Corporate governance perception index, performance and value of the firm in Indonesia

Zaidirina* and Lindrianasari

Economics and Business Faculty,
Accounting Department,
Universitas Lampung,
Jl. Sumantri Brodjonegoro No. 1,
Bandar Lampung 35134, Indonesia
Email: zaidirina@yahoo.co.id
Email: sari_170870@yahoo.com
*Corresponding author

Abstract: This study aims to analyse the relationship between corporate governance perception index (CGPI), value and firm performance in Indonesia, based on agency and signalling theory. Analysed data are secondary data obtained by purposive sampling method. Multiple regression analysis instruments are used to test the hypothesis that there is any relationship between CGPI on one hand and firm value and performance on the other. CGPI data used in this study is the result of Indonesian Institute for Corporate Governance rating in 2007–2011. Accounting data used is the firm's value and performances (ROE and ROA). The result of this study shows that CGPI, industry type and firm's age affect ROE. CGPI affects ROE negatively while industry type and firm's age affect ROE positively. Unfortunately, CGPI, industry type and firm age do not affect ROA, and the result of Tobin's Q regression analysis shows that both CGPI variable and control variable do not statistically affect firm value.

Keywords: corporate governance perception index; CGPI; firm value; return on assets; ROA; return on equity; ROE.

Reference to this paper should be made as follows: Zaidirina and Lindrianasari (2015) 'Corporate governance perception index, performance and value of the firm in Indonesia', *Int. J. Monetary Economics and Finance*, Vol. 8, No. 4, pp.385–397.

Biographical notes: Zaidirina, MSc, is currently a student of Doctor of Science in Accounting at the Faculty of Economics and Business, Universitas Lampung. She was earned a Master's degree from the Universitas Gadjah Mada in Regional Finance Department. She is a Lecturer in the Master of Management – Universitas Bandar Lampung, in the course Managerial Economics. Experience working as Head of Finance and Asset Management in Local Government Bandar Lampung. Currently, she served as Vice Chairman of the Indonesian Red Cross Lampung, Chairman of the Association of Teachers and Education Personnel Early Childhood, and the Secretary of the National Crafts Council Lampung.

Lindrianasari is currently a Senior Lecturer of Accounting Department of Universitas Lampung. She was completed master and doctoral programs at the Universitas Gadjah Mada in Indonesia in Accounting Science. Also she several times following the sandwich program at the Australia National University (funding by ADB and Indonesia Government) to strengthen research

Copyright © 2015 Inderscience Enterprises Ltd.

methodology capability under the supervision of Greg Sheiler (2005) and Mark Wilson (2011). Her publications have been performed at the *Management Research Review*, *Journal of Global Business Advancement*, *Indonesian Journal of Accounting Research*, *Journal of Indonesian Economic and Business*, and *Corporate Ownership & Control Journal*, Summer 2014.

This paper is a revised and expanded version of a paper entitled 'Corporate governance perception index, performance and value of the firm in Indonesia' presented at *SIBR Conference on Interdisciplinary Business and Economics Research*, Kuala Lumpur, 16–17 February, 2015.

1 Background

When investing their fund, shareholders have a great expectation the returns. However, in reality, shareholders have to give broad authority and entrust their fund to the management of the firm. Furthermore, the manager is the party who takes responsibility in using resources in the company to increase the value of the firm, return on assets (ROA) and return on equity (ROE).

As a party who runs the company, management party has more information compared with the shareholder. Imbalance of information between both parties is potentially in misusing the authority by management. In the condition of supervising weakness, this misuse of authority may lead to fraud. To avoid management moral hazard, stakeholders conduct a contract with management party as the attempt of management activity limitation. The contract conducted aims to minimalise the loss of stakeholders who indirectly involve in company's activities. In the management level, as the party who has information and uses it for self-interest, the contract is a direction that has to be done in corporate governance.

The problem complexity in the relation of principle and agent raises an agency problem. Even though an efficient contract may limit management moral hazard and is able to minimalise agency cost, good corporate governance (GCG) is still needed to ensure that management acts in accordance with the contract. Corporate governance has been being discussed by many academics and researchers since Sarbanes and Oxley issued certification of Sarbanes–Oxley as the reaction from the weakness of corporate internal controlling system resulting disintegration of the world's large firms, among them are Enron, Tyco International, Adelphia, Peregrine Systems and WorldCom. Sarbanes–Oxley Certificate is abbreviated with SOX or Sarbox. Sarbox became a regulation protecting the investor from accounting fraud possibility resulted from activities done by management party.

CGPI data were taken from SWA Magazine that since 2001, this magazine has been cooperating with Indonesian Institute of Corporate Governance (IICG) to make and publish their research result on the rating of corporate governance implementation in firms in Indonesia. This program was designed and conducted for encouraging firms to improve the implementation of corporate governance through continuous improvement.

Section 62 Regulation of Bank of Indonesia Number 8/14/PBI/2006 about The Implementation of GCG for General Bank states that bank must present the report of GCG implementation as mentioned in Section 61 to shareholders and to:

- Bank of Indonesia
- Indonesian Consumer Agency/Yayasan Lembaga Konsumen Indonesia (YLKI)
- Rating Agency in Indonesia (LPPI)
- two research agencies in economic and financial field
- two economic and financial magazines, at least five months after the end of annual book.

Currently, enforcement of GCG in Indonesia is still far from the expectation, even we are not able to expect the success of its implementation from the existing law (http://www.hukumonline.com). The Bank of Indonesia regulation on the obligation in presenting the report of corporate governance implementation has been done entirely, CGPI research is still voluntary, and it has not been a variable in determining the value and financial performance of firm. With this study, it is expected that parties who have a common perspective that CGPI research is important information needed to be published and to be one of the decisions-making analysis instruments.

This study analyses the relationship between Corporate Governance Perception Index (CGPI), value and performance of the firm in Indonesia. The basis of theory used is agency theory, and signalling theory. Because of the broad variable affected by GCG, this study then will limit GCG and its effects in value and performance of the firm. Some differences in perspective theory have been adapted to a business environment in Indonesia, period and research methodology, and number of samples. As information, governance pattern in Indonesia applies two-tier form, which commissionaire party is in different position with director party. The position of commissionaire is as supervisor of activities conducted by the director, in other words, the director has to account his activities to the commissionaire party of the firm.

This study result shows that variables of CGPI, industry's type and firm's age affect ROE. CGPI affects negatively while industry's type and firm's age positively affect ROE. This finding shows that the firm that has high CGPI tends to have lower net profit performance on ROE. This controversial result can finally be explained through this search. The confirmation is obtained from sample data showing that some samples used are new developing firms that have not used available capital optimally. So, even though equity value of the firm is high, the firms have not able to maximise obtained profit, vice versa.

This paper is organised in some parts. First, the contextual problem that has been the background of this paper has been discussed. Furthermore, in the second part, theoretical study and hypothesis development are explained. Research methodology discussion will be discussed in the third part. The next part will explain the result of hypothesis testing, result and discussion, and the last part contains the conclusion, implication, research limitation and suggestion.

2 Theoretical study and hypothesis development

2.1 Corporate governance, agency theory, and signalling theory

The presence of separation between ownership (principal/investor) and controlling (agent/manager) is the core of agency theory (see Jensen and Meckling, 1976).

The investor expects a manager to be able to produce returns from the fund invested. Thus, a contract is necessary to explain a complete specification about fund management by a manager and return sharing between manager and investor. The full authority of firm's sources use is given to a manager, including the residual control right, which is the right to make the decision in a certain condition that has not been viewed in the contract. This right opens the opportunity misuse and allows a manager to be able to conduct expropriation investor's fund (see Shleifer and Vishny, 1997).

Expropriation mode usually is a fraud of investor's fund or taking personal benefit on firm's products and assets. Expropriation can be also in the form of direction/executive retention in their position, even though, there are no longer competent (Shleifer and Vishny, 1997). Jensen and Ruback (1983) argued that an unqualified manager and retention are the manifestations of the most expensive agency problems.

Eisenhardt (1989) explained that there are two problems occurring in agency relationship (agency problem). First, the agency problem emerges when different desire or intention between principal and agent. The difficulty to conduct verification in governance done by agent weakens the principal's position more. Secondly, principal and agent have the different attitude towards risks. The difference of acceptance degree and preference on risks emerging in the firm is one of agency conflict basis.

Agency theory is based on some assumptions (Eisenhardt, 1989), which are the assumption human trait, the assumption of organisational and assumption of information. Assumption of human trait emphasises that human has the trait of self-interest, has bounded rationality, and risk aversion. In assumption of organisational, there is a conflict of organisation inter-member, efficiency as effectiveness criteria, and assumption of information with the presence of information asymmetry between principal and agent.

When managerial of labour market running well, the agent with poor performance does not have future. Because labour market will not have the criteria of talented labour, the principal will be more selective in choosing its capital management agent. A Capital market that works efficiently becomes the reflection of manager's performance evaluated from his/her firm's stock value. This condition shows the work of market for corporate control, a condition that obstructs agent's action to conduct an action that benefits self.

On the other hand, the mean to limit the space of agent's deviation is likely that what explained by signalling theory. This theory emphasising the importance of information published by the firm to external parties, so it can predict the firm's investment decision. Connelly (2011) has explained that the behaviour of individual or organisation that has different access information will have a discrepancy, especially if they do not have common perspective. In one side, information sender must choose a right methodology or way to inform the signal. The other side, the receiver must attempt how to receive and interpret the signal. One type of information that can be a signal for external parties of the firm is CGPI.

2.2 Hypothesis development

There are two reasons why corporate governance is more important in critical financial condition (Mitton, 2002). First, expropriation minority shareholders are worse in a critical period. Secondly, the crisis can encourage investors to pay attention more the importance of corporate governance existence. Rajan and Zingales (1998 in Mitton, 2002) stated that investors ignore the weakness of East Asian firms when those countries in well economic condition, but quickly withdraw their investment when the crisis occurring. This fun

withdrawing is done because investors assume that those countries do not have any adequate protection on institutional, and then, it will harm the investment they invest.

Investor's trust is affected by information published and will give the signal to investors in decision-making. If the announcement has positive value, a market will immediately react (Hartono, 2000). The signalling theory emphasises the importance of complete, relevant, accurate and punctual information as an analysis instrument for investors in the capital market to make investment decision. Klapper and Love (2004) found the presence of positive and significant relationship between corporate governance index and corporate performance measured by ROE, and corporate governance index is not significant on Tobin's q. The other important finding is that the corporate governance implementation at the firm level has more meaning in developing countries compared with developed countries. This shows that the firm applying GCG will get the greater benefit, especially in countries with the poor legal environment.

Some studies have shown that corporate governance is not related to firm's performance, for example, the study of Daily and Dalton (1993). Darmawati et al., (2005) explained that the firm having poor performance is the firm with poor governance. This statement was supported by Gompers et al. (2003) who found a positive relationship between the corporate governance index and the firm's long-term performance. Some studies on the relationship between corporate governance and firm's performance showed different results. However, indirectly, corporate governance affects firm's performance.

Black et al. (2006) gave evidence that corporate governance is an important factor in explaining the value of public firms in Korea. Their study used the sample of 526 firms. The analysis was done by using OLS, 2SLS and 3SLS. The analysis result using 2SLS and 3SLS showed that the coefficient amount of corporate governance variable was three times and more significant than using OLS.

Furthermore, Johnson et al. (2000) gave evidence that the low corporate governance quality of a country negatively affects the stock market and exchange rate of related country's currency in critical period in Asia. Johnson et al. defined corporate governance as mechanism effectiveness aiming to minimise agency conflict by emphasising especially on a legal mechanism that prevents the expropriation of minority shareholders. The Theoretical explanation underlying the study is from Johnson et al. (2000). The higher expropriation by the manager, lower levels of investment return that expected by the investors. Furthermore, this situation will lead to a decrease in the level of investor confidence and ultimately will reduce the capital flows within the country and increase the capital outflow to abroad. The next effect is the decrease of stock price and exchange rate of currency in the related country. The study from Johnson et al. was conducted by using research sample of 25 emerging market countries, including Indonesia, and used a regression analysis instrument.

By using 49 countries as the research sample, La Porta (1997) showed that countries that protect shareholders (measured by character of legal rules and the quality of law enforcement), have more developing of stock market, greater listed securities per capita, and higher rate of IPO activity compared with countries that less protect their investors. Because the effect of investor on stock market development is important, investor protection is certainly able to affect real economic of a country.

Beck et al. (2000) saw that a financial field development of a country can accelerate growth with three ways. First, it is by increasing savings. Second, put the savings into a real investment, so it accelerates capital accumulation. Third, it is with the broadness of investment decision control owned by a financial institution. Development in the

financial field leads capital flow to more productive use, so it increases allocation efficiency of sources. Those three matters greatly affect the growth of economic in a country.

Mitton (2002) showed that variables related to corporate governance have a strong effect on firm's performance during the crisis period in Eastern Asia (1997–1998). His study had the sample of 398 firms in Indonesia, Korea, Malaysia, The Philippines, and Thailand. Firms with a better quality of disclosure have more concentrated external ownership, and more focused firms (compared with diversified firms) and have better market performance.

Some other studies focused on one of the components of corporate governance. Shivdasani (1993) conducted study aiming to test whether the difference in board of director structure (board of directors and commissionaires for Indonesia) and equity ownership have contribution on the possibility of firm to be acquired (hostile takeover). The study result showed that the character of a board of directors and ownership structure are significant determinants towards the possibility of a firm to be an acquisition target. Darmawati et al. (2005) conducted a research on the relationship between corporate governance and firm's performance (measured by Tobin's q and ROE). The testing result with sample of 53 firms listed in CGPI ratings in 2001 and 2002 showed that corporate governance variable was not significant towards Tobin's Q, but had positive and significant relationship on ROE. Based on the theoretical study from previous studies, this study is predicting that there is a positive relationship between CGPI and firm's value and performance.

On the issue of ownership of the company with the government, a study conducted by Le Trien and Buck (2011) for more than 1,000 listed companies in China, the period 2003-2005 related to the disclosure, showing a positive relationship between state ownership (SO) with the performance of the company (one of which is ROE). This study shows that governance dominated government intervention, will be stronger encourage enforcement of the rules so that ultimately increase the profitability of the company. Le Trien and Buck (2011) study supports prior research conducted by Liu and Lu (2007). Liu and Lu found the controls carried out on state-owned enterprises in China have control of earnings management to improve shareholders protection and encourage better corporate profitability.

Wati (2012) used a sample of Indonesian companies and has examined the relationship between CGPI to ROE. Her study demonstrated a significant value of the test results, indicate that the change in value has a positive effect CGPI to ROE. Thus, Wati confirms the study conducted by Gompers et al. (2003) and Cheung et al. (2005). However, it is contrary to the findings of a study by conducted Bauery et al. (2004) who found a negative relationship between governance standards with profitability ratio (ROE). The hypothesis formulated as below.

Ha_1: There is any relationship between CGPI and ROE.

Research that describes the relationship between CG with ROA has been done in previous studies. Gorton and Schmid (2000 in Denis and McConnell, 2001) documented that the control is done on banking in Germany has a positive effect on ROA. Beiner et al. (2006) conducted a study using Klapper and Love (2004) as references. Beiner et al. (2006) used the average annual growth in sales over the last three years (2000–2002). The purpose of their study was to capture the possible linkage between the performance of the operation and governance of specific companies. In addition to sales growth, they

also include the ROA as a research variable. The research findings by Beiner et al. (2006) confirm Klapper and Love (2004), Denis and McConnell (2001) and Cheung et al. (2005) study, that found a positive relationship between the corporate governance and the performance of the company, including ROA.

Bhagat and Bolton (2007) have examined the relationship of corporate governance on ROA by dividing into three periods; current year (contemporary), next year, and the next two years. At current year test period and the next year, the results of they research found a significant negative relationship. However, the test results for the next two years showed a negative but not significant. Bhagat and Bolton argued that it is important to note that similar findings in their study of CG relationship with stock returns (as a measure of performance) long term is positive and significant.

Ha_2: There is any relationship between CGPI and Return on Asset.

Tobin's Q was widely used in previous studies in the area of corporate governance as a proxy for the value of the firm. In previous studies, it was found a positive relationship between the value of firm (Tobin's Q) of legal shareholder (Weidong and Jiaying, 2002), ownership structure (Xu and Wang, 1999) GCG (Klapper and Love, 2004; Bebchuk et al., 2009), corporate governance index (Bhagat and Bolton, 2007) and governance mechanisms (Bai et al., 2004). Most of the studies were conducted in developed and developing countries, some of which find significance between Tobins'Q for CGPI, but some are not. These findings suggest that GCG eventually will increase the value of the firm. Better protection of investors will increase the confidence of the shareholders to the company. These conditions will be favourable for the firm, especially in the long term (Bhagat and Bolton, 2007).

Ha_3: There is any relationship between CGPI and firms value.

3 Research methodology

3.1 Research sample and data

This study uses purposive sampling, with sample criteria used is firms listed in Indonesian Stock Exchange and included in the ratings of corporate governance implementation conducted by The Indonesian Institute for Corporate Governance (IICG) from 2007 to 2011. Sample studied is 46 go-public firms surveyed by IICG and published with score/category of best 10 in CGPI. Financial report data of the firms is obtained from firm's website and Indonesia Stock Exchange website.

3.2 Research variables

3.2.1 Dependent variables

(a) Firm value proxied with Tobin's Q

This research uses firm's value and performance as dependent variables. Firm's value is measured by using Tobin's q that is an indicator to measure firm's performance, especially about firm's value, related to management proforma in managing firm's assets. In its use, Tobin's Q has a modification. Tobin's Q modification version of Chung and

Pruitt (1994) has been used consistently, and statistically predicted close to the original Tobin's Q and result prediction of 99.6% from the original formula used by Lindenberg and Ross (1981, see Chung and Pruitt, 1994). This study uses Chung and Pruitt's version of Tobin's q (1994). Formula formulation is as follows:

$$q = (\mathrm{MVS} + \mathrm{D}) / \mathrm{TA}$$

Description:

MVS: Market value of all outstanding shares

D: Debt

TA: Firm's asset's

The market value of all outstanding shares (MVS) is a stock market value taken from the multiplication of total outstanding share and stock price. Debt is the size of debt market value, where this value can be calculated by using the equation below:

$$D = (\mathrm{AVCL} - \mathrm{AVCA}) + \mathrm{AVLTD}$$

Description:

AVCL = Accounting value of the firm's Current Liabilities = Short Term Debt + Taxes Payable.

AVCA = Accounting value of the firm's Current Assets = Cash + Account Receivable + Inventories.

AVLTD = Accounting value of the firm's LongTerm Debt = Long Term Debt.

(b) ROE = Net Profit /Total Equity

(c) ROA = Net Profit / Total asset.

3.2.2 Independent variable

Independent variable is corporate governance. This variable is measured by using an instrument developed by IICG survey about corporate governance implementation in firms listed in Indonesia Stock Exchange in 2007–2011. Based on the survey result, CGPI is obtained. CGPI is a combination of seven components that are weighted. Those seven components are:

1. commitment towards corporate governance
2. shareholder's right
3. commissionaires board's governance
4. functional committees (that help the governance of commissionaire board)
5. directors
6. transparency
7. relation with stakeholders.

IICG has conducted a survey on firms that asked their corporate governance index to be rated, every year since 2001. Scores of rating as shown in Table 1. Firms with rating

result of big 10 to be published in SWA magazine, while the evaluation is classified into three categories, which are:

Table 1 Rating level

Category	*Rating level*	*Score*
A	Very reliable	85–100
B	Reliable	70–84.99
C	Fairly reliable	55–69.99

3.2.3 Control variables

There are some direct endogenous variable or an action affecting the corporate governance implementation in a firm. Therefore, interpretation of research result only explains the relationship partially. Control variables used by the writer are:

- *Type of Industry*. Mining industrial firms get the most and almost every year get CGPI with the high level that has a high score (very reliable and reliable). It is followed by banking firms and other firms. Mining firms generally have very large capital, so they need better corporate governance. As well as banking firms that demand precautionary principle in their business. This shows that type of industry also affects corporate governance in a firm.
- *Age of public firms*. Public firms that have longer age generally are better because they are more established. Therefore, the time span after going public will affect the quality of corporate governance implementation in firms.

4 Hypothesis testing, result and discussion

This study uses regression analysis instrument with equation as follows:

$$\text{ROE}_{i,t} = \alpha_1 + \beta_1 \text{CGPI}_{i,t} + \beta_2 \text{Industry}_{i,t} + \beta_3 \text{Age}_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$\text{ROA}_{i,t} = \alpha_1 + \beta_1 \text{CGPI}_{i,t} + \beta_2 \text{Industry}_{i,t} + \beta_3 \text{Age}_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$\text{TobinsQ}_{i,t} = \alpha_1 + \beta_1 \text{CGPI}_{i,t} + \beta_2 \text{Industry}_{i,t} + \beta_3 \text{Age}_{i,t} + \varepsilon_{i,t}. \quad (3)$$

4.1 Classic assumption test

The use of multiple regression statistic instruments requires classic assumption test. If a classic assumption is not fulfilled, bias occurs in the research result. Classic assumption tests done in this study are autocorrelation, normality, heteroscedasticity, and multicollinearity.

The statistic testing result shows that normality test on this all regression equation (equations (1)–(3)) has normal data. Normality value (Asymp Sig. 2 Tailed) is above alpha 5% meaning that data are normally distributed. For autocorrelation test (Asymp Sig. 2 Tailed), all regression equations (1)–(3) show alpha > 5% (0.05) meaning that autocorrelation does not occur.

Heteroscedasticity test shows Tolerance value under 1 and VIF between 1 and 10. This number indicates that there is no heteroscedasticity problem, in other words, homoscedastic data. These all regression equations do have any heteroscedasticity problems. The last classic assumption test done is multicollinearity. From the result of multicollinearity test, it obtains a correlation of 0.8 (above Pearson Correlation), so it is said that there is no multicollinearity problem.

4.2 Hypothesis test

Hypothesis testing is done to prove the existence of independent variable effect on dependent variable using *t*-statistic test. The t-statistic test is done to show the extent of an effect an independent variable individually in explaining variation of dependent variables. Hypothesis testing in this study uses three simple regression models. The first and the second regression models use ROE and ROA as the measurement of firm's financial performance, while the third regression model uses Tobin's Q as the measurement of firm's value.

The result of the first equation test shows that variables of CGPI, type of industry, and age of firm affect ROE. CGPI affects negatively while the type of industry and age of firm affect positively. Therefore, this study supported the first hypothesis. The result of regression analysis is presented in Table 2.

Table 2 Statistics test results of Ha_1

	Coefficient	*t-statistic*	*Prob.*
Constant	0.634	1.957	0.057
CGPI	–0.008	–2.090	0.043
Industry	0.045	2.292	0.027
Age	0.004	1.803	0.079

Dependent variable: ROE.

The second equation test shows that CGPI, type of industry, and age of industry do not affect ROA. The result of regression analysis is presented in Table 3. The result of Tobin's q regression analysis shows that both CGPI variable and control variable statistically do not affect firm's value as shown on regression result at Table 4.

Table 3 Statistics test results of Ha_2

	Coefficient	*t-statistic*	*Prob.*
Constant	0.775	1.218	0.230
CGPI	–0.008	–1.065	0.293
Industry	0.050	1.305	0.199
Age	0.004	0.931	0.357

Dependent variable: ROA.

Table 4 Statistics test results of Ha_3

	Coefficient	*t-statistic*	*Prob.*
Constant	9.351	1.768	0.084
CGPI	–0.096	–1.516	0.137
Industry	0.394	1.240	0.222
Age	–0.035	–0.897	0.375

Dependent variable: Tobin's Q.

Based on the regression calculation, it is seen that CGPI in Indonesia has not been able to be signal to get accurate information about value of a firm and operational performance of a firm in the form of financial benefit. CGPI only affects ROE negatively. It proves the research result from Connelly (2011) on signalling theory, where an inappropriate presentation of information would create different interpretation, especially for non-accounting information such as CGPI.

The analysis result of the regression model with ROE as dependent variable shows that variables of CGPI, type of industry, firm's age affect ROE. CGPI affects negatively while a type of industry and firm's age affect positively. The second equation test shows that CGPI, type of industry, and firm's age do not affect ROA, and the result of Tobin's q regression analysis shows both CGPI variable and control variable statistically do not affect firm's value. Therefore, the hypothesis stating that CGPI affects firm's performance statistically is not proved.

It possibly occurs because the market response to corporate governance implementation cannot be directly, but it needs some time. Moreover, this statement is supported by Gompers et al. (2003), who found positive relationship between corporate governance index and the firm's long-term performance, while Darmawati et al. (2005) found the similar result concerning short term performance. Besides, the information of corporate governance importance as one of the decisions-making analysis instruments has not been well-socialised to stakeholders. This study shows that CGPI in Indonesia has not been able to be accurate signal on firm's performance. However, the improvement of corporate governance implementation quality needs to be continuously done because the risks and challenges in business are increasing and more complex.

5 Conclusion, implication, limitation and suggestion

This study is in accordance with research from Klapper and Love (2004) that found significant positive relationship between corporate governance index and firm's performance measured by ROE, and relationship between corporate governance index and Tobin's Q is not found (Klapper and Love, 2004). Darmawati et al. (2005) have conducted a research on relationship between corporate governance and firm's performance (measured by Tobin's q and ROE) resulting similar conclusion, that corporate governance variable was not significant in Tobin's Q, but had positive and significant relationship with ROE. Thus, from the whole result of this study, it is proved that there is no relationship between corporate governance and the most of firm's performance measurement (see Daily and Dalton, 1993).

This evidence also shows that corporate governance implementation, until now, has not been conducted optimally in accordance with existing regulations. Even though firms rated by the professional institution have good rating, this good rating has not been in a position of well good governance. It is because the rating of corporate governance implementation still has been done voluntarily, so a number of firms rated are still few. Big 10 index on perception towards CGPI becomes less meaningful because the sample rated is small. In the other side, CGPI rating done on demand and cost from firms that would be surveyed and the result would be published. It causes the negative effect on CGPI and firm's performance.

This study has the limitation, so it needs to be a concern in interpreting study result. First, there is a limitation in the size of the data sample. Secondly, CGPI rating is voluntary with survey cost is covered by the firm, so other independent surveys as check and balance are necessary. Thirdly, limitation of analysis instrument in analysing and translating research result in short term and long term.

In order for study of corporate governance to be important information and to be one of the analysis instruments in decision-making, it needs regulation with procedure system, methodology, monitoring and evaluation as well as strict sanction about obligation optimisation and publication of corporate governance implementation in entire firm. CGPI regulations in Indonesia began when there was pressure from the financial crisis in 1997–1998. Basically, this rule is more focused on the financial sector. Thus, it seems a reason why the findings of previous research on the CGPI of performance and value for a public company of have not found conclusive results. We recommended for future research to investigate the CGPI specifically for the banking and financial sector. Hopefully, the next findings can support the theory on the relationship between CGPI on the performance and value of the company.

References

Bai, C.E., Liu, Q., Lu, J., Song, F.M. and Zhang, J. (2004) 'Corporate governance and market valuation in China', *Journal of Comparative Economics*, Vol. 32, pp.599–616.

Bauery, R., Gunsterz, N. and Ottenx, R. (2004) 'Empirical evidence on corporate governance in europe the effect on stock returns, firm value and performance', *Journal of Asset Management*, Vol. 5, pp.91–104.

Bebchuk, L.A., Cohen, A. and Ferrell, A. (2009) 'What matters in corporate governance?', *Rev. Fin. Stud.*, Vol. 22, p.783.

Beck, T., Levine, R. and Loayza, N. (2000) 'Finance and the sources of growth', *Journal of Financial Economics*, Vol. 58, pp.261–300.

Beiner, S., Drobetz, W., Schmid, M.M. and Zimmermann, H. (2006) 'An integrated framework of corporate governance and firm valuation', *European Financial Management*, Vol. 12, No. 2, pp.249–283.

Bhagat, S. and Bolton, B. (2007) *Corporate Governance and Firm Performance*, Paper series Leeds School of Business, University of Colorado, Boulder.

Black, B.S., Jang, H. and Kim, W. (2006) 'Does corporate governance predict firms market values? Evidence from Korea', *The Journal of Law, Economics, & Organization*, Vol. 22, No. 2, pp.366–413.

Cheung, Y., Connelly, J.T., Limpaphayom, P. and Zhou, L. (2005) *Do Investors Really Value Corporate Governance? Evidence from the Hong Kong Market*, HKIMR Working Paper No. 22/2005.

Chung, K.H. and Pruitt, S.W. (1994) 'A simple approximation of Tobin's q', *Financial Management*, Vol. 23, No. 3, Autumn, pp.70–74.

Connelly, B.L. (2011) 'Signaling theory: a review and assessment', *Journal of Management*, Vol. 37, No. 1, pp.39–67.

Daily, C.M. and Dalton, R. (1993) 'Bankruptcy and corporate governance: the impact of board composition and structure', *The Academy of Management Journal*, Vol. 37, No. 6, pp.1603–1617.

Darmawati, D., Khomsiyah, G. and Rahayu, R. (2005) 'Hubungan Corporate Governance dan Kinerja Perusahaan', *Jurnal Riset Akuntansi Indonesia*, Vol. 8, No. 1, pp.65–81.

Denis, D.K. and McConnell, J.J. (2001) *International Corporate Governance*, Purdue CIBER Working Papers, Paper 17, http://docs.lib.purdue.edu/ciberwp/17

Eisenhardt, K.M. (1989) 'Agency theory: an assessment and review', *Academy of Management Review*, Vol. 14, No. 1, pp.57–74.

Gompers, P., Ishii, J. and Metrick, A. (2003) 'Corporate governance and equity prices', *Quarterly Journal of Economics*, Vol. 118, pp.107–155.

Gorton, G. and Schmid, F.A. (2000) 'Universal banking and the performance of German firms', *Journal of Financial Economics*, Vol. 58, Nos. 1–2, pp.29–80.

Hartono, J. (2000) *Teori Portofolio dan Analisis Investasi*, Edisi 3, BPFE, Yogyakarta.

Jensen, M.C. and Meckling, W.H. (1976) 'Theory of the firm: managerial behavior, agency cost and ownership structure', *Journal of Financial Economics*, Vol. 3, pp.305–360.

Jensen, M.C. and Ruback, R. (1983) 'The market for corporate control: the scientific evidence', *Journal of Financial Economic*, Vol. 11, pp.5–50.

Johnson, S., Boone, P., Breach, A. and Friedman, E. (2000) 'Corporate governance in Asian financial crisis', *Journal of Financial Economics*, Vol. 58, pp.141–186.

Klapper, L.F. and Love, I. (2004) 'Corporate governance, investor protection, and performance in emerging markets', *Journal of Corporate Finance*, Vol. 10, pp.703–728.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. (1997) 'Legal determinant of external finance', *Journal of Finance*, Vol. 52, pp.1131–1150.

Le Trien, V. and Buck, T. (2011) 'State ownership and listed firm performance: a universally negative governance relationship?', *Journal Management Gov*, Vol. 15, pp.227–248.

Lindenberg, E.B. and Ross, S.A. (1981) 'Tobin's q ratio and industrial organization', *The Journal of Business*, Vol. 54, No. 1, pp.1–32.

Liu, Q. and Lu, Z. (2007) 'Corporate governance and earnings management in the Chinese listed companies: a tunneling perspective', *Journal of Corporate Finance*, doi:10.1016/j.jcorpfin. 2007.07.003

Mitton, T. (2002) 'A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis', *Journal of Financial Economics*, Vol. 64, pp.215–241.

Rajan, R.G. and Zingales, L. (1998) 'Financial dependence and growth', *American Economic Review*, Vol. 88, No. 3, pp.559–586.

Shivdasani, A. (1993) 'Board composition, ownership structure, and hostile takeovers', *Journal of Accounting and Economics*, Vol. 16, pp.167–198.

Shleifer, A. and Vishny, R.W. (1997) 'A survey of corporate governance', *Journal of Finance*, Vol. 52, pp.737–783.

Wati, L.M. (2012) 'Pengaruh Praktek Good Corporate Governance terhadap Kinerja Keuangan Perusahaan di Bursa Efek Indonesia', *Jurnal Manajemen*, Vol. 1, No. 1, pp.1–7.

Weidong, H. and Jiaying, Z. (2002) 'Ownership structure, capital structure, board governance and firm market valuation', *Nankai Business Review*, Vol. 2, p.004.

Xu, X. and Wang, Y. (1999) 'Ownership structure and corporate governance in Chinese stock companies', *China Economic Review*, Vol. 10, pp.75–98.