

**THE INFLUENCE OF CORPORATE GOVERNANCE
ON THE PERFORMANCE OF MANUFACTURING
COMPANIES WITH EVA APPROACH**

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MINOR THESIS

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Rina Dianita

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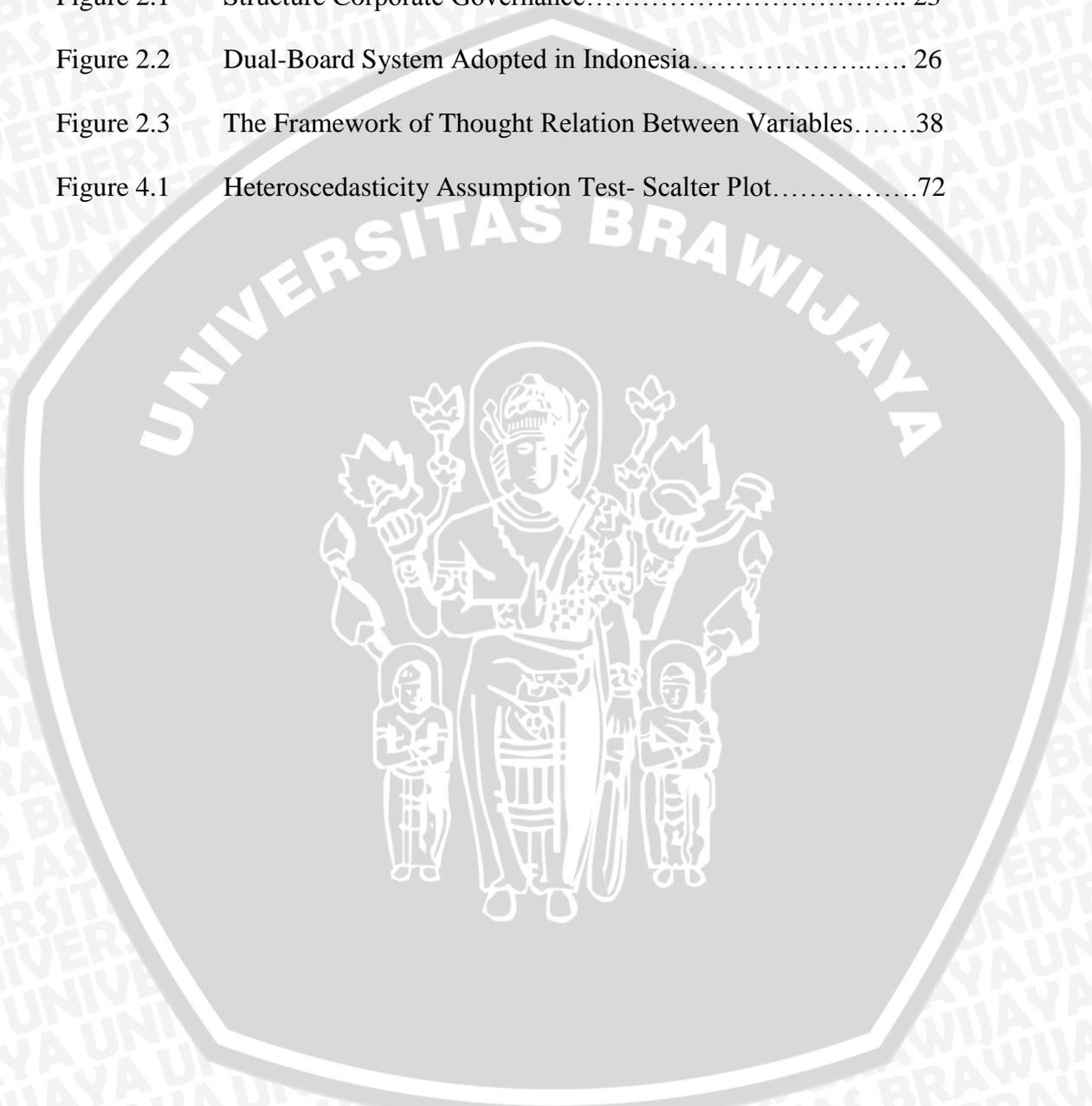
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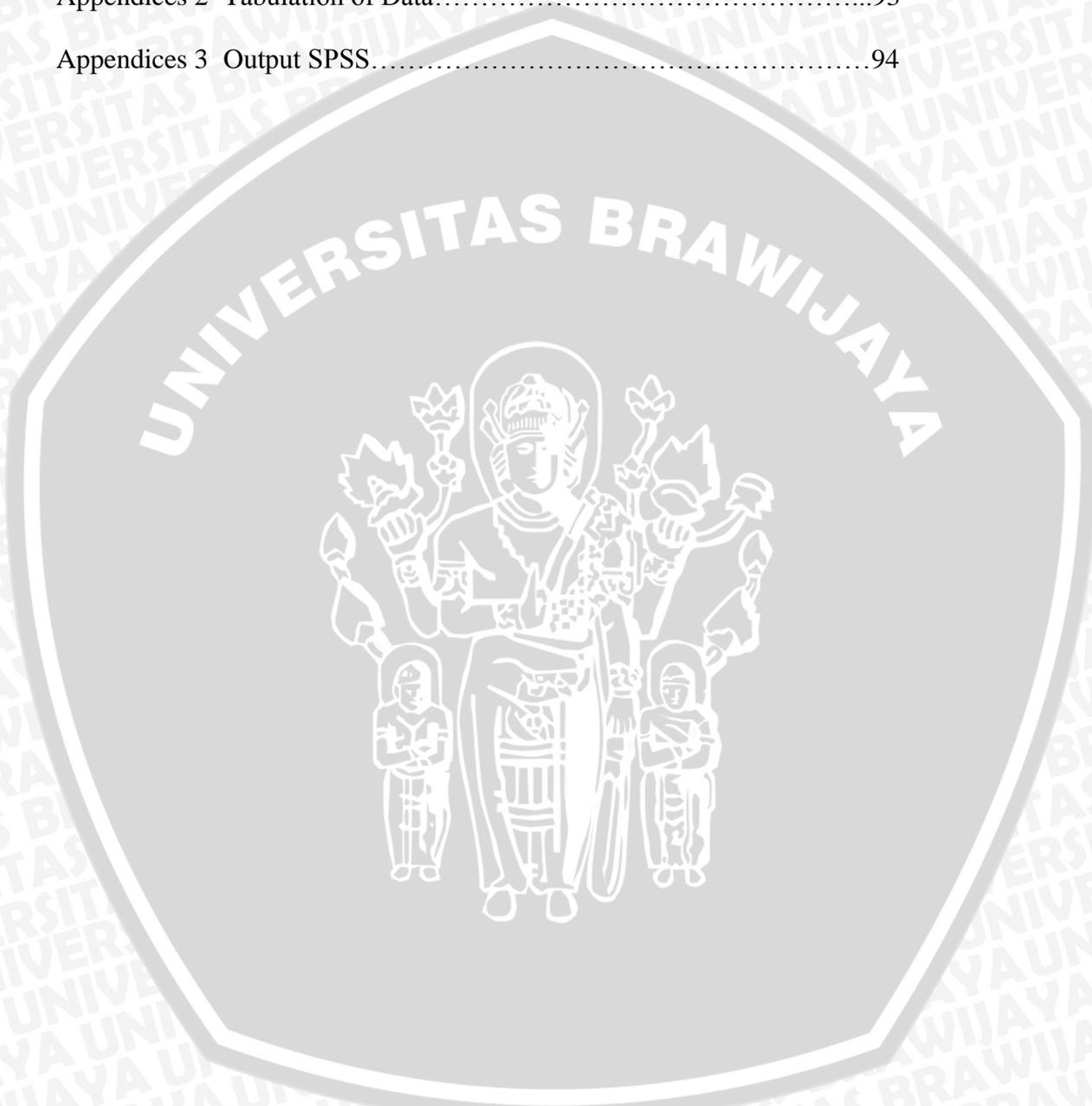
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PENGARUH CORPORATE GOVERNANCE TERHADAP KINERJA PERUSAHAAN MANUFAKTUR DENGAN PENDEKATAN EVA

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ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh good corporate governance terhadap kinerja perusahaan manufaktur dengan pendekatan eva. Komponen corporate governance yang diuji dalam penelitian ini adalah ukuran dewan komisaris independen, kepemilikan institusional, kepemilikan manajerial dan ukuran komite audit. Kinerja perusahaan diukur dengan EVA. Populasi dalam penelitian ini yaitu perusahaan manufaktur sektor industry dasar dan kimia yang terdaftar di BEI tahun 2012 dan 2013, dengan metode penentuan sampel yaitu purposive sampling method diperoleh sampel berjumlah 40 perusahaan manufaktur sektor industry dasar dan kimia pada periode 2012-2013. Teknik pengumpulan data yang digunakan dalam penelitian ini adalah dokumentasi dan pooling dengan metode analisis regresi berganda yang menggunakan data laporan keuangan tahunan yang terdaftar di BEI. Hasil penelitian membuktikan good corporate governance berpengaruh signifikan terhadap kinerja perusahaan (EVA) dengan variabel kepemilikan manajerial dan ukuran komite audit. Semakin tinggi kepemilikan manajerial dan komite audit, maka akan meningkatkan kinerja perusahaan melalui peningkatan kualitas laba dan nilai perusahaan. Variabel ukuran dewan komisaris independen dan kepemilikan institusional tidak memiliki pengaruh yang signifikan terhadap kinerja perusahaan (EVA).

Kata kunci: good corporate governance, ukuran dewan komisaris independen, kepemilikan institusional, kepemilikan manajerial, komite audit, kinerja perusahaan (EVA)

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ABSTRACT

This study aims to examines the influence of good corporate governance on the performance of manufacturing companies with EVA approach. Corporate governance components in this study is the size of independent board of commissioners, institutional ownership, managerial ownership and the size of the audit committee. The company's performance is measured by EVA. Population in this study is the manufacturing company basic industry and chemical sectors listed on the Indonesia Stock Exchange in 2012 and 2013, the sampling method used is purposive sampling method obtained a sample amounts to 40 manufacturing company basic industry and chemical sector in the period 2012-2013. Data collection techniques used in this study is documentation and pooling with multiple regression analysis method that uses data of annual financial reports listed on the Indonesian Stock Exchange. These results of the study indicates that good corporate governance have a significant effect to company's performance (EVA) with managerial ownership variables and size of the audit committee. The higher managerial ownership and the audit committee, it will improve the company's performance through improved quality of earnings and corporate value. Variable size of independent Board of Commissioners and institutional ownership has no significant effect on company's performance (EVA).

Keywords: good corporate governance, size of the independent board of commissioners, institutional ownership, managerial ownership, audit committee, company's performance (EVA)

CHAPTER I

INTRODUCTION

1.1 Background

Since the economic crisis in 1997, the implementation of Good Corporate Governance (GCG) became a hot issue in Indonesia. As a result of bad government and corporate governance in Indonesia at that time causes Indonesia's economy slumped. The lack of transparency and accountability allows the manipulation of information by the company. The breach of the principles of good corporate governance among the Indonesian companies occurred due to very poor regulations so that government's control on the company's performance was loose. Since then, all parties has agreed to be able to rise from slump, Indonesia should start practice a good governance on the Government and private companies. Various efforts to improve governance is carried out by applying the principles of GCG in all societies (Oktavianti, 2012).

IICG (The Indonesia Institute for Corporate Governance) defines the concept of corporate governance as a set of mechanisms for directing and controlling an enterprise so that the company's operations run in accordance with the expectations of stakeholders. This definition concludes that Corporate Governance (CG) is a business management that involves the interests of stakeholders as well as the use of principled justice resources, efficiency, transparency and

accountability. This management system is important because of its presence in two ways. First, rapid changes in the environment pose major impact on the global competition. Second, as the complexity of stakeholders includes business ownership structure and the risk of a business that requires anticipation on opportunities and threats in the strategy included in prime control systems (Bukhori, 2012).

The issue of Corporate Governance (CG) to pull back after several major companies based in the United States such as Goldman Sachs, Bear Stern, Morgan Stanley, Merrill Lynch, and Lehman Brothers, one by one collapsed (Koran Tempo, March 17, 2009). This is reminiscent of the early airings Corporate Governance international attention. As one of the country with the CGPI (Corporate Governance Perception Index) is high, it is certainly getting into question the true extent of corporate governance role in supporting the company's goals.

Corporate Governance problems came to world attention after exposure to the scandal and corruption from the largest Corporation in the history of the United States involving Enron company. Enron engaged in electricity, natural gas, paper pulp, paper and communication. The scandal also involves one of the Big Five public accounting firm at the time, namely accounting firm Arthur Andersen (Sekaredi in Bukhori, 2012). Enron scandal committed by party executives of the company by doing the mark-up the company's profits and hide a number of debts. The case is then dragged to the

involvement of public accountant Arthur Andersen and Enron auditor who is lead to Arthur Andersen closed globally.

The scandal conducted a number of companies such as Enron, Tyco International, Adelphia, Peregrine Systems and WorldCom causing the outbreak of Sarbanes Oxley. Sarbanes Oxley is another name of investor protection reform legislation that sets things ranging from additional corporate board responsibilities to criminal prosecution. The main core of this legislation is an attempt to further improve the financial accountability of public companies (Sekaredi in Bukhori, 2012). This legislation significantly influence the management of public companies, public accountant (auditor), and a lawyer in the capital market. Given the nature of very strict and broad impact, this legislation is being controversial and polemic (Bukhori, 2011).

In Indonesia, Corporate Governance issues raised since the economic crisis that hit Asian countries, including Indonesia, and increasingly becoming a concern due to the unfolding many cases manipulation of financial statements. Boediono (in Hardikasari, 2011), mentions several cases that occurred in Indonesia, such as PT. Lippo Tbk and PT Kimia Farma Tbk also involve financial reporting that starting from the detection of indications of manipulation.

The failure of some companies and the incidence of financial malpractice cases as a result of the crisis is a bad practice of Corporate Governance (CG). Characteristics of weak FCG practices in Southeast

Asia are (1) the existence of a concentration of ownership and insider power shareholder (including Governments and parties associated with the powerhouse), (2) weak governance, financial sector, and (3) the ineffectiveness of internal rules and the absence of the consent law for minority shareholders to deal with majority shareholder and Manager (Suprayitno, 2004).

In the effort to overcome these weaknesses, the business person in Indonesia has agreed to implement good corporate governance (GCG) which is a system of company management. It is in accordance with the Letter of intent (LOI) signed with the IMF in 1998, which emphasized the inclusion of a scheduled company management improvement in Indonesia (Pranata, 2007).

Corporate governance can be created if there is a balance of interests between all parties concerned with the business. The balance requires a measurement system that can absorb any strategic and operational dimensions of the business as well as information-based. Performance measurement concepts of corporate governance is based on five fundamental, namely the protection of the rights of shareholders, equal treatment of shareholders, the role of the stakeholders associated with the business, openness and transparency, the accountability of the Board of Commissioners (Bukhori, 2012).

The Global financial crisis (CFG) that plagued the business sector since 2007 turned out to be more difficult compared to facing the

monetary crisis occurred around 1997. The monetary crisis is only regional (local), it is only certain regional struck, while the CFG are worldwide (global). The role of internal auditors in the company should be able to encourage the achievement of the goal of companies with good corporate governance (Effendi, 2009).

Although the government's economic performance is characterized by several breach principles of good governance, capital markets, banking, and in the real sector due to the crisis that hit Indonesia, the principles of corporate governance should still be able to run in the amanah, accountable, transparent and fair to achieve the goal of creating long-term value of the company's performance as well as served all the interests of parties concerned with the operations of the company (stakeholders). If corporate governance is a significant factor in the crisis conditions, the corporate governance is not only able to explain the difference in performance between countries during the crisis period, but also the performance differences between firms within a particular country.

The Indonesia Institute for Corporate Governance (2002) found that the main reason of the company implementing GCG is the adherence to the regulations. The company believes that the implementation of GCG is the enforcement of other forms of business ethics and work ethic that has long been the company's commitments. Furthermore, the implementation of GCG is related to the improvement of the corporate

image. The company's practice of GCG will improve image, and increase the value of the company.

A research carried out by the World Bank's Economist in 1998 revealed that throughout the years 1993 to 1997, more than 60% of companies listed on the Jakarta Stock Exchange (JSX) is only controlled by the ten richest families in Indonesia. The lack of protection of minority shareholders led to a loss of investor confidence to invest their shares remain in Indonesia.

Research on the relationship between Corporate Governance with the company's performance have been many performed. One of them Oktavianti (2012), the research method using multiple regression analysis, the sample selection using purposive sampling method. The sample used in this research is manufacturing company listed on the Indonesian Stock Exchange during the 2009-2010 period with EVA approach. The results showed that the size of the independent Commissioners have positive effect on company performance (EVA), while the institutional ownership and the size of the audit committee does not effect on company performance (EVA).

Hardikasari (2011), also did a similar study with the object of banking companies. Indicators of Corporate Governance mechanism used in this study consists of size of the Board of Directors, Board of Commissioners and the size of the company against profit management practices undertaken by the banking industry in Indonesia. The sample

in the study is the banking companies were listed on the Indonesia stock exchange (idx) of the year 2006-2008. The research used multiple regression analysis method, the sample selection was purposive sampling method. Research results Hardikasari (2011) that the size of the Board of Directors has a negative effects on the financial performance, while the size of Board of Commissioners positive effect significantly to company performance and size of the company's positive effect is not significantly to financial performance.

Ardita (2010), studied the influence of the application of corporate governance mechanism on the quality of earnings and corporate value using the proportion of Board of Commissioners, the size of audit committee, institutional ownership, and managerial ownership. Using multiple linear analysis, the results of the study showed a positive influence between the proportion of institutional ownership and managerial ownership with the performance of the company while the audit committee had no influence on the company's performance.

Other studies are formulated about the relationship between the implementation of good corporate governance on company performance is the research conducted by Che Hat, *et al.* (2008). In his research, Che Hat, *et al.* (2008) using variable timelines and disclosure of the results of this research indicate the lack of a significant relationship between the implementation of good corporate governance with timelines and disclosure. In addition, this research found that

timelines and disclosure do not affect significantly to the company's performance. However, the research found that the implementation of good corporate governance have significant influence on company performance.

Based on the background described above about the corporate governance mechanism against the financial performance, visible results that are quite diverse. However, mixed results were also influenced by the differences of the variables used by each researchers to reflect on the various indicators of corporate governance mechanism caused to the breadth of the definition of corporate governance mechanisms. Given that in previous studies has been no limitation on what variables including structures, systems and processes both internal and external. So this research sought to conduct research that focuses on the internal structure of the company. The internal structure of the company consists of the composition of the Board of Directors and Board of Commissioners. This research wants to reveal whether the composition of the company's internal structure affects the company performance. However, speaks of the company's performance which calculated with financial ratios, cannot be separated from the size of the company that is reflected by total assets. The larger the company owned assets, allow the financial performance occurred in the company's operations the bigger anyway. Gains, losses and expenses that can be reduced may be different from companies with smaller

assets. This study tested the corporate governance variables against the manufacturing company's performance is measured by using the Economic Value Added (EVA).

EVA is a measurement of financial performance concept popularized by financial analysts to obtain better assessment methods (Stewart and Stern, 2001). In Indonesia this method is known as a method NITAMI (economic value added). According to Hansen & Mowen (2001: 829) in Witri (2009: 27) economic value added is the operating profit after tax was reduced the total annual cost of capital. The reason of using EVA as a measure of financial performance of companies is due in connection with the performance, financial reporting as a basis for assessment of the company performance, the cost of capital as a replacement for the company's risk is believed to be an appropriate method for measuring the value of the company. EVA is able to reflect the real business value of as it involves calculating the cost of capital that reflects the return needed to cover the risks facing the company. EVA is a financial management methods to measure economic profits in a company that states that welfare can only be created when is able to meet all operating costs and capital costs, according to Single (2001) in Iramani and Hidalgo (2005: 3).

Based on the above background, the author interested to do research of "The Influence of Corporate Governance on The Performance of Manufacturing Companies with EVA Approach". The company

selected researcher is a basic industry sector manufacturing company and chemical registered in Indonesian Stock Exchange.

1.2 Formulation of the Research Problem

Corporate governance is a key in increasing the value of the company's performance. With the application of the principles of good governance that consists of an indicator: the size of the Board of Commissioners are independent, the Audit Committee, Shareholders and Stakeholders, which is expected to be able to improve the performance of the company's manufacturing Base and chemical industry sectors listed on the Indonesia stock exchange using the EVA approach as a tool to measure the performance of the company.

This study will analyze the effect of these variables on the performance of companies with research questions as follows:

1. Does the size of the independent Board Commissioners effect EVA?
2. Does the institutional ownership effect EVA?
3. Does the managerial ownership effect EVA?
4. Does the audit committee effect EVA?

1.3 Research objectives

The goal of the research to be achieved by the authors is to know the relationship Corporate governance mechanisms to company performance is measured using Economic Value Added (EVA), divided into four (4) variables, as follows:

1. To analyze the influence of size of the independent Board of Commissioners toward EVA.
2. To analyze the influence of institutional ownership toward EVA.
3. To analyze the influence of managerial ownership toward EVA.
4. To analyze the influence of audit committee toward EVA.

1.4 Research Benefits

This research finding is expected to able to provide meaningful input and information such as:

1. For science,

This study is expected to provide insight on corporate governance and can also broaden the comprehension on the use of performance measurement of economic value added primarily in manufacturing Base and Chemical Industry Sectors.

2. For the management of the company's manufacturing Base and Chemical Industry Sectors.
 - a. This research can provide information to what extent the application of the principles of good governance affect the performance of the company.
 - b. As a consideration in the preparation of the plans, strategies, and policies that are more efficient and effective to improve performance.

3. For the general public in particular shareholders.

This research is expected to provide information to the community particularly the shareholders about the extent to which the performance of the company and of any action that has been carried out by management in order to increase the company's performance and so reduce the miscommunication between the management company and the external parties associated with it.

1.5 Writing Systematic

In providing a clear picture about the research, the following is the systematic writing containing information about the material discussed in each chapter, namely:

CHAPTER I INTRODUCTION

This chapter is a short elaboration on the overall content of the research and a brief description of the research problem. This chapter contains the background problems, formulation of the problem, research objectives, the benefits of research, and writing systematic.

CHAPTER II LITERATURE REVIEW

This chapter outlines the foundations of the theory being used, the basic concept of good corporate governance, basic principles of GCG, the framework of

thought informing the research hypothesis and the relationships between the variables used in the study.

CHAPTER III RESEARCH METHODS

This chapter describes the types of research studies, the variable, population and sample, the types and sources of data used, the method of data collection, methods of data analysis, data quality, as well as testing of hypothesis testing.

CHAPTER IV DISCUSSION

This chapter explains in detail about the research results which contains about the description of the object observed, explanation and discussion of results of calculations or data analysis with the method of analysis, as well as interpretation of results.

CHAPTER V CONCLUSIONS AND SUGGESTIONS

This chapter contains the conclusions of the study results as well as the limitations of the research. It also delivers suggestions to interested parties for further research.

CHAPTER II

LITERATURE REVIEW

2.1 Basis Theory

2.1.1 Agency Theory

Agency theory was developed by Michael C. Jensen and William H. Meckling. Agency theory terms is principal owner, while the managers is agent. The Agency theory describes that the agent has authority to manage the company and taking decisions on behalf of investors. A conflict can occur if the is different interest between company owners and the manager, this condition may lead to information asymmetry. It is due to the owner of the company (principal) does not play an active role in the management of the company. The principal delegates authority and responsibility to the management of the company i.e. professional managers (agent) to perform work on behalf of and for their significance. A delegation of this authority causes managers to have an incentive to make strategic decisions, tactical and operational activities that could benefit them, so it appears that the agency conflicts that are difficult to synchronize.

Jensen and Meckling (1976), there are two kinds of asymmetry information, namely:

1. Adverse Selection, which is a condition where the principal do not know whether a decision taken by the agent is really based on the information that has been acquired or occur as a dereliction of duty.
2. Moral Hazard, it is a condition that arise if the agent does not implement the things that have been mutually agreed in the employment contract.

Asymmetry between management and the owner gives the opportunity to the Manager to be opportunist to obtain personal benefit. For example, by not delivering the financial statements in accordance with the reality to get personal bonuses. The manager may perform management profit to mislead the owner as to the economic performance of the company.

This agency theory assumes that managers will act as opportunistic profit taking before achieving the interests of shareholders. When a company is developing and the number of shareholder soaring, the larger agency fees a company should pay. This condition might occur if the owner can't do effective control against managers who manage the company. According to Jensen and Meckling (1976) potential conflicts of interest can occur between the parties concerned, such as amongst the shareholders with the company Manager (agency cost of equity) or between shareholders and creditors (the agency cost of debt). Jensen and Meckling (1976) stated that the financial statements prepared by

the accounting figures are expected to minimize the conflicts between the parties concerned.

Agency theory is very difficult to be implemented, has many constraints and still has not adequate rules, so it needs a clearer concept of protection of stakeholders. Those concepts should relate to issues of conflict of interest and the costs incurred agency, so that it develop a new concept which pay attention to and set the interests of the parties related to the ownership and operational (stakeholders) of an company, namely the concept of corporate governance.

The relationship between principal and agent is fundamental in the implementation of corporate governance practices. Companies/corporations can be viewed from two theories, namely (a) theories of shareholders (shareholding theory), and (b) stakeholder theory (Tjager, 2003). Shareholding theory stated that the company is founded and run to maximize the well-being of owners/shareholders as a result of investment. Meanwhile, Stake-holding theory, stated that the company is an organ that is associated with the other interested parties, both inside and outside the company.

Agency theory is the basis for understanding corporate governance. The Agency theory indicates that there is asymmetry of information between the managers as agent and the owner (shareholder) as principal (Jensen and Mackling, 1976), so the Agency theory becomes the basis of the idea that a better company performance can be achieved due to

good corporate governance (Haat, et al. 2008). Agency theory's relationship with this research is that a good company performance will be achieved, if the company practices good governance well. This is done by monitoring and giving better protection to its shareholders (Haat, et al. 2008). In a narrow sense, agency theory as the basis of the application of corporate governance is expected to serve to suppress or reduce the cost of supplies and as a reference to how the investors control the managers. Broadly, good corporate governance is expected to give confidence to investors that they will receive a rate of return on the funds they had invested.

2.1.2 Corporate Governance

There are many definitions of corporate governance. Corporate Governance in Indonesia Forum (FCGI) (2001) defined it as a set of rules governing relationships between the shareholders, stock management, creditors, governments, employees and stakeholders of other external and internal interests relating to the rights and obligations they have to regulate and control the company. Organization Economic Cooperation and Development (OECD) (2004) argues that corporate governance is the structure of the relationship as well as the relation to responsibility between related parties consisting of shareholders, members of the Board of Directors and Board of Commissioners including the manager, which is designed to encourage the creation of a competitive performance necessary in achieving the main goals of the

company. The National Committee for Governance Policies (KNKG) (2004) defined Corporate Governance as a process and structure used by company organs in order to add value to the company on an ongoing basis in the long term for shareholders, while paying attention to the interests of other stakeholders, based on the regulations and norms in force./

The conclusion that can be drawn from the previous discussion is that the essence of Corporate Governance is in the form of an increase in the company's performance through monitoring the performance of management and the accountability of management to stakeholders and other stakeholders. In this case the management is more focused in achieving the goals of management and not working for things not being a target achievement of management performance.

2.1.3 Principles of Corporate Governance

Corporate Governance has some principles which can be applied to every aspect of business and in all ranks of the company. In addition, GCG principles that are applied with within a company can push an understanding between the parties concerned regarding the rights and obligations, as well as focusing on the achievement of the expected performance of the company. Based on the decision letter of the Minister on the State-Owned Enterprises reference number Kep-117/M-MBU/2002 of 1 August 2002 article 3 on the application of corporate governance practices include the five principles, namely:

1. Transparency

To keep the objectiveness in running the business, the company must disclose relevant material and information in a way that is easily accessible and understood by stakeholders. Companies should take the initiative to disclose not only the problem that is foreshadowed by legislation, but also important for decision making by the shareholders, creditors, and the interests of the other parties.

2. Accountability

The clarity of the functions, implementation and accountability for the Organization so that the management company would operate effectively. The company must be able to account for its performance in a transparent and independent. Therefore, the company should be managed correctly, measurable, and in accordance with the interests of shareholders and other stakeholders interests. Accountability is a necessary prerequisite to achieve continuous performance.

3. Responsibility

The company has a responsibility towards society and the environment and must comply with the regulation in force so it can maintain their business sustainability.

4. Independence

It is a situation where a company is managed professionally without conflicts of interest and influence or pressure from any party which is not in accordance with the applicable legislation and the principles of a healthy Corporation.

5. Fairness

It is impartiality and equality in fulfilling the rights of other stakeholders arising under the agreement and the regulations in force.

Research on the corporate governance produces a variety of mechanisms that have a goal to make sure that management actions aligned with the interests of the shareholder. Corporate governance mechanisms are divided into two groups: (1) in the form of internal mechanism such as the composition of the Board of Directors, Executive compensation and managerial ownership, (2) external mechanism such as a control by the market and the level of debt financing (Barnhart and Rosentain, 1998).

2.1.4 The Benefits of Good Governance Application

The implementation of good corporate governance are expected to provide the following benefits (FCGI, 2001):

- 1) Improving the performance of the company through the creation of decision-making process better, the efficiency of the company's operations, and service to stakeholders.

- 2) Lessening the financing funds so as to further increase corporate value.
- 3) Restoring the confidence of investors to invest capital in Indonesia.
- 4) Increasing the satisfaction of shareholders with the performance of the company as well as shareholders value and dividends.

The implementation of good corporate governance uses principles that are applied internationally, namely (FCGI, 2001): (1) The rights of shareholders, who should be given the information correctly and on time about the company, to be able to participate in the decision making of the company, and also to get part of the profits of the company, (2) Equal Treatment of shareholders, especially to minority shareholders and foreign shareholders, with the disclosure of information that is important as well as prohibits the sharing of his own party and for stock trading by insiders (insider trading) (3) the role of the shareholders must be recognized as established by law and an active cooperation between the company and the stakeholder of an interest in creating prosperity, employment and a healthy company from financial aspects (4) The disclosure of accurate and timely as well as transparency about all the aspects that are important to the company's performance, ownership, and stakeholders.

Based on the definition above, it can be concluded that Corporate Governance needs to be understood by the company in order to be competitive in the business world which comprises:

- 1) Balance the relationship between the organs of the company as reflected in the general meeting of shareholders (GMS), Commissioners, and Directors.
- 2) The fulfillment of corporate responsibility as a business entity in the community to all stakeholders.
- 3) The existence of the rights of shareholders to get the proper and correct information on the time as required by the company.
- 4) The existence of equal treatment of shareholders, especially minority shareholders and foreign shareholders over the openness and relevant material and information.

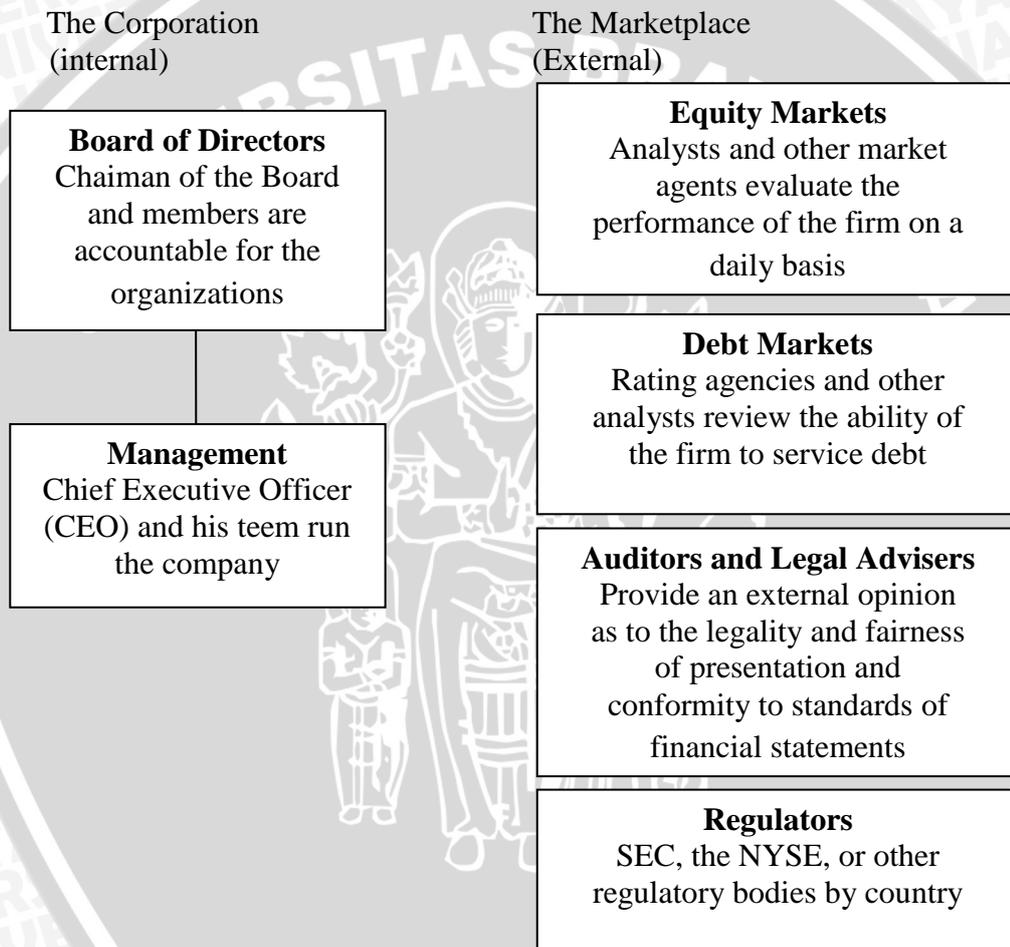
2.1.5 Mechanism of Corporate Governance

The mechanism is a rules, procedures and working methods that should be pursued to achieve the certain conditions. Corporate Governance mechanism is a mechanism based on rules, procedures and the relationship between the parties in a company to run its role and work. Corporate Governance mechanism consists of three key elements, namely structure, process and systems which is used to steer and control the company's operations as expected.

Structure is defined as a way in which activity in the Organization, organized, shared and coordinated (Stoner et al in Arifin, 2005). The structure is a form of basic framework to implement the existing principles in order to be used, work and perform a function. The structure of Corporate Governance is a form of correspondences of

various interests, both internal and external companies. An overview of Corporate Governance structure is useful in determining strategic direction, systematic performance monitoring and performance of the company.

Figure 2.1 Structure *Corporate Governance*



Source: Gray and Radebaugh (2009)

From the chart above, it can be seen that Corporate Governance structure is formed by two different mechanisms. This mechanism

shows the main rules, procedures and a clear relationship between the parties in decision making and control decision. These mechanisms are:

1. Internal control mechanism structure. The parties involved in this internal mechanism is the agent and the principal of the board of directors and executive managers within the company. The Board of directors has the authority to hire, dismiss, supervise and provide compensation to top-level decision managers. While management is the Executives who carry out all operational activities of the company (Manager). Internal control mechanism is done by creating a set of rules governing the mechanism for the results, either in the form of profits, returns, or risks approved by the principal and the agent. One of the options internal control mechanism for instance is the awarding of contracts long-term incentive (Arifin, 2005). Long-term contracts is done by giving incentives to managers when the company's performance increases. Thus, there is a mutual relationship between the principal and the manager. Managers will be motivated to improve the performance of companies that will make developing principal capital, because on the other side it will also increase their own wealth managers.
2. External control mechanism structure. The external control mechanism consists of parties and stakeholders associated with the company including capital market, money market, auditors, paralegals and regulators. The structure of external control mechanism is a mechanism

for controlling the established parties from outside the company. This mechanism is also referred to the mechanism controlling the market because this mechanism is formed by the relationship of the company with the market, so that control of the company is conducted by the market itself. According to the theory of markets for corporate control (market for corporate control), when it is known that benefit themselves behave management, corporate performance will decline reflected the declining value of the company. At the event in such conditions, the market will respond with a policy to make reforms managerial structure that has served (Arifin, 2005).

Arifin (2005) says Corporate Governance structure is basically regulated by law as the basis for the legality of the establishment of the entity. In Indonesia alone, the legal system was heavily influenced by Netherlands legal system, so that in the structure of Corporate Governance adopted in Indonesia was influenced by the structure in the Netherlands.

KNKG (2006) Stated that the management of a limited liability company in Indonesia adopts a two-board system where the Board of Commissioners and the Board of Directors have the authority and responsibility in accordance with their respective functions as mandated in the statutes and regulations (fiduciary responsibility). However, the application of the two-board model structure in the governance system in Indonesia is different from the Continental Europe model where the

authority of appointment and dismissal of Directors is in the hands of shareholders. So, based on the model of two-board system in Indonesia, the position of directors is in line with the position of the Board of Commissioners. A clear elaboration regarding the structure of the company in Indonesia is regulated in the law No. 40 Year 2007 on Limited Liability Company.

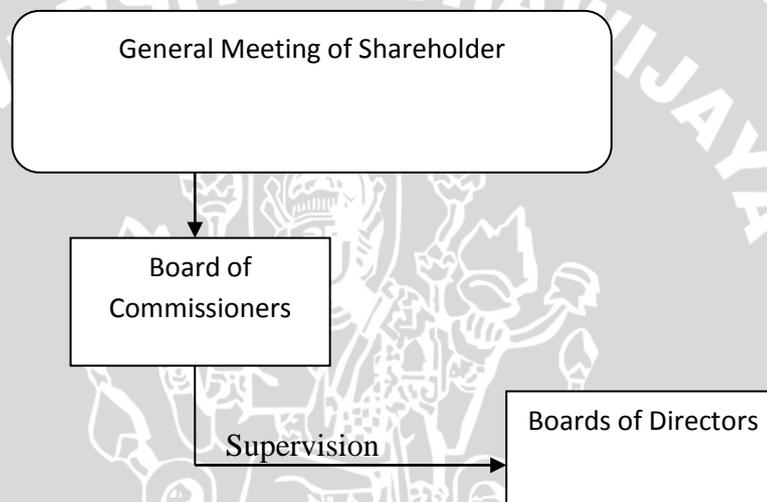


Figure 2.2 *Dual-board system adopted in Indonesia*
Source: FCGI(2002)

According to the law (UU) No. 40 year 2007 on limited liability company, the Board of Directors is the section of the company which is authorized and are fully responsible for managing the company for the benefit of the company, in accordance with the goals and purpose of the company as well as representing the company based on the provisions of the articles of Association. Therefore, the Board of Commissioners is

a unit of the company in charge of conducting monitoring in general or particular, and based on the articles of association as well as to give considerations to the Board of Directors.

2.2 Definition of Performance Measurement

Performance measurement is very important for a company. In management studies, there is an axiom of "If you can't measure it, you can't help but watch him, regulate or fix it". These axiom shows the importance of performance measurement in the management process. Stout (1993) defined performance measurement as the process recording and measuring the achievement of the activities implementation towards the achievement of the Organization's vision and mission through the results that are displayed in the form of a product, service, or a process. Aurora (2010) defined performance measurement as a process of assessing progress towards the achievement of goals and objectives that have been set by the Organization in support of the achievement of the Organization's mission, including assessing the efficiency and effectiveness of the Organization's activities.

Performance measurement public sector helps the Government in determining the levels of achievement of goals. Performance measurement also helps the community to evaluate the service provided by the Government and the extent to which these services have been in

accordance with the expenses given by the community either directly e.g. home services payment or indirectly through the payment of taxes.

2.2.1 Objectives Performance Measurement

Ulum (2009) mentioned that in general the purpose of performance measurement is:

1. To communicate better strategies (top down and bottom up).
2. To measure the performance of the financial and non-financial balance to trace the achievement of the development strategy.
3. To accommodate comprehension and interests of medium and lower-level managers as well as motivating them to achieve good congruence.
4. As a tool for achieving customer satisfaction based on an individual approach and the collective ability of rational.

The purpose of performance measurement for the public sector is not much different from the private sector. For example, in accordance with the mandate of PP No. 23 in 2005, BLU is given large financial authority to implement healthy practices to improve services to the community. One form of it is healthy business practices performance measurement financial and non-financial that are evenly matched.

2.2.2 Performance Indicators

Performance measurement requires an indicators as the basis of measurement. Bastian (2006) defines performance indicators as a measure describing the quantitative and qualitative level of

achievement of a target or intended purpose, taking into account the input indicator (input), output, benefits, and impacts.

1. The input indicator is everything that is needed for the implementation of the activity can be run to produce the output. This can be an indicator of funding, human resources, information, and policy/legislation.
2. The output Indicators is something expected directly reached from an activity which can be either physical and/or non physical.
3. Indicator of the results is everything which reflects the proper functioning of the activities on the medium-term output (direct effect).
4. Indicator of benefits is something that is bound with the ultimate goal of the implementation activities.
5. Indicators of impact is the influence that brought about both positive and negative on every level indicators based on assumptions that have been set.

2.2.3 Measurement EVA (Economic Value Added)

Economic Value Added (EVA) is a method of measuring the financial performance to calculate the actual economic benefits from a company. EVA'S method was first developed by Stewart and Stern, a financial analyst from financial management consulting firm Stern Stewart & Co. in 1993. In Indonesia this method is known as a method NITAMI (economic value added). Hansen & Mowen (2001: 829) in Witri (2009: 27) economic value added is the operating profit after tax

was reduced the total annual cost of capital. EVA/NITAMI is financial management method is to measure the economic profit of a firm in stating that welfare can only be created when a company able to meet all operating costs and capital costs, according to Tunggal (2001) in Iramani and Febrian (2005: 3).

Singgih (2005) reveals the Economic Value Added (EVA) is a method that takes into account the cost of capital risk in lieu of the company. This method is believed to be the right method is to measure the value of the company. EVA is able to reflect the company's real business value because it involves calculating the cost of capital reflecting the return needed to cover the risks faced by the company.

This method is used to alleviate some weakness and uncertainty in the traditional performance measurement, so that practitioners and academics develop this new concepts in performance measurement. EVA is a device for measuring the real advantage of the financial operations of the company. The EVA is used to compute the cost of capital, which cannot be done using the conventional calculation.

EVA'S condition reflects a positive rate of return is higher than the cost of capital rate. A positive EVA demonstrates the ability of management in creating value wealth company/owners of capital, and conversely, EVA negative implying a decline in wealth. The company has an increasingly good performance when it can produce an

increasingly positive EVA values. A high EVA score indicates that the management had done their job well.

A public company that produces the EVA negative value may still obtain a high net profit though, it means that the company hasn't been able to produce a rate of return on capital to cover the risks and costs of investments infused capital owners (investors). In brief, if the owners of capital funds is invest on a risk-free investment such as SBI (Bank Indonesia Certificate) or deposits, the result would be greater without the sweat and fear out exposed the risk of fluctuations in the middle of the uncertain conditions.

EVA departs from the concept of capital costs (Singgih, 2005), i.e. the risks faced by the company in the conduct of its investments. A high level of investment risk would result in high level of return (income). If the model Return on Investment (ROI) and Return on Equity (ROE) stopped on the profit (return) is achieved, EVA reduces earnings with cost of capital so that management companies are expected to be able to choose the optimum level of investment return and with minimum risk levels. In brief, EVA figures obtained from operating income minus expenses (charges) on capital investment (capital invested).

Total capital costs shows the magnitude of return demanded by investors on the capital invested in the company. The magnitude of the refund depends on the level of risk the company concerned. Assuming

that investors don't like the risk (risk averse), the higher the level of risk, the higher and the rate of return is also required of investors.

Capital comes from two sources of funds namely debt and equity. The level of cost of capital (WACC) in the equation above is determined based on the weighted average of the interest rate after taxes and the rate of cost of capital over equity, in accordance with the proportion of debt and equity in the capital structure of the company. In other words, the calculation of WACC is to look at the proportion of the company's capital structure consists of debt capital and equity capital.

The cost of debt is the interest rate before tax that is paid by the company to the giver of his loan. The cost of debt is calculated from the amount of interest expenses paid by the company in a period of 1 year is divided by the number of loans that generate such interest. Furthermore it reduces debt payments because of the taxable income, then the cost of that debt has to be multiplied by a factor $(1-t)$ to get the interest expense after taxes, where t is the tax rate payable (%).

EVA > 0 (positive)

If $EVA > 0$ then there has been the addition of economic value to the company and the company can create value for the company.

EVA < 0 (negative)

If $EVA < 0$ then there is no added value in the company because the funds available do not meet the expectations of creditors and especially shareholders (not being able to cover the value of the company).

EVA = 0 (breakeven)

If $EVA = 0$ then the company is economically in case of breakeven because all the profits are used to pay the obligations of the providers of funds either creditors or shareholders or in other words the profits up used for capital costs.

2.3 Previous Researches

A research on the influence of Corporate Governance on performance of the company has been researched. One of them is Betha Berliana Oktavianti (2012) who formulated about the influence of Good Corporate Governance on corporate performance of basic industry sectors manufacturing company and chemical registered in BEI during the 2009-2010 period employing EVA approach. This research aimed at testing the variables which affected by EVA. Using multiple linear regression analysis, the results of the study showed a positive effect on the size of the independent Commissioner against EVA while institutional ownership and size of the audit committee have no effect on EVA.

Eka Hardikasari (2011), examined the influence of the application of corporate governance on financial performance in the banking industry listed in Indonesia stock exchange (IDX) in 2006-2008. This research

aimed at getting empirical evidences about the influence of the application of corporate governance consisting of indicator of the size of the Board of Directors, Board of Commissioners, and the size of the company's financial performance on corporate banking in Indonesia. This research used multiple regression analysis method, the sample selection was purposive sampling method. The results of this research showed that the size of the Board of Directors has a negative effects on the financial performance, while the size of the Board of Commissioners posed positive effect on performance of the company and the size of the company positive effect was not significant to financial performance.

Alisia Ardita (2010), studied the influence of the application of corporate governance mechanism on the quality of earnings and corporate value using the proportion of Board of Commissioners, the size of audit committee, institutional ownership, and managerial ownership. Using multiple linear analysis, the results of the study showed a positive influence between the proportion of institutional ownership and managerial ownership with the performance of the company while the audit committee had no influence on the company's performance.

Sam'ani (2008), performed a research on the influence of good corporate governance and leverage to financial performance in banks listed in Indonesia stock exchange (IDX) 2004-2007. Using multiple

linear regression analysis, the results showed that there was no influence of the independent Board of Commissioners and institutional ownership with company performance. While the size of the audit committee showed a positive influence with the company's performance.

Sambas Ade (2005), examined the influence of the application of corporate governance on company performance. Using multiple regression, the results of the study showed that there was no influence of the independent Board of Commissioners, institutional ownership, managerial ownership and company performance. While the size of the audit committee showed a positive influence with the company's performance.

Table 2.1
Summary of previous studies

Researchers	Variable		Research Results
	Independent	Dependent	
Oktavianti (2012)	The size of the internal structure of corporate governance and company size	The Company Performance	The size independent commissioner had positive effect on EVA Institutional ownership and size of the audit committee had no effect on EVA.
Hardikasari (2011)	Corporate governance	The banking company	The size of the Board of Directors had a

	mechanism and the size of the company	performance	negative effect on financial performance, the size of the Board of Commissioners posed positive effect on company performance and the size of the company was not significant positive effect on financial performance.
Ardita (2010)	The mechanism of <i>corporate governance</i>	The company's performance	Institutional ownership and managerial ownership positive effect on performance of the company, the audit committee had no effect on the company's performance.
Sam'ani (2008)	<i>Corporate Governance</i>	The company performance	The independent Board of Commissioners and institutional ownership had no effect to the performance of the company, the audit committee of the positive effect on company performance.

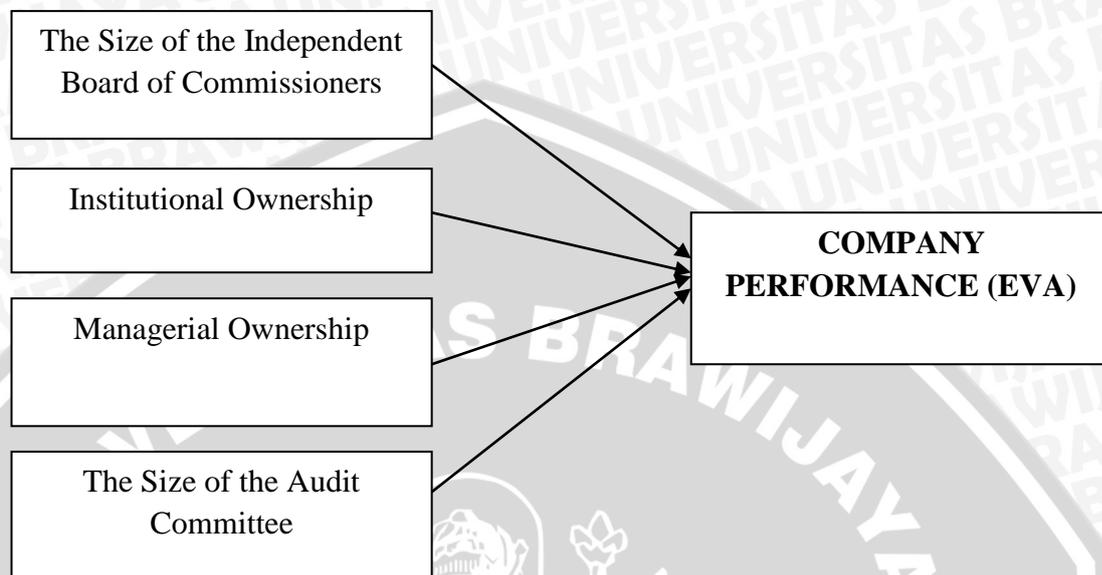
Ade (2005)	<i>Corporate Governance</i>	The company performance	The independent Board of Commissioners, institutional ownership, managerial ownership had no effect to the company's performance. The size of the audit committee of the positive effect with company performance.
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2.4 Research Framework

Based on a review of the literature and previous researches above, the framework of this research is the indicator of the internal mechanism of corporate governance in a company that is the size of the Board of Commissioners, institutional ownership, managerial ownership and size of the audit committee who have an influence on whether or not the financial performance that exists in a company. The company's performance is measured by the financial performance. The following is the framework of this research.

Figure 2.3

The Framework of Thought Relations between Variables



2.5 Formulation of Hypothesis

2.5.1 Independent Board of Commissioners and Company Performance (EVA)

Agency theory states that if there is a separation between the owner as a principal and as an agent manager who runs the company, agency problems will arise because each party will always try to maximize the utility function (Jensen and Meckling, 1976). To minimize problems in the agency, contracts are made between shareholders and managers, between management and employees, suppliers, and creditors. However, conflicts cannot be addressed thoroughly using the contract because the cost to make a complete contract is very expensive and it would not be possible (Fama and Jensen, 1983; Hart, 1995). In the

conditions of the contract cannot be made perfect, corporate governance mechanisms play a role in mitigating the conflict.

Economic Value Added (EVA) is a method that takes into account the cost of capital as a substitute for the company's risk is believed to be an appropriate method for measuring the value of the company. EVA is able to reflect the real business value of the company as it involves calculating the cost of capital that reflects the return needed to cover the risks facing the company (Singgih, 2005).

EVA'S condition reflects a positive rate of return is higher than the cost of capital rate. A positive EVA demonstrates the ability of management in creating value wealth company/owners of capital, and conversely, EVA negative implying a decline in wealth. The company has an increasingly good performance when it can produce an increasingly positive EVA values. A high EVA score indicates that the management had done their job well. The Board of Commissioners is one of the control functions there are within a company. The control functions performed by the board of commissioners is one practical form of agency theory. The board of commissioners functioning as the representative of shareholders are assigned to supervise and provide advice to the directors to run good corporate governance (GCG). The board of commissioners play an important role in corporate governance, because the company's legal affairs and concentrate the legal responsibility of the company to the board of commissioners. In a

company, the board of commissioners representing the main internal mechanism to carry out the supervisory functions of the principal and controlling opportunistic behavior of management. The board of commissioners bridge the interests of principals and managers within the company.

Under the provisions of the Capital Market in the Letter of the Board of Directors of PT. Jakarta Stock Exchange (now BEI) number: KEP-399 / BEJ / 07-2001 on General Provisions Listing of Equity Securities on the Stock points C regulate matters concerning the Independent Commissioner, Audit Committee, and the Corporate Secretary which explains that in the framework of the implementation of management good company (GCG), a Listed Company shall have independent commissioner whose numbers proportionally with the number of shares held by non-controlling shareholders with the provisions of the number of independent directors at least 30% of the total number of commissioners (Emirzon, 2007). If the number of independent directors is more than 30%, the regulatory process will run better.

Fama and Jensen (in Ujiyantho and Pramuka, 2007) stated that non-executive director (independent commissioner) can take charge of the management policy and provide direction to management. Independent commissioner is the best position to carry out the monitoring functions in order to create a company with good corporate governance (GCG).

In general, independent board has better control on managers so as to affect the likelihood of irregularities by the manager. This is in accordance with the opinion of Jensen and Meckling (1976) which states that the agency theory supports the notion that in order to increase the independence of the board, the board should be dominated by parties from outside the company (outsider). Therefore, non-executive directors is required to control and supervise the acting management of opportunistic behavior.

According to Barnhart and Rosenstein (1998) that the higher representatives of independent commissioners then the higher the company's performance which can be seen from the firm value. Independent commissioner related to company performance when supported by the perspective that the independent commissioner are expected to provide supervisory function of the company more objectively and independently, as well as ensure a clean management and healthy company operation so that it can support a company's performance.

The research result Sloan (1996) and Klein (2002) gives the conclusion that the companies that have the proportion of members of the board of commissioners who come from outside the company or outside director can affect the performance. So, if the outside director improve supervision it will be relate with the increasingly low use of discretionary accruals that will enhance the company's financial

performance (Cornet at all, 2006). Based on the results of some research above, it can be formulated a hypothesis as follows

H1: The size of independent board of commissioner has a positive effect on company performance (EVA).

2.5.2 Institutional Ownership and Company Performance (EVA)

Conflicts arising from the separation of ownership that have an impact on controlling and managing the company can cause managers to act not in accordance with the wishes of the owner of the company, can be minimized by the supervision of the company is not limited to that carried out by the company, but can also be done from external company is to enable monitoring through institutional investors (Putri and Natsir 2006 in Nur'aeni, 2010). Institutional ownership is ownership by the government, financial institutions, legal institutions, overseas institutions, funding agencies and other institutions at the end of the year (Shien, et al., 2006 within Sabrinna, 2010). Ownership by institutional investors in the company will encourage more optimal supervision of management performance, which may result also in improving company performance.

Institutional Ownership generally can act as parties to monitor the company. Institutional investors will provide professional monitoring the development of the investments made in the company and have a high degree of control of the actions taken by management. This is done to minimize fraud committed by management, so as to align the

interests of management and other stakeholders to improve company performance.

Several studies have proven that increased institutional ownership in the company can optimize the value of the company. The greater institutional ownership then the more efficient utilization of the company assets and expected also can act as a preventive of wastage conducted by the management (Faizal, 2004). By Wening (2009) within Permanasari (2010) that greater ownership by financial institutions, the greater the power of sound and the drive to optimize the value of the company. Additionally, the higher the institutional ownership will reduce the opportunistic behavior of managers who can reduce agency cost is expected to increase the company's value (Wahyudi and Pawestri 2006 within Permanasari, 2010). It can be based on the logic that the greater ownership by institutions within the company, it will be the greater power of sound and encouragement the institutions to oversee the management, so that hopefully will give greater impetus to optimize the value of the company as well as an increase in the company's performance. The high ownership by an institutions will improve its supervision of companies that can minimize agency problems.

Based on the above description, it can be formulated a hypothesis as follows:

H2: The size of institutional ownership has a positive effect on company performance (EVA)

2.5.3 Managerial Ownership and Company Performance (EVA)

Managerial ownership in a company will encourage management to improve company performance. That is because the interests of the manager who also owns the company. Managerial performance is a percentage of votes relating to the shares and options owned by managers and directors of the company. Jensen and Meckling (1976) states that in order to reduce conflicts of interest between the agent and the principal can be done by increasing managerial ownership in a company.

By Jensen (1993) within Nur'aeni (2010) convergence of interest hypothesis states that managerial ownership can help the unification of interests between shareholders and managers. Increasing the proportion of managerial ownership then the Management will tend to try harder for the benefit of stocks is none other than himself (Nur'aeni, 2010). An increase in managerial ownership in the company will align the interests of managers with shareholders, so that managers participate directly feel the benefits of the decision and also bear the loss as a consequence of errors in decision making. If a company does not implement managerial ownership, the manager of the company will concerned with its interests because he was not a shareholder (Jensen and Meckling, 1978 in Herawaty, 2008).

However, an increase in high managerial ownership can also be bad on the company's performance. The higher managerial shareholding in the company will make the manager has high voting rights, thus making the manager has a strong position to control the company (Nur'aeni, 2010). The condition can led to external shareholders will have difficulties to control the actions of the manager. Therefore, it can be said that an increase in managerial shareholding will be led to a decision taken by management tends to benefit himself, so that could be detrimental to a company that can lead to the possibility of a decline in the value of the company.

Based on the above description, it can be formulated a hypothesis as follows:

H3: The size of managerial ownership has a positive effects on company performance (EVA)

2.5.4 The Audit Committee and Company Performance (EVA)

Things that need to be considered in relation with the audit committee which is that the audit committee formed by the board of commissioners and members consist of commissioners as well as independent external parties and have the skills, experience and quality needed. The role of the audit committee is closely connected with the GCG and can be used as a benchmark for the success of a company. The audit committee has the authority to implement and certify an

investigation into problems in an environment of responsibility that has the task to assist the board of commissioners.

The existence of an independent audit committee is one of the characteristics of the audit committee. Independence is an important factor that must be owned by the audit committee. The role of the independent audit committee is expected to reduce opportunistic behavior committed by the managers of the company. Such behavior could lead agency problem because of the differences of interest between managers with the shareholders of the company, so the presence of independent audit committee that is expected to reduce the asymmetry of information arising from the agency problem. Additionally, the role of the existence of independent audit committee that is expected to optimize the function of oversight of management companies to manage the funds that have been invested by the shareholders, so that management can be expected to act accordance with the board of commissioners.

The existence of an independent audit committee is an attempt to make improvements to way the company's management, especially how supervision of the management company. That is because the independent audit committee is the link between the company's management with a board of commissioners or other external parties (Indriani and Nurkholis 2002 in Manuputty, 2012). Based on Bapepam Circular Letter No. SE-03 / PM / 2000 states that the audit committees

of public companies Indonesia consists of at least three members and is chaired by independent commissioner with two people who come from an independent external companies. The existence of an independent audit committee of the company will make the performance is good, if it is able to control the behavior of top executives of the company in protecting the interests of shareholders.

The more independent audit committees that are owned by the company, it will provide protection stakeholders and getting optimal supervisory function of the accounting and financial processes, so that will provide improvement in company performance. McMullen (1996) stated that investors, analysts and regulators consider the audit committee contributes to the quality of financial reporting that will increase quality of the performance.

Based on the above description, it can be formulated a hypothesis as follows:

H4: The audit committee has a positive effect on company performance (EVA)

CHAPTER III

RESEARCH METHODS

3.1 Types of Research

Type of this research is testing research which highlights the relationship between the variables of research and hypotheses testing formulated previously (Singarimbun and Effendi, 1995: 5). A hypothesis test evaluates two mutually exclusive statement about a population to determine which statement is best supported by the sample data. These test results are used as a basis to draw conclusions from the study that described the causal study. The research method used is descriptive analysis. Descriptive analysis is a study conducted with the main objective to provide a picture or a description of a situation objectively and can be devoted to describe or depict data that exist. This method is done for ease in understanding the variables used in the study. Researchers analyzed the influence of corporate governance on the performance of manufacturing companies with EVA approach.

3.2 Population and Sample

Population is the overall data to be examined (Mustofa, 2000). While the sample is part of the population. The sample is selected from a population to represent the entire population. Therefore, a good

sample is a sample which can represent as much as possible the characteristics of the population.

The population in this research is all manufacturing company in industry and chemical sector listed on the Indonesia Stock Exchange in 2012 and 2013. The sampling method in this study uses purposive sampling method or based on specific criteria determined. According Sugiyono (2007: 68), purposive sampling is a sampling technique with a certain consideration.

The number of manufacturing company in industry and chemicals sectors listed during the period 2012-2013 is 112 companies which is only 20 companies meeting the predetermined criteria of research sample. The amount of data observation for two years is 40 data.

The criteria specified in the sampling selection are as follows:

1. Manufacturing company is in industry and chemicals sector that are listed on IDX 2012-2013 period, which publishes its financial statements until December 31.
2. Having a complete Data, both regarding corporate governance data as well as the data needed to detect the EVA.
3. Earning profit during the observation period.

Based on the above criteria, the number of samples used in this study are in the following table:

Table 3.1
Calculations of the Sample Company

No.	Criteria	Total
1.	Manufacturing Company is in Industry and Chemicals listed on IDX 2012-2013 period and publishing its financial statements until December 31.	112
2.	Company does not earn a profit in succession during the observation period.	(79)
3.	Company does not have data on managerial ownership in succession during the observation period.	(13)
	Total of samples / year	20
The amount of data processed during the 2 years		40

Sumber: *Capital Market Directory* Lampiran: 1

3.3 Types and Sources of Data

Data is information that can be processed a data analysis. The type of data in this research is secondary data. Secondary data is provided, collected and obtained from other sources available. Secondary data generally is in the form of evidence, records, or historical reports compiled in the archive (data documentaries), published and unpublished (Hapsari, 2011).

The data source in this research the annual financial report in Indonesian Capital Market Directory located on the *IDX corner of Brawijaya University* or accessed in www.idx.co.id.

3.4 Data Collection Method

Data collection method used in this research is documentation and pooling. Documentation technique is the technique of data collection by studying, recording and notes as supporting data. Pooling is a

combination of time series data and cross-section data (Kuncoro in oktavianti, 2012).

Secondary sources in this research is the annual financial report and Indonesian Capital Market Directory obtained with documentation. The annual financial report and Indonesian Capital Market Directory in 2012 and 2013 are obtained by pooling technique.

3.5 Research Variables

This study uses two types of variables. The first variable is the independent variable i.e. internal mechanism of Corporate Governance and company size. The independent variables can stand alone and is not bound by other variables. These variables affect the dependent variable, both positive or negative. The second variable is the dependent variable which is the company performance. Dependent variables is the variables that become the main focus of research. Financial performance is fundamental to assessing the overall company performance. (Sugiyono, 2007:59).

3.5.1 The Independent Variables

Independent variables are variables that affect the dependent variable, both positive and negative (Sekaran, 2006: 117). The independent variable in this study is the size of the internal structure of corporate governance and company size. The size of the company's internal structure consists of the size of the board of commissioners, institutional ownership, managerial ownership and the size of the audit

committee, while the size of the company is the total assets of the company. Researcher uses the four sizes of company internal structure because the four size greatly influences the company performance and governance. While the size of the company can be seen from the total assets as asset indicates the profits of the company. The following is brief explanation about independent variables used in this study:

1. Independent Board of Commissioners

The Board of Commissioners are responsible for overseeing the agency or control the company headed by a Board of Directors (Emirzon in Lestari, 2013). The independent commissioner is a member of the Board of Commissioners who do not have a financial relationship, stewardship, and stock ownership or family relationship with the other members of the Board of Commissioners, the Board of Directors and/or controlling shareholder or other relationship that could affect its ability to act independently. The independence of the board of commissioners is calculated by dividing the proportion of the number of independent commissioners to the total number of commissioners existed in the board of commissioners (Haat, et al., 2008).

2. Institutional Ownership

Institutional ownership is ownership by the government, financial institutions, institutional legal entities, foreign institutions, funding agencies and other institutions at the end of the year (Shien, et al., 2006)

within Sabrinna, 2010). The measurement of institutional shares uses the ownership percentage of shares held by domestic institutions.

3. Managerial Ownership

Ownership of shares is owned by management who is actively participated in corporate decision (Commissioners and Directors). The indicator used to measure managerial ownership is the percentage of shares owned by the management of the entire amount of the outstanding share capital (Haat, et al. 2008).

4. The size of the Audit Committee

The audit committee is a committee formed by the board of commissioners to undertake the task of monitoring the company's management. The audit committee is a new component in the control system of the company. The audit committee is considered as a link between the shareholders and the board of commissioners with management in dealing with control issues. There is almost no company that does not have an audit committee, because every company that go public are required to have the audit committee as stipulated in Kep. Chairman of BAPEPAM No. KEP-29 / PM / 2004. The size of the audit committee in this study is measured by the number of members in the audit committee (Purwanti, 2006 dalam Manuputty, 2012).

3.5.2 The Dependent Variable

The dependent variable is the variable that is affected variable. The dependent variable in this study is the company performance. The company performance is the company's ability to perform all its operational activities (Hapsari, 2011). In this case, the company performance can be viewed on the company financial performance measured using a EVA. Steps to measure EVA are:

1. Reviewing the financial data of the company

The information required in the calculation of EVA is obtained from the data of the company financial statements consisting of balance sheet at December 31, year 1, 2, 3, and 4; and the income statement of the year 1, 2, 3, and 4.

2. Identifying the company's Capital (C)

The company capital structure consists of debt and equity or commonly known as debt capital and equity capital. Every financial model raises costs i.e. cost of debt and cost of equity, in other words the calculation of WACC (weight average cost of capital) looks at the proportion of the company capital structure that consists of debt capital and equity capital.

The formula of WACC calculation is formulated as follows:

$$\text{WACC} = (m1 \times kd \text{ after tax}) + (m2 \times ke)$$

m1 = the proportion of debt capital

m2 = the proportion of equity capital

k_d = Cost of Debt

k_e = Cost of Equity

3. Determining the level of company's Cost of Capital

The company cost of capital consists of capital costs of debt and capital cost of equity. Cost of debt is the interest rate before taxes that companies pay to the lender. Cost of debt is calculated on the amount of interest expense paid by the company within one year divided by the number of loans that generate such interest (Singgih, 2005).

$$k_d = \frac{\text{Interest expense}}{\text{Large loans}} \times 100\%$$

Furthermore, because a large debt payment reduces taxable income, then the cost of this debt must be multiplied by a factor $(1-t)$ to obtain interest costs after tax, where t is the tax rate that must be paid (%).

$$t = \frac{\text{Tax paid}}{\text{Earnings before taxes}}$$

Therefore, the amount of Cost of Debt after tax can be calculated as follows:

$$K_{d \text{ after tax}} = \frac{\text{Interest expense}}{\text{Large loans}} \% \times \left(1 - \frac{\text{Tax paid}}{\text{Earnings before taxes}} \%\right)$$

Calculation Cost of Equity using the principle that the level of return expected from a risky investment is equal to the risk-free rate of investment return plus a risk premium.

$$\text{Cost of Equity} = \text{Risk Premium} + \text{Risk Free}$$

Where:

RF: Risk Free Investment Rate, the interest rate risk-free investment

RP: Risk Premium Investment Rate, the level of risk that is generated as a result of financing by the issuance of shares.

Risk Premium reflects the risks incurred as a result the company to invest in the equity of the company. The more risky a company, the greater the value of risk premium (RP).

In the calculation of capital cost of equity, it needs the interest rate risk-free investment obtained from the average interest rate of Bank Indonesia Certificates (CBI) 3 months, while the risk premium is obtained from the fluctuation of cash flows shown in Table 3.2 below (Roztocki, 2001):

Table 3.2
Table Risk Premium

Range RP	Types Of Investment Risk
Less than 6%	The risk is very low, the company developed a very stable cash flow
6%-12%	Low risk, the company developed with the fluctuating cash flow being
12%-18%	The risk is high enough, the company developed with the cash flow fluctuated quite high
More than 18%	Companies with high risk levels

4. Calculating the Net Operating Profit after Tax (NOPAT) of the Company

Stewart (2002) defined NOPAT As operating profit after tax that has been adjusted. The adjustment in question is the magnitude of the calculated operating profit before financing costs reduced and non-cash book keeping entries (such as amortization of goodwill), so that the amount of operating profit after tax is obtained. These adjustments will not affect the profitability and the level of risk, as the company operational costs to generate profits has been deducted.

Several accounts in the profit/loss is not associated with the company routine operations, and there is no clear information in financial statements excluded in calculating NOPAT. Accounts related to the company operations are business profits, interest income, income, and convenience services, supporting and others associated with the company's operations.

5. Calculate Economic Value Added

The last step is calculating EVA by reducing the capital charge (cost of capital) of NOPAT as follows:

EVA according to Stewart (1991: 137)

$$EVA = NOPAT - (WACC \times Capital)$$

EVA according to Tunggal (2001 a:2)

$$EVA = NOPAT - Cost\ of\ Capital$$

Cost of capital = WACC multiplied by the capital invested

The concept of EVA is described in three method in assessing the company financial levels (Sidharta in Oktavianti, 2012), namely:

1. $EVA > 0$, it means that the company performance is relatively healthy because there has been a process of value added to the company. This means that earnings available is capable of exceeding the investors' expectations to repay creditors and to pay bonuses to employees
2. $EVA = 0$, it means that the company performance is relatively healthy because it is in the break-even point. This means that earnings is available to meet the expectations of creditors and investors.
3. $EVA < 0$, it means that the company performance is unhealthy because the company cannot produce value added. This means that profits available cannot to provide return to investors.

3.6 Analysis Methods

3.6.1 The descriptive Statistics Analysis

Descriptive statistics is used to briefly describe the variables in this study. A descriptive analysis is conducted to describe analyzed data.

The description of the variables is presented to know the average value (mean), minimum, maximum, and standard deviation of the variables examined (Ghozali, 2006). Descriptive statistics presents the very important numeric measurements from sampled data. The measure is a

simplification of numerical data leading to simple and understandable explanation and interpretation.

3.6.2 Classic Assumption Test

Before testing the hypothesis, firstly, the data acquired will be tested using classic assumption test to determine whether the data meets the basic assumptions. It is important to avoid bias. Testing is done using Normality test, Multicollinearity test, Heteroscedasticity test, and Autocorrelation test.

1. Normality Test

This test aims to test whether, in the regression model, the residual value or confounding variables is normally distributed or not. Normal data means having a normal distribution, so that the data is considered to be representative. According to Ghozali (2006), there are two ways to detect residual normal distribution:

a. Analysis Graph

To see the normality of the residuals is by looking at the histogram graph that compares the distribution of observation data with approaching the normal distribution. A more reliable method in looking at normality that is by looking at the normal probability plot which compares the distribution of cumulative normal distribution. Normal distribution will form a straight line diagonally, and plotting residual data will be compared with diagonal lines. If the residual data

distribution is normal, then the line that describes the actual data will follow a diagonal line (Ghozali, 2006).

b. Statistical test of Kolmogorov-Smirnov (K-S)

The test statistic is useful to avoid any misleading results using graphs.

It needs to be equipped with a non-parametric test of Kolmogorov-Smirnov (K-S). Testing using statistical test of Kolmogorov-Smirnov

(K-S) is done by determining the first hypothesis, namely:

The zero hypothesis (H_0) : the data is normally distributed data

Alternative hypothesis (H_A) : the data is not normally distributed

The decision-making of non-parametric test Kolmogorov-Smirnov (K-S) is by looking at the value of the probability level of significance residual data. If the probability value is $< \alpha = 0.05$ then the variable is not normally distributed, whereas if the probability value is $> \alpha = 0.05$ then the variable is normally distributed, which means that the H_A is rejected (Ghozali, 2006).

2. Multicollinearity Test

This test aims to find out if the regression model has correlations between the independent variables. A good regression model should not have correlation between the independent variable. If the independent variables are correlated then these variables are not orthogonal (Ghozali, 2006). Multicollinearity test can be done by calculating the value of Variance Inflation factor (VIF) and the tolerance value of each independent variable. The testing criteria are as follows:

- a. The Data is free from multikol, when the value of the VIF is < 10 . If the value of the VIF is > 10 then the level collinearity cannot be tolerated.
- b. Data is free of multikol when the tolerance value approaches 1. The value of the tolerance value is closer to 1, indicating that the data is getting free multikol.

3. Heteroscedasticity Test

This test aims to determine whether in the regression model has inequality residual variance from one observation to another observation. If the residual variance from one observation to another observation is remained, it is called homoscedasticity and if it is different, it is called heteroscedasticity (Ghozali, 2006:105). Some ways to detect the presence or absence of heteroscedasticity is by seeing the graph plots. The predicted value of the dependent variable is ZPRED with residual SRESID. The basic analysis description is:

- a. If there is a particular pattern (such as dots that will form a regular pattern (wavy, widened and then narrowed)), it indicates heteroscedasticity.
- b. If there is no clear patterns (dots spread above and below the number 0 on the Y axis), then there is no heteroscedasticity.

4. Autocorrelation Test

This test aims to determine whether there is a correlation between variables in a given period with a variable previous period.

Autocorrelation test is performed using Durbin Watson (DW) (Ghozali, 2006). Durbin Watson test is calculated based on the number of quadratic difference value estimates the disruption factor sequence. A the data is said to have no autocorrelation if $dU < dW < 4 - dU$.

3.6.3 Regression Analysis

The analysis used in the processing of research data is a multiple linear regression analysis. Regression analysis is a statistical tool that describes the pattern of the relationship between two variables, independent variable and the dependent variable. Multiple regression analysis is used when user uses more than one variable. To measure the multiple regression analysis uses the tools of the SPSS program.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + \epsilon$$

Where:

y	=Performance
a	= Constant
b ₁ , b ₂ , b ₃ , b ₄	= regression Coefficient
x ₁	= the size of the Board of Commissioners
x ₂	= institutional Ownership
x ₃	= the managerial Ownership
x ₄	= the size of the audit committee
E	= residual error

3.6.4 Hypothesis Testing

The hypothesis is logically prediction in the relationship between two or more variables expressed in the form of statement that can be tested. The relationship is estimated based network of associations set out in the theoretical framework formulated for research studies (Sekaran, 2007:135). At the time, hypothesis testing will found uncertainty elements (probability) or error that is reflected by the level of significance levels. In performing the testing variables independent of the dependent variables, researcher uses the level of significance level $\alpha = 0.05$, or the degree of is error of 5%. In hypothesis testing, the accuracy of sample regression can be measured from the Goodness of fit. The statistical data is measured from the value of the coefficient of determination, the F statistics values and the statistical values t (Ghozali, 2005:87).

1. Simultaneous regression test (F test)

This research uses the F test because it is used to test the hypothesis that indicates whether all of the independent variables in the research have simultaneous effect on the dependent variable or not.

- (H_0): the Board of independent Commissioners, institutional ownership, managerial ownership, and the size of the audit committee simultaneously have no effect on EVA.

- (H_a): the Board of independent Commissioners, institutional ownership, managerial ownership, and the size of the audit Committee simultaneously positive effect on EVA.

The acceptance or rejection of the hypothesis is based on the calculation that if the calculated value is $> \alpha$, where $\alpha = 5\%$, then H_0 is accepted and H_A is rejected or *vice versa* (Ghozali, 2005:84).

2. The coefficient of Determination (R2 Test)

The R2 test is used to measure how far the capability model in explaining the variation of the dependent variable (Ghozali, 2011). The determination coefficient values is between zero and one, so that when the value of R2 is small, it means that the ability of independent variables in explaining the variation in the dependent is very limited. If a value that approximates is one, it means that independent variables provide nearly all information needed to predict the variation in the dependent variable. In general, the coefficient determination to cross data relatively low due to the large variation between each observation. As for the data coherent time value coefficient determinant usually is high (Ghozali, 2009:87).

3. The Significance of Individual Parameters Test (test Statistic t (t-test))

This research uses the t-test because it is used to test significance level of independent variable to the dependent variable on an

individual basis. The decisions are made on the basis of following testing criteria:

- a. If the level significant (p-value) obtained is smaller than 0.05, then H_0 is rejected, this means that the regression coefficient is not significant. Partially independent variable does not have significant influence towards the dependent variable.
- b. If the probability is < 0.05 then the influential corporate governance corporate performance significantly to affected by the independent variables. Conversely, if the probability of > 0.05 then be drawn the conclusion that significant against the influential corporate governance financial performance.



CHAPTER IV

ANALYSIS DATA AND DISCUSSION

This chapter presents the results of the data analysis. Data analysis performed in this chapter include descriptive analysis, classic assumption test, and regression. Descriptive analysis using descriptive statistics (minimum, maximum, average and standard deviation). Classic assumption test uses four test consisting normality test, multicollinearity, heteroscedasticity, and autocorrelation, whereas regression analysis used is multiple linear regression analysis. Multiple linear regression analysis is used to test hypotheses. Before it is used, the hypotheses of the study are tested using the classic assumption test.

The data used in this study were obtained from the financial report data of the selected Industry Sector and Chemical listed on the Indonesian Stock Exchange during 2012-2013. The annual financial reports were obtained from the Indonesian Capital Market Directory and the annual report published by the Indonesian Stock Exchange as well as company data accessed through the Indonesia Stock Exchange using data pooling. The obtained data were combination of time series and cross section data (Kuncoro in Oktavianti, 2012).

4.1 Descriptive Analysis

Based on the analysis, the obtained descriptive results of company performance are EVA (in billions of rupiah) (y), independent

commissioner (x1), institutional ownership (x2), managerial ownership (x3), and the audit committee (x4). The detail description is presented in table 4.1 below this:

Table 4.1
Descriptive Statistics the Research

Year	Variable	Minimum	Maximum	Average	Standard Deviation
2012	EVA	-2946.687	18642.806	1746.201	5420.880
	Independent Board of Commissioners	33.330	40.000	33.806	1.783
	Institutional Ownership	55.530	89.820	73.113	11.990
	Managerial Ownership	0.040	44.470	14.096	14.412
	Audit Committee	20.000	50.000	32.634	6.450
2013	EVA	-11788.753	9637.700	-94.340	4803.313
	Independent Board of Commissioners	28.570	33.330	32.990	1.272
	Institutional Ownership	55.530	89.470	71.756	11.650
	Managerial Ownership	0.060	44.470	8.973	12.265
	Audit Committee	20.000	50.000	34.641	7.958
Combined	EVA	-11788.753	18642.806	825.930	5112.309
	Independent Board of Commissioners	28.570	40.000	33.398	1.575
	Institutional Ownership	55.530	89.820	72.434	11.621

Managerial Ownership	0.040	44.470	11.535	13.388
Audit Committee	20.000	50.000	33.637	7.181

Source: data processed, 2016

Based on table 4.1., in 2012 the obtained descriptive result of EVA average is amounted at 1746.201 ± 5420.880 billion rupiah, the smallest score of EVA is -2,946.687 billion rupiah and largest score of EVA is amounted at 18642.806 billion rupiah. Meanwhile, descriptive result for the average score of independent Commissioner is 33.806 ± 1.783%, the smallest independent Commissioner score is 33.33% and the largest independent Commissioner score is 40.00%. Descriptive result for the average institutional ownership is 73.133 ± 11.99% while the smallest institutional ownership is 55.53% and the largest institutional ownership is 89.82%. Descriptive result for the average Managerial ownership is 14.096 ± 14.412% while the smallest Managerial ownership is 0.04% and the largest managerial ownership is 44.47%. Descriptive result for the average of the Audit Committee is 32.634 ± 6.45% while the smallest Audit Committee is 20.00% and the largest Audit Committee is 50.00%.

In 2013, the obtained descriptive result for the average EVA is -94.34 ± 4803.313 billion rupiah, the smallest of EVA is -11,788.8 billion rupiah and largest of EVA is 9637.7 billion rupiah. Meanwhile, descriptive result for the average independent Commissioner is 32.99 ± 1.272%, while the smallest independent Commissioner is 28.57%, and

the largest independent Commissioner is 33.33%. Descriptive result for the average institutional ownership is $71.756 \pm 11.65\%$ with the smallest institutional ownership at 55.53% and largest institutional ownership at 89.47%. Descriptive result for the average managerial Ownership is $8.973 \pm 12.265\%$ with the smallest managerial ownership at 0.06% and the largest managerial ownership at 44.47%. Descriptive result for the average of the Audit Committee is $34.641 \pm 7.958\%$ with the smallest of the Audit Committee at 20.00% and the largest of the Audit Committee of at 50.00%.

4.2 Classic Assumption Test Results

4.2.1 Data Normality Test

On the simple linear regression analysis, the data used must meet the assumptions of normality, i.e. data used normal distribution. The hypothesis used in the test are:

H₀: The data are normally distributed

H_a: The data are not normally distributed

To test this assumption, the study uses Kolmogorov-Smirnov method. Testing criteria used are H₀ is rejected if the significance value is < 0.05 , and, conversely, H₀ is accepted if the significance value is > 0.05 .

Table 4.2
Kolmogorov-Smirnov Test

Statistic Test	Value	Explanation
Kolmogorov-Smirnov Z	0,574	Normal spread
Significance	0,896	

Source: Data processed, 2016

Based on the Kolmogorov-Smirnov test, the significance score is 0.896, in which the value is greater than $\alpha = 0.05$. Because of the significance value is greater than $\alpha = 0.05$. H_0 is accepted and can be concluded that the data are normally distributed, i.e. the assumption of normality is fulfilled.

4.2.2 Multicollinearity Test

Multicollinearity test aims to determine whether the relationship between the independent variables have a multicollinearity problem or not. To detect the presence or absence of multicollinearity, the study uses the Variance Inflation Factor (VIF). If the VIF value is > 10 then it indicates the presence of multicollinearity and, conversely, if VIF is < 10 then there is no multicollinearity. A good regression model should not have correlation between independent variables. VIF value on the regression test results can be seen in the following table.

Table 4.3
Multicollinearity Test Results

Independent Variables	Tolerance	VIF	Explanation
Independent Commissioners	0,929	1,077	Non Multicollinearity
Institutional Ownership	0,753	1,328	Non Multicollinearity
Managerial Ownership	0,749	1,335	Non Multicollinearity
Audit Committee	0,563	1,776	Non Multicollinearity

Source : Data processed, 2016

From the Table 4.3, it can be seen that the results of the calculation of Variance Inflation Factor (VIF) shows no independent variables VIF value that is more than 10. So, it can be concluded that there is no multicollinearity between independent variables in the regression model of this study.

4.2.3 Heteroscedasticity Test

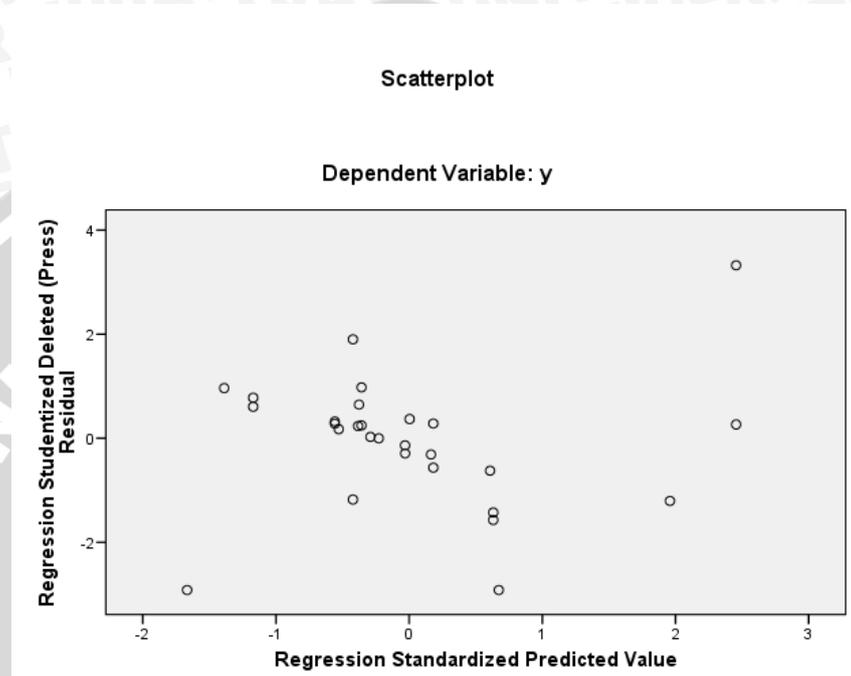
This testing aims to test whether the variables regression models have same variance residual or not. A good regression model is a model that has the same residual variance (are homoscedasticity).

Homoscedasticity test is to look at the plot between the predicted value of the dependent variable (ZPRED) with residual (SDRESID). If there is a specific pattern, such as dots that have no particular form regular patterns (wavy, widened and then narrowed), then it indicates heteroscedasticity (assumptions are not met). However, if there is no clear pattern, as well as the points spread above and below the number

0 on the Y axis, then there is no heteroscedasticity (assumptions are met).

Figure 4.1

Heteroscedasticity Assumption Test- Scatterplot



Source: data processed, 2016

From the results of the scatter plot in Figure 4.1., it shows that the dots spread out both above and below the number 0 on the Y axis, and there is no clear pattern. So it can be concluded that there is no Heteroscedasticity in this regression model.

4.2.4 Autocorrelation Test

Autocorrelation test aims to test whether in the linear regression model has a correlation between errors in period t bullies and bully error in the previous period ($t-1$). To test autocorrelation, it is used test Durbin-Watson statistic.

Durbin-Watson test result is as follows:

Table 4.4.
Durbin-Watson Test

Durbin-Watson	d_L	d_U	Explanation
1,902	1,104	1,747	There is no autocorrelation

Source: data processed, 2016

Based on the Durbin-Watson, it is obtained that $d_U = 1,747$ and $4 - d_U = 2,253$ so it is obtained $1,747 < 1,902 < 2,253$. Therefore, it is concluded that there is no autocorrelation in this research.

4.3 Multiple Linear Regression Analysis of the Results

Multiple linear regression analysis function to analyze the relationship and influence between a dependent variable of two / more independent variables. To determine the influence of independent directors, the experience and managerial ownership on performance, then the multiple linear regression analysis between the following variables which are independent commissioner (X1), institutional ownership (X2) managerial ownership (X3) and the audit committee (X4) on the performance companies (Y). From the data processing, the data obtained are presented in table 4.5:



Table 4.5
Summary Of The Results Of A Multiple Regression
Analysis

Variable	B	T count	Significance	Explanation
Constants	-9026,503			
Independent commissioner	443,943	0,810	0,426	Not Significant
Institutional ownership	4,464	0,054	0,957	Not Significant
Managerial ownership	154,139	2,145	0,043	Significant
Audit committee	-210,355	-1,362	0,187	Not Significant
α	: 0,05			
R	: 0,625			
R Square	: 0,390			
F-Count	: 3,678			
F-Table (0,05;4;23)	: 2,796			
Sig. F	: 0,019			
t-table (0,025;23)	: 2,003			

Source: data processed, 2016

The regression equation obtained by table 4.5 are as follows:

$$Y = a + b_1x_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

$$Y = -9,026.503 + 443.943 X_1 + 4.464 X_2 + 154.139 X_3 - 210.355 X_4$$

Where:

Y = Performance

a = Constant

x1 = Independent commissioners

x2 = institutional ownership

x3 = Managerial ownership

x4 = Size audit committee

From the equation it can be interpreted as follows:

b1 = the coefficient of regression variables are independent

Commissioners (X 1) score is 443.943. This score has a positive sign which shows that the variable and the company's performance (Y) has a unidirectional relationship. If there is an increase in independent Commissioner then the company's performance tends increase assuming the other variables considered fixed or equal to 0.

b2 = regression coefficient institutional ownership variable (X2) score is 4.464 with positive sign. This result indicates that the variable and company's performance (Y) has a unidirectional relationship. If there is an increase in institutional ownership, it tends to increase the company's performance assuming other variables considered fixed or equal to 0.

b3 = regression coefficient managerial ownership variable (X3) score is 154.139 and has a positive sign. It shows that the variable and company's performance (Y) has a unidirectional relationship. If there is an increase in managerial ownership then it is likely to have an increase in the company's performance assuming other variables considered fixed or equal to 0.

b4 = regression coefficient audit committee variable (X4) score is - 210.355 and has a negative sign indicating that this variable and

company's performance (Y) have an inverse relationship. If there is an increase in the audit committee, the company's performance tends to decrease assuming other variables considered fixed or equal to 0.

4.4 Hypothesis Testing Results

This study tested the hypotheses using multiple regression analysis. In accordance with the formulation of the problem, objectives and hypotheses in this research, multiple regression analysis connects the dependent variable with several independent variables in a single predictive model. This analysis is used to calculate the effect size of independent variables which are the independent commissioner (X1), institutional ownership (X2), managerial ownership (X3), and the size of the audit committee (X4) on the dependent variable which is the EVA.

4.4.1 Test Results Effect of Simultaneous (F test)

The regression model has tested both simultaneously and partially, regression model testing simultaneously performed using the F test or ANOVA and partial regression model testing performed by t test.

Simultaneous testing is done to show whether all the independent variables consisting of independent commissioners (X1), institutional ownership (X2), managerial ownership (X3) and the audit committee (X4) have a significant effect simultaneously on the dependent variable of company performance (Y). F test is done by comparing the value of

F count with F table. All of these variables are tested simultaneously using the F test or ANOVA, if the value of F count is larger than F table, then H_0 is rejected and H_a is accepted.

The hypotheses used in the testing of simultaneous regression model coefficients are presented in Table 4.6 below:

Table 4.6
Hypothesis Testing Simultaneous Regression Model

Hypotheses	Value	Decision
$H_0 : \beta_i = 0$ (no a significant influence between the variables X1, X2, X3 and X4 to variable Y) $H_a : \beta_i \neq 0$ (there is the influence between the variables X1, X2, X3 and X4 to variable Y) $\alpha = 0,05$	$F = 3,678$ $sig = 0,019$ $F_{\text{tabel}} = 2,769$	H_0 rejected, H_a accepted

Source: Data processed, 2016

Table 4.6 above shows that the value of $df_1 = 4$ and $df_2 = 23$ and the value obtained is 2,796 F table. Based on table 4.6, hypothesis testing regression models simultaneously or non-simultaneously using the F test shows that F count is greater than F table ($3.678 > 2.769$) and a significance of 0.019 which means smaller than alpha (α) = 0.05. So it can be concluded that H_0 is rejected and H_a is accepted. This indicates that there is a simultaneous effect between variables independent commissioners (X1), institutional ownership (X2), managerial ownership (X3) and the audit committee (X4).

4.4.2 Coefficient Test (R2) Analysis

The magnitude of the value of the coefficient R2 (R square) is 0.390 (39.0%). This indicates that the percentage of influence of independent variables (independent commissioner, institutional ownership, managerial ownership and audit committee) is 39.0% that can explain the variable company's performance, while the remaining 61.0% is explained by other factors not discussed in this research.

4.4.3 t Test

Partial regression model testing is used to determine whether each of independent variable regression models forming individually have a significant effect on the variable Y or not. To test relationships, the study compares the value of t count with t table. Formers independent variable regression model indicates a significant effect if t count is $> t$ table or significantly is $< \alpha = 0.05$. Partial regression model testing in this study is as follows:

a. Hypotheses Testing 1 independent Commissioners variable (X_1)

According to Table 4.5, the hypotheses testing variable regression coefficient independent commissioners (X_1) is presented in table 4.7

Table 4.7
Hypotheses Testing Regression Coefficients Variable X₁

Hipotesis	Nilai	Keputusan
H ₀ : $\beta_1 \neq 0$ (the variable X ₁ has no effect significantly to variable Y)	$sig = 0,426$	H ₀ accepted, H _a rejected
H _a : $\beta_1 = 0$ (the variable X ₁ effect significantly to variable Y)		
$\alpha = 0,05$		

Source: Data processed, 2016

Variable X₁ regression coefficient is 443.943 and significance value is 0.426. Statistical significance test value is greater than $\alpha = 0.05$. This test shows that H₀ is accepted (H_a rejected) so it can be concluded that the independent commissioners variable (X₁) has no significant effect on company's performance in variable Y (EVA).

b. Hypotheses Testing 2 institutional ownership variables (X₂)

According to Table 4.5, the hypotheses testing regression coefficient institutional ownership variable (X₂) is presented in table 4.8:

Table 4.8
Hypotheses Testing Regression Coefficients Variable X₂

Hipotesis	Nilai	Keputusan
H ₀ : $\beta_2 = 0$ (the variable X ₂ has no effect significantly to variable Y)	$sig = 0,957$	H ₀ accepted, H _a rejected
H _a : $\beta_2 \neq 0$ (the variable X ₂ effect significantly to variable Y)		
$\alpha = 0,05$		

Source: Data processed, 2016

The variable X_2 regression coefficient is 4.464 and significant value is 0.957. Statistical significance test value is greater than $\alpha = 0.05$. This testing shows that H_0 is accepted (H_a rejected) so it can be concluded that institutional ownership variable (X_2) has no significant effect on company's performance in variable Y (EVA).

c. Hypotheses Testing 3 Managerial ownership variable (X_3)

According to Table 4.5, the hypotheses testing regression coefficient managerial ownership variable (X_3) is presented in table 4.9:

Table 4.9
Hypotheses Testing Regression Coefficients Variable X_3

Hipotesis	Nilai	Keputusan
$H_0 : \beta_1 \neq 0$ (the variable X_3 has no effect significantly to variable Y)	$sig = 0,043$	H_0 rejected, H_a accepted
$H_a : \beta_1 = 0$ (the variable X_3 effect significantly to variable Y)		
$\alpha = 0,05$		

Source: Data processed, 2016

The variable X_3 regression coefficient is 154.139 and significant value is 0.043. The statistic test score is significantly smaller than $\alpha = 0.05$. This test shows that H_0 is rejected (H_a accepted) so it is concluded that managerial ownership variable (X_3) significantly affects on company's performance in variable Y (EVA).

d. Hypotheses Testing 4 Audit Committee Variables (X_4)

According to Table 4.5, the hypotheses testing variable regression coefficient audit committee (X_4) is presented in the table 4:10

Table 4.10
Hypotheses Testing Regression Coefficients Variable X_4

Hipotesis	Nilai	Keputusan
$H_0 : \beta_1 \neq 0$ (the variable X_4 has no effect significantly to variable Y) $H_a : \beta_1 = 0$ (the variable X_4 effect significantly to variable Y) $\alpha = 0,05$	$sig = 0,187$	H_0 accepted, H_a rejected

Source: Data processed, 2016

The variable X_4 regression coefficient is -210.355 and significant value is 0.187. The value of the test statistic is significantly larger than $\alpha = 0.05$. This test shows that H_0 is accepted (H_a rejected) so it is concluded that the audit committee variables (X_4) significantly affects on company's performance in variable Y (EVA).

4.5 Discussion of Results

4.5.1 Discussion of Results of Hypotheses Testing 1

The test results of hypotheses 1, the researchers fails to prove the influence of variable independent commissioners against EVA. EVA is one of the performance measurement tools. This result is in contrast with the research Hardikasari (2010) finding which stated that there is a positive influence between the proportion of Independent Board of Commissioners to company performance characterized by the increase of earnings quality and value of the company.

However, this finding is inline with Ade (2005) and Sam'ani (2008) studies which stated that there is no influence between the proportions

of Independent Board of Commissioners to company performance. Many researchers suspect that the functions and duties of the board of commissioners is not running effectively. The board of commissioners can act as an intermediary in the dispute so that the executive does not treat the company as private property. The policies and decisions issued the board of commissioners is not bias towards management interests as agent. Independent commissioner can play a role in representing the interests of minority shareholders.

4.5.2 Discussion of Results of Hypotheses Testing 2

The test results of hypotheses 2, the study fails to prove the positive influence of institutional ownership using the EVA. EVA, in this case, is an indicator of performance measurement within the company. This result does not support the research of Ardita (2010) which concluded that institutional ownership has significant effect on the performance in increasing of the company value.

This results is supported by Ade (2005), Sam'ani (2008), and Oktavianti (2012) studies, which revealed that institutional ownership has no effect on performance. Smith (1996) suggested that the control measures undertaken by a company and the institutional investors can restrict the behavior of managers in decision-making and accounting policies. Similarly, Cornett, et al. (2006) concluded that the action to control of companies by the institutional investors can encourage

managers to focus more attention to financial companies, so it will reduce opportunistic or self-serving.

Those two opinions makes researchers concluded that less institutional ownership provides supervision and, therefore, cannot restrict the behavior of managers, so institutional shareholders cannot influence the company performance. This condition, reinforced by the opinions Fama (1980) in Sutedi (2011: 21) that institutional investors can buy shares for portfolio reasons and probably did not understand the theory of agency.

4.5.3 Discussion of Results of Hypotheses Testing 3

The test result of hypotheses 3 shows that managerial ownership variable significant influences EVA. EVA is one of the performance measurement tools. Managerial ownership is a manager who is also a shareholder in the same company. The result of this research is supported by Ardita (2010) finding which stated that the positive managerial ownership poses influence to company's performance. The company's performance improves quality of earnings and corporate value. This result is not supported by Ade (2005) finding which concluded that managerial ownership has no effect on performance.

Managerial ownership is believed to be able to align the potential difference between the interests of external shareholders with management. The separation of ownership and control of the company would create a conflict of interest between managers and shareholders

(Jensen and Meckling, 1976). Managerial ownership average is 40.4%. These circumstances indicate that managerial ownership is the most dominant variables that significantly influence the company's performance.

4.5.4 Discussion of Results of Hypotheses Testing 4

The test result of hypothesis 4 shows that the audit committee variables significantly influence EVA. EVA is one of the performance measurement tools. This opinion is supported by Ade (2005) and Sam'ani (2008) which concluded that the size of the audit committee has significant effect on performance. This result is not supported by Ardita (2010) and Oktavianti (2012) researches which stated that the size of the audit committee does not affect the performance.

This findings is supported by the Klien (2002) study which found that companies that form the independent audit committees, reporting profit containing smaller discretionary accruals compared with companies that do not form an audit committee. Investors, analysts, regulators assume the audit committee contributes to the quality of reporting and enhances the quality of performance (McMullen, 1996).

The audit committee is independent committee formed by the board of commissioners in order to assist the implementation of the monitoring of the external and internal auditing processes. Members of the audit committee must have the educational background, experience, and independence are strong in executing tasks so, the audit committee

can conduct overall supervision effectively (the BAPEPAM Chairman Decree Kep-29 / PM / 2004). Choosing members of the audit committee must be done carefully to increase the effectiveness and efficiency of the audit committee in carrying out its duties.



CHAPTER V

CONCLUSION

5.1 Conclusion

From the research analysis done, especially on the issue of the influence of the application of good corporate governance to company performance manufacturing on industry and chemical sector listed on the Indonesia Stock Exchange 2012-2013 period utilizing EVA approach as one of the company's performance measurement tools. The test results is tested using multiple linear regression indicated that:

1. The size of independent Commissioners in the industry and chemical sectors of manufacturing company has no effect on EVA. The condition might be caused by the functions and duties of the board of commissioners in oversight and accountability to minority shareholders which is not running effectively.
2. Institutional Ownership in the industry and chemical sectors of manufacturing company has no effect on EVA. The condition is caused by the lack of institutions provide supervision so it can not restrict the behavior of managers. Institution owners possess shares with the purpose of speculation and benefits portfolio, so it institutional ownership cannot affect the performance.
3. Managerial ownership in the industry and chemical sectors of manufacturing company has significant effect on EVA. Managerial

ownership is a manager who also became shareholder in the same company. Managerial ownership can align the potential difference between the interests of outside shareholders with management that will improve the company's performance through the improvement of earning quality and corporate value.

4. The size of audit committees in the industry and chemical sectors of manufacturing company has significant effect on EVA. Companies that form the audit committee will contribute to the quality of the earnings reporting with the content smaller discretionary accruals compared with companies that do not form an audit committee so it would improve the quality of the performance.

5.2 Limitations of Research

1. Samples taken only 20 companies and total samples during 2012 up to 2013 is 12 thus still unable reflect the results of the overall study. For further research can use a wider sample period.
2. Factors that affect the company's performance in this study consisted of only four independent variables, i.e. the size of the independent Board of Commissioners, institutional ownership, managerial ownership, and the size of the audit committee, while many other independent variables that can influence the earnings quality and corporate value.
3. The sample in this research is just a company that earn a profit in a row and have the data about the managerial ownership during the

observation period were published the period 2012-2013. But only a few companies included in the ratings, so that this becomes a limitation to researchers due to the lack of samples are used.

5.3 Suggestions

Based on some of the conclusions and limitations in this research, the formulated suggestions are as follows:

1. For the Academic World

The studies should provide information using other research variables. The new research is expected to add insight and can provide the better conclusion later.

2. For Companies

The management of the company is expected to further realize the importance of the implementation of good corporate governance within the company, as well as more motivation to implement good corporate governance consistently.

3. For Investors and Stakeholders

The results of this study are expected to increase awareness of investors as well as stakeholders of the importance of the implementation of Good Corporate Governance in the company management. Investors as well as stakeholders can give encouragement to the management to implement the Good Corporate Governance, as well as monitoring the implementation of Good Corporate Governance at the company.

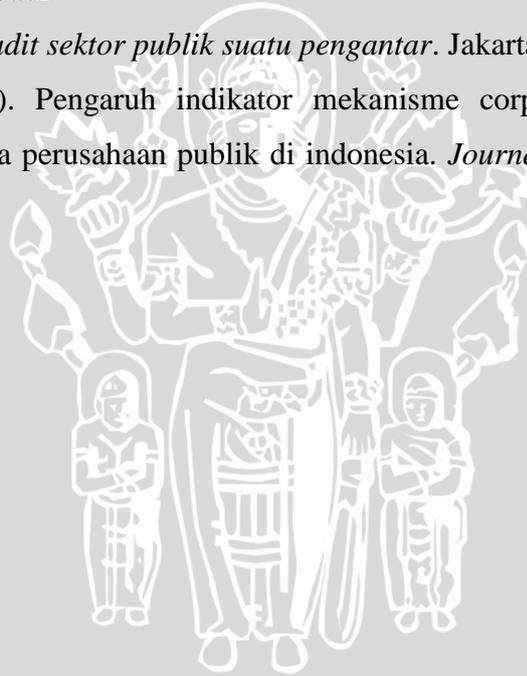
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Appendices : List of Sample Company

Kode	Nama Perusahaan
ALKA	Alakasa Industrindo Tbk
JPRS	Alakasa Industrindo Tbk
UNIC	Alakasa Industrindo Tbk
BRNA	Alakasa Industrindo Tbk
CTBN	Citra Tubindo Tbk
INTP	Indocement Tunggul Prakarsa Tbk
LMSH	Lion mesh Prima Tbk
CPIN	Charoen Pokphand Indonesia Tbk
INRU	Toba Pulp Lestari Tbk
DPNS	Duta Pertiwi Nusantara Tbk
TRST	Trias Sentosa Tbk
EKAD	Ekadharna International Tbk
INKP	Indah Kiat Pulp & Paper Tbk
TOTO	Surya Toto Indonesia Tbk
IGAR	Champion Pacific Indonesia Tbk
SMGR	Semen Indonesia (Persero) Tbk
INCI	Intanwijaya Internasional Tbk
SOBI	Sorini Agro Asia Corporindo Tbk
AKPI	Argha Karya Prima Ind. Tbk
SRSN	Indo Acidatama Tbk
JPFA	JAPFA Comfeed Indonesia Tbk
LION	Lion Metal Works Tbk
TBMS	Tembaga Mulia Semanan Tbk
BRPT	Barito Pacific Tbk
MLIA	Mulia Industrindo Tbk
SULI	SLJ Global Tbk
SIMA	Siwani Makmur Tbk
MAIN	Malindo Feedmill Tbk
SPMA	Suparma Tbk
FASW	Fajar Surya Wisesa Tbk
INAI	Indal Aluminium Industry Tbk
KIAS	Keramika Indonesia Asosiasi Tbk
BUDI	Budi Starch & Sweetener Tbk
AMFG	Asahimas Flat Glass Tbk
PICO	Pelangi Indah Canindo Tbk
SIPD	Sierad Produce Tbk
ALMI	Alumindo Light Metal Industry Tbk
ETWA	Eterindo Wahanatama Tbk
IKAI	Intikeramik Alamasri Industri Tbk
JKSW	Jakarta Kyoei Steel Works Tbk
SMCB	Holcim Indonesia Tbk

TIRT	Tirta Mahakam Resources Tbk
APLI	Asiaplast Industries Tbk
ARNA	Arwana Citramulia Tbk
BTON	Betonjaya Manunggal Tbk
FPNI	Lotte Chemical Titan Tbk
AKKU	ALAM KARYA UNGGUL Tbk
YPAS	Yanaprima Hastapersada Tbk
TPIA	Chandra Asri Petrochemical Tbk
KBRI	Kertas Basuki Rachmat Indonesia Tbk
SIAP	Sekawan Intipratama Tbk
TALF	Tunas Alfin Tbk
NIKL	Pelat Timah Nusantara Tbk
GDST	Gunawan Dianjaya Steel Tbk
IPOL	Indopoly Swakarsa Industry Tbk
KRAS	Krakatau Steel (Persero) Tbk
TKIM	Pabrik Kertas Tjiwi Kimia Tbk
ALDO	Alkindo Naratama Tbk
BAJA	Saranacentral Bajatama Tbk
ISSP	Steel Pipe Industry of Indonesia Tbk
SMBR	Semen Baturaja (Persero) Tbk

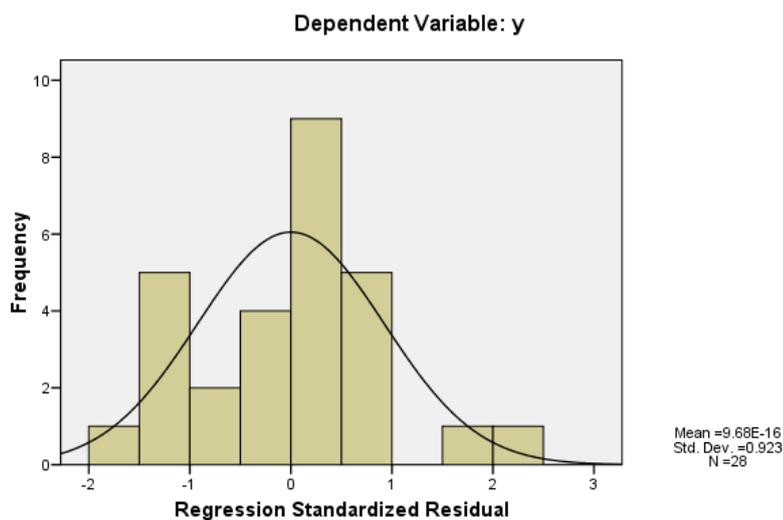


Appendices : OUTPUT SPSS

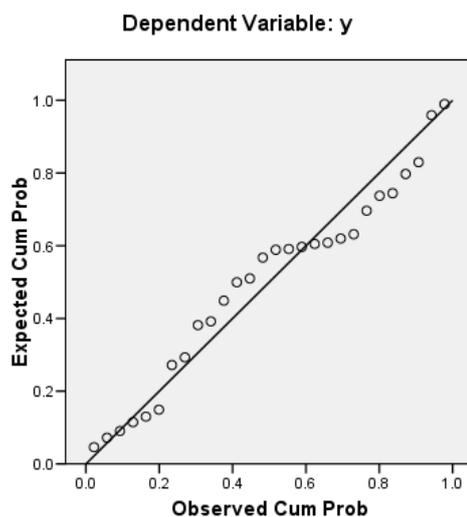
Uji Asumsi Klasik

Uji Normalitas

Histogram



Normal P-P Plot of Regression Standardized Residual



NPar Tests

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		28
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	3992.535338
Most Extreme Differences	Absolute	.109
	Positive	.108
	Negative	-.109
Kolmogorov-Smirnov Z		.574
Asymp. Sig. (2-tailed)		.896

a. Test distribution is Normal.

b. Calculated from data.

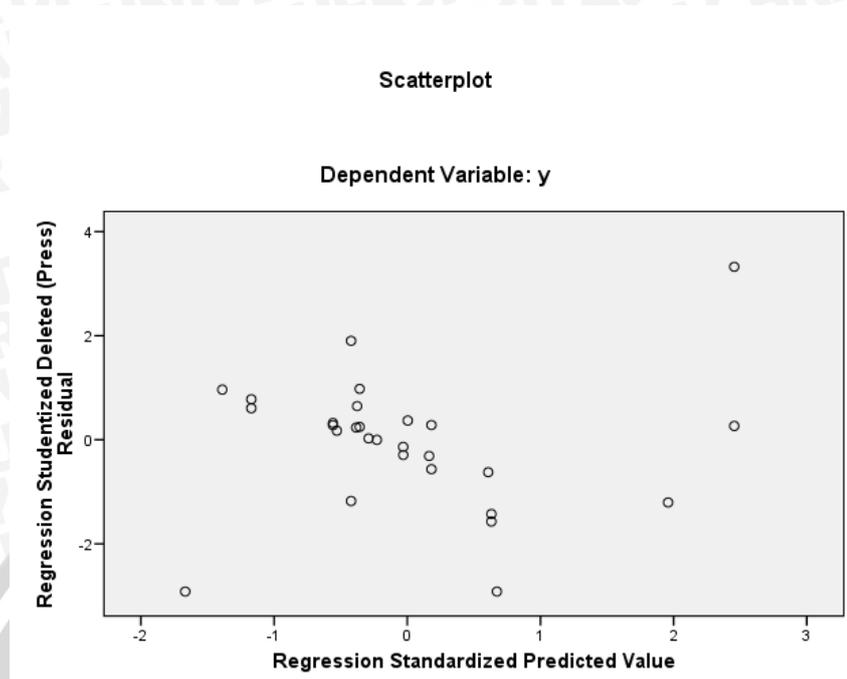
Uji Multikolinieritas

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-9026.503	20359.420		-.443	.662		
	x1	443.943	548.359	.137	.810	.426	.929	1.077
	x2	4.464	82.544	.010	.054	.957	.753	1.328
	x3	154.139	71.852	.404	2.145	.043	.749	1.335
	x4	-210.355	154.499	-.295	-1.362	.187	.563	1.776

a. Dependent Variable: y

Uji Heteroskedastisitas



Uji Autokorelasi

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.625 ^a	.390	.284	4325.803	1.902

a. Predictors: (Constant), x4, x1, x2, x3
 b. Dependent Variable: y



Analisis Regresi Linier Berganda

Descriptives

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
y	28	-11788.8	18642.806	825.930	5112.309
x1	28	28.57	40.00	33.3982	1.57546
x2	28	55.53	89.82	72.4343	11.62068
x3	28	.04	44.47	11.5346	13.38777
x4	28	20.00	50.00	33.6371	7.18106
Valid N (listwise)	28				

Descriptives

Tahun = 2012

Descriptive Statistics^a

	N	Minimum	Maximum	Mean	Std. Deviation
y	14	-2946.687	18642.806	1746.201	5420.880
x1	14	33.33	40.00	33.8064	1.78263
x2	14	55.53	89.82	73.1129	11.99000
x3	14	.04	44.47	14.0964	14.41158
x4	14	20.00	50.00	32.6336	6.45001
Valid N (listwise)	14				

a. Tahun = 2012

Tahun = 2013

Descriptive Statistics^a

	N	Minimum	Maximum	Mean	Std. Deviation
y	14	-11788.8	9637.700	-94.340	4803.313
x1	14	28.57	33.33	32.9900	1.27216
x2	14	55.53	89.47	71.7557	11.64973
x3	14	.06	44.47	8.9729	12.26471
x4	14	20.00	50.00	34.6407	7.95803
Valid N (listwise)	14				

a. Tahun = 2013



Regression

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	x4 ^a , x1, x2, x3	.	Enter

a. All requested variables entered.

b. Dependent Variable: y

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.625 ^a	.390	.284	4325.803

a. Predictors: (Constant), x4, x1, x2, x3

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.8E+008	4	68818696.17	3.678	.019 ^a
	Residual	4.3E+008	23	18712571.20		
	Total	7.1E+008	27			

a. Predictors: (Constant), x4, x1, x2, x3

b. Dependent Variable: y

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9026.503	20359.420		-.443	.662
	x1	443.943	548.359	.137	.810	.426
	x2	4.464	82.544	.010	.054	.957
	x3	154.139	71.852	.404	2.145	.043
	x4	-210.355	154.499	-.295	-1.362	.187

a. Dependent Variable: y