THE EFFECT OF GOOD CORPORATE GOVERNANCE MECHANISM TO FIRM'S PERFORMANCE (EMPIRICAL STUDY OF MANUFACTURING FIRMS LISTED ON IDX)

Irma, Yeni, Noorina, and H Ali Muktiyanto*

Abstract: *This study aimed to examine the effect of corporate governance indicators such as the board of directors, audit committee and audit quality on firm's performance which is proxied by Tobinsq and Altman Z Score. This study used manufacturing firms listed in the Indonesia Stock Exchange as samples and Structural Equation Modelling (SEM) was used to test the influence of corporate governance indicators on the firm's performance. From the test results found that the higher the commissioners to supervise the firm, the better the performance of the firm. As for the indicators of corporate governance, the audit committee, also has a positive effect on the performance of the firm. It means that the higher the audit committee supervising the firm, the better the performance of the firm. Meanwhile, corporate governance indicators of audit quality has a positive relationship to the performance of the firm but not significantly, meaning the quality audit of a firm doesn't effect the firm's performance. This is consistent with previous studies.*

Keywords: *Corporate Governance, Firm's Performance, Tobins q, Altman Z Score, the Board of Commissioners, the Audit Committee, Audit Quality.*

INTRODUCTION

Investors in making investment decisions will conduct an analysis of several factors that will determine the prospects assessed its investment in the future. The analysis includes fundamental macroeconomic factors such as inflation, interest rates and exchange rate. Besides, there are also other factors to consider such as political risk, market stability, as well as the legal framework for investor protection that would affect the investment climate in a country. Investors also need to invest in better information available information on public and privately owned information, especially information that is able to change the belief. That new information will form a new confidence among investors, especially in the capital market.

---

* Faculty of Economics, Universitas Terbuka, Jalan Cabe Raya, Pondok Cabe. Pamulang. Tangerang Selatan, Irma@ut.ac.id, Yeni@ut.ac.id, orin@ut.ac.idwasz

Information needed by the investors in the capital market, among others, regarding the merger, takeover, stock dividends, and the company's financial statements invested capital. But in recent years, investors also need information regarding the implementation of Corporate Governance (CG) in the company.

In the countries in Asia also, the application of the new Corporate Governanve started after the financial crisis in various countries in 1997-1998 that begins with the financial crisis in Thailand in 1997 and was followed by a crisis in other Asian countries that eventually turned into a global financial crisis Asia. The crisis occurred as a result of the lack of practice Good Corporate Governance (GCG) in Asian countries. The failure of some companies and the emergence of cases of malpractice in the financial sector due to the alleged practices are the result of poor corporate governance (CG).

Basically the principles of Good Corporate Governance (GCG) has the goal to give the performance of a company's progress. OECD (Organization for Economic Cooperation and Development cooperation develop a set of corporate governance principles, better known as The OECD Principles of Corporate Governance.

Corporate Governance principles include the principles of transparency, accountability, responsibility, independence, and equality or fairness, which aims to ensure the survival and growth of sustainable enterprises. These basic principles are certainly indispensable in the management of companies in which investor confidence into its main components. One of the factors needed to create an effective corporate governance, especially after the financial crisis in Asia is the role of the board of commissioners as the supervisor in the company. In the studies that have been done previously on the effect of the application of corporate governance are mixed results on the relationship between the composition of the board of management of the company with the company's performance.

Most studies find evidence of a positive relationship between board size on firm performance. As well as research conducted by Abeysekera (2008) against the company in Kenya, the number of commissioners who considered effective in the range of more than five people and bra of 14 people. Large board size is more effective when compared to a small board size (Nasution and Setiawan, 2007; and Abeysekera, 2008). And according to Andres, Azofra, and Lopez (2005), the number of board members greatly influence the control and supervision activities. The larger the board size is expected to supervise the management better. so as to improve the performance of the company.

However, several other studies found no effect or a significant relationship between the presence of the management board of the company with the company's performance, such as in research Bhagat and Black (1999) and research Hermalin and Weisbach (1991). Even research Eisenberg, Sundgren, and Wells (1998) found

a negative relationship between board size and corporate performance. The results are not conclusive is what makes it quite interesting to study in Indonesia and should also researched important factors that supported the GCG practices primarily affecting the company's performance. So that the concerns raised in this study is how the board, audit committee and audit quality effect on the firm performance.

The research objective to be achieved is to provide empirical evidence and know in depth on how far the mechanism of Good Corporate Governance (GCG) as characteristic board, audit committee, and audit quality has an influence on the level of corporate performance proxied by Tobins Q and Altman Z - Score on companies listed on the Indonesia Stock Exchange (Indonesia).

This research is expected to benefit the company or management to obtain an overview of the essential components of good corporate governance and the application of essential characteristics possessed by GCG in order to see the implications on the performance and health of companies, especially companies in the manufacturing industry.

THEORITICAL REVIEW AND HYPOTHESIS DEVELOPMENT

Corporate Governance Theories

According Siebens (2002), corporate governance is the science and art of balancing the distribution of the interests of all stakeholders and make a choice among a variety of options to support any kind of information to be a responsible company. Also according to Suta (2000), "*corporate governance refers to the set of rulesapplicable to the direction and control of a company*.

So that corporate governance is a set of rules that can be applied to the purpose and corporate control. The agency theory is difficult to apply and many obstacles and still is not enough, so we need a clearer concept of the protection of the stakeholders, the issues relating to conflicts of interest and agency costs that will arise, so it develops a new concept observe and regulate the interests of the parties with respect to the ownership and pengoperasionalan company known for the concept of corporate governance.

Definition of Good Corporate Governance

According FCGI (2001) notion of good corporate governance is a set of rules governing the relationship between shareholders, management (management) companies, creditors, government, employees and internal stakeholders and other esktern relating to the rights and obligations or the other words, a system that regulates and controls the company. While the Cadbury Committee is a set

of rules that define the relationship between shareholders, managers, creditors, government, employees, and those other stakeholders both internally and externally in relation to their rights and their responsibilities.

According Rahmawati et al (2006), Good Corporate Governance is defined as a set of rules and principles such as fairness, transparency, accountability, and responsibility, which governs the relationship between the shareholders, the management, the company (directors and commissioners), creditors, employees and stakeholders other relating to the rights and obligations of each party. Based on the definition or understanding of good corporate governance in the above it can be concluded that, in essence good corporate governance is the system, processes, and a set of rules governing the relationship between the various interested parties (stakeholders), especially in the narrow sense, namely the relationship between the shareholders, the board of commissioners, and the board of directors for the achievement of corporate objectives.

While the goal of good corporate governance is to create added value for stakeholders. Theoretically, GCG can increase the value of the company, by improving their financial performance, which may reduce the risk undertaken by the board of commissioners with decisions that benefit themselves and generally good corporate governance can increase investor confidence (Tjager et al., 2003).

Based on these definitions can be drawn a conclusion that corporate governance is essentially a system, process, and a set of rules governing the relationship between the various interested parties (stakeholders), especially in the narrow sense of the relationship between shareholders, board of commissioners, and the board of directors for the achievement of corporate objectives. Corporate governance is intended to manage these relationships and to prevent significant errors in corporate strategy and to ensure that the errors that occur can be corrected immediately.

Corporate Governance Principles

Organization of Economic Cooperation and Development (OECD) developed a set of corporate governance principles, or better known as The OECD Principles Of Corporate Governance. The basic principles of good corporate governance include:

1. Transparency (disclosure of information), namely transparency in the decision making process and openness in expressing material and relevant information about the company.

2. Accountability (accountability), the clarity of function, structure, systems, and corporate accountability so that organs are effective enterprise management.

3. Responsibility (accountability), ie conformity (compliance) in the management of the firm to the principles of healthy corporate and applicable legislation.

4. Independency (autonomy), which is a state where a professionally managed company with no conflict of interest and influence or pressure from management that is not in accordance with regulations and legislation in force and the principles of healthy corporate.

5. Fairness (equality and fairness), the fair and equal treatment in meeting stakeholder rights arising under the agreement and applicable legislation. (Kaihatu, 2006).

Corporate Governance Mechanism

The principles of corporate governance as described above is realized in the management of the company attempted to implement the following matters:

1. General Meeting of Shareholders
2. Openness and Transparency
3. The presence of independent commissioner.
4. BOC size
5. Audit Committee
6. Ownership Structure

LITERATURE REVIEW

1. The Effect of Commissioners Board to Firm Performance

The studies that have been done previously on the importance of the implementation of corporate governance, especially in the case studies conducted by other countries, used the term to describe the board of directors oversight function. Such as one of the studies referenced in this research is research conducted by Pathan (2007), which examines the size and independence of the board of directors and its influence on the company's performance on a bank in Thailand.

Results of this study indicate that board size smaller would be more effective in monitoring corporate managers, while the board with a larger size are more prone to agency problems between the owner and the company that runs the company's operations (management). Research Hermalin and Weisbach (2003) also suggests that councils with a smaller size would be more effective and can provide added value because it is easier to coordinate in it.

But Kiel and Nicholson (2003) found a significant positive relationship between the size of corporate boards and firm performance among Australian companies are great. It is also supported by research conducted by Abeysekera (2008) against the company in Kenya which states that the number of commissioners who considered effective in the range of more than 5 and less than 14 people. Large board size is more effective than a small board (Nasution and Setiawan, 2007), and Abeysekera (2008). Meanwhile, according to Andres, Azofra, and Lopez (2005) the number of board members greatly influence the control and supervision activities larger the board size is expected to supervise the better management so as to improve the performance of the company.

Pathan, Skully, and Wickramanayake (2007) concluded there is a significant positive effect between the proportion of independent directors with banking performance. Hadrat (2009) also examined the relationship CG index IICG study results in 2003, 2004, and 2005 and the company's operational performance. Measure of operational performance in-proxy-kan with Profit Margin, ROA, ROE, and ROI. Used as a control variable composition perusaah assets, growth opportunities, and firm size. To examine the relationship used multiple linear regression models. In contrast to research Klapper and Love (2002) and Darmawati, et al (2005), the results of this study do not provide evidence of a positive and significant relationship between the application of CG and firm performance. These results may be influenced by the limited number of samples using only 22 companies included in the top 10 rankings of IICG.

However, several other studies have found no relationship between board independence on firm performance or even bank there are few studies that found a negative relationship between board independence and corporate performance such as research Kiel and Nicholson (2003) and the research Filatotchev, Lien and Piesse (2005) which states that the independent commissioner negatively affect the performance of the company. Various studies conducted showed that there are significant results of independent directors on firm performance (both positive and negative).

2. The Effect of Audit Committee to Firm Performance

Another important component of the component that supports the implementation of good corporate governance, the audit committee (FCGI, 2001).In accordance with the Decision of the Chairman of Bapepam Number: kep.29/PM/2004, the audit committee is a committee established by the board of commissioners to carry out the task of supervision and management of the company. Research conducted by Xie, Davidson and DaDalt (2003) found that the audit committee is an important factor in the control of management. In that study, the average audit committee which is owned by the sample companies are 5 members in the range

of 2 to 12 members. Number of audit committee members influence the level of influence that can be given to the company, the size of the larger audit committees are expected to keep the bank with better performance.

While the study examined the effect of audit committee members are independent of the performance of the company or bank by Nasution and Setiawan (2007) and Li et al (2008). From the results of their study revealed that audit committee members are independent positive effect on firm performance. With the independent audit committee is expected to improve the company's performance.

3. The Effect of Audit Quality to Firm Performance

Audit is a systematic process to obtain and evaluate the evidence objectively, related to assertions of economic measures to measure the level of correspondence between the assertions with established criteria and then communicating the results to the parties concerned (Kell, 2001). Results of the audit process is the auditor's report (audit opinion), which is a report on the fairness of financial statements in accordance with accounting principles generally accepted. Audit will reduce the information asymmetry between company management and stakeholders by allowing outsiders to verify the validity of the financial statements. Kinney and Martin (1994) examined nine studies and found that the audit reduces the positive bias of the earnings and net assets before audited.

RESEARCH HYPOTHESIS

Based on the analysis of previous studies and the hypothesis in this study is expressed as follows:

H_1: The Board of Commissioners has an influence on the performance of the company.

H_2: The audit committee has an influence on the performance of the company

H_3: Audit quality has an influence on the performance of the company.

RESEARCH METHODS

Research Model

To determine the effect of the independent variables Commissioners, the Audit Committee and Audit Quality on the dependent variable firm performance (Tobins Q and the Altman Z-Score) then set up a model of the Structural Equation Model (SEM) to test the hypothesis 1 to hypothesis 3. Meanwhile, for the measurement model in this study using Confirmatory Factor Analysis (CFA) which indicates

a latent variable measured by one or more observed variables. In this case it is a latent variable that is measured while the company performance observed variables used to measure company performance variables are variables Board of Trustees, Audit Committee, and Audit Quality. Then the research model using CFA are as follows:
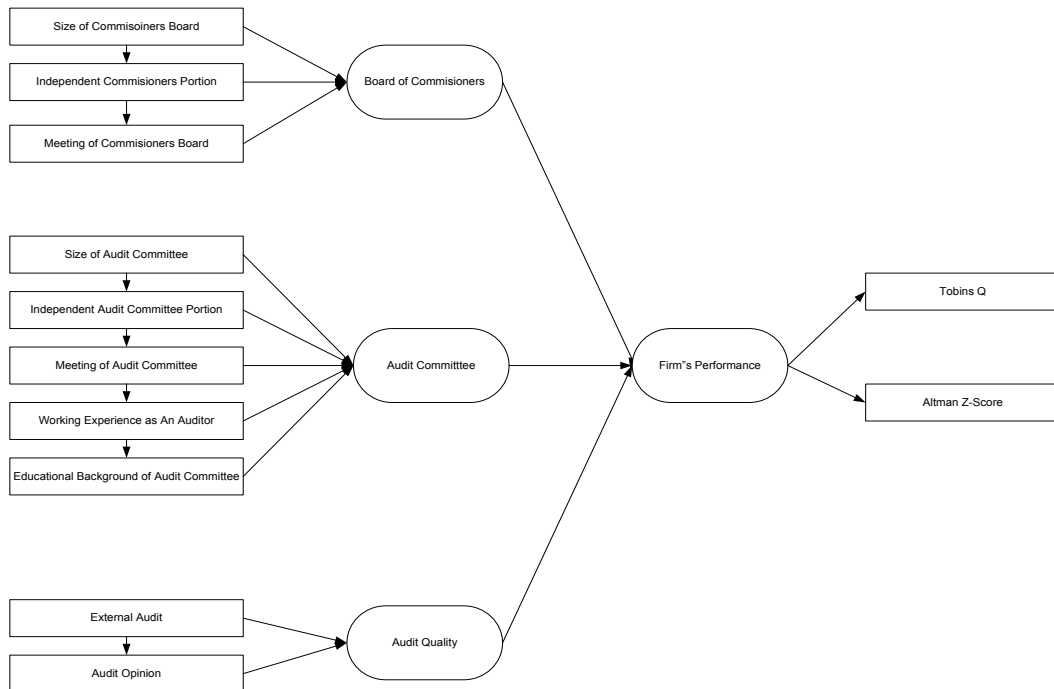
OPERATIONALIZATION OF VARIABLES

Latent Variables

Latent variable in this study is the Board of Commissioners, the Audit Committee, Audit Quality, and Firm Performance. Board of commissioners, in the path diagram shortened to dekom. This variable is measured using three variables: dekom 1, dekom 2, and dekom3. Audit Committee, inthe path diagram shortened to KOMDIT. This variable was measured by using 5 variables: KOMDIT 1, KOMDIT 2, KOMDIT 3, KOMDIT 4, and KOMDIT5. Audit Quality, in the path diagram is shortened to KUADIT. This variable is measured using two variables: KUADIT KUADIT 1 and KUADIT 2. Company's performance, in the path diagram shortened to KUAFIRM. This variable is measured using two variables: KUAFIRM 1, and KUAFIRM 2.

Observed Variables

Variables observed in this study consisted of 12 variables consisting of:

1. Three observed variables of Dekom. Dekom 1 measured using board size, Dekom 2 measured using the proportion of independent directors, and Dekom 3 was measured by using a number of meetings held by the board of commissioners for 1 year.

2. Five observed variables of Komdit. KOMDIT 1 was measured by using the number of audit committee, KOMDIT 2 measured using the proportion of independent audit committee, KOMDIT 3 measured using the number of audit committee meetings, KOMDIT 4 measured using audit committee members' experience working as an auditor, and measured using a 5 KOMDIT background education audit committee

3. Two observed variables OF kuadit. KUADIT 1 was measured by using a dummy the size of the Public Accounting Firm (KAP) conduct an audit of the companies sampled in this study. If the companies audited by Big 4 accounting firm (KAP big) then high audit quality, but if the companies audited by non-Big 4 accounting firm (KAP small) then the lower the audit quantity. KUADIT 2 was measured by using a dummy of the audit opinion provided by the external auditor. Value of 1 if the audit opinion is unqualified obtained (WTP), whereas if the audit opinion obtained WTP has a value other than 0.

4. Two variables are observed KUAFIRM. KUAFIRM 1 was measured by using the Tobins Q. KUAFIRM 2 was measured by using the Altman Z-Score

Method of Data Collecting

The data used in this research is secondary data, such as annual reports and financial statements of companies listed on the Indonesian Stock Exchange (BEI) in 2011-2012. Datais collecting from official site BEI (www. Idx.co.id), and the official website of each company. Data of the board of directors and audit committees derived from annual report companies, annual reports from 2011 until 2012. While the data of Tobins Q and Altman Z-Score (to measure the performance of companies) is collecting from the financial statements of the firms from 2011 until 2012 and OSIRIS data.

Sample Selection Method

Unit analysis of this study is a manufacturing company. While the population of this research is all companies in the field of manufacturing industries listed in the Indonesia Stock Exchange(BEI) in 2011-2012.

Hypothesis Testing

Testing in the study following the steps that apply in SEM by using maximum likelihood estimation (MLE). According to Hair et. al. (1998), evaluation of the degree of fit to the model is done through several stages, namely:

- Compatibility overall model (overall model fit)
- Compatibility measurement model (measurement model fit)
- Compatibility structural model (structural model fit)

RESULTS AND DISCUSSION

Based on data in Table 1, the descriptive statistics for each variable in this study are as follows:

1. Average Dekom 1 as measured by board size is as much as 3 people. While minimum is 3 and maximum is 8 people.

2. Average Dekom 2 as measured by the proportion of independent directors is 0,54 means the number of independent board members compared to the number of commissioners has the same proportions. While minimum Dekom 2 is 0567, and maximum is 0.78.

3. Average Dekom 3 as measured by the number of board meetings is 11 meetings a year and it is equal to the number of meetings required by the government, while minimum is 4 means that the company is only held meetings 4 times in a year while the maximum value is 43, means there is a company that held a meeting in a year as many as 42 times. This is more of that required by the government.

4. Average Komdit 1 were measured using a number of audit committee is 4 means that on average most companies have audit committee members (external and internal), while the minimum is at 3 meaning that there is a company that has three audit committee members. While the maximum number Komdit is at 6 means that there is a company that has 6 audit committee members.

5. On average Komdit 2 as measured using the proportion of independent audit committee is of 0.5 means the number of independent audit compared the number of audit committee members as a whole have the same proportion. While the minimum value is 0,677 means the number of audit committee members compared with the number of independent members of the audit committee as a whole has a smaller proportion or less. While the maximum value of 0.77 means the number of independent audit committee members compared to the number of audit committee members as a whole have nearly the same proportion.

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
dekom1	81	3.00	8.00	3.0000	.98742
dekom2	81	.54	.78	.5670	.75051
dekom3	81	4.00	42.00	11.00	.83629
komdit1	81	3.00	6.00	4.0000	.94868
komdit2	81	.677	.770	.5000	.94002
komdit3	81	3.00	15.00	13.0000	.66967
komdit4	81	.00	.67	.3300	.94002
komdit5	81	.00	.69	.3400	1.01120
kuadit1	81	.00	1.00	.6000	.35746
kuadit2	81	.00	1.00	.6000	.39087
Tobinsq	81	1.50	3.00	1.7037	.88663
altmanz	81	1.00	3.00	1.6049	.68336
Valid N (listwise)	81				

6. Average Komdit 3 as measured using the number of meetings of the audit committee is 13 times in one year, while meeting minimum is 3 times in a year while maximum is 16 times in excess of that required by the government.

7. On average Komdit 4 as measured using the working experience as an auditor of the audit committee members are 0,33 means that the average member of the audit committee who has a background in accounting education is 1/3 of the total number of members of the audit committee as a whole. The minimum is 0,00 meaning no audit committee members in the sample companies have the educational background of accounting. While it is the maximum value is 0.67 means that the number of audit committee members who have the educational background of accounting 67% of the total number of members of the audit committee as a whole.

8. The average Komdit 5 are measured using the educational background of the audit committee is 0,34 means that the average member of the audit committee who has experience as an auditor is 1/3 of the total number of members of the audit committee as a whole. While the minimum value is 0 meaning no audit committee members in the sample companies that have experience as an auditor. The maximum value is 0.690 means that the number of audit committee members who have experience as an auditor for 69% of the total number of members of the audit committee as a whole.

9. On average Kuadit 1 as measured using the dummy variable of the size of the Public Accounting Firm (KAP) which conduct an audit of banks into the sample amounted to 0.60 means that 60% of the companies sampled in this study audited by KAP Big Four and 40 % remaining Non audited by KAP Big Four.

10. Average Kuadit 2 were measured using a dummy variable of audit opinion is 0.60 means that 60% of the companies obtain audit opinion "unqualified" of the external auditor. The remaining 40% get audit opinion other than "unqualified".

Stages and Testing Results

1. **Suitability of Overall Model:** SEM analysis of the structural model incompatibility testing begins with the overall model that is seen by the indicators Goodness-of-fit index (GFI) statistics of output LISREL(Hair et al., 1995). Overall summary of the critical value of the overall suitability testing model can be seen in Table 2.

Table 2
The Result of Suitability Test of Overall Model

Suitibility Model Criteria	Suitability Level Indicator	Estimation Model Result	Suitability Model Level
RMSEA	RMSEA < 0,08	0,070	*Good fit*
P (**close fit**)	P < 0.05	0.042	*Good fit*
ECVI	Smaller values of Independence and closer to the Saturated Model	$M^* = 1.74$ $S^{**} = 1.95$ $I^{***} = 16.14$	*Good fit*
AIC	Smaller values of Independence and closer to the Saturated Model	$M^* = 139.10$ $S^{**} = 156.00$ $I^{***} = 1291.32$	*Good fit*
CAIC	Smaller values of Independence and closer to the Saturated Model	$M^* = 240.93$ $S^{**} = 420.77$ $I^{***} = 1332.05$	*Good fit*
NFI	NFI > 0,90	0.94	*Good fit*
NNFI	NNFI > 90	0,96	*Good fit*
CFI	CFI > 0,90	0,97	*Good fit*

IFI	IFI > 0,90		0,97	*Good fit*
RFI	RFI > 0,90		0,91	*Good fit*
RMR	Standardized RMR < 0.05		0.026	*Good fit*
GFI	GFI >0,90, *good fit*; 0.90 < GFI > 0.80, *marginal fit*		0,86	*Marginal fit*

By looking at the over all results of the estimation based on existing criteria, the overall obtained good grades fit. So that the results of an analysis of the reliability of the overall output for models testing in good fit.

2. **Suitability of Measurement Model:** Sustainability of model measurements were performed separately for each construct through evaluation of the construct validity and reliability (Wijanto, 2006). This testing phase aims to ensure that the constructs used in this study meet the criteria of valid and reliable. The level of validity and reliability of each construct of observed variable scan be seen in Table 3. Based on the data in the table it can be concluded that the standard factor loading of each variable observed greater than 0.70 then the validity of each variable is good. Meanwhile, if viewed from the variance extracted all variables observed were greater than 0:50, it can be said that each variable has a good level of reliability.

Table 3
Validity and Reliability Model List

No	Variable Observed	SLF	Error	T-value	Description
1.	Tobins Q	0.840	0.097	3.890	Good Validity and Reliability
2.	Altmanz	0.640	0.095	6.730	Good Validity and Reliability
3.	Dekom 1	0.970	0.080	12.21	Good Validity and Reliability
4.	Dekom 2	0.630	0.610	0.913	Good Validity and Reliability
5.	Dekom 3	0.790	0.370	0.945	Good Validity and Reliability
6.	Komdit 1	0.940	0.076	12.31	Good Validity and Reliability
7.	Komdit 2	0.930	0.075	12.28	Good Validity and Reliability
8.	Komdit 3	0.550	0.061	8.910	Good Validity and Reliability
9.	Komdit 4	0.910	0.077	11.83	Good Validity and Reliability
10.	Komdit 5	0.980	0.083	11.84	Good Validity and Reliability
11.	Kuadit 1	0.450	0.150	2.960	Good Validity and Reliability
12.	Kuadit 2	0.270	0.100	2.160	Good Validity and Reliability

3. **Compatibility of Structural Model:** The analysis was carried out on the structural equation coefficients by specifying certain level of significance. Analysis of this structural model to test the hypothesis proposed in this study. For a significance level of 0.05, the value t of structural equation must be greater or equal to 1.96 or greater for practical purposes equal to 2 (Wijanto, 2008).

4. **Structural Equation Model:** Structural equation model to prove the H1, H2, and H3 are as follows:

KUAFIRM = dekom+0:250:27**KOMDIT+0073*KUADIT,

Errorvar. =0.83, R ²=0:16

(0.11) (0.12) (0.13) (0.19)

2.39 2.10 0.58 4.39

From the equation above in the structural model can be seen in the numbers at the bottom, all the coefficients have significant t values, except for the latent variables Quality Audit (KUADIT). This equation is an equation for the hypothesis first, second and third. It can be concluded that the hypothesis in this study is to H1 and H2 results proved significant. As for H3 results proved insignificant.

Not proven the hypothesis significance to 2, it can be proven from descriptive statistics on variables external audit firms sampled. More than 60% of the companies sampled in the audit by the Big Four while remaining in the audit by the external audit of non big four. What it means is, although not in the big four audit by the firm will not affect the company's performance. And from descriptive statistics shows that the 60% sample companies get about WTP (unqualified), while the rest get outside opinion WTP.To assess how well the coefficient of determination of structural equation, will be seen from the amount of R2 (Wijanto, 2006). Lisrel test results that can be seen in the Reduced Form Equation R2 values obtained for structural equation in this study. R2 value in this research model is at 0,16, which means this model can only explain 16% of the change in the latent variable firm performance. Overall value t of the three hypotheses proposed in this study results can be summarized in Table 4 below:

Table 4
Values *t-value* for each hypothesis

Hypothesis	Path	Estimation	t-value	Conclusion
1	DEKOM KUAFIRM	0.27	2.39	Significant
2	KOMDITKUAFIRM	0.25	2.10	Significant
3	KUADIT KUAFIRM	0.073	0.58	Not Significant

Results path diagram in Figure 3 below, shows the structural model generated from the out putlisrel.

Chi-Square=79.10, df=48, P-value=0.00313, RMSEA=0.090
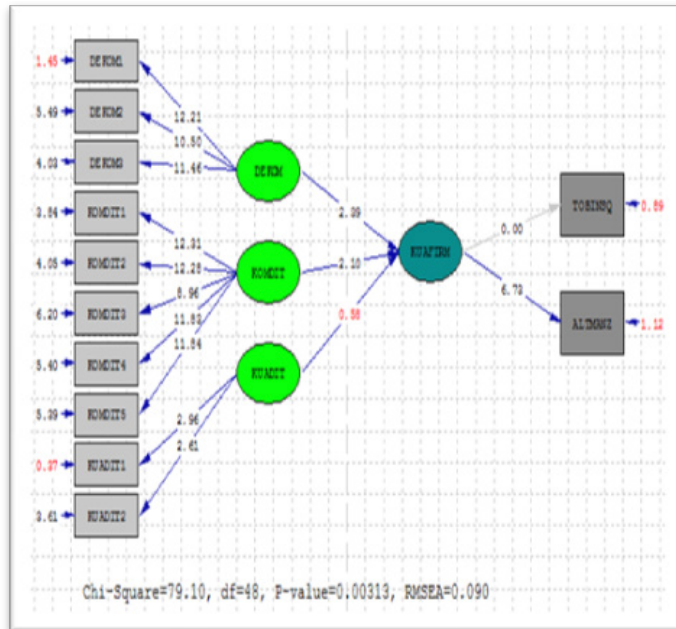
Analysis of Test Results

Based on structural equation model produced, confirming that the commissioners proved significantly positive effect on company performance. This means that greater over sight is conducted by the board of directors on the company's operations, the higher the performance generated by the company. The results of this study reinforce the results of previous studies that Rosentein and Wyatt(1990), Daltonetal (1999), Nasution and Setiawan (2007), and Abeysekera (2008).

The second hypothesis which examines the effect of the audit committee of the company's performance also proved a significant positive result. Means the greater the performance of the functions of the audit committee on audit operations of the company, the higher the performance generated by the company terse but. Hasil reinforces previous research that Herwidayatmo (2000), Xie, Davids on and DaDalt (2003), and Abeysekera (2008). The third hypothesis that evaluated the effects of aquality audit of the company's performance results have proven positive, but not significantly. Meaning is a quality audit of a company, the better the performance generated by the company. These results reinforce the results of previous studies such as research Jensen and Meckling(1976), and Watts and Zimmerman (1986).

CONCLUSION

1. This research is motivated by previous studies conducted related to the effect of the application of corporate governance on corporate performance. The purpose of this study was to see how far the application of corporate governance can be good or bad effect on the company's performance. This model uses the data 81 companies belonging to the manufacturing industry.

2. Hypothesis 1 is to test whether the board of directors as one of the indicators in the corporate governance affect the company's performance proved significantly and look at the output results of structural equations with positive estimated value which means commissioners positive effect on the performance of the bank. The better the performance of the board of commissioners, the better the performance of the banking system.

3. Hypothesis 2 that tests whether the audit committee as one of the indicators in the corporate governance affect the performance of the company, proved a significant effect, and look at the output results of structural equations with positive estimation value means a positive effect on the audit committee of the company's performance. The better the performance of the board of commissioners, the better the performance of the company.

4. Hypothesis 3 that test whether audit quality as one of the indicators in the corporate governance affect the performance of the company, the results are evident and visible on the output results of structural equations with positive estimation value means the positive effect of the audit committee on the performance of the bank. The better the performance of the board of commissioners, the better the performance of the banking system. However, this effect was not significant.

Suggestion

Based on these results it is expected that in future studies to increase the number of samples and widens years of observation (firm years) and add a variable incorporate governance suspected of having an influence on the performance of the company. By entering these variables can be expected research results more in line with the facts on the ground.

Limitations Research

This study has the limitations, namely in terms of the number of respondents who used a bit so it can not be tested by the method of weighted least square (WLS) which is likely to give different results. In addition it has not done respesifikasi to this research model.

References

Abeysekera, I. (2008). The role of corporate governance in intellectual capital disclosure in Kenyan listed firms. www.ssrn.com. 30 Augusts 2011.

Altman, EI. (1968). Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bangkruptcy, *Journal of Finance*, September.

Adams, R. & Mehran, H. (2003). Is corporate governance different from bank holding companies? *FRBNY Economic Policy Review*, 9, pp. 123-142.

Andres, P., Azofra, V., Lopez, F. (2005). Corporate boards in OECD countries: size, composition, functioning and effectiveness. *Journal of Corporate Governance*, 13 (2): 197-210.

Bhagat, S. & Black, B. (1999). The uncertain relationship between board composition and firm performance. *Business Lawyer*, 54, pp. 921-963.

Brainard, W, and Tobin, J. (1968). "Pitffals in Financial Model Building", *American Economic Review,* Vol. 5 8(2), pages 99-122.

Brick E, Ivan dan Chidambaran N.K. (2007). Board Meetings, Committee Structure and Firm Performance. http://ssrn.com. 21 Augusts 2011.

Djalil, S.A. (2002), "Pentingnya Implementasi *Good Corporate Governance* untuk Korporasi Indonesia", *Presentasipadateniukonsultasiangggota AEI.*

Fiakas, D (2005). Tobin's q: Valuing Small Capitalization Companies, *Crystal Equity Research*, April.

Hermalin, B. E. & Weisbach, M.S. (2003). Board of directors as an endogenously determined institution: a survey of the economic literature. *FRBNY Economic Policy Review,* 9, pp. 7-26.

Kaihatu, Thomas S. (2006). "Good Corporate Governance danPenerapannya diIndonesia." *Journal Manajemendan Kewirausahaan* 8:1, hal: 1-9.

Klapper, L. and Love (2002). *Corporate Governance, Investor Protection and Performance in Emerging Markets.* World Bank Working Paper.

Kusumastuti, Sari, Supatmidan Perdana Satra. (1998). "Pengaruh Board Diversity Terhadap Nilai Perusahaan dalam Perspektif Corporate Governance."*Journal Akuntansidan Keuangan* 9:2, hal: 88-98.

Kole, S. (1997). The complexity of compensation contracts. *Journal of Financial Economics*,43 (1), pp. 79-104.

Lie, Jing, Richard Pike, dan Roszaini Haniffa. (2008). Intellectual Capital Disclosure and Corporate Governance Structure in UK Firms. *Accounting and Business Research*, 38 (2): 137-159.

Lindenberg, E.B, and Ross, S.A. (1981). "Tobin's q Ratio and Industrial Organization". *Journal of Business,* 54 (1), 1-32.

Macey, Jonathan R., &O"Hara, Maureen. (2003). The corporate governance of banks. *FRNBY Economic Policy Review*.

Nasution, Marihotdan Setiawan, Doddy. (2007). Pengaruh corporate governance terhadapmanajemenlaba di industriperbankan. Simposium Nasional Akuntansi X. Makassar. Ikatan Akuntan Indonesia (IAI).

Nur Sayidah. (2007). "Pengaruh Kualitas *Corporate Governance* Terhadap Kinerja Perusahaan Publik". *JAAI* Volume 11 No. 1. Juni: 1-19.

OECD. (1998). "Corporate Governance: Improving Competitiveness and Access to Capitalin Global Markets." OECD Report.

Pathan, Shams, Skully, Michael T., and Wickramanayake, J. (2007).*Board Size, independence and Performance: An Analysis of Thai Banks*. Asia-Pacific Financial Markets, Vol. 14, No. 3, pp. 211-227, School of Business, Bond University, Monash University – Department of Accounting and Finance.

Rahmawatidkk, (2006). Pengaruh Asimetri Informasi Pada Praktek Manajemen Laba Pada Perusahaan Perbankan Publik yang Terdaftar Pada Bursa Efek Indonesia. Seminar Nasional Akuntansi 9, Padang.

Siebens, H. (2002), "Concepts and Working instruments for corporate governance", *Journal of Business Ethic. 39*, 109.

Suta, 1 P.G.A. (2000), *Foundations of Our Capital Market,* Jakarta: Yayasan Sad Satria Bhakti.

Tjager, I. Nyoman et.el. (2003). Corporate Governance: Tantangandan Kesempatanbagi Komunitas Bisnis Indonesia. PT Prenhallindo, Jakarta.

Tobin's, James, (1969). "A General Equilibrium Approach to Monetary Theory", *Journal of Money, Credit and Banking* (February), 12- 29.

Xie, Biao, Wallace N. Davidson, Peter J. Da Dalt. (2003). Earnings management and corporate governance: the role of the board and the audit committee. *Journal of Corporate Finance* 9: 295– 316.

Zhuang, J., David, E. and Webb, D. (2000), *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines and Thailand,*. Manila: Asian Development Bank.