KRONOLOGIS (KORESPONDENSI) PUBLIKASI ARTIKEL PADA JURNAL INTERNASIONAL BEREPUTASI DAN BERDAMPAK FAKTOR

Judul : Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance
Jurnal : Corporate Governance, Emerald Publishing
Vol : 17
No. : 2
Halaman : 250-265
Penulis : Agus Wahyudin, Badingatus Solikhah
Fakultas Ekonomi, Universitas Negeri Semarang
NIP 196208121987021001

NO	TGL	AKTIVITAS
1.	17 Februari 2016	Pembuatan Akun di ScholarOne Manuscripts
2.	18 Februari 2016	Submit manuskrip pertamakali di system ScholarOne Manuscripts
3.	17 Juni 2021	Keputusan review round pertama: Decision on Manuscript ID CG-02-2016-0034 Revisi Mayor Permintaan revisi oleh 2 reviewer
4.	1 September 2016	Reminder: Corporate Governance Waktu revisi kurang 2 minggu
5.	15 September 2016	Meminta perpanjangan waktu revisi kepada editor karena ketika mau submit pada system ternyata ada perbedaan waktu antara Indonesia dengan Australia
6.	15 September 2016	Diberi perpanjangan waktu oleh editor
7.	15 September 2016	Submit revisi oleh penulis
8.	16 November 2016	Keputusan review round kedua: Corporate Governance - Decision on Manuscript ID CG-02-2016-0034.R1 Recommendation: Accept
9.	14 Februari 2017	Permintaan Proofread dan Perbaikan kesalahan ketik
10.	03 April 2017	Publish

1. Pembuatan Akun di ScholarOne Manuscripts

Corporate Governance - Account Created in ScholarOne Manuscripts

Dari: g.eweje@massey.ac.nz

Kepada: aguswahyudin2001@yahoo.com

Tanggal: Rabu, 17 Februari 2016 17.48 WIB

17-Feb-2016

Dear Agus:

Welcome to the Corporate Governance - ScholarOne Manuscripts site for online submission and review.

Your USER ID and PASSWORD for your account at https://mc.manuscriptcentral.com/cg is as follows:

USER ID: aguswahyudin2001@yahoo.com
PASSWORD: If you are unsure of the password that you set when you created your account you should click the link below which will take you directly to the option for setting a new password.

https://mc.manuscriptcentral.com/cg?URL_MASK=7c3a4a8941a24cfd94b153bfdf897726

Thank you for your participation.

Sincerely,
Corporate Governance Editorial Office

2. Submit manuskrip pertama kali di system ScholarOne Manuscripts

Emerald Corporate Governance

Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance

Journal:	*Corporate Governance*
Manuscript ID	CG-02-2016-0034.R1
Manuscript Type:	Original Article
Keywords:	Corporate Governance Index, Financial Performance, Firm's Value, Growth

SCHOLARONE™
Manuscripts

Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance

Abstract

Purpose - *The purpose of this paper is to investigate the effect of Corporate Governance implementation rating conducted by Indonesian Institute for Corporate Governance (IICG) on financial performance of the selected companies.*

Design/methodology/approach - *This paper is a hypothesis testing study to analyze Corporate Governance implementation of 88 firms listed on Indonesian Stock Exchange. The samples are companies participated in Corporate Governance Perception Index (CGPI) Awards in 2008 - 2012. A multiple linear regression analysis is conducted upon the data collected from IICG Reports and also its financial statements.*

Findings - *The awareness of Good Corporate Governance enforcement in Indonesian company has already increased. The listed companies participating in CGPI Awards during 2008 - 2012 always experience an increase in terms of both quantity and quality. Corporate Governance implementation of go-public companies in Indonesia affect on the accounting-based financial performance, such as ROA, ROE and EPS. Meanwhile, GCG implementation is not directly responded by Indonesian stock market and has not yet been able to increase the company's growth in short term.*

Research limitations/implications - *In this study, CGPI rating in related year is linked to market performance in the same year. Thus, in further research it can be linked to the market performance in the next year since the findings of this study show that GCG implementation is not directly responded by the market.*

Practical implications - *Good Corporate Governance implementation is required by every company as it may give a long term positive impact. Thus, the government needs to stipulate regulations in order to increase the commitments of company owners and managers in implementing GCG.*

Originality/value - *This study uses Corporate Governance index in Indonesia associated with a variety of accounting-based performance and market-based performance variables categorized into: financial performance, market value and growth.*

Keywords: *Corporate Governance Index, Financial Performance, Firm's Value, Growth*

Paper type *Research paper*

Intoduction

Public attentions and researches on a topic of Good Corporate Governance (GCG) have grown in importance in recent years in various countries. Corporate Governance has been a well known topic of academic researches and Corporate Governance mechanisms vary across the world (Mutairi et al., 2012.) The development of science and technology is not only required to contribute on the economic growth, but also help solving the risk-related problems and sustainable threat of social, environmental, and economic relationship (GRI, 2006). Good Corporate Governance assists to sustainable economic development by improving the performance of companies. Some researches (Dittmar et al., 2003; Nam and Nam, 2004; Rashid and Islam, 2013) show that Corporate Governance has an important role in affecting company performance in financial markets. Moreover, the main of establishing a company is to improve the welfare of company owners or stakeholders, or to maximize stakeholders' property by increasing company value (Brigham & Houston, 2006). Furthermore, Brigham and Houston (2006) explain that to maximize the company value, both equity and all financial claims as debts, such as warrants and preferred stocks, should be considered. The objective of a company is optimize stakeholdes value that can be achieved through the implementation of financial management function (Wahyudin, 2012). A financial decisions may effect on the other financial decisions and lead to the company values. Corporate Governance Framework recommends that stakeholder value maximization is the outcome of those Corporate Governance mechanisms (Mutairi, et al., 2012).

Corporate Governance refers to structures and processes of company directions and controls. Corporate Governance concerns on the relationships of managers, board of directors, employees, controlling, minority, and other stakeholders. The Indonesian Institute for Corporate Governance (IICG) has defined Corporate Governance as a set of mechanisms to direct and control a company to ensure that company run operations in accordance with stakeholders' expectations. According to Shleiver and Vishny (1997), Corporate Governance is interpreted as a series of mechanisms which protect minority parties (outside investors/ minority stakeholders) from the explorations undertaken by the managers and controlling stakeholders (insiders), emphasizing on legal mechanisms. Abor (2007) explains that Corporate Governance refers to how a company is supposed to run, be regulated and controlled. According to Kaihatu (2006), the essence of Corporate Governance is improving company performance by supervising or monitoring the management performance and accountability upon the other stakeholders, based on the framework of applicable rules and regulations. Corporate Governance may generate goodwill and confidence of investors. A findings of Gompers et al. (2003) also explains that Good Corporate Governance may improve the assessments and supports from investors.

Various responses resulted from Corporate Governance issues arise from many countries, including Indonesia. In Indonesia, as the response of Good Corporate Governance issues, the government establish National Committee of Corporate Governance Policy (NCCGP) in 1999, which later changed its name to National Committee of Governance Policy (NCGP) in November 2004. NCGP is an institution aims to comprehensively improve good governance in Indonesia and provide input to government on governance issues in public and private sectors. Not only government, academics are also interested in studying Corporate Governance issues. Furthermore, academicians and practitioners also create various forums, such as Forum for Corporate Governance in Indonesia (FCGI), Indonesian Institute for Corporate Governance (IICG) and Center for Good Corporate Governance of Faculty of Economics and Business of

Gadjah Mada University. FCGI in collaboration with Asian Development Bank (ADB) has developed a self-assessment as an instrument to assess company's Corporate Governance implementation in Indonesia. On the other hand, IICG conducts researches and rating upon Corporate Governance implementation in public and private companies, banks, as well as state-owned enterprises in Indonesia. The results are then nationally and internationally published by SWA Magazine and IICG.

A research conducted by the Indonesian Institute for Corporate Governance (IICG) in 2002 found that the companies' main reason to apply Corporate Governance is the regulatory compliance. The companies believe that Corporate Governance implementation is another form of business and work ethic enforcement that has become companies' commitment, and related to company image improvement. The companies implementing Corporate Governance may improve their image and firms value.

Corporate Governance implementation in Indonesia is measured by the Indonesian Institute for Corporate Governance (IICG). IICG has measure Corporate Governance implementation in Indonesia since 2001. Through research and rating programs, IICG uses indicators of Good Corporate Governance implementation called Corporate Governance Perception Index (CGPI).

Studies on Corporate Governance associated with company's financial decision-making have been conducted by some researchers including Wen, 2002; Anderson et al., 2004; Abor, 2007; Rocca, 2007; Sheikh and Wang, 2012; Reddy et al., 2010; Mollah et al., 2012; Sheikh et al., 2013; Hassan & Halbouni, 2013. The empirical evidences show that some Corporate Governance attributes affect the company's financial decision making (Sheikh and Wang, 2012). However, those studies still show various results. Most of previous studies (ie Hassan and Halbouni, 2013; Sheikh et al., 2013; Mollah et al., 2012; Reddy et al., 2010) examine the mechanisms of Good Corporate Governance implementation upon financial performance while this study examines the effect of Good Corporate Governance implementation by utilizing the research and rating results upon financial performance conducted by IICG.

Literature Reviews and Hypothesis Developments

Agency Theory

Agency theory is a theory governing relationship between a principal and an agent which one party (the principal) delegates a job to the other (the agent). Agency theory tries to explain the relationship of contract mechanisms (Jensen & Meckling, 1976). The principal provides funds and other resources to fulfill the company's needs for its operations while the agent, as the company manager, is obliged to manage the company mandated by the company owner. In exchange, the agent may receive salary, bonuses and various other compensations. The principal may not verify that the agent has performed and taken the appropriate policies to the principal interest. Agency theory is highly considerate for solving problems in which the principal and the agent may prefer different actions due to different risk preferences. Managers' and stakeholders' different interests may result in conflicts called as agency conflicts.

According to Jensen and Meckling (1976), a company which separates its managerial and ownership functions vulnerably leads to agency conflicts. The causes of those conflicts are due to the decision-making which is related to two things: (1) fund raising activities and (2) how funds are invested. Agency conflicts or agency problems can be minimized through a supervision mechanism to align the interests and then leads to agency cost.

The problems of Good Corporate Governance (GCG) arise due to their dependence on external capitals (equity and loan capital) used to finance company activities, investment, and growth (FCGI, 2011). Wahyudin (2012) states that Good Corporate Governance arises as a result of agency problems that there are behaviors generating personal benefits especially from the agent by inflicting interests of the other party (the principal). It may happen due to interest separation between the principal and the agent.

Corporate Governance Perception Index (CGPI)

Corporate Governance Perception Index (CGPI) is the results of research and rating programs conducted by The Indonesian Institute for Corporate Governance (IICG). IICG was established on June 2nd of 2000 by the Indonesian Transparency Society (ITS) and community leaders to promote concepts, practices and benefits of Good Corporate Governance (GCG). IICG is one of civil society roles to encourage the establishment of Indonesian business atmosphere which is reliable, ethical, and dignified. As an independent and non-profit organization, IICG has a commitment to encourage the implementation of Good Corporate Governance in Indonesia and to support and assist companies in applying the concept of Corporate Governance.

One program which has continuously been implemented since 2001 is Corporate Governance Perception Index (CGPI). Corporate Governance Perception Index (CGPI) is a research and rating program for Good Corporate Governance implementation of companies in Indonesia. CGPI is conducted through a research design which encourages companies to improve the implementation quality of Corporate Governance concept by conducting evaluation and benchmarking.

CGPI has been organized by IICG as an annual program since 2001 in cooperation with SWA Magazine as a tribute upon initiatives and results of company's efforts in realizing ethical and dignified business. CGPI participation is voluntary and involves active participations of all stakeholders and companies to meet the required phases of CGPI implementation programs. More importantly, CGPI encourage and demand companies' participation to repair or improve their Corporate Governance implementation in their environment.

In conducting research and rating, IICG has four phases including self-assessment, document completeness, paper preparation, and observation. CGPI program uses three (3) scopes of GCG implementation, including compliance, conformance, and performance aspect. GCG implementation assessment only covers company commitments and rules while broadly covers commitment and relationship between companies and stakeholders.

1. The compliance Aspect of GCG implementation is a fulfillment of various demands of laws and regulations stipulated by the regulator. This aspect ensures that all company business operations have been well performed and not been in conflicts with the applicable rules,
2. The conformity aspect of GCG implementation is appropriateness of policies and company's operations with the norms, ethics, and values believed,
3. Performance aspect of GCG implementation is the company achievement in fulfilling the demands of ethical and dignified operations.

Due to the evaluation, self assessment and observational stage uses a grading scale of 0-100, documentation stage uses a grading scale of 0-5, and papers assessment uses a grading scale of 0-20. The evaluation weights conducted using those four continual stages of Self Assessment, Document Completeness, Paper Preparation and Field Observation, are listed in Table 1.

Table 1. Stages and Weights of CGPI Awards

Stage	Weight
Self Assessment	17%
Document Completeness	35%
Paper Preparation	13%
Observation	35%
Total	100%

The rating results of CGPI program use norm assessment based on range of scores achieved by CGPI participants categorized based on the quality level of GCG implementation using the term of "trusted", CGPI assessment norm is explained in Table 2.

Table 2. Assessment Categories of CGPI Awards

Score	Category
55.00 – 69.99	Fairly trusted
70.00 – 84.99	Trusted
85.00 - 100	Highly Trusted

GCG Influences upon Financial Performance

The agency problems in the relationship between the agent and the principal may arise in the form of moral hazard which the manager or the agent does not perform their duties as agreed in the employment contract (Jensen and Meckling, 1976). In addition, Good Corporate Governance implementation has vital and strategic roles in maintaining the company's business processes credibility and companies' supervisory. Thus, by having Good Corporate Governance and companies' advisory functional operation, the financial performance may be improved.

Companies' Good Corporate Governance implementation may create a system for directing, controlling, and supervising the entire resources efficiently and effectively. Good Corporate Governance is assumed to maintain various interests in balance which may provide benefits for company. A company with higher CGPI rating means that the company has been managed with a transparency, accountability, responsibility, independency, and fairness. Therefore, there will be an impacts upon the outputs of good corporate performance, such as ROA, ROE and EPS.

The research conducted by Gompers et al. (2003) uses the same governance index found that companies with stronger stakeholder rights tend to have higher profits. Sheikh et al., (2013) also found a positive relationship between board size and company performance. These results are congruent with the previous researches conducted by Jackling and Johl (2009), Ehikioya (2009), Abor and Biekpe (2007). A research on non-financial companies listed on the Karachi stock exchange of Pakistan by Sheikh et al., (2013) proved that ownership concentration positively influences ROA, ROE, and EPS. While in New Zaeland, a research conducted by Reddy et al. (2010) finds that the compliance upon NZSC requirements has improved the company financial performance. Thus, the first hypothesis is formulated as follows:

Ha1: A company with better Corporate Governance implementation may have higher financial performance

GCG Influences upon Company Value

World Bank (World Bank) defines Good Corporate Governance (GCG) as a collection of laws, regulations, and rules that must be completed, which may encourage the performance of company resources to operate efficiently and produce a long-term sustainable economic value for both stakeholders and society. Good Corporate Governance implementation is expected to be beneficial to increase and maximize the company value. Hasan and Butt (2009) define that companies' Corporate Governance philosophy and mechanisms are related to the establishment of stakeholders' value. Furthermore, Hasan and Butt (2009) state that the principles implied within Corporate Governance may ensure investors' and creditors' trust.

CGPI rating scores obtained by a company and published to public may attract the stakeholders' interest and immediately responded by a market. The higher the CGPI score shows that a company is increasingly more trusted by the related parties, the company may attract investors and eventually enhance a company's value. The improvement of company's value makes investors attracted to invest their funds. The company's stock price describes company's value because the company may maximize its value through the establishment of stock prices. Thus, company value can be reflected on stock price which the higher the stock price, the higher the value of the firm. A higher company value may increase the stakeholders' prosperity and attract them to invest their capital to the company. Corporate Governance is another form of business ethics and working ethic enforcement as the company's commitment and company's image improvement. More importantly, a company practicing corporate governance may have its image improved and increase company value.

Based on agency theory, the stakeholders as the principal expect returns for investment they made. Siallagan and Machfoedz (2006) state that Corporate Governance is a system that regulates and controls a company in order to provide and improve the company's value to its stakeholders. The implementation of Good Corporate Governance may ensure that the company's financial statements issued in accordance with the generally acceptable accounting principles. Therefore, the financial statements quality reflects on the real state of a company's condition and does not mislead many parties. Investors assess a company by reading the information presented in its financial statements. A good quality of financial reports may improve the company's value.

The previous research conducted in Indonesia by Siagian et al. (2013) found that Corporate Governance Index positively influences PBVby using 125 samples of companies in Jakarta Stock Exchange in the year of 2003 and 2004. The research results conducted by Mollah et al., (2012) found that companies in Botswana have advanced orientation in market-oriented systems in developing the Corporate Governance mechanisms. Thus, the second hypothesis is formulated as follows:

Ha2: A company with better Corporate Governance implementation may improve its company value in stock markets.

GCG Influences upon Company Growth

Good Corporate Governance general guidance of Indonesia states that one of the purposes of Corporate Governance implementation is to encourage a company's social awareness and responsibility upon society and preserved environment around the company. More importantly, the implementation of corporate governance may maintain business sustainability in the lng term.

Good Corporate Governance as a basic guidance for companies to manage the company better may lead a company into a condition which is conducive to run its operations. Thus, the purpose of its establishment and the interests of stakeholders may be protected from company loss. The condicive condition may not be separated from the implementation of Corporate Governance principles, including transparency, accountability, responsibility, independence and fairness appropriately. The implementation of GCG principles also influences a long term company's operations.

The research results conducted by Tjondro and Wilopo (2011) state that GCG implementation may positively improve the company performance since the decision making processes are better taken. Moreover, optimal decisions may be resulted and ultimately improve the efficiency and create better cultures. A well managed and supervised company may produce a qualified management and improve the company profitability. Thus, the company profitability may be well maintained in a long term. A company which is able to maintain a continuous profit may be considered as a growing company since the implementation of GCG concepts basically aims to increase company prosperity in long term. From the descriptions above, the third hypothesis is formulated as follows:

Ha3: A company with Good Corporate Governance implementation may increase its company growth.

Research Design

The samples of this research are 37 companies listed in the Indonesia Stock Exchange (BEI) and particularly participate in Corporate Governance Perception Index (CGPI) Awards. We have observed since the year of 2009 – 2012 that our final samples include 88 companies as data. The data used in this research are secondary data of CGPI report, audited financial statements of each company and the financial data of Indonesian Capital Market Directory (ICMD) for 6 years of 2009-2012.

Independent Variable

The independent variable of this research is the implementation of Good Corporate Governance (GCG) while the indicator used in this research is the Corporate Governance Perception Index (CGPI) taken from the research programs and ratings conducted by The Indonesian Institute for Corporate Governance (IICG).

Dependent Variables

The dependent variables used in this research are categorized into three groups as described in Table 3.

Table 3. Dependent Variables Measurement

No	Variable	Indicator	Measurement
1	Financial Performance	ROA (Return on Asset)	after tax- net profit/total assets
		ROE (Return on Equity)	after tax- Net profit/stakeholders' equity
		EPS (Earning per Share)	after tax- profit/circulating number of shares
2	Company Value	PBV (Price to Book Value)	Stock Market Price/Share Book Price
		PER (Price to Earning Ratio)	Price Per Share/Profit Per Share
3	Company Growth	EG (Earning Growth)	(profit of year t: profit of year t-1) -1x100%

Control Variables

To obtain a better research model and analysis results, this study used control variables. Due to the previous study (Hassan and Halbouni, 2013; Sheikh et al., 2013), this research also uses control variables including company size, company age, listing age, and leverage. The measurements of each control variable are presented in Table 4.

Table 4. Measurements of Control Variables

No	Variable	Measurement
1	Company Size (SIZE)	Total asset Natural logarithm
2	Company Age (AGE)	Research Year - Company Establishment Year
3	Listing Age (LIST_AGE)	Research Year – First Listing Year
4	Leverage (LEV)	Debt Book Value/ Total Asset

Data Analysis Technique

The collected data are further examined using descriptive statistical techniques including: mean, standard deviation, maximum, minimum values as well as tables and charts. A multiple linear regression analysis with ordinary least squares (OLS) method is also conducted. OLS method is used to estimate the influences of Corporate Governance Perception Index upon performance measurement:

$$ROA = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$$
$$ROE = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$$
$$EPS = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$$
$$PBV = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$$
$$PER = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$$
$$EG = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$$

Results

CGPI Profile

In general, the number of go-public companies in Indonesia participating in CGPI rating increases from year to year. There are 18 go-public companies in 2009, 21 go-public companies in 2010, 24 go-public companies in 2011, and 25 go-public companies in 2012. Rating has also increased from year to year. These findings are indication of company high awareness upon GCG implementation as a necessity, not compliance to regulations set by the government of Indonesia only. Moreover, CGPI Awards is a voluntary program which each participant must pay a registration fee. IICG gives special appreciations to company members which show sincerity in implementing GCG in the form of awards as the Trusted Companies. These appreciations are recognition on achievements upon GCG implementation in each company's environment and as their seriousness and willingness to voluntarily be assessed by external independent parties as a manifestation of in-depth awareness upon the importance of GCG implementation (Suprayitno, et al., 2012).

Table 5. CGPI Profile of Listed Companies

Description	2009	2010	2011	2012
Number of listed companies participating CGPI awards	18	21	24	25

Description	2009	2010	2011	2012
The average of GCG Index	80.31	80.89	81.10	81.01
Number of Recipients with "highly trusted" Category	5	8	9	11
CGPI Topic	GCG as Culture	GCG in Ethical Perspectives	GCG in Risk Perspectives	GCG in Knowledge Perspectives

Descriptive Statistical Analysis

Descriptive statistical calculations consisting of mean, minimum and maximum value of all variables are presented in Table 6. The average calculation of CGPI dependent variable is 80.86. Due to the scales set by IICG, most companies participating in CGPI are included to the trusted category. It means that most companies have well implemented Good Corporate Governance. Meanwhile, the financial performance variable proxied with ROA, ROE and EPS shows that most companies have good performance since companies participating CGPI are high-profile companies. However, the participation of companies in Indonesia at CGPI event is still voluntary. Thus, companies with truly high commitments upon GCG implementation only may register in CGPI Awards.

The company markets also show quite high values of PBV and PER. For example, PBV shows an average value of 2.53 which means that market gives price 2.5 times higher than asset book value owned by a company. The second market ratio is PER obtained by comparing price and earning per share for the company. Investors may interpret that company stock rating and shares are related to the profits generated by the company. Meanwhile, earning growth also shows a good value with a growth average of 24% from the previous year's profits. This indicates that the emitted participants of CGPI Awards are companies with good growths.

Table 6. Descriptive Statistics of Research Variables

	Average	St. Deviation	Minimum	Median	Maximum
CGPI	80.86	6.96	66.51	82.39	91.91
ROA	5.91	9.69	-40.80	3.60	33.77
ROE	14.11	20.60	-117.01	16.19	53.09
EPS	377.60	497.70	-107.00	142.00	1624.00
PBV	2.53	1.98	0.09	2.01	9.86
PER	27.94	82.08	-8.98	12.58	672.05
EG	0.24	1.49	-5.40	0.21	8.83
SIZE	17.01	1.82	11.95	16.69	22.73
AGE	38.91	21.32	4.00	38.50	93.00
LIST AGE	10.60	8.92	0.00	9.00	62.00
LEV	0.59	0.25	0.15	0.57	0.92

Hypothetical Testing Results

The measurements used as proxies for financial performance variable in this study are ROA, ROE, and EPS. Those are to measure the company profitability as a research conducted by Hasan & Halbouni in 2013 which uses accounting-based measurements of ROA and ROE upon the company performance. These findings support a research conducted by Hasan & Halbouni in 2013 which found that corporate governance influences the company financial performance. In a research conducted by Hasan &

Halbouni (2013), Corporate Governance is measured using CG mechanisms consisting of voluntary disclosure, CEO duality and board size. Meanwhile, a research conducted by Sheikh et al. in 2013 uses more complete measurements of CG internal attributes including board size, outside directors, CEO duality, managerial ownership, and ownership concentration. The research results show that board size has positive influences upon ROA, EPS, and MB while outside directors and managerial ownership have negative ones. The testing results in Table 7 explain that three financial performance measurements (ROA, ROE, and EPS) are significantly influenced by GCG implementation. The success of Corporate Governance mechanisms is reflected in corporate performance (Sunarto, 2003). These findings strengthen Jensen and Meckling (1976) statements that companies with good governance may have more efficient operational performance. Managers work effectively and efficiently to reduce capital costs and minimize risks that managers may ultimately result in higher profitability. This study is also supported with previous researches conducted in various countries such as by Gompers et al. (2003), Abor and Biekpe (2007), Jackling and Johl (2009), Ehikioya (2009), Reddy et al. (2010) Siagian et al. (2013) and Sheikh et al. (2013).

Table 7. Hypothetical Testing Results

Model	Unstand. Coef.		Stand. Coef.	t	Prob. Sig.	Model	Unstand. Coef.		Stand. Coef.	t	Prob. Sig.
	B	S.E.	Beta				B	S.E.	Beta		
1. Dependent Variable: ROA						**4. Dependent Variable: PBV**					
Adj R^2 = 38.3%						**Adj R^2 = 5.1%**					
1 (Constant)	-24.774	10.959		-2.261	.026	**(Constant)**	64.743	100.397		.645	.521
CGPI	.725	.164	.473	4.430	.000***	**CGPI**	-2.910	1.499	-.257	-1.942	.156
SIZE	-.868	.672	-.149	-1.292	.200	**SIZE**	14.154	6.154	.328	2.300	.024***
AGE	.050	.036	.121	1.412	.162	**AGE**	-.006	.327	-.002	-.017	.986
LIST_AGE	-.140	.102	-.118	-1.378	.172	**LIST_AGE**	-.997	.932	-.113	-1.071	.287
LEV	-23.786	4.100	-.554	-5.801	.000***	**LEV**	-77.977	37.567	-.246	-2.076	.041***
2. Dependent Variable: ROE						**5. Dependent Variable: PER**					
Adj R^2 = 16.4%						**Adj R^2 = 4.3%**					
2 (Constant)	-122.750	36.808		-3.335	.001	**(Constant)**	2080.626	2171.004		.958	.341
CGPI	2.186	.549	.494	3.978	.000***	**CGPI**	-55.123	32.406	-.226	-1.701	.193
SIZE	-1.498	2.256	-.089	-.664	.509	**SIZE**	228.624	133.070	.246	1.718	.090**
AGE	.068	.120	.057	.569	.571	**AGE**	-1.225	7.063	-.018	-.173	.863
LIST_AGE	-.367	.342	-.107	-1.075	.286	**LIST_AGE**	-23.714	20.145	-.125	-1.177	.243
LEV	-26.192	13.773	-.211	-1.902	.061**	**LEV**	-1687.552	812.343	-.247	-2.077	.041***
3. Dependent Variable: EPS						**6. Dependent Variable: EG**					
Adj R^2 = 13.6%						**Adj R^2 = 4.3%**					
3 (Constant)	-1480.180	727.365		-2.035	.045	**(Constant)**	-1091.610	805.120		-1.356	.179
CGPI	23.386	10.857	.272	2.154	.034***	**CGPI**	-13.505	12.018	-.146	-1.124	.264
SIZE	38.567	44.583	.118	.865	.390	**SIZE**	156.683	49.349	.445	3.175	.002***
AGE	-2.918	2.366	-.125	-1.233	.221	**AGE**	.234	2.619	.009	.089	.929
LIST_AGE	-.711	6.749	-.011	-.105	.916	**LIST_AGE**	-1.893	7.471	-.026	-.253	.801
LEV	-906.036	272.164	-.376	-3.329	.001***	**LEV**	-812.134	301.258	-.314	-2.696	.009***

***) Significant at level alpha 5%
**) Significant at level alpha 10%

Furthermore, the results show that corporate governance does not affect the company's market value. Company value's measurement used in this research are PBV (Price to Book Value) and PER (Price to Earning Ratio). The testing results on both indicators reject our hypothesis. It means that CG implementation does not significantly influence the increase of stock market price. Companies participating in Corporate Governance rating programs apparently are not immediately responded positively by investors in markets. This results support researches conducted by Darmawati, et al. (2005) and Nuswandari (2009), which both use CGPI as a Corporate Governance implementation indicator in Indonesia. Another study conducted in the UK by Bauer et al. (2003) using Deminor's Corporate Governance Rating as a Corporate Governance implementation measurement also prove that markets are not influenced by CG rating. This is probably because the information of Corporate Governance implementation is not directly responded by markets, whereas it takes time since it is related to investors' trust level (Nuswandari, 2009).

The Corporate Governance implementation which is not yet responded by markets is also due to the limited publications of IICG rating results. Since the results are only limitedly published in SWA magazine and IICG web site, public literacy on these rating results is not widely spread. Companies' participation in a program of CGPI Awards is their own voluntarily initiative. It means that a company may choose whether to participate in the rating or not. In addition, Indonesian markets have not concerned on GCG implementation in companies. Thus, company's bargaining power seems weak when dealing with the management. The investors also have not been able to use GCG scoring results as an additional instrument in assessing the company performance.

These findings are apparently different with a research conducted by Molah et al., (2012). The research which uses Ordinary Least Square method (OLS) has provided empirical evidence that accounting-based performance measurements (ROA, ROE, and Tobin's Q) are not influenced by Corporate Governance mechanisms. On the other hand, market-based performance measurement (LnMktCap) may explain the role of board characteristics and boards ownership. These research findings imply that companies in Botswana have been improved to market-oriented systems to develop mechanisms for the appropriate Corporate Governance and reduce the existing agency conflicts. Molah et al., (2012) argue that those accounting numbers are susceptible to accounting manipulations such as profit management or income smoothing. In contrary, this research show different evidence that investors in Indonesia are more interested in accounting-based performance and/or hybrid measurements, such as ROA, ROE, and EPS.

The third dependent variable, growth, is also unsuccessfully proven. This research found that the Corporate Governance implementation does not influence the company growth which represented by the earning growth (EG). The good governance implementation actually provides long-term implications upon company performance. Thus, the company growth resulted from GCG implementation may not be accurately measured in short term.

The control variables used in this study, company size, company age, and listing age, do not influence the company performance, market value and growth. Large companies or old companies do not always have better performance than those which are considered small and have just been established. The samples of this study were participants of CGPI rating program which not categorized in each industrial type that the asset value of each company's deviation is very high. Meanwhile, the control variable of leverage shows that leverage influences financial performances (ROA, EPS), company values (PBV, PER), and earning growth (EG). These results are in accordance with the agency theory that instead of using stakeholders' funds, company managers also manage funds from creditors either from Bondholders, banks or other parties. Thus, managers have to optimally work due to the creditors' pressures to improve the company performance.

Conclusions and Suggestions

The companies participating in CGPI rating always experience increase both in quantity and quality year by year. It means that awareness on Good Corporate Governance has increased. The Corporate Governance implementation of go-public companies in Indonesia influences companies' accounting-based financial performance such as ROA, ROE, and EPS. Meanwhile, GCG implementation does not influence stock market prices to increase since markets do not respond the information of Corporate Governance implementation directly and consider the time. Company growth is not significantly influenced by Corporate Governance implementation. In this study, CGPI rating in related years is associated with market performance at the same years. Thus, in further researches, CGPI rating in related years is expected to be associated with market performance in the following years since findings of this study show that GCG implementation is not directly responded by markets.

Companies participating in CGPI may develop concepts of Good Corporate Governance (GCG) based on best practice (corporate university) references. More importantly, Good Corporate Governance implementation is a necessity for every company, not only for those companies that are small or large (of the company size), have heterogeneous asset compositions, or have opportunities to grow rapidly. Therefore, the government should create situations which are conducive for GCG enforcement through a regulatory approach upon Good Corporate Governance to improve company owners' and managers' commitments on GCG implementation.

References

Abor, J. (2007), "Corporate Governance and Financing Decisions of Ghananian Listed Firms". *Corporate Governance.* Vol. 7. No. 1. pp. 83-92.

Abor, J. and Biekpe, N. (2007), "Corporate governance, ownership structure and performance of SMEs in Ghana: implications for financing opportunities", *Corporate Governance*, Vol. 7 No. 3, pp. 288-300.

Anderson, R., Mansi, S. and Reeb, D. (2004), ''Board characteristics, accounting report integrity and the cost of debt'', *Journal of Accounting and Economics,* Vol. 37 No. 3, pp. 315-42.

Bauer, Rob., Nadja Gunster.,dan Roger Otten, 2003. "Empirical Evidence on Corporate Governance in Europe : The Effect on Stock Return, Firm Value and Performance", http://papers.ssrn.com.

Brigham, E.F. and Houston, J.F. 2006. *Fundamentals of Financial Management,* Jakarta : Salemba Empat.

Darmawati, D., Khomsiyah and Rika G.R. (2005), "The relationship between corporate governance at the Company's Performance", *Jurnal Riset Akuntansi Indonesia*, Vol. 8, No. 1, pp. 45-62

Dittmar, A., Mahrt-Smith, J. and Servaes, H. (2003), "International corporate governance and corporate cash holdings", *The Journal of Financial and Quantitative Analysis*, Vol. 38 No. 1, pp. 111-133.

Ehikioya, B.I. (2009), "Corporate governance structure and firm performance in developing economies: evidence from Nigeria", *Corporate Governance,* Vol. 9 No. 3, pp. 231-243.

Forum For Corporate Governance in Indonesia (FCGI). 2001. Corporate Governance. Vol. 1 No. 3, FCGI: Jakarta Indonesia.

Forum for Corporate Governance in Indonesia (FCGI). Profile FCGI. http://www.fcgi.or.id/about-fcgi/fcgi-profile.html. (accessed 14 Mei 2011).

Global Reporting Initiative (GRI), (2006), "Sustainability Reporting Guidelines 2000 – 2006", available *at* https://www.globalreporting.org/resourcelibrary/Bahasa-Indonesian (accessed 20 Oktober 2013).

Gompers, P.A., Ishii, J.L. and Metrick, A. (2003), "Corporate governance and equity prices", *Quarterly Journal of Economics*, Vol. 118 No. 1, pp. 107-55.

Hasan, A. and Butt, S.A. (2009), "Impact of Ownership Structure and Corporate Governance on Capital Structure of Pakistani Listed Companies". *International Journal of Business and Management.* Vol. 4 No. 2, pp.50-57.

Hassan, K.M. and Halbouni, S.S. (2013), "Corporate governance, economic turbulence and financial performance of UAE listed firms", *Studies in Economics and Finance,* Vol. 30 No. 2, pp. 118-138.

Indonesia Institute for Corporate Governance (IICG), (2011), Profile IICG. http://www.iicg.org/index.php?option=com_content&task=view&id=53&Itemid=1. (accessed 14 Mei 2011).

Jackling, B. and Johl, S. (2009), "Board structure and firm performance: evidence from India's top companies", *Corporate Governance: An International Review,* Vol. 17 No. 4, pp. 492-509.

Jensen, M.C. and Meckling, W.H. (1976), "Theory of the firm: Managerial behavior agency cost, and ownership structure", *Journal of Finance Economics,* Vol. 3 No. 4, pp. 305-360.

Kaihatu, T.S. (2006), "Good Corporate Governance and the practice in Indonesia". Jurnal Manajemen dan Kewirausahaan. Vol. 8 No. 1, pp. 1-9.

Mollah, S., Farooque, O. and Karim, W. (2012), "Ownership structure, corporate governance and firm performance Evidence from an African emerging market". *Studies in Economics and Finance.* Vol. 29 No. 4, pp. 301-319.

Mutairi, A.M., Tian, G., Hasan, H. and Tan, A. (2012), "Corporate governance and corporate finance practices in a Kuwait Stock Exchange market listed firm: a survey to confront theory with practice", *Corporate Governance,* Vol. 12 No. 5, pp. 595-615.

Nam, S. and Nam, C. (2004), "Corporate Governance in Asia: Recent Evidence from Indonesia, Republic of Korea, Malaysia, and Thailand", Asian Development Bank Institute, Manila.

Nuswandari, C. (2009), "The influence of corporate governance perception index on corporate performance of listed companies on the Jakarta Stock Exchange", Jurnal Bisnis dan Ekonomi (JBE), Vol. 16 No. 2, pp. 70 - 84

Rashid, K., Islam, S.M.N. (2013), "Corporate governance, complementarities and the value of a firm in an emerging market: the effect of market imperfections", *Corporate Governance,* Vol. 13 No. 1, pp. 70-87.

Reddy, K., Locke, S. and Scrimgeour, F. (2010), "The efficacy of principle-based corporate governance practices and firm financial performance. An empirical investigation". *International Journal of Managerial Finance,* Vol. 6 No. 3, pp. 190-219.

Rocca, M.L. (2007), "The influence of corporate governance on the relation between capital structure and value", *Corporate Governance*, Vol. 7 No. 3, pp. 312-325.

Sheikh, A.N. and Wang, Z. (2012), "Effects of corporate governance on capital structure: empirical evidence from Pakistan". *Corporate Governance.* Vol. 12 No. 5, pp. 629-641.

Sheikh, A.N., Wang, Z. and Khan, S. (2013), "The impact of internal attributes of corporate governance on firm performance Evidence from Pakistan", *International Journal of Commerce and Management,* Vol. 23 No. 1, pp. 38-55.

Shleifer, A. and Vishny, R.W. (1997), ''A survey of corporate governance'', *The Journal of Finance,* Vol. 52 No. 2, pp. 737-83.

Siagian F, Siregar S.V. and Rahadian Y. (2013), "Corporate governance, reporting quality, and firm value: evidence from Indonesia", *Journal of Accounting in Emerging Economie.* Vol. 3 No. 1, pp. 4-20.

Siallagan, H. and Machfoedz M., (2006), "Mechanism of Corporate Governance, Earnings Quality, and Firm's Value". *Proceedings of National Symposium on Accounting* 9th, Padang 23-36 August.

Sunarto, (2003), "Corporate Governance and Market Peformance", *Fokus Ekonomi,* Vol. 2. No. 3, pp. 72-90

Suprayitno, G., Susanty, A., Kusnawijaya, E., Kusumah, L.H., Januarita, R., Poerwanto, R., Yasni, S., Aryati, T., Naimah, Z., Abidin, Z., Susandy, M., Riyadi, A., Tito, S.O., Fauziah, P.N. (2012), *Report of Research & Ratings Corporate Governance Perception Index 2011: GCG in Risk Perspectives*, IICG: Jakarta Indonesia.

Tjondro, D., Wilopo, (2011), "The effect of good corporate governance on the profitability and performance of listed banking on Indonesian stock exchange", *Journal of Business and Banking,* Vol. 1 No. 1, pp. 1 – 14.

Wahyudin, A. (2012), "The effect of *ownership structure* on debt policy, the principles of Corporate Governance as an intervening variable. *Thesis.* Diponegoro University

Wen, Y., Rwegasira, K. and Bilderbeek, J. (2002), ''Corporate governance and capital structure decisions of Chinese listed firms'', *Corporate Governance: An International Review,* Vol. 10 No. 2, pp. 75-83.

3. Keputusan review round pertama: Decision on Manuscript ID CG-02-2016-0034

Corporate Governance - Decision on Manuscript ID CG-02-2016-0034

Dari: a.iona@qmul.ac.uk

Kepada: aguswahyudin2001@yahoo.com

Tanggal: Jumat, 17 Juni 2016 08.28 WIB

17-Jun-2016

Dear Dr. Wahyudin:

Manuscript ID CG-02-2016-0034 entitled "Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance" which you submitted to the Corporate Governance, has been reviewed. The comments of the reviewer(s) are included at the bottom of this letter.

The reviewer(s) have recommended publication, but also suggest some revisions to your manuscript. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript.

To revise your manuscript, log into https://mc.manuscriptcentral.com/cg and enter your Author Centre, where you will find your manuscript title listed under "Manuscripts with Decisions." Under "Actions," click on "Create a Revision." Your manuscript number has been appended to denote a revision.

You will be unable to make your revisions on the originally submitted version of the manuscript. Instead, revise your manuscript using a word processing program and save it on your computer. Please also highlight the changes to your manuscript within the document by using the track changes mode in MS Word or by using bold or coloured text. Once the revised manuscript is prepared, you can upload it and submit it through your Author Centre.

When submitting your revised manuscript, you will be able to respond to the comments made by the reviewer(s) in the space provided. You can use this space to document any changes you make to the original manuscript. In order to expedite the processing of the revised manuscript, please be as specific as possible in your response to the reviewer(s).

IMPORTANT: Your original files are available to you when you upload your revised manuscript. Please delete any redundant files before completing the submission.

Because we are trying to facilitate timely publication of manuscripts submitted to the Corporate Governance, your revised manuscript should be uploaded as soon as possible. If it is not possible for you to submit your revision in a reasonable amount of time, we may have to consider your paper as a new submission.

Please consider the following resources to help with your manuscript resubmission:
- To help improve the quality of this paper's standard of English language please visit our editing services page: http://emeraldgrouppublishing.com/authors/editing_service/index.htm
- To access the Emerald 'How to…' guides on writing effectively and getting published please visit: http://www.emeraldgrouppublishing.com/authors/guides/index.htm

Please note that Emerald requires you to clear permission to re-use any material not created by you. If there are permissions outstanding, please upload these when you submit your revision. Emerald is unable to publish your paper with permissions outstanding.

Once again, thank you for submitting your manuscript to the Corporate Governance and I look forward to receiving your revision.

With best wishes,
Dr. Gabriel Eweje
Corporate Governance

Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Major Revision

Comments:

There is need for further improvement.

Additional Questions:
1. Originality: Does the paper contain new and significant information adequate to justify publication?: The topic is relevant, but the author(s) fails to provide sufficient stories that led to the introduction of the implementation of the corporate governance rating. In short, the motivation for the study is weak and needs further improvement.

2. Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources? Is any significant work ignored?: The literature review section is not properly structured.
1. The corporate governance perception index should come before the literature review and hypothesis testing section.
2. Theoretical section should be differentiated from the empirical review and hypothesis testing.
3. On the theoretical section, a detailed discussion is needed.
4. Irrelevant empirical literature should be ignored.

3. Methodology: Is the paper's argument built on an appropriate base of theory, concepts or other ideas? Has the research or equivalent intellectual work on which the paper is based been well designed? Are the methods employed appropriate?: The methodology is fair, but the sample selection is not well explained. However, my main concerns are: 1) why the sample period? 2) why OLS?
The author(s) failed to justify the use of OLS alone because there are other sophisticated techniques such as Panel data regression, Dynamic Panel or QR that can be employed.
In addition, there is no available detail on related diagnostic tests.

4. Results: Are results presented clearly and analysed appropriately? Do the conclusions adequately tie together the other elements of the paper?: Generally, the results are poorly presented.
1. I am surprise to see a minimum value of -40.80 in the descriptive analysis result. This contradicts the interpretation provided in the first paragraph of the result interpretation.

2. The hypothesis testing results and tables should be clearly presented.
3. The two different measurements of age should be use separately to see whether there is any significant differences in the results.
4. I suggest that a comparison should be made between companies in the group and those that do not participate in the corporate governance rating to make the results more robust and interesting.

5. Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap between theory and practice? How can the research be used in practice (economic and commercial impact), in teaching, to influence public policy, in research (contributing to the body of knowledge)? What is the impact upon society (influencing public attitudes, affecting quality of life)? Are these implications consistent with the findings and conclusions of the paper?: This is entire lacking in the write up. I wish the author(s) can explicitly highlight the implication of the study to the identifiable area.

6. Quality of Communication: Does the paper clearly express its case, measured against the technical language of the fields and the expected knowledge of the journal's readership? Has attention been paid to the clarity of expression and readability, such as sentence structure, jargon use, acronyms, etc.: There are many grammatical errors in the whole write up. For example, the author(s) could not use "affect" and "effect" appropriately.

Reviewer: 2

Recommendation: Reject & Resubmit

Comments:
Please see attached referee report.

Additional Questions:
1. Originality: Does the paper contain new and significant information adequate to justify publication?: No, the paper does not justify publication in its current form due to significant methodological problems.

2. Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources? Is any significant work ignored?: Yes.

3. Methodology: Is the paper's argument built on an appropriate base of theory, concepts or other ideas? Has the research or equivalent intellectual work on which the paper is based been well designed? Are the methods

employed appropriate?: No. The stated conclusions of the paper are not drawn from accurate statistical methods. Used methodology is not appropriate for testing the hypotheses.

4. Results: Are results presented clearly and analysed appropriately? Do the conclusions adequately tie together the other elements of the paper?: Please see the attached report.

5. Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap between theory and practice? How can the research be used in practice (economic and commercial impact), in teaching, to influence public policy, in research (contributing to the body of knowledge)? What is the impact upon society (influencing public attitudes, affecting quality of life)? Are these implications consistent with the findings and conclusions of the paper?: Please see the attached report.

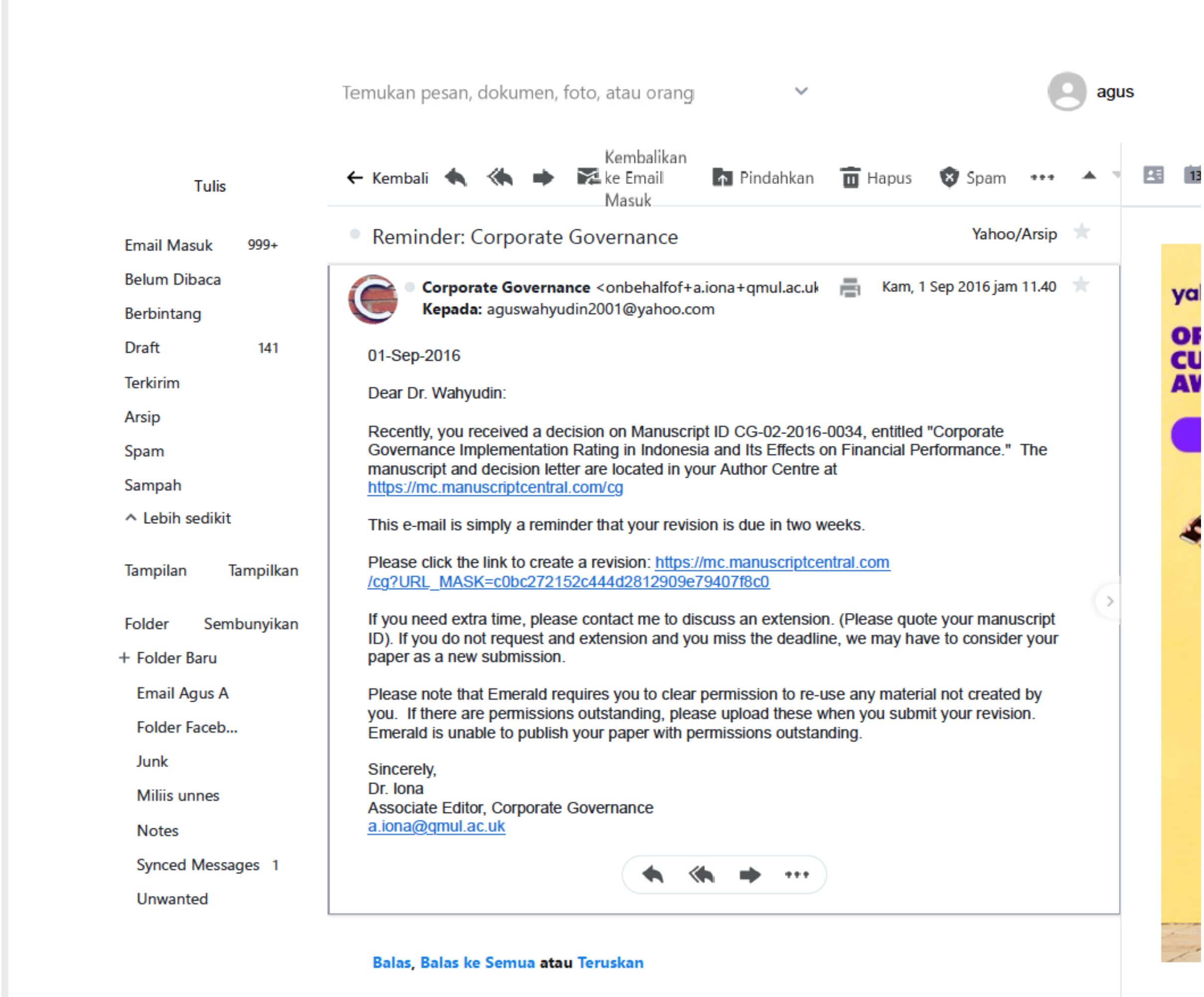
6. Quality of Communication: Does the paper clearly express its case, measured against the technical language of the fields and the expected knowledge of the journal's readership? Has attention been paid to the clarity of expression and readability, such as sentence structure, jargon use, acronyms, etc.: A significant of vital information is missing. Authors do not adequately build the story of policy implications of corporate governance mechanism in Indonesia.

DEADLINE: 15-Sep-2016

To go straight to your paper click this link: https://mc.manuscriptcentral.com/cg?URL_MASK=69d6cfdd3b9d4cb2b7b91655189c4e47

* How-to-submit-a-revision.doc
33kB

4. Reminder: Corporate Governance (Waktu revisi kurang 2 minggu)



Reminder: Corporate Governance

Yahoo/Arsip

Corporate Governance <onbehalfof+a.iona+qmul.ac.uk

Kam, 1 Sep 2016 jam 11.40

Kepada: aguswahyudin2001@yahoo.com

01-Sep-2016

Dear Dr. Wahyudin:

Recently, you received a decision on Manuscript ID CG-02-2016-0034, entitled "Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance." The manuscript and decision letter are located in your Author Centre at https://mc.manuscriptcentral.com/cg

This e-mail is simply a reminder that your revision is due in two weeks.

Please click the link to create a revision: https://mc.manuscriptcentral.com/cg?URL_MASK=c0bc272152c444d2812909e79407f8c0

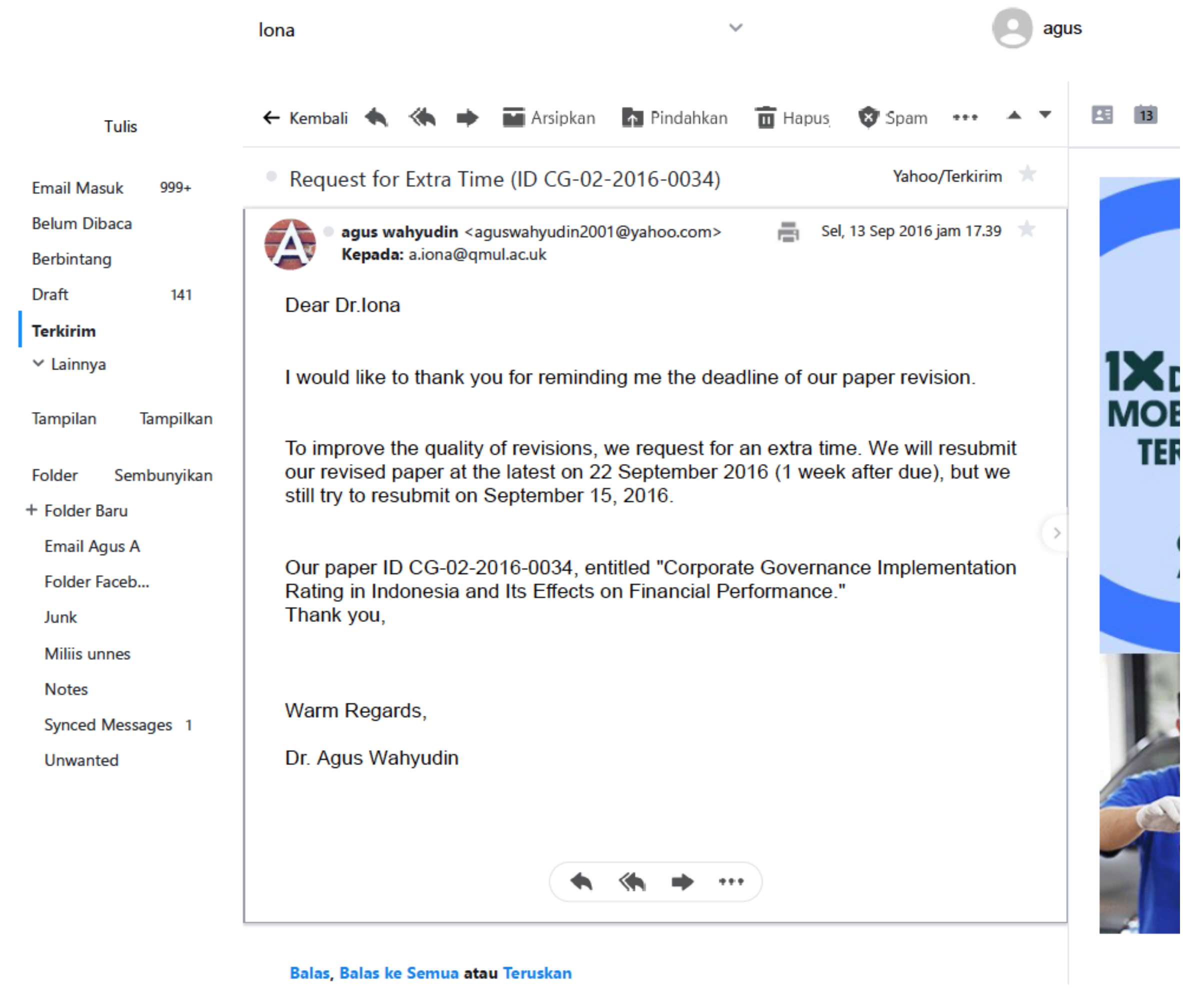
If you need extra time, please contact me to discuss an extension. (Please quote your manuscript ID). If you do not request and extension and you miss the deadline, we may have to consider your paper as a new submission.

Please note that Emerald requires you to clear permission to re-use any material not created by you. If there are permissions outstanding, please upload these when you submit your revision. Emerald is unable to publish your paper with permissions outstanding.

Sincerely,
Dr. Iona
Associate Editor, Corporate Governance
a.iona@qmul.ac.uk

Balas, **Balas ke Semua** atau **Teruskan**

5. **Meminta perpanjangan waktu revisi kepada editor karena ketika mau submit pada system ternyata ada perbedaan waktu antara Indonesia dengan Australia**



Iona

agus

Tulis

Email Masuk 999+
Belum Dibaca
Berbintang
Draft 141
Terkirim
Lainnya

Tampilan Tampilkan

Folder Sembunyikan
+ Folder Baru
Email Agus A
Folder Faceb...
Junk
Miliis unnes
Notes
Synced Messages 1
Unwanted

Kembali Arsipkan Pindahkan Hapus Spam

Request for Extra Time (ID CG-02-2016-0034) Yahoo/Terkirim

agus wahyudin <aguswahyudin2001@yahoo.com> Sel, 13 Sep 2016 jam 17.39
Kepada: a.iona@qmul.ac.uk

Dear Dr.Iona

I would like to thank you for reminding me the deadline of our paper revision.

To improve the quality of revisions, we request for an extra time. We will resubmit our revised paper at the latest on 22 September 2016 (1 week after due), but we still try to resubmit on September 15, 2016.

Our paper ID CG-02-2016-0034, entitled "Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance."
Thank you,

Warm Regards,

Dr. Agus Wahyudin

Balas, **Balas ke Semua** **atau** **Teruskan**

6. Diberi perpanjangan waktu oleh editor

RE: Requests to Complete the Resubmit Revise-Manuscripts

Dari: Eweje, Gabriel (g.eweje@massey.ac.nz)

Kepada: aguswahyudin2001@yahoo.com

Cc: a.iona@qmul.ac.uk

Tanggal: Kamis, 15 September 2016 15.05 WIB

Dear Agus

Thanks for your email, I have extended your resubmission date to the 23 September.

All the best,

Gabriel

Associate Professor Gabriel Eweje

Editor in Chief --- Corporate Governance - The International Journal of Business in Society

Associate Editor – Business Ethics A European Review

Director, Sustainability & CSR Research Group

School of Management

Massey Business School

Massey University

Albany Campus

Private Bag 102 904 NSMSC. 0745

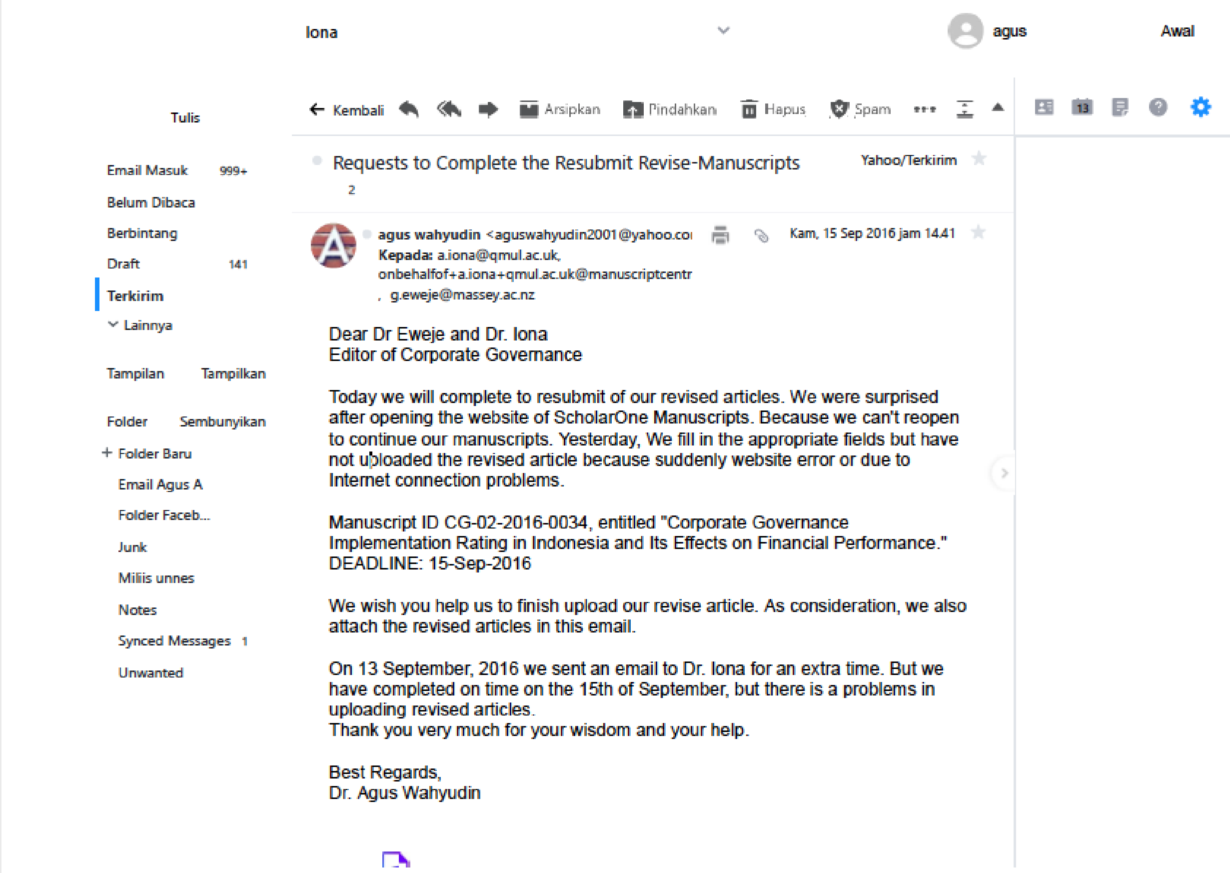
Auckland

New Zealand

T +64 9 4140800 extn 43388

f +64 9 4418109

7. Submit revisi oleh penulis



Requests to Complete the Resubmit Revise-Manuscripts

2

agus wahyudin <aguswahyudin2001@yahoo.co
Kam, 15 Sep 2016 jam 14.41

Kepada: a.iona@qmul.ac.uk, onbehalfof+a.iona+qmul.ac.uk@manuscriptcentr , g.eweje@massey.ac.nz

Dear Dr Eweje and Dr. Iona
Editor of Corporate Governance

Today we will complete to resubmit of our revised articles. We were surprised after opening the website of ScholarOne Manuscripts. Because we can't reopen to continue our manuscripts. Yesterday, We fill in the appropriate fields but have not uploaded the revised article because suddenly website error or due to Internet connection problems.

Manuscript ID CG-02-2016-0034, entitled "Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance." DEADLINE: 15-Sep-2016

We wish you help us to finish upload our revise article. As consideration, we also attach the revised articles in this email.

On 13 September, 2016 we sent an email to Dr. Iona for an extra time. But we have completed on time on the 15th of September, but there is a problems in uploading revised articles.
Thank you very much for your wisdom and your help.

Best Regards,
Dr. Agus Wahyudin

Temukan pesan, dokumen, foto, atau orang

agus

Tulis

Email Masuk 999+
Belum Dibaca
Berbintang
Draft 141
Terkirim
Arsip
Spam
Sampah
Lebih sedikit

Tampilan Tampilkan

Folder Sembunyikan
+ Folder Baru
Email Agus A
Folder Faceb...
Junk
Miliis unnes
Notes
Synced Messages 1
Unwanted

Kembali Arsipkan Pindahkan Hapus Spam

Corporate Governance - Manuscript ID CG-02-2016-0034.R1

Yahoo/Email M...

Corporate Governance <onbehalfof+g.eweje+massey. Kam, 15 Sep 2016 jam 19.55
Kepada: aguswahyudin2001@yahoo.com

15-Sep-2016

Dear Agus,

Your revised manuscript entitled "Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance" has been successfully submitted online and is presently being given full consideration for publication in the Corporate Governance.

Your manuscript ID is CG-02-2016-0034.R1.

Please mention the above manuscript ID in all future correspondence or when calling the office for questions. If there are any changes in your street address or e-mail address, please log in to ScholarOne Manuscripts at https://mc.manuscriptcentral.com/cg and edit your user information as appropriate.

You can also view the status of your manuscript at any time by checking your Author Centre after logging in to https://mc.manuscriptcentral.com/cg

Please note that Emerald requires you to clear permission to re-use any material not created by you. If there are permissions outstanding, please upload these when you submit your revision or send directly to Emerald if your paper is accepted immediately. Emerald is unable to publish your paper with permissions outstanding.

Thank you for submitting your manuscript to the Corporate Governance.

With best regards,
Gabriel Eweje
Editor-in-chief, Corporate Governance

P.S. Don't forget, you can read the journal online at http://www.emeraldinsight.com/journals.htm?issn=1472-0701

Temukan pesan, dokumen, foto, atau orang

agus

Tulis

← Kembali Arsipkan Pindahkan Hapus Spam

Email Masuk 999+
Belum Dibaca
Berbintang
Draft 141
Terkirim
Arsip
Spam
Sampah
^ Lebih sedikit

Tampilan Tampilkan

Folder Sembunyikan
+ Folder Baru
Email Agus A
Folder Faceb...
Junk
Miliis unnes
Notes
Synced Messages 1
Unwanted

Corporate Governance - Author update

Yahoo/Email M...

Corporate Governance <onbehalfof+g.eweje+massey.

Kam, 15 Sep 2016 jam 19.55

Kepada: aguswahyudin2001@yahoo.com, badingatusbety@gmail.com, bety_laphea@yahoo.com

15-Sep-2016

Dear Author(s),

It is a pleasure to inform you that your manuscript titled Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance (CG-02-2016-0034.R1) has passed initial screening and is now awaiting reviewer invitation.

The manuscript was submitted by Dr. Agus Wahyudin with you listed as a co-author.

As you are listed as a co-author, if you have not already done so please log in to https://mc.manuscriptcentral.com/cg and check that your account details are complete and correct, these details will be used should the paper be accepted for publication.

Yours sincerely,
Dr. Gabriel Eweje
Editor, Corporate Governance

Balas, **Balas ke Semua** **atau** **Teruskan**

NASKAH REVISI

Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance

Agus Wahyudin[1], Badingatus Solikhah[2]

Abstract

Purpose - *The purpose of this paper is to investigate the effect of Corporate Governance implementation rating conducted by Indonesian Institute for Corporate Governance (IICG) on the financial performance of the selected companies.*

Design/methodology/approach - *This paper is a hypothesis testing study to analyze Corporate Governance implementation of 88 firms listed on Indonesian Stock Exchange. The samples are companies participated in Corporate Governance Perception Index (CGPI) Awards in 2008 - 2012. A panel data regression analysis is conducted upon the data collected from IICG Reports and its financial statements.*

Findings - *The awareness of Good Corporate Governance enforcement in Indonesian company has already increased. The listed companies participating in CGPI Awards during 2008 - 2012 always experience an increase both quantity and quality. Corporate Governance rating of go-public companies in Indonesia affects their accounting-based financial performance, such as ROA, ROE, and EPS. However, CG implementation rating is not directly responded by Indonesian stock market and has not yet been able to increase the company's growth in short term.*

Research limitations/implications - *In this study, CGPI rating in a related year is linked to market performance in the same year. Thus, further research may link the CGPI rating to the market performance in the next year since the findings of this study show that GCG implementation is not directly responded by the market.*

Practical implications - *Good Corporate Governance implementation is required by stakeholders as it may give a long-term positive impact. Thus, the government needs to stipulate regulations in order to increase the commitments of the company in implementing GCG. The company can improve the internal factors of the organization that does not support the establishment of GCG based on the findings during the survey of CGPI. Finally, Investors and creditors may consider rating CGPI for their investment decisions.*

Originality/value - *This study contributes to the literature in two ways. First, this study employs the comprehensive corporate governance rating in Indonesia. Previous studies on CG rating focused on internal mechanism, in this study the ratings was assessed using four stages of continuous assessment: self-assessment, documents evaluated, paper assessment, and company visit which conducted by an independent team. Second, this study uses corporate governance index (compliance, conformance, and performance) associated with a variety of accounting-based performance and market-based performance variables they are: financial performance, market value, and growth.*

[1] Lecturer at accounting department, Semarang State University, email: aguswahyudin2001@yahoo.com

[2] Lecturer at accounting department, Semarang State University, email: badingatusbety@mail.unnes.ac.id

Keywords: *Corporate Governance, Corporate Governance Rating, Accounting-Based Performance, Market-Based Performance*

Paper type *Research paper*

Intoduction

Awareness of the importance of corporate governance arises after the crisis in mid-1997 in Asian countries, including Indonesia. Iskander and Chamlou (2000) stated that the economic crisis is not only due to macroeconomic factors but also because of weak corporate governance in these countries, such as the lack of legal, accounting standards and financial audit has not been established, the capital markets are under-regulated, lack of supervision commissioner, and disregard for the rights of minority shareholders. This means that the implementation of good corporate governance (GCG) will give a positive impact on both shareholders and national economic growth.

Public attentions and researcher on Corporate Governance (CG) have grown in importance in recent years in various countries. Corporate Governance has been a well-known topic of academic researcher and Corporate Governance mechanisms vary across the world (Mutairi et al., 2012.) Good Corporate Governance assists to sustainable economic development by improving the performance of companies (GRI, 2006). Some researches (Dittmar et al., 2003; Nam and Nam, 2004; Rashid and Islam, 2013) show that Corporate Governance has an important role in affecting company performance in the financial markets. Moreover, the main goal of establishing a company is to improve the welfare of company owners or stakeholders or to maximize stakeholders' property by increasing company value (Brigham & Houston, 2006). The objective of a company is to optimize stakeholder value that can be achieved through the implementation of financial management function (Wahyudin, 2012). Financial decisions may affect other financial decisions and lead to the company values. Corporate governance framework recommends that stakeholder value maximization is the outcome of those corporate governance mechanisms (Mutairi, et al., 2012).

Corporate Governance refers to structures and processes of company directions and controls. Corporate Governance concerns on the relationships of managers, the board of directors, employees, controlling, minority, and other stakeholders. Abor (2007) explained that Corporate Governance refers to how a company is supposed to run, be regulated and controlled. According to Kaihatu (2006), the essence of Corporate Governance is improving company performance by supervising or monitoring the management performance and accountability upon the other stakeholders, based on the framework of applicable rules and regulations. Corporate Governance may generate goodwill and confidence of investors. Findings of Gompers et al. (2003) explains that Good Corporate Governance may improve the assessments and supports from investors.

Various responses resulted from Corporate Governance issues arise from many countries. In Indonesia, academics are interested in studying Corporate Governance issues. Furthermore, academicians and practitioners also establish various forums, such as Forum for Corporate Governance in Indonesia (FCGI), Indonesian Institute for Corporate Governance (IICG) and Center for Good Corporate Governance of Faculty of Economics and Business of Gadjah Mada University. FCGI in collaboration with Asian Development Bank (ADB) has developed a self-assessment as an instrument to assess company's Corporate Governance implementation in Indonesia. On the other hand, IICG in collaboration with the National Committee on Governance (NCG) conducts researches and rating upon Corporate Governance implementation in public and private companies, banks, as well as state-owned enterprises in Indonesia. The results are then nationally and internationally published by SWA Magazine and IICG website.

A research conducted by the Indonesian Institute for Corporate Governance (IICG) in 2002 found that the companies' main reason to apply Corporate Governance is regulatory compliance. CGPI rating does not only consider the quality of corporate governance but also invites companies to increase commitment and quality of governance through dissemination, benchmarking, evaluation and grading, and continuous improvements. The companies believe that Corporate Governance implementation is another form of business and work ethic enforcement that has become companies' commitment, and related to company image improvement. The companies implementing Corporate Governance may improve their image and firms value. Corporate Governance implementation in Indonesia is measured by the Indonesian Institute for Corporate Governance (IICG). IICG has measure Corporate Governance implementation in Indonesia since 2001. Concluded research and rating programs, IICG uses indicators of Good Corporate Governance implementation called Corporate Governance Perception Index (CGPI). Hence, this study aims to explore the effect of the CGPI rating on accounting and market-based performance.

Studies on Corporate Governance associated with company's financial decision-making have been conducted by some researchers including Wen, 2002; Anderson et al., 2004; Abor, 2007; Rocca, 2007; Sheikh and Wang, 2012; Reddy et al., 2010; Mollah et al., 2012; Sheikh et al., 2013; Hassan & Halbouni, 2013. The empirical evidence show that some Corporate Governance attributes affect the company's financial decision making (Sheikh and Wang, 2012. However, those studies show various results.

This paper have significant contributions to literature, most of previous studies (ie Hassan and Halbouni, 2013; Sheikh et al., 2013; Mollah et al., 2012; Reddy et al., 2010) use the mechanisms of corporate governance such as board structure, outside directors, board committees, and ownership structure. Nevertheless, the implementation of corporate governance in this paper was measured using a unique and comprehensive indicators were assessed with four continuous phases developed by IICG. Differ from past studies that used the CG rating (ie Yarram, 2015, Berthelot et al., 2010, Bebchuk et al., 2009, Donker and Zahir, 2008, Gompers et al., 2003), CGPI valuation methods in this paper involves a self-assessment of internal and external stakeholders, assessment of documents linked to the process of CG implementation, papers valuation, and company visits. The model developed in this study is more complete, previous research linking CG rating to ROA, ROE, and EPS partially, this paper examined the effect of CG rating on a various accounting-based performance and market-based performance.

The remainder of the paper is prepared as follows: Section 2 we review the relevant literature and hypothesis developments. Section 3, we describe our data and the research methodology. Section 4, we present and discuss our results of the analysis. Finally, the last section we summarize, conclude and suggest potential avenues for future research.

Corporate Governance Perception Index (CGPI)

Corporate Governance Perception Index (CGPI) is the results of research and rating programs conducted by The Indonesian Institute for Corporate Governance (IICG). IICG was established on June 2nd of 2000 by the Indonesian Transparency Society (ITS) and community leaders to promote concepts, practices, and benefits of Good Corporate Governance (GCG). IICG is one of civil society roles to encourage the establishment of Indonesian business atmosphere that is reliable, ethical, and dignified. As an independent and non-profit organization, IICG has a commitment to encourage the implementation of Good Corporate Governance in Indonesia and to support and assist companies in applying the concept of Corporate Governance.

One program that has continuously been implemented since 2001 is Corporate Governance Perception Index (CGPI). Corporate Governance Perception Index (CGPI) is a research and rating program for Good Corporate Governance implementation of companies in Indonesia. CGPI is conducted through a research design that encourages companies to improve the implementation quality of Corporate Governance concept by conducting an evaluation and benchmarking.

CGPI has been organized by IICG as an annual program since 2001 in cooperation with SWA Magazine as a tribute upon initiatives and results of company's efforts in realizing ethical and dignified business. CGPI participation is voluntary and involves active participations of all stakeholders and companies to meet the required phases of CGPI implementation programs. More importantly, CGPI encourages and demand companies' participation to repair or improve their Corporate Governance implementation in their environment.

In conducting research and rating, IICG has four phases including self-assessment, document evaluation, paper review, and company visit. CGPI program uses three scopes of GCG implementation including compliance, conformance, and performance aspect. GCG implementation assessment only covers company commitments and rules while broadly covers commitment and relationship between companies and stakeholders.

1. The compliance aspect of GCG implementation is a fulfillment of various demands of laws and regulations stipulated by the regulator. This aspect ensures that all company business operations have been well performed and not been in conflicts with the applicable rules,
2. The conformity aspect of GCG implementation is appropriateness of policies and company's operations with the norms, ethics, and values believed,
3. The performance aspect of GCG implementation is the company achievement in fulfilling the demands of ethical and dignified operations.

Due to the evaluation, self-assessment and observational stage use a grading scale of 0-100, documentation evaluation stage uses a grading scale of 0-5, and papers assessment uses a grading scale of 0-20. The evaluation weights conducted using those four continual stages of self-assessment, document evaluation, paper reviews and company visit/field observation, are listed in Table 1.

Table 1. Stages and Weights of CGPI Awards

Stage	Weight
Self-Assessment	17%
Documents Evaluation	35%
Paper Reviews	13%
Company Visit/Observation	35%
Total	100%

The questionnaire used in the self-assessment phase consists of 11 aspects of assessment, involved perceived statement by the organs and members of the company (internal and external stakeholders in Appendix A). The questionnaire was developed based on the problems of implementation CG. In the document evaluation phase, CGPI participants must submit at least 36 types of required documents in accordance with the company status. At the third stage, each participant should prepare a paper that describes the CG implementation and present it during company visits. The last stage is company visit, where an independent team will clarify and ensure the CG practices. Observations on each company conducted through presentations and discussions with the Board of Commissioners, Directors and Management as well as other related parties. Finally, the aspects are considered in the CGPI years 2009 - 2012 are presented in appendix B.

The rating results of CGPI program use norm assessment based on a range scores achieved by CGPI participants. Then categorized based on the quality level of GCG implementation using the term of "trusted". CGPI assessment norm is explained in Table 2.

Table 2. Assessment Categories of CGPI Awards

Score	Category

55.00 – 69.99	Fairly trusted
70.00 – 84.99	Trusted
85.00 - 100	Highly Trusted

Literature Reviews and Hypothesis Developments

Agency Theory

Agency theory is a theory governing the relationship between a principal and an agent which one party (the principal) delegates a job to the other (the agent). Agency theory tries to explain the relationship of contract mechanisms (Jensen & Meckling, 1976). The principal provides funds and other resources to fulfill the company's needs for its operations while the agent, as the company manager, is obliged to manage the company mandated by the company owner. In exchange, the agent may receive a salary, bonuses, and various other compensations. The principal may not verify that the agent has performed and taken the appropriate policies to the principal interest. Agency theory is highly considerate for solving problems in which the principal and the agent may prefer different actions due to different risk preferences. Managers' and stakeholders' different interests may result in conflicts called agency conflicts.

According to Jensen and Meckling (1976), a company which separates its managerial and ownership functions probably leads to agency conflicts. Agency conflicts or agency problems can be minimized through a supervision mechanism to align the interests and then leads to agency cost.

The problems of Good Corporate Governance (GCG) arise due to dependence on external capitals (equity and loan capital) used to finance company activities, investment, and growth (FCGI, 2011). Wahyudin (2012) states that Good Corporate Governance arises as a result of agency problems that there are behaviors generating personal benefits especially from the agent by inflicting interests of another party (the principal). It may occure because of interest separation between the principal and the agent.

GCG Influences upon Financial Performance

The agency problems in the relationship between the agent and the principal may arise in the form of moral hazard which the manager or the agent does not perform their duties as agreed in the employment contract (Jensen and Meckling, 1976). In addition, Good Corporate Governance implementation has vital and strategic roles in maintaining the company's business process credibility and companies' supervisory. Thus, by having Good Corporate Governance and companies' advisory functional operation, the financial performance may be improved.

Companies' Good Corporate Governance implementation may create a system for directing, controlling, and supervising the entire resources efficiently and effectively. Good Corporate Governance is assumed to maintain various interests in balance which may provide benefits for the company. A company with higher CGPI rating means that the company has been managed with a transparency, accountability, responsibility, independency, and fairness. Therefore, there will be an impact upon the outputs of good corporate performance, such as ROA, ROE, and EPS.

The research conducted by Gompers et al. (2003) uses the same governance index found that companies with stronger stakeholder rights tend to have higher profits. Sheikh et al., (2013) also found a positive relationship between board size and company performance. These results are congruent with the previous researches conducted by Jackling and Johl (2009), Ehikioya (2009), Abor and Biekpe (2007). A research on non-financial companies listed on the Karachi stock exchange of Pakistan by Sheikh et al., (2013) proved that ownership concentration positively influences ROA, ROE, and EPS. While in New Zealand, a research conducted by Reddy et al. (2010) finds that the compliance upon NZSC requirements has improved the company financial performance. Thus, the first hypothesis is formulated as follows:

Ha1: A company with better Corporate Governance implementation may have higher financial performance

GCG Influences upon Company Value

World Bank defines Good Corporate Governance (GCG) as a collection of laws, regulations, and rules that must be completed, which may encourage the performance of company resources to operate efficiently and produce a long-term sustainable economic value for both stakeholders and society. Good Corporate Governance implementation is expected to be beneficial to increase and maximize the company value. Hasan and Butt (2009) define that companies' Corporate Governance philosophy and mechanisms are related to the establishment of stakeholders' value. Furthermore, Hasan and Butt (2009) state that the principles implied within Corporate Governance may ensure investors' and creditors' trust.

CGPI rating obtained by a company and published to the public may attract the stakeholders' interest and immediately responded by a market. The higher the CGPI score shows that a company is increasingly more trusted by the related parties, the company may attract investors and eventually enhance a company's value. The improvement of company's value makes investors attracted to invest their funds. The company's stock price describes company's value because the company may maximize its value through the establishment of stock prices. Thus, company value can be reflected in stock price which the higher the stock price, the higher the value of the firm. A higher company value may increase the stakeholders' prosperity and attract them to invest their capital. Corporate Governance is another form of business ethics and working ethic enforcement as the company's commitment and company's image improvement. More importantly, a company practicing corporate governance may have its image improved and increase company value.

Based on agency theory, the stakeholders as the principal expect returns for the investment they made. Siallagan and Machfoedz (2006) state that Corporate Governance is a system that regulates and controls a company in order to provide and improve the company's value to its stakeholders. The implementation of Good Corporate Governance may ensure that the company's financial statements issued in accordance with the generally acceptable accounting principles. Therefore, the financial statements quality reflects on the real state of a company's condition and does not mislead many parties. Investors assess a company by reading the information presented in its financial statements. A good quality of financial reports may improve the company's value.

The previous research held in Indonesia by Siagian et al. (2013) found that Corporate Governance Index positively influences PBV by using 125 samples of companies in Jakarta Stock Exchange in the year of 2003 and 2004. Furthermore, the research results conducted by Mollah et al., (2012) found that companies in Botswana have advanced orientation in market-oriented systems in developing the Corporate Governance mechanisms. Thus, the second hypothesis is formulated as follows:

Ha2: A company with better Corporate Governance implementation may improve its company value in the stock markets.

GCG Influences upon Company Growth

Good Corporate Governance general guidance of Indonesia states that one of the purposes of Corporate Governance implementation is to encourage a company's social awareness and responsibility upon society and preserved environment around the company. More importantly, the implementation of corporate governance may maintain business sustainability in the long term.

Good Corporate Governance as a basic guidance for companies to manage the company better may lead a company to a condition which is conducive to run its operations. Thus, the purpose of its establishment and the interests of stakeholders may be protected from company loss. The conductive condition may not be separated from the implementation of Corporate Governance principles, including transparency, accountability, responsibility, independency, and fairness appropriately. The implementation of GCG principles also influences a long term company's operations.

The research results conducted by Tjondro and Wilopo (2011) state that GCG implementation may positively improve the company performance since the decision-making processes are better taken. Moreover, optimal decisions may be resulted and ultimately improve the efficiency and create better cultures. A well managed and supervised company may produce a qualified management and improve the company profitability. Thus, the company profitability may be well maintained in a long term. A company which is able to maintain a continuous profit may be considered as a growing company since the implementation of GCG concepts basically, aims to increase company prosperity in the long term. From the descriptions above, the third hypothesis is formulated as follows:

Ha3: A company with Good Corporate Governance implementation may increase its company growth.

Research Design

This study analyzed listed company which participate in Corporate Governance Perception Index (CGPI) Awards. Recently, the CG ranking in Indonesia is voluntary, therefore only a small number of public companies participated in. The samples of this research are 37 companies listed on the Indonesia Stock Exchange (BEI) and particularly participate in Corporate Governance Perception Index (CGPI) Awards. We have observed since the year of 2009 – 2012 that our final samples include 88 companies as data. The data used in this research are secondary data of CGPI report, audited financial statements of each company and the financial data of Indonesian Capital Market Directory (ICMD).

Independent Variable

The independent variable of this research is the rating of GCG implementation while the indicator used in this research is the Corporate Governance Perception Index (CGPI) taken from the research programs and ratings conducted by The Indonesian Institute for Corporate Governance (IICG).

Dependent Variables

The dependent variables used in this research are categorized into three groups as described in Table 3.

Table 3. Dependent Variables Measurement

No	Variable	Indicator	Measurement
1	Financial Performance	ROA (Return on Asset)	net profit after tax/total assets
		ROE (Return on Equity)	net profit after tax/ stakeholders' equity
		EPS (Earning per Share)	net profit after tax/ number of shares
2	Firm Value	PBV (Price to Book Value)	Share Price/Share Book Value

No	Variable	Indicator	Measurement
		PER (Price to Earnings Ratio)	Price Per Share/Profit Per Share
3	Company Growth	EG (Earning Growth)	(profit of year t/ profit of year t-1) -1x100%

Control Variables

To obtain a better research model and analysis results, this study used to control variables. Following the the previous study (Hassan and Halbouni, 2013; Sheikh et al., 2013), this research also uses control variables including company size, company age, listing age, and leverage. The measurements of each control variable are presented in Table 4.

Table 4. Measurements of Control Variables

No	Variable	Measurement
1	Company Size (SIZE)	Natural logarithm of Total asset
2	Company Age (AGE)	Research Year - Company Establishment Year
3	Listing Age (LIST_AGE)	Research Year – First Listing Year
4	Leverage (LEV)	Debt Book Value/ Total Asset

Data Analysis Technique

The collected data is further examined using descriptive statistical techniques including mean, standard deviation, maximum, minimum values as well as tables and charts. Then, the datas were analyzed using panel data regression by eviews software. In the panel data regression, firstly we estimated the model using common effect model, fixed effect model, and random effect model. To select the best model used Chow test, Hausman test, and Lagrange Multiplier test are employed. Moreover, to investigate the relationships between the corporate governance and performance, we applied six models bellow:

Model 1 → $ROA = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$
Model 2 → $ROE = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$
Model 3 → $EPS = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$
Model 4 → $PBV = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$
Model 5 → $PER = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$
Model 6 → $EG = \beta_0 + \beta_1 CGPI + \beta_2 SIZE + \beta_3 AGE + \beta_4 LIST\_AGE + \beta_5 LEV + e$

Results

CGPI Profile

In general, the number of go-public companies in Indonesia participating in CGPI rating increases each year, there are 18 go-public companies in 2009, 21 go-public companies in 2010, 24 go-public companies in 2011, and 25 go-public companies in 2012. In one hand, the quality of CG implementation has also increased every year. These findings are an indication of company's high awareness upon GCG implementation as a necessity, not only as its compliance to the regulations set by the government of Indonesia. Moreover, CGPI Awards is a voluntary program that each participant is obliged to pay a registration fee. IICG gives special appreciations to the company members which show sincerity in implementing GCG by awarding as Trusted Companies. This appreciation is an acknowledgment of their achievements upon GCG implementation in each company's environment and as their seriousness and willingness to be voluntarily assessed by external independent parties as a manifestation of in-depth awareness upon the importance of GCG implementation (Suprayitno, et al., 2012).

Table 5. CGPI Profile of Listed Companies

Description	2009	2010	2011	2012
Number of listed companies participating CGPI awards	18	21	24	25
The average of GCG Index	80.31	80.89	81.10	81.01
Number of Recipients with "highly trusted" Category	5	8	9	11
CGPI Topic	GCG as Culture	GCG in Ethical Perspectives	GCG in Risk Perspectives	GCG in Knowledge Perspectives

Descriptive Statistical Analysis

Descriptive statistical calculations consisting of mean, minimum and maximum value of all variables are presented in Table 6. The average calculation of CGPI rating is 80.86. Based on the scales set by IICG, most companies participating in CGPI are categorized as trusted. It means that most companies have implemented Corporate Governance well. Meanwhile, the financial performance measured by ROA, ROE and EPS shows that most companies have good performance since companies participating CGPI are high-profile companies. Conversely, four companies recorded a negative profit on their financial statements. However, the participation of companies in Indonesia at CGPI event is still voluntary. Thus, companies with truly high commitments upon GCG implementation only that may register in CGPI Awards.

Table 6. Descriptive Statistics of Variables

	Average	St. Deviation	Minimum	Median	Maximum
CGPI	80.86	6.96	66.51	82.39	91.91
ROA	6.26	7.14	-8.33	3.58	28.97
ROE	15.82	12.86	-21.46	16.19	53.09
EPS	377.60	497.70	-107.00	142.00	1624.00
PBV	2.53	1.98	0.09	2.01	9.86
PER	15.78	14.94	-8.98	12.58	96.10
EG	0.24	1.49	-5.40	0.21	8.83
SIZE	17.01	1.82	11.95	16.69	22.73
AGE	38.91	21.32	4.00	38.50	93.00
LIST_AGE	10.60	8.92	0.00	9.00	62.00
LEV	0.59	0.25	0.15	0.57	0.92

Note: n = 88. Please see Table 3 and 4 for the descriptions of variables, CGPI is a ranking of corporate governance practices in Indonesian listed companies conducted by IICG. CGPI score drawn from CGPI annual report. All aspects of CGPI valuation is shown in Appendix B. Age and listing age (List_Age) are measured in a year.

The company markets show quite high values of PBV and PER. For example, PBV shows an average value of 2.53 which means that market gives 2.5 times higher price than the asset book value owned by a company. The second market ratio is PER which is obtained by comparing price and earning per share of each company. Investors may interpret that company stock rating and shares are related to the profits generated by the company. Meanwhile, earning growth shows a good value with a growth average of 24% from the previous year's profits. This indicates that the emitted participants of CGPI Awards are companies with good growths.

Table 7 presents the Pearson correlations among test variables. CGPI rating has the highest correlation with size variable. A high correlation also arises between CGPI rating and accounting indicators, ROA and ROE. Thus, the CGPI was not significantly correlated with market indicators (PBV, PER), growth and age.

Tabel 7. Correlations between variables

		CGPI	ROA	ROE	EPS	PBV	PER	EG	SIZE	AGE	LIST_AGE	LEV
CGPI	Pearson Correlation	1	,235**	,377***	,224**	-,141	-,164	,036	,604***	,136	,136	,269**
	Sig. (2-tailed)		,028	,000	,036	,190	,128	,741	,000	,207	,205	,011
ROA	Pearson Correlation	,235**	1	,830***	,570***	-,017	-,020	,031	-,119	,110	-,078	-,482***
	Sig. (2-tailed)	,028		,000	,000	,873	,852	,776	,267	,307	,469	,000
ROE	Pearson Correlation	,377***	,830***	1	,374***	-,017	-,027	,015	,107	,095	-,053	-,114
	Sig. (2-tailed)	,000	,000		,000	,875	,799	,892	,322	,376	,627	,292
EPS	Pearson Correlation	,224**	,570***	,374***	1	-,075	-,078	,012	,094	-,121	,042	-,264**
	Sig. (2-tailed)	,036	,000	,000		,487	,468	,910	,381	,260	,696	,013
PBV	Pearson Correlation	-,141	-,017	-,017	-,075	1	,977***	,607***	,047	-,029	-,118	-,164
	Sig. (2-tailed)	,190	,873	,875	,487		,000	,000	,661	,792	,274	,127
PER	Pearson Correlation	-,164	-,020	-,027	-,078	,977***	1	,602***	-,019	-,048	-,133	-,197*
	Sig. (2-tailed)	,128	,852	,799	,468	,000		,000	,859	,654	,218	,066
EG	Pearson Correlation	,036	,031	,015	,012	,607***	,602***	1	,210**	-,004	-,005	-,146
	Sig. (2-tailed)	,741	,776	,892	,910	,000	,000		,050	,970	,960	,174
SIZE	Pearson Correlation	,604***	-,119	,107	,094	,047	-,019	,210**	1	,097	,098	,463***
	Sig. (2-tailed)	,000	,267	,322	,381	,661	,859	,050		,369	,363	,000
AGE	Pearson Correlation	,136	,110	,095	-,121	-,029	-,048	-,004	,097	1	-,055	,121
	Sig. (2-tailed)	,207	,307	,376	,260	,792	,654	,970	,369		,611	,261
LIST_AGE	Pearson Correlation	,136	-,078	-,053	,042	-,118	-,133	-,005	,098	-,055	1	,007
	Sig. (2-tailed)	,205	,469	,627	,696	,274	,218	,960	,363	,611		,949
LEV	Pearson Correlation	,269**	-,482***	-,114	-,264**	-,164	-,197*	-,146	,463***	,121	,007	1
	Sig. (2-tailed)	,011	,000	,292	,013	,127	,066	,174	,000	,261	,949	

Note: n = 88. Please see Table 3 and 4 for the descriptions of variables, CGPI is a ranking of corporate governance practices in Indonesian listed companies conducted by IICG. CGPI score drawn from CGPI annual report. All aspects of CGPI valuation is shown in Appendix B.
***) Correlation is significant at the 0.01 level.
**) Correlation is significant at the 0.05 level.
*) Correlation is significant at the 0.10 level.

Hypothetical Testing Results

Model 1, 2, and 3 in table 8 reports results of the analyses using accounting firm performance measures. The models are estimated using the fixed-effects estimator (model 1 and 2) and random effects estimator (model 3). The measurements ~~used as proxies~~ for financial performance variable in this study are ROA, ROE, and EPS. Those are employed to measure ~~the company~~ profitability based on a research conducted by Hasan & Halbouni in 2013 which used accounting-based measurements of ROA and ROE upon the company performance. Our result indicates that CGPI rating has a significant impact on accounting performance (ROA, ROE, EPS). Well-implemented Corporate Governance mechanisms is reflected in corporate performance (Sunarto, 2003). These findings strengthen Jensen and Meckling (1976) statements that companies with good governance may have more efficient operational performance. Managers work effectively and efficiently to reduce capital costs and minimize risks that managers may ultimately result in higher profitability.

These findings support a research conducted by Hasan & Halbouni in 2013, which found that corporate governance influences the company financial performance. In a research directed by Hasan & Halbouni (2013), Corporate Governance is measured using CG mechanisms consisting of voluntary disclosure, CEO duality and board size. Meanwhile, a research conducted by Sheikh et al. in 2013 used more complete measurements of CG internal attributes including board size, outside directors, CEO duality, managerial ownership, and ownership concentration. The results show that board size has positive influences upon ROA, EPS, and MB while outside directors and managerial ownership have negative ones. This finding is supported with previous researches conducted in various countries such as by Gompers et al. (2003), Abor and Biekpe (2007), Jackling and Johl (2009), Ehikioya (2009), Reddy et al. (2010) Siagian et al. (2013) and Sheikh et al. (2013).

Adjusted R^2 in model 1 and model 2 showed high scores at 86% and 76%. This indicated that the independent variables (CGPI, SIZE, AGE, LIST_AGE, LEV) explained 88% of the ROA variation and 76% of the ROE variation. However, the variation of the independent and controls variables described the variation variable EPS by 9% only. P-Value for F-statistic on model 1 and model 2 was significant at 0.01 level, whereas on model 3 it was significant at 0.05 level.

Table 8. Hypothetical Testing Results

	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
Constant	-116.98	0.0026***	-496.24	0.0008***	-549.54	0.0905*	64.75	0.5208	2080.67	0.3407	-1522.45	0.1200
CGPI	1.03	0.0108**	3.49	0.0207**	-0.2634	0.9781	-2.91	0.0556*	-55.12	0.0927*	-1.06	0.9119
SIZE	5.20	0.0020***	25.69	0.0001***	101.85	0.0072***	14.15	0.0240**	228.62	0.0896*	103.05	0.0105**
AGE	0.05	0.5817	0.32	0.3695	-2.17	0.3336	-0.01	0.9861	-1.23	0.0827*	0.42	0.8398
LIST_AGE	-1.65	0.0181**	-6.61	0.0125**	0.76	0.9256	-0.99	0.2874	-23.71	0.2425	3.37	0.5730
LEV	-56.30	0.0026***	-259.30	0.0000***	-1031.98	0.0010***	-77.97	0.0411**	-1687.44	0.0409**	-421.70	0.0828*
Adj. R^2	0.86		0.76		0.09		0.05		0.04		0.06	
F-statistic	7.03		3.64		2.66		1.93		1.79		2.09	
Prob (F-stat)	0.0000***		0.0000***		0.0278**		0.0976*		0.1242		0.0743*	

Note: n = 88. Dependent variable Model 1 = ROA; Model 2 = ROE; Model 3 = EPS; Model 4 = PBV; Model 5 = PER; Model 6 = EG. Hypothesis testing using panel data regression. The influence of the independent variable on the dependent variable is analysed using fixed effect model for model 1 and 2; random effect model for model 3 and 6; common effect model for model 4 and 5. *,**,***Significant at 0.10, 0.05 and 0.01 level, respectively.

Model 4 and model 5 in table 8 demonstrates the effect of CGPI rating on market-based performance indicator. The results show that corporate governance does not affect the company's market value. Company value's measurement ~~used~~ in this research is PBV (Price to Book Value) and PER (Price to Earning Ratio). The examination results on both indicators reject our hypothesis. It means that CG implementation does not significantly influence the increase in stock market price. Companies participating in Corporate Governance rating programs are not immediately get positive responses by investors in the market. These results support researches conducted by Darmawati, et al. (2005) and Nuswandari (2009), which both used CGPI as a Corporate Governance implementation indicator in Indonesia. Another study conducted in the UK by Bauer et al. (2003) using Deminor's Corporate Governance Rating as a Corporate Governance implementation measurement also prove that markets are not influenced by CG rating. This is presumably because the information of Corporate Governance implementation is not directly responded by the market, and response takes time since it is related to investors' trust level (Nuswandari, 2009).

The Corporate Governance implementation which is not yet responded by market occurred due to limited publications of IICG rating results. Since the results are only limitedly published in SWA magazine and IICG website, public literacy on these rating results is not widely spread. Companies' participation in a program of CGPI Awards is their own voluntarily initiative. It means that a company may choose whether to participate in the rating or not. In addition, Indonesian markets have not concerned on GCG implementation in companies. Thus, company's bargaining power seems weak when dealing with the management. Finally, the investors have not been able to use GCG scoring results as an additional instrument in assessing the company performance.

These findings are different with a research conducted by Molah et al., (2012). The research which uses Ordinary Least Square method (OLS) has provided empirical evidence that accounting-based performance measurements (ROA, ROE, and Tobin's Q) are not affected by Corporate Governance mechanisms. On the other hand, market-based performance measurement (LnMktCap) may explain the role of board characteristics and boards ownership. These research findings imply that companies in Botswana have been improved to market-oriented systems by developing mechanisms for the appropriate Corporate Governance and reducing the existing agency conflicts. Molah et al., (2012) argue that those accounting numbers are susceptible to accounting manipulations, such as profit management or income smoothing. In contrary, this research shows different evidence that investors in Indonesia are more interested in accounting-based performance and/or hybrid measurements, such as ROA, ROE, and EPS.

The same research linking CG rating with a share price performed by Berthelot et al. (2010). They investigated whether investors take into account the corporate governance rankings published by The Globe and Mail, a reputed Canadian newspaper, in their evaluation of stock price. The results suggest that investors consider these corporate governance rankings in their stock price evaluations.

The third dependent variable is growth. Firm's growth in this paper was measured using the profit increase this year from the previous year's. Model 6 in table 8 exhibites that our hypothesis was unsuccessfully proven. Adjusted R2 in this model is 6%, it means that the variation of growth was only able to be explained by the independent variables by 6 percent. This research found that the Corporate Governance implementation does not influence the company growth, which represented by the earnings growth (EG). The good governance implementation actually provides long-term implications upon company performance. Thus, the company growth resulted from GCG implementation may not be accurately measured in a short term. There may be an indirect relationship due to the impact of good governance rating on firm performance as measured by accounting outcomes (Berthelot et al., 2010). The impact of the implementation of good governance will be seen with a lag time of minimum 1 year.

The control variables used in this study are company size, company age, listing age, and leverage. Firm size affected positively both the accounting and market performance, also the company size measured by the natural logarithm of total assets had a positive effect on profit growth. This study proved that leverage affects financial performances (ROA, EPS), company values (PBV, PER), and earning growth (EG). Nevertheless, the regression coefficient was negative, its means that the higher of debt portion from the shareholders' equity would reduce its financial performance. Age positively effect on PER, however it has no significant effect on others dependent variables. The listing age variable has a positive influence on ROA and ROE at the level of 0.10.

Conclusions and Suggestions

The companies participating in CGPI rating always experience an increase in both quantity and quality each year. It means that their awareness on Good Corporate Governance has improved. The Corporate Governance rating of go-public companies in Indonesia influences companies' accounting-based performance, such as ROA, ROE, and EPS. This study also found that there is no significant effect on CGPI rating and company growth. Meanwhile, CG rating does not affect stock market prices. Investors do not response CGPI rating quickly, and thus it seems there is no increase in stock prices. Research on CGPI rankings conducted by IICG every year is not very useful for investors or prospective investors in making their investment decisions in the stock market. Therefpre, IICG should publish CGPI rating widely and easily accessible to the public. Government is expected to support IICG to improve the quality of its research and results publication. For instance, the government can provide funds for IICG since they are a non-profit organization. In addition, the stock exchange authority in Indonesia is suggested to create policy for the company to join CG rating program, since the results of this study indicated that the CG rating could improve performance (Berthelot, et al., 2010, Mishra and Mohanty, 2014).

In this study, we identify certain limitations. CGPI rating in related years is associated with market performance at the same years. Thus, It would also be valuable to pay attention these, in further researches may linked CGPI rating in the related years with market performance in the following years since findings of this study show that GCG implementation is not directly responded by the market. Moreover, the future research may consider comparing companies in the group and those that do not participate in the corporate governance rating to make the results more robust and interesting.

The study discovers that CGPI rating has a positive impact on financial performance. These findings have implications for corporate governance policies. The government may encourage or oblige public companies to participate in the CGPI ranking programs, as it is a voluntary program. Therefore, the government should create conducive situations for GCG enforcement through a regulatory approach upon Good Corporate Governance to improve company owners' and managers' commitments on GCG implementation. The company can provide special attention and make improvements to the internal factors of the organization that is not appropriate and does not support the establishment of good corporate governance based on the findings during the survey of CGPI. Companies are expected to implement corporate governance not only to comply with laws and regulations but also to increase their performance. Furthermore, the company might make GCG as part of the corporate culture.

References

Abor, J. (2007), "Corporate Governance and Financing Decisions of Ghananian Listed Firms". *Corporate Governance.* Vol. 7. No. 1. pp. 83-92.

Abor, J. and Biekpe, N. (2007), "Corporate governance, ownership structure and performance of SMEs in Ghana: implications for financing opportunities", *Corporate Governance*, Vol. 7 No. 3, pp. 288-300.

Anderson, R., Mansi, S. and Reeb, D. (2004), ''Board characteristics, accounting report integrity and the cost of debt'', *Journal of Accounting and Economics,* Vol. 37 No. 3, pp. 315-42.

Bauer, Rob., Nadja Gunster.,dan Roger Otten, 2003. "Empirical Evidence on Corporate Governance in Europe : The Effect on Stock Return, Firm Value and Performance", http://papers.ssrn.com.

Bebchuk, L., Cohen, A. and Ferrell, A. (2009), "What matters in corporate governance?" *Review of Financial Studies,* Vol. 22 No. 2, pp. 783-827.

Berthelot, S., Morris, T., and Morrill, C. (2010), "Corporate governance rating and financial performance: a Canadian study", *Corporate Governance: The international journal of business in society*, Vol. 10 Iss 5 pp. 635 – 646.

Brigham, E.F. and Houston, J.F. (2006). *Fundamentals of Financial Management*, Jakarta : Salemba Empat.

Darmawati, D., Khomsiyah and Rika G.R. (2005), "The relationship between corporate governance at the Company's Performance", *Jurnal Riset Akuntansi Indonesia*, Vol. 8, No. 1, pp. 45-62

Dittmar, A., Mahrt-Smith, J. and Servaes, H. (2003), "International corporate governance and corporate cash holdings", *The Journal of Financial and Quantitative Analysis*, Vol. 38 No. 1, pp. 111-133.

Ehikioya, B.I. (2009), “Corporate governance structure and firm performance in developing economies: evidence from Nigeria”, *Corporate Governance,* Vol. 9 No. 3, pp. 231-243.

Forum For Corporate Governance in Indonesia (FCGI). 2001. Corporate Governance. Vol. 1 No. 3, FCGI: Jakarta Indonesia.

Forum for Corporate Governance in Indonesia (FCGI). Profile FCGI. http://www.fcgi.or.id/about-fcgi/fcgi-profile.html. (accessed 14 Mei 2011).

Global Reporting Initiative (GRI), (2006), “Sustainability Reporting Guidelines 2000 – 2006”, available *at* https://www.globalreporting.org/resourcelibrary/Bahasa-Indonesian (accessed 20 Oktober 2013).

Gompers, P.A., Ishii, J.L. and Metrick, A. (2003), “Corporate governance and equity prices”, *Quarterly Journal of Economics,* Vol. 118 No. 1, pp. 107-55.

Hasan, A. and Butt, S.A. (2009), “Impact of Ownership Structure and Corporate Governance on Capital Structure of Pakistani Listed Companies”. *International Journal of Business and Management.* Vol. 4 No. 2, pp.50-57.

Hassan, K.M. and Halbouni, S.S. (2013), “Corporate governance, economic turbulence and financial performance of UAE listed firms”, *Studies in Economics and Finance,* Vol. 30 No. 2, pp. 118-138.

Iskander, M. R. and Chamlou, N. (2000), “Corporate Governance: A Framework for Implementation”. *The International Bank for Reconstruction and Development.* The World Bank.

Indonesia Institute for Corporate Governance (IICG), (2011), Profile IICG. http://www.iicg.org/index.php?option=com_content&task=view&id=53&Itemid=1. (accessed 14 Mei 2011).

Jackling, B. and Johl, S. (2009), “Board structure and firm performance: evidence from India’s top companies”, *Corporate Governance: An International Review,* Vol. 17 No. 4, pp. 492-509.

Jensen, M.C. and Meckling, W.H. (1976), “Theory of the firm: Managerial behavior agency cost, and ownership structure”, *Journal of Finance Economics,* Vol. 3 No. 4, pp. 305-360.

Kaihatu, T.S. (2006), “Good Corporate Governance and the practice in Indonesia”. Jurnal Manajemen dan Kewirausahaan. Vol. 8 No. 1, pp. 1-9.

Mishra, S. and Mohanty, P. (2014), "Corporate governance as a value driver for firm performance: evidence from India", *Corporate Governance,* Vol. 14 Iss 2 pp. 265 – 280.

Mollah, S., Farooque, O. and Karim, W. (2012), “Ownership structure, corporate governance and firm performance Evidence from an African emerging market”. *Studies in Economics and Finance.* Vol. 29 No. 4, pp. 301-319.

Mutairi, A.M., Tian, G., Hasan, H. and Tan, A. (2012), “Corporate governance and corporate finance practices in a Kuwait Stock Exchange market listed firm: a survey to confront theory with practice”, *Corporate Governance,* Vol. 12 No. 5, pp. 595-615.

Nam, S. and Nam, C. (2004), “Corporate Governance in Asia: Recent Evidence from Indonesia, Republic of Korea, Malaysia, and Thailand”, Asian Development Bank Institute, Manila.

Nuswandari, C. (2009), “The influence of corporate governance perception index on corporate performance of listed companies on the Jakarta Stock Exchange”, Jurnal Bisnis dan Ekonomi (JBE), Vol. 16 No. 2, pp. 70 - 84

Rashid, K., Islam, S.M.N. (2013), “Corporate governance, complementarities and the value of a firm in an emerging market: the effect of market imperfections*”, Corporate Governance,* Vol. 13 No. 1, pp. 70-87.

Reddy, K., Locke, S. and Scrimgeour, F. (2010), "The efficacy of principle-based corporate governance practices and firm financial performance. An empirical investigation". *International Journal of Managerial Finance,* Vol. 6 No. 3, pp. 190-219.

Rocca, M.L. (2007), "The influence of corporate governance on the relation between capital structure and value*", Corporate Governance*, Vol. 7 No. 3, pp. 312-325.

Sheikh, A.N. and Wang, Z. (2012), "Effects of corporate governance on capital structure: empirical evidence from Pakistan". *Corporate Governance.* Vol. 12 No. 5, pp. 629-641.

Sheikh, A.N., Wang, Z. and Khan, S. (2013), "The impact of internal attributes of corporate governance on firm performance Evidence from Pakistan", *International Journal of Commerce and Management,* Vol. 23 No. 1, pp. 38-55.

Shleifer, A. and Vishny, R.W. (1997), ''A survey of corporate governance'', *The Journal of Finance,* Vol. 52 No. 2, pp. 737-83.

Siagian F, Siregar S.V. and Rahadian Y. (2013), "Corporate governance, reporting quality, and firm value: evidence from Indonesia", *Journal of Accounting in Emerging Economie.* Vol. 3 No. 1, pp. 4-20.

Siallagan, H. and Machfoedz M., (2006), "Mechanism of Corporate Governance, Earnings Quality, and Firm's Value". *Proceedings of National Symposium on Accounting* 9th, Padang 23-36 August.

Sunarto, (2003), "Corporate Governance and Market Peformance", *Fokus Ekonomi*, Vol. 2. No. 3, pp. 72-90

Suprayitno, G., Susanty, A., Kusnawijaya, E., Kusumah, L.H., Januarita, R., Poerwanto, R., Yasni, S., Aryati, T., Naimah, Z., Abidin, Z., Susandy, M., Riyadi, A., Tito, S.O., Fauziah, P.N. (2012), *Report of Research & Ratings Corporate Governance Perception Index 2011: GCG in Risk Perspectives*, IICG: Jakarta Indonesia.

Tjondro, D., Wilopo, (2011), "The effect of good corporate governance on the profitability and performance of listed banking on Indonesian stock exchange", *Journal of Business and Banking*, Vol. 1 No. 1, pp. 1 – 14.

Wahyudin, A. (2012), "The effect of *ownership structure* on debt policy, the principles of Corporate Governance as an intervening variable". *Thesis.* Diponegoro University

Wen, Y., Rwegasira, K. and Bilderbeek, J. (2002), ''Corporate governance and capital structure decisions of Chinese listed firms'', *Corporate Governance: An International Review,* Vol. 10 No. 2, pp. 75-83.

Yarram, S.R. (2015),"Corporate governance ratings and the dividend payout decisions of Australian corporate firms", *International Journal of Managerial Finance,* Vol. 11 Iss 2 pp. 162 – 178.

Corresponding author
Agus Wahyudin can be contacted at: aguswahyudin2001@yahoo.com

Appendix A. List of Self-Assessment Survey Respondents

No	Internal	External
1.	President Commissioner	Institutional investor
2.	Chairman of the Sharia Supervisory Board [1]	Minority investor
3.	Commissioner and Independent Commissioner	Suppliers
4.	Sharia Supervisory Board [1]	Financial institutions
5.	Members of the Committee Commissioner [2]	Insurance Agencies
6.	President Director	Subsidiary
7.	Director and Unaffiliated Director	Customer
8.	Corporate Secretary	External auditor
9.	Managerial Employees	Regulator / Supervisor / Government
10.	Executive Committee [3]	Notary Public
11.	Non-Managerial Level Employees	Association followed by the company
12.	Internal Auditor	partner / joint operation / university
13.	Leaders Corporate University / Learning Centre / Training Centre	Consulting Partners (appraisal, functional partners) [4]
14.	Unions Representatives	Rating Agency/ Professional certification agency

Notes:

1. Applicable in Syariah banking only
2. Commissioners Committee is the committee that is in the Board of Commissioners as the Audit Committee, Nomination Committee, Remuneration Committee, Risk Monitoring Committee, Governance Committee, and others
3. The Executive Committee is a committee at the level of the Board of Directors that are personalized to the committee in the company (example: Ethics Committee, Human Resources Committee, Risk Committee, Credit Committee, etc.)
4. Consultant Partners include consultants for marketing, operations, human resources, finance, IT, etc.

Appendix B. Aspects of CGPI assessment

No	2009	2010	2011	2012
CGPI Topic	**GCG as Culture**	**GCG in Ethical Perspectives**	**GCG in Risk Perspectives**	**GCG in Knowledge Perspectives**
1.	Commitment	Commitment	Commitment	Commitment
2.	Transparency	Transparency	Transparency	Transparency
3.	Accountability	Accountability	Accountability	Accountability
4.	Responsibility	Responsibility	Responsibility	Responsibility
5.	Independency	Independency	Independency	Independency
6.	Fairness	Fairness	Fairness	Fairness
7.	Competency	Competency	Competency	Competency
8.	Vision, mission and values	Vision, mission and values	Vision, mission and values	-
9.	Leadership	Leadership	Leadership	Leadership
10.	Teamwork	Teamwork	Cooperation	-
11.	Strategy and policy	Strategy and policy	Strategy and policy	Strategy
12.	Moral and ethical	Ethics	Business ethics	Ethics
13.	Corporate culture	Ethics climate	Risk management	Knowledge management

MANUSKRIP REVISI – OUTPUT SISTEM

Emerald Corporate Governance

Board of Directors Characteristics and Performance in Family Firms and under the Crisis

Journal:	*Corporate Governance*
Manuscript ID	CG-01-2017-0010.R1
Manuscript Type:	Original Article
Keywords:	Corporate Governance, Board of directors, Performance, Family Firms, Crisis

1. Introduction

Over the last decades, several studies conclude that family firms are common among listed companies around the world, playing an important role in the economy (Prencipe *et al.*, 2014). Anderson and Reeb (2003), Villalonga and Amit (2006) and Chen *et al.* (2008) found that 35%, 37% and 46% of their US sample firms are classified as family businesses, respectively. Analyzing 27 countries, La Porta *et al.* (1999) show that 50% of the sample firms were family-controlled. Several studies found similar evidence (Faccio and Lang, 2002; Sraer and Thesmar, 2007; Esterin and Prevezer, 2011; Culasso *et al.*, 2012).

Agency theory provides a mixed perspective on agency problems in family firms (Setia-Atmaja *et al.*, 2009) because of the trade-off between the alignment and the entrenchment effect (Shleifer and Vishny, 1997). The interest on corporate governance practices has renewed its relevance after the collapse of several companies in the 2001-2002 years and after the 2008 financial crisis. Although the impact of corporate governance on firms' performance has been analyzed both in theoretical and empirical studies, the effect of board characteristics on firm performance is not vast, and the results are ambiguous.

In this context, we aim to analyze the impact of corporate governance characteristics on the performance of Portuguese family firms, testing also whether family firms differ from their counterparts in what concerns this relationship. Finally, we focus on the possibility of asymmetrical performance effects between periods of stability and economic adversity. Considering a panel data of 63 non-financial Portuguese listed firms on Euronext Lisbon for the 2002-2013 period, the results show that ownership concentration and board diversity are positively associated with family firm's performance. There are performance premiums for family businesses with more gender diversity on board relative to non-family firms. In periods of economic adversity, the presence of women on board, the leverage and firms' size have a stronger effect on family firms' performance.

This paper contributes to the literature on the corporate governance in several ways. First, boards are one of the most relevant corporate governance mechanisms, with supervisory, managerial and advisory roles (e.g., Fama and Jensen, 1983). Second, it adds contribution to the impact of gender diversity on family firms' performance, which has attracted less attention in the literature. Third, it analyzes whether family and non-family firms differ with regard to this relationship. From an investor point of view, it is important to understand whether the effect of corporate governance on firms' performance differs depending on the ownership structure, and for regulators, it is central to analyze corporate governance procedures, trying to improve firms' corporate governance mechanisms. Fourth, it studies the Portuguese market. Although it has a national character, it provides an interesting scenario because it is characterized by: i) a significant number of family firms (Faccio and Lang, 2002); ii) weak legal protection for shareholders (La Porta *et al.*, 1999; Setia-Atmaja *et al.*, 2009) and; iii) high level of ownership concentration. Portugal presents an environment that may lead to different results from the ones obtained in countries where outside investors are well protected by the legal system, the level of transparency is high and the equity ownership is relatively dispersed (González and García-Meca, 2014), such as the US and the UK. Moreover, we consider a market measure for performance in order to see whether this measure is relevant in a country characterized to be a bank based system, with an underdeveloped capital market. Finally, it focus on the crisis dimension, examining the effects of corporate governance on firms' performance under both steady and adverse economic conditions, contributing to understand the role of corporate boards in the crisis period, and Portugal is one of the European countries more seriously affected by the recent financial downturn. According to Kirkpatrick (2009), board failures are one of the main causes of the financial crisis, evidencing that boards failed to set up appropriate risk strategies.

The remainder of this paper is organised as follows. Section 2 describes the related literature and formulates the hypotheses. Section 3 outlines the data and methodology. Section 4 presents the empirical results and the last section concludes the paper.

2. Theoretical Background and Hypotheses

The most relevant theories that deal with corporate governance and family businesses are the agency theory (Jensen and Meckling, 1976) and the stewardship theory (Davis *et al.*, 1997)[1]. Agency theory provides a mixed perspective on agency problems in family firms (Setia-Atmaja *et al.*, 2009). Family firms tend to be characterized by less separation between ownership and control, leading to a closer alignment between the interests of owners and managers (Jensen and Meckling, 1976; Fama and Jensen, 1983) and to lower agency conflicts (Jensen and Meckling, 1976; González and García-Meca, 2014). However, the entrenchment effect forecasts that family firms tend to have greater conflict of interest between controlling and non-controlling shareholders (Fama and Jensen, 1983; Shleifer and Vishny, 1997; Anderson and Reeb, 2003; Siebels and zu Knyphausen-Aufseβ, 2012), worsening the external agency conflicts. The stewardship theory suggested that managers often act with altruism for the benefit of their firms and its shareholders, and not for their own profits (Donaldson and Davis, 1991; Davis *et al.*, 1997; Bammens *et al.*, 2011; Siebels and zu Knyphausen-Aufseβ, 2012). This theory will be especially prevalent in family firms because managers are family members or have emotional links with family (Miller and Le Breton-Miller, 2006). Which effect is prevalent in the context of family firms has not been well documented in the literature.

2.1 Ownership Concentration

The Portuguese capital market is characterized by a weak legal investor protection, a low number of listed firms and a high level of ownership concentration. La Porta *et al.* (1997) argued that the conflicts of interest between large and minority shareholders is reinforced in countries with weak legal protection for shareholders. Ali *et al.* (2008) concluded that the higher the

[1] For a literature review of family firms research see Bammens *et al.* (2011) and Siebels and zu Knyphausen-Aufseβ (2012).

number of shares held by managers, more likely they are to appropriately manage the business operation, which contributes to improve the firms' performance. However, other authors suggested that large shareholders are more likely to look for their own interests, expropriating the welfare of minority shareholders (La Porta *el al.*, 1999, 2000; Claessens *et al.*, 2002). Other studies found no influence of ownership concentration on firms' performance (Shukeri *et al.*, 2012).

Family firms are a class of large shareholders with specific characteristics. In the context of the stewardship orientation, they have a long-term orientation in business (Jiraporn and DaDalt, 2009; Salvato and Moores, 2010), a desire to protect wealth for the succeeding generations (Berrone *et al.*, 2012; Hasso and Duncan, 2013), and are focused on trans-generational value creation (Chirico and Nordquist, 2010), trying to maximize the firm's wealth in the long-term (Bona *et al.*, 2008), thus, reducing the agency conflicts, as predicted by the alignment effect of family ownership. However, they might expropriate minority shareholders in benefit of the family members (Villalonga and Amit, 2006), namely through excessive compensation and special dividends.

Based on the alignment effect and the stewardship theory, we formulate the first hypothesis:

H_1: The ratio of ownership concentration is positively related with family firms' performance.

However, the empirical results are equivocal. Barontini and Caprio (2006) analyze the relationship between ownership structure and company performance in 11 Continental Europe countries, concluding that family-controlled firms are not statistically distinguishable from non-family firms in terms of performance. More recently, Pindado *et al.* (2014) examine whether the value impact of family control in Western European firms depends on country-level investor protection, finding an inverted U-shape relation between family control and firm value, arguing that when investor protection is weak, family control has a positive impact on firm value regardless of the ownership concentration level. In addition, Volpin (2002) found a negative relation between family ownership and performance, whereas Anderson and Reeb (2003), Filatotchev *et al.* (2005) and Villalonga and Amit (2006) reported a positive impact of ownership concentration on performance.

2.2 Gender Diversity

The influence of women on the board of directors and firms performance is not conclusive. However, the majority of the national legislative initiatives are based on the perspective that the presence of women on boards creates value. Some authors argue that the presence of women on the board is related with better performance, mainly because of their understanding of market conditions, creativity, public image of firms (Smith *et al.*, 2006), communication and listening skills (Julizaerma and Sori, 2012) and higher quality decision-making capability (Bart and McQueen, 2013). Singh *et al.* (2008) argue that female directors are more likely to carry international diversity to the board and to hold a Master of Business Administration degree. In addition, other authors argue that women are better prepared than men for board meetings (Huse and Solberg, 2006) and have better presence records (Adams and Ferreira, 2009).

Based on psychological factors, Barber and Odean (2001) argued that men are more overconfident that women, leading to a decrease in the return of their financial decisions, which suggests that, the presence of women may have a positive effect on firms' performance. However, Olsen and Cox (2001) predicted a negative relation between women on board and firms' performance, because they are more prone to emotional conflicts and more risk adverse than men.

Based on the literature that the presence of women on the board is related with better performance, we formulate the next hypothesis as follows:

H_2: The presence of women on the board is positively related with family firms' performance.

Carter *et al.* (2003) and Erhardt et al. (2003) found a positive relationship between gender diversity of board members and firms' performance, but Campbell and Mínguez-Vera (2010), Mínguez-Vera and Martin (2011) and Daunfeldt and Rudholm (2012) found a negative relationship. Other studies were unable to find a significant relation between gender and performance (Farrell and Hersch, 2005; Smith *et al.*, 2006; Rose, 2007). Farrell and Hersch (2005, p. 85) found that although women tend to serve on better performing firms, the abnormal returns on the announcement of a woman added to the board was insignificant, arguing that "rather than the demand for women directors being performance based, our results suggest corporations responding to either internal or external calls for diversity". However, the evidence of Chen and Cheng (2016) shows that although men tend to trade more than women do, they lose less money than women do.

2.3 Non-executive Board Members

Portuguese corporate board structure consists of a single-tier system, including non-executives directors, which are supposed to protect the interest of shareholders by controlling the managers' decisions (Alves, 2011)[2]. There is evidence that non-executive directors contribute to the alignment of interests between the internal and external members of firms reducing the managers' possibilities to act opportunistically, contributing to mitigate agency conflicts between managers and shareholders (Gregory, 2002). Based on the assumption that non-executive directors contribute to reduce agency conflicts and that family firms tend to present less separation between ownership and control, leading to a closer alignment between the interests of owners and managers (Jensen and Meckling, 1976; Fama and Jensen, 1983), we formulate the following hypothesis:

H_3: The ratio of non-executive board members is positively related with family firms' performance.

Westhead and Howorth (2006) have hypothesized that family firms employing a non-executive director will report superior levels of performance. However, using data from privately held

[2] We need to be careful in comparing the references, especially studies from states that use a two-tier board system, such as the Netherlands and the Germany.

family firms in the United Kingdom, they found that the introduction of a non-executive director was not significantly associated with superior firm performance.

In the Portuguese context, the evidence is mixed. Although Alves (2011) concluded that non-executive directors protect the interest of shareholders, monitoring the managers' decisions, Fernandes (2008) found that non-executive directors do not help to align the interests between managers and shareholders, maybe due to the lack of a market for non-executive board members, which reduces directors' worries about structuring a reputation as effective protectors of shareholders' interests.

2.4 Board Independence

There is evidence that independent directors on the board helps to monitor the managers' decisions (Fama and Jensen, 1983; Weisbach, 1988; Ntim *et al.*, 2013), to diminish the agency conflicts between large and minority shareholders (Anderson and Reeb, 2004) and to promote the interest of other stakeholders (Chen and Roberts, 2010), which may have a positive effect on performance. However, several authors question the true independence of this kind of board members since they may be classified as independent, but their selection may be done based on personal contacts or be influenced by management (Romano, 2005).

Both the agency and the stewardship theories indicate that independent directors exert a positive effect on firm performance. Consequently, the following hypothesis states that:

H_4: The board independence is positively related with family firms' performance.

Hermalin and Weisbach (1988) found that independent outside directors are more likely to join a board and inside directors are more likely to leave a board after the firm has experienced poor performance and Weisbach (1988) suggested that outside boards rely more frequently than inside boards on performance. Hermalin and Weisbach (1998) focused on how the assessment of ability relates to the power of the CEO, and their results suggest that firms with larger boards would outperform the ones with smaller board (Adams et al., 2010).

The empirical findings concerning the relation between board's independence and firms' performance are not consensual. Some authors found a positive relation (Gama and Rodrigues, 2013), others reported no significant relation (Hermalin and Weisbash, 1991; Wintoki *et al.*, 2012), and others noted a negative relationship (Shukeri *et al.*, 2012). Still, Erkens *et al.* (2012) found a negative relationship between the ratio of independent board members and the subsequent share returns in the crisis period. Based on family firms' samples, Anderson and Reeb (2004) found a positive relation between the board independence and firm performance for the US market and Culasso *et al.* (2012) found no correlation between independents members and economic performance in Italy. Arosa *et al.* (2010) examined the relationship between firm performance and the proportion of independent directors on the board, using data from non-listed Spanish family firms. Their results indicate that the presence of independents on the board has a positive effect on performance when the firm is run by the first generation.

However, on the second and subsequent generations, the presence of independents on board has no effect on performance.

2.5 Family Members

There is evidence that family members dominate the board of directors of family firms (Anderson and Reeb, 2004; Culasso *et al.*, 2012). The link between family members on the board and family businesses performance is a scarcely investigated topic and may contribute to a better understanding of governance in these firms. Recently, Lien et al. (2016) results reveal a positive impact of family members on board on firm performance.

Maury (2006) investigates how family firms perform in relation to firms with non-family controlling shareholders in Western Europe non-financial firms. His results show that active family control is associated with higher profitability compared to non-family firms, whereas passive family control does not affect profitability. The author conclude that family control lowers the agency problem between owners and managers, but gives rise to conflicts between the family and minority shareholders when control is high and shareholder protection is low. Andres (2008) document that German family firms are more profitable than widely-held firms and also outperform companies with other types of block holders. However, their performance is only better in the cases in which the founding family is still active either on the executive or the supervisory board. If families are just large shareholders without board representation, the performance of their firms is not distinguishable from their counterparts.

Based on the argument that family members are usually involved in several functions of firms' management, some of them crucial to the firm strategy, and on previous empirical evidence that family firms outperform their counterparts (Anderson and Reeb, 2003, 2004; Sraer and Thesmar, 2007; Vieira, 2014), we formulate the following hypothesis:

H_5: The presence of family members on the board is positively related with family firms' performance.

2.6 Crisis Effect

Previous family business research does not explore the crisis effect on the relationship between board of directors characteristics and firms performance. However, we expect that, at least, some of these effects depend on whether the economy is in recession or not. Namely, we expect that FF present higher levels of profitability before than during the crisis. Related to board characteristics, we presume that during economic adversity, FF present higher levels of non-executive board members, and, consequently, lower levels of FF members on board, because the monitoring role of independent supervisory boards is decisive in crisis periods. We also believe that in crisis period, the percentage of women are lower in crisis period, because of their risk aversion (Olsen and Cox, 2001).

Trahms *et al.* (2013) argue that in family firms with family management, the independence of the supervisory board might be important since the monitoring role of independent supervisory boards is decisive in a crisis situation. Lins *et al.* (2013) investigate whether family control affects corporate decisions and valuation during the 2008-2009 financial crisis, considering a sample of 35 countries firms. Overall, they find that family-controlled firms perform worse than the others do during the crisis. The results show that these firms cut investment more than the other firms, and these investment cuts are related with lower performance, concluding that families make decisions in order to increase the likelihood that the firms under their control survive the crisis, even at the expense of outside shareholders. Faghfouri et al. (2015) analyze the effect of family ownership on formalized crisis procedures, considering a sample of 150 small and medium-sized German firms, finding that family ownership has a negative effect on formalized crisis procedures and concluding that family firms are more likely to survive than non-family firms.

Prior research finds that in crisis period, firms with a high level of managerial control are related with lower valuations (e.g., Lemmon and Lins, 2003). Studying financial institutions, Erkens *et al.* (2012) find that corporate governance has a significant impact on firms' performance during the crisis period and Nestor Adviser (2009) governance consulting firm conclude that the low proportion of non-executive directors played a major role in the origins of the 2007 crisis.

In this context, we formulate the last hypothesis:

H_6: The relationship between the family firms' board of directors' characteristics and performance differs between periods of economic stability and financial crisis.

3. Data and Methodology

3.1 Family Firms

Several definitions of FF have been previously proposed, which cause real concerns about the comparability of studies' results and conclusions (Prencipe *et al.*, 2014). However, the definitions are commonly based in three characteristics: ownership, management and governance (Villalonga and Amit, 2006). Following La Porta *et al.* (2000), Miller and Le Breton-Miller (2006) and Setia-Atmaja *et al.* (2009), we identify FF as firms in which the founding family or a family member is involved in the top management of the firm and control twenty per cent or more of the equity.

3.2 Variables

In order to analyze the influence of corporate governance characteristics on firm performance, our dependent variable is performance (PERF). We consider an accounting measure of performance: the return on assets (ROA), calculated as the net income divided by total assets (Erhardt *et al.*, 2003) and a market measure: the market-to-book ratio (MB), computed as the market value to the book value of the equity (Fernandes, 2008).

As independent variables, we consider a variable to identify FF, as well as the proxies for the corporate governance characteristics: the non-executive board members (NEBM), the board independent members (BIM), the ownership concentration (OWN), the gender diversity on the board (WOMEN) and the family members on board (FMB), which is considered only in FF.

FF is a dummy variable that assumes the value of one if the firm is considered a FF, and zero otherwise. NEBM is calculated as the number of non-executive members of the board divided by the total number of members on the board (Fernandes, 2008). BIM is the ratio of the independent members of the board to the total number of members on board (Shukeri *et al.*, 2012; Gama and Rodrigues, 2013)[3]. OWN is the percentage of shares held by the biggest shareholder (Shukeri *et al.*, 2012). WOMEN is the number of women on the board divided to the total number of directors (Mínguez-Vera and Martin, 2011; Shukeri *et al.*, 2012). FMB is computed as the number of family members of the board divided by the total number of members on the board (Lien *et al.*, 2016).

As control variables, we consider firm age (AGE), firm size (SIZE), leverage (LEV) and the crisis period (CRISIS). We expect a positive relationship between AGE, calculated as the natural logarithm of the difference between incorporation year and a fiscal year, and firm's performance (Bhaird and Lucey, 2009). Consistent with Garcia-Teruel and Martinez-Solano (2007), we expect a positive relationship between SIZE, measured as the natural logarithm of the book value of total assets of a firm, and firms' performance. We consider LEV as the ratio of total debt to total assets (Chen and Roberts, 2010). According to the theory of free cash flow (Jensen, 1986), it is expected a positive relationship between debt and performance, but from the pecking order theory viewpoint (Myers, 1984; Myers and Majluf, 1984), it is expected a negative relationship between these variables, so, we cannot define, à priori, the expected signal for this variable. CRISIS is a dummy variable that identifies the crisis period (2008-2013), so it takes the value one for the 2008-2013 period, and zero otherwise. Table 1 describes the variables used in this study.

(Insert Table 1 about here)

3.3 Methodology

With the purpose of analyzing the relationship between corporate governance characteristics and firms' performance, we employ the following regression model:

$$\begin{aligned} PERF_{i,t} = {} & \alpha + \beta_1 FF_{i,t} + \beta_2 NEBM\_FF_{i,t} + \beta_3 BIM\_FF_{i,t} + \beta_4 OWN\_FF_{t,i} + \beta_5 WOMEN\_FF_{i,t} + \\ & + \beta_6 NEBM_{i,t} + \beta_7 BIM_{i,t} + \beta_8 OWN_{i,t} + \beta_9 WOMEN_{i,t} + \beta_{10} FMB_{i,t} + \beta_{10} AGE_{i,t} + \\ & + \beta_{12} SIZE_{i,t} + \beta_{13} LEV_{i,t} + \beta_{14} CRISIS_{i,t} + \beta_{15} IND_{i,t} + \beta_{16} YEAR_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (1)$$

PERF consists on the two different measures of performance (ROA and MB); NEBM_FF, BIM_FF, OWN_FF and WOMEN_FF are interaction terms between the FF dummy and the

[3] The difference between the executive and non-executive members on the board of directors and, among these, the identification of independent members, meets the independence criteria set out in paragraph 5 of article 414 of the Código das Sociedades Comerciais (Companies Code), which considers as independent the person who is not associated with any specific interest group in society nor under any circumstance likely to affect their impartiality of analysis or decision, namely due to: a) hold or act on behalf or on behalf of holders of more than 2% of the share capital of the company; b) it has been re-elected for more than two mandates, consecutive or not.

performance determinants, in order to see if the effects of these variables are statistically different between FF and NFF. We include industry (IND) and year (YEAR) dummy variables. We employed a panel data methodology, using the F-statistic and the Hausman (1978) test to choose the most appropriate model among the pooled ordinary least squares (OLS), the fixed effects model (FEM), and the random effects model (REM). We presented the standard errors corrected for heteroscedasticity and covariance, based on the White's (1980) method.

In order to test if the relationship between the family firms' board of directors' characteristics and performance differs between periods of economic stability and financial crisis, we divide the sample into two sub-periods, considering a period of stability (2002-2007) and another of financial crisis (2008-2013). We start to analyse the descriptive statistics for the variables in the two sub-periods, considering a test for equality of means between the variables before and during the crisis period. Afterwards, we apply the model regression (1) to both the sub-periods, in order to compare the results before and during crisis.

3.4 Sample and Data

Our sample consists of an unbalanced panel data with all non-financial Portuguese firms listed on the Euronext Lisbon for the period between 2002 and 2013. The data were collected from a private database provided by Bureau van Dijk (SABI), the firms' annual reports and the annual governance reports.

The final sample consists of 63 non-financial firms, which corresponds to 627 observations. To compare FF with NFF, we consider two sub-samples: 1) the FF sub-sample, consisting of 35 firms and 381 observations and 2) the NFF sub-sample of 28 firms, corresponding to 246 observations. Most companies of the sample are FF (55.6%), which is consistent with the evidence that family shareholders are common in public traded firms' worldwide (Faccio and Lang, 2002; Villalonga and Amit, 2006; Culasso *et al.*, 2012).

4. Empirical Results

4.1 Descriptive Analysis

Table 2 shows the descriptive statistics of the variables, considering the sub-samples of FF and NFF, as well as a test for equality of means between FF and NFF.

(Insert Table 2 about here)

Although FF have higher mean values than NFF for both the ROA and MB measures, the mean differences are not statistically significant. Related to board characteristics, FF and NFF differ in what concerns the BIM and WOMEN variables. Consistent with previous evidence (Anderson and Reeb, 2004; Bartholomeusz and Tanewski, 2006), FF have a lower proportion of independent members on the board (17.5%) than NFF (20.6%), maybe because they try to reduce the external influences in the decision-making process (Culasso *et al.*, 2012). In addition, the percentage of BIM is very low for both FF (17.5%) and NFF (20.6%) when compared to other studies (Anderson and Reeb, 2004; Culasso *et al.*, 2012), which can condition the BIM impact on firms performance. FF present higher gender diversity, with a mean of 7.4% women on board compared to 3.3% in NFF, suggesting that at least some of the FF women on board are family members. However, the presence of women on board is sparse in both type of firms. FF are bigger and older than their counterparts. The results show no statistical differences between FF and NFF for the other variables.

Table 3 shows the Pearson correlations among the variables for the sub-samples of FF (Panel A) and NFF (Panel B).

(Insert Table 3 about here)

The variables that exhibit higher pair wise correlations are between BIM and NEBM for both FF (0.625) and NFF (0.718) and between NEBM and SIZE for NFF (0.539). All the other correlation coefficients are below 0.5, indicating that multicollinearity did not present a serious concern (Gujarati and Porter, 2010). None of the variance inflation factors (VIF) exceeds 3, which reinforces that the independent variables do not suffer from multicollinearity problems.

4.2 Regression Results

Table 4 (Table 5) reports the regression model (1) results for the full sample and the FF and NFF sub-samples, considering as dependent variable the ROA (MB). For all the regressions, we present the efficient model (pooled OLS, FEM or REM), based on the F statistic and the Hausman test.

(Insert Tables 4 and 5 about here)

The ROA model presents higher values for the adjusted R^2 in all the cases, suggesting that ROA is the most appropriate measure of performance, in detriment of MB measure, which is line with the conclusions of Fernandes (2008: 39): *"It is possible that Portuguese companies do not use financial markets as their main financing source and, thus, stock prices are not deemed an appropriate measure of firm performance."* Thus, we will analyse mainly the Table 4 results.

The interaction variable WOMEN_FF is positive and statistically significant, implying that there are performance premiums for FF with more women on board relative to NFF. Because there are a higher percentage of women in FF than NFF (Table 2), maybe most of them are family members, with a long-term orientation in business, and trying to maximize the firm's wealth in the long-term (Bona *et al.*, 2008; Jiraporn and DaDalt, 2009; Salvato, and Moores, 2010), which is in line with the alignment effect and the stewardship theory.

Concerning the FF results, the board characteristics that influence the firms performance are the OWN and the WOMEN coefficients, both positive and statistically significant, suggesting that the FF performance is positively related with the ratio of ownership concentration and the presence of women on the board of directors. Consequently, for this model, we give support to H_1, which is in agreement with the results of Anderson and Reeb (2003), Filatotchev *et al.* (2005), Villalonga and Amit (2006) and Gama and Rodrigues (2013) and to H_2, consistent with the results of Erhardt *et al.* (2003) and Carter *et al.* (2003). This last result reinforces the WOMEN_FF coefficient in the full sample, which suggests that FF with women on board outperform the NFF counterparts. In the case of NFF, the results show an inverse relationship between OWN and WOMEN and the firms' performance, which contradicts the FF results, but are in line with some literature in what respects to ownership (La Porta *et al.*, 1999; Claessens *et al.*, 2002) and with the results of Campbell and Mínguez-Vera (2010), Mínguez-Vera and Martin (2011) and Daunfeldt and Rudholm (2012), concerning the gender diversity. The results concerning board diversity suggest that heterogeneous (homogeneous) board teams outperformed homogeneous (heterogeneous) ones on FF (NFF). The empirical evidence supporting H_1 and H_2 is not verified in Table 5 (performance measured by MB), which suggests the results depend the performance measure used. However, we have already concluded that ROA is the most appropriate measure of performance.

No evidence is found in support of H_3 and H_4, in line with the studies of Westhead and Howorth (2006) and Fernandes (2008), for the relationship between NEBM and performance, and Hermalin and Weisbash (1991), Arosa *et al.* (2010), in what concerns the second and subsequent generations and Culasso *et al.* (2012) for the link between BIM and performance. The low percentage of independent members on board for both FF and NFF (Table 2), namely when compared to other countries (Anderson and Reeb, 2004; Culasso *et al.*, 2012; Gama and Rodrigues, 2013), suggest that maybe independent directors are not really performing their assigned function.

The coefficient on FMB is positive, as expected and found by Anderson and Reeb (2003, 2004), but it is not statistically significant, thus, we cannot give support to H_5.

Concerning the control variables, FF performance is positively affected by SIZE and negatively by LEV and CRISIS. NFF performance is positively affected by AGE and negatively by LEV. Overall, the results from controlling variables are consistent with prior research (Garcia-Teruel and Martinez-Solano, 2007; Bhaird and Lucey, 2009; Lins *et al.*, 2013).

The CRISIS coefficient is statistically significant only for FF, suggesting that crisis affects the performance of this type of firms.

Consequently, we present in Table 6 a test for equality of means between FF variables before and during the crisis period.

(Insert Table 6 about here)

As expected, FF present higher mean levels of profitability before than during the crisis, for both the accounting (ROA) and the market (MB) return measures. The ROA mean was 8.7% and 3.6% and the MB was 2.32 and 1.21, respectively before and during crisis.

Related to board characteristics, FF differ between periods and financial stability and economic adversity in what concerns the NEBM, OWN and FMB variables. Before crisis period, FF present lower values for non-executive board members (27.5% against 40.3%) and a lower percentage of shares held by the biggest shareholder (41.7% and 49%), but have more family members on the board (33.7% against 30.1%). FF are bigger during the crisis period, maybe result of their life cycle.

Finally, we analyze whether independent variables on performance differ between the periods before and during crisis for the FF sub-sample, considering the ROA performance measure. The results are shown in Table 7.

(Insert Table 7 about here)

The results show some differences before and during crisis, which gives some support for H_6. The positive effect of WOMEN in performance is only statistically significant in crisis period. It may be related to the fact that women are more risk adverse than men (Olsen and Cox, 2001) and that men are more overconfident that women (Barber and Odean, 2001), which can contribute positively to performance in crisis period. The relationship between SIZE and performance is only statistically significant in the crisis period, suggesting that bigger firms are more likely to face periods of economic instability with success than the smaller ones. The LEV influences negatively the ROA in both periods, which is consistent with the pecking order theory (Myers, 1984; Myers and Majluf, 1984). The stronger relationship between LEV and performance in crisis period suggests that recession periods affect negatively the FF levels of indebtedness, maybe because of the higher restrictions on access to credit or the higher cost of debt, which is in agreement with the results of González and González (2011) and Mostarac and Petrovic (2013).

To assess the robustness of the results, we consider the return on equity (ROE) as an alternative measure of performance, computed as the net income divided by equity (Shukeri *et al.*, 2012). The results (available from the authors) show that the percentage of the total variation in performance explained by the model (R^2) decreases for the ROE dependent variable, suggesting that the most appropriate performance measure is the ROA.

4.3 Results Discussion

Our results show evidence that FF as a whole, perform no differently from NFF. This conclusion is consistent with the results of Khanna and Rivkin (2001), Claessens *et al.* (2002) and Block *et al.* (2011). This can be an indication that FF' study results are sensitive to the different definitions of FF (Maury, 2006; Miller *et al.*, 2007; Vieira, 2014). Alternatively, another possible explanation is that families in firms with high (low) levels of family control are less (more) likely to expropriate from minority shareholders because their costs to do so are high (low), but they may benefit (detriment) minority shareholders through their expertise (lower expertise) and reputation (less credible reputation) (Yin-Hua, Tsun-Siou and Woidtke, 2001).

Based on the Table 4 and 5 results, we conclude that the ROA measure of performance is more accurate that the MB measure, namely because Portugal is a bank based system. Consequently, the performance measures are not the appropriate ones (Fernandes, 2008).

Looking for the FF results reported in Table 4, we can see that the estimated coefficient on OWN is positive and statistically significant, confirming H_1 that the ratio of ownership concentration is positively related with family firms' performance. This result support the stewardship orientation and the alignment effect of family ownership (Jiraporn and DaDalt, 2009; Salvato and Moores, 2010; Siebels and zu Knyphausen-Aufseβ, 2012). In addition, it suggests that blockholders may have the power and incentive to discipline and monitor managers and family shareholders (Villalonga *et al.*, 2015). This evidence is also consistent with previous studies (Anderson and Reeb, 2003; Filatotchev *et al.*, 2005; Villalonga and Amit, 2006; Gama and Rodrigues, 2013; Nguyen, Locke and Reddy, 2015).

Concerning the WOMEN variable, it reports, as predicted, a positive and statistically significant coefficient, supporting H_2 that the presence of women on the board is positively related with family firms' performance. This evidence is consistent with the alignment effect (Jensen and Meckling, 1976; Fama and Jensen, 1983) and the stewardship theory (Donaldson and Davis, 1991), as well as with previous evidence (Barber and Odean, 2001; Smith et al., 2006; Adams and Ferreira, 2009; Julizaerma and Sori, 2012; Bart and McQueen, 2013), suggesting that female supervisory directors improve the FF performance.

Contrary to the expectation, the NEBM was not significantly associated with performance, which does not support H_3 that the ratio of non-executive board members is positively related with family firms' performance, which is in line with the results of Westhead and Howorth (2006), suggesting that they do not have a relevant role to align the interests between managers and shareholders. One possible reason that might explain this evidence is the lack of a market for non-executive board members reputation. According to Fernandes (2008, p. 43), "*Indeed, if the labor market for nonexecutive board members is inefficient (or nonexistent), then building a reputation as effective defenders of shareholders' interests is not a serious concern for them*".

In relation to the independent members, the BIM variable is not statistically significant. Thus, we do not find support for H_4 that the board independence is positively related with family firms' performance. This result is consistent with the evidence of Hermalin and Weisbash (1991), Bhagat and Black (1999, 2002), Arosa *et al.* (2010), Culasso *et al.* (2012) and Wintoki *et al.* (2012), suggesting that the monitoring and advice services provided by independent directors do not lead to efficient improvements for FF. There is a probability that independent directors conspire with CEO to intensify agency problems. According to Romano (2005), these members can be less independent as it was supposed to, because their selection may be done based on personal contacts or influenced by management, which can explain our results. In addition, the effectiveness of independent directors is limited by their information compared to corporate insiders. Indeed, a possible disadvantage of outside directors is that they may lack relevant firm-specific information (Adams and Ferreira, 2007). In addition, Hermalin and Weibach (1988) point out that these board members tend to be added following poor performance, which can explain this result.

The FMB coefficient, however positive, is not statistically significant, which does not confirm H_5 that the presence of family members on the board is positively related with family firms' performance. This evidence contradicts the evidence of Anderson and Reeb (2004) and

Culasso *et al.* (2012), but is in line with the results of Filatotchev *et al.* (2005). One possible explanation for this result can be the fact that some large family shareholders do not have board representation. In addition, the board dominance may be a channel through which families may extract the private benefits of control (Anderson and Reeb, 2004; Filatotchev *et al.*, 2005).

When we compare the FF characteristics before and during the crisis, we conclude, as expected, that FF are more profitable in periods of economic stability that during the crisis period, which can be partly related to the FF decisions to reduce investments during crisis periods. With regard to board characteristics, during the financial crisis, FF have more non-executive board members, a higher percentage of shares held by the biggest shareholder and have less family members on the board.

Afterwards, we analyse whether the relation between FF board of directors' characteristics and performance differs between periods of economic stability and financial crisis (H_6).The only variable that significantly differs between the two periods, are the WOMEN variable. Although it is positive in the two periods, it is only statistically significant in the crisis period. This result suggests that female supervisory improve the firms' performance during the financial crisis, which is in accordance with Morris (2009), Treanor (2011) and García-Meca *et al.* (2015). Consequently, this evidence suggests that an increase in the percentage of women in the board can increase the firms' performance.

5. Conclusion

This paper examined the relationship between board of directors characteristics and performance in family businesses, providing also evidence on whether family firms differ from non-family ones in terms of the impact of corporate governance on firms' performance.

We found that family firms adopt different corporate governance structures to non-family firms in respect to the independence and the presence of women on the board of directors, which may have some impact on firm performance. Overall, the results show that ownership concentration and board diversity are positively associated with family firm's performance, which is in accordance with previous literature that suggests that FF have a long-term orientation in business (Jiraporn and DaDalt, 2009; Salvato and Moores, 2010) and a desire to protect wealth for the succeeding generations (Berrone *et al.*, 2012; Hasso and Duncan, 2013), trying to maximize the firm's wealth in the long-term (Bona *et al.*, 2008). In line with the literature (Erhardt *et al.*, 2000; Smith *et al.*, 2006), we have found that the presence of women in the board increases the family firms performance. Family businesses performance depends on firm size, leverage and on some corporate governance characteristics, such as ownership concentration and gender diversity. In addition, this study provides evidence that in periods of crisis, family firms' performance is strongly influenced by the presence of women on the board as well as by firms' size and leverage.

We conclude that, in what concerns the relationship between non-executive and independent members of the board of directors and firms performance, the effects expected by the theoretical studies on the Anglo-Saxon corporate governance domain do not produce significant consequences in the Portuguese scenario. One of the most surprising results was the irrelevance of independent members on the board on the firms' performance, suggesting that maybe independent directors are not really performing their assigned function. In addition, we find an irrelevance of independent BM in our country's setting, which, in our view, is a valuable result, maybe explained by the market characteristics.

The study adds to the literature namely by showing the differences of the corporate governance effect on performance between family and non-family firms. In addition, we complement the existing literature by showing that the relation between board characteristics and performance depends on the proxies used to measure the performance. In particular, this paper contributes to the academic governance studies that attempt to understand the role of corporate boards in the crisis period, compared to periods of stability. Finally, while the majority of the empirical studies analyse the US, our research focuses in a small European market.

Firms should give emphasis to the corporate governance characteristics to improve performance, and policy regulators should pay attention to corporate governance procedures, trying to improve corporate governance mechanisms, namely through the effective role of independent directors on the board, to achieve a greater discipline of independent monitoring. Advisors should be cautious in the governance principles recommendations because they may not be effectively implemented by Portuguese firms.

There are some limitations in this paper of which the first is the national character of the sample. We focused on Portuguese listed firms, suggesting that our results may not be extended to other countries or to private firms. Second, we consider a small sample, which results from the small size of the Portuguese Stock market. Finally, we do not consider some social and psychological factors that may affect the relations between family members and directors, such as age, ethnic diversity, education and compensation of board members.

With regard to future research, it would be interesting to analyze whether family characteristics affects performance, beyond that of board of directors characteristics. An extension of this paper may be to study the relationship between the board characteristics and behavioural corporate finance, because directors could suffer, for example, from cognitive bias. Finally, it would be motivating to explore private firms, to see if some of them follow the example of their public counterparts, adopting corporate governance standards.

References

Adams, R.B., Hermalin, B.E. and Weisbach, M.S. (2010), "The role of boards of directors in corporate governance: A conceptual framework and survey", *Journal of Economic Literature*, Vol. 48 No. 1, pp. 58–107.

Adams, R.B. and Ferreira, D. (2007), "A theory of friendly boards", *Journal of Finance*, Vol. 62 No. 1, pp. 217–250.

Ali, S.M., Salleh, N.M. and Hassan, M.S. (2008), "Ownership structure and earnings management in Malaysia listed companies", *Asian Journal of Business and Accounting*, Vol. 1 No. 2, pp. 89-116.

Alves, S.G. (2011), "The effect of the board structure on earnings management: evidence from Portugal", *Journal of Financial Reporting and Accounting*, Vol. 9 No. 2, pp. 141-160.

Anderson, R.C. and Reeb, D.M. (2003), "Founding family ownership and firm performance: evidence from the S&P 500", *The Journal of Finance*, Vol. 58 No. 3, pp. 1301-1327.

Anderson, R.C. and Reeb, D.M. (2004), "Board composition: balancing family influence in S&P 500 firms", *Administrative Science Quarterly*, Vol. 49, pp. 1301-1328.

Andres, C. (2008), "Large shareholders and firm performance: An empirical examination of founding-family ownership", *Journal of Corporate Finance*, Vol. 14, pp. 431-445.

Arosa, B., Iturralde, T. and Maseda, A. (2010), "Outsiders on the board of directors and firm performance: Evidence from Spanish non-listed family firms",*Journal of Family Business Strategy*, Vol. 1, pp. 236-245.

Bammens, Y., Voordeckers W. and Van, G.A. (2011), "Boards of directors in family businesses: A literature review and research agenda", *International Journal of Management Reviews*, Vol. 13, pp. 134-152.

Barber, B. and Odean, T. (2001), "Boys will be boys: gender, overconfidence and common stock investment", *Quarterly Journal of Economics*, Vol. 116 No.1, pp. 261-292.

Barontini, R. and Caprio, L. (2006), "The effect of family control on firm value and performance: Evidence from continental Europe", *European Financial Management*, Vol. 12, pp. 689-723.

Bart, C. and McQueen, G. (2013), "Why women make better directors", *International Journal of Business Governance and Ethics*, Vol. 8 No. 1, pp. 93-99.

Bartholomeusz, S. and Tanewski, G.A. (2006), "The relationship between family firms and corporate governance", *Journal of Small Business Management*, Vol. 44 No. 2, pp. 245-267.

Berrone, P., Cruz, C. and Gomez-Meija, L. (2012), "Socioemotional wealth in family firms: theoretical dimensions, assessment approaches, and agenda for future research", *Family Business Review*, Vol. 25 No. 3, pp. 258-279.

Bhagat, S. and Black, B. (1999), "The uncertain relationship between board composition and firm performance", *The Business Lawyer*, Vol. 54 No. 3, pp. 921-963.

Bhagat, S. and Black, B. (2002), "The non-correlation between board independence and long-term firm performance", *Journal of Corporation Law*, Vol. 27 No. 2, pp. 231-273.

Bhaird, C.M. and Lucey, B. (2009), "Determinants of capital structure in Irish SMEs", *Small Business Economics*, Vol. 35 No. 5, pp. 357-375.

Block, J., Jaskiewicz, P. and Miller, D. (2011), "Ownership versus management effects on performance in family and founder companies: a Bayesian reconciliation", *Journal of Family Business Strategy*, Vol. 2 No. 4, pp. 232-245.

Bona, C., Perez J. and Santana, D. (2008), "Family control and earnings management", *Spanish Accounting Review*, Vol. 10 No. 1, pp. 11-34.

Campbell, K. and Mínguez-Vera, A. (2010), "Gender diversity in the boardroom and firm financial performance", *Journal of Business Ethics*, Vol. 83 No. 3, pp. 435-451.

Carter, D.A., Simkins B.J. and Simpson, W.G. (2003), "Corporate governance, board diversity, and firm value", *Financial Review*, Vol. 38 No. 1, pp. 33-53.

Chen, S., Chen, X. and Cheng, Q. (2008), "Do family firms provide more or less voluntary disclosure?", *Journal of Accounting Research*, Vol. 46 No. 3, pp. 499-536.

Chen, A.S, and Cheng, T.Y. (2016), "Are men more overconfident than women? Evidence from the Taiwan futures market", EFMA 2016 Working Papers.

Chen, J.C. and Roberts, R.W. (2010), "Toward a more coherent understanding of the organization-society relationship: a theoretical consideration for social and environmental accounting research", *Journal of Business Ethics*, Vol. 97 No. 4, pp. 651-665.

Chirico, F. and Nordqvist, M. (2010), "Dynamic capabilities and trans-generational value creation in family firms: The role of organizacional culture", *International Small Business Journal*, Vol. 28, pp. 487-504.

Claessens, S., Djankov, S., Fan J.P. and Lang, L. (2002), "Disentangling the incentive and entrenchment effects of large shareholdings", *The Journal of Finance*, Vol. 57 No. 6, pp. 2741-2771.

Culasso, F., Broccardo, L., Giacosa, E. and Mazzoleni A., (2012), "Corporate governance in listed Italian family firms: impact on performance and comparison with non-family firms", *Journal of Management and Change*, Vol. 29, pp. 67-88.

Daunfeldt, S. and Rudholm, N. (2012), "Does gender diversity in the boardroom improve firm performance?", HUI Working Papers 60, HUI Research (accessed 6 January 2015).

Davis J., Schoorman R. and Donaldson, L. (1997), "Towards a stewardship theory of management", *Academy of Management Review*, Vol. 22 No. 1, pp. 20-47.

Donaldson, L. and Davis, J. (1991), "Stewardship theory or agency theory", *Australian Journal of Management*, Vol. 16, pp. 49-64.

Erhardt, N.L., Werbel, J.D. and Shrader, C.B. (2003), "Board of directors diversity and firm financial performance", *Corporate Governance: An International Review*, Vol. 11 No. 2, pp. 102-111.

Erkens, D.H., Hung M. and Matos, P. (2012), "Corporate governance in the 2007–2008 financial crisis: Evidence from financial institutions worldwide", *Journal of Corporate Finance*, Vol. 18 No. 2, pp. 389-411.

Esterin, S. and Prevezer, M. (2011), "The role of informal institutions in corporate governance: Brazil, Russia, India and China compared", *Asia Pacific Journal of Management*, Vol. 28 No. 1, pp. 41-67.

Faccio, M. and Lang, L. (2002), "The ultimate ownership of Western European corporations", *Journal of Financial Economics*, Vol. 65, pp. 365-395.

Faghfouri, P., Kraiczy, N.D., Hack, A. and Kellermanns, F.W. (2015), "Ready for a crisis? How supervisory boards affect the formalized crisis procedures of small and medium-sized family firms in Germany", Review of Managerial Science, Vol. 9 No. 2, pp. 317-338.

Fama, E. and Jensen, M. (1983), "Separation of ownership and control", *Journal of Law and Economics*, Vol. 26 No. 2, pp. 301-325.

Farrell, K.A. and Hersch, P.L. (2005), "Additions to corporate boards: The effect of gender", *Journal of Corporate Finance*, Vol. 11 No. 1-2, pp. 85-106.

Fernandes, N. (2008), "EC: Board compensation and firm performance: the role of "independent" board members", *Journal of Multinational Financial Management*, Vol. 18 No. 1, pp. 30-44.

Filatotchev, I., Lien, Y.C. and Piesse, J. (2005), "Corporate governance and performance in publicly listed, family-controlled firms: Evidence from Taiwan", *Asia Pacific Journal of Management*, Vol. 22 No. 3, pp.257-283.

Gama, A.P. and Rodrigues, S. (2013), "The governance-performance relations in publicly listed family controlled firms: an empirical evidence", *Corporate Governance*, Vol. 13 No. 4, pp. 439-456.

Garcia-Teruel, J. and Martinez-Solano P. (2007), “Effects of working capital management on SME profitability”, *International Journal of Managerial Finance*, Vol. 3 No. 2, pp. 164-177.

García-Meca, E., García-Sánchez, I.M. and Martínez-Ferrero, J. (2015), “Board diversity and its effects on bank performance: an international analisys”, *Journal of Banking & Finance*, Vol. 53 No. 1, pp. 202-214.

González, J.S. and García-Meca, E. (2014), “Does corporate governance influence earnings management in Latin American markets?”, *Journal of Business Ethics*, Vol. 121, pp. 419-440.

González, V., and González F., (2011), “Firm size and capital structure: Evidence using dynamic panel data”, *Applied Economics*, Vol. 36, pp. 4745-4754.

Gregory, H.J. (2002), “Comparative study of corporate governance codes relevant to the European Union and its member states”, Report to the European Commission, Weil, Gotshal and Manges LLP, New York.

Gujarati, D.N. and Porter, D.C. (2010), *Essentials of Econometrics*, 4th edition, McGraw-Hill International Edition, New York.

Hasso, T. and Duncan, K. (2013), “Valuation of family firms: the limitations of accounting information”, *Australian Accounting Review*, Vol. 23 No. 2, pp. 135-150.

Hansen, L. and Singleton, K. (1982), “Generalized instrumental variables estimation of nonlinear rational expectations models”, *Econometrica*, Vol. 50, pp. 1269-1286.

Hausman, J.A. (1978), “Specification tests in econometrics”, *Econometrica*, Vol. 46 No. 6, pp. 1251-1271.

Hermalin, B.E. and Weisbach, M.S. (1988), “The determinants of board composition”, *RAND Journal of Economics*, Vol. 19, pp. 589-606.

Hermalin, B.E. and Weisbach, M.S. (1998), “Endogenously chosen boards of directors and their monitoring of the CEO”, *American Economic Review*, Vol. 88 No. 1, pp. 96–118.

Hermalin, B.E. and Weisbach, M.S. (1991), “The effect of board composition and direct incentives on corporate performance”, *Financial Management*, Vol. 20 No. 4, pp. 101-112.

Huse, M. and Solberg, A.G. (2006), “Gender-related boardroom dynamics: How Scandinavian women make and can make contributions on corporate boards”, *Women in Management Review*, Vol. 21 No. 1, pp. 113-130.

Jensen, M.C. (1986), “Agency costs of free cash flow, corporate finance and takeovers”, *American Economic Review*, Vol. 76 No. 2, pp. 323-329.

Jensen, M. and Meckling, W. (1976), “Theory of the firm: managerial behaviour, agency cost and ownership structure”, *Journal of Financial Economics*, Vol. 3, pp. 305-360.

Jiraporn, P. and DaDalt, P. (2009), “Does founding family control affect earnings management?”, *Applied Economics Letters*, Vol. 16 No. 2, pp. 113-119.

Julizaerma, M.K. and Sori, Z.M. (2012), “Gender diversity in the boardroom and firm performance of Malaysian public listed companies”, *Procedia – Social and Behavioral Sciences*, Vol. 65 No. 1, pp. 1077-1085.

Khanna, T. and Rivkin, J. (2001), “Estimating the performance effects of business groups in emerging markets”, *Strategic Management Journal*, Vol. 22 No. 1, pp. 45-74.

Kirkpatrick, G. (2009), “Corporate governance lessons from the financial c risis”, *OECD Journal: Financial Market Trends*, Vol. 2009/1 No. 1, pp. 61-87.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R.W. (1997), “Legal determinants of external finance”, *The Journal of Finance*, Vol. 52 No. 3, pp. 1131-1150.

La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. (1999), “Corporate ownership around the World”, *The Journal of Finance*, Vol. 54 No. 2, pp. 471-517.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R.W. (2000), “Agency problems and dividend policies around the world”, *Journal of Finance*, Vol. 55 No. 1, pp. 1-33.

Nestor Advisors (2009), "Bank boards and the financial crisis - A corporate governance study of the 25 largest European bank", May 2009.

Lemmon, M.L., and Lins, K.V. (2003), "Ownership structure, corporate governance, and firm value: Evidence from the East Asian financial crisis", *Journal of Finance*, Vol. 58, pp. 1445-1468.

Lien, Y.C., Teng, C.C. and Ki, S. (2016), "Isntitutional reforms and the effects of family control on corporate governance", *Family Business Review*, 29(2), pp. 174-188.

Lins, K.V., Volpin, P. and Wagner, H.F. (2013), "Does family control matter? International evidence from the 2008-2009 financial crisis", *Review of Financial Studies*, Vol. 26, pp. 2583-2619.

Maury, B. (2006), "Family ownership and firm performance: Empirical evidence from Western European corporations", *Journal of Corporate Finance*, Vol. 12, pp. 321-341.

Miller, D. and Le Breton-Miller, I. (2006), "Family governance and firm performance: agency, stewardship, and capabilities", *Family Business Review*, Vol. 19, pp. 73-87.

Miller, D., Le Breton-Miller, I., Lester, R. H. and Cannella Jr., A. A. (2007), "Are family firms really superior performers?", *Journal of Corporate Finance*, Vol. 13 No. 5, pp. 829-858.

Mínguez-Vera, A. and Martin, A. (2011), "Gender and management on Spanish SMEs: an empirical analysis", *The International Journal of Human Resource Management*, Vol. 22 No. 14, pp. 2852-2873.

Morris, N. (2009), "Harriet Harman: 'If only it had been Lehman Sisters'", *The Independent*, http://www.independent.co.uk/news/uk/home-news/harriet-harman-if-only-it-had-been-lehman-sisters-1766932.html, acessed on 9th May 2017.

Mostarac, E. and Petrovic, S. (2013), "Determinants of capital structure of Croatian enterprises before and during the financial crisis", *Journal of Economics*, Vol. 4 No. 2, pp. 153-162.

Myers, S.C. (1984), "The capital structure puzzle", *The Journal of Finance*, Vol. 39 No. 3, pp. 575-592.

Myers, S.C., and Majluf, N.S. (1984), "Corporate financing and investments decisions: when firms have information that investors do not have", *Journal of Financial Economics*, Vol. 13, pp. 187-221.

Nguyen, T., Locke, S. and Reddy, K. (2015), "Ownership mconcentration and corporate performance from a dynamic perspective: does national governance quality matters?", *International Review of Financial Analysis*, Vol. 41, pp. 148-161.

Ntim, C.G, Lindop, S. and Thomas, D.A. (2013), "Corporate governance and risk reporting in South Africa: a study of corporate risk disclosures in the pre-and post-2007/2008 global financial crisis periods", *International Review of Financial Analysis*, Vol. 30, pp. 363-383.

Olsen, R.A. and Cox, C.M. (2001). "The Influence of gender on the perception and response to investment risk: the case of professional investors", *Journal of Psychology and Financial Markets*, Vol. 2 No. 1, pp. 29-36.

Pindado, J., Requejo, I., and de la Torre, C. (2014), "Family control, expropriation, and investor protection: A panel data analysis of Western European corporations", *Journal of Empirical Finance*, Vol. 27, pp. 58-74.

Prencipe, A., Bar-Yosef, S. and Dekker, H. C. (2014), "Accounting research in family firms: theoretical and empirical challenges", *European Accounting Review*, Vol. 23 No. 3, pp. 361-385.

Romano, R. (2005), "The Sarbanes-Oxley Act and the making of quack corporate governance", *Yale Law Journal*, pp. 1521-1611.

Rose, C. (2007), "Does female board representation influence firm performance? The Danish evidence", *Corporate Governance: An International Review*, Vol. 15 No. 2, pp. 404-413.

Salvato, C. and Moores, K. (2010), "Research on accounting in family firms: past accomplishments and future challenges", *Family Business Review*, Vol. 23 No. 3, pp. 193-214.

Setia-Atmaja, L.S., Tanewski, G.A., and Skully, M. (2009), "The role of dividends, debt and board structure in the governance of family-controlled firms", *Journal of Business Finance & Accounting*, Vol. 36 No. 7&8, pp. 863-898.

Shleifer A. and Vishny R. (1997), "A survey of corporate governance", *The Journal of Finance*, Vol. 52 No. 3, pp. 737-783.

Shukeri, S.N., Shin, O.W. and Shaari, M.S. (2012), "Does board of director's characteristics affect firm performance? Evidence from Malaysian public listed companies", *International Business Research*, Vol. 5 No.9, pp. 120-127.

Siebels, J.F. and zu Knyphausen-Aufseß, D. (2012), "A review of theory in family business research: The implications for corporate governance", *International Journal of Management Reviews*, Vol. 14, pp. 280-304.

Singh, V.S., Terjesen, S. and Vinnicombe, S. (2008), "Newly appointed directors in the boardroom: How do women and men differ?", *European Management Journal*, Vol. 2 No. 3, pp. 48-58.

Smith, N., Smith, V.R. and Verner, M. (2006), "Do women in top management affect firm performance? a panel study of 2,500 Danish firms", *International Journal of Productivity and Performance Management*, Vol. 55, pp. 569-593.

Sraer, D. and Thesmar, D. (2007), "Performance and behaviour of family firms: evidence from the French stock market", *Journal of European Economic Association*, Vol. 5 No. 4, pp. 709-751.

Trahms, C.A., Ndofor, H.A. and Sirmon, D.G. (2013), "Organizational decline and turnaround: a review and agenda for future research", *Journal of Management*, Vol. 39, pp. 1277–1307.

Treanor, J. (2011), "EU calls for women to make up one-third of bank directors", The Guardian, https://www.theguardian.com/business/2011/jun/21/eu-women-bank-directors, acessed on 9th May 2017.

Vieira, E. (2014), "The effect on the performance of listed family and non-family firms", *Managerial Finance*, Vol. 40 No. 3, pp. 234-253.

Villalonga, B. and Amit, R. (2006), "How do family ownership, control, and management, affect firm value?", *Journal of Financial Economics*, Vol. 80 No. 2, pp. 385-417.

Villalonga, B., Amit, R., Trujillo, M. and Guzmán, A. (2015), "Governance of family firms", *Annual Review of Financial Economics*, Vol. 7, pp. 635-654.

Volpin, P.F. (2002), "Governance with poor investor protection: evidence from top executive turnover in Italy", *Journal of Financial Economics*, Vol. 64 No. 1, pp. 61-90.

Weisbach, M. S. (1988), "Outside directors and CEo turnover", *Journal of Financial Economics*, Vol. 20, pp. 431-460.

Westhead, P. and Howorth, C. (2006), "Ownership and management issues associated with family firm performance and company objectives", *Family Business Review*, , Vol. 19 No. 4, pp.301-316.

White, H. (1980), "A heteroscedasticity-consistent covariance matrix estimator and a direct test for heteroscedasticity", *Econometrica*, Vol. 48 No. 4, pp. 149-170.

Wintoki, M.B., Linck, J.S. and Netter, J.M. (2012), "Endogeneity and the dynamics of internal corporate governance", *Journal of Financial Economics*, Vol. 105, pp. 581-606.

Yin-Hua, Y., Tsun-Siou, L. and Woidtke, T. (2001), "Family control and corporate governance: Evidence from Taiwan", *International Review of Finance*, Vol. 2 No. 1/2, pp. 21-48.

Table 1. Definition of variables

Variables		Definition
Dependent Variables		
Return on assets	ROA	Net income divided by total assets
Market-to-book ratio	MB	Market value of equity divided by the book value of the equity
Independent variables		
Family Firms	FF	Dummy variable that assumes the value of 1 if the firm is considered as a FF, and 0 otherwise
Non-executive board members	NEBM	Number of non-executive members of the board divided by the total number of members on the board
Independent board members	BIM	Proportion of independent members of the board to the total number of members on the board
Managerial ownership	OWN	Percentage of shares held by the biggest shareholder
Gender diversity on the board	WOMEN	Proportion of women on the board divided to the total number of directors
Family members on board	FMB	Number of family members of the board divided by the total number of members on the board
Control Variables		
Firm age	AGE	Natural logarithm of the difference between incorporation year and a fiscal year
Firm size	SIZE	Natural logarithm of the book value of total assets of a firm
Leverage	LEV	Ratio of total debt to total assets
Crisis period	CRISIS	Dummy variable which will take the value 1 for the 2008-2013 period, and zero otherwise
Industry variables	IND	Industry dummy variables
Year variables	YEAR	Year dummy variables
Robustness Check Variables		
Return on equity	ROE	Net income divided by equity
Audit firm	BIG	Dummy variable that assumes the value of 1 if the auditor is PricewaterhouseCoopers, Ernest & Young, Deloitte or KPMG, and 0 otherwise

Table 2. Descriptive statistics

This table shows the summary statistics for the variables used in the study, considering the sub-samples of FF and NFF, as well as a test for equality of means between FF and NFF. The definition of the variables is presented in Table 1.

	FF						NFF						Mean	t	
	Mean	Median	Minimum	Maximum	SD		Mean	Median	Minimum	Maximum	SD		Differences		
ROA	0.062	0.041	-0.536	1.692	0.216	ROA	0.038	0.033	-0.532	1.153	0.177	ROA	0.024	1.524	
MB	1.785	0.969	-11.790	35.843	3.801	MB	1.406	0.729	-8.141	30.792	2.827	MB	0.380	1.431	
NEBM	0.336	0.333	0.000	0.889	0.250	NEBM	0.363	0.400	0.000	0.800	0.281	NEBM	-0.027	-1.223	
BIM	0.175	0.143	0.000	0.714	0.187	BIM	0.206	0.200	0.000	0.800	0.218	BIM	-0.031	-1.848	*
OWN	0.452	0.410	0.200	0.942	0.198	OWN	0.432	0.400	0.057	0.998	0.247	OWN	0.020	1.050	
WOMEN	0.074	0.000	0.000	0.429	0.108	WOMEN	0.033	0.000	0.000	0.333	0.077	WOMEN	0.040	5.467	***
FMB	0.320	0.286	0.067	0.800	0.172										
AGE	3.436	3.526	0.000	5.094	0.757	AGE	3.065	3.198	0.000	4.317	0.822	AGE	0.371	5.682	***
SIZE	19.756	19.925	12.506	22.799	2.084	SIZE	19.074	18.865	15.219	23.311	2.100	SIZE	0.681	3.978	***
LEV	0.721	0.732	0.008	2.287	0.244	LEV	0.696	0.710	0.005	1.856	0.285	LEV	0.024	1.108	

Notes: ***; *: statistically significant at the 10% ; 1% level. SD: Standard deviation.

Table 3. Correlation matrix

This table shows the Pearson correlation among the variables for the sub-samples of FF (Panel A) and NFF (Panel B). The definition of the variables is presented in Table 1.

Panel A – Family firms

	ROA	MB	NEBM	BIM	OWN	WOMEN	FMB	AGE	SIZE	LEV
ROA	1									
MB	0.039	1								
NEBM	-0.058	-0.108	1							
BIM	-0.120	-0.063	0.625	1						
OWN	0.164	-0.015	0.120	0.028	1					
WOMEN	0.189	-0.093	0.101	-0.131	-0.033	1				
FMB	0.161	0.015	-0.406	-0.369	0.039	0.117	1			
AGE	0.068	-0.105	-0.045	-0.108	0.175	0.063	0.034	1		
SIZE	0.071	-0.019	0.462	0.371	0.209	0.011	-0.374	-0.151	1	
LEV	-0.193	0.057	0.008	-0.003	-0.018	0.149	-0.170	0.090	0.115	1

Panel B - Non-family firms

	ROA	MB	NEBM	BIM	OWN	WOMEN	AGE	SIZE	LEV
ROA	1								
MB	0.033	1							
NEBM	0.308	0.237	1						
BIM	0.415	0.112	0.718	1					
OWN	-0.028	-0.146	-0.159	-0.139	1				
WOMEN	-0.098	-0.145	-0.070	-0.076	-0.003	1			
AGE	0.231	-0.191	-0.240	-0.078	-0.009	0.095	1		
SIZE	0.109	0.179	0.539	0.319	-0.166	-0.143	-0.485	1	
LEV	-0.162	-0.122	0.135	0.144	0.039	-0.158	-0.260	0.143	1

Table 4. Regression (1): dependent variable ROA

This table shows the regression model (1) results for the full sample and the FF and NFF sub-samples, considering as dependent variable the ROA. For all the regressions, we present the efficient model (pooled OLS, FEM or REM), based on the F statistic and the Hausman test. The definition of the variables is presented in Table 1.

	Full sample			Family Firms			Non-family firms		
		FEM			REM			FEM	
	Coefficient	t-value		Coefficient	t-value		Coefficient	t-value	
Constant	-0.6769	-2.665	***	-0.5142	-2.061	**	-0.0765	-0.337	
NEBM_FF	-0.0069	-0.060							
BIM_FF	0.0730	0.637							
OWN_FF	0.1131	1.121							
WOMEN_FF	0.4087	1.947	*						
NEBM	0.0249	0.236		0.0444	0.799		-0.0162	-0.245	
BIM	-0.1089	-1.187		-0.0778	-1.025		-0.0714	-1.233	
OWN	-0.0216	-0.265		0.1294	1.949	*	-0.0950	-1.825	*
WOMEN	-0.0502	-0.287		0.3974	3.255	***	-0.2269	-2.011	**
FMB	0.0612	0.637		0.0771	0.805				
AGE	0.0604	1.914	*	0.0232	0.816		0.0751	2.757	***
SIZE	0.0325	2.636	***	0.0265	2.449	**	0.0078	0.654	
LEV	-0.1609	-4.435	***	-0.1372	-2.780	***	-0.2703	-7.499	***
CRISIS	-0.0676	-4.574	***	-0.0856	-4.689	***	-0.0143	-0.911	
N	627			381			246		
Adjusted R^2	0.597			0.584			0.797		
F-test	10.699	***		9.73	***		22.892	***	
Hausman test	24.006	**		9.227			36.574	***	

Notes: ***; **;*: statistically significant at the 10% ; 5%; 1% level.

Table 5. Regression (1): dependent variable MB

This table shows the regression model (1) results for the full sample and the FF and NFF sub-samples, considering as dependent variable the MB. For all the regressions, we present the efficient model (pooled OLS, FEM or REM), based on the F statistic and the Hausman test. The definition of the variables is presented in Table 1.

	Full sample			Family Firms			Non-family firms		
	FEM			FEM			FEM		
	Coefficient	t-value		Coefficient	t-value		Coefficient	t-value	
Constant	3.6116	6.154	***	5.0023	5.536	***	1.8760	2.693	***
NEBM_FF	-0.9567	-0.359							
BIM_FF	-2.1159	-0.798							
OWN_FF	6.2579	2.684	***						
WOMEN_FF	6.6534	1.372							
NEBM	-1.2200	-0.502		-1.7790	-1.393		-1.7900	-0.881	
BIM	-0.6918	-0.326		-2.7743	-1.576		-0.0630	-0.036	
OWN	-4.6385	-2.464	**	1.6843	1.063		-4.8091	-3.014	***
WOMEN	-2.8315	-0.702		3.8008	1.269		-3.6417	-1.053	
FMB	-2.7620	-1.243		-3.3523	-1.381				
AGE	-0.0013	-0.002		0.1658	0.139		-0.5697	-0.682	
SIZE	-1.6706	-5.868	***	-2.4265	-5.918	***	-0.6286	-1.724	*
LEV	0.3642	0.434		0.9044	0.771		-0.6307	-0.571	
CRISIS	-0.9339	-2.733	***	-0.8513	-1.812	*	-0.7286	-1.516	
N	627			381			246		
Adjusted R^2	0.265			0.286			0.248		
F-test	3.899	***		4.935	***		2.343	***	
Hausman test	62.290	***		49.415	***		21.972	***	

Notes: ***; **;*: statistically significant at the 10% ; 5%; 1% level.

Table 6. Descriptive statistics for FF variables in the two sub-periods: before and during the crisis

This table shows a test for equality of means between FF variables before and during the crisis period. The definition of the variables is presented in Table 1.

	Mean (Before Crisis)	Mean (During Crisis)	Mean Differences	t	
ROA	0,087	0,036	0,052	2,391	**
MB	2,317	1,210	1,107	2,939	***
NEBM	0,275	0,403	-0,129	-5,203	***
BIM	0,169	0,180	-0,011	-0,551	
OWN	0,417	0,490	-0,072	-3,605	***
WOMEN	0,068	0,080	-0,012	-1,056	
FMB	0,337	0,301	0,036	2,064	**
AGE	3,385	3,491	-0,106	-1,381	
SIZE	19,509	20,022	-0,513	-2,415	*
LEV	0,721	0,721	0,000	0,008	

Notes: ***; **, *: statistically significant at the 10% ; 5% level, 1%.

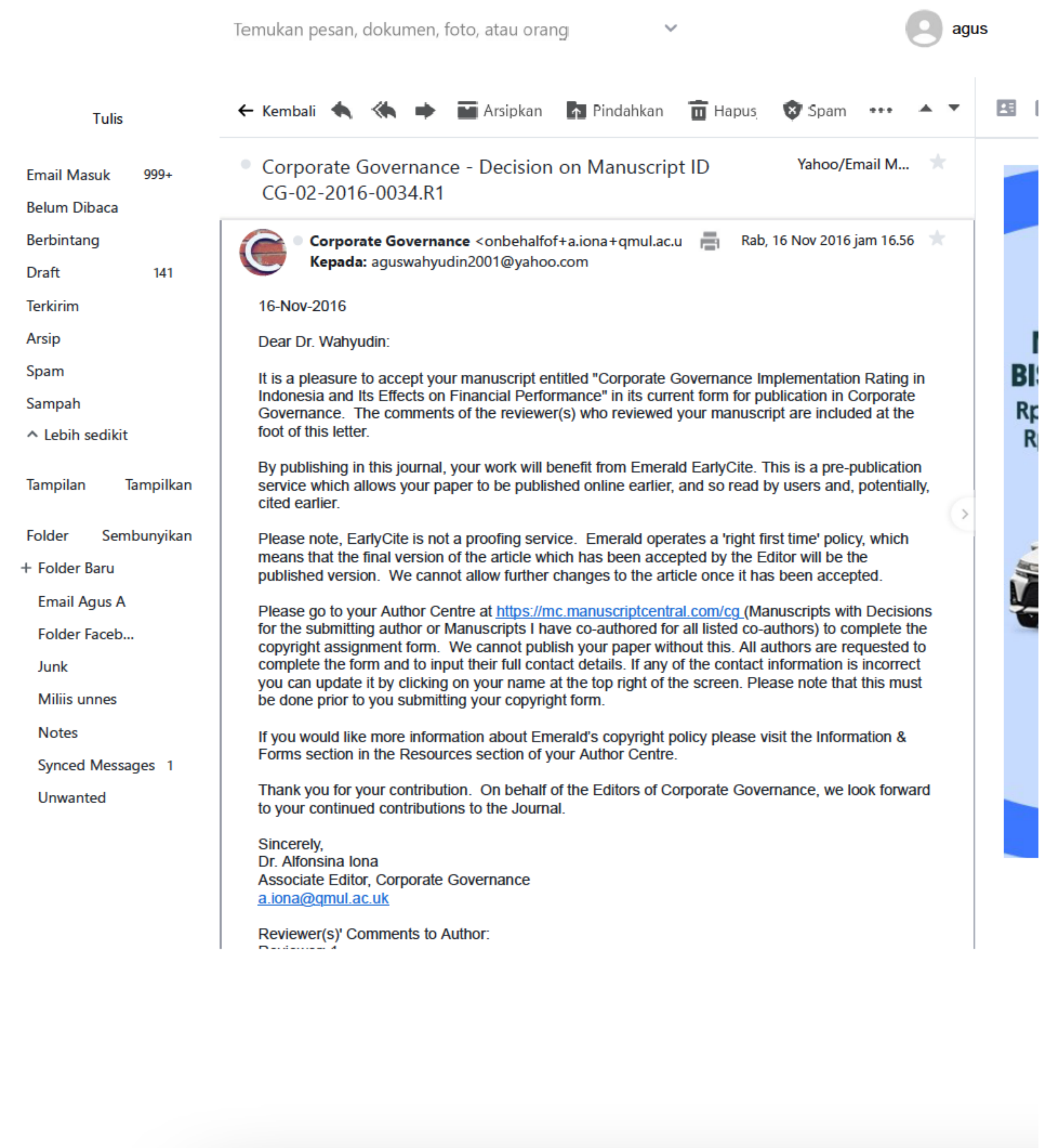
Table 7. Crisis effect: dependent variable ROA

This table shows the regression model (1) results for the sub-sample of FF, considering as dependent variable the ROA. For all the regressions, we present the efficient model (pooled OLS, FEM or REM), based on the F statistic and the Hausman test. The definition of the variables is presented in Table 1.

	Family firms					
	Before crisis (2002-2007)			During crisis (2008-2013)		
		REM			REM	
	Coefficient	t-value		Coefficient	t-value	
Constant	0.2032	0.992		-0.2273	-1.501	
NEBM	-0.0077	-0.208		-0.0426	-0.656	
BIM	-0.0220	-0.503		-0.0656	-0.775	
OWN	-0.0067	-0.106		0.0332	0.558	
WOMEN	0.0843	0.930		0.2042	1.735	*
FMB	-0.1137	-1.493		0.0304	0.381	
AGE	0.0145	0.538		0.0087	0.469	
SIZE	-0.0021	-0.223		0.0177	2.742	***
LEV	-0.1201	-2.563	**	-0.1869	-4.359	***
N	198			183		
Adjusted R^2	0.967			0.147		
F-test	135.756	***		1.259	**	
Hausman test	9.399			8.131		

Notes: ***; **;*: statistically significant at the 10% ; 5%; 1% level.

8. **Keputusan review round kedua: Corporate Governance - Decision on Manuscript ID CG-02-2016-0034.R1**
Recommendation: Accept



Corporate Governance - Decision on Manuscript ID CG-02-2016-0034.R1

Corporate Governance <onbehalfof+a.iona+qmul.ac.u
Rab, 16 Nov 2016 jam 16.56
Kepada: aguswahyudin2001@yahoo.com

16-Nov-2016

Dear Dr. Wahyudin:

It is a pleasure to accept your manuscript entitled "Corporate Governance Implementation Rating in Indonesia and Its Effects on Financial Performance" in its current form for publication in Corporate Governance. The comments of the reviewer(s) who reviewed your manuscript are included at the foot of this letter.

By publishing in this journal, your work will benefit from Emerald EarlyCite. This is a pre-publication service which allows your paper to be published online earlier, and so read by users and, potentially, cited earlier.

Please note, EarlyCite is not a proofing service. Emerald operates a 'right first time' policy, which means that the final version of the article which has been accepted by the Editor will be the published version. We cannot allow further changes to the article once it has been accepted.

Please go to your Author Centre at https://mc.manuscriptcentral.com/cg (Manuscripts with Decisions for the submitting author or Manuscripts I have co-authored for all listed co-authors) to complete the copyright assignment form. We cannot publish your paper without this. All authors are requested to complete the form and to input their full contact details. If any of the contact information is incorrect you can update it by clicking on your name at the top right of the screen. Please note that this must be done prior to you submitting your copyright form.

If you would like more information about Emerald's copyright policy please visit the Information & Forms section in the Resources section of your Author Centre.

Thank you for your contribution. On behalf of the Editors of Corporate Governance, we look forward to your continued contributions to the Journal.

Sincerely,
Dr. Alfonsina Iona
Associate Editor, Corporate Governance
a.iona@qmul.ac.uk

Reviewer(s)' Comments to Author:

9. Permintaan Proofread dan Perbaikan kesalahan ketik

and edits that the user has m

o save comments.

Corporate governance implementation rating in Indonesia and its effects on financial performance

AQ: au

Agus Wahyudin and Badingatus Solikhah

Agus Wahyudin and Badingatus Solikhah are both based at the Department of Accounting, Universitas Negeri Semarang, Semarang, Indonesia.

Abstract

Purpose – *The purpose of this paper is to investigate the effect of corporate governance (CG) implementation rating conducted by the Indonesian Institute for Corporate Governance (IICG) on the financial performance of the selected companies.*

Design/methodology/approach – *This paper is a hypothesis testing study to analyze CG implementation of 88 firms listed on the Indonesian Stock Exchange. The samples are companies that participated in the Corporate Governance Perception Index (CGPI) Awards in 2008-2012. A panel data regression analysis is conducted on the data collected from IICG reports and its financial statements.*

Findings – *The awareness regarding good corporate governance (GCG) enforcement in Indonesian companies has already increased. The listed companies that participated in CGPI Awards during 2008-2012 always experience an increase in both quantity and quality. CG rating of go-public companies in Indonesia affects their accounting-based financial performance, such as return on assets, return on equity and earnings per share. However, CG implementation rating is not directly responded by the Indonesian stock market and has not yet been able to increase the company's growth in the short term.*

Research limitations/implications – *In this study, CGPI rating in a related year is linked to market performance in the same year. Thus, further research may link CGPI rating to market performance in the next year, as the findings of this study show that GCG implementation is not directly responded by the market.*

Practical implications – *GCG implementation is required by stakeholders, as it may give a long-term positive impact. Thus, the government needs to stipulate regulations to increase the commitment of the company in implementing GCG. The company can improve the internal factors of the organization that does not support the establishment of GCG based on the findings during the survey of CGPI. Finally, investors and creditors may consider the CGPI rating for their investment decisions.*

Originality/value – *This study contributes to the literature in two ways. First, this study uses the comprehensive CG rating in Indonesia. Previous studies on CG rating focused on internal mechanism; in this study, the rating was assessed using four stages of continuous assessment: self-assessment, document evaluation, paper assessment and company visit, which was conducted by an independent team. Second, this study uses the CG index (compliance, conformance and performance) associated with a variety of accounting-based and market-based performance variables: financial performance, market value and growth.*

Keywords *Corporate governance, Corporate governance index, Accounting-based performance, Market-based performance*

Paper type *Research paper*

Introduction

Awareness of the importance of corporate governance (CG) is on the rise after the crisis in mid-1997 in Asian countries, including Indonesia. Iskander and Chamlou (2000) stated that the economic crisis is not only due to macroeconomic factors but also because of weak CG in these countries, such as the lack of legal and accounting standards, financial audit has

Received 18 February 2016
Revised 15 September 2016
Accepted 16 November 2016

PC 01.55 Reply ✕

However, CG implementation rating is not directly responded by the Indonesian stock market and has not yet been able to increase the company's growth in the short term.

Add a reply...

not been established, the capital markets are under-regulated, lack of a supervision commissioner and disregard for the rights of minority shareholders. This means that the implementation of good corporate governance (GCG) will give a positive impact on both shareholders and national economic growth.

Public attention and research on CG have grown in importance in recent years in various countries. CG has been a well-known topic of academic research, and CG mechanisms vary across the world (Mutairi *et al.*, 2012). GCG assists with sustainable economic development by improving the performance of companies (GRI, 2006). Some research studies (Dittmar *et al.*, 2003; Nam and Nam, 2004; Rashid and Islam, 2013) show that CG has an important role in affecting company performance in the financial markets. Moreover, the main goal of establishing a company is to improve the welfare of company owners or stakeholders or to maximize stakeholders' property by increasing company value (Brigham and Houston, 2006). The objective of a company is to optimize stakeholder value that can be achieved through the implementation of financial management function (Wahyudin, 2012). Financial decisions may affect other financial decisions and lead to an increase in the company value. The CG framework recommends that stakeholder value maximization is the outcome of those CG mechanisms (Mutairi *et al.*, 2012).

CG refers to structures and processes of company directions and controls. CG is concerned with the relationships of managers, the board of directors, employees, controlling, minority and other stakeholders. Abor (2007) explained that CG refers to how a company is supposed to be run, regulated and controlled. According to Kaihatu (2006), the essence of CG is improving company performance by supervising or monitoring the management performance and accountability of the other stakeholders, based on the framework of applicable rules and regulations. CG may generate goodwill and confidence of investors. Findings of Gompers *et al.* (2003) explain that GCG may improve the assessments and supports from investors.

Various responses resulting from CG issues arise from many countries. In Indonesia, academics are interested in studying CG issues. Furthermore, academicians and practitioners also establish various forums, such as the Forum for Corporate Governance in Indonesia (FCGI), the Indonesian Institute for Corporate Governance (IICG) and the Center for Good Corporate Governance of Faculty of Economics and Business of Gadjah Mada University. The FCGI in collaboration with the Asian Development Bank (ADB) has developed a self-assessment as an instrument to assess companies' CG implementation in Indonesia. On the other hand, the IICG in collaboration with the National Committee on Governance (NCG) conducts research studies and rating of CG implementation in public and private companies, banks and state-owned enterprises in Indonesia. The results are then nationally and internationally published by *SWA Magazine* and the IICG website.

A research conducted by the IICG in 2002 found that the companies' main reason to apply CG is regulatory compliance. Corporate Governance Perception Index (CGPI) rating does not only consider the quality of CG but also invites companies to increase commitment and quality of governance through dissemination, benchmarking, evaluation and grading and continuous improvements. The companies believe that CG implementation is another form of business and work ethic enforcement that has become companies' commitment, and related to company image improvement. The companies implementing CG may improve their image and firm value. CG implementation in Indonesia is measured by the IICG. The IICG has measured CG implementation in Indonesia since 2001. Concluded research and rating programs, IICG uses indicators of GCG implementation called CGPI. Hence, this study aims to explore the effect of the CGPI rating on accounting-based and market-based performance.

Studies on CG associated with a company's financial decision-making have been conducted by some researchers, including Wen *et al.* (2002), Anderson *et al.* (2004), Abor

PC 01.55 Reply

PC 01.55 Reply

Use revised version: CG is concerned with the relationships of managers, the board of directors, employees, controlling, minority

PC 01.55 Reply

This sentence deleted

Add a reply...

(2007), Rocca (2007), Sheikh and Wang (2012), Reddy *et al.* (2010), Mollah *et al.* (2012), Sheikh *et al.* (2013) and Hassan and Halbouni (2013). The empirical evidence shows that some CG attributes affect a company's financial decision-making (Sheikh and Wang, 2012. However, those studies show various results.

This paper has made significant contributions to literature; most of the previous studies (Hassan and Halbouni, 2013; Sheikh *et al.*, 2013; Mollah *et al.*, 2012; Reddy *et al.*, 2010) use the mechanisms of CG such as board structure, outside directors, board committees and ownership structure. Nevertheless, the implementation of CG in this paper was measured using a unique and comprehensive indicators were assessed with four continuous phases developed by IICG. Different from past studies that used the CG rating (Yarram, 2015; Berthelot *et al.*, 2010; Bebchuk *et al.*, 2009; Donker and Zahir, 2008; Gompers *et al.*, 2003), CGPI valuation methods in this paper involve a self-assessment of internal and external stakeholders, assessment of documents linked to the process of CG implementation, paper valuation and company visits. The model developed in this study is more complete, with previous research linking CG rating to return on assets (ROA), return on equity (ROE) and earnings per share (EPS) partially; this paper examined the effect of CG rating on accounting-based performance and market-based performance.

The remainder of the paper is prepared as follows: In Section 2, we review the relevant literature and hypothesis developments. In Section 3, we describe our data and the research methodology. In Section 4, we present and discuss our results of the analysis. Finally, in the last section, we summarize, conclude and suggest potential avenues for future research.

Corporate Governance Perception Index

CGPI is the result of research and rating programs conducted by the IICG. The IICG was established on 2 June 2000 by the Indonesian Transparency Society and community leaders to promote concepts, practices and benefits of GCG. IICG is one of civil society's roles to encourage the establishment of an Indonesian business atmosphere that is reliable, ethical and dignified. As an independent and non-profit organization, IICG has a commitment to encourage the implementation of GCG in Indonesia and to support and assist companies in applying the concept of CG.

One program that has continuously been implemented since 2001 is CGPI. The CGPI is a research and rating program for GCG implementation of companies in Indonesia. CGPI is conducted through a research design that encourages companies to improve the implementation quality of the CG concept by conducting an evaluation and benchmarking.

CGPI has been organized by IICG as an annual program since 2001 in cooperation with *SWA Magazine* as a tribute to initiatives and results of a company's efforts in realizing ethical and dignified business. CGPI participation is voluntary and involves active participations of all stakeholders and companies to meet the required phases of CGPI implementation programs. More importantly, CGPI encourages and demands companies' participation to repair or improve their CG implementation in their environment.

In conducting research and rating, IICG has four phases, including self-assessment, document evaluation, paper review and company visit. The CGPI program uses three scopes of GCG implementation, including compliance, conformance and performance aspect. GCG implementation assessment only narrowly covers company commitments and rules, whereas it broadly covers commitment and relationship between companies and stakeholders:

1. The compliance aspect of GCG implementation is a fulfillment of various demands of laws and regulations stipulated by the regulator. This aspect ensures that all company business operations have been performed well and are not in conflict with the applicable rules.

PC 01.55 Reply

PC 01.55 Reply

Use revised version: The model developed in this study is more complete, with previous research linking CG rating to return on

Add a reply...

PC 01.55 Reply

use revised version: GCG implementation assessment only narrowly covers company commitments and rules, whereas it broadly

Add a reply...

2. The conformity aspect of GCG implementation is appropriateness of policies and company's operations with the norms, ethics and values believed.
3. The performance aspect of GCG implementation is the company achievement in fulfilling the demands of ethical and dignified operations.

The evaluation weights conducted using the four continual stages of self-assessment, document evaluation, paper reviews and company visit/field observation are listed in T1 Table I.

The questionnaire used in the self-assessment phase consists of some aspects of assessment, and involved perceived statements by the organs and members of the company (internal and external stakeholders in Appendix 1). The questionnaire was developed based on the problems of CG implementation. In the document evaluation phase, CGPI participants must submit at least 36 types of required documents in accordance with the company status. At the third stage, each participant should prepare a paper that describes the CG implementation and present it during company visits. The last stage is company visit, where an independent team will clarify and ensure the CG practices. Observations on each company were conducted through presentations and discussions with the board of commissioners, directors and management, as well as other related parties.

The rating results of the CGPI program use norm assessment based on a range of scores achieved by the CGPI participants, and then categorized based on the quality level of GCG T2 implementation using the term "trusted". CGPI assessment norm is explained in Table II.

PC 01.55 Reply

Replace with: The questionnaire used in the self-assessment phase consists of several aspects that must be answered by some

Add a reply...

Literature reviews and hypothesis developments

Agency theory

Agency theory is a theory governing the relationship between a principal and an agent, where one party (the principal) delegates a job to the other (the agent). Agency theory tries to explain the relationship of contract mechanisms (Jensen and Meckling, 1976). The principal provides funds and other resources to fulfill the company's needs for its operations, while the agent, as the company manager, is obliged to manage the company mandated by the company owner. In exchange, the agent may receive a salary, bonuses and various other compensations. The principal may not verify that the agent has performed and taken the appropriate policies to the principal's interest. Agency theory is highly considerate for solving problems in which the principal and the agent may prefer different actions due to different risk preferences. Managers' and stakeholders' different interests may result in conflicts called agency conflicts.

Table I Stages and weights of CGPI Awards

Stage	*Weight (%)*
Self-assessment	17
Document evaluation	35
Paper reviews	13
Company visit/observation	35
Total	100

Table II Assessment categories of CGPI Awards

Score	*Category*
55.00-69.99	Fairly trusted
70.00-84.99	Trusted
85.00-100	Highly trusted

According to Jensen and Meckling (1976), a company which separates its managerial and ownership functions probably leads to agency conflicts. Agency conflicts or agency problems can be minimized through a supervision mechanism to align the interests and then lead to agency cost.

The problems of GCG arise due to dependence on external capitals (equity and loan capital) used to finance company activities, investment and growth (FCGI, 2011). Wahyudin (2012) states that GCG arises as a result of agency problems that there are behaviors generating personal benefits especially from the agent by inflicting interests of another party (the principal). It may occur because of interest separation between the principal and the agent.

GCG influences upon financial performance

The agency problems in the relationship between the agent and the principal may arise in the form of a moral hazard, e.g. the manager or the agent does not perform their duties as agreed in the employment contract (Jensen and Meckling, 1976). In addition, GCG implementation has vital and strategic roles in maintaining companies' business process credibility and companies' supervisory. Thus, by having GCG and companies' advisory functional operation, the financial performance may be improved.

Companies' GCG implementation may create a system for directing, controlling and supervising the entire resources efficiently and effectively. GCG is assumed to maintain various interests in balance which may provide benefits for the company. A company with a higher CGPI rating means that the company has been managed with transparency, accountability, responsibility, independency and fairness. Therefore, there will be an impact on the outputs of good corporate performance, such as ROA, ROE and EPS.

The research conducted by Gompers *et al.* (2003), using the same governance index, found that companies with stronger stakeholder rights tend to have higher profits. Sheikh *et al.* (2013) also found a positive relationship between board size and company performance. These results are congruent with the previous research conducted by Jackling and Johl (2009), Ehikioya (2009) and Abor and Biekpe (2007). A research on non-financial companies listed on the Karachi Stock Exchange of Pakistan by Sheikh *et al.* (2013) proved that ownership concentration positively influences ROA, ROE and EPS. While in New Zealand, a research conducted by Reddy *et al.* (2010) found that the compliance upon NZSC requirements has improved the company financial performance. Thus, the first hypothesis is formulated as follows:

Ha1. A company with better CG implementation may have higher financial performance.

PC 01.55 Reply

New Zealand Securities Commission (NZSC) market-to-book (MB)

Add a reply...

GCG influences upon company value

The World Bank defines GCG as a collection of laws, regulations and rules that must be completed, which may encourage the performance of company resources to operate efficiently and produce a long-term sustainable economic value for both stakeholders and the society. GCG implementation is expected to be beneficial to increase and maximize the company value. Hasan and Butt (2009) define that companies' CG philosophy and mechanisms are related to the establishment of stakeholders' value. Furthermore, Hasan and Butt (2009) state that the principles implied within CG may ensure investors' and creditors' trust.

CGPI rating obtained by a company and published to the public may attract the stakeholders' interest and immediately responded by a market. The higher CGPI score shows that the company is increasingly more trusted by the related parties, the company may attract investors and the company's value may be eventually enhanced. The improvement of the company's value makes investors attracted to invest their funds. The

Model 1 → ROA $= \beta_0 + \beta_1$CGPI $+ \beta_2$SIZE $+ \beta_3$AGE $+ \beta_4$LIST_AGE $+ \beta_5$LEV $+ e$
Model 2 → ROE $= \beta_0 + \beta_1$CGPI $+ \beta_2$SIZE $+ \beta_3$AGE $+ \beta_4$LIST_AGE $+ \beta_5$LEV $+ e$
Model 3 → EPS $= \beta_0 + \beta_1$CGPI $+ \beta_2$SIZE $+ \beta_3$AGE $+ \beta_4$LIST_AGE $+ \beta_5$LEV $+ e$
Model 4 → PBV $= \beta_0 + \beta_1$CGPI $+ \beta_2$SIZE $+ \beta_3$AGE $+ \beta_4$LIST_AGE $+ \beta_5$LEV $+ e$
Model 5 → PER $= \beta_0 + \beta_1$CGPI $+ \beta_2$SIZE $+ \beta_3$AGE $+ \beta_4$LIST_AGE $+ \beta_5$LEV $+ e$
Model 6 → EG $= \beta_0 + \beta_1$CGPI $+ \beta_2$SIZE $+ \beta_3$AGE $+ \beta_4$LIST_AGE $+ \beta_5$LEV $+ e$

Results

CGPI profile

In general, the number of go-public companies in Indonesia participating in CGPI rating increases each year; there were 18 go-public companies in 2009, 21 go-public companies in 2010, 24 go-public companies in 2011 and 25 go-public companies in 2012. On the one hand, the quality of CG implementation has also increased every year. These findings are an indication of company's high awareness upon GCG implementation as a necessity, not only as its compliance to the regulations set by the Government of Indonesia. Moreover, CGPI Awards is a voluntary program that each participant is obliged to pay a registration fee. IICG gives special appreciations to the company members that show sincerity in implementing GCG by awarding as trusted companies. This appreciation is an acknowledgment of their achievements upon GCG implementation in each company's environment and as their seriousness and willingness to be voluntarily assessed by external independent parties as a manifestation of in-depth awareness upon the importance of GCG implementation (Suprayitno *et al.*, 2012) (Table V). T5

Descriptive statistical analysis

T6 Descriptive statistical calculations consisting of mean, minimum and maximum value of all variables are presented in Table VI. The average calculation of CGPI rating is 80.86. Based on the scales set by IICG, most companies participating in CGPI are categorized as trusted. It means that most companies have implemented CG well. Meanwhile, the financial performance measured by ROA, ROE and EPS shows that most companies have a good performance, as companies participating in CGPI are high-profile companies. Conversely, four companies recorded a negative profit on their financial statements. However, the participation of companies in Indonesia in CGPI events is still voluntary. Thus, companies with truly high commitments upon GCG implementation only may register in CGPI Awards.

The company markets show quite high values of PBV and price to earning ratio (PER). For example, PBV shows an average value of 2.53, which means that the market gives 2.5 times higher price than the asset book value owned by a company. The second market ratio is PER, which is obtained by comparing price and EPS of each company. Investors may interpret that company stock rating and shares are related to the profits generated by the company. Meanwhile, earning growth shows a good value with a growth average of 24 per cent from the previous year's profits. This indicates that the participants of CGPI Awards are companies with good growths.

first column head for Tables VI, VII and VIII: Variable

Add a reply...

Table V CGPI profile of listed companies

Description	*2009*	*2010*	*2011*	*2012*
Number of listed companies participating in CGPI Awards	18	21	24	25
The average of GCG index	80.31	80.89	81.10	81.01
Number of recipients with "highly trusted" category	5	8	9	11
CGPI topic	GCG as culture	GCG in ethical perspectives	GCG in risk perspectives	GCG in knowledge perspectives

Table VI Descriptive statistics of variables

	Average	*SD*	*Minimum*	*Median*	*Maximum*
CGPI	80.86	6.96	66.51	82.39	91.91
ROA	6.26	7.14	−8.33	3.58	28.97
ROE	15.82	12.86	−21.46	16.19	53.09
EPS	377.60	497.70	−107.00	142.00	1624.00
PBV	2.53	1.98	0.09	2.01	9.86
PER	15.78	14.94	−8.98	12.58	96.10
EG	0.24	1.49	−5.40	0.21	8.83
SIZE	17.01	1.82	11.95	16.69	22.73
AGE	38.91	21.32	4.00	38.50	93.00
LIST_AGE	10.60	8.92	0.00	9.00	62.00
LEV	0.59	0.25	0.15	0.57	0.92

Notes: n = 88; Please see Tables III and IV for the descriptions of variables; CGPI is a ranking of corporate governance practices in Indonesian listed companies conducted by IICG; CGPI score drawn from CGPI annual report Age and listing age (List_Age) are measured in a year

T7 Table VII presents the Pearson correlations among test variables. CGPI rating has the highest correlation with the size variable. A high correlation also arises between CGPI rating and accounting indicators, ROA and ROE. Thus, the CGPI was not significantly correlated with market indicators (PBV, PER), growth and age.

Hypothetical testing results

T8 Models 1, 2 and 3 in Table VIII report results of the analyses using accounting firm performance measures. The models are estimated using the fixed-effects estimator (Models 1 and 2) and random-effects estimator (Model 3). The measurements for the financial performance variable in this study are ROA, ROE and EPS. These are used to measure profitability based on a research conducted by Hasan and Halbouni (2013), which used accounting-based measurements of ROA and ROE on the company performance. Our result indicates that the CGPI rating has a significant impact on accounting performance (ROA, ROE and EPS). Well-implemented CG mechanisms are reflected in corporate performance (Sunarto, 2003). These findings strengthen Jensen and Meckling's (1976) statements that companies with good governance may have more efficient operational performance. Managers work effectively and efficiently to reduce capital costs and minimize risks, which may ultimately result in higher profitability.

These findings support a research conducted by Hasan and Halbouni (2013), which found that CG influences the company financial performance. In a research directed by Hasan and Halbouni (2013), CG is measured using CG mechanisms consisting of voluntary disclosure, CEO duality and board size. Meanwhile, a research conducted by Sheikh *et al.* (2013) used more complete measurements of CG internal attributes, including board size, outside directors, CEO duality, managerial ownership and ownership concentration. The results show that board size has a positive influence on ROA, EPS and MB, while outside directors and managerial ownership have a negative influence. This finding is supported with previous research conducted in various countries, such as by Gompers *et al.* (2003), Abor and Biekpe (2007), Jackling and Johl (2009), Ehikioya (2009), Reddy *et al.* (2010) Siagian *et al.* (2013) and Sheikh *et al.* (2013).

Adjusted R^2 in Model 1 and Model 2 showed high scores at 86 per cent and 76 per cent, respectively. This indicated that the variables CGPI, SIZE, AGE, LIST_AGE and LEV explained 88 per cent of the ROA variation and 76 per cent of the ROE variation. However, the variation of the independent and control variables described the variation in variable EPS by 9 per cent only. P-Value for F-statistic on Model 1 and Model 2 was significant at 0.01 level, whereas on Model 3, it was significant at 0.05 level.

PC 01.55 Reply ×

use revised version: Managers work effectively and efficiently to reduce capital costs and minimize risks, which may

Add a reply...

The control variables used in this study are company size, company age, listing age and leverage. Firm size affected positively both the accounting and market performance; also, the company size measured by the natural logarithm of total assets had a positive effect on profit growth. This study proved that leverage affects financial performances (ROA, EPS), company values (PBV, PER) and earnings growth (EG). Nevertheless, the regression coefficient was negative; it means that the higher debt portion from the shareholders' equity would reduce financial performance. Age has a positive effect on PER; however, it has no significant effect on other dependent variables. The listing age variable has a positive influence on ROA and ROE at the level of 0.10.

Conclusions and suggestions

The companies participating in CGPI rating always experience an increase in both quantity and quality each year. It means that their awareness on GCG has improved. The CG rating of go-public companies in Indonesia influences companies' accounting-based performance, such as ROA, ROE and EPS. This study also found that there is no significant effect on CGPI rating and company growth. Meanwhile, CG rating does not affect stock market prices. Investors do not respond to CGPI rating quickly, and thus, it seems there is no increase in stock prices. Research on CGPI rankings conducted by IICG every year is not very useful for investors or prospective investors in making their investment decisions in the stock market. Therefore, IICG should publish CGPI rating widely and easily accessible to the public. The government is expected to support IICG to improve the quality of its research and results published. For instance, the government can provide funds for IICG, as they are a non-profit organization. In addition, the stock exchange authority in Indonesia is suggested to create policy for the company to join the CG rating program, as the results of this study indicated that the CG rating could improve performance (Berthelot *et al.*, 2010; Mishra and Mohanty, 2014).

In this study, we identify certain limitations. CGPI rating in related years is associated with market performance at the same years. Thus, it would also be valuable to pay attention in further research to the possibility of CGPI rating being linked in the related years with market performance in the following years, as findings of this study show that GCG implementation is not directly responded by the market. Moreover, the future research may consider comparing companies in the group and those that do not participate in the CG rating to make the results more robust and interesting.

The study discovers that CGPI rating has a positive impact on financial performance. These findings have implications for CG policies. The government may encourage or oblige public companies to participate in the CGPI ranking programs, as it is a voluntary program. Therefore, the government should create conducive situations for GCG enforcement through a regulatory approach on GCG to improve company owners' and managers' commitments on GCG implementation. The company can provide special attention and make improvements to the internal factors of the organization that is not appropriate and does not support the establishment of GCG based on the findings during the survey of CGPI. Companies are expected to implement CG not only to comply with laws and regulations but also to increase their performance. Furthermore, the company might make GCG as part of the corporate culture.

References

Abor, J. (2007), "Corporate governance and financing decisions of Ghananian listed firms", *Corporate Governance*, Vol. 7 No. 1, pp. 83-92.

Abor, J. and Biekpe, N. (2007), "Corporate governance, ownership structure and performance of SMEs in Ghana: implications for financing opportunities", *Corporate Governance*, Vol. 7 No. 3, pp. 288-300.

Anderson, R., Mansi, S. and Reeb, D. (2004), "Board characteristics, accounting report integrity and the cost of debt", *Journal of Accounting and Economics*, Vol. 37 No. 3, pp. 315-342.

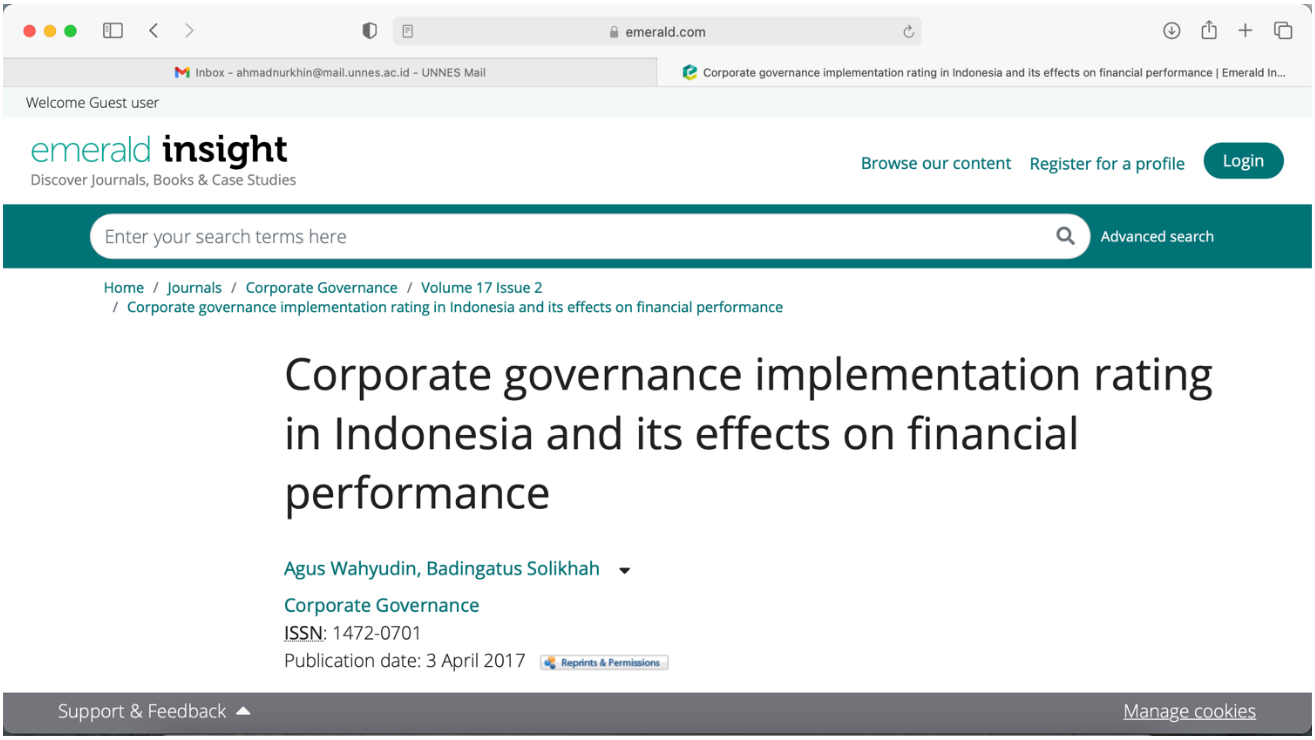
use revised version: Nevertheless, the regression coefficient was negative; it means that the higher debt portion from the

Add a reply...

use revised version:
Thus, it would also be valuable to pay attention in further research to the possibility

Add a reply...

10. Publish Online



Corporate governance implementation rating in Indonesia and its effects on financial performance

Agus Wahyudin and Badingatus Solikhah

Agus Wahyudin and Badingatus Solikhah are both based at the Department of Accounting, Universitas Negeri Semarang, Semarang, Indonesia.

Abstract

Purpose – *The purpose of this paper is to investigate the effect of corporate governance (CG) implementation rating conducted by the Indonesian Institute for Corporate Governance (IICG) on the financial performance of the selected companies.*

Design/methodology/approach – *This paper is a hypothesis testing study to analyze CG implementation of 88 firms listed on the Indonesian Stock Exchange. The samples are companies that participated in the Corporate Governance Perception Index (CGPI) Awards in 2008-2012. A panel data regression analysis is conducted on the data collected from IICG reports and its financial statements.*

Findings – *The awareness regarding good corporate governance (GCG) enforcement in Indonesian companies has already increased. The listed companies that participated in CGPI Awards during 2008-2012 always experience an increase in both quantity and quality. CG rating of go-public companies in Indonesia affects their accounting-based financial performance, such as return on assets, return on equity and earnings per share. However, CG implementation rating is not directly responded by the Indonesian stock market and has not yet been able to increase the company's growth in the short term.*

Research limitations/implications – *In this study, CGPI rating in a related year is linked to market performance in the same year. Thus, further research may link CGPI rating to market performance in the next year, as the findings of this study show that GCG implementation is not directly responded by the market.*

Practical implications – *GCG implementation is required by stakeholders, as it may give a long-term positive impact. Thus, the government needs to stipulate regulations to increase the commitment of the company in implementing GCG. The company can improve the internal factors of the organization that does not support the establishment of GCG based on the findings during the survey of CGPI. Finally, investors and creditors may consider the CGPI rating for their investment decisions.*

Originality/value – *This study contributes to the literature in two ways. First, this study uses the comprehensive CG rating in Indonesia. Previous studies on CG rating focused on internal mechanism; in this study, the rating was assessed using four stages of continuous assessment: self-assessment, document evaluation, paper assessment and company visit, which was conducted by an independent team. Second, this study uses the CG index (compliance, conformance and performance) associated with a variety of accounting-based and market-based performance variables: financial performance, market value and growth.*

Keywords *Corporate governance, Corporate governance index, Accounting-based performance, Market-based performance*

Paper type *Research paper*

Received 18 February 2016
Revised 15 September 2016
Accepted 16 November 2016

Introduction

Awareness of the importance of corporate governance (CG) is on the rise after the crisis in mid-1997 in Asian countries, including Indonesia. Iskander and Chamlou (2000) stated that the economic crisis is not only due to macroeconomic factors but also because of weak CG in these countries, such as the lack of legal and accounting standards, financial audit has not been established, the capital markets are under-regulated, lack of a supervision commissioner and disregard for the rights of minority shareholders. This means that the implementation of good corporate governance (GCG) will give a positive impact on both shareholders and national economic growth.

Public attention and research on CG have grown in importance in recent years in various countries. CG has been a well-known topic of academic research, and CG mechanisms vary across the world (Mutairi *et al.*, 2012). GCG assists with sustainable economic development by improving the performance of companies (GRI, 2006). Some research studies (Dittmar *et al.*, 2003; Nam and Nam, 2004; Rashid and Islam, 2013) show that CG has an important role in affecting company performance in the financial markets. Moreover, the main goal of establishing a company is to improve the welfare of company owners or stakeholders or to maximize stakeholders' property by increasing company value (Brigham and Houston, 2006). The objective of a company is to optimize stakeholder value that can be achieved through the implementation of financial management function (Wahyudin, 2012). Financial decisions may affect other financial decisions and lead to an increase in the company value. The CG framework recommends that stakeholder value maximization is the outcome of those CG mechanisms (Mutairi *et al.*, 2012).

CG is concerned with the relationships of managers, the board of directors, employees, controlling, minority and other stakeholders. Abor (2007) explained that CG refers to how a company is supposed to be run, regulated and controlled. According to Kaihatu (2006), the essence of CG is improving company performance by supervising or monitoring the management performance and accountability of the other stakeholders, based on the framework of applicable rules and regulations. CG may generate goodwill and confidence of investors. Findings of Gompers *et al.* (2003) explain that GCG may improve the assessments and supports from investors.

Various responses resulting from CG issues arise from many countries. In Indonesia, academics are interested in studying CG issues. Furthermore, academicians and practitioners also establish various forums, such as the Forum for Corporate Governance in Indonesia (FCGI), the Indonesian Institute for Corporate Governance (IICG) and the Center for Good Corporate Governance of Faculty of Economics and Business of Gadjah Mada University. The FCGI in collaboration with the Asian Development Bank (ADB) has developed a self-assessment as an instrument to assess companies' CG implementation in Indonesia. On the other hand, the IICG in collaboration with the National Committee on Governance (NCG) conducts research studies and rating of CG implementation in public and private companies, banks and state-owned enterprises in Indonesia. The results are then nationally and internationally published by *SWA Magazine* and the IICG website.

A research conducted by the IICG in 2002 found that the companies' main reason to apply CG is regulatory compliance. Corporate Governance Perception Index (CGPI) rating does not only consider the quality of CG but also invites companies to increase commitment and quality of governance through dissemination, benchmarking, evaluation and grading and continuous improvements. The companies believe that CG implementation is another form of business and work ethic enforcement that has become companies' commitment, and related to company image improvement. The companies implementing CG may improve their image and firm value. CG implementation in Indonesia is measured by the IICG. The IICG has measured CG implementation in Indonesia since 2001. Hence, this study aims to explore the effect of the CGPI rating on accounting-based and market-based performance.

Studies on CG associated with a company's financial decision-making have been conducted by some researchers, including Wen *et al.* (2002), Anderson *et al.* (2004), Abor (2007), Rocca (2007), Sheikh and Wang (2012), Reddy *et al.* (2010), Mollah *et al.* (2012), Sheikh *et al.* (2013) and Hassan and Halbouni (2013). The empirical evidence shows that some CG attributes affect a company's financial decision-making (Sheikh and Wang, 2012. However, those studies show various results.

This paper has made significant contributions to literature; most of the previous studies (Hassan and Halbouni, 2013; Sheikh *et al.*, 2013; Mollah *et al.*, 2012; Reddy *et al.*, 2010) use the mechanisms of CG such as board structure, outside directors, board committees and ownership structure. Nevertheless, the CG implementation in this paper was measured using a unique and comprehensive indicators were assessed by four stage: self-assessment, documents evaluation, paper reviews, and company visit. Different from past studies that used the CG rating (Yarram, 2015; Berthelot *et al.*, 2010; Bebchuk *et al.*, 2009; Donker and Zahir, 2008; Gompers *et al.*, 2003), CGPI valuation methods in this paper involve a self-assessment of internal and external stakeholders, assessment of documents linked to the process of CG implementation, paper valuation and company visits. The model developed in this study is more complete, with previous research linking CG rating to return on assets (ROA), return on equity (ROE) and earnings per share (EPS) partially; this paper examined the effect of CG rating on accounting-based performance and market-based performance.

The remainder of the paper is prepared as follows: In Section 2, we review the relevant literature and hypothesis developments. In Section 3, we describe our data and the research methodology. In Section 4, we present and discuss our results of the analysis. Finally, in the last section, we summarize, conclude and suggest potential avenues for future research.

Corporate Governance Perception Index

CGPI is the result of research and rating programs conducted by the IICG. The IICG was established on 2 June 2000 by the Indonesian Transparency Society and community leaders to promote concepts, practices and benefits of GCG. IICG is one of civil society's roles to encourage the establishment of an Indonesian business atmosphere that is reliable, ethical and dignified. As an independent and non-profit organization, IICG has a commitment to encourage the implementation of GCG in Indonesia and to support and assist companies in applying the concept of CG.

One program that has continuously been implemented since 2001 is CGPI. The CGPI is a research and rating program for GCG implementation of companies in Indonesia. CGPI is conducted through a research design that encourages companies to improve the implementation quality of the CG concept by conducting an evaluation and benchmarking.

CGPI has been organized by IICG as an annual program since 2001 in cooperation with *SWA Magazine* as a tribute to initiatives and results of a company's efforts in realizing ethical and dignified business. CGPI participation is voluntary and involves active participations of all stakeholders and companies to meet the required phases of CGPI implementation programs. More importantly, CGPI encourages and demands companies' participation to repair or improve their CG implementation in their environment.

In conducting research and rating, IICG has four phases, including self-assessment, document evaluation, paper review and company visit. The CGPI program uses three scopes of GCG implementation, including compliance, conformance and performance aspect. GCG implementation assessment only narrowly covers company commitments and rules, whereas it broadly covers commitment and relationship between companies and stakeholders:

1. The compliance aspect of GCG implementation is a fulfillment of various demands of laws and regulations stipulated by the regulator. This aspect ensures that all company business operations have been performed well and are not in conflict with the applicable rules.