THE INFLUENCE OF CORPORATE GOVERNANCE PRACTICE ON FINANCIAL PERFORMANCE AND FIRM VALUE OF INDONESIAN STATE-OWNED ENTERPRISES

(A Study on Indonesian State-owned Enterprises Surveyed by The Indonesian Institute for Corporate Governance and Listed in Indonesia Stock Exchange 2005-2012)

A THESIS

Presented as Partial Fulfillment of the Requirements to Obtain the Bachelor Degree in Management Department

By

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INTERNATIONAL PROGRAM

FACULTY OF ECONOMICS

UNIVERSITAS ISLAM INDONESIA

2014

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Defended before the Board of Examiners
On March 07, 2014 and Declared Acceptable

Board of Examiners

Examiner I

(Bachruddin, Dr., M.Si.) March 07, 2014

Examiner II

(Zaenal Arifin, Dr., M.Si.) March 07, 2014

Yogyakarta, March 07, 2014
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ISLAM
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DECLARATION OF AUTHENTICITY

Herein I declare the originality of my thesis; I have not presented anyone else's work to obtain my university degree, nor have I presented anyone else's words, ideas, or expression without acknowledgement. All quotations are cited and listed in the bibliography of the thesis.

In the future, if this statement is proven to be false, I am willing to accept any sanction complying with the determined regulation or its consequences.

Yogyakarta, March 7, 2014

Merinda Hasna Lupita Dewi

ACKNOWLEDGMENT

Bismillahirrahmanirrahim

Alhamdulilahirabbil 'alamiin, all praise to Allah *subhanahuwata'ala* for His guidance and blessings to me so the writer can finish this thesis. Shalawat and Salam to Prophet Muhammad *shalallahu' alaihiwassalam* as the messenger for all people in the world.

The writer would like to express sincere appreciation to those who have give major contributions for this thesis. Mr. Zainal Arifin, Dr., M.Si, as content advisor, thank you for the time, opportunity, critics and suggestions given to the writer during the completion of this thesis. Mrs. Cithra Orisinilandari, SS., MA., as language advisor, thank you for the time, patience, suggestions and critics given to the writer for the perfection of this thesis.

The writer also would like to express her gratitude for the people whom have always supported until the very last during this thesis fulfillment:

1. An endless gratitude expressed to Allah SWT for the ability, health, and knowledge given to me, so I can finish my thesis and my study in IP UII.
2. My parents, Mr. Bambang Wahyu Cahyono, Drs., MM. and Mrs. Ellen Rosyelina Sasmita, Ir., MP., for their endless love and support to me. My sisters, Wita Rosmala Sari Anggraini, ST. and Marsha Ulfah Putri Cahyani, thank you for the support, encouragement and reminder to me to complete this thesis.

3. The Indonesian Institute for Corporate Governance (IICG), especially their corporate secretary, Mrs. Siti Olivia Tito, for giving the Corporate Governance Perception Index data. The corporate secretary of the surveyed Indonesian State-owned enterprises, for giving the data needed to the completion of this thesis.
4. My helpful friends who have helped me during the completion of this thesis, Anny Mukminati, Muh Rihzan Fauzi, and Fatqur Rozakul Maqya. Thank you for the valuable knowledge and information that given to me.
5. My bestfriend, Winasista Salarina. Thank you for the sincere encouragement, supports, and laughs shared with me. For The Inspiring One, thank you for everything—the unending inspiration and motivation given to me. It is such a blessing to know a person like you. ☺
6. My family in IP UII, especially the students of Management Department, class of 2014. Thank you for the laughs and unforgattable memories shared with me for these three and a half years. It is such a pleasure to have the chance to know them all. The Finance class students of Management Department 2010, Firda Ardianty Kahfi, Aghnia Amalina, Hanifa Nur Fadhilla, Anny Mukminati, Muh. Rihzan Fauzi, Dewi Isnaini Sudartini, the ones who I shared most of my class time together, hopefully the prediction of Mr. Arif Singapurwoko in our Risk Management class will be come true, or even better.
7. The lecturers that taught me valuable knowledge during my study in International Program Universitas Islam Indonesia, especially Mrs. Fitriati

Akmila, SE., M.Comm. Thank you for the opportunity given to me to be your teaching assistant in Management Accounting class, even semester, academic year 2012/2013. The staffs in IP UII, thank you for all the help given to me during my study in IP UII.

8. My teammate in IP News 2011-2013, IP Media 2012-2013, and KSPM FE UII 2013-2014. Thank you for the works that we have done together, it was a pleasure for me to have the chance to know you all.
9. My fieldwork teammate in KKN Unit BT-270: Idea Prajna Paramitha, Ratri Susilaningrum, Gestian Ardi Perkasa, Riszki Maulana, Ramli Boga, and Rio Alviansyah. Thank you for the unforgettable 40 days that we have spent together, through all of the tears and laughter we shared together.

Hopefully, this research will give a good contribution for the development of science, especially in the field of corporate governance.

Yogyakarta, March 7, 2014

Merinda Hasna Lupita Dewi

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Abstract

Merinda Hasna Lupita Dewi (2014). The Influence of Corporate Governance Practice on Financial Performance and Firm Value of Indonesian State-owned Enterprises (A Study on Indonesian State-owned Enterprises Surveyed by The Indonesian Institute for Corporate Governance and Listed in Indonesia Stock Exchange 2005 – 2012)

The aim of this research is to assess the influence of corporate governance practice on Indonesian State-owned enterprises to their financial performance and firm value. The Corporate Governance Perception Index (CGPI) score issued by The Indonesian Institute for Corporate Governance becomes the proxy of corporate governance measurement. In this research, the company's financial performance is assessed by using Return on Assets and Return on Equity, and the Tobin's Q score becomes the measurement of firm value. The regression model is used as the statistical model in this research, with the research sample-size of fifty-nine firms (59 firms), which consist of public Indonesian State-owned enterprises (during 2005 until 2012) that listed in the CGPI index during 2005 until 2012. The result of the study indicates that there is no influence of corporate governance practice on the performance of Indonesian State-owned enterprises Return on Assets and Return on Equity as the proxy of company's financial performance and Tobin's Q score, as the proxy of the firm value of Indonesian State-owned enterprises.

Keywords: *Corporate governance, Indonesian State-owned Enterprises, financial performance, firm value, ROA, ROE, Tobin's Q*

Abstraksi

Merinda Hasna Lupita Dewi (2014). Pengaruh Kebijakan Tata Kelola Perusahaan terhadap Kinerja Keuangan Perusahaan dan Nilai Perusahaan di Badan Usaha Milik Negara (BUMN) Indonesia (Studi Kasus pada Perusahaan BUMN Indonesia Terbuka yang Diteliti oleh Lembaga Indonesian Institute for Corporate Governance Tahun 2005 – 2012)

Tujuan dari penelitian ini adalah untuk menilai pengaruh kebijakan tata kelola perusahaan dengan kinerja keuangan dan nilai perusahaan Badan Usaha Milik Negara (BUMN) Terbuka Indonesia. Skor *Corporate Governance Perception Index* (CGPI) yang dikeluarkan oleh lembaga The Indonesian Institute for Corporate Governance (IICG) dijadikan proksi terhadap implementasi tata kelola perusahaan dalam penelitian ini. Return on Assets (ROA) dan Return on Equity (ROE) dijadikan proksi untuk menilai kinerja keuangan perusahaan, sedangkan skor Tobin's Q dalam penelitian ini digunakan sebagai proksi dari nilai perusahaan. Model regresi berganda digunakan sebagai model uji statistik dalam penelitian ini. Terdapat 59 sampel BUMN Terbuka yang dianalisis dalam penelitian ini, yang terdiri dari BUMN Terbuka yang diteliti oleh The Indonesian Institute for Corporate Governance selama 2005 hingga 2012. Hasil dari penelitian ini adalah, tidak ditemukan adanya pengaruh yang signifikan dari praktek tata kelola perusahaan di BUMN Terbuka terhadap kinerja Return on Assets dan Return on Equity sebagai proksi dari kinerja keuangan perusahaan. Tidak adanya pengaruh yang signifikan antara praktek tata kelola perusahaan terhadap skor Tobin's Q sebagai proksi dari nilai perusahaan dalam penelitian ini juga ditemukan pada BUMN Terbuka dalam penelitian ini.

Kata kunci: *Tata kelola perusahaan, BUMN, kinerja keuangan, nilai perusahaan, ROA, ROE, Tobin's Q*

CHAPTER I

INTRODUCTION

1.1. Study Background

The separation of ownership and the company's management becomes a normal practice in today's economy. This separation often creates a problem that is called as agency problem. Berk, DeMarzo, and Harford (2013, p. 42) explained agency problem as a problem that occurs when the managers of the company, despite being hired as the agents of the shareholders, put their own self-interest ahead of the interests of the shareholders. Here, the management's goals and the shareholder's (as the owner of the company) interests are different, which makes the owners' confidence toward the management action in managing the company reduced. The example of conflicting interests between the management and the shareholders can be in how they see the free cash flow of the company. The shareholder may want the management to distribute the free cash flow of company's investment as dividend, but the management may want to retain the free cash flow to finance other projects of the company, even though the projects may not generate a positive NPV that can give more value to the company. The other example of agency problems is the case of Enron; an American energy company with debacle corporate governance practice that leads the company belongs to the list of the largest bankruptcy in U.S. history. Enron's case can be regarded as the widely cited corporate scandals in many topics and researches in various field of study, especially corporate governance. Those corporate scandals

become a proof of the agency problems existence in today's management of a company. Agency problems make the concept of agency cost, that is, the cost that the owners have to pay in order to make an alignment between the management's interests and the shareholders' interests, to occur.

The agency problem becomes the main factor for corporate governance practice to occur. The occurance of corporate governance in the world, both in the western (The U.S. and European countries), as well as Asian countries, are triggered by the financial crisis that happened in those area. In Indonesia, the practice of corporate governance is pushed after the Asia's financial crisis that happened in the late 1990s. Tjager et al. (2005, p. 3) stated that one of the main causes that becomes the root of the financial crisis that happened in 1997-1998 in Indonesia is caused by a bad management practices of this country's companies, both in state owned enterprises and the private enterprises in Indonesia.

Corporate governance presented as the solution for agency problem. FCGI, or the abbreviation of Forum for Corporate Governance in Indonesia (2001), defined corporate governance as a set of rules that define the relationship between shareholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities. Further, FCGI explained the objective of corporate governance is to create added value to the stakeholders.

According to Barton, Coombes, & Wong (2004) from the McKinsey & Company, after the Asian financial crisis, the countries in Asia that they surveyed, including Indonesia, are implementing better corporate governance than before.

According to the research, Indonesia is regarded as the country that has lowest level of corporate governance enforcement among the surveyed countries. However, the journey to perfectly implement the good corporate governance is still long, because to fully reform the corporate governance of the company in overnight is impossible—it takes many times to do so. And, the practice of good corporate governance is very important for every company in the world, as can be seen from many researches on the impact of corporate governance and firm's performance. For example, based on a research done by Newell and Wilson (2002, p. 20) found that the institutional investors of companies in emerging markets are willing to pay as much as 28% more for the shares of companies that implement good corporate governance. And the firm that has weaker good corporate governance practice, according to Gompers, Ishii, and Metrick (2003, p. 3), were less profitable and had lower sales growth than other firms in their respective industry.

Indonesia itself had several stories with corporate governance. Bad corporate governance is said to be one of the most affecting factor in causing the financial crisis in the end of 1990s to occur, out of other factors like the fragile Indonesian economic structure or unstable political environment, etc. One of the examples of bad corporate governance at that time is the bribery done by the unethical business player with the irresponsible government official. The bad corporate governance happened not only in the private companies, but also the state owned enterprises in this country (Tjager et al., 2003).

Previously, the Indonesian SOEs are known for the companies that lack of competitiveness to compete with their competitor from the private sector, because of the poor management quality of the company and also their reliance to the protection by the government of Indonesia. The optimization of good corporate governance conduct, according to Muchayat (2010, p. 141) is one of the solution that can help the Indonesian SOEs to improve their performance, and thus, enhancing the competitiveness of the SOEs. That is why, the urgency of good corporate governance implementation is very apparent for Indonesian state owned enterprises that have a strategic role in enhancing the progress of Indonesian economy.

For the Indonesian SOEs, there is a special regulation about the corporate governance practice for Indonesian SOEs, which is specified in the Ministerial Decree about The Practice of Corporate Governance in State-owned Enterprises that was issued in 2002. The Ministry of Indonesian SOEs issued this regulation to increase the performance of corporate governance in Indonesian SOEs. Upon the issuance of this regulation, it can be said that the performance of some Indonesian SOEs is better than its previous performance, as can be seen from several Indonesian SOEs that have robust performance recently like PT Bank Mandiri (Persero), Tbk. and PT Garuda Indonesia (Persero) Tbk that become the main player in their respective industry.

Based on the data from Ministry of State-owned Enterprises, the number of Indonesian SOEs that has already been listed in Indonesia Stock Exchange (IDX) until now is only 18 companies, out of 154 the total amount of Indonesian SOEs

that has existed until today. It means that the majority of Indonesian SOEs is a non-public company. This phenomenon becomes an indication that there is a domination of government ownership proportion over the majority of Indonesian SOEs. The domination of government ownership over the Indonesian SOEs can create an agency problem in the management of the company. The forms of agency problem that may occur are the intervention of Indonesian government to the management of the SOEs, the practice of bribery by some irresponsible individuals in the SOEs and the government officials, and others. Generally, the management of Indonesian SOEs has more important information about the companies than Indonesian people as the owner of SOEs, while the objectives in the establishment of SOEs is to support the economic development, to increase the proportion of the country's income from the sectors that are significant to the life of Indonesian people.

The practice of good corporate governance in Indonesian SOEs can reduce the potential agency problems that have already been stated above. By having good corporate governance, it can make a more transparent and accountable management of the company, so the company can be more trusted by Indonesian people, that the people can have a more control over the company, because Indonesian people are the main stakeholder of the Indonesian SOEs.

In order to encourage the practice of corporate governance in Indonesian companies, either in private or state-owned enterprises companies, the Indonesian Institute for Corporate Governance (IICG) in partnership with SWA Magazine, created a Corporate Governance Perception Index (CGPI) in 2001. Since its first

establishment, the CGPI becomes the benchmark for the company in evaluating the practice of good corporate governance within the company.

This paper is intended to know the implementation of corporate governance by Indonesian State-owned Enterprises during 2005-2012, and the impact of the corporate governance implementation toward the financial performance and the firm's value of the Indonesian SOEs. The companies that will be assessed are the Indonesian public SOEs that are listed in CGPI (Corporate Governance Index), from 2005-2012. Thus, the CGPI will be used as the independent variable in assessing how well the company in implementing the corporate governance, with the controlling variable is the firm's size. In line with the previous research about the influence of corporate governance toward the firm's financial performance, the variables that will be used in this paper is the company's Return on Assets (ROA) and Return on Equity (ROE) to measure the financial performance of company's operational activity, especially in terms of company's profitability and Tobin's Q to assess the firm value of the company. The above ratios will be the dependent variable of this research. In line with previous research in analyzing the influence of corporate governance practice toward firm's (financial) performance, this study will use multiple regression analysis in testing the author's hypothesis.

1.2. Problem Formulation

1. How is the influence of corporate governance practice in Indonesian SOEs toward the firm's financial performance?
2. How is the influence of corporate governance practice in Indonesian SOEs toward the firm's value?

1.3. Problem Limitation

The writer limits the main problems as follows:

1. This research focuses on the Indonesian State-owned enterprises that are listed in CGPI (Corporate Governance Perception Index) score during 2005-2012
2. Return on Asset (ROA), Return on Equity (ROE) will be used as the proxy of company's financial performance and Tobin's Q is used as the proxy of the firm's value.

1.4. Research Objectives

In line with the problem formulation raised in this paper, the objectives of this paper are to:

1. Assess the influence of corporate governance practice in Indonesian SOEs toward the firm's financial performance.
2. Assess the influence of corporate governance practice in Indonesian SOEs toward the firm's value.

1.5. Research Contributions

1.5.1. For The Development of Science

By the completion of this paper, it is expected that this paper will give new knowledge about the influence of corporate governance toward Indonesian SOEs' financial performance, especially during 2005-2012.

1.5.2. For Company's Management

By the completion of this paper, it is hoped that the management of Indonesian State-owned Enterprises can have a better implementation of corporate governance in the future, so the company will have a better ability to avoid any risks that occur because of the absence of corporate governance in the future.

1.5.3. For Investors

By the completion of this paper, it is expected that the investors will have a better knowledge about Indonesian SOEs that have implemented the good corporate governance practice in Indonesia, so they will have the options in selecting the companies as their investment destination in the future.

1.5.4. For Indonesian Government

It is expected that, by the completion of this paper, the Indonesian government, especially the Ministry of Indonesian SOEs will have a better knowledge about the implementation about the practice of good corporate governance in Indonesian state-owned Enterprises, so the ministry can have a better control over the good corporate governance practice over Indonesian SOEs.

1.5.5. For Writer

By the completion of this paper, it is expected that this paper can be a mean to implement the theories that the writer has gained during the study in International Program Universitas Islam Indonesia,

especially in the subject of Corporate Culture and Governance and other financial management-related subjects.

1.5.6. For Future Writer

It is hoped that this paper can be a reference for similar research materials for the future writers who are interested in the same topic area.

CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. Corporate Governance

There are many players that involved in supporting the existence of the modern corporation; the managers, shareholders, bondholders/creditors, stock market, and the society. Each party has their own interests, so the conflict of interests among the parties involved within the corporation is unavoidable. Conflict between the managers and shareholders, conflict between the shareholders and the bondholders or creditors, conflict between the majority of shareholder and the minority shareholders are the example of the conflicts that may arise within the life of a corporation (Hanafi, 2010). According to Kroszner (2008), aligning the incentives of the managers so that they act in the interest of the shareholders rather than themselves becomes the main issue in corporate governance.

The corporate governance principles arise in the modern corporation principle, mainly caused by the implementation of separation between ownership and the management of the company. The separation of ownership and the company's management creates a problem that is called as agency problem. Agency problem is a conflict of interest between the shareholders (as the owner of the company) and the management, as the ones who manage the operation of the company. In the agency problem, the management of the company is said to abuse the interest of the

shareholder, that the management, by using the resources of the company is maximizing the wealth of the company, in order to maximize their own wealth instead of maximizing shareholder's wealth.

The other example of conflict that existed between the management and the shareholder is agency free cash flow, in which the manager will try their best to hold the resources of the company, so the resources will stay under the manager's control (Hanafi, 2010). The free cash flow is the excess cash flow of the company that is available after the company has funded its projects with positive net present value (NPV). Theoretically, according to Hanafi (2010, p. 12), the free cash flow should be distributed to the shareholder as dividend paid to them, so the shareholders can make use of the dividend to maximize their wealth, but in the case of agency free cash flow, the manager of the company insists not to distribute the free cash flow to the shareholder, by retaining the free cash flow within the company to finance the other project of the company, or by turning the cash to be idle within the company. It shows that the management does not fulfill its obligation in maximizing the shareholders' value. Thus, in order to minimize the probability of agency problems occurrence like what have been explained before, that is why the corporate governance is implemented in many companies.

There are several definitions of corporate governance. According to Forum for Corporate Governance in Indonesia (2001), corporate governance is a set of rules that define the relationship between

shareholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities, or the system by which companies are directed and controlled. The objective of corporate governance is to create added value to the stakeholders. While OECD (Organization for Economic Co-operation and Development) defines the corporate governance as a structure that specifies the distribution of rights and responsibilities among different participants in the corporations, such as the board of commissioners, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs (OECD, 2004). By doing this, it also provides the structure through which the company objectives and monitoring performance.

According to IICG, the abbreviation of The Indonesian Institute for Corporate Governance (2001), Good Corporate Governance concept was initially born in America in 1980s, because at that time, the shareholders in that country was anxious caused by several corporate actions done by the management of the company, for example by doing merger and acquisition with other companies that was harming the interests' of the shareholder. So, in order to protect the shareholders' interests, the idea of board of commissioner empowerment to supervise the management's action arose (IICG, 2001).

OECD further stated that, corporate governance is one key element in improving economic efficiency and growth, as well as enhancing

investors' confidence (OECD, 2004). Good corporate governance will provide proper incentives for the board and management of the companies to pursue its desired objective, protecting its shareholders' (especially the minority shareholder) interests and facilitates the effective monitoring over the company.

Upon the establishment of National Committee on Corporate Governance in 1999, with the issuance of Decree of The Coordinating Minister of Economics Affairs No. KEP/31/M.EKUIN/08/1999, it becomes the legal presence of corporate governance in Indonesia. Later, as stated in The General Guidelines on Indonesian Corporate Governance (2006) since 2004, the National Committee on Corporate Governance was changed into The National Committee on Governance (NCG), and the new regulation about corporate governance was issued; Decree of The Coordinating Minister of Economics Affairs No. KEP/49/M.EKONOM/11/2004. The changed of the committee's name aimed to get a broader horizon of the good governance, not only within the scope of corporation, but also into the public governance, because from the support of good public governance will help the good corporate governance implementation will be better. And, the establishment of NCG aimed to enhance the comprehension and implementation of good corporate governance in Indonesia and also to advise the government on governance issues, both in public and corporate sectors. In addition, because of the current practice of today's economy that becomes more

dependent on the role of private sector, especially in the banking and finance sector, therefore good corporate governance is needed to ensure the prudent management of the company that runs in that sector. The Bank of Indonesia, as the central bank in Indonesia has a special regulation for the practice of good corporate governance in Indonesian banking industry; that is Bank of Indonesia Regulations Number 8/4/PBI/2006 concerning Good Corporate Governance on Conventional Bank, and the regulation is affirmed with the issuance of Circulars of Bank of Indonesia to all conventional banks in Indonesia about the implementation of good corporate governance in conventional banks on April 29, 2013.

2.1.1. The Principles of Good Corporate Governance

The principles of corporate governance is developed by OECD (Organization for Economic Co-operation and Development), in order to evaluate and improve the legal, institutional, and regulatory framework for the government in one country and to provide guidance and suggestions for stock exchange, investors, corporations, and other parties that have a role in the process of developing good corporate governance. The OECD Principles of Corporate Governance have become an international benchmark for policy makers, corporations and other stakeholder worldwide. According to OECD (2004), good corporate governance contributes competitiveness to corporation who implement it.

Although there is an internationally recognized standard of corporate governance (The OECD Principles of Corporate Governance),

each country in this world may have different implications in the practice of good corporate governance that is more suitable with the condition of each country. Therefore, The National Committee on Governance (NCG) developed The General Guidance of Good Corporate Governance in Indonesia for the companies that operated in this country. The latest General Guidance of Good Corporate Governance in Indonesia developed by NCG was published in 2006, with improved scope of discussion. As stated in the NCG's general guidance of good corporate governance (2006, p. 1), here, the role of government and the society in supervising the corporate governance practices done by the company is increased, that these three interrelated parties (the company, the government, and the society) have their own role in the implementation of good corporate governance principles. The government becomes the regulator; the companies become the players who have to conduct the GCG principles, and the society, as the user of companies' products performs a social control of the GCG principles implementation in an objective way (NCG, 2006, p. 3)

In line with the principles of good corporate governance formulated by OECD, the principles of good corporate governance developed by NCG also have 5 pillars; transparency, accountability, responsibility, independency, and fairness, with explanation of each principles taken from the General Guidance of Good Corporate Governance in Indonesia (NCG, 2006):

a. Transparency

The company should provide the information and the material that is materially relevant and easy to be accessed and understood by the stakeholders. Relevant means that the information enclosed by the company includes all of the information about the company, not just the obligatory-enclosed information. The company should enclose the information on time and accurate, thus enables the stakeholders of the company can act upon the information enclosed by the company.

b. Accountability

The company should be accountable for its performance in transparent and fair way. Therefore, the company should be managed well, in line with the company's vision and also in accordance with the interests of all company's stakeholder. Accountability is one of the requirements for having a sustained business.

In order to have the accountability in its operation, the company must spell out all of the rights and responsibilities of each party within the company (the management, the workers, and so on). The company should have an effective internal audit of company's operation, with clear performance indicators and compliance of every party inside the company

upon agreed code of conduct to support company's accountability.

c. Responsibility

The company should obey all of the rules imposed to the company. The practice of corporate social responsibility should be done by the company, in order to sustain its business and getting the recognition as a good corporate citizen. In implementing the responsibility principle, every organ of the company (the directors, the board, and so on), have to hold on to prudential principle and compliance toward the law, the company's charter, and company's regulations.

In implementing the corporate social responsibility, the company should prioritize it to the people and environment surrounding the company's operation.

d. Independency

In order to implement the good corporate governance successfully, the company should be managed independently, meaning that, each of the company's organ will not dominate against one another and they are free from any intervention from other parties. So, each party within the company will do their own responsibilities without intervening the other parties' responsibilities. Independency of company's organ is very important—it is used to ensure that the decision making

process within the company will be freed from any conflict of interest, pressure from other parties to make the decision made to be as objective as possible.

e. Fairness

In doing its operation, the company should always pay attention toward the interests of every shareholder and other stakeholders based on fairness and equality principle. The company should give a room for every stakeholder to give their opinion and suggestion for company's improvement and giving the necessary information to the company's entire stakeholder, in accordance with the transparent principle. The company should also treat every stakeholder in a fair and equitable manner, based on their contribution toward the company. And in terms of employment recruitment, the company should give the same opportunity for everybody to apply for the jobs in the company, and not discriminate them based on their race, religion, gender, and physical conditions.

2.1.2. Corporate Governance Perception Index

In order to support the implementation of good corporate governance in Indonesian companies, there is an independent research body, namely The Indonesian Institute for Corporate Governance that make assessment of the corporate governance implementation in Indonesian companies. The Corporate Governance Perception Index (CGPI) is an index made by The

Indonesian Institute for Corporate Governance (IICG) in collaboration with SWA Magazine in order to assess the implementation of good corporate governance practice in Indonesian companies, both the State-owned enterprises companies and private companies that are listed in Indonesia Stock Exchange. The survey that is conducted by IICG is the first survey in Indonesia to assess the corporate governance implementation in Indonesian companies. The index is made since 2001, and since then, until December 2013, there have been 12 data of index surveyed by IICG in assessing the corporate governance practice in Indonesia. In every period of the survey, there is a central theme that is used to engage the management of the company with the role of corporate governance.

The participation in CGPI index is based on voluntary participation, not obligatory participation. Initially, not all of the companies in Indonesia are willing to be surveyed by IICG. This reluctance can be an indicator that many companies in Indonesia still do not implement the good corporate governance principles maximally, that the implementation of corporate governance in the company is only to fulfill the regulations imposed by the government. While the implementation of good corporate governance needs huge commitment from all related parties within the corporation, in order to sustain the life of the corporation itself.

The assessment process of the survey is through four steps: First, self-assessment, document completion, paper drafting, and observation. The

aspects of good corporate governance that is used in the survey are the compliance, conformance, and performance aspects. The compliance aspect is used to ensure that the operational activities of the companies are in line with the prevailing regulations. The conformance aspect is used to ensure that there is a harmony between the decision made by the companies with the prevailing norms, ethical standards, and values. While performance aspect in good corporate governance is used to assess the result of good corporate governance implementation in fulfilling the standard of companies' operational activities.

The five principles of good corporate governance (transparency, accountability, responsibility, independency, and fairness) are used as the indicators that used in every Corporate Governance Perception Index survey. Other indicators may be used within the survey, but it will depend on the theme of the survey in which the survey is conducted. After the assessment is done, then every surveyed company will be categorized into three categories based on the score of their GCG implementation:

Table 2.1

The Score of CGPI Survey

Score	Categories
55,00 – 69,99	Quite trusted
70,00 – 84,99	Trusted
85,00 – 100	Very trusted

Note: The Score of CGPI Survey (CGPI, 2012, p. 34)

However, as the time goes by, the number of companies participating in this survey increased, even from the private companies that has no strict obligation to implement the GCG principles, unlike the Indonesian SOEs that are obliged to embody the GCG principles in its life. It can be a good indication that companies in Indonesia have become aware of the importance of having and implementing good corporate governance principles in order to sustain the life of their business.

2.1.3. The Value of Good Corporate Governance

The implementation of good corporate governance practice in one company is not only used to ensure that the company is managed well by the managers, but also, based on the research that is done by Gompers, Ishii, and Metrick in 2003, there are other benefits for the company by implementing the good corporate governance:

a. Firms with better corporate governance characteristics tend to perform better. Stock returns of firms with good corporate governance practices are significantly greater than returns for firms with bad corporate governance practices
b. Reduced the probability of expropriation of corporate resources by managers
c. Lenders and investors are more willing to provide funds that, because they perceive that companies with good corporate governance are safer than companies with bad corporate governance, thus leading to lower costs of capital

In short, based on the findings of Gompers, Ishii, and Metrick (2003), it can be said that the firm that perform better in terms of its corporate governance tend to have higher firm value, higher profits, higher sales growth, lower capital expenditures, and make fewer corporate acquisitions.

Based on the research done by Newel and Wilson (2002) in some emerging market countries such as India, Malaysia, Mexico, South Korea, Taiwan and Turkey during 2001, it can be concluded that the companies that adopt strict corporate governance practices are being rewarded by institutional investors. As shown by the valuation ratio used in the research, price-to-book ratio, the companies with better corporate governance did have higher price-to-book ratios than those who do not. It becomes an indication that the investors of the company are willing to pay a premium for shares in a company with good corporate governance (Newel & Wilson, 2002).

Other researcher also found the effect of corporate governance mechanism toward the earnings management of the company, as what is found by Nuryaman and Rusmin (cited in Nuryaman, 2012, p. 5) in assessing the Indonesian companies' corporate governance mechanisms through the managerial ownership, concentrated institutional ownership, and the audit quality of 80 companies in Indonesia during 2008. Nuryaman and Rusmin explained earnings management as an opportunistic action done by the management of the company to make up the earnings of the

company by implementing some accounting policies, so the resulted earnings will be favorable for some parties, but on the other hand, it might be harmful for the others. They added that, managerial ownership, as a mechanism which allows the management of the company to own the company's stock, significantly reduced the earnings management of the firm, that is, an opportunistic behavior done by the firm's management to make up the earnings of the company so the earnings become more desirable by the owners of the company. It means that the probability of the management to expropriate the interest of shareholder can be minimized because of corporate governance implementation in Indonesian companies.

There is a relationship between the level of legal enforcement in one country and the practice of corporate governance done by companies inside the country. Klapper and Love in 2002 did the research about corporate governance, investor protection and the firms' performance in 14 emerging markets countries, and found that firm-level governance is lower for companies within the countries that have low level legal enforcement. The results of their research also suggest that firms with better corporate governance implementation perform better in terms of its operating performance and market valuation, which indicated by higher Return on Assets (ROA) in determining the firm's operating performance and Tobin's Q score, for assessing the market valuation of the firm. (Klapper & Love, 2002). But Klapper and Love warns that the significant

relationship between the company's corporate governance conduct and its performance will be more apparent for companies that operated in countries with strong legal system (Klapper & Love, 2002). This finding is supported by Gugler, Mueller and Yurtoglu (2003). They also found that the country's legal system is important in the supporting the corporate governance practice, in which the companies within stronger legal enforcement on investor protection (the English-origin legal system, or the common law) will earn return on investment that are at least as their cost of capital, and companies in all countries with civil law systems earn on average returns on investment below their cost of capital.

2.2. Indonesian State-owned Enterprises and Corporate Governance

Indonesian State-owned Enterprises, or in Indonesian known as BUMN (*Badan Usaha Milik Negara*) is an enterprise that is owned and established by Indonesian government in order to become the powerhouse of Indonesian economy and become the source that can increase the wealth of Indonesian people. In other words, Indonesian SOEs are expected to give valuable contribution to all stakeholders (Tjager, et. al. 2003). The establishment of Indonesian SOEs is in order to fulfill the Indonesian Constitution article 33, stated that every resource that have effect to the livelihood of many people are owned by the state. Indonesian SOEs run their business in many business sectors that affecting the livelihood of Indonesian people, thus, Indonesian SOEs have a big contribution toward

the economy of Indonesia, that is, the contribution of dividend gained by the Indonesian government from the Indonesian SOEs.

According to Muchayat (2010), if we make a comparison between the performance of Indonesian SOEs and the private companies that run their business in the same field as Indonesian SOEs, it can be said that the competitiveness of Indonesian SOEs is less than the private entities' competitiveness. Indonesian SOEs needs to restructure their business, so their level of performance can be optimum, and can give a significant contribution toward the national economy.

But on its journey to fulfill that expectation, the Indonesian SOEs are not immune from any actions that are deviated from the good corporate governance practice, as can be seen from the case of Indonesian SOEs several years ago, that Indonesian SOEs were regarded as the *cash cow* for some irresponsible parties. At that time, the level of competitiveness for almost all Indonesian SOEs were far behind the private and foreign companies that are operating in Indonesia (Tjager, et. al., 2003).

Privatization, according to Cowan (1990), as cited in Daniri (2005, p. 98), is a process of transferring functions, roles, and activities from public sector to the private sector. The main goal of privatization is to get a maximum productivity and efficiency of resources, and to manage all of the process and resources in a professional way. Privatization is one of the recommended actions suggested by funding institutions such as World Bank and Asian Development Bank (ADB) after the financial crisis that

hit Indonesia in the late 1990s to push the economic efficiency and reducing the role of government in the Indonesian SOEs businesses, and the most important thing, is to encourage the Indonesian SOEs management to implement the good corporate governance principles within the company (Daniri, 2005, p. 100), so the company can be more competitive to compete with other companies in private sector.

Therefore, there is an urgency to reform the Indonesian SOEs, especially those that are not competitive enough to compete with other companies in the market. In order to reform the Indonesian SOEs, Muchayat (2010), proposes three actions: revitalization, restructuration, and privatization are the required processes to make Indonesian SOEs to have a sustainable competitiveness.

As one of the aspect in optimizing the performance of Indonesian SOEs, the implementation of Good Corporate Governance in Indonesian SOEs is very crucial (Muchayat, 2010). Even, international financial organizations such as Asian Development Bank (ADB), International Monetary Fund (IMF), and World Bank require the government of Indonesia to promote the practice of Good Corporate Governance in every company in Indonesia, moreover in the Indonesian SOEs as the enterprises of that owned by Indonesian government, when those international financial organizations gave the financial aid and grants to the government of Indonesia after the late 1990s financial crisis (Tjager et al., 2003).

Because the lack of GCG practice that makes the management of Indonesian SOEs ineffective, so in 2002, the Minister of Indonesian SOEs issued the Ministerial Decree number KEP-117/M-MBU/2002 about the Implementation of Good Corporate Governance Practice in Indonesian SOEs.

Although the internalization of good corporate governance is an obligatory for all Indonesian SOEs, what has been found by Indreswari (2006, p. iv) in her study about the corporate governance in Indonesia State-owned Enterprises showed that this government initiative is not effectively implemented by the SOEs.

Based on her study, Indreswari (2006, p. 291-293) found several key findings that affect the corporate governance initiatives in the Indonesian SOEs. First, both of the Boards and the government of Indonesia lack of commitment and consistency in implementing the good corporate principles in Indonesian SOEs. Second, there is a misconception of corporate governance within the Indonesian SOEs. Indreswari (2006) found that the boards of Indonesian SOEs misinterpret the responsibility in conducting the good corporate governance is in the hand of the company's management. Third, unclear program of corporate governance implementation by the Indonesian SOEs and the Ministry of State-owned Enterprises that seemed to give no detailed plan of the Indonesian SOEs corporate governance program. This problem is worsened by the nature of some parties within the SOEs that are just waiting for the order from other

parties to do so, without any initiatives to develop a program and run the program independently.

Thus, based on her findings, Indreswari (2006, p. 305) suggest that the development of corporate governance principles in Indonesian SOEs needs to take external factors consideration, such as the culture, politics, law enforcement and public governance that will contribute to the success of corporate governance implementation in the Indonesian SOEs. Aside from that, Indreswari (2006, p. iv) also highlight that in order to enhance the effectiveness of corporate governance, strong commitment from both the Indonesian government and the management of the SOEs is very important.

2.3. Firm's Financial Performance

Gitman (2000) as cited in Nuryaman (2012), stated his definition of performance as a description of the level of achievement from the activities, programs, and policies implemented in the firm to realize the desired goals, objectives, mission and vision of the company. Performance has its time horizon, in order to compare the performance of the firm from period into another period. Performance measurement can be interpreted as a process of quantifying the effectiveness and efficiency measurement, with a view to identify the problems and performance of the company, by focusing on the effectiveness and efficiency of companies' activities (Nuryaman, 2012). According to Lukviarman (2004) as cited in Nuryaman (2012), in the traditional measurement of company's financial

performance, the two measurements that is often used is the financial accounting-based information and the market-based financial performance. The result of the performance measurement can be used to assess whether the management of the company has allocated the company's resources in an effective and efficient way.

One of the ways in assessing the firm's financial performance is by looking at the financial report published by the company. We can use some financial ratios to assess the information available in the firm's financial report. Financial ratios are used to evaluate the financial performance of the company. The result that obtained from the calculation of the ratios will reflect the condition of the company, whether the company is healthy or not (Hanafi, 2010).

There are many types of financial ratios used to assess the performance of the company, for example liquidity ratio, leverage ratio, activity ratio, profitability ratio, growth ratio, and valuation ratio. Liquidity ratio is the ratio that is used to assess the company's ability in meeting its short term obligation. Current ratio and quick ratio are the example of liquidity ratio. Leverage ratio is the ratio that is used to see how much of companies' assets or activities of the company that are financed by debt compared to the equity. Debt ratio is one of the examples in leverage ratio. Activity ratio is the ratio that is used to determine the level of efficiency in company's resources utilization. Total asset turn over

and inventory turnover can be used to reflect the activity ratio of the company.

Kasmir (2012, p. 114) described profitability ratio as the ratio that is used to show the level of management effectiveness through the profit of the company that is gained from sales of its product or the investment in investment product. Return on Assets and Return on Equity are the two examples of profitability ratio. Kasmir (2012, p. 115) also define valuation ratio as the ratio that gives the measurement upon management's ability in creating the market value of the company over its investment cost. Price to book value is one of the examples in assessing the market value of the company.

In line with the previous research on the impact of corporate governance toward firm's performance, the author will also focus this thesis in assessing the impact of corporate governance toward the financial performance in Indonesian State Owned Enterprises by using some financial ratios, in this case, the firm's Return on Equity (ROE), which represent the profitability ratio of the company and Tobin's Q, as the valuation ratio of the company.

2.4. The Effect of Corporate Governance to Profitability

Profitability is the ability of the firm to generate profit. A well-managed firm tends to have a better performance in profit generation than those who are poorly managed. Based on the previous research on the impact of corporate governance toward the financial performance of the

company, Jandik and Rennie (2005) as cited in Nuryaman (2012), conducted a case study on Sellier and Bennot, a firm in Czech Republic, and they found that good corporate governance has positive and significant result toward companies' performance, from a poorly managed firm with poor performance that transformed into a better governed firm with significant performance improvement. This is by the company's profitability ratio (ROA and ROE) that increased significantly after the revolution of corporate governance practice within the company (Jandik & Rennie, 2005). Nuryaman (2012), based on his research on 43 firms in Indonesia listed in CGPI index during 2007-2009, found that there is a positive relationship between company's governance conduct and its profitability, as measured by the companies' ROA and ROE.

According to Damodaran (1996), Return on Asset (ROA) measures the overall profitability of the firm, while Return on Equity (ROE) examines the profitability from the perspective of the shareholders. ROE relates the net profits to the book value of equity investment (Damodaran, 1996).

2.5. The Effect of Corporate Governance to Firm Value

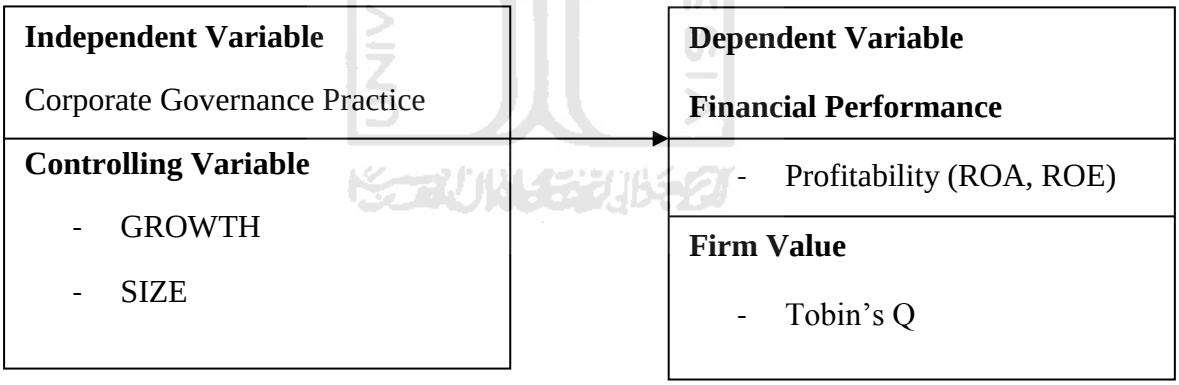
Some previous researches identified the relationship between corporate governance practice and market performance of the company's stock, as done by Black, Jang, and Kim (2012). Their research in assessing the market values of Korean firms found that, there is a strong relationship among those two variables, that 50% of Korean firms with outside

directors have 0.13 higher Tobin's Q score (or 40% higher share price) than those who do not. Klapper and Love (2002) also found that better corporate governance leads to better Tobin's Q score of the company who conduct the good corporate governance. They further found that, the Tobin's Q score will be more significant in the companies that was in their growth stage, in which they need to obtain funds from outside parties/sources, thus inducing them to implement better corporate governance in order to get lower cost of capital.

2.6. Theoretical Framework

Figure 2.1

Research Model



2.7. Hypothesis Development

Based on the review of related literature above and the theoretical framework, the hypothesis of this research are as follows:

2.7.1. The Influence of Corporate Governance to Return on Assets

Return on Asset (ROA) is the profitability ratio that is used to measure the overall profitability of the firm (Damodaran, 1996). Jandik

and Rennie (cited in Nuryaman, 2012, p. 6), did a case study on Sellier and Bennot, a firm in Czech Republic, and they found that good corporate governance has positive and significant result toward companies' performance, from a poorly managed firm with poor performance that transformed into a better governed firm with significant performance improvement, as shown by the company's profitability ratio (ROA and ROE) that increased significantly after the revolution of corporate governance practice within the company (Jandik & Rennie, 2005).

Ha1. There is a positive influence of corporate governance practices on company's Return on Assets.

2.7.2. The Influence of Corporate Governance to Return on Equity

A firm that is managed properly and implement the high standard of corporate governance will tend to have better profit generation, and thus, better performance in its Return on Equity. Return on Equity is the measurement of firm's profitability in the eyes of shareholders. Nuryaman (2012), in his research on 43 firms in Indonesia listed in CGPI index during 2007-2009, found that there is a positive relationship between company's governance conduct and its profitability, as measured by the companies' and ROE.

Ha2. There is a positive influence of corporate governance practices on company's Return on Equity.

2.7.3. The Influence of Corporate Governance to Tobin's Q

There are many researchers conducted in assessing the impact of good corporate governance to the firm's value. Black, Jang, and Kim (2012), on their research in assessing the market values of Korean firms found that, there is a strong relationship among those two variables, that 50% of Korean firms with outside directors have 0.13 higher Tobin's Q score (or 40% higher share price) than those who do not. Klapper and Love (2002) also found that better corporate governance leads to better Tobin's Q score of the company who conduct the good corporate governance. They further found that, the Tobin's Q score will be more significant in the companies that were in their growth stage, in which they need to obtain funds from outside parties/sources, thus inducing them to implement better corporate governance in order to get lower cost of capital.

Ha3. There is a positive relationship of corporate governance practices on company's Tobin's Q ratio.

CHAPTER III

RESEARCH METHOD

There are two main methodologies that will be used in this research, first, analyzing the practice of good corporate governance of Indonesian State-owned Enterprises by using the data from The Indonesian Institute for Corporate Governance during 2005-2012. Second, the financial performance of the company will be assessed to know the impact of GCG implementation through company's ROA, ROE, and Tobin's Q score. Therefore, those data will be calculated with SPSS to get the significance level.

3.1. Population and Sample

The population in this research is the Indonesian state-owned enterprises that listed in Indonesia Stock Exchange during 2005-2012. The selection of the sample is using the purposive sampling method in order to get the samples that can represent the criteria of the research. The criteria of sample selection are:

1. The public State-owned enterprise that listed in IICG's CGPI (Corporate Governance Performance Index) score during 2005-2012
2. The companies that have fulfilled the above requirement have a complete data of annual report during 2005-2012 to support the calculation of research variables.

3.2. Source of Data

This research uses historical data sources. The type of data that is used is secondary data that is obtained from:

1. The annual report of the State-owned enterprises during 2005-2012 that is directly obtained from the companies' website.
2. The data of CGPI ranking during 2005-2012 by The Indonesian Institute for Corporate Governance (IICG) that is directly obtained from company's corporate secretary.

3.3. Research Variables

3.3.1. Financial Performance

The dependent variable of this research is the State-owned enterprises' financial performance. The firm's financial performance that is used in this research is the firm's financial performance during 2005-2012. In this research, the financial performance is measured using:

a. Return on Assets

Return on Assets measures the company's operating efficiency in generating profits from its assets (Damodaran, 1996). The formula of this ratio is:

ROA = Net Income : Total Assets

b. Return on Equity

Return on Equity is the ability of the firm in using its equity to get the profit. The formula of this ratio is:

ROE = Net Income : Total Equity

3.3.2. Firm Value

Tobin's Q is calculated using the formulation that is developed by Cjung and Pruitt (1994) in Wardani (2008) as cited in Hartanto (2010), that is:

Tobin's Q = (MVE + PS + Debt) : Total Assets

Description:

- **MVE (Market Value of Equity)**: The closing price at the year-end X the number of shares outstanding
- **PS**: The value of liquidation of the preferen's stocks outstanding
- **Debt**: (Current debt – Current assets) + Book value of inventory + Long Term Debt
- **TA**: Total Assets

In line with the research done by Hartanto (2010) about the practice of corporate governance in Indonesian public companies, the writer will use the same formulation used by Hartanto (2010) to make adjustment with the financial performance or transaction of companies in Indonesia, so

the Tobin's Q ratio formulation that will be used in this research is:

Q ratio = (Market value of Equity + Liabilities) : Total Assets

The market value of equity is calculated by multiplying the end-year closing price with the number of shares outstanding. According to James Tobin, as stated in Hartanto (2010), if the value of this ratio is bigger than 1, it means that the company is generating earning with the rate of return that in line with the price of the company's assets.

3.3.3. Corporate Governance

The independent variable of this research is the State-owned enterprises' corporate governance practice. This variable is measured by using the CGPI (Corporate Governance Performance Index) that is formulated by The Indonesia Institute of Corporate Governance (IICG). The CGPI is used to measure the corporate governance practice in Indonesian public companies that listed in Indonesia Stock Exchange.

The CGPI ranking itself is based on the accumulation of weight that is based on the assessment given by IICG on each company's corporate governance implementation. The higher the CGPI score, the better the corporate governance implementation in the company. The rating is designed with three scoring criteria; very

trusted companies (with the end score of 85-100), trusted companies (with the end score of 70-84), quite trusted companies (with the end score of 55-69).

3.3.4. Controlling Variable

The controlling variables are the variables that the factors are controlled to neutralize its impact that can obscure the relationship between independent variable and dependent variable. In line with the previous research in analyzing the impact of corporate governance in company's performance, this research will use company's growth of revenues and company's size during 2005-2012 as the controlling variables of this research.

a. Company's Growth

According to Klapper and Love (2002), a growing firm that needs the external source of fund to expand its operation have to show a better corporate governance practice than those who don't, because this will leads to a lower cost of capital for the company. In line with the previous research done by Nuryaman (2012), the following formulation of company's growth according to Tomsen and Pedersen (cited in Nuryaman, 2012, p. 9) is:

Growth = (Sales t – Sales t-1 / Sales t-1) x 100%

Description:

Sales t = Current year's sales level

Sales t-1 = A year before current year's sales level

b. Firm Size

The total assets variable is used to represent the size of the company, because the writer perceived that the big companies can have a bigger agency problem, especially the State-owned enterprise, so the companies, especially the State-owned enterprise, need a better corporate governance practice. By using that assumption, the writer used Total Asset as one of the controlling variable in this research. The formula of Total Assets is:

Total Assets = Current Assets + Non-current Assets

In this research, in line with the previous research done by Brown and Caylor in (2004), the total assets will be calculated using natural log of total assets (LN of Total Assets)

3.4. Tools of Analysis

3.4.1. Regression Model

In statistics, regression analysis is a statistical technique for estimating the relationships among variables, when the focus is on the relationship between a dependent variable and one or more independent variables. The analysis that will be used in this research is multiple regressions. Multiple regressions is a popular techniques in many disciplines, it is an appropriate method of

analysis when the research problem involves a single metric independent variable.

Multiple regressions is an extension of bivariate regression in which several independent variables are combined to predict a value on dependent variable for each subject; which will be resulted in an equation that represents the best prediction of dependent variable from several continuous independent variables. There are three regression models that will be used in this analysis as follows:

The first equation is used to measure the Return on Assets of the company:

$$\mathbf{ROA = \alpha + \beta_1\, CGPI\ (t) + \beta_2\, GROWTH\ (t) + \beta_3\, SIZE\ (t) + \varepsilon}$$

The second equation is used to measure the Return on Equity of the company:

$$\mathbf{ROE = \alpha + \beta_1\, CGPI\ (t) + \beta_2\, GROWTH\ (t) + \beta_3\, SIZE\ (t) + \varepsilon}$$

The third equation is used to measure the Tobin's Q ratio of the company's stock:

$$\mathbf{Tobin's\ Q = \alpha + \beta_1\, CGPI\ (t) + \beta_2\, GROWTH\ (t) + \beta_3\, SIZE\ (t) + \varepsilon}$$

Description:

ROA = Company's Return on Assets

ROE = Company's Return on Equity

Tobin's Q = Company's Tobin's Q ratio

α = Coefficient

β = Coefficient

CGPI = Company's CGPI score

GROWTH = Company's growth as measured by its sales growth

SIZE = Natural logarithm of company's Total Assets

3.4.2. Classical Assumption Test

In estimating the linear equation, Ordinary Least Square (OLS) method is important, because the assumptions of OLS must be concerned to result in Best Linear Unbiased Estimation (BLUE). OLS can be extended to more than one independent variable and to non-linear functions.

In this analysis, in line with the previous research on corporate governance, from the five conditions that must be fulfilled, there are four assumptions that will be used: 1) Normality Test; 2) Multicollinearity Test; 3) Autocorrelation Test; 4) Heterokedasticity Test.

a. Normality test is used to determine whether a set of data is well-modeled by a normal distribution or not, or to compute how likely an underlying random variable is to be normally distributed. Kolmogorov-Sminov test will be used to test the normality of the variables. According to this method, if a variable is having a significant KS ($p>0,05$), then this variable is normally distributed.

b. Multicollinearity test is needed to check whether there is any correlation among independent variables in regressions model or not. In a good regressions model, there should not be any correlation among the independent variable. Multicollinearity can be known by analyzing the matrix of correlation among independent variable. And, by using the tolerance value and variance inflation factor (VIF) that is generated from the independent variable, the multicollinearity can be known.

c. Autocorrelation test is taken to determine the independency of the observation, because in multiple regressions assume that every observation should not be correlated. The Durbin-Watson test will be conducted to test this assumption. It is calculated based on the amount of difference in squared value of chronological estimated disturbance. The criterion of hypothesis testing that is free from correlation is:

Table 3.1

Durbin-Watson Criteria

Durbin-Watson	Conclusion
$0 < d < dl$	There is a positive correlation
$dl \leq d \leq du$	No conclusion
$du < d < 4-dl$	No autocorrelation
$4-du \leq d \leq 4-dl$	No conclusion
$du < d < 4-du$	There is a negative correlation

d. Heterocedasticity is a condition where the variance of each disturbance is not constant. Heterocedasticity test is conducted to know whether the disturbance on the regressions model is constant or not. One of the ways to know the heterocedasticity is by looking at the occurrence certain pattern in scatterplot graph among dependent variable and its residual. A good regression model is homocedasticity, a condition in which there is no occurrence of certain pattern in the scatterplot diagram among the dependent variable and its residual.

3.5. Hypothesis Testing

Based on the theoretical review, research hypotheses can be formulated as follows:

Ha1. There is a positive influence of corporate governance practices on company's Return on Assets

Ha2. There is a positive relationship of corporate governance practices on company's Return on Equity

Ha3. There is a positive relationship of corporate governance practices on company's Tobin's Q ratio

3.5.1. First Hypothesis Testing

H_{01}: $b_1 \leq 0$ The GCG implementation does not influence ROA

H_{a1}: $b_1 > 0$ The GCG implementation does influence ROA

The testing criteria that is used in accepting or rejecting the hypothesis (H_{a1}) above is, if the regression coefficient b_1 is having p-value < 0.05, so the H_{a1} will be accepted, which means that GCG implementation is having a positive influence on Return on Assets.

3.5.2. Second Hypothesis Testing

H_{02}: $b_2 \leq 0$ The GCG implementation does not influence ROE

H_{a2}: $b_2 > 0$ The GCG implementation does influence ROE

The testing criteria that is used in accepting or rejecting the hypothesis (H_{a2}) above is, if the regression coefficient b_2 is having p-value < 0.05, so the H_{a2} will be accepted, which means that GCG implementation is having a positive influence on Return on Equity.

3.5.3. Third Hypothesis Testing

H_{03}: $b_3 \leq 0$ The GCG implementation does not influence Tobin's Q

H_{a3}: $b_3 > 0$ The GCG implementation does influence Tobin's Q

The testing criteria that is used in accepting or rejecting the hypothesis (H_{a3}) above is, if the regression coefficient b_3 is having p-value < 0.05, so the H_{a3} will be accepted, which means that GCG implementation is having a positive influence on Tobin's Q ratio.

To test the proposed hypotheses above, there will be two tests that will be used; F-Test and t-Test. F-Test is a testing method used in assessing whether the independent variable(s) are influencing the dependent variable simultaneously. While t-Test is a testing method which used to assess the independent variable partially influence the dependent variable or not.

CHAPTER IV

RESEARCH FINDINGS AND DISCUSSION

This research aims to find out the influence of corporate governance in Indonesian State-owned enterprises toward the return on assets (ROA) and return on equity (ROE) of the Indonesian SOEs as the financial performance of the firm, in terms of its profitability, and to identify the influence of corporate governance practice in Indonesian SOEs to the Indonesian SOEs' Tobin's Q in assessing the firm value.

This research is done to Indonesian SOEs that have already gone public and listed in Corporate Governance Perception Index (CGPI) from 2005 until 2012, with the total observation of 59 data of CGPI score for go public Indonesian SOEs in those years.

After the secondary data are gathered, then the calculation of variables is done as what is attached in the attachment. The data of variables are analyzed by using the multiple regressions and classical assumption tests.

4.1. Descriptive Analysis

The descriptive analysis of this research explains the description of variable data that will be analyzed in the research model. In this analysis, the writer will identify the maximum value, minimum value, average value (the mean), and the value of standard deviation of each variables analyzed in this research. There are 59 data that is being analyzed, which resulted in 6 data of descriptive analysis.

Table 4.1

Descriptive Statistic of Research Variable

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	59	.005	.531	.09562	.095557
ROE	59	.005	.787	.23135	.126324
Q	59	.20	7.32	1.7685	1.48015
SIZE	59	28.55	34.09	31.0703	1.75766
CGPI	59	67.46	91.91	84.1159	4.64841
GROWTH	59	-.26	1.13	.1485	.22813
Valid N (listwise)	59				

Based on the data in Table 4.1, the ROA (Return on Assets), which becomes the dependent variable in this research, is having a minimum value of 0.005 (0.5%); maximum value of 0.531 (53.1%); the average value of ROA is 0.09562 (9.56%), and the standard deviation value of 0.0955, which shows that the value of distribution from ROA in this research is 9.56%. The mean of ROA in this research indicates that the observed companies, in average can generate net profit for 9.56% from its total assets.

From Table 4.1, it can be inferred that the minimum value of ROE (Return on Equity) is 0.005 (0.5%); the maximum value of ROE is 0.787 (78.7%); the average value (the mean) of the ROE is 0.23135 (23.13%); and the ROE of companies being analyzed in this research is having a standard deviation value of 0.126324. The mean value of observed companies is quite good, which means that in average, all of the observed Indonesian SOEs can generate net income around 23% from its equity.

For the Tobin's Q variable, as reflected in the Q row of the Table 4.1, the minimum value of the surveyed firms in this research is 0.202; the maximum value of 7.32; the average value of 1.768, and the standard deviation for this variable is 1.48015. The Tobin's Q mean value of observed companies in this research accounted for 1.768, which is a favorable indication that in average, the Indonesian SOEs are having a higher market value than their assets value, because the average score of Tobin's Q is higher than 1 (which is 1.768), or it can be said that the market value of Indonesian SOEs are 1.768 higher than its total assets.

On the other hand, the SIZE variable, the natural log of company's total assets which become the proxy of company's total assets, is having the minimum score of 28.55 and the maximum value of 34.09. The average value of SIZE in this research is 31.070, and the standard deviation of this variable's value is 1.7576.

CGPI variable, the independent variable of this research that become the proxy of corporate governance implementation in the Indonesian SOEs, is having the minimum score of 67.46 and the maximum score of 91.91. The average value of CGPI score in this research is 84.1159, with the standard deviation value of CGPI score is 4.64841. The average value of CGPI score in this research is quite favorable, that is based on the assessment criteria in determining the trustworthiness level of the company, the score of 84.116 belongs to the group of trusted company.

GROWTH variable, in this research is become the proxy of the opportunity for the firm to grow, as measured by the average of its sales growth in two years (t and t-1). The minimum value of GROWTH variable in this research is -26%; the

maximum value is 113%; the average value of GROWTH variable is 14.85%, and the standard deviation value of this research is 0.22813.

4.2. Hypothesis Testing Result

The classical assumption test and the regression analysis will be conducted to test the hypotheses proposed in this research with the help of SPSS program version 18.0.

4.2.1. Classical Assumption Test of The Hypotheses

There are four classical assumption tests that will be used to test the classical assumption of the hypothesis; autocorrelation testing, multicollinearity testing, heteroscedasticity testing, and normality testing.

4.2.1.1. Autocorrelation Testing

Autocorrelation test is taken to determine the independency of the observation, because in multiple regressions assume that every observation should not be correlated. As stated by Ghozali (2001, p. 67), the correlation problem can occur because the observations are sequentially related to one another. This problem occurs because the residuals (error bullies) are not free from one observation to another observation. A good regression is the one which is free from autocorrelation. The Durbin-Watson test will be conducted to test this assumption.

Table 4.2

The result of Autocorrelation Testing of Hypothesis 1

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.602[a]	.363	.328	.078330	2.129

a. Predictors: (Constant), GROWTH, CGPI, SIZE

b. Dependent Variable: ROA

As can be depicted from Table 4.2, the Durbin-Watson value of the first hypothesis testing is 2.129. The Durbin-Watson value of this hypothesis testing is greater than its upper bound of the table value of Durbin-Watson Significance Table with the degree of freedom of 5%, number of sample 59, and the amount of independent variable of 3, which is 1.48. Because the DW value of this hypothesis (2.129) is greater than the upper bound (du) 1.48, it can be concluded that there is no positive autocorrelation in this regression model.

Table 4.3

The Result of Autocorrelation Testing of Hypothesis 2

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.484[a]	.234	.192	.113547	1.818

a. Predictors: (Constant), GROWTH, CGPI, LTA

b. Dependent Variable: ROE

As can be inferred from Table 4.3, the Durbin-Watson value of the first hypothesis testing is 1.818. The Durbin-Watson value of this hypothesis testing is greater than its upper bound of the table value of

Durbin-Watson Significance Table with the degree of freedom of 5%, number of sample 59, and the amount of independent variable of 3, which is 1.48. Because the DW value (1.818) is greater than the upper bound (du) value, which is 1.48, it can be concluded that there is no positive autocorrelation in this regression model.

Table 4.4

The Result of Autocorrelation Testing of Hypothesis 3

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.537[a]	.288	.249	1.28265	2.408

a. Predictors: (Constant), GROWTH, CGPI, LTA

b. Dependent Variable: Q

As can be seen from Table 4.4, the Durbin-Watson value of the first hypothesis testing is 2.408. The Durbin-Watson value of this hypothesis testing is greater than its upper bound of the table value of Durbin-Watson Significance Table with the degree of freedom of 5%, number of sample 59, and the amount of independent variable of 3, which is 1.48. Because the DW value (2.408) is greater than the upper bound (du) 1.48, it can be concluded that there is no positive autocorrelation in this regression model.

4.2.1.2. Multicollinearity Testing

Multicollinearity test is needed to check whether there is any correlation among independent variables in regressions model or not. In a good regressions model, there should not be any correlation among the

independent variable. Multicollinearity can be identified by analyzing the matrix of correlation among independent variable, and by using the tolerance value and variance inflation factor (VIF), we can identify whether the correlation among the independent variables exists or not.

Table 4.5

The result of Multicollinearity Testing of Hypotheses

Collinearity Statistics	
Tolerance	VIF
.563	1.776
.576	1.736
.970	1.031

As can be learned from Table 4.5, the result of the Variance Inflation Factor (VIF) value calculation shows that there is no independent variable that has the VIF value over than 10. So it can be said that there is no multicollinearity issue among the independent variable in this regression model.

4.2.1.3. Normality Testing

Normality test is used to determine whether a set of data is well-modeled by a normal distribution or not, or to compute how likely an underlying random variable is to be normally distributed. Kolmogorov-Sminov test will be used to test the normality of the variables. According to this method, if on variable is having a significant KS (p>0,05), then this variable is normally distributed.

Table 4.6

The result of Normality Testing of Hypotheses

One-Sample Kolmogorov-Smirnov Test

		ROA	ROE	Q	SIZE	CGPI	GROWTH
N		59	59	59	59	59	59
Normal Parameters[a,b]	Mean	.09562	.23135	1.7685	31.0703	84.1159	.1485
	Std. Deviation	.095557	.126324	1.48015	1.75766	4.64841	.22813
Most Extreme Differences	Absolute	.219	.105	.226	.163	.098	.191
	Positive	.219	.105	.226	.163	.094	.191
	Negative	-.171	-.081	-.163	-.115	-.098	-.088
Kolmogorov-Smirnov Z		1.681	.804	1.734	1.249	.752	1.463
Asymp. Sig. (2-tailed)		.007	.538	.005	.088	.624	.028

a. Test distribution is Normal.

b. Calculated from data.

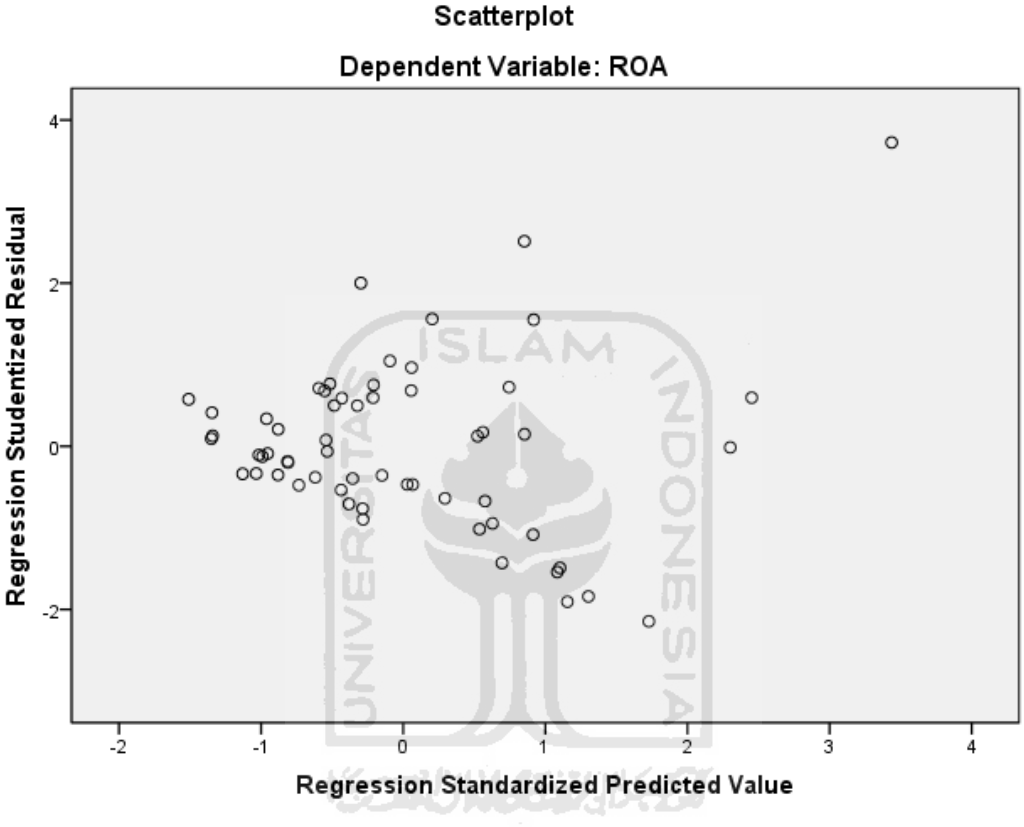
In Kolmogorov-Smirnov Test, the criteria for rejecting the null hypothesis; that the data is normally distributed—is if the P-value is less than 0.05 (P-value < 0.05). As can be seen from Table 4.6, the P-value is higher than 0.05 (P-value > 0.05), so the null hypothesis is accepted, which means that the above normality assumption is fulfilled.

4.2.1.4. Heteroscedasticity Testing

Heteroscedasticity test is conducted to identify whether the disturbance on the regressions model is constant or not. One of the ways to know the heteroscedasticity is by looking at the occurrence of certain pattern in scatterplot graph among dependent variables and its residual. A good regression model is homocedasticity.

Figure 4.1

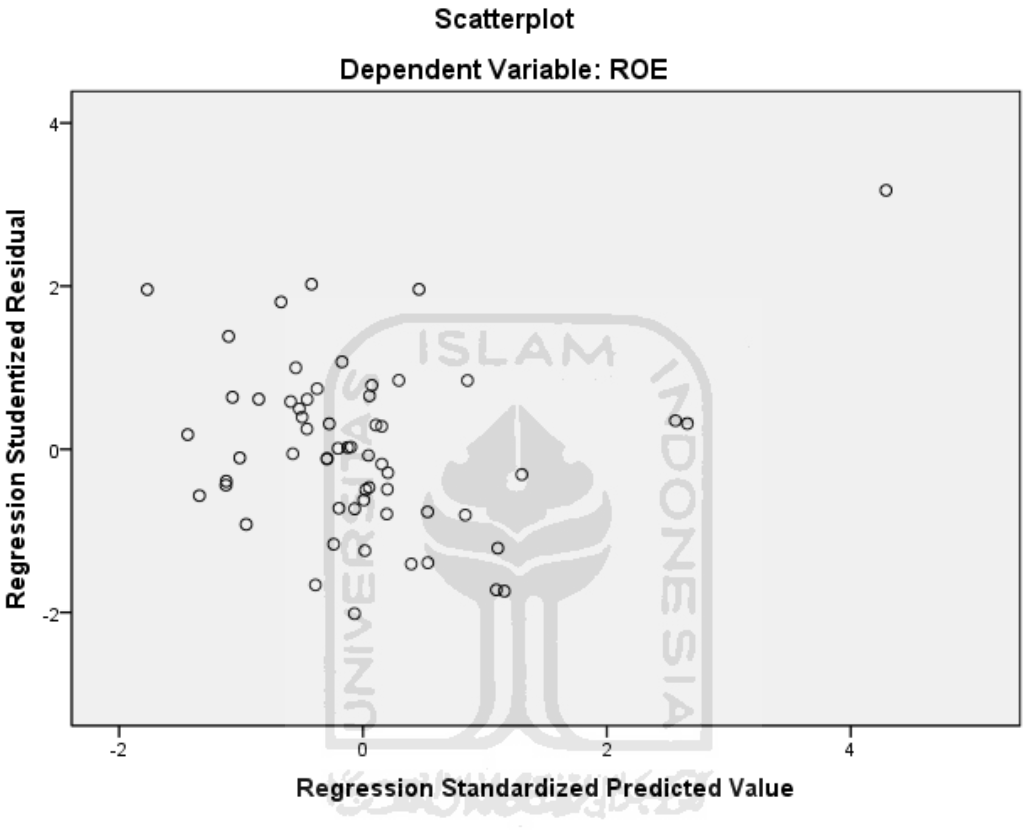
Scatterplot of Heteroscedasticity Testing of Hypothesis 1



As can be depicted from the scatterplot Figure 4.1 above, the points in the plot seem to be fluctuating randomly around zero in an un-patterned fashion, which indicates that there is no violation of the assumption of constant variance of the random errors in the first hypothesis.

Figure 4.2

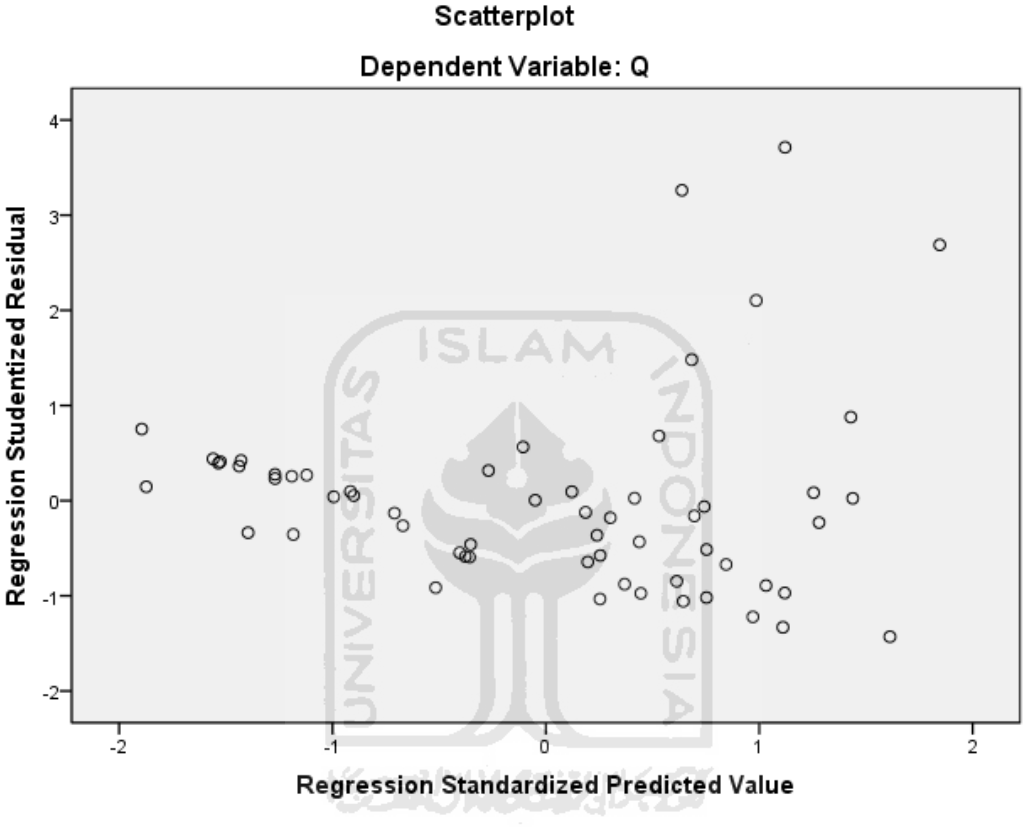
Scatterplot of Heteroscedasticity Testing of Hypothesis 2



As can be learned from the scatterplot Figure 4.2 above, the points in the plot seem to be fluctuating randomly around zero in an un-patterned fashion, which indicates that there is no violation of the assumption of constant variance of the random errors.

Figure 4.3

Scatterplot of Heteroscedasticity Testing of Hypothesis 3



As can be seen from the scatterplot Figure 4.3 above, the points in the plot seem to be fluctuating randomly around zero in an un-patterned fashion, which indicates that there is no violation of the assumption of constant variance of the random errors.

4.2.2. Regression Analysis Result of The Hypotheses

This statistical analysis is used to make a generalization of the significance testing of the relationship among ROA, ROE, and Tobin's Q toward the independent variable and the controlling variable.

4.2.2.1. The Influence of Corporate Governance to Return on Assets

In this section, the analysis of the result of the first hypothesis testing will be explained. The equation of the first hypothesis is:

$$\mathbf{ROA = \alpha + \beta_1 CGPI\ (t) + \beta_2 GROWTH\ (t) + \beta_3 SIZE\ (t) + \varepsilon}$$

The hypothesis testing of the dependent variable, which includes the profitability of the company, with ROA as the proxy, toward the corporate governance practice (CGPI), size of the firm (SIZE), and the growth of company's revenue growth (GROWTH). After the classical assumption testing is done, and the first hypothesis will be tested partially with the t-Test, and tested simultaneously with F-Test.

Table 4.7

The Result of t-Test of the First Hypothesis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.500	.206		2.431	.018
	SIZE	-.024	.008	-.443	-3.088	.003
	CGPI	.004	.003	.183	1.293	.201
	GROWTH	.181	.046	.432	3.953	.000

Based on the Table 4.7 above, we can get the regression equation of:

ROA = 0.500 - 0.024 SIZE + 0.004 CGPI + 0.181 GROWTH

From the above equation, it can be inferred that the constant value is 0.500, which means that, if the value of SIZE, CGPI, and GROWTH in

this research equals to zero, then the size of dependent variable ROA will be equal to 0.500 percent (0.500%).

The coefficient value of SIZE, in this case is -0.024, which means that the value of ROA will decrease for 0.024% if the SIZE variable increased for one point. The formulation of return on assets' equation is company's net income divided by its total assets. The SIZE variable of this research is the proxy of company's total assets. Thus, by seeing the formulation of ROA equation, it can be inferred that, the bigger the company's total assets (the SIZE variable), the lower the company's return on assets, because of the inverse relationship among them.

The significance level of ROA in this hypothesis testing is lower than the required significance level (0.05), which is 0.03. This result indicates that individually, the SIZE variable influence the ROA of Indonesian State-owned enterprises, although in an inverse way that the increased of company's assets (as indicated by the SIZE variable), will decrease the company's return on assets.

The coefficient value of CGPI, in the equation above is 0.004. The significance level of CGPI is far above the required significance level (0.05), which is 0.201. This result suggests that CGPI, individually, has no influence toward the performance of Indonesian SOEs' return on assets, or, the first hypothesis that stated about the positive influence of CGPI toward ROA is rejected.

The rejection of the hypothesis that there is a positive influence of CGPI toward ROA contradicts with the research done by Nuryaman (2012) who analyzed the influence of CGPI toward the company's financial performance of Indonesian public companies that are listed in CGPI index during 2007 until 2009, in which one of the proxy used in measuring the financial performance is ROA. He found that, by using 43 samples, the CGPI is positively influenced the ROA of the analyzed companies.

The limitation of the number of samples, that is, the number of public Indonesian State-owned enterprises assessed by Indonesian Institute for Corporate Governance, may become the reason behind the rejection of the hypothesis. The previous researches that analyzed the influence of corporate governance toward the ROA performance of public CGPI companies, the public CGPI Indonesian State-owned enterprises also become part of the samples used in those researches, for example like what is found by Nuryaman (2012). He does not make any further classification whether the companies are State-owned enterprises or not. Therefore, although the time of observation used in his research is less than what is used in this research, the result of his research is more significant than the result of this research, because the number of data used in one period of observation is higher than the data available for one period of observation available for this research, and also some of the non-

SOEs firms that included in his research have better capability in their management of assets.

Another reason behind the hypothesis rejection is that, because in this research the writer only includes the public Indonesian SOEs assessed by the IICG, and not all of the Indonesian SOEs. Thus, the sample data are not sufficient to represent the hypothesis.

While for the coefficient value of GROWTH, in the equation above is 0.181, which means that ROA will increase for 0.181% if the GROWTH increased for one point. The significance level of GROWTH in this t-Test is 0.000, which is lower than the required significance level (0.05). This shows that individually, GROWTH is positively influencing the performance of Indonesian SOEs' return on assets.

The equation of return on assets is net income/profit divided by company's total assets. GROWTH variable in this research is the proxy of company's growth of revenues from one period to another period, and the increased of company's revenue will also increase the net income of the company, and thus, the increased of company's revenue will increase the percentage of company's return on assets.

Table 4.8

The Result of F-Test of the First Hypothesis

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.192	3	.064	10.439	.000[a]
	Residual	.337	55	.006		
	Total	.530	58			

a. Predictors: (Constant), GROWTH, CGPI, SIZE

b. Dependent Variable: ROA

The last column of the Table 4.8 (the significance column), shows the model's goodness of fit, with the lower the number in the significance column, the better. As we can see from Table 4.8, it shows that the significance level of the test is at 0.000, and the value of the F-test in this hypothesis testing is 10.439. The significance level is lower than the required significance level (α), which is 0.05. Because the result of significance level indicates the decision of accepting the model or not, then, by observing the result on the table above, we can accept the model of the first hypothesis, because the relationship can be found, and the value of R-square is significantly different from zero, and that the independent variable (CGPI), together with the controlling variables are simultaneously affecting the Return of Assets of Indonesian SOEs.

Table 4.9

Model Summary of the First Hypothesis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.602[a]	.363	.328	.078330	2.129

a. Predictors: (Constant), GROWTH, CGPI, SIZE

b. Dependent Variable: ROA

The adjusted R square value, which is a better measurement than R square for a model that has more than one independent variable in assessing the proportion of variance in dependent variable (in this case, ROA), and has been explained by variations in the independent variable, is 0.328. This result implies that 32.8% of the variance in ROA was explained by CGPI, or there is a weak relationship between ROA and CGPI. The standard error of the estimation, which indicates the dispersion of the dependent variable estimate around its mean, in this testing is 0.078.

4.2.2.2. The Influence of Corporate Governance to Return on Equity

In this section, the analysis of the result of the second hypothesis testing will be explained. The equation of the second hypothesis is:

$$\mathbf{ROE = \alpha + \beta_1 CGPI\ (t) + \beta_2 GROWTH\ (t) + \beta_3 SIZE\ (t) + \varepsilon}$$

The hypothesis testing of the dependent variable, which includes the profitability of the company, with ROE as the proxy, toward the corporate governance practice (CGPI), size of the firm (SIZE), and the growth of company's revenue growth (GROWTH). After the classical assumption

testing is done, and then the second hypothesis will be tested simultaneously with F-test and tested partially with the t-Test.

Table 4.10

The Result of t-Test of the Second Hypothesis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.217	.298		.729	.469
	SIZE	-.003	.011	-.039	-.250	.803
	CGPI	.001	.004	.027	.176	.861
	GROWTH	.265	.066	.478	3.990	.000

Based on the table 4.15 above, we can get the regression equation of:

ROE = 0.217 - 0.003 SIZE + 0.001 CGPI + 0.265 GROWTH

From the above equation, it can be inferred that the constant value is 0.217, which means that, if the value of SIZE, CGPI, and GROWTH in this research is equal to zero, then the size of dependent variable ROE will be equal to 0.217 percent (0.217%).

The coefficient value of SIZE, in this case is -0.003, which means that the value of ROE will decrease into 0.003% if the SIZE variable increase for one point. The significance level of SIZE variable against ROE is higher than the required significance level (0.05), which is 0.803. This result means that, individually, SIZE variable has no significant influence toward the performance of Indonesian SOEs' return on equity.

The coefficient value of CGPI, in the equation above is 0.001. The significance level of CGPI variable is 0.861, higher than the required significance level (0.05), which indicates that CGPI variable, individually, has no positive influence to the performance of Indonesian SOEs' return on equity. The result of the t-Test above made the second hypothesis which stated that CGPI has a positive influence toward Indonesian SOEs' return on equity rejected.

The rejection of the second hypothesis contradicts with the research finding of Nuryaman (2012), and Darmawati, Khomsiyah and Rahayu (2005). Nuryaman, in his research about the influence of corporate governance practices on the Indonesian public companies during 2007 until 2009. He found that there is a positive influence of corporate governance toward the performance of observed companies. While Darmawati, Khomsiyah and Rahayu (2005), in their research on analyzing the relationship between corporate governance and firm's performance in 2001 until 2002 also found a positive influence of corporate governance practice on company's ROE, as one of the proxy of firm's performance.

The limitation of the number of samples, that is, the number of public Indonesian State-owned enterprises assessed by Indonesian Institute for Corporate Governance, may become the reason behind the rejection of the hypothesis. Until today, there are only 19 public Indonesian SOEs, and not all of the public Indonesian SOEs participate in the CGPI survey during the time of observation used by the writer, that is, during 2005 until

2012. The number of samples of this research is not sufficient to represent how the corporate governance practices in Indonesian SOEs influence the financial performance of the company. The previous researches that analyzed the influence of corporate governance toward the ROE performance of public CGPI companies, the public CGPI Indonesian State-owned enterprises has also become part of the samples used in those researches, for example the ones that were done by Nuryaman (2012) and Darmawati, Khomsiyah and Rahayu (2005). They do not make any further classification whether the companies are State-owned enterprises or not. Therefore, although the time of observation used in other researches is less than what is used in this research, the result of those researches are more significant than the result of this research, because the number of data used in one period of observation in previous research is higher than the data available for one period of observation available for this research.

By looking at the report of CGPI survey, the participation of Indonesian State-owned enterprises in the Corporate Governance Perception Index (CGPI) assessment is quite good, for example as indicated by the number of Indonesian State-owned enterprises which accounted for 35% of the total participant companies of CGPI 2011 (14 Indonesian SOEs out of total 40 participants), and 42.86% for CGPI 2012 (18 Indonesian SOEs out of 42 total participating companies) although not all of them are already listed in Indonesia Stock Exchange. Therefore, the problem of selection bias may occur, because in this research the writer

only includes the public Indonesian SOEs assessed by the IICG, which leads to the hypothesis rejection, because the sample data are not sufficient to represent the population.

While for the coefficient value of GROWTH, in the equation above is 0.265, which means that ROE will increase for 0.265% if the GROWTH increased for one point. The significance level of the GROWTH against ROE is 0.000, which is lower than the required significance level (0.05). This indicates that individually, GROWTH variable positively influence the performance of Indonesian SOEs' return on equity.

The positive influence of GROWTH variable toward the company's return on equity is because the GROWTH variable is the proxy of company's revenue growth from one period to another period. Given the equation of return on equity is net income divided by company's total equity, thus, the increased of company's revenue (the GROWTH variable), will also increase the company's net income and as the effect, the company's return on equity will increase.

Table 4.11

The Result of F-Test of the Second Hypothesis

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.216	3	.072	5.596	.002[a]
	Residual	.709	55	.013		
	Total	.926	58			

a. Predictors: (Constant), GROWTH, CGPI, SIZE

b. Dependent Variable: ROE

As we can see from the Table 4.11 above, it shows that the significance level of the test is at 0.002, and the value of F-Test of the second hypothesis testing is 5.596. Because the result of significance level indicates the decision of accepting the model or not, then, by seeing the result on the table above, we can accept the model of the second hypothesis, because the relationship can be found, and the value of R-square is significantly different from zero. Therefore, it can be said that simultaneously, CGPI, as the independent variable, together with SIZE and GROWTH variable influence the performance of Indonesian SOEs' return on equity.

Table 4.12

Model Summary of the Second Hypothesis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.484[a]	.234	.192	.113547	1.818

a. Predictors: (Constant), GROWTH, CGPI, SIZE

b. Dependent Variable: ROE

The adjusted R square value, which is a better measurement than R square for a model that has more than one independent variable in assessing the proportion of variance in dependent variable (ROE), and has been explained by variations in the hypothesis equation, is 0.192. This result implies that 19.2% of the variance in ROE was explained by the equation variables, or there is a weak relationship between them. The standard error of the estimate, which indicates the dispersion of the dependent variable estimate around its mean, in this testing is 0.113547.

Because the result of the adjusted R square means that there is a weak relationship between ROE and the variables used within the equation, there are other factors that might be more suitable to add to the existing hypothesis equation, so the adjusted R square result will be more significant. According to DuPont analysis, there are three main factors that drive the performance of company's return on equity, they are profitability, operating efficiency, and financial leverage. However, the usage of DuPont analysis may not be appropriate in analyzing some industries, for example the banking industry, and this research does not make any further classification of the company into its nature of business (for example, financial and non-financial firm), given the limited number of public Indonesian SOEs that are also listed in CGPI index.

4.2.2.3. The Influence of Corporate Governance to Tobin's Q

In this section, the analysis of the result of the third hypothesis testing will be explained. The equation of the third hypothesis is:

$$\mathbf{Q = \alpha + \beta_1 CGPI\ (t) + \beta_2 GROWTH\ (t) + \beta_3 SIZE\ (t) + \varepsilon}$$

The hypothesis testing of the dependent variable, which includes the firm value, with Tobin's Q as the proxy, toward the corporate governance practice (CGPI), size of the firm (SIZE), and the growth of company's revenue growth (GROWTH). After the classical assumption testing is done, and then the second hypothesis will be tested partially with t-Test and tested simultaneously with the F-Test.

Table 4.13

The Result of t-Test of the Third Hypothesis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.574	3.367		3.438	.001
	SIZE	-.533	.128	-.632	-4.172	.000
	CGPI	.079	.048	.248	1.654	.104
	GROWTH	.697	.750	.107	.930	.356

Based on the table 4.22 above, we can get the regression equation of:

Q = 11.574 - 0.533 SIZE + 0.079 CGPI + 0.697 GROWTH

From the above equation, it can be inferred that the constant value is 11.574, which means that, if the value of SIZE, CGPI, and GROWTH in

this research is equal to zero, then the size of dependent variable Q ratio will be equal to 11.574 percent (11.574%).

The coefficient value of SIZE, in this case is -0.533, which means that the value of Q ratio will decrease into 0.533% if the SIZE variable increase for one point. The significance level of SIZE variable is 0.000, which indicates that, SIZE of the firm has an influence over the score of company's Tobin's Q, but in an inverse way that the bigger SIZE of the firm, the lesser the value of the firm, in this case in terms of its Tobin's Q score. This result is in line with the logic of Tobin's Q equation itself. The SIZE variable is the proxy of company's natural logarithm of total assets, and the firm's total assets within Tobin's Q equation is the denominator of the equation, thus, there is an inverse relationship between the firm's SIZE and its Tobin's Q score.

The coefficient value of CGPI, in the equation above is 0.079. The result of the significance level of this hypothesis testing is 0.104—over than the required significance level (0.05), which means that, the score of CGPI index has no significant influence over the firm's Tobin's Q score. Thus, based on this result, the third hypothesis which stated that corporate governance has a positive influence over the Tobin's Q performance of Indonesian SOEs is rejected, although the significance level of CGPI toward Tobin's Q score in this hypothesis is lower compared to the significance level of the two previous hypotheses.

The formulation of Tobin's Q is the summation of market value of equities and liabilities of the firm and divided by the total assets of the firm. Market value of equities itself is the multiplication of end-year closing price with the number of company's outstanding shares. The price of the company's stock is driven by many factors; one of them is the behavior of the investor. Here, based on the result of the research, it can be inferred that the investors in Indonesia do not pay much attention toward the implementation of corporate governance in the companies that they invested in.

This result is supported by the previous research done in analyzing the impact of corporate governance toward the firm value of public Indonesian firms, which they found that there is an insignificant influence of corporate governance which uses CGPI score as the proxy with the Tobin's Q score, as the proxy of the firm's value. As what has been found by Sukamulja (2004) as cited in Irmawati (2009), that there is no variable used in her research, including the Ln (natural logarithm) of CGPI, and this influenced the performance of firm's Tobin's Q. This finding is supported by Sudaryani (2007) as cited in Irmawati (2009) who found that CGPI cannot directly influence the performance of Tobin's Q score of the analyzed companies. Darmawati, Khomsiyah and Rahayu (2005) also found that there is no significant influence between the company's corporate governance conduct with the Tobin's Q score, as the proxy of company's market performance. These results indicate that the investors in

Indonesia pay little attention to the fact whether the companies are implementing the good corporate governance principle in their operations or not.

Besides of the supporting result from the previous research, the limitation of the number of samples, that is, the number of public Indonesian State-owned enterprises assessed by Indonesian Institute for Corporate Governance may become the reason behind the rejection of the hypothesis. Until today, there are only 19 public Indonesian SOEs, and not all of the public Indonesian SOEs participate in the CGPI survey during the time of observation used by the writer, that is, during 2005 until 2012. The number of samples of this research is not sufficient to represent how the corporate governance practices in Indonesian SOEs influence the financial performance of the company.

While for the coefficient value of GROWTH, in the equation above is 0.697. The significance level of GROWTH toward Tobin's Q score is 0.356, which means that, GROWTH level of the firm is insignificant toward the Tobin's Q score of the firm. The insignificant impact of GROWTH variable toward Tobin's Q score is because the revenue of the company does not become one of the factors in the calculation of Tobin's Q score, and thus, there is a weak influence of the GROWTH variable over the result of company's Tobin's Q score calculation.

Table 4.14

The Result of F-Test of the Third Hypothesis

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	36.583	3	12.194	7.412	.000[a]
	Residual	90.486	55	1.645		
	Total	127.069	58			

a. Predictors: (Constant), GROWTH, CGPI, SIZE

b. Dependent Variable: Q

As we can see from the Table 4.14, it shows that the significance level of the test is at 0.000, and the result of the F-test of this hypothesis is 7.412. The result of significance level of this hypothesis testing (0.000) is lower than the required significance level (0.05), thus we can accept the model of the third hypothesis, because the relationship can be found, and the value of R-square is significantly different from zero.

Table 4.15

Model Summary of the Third Hypothesis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.537[a]	.288	.249	1.28265

a. Predictors: (Constant), GROWTH, CGPI, SIZE

b. Dependent Variable: Q

The adjusted R square value, which is a better measurement than R square for a model that has more than one independent variable in assessing the proportion of variance in dependent variable (Q), and has

been explained by variations in the independent variable, is 0.249. This result implies that 24.9% of the variance in Q ratio was explained by CGPI, or there is a weak relationship between Q ratio and CGPI. The standard error of the estimate, which indicates the dispersion of the dependent variable estimate around its mean, in this testing is 1.28265.

CHAPTER V

CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

5.1. Conclusions

Based on the result of the analysis and discussion in the previous research, the conclusions that can be drawn as follows:

1. Based on the result of the first hypothesis testing, it can be concluded that corporate governance practice does not influence the public Indonesian State-owned enterprises' return on assets performance. Therefore, the first hypothesis is rejected. The insufficient number of public CGPI Indonesian State-owned enterprises data during 2005 – 2012 may causes the rejection of the hypothesis.
2. Based on the result of the second hypothesis testing, it can be concluded that the corporate governance practice does not influence the public Indonesian State-owned enterprises' return on equity. Therefore, the second hypothesis is rejected. The insufficient number of public CGPI Indonesian State-owned enterprises data during 2005 – 2012 may causes the rejection of the hypothesis.
3. Based on the result of the third hypothesis testing, it can be concluded that the corporate governance practice does not influence the public Indonesian State-owned enterprises' Tobin's Q performance. Therefore, the third hypothesis is rejected. The insufficient number of public CGPI Indonesian State-owned enterprises data during 2005 – 2012 may causes the rejection of the hypothesis.

4. Based on the result of the regression equation, it can be inferred that generally, the controlling variables used in this research, GROWTH and SIZE variables are showing a significant result to influence the financial performance and firm value variables of the observed Indonesian State-owned Enterprises. This result is consistent with the finding from the previous researches, for example Brown and Caylor (2006) and Klapper and Love (2002).

5.2. Research Limitations

Based on the result of this research, the limitations that exist in this research are as follows:

1. The limited number of public Indonesian State-owned enterprises that participate in the CGPI survey during the time of observation causes the selection bias problem occurs in this research. The limited number of sample is not sufficient enough to represent the influence of corporate governance practice toward the financial performance and firm value of the firm.
2. The period of observation in this research is only 7 years. This observation period may not be representative enough, given the fact that the number of public Indonesian SOEs that participated in CGPI assessment is limited, although there is an increasing trend of participation from year to year.
3. There is no further classification about the type of Indonesian SOEs according to their business nature, whether it is a financial or non-

financial firm. The difference in business nature of these firms may require different assessment of financial performance and firm value.

5.3. Recommendations

Based on the conclusions and the existence of several limitations in this research, there are several recommendations given to the government of Indonesia, as the owner of the Indonesian SOEs and to the future writer as the considerations for the future research:

5.3.1. For The Government of Indonesia

The Indonesian government should encourage more Indonesian State-owned enterprises to go public, because by having more public Indonesian State-owned enterprises, the spirit of implementing the corporate governance principles in the Indonesian SOEs will be more apparent, especially in terms of measuring the accountability and the transparency of the Indonesian SOEs.

5.3.2. For Future Writer

1. The future writer may expand the period of observation in order to get a broader range of samples, given the limited number of public Indonesian state-owned enterprises that participate in the CGPI assessment.
2. The future writer may consider in making a further classification of public Indonesian SOEs according to their nature of business for the future research, because there are several variables that

will be more appropriate to use in assessing the financial performance and the firm value by one firm than the other. For example, the writer may use Net Interest Margin to assess the profitability of public Indonesian SOEs that run in banking sector, to add the existing profitability ratios that have already been used in this research.

3. The future writer may consider to use other sources of corporate governance practice survey than CGPI that covers a broader perspective of corporate governance practices that might be more related to assess the influence of corporate governance practices toward the firm's financial performance and firm value, although the result of the survey should be adjusted to the conditions of the firms in Indonesia.

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APPENDIX A

CORPORATE GOVERNANCE PERCEPTION INDEX (CGPI) SCORE OF INDONESIAN STATE-OWNED ENTERPRISES 2005 - 2012

2005

Company	CODE	CGPI
PT Bank Mandiri (Persero) Tbk.	BMRI	83.66
PT Aneka Tambang (Persero) Tbk.	ANTM	81.92
PT Telekomunikasi Indonesia (Persero) Tbk.	TLKM	81.30
PT Tambang Batubara Bukit Asam (Persero) Tbk.	PTBA	67.46

2006		
Company	CODE	CGPI
PT Bank Mandiri (Persero) Tbk.	BMRI	88.66
PT Aneka Tambang (Persero) Tbk.	ANTM	82.07
PT Bank Negara Indonesia (Persero) Tbk.	BBNI	79.46
PT Tambang Batubara Bukit Asam (Persero) Tbk.	PTBA	80.87
PT Adhi Karya (Persero) Tbk.	ADHI	81.79

2007		
Company	CODE	CGPI
PT Bank Mandiri (Persero) Tbk.	BMRI	89.96
PT Aneka Tambang (Persero) Tbk.	ANTM	83.41
PT Adhi Karya (Persero) Tbk.	ADHI	82.07
PT Wijaya Karya (Persero) Tbk.	WIKA	78.55
PT Tambang Batubara Bukit Asam (Persero) Tbk.	PTBA	81.23

2008		
Company	CODE	CGPI
PT Bank Mandiri (Persero) Tbk.	BMRI	90.65
PT Aneka Tambang (Persero) Tbk.	ANTM	85.87
PT Telekomunikasi Indonesia (Persero) Tbk.	TLKM	88.67
PT Bank Negara Indonesia (Persero) Tbk.	BBNI	81.63
PT Jasa Marga (Persero) Tbk.	JSMR	81.62
PT Adhi Karya (Persero) Tbk.	ADHI	81.54
PT Tambang Batubara Bukit Asam (Persero) Tbk.	PTBA	82.27

2009		
Company	CODE	CGPI
PT Bank Mandiri (Persero) Tbk.	BMRI	91.67
PT Aneka Tambang (Persero) Tbk.	ANTM	85.99
PT Telekomunikasi Indonesia (Persero) Tbk.	TLKM	89.04
PT Tambang Batubara Bukit Asam (Persero) Tbk.	PTBA	84.11
PT Adhi Karya (Persero) Tbk.	ADHI	82.23
PT Bank Negara Indoesia (Persero) Tbk.	BBNI	84.58
PT Timah (Persero) Tbk.	TINS	73.19
PT Jasa Marga (Persero) Tbk.	JSMR	82.65

2010		
Company	CODE	CGPI
PT Bank Mandiri (Persero) Tbk.	BMRI	91.81
PT Aneka Tambang (Persero) Tbk.	ANTM	86.15
PT Telekomunikasi Indonesia (Persero) Tbk.	TLKM	89.10
PT Tambang Batubara Bukit Asam (Persero) Tbk.	PTBA	84.33
PT Adhi Karya (Persero) Tbk.	ADHI	77.28
PT Bank Negara Indonesia (Persero) Tbk.	BBNI	85.35
PT Krakatau Steel (Persero) Tbk.	KRAS	85.19
PT Jasa Marga (Persero) Tbk.	JSMR	83.41
PT Wijaya Karya (Persero) Tbk.	WIKA	79.90

2011		
Company	CODE	CGPI
PT Bank Mandiri (Persero) Tbk.	BMRI	91.91
PT Aneka Tambang (Persero) Tbk.	ANTM	86.55
PT Telekomunikasi Indonesia (Persero) Tbk.	TLKM	89.57
PT Tambang Batubara Bukit Asam (Persero) Tbk.	PTBA	82.55
PT Bank Negara Indonesia (Persero) Tbk.	BBNI	85.75
PT Bank Rakyat Indonesia (Persero) Tbk.	BBRI	84.16
PT Jasa Marga (Persero) Tbk.	JSMR	83.65
PT Garuda Indonesia (Persero) Tbk.	GIAA	85.84
PT Timah (Persero) Tbk.	TINS	75.68
PT Bank Tabungan Negara (Persero) Tbk.	BBTN	85.9

2012		
Company	CODE	CGPI
PT Bank Mandiri (Persero) Tbk.	BMRI	91.88
PT Aneka Tambang (Persero) Tbk.	ANTM	88.71
PT Bank Negara Indonesia (Persero) Tbk.	BBNI	86.07
PT Bank Rakyat Indonesia (Persero) Tbk.	BBRI	85.56
PT Bank Tabungan Negara (Persero) Tbk.	BBTN	85.42
PT Garuda Indonesia (Persero) Tbk.	GIAA	85.93
PT Telekomunikasi Indonesia (Persero) Tbk.	TLKM	90.58
PT Timah (Persero) Tbk.	TINS	77.81
PT Wijaya Karya (Persero) Tbk.	WIKA	80.36
PT Tambang Batubara Bukit Asam (Persero) Tbk.	PTBA	83.80
PT Jasa Marga (Persero) Tbk.	JSMR	84.52

APPENDIX B

IICG SURVEYED INDONESIAN STATE-OWNED ENTERPRISES

IMPORTANT FINANCIAL HIGHLIGHTS 2005 – 2012

2005					
BUMN	Total Debt	Equity	Total Assets	# Shares Outstanding	End Year Closing Price
BMRI	240,164,245,000,000	23,214,000,000,000	263,383,348,000,000	20,182,096,657	1,640
ANTM	3,373,068,629,000	3,029,642,904,000	6,402,714,128,000	1,907,692,000	3,575
TLKM	32,573,450,000,000	23,292,401,000,000	62,171,044,000,000	20,159,999,279	1,180
PTBA	776,713,000,000	2,052,660,000,000	2,839,690,000,000	2,304,131,850	1,800

2006					
BUMN	Total Debt	Equity	Total Assets	# Shares Outstanding	End Year Closing Price
BMRI	241,171,136,000,000	26,341,000,000,000	267,517,000,000,000	20,334,565,065	2,900
ANTM	3,009,299,925,000	4,281,602,475,000	7,290,905,515,000	1,907,692,000	8,000
BBNI	154,596,653,000,000	14,794,000,000,000	169,416,000,000,000	13,281,687,400	1,870
PTBA	800,093,000,000	2,295,460,000,000	3,107,734,000,000	2,304,131,850	3,525
ADHI	2,240,148,773,000	440,661,000,000	2,869,948,000,000	1,801,320,000	800

2007					
BUMN	Total Debt	Equity	Total Assets	# Shares Outstanding	End Year Closing Price
BMRI	289,835,512,000,000	29,244,000,000,000	319,085,590,000,000	20,717,985,089	3,500
ANTM	3,273,117,500,000	8,763,578,938,000	12,037,916,922,000	9,538,459,750	4,475
ADHI	3,787,811,818,000	531,235,000,000	4,333,167,349,000	1,801,320,000	1,360
WIKA	2,776,904,388,000	1,291,212,000,000	4,133,064,000,000	5,846,154,000	570
PTBA	1,116,799,000,000	2,799,118,000,000	3,928,071,000,000	2,304,000,000	12,000

2008					
BUMN	Total Debt	Equity	Total Assets	# Shares Outstanding	End Year Closing Price
BMRI	327,896,740,000,000	30,514,000,000,000	358,439,000,000,000	20,874,991,622	2,025
ANTM	2,130,970,294,000	8,063,140,000,000	10,245,040,780,000	9,538,460,000	1,090
TLKM	39,005,419,000,000	34,314,000,000,000	91,256,000,000,000	20,159,999,279	1,380
BBNI	186,279,343,000,000	15,431,000,000,000	201,741,000,000,000	15,273,940,510	1,870
JSMR	7,758,936,681,000	6,572,008,000,000	14,642,760,000,000	6,800,000,000	910
ADHI	4,525,468,985,337	584,279,000,000	5,125,369,000,000	1,769,847,000	270
PTBA	2,029,169,000,000	3,998,132,000,000	6,106,828,000,000	2,304,000,000	6,900

2009					
BUMN	Total Debt	Equity	Total Assets	# Shares Outstanding	End Year Closing Price
BMRI	359,318,341,000,000	35,109,000,000,000	394,617,000,000,000	20,961,252,565	4,700
ANTM	1,748,127,419,000	8,148,939,490,000	9,939,996,438,000	9,523,038,000	2,200
TLKM	50,258,399,000,000	38,990,000,000,000	97,560,000,000,000	20,159,999,279	1,890
PTBA	2,292,740,000,000	5,701,372,000,000	8,078,578,000,000	2,304,000,000	17,250
ADHI	4,888,581,325,142	731,200,000,000	5,629,454,000,000	1,757,255,000	410
BBNI	208,322,445,000,000	19,144,000,000,000	227,497,000,000,000	15,273,940,510	1,980
TINS	1,425,361,000,000	3,430,064,000,000	4,885,712,000,000	5,033,019,999	2,000
JSMR	7,734,639,732,000	7,183,379,000,000	16,174,264,000,000	6,775,477,000	1,810

2010					
BUMN	Total Debt	Equity	Total Assets	# Shares Outstanding	End Year Closing Price
BMRI	407,704,515,000,000	41,543,000,000,000	449,775,000,000,000	20,996,494,742	6,500
ANTM	2,709,896,801,000	9,580,098,225,000	12,310,732,099,000	9,523,038,000	2,450
TLKM	43,343,664,000,000	44,419,000,000,000	99,759,000,000,000	20,159,999,279	1,590
PTBA	2,281,451,000,000	6,366,736,000,000	8,722,699,000,000	2,304,000,000	22,950
ADHI	4,059,941,228,781	861,113,000,000	4,927,000,000,000	1,757,226,000	910
BBNI	215,431,004,000,000	33,120,000,000,000	248,581,000,000,000	18,648,656,458	3,875
KRAS	8,158,514,000,000	9,293,915,000,000	17,584,059,000,000	3,151,990,500	1,200
JSMR	10,592,662,907,000	7,740,014,000,000	18,952,129,000,000	6,775,477,000	3,425
WIKA	4,369,536,958,000	1,801,623,781,000	6,286,305,000,000	2,001,540,500	680

2011					
BUMN	Total Debt	Equity	Total Assets	# Shares Outstanding	End Year Closing Price
BMRI	451,379,750,000,000	61,793,000,000,000	551,892,000,000,000	23,134,862,110	6,750
ANTM	4,429,191,527,000	10,772,043,550,000	15,201,235,077,000	9,523,038,000	1,620
TLKM	42,073,000,000,000	47,510,000,000,000	103,054,000,000,000	20,159,999,279	1,410
PTBA	3,342,102,000,000	8,165,002,000,000	11,507,104,000,000	2,304,000,000	17,350
BBNI	261,215,137,000,000	377,330,000,000	299,058,000,000,000	18,648,656,458	3,800
BBRI	420,078,955,000,000	49,820,000,000,000	469,899,000,000,000	24,669,162,000	6,750
JSMR	12,191,853,456,000	9,240,280,000,000	21,432,134,000,000	6,775,477,000	4,200
GIAA	10,462,833,569,270	8,819,207,460,193	18,009,967,000,000	22,640,996,000	475
TINS	1,972,012,000,000	4,597,795,000,000	6,569,807,000,000	5,033,020,000	1,670
BBTN	81,799,816,000,000	7,322,000,000,000	89,121,000,000,000	8,836,000,000	1,210

2012					
BUMN	Total Debt	Equity	Total Assets	# Shares Outstanding	End Year Closing Price
BMRI	518,705,769,000,000	76,532,865,000,000	635,618,708,000,000	23,333,333,333	7,800
ANTM	6,876,224,890,000	12,832,316,056,000	19,708,540,946,000	9,523,038,000	1,280
BBNI	289,778,215,000,000	43,525,291,000,000	333,303,506,000,000	18,648,656,458	3,700
BBRI	486,455,011,000,000	64,881,779,000,000	551,336,790,000,000	24,669,162,000	6,950
BBTN	101,469,722,000,000	10,278,871,000,000	111,748,593,000,000	10,356,000,000	1,450
GIAA	1,403,037,688,000	10,835,182,038,004	2,517,997,776,000	22,640,000,000	660
TLKM	44,391,000,000,000	66,978,000,000,000	111,369,000,000,000	19,149,068,820	9,050
TINS	1,542,807,000,000	4,558,200,000,000	6,101,007,000,000	5,033,020,000	1,520
WIKA	8,131,204,000,000	2,574,070,000,000	10,945,209,000,000	6,105,627,500	1,490
PTBA	4,223,812,000,000	8,505,169,000,000	12,728,981,000,000	2,304,131,850	15,000
JSMR	14,965,765,000,000	9,787,785,000,000	24,753,551,000,000	6,800,000,000	5,550

APPENDIX C

IICG SURVEYED INDONESIAN STATE-OWNED ENTERPRISES' TOBIN'S Q SCORE 2005 – 2012

Tobin's Q = (Market Value of Equity + Total Debt) / Total Assets

Tobin's Q 2005				
BUMN	MV of Equity	Total Debt	Total Assets	Tobin's Q
BMRI	33,098,638,517,480	240,164,245,000,000	263,383,348,000,000	1.04
ANTM	6,819,998,900,000	3,373,068,629,000	6,402,714,128,000	1.59
TLKM	23,788,799,149,220	32,573,450,000,000	62,171,044,000,000	0.91
PTBA	4,147,437,330,000	776,713,000,000	2,839,690,000,000	1.73

Tobin's Q 2006				
BUMN	MV of Equity	Total Debt	Total Assets	Tobin's Q
BMRI	58,970,238,688,500	241,171,136,000,000	267,517,000,000,000	1.12
ANTM	15,261,536,000,000	3,009,299,925,000	7,290,905,515,000	2.51
BBNI	24,836,755,438,000	154,596,653,000,000	169,416,000,000,000	1.06
PTBA	8,122,064,771,250	800,093,000,000	3,107,734,000,000	2.87
ADHI	1,441,056,000,000	2,240,148,773,000	2,869,948,000,000	1.28

Tobin's Q 2007				
BUMN	MV of Equity	Total Debt	Total Assets	Tobin's Q
BMRI	72,512,947,811,500	289,835,512,000,000	319,085,590,000,000	1.14
ANTM	42,684,607,381,250	3,273,117,500,000	12,037,916,922,000	3.82
ADHI	2,449,795,200,000	3,787,811,818,000	4,333,167,349,000	1.44
WIKA	3,332,307,780,000	2,776,904,388,000	4,133,064,000,000	1.48
PTBA	27,648,000,000,000	1,116,799,000,000	3,928,071,000,000	7.32

Tobin's Q 2008				
BUMN	MV of Equity	Total Debt	Total Assets	Tobin's Q
BMRI	42,271,858,034,550	327,896,740,000,000	358,439,000,000,000	1.032724112
ANTM	10,396,921,400,000	2,130,970,294,000	10,245,040,780,000	1.222824971
TLKM	27,820,799,005,020	39,005,419,000,000	91,256,000,000,000	0.732293964
BBNI	28,562,268,753,700	186,279,343,000,000	201,741,000,000,000	1.064937775
JSMR	6,188,000,000,000	7,758,936,681,000	14,642,760,000,000	0.952480043
ADHI	477,858,690,000	4,525,468,985,337	5,125,369,000,000	0.976188773
PTBA	15,897,600,000,000	2,029,169,000,000	6,106,828,000,000	2.935528723

Tobin's Q 2009				
BUMN	MV of Equity	Total Debt	Total Assets	Tobin's Q
BMRI	98,517,887,055,500	359,318,341,000,000	394,617,000,000,000	1.16
ANTM	20,950,683,600,000	1,748,127,419,000	9,939,996,438,000	2.28
TLKM	38,102,398,637,310	50,258,399,000,000	97,560,000,000,000	0.91
PTBA	39,744,000,000,000	2,292,740,000,000	8,078,578,000,000	5.20
ADHI	720,474,550,000	4,888,581,325,142	5,629,454,000,000	1.00
BBNI	30,242,402,209,800	208,322,445,000,000	227,497,000,000,000	1.05
TINS	10,066,039,998,000	1,425,361,000,000	4,885,712,000,000	2.35
JSMR	12,263,613,370,000	7,734,639,732,000	16,174,264,000,000	1.24

Tobin's Q 2010				
BUMN	MV of Equity	Total Debt	Total Assets	Tobin's Q
BMRI	136,477,215,823,000	407,704,515,000,000	449,775,000,000,000	1.21
ANTM	23,331,443,100,000	2,709,896,801,000	12,310,732,099,000	2.12
TLKM	32,054,398,853,610	43,343,664,000,000	99,759,000,000,000	0.76
PTBA	52,876,800,000,000	2,281,451,000,000	8,722,699,000,000	6.32
ADHI	1,599,075,660,000	4,059,941,228,781	4,927,000,000,000	1.15
BBNI	72,263,543,774,750	215,431,004,000,000	248,581,000,000,000	1.16
KRAS	3,782,388,600,000	8,158,514,000,000	17,584,059,000,000	0.68
JSMR	23,206,008,725,000	10,592,662,907,000	18,952,129,000,000	1.78
WIKA	1,361,047,540,000	4,369,536,958,000	6,286,305,000,000	0.91

Tobin's Q 2011				
BUMN	MV of Equity	Total Debt	Total Assets	Tobin's Q
BMRI	156,160,319,242,500	451,379,750,000,000	551,892,000,000,000	0.39
ANTM	15,427,321,560,000	4,429,191,527,000	15,201,235,077,000	1.72
TLKM	28,425,598,983,390	42,073,000,000,000	103,054,000,000,000	0.74
PTBA	39,974,400,000,000	3,342,102,000,000	11,507,104,000,000	4.18
BBNI	70,864,894,540,400	261,215,137,000,000	299,058,000,000,000	0.24
BBRI	166,516,843,500,000	420,078,955,000,000	469,899,000,000,000	0.46
JSMR	28,457,003,400,000	12,191,853,456,000	21,432,134,000,000	1.76
GIAA	10,754,473,100,000	10,462,833,569,270	18,009,967,000,000	1.09
TINS	8,405,143,400,000	1,972,012,000,000	6,569,807,000,000	1.98
BBTN	10,691,560,000,000	81,799,816,000,000	89,121,000,000,000	0.20

Tobin's Q 2012				
BUMN	MV of Equity	Total Debt	Total Assets	Tobin's Q
BMRI	181,999,999,997,400	518,705,769,000,000	635,618,708,000,000	1.10
ANTM	12,189,488,640,000	6,876,224,890,000	19,708,540,946,000	0.97
BBNI	69,000,028,894,600	289,778,215,000,000	333,303,506,000,000	1.08
BBRI	171,450,675,900,000	486,455,011,000,000	551,336,790,000,000	1.19
BBTN	15,016,200,000,000	101,469,722,000,000	111,748,593,000,000	1.04
GIAA	14,942,400,000,000	1,403,037,688,000	2,517,997,776,000	6.49
TLKM	173,299,072,821,000	44,391,000,000,000	111,369,000,000,000	1.95
TINS	7,650,190,400,000	1,542,807,000,000	6,101,007,000,000	1.51
WIKA	9,097,384,975,000	8,131,204,000,000	10,945,209,000,000	1.57
PTBA	34,561,977,750,000	4,223,812,000,000	12,728,981,000,000	3.05
JSMR	37,740,000,000,000	14,965,765,000,000	24,753,551,000,000	2.13

APPENDIX D

IICG SURVEYED INDONESIAN STATE-OWNED ENTERPRISES' GROWTH OF SALES IN 2005 – 2012

GROWTH = Sales t – Sales t-1 / Sales t-1

GROWTH 2005			
BUMN	Sales 2004	Sales 2005	GROWTH
BMRI	19,213,442,000,000	20,798,189,000,000	8%
ANTM	2,858,537,505,000	3,287,268,833,000	15%
TLKM	33,947,766,000,000	41,807,184,000,000	23%
PTBA	2,614,472,000,000	2,998,686,000,000	15%

GROWTH 2006			
BUMN	Sales 2005	Sales 2006	GROWTH
BMRI	20,999,225,000,000	26,261,106,000,000	25%
ANTM	3,251,235,883,000	5,629,401,438,000	73%
BBNI	12,601,268,000,000	14,938,397,000,000	19%
PTBA	2,998,686,000,000	3,533,480,000,000	18%
ADHI	3,027,081,129,000	4,328,859,649,000	43%

GROWTH 2007			
BUMN	Sales 2006	Sales 2007	GROWTH
BMRI	26,261,106,000,000	23,928,549,000,000	-9%
ANTM	5,629,401,438,000	12,008,202,498,000	113%
ADHI	4,328,859,650,000	4,973,866,813,000	15%
WIKA	3,049,427,341,000	4,284,581,223,000	41%
PTBA	3,533,480,000,000	4,123,855,000,000	17%

GROWTH 2008			
BUMN	Sales 2007	Sales 2008	GROWTH
BMRI	23,928,549,000,000	27,336,237,000,000	14%
ANTM	12,008,202,498,000	9,591,981,138,000	-20%
TLKM	59,440,011,000,000	60,689,784,000,000	2%
BBNI	14,877,720,000,000	16,628,139,000,000	12%
JSMR	2,645,042,596,000	3,353,632,332,000	27%
ADHI	4,973,867,000,000	6,639,942,000,000	33%
PTBA	4,123,855,000,000	7,216,228,000,000	75%

GROWTH 2009			
BUMN	Sales 2008	Sales 2009	GROWTH
BMRI	27,336,237,000,000	32,598,964,000,000	19%
ANTM	9,591,981,138,000	8,711,370,255,000	-9%
TLKM	60,689,784,000,000	64,596,635,000,000	6%
PTBA	7,216,228,000,000	8,947,854,000,000	24%
ADHI	6,639,941,610,900	7,714,613,580,798	16%
BBNI	16,628,139,000,000	19,446,766,000,000	17%
TINS	9,053,082,000,000	7,709,856,000,000	-15%
JSMR	3,353,632,332,000	3,692,000,323,000	10%

GROWTH 2010			
BUMN	Sales 2009	Sales 2010	GROWTH
BMRI	32,598,964,000,000	33,931,650,000,000	4%
ANTM	8,711,370,255,000	8,744,300,219,000	0%
TLKM	67,677,518,000,000	68,629,181,000,000	1%
PTBA	8,947,854,000,000	7,909,154,000,000	-12%
ADHI	7,714,613,580,798	5,674,980,407,618	-26%
BBNI	19,446,766,000,000	18,837,397,000,000	-3%
KRAS	16,913,535,000,000	14,856,156,000,000	-12%
JSMR	3,692,000,322,000	4,378,584,303,000	19%
WIKA	6,590,857,284,000	6,022,921,894,000	-9%

GROWTH 2011			
BUMN	Sales 2010	Sales 2011	GROWTH
BMRI	33,931,650,000,000	37,730,019,000,000	11%
ANTM	8,744,300,219,000	10,346,433,404,000	18%
TLKM	68,629,000,000,000	71,253,000,000,000	4%
PTBA	7,909,154,000,000	10,581,570,000,000	34%
BBNI	18,837,397,000,000	20,691,796,000,000	10%
BBRI	44,615,162,000,000	48,184,348,000,000	8%
JSMR	4,378,584,303,000	4,960,472,520,000	13%
GIAA	19,534,331,480,504	27,164,569,877,846	39%
TINS	8,339,254,000,000	8,749,617,000,000	5%
BBTN	6,498,752,000,000	7,556,104,000,000	16%

GROWTH 2012			
BUMN	Sales 2011	Sales 2012	GROWTH
BMRI	37,730,019,000,000	42,550,442,000,000	13%
ANTM	10,346,433,404,000	10,449,885,512,000	1%
BBNI	20,691,796,000,000	22,704,515,000,000	10%
BBRI	47,296,178,000,000	48,272,021,000,000	2%
BBTN	7,556,104,000,000	8,818,579,000,000	17%
GIAA	3,096,328,405,000	3,472,468,962,000	12%
TLKM	71,253,000,000,000	77,143,000,000,000	8%
TINS	8,749,617,000,000	7,822,560,000,000	-11%
WIKA	7,741,827,000,000	9,816,086,000,000	27%
PTBA	10,581,570,000,000	11,594,057,000,000	10%
JSMR	6,485,771,000,000	9,070,219,000,000	40%

APPENDIX E

IICG SURVEYED INDONESIAN STATE-OWNED ENTERPRISES SIZE, ROA, AND ROE DATA 2005 – 2012

SIZE = LN of Total Assets

2005				
BUMN	Total Assets	SIZE	ROA	ROE
BMRI	263,383,348,000,000	33.20	0.50%	2.50%
ANTM	6,402,714,128,000	29.49	13.53%	30.77%
TLKM	62,171,044,000,000	31.76	12.90%	34.30%
PTBA	2,839,690,000,000	28.67	16.04%	22.80%

2006				
BUMN	Total Assets	SIZE	ROA	ROE
BMRI	267,517,000,000,000	33.22	1.10%	10.00%
ANTM	7,290,905,515,000	29.62	22.68%	42.48%
BBNI	169,416,000,000,000	32.76	1.85%	22.61%
PTBA	3,107,734,000,000	28.76	15.60%	21.20%
ADHI	2,869,948,000,000	28.69	3.33%	27.70%

2007				
BUMN	Total Assets	SIZE	ROA	ROE
BMRI	319,085,590,000,000	33.40	2.80%	23.60%
ANTM	12,037,916,922,000	30.12	53.11%	78.69%
ADHI	4,333,167,349,000	29.10	2.58%	32.27%
WIKA	4,133,064,000,000	29.05	3.12%	11.11%
PTBA	3,928,071,000,000	29.00	19.40%	27.20%

2008				
BUMN	Total Assets	SIZE	ROA	ROE
BMRI	358,439,000,000,000	33.51	3.10%	0.50%
ANTM	10,245,040,780,000	29.96	12.28%	16.27%
TLKM	91,256,000,000,000	32.14	11.60%	30.90%
BBNI	201,741,000,000,000	32.94	1.10%	9.00%
JSMR	14,642,760,000,000	30.31	4.83%	10.77%
ADHI	5,125,369,000,000	29.27	1.59%	19.31%
PTBA	6,106,828,000,000	29.44	28.00%	42.70%

2009				
BUMN	Total Assets	SIZE	ROA	ROE
BMRI	394,617,000,000,000	33.61	3.00%	22.10%
ANTM	9,939,996,438,000	29.93	5.99%	7.15%
TLKM	97,560,000,000,000	32.21	11.60%	29.10%
PTBA	8,078,578,000,000	29.72	33.80%	47.80%
ADHI	5,629,454,000,000	29.36	5.94%	27.08%
BBNI	227,497,000,000,000	33.06	1.70%	16.30%
TINS	4,885,712,000,000	29.22	6%	9%
JSMR	16,174,264,000,000	30.41	6.14%	13.82%

2010				
BUMN	Total Assets	SIZE	ROA	ROE
BMRI	449,775,000,000,000	33.74	3.40%	24.40%
ANTM	12,310,732,099,000	30.14	15.13%	18.99%
TLKM	99,759,000,000,000	32.23	11.60%	26.00%
PTBA	8,722,699,000,000	29.80	23.00%	31.60%
ADHI	4,927,000,000,000	29.23	6.50%	33.20%
BBNI	248,581,000,000,000	33.15	2.50%	24.70%
KRAS	17,584,059,000,000	30.50	6.04%	11.43%
JSMR	18,952,129,000,000	30.57	6.30%	15.42%
WIKA	6,286,305,000,000	29.47	4.53%	15.81%

2011				
BUMN	Total Assets	SIZE	ROA	ROE
BMRI	551,892,000,000,000	33.94	3.40%	22.00%
ANTM	15,201,235,077,000	30.35	14.06%	18.94%
TLKM	103,054,000,000,000	32.27	10.60%	23.10%
PTBA	11,507,104,000,000	30.07	26.80%	37.80%
BBNI	299,058,000,000,000	33.33	2.90%	20.10%
BBRI	469,899,000,000,000	33.78	4.93%	42.49%
JSMR	21,432,134,000,000	30.70	6.25%	14.50%
GIAA	18,009,967,000,000	30.52	4.49%	10.71%
TINS	6,569,807,000,000	29.51	14%	27%
BBTN	89,121,000,000,000	32.12	2.03%	17.65%

2012				
BUMN	Total Assets	SIZE	ROA	ROE
BMRI	635,618,708,000,000	34.09	3.50%	22.60%
ANTM	19,708,540,946,000	30.61	17.15%	25.36%
BBNI	333,303,506,000,000	33.44	2.90%	20.00%
BBRI	551,336,790,000,000	33.94	5.15%	38.66%
BBTN	111,748,593,000,000	32.35	1.94%	18.23%
GIAA	2,517,997,776,000	28.55	4.40%	9.94%
TLKM	111,369,000,000,000	32.34	11.50%	24.90%
TINS	6,101,007,000,000	29.44	7.00%	12.00%
WIKA	10,945,209,000,000	30.02	7.71%	17.79%
PTBA	12,728,981,000,000	30.17	22.80%	34.10%
JSMR	24,753,551,000,000	30.84	6.47%	16.37%

APPENDIX F

STATISTICAL RESULT OF THE HYPOTHESES TESTING

Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	59	.005	.531	.09562	.095557
ROE	59	.005	.787	.23135	.126324
Q	59	.20	7.32	1.7685	1.48015
SIZE	59	28.55	34.09	31.0703	1.75766
CGPI	59	67.46	91.91	84.1159	4.64841
GROWTH	59	-.26	1.13	.1485	.22813
Valid N (listwise)	59				

Normality Testing of The Hypotheses Using Kolmogorov-Sminov

One-Sample Kolmogorov-Smirnov Test

		ROA	ROE	Q	LTA	CGPI	GROWTH
N		59	59	59	59	59	59
Normal Parameters[a,b]	Mean	.09562	.23135	1.7685	31.0703	84.1159	.1485
	Std. Deviation	.095557	.126324	1.48015	1.75766	4.64841	.22813
Most Extreme Differences	Absolute	.219	.105	.226	.163	.098	.191
	Positive	.219	.105	.226	.163	.094	.191
	Negative	-.171	-.081	-.163	-.115	-.098	-.088
Kolmogorov-Smirnov Z		1.681	.804	1.734	1.249	.752	1.463
Asymp. Sig. (2-tailed)		.007	.538	.005	.088	.624	.028

a. Test distribution is Normal.

b. Calculated from data.

Regression Analysis of The Influence of Corporate Governance to Return on Assets

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	GROWTH, CGPI, SIZE[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ROA

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.602[a]	.363	.328	.078330	2.129

a. Predictors: (Constant), GROWTH, CGPI, SIZE

b. Dependent Variable: ROA

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.192	3	.064	10.439	.000[a]
	Residual	.337	55	.006		
	Total	.530	58			

a. Predictors: (Constant), GROWTH, CGPI, SIZE

b. Dependent Variable: ROA

Collinearity Testing of The Influence of Corporate Governance to ROA Using Variance Inflation Factor (VIF)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.500	.206		2.431	.018		
	SIZE	-.024	.008	-.443	-3.088	.003	.563	1.776
	CGPI	.004	.003	.183	1.293	.201	.576	1.736
	GROWTH	.181	.046	.432	3.953	.000	.970	1.031

a. Dependent Variable: ROA

Regression Analysis of The Influence of Corporate Governance to Return on Equity

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	GROWTH, CGPI, LTA[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ROE

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.484[a]	.234	.192	.113547	1.818

a. Predictors: (Constant), GROWTH, CGPI, LTA

b. Dependent Variable: ROE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.216	3	.072	5.596	.002[a]
	Residual	.709	55	.013		
	Total	.926	58			

a. Predictors: (Constant), GROWTH, CGPI, LTA

b. Dependent Variable: ROE

Collinearity Testing of The Influence of Corporate Governance to ROA Using Variance Inflation Factor (VIF)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.217	.298		.729	.469		
	LTA	-.003	.011	-.039	-.250	.803	.563	1.776
	CGPI	.001	.004	.027	.176	.861	.576	1.736
	GROWTH	.265	.066	.478	3.990	.000	.970	1.031

a. Dependent Variable: ROE

Regression Analysis of The Influence of Corporate Governance to Tobin's Q

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	GROWTH, CGPI, LTA[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Q

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.537[a]	.288	.249	1.28265	2.408

a. Predictors: (Constant), GROWTH, CGPI, LTA

b. Dependent Variable: Q

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	36.583	3	12.194	7.412	.000[a]
	Residual	90.486	55	1.645		
	Total	127.069	58			

a. Predictors: (Constant), GROWTH, CGPI, LTA

b. Dependent Variable: Q

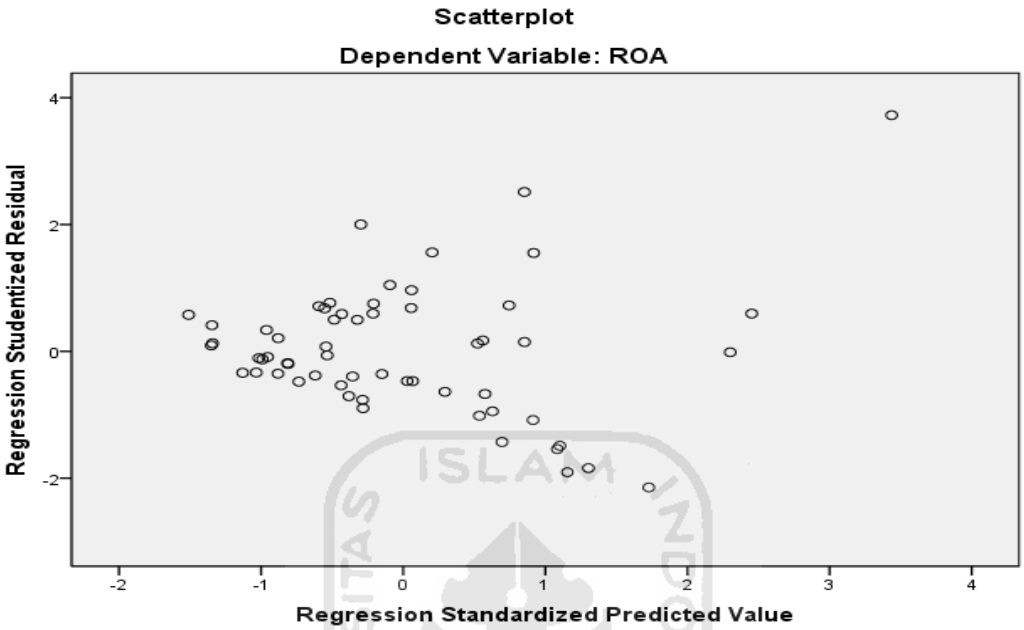
Collinearity Testing of The Influence of Corporate Governance to ROA Using Variance Inflation Factor (VIF)

Coefficients[a]

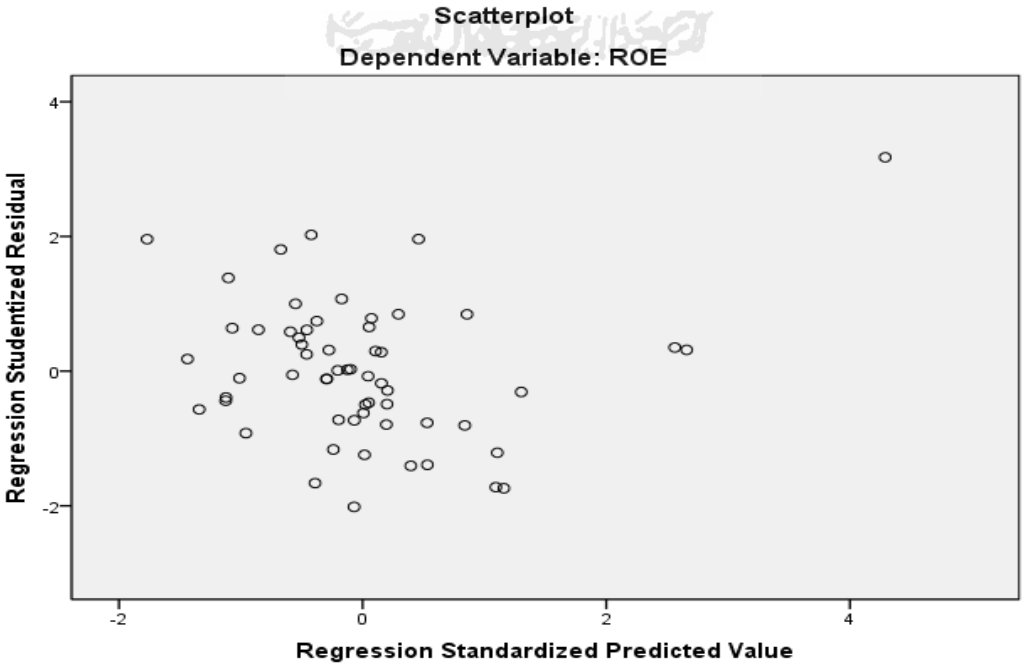
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	11.574	3.367		3.438	.001		
	LTA	-.533	.128	-.632	-4.172	.000	.563	1.776
	CGPI	.079	.048	.248	1.654	.104	.576	1.736
	GROWTH	.697	.750	.107	.930	.356	.970	1.031

a. Dependent Variable: Q

Heteroscedasticity Testing of the Influence of Corporate Governance to Return on Assets Using Scatterplot Graphic



Heteroscedasticity Testing of the Influence of Corporate Governance to Return on Equity Using Scatterplot Graphic



Heteroscedasticity Testing of the Influence of Corporate Governance to Tobin's Q Using Scatterplot Graphic