this study is historical data obtained from various sources. Data is obtained from a specific source in other words, the data is secondary data. These data are in the form of references, literature, and articles obtained from various libraries, print media, and electronic media. These data include: 1) Data on the company's corporate governance perception index (CGPI) scores in 2005, 2006, and 2007 obtained from the CGPI report published by IICG. 2) Data on financial ratios obtained from the company's financial statements and the Indonesia Capital Market Directory (ICMD). 3) Data on the number of company shares outstanding is obtained from the Indonesian Capital Market Directory (ICMD) and the company's financial statements. 4) The company's year-end share price is derived from www.idx.co.id.

Research variables and operational definitions.

Dependent variables.

The dependent variable in this study is the company's performance. In this study, company performance was measured using return on equity (ROE) as a measure of the company's operational performance (Darmawati, 2004) and Tobin's Q as a measure of market performance appraisal (Klapper and Love, 2002; Darmawati, 2004). Tobin's Q is the market price of a company's assets compared to its book value. Tobin's Q is calculated by formula (Klapper and Love, 2002; Hastuti, 2005):

$$\text{TOBIN'S Q} = \frac{\text{MVE} + \text{DEBT}}{\text{BVTA}} \dots\dots\dots(1)$$

MVE: market value of equity, calculated by multiplying the year-end share price by the number of shares outstanding. DEB: book value of total liabilities. BVTA: book value of total assets.

Meanwhile, another performance measure, namely ROE as a measure of operational performance, is the rate of return on capital invested in the company. ROE can be calculated by dividing net profit by total equity (Darmawati et al, 2004):

$$\text{ROE} = \frac{\text{Net Income}}{\text{Total Equity}} \dots\dots\dots(2)$$

measured according to Black's research (2002), namely the natural logarithm of total assets.

ROE: Return on equity. Net Income: The company's net profit. Total Equity: Total book value of equity.

Independent variables.

The independent variable in this study is the application of GCG as measured by the corporate governance perception index (CGPI). CGPI is an index on the implementation of good corporate governance issued by The Indonesian Institute of Corporate Governance (IICG). The index is on a scale of 0-100. The assessment of the implementation of GCG carried out by IICG was formed from four stages of assessment, namely, filling out a self-assessment questionnaire, completeness of documents, preparation of papers, and observation (IICG, 2007). The dimensions of the GCG assessment that reference the CGPI assessment are commitment to corporate governance (GCG), shareholder rights and key ownership functions, equal treatment of all shareholders, the role of stakeholders in GCG, disclosure and transparency, and the responsibilities of the board of commissioners and the board of directors. The results of this research and ranking are published by SWA Sembada magazine and IICG nationally and internationally. In this study, the perception index used is an index of companies that are included in the CGPI ranking and have been listed on the IDX in the ranking year, namely from 2005 to 2007.

Control variables.

Control variables are controlled variables so as not to affect the symptoms being tested. Control variables are used to reduce the likelihood of bias (Black, 2002). Some previous studies have used leverage and company size as control variables (Black, 2002; Siallgan and Machfoedz, 2006). Therefore the control variables used in this study correspond to the control variables used in the research of Siallgan and Machfoedz (2006), namely the size of the company and leverage.

Company Size (Size), The size of the company can be seen from the amount of equity value, sales size and total assets. In this study, it was measured according to Black's research (2002), namely the natural logarithm of total assets.

$$\text{Size} = \text{Logaritma natural Total Asset} \dots\dots\dots(3)$$

Leverage, According to Black (2002) leverage can affect the implementation of corporate governance as well as Tobin's Q. Leverage is a ratio that indicates how much a company is financed with debt. This ratio is obtained by dividing total liabilities by total assets.

$$\text{Leverage} = \frac{\text{Total liabilities}}{\text{Total assets}} \dots\dots\dots(4)$$

Data analysis methods.

Data processing techniques.

Before conducting hypothesis testing, it is first required to conduct a classical assumption test of the sample data taken. The classical assumption tests used include: 1. Normality Test The normality test aims to test whether in a regression model, bound variables and free variables both have a normal distribution or not. A good regression model is to have a normal or close to normal data distribution. To see the normality we can look at the analysis of the chart, the normal probability plot as well as with the testing of one sample Kolmogorov-Smirnov. In this study, the test used was by testing one sample Kolmogorov-Smirnov. This test is used because testing using a histogram and normal probability plot can be subjective in determining whether the data used is normal or not, while using the Kolmogorov-Smirnov one sample test the data is considered normal if the significance value of this test is above 0.05. 2. Multicollinearity Test The multicollinearity test aims to test whether a regression model found a correlation between free (independent) variables. A good regression model should not have a correlation between free variables. One way to detect multicollinearity is to look at the value of the variance inflation factor (VIF). The cutoff value commonly used for VIFs is 10, meaning that if

the VIF value is below 10, multicollinearity does not occur. 3. Autocorrelation Test The Autocorrelation Test aims to test whether in a linear regression model there is a correlation between the disruptor error in the t period and the error in the t-1 (previous) period. To see whether there is a correlation can be done Durbin-Watson (DW) test, where the results of this test look at DW values. If the DW value is located between the upper bound (du) and (4-du), then the autorelation coefisen is equal to zero, meaning there is no autocorrelation. In this study, the upper limit (du) value was 1.65 and the lower limit (dl) was 1.27. If the DW value is between dl and du then it cannot be inferred whether there is autocorrelation or not. 4. Heteroskedasticity Test The heteroskedasticity test aims to test whether in the regression model there is a variance dissimilarity from the residual of an observation to another observation. If the variance and residuality of an observation to another observation remains called homoskedasticity. To see the heteroskedasticity we can use several ways including by looking at the plot graph between the predicted value of the bound variable and its residual, the park test and the glejser test. In this study, what was used was testing with the glejser test, if the significance is above 0.05 then there is no heteroskedasticity.

Hypothesis testing techniques.

Hypothesis testing was carried out in crosssection using the SPSS 16 program for both ROE and Tobin's Q dependent variables.

$$ROE = \alpha + \beta_1GCG + \beta_2 SIZE + \beta_4 LEV + \varepsilon \dots\dots\dots(5)$$

$$TOBIN = \alpha + \beta_1GCG + \beta_2 SIZE + \beta_4 LEV + \varepsilon \dots\dots\dots(6)$$

ROE : Return on equity TOBIN : Value of Tobin's Q GCG : Corporate governance as measured by CGPI score SIZE : Company size, natural logarithm of total assets LEV : Leverage ratio, total debt divided by total assets.

3. RESULTS AND DISCUSSIONS

The object of research in this study is a non-financial public company that was included in the CGPI ranking in 2005, 2006, and 2007. There were 56 public companies included in the CGPI rankings from 2005 to 2007, but only 51 public companies obtained CGPI scores from 2005 to 2007. There were 20 public companies in 2005, 16 companies in 2006 and 15 companies in 2007. The sample selection process in this study is based on predetermined criteria, namely that it has been listed in the ranking year, non-financial companies, and the necessary data can be obtained completely.

Descriptive statistics.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
roe	34	-.0275	.5857	.190326	.1146324
tobin	34	.87	7.32	1.9912	1.15551
gcg	34	56.38	87.40	76.2518	7.12963
lev	34	.2337	.8741	.461915	1583261
size	34	11.54	17.95	15.3668	1.40303
valid N (listwise)	34				

Source: SPSS processed data

Based on the table above, you can see an overview of the secondary data used in this study. Of the 34 samples, the average ROE was 0.190326, the minimum value was -0.275 and the maximum was 0.5857 with a standard deviation value of 0.1146324. Tobin's Q has an average of 1.9912, a minimum value of 0.87 and the largest is 7.32 with a standard deviation of 1.15551. This shows that the average company in this study has a company market value that is higher than its book value. For the value of GCG implementation as measured by CGPI has an average value of 76.2518, the lowest value of 56.38 and the highest of 87.40 with a standard deviation of 7.12963. For the average control variable the company has a leverage of 0.461915, a minimum value of 0.2337 and a maximum of 0.8741 with a standard deviation of 0.1583261. The size of the company as measured by the natural logarithm of total assets has an average of 15.3668 with a minimum value of 11.54 and a maximum of 17.95 with a standard deviation of 1.40303.

Test the classical assumptions.

Normality test.

The Normality Test aims to test whether in a regression model, bound variables and free variables both have a normal distribution or not. A good regression model is to have a normal or close to normal data distribution. The normality test is used using the one sample Kolmogorov-Smirnov test method.

Table 2. Normality Test Results with ROE Dependent Variables

	Signifikansi	Conditions	Information
ROE	0.838	$p > 0.05$	normally distributed
GCG	0.206	$p > 0.05$	normally distributed
LEV	0.877	$p > 0.05$	normally distributed
SIZE	0.777	$p > 0.05$	normally distributed

Source: SPSS processed data

The first model to test GCG, leverage and company size against ROE. In this first model the value of asymp. Sig. (2-tailed) for ROE of 0.838, GCG of 0.206, leverage of 0.877 and company size of 0.777. This shows in the first model, both bound variables and normal distributed free variables.

Table 3. Normality Test Results with Tobin's Q Dependent Variables

	Signifikansi	Conditions	Information
TOBIN	0.240	$p > 0.05$	normally distributed
GCG	0.206	$p > 0.05$	normally distributed
LEV	0.877	$p > 0.05$	normally distributed
SIZE	0.777	$p > 0.05$	normally distributed

Source: SPSS processed data

In testing the second model with the dependent variable Tobin's Q, it can be seen that the significance of each variable is above 0.05. The significance of Tobin's Q is 0.240, GCG is 0.206, leverage is 0.877 and company size is 0.777. From this data, the second regression model is normally distributed.

Multicollinearity test.

The multicollinearity test aims to test whether the regression model found a correlation between the independent variables. One way to detect multicollinearity is by looking at the variance inflation factor (VIF) value. If the VIF value is below 10, there is no multicollinearity (Ghozali, 2002).

Table 4. Multicholinerity Test Results with Dependent Variable ROE

	VIF	Ketentuan	Keterangan
GCG	1.666	$VIF < 10$	terdistribusi normal
LEV	1.157	$VIF < 10$	terdistribusi normal
SIZE	1.519	$VIF < 10$	terdistribusi normal

Source: SPSS processed data

From the table above, we can see the VIF value of each variable is not above 10. GCG has a VIF value of 1,666, leverage of 1,157 and a company size of 1,519. This means that there is no multicholinerity in the variables tested from the first regression. While the results of the multicholinerity test on the second regression can be seen in the table below:

Table 5. Multicholinerity Test Results with Tobin's Q Dependent Variables

	VIF	Conditions	Information
GCG	1.666	$VIF < 10$	No multicollinearity
LEV	1.157	$VIF < 10$	No multicollinearity
SIZE	1.519	$VIF < 10$	No multicollinearity

Source: SPSS processed data

In the second regression test, the VIF value for GCG was 1,666, leverage was 1,157, and company size was 1,519. It can be seen that the VIF value of each variable does not exceed 10, this indicates that there is no multicollinearity in this regression model. The results show that both regression models are free from multicollinearity.

Autocorrelation Test.

To see whether there is a correlation can be done Durbin-Watson (DW) test, where the results of this test look at DW values. If the DW value is located between the upper bound (du) and (4 - du), then the autocorrelation coefficient is equal to zero, meaning there is no autocorrelation. The value of du for a sample of 34 with 3 free variables is 1.65, the value of dl is 1.27 while 4-du is 2.35. Therefore to see the absence of autocorrelation the DW value must be between 1.67 and 2.33. If $DW < dl$ there is a positive autocorrelation, if $dl < DW < du$ then it cannot be concluded whether or not there is autocorrelation the value of DW in this test can be seen in the following table:

Table 6. Durbin-Watson Test Results

	DW	Conditions	Information
Model 1	1.992	$1.65 < DW < 2.35$	No autocorrelation
Model 2	1.371	$1.65 < DW < 2.35$	Inconclusive

Source: SPSS processed data

The DW value in the ROE test was 1,992, meaning that DW was located between du and (4-du). These results show that there is no autocorrelation in this test against ROE. While the DW value in the test of Tobin's Q was 1,371, the value was between 1.27 (dl) and 1.65 (du). Therefore, the second model cannot be inferred whether there is autocorrelation or not, however, since the test was carried out in a cross-section manner, the results can be ignored.

Heteroskedasticity test.

The heteroskedasticity test aims to test whether in the regression model there is a variance dissimilarity from the residual of one observation to another. If the variance and residuality of an observation to another observation remains called homoskedasticity. Heteroskedasticity testing in this study used the glejser test.

Table 7. Heteroskedasticity Test Results

	Variabel	signifikansi	Conditions	Information
Model 1	gcg	0.725	p-value > 0.05	Heteroskedasticity free
	lev	0.608	p-value > 0.05	Heteroskedasticity free
	size	0.279	p-value > 0.05	Heteroskedasticity free
Model 2	gcg	0.054	p-value > 0.05	Heteroskedasticity free
	lev	0.208	p-value > 0.05	Heteroskedasticity free
	size	0.111	p-value > 0.05	Heteroskedasticity free

Source: SPSS processed data

The results of heteroskedasticity testing in both regression models showed a significance above 0.05. The first regression model with the dependent variable ROE showed a gcg significance value of 0.725, leverage of 0.608 and company size of 0.279 this value was greater than the existing provision so from these results it is known that the first regression model did not have heteroskedasticity. Heteroskedasticity testing in the second model yielded a gcg significance value of 0.054, leverage of 0.208 and an enterprise size of 0.111 this value was also above 0.05 so it can be said that in the second regression model with the dependent variable Tobin's Q there is no heteroskedasticity.

Regression test results.

Coefficient of determination.

The coefficient of determination (R^2) measures the model's ability to describe variations in dependent variables. But a fundamental drawback of using the coefficient of determination is the bias towards the number of independent variables entered into the model. Each additional one independent variable inserted into the model will increase the value of R^2 , no matter whether the variable has a significant effect on the dependent variable. Therefore, many researchers recommend using the adjusted value of R^2 to measure the ability of the model to describe variations in independent variables.

Table 8. Coefficient of Determination

	R ²	Adjusted R ²
Model 1	0.233	0.157
Model 2	0.320	0.252

In the first model test, the adjusted value of R² was 0.157, this means that 15.7% of the variation in ROE can be explained by variations of the three variables, namely GCG, leverage, and company size, while the remaining 84.3% is explained by other causes outside the model.

Testing the second model with the dependent variable Tobin's Q has an adjusted value of R² of 0.252, meaning that 25.2% of Tobin's Q variation can be explained by all three variables, namely GCG, leverage, and company size, the remaining 74.8% is explained by other causes outside the model.

Partial testing (Test t).

This test aims to determine the coefficient and significance of each independent variable against its dependent variable. If the degree of significance obtained is less than 0.05 then H₀ can be rejected, if it is greater than 0.05 H₀ it cannot be rejected.

Table 9. Partial Test Results with Dependent Variable ROE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.339	.225		-1.509	.142		
	gcg	.008	.003	.476	2.309	.028	.600	1.666
	lev	-.227	.124	-.313	-1.822	.078	.864	1.157
	size	.003	.016	.040	.203	.841	.658	1.519
a. Dependent Variable: roe								

Source: Data processed

From the results of this test we can find out the coefficient and significance of each of the independent variables tested. Independent variables have an influence if the significance is below 0.05, in testing this model only the variables of corporate governance application are based on ROE. From the resulting coefficients can be compiled the following equation:

$$ROE = -0.339 + 0.008GCG - 0.227LEV + 0.003SIZE$$

The equation can be interpreted as follows: 1. The constant in this model is -0.339, stating that if the variables of corporate governance, leverage and company size are considered non-existent then the average ROE value is -0.339. 2. GCG regression coefficient of 0.008, meaning that each addition of one GCG score will increase ROE by 0.008 units if other independent variables are considered constant. 3. The leverage regression coefficient is -0.227, meaning that every addition of 1 leverage will cause a decrease in ROE of -0.227 units if other independent variables are considered constant. 4. The size of the company has a coefficient of 0.003, meaning that each increase of one percent of total assets gives an increase in ROE of 0.003 units if other independent variables are constant.

Table 10. Partial Test with Dependent Variable Tobin's Q

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.568	2.133		-.267	.792		
	gcg	.077	.031	.473	2.433	.021	.600	1.666
	lev	-4.076	1.182	-.558	-3.449	.002	.864	1.157
	size	-.091	.153	-.111	-.596	.555	.658	1.519
a. Dependent Variable: tobin								

Source: Data processed

The second model test shows that the variables for the application of corporate governance and leverage have a significance below 0.05 which means that the two variables have an influence on

Tobin's Q. From testing with the variable Tobin's Q as a dependent variable, the following equation can be composed:

$$\text{TOBIN} = -0.568 + 0.077\text{GCG} - 4.076\text{LEV} - 0.091\text{SIZE}$$

The equation can be interpreted as follows: 1. The constant of this model is -0.568, stating that if the variables of corporate governance, leverage and company size are considered non-existent then the average value of Tobin's Q is -0.568 units. 2. GCG regression coefficient of 0.77, stating that each increase of one GCG will give Tobin's Q an increase of 0.077 units, if other independent variables are considered constant. 3. The leverage regression coefficient of -4.076, states that each increase of one leverage will give a decrease in the value of Tobin's Q by -4.076 units if another independent variable is considered constant. 4. The company size coefficient of 0.091 states that each addition of one percent of total assets gives Tobin's Q an increase of 0.091 units if other independent variables are constant.

Discussion of Regression Test Results.

Control variables.

Control variables are used to avoid bias in regression results (Black, 2002). Control variables consisting of leverage and company size are not the main topics you want to study, but the results of regression testing of control variables need to be known. a) Leverage In the first model leverage has a significance value of 0.078 meaning that the value is above the condition value of 0.05 meaning that leverage has no effect on ROE. Tests conducted on the second model showed leverage had a significance value of 0.002. The value indicates that leverage has an influence on the dependent variable Tobin's Q. b) Company size The size of the company has a significance value greater than 0.05 on both ROE and Tobin's Q. This can be seen from its significance value of 0.841 in the first model and 0.555 in the second model, so it can be said that the size of the company does not affect the ROE and Tobin's Q.

Discussion of the first hypothesis.

The first hypothesis in this study is: H_{01} : The application of corporate governance does not affect ROE as a measure of the company's operational performance. H_{a1} : The application of corporate governance affects ROE as a measure of the company's market performance.

The provisions in accepting or not the alternative hypothesis are as follows:

- a. If the significance value < 0.05 , then H_{01} is rejected.
- b. If the significance value > 0.05 , then H_{01} cannot be rejected.

An alternative hypothesis cannot be rejected if its statistical significance is below 0.05. The results of this test showed H_{01} was rejected.

Company performance appraisals are generally conducted by company investors to see the success of their investments. As mentioned earlier, profit is a good benchmark for measuring performance, but it needs to be compared with the inputs used. Equity was used as a comparison of earnings in this study. This selection on the consideration of return on equity is a measure that sees the return on investment from investors in the company. The implementation of GCG is one of the control tools for the business activities of the company. The implementation of GCG by the company is expected to have a positive impact on stakeholders, so that the implementation of GCG is expected to have a positive influence on performance. Partial testing conducted with $\alpha = 0.05$ shows that the implementation of corporate governance as measured by CGPI has a significance value of 0.028, this value is below 0.05 meaning that there is a significant relationship between CGPI and ROE. This result proves that H_{01} was rejected. This means that the first alternative hypothesis is that there is an influence between CGPI on ROE as a measure of company finances is acceptable, even though based on a survey conducted by IICG in 2001 only 30% of companies do GCG as a corporate culture while 65% of companies implement GCG because regulations want this. From the results of the survey, it indicates that the company's awareness of the benefits of GCG is still lacking.

If we look further, the relationship between GCG and ROE is positive, judging from the coefficient of 0.008, it indicates that the influence of GCG on ROE is positive. This means that the higher the value of the company's GCG implementation, the higher the ROE value as a measure of the

company's performance. This also indicates that the implementation of GCG is able to protect investors from the possibility of not returning the capital they invested.

This result strengthens previous theories that argue that GCG is useful in improving company performance. GCG can be a control tool for the efficient use of company resources and is able to create a healthy business environment. The principles contained in GCG, namely transparency, accountability, responsibility, independence, and fairness have great benefits for business activities. The principle of transparency results in openness and clarity of information within the company so that company managers clearly know the condition of the company and what actions should be taken. The principle of accountability supports each part of the company to work according to the details of the tasks that have been set so that it can provide optimal and sustainable results.

Responsibility ensures that business activities are carried out in accordance with regulations and with the principle of prudence so as to reduce the risk of failure for the company. Independence prevents every part of the company from conflicts of interest so that it can make the right business decisions without interference from any party. The principle of fairness supports fairness for employees to work professionally according to their abilities regardless of gender, ethnicity, religion, race, and class. The overall GCG principle, if implemented properly, will certainly provide an increase in results in the company's operational activities. The increase in results in operational activities can certainly increase the company's profit. Increasing profits and efficient use of capital as a company resource will have an impact on increasing return on equity (ROE). The significant positive results between GCG and ROE provide empirical evidence of a positive influence between the implementation of corporate governance on the company's operational performance.

Discussion of the second hypothesis.

The second hypothesis in this study is: H_{02} : The implementation of corporate governance does not affect Tobin's Q as a measure of the company's market performance. H_{a2} : The application of corporate governance affects Tobin's Q as a measure of the company's market performance.

The provisions in accepting or not the alternative hypothesis are as follows:

- a. If the significance value < 0.05 , then H_{02} is rejected and H_{a1} is accepted.
- b. If the significance value > 0.05 , then H_{02} cannot be rejected and H_{a1} is unacceptable.

This second hypothesis can be known as a result of the second regression model. The hypothesis will be accepted if the significance of the GCG variable is below 0.05 from the results we have seen in table 10 the significance value for the GCG variable is below 0.05 so that the alternative hypothesis is accepted.

Performance measurement in the first hypothesis is obtained from financial statement information, but information from financial statements has limitations, namely based on historical data (Wild et al, 2007 Page 71). Performance measures based on financial statements cannot assess a company's future earnings potential. Therefore, the second hypothesis examines the effect of GCG implementation on market performance measures.

From the results of a partial test with the dependent variable Tobin's Q, we can see the effect of GCG, leverage and company size on market performance as measured by Tobin's Q. Testing the second hypothesis, the application of GCG to market performance proved acceptable. Judging from the GCG coefficient of 0.021 and the unstandardized coefficient value of 0.077, it can be said that the relationship between GCG implementation and Tobin's Q is positive and significant and means that H_{02} is rejected. This result is different from the research of Darmawati et al (2004) which did not find evidence of the relationship between GCG and Tobin's Q, but this study is in accordance with the results of research by Black (2002) and Siallagan and Machfoedz (2006) which proves the relationship between GCG and Tobin's Q.

This positive and significant result can be due to a positive market assessment in companies that have implemented GCG. Companies that have implemented corporate governance well will be more trusted and have relatively less risk so that investors will tend to value the company higher. The implementation of GCG in companies also makes investors feel more protected from frauds committed

by company agents which can cause non-return of capital invested by investors, this is one of the reasons investors are willing to provide more value to companies that implement GCG.

This reason is in line with the results of a survey conducted by McKinsey & Co in 2000 which hinted that investors are willing to give a premium to the share price of companies that have implemented corporate governance (Syakhroza, 2005 p.29). This relationship can also be related to investor confidence in the information submitted by the company. Corporate governance mechanisms are an important supervisory tool in financial reporting, and have a contribution to the quality of financial statements (Wild et al, 2007 Page 67). With the control over the quality of these financial statements, investors' understanding of the company's condition is getting better. If the understanding of the company's condition is better, investors can see the potential of the company in the future. The higher valuation that investors give to the company will naturally increase the market value of the company's shares. The increase leads to an increase in the value of Tobin's Q, because the market value of the equity which is the numerator in the calculation of Tobin's Q will increase as well. The results of this study support the hypothesis that the application of corporate governance affects the company's market performance.

4. CONCLUSION

There are several conclusions in this study, namely: 1. Partial testing shows that the implementation of GCG has a significant positive influence on ROE as a measure of the company's operational performance. This influence can be due to the principles of transparency, accountability, responsibility, independence, and fairness that are applied to improve the company's operations. 2. Partial testing of the second regression model shows that the implementation of GCG has a positive significant influence on Tobin's Q as a measure of the company's market performance. This influence can be due to an increase in investor confidence in companies that implement GCG.

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