

THE EFFECTS OF SIZE, LEVERAGE, PROFITABILITY, OWNERSHIP CONCENTRATION AND INVESTMENT OPPORTUNITIES TOWARD CORPORATE GOVERNANCE QUALITY OF LISTED COMPANIES IN INDONESIA STOCK EXCHANGES

Ek Wahyudi*, Asmaul Nikmah Khirom* and
Waspodo Tjipto Subroto*

Abstract: This study aims to examine and analyze the factors that affect the level of quality of corporate governance in Indonesia. The independent variables in this study are firm size, leverage, profitability, ownership concentration, and investment opportunities. Quality of corporate governance in this study were measured using a score IBCG Rating. Sampling was done using purposive sampling technique. There are 35 companies as samples in this study. The analysis technique used is multiple linear regression analysis, is used to test the effect of independent variables on the dependent variable. The results showed that only firm size variable which affects the quality of corporate governance. Firm size has a positive influence on the quality of corporate governance. This shows that the larger the size of the company will have an impact on the amount of information that can be disclosed to the public, so as to increase the degree of transparency in corporate governance quality improvement.

Keywords: Corporate Governance, Firm size, leverage, Profitability, Ownership Concentration, Investment Opportunities.

INTRODUCTION

Practice of good corporate governance be able to improving company value and investor trust (Tjager, 2003: 4). The implementation of corporate governance is differ in providing differ result in each company. Gurbuz *et al.* (2010) mentioned that several largest companies in the world such as Enron Corporation (USA), World.com, Adelphia, and Parmalat (Italia) get involved in financial reparationg scandals although these companies had implemented corporate governance concept. This corporation scandal show that corporate governance implementation in some world corporation classified bad reputation.

* Senior Lecture in Faculty of Economic, State University of Surabaya, E-mail: waspodotjipto@yahoo.co.id

The survey results conducted by CLSA (Credit Lyonnais Securities Asia) in 2004, puts Indonesia at the lowest rank in the corporate governance quality among Asian countries, with a value of 4.0 (Kaihatu, 2006). The other surveys result conducted by GMI, positioned Indonesia under the terms of the application of corporate governance with a total index of 3.83. On the other hand, a survey report of Political & Economic Risk Consultancy (PERC) agency in 2010 stated that Indonesia is the most corrupt of 16 Asia-Pacific countries that would like to investment destination of businessmen (republika.com, 2014). In line with the results of the PERC survey, a survey by Transparency International (TI) said that of the 176 countries surveyed in 2013, Indonesia was on ranking 114th with a score of 32 (transparancey.org, 2014).

According to Monks (in Kaihatu (2006), Good Corporate Governance (GCG) definitively a system to regulate and control companies that create value added to all stakeholders. A well-managed company with good performance, it will work better than a poorly managed company. It can be interpreted that good corporate governance (GCG) application is able to influence the company's performance, especially financial performance and corporate value.

Good corporate governance application should be done by all companies in various sectors, including real estate and construction. Development of investment in the Indonesia's property and construction sector is currently booming. Central Board of Indonesia Real Estate (REI) stated that Indonesia is becoming an investment destination in property (investor.co.id, 2014). PricewaterhouseCoopers (PWC) and the Urban Land Institute (ULI) projected that in 2021, Indonesia will positioned the world's seventh state investment options in the property sector beat other Asian countries (investor.co.id, 2014). Increased investment in the property sector will trigger companies to provide information concerning the company in order to attract investors to invest in the company. Therefore, it takes corporate governance as a means to give confidence to investors to return from their investment funds (Shleifer and Vishny, 1997).

The quality of corporate governance implementation is vital for all companies in different countries. However, there are differences between the implementation quality of corporate governance of a company with other companies. The differences of corporate governance quality implementation is influenced by several factors that can vary associated with control benefit variation and costs resulting from the company manager (Gillan *et al.*, 2003).

There are several previous studies that tried to reveal the factors that influence the corporate governance quality. Klepper and Love (2002) and Ariff *et al.* (2007) in their research that uses the *total assets natural logarithm* as measures of firm size

found that firm size effect on corporate governance. Agency theory explains that the large-sized companies are more likely to have greater agency problems, thus requiring corporate governance as a bridge between the agent and the principal to reduce agency problems. Research results of Silveira *et al.* (2010) and Brusleri and Gabteni (2011) showed different findings. Both studies concluded that firm size does not affect corporate social disclosure.

Agency theory also explains that the higher of leverage level of the company, will create incentives to improve disclosure to stakeholders in the form of traditional media or other media disclosure that is the corporate information disclosure via the website (Jensen and Meckling, 1976). Research by Black *et al.* (2005) and Silveira *et al.* (2007) found that the leverage measured by DER positive effect on corporate governance. Different results shown by studies of Da-Silva and Christensen (2004) and Arif *et al.* (2007) found no association between leverage and the corporate governance quality.

Signalling theory suggests that profitable companies have an incentive to disclose more information to give a positive signal for the stock market participants (Aljifri *et al.*, 2003 in Yusdiana, 2013). Uwuigbe (2011) and Qu *et al.* (2013) in their research using ROA as a profitability proxy, found that there is a positive and significant correlation between company profitability and corporate social level disclosure. Contrary to these findings, the study of Da Silva and Christensen (2004), Arif *et al.*, (2007) and Silveira *et al.*, (2007) found that there was no correlation between profitability and corporate governance quality.

Another factor affecting corporate governance quality is ownership concentration. Gillan *et al.* (2003) and Durnev and Kim (2005) states that ownership concentration were measured using the largest stock holdings (controlling) affecting corporate governance. Results were also supported by Darmawati (2006) which states that corporate governance is affected by concentrated ownership. Jensen and Meckling (1976) explains that the company manager of the company's ownership level is high, then it is likely to make discretionary / expropriation of the company's resources will be reduced. Drobotz *et al.* (2004) stated that the ownership concentration is non-linearly related to corporate governance. Meanwhile, Park and Nugroho (2011) in their research found no relationship between ownership concentration and corporate governance quality.

Another characteristic of companies that affect corporate governance are investment opportunities. Durnev and Kim (2005) found a relationship between investment opportunities and corporate governance. The research was supported by Meitha and Tuzahro (2009) which states that investment opportunities influence corporate governance. Dissenting opinion came from research Gillan *et al.* (2003)

and Darmawati (2006) which states that the investment opportunity does not affect implementation quality of corporate governance.

Based on the phenomenon and research gap, this study used independent variable firm of size, leverage, profitability, ownership concentration, and investment opportunities are considered relevant for use as affecting factors the corporate governance quality. The purpose of this study was to determine the effect of firm size, leverage, ownership concentration, and investment opportunities for company corporate governance quality in property sector, real estate, and building construction in Indonesia using Internet Based Corporate Governance (IBCG) Rating as a measure corporate governance quality.

THEORETICAL REVIEW

Corporate Governance Quality

Corporate governance represents a concept proposed for improving the company's performance through supervision or monitoring management performance and ensure management accountability to stakeholders based on the regulatory framework (Nasution and Setiawan, 2007). The concept of corporate governance is proposed in order to achieve a more transparent company management company for all users of financial statements, which leads to implementation of corporate governance quality.

Corporate governance is the system that regulate and control companies that create value added to all stakeholders (Monks, 2003 in Kaihatu, 2006). Corporate governance is closely related to how to make investors confident that: (1) managers will benefit them, (2) the manager will not abuse or invest in unprofitable projects. Investor confidence needs to be created associated with the capital that has been invested by the investor.

The main principles of good corporate governance that have been established and designed by the OECD include (Tjager *et al.*, 2003: 53), namely Transparency, Accountability, Responsibility, Independence, as well as Fairness. The benefits that can be gained with implementation of good corporate governance concept expressed by FCGI, i.e. minimize agency cost, minimize cost of capital, increase company value stock, and enhance company image (fcgi.com, 2014).

Agency theory

Perspective agency relationship is the basis that used to understand corporate governance concept. Jensen and Meckling (1976) describe the separation concept between ownership and company control. This separation will create agency problems because of the difference in interest between the shareholders as a

principal and as an agent management. Thus, agency theory is used as a basis for understanding corporate governance concept.

Agency theory describes about contractual relationship between principal and agent in this case management (manager) (Jensen and Meckling, 1976). Taman and Nugroho (2011) say that the managers as corporate managers more aware of internal information and the company's prospects in the future compared to the owners (shareholders). Thus, the manager is obliged to give a signal about the company conditions through accounting information disclosure such as financial reports to the owner as a party prone to uncertainty.

Signal Theory

Signalling theory states that the high profitability related with a good company prospects that will be prompted investors to increase demand for the company's stock (Bhattarcarya, 1979 Yusdiana, 2013). In addition, profitable companies have a higher intensity to disclose more information to give a positive signal for the stock market participants. Thus, the profitability of companies is an indicator of good management of the company's management, so that management would tend to reveal more information when there is increase on company profitability.

IBCG Rating

IBCG (Internet Based Corporate Governnace) Rating is the rating of Internet-based corporate governance. Internet Based Corporate Governance (IBCG) Rating developed by Grzybkowski and Wojcik (2006). Rating IBCG measurement consists

Table 1
IBCG Rating Criteria

	<i>IBCG Category</i>	<i>Max point</i>	<i>Max Weighted Points</i>
1	Shareholders	34	30
2	Transparancy	32	30
3	Board of Director	26	15
4	Executif Management	18	15
5	Technical accessibility	10	10
	Total	120	100

Source: Grzybkowski and Wojcik (2006)

Corporate Governance Quality in this research measured with equation:

$$IBCG\ Weighted = ((score/max\ point) \times 100\%) \times max\ weighted$$

Description:

IBCG Weighted : total score of IBCG

Score : assessment scores IBCG items Rating

Max point : maximum poin of IBCG Rating

Max weightd points : maximum weight of IBCG Rating

of 120 criteria are classified into five main categories, namely shareholders, transparency, board of directors, executive management, and technical accessibility.

The system of Rating IBCG assessment on each criterion based on the response of yes / no, with one point for yes and zero for no response. If the desired information from the required criteria exist, then the points obtained is the number 1, but if none of the criteria so the point obtained is 0.

Here is a table that shows the number of questions, the maximum number of points for each category as well as the maximum weighted points count.

Firm Size

The company size is an important determining factor in the information disclosure about the company (Ben-Amar and Boujenoui, 2006). Large companies will be more transparent than small firms. This is associated with agency theory that explains that the large-sized companies are more likely to have greater agency problems, thus requiring corporate governance as a bridge between the agent and the principal to reduce agency problems.

Firm size is an independent variable that is widely used in research related to corporate governance. This variable can be measured by total assets and total sales by using natural logarithm. Klapper and Love (2002) which uses total assets as a proxy for firm size, found that the corporate governance quality has a relationship with the variables associated with information asymmetry delivery. Firm size in this study was measured by the equation:

$$\text{SIZE} = \log \text{total assets}$$

Leverage

Sudana (2009: 207) suggests that leverage arising out of the company in its operations using the assets and financial resources pose a constant load for the company. The leverage arising from the use of debt funding decisions referred to by financial leverage. Leverage factor is the ratio between the book value of total debt and total assets or the ratio between total debt to capital.

Leverage ratio can be measured by the ratio between debt and assets, which measures the portion of assets financed using debt, or the ratio between debt and equity capital which describes the ability of own capital guarantee the debt. This study uses the ratio of debt and equity capital or debt to equity ratio (DER). DER ratio can represent the company's capital structure which describes the ability of own capital guarantee the long-term debt (Moeljadi, 2006). Leverage in this study was measured using equation:

$$\text{DER} = \frac{\text{Long – term debt}}{\text{Own Capital}},$$

Profitability

Profitability ratio is a ratio that measures a company's ability to generate profit at the level of sales, assets, and capital. There are three ratios which can be used to measure the profitability ratio, i.e. the ratio of profit margin, basic earning power, return on assets (ROA) and return on equity (ROE). In general ROA and ROE were lower could indicate inefficiencies in the management and use of capital assets (Sudana, 2009: 26).

The company's profitability is an indicator of good corporate governance, so that the management will tend to reveal more information when there is an increase in the companies profitability (Singhvi and Desai, 1971 in Almilia, 2008). ROA in this study was measured by the equation:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{total asset}}$$

Ownership Concentration

Ownership concentration describes how and whoever takes control of the whole or majority ownership of the company as well as wholly or largely in control of the business activities of a company (Taman and Nugroho, 2011).

A company with concentrated ownership means that shareholders can influence the decision making managers in order to serve his own interests as the majority shareholder has more power against the decision at the AGM (Pamungkas and Muid, 2012). Ownership concentration measurements used in this study refers to equation developed by ICMD in the Taman and Nugroho (2011) research, namely:

$$\text{Owner concentration} = \frac{\text{total largest shareholder}}{\text{total company shares}} \times 100\%$$

Investment Opportunities

Rokhayati (2005) says that investment opportunities (IOS) was first introduced by Myers in 1997. IOS according to Myers is a combination of the assets owned by the company (assets in place) and investment selection in the future (Myers, 1977 in Rokhayati, 2005). Investment opportunities may include capital expenditures for

the introduction of new products or to expand the market reach of existing products, alternative spending to reduce restructuring cost of the company as well as the favorable choice of accounting policies (Taman and Nugroho, 2011). While, according to Gaver and Gaver (2005) in Rokhayati suggests that investment choices are not only shown by the projects supported by research and development activities, but also company's ability to manage opportunities to take advantage. This study uses ratio of Market Value to Book Value of Asset Ratio (MVABVA) to measure investment opportunities, with the following equation:

$$\text{IOS} = \frac{\text{assets} - \text{equity} + (\text{circulating shares} \times \text{closing price})}{\text{total asset}}$$

The effect of firm size on corporate governance quality

Agency theory explains that the large-sized companies are more likely to have greater agency problems, thus requiring corporate governance as a bridge between the agent and the principal to reduce agency problems. The amount of information published on the company increase suitable with the size company enhancement, due to large-sized companies tend to be in contact with many parties and become the public spotlight, so they are required to provide as much information as possible (Meitha and Tuzahro, 2009).

Several studies have described that firm size is a key variable that had a great effect in the corporate governance quality. It is based on the statement of Ariff *et al.* (2007) in the study were only discovered the effect of firm size on the corporate governance from eight variables used. The results were also supported by Yuen *et al.* (2009), Uwuigbe (2011), as well as Bazina and Vural (2011) which uses Ln total assets as measures of firm size to say that the firm size as a determinant variable affecting the company in voluntary disclosure in the information needed by stakeholders and Investors prospect in optimal decision making. Their research found a significant effect on voluntary disclosure of companies that led to the principle of transparency in corporate governance.

The different results of studies demonstrated by Silveira *et al.* (2010) who dubious relationship size as a potential determinant of the corporate quality endogenously. This is because the effect of firm size on corporate governance is ambiguous, because the larger companies it is possible to have a greater agency problems (Ariff *et al.*, 2007).

In line with these studies, Almilia (2008) and Brusleri and Gabteni (2011) found no effect of firm size on company voluntary disclosure. This is because the status and size of the company explain how the importance of voluntary disclosure. The

size of the company affects the broad disclosure of information to the public. The larger the company will be more extensive in the information disclosure (Brusleri and Gabteni, 2011).

The effect of leverage on corporate governance quality

Agency theory explains that the higher of leverage level, firms have an incentive to increase voluntary disclosure to stakeholders in the form of traditional media or other media disclosure is the company information disclosure via the company's website (Jensen and Meckling, 1976).

Highly leveraged companies will be attracted to voluntarily disclose financial information in order to meet the needs of lenders and the terms of the agreement (Iatridis, 2011). Research Qu *et al.* (2013) found a leverage effect on the corporate disclosure level. The conclusion from his research that companies with high leverage have an obligation to disclose comprehensive information. In addition, the risks associated with commercial loans can also motivate creditors to increase their demand for long-term information disclosure.

The same was found by Silveira *et al.* (2007) and Yuen *et al.* (2009) that financial leverage, as measured by the ratio of total debt to total equity ratio (DER) has positive effect on corporate governance. Creditors are very concerned with the corporate governance practices of debtors and have greater authority than the shareholders to force companies to improve implementation corporate governance quality of the company (if the company fund its business with the proportion of high debt in the capital structure) (Black *et al.*, 2005).

Research of Da-Silva and Christensen (2004), Black *et al.* (2005) and Darmawati (2006) found no relationship between leverage and corporate governance quality. Companies that have high levels of debt in the capital structure will tend to be subject to supervision by creditors more stringent and are generally expressed in the debt contract made by both parties concerned. Thus, companies are less concerned with the implementation of corporate governance quality, because there has been supervision of the external parties (Black *et al.*, 2005).

The effect of profitability on corporate governance quality

Signalling theory suggests that profitable companies have an incentive to disclose further information for a positive signal for the stock market participants (Aljifri *et al.*, in Yusdiana, 2013). With the increasing number of information disclosed by the company to the public, the company has fulfilled one of the principles of good corporate governance, namely transparency and disclosure. Thus the company has good corporate governance quality. So that it can be taken a conclusion that

the higher profit of the company, the higher corporate governance quality in other words profitability and quality of corporate governance has a direct relationship (positive).

Some studies indicate different results between profitability and voluntary disclosure. Uwuigbe (2011) supported by Qu *et al.* (2013), in a study that examined the relationship between profitability and ROA as its proxy with corporate social disclosure found that there is a positive and significant relationship between corporate profitability and corporate social disclosure level. They also say that companies tend to reveal the social problems that positive rather than negative. This means that companies are more likely to reveal information about social responsibility when their financial reports showed a favorable financial performance (Uwuigbe, 2011).

Results of another study found that there was no correlation between profitability and voluntary disclosure. Da-Silva and Christensen (2004) concludes that the freedom of disclosure of financial information on the Internet is closely related to the company profitability. Companies with high profits tend to disclose more information than companies with low profits (Da-Silva and Christensen, 2004). Similar results were shown by study Ariff *et al.* (2007) and Silveira *et al.* (2007) who found no correlation between profitability and corporate governance.

The research was supported by Uyar (2011) who did not find a link between profitability and voluntary disclosure level. The study results indicate that the more favorable for the company not to disclose information on the company's website. Therefore, profitability is not suitable for use as a predictor in the practice of information disclosure on the internet media company (Uyar, 2011). Thus it can be said that profitability does not affects corporate governance quality.

The effect of ownership concentration on corporate governance quality

Agency theory states that share ownership gives great control and incentive to control the company, by looking at the company performance results (Huafang and Jianguo, 2011). Jensen and Meckling (1976) states that the company manager of the company's ownership level is high, then it is likely to make discretionary / expropriation of the company's resources will be reduced.

Gillan *et al.* (2003) and Durnev and Kim (2005) says that ownership concentration were measured using the largest stock holdings (controlling) had influence on corporate governance. The amount of property owned by the controlling shareholder, will improve corporate governance quality (Durnev and Kim, 2005). Results were also supported by Darmawati (2006) and Huangfang and Jianguo (2011) which says that corporate governance is affected by concentrated ownership.

Drobetz *et al.* (2004) say that ownership concentration is not related to corporate governance. The study results of Drobetz *et al.* (2004) supported by research Ariff *et al.* (2007) and Taman and Nugroho (2011) who did not find a relationship between concentrated ownership of the corporate governance quality. The more concentration of company ownership, the majority shareholder will increasingly dominate the company and the more influence decision making (including a decision not to implement corporate governance) (Drobetz *et al.*, 2004).

The effect of investment opportunities on corporate governance quality

Agency theory explains that the corporate governance practices developed into one of the efforts to reduce the divergence of interests between shareholders and management. Durnev and Kim (2005) found a relationship between IOS and corporate governance. The research was supported by Khancel (2007) and Meitha and Tuzahro (2009) who said that investment opportunities affecting corporate governance. Companies that have high investment opportunities will continue to expand the business and as such will always require external funding. In this regard, the company will strive to improve implementation of corporate governance quality to facilitate the acquisition external funds of investment as well as debt and lower cost of capital (Durnev and Kim, 2005).

Dissenting opinion came from research Darmawati (2006) which says that the investment opportunity does not affect implementation of corporate governance quality. Gillan *et al.* (2003) also say the same thing that the investment opportunities no effect on corporate governance. Gillan *et al.* (2003) explains that managers in companies with high investment opportunities, will have opportunity to perform greater discretionary/expropriation in the selection of the project, compared to managers in companies of less investment opportunity. Thus, in high investment opportunities companies requiring better corporate governance quality.

Based on the theoretical basis and previous research, the researcher took hypothesis as follows:

- H1: supposedly firm size, leverage, profitability, ownership concentration, and investment opportunities simultaneously affecting on corporate governance quality.
- H2: supposedly firm size affecting on corporate governance quality.
- H3: supposedly leverage affecting on corporate governance quality.
- H4: supposedly profitability affecting on the corporate governance quality.
- H5: supposedly ownership concentration affecting on the corporate governance quality.

H6: supposedly investment opportunities affecting on the corporate governance quality.

RESEARCH METHODS

Types of research

This research is a causality that purpose to measure the strength of the relationship between two or more variables, and indicate the direction of the relationship between independent variable and dependent variable. In other words, the causality study questioned the causation issues. Independent variables of this study are firm size, leverage, profitability, ownership concentration, and investment opportunities. While dependent variable is corporate governance quality. This research included in applied research because this study attempted to apply the theory to solve specific problems (Sugiyono, 2012: 4).

Research Data

Data that used in this research is secondary data, in the form of annual reports last published by each company through the official website of the Indonesia Stock Exchange and on the web site of the company concerned. The company mentioned are companies that includes property sector, real estate, and building construction listed in BEI period 2013.

Population and Sample

Population is the generalization region consisting of : objects/subjects that have certain qualities and characteristics defined by the researchers to be studied and then drawn the conclusion (Sugiyono, 2012: 80). Population in this study are all companies listed on the Indonesian Stock Exchange (BEI) period 2013, as many as 496 companies.

The sample is part of the number and characteristics possessed by such population (Sugiyono, 2012: 81). To determine the sample to be used, studies using non-probability sampling technique, that is purposive sampling. Purposive sampling is a sampling technique with particular consideration (Sugiyono, 2012: 85). Samples were selected based on considerations or criteria as follows:

- a. Companies that include property sector, real estate, and building construction listed in BEI period of 2013. This selection was based on investment phenomenon in the property and construction sector, where the company property sector certainly has good corporate governance quality to attract investors.

- b. Companies that have their own homepage or website. This relates to the provisions of IBCG Rating.
- c. The company publishes an annual report in 2013 and has applied corporate governance by attaching a corporate governance report in its annual report.
- d. The company has published annual reports for three consecutive years during the past three years through the company's website as well as in the Indonesia Stock Exchange (BEI).
- e. The necessary data is available both for calculating dependent variable and independent variables.

Based on the defined sample criteria obtained a total sample of 35 companies.

ANALYSIS TECHNIQUES

(a) Classic assumption test

Classic assumptions test made in this study include Normality Test, Test Multicollinearity, Heteroscedasticity test, and autocorrelation test. Normality test is done to see whether data distribution is normally distributed or not. The test is performed by using a histogram graph analysis and normal plot. In the normal histogram analysis when the graph plot shows the data spread around a diagonal line and follow the diagonal line, it can be concluded that the multiple linear regression model meet the assumption of normality (Ghozali, 2012: 163). Besides using the normal plot p regression standarred residual. Normality test was also performed with the Kolmogorov-Smirnov test with the following provisions:

1. Formulate a hypothesis
 - H_0 : residual data are normally distributed
 - H_a : residual data are not normally distributed
2. Basic decision
 - a. If significant value > 0.05 , H_0 is accepted
 - b. If significant value < 0.05 , then H_0 is rejected

If the data is identified not normal, then data have extreme values (outliers) were excluded from the sample, because this value is assumed to arise because of the unusual situation.

Multicollinearity test purposed to test whether in regression model found a correlation among independent variables. A good regression model should not correlated among independent variables. If independent variables are correlated, then variables are not orthogonal. Orthogonal variable is independent variables

correlation value among independent variables member equal to zero (Ghozali, 2012: 105). To detect whether the presence of multicollinearity in the regression can be seen from: (1) tolerance value, (2) variance inflation factor (VIF) value. Regression models were free multicollinearity is having a tolerance value above 0.1 or VIF under 10 (Ghozali, 2012: 106). If tolerance variance below 0.1 or above 10 VIF, then there multicollinearity.

Heteroscedasticity test aims to test whether regression model occurred inequality residual variance from observations to one another (Ghozali, 2012: 139). Heteroscedasticity occurs when disturbance variables do not have the same variance for all observations. If the residuals variance of observations to one another exist, then called homoscedasticity. A good regression model is homoscedasticity or not happen homoscedasticity. The method that used in this research is the graph method and statistical test. Method for detecting the presence heteroscedasticity or not by seeing p-plot chart between predicted value of the dependent variable (ZPRED) with (SRESID). If there is a specific pattern, such as dots form a regular specific pattern (waves, widened and then narrowed), it indicates there has been a heteroscedasticity. If there is no clear pattern, and the points spread above and below zero on the Y axis, it does not happen heteroscedasticity (Ghozali, 2012: 139). For a statistical test using Glejser test methods, with residual absolute regression value toward independent variable. If a statistically significant independent variables affect residual absolute value of dependent variable, then there is any indication heteroscedasticity (Ghozali, 2012: 142). If indicated heteroscedasticity symptoms, it can be done variable transformation to treat heteroscedasticity (Ghozali, 2012: 143)

Autocorrelation test purposes to determine whether a linear regression model found a correlation between intervene (residual) in t period with an error in t-1 period (previous) (Ghozali, 2012: 110). If there is autocorrelation, then so called autocorrelation problem. Autocorrelation can be detected by using test Durbin-Watson Statistic (DW test). The hypothesis that will be tested are:

H_0 : no autocorrelation ($r = 0$)

H_a : no autocorrelation ($r \neq 0$)

Decision making whether there is autocorrelation (Ghozali, 2009: 111):

1. Reject the null hypothesis that assert there is no positive autocorrelation, if DW statistic value lies between $0 < d < dl$
2. Doubt (inconclusive) there is no positive autocorrelation if $dl \leq d \leq du$
3. Reject the null hypothesis that assert there is no negative autocorrelation, if DW statistic value lies between $4-dl < d < 4$

4. Doubt (inconclusive) there is negative autocorrelation if $4-d_u \leq d \leq 4-d_l$
5. Accept the null hypothesis that assert there is no positive or negative autocorrelation, if DW statistic value lies between $d_u < d < 4-d_u$

According to Ghozali (2012: 121) if occurs autocorrelation in the regression equation, then the autocorrelation solution is transform early model became model difference. DW value of statistical results of the regression equation then compared with DW value table.

(b) Multiple Linear Regression Analysis

Data analysis techniques in this study using multiple linear regression analysis, the multiple linear regression model as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Description :

Y	: corporate governance quality
X1	: firm size
X2	: leverage
X3	: profitability
X4	: ownership concentration
X5	: investment opportunities
α	: regression constants
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$: regression coefficient
e	: standard error

(c) Hypothesis testing

Hypothesis testing in this study using F test and t test. F statistical test is to examine whether all independent variables included in the model simultaneously has an effect on dependent variable (Ghozali, 2012: 98). The null hypothesis (H_0) submitted all parameters in the model is equal to zero, or: $H_0: b_1 = b_2 = \dots = b_k = 0$. Mean, all independent variables are not significant explanatory toward dependent variable. The alternative hypothesis (H_a) is not all parameters are equal to zero, or $H_a: b_1 \neq b_2 \neq \dots \neq b_k \neq 0$. Mean, all the independent variables are significant explanatory toward dependent variable. To test this hypothesis used F statistic by decision-making criteria, i.e. when the value of $F > 4$, then H_0 can be rejected with a confidence level of 5%, so that H_a stating that all independent variables affect dependent variable is received.

T statistical test aims to determine the partially effect of each independent variable toward dependent variable to consider other independent variables are constant (Ghozali, 2012: 98). The null hypothesis (H_0) to be tested is whether a parameter (b_i) is equal to zero, or: $H_0: b_i = 0$. Mean that an independent variable has no significant effect on dependent variable. The alternative hypothesis (H_a) parameters of a variable is not equal to zero, or: $H_a: b_i \neq 0$. This means that these variables have a significant effect on the dependent variable.

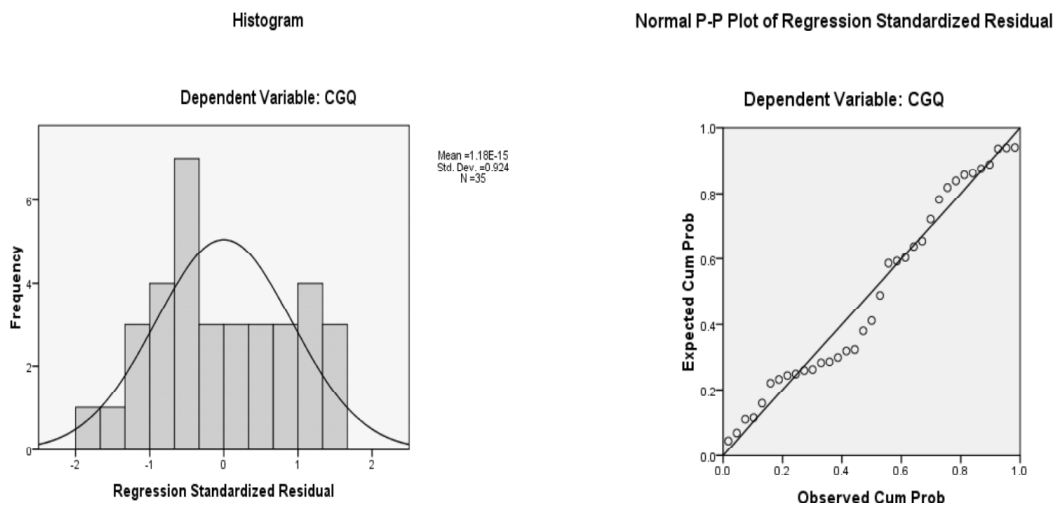
The conclusion of testing this hypothesis using probabilities provided that if the results of the t test was significant (significant value of t-test < 0.05), then the partial variables has a significant influence on corporate governance quality.

ANALYSIS AND DISCUSSION

Analysis

a. Classical Assumption Test Results

Classical assumptions test that made in this study include Normality Test, Test Multicollinearity, Heteroscedasticity test, and Autocorrelation test. Normality Test is used to see whether data distribution is normally distributed or not distributed. To determine normal or not, this research uses statistical analysis graphs and Kolmogorov-Smirnov test, where significant value should be above 5%.



Graph 1
Normality test and P-P Plot Histogram Period 2013

(Source: SPSS output processed by the writers (2014))

Graph 1 show that the histogram indicates a normal distribution pattern, while the normal chart P-P Plot follows the diagonal line pattern so that it can be said regression model to meet normality assumption. In addition to P-P Plot test, the following table is presented Kolmogorov-Smirnov test with hypothesis if the value of the independent variable significant probability more than 0,05 at the significance $\alpha = 5\%$, then regression model to meet normality assumption. Table 2 shows that significance level of Kolmogorov-Smirnov test is equal to 0.951 with a probability value of 0.326, greater than 0.05. It is mean that the residual values are normally distributed.

Table 2
Normality Test
One-Sample Kolmogorov-Smirnov Test

	<i>Unstandardized Residual</i>
Kolmogorov-Smirnov Z	.951
Asymp. Sig. (2-tailed)	.326

Source: Output SPSS, processed by the writers (2014)

Multicollinierity test aims to detect whether the presence of multicollinearity in the regression. Multicollinierity test can be seen from tolerance value and Variance Inflation Factor (VIF) value. Table 3 shows that respective variable are firm size, leverage, profitability, ownership concentration, and investment opportunities have tolerance values more than 0.1 and VIF value less than 10. This shows that this research data free of Multicollinierity symptoms.

Table 3
Multicollinierity test result

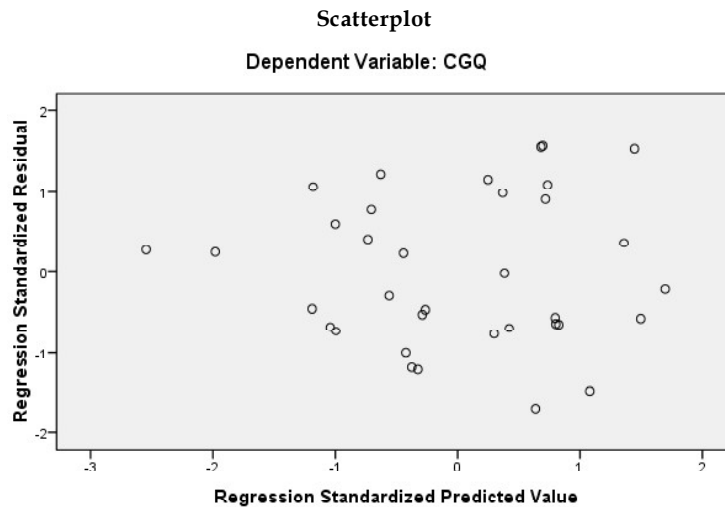
<i>Model</i>	<i>Collinearity Statistics</i>	
	<i>Tolerance</i>	<i>VIF</i>
1 (Constant)		
SIZE	.448	2.230
DER	.508	1.969
ROA	.930	1.075
OWNCEN	.740	1.351
IOS	.779	1.283

Source: Output SPSS, processed by the writers (2014)

Heteroscedasticity test aims to determine whether the presence of heteroscedasticity symptoms. In this study heteroscedasticity test using charts scatter plots and Glejser. Scatter plot graph shown in Figure 2.

Graph 2 shows that the dots randomly spread both above and below the number 0 on the axis Y. This indicates that regression model of this research does not occur heteroscedasticity. However, to further ensure the model is whether passed or not from the heteroscedasticity symptoms retested through Glejser test, as shown in Table 4.

Glejser test results showed that independent variables have no statistically significant effect on the dependent variable residuals absolute value (ABS_RES). This can be seen from significance value probability above 5%, so it can be concluded that the regression model no occur heteroscedasticity symptoms.



Graph 2
Heteroscedasticity test

Source: Output SPSS, processed by the writers (2014)

Tabel 4
Uji Glejser

	<i>Model</i>	<i>T</i>	<i>Sig.</i>
1	(Constant)	-1.727	.095
	SIZE	2.000	.055
	DER	-1.336	.192
	ROA	-0.833	.412
	OWNCEN	.477	.637
	IOS	.551	.586

a. Dependent Variabel: ABS_RES

Source: Output SPSS, Appendix 13, processed by the writers (2014)

Autocorrelation test can be performed using the Durbin-Watson test. The model is free from interference autocorrelation if DW has a value which lies between $du < DW < (4-du)$. The value of du to 5 independent variables number with 35 observations on the significance level of 5% is at 1,8029. Value dl is equal to 1,609. Autocorrelation test results can be seen in Table 5.

Table 5
Autocorrelation Test

<i>Model</i>	<i>Durbin-Watson</i>
1	1.947

Source: Output SPSS, Appendix 13, processed by the writers (2014)

The above test results showed $1.8029 < DW < 2.053$. This means that the model is declared free from interference autocorrelation.

(b) Results of Multiple Linear Regression Analysis

Multiple linear regression analysis to determine the effect of independent variables consisting of firm size, leverage, profitability, ownership concentration, and investment opportunities toward dependent variable that is corporate governance quality. Calculations process were performed using SPSS version 16. The results of multiple linear regression analysis as shown in Table 6.

Table 6
Multiple linear regression analysis result

<i>Model</i>		<i>Unstandardized Coefficients</i>		<i>t</i>	<i>Sig.</i>
		<i>B</i>	<i>Std. Error</i>		
1	Constant	-91.185	71.546	-1.274	.213
	SIZE	5.144	2.374	2.166	.039
	DER	-3.683	6.469	-.569	.574
	ROA	-28.187	20.483	-1.376	.179
	OWNCEN	1.570	9.731	.161	.873
	IOS	-3.195	3.058	-1.045	.305

a. Dependent Variable: CGQ

Source: Output SPSS, processed by the writers (2014)

Table 6 shows that the only variable size has a significant influence on the corporate governance quality. Whereas other variables did not have a significant effect on the corporate governance quality. Size variable regression coefficient is positive. This means that every increase in size would raise corporate governance quality level.

The coefficient of determination used to measure how extent the model ability to explain variations in the independent variables. The coefficient of determination is between zero to one and indicated by the value adjusted R². Coefficient calculation results are shown in Table 7. Based on the table, the coefficient of determination (R²) of 0,197 or 19,7%. This means that 19.7% of corporate governance quality is affected by variable firm size, leverage, profitability, ownership concentration, and investment opportunities, while the remaining 80.3% is explained by other variables outside the model. Most likely variables that have a major effect on economic variables, such as inflation or SBI interest rate factor.

Table 7
Coefficient of determination

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>
1	.561 ^a	.315	.197

Source: Output SPSS, Appendix 12, processed by the writers (2014)

(c) Hypothesis Test Results

Hypothesis testing is done by using F-test and t-test. F-test aims to determine simultaneously the effect of independent variables toward dependent variable.

Table 8
F Test
ANOVA^b

<i>Model</i>	<i>Sum of Squares</i>	<i>Df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>	
1	Regression	993.063	5	198.613	2.620	.045 ^a
	Residual	2198.799	29	75.821		
	Total	3191.862	34			

a. Predictors: (Constant), IOS, ROA, SIZE, OWNCEN, DER

b. Dependent Variable: CGQ

Source: Output SPSS, processed the writers (2014)

Table 8 shows that the significant value of F count of 0,045. This value is smaller than 0.05, which indicates that independent variables simultaneously affect dependent variable and the model is accepted.

T-test intended to determine whether independent variables are firm size, leverage, profitability, ownership concentration, and investment opportunities in partial or individually have an effect on dependent variable of corporate governance quality. If the probability level less than 0.05, then independent variables affect dependent variable.

Table 9 shows that the only variable size that have an effect on corporate governance quality This is demonstrated by the significant value of the variable size of 0,039 is smaller than 0.05 ($0.039 < 0.05$) with t value of 2.166. The other four variables showed significant value above 0.05, which indicates that there is no effect of respective these variables toward dependent variable.

Table 9
T-test

Model		Unstandardized Coefficients		T	Sig.	Description
		B	Std. Error			
1	(Constant)	-91.185	71.546	-1.274	.213	
	SIZE	5.144	2.374	2.166	.039	Affected
	DER	-3.683	6.469	-.569	.574	Unaffected
	ROA	-28.187	20.483	-1.376	.179	Unaffected
	OWNCEN	1.570	9.731	.161	.873	Unaffected
	IOS	-3.195	3.058	-1.045	.305	Unaffected

a. Dependent Variable: CGQ

Source: Output SPSS, processed the writers (2014)

DISCUSSION

(a) The Effect of Firm Size on Corporate Governance Quality

Firm size is a measure of the size of the company. In this study, the independent variable firm size affect the corporate governance quality. The results are consistent with agency theory that explains that the large-sized companies are more likely to have greater agency problems, thus requiring corporate governance as a bridge between the agent and the principal to reduce agency problems (Meitha and Tuzahro, 2009).

Bazina and Vural (2011) states that the firm size is a determinant variable affecting the company in the information disclosure that required by stakeholders and potential investors in optimal decision making. In addition, firm size affects the breadth of the information disclosure to the public. The bigger the company will impact on the extent of disclosure (Bruslerie and Gabteni, 2011).

(b) The Effect of Leverage on Corporate Governance Quality

The results showed that leverage does not affect corporate governance quality as measured by IBCG Rating. These results are consistent with studies Da-Silva and Christensen (2004) found no effect of leverage on the information disclosure that can increase the degree of transparency in corporate governance. The results also

support the study of Black *et al.* (2005) and Darmawati (2006) who found no correlation between leverage and corporate governance quality.

The absence effect of leverage toward corporate governance quality in this study due to companies have high levels of debt in the capital structure will tend to be subject to supervision by creditors to more stringent and are generally expressed in loan contracts made by both parties. Thus, companies are less concerned with implementation of corporate governance quality, because there has been supervision of the external parties (Black *et al.*, 2005).

(c) The Effect of Profitability on Corporate Governance Quality

The results showed that ROA ratio as a profitability proxy does not affect the company's corporate governance quality in property, real estate, and building constructions sectors as measured by IBCG Rating. Results of this study are consistent with studies conducted by Ariff *et al.* (2007) and Silviera *et al.* (2007) who found no effect on the profitability of corporate governance.

High and low profit companies can not guarantee the company's information disclosure to the public in a transparent and fair. Based on the data in this study, companies that experienced an profit increase does not necessarily have a good corporate governance quality. Conversely, companies that experienced a decline in profits may have a good corporate governance quality. This is due to the criteria used Rating IBCG already includes category of transparency in financial reporting company. Therefore, both companies experienced gains and losses will not affect the corporate governance quality because of it has been no assessment of the criteria IBCG Rating of financial companies.

(d) The Effect of Ownership Concentration on Corporate Governance Quality

These results indicate that the ownership concentration as measured by the amount of the largest holdings (> 25%) did not affect corporate governance quality. The results support Ariff *et al.* (2007) which states that ownership concentration does not affect corporate governance quality. Similar results were found by Taman and Nugroho (2011) who found no relationship between ownership concentration on corporate governance quality.

This study found no effect of ownership concentration on corporate governance quality. This is because the company has a controlling stake large or growing concentration of ownership of the company, will make the biggest shareholders are able to master and increasingly influence decision making (including a decision not to implement corporate governance) (Drobetz *et al.*, 2004). The majority shareholder considers that protection of minority shareholders, need for

transparency and corporate governance mechanism can improve corporate governance ranking not be in their interest again. This indicates that the company as such, implementation of good corporate governance quality are ignored (Taman and Nugroho, 2011).

(e) The Effect of Investment Opportunities on Corporate Governance Quality

In this study, Investment opportunities (IOS) did not affect the company's corporate governance quality in property sector, real estate, and building concentrations. IOS in this study was measured by the ratio of MVABVA (market value to book value of total assets). The results support the research by Darmawati (2006) who found that the investment opportunity does not affect implementation of corporate governance quality.

Companies that have high investment opportunities are less likely to apply corporate governance. This is because the managers in companies that have high investment opportunities, have opportunity to do the greater discretion (freedom of action in decision-making) than the company's managers in less investment opportunity (Gillan *et al.*, 2003). Therefore, the manager who should be able to provide funds to the company to expand its business, in reality is much less give corporate funds for expansion, because of the impact of the lack of implementation of good corporate governance quality. Therefore, the results of this study did not find any effect on investment opportunities toward corporate governance quality.

CONCLUSIONS AND RECOMMENDATIONS

Based on the research that has been done, it can be concluded as follows: (1) Firm size, leverage, profitability, ownership concentration and investment opportunities simultaneously affect the corporate governance quality in property, real estate, and building construction sector. (2) Firm size is the only independent variable partial effect on the corporate governance quality. (3) Leverage proxy by DER does not affect corporate governance quality. (4) Profitability has no effect on corporate governance quality. (5) Ownership concentration does not affect the corporate governance quality in companies sector of property, real estate, and building constructions. (6) Investment opportunities (IOS), which is proxied by MVABVA unaffected on corporate governance quality.

Based on the research that has been done, the writers suggest a couple of things, first, for the management of the company, the results of this study can be used as input and consideration for the company to improve and maintain the company's performance in order to improve the welfare of shareholders and corporate value by taking into account firm size that can affect implementation of corporate governance quality. Secondly, for investors, the results of this study can be used

as consideration in invest his fund in a company. Investors are expected to consider the firm size as a factor affecting corporate governance quality in determining the decision to invest in a company. Third, the coefficient of multiple determination (R^2) in this study showed a low number is 0,197. Therefore, further research is expected to add other variables, for example economic variables such as inflation, SBI interest rates, or regulation. In addition, further research is expected to add the number of samples in order to study the company can produce more valid conclusions.

References

- Aidilla, Tahta. (2012), *Tingkat Korupsi Naik, RI Jawara' di Asia*. Dalam *Republika*, 5 Desember 2012. (<http://republika.com/Tingkat-Korupsi-Naik-RI-'Jawara'-di-Asia>).
- Almilia, Luciana Spica. (2008), Faktor-faktor Yang Mempengaruhi Pengungkapan Sukarela "Internet Fianacial and Sustainability Reporting". *JAAI Vol. 12 (2)*: pp 117-131.
- Ariff, Akmalia Mohamad, Muh. Kamil Ibrahim dan Radiah Othman. (2007), Determinants of firm level governance:Malaysian evidence. *Journal of Corporate Governance*. Vol. 7(5): pp: 562-573. (www.emeraldinsight.com).
- Bazine, Elies dan Desya Vural. (2011), Voluntary Disclosure of Financial Targets. *Master's Thesis, ISECTS*. University of Eothenburg. (<http://ssrn.com>).
- Ben-Amar, Walid dan Ameer Boujenoui. (2006), Factors Explaining Corporate Governance Disclosure Quality: Canadian Evidance. *Working Paper*. (<http://ssrn.com>).
- Black, Bernard S., Hasung Jang, dan Woochan Kim. (2005), Does Corporate Governance Predict Firms' Market Values? Evidence from Korea. *Working Paper*. (<http://ssrn.com/abstract=311275>).
- Bruslerie, Hubert De La dan Heger Gabteni. (2011), Voluntary Financial Disclosure Introduction of IFRS and The Setting of A Communication Policy: An Empirical Test On SBF French Firms Using A Publication Score. *Working paper*.
- Darmawati, Deni. (2006), Pengaruh Karakteristik Perusahaan dan Faktor Regulasi Terhadap Kualitas Implementasi Corporate Governance. *Artikel yang Dipresentasikan pada Simposium Nasional Akuntansi IX*. Padang 23-26 Agustus 2006.
- Da-Silva, Wesley Mendes dan Theodore E. Christensen. (2004), Determinants of Voluntary Disclosure of Financial Information On The Internet by Brazilian Firms. *Working Paper*. (<http://ssrn.com/>).
- Drobetz, Wolfgang, Klaus Gugler, dan Simone Hirschuogl. (2004), The Determinant of The Germany Corporate Governance Rating. *Working Paper*. (<http://ssrn.com/>).
- Durnev, Art dan E. Han Kim. (2005), To Steal or Not To Steal: Firm Attributes Legal Environment, and Valuation. *The Journal of Finance*. Vol. LX (3) : pp: 1461-1493.
- Forum for Corporate Governance in Indonesia (FCGI). 2003. (Online) (<http://fcgi.or.id/en/index>).
- Gillan, S. L., J.C. Hartzell, dan Laura T. Stark. (2003), Industries, Investment Opportunies, and Corporate Governance Stuctures. *Working Paper*.
- Government Metrics International. (2006), *Releases Ratings on 3800 Global Companies Emerging Market Companies Pose Greatest Risk*. (<http://GMI.com>).

- Grzybowski, Michal dan Dariusz Wojcik. (2006), Internet and Corporate Governance. *Working Paper*. (<http://ssrn.com>).
- Gurbuz, A. Osman, Asli Aybars, dan Ozlem Kutlu. (2010), Corporate Governance and Financial Performance with a Perspective on Institutional Ownership: Empirical Evidence from Turkey. *JAMAR*. Vol. 8 (2): pp: 21-38. (<http://ssrn.com/>).
- Jensen Michael C. dan William H Meckling. (1976), Theory of the Firm: Management Behavior, Agency Cost and Ownership Structure. *Journal of Finance Economic*. Vol. 3 (4): pp: 305-360.
- Kaihatu, Thomas. S. (2006), Good Corporate Governance dan Penerapannya Di Indonesia. *Jurnal Manajemen dan Kewirausahaan*. Vol. 8 (1): pp: 37-56.
- Klapper, Leora F. dan Inessa Love. (2002), Corporate Governance, Investor Protection, and Performance in Emerging Market. *Working Paper*. The World Bank.
- Kuncoro, Mudrajad. (2009), *Metode Riset untuk Bisnis dan Ekonomi*. Jakarta: Erlangga.
- Meitha, Rachmawati dan Ulfa Tuzahro. (2009), Determinan Corporate Governance. *Jurnal Akuntansi Indonesia*. Vol.5 (2): pp: 273-285.
- Moelyadi. (2006), *Manajemen Keuangan*. Malang: Bayu Media.
- Nasution, Marioshot dan Doddy Setiawan. (2007), Pengaruh Corporate Governance terhadap Kualitas Laba Di Industri Perbankan Indonesia. *Artikel yang Dipresentasikan pada Simposium Nasional Akuntansi X*. Makassar 26-28 Juli 2007.
- Pamungkas, Ichsan dan Dul Muid. (2012), Analisis Faktor yang Mempengaruhi Good Corporate Governance Rating. *Diponegoro Journal of Accounting*. Vol. 2 (3).
- Rokhayati, Isnaeni. (2005), Analisis Hubungan Investment Opportunities (IOS) Dengan Realisasi Pertumbuhan Serta Perbedaan Perusahaan Yang Tumbuh Dan Tidak Tumbuh Terhadap Kebijakan Pendanaan Dan Dividen. *SMART*. Vol. 1 (2): pp: 41-60.
- Rusyanto, Edo dan Ester Nuky. (2014), "Booming Properti". Dalam *Dailyinvestor*, 12 Maret. (<http://investor.co.id/home-bisnis-properti-tetap-booming/79882>).
- Silveira, Alexandre Di Miceli da, Ricardo Pereira Camara Leal, Andre Luiz Carvalhal-da-Silva, dan Lucas Ayres B. de C. Barros. (2007), Evolution and Determinants of Firm-Level Corporate Governance Quality in Brazil. *R.Adm, Sao Paolo*. Vol. 44 (3). (www.rausp.usp.br).
- (2010), Endogeneity of Brazilian corporate governance quality determinants. *Journal of Corporate Governance*. Vol. 10 (2): pp: 191-202.
- Shleifer, Andrei dan Robert W. Vishny. (1997), A survey of Corporate Governance. *The Journal of Finance*. Vol. 52 (2); pp: 737-783. (<http://www.jstor.org>).
- Sudana, I Made. (2009), *Manajemen Keuangan Teori*. Surabaya: Airlangga University Press.
- Sugiyono. (2012), *Metode Penelitian Kuantitatif Kualitatif dan R&D*. Bandung: Alfabeta.
- Taman, Abdullah dan Billy Agung Nugroho. (2011), Determinan Kualitas Implementasi Corporate Governance. *Jurnal Pendidikan Akuntansi Indonesia*. Vol. 9 (1): pp: 1-23.
- Tjager, I Nyoman, F. Antonius Alijoyo, Humphrey R. Djemat, dan Bambang Soembodo. (2003), *Corporate Governance*. Jakarta: Ikrar Mandiri Abadi.
- Transparency International. (2013), Corruption Perceptions Index. (Online). (<http://transparency.org>).

- Qu, Wen, Philomena Leung, dan Barry Cooper. (2013), A study of Voluntary Disclosure of Listed Chinese Firms – A Syakeholder Perspective. *Managerial Auditing Journal*. Vol. 28 (3): pp: 261-294. (www.emeraldinsight.com).
- Uwuigbe, Uwalomwa. (2011), An Empirical Investigation of The Association Between Firm's Characteristics and Corporate Social Disclosures In The Nigerian Financial Sector. *Journal of Sustainable Development In Africa*. Vol. 13 (1).
- Uyar, Ali. (2011), Determinants of Corporate Reporting On The Internet. *Mangerial Auditing Journal*. Vol. 27 (1): pp: 87-104. (www.emeraldinsight.com).
- Yusdiana, Ari. (2013), Pengaruh Firm Size, Firm Age, Leverage, Growth, dan Profitability Terhadap Corporate Governance Quality Pada Perusahaan yang Terdaftar Dalam Indeks LQ45 Di BEI. *Skripsi tidak diterbitkan*. Surabaya: FE Unesa.