The Effect Of Good Corporate Governance Implementation Towards Change On Income And Stock Price (A Case Study On Companies Listed In Corporate Governance Perception Index Ranking During 2012-2016)

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Abstract
The research objective in this paper is to find the effect of Corporate Governance implementation towards income changes and stock price based on Corporate Governance Perception Index from SWA Magazine by using Index Corporate Governance as Independent Variable proxy, the movement of Earning before Tax (EBT) and Closing Price as Dependent Variable proxies. This research was included as quantitative research which used explanatory as a method and regression testing as the evaluation. The researcher used purposive sampling as sampling method by using 13 firms as samples in the period of 2012 to 2016. This study found that Good Corporate Governance implementation effecting stock price. But on the other hand, this study didn’t find any relation between Good Corporate Governance implementation towards income changes. This occurred since the investors or markets, directly give response to stock price rather than to income changes that take longer time. Moreover, Income changes was effected by the other variable was not discussed in this study.

Keywords: Good Corporate Governance, Corporate Governance Perception Index, Change on Income, Stock Price

Abstrak

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BACKGROUND
The Implementation of Good Corporate Governance can be seen through the quality of their Financial Statements. Companies with higher level of implementation of Corporate Governance have a higher financial statement performance. This financial statement is used to see the financial position, firm performance and company’s economic position which may help manager in decision-making that can be effecting company’s improvement. In the financial statements, lies an important earnings information for external parties or internal parties. According to (Mariska, 2010) Earnings or profit could be used as a tool for evaluating the firm performance and giving the related information with management’s responsibility in managing the
resources that have been entrusted to them. The change of profits is included into the important tools that noticed by the investor and good corporate governance relationship with the investor is closed. As reported by Saham Indonesia on their graphics, it shows that the income changes per year effected the firm stock and firm performance significantly, so it could be concluded that using a Income as the proxy on this research will be useful. The profit's information is published by manager who knows more about the real conditions in the company. The information about firm’s performance, especially about profitabilities, need for long term decision-making. The firm’s ability in making profit within one period called as profitabilities. A firm profitabilities could be occur with comparing the profit in one period within the other futher periods. Martin et. al (2007) concluded that the profit generated by the company also has a significant effect on stock price, because profit included as important information in company’s financial statement that can be useful for estimating the stock price. According to Puspitasari (2014) in her research concludes that financial statement significantly influences stock price. The firm performance is reflected in their stock price, while for investors stock price defines profitability that must be obtained. The companies with higher stock price will get higher trust from investor and vice versa. The important role of Good Corporate Governance can be seen as an objective in creating a company. Besides, it also increases the prosperity of the owner or the shareholders as it also maximaize the wealthy of shareholders through their stock price incremen (Brigham & Houston, 2013). The increasing number of stock value can be seen from the stock price increments which the reflection from investment decision, funding, and asset management related to Good Corporate Governance.

Based on the previous research (Wahyudin & Solikhah, 2017) the researchers brought up the uses of GC Index associated with a variety of accounting-based and market-based performance variables: financial performance using ROA, ROE, EPS as their dependent variables, adding Company Size, Company Age, Listing Age, Leverage as their Control Variables and made a conclusion that the implementation of Good Corporate Governance has a positive influence on those variables.

In (Ferdinand & V. Siregar, 2013) it aims at investigating whether corporate governance and reporting quality are associated with firm value. To test their hypotheses, they used PBV ratio, Tobin’s Q, and ROA as our measures for firm value. It was found that corporate governance is positively associated with firm value and the results are consistent for the different proxies of firm value. They also found that Firms that implement better corporate governance tend to have higher value.

There are statistically significant effect between CGI score and PM, ROA, ROE and ROI but there is no effect on Market Value (Tobin’s Q). Corporate governance variables haven’t be able yet to directly influence the company's market performance. This probably happened because the market can't imedietly response to corporate governance implementation as it takes time. (Darmawati, 2005). Furthermore, there is a study which was done by (Ardiana, 2008) that investigated the influence of Good Corporate Governance towards income change and found that there isn’t any positive correlation between Good Corporate Governance rank towards income change and there isn’t any difference of profit change on each rank group of Corporate Governance Perception Index (CGPI).

Different from past studies that also used of CG Rating, which mostly used ROA, ROE, EPS this study used EBT as an income changes proxy. Meanwhile, ROA, ROE, EPS calculated from Earning After Tax (EAT) this research prefer choosing EBT as the proxy because EBT focus on operating profitability as a single measure of company performance regardless the effect of taxes. As differ from (Wahyudin & Solikhah, 2017) (Yaram, 2015) (Berhelot, T. Morris, & C. Morrill, 2010) (Ardiana, 2008) the data of CGPI that is being used in this research is CGPI rating based on Investor Analysis published by SWA magazine. The evaluation method on the changes of income was obtained from EBT (Earning Before Tax) companies’ financial statement that have been audited every year. For the stock price, the researcher used the stock price through the data she got from the table of Corporate Governance Perception Index Rating based on Investor Analysis each year within 2012-2016. This study consists of two dependent variables: The Changing of Income and stock price, and the Good Corporate Governance Index as the Independent Variable.

**LITERATURE REVIEW**

**Agency Theory**

The definition of agency theory according to (Scott, 2003) is a branch of game theory that
studies the design contract to motivate a rational agent act on behalf of principal when the agent’s interests would otherwise conflict with those of the principal. The agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some service on their behalf. As part of this, the principal will delegate some decision-making authority to the agent.

The problems of GCG arise due to dependence on external capitals (equity and loan capital) used to finance company activities, investment and growth (Forum for Corporate Governance in Indonesia (FCGI), 2011). There was a striking difference between firms more subject to agency costs between managers and shareholders and firms that incur more agency costs between controlling and minority shareholders.

Qianhua et. Al (2013) As with any other costs, agency problems will be captured by financial markets and reflected in a company’s share price. Value loss to shareholders, increasing from divergences of interests between shareholders and corporate manager can be seen as an Agency costs.

**Good Corporate Governance**

Good Corporate Governance serves as a set of systems that regulate and control the company to create added value for the stakeholders. The added value is due to the implementation of GCG which encourages companies to work transparently and professionally (Moh, 2011). While according to Elvira (2016), corporate governance is the process and structure used for directing and managing firms in improving business prosperity and corporate accountability with final-purpose realizing long-term shareholder value while accounting the interests of other stakeholders.

Based on some understanding about Good Corporate Governance that lies above, Good Corporate Governance is a system, structure, policy, and process in an organization which is used to improve company performance that will not disadvantage all stakeholders. Companies that implement good governance may be more efficient in their operational performance.

The principles of GCG are: Transparancy, Accountability, Responsibility, Independency and Fairness. Principles above are actually a form of response to several cases or scandals that happen not only in Indonesia but also around the world. Cases that the world face are: injustice towards stakeholders, fraudulent statement and corruption, collusion, and nepotism.

Application of effective Good Corporate Governance can provide important effects in fixing economic condition, and also avoid similar crisis and failure in the future. The basic advantage a company will obtain is the survival of the company related with company’s profit. With good corporate governance, company’s important decision is no longer determined by dominant party, but rather determined after obtaining income and several considerations from several parties involved (stakeholder). Furthermore, the implementing good corporate governance can push more democratic organisation’s management because of the involvement of many interests. By applying more accountable and more transparent corporate governance, it will give a big impact to investors’ trust and also shareholders.

Corporate Governance Perception Index (CGPI) rating does not only focus on the quality of CG but it also suggests companies to increase commitment and quality of governance by doing continuous improvements. The companies believe that Corporate Governance may improve their impression and firm value.

Corporate Governance valuation performed by Indonesian Institute of Corporate Governance (IICG) cooperated with SWA magazine formed Corporate Governance Perception Index (CGPI) which contains score from 0 to 100 about the implementation of Good Corporate Governance within companies listed on Bursa Efek Indonesia (BEI). CGPI has continuously been implemented since 2001.

<table>
<thead>
<tr>
<th>Score</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>55-69</td>
<td>Quite Trusted</td>
</tr>
<tr>
<td>70-84</td>
<td>Trusted</td>
</tr>
<tr>
<td>85-100</td>
<td>Most Trusted</td>
</tr>
</tbody>
</table>

The table above explained the companies which had a total score of CGPI of 55-69 and they are included into the category of “Quite Trusted” companies. Furthermore, companies that have a total score of 70-84 are included into the category of trusted companies while companies that have a score of 85-100 are included into the category of very reliable companies. In the CGPI assessment, the score that appeared in the publication year in SWA Magazine was an assessment of GCG performance in the previous year.

**Firm Performance**

Company’s performance is described as the result of management activity in a company. The
result of this management’s activity is then made as parameter or benchmark to assess company’s management success in objective’s achievement that has been determined in certain period reported in financial statement.

**Financial Statement**

Financial statement’s description according to Accounting Standard in Basic Framework of Preparation and Presentation of Financial Statement (2004:2) : “Financial statement is also part of the financial statement process, a complete financial statement that usually consists of balance sheet, income statement, report on changes in financial position (that can be provided in several methods such as, cash flow statement, or report on the flow of funds), notes and other reports also explanatory material which is part of integral financial report.”

Based on that explanation above, financial report should be able to provide information about company’s financial performance in a certain period. Financial performance in a certain period and during previous periods is usually made as a basis of investor and creditor to help forecasting company’s prospects in the future. The revelation of transparent and accurate financial report becomes an important information for investors, whether investors will plant its capital or provide loan for the company.

**Firm Earnings**

Chairi & Ghozali (2003) expressed the concept of profits embraced by the current accounting structure as an income which is calculated from the subtraction within income and expenses. Giving a profit information through the report is an important for keeping the firm performance. To minimize a variable that may be unique from company to company, in order to focus the analysis on operating profitability as a singular measure of performance, Earning before Tax provides investment analysts with useful information for evaluating a company’s operating performance regardless to tax implication Alan, Marcus et.al (2004)

**Change on Income**

Income or revenue is measured at the fair value of the consideration received or receivable and recognized when prescribed are met, which depend on the nature of the income, this definition explained on International Accounting Standarts (IAS 18). The change on Income is an increase or decrease income per year (Warsidi & Pramuka, 2000). Income that being used as the basis of calculation in this research is the movement of Earning Before Tax from year to year. Earning Before Tax (EBT) measured by compute the sales revenue minus expenses. EBT focus on operating profitability as a single measure of company performance regardless the effect of taxes. EBT lies on the financial statement in Consolidated statements of profit or loss which we usually called as Income Statement.

**Firm Value**

According to Rachmawat & Triatmiko (2007) company’s value is the selling value of the company or added -value for shareholders. Company’s value will be described from the stock price. Company’s value according to (Nurlela & Islahudin, 2008)is defined as market value. Company’s value can provide maximum wealth for shareholders if the value of the company’s market is increased. The higher stock value, the higher prosperity for shareholders. To reach company’s value, financiers give the management to professionals. These professionals are positioned as manager or commissary.

**Stock Market**

Capital market is the place where every parties especially company, sells its stock and bond with purpose to use the selling profit as additional funds to strengthen company funds Fahmi et. al (2009). While according to (Sartono, 2010) capital market is a place where the long-term financial assets transaction occur. The type of securities sold in capital market has due date for more than a year. The common forms of securities sold in capital market are bond, preference stock, and common stock. Capital market acts as either a connector between investors and companies or government institution through long-term financial instrument trade such as bond, stock, and others BAPEPAM (2013). In the beginning, Indonesia has two stock exchange which are Bursa Efek Jakarta (Jakarta Stock Exchange) and Bursa Efek Surabaya (Surabaya Stock Exchange), but today they have been combined to be Bursa Efek Indonesia (Indonesia Stock Exchange) Fahmi et. al (2009) The purpose of that combination is to strengthen Indonesia Stock Exchange which is judged by various parties as weak compared to our neighbours’ country stock exchange in terms of capitalization.

**Stock**

Stock is proof of ownership of a company where the owner is also called as shareholder or stockholder. The proof that someone or a party can be regarded as shareholder is when they have been recorded as shareholder in a book called Shareholder List (Samsul, 2006). Husnan (2005) stated that stock is a piece of paper that shows
financiers’ right, which is the right of the owner of the paper to obtain part of wealth and prospects of the organisation that issued the stock and several conditions that enable the financiers to run his/her right. Therefore, stock is a proof of ownership of a company and financiers’ right over company that issued the stock.

In general, the performance of a company will affect its stock price. The better the performance of a company, the bigger income it will get and shareholders are also enjoying the benefit from company’s profit, so that many investors are interested in joining the company’s stock and the stock price is getting higher. Based from Baumol & Blinder (2008) stock price is a price happening in stock market that would be a big help for a company because the price determines how big the company’s value. Stock price is one of the success indicators in company management. Therefore, the higher the existing stock price in the market over a certain company, it can be interpreted that the company can well manage its assets.

METHOD OF RESEARCH

Research Design

Research design in this study used quantitative method. Quantitative Research is causal-comparative research in which the investigator compares two or more groups in terms of a cause (or independet variable) that has happened. Quantitative design have many complex experiments with many variables and treatments but the researcher used the explanatory study case as the type of research, observation as method, hypothesis testing as an analysis tool and time series as research timeline.

Population and Sample

The population in this research are companies listed on Corporate Governance Perception Index Rating during 2012-2016. Sample is a procedure which only a portion of the population be taken and used to determine the quality and characteristics from the population. There are two categories of sampling which are probability and nonprobability.

Variabels

This study consists of two variables that will be used by the researcher to analyze or examine whether there is a relationship between them. The Variables used in this study are Independent Variable and Dependent Variable. This variable assumed to have a direct effect on the dependent variable. Independent Variable in this study is Good Corporate Governance. The quality of Good Corporate Governance assess with Corporate Governance Perception Index (CGPI) score which was published by The Indonesian Institute for Corporate Governance (IICG) cooperated with SWA magazine.

The dependent variables in this study are change of income and stock price. Stock price data were taken from the CGPI table every year on Closing Price Column whereas, change on income data were taken from company’s Earning Before Tax on their Year-end financial statement that have been audited during 2012-2016.

Data Analysis Method

Simple Linear Regression Analysis

Sugiyono (2012) in his book mentioned that the simple regresion is a regression within one dependent variable.

Linearity Testing

Regression of independent variables Linearity test aims to determine whether two variables have a linear relationship or not significantly. This test is usually used as a prerequisite in correlation analysis or linear regression. One assumption of regression analysis is linearity. The point is whether the lines X and Y form a linear line or not, if not linear then regression analysis cannot proceed.

Hypothesis Testing

Hypothesis test is done to know the existence or absence of significant relation between independent variable (X) with dependent variable (Y). The null hypothesis (H0) indicates the absence of significance between the independent variable and the dependent variable. While the alternative hypothesis (Ha) shows the significance of independent variables and dependent variables.

Significant Regression Test

T test is used to find out whether there is any significant influence on the dependent variable towards independent variables or not. When we have a continuous variable and we want to know if its mean differs in value between two groups, we use a t-test. It is also explained as, if t arithmetic > t table or -t arithmetic < -t table then the results are significant and mean H0 is rejected and H1 is accepted. Whereas, if t arithmetic <t table or-t arithmetic> -t table then the result is not significant and means H0 is accepted and H1 is rejected.
DISCUSSION
The Influence of Good Corporate Governance on Profit Changes

The statistical results of this study show there is a significant relationship between the Corporate Governance Perception Index within change on income, but the relationship are negative, while the index are low then the change on income are high, and this finding not supported the hypothesis which made the hypothesis in this research being rejected. Based on Table 4.1, it shows that the movement of change on income’s gap is wide, compared to the movement of CGPI’s gap. The results of this hypothesis testing indirectly show if the company has higher score of CGPI, it does not always have a higher income. In other words, good corporate governance implemented by companies do not affect the income changes. This may occur because the income change is influenced by the other substantial factors, as shown in R-square table that Good Corporate Governance implementation just had 13.1% effect to income changes, and the income changes 86.9% effected by the other factors that not be discussed in this study, for example: the performance of the company, or the economic's climate and situation in a country. In addition, based on the report released by PwC (2016) where some indonesian mining and manufacturing firms have undergone a decline in performance. The other problem had arised was the huge decrease on Garuda Indonesia income in 2013-2014, as media Kompas (2014) said on their web page, in 2013 garuda has an increasment in their operating expense because of the impact from bad economics climate that makes the Kurs change and their overseas accounts payable become high. Secondly, in 2014 Garuda Indonesia has a huge decrease on their Income, due to the escalation of labor price, the increasment of avtur price, and the airplane’s rental costs higher than the prior year. Due to this circumstances, this might be a problem to the result of this study because some of those firms are included in Corporate Governance Percepetion Index Rating. Although this statement does not explicitly reveal the financial statement on mining and manufacturing industry, it could still be inferred that the performance is still low.

Similar like the previous study from (Ardiana, 2008), which found that Corporate Governance rating statistically does not affect the firm’s performance. This happens because the rating of the CGPI does not directly influence income changes. This explained no matter how much your CGPI score it will not affect your income. The results of this testing also in line with Sadiyah (2007) that examines the Effect of Corporate Governance Quality on Public Company Performance from 2003 to 2005, which found that there is no significant evidence on the relationship between Corporate Governance Implementation and Operational Performance but Corporate Governance could increase the company's prospect for Investor’s credibility with their rating position. The results of hypothesis testing by Sayidah show that the quality of corporate governance and control variables together do not affect significantly the company's performance proxy with profit margin. This hypothesis result is in line with Hampel Committee’s first report (1997) which stated that there aren't strong evidence between the relationship of company's success and corporate governance, but good governance implementation can improve company's prospects and the trust of investors.

This result is contrary to research conducted by darmawati (2007) Wahyudin (2013) which stated that there is a positive and significant relationship between good corporate governance and firm's financial performance. The firm's financial performance calculation is represented by ROA, ROE, EPS, PBV, PER, EG. Differences in hypothesis testing results can be caused by the use of index value in this research is taken from the final score of Corporate Governance Index, while pervious study, used the score one by one from self-assessment which the score was taken from Good Corporate Governance principals. In addition, differences in firm's financial performance measurement can be a powerful factor that makes the results of this study different, and negative. In addition to other supporting factors such as the year taken, the sample of the company and the economic conditions cause this study rejects the result of Wahyudin (2013) and Darmawati (2007).

The Influence of Good Corporate Governance on Stock Price

The increasing of a complex business development makes business competition tightly increase. It requires companies to be able to manage the company well in order to have a planned direction in running its business, to encourage good company performance. As today, many companies realize the importance of implementing good corporate governance (GCG) the implementation of GCG have been done to overcome the emerging agency problem between
agents (companies) who ignore the responsibility and become a disadvantage to shareholder.

Not same with the first hypothesis result, there was a significant relationship between the index and stock price, and the effect were positive. There were also a direct relationship between them. It reffered to t Test result that conclude, if the Corporate Governance Index are high the Stock Price will high too and make this hypothesis turn accepted.

This hypothesis result agrees with (Siagian, 2013) who found positive associations between corporate governance and different proxies of firm value. The company which had a greater index score will also had a greater firm’s value. Nowadays, many companies register to follow the evaluation of GCG implementation in their company, the purpose of this action is to know how far the effectiveness of GCG implementation in company. The researcher has already mentioned that there are 13 companies which constantly get into the ranking of corporate governance perception index Corporate Governance Perception Index (CGPI) conducted by The Indonesian Institute for Corporate Governance (IICG) during 2012-2016. The IICG assesses and ranks CGPI in order to know how far the company has implemented Good Corporate Governance. This activity is done by cooperating with SWA Magazine on publishing their score and rating information. This kind of information has become a positive signal for shareholders (Jogiyanto, 2013) and this information may help investor regarding the investment decision making and also helps investor to indicate the firm’s value whether this company worth to be invested or not. We can asume, this factor could be the most important factor in giving impact directly to the stock price. This also shows that the Indonesian Governenments effors to promote corporate governance provide benefits to publicing stock market.

Contrast with profit, stock price is more stable and there is no gap that is too far from year to year, this can be one of influence for regression result. And other factors such as firm performance or economic conditions of a country are not too important factors that can determine stock prices, because in fact other than because the company's performance is good, investors to a company even though the company is down performing, some do not change investor confidence to keep buying the stock, Because they believe that in the coming years the company that will come down will rise again.

**Conclusion**
This study reveals there isn’t any relationship between Corporate Governance Implemenation and Income Changes. The result shows that high implementation of Good Corporate Governance not consistently make the change of income increases, this may occured because there is not any direct relationship between the implementation of Good Corporate Governance towards income change. Otherwise, income changes more effected by the other factors. This result fail to confirm the previous theory about Good Corporate Governance Implementation has an effect on firm performance. This findings accordance with the previous research Ardiana (2008), Sayidah (2007) and contrary with Khatab et.al (2011) and Wahyudin & Solikhah (2017) which found a positive relationship between Good Corporate Governance and the firm performance. The researcher assumed that the other factors like the current economic climates, firm performance of each sample and firm financial performance were the other factors which affecting the results.

This study found there is a relationship that occurs between index and stock price. This means, the higher implementation of Good Corporate Governance within a firm will increased the stock price. This result in accordance with Wayan (2010), Khatab et.al (2011), Siagian et.al (2013) pervious studies which implies there is a significant effect between Good Corporate Governance implementation and firm value, which stock is one of the factors that could affected the firm value. It means that firms which having a Good Corporate Governance implementation measures more valuable rather than the firm which having less corporate governance implementation.

**Suggestion**
Future researchers expected to conduct a similar topic of research but address the effect of corporate governance implementation with not just only companies listed in CGPI who consistent get ranking but include all companies listed, to get different and maximum results.

Future research is expected to use time spans longer than this study, for achieving more sample to get better result. it is important to note that future researchers should not only consider the recent time span or time frame to justify their selection of the sample but also consider the likeness of events that occur in the selected time frame as it may affect the statistical results of their study.
Future research should add to other factors could be associated with the implementation of corporate governance and firm performance also firm value such as variable ROA, ROE, EVA, dividends, stock returns and adding control variables. Different from the proxy used in this study that used the calculation based on profit before tax, the other variables are suggested used the calculation based on profit after tax. This may have an impact to the result because the tax ratio increment can also affects the firm performance.

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