

DETERMINANTS OF CORPORATE GOVERNANCE PERCEPTION INDEX SCORE

Sigit Handoyo^{1*}, Riadhani Salihah²

¹Program Studi Akuntansi, Fakultas Ekonomi Universitas Islam Indonesia, Yogyakarta, Indonesia

² Program Studi Akuntansi, Fakultas Ekonomi Universitas Islam Indonesia, Yogyakarta, Indonesia

*e-mail : sigit.handoyo@uii.ac.id

Available online :
5 September 2018

ABSTRAK

Tujuan dari penelitian ini adalah untuk mengetahui pengaruh ukuran perusahaan, profitabilitas, leverage, pertumbuhan perusahaan, faktor regulasi, dan opini audit wajar tanpa pengecualian terhadap skor Corporate Governance Perception Indeks (CGPI). Data yang digunakan dalam penelitian ini sebanyak 94 sampel yang diperoleh dari perusahaan yang terdaftar di CGPI dan Bursa Efek Indonesia (BEI) selama tahun 2017-2012. Analisis penelitian ini menggunakan analisis regresi berganda dan dilakukan dengan uji koefisien determinasi, uji signifikansi parameter individual (uji t). Hasil dari penelitian ini menunjukkan bahwa ukuran perusahaan dan profitabilitas dan opini audit wajar tanpa pengecualian memiliki pengaruh signifikan positif terhadap skor indeks persepsi tata kelola perusahaan (CGPI). Sementara itu, faktor leverage, pertumbuhan perusahaan dan regulasi tidak memiliki pengaruh terhadap skor indeks persepsi tata kelola perusahaan (CGPI). Implikasi dari penelitian ini menunjukkan bahwa opini audit wajar tanpa pengecualian menjadi hal yang sangat penting untuk meningkatkan skor CGPI untuk entitas di samping memiliki laba tinggi.

Kata kunci : ukuran perusahaan, profitabilitas, leverage, pertumbuhan perusahaan, faktor regulasi, dan opini audit yang tidak berkualitas, Skor CGPI, IICG Bursa Efek Indonesia.

ABSTRACT

The objective of this research is to find out the influence of firm size, profitability, leverage, growth, regulation factor and unqualified audit opinion toward Corporate Governance Perception Index (CGPI) score. There are 94 samples of data used in this study. The sample size is obtained from companies that are listed in CGPI and Indonesian Stock Exchange (IDX) during 2007 – 2012. Analysis of this research used multiple regression analysis and conducted with the test coefficient of determination, simultaneous significance test (test statistic F), and tests of significance of individual parameters (subset of the statistics t test). The result from this study shows that firm size and profitability and unqualified audit opinion have positive significance influence to corporate governance perception index (CGPI) score. Meanwhile, leverage, growth and regulation factor do not have influence to corporate governance perception index (CGPI) score. Implication of this research, it suggests that obtaining an unqualified audit opinion becomes very important thing to enhance CGPI score for entity beside of having high profit.

Keywords : firm size, profitability, leverage, growth, regulation factor and unqualified audit opinion , CGPI Score, IICG Indonesian Stock Exchange

1. Introduction

Corporate governance has been recently receiving much attention due to high profile scandals such as Adelphia, Enron, and WorldCom, serving as the impetus to the Sarbanes–Oxley Act of 2002, the most sweeping corporate governance regulation in the US in the last 70 years (Byrnes, Dwyer, Henry, & Thornton, 2003). In the light of these scandals, there is an important attention about ownership and control mechanism in company. These two main issues create a problem which is called as agency problem. A comprising theory relates to agency problem was developed by Jensen and Meckling (1976). They pointed out that the principals can assure themselves that the agent will make the optimal decisions only if appropriate incentives are given and only the agent is monitored.

Corporate governance becomes a solution to manage the interest of shareholders. The importance of corporate governance in a firm does not only occur in developed countries but also in some developing countries. Previous researchers have shown that shareholders are willing to give more capital towards a company with good corporate governance especially in developing economies characterized by the shortage of governance traditions and weak external control markets which is stated in McKinsey & Company (2002).

According to the definition of Good Corporate Governance, Shleifer and Vishny (1997) defined that Good Corporate Governance is a series of mechanism that can protect minority parties (outside investor/minority shareholders) from expropriation by managers and controlling shareholders (insider) with emphasis on legal mechanism. As the information asymmetry occurs between insider and outsider of a company, there should be a strict system which includes legal and regulatory system in order to protect each interest between parties.

One of the principles of Good Corporate Governance is the transparency of entity information to internal and external parties. Management with good performance will provide good information about corporate governance and bring the benefit effectively for entity and users. Good implementation of corporate governance means that entity provide the sufficient information about reporting financial performance, the entity's obligation, organization managerial structure , and the contribution of auditor to evaluate entity's internal control.

IICG (Indonesian Institute of Corporate Governance Research) in 2002 found that the basic reason of corporate governance implementation done by company is only as obedience and not a necessity. That is why IICG considers about how the implementation of good corporate governance for the business agent that is not only as regulation obedience but more point out about commitment creating of corporate governance needs for coherent and company going concern is important.

Some previous researchers had found factors that influence the implementation of corporate governance in entity's field. Nuryaman (2012) found corporate governance has positive significant effect on liquidity of the company and corporate governance significant positive influence on return on investment (ROI) and return on equity (ROE). Nevertheless, corporate governance has no affect on the company's net profit margin (NPM). Paramita (2015) found that, corporate governance has strongly influence to return on asset (ROA) and return on equity (ROE). Black and Kim (2003) and Gillan et al. (2003) who also did the similar research, found the negative relationship between leverage and corporate governance quality. Black et al. (2005) concluded there are

influence of regulation factor, industry, and banking to corporate governance practice. Black et al. (2003) found that there is an influence of regulation factor, industry, and banking to corporate governance. Darmawati (2006) concluded that there is no influence of leverage to corporate governance, whereas the firm size has influence to corporate governance. This research will be conducted by combining those kind of variables to analysis the influence to corporate governance perception index score, which are firm size, profitability, leverage, growth and regulation factor. However, the researchers will use debt to equity ratio (DER) as leverage measurement, and return on investment (ROI) as profitability measurement. Moreover, the researchers use extended year corporate governance perception index (CGPI) score which done by The Indonesian Institute for Corporate Governance (IICG) collaborate with SWA magazine of the companies listed in IDX of the year 2007-2012.

2. Literature Review and Hypothesis Formulation

Agency Theory

Jensen and Meckling (1976) developed a comprising theory relates to agency problem. They pointed out that the principals can assure themselves that the agent will make the optimal decisions only if appropriate incentives are given and only the agent is monitored. The agent should decide the incentives including stock option, bonuses, and other prerequisites that are directly on behalf of shareholder's interests. As an individual or institution that legally owns a share in a public company, a shareholder has the right of protecting the business from loss caused by agent, reviewing the financial report, and specifying the limits on management decisions. Here, there must be a trust between the principal and the agent that is dealing with making decisions on the principal's financial investment in money relied on business environment. The separation of ownership and management is commonly occurred in the current business of many companies in this world. The traditional view of Berle and Means (1932) about agency problem delineated that the separation of ownership and control in the modern corporation and the problem that the separation may result in.

Corporate Governance

Gillan and Starks (1998) define corporate governance as the system of laws, rules, and factors that control operations at a company.. This set of structures includes participants in corporate activities, such as managers, workers, and suppliers of capital; the returns to those participants; and the constraints under which they operate. Shleifer and Vishny (1997) define corporate governance in terms of the economic interests of the participants. Meanwhile according to The Organization for Economic Co-operation and Development (OECD) Corporate Governance means procedures and processes according to which an organization is directed and controlled.

Another explanation stated by Gillan et al. (2003) in Darmawati (2006), stated that manager in the entity who has a high chance of investment will have a chance to conduct bigger discretion in choosing project, compare to manager who has a low chance of investment. So that, in the entity who has higher chance of investment will need a better quality of Corporate Governance. Rajagopalan and Zhang (2009) firmly felt that shareholders may gain confidence in those firms that practice good corporate governance. These firms are at added advantage in accessing capital compared to firms that are lack of good corporate governance. The above explanations have already shown

that basically corporate governance is presented as the solution to reduce the agency problem between principal and agent.

Corporate Governance Measurement

In Indonesia, there is a survey named Corporate Governance Perception Index (CGPI) that is held by the Indonesian Institute for Corporate Governance (IICG) and SWA Magazine. The concept of Good Corporate Governance needs to be implemented in a company that directly relates to corporate actions done by agent that will impact the detriment towards principal. The example of this corporate action is managers of company have plans to do merger or acquisition with another company that will possibly harm the interest of shareholders. Therefore, applying Good Corporate Governance (GCG) is very important to protect the shareholder's interest. To promote the implementation of GCG, Government of Indonesia (GoI) through Indonesian Institute of Corporate Governance (IICG) has initiated to rank the level of CGC implementation Suprayitno et al, (2005).

In this research, the researchers use the final result done by The Indonesian Institute for Corporate Governance (IICG). Meanwhile, CGPI is a research and ranking of corporate governance implementation of the public entity recorded in *Bursa Efek Indonesia*. The corporate governance result and rank then will be published on SWA Semabada magazine. This kind of rank reflects the quality of corporate governance implementation of public entities. By seeking out the CGPI, it can be seen whether the implemented corporate governance are worthy or not.

Firm size

A company is called a large scale company when it has large total asset. Firm size is a variable that commonly used to describe the quality of corporate governance. One of the way to seek out the company's size is by seeing the asset that obtained by the company. Higher value of asset means higher size of the company. Durnev and Kim (2003) argued that big company will tend to attract public attention. As a consequence, it will stimulate the company to create better corporate governance. Meanwhile, Klapper and Love (2003) argued that bigger company tends to have more agency problem, so they need stricter good corporate governance mechanism.

Profitability

Profitability describes about the company ability to obtain profit. Ang (1997) argued that profitability ratio shows that a company successful in obtaining profit. Higher profit leads to higher company ability in paying dividend. Research done by Rahmawati et al. (2007) explained that profitability ratio has influence to company disclosure which is done by implementing Good Corporate Governance.

Leverage

According to Nissim and Penman (2001), leverage is traditionally viewed as arising from financing activities: firms borrow to raise cash for operations. Leverage can also be meant by the amount of debt used to finance the company's assets. A company with significantly more debt than equity is considered to be high leverage Isa et al,(2013). A study done by Durnev and Kim (2003) found positive relationship between corporate implementation and company external funding.

Growth

Growth shows the increasing of used asset in company's operating activity. According to the OECD (2004), The good corporate governance is essential for the economic growth led by the private sector and for the promotion of the social welfare, that depends on increasing investments, efficiency of the stock market and the company's performance.

Regulation Factor

Regulation issued by Financial Services Authority (OJK) in matter of corporate governance implementation for banking company which consists of Financial Services Authority regulation statement Number 30/POJK.05/2014 about good corporate governance for financing company and *Bank Indonesia* through the regulation of *Bank Indonesia* Number 11/33/PBI/2009 on December 7th 2009 and *Surat Edaran Bank Indonesia* Number 12/13/DPBs on April 30th 2010, about good corporate governance implementation for syariah conventional banking and syariah business entity which has been committed to conduct banking corporate governance with the principles of transparency, accountability, responsibility, professionalism and fairness are used as basis of regulation factor classification of this research.

Unqualified Audit Opinion

Auditors, following the results of the activities performed, reach the conclusion that the financial statements of the company under examination present in a true and fair manner the company's financial position. A basic requirement is that the auditing process is not impeded in any way and that no unusual uncertainties or risks exist that cannot be predicted or taken care of (Tahinakis, Panayiotis; Mylonakis, John; Daskalopoulon, Evaggelia, 2010). Corporate Governance characteristics and the legal system of investor protection may also influence the role of statutory auditors and the demand for audit quality Piot (2001) on Ballesta et. al (2005).

2.1 Hypothesis Formulation

Firms size and Corporate Governance

A company is called a large scale company when it has large total asset. Firm size is a variable that commonly used to describe the quality of corporate governance. One of the way to seek out the company's size is by seeing the asset that obtained by the company. Higher value of asset means higher size of the company. Higher size of the company tends to have more complex problems. This thing will stimulate the company to create better corporate governance.

Durnev and Kim (2003) stated that big company will tend to attract public attention. As a consequence, it will make the company to implement better corporate governance. Corporate governance as a management responsibility and commitment toward stakeholders. This opinion is supported by Darmawati (2006) which stated that firm size has positive effect to the quality of corporate governance. Darmawati (2006) and Ulum (2007) also found that firm size influences the company in implementing Good Corporate Governance.

Meanwhile, Klapper and Love (2003) argued that bigger company tends to have more agency problem, so they need stricter good corporate governance mechanism. A bigger company will be trusted by investors if they have higher Corporate Governance

Perception Index (CGPI) Score. Besides, big company will also tend to have more complex problem, so implementing good corporate governance will be an effective way to solve the complex problem. Based on the explanation above, the hypothesis formulated is as followed :

H1: Firm size has positive influence to CGPI score

Profitability and Corporate Governance

According to Chaghadari (2011), good corporate governance is considered as mechanism to achieve management goals with those of stakeholders that are to increase firm performance. Profitability describes about the company ability to obtain profit. According to Rodoni and Ali (2010) profitability is company ability to obtain the income in relation with sales, total asset or own capital. Ang (1997) argued that profitability ratio shows that a company successful in obtaining profit. Higher profit leads to higher company ability in paying dividend.

Research done by Rahmawati et al. (2007) explained that profitability ratio has influence to company disclosure which is done by implementing Good Corporate Governance. In other word, higher profitability of the company will stimulate the management to implement good corporate governance in order to hold investors' interest to invest in that company. La Porta, et al. (1999) found strong positive association between corporate governance and firm's performance. They also stated that an investor's protection tends to be increased when legal environment is stronger, and therefore his willingness to invest tends to increase. Based on the previous research on the impact of corporate governance toward the financial performance of the company, Jandik et al. (2005) found that good corporate governance has positive and significant result toward companies' performance. It is from a poorly managed firm with poor performance that transforms into a better governed firm with significant performance improvement, as shown by the company's profitability ratio (ROA and ROE) that increased significantly after the revolution of corporate governance practice within the company. Nuryaman (2012), based on his research on 43 firms in Indonesia listed in CGPI index during 2007-2009, found that there is a positive relationship between company's governance conduct and its profitability, as measured by the companies' ROA and ROE. Based on the explanation above, the hypothesis formulated is as follows :

H2: Profitability has positive influence to CGPI score

Leverage and CGPI Score

Leverage is traditionally viewed as arising from financing activities: firms borrow to raise cash for operations (Nissim and Penman, 2001). Leverage is a financial ratio that compares the total debt to the total assets of the company. Companies that use the fund resources from fixed charges called to be a company that has financial leverage. Financial leverage, also called by debt ratio, is the use of financial resources that have fixed charges. Leverage can also be meant by the amount of debt used to finance the company's assets. A company with significantly more debt than equity is considered to be high leverage (Isa, Sanusi, Suffian, and Omar, 2013).

Durnev and Kim (2003) stated that leverage has influence to quality of good corporate governance. This research found positive relationship between corporate implementation and company external funding. The company that need external funding

tends to conduct corporate governance in a better way to create positive image so they can be trusted by the funder, because the company quality of corporate governance will be better compare to the company who has low debt. In other hand, Baruchi and Fallini (2004) did not find the relationship between leverage and corporate governance quality, supported by Darmawati (2006) and Ulum (2007) found that leverage did not influence the quality of corporate governance implementation. Score CGPI (Corporate Governance Perception Index) assessed from company implementation, if leverage does not have any influence to the quality of corporate governance so that it does not have any influence to CGPI score as well. Based on the explanation above, the hypothesis formulated is as follows :

H3 : Leverage Has Positive Influence to CGPI Score

Growth and Corporate Governance

Growth shows the increasing of used asset in company's operating activity. Theory of *free cash flow hypothesis* revealed by Jensen (1986) in Nugroho (2004) stated that company with the higher chance of growth will have low free cash flow because most of the used fund for investment has positive NVP value.

According to Ira (2005), corporate governance is becoming increasingly important for companies and developing countries seeking to attract investment. Meanwhile according to the OECD (2004), "the good corporate governance is essential for the economic growth led by the private sector and for the promotion of the social welfare, that depends on increasing investments, efficiency of the stock market and the company's performance ". Babic (2005), concerns on two main mechanisms by which the corporate governance may stimulate the development of a country. First, related with financing and investment – the capacity of attraction of new shareholders and financial leverage is closely associated with the structure and the practices of corporate governance. Secondly, the corporate governance efficiency of the economic system are proven when pressuring the managers to be more disciplined, the corporate governance mechanisms stimulate to a more efficient allocation of resources. Based on the explanation above, the hypothesis formulated is as follows :

H4 : Growth has Positive Influence to CGPI score

Regulation Factor and Corporate Governance

Dummy variable is used in this research as a proxy of regulation factor, which is 1 for banking company and 0 for non banking company. This classification is based on the regulation issued by Financial Services Authority (Otoritas Jasa Keuangan) in matter of corporate governance implementation for banking company which consists of Financial Services Authority on regulation statement Number 30/POJK.05/2014 about good corporate governance for financing company and Bank Indonesia through regulation of Bank Indonesia Number 11/33/PBI/2009 on December 7th 2009 and Surat Edaran Bank Indonesia Number 12/13/DPBs on April 30th 2010, about good corporate governance implementation for Syariah conventional banking and Syariah business entity which has been committed to conduct banking corporate governance with the principles of transparency, accountability, responsibility, professionalism and fairness.

Awareness of corporate governance and its essential role in global economy has grown significantly. Indonesia's banking crisis that broke out at the closing of 1997 was not merely caused by economic crisis, but more on lack of good corporate governance and the underlying ethics. Therefore, efforts to recover the trust to the banking sector, through restructure and recap measures, will have long lasting impacts if so done with three other measures: (i) compliance to the prudential practice; (ii) implementation of good corporate governance; and (iii) effective supervision by the banking regulatory authority. Stock exchanges and regulators around the world are increasingly set standards or codes of best practice for corporate governance. Moreover, investors are beginning to review more systematically a company's corporate governance practices as part of the investment decision-making processes (Good Corporate Governance Manual : Danamon Corporation).

According to Danamon Corporation "Good Corporate Governance Manual" the importance of banking sector in the economy of a country is reflected by the fact that banking sector is, universally, a tightly regulated sector and banks have access to government safety net. Basel committee emphasizes on the importance of banks to put in place operating strategy and develop accountability in the implementation of corporate strategy. Furthermore, transparency of information associated with factual conditions, decision making and corporate actions from the integral part in connection with such accountability which allows market players to have such sufficient information to evaluate the efficacy of bank's management in performing banking business. Practice indicates that bank oversight will not function sufficiently in the absence of GCG. This made bank oversight in Indonesia become even more important in order to ensure that GCG is effectively in place in each bank. Experience in bank oversight underlines the importance of responsibility and accountability and the check and balance mechanism in banking operation. Simply put, an effective GCG will simplify the works of internal control and bank oversight. GCG may provide substantial contribution to the occupational collaboration between management and bank oversight.

Black et al. (2003) on Darmawanti (2006) pointed out that industry that is committed to strict regulation in relation with corporate governance will get more intense control as well. The evidence on the role of lenders in the Japanese equity markets is mixed. Prowse (1990) and Kaplan and Minton (1994) concluded that banks are an important aspect of corporate governance in Japan. More recent research, however, has questioned the effectiveness of banks in governing corporations. Morck and Nakamura (1999) argued that bank intervention serves the short-term interests of the bank rather than the interests of the firms' shareholders. In Germany, Boehmer (1999) reported that banks control a substantially higher fraction of corporate voting rights than cash flow rights (due to board memberships and control of proxy votes). Boehmer (1999) provides empirical evidence that bank control appears to have only a modest association with a portfolio company's stock market performance. Similarly, Franks & C (1998) reported that the role of banks in several hostile takeovers in Germany indicates that they did not act in shareholders' interests.

Moreover, Gillan and Starks (2003) stated that executives' activities are potentially constrained by numerous factors that constitute and influence the governance of the corporations that they manage. These factors include the board of directors (who have the right to hire, fire, and compensate managers), financing agreements, laws and regulations, labor contracts, the market for corporate control, and even the competitive

environment. In general terms, these factors can be thought of as either internal control mechanisms (such as the board) or external control mechanisms (such as the market for corporate control). Based on the explanation above, the hypothesis formulated is as follows :

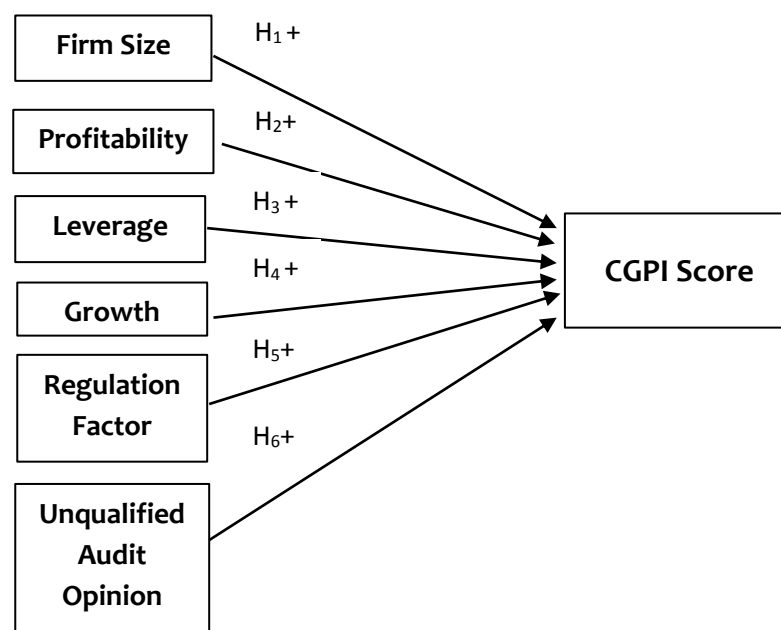
H5 : Regulation Factor has positive influence to CGPI Score

Unqualified Audit Opinion

The financial statements will be more reliable if the financial statements have been audited by the auditor. This auditor's opinion will be a reference for stakeholders to make business decisions. This auditor's opinion also illustrates how an entity is managed by management that implements good governance. According to Balessta and Meca (2005) that there is a positive relationship between the unqualified auditor opinion on corporate governance. So that it can be said that there is a tendency if the company gets a unqualified auditor opinion, corporate governance is also good.

Based on the explanation above, the hypothesis formulated is as follows;

H5 : Unqualified Audit Opinion has positive influence to CGPI Score



Research Model

3. Method

Population and Sample

The population of this research is all of Indonesian Public Companies listed in IDX during 2007-2012. The selection of the sample is using the purposive sampling method in order to get the samples with specific criteria. The criteria of sample selection are:

- All of the companies that are listed in IICG's CGPI (Corporate Governance Performance Index) score during 2007 – 2012.
- The companies that have been listed in IDX stock market during 2007 – 2012.

4. Results and Discussion

Table 1. The Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
CGPI score	94	65.94	91.98	81.2706	6.85972
FS	94	11.12	14.80	13.3515	.75735
PROFIT	94	-36.32	42.64	6.5102	10.03931
LEV	94	.37	11.17	3.5772	3.51959
GR	94	-.26	.55	.1670	.14393
RF	94	.00	1.00	.2660	.44421
Valid N (listwise)	94				

Source: Primary data processed, (2015)

Table.2 Descriptive Analysis of Dummy Variable

Variable	2007	2008	2009	2010	2011	2012
Unqualified Opinion	8	4	8	8	11	7

Firm Size variable has minimum value of 11.12 and maximum value 14.80 from 94 samples. The shorter range between these results concluded that data are not distributed randomly. However, it shows the standard deviation 0.75, which is below the mean 13.35, it shows that the data is homogeneous. Profitability variable is distributed randomly, supported with the minimum value of -36.32 and the maximum of 42.64 from 94 samples. As well as the standard deviation which is above the mean, 10.03 for standard deviation and 6.51 for mean. Leverage variable has the minimum value of 0.37 and the maximum of 11.17, the wider range between these results obtain that the data are distributed randomly. However, it shows the standard deviation 3.52 which is below the mean 3.58. Growth variable shows that the data are distributed randomly. It is supported by the minimum value of -0.25 and the maximum value of 0.55. standard deviation of this variable is below the mean which is 0.14 for standard deviation and 0.17 for mean. Descriptive analysis of dummy variable shows the amount of company who has unqualified audit opinion in a certain year.

Table 3. Kolmogorov-Smirnov Test

N		94
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	4,43288701
Most Extreme Differences	Absolute	,089
	Positive	,065
	Negative	-,089
Kolmogorov-Smirnov Z		,860
Asymp. Sig. (2-tailed)		,451

Source : Secondary data processed, (2015)

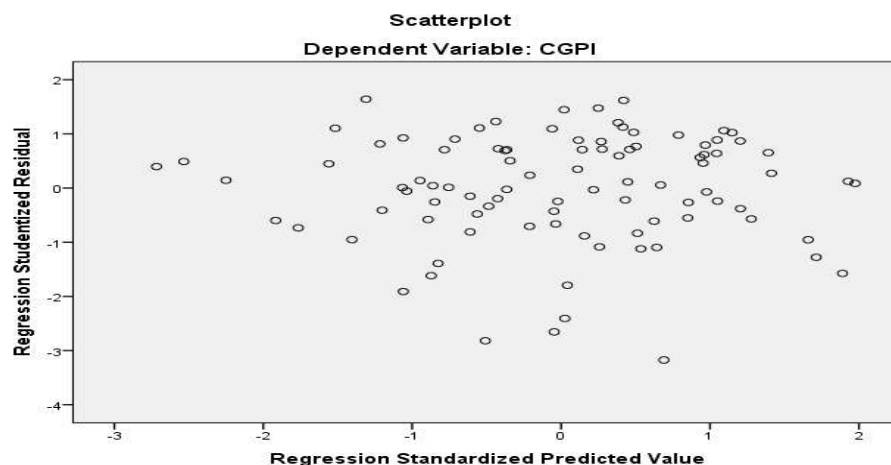
Based on normality test in table 3 above, it shows that asymptotic significance is 0.451 or 45,1%, which means the result is greater than 0.05 or 5%. Therefore, it can be concluded that the distribution of data is normal.

Table 4. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
1(Constant)		
Firm Size	.500	2.001
Profitability	.612	1.643
Leverage	.165	6.078
Growth	.917	1.090
Regulation Factor	.149	6.689
Unqualified audit Opinion	.824	1.214

Table 4 shows that there is no multicollinearity in all independent variables that is used in the regression model. It can be seen from the tolerance value > 10 % for variable firm size, profitability, leverage, growth and regulation factor. While the value of VIF in all if independent variable of Firm size, profitability, leverage, growth ,regulation factor and Unqualified Audit opinion are <10 .

Figure 1. Heteroscedasticity Test



Based on scatter plot in figure 1 , the points are spread randomly, do not form specific clear pattern , and the point spread above and below the y-axis. It can be concluded that there are no symptoms of heteroscedasticity in regression model.

Table 5. Multiple Regression Analysis

Variables	Koefesien	t	Sig
(Constant)	9,335	,799	,426
FS	5,124	5,772	,000
Profit	,123	2,030	,045

Lev	,072	,215	,830
Growth	1,031	,351	,727
RF	1,810	,654	,515
UAO	3,708	3,559	,001

a. Dependent Variable: CGPI

The result of multiple regression analysis formulas:

$$\text{CGPI} = 9.335 + 5.124\text{FS} + 0.123\text{PROFIT} + 0.072\text{LEV} + 1.031\text{GROWTH} + 1.810\text{RF} + 3.708\text{UAO} + e$$

Regression equation above shows that all variable have positive coefficient. Based on this regression equation, it can be interpreted that: Firm size (FS), Profitability (PROFIT) and Unqualified Audit Opinion (UAO) have positive regression coefficient or slope (B) and significance value is < 5%. It means that Firm size, profitability, and unqualified audit opinion have positive significance influence to CGPI score. Meanwhile, Leverage (LEV), growth (GROWTH) and leverage (LEV) have positive coefficient and insignificance value which are >5%. It means that Leverage, Growth and Leverage have positive insignificance influence to CGPI score.

4. Discussion

1. Firm size has positive influence to corporate governance perception index (CGPI) score. Based on the result of first hypothesis testing, it can be proven that firm size value strongly influence the corporate governance perception index (CGPI) score. This result is consistent with argument revealed by Durnev and Kim (2003) who argued that a bigger company tends to attract public attention and leads to increase the quality of corporate governance, in inverse smaller company will decline the level corporate governance. Similarly, Klapper and Love (2003) argued that that bigger company tends to have more agency problem, so they need stricter of good corporate governance mechanism.
2. Profitability has positive significant influence to corporate governance perception index (CGPI) score. The result show higher profitability value will stimulate management to increase the quality of corporate governance. This is in line with the research done by Rahmawati et al. (2007) that explains that profitability ratio has influence to company disclosure which is done by implementing good corporate governance.
3. Leverage has positive insignificance influence to CGPI score. This research result is contradictory with the research done by Darmawati (2006) and Ulum (2007) who found that leverage has no influence to good corporate governance implementation. Black, et al. (2003) and Gillan, et al. (2003) also found the negative relationship between leverage and quality of corporate governance. Baruchi and Fallini (2004) did not find the relationship between leverage and quality of corporate governance as well.

The leverage variable has positive insignificance influence to corporate governance perception index (CGPI) score. It is related to creditor and investor control. A company with higher value of debt should get more attention especially from creditors of their performance including corporate governance. In this case, creditors might not give the sufficient control related to corporate governance implementation of company.

4. Growth does not have influence to CGPI score. Theoretically, higher level of company growth will influence significantly CGPI score, the company with high level of growth will get more attention, pressure and be more responsible to investors in case of their corporate governance quality. Babic (2005) who argues that corporate governance in emerging countries can be explained by the following influences: 1) creation of key institutions that direct the success of the economy transformation based on the market; 2) efficient allocation of the capital and the development of the financial market; 3) attraction of foreign investments; and 4) contribution for the process of national development. This research results happens because, the investors do not really put any attention to the company who has great number of growth, they already trust on the quality of its corporate governance that is why growth does not have influence to CGPI score.
5. Regulation factor does not have influence to CGPI score. This research result is inline from some arguments and studies, such as Kaplan and Minton (1994) who concluded that banks are an important aspect of corporate governance in Japan. Boehmer, (1999) also reports that banks control a substantially higher fraction of corporate voting rights than cash flow rights (due to board memberships and control of proxy votes). This research result happens because Bank has its own management control risk regarding of creditors' safety. Bank will create and provide good corporate governance implementation as required by creditor. Therefore, there is no effect of regulation factor to banking company about corporate governance implementation.
6. Unqualified Audit opinion does not have influence to CGPI score. Audit Opinion is confidential information for investors, because it represents the information of company's condition given by independence party. The company who get unqualified audit opinion from the auditor tends to have better quality of corporate governance because they are assumed be success in making a qualified financial report. This research result is in line with research done by Balessta and Meca (2005) who stated that a company with unqualified audit opinion will have a better corporate governance.

5. Conclusion

Based on the statistical test, analysis and discussion that had been formulated, it can be concluded that firm size, profitability and unqualified audit opinion have positive influence to corporate governance perception index (CGPI) score. Meanwhile leverage, growth and regulation factor do not have influence to CGPI score.

6. Implication

Implication of this research, it suggests that obtaining an unqualified audit opinion becomes very important thing to enhance CGPI score for entity beside of having high profit.

Refferences

- Ang, R. (1997). *Buku Pintar Pasar Modal Indonesia*.
- Babic, Verica. "Corporate Governance Problem in Trasition Economies." *Ekonomist* 33, no.2 (2005): 133-143.
- Ballesta, Juan Pedro Sanchez; Garcia-Meca, Emma. (2005). Audit qualifications and corporate governance in Spanish listed firms. 20.

- Barucci, E., & Fallini, J. (2004). Determinants of Corporate Governance in Italy. *Working Paper* .
- Berle, J. A., & Means, G. C. (1932). *The Modern Corporation and Private Property*.
- Black, B., Jang, H., & Kim, W. (2003). Predicting Firms Corporate Governance Choices : Evidence from Korea. *Working Paper* .
- Boehmer, E. (1999). Corporate Governance in Germany: Institutional Background and Empirical Results. *Working Paper* .
- Byrnes, N., Dwyer, P., Henry, D., & Thornton, E. (Business week, 2003, september). Reform :Who's making the grade; A performance review for CEOs, boards, analysts, and others. *Journal of Corporate Finance* , 169-181.
- Chaghadari, M. (2011). Corporate Governance and Firm Performances. *International Conference on Sociality and Economics Development*, 10, 484 .
- Darmawati, D. (2006). Pengaruh karakteristik Perusahaan dan Faktor Regulasi terhadap Kualitas Implementasi Corporate Governance. *Simposium Nasional Akuntansi IX* .
- Durnev, A., & Kim, E. (2003). To Steal or Not to Steal : Firm Attributes. Legal Environment and Valuation. *Working Paper* .
- Franks, J., & C, M. (1998). Bank Control, Takeovers and Corporate Governance in Germany. *Journal of Banking and Finance* 22 .
- Gillan, S., Hartzell, J., & Starks, L. (2003). Industries, Investment Opportunities, and Corporate Governance Structures. *Working Paper* .
- Ira, M. M. (2005). Laying the Ground Work for Economic Growth. *Journals USA* .
- Isa, Y. M., Sanusi, Z. M., Suffian, M. T., and Omar, N. B. (2013). *Measuring Market Performance of Shariah-Compliant Companies: The Relevance of Earnings Management and Leverage*.
- Jandik, T., & Craig, R. (2005). The Evolution of Corporate Governance and Firm Performace in Emerging Market The Case of Sellier and Bellot. *ECGI Working Paper Series in Finance*.
- Jensen, M. (1986). Agency Costs of Free Cash Flow, Corporate Finance and Take Overs. *American Economic Review*, 76 , 323-339.
- Jensen, M., & Meckling, W. (1976). Theory of Firm : Managerial Behaviour, Agency Costs and Ownership Strucuture . *Journal of Financial Economics*, 39 , 1021-1039.
- Kaplan, S., & B, M. (1994). Appoinments of Outsiders to Japanese Boards; Determinants and Implications for Managers. *Journal of Financial Economics* 36 , 225-258.
- Klapper, L. F., & Love, I. (2002). Corporate Governance, Investor protection, and Performance in Emerging Market. *World Bank Working Paper.*, Retrieved, July 27, 2914.
- La Porta, R., Silanes, L., Shleifer, A., & Vishny, R. (1999). Investor Protection and Corporate Valuation NBER . *Working Paper Series 7403* .
- McKinsey & Company. (2002). Global Investor Opinion Survey on Corporate Governance. Revised on July 15, 2010 from HYPERLINK "http://www.mckinsey.com/" <http://www.mckinsey.com/>.
- Morck, R., & M, N. (1999). Banks and Corporate Control in Japan. *Journal of Finance* , 54 .
- Nissim, D., & Penman, S. H. (2001). *Financial Statement Analysis of Leverage and How It Informs*.
- Nugroho, S. (2004). *Analisis Faktor – Faktor Yang Mempengaruhi Kebijakan Dividen Pada Perusahaan Yang Terdaftar Di BEI*. Tesis Program S2 Magister Manajemen Universitas Diponegoro, Semarang.

- Nuryaman. (2012). The Influence of Good Corporate Governance Practices on the Company's Financial Performance. *Journal of Global Business and Economics*, 5 (1) , 1-17.
- OECD.(2004). OECD Corporate Governance Principles.Retrieved from July,10,2010,from<http://www.oecd.org/oecd/32/18/31557724.pdf>.
- OJK. (2014). BIBLIOGRAPHY \I 1033 *Penjelasan Atas Peraturan Otoritas Jasa Keuangan No.30/POJK05/2014*. (n.d.). Retrieved May 11, 2015, from Otoritas Jasa Keuangan Web Site: <http://www.ojk.go.id/Files/regulasi/ojk/pojk/POJK30.Penjelasan.pdf>
- Paramita, A. (2015). *The Influence of Corporate Governance Toward Firm's Value and Probability of Financial Distress : A Case in The Indonesian Stock Exchange Year 2007-2012*.
- Paramita, A. (2015). *The Influence of Corporate Governance Toward Firm's Value and Probability of Financial Distress : A Case in The Indonesian Stock Exchange Year 2007-2012*.
- Piot, C. (2001), "Agency Cost and Audit Quality : evidence from France ", *The European Accounting Review*, Vol. 10 No.3, pp. 461-99
- Prowse, S. (2002). Institutional Investment Patterns and Corporate Financial Behavior in the United States and Japan. *Journal of Financial Economics* 27 , 43-66.
- Rahmawati, Y, S., & N, Q. (2007). Pengaruh Asimetri Informasi Praktik Manajemen Laba Pada Perusahaan Perbankan Publik Yang Terdaftar di Bursa Efek Jakarta. *Jurnal Riset Akuntansi Indonesia* 10, No 1 , 68-69.
- Rajagopalan, N., & Zhang, Y. (2009). Recuring Failures in Corporate Governance : A Global Disease ? *Business Horizons*, 52 (6) , 545.
- Rodoni, A. dan Ali, H. (Dul Muid, 2012) (2010). *Manajemen Keuangan*. Edisi Pertama, Jakarta: Mitra Wacana Media.
- Shleifer, A., & Vishny, R. (1997). A Survey of Corporate Governance. *Journal of Finance* 52 (6) , 737-783.
- Suprayitno, G., Khomsiyah, Darmawati, D., & Yasni. (2005). *CGP Index Report 2005, Actualize Good Corporate Governance as a System*.
- Tahinakis, Panayiotis; Mylonakis, John; Daskalopoulon, Evaggelia;. (2010). An Appraisal of the Impact of Audit Qualifications on Firms' Stock Exchange Price Fluctuations. *Enterprise Risk Management* , 1.
- Ulum, B. (2007). *Pengaruh Karakteristik Perusahaan terhadap Kualitas Implementasi Good Corporate Governance*. Skripsi.Program Strata Satu. Universitas Brawijaya .