

Implementation of Good Corporate Governance and Its Impact on Corporate Performance: The Mediation Role of Firm Size (Empirical Study from Indonesia)

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Abstract

Purpose - This research aims to examine the effect of good corporate governance implementation on corporate performance as measured by EVA. The previous research has shown that corporate performance is related to good corporate governance implementations. But it's still rarely the research that use EVA on measuring corporate performance.

Design/methodology/approach -This research use manufacture companies which are listed on Indonesia Stock Exchange period 2006-2010 as the samples. Purposive Sampling was used to determine sample criteria: go public manufacturing companies in period 2006-2010 which consistently publish annual report and financial reports on the website of Indonesia Stock Exchange (IDX) or its own site; companies that have selected as the 40 companies with the largest size. Path Analysis was conducted to shows its direct and indirect effects of each path.

Findings - The results of this research show that implementation of GCG can affects directly on corporate performance as measured by EVA, and also shows affect indirectly through firm size. In other words, firm size has a mediation role in the impact of good corporate governance implementation on corporate performance.

Practical Implication - This study is expected to contribute in providing an overview of the implementation of GCG in Indonesia which can be used by investors and potential investors as one consideration in making investment decisions, and reinforcing previous studies regarding the relationship between GCG implementation and corporate performance.

Originality/value - Seeing the controversies among previous researches in the GCG and its impact on corporate performance, this study sought to further investigate the direct effect of GCG implementation on corporate performance as measured by EVA and its indirect effect through its size.

Keywords: Good Corporate Governance, EVA, firm size, manufacture companies.

Paper Type: Research Paper

Research Background

In developed countries with a relatively prosperous economy, Good Corporate Governance (GCG) has been an issue for a long time. This problem is increasingly attracting the attention of the world community after a major crisis, such as a major crisis in the United States in 1929 and a banking crisis in Britain in 1970. In Indonesia, GCG issue began to arise since the 1990s, and started getting rolling in 1996, along with the Indonesian government's interaction with foreign countries as aid donor countries which highlights many of the conditions of economic and political development of Indonesia; and a major crisis which occurs in the third quarter of 1997. In general, practitioners and academics agree that one of the major crisis causes is awareness of the importance of GCG implementation in companies which is still low in Indonesia (CGPI Report in 2004).

GCG is a series of mechanisms that can protect minority parties (outside investors/minority shareholders) from expropriation by managers and controlling shareholders (insider) with emphasis on legal mechanisms (Shleiver and Vishny, 1997). GCG is defined as a pattern of relationships, systems, and processes used by the organs of the company (Board of Directors, Board of Commissioners, GMS) to provide added value to shareholders on an ongoing basis in the long term, with due regard to the interests of other stakeholders, based on laws and norms that applies (Daniri, 2005).

In Asia, including Indonesia, the concept of GCG began much discussed in mid-1997, when the crisis struck the region. Economic crisis and financial crisis in 1997 - 1998 made the company unable to pay debts to the bank and bonds in foreign currencies both principal and interest. Companies that are not capable of experiencing the problem cannot afford to pay the debt so that its value has decreased (Adler, 2004). The impact of the crisis showed that many companies could not survive. One of the reasons is because the growth that was achieved was not built on a solid foundation according to the principles of good corporate governance. In other words, the bad practice of GCG has made the companies failed in facing the crisis.

Total assets which indicates the size of companies is an important factor in the formation of profit. Large firms are considered more stable so as to produce profits than small firms. Thus, size of the company estimated to have the influence on corporate performance (Sembiring, 2008).

All this time, profit has always been the main focus in assessing corporate performance (Fauzan, 2006). Earnings ratio is used to measure how much the level of profits that can be obtained by the company. The greater the level of benefits obtained show that gets better the management manages the company. Sutrisno (2000) states that the ratio of profits can be measured by several indicators, such as: Net Profit Margin (NPM), Return on Asset (ROA), Return on Equity (ROE), Return on Investment (ROI) and Earning per Share (EPS). But Fauzan (2006) states that in assessing a corporate performance is not enough only using accounting profit, because profit accounting has no real meaning, unless supported by the company's ability to produce cash. In the 80's, an approach was born to overcome the weakness in assessing the corporate performance. This approach is known as Economic Value Added (EVA). Manurung (2004) argues that all parties want to know if the investment can create an added value for the company. EVA can be called as a tool to measure the results obtained by the company for the actions of the investment made which must be able to fulfill all expenses incurred by the company. Positive EVA indicates that the company managed to create value for the investors because the company is able to produce returns that exceed the cost of capital (Fauzan, 2006).

Nur'Ainy (2010) examined the effect of GCG implementation on stock return through profitability, leverage and liquidity. It's proved that GCG implementation influences stock return through profitability and also influences stock return directly. However, the GCG implementation cannot influence stock return through leverage and liquidity. In other words, leverage and liquidity is not the right mediator between GCG implementation and stock return.

Seeing the controversies between the GCG and the influence of corporate performance, this study sought to further investigate the direct influence of GCG implementation on corporate performance as measured by EVA and indirect influence on its performance through its size.

Research Problems

Regarding to the research background, the identifiable problems that motivates this study is formulated in the form of research questions as follows: 1) Does the GCG implementation influence directly on corporate performance as measured by EVA?; 2) Does GCG implementation influence indirectly on its performance through its size?

Literature Reviews

Literature Review of this study describes the concepts and benefits of good corporate governance, the concepts of firm size, and the concepts of EVA.

Good Corporate Governance

Corporate governance related to the agency theory. Agency theory was developed by Michael Johnson, a professor from Harvard, considers that the management company as the 'agents' for our shareholders, will act with full awareness of their own, not as the wise and prudent and fair to shareholders (Daniri, 2005).

Aware of this, State-Owned Enterprise (SOE) Minister of the Republic of Indonesia released a Ministerial Decision on Implementation of SOE that is "Keputusan Menteri BUMN KEP-117/M-MBU/2001" about GCG practices at SOE. In the minister's decision was conveyed that each state must implement a consistent and GCG as a foundation or made operational.

GCG implementation in companies implemented based on the principles that have been established. In general GCG implementation consists of five basic principles, those are: transparency, accountability, responsibility, independency, and fairness that we can call as TARIF to make it easier. These principles can be described as follows:

Transparency

Transparency can be defined as the disclosure of information, both in the decision making process as well as in revealing material and relevant information about the company. The Indonesian capital market regulations quoted by Daniri (2005) explains that the information which is material and relevant is information that could influence the company's stock price fluctuations, or which significantly influence the risks and prospects of the concerned company.

In realizing transparency itself, the company must provide sufficient information, accurate, and timely information to the various parties concerned with these companies. Each company is also expected to publish financial information and other information that is material and significant impact on corporate performance accurately and just in time. In addition, investors must be able to access important company information easily when needed. If the principle of transparency and appropriately executed well, it will be possible to avoiding conflicts of interest of various parties in management.

Accountability

Accountability is the clarity of function, structure, systems of the company so that the company management is effectively implemented. Problems are often found in Indonesian companies are the incompetence control of the commissioners board or just the opposite, the commissioners board taking the role as chairman of the authority who should be run by the board of managements.

In fact, clarity of duties and functions of its organs are required in order to create a checks and balances of authority mechanism and role in managing the company. If the principle of accountability is applied effectively, then there is clarity of functions, rights, duties, authority, and responsibility among shareholders, board of commissioners and directors. This clarity of this the company will avoid the agency problem conditions (role conflict of interest).

Responsibility

Responsibility is conformity (compliance) in the company management towards a healthy corporate principles and applicable legislation. Regulations that apply here include those relating to tax matters, industrial relations, environmental protection, safety, payroll standards, and healthy competition.

The implementation of this principle is expected to make the companies realize that in its operations, it often generates negative externalities (external effects of company activities) to be borne by the community. Beyond that, through the principle of responsibility is also expected to assist the government's role in reducing inequalities of income and employment opportunities in the segment of society who have not received the benefits of market mechanisms.

Independency

Independency is an important principle in the implementation of GCG in Indonesia. The independence is a state where the company is managed professionally without conflict of interest and influence/pressure from any party that is not in compliance with applicable laws and principles of a healthy corporation. The independence is particularly important in the process of return decisions. Loss of independence in the process of decision would eliminate objectivity in decision-making.

Fairness

In simple way, fairness can be defined as a fair and equal treatment in fulfilling stakeholders' rights arising under the agreement and applicable laws and regulations. Fairness also includes a clear sign of investor rights, legal system and enforcement of regulations to protect investors' rights, especially minority shareholders of the various forms of cheating. This can be a form of cheating insider trading (transactions involving inside information), fraud, dilution of the stock (the firm's value decreases), corruption, or decisions that may adversely influence such repurchase shares have been issued, the issuance of new shares, mergers, acquisitions, or takeovers of other companies.

Fairness becomes the soul for monitoring and ensuring fair treatment among diverse interests in the company. But even as a principle, fairness could require conditions somewhat effective. The requirements are in the form of regulations and legislation that is clear, firm, consistence and can be enforced effectively. This is considered important because it will be a guarantor of the protection of the rights of any shareholder, without exception.

GCG implementation Benefits and Prerequisites

The essence of corporate governance is to increase the corporate performance through supervision or monitoring management performance and management accountability to other stakeholders' interest based on the framework of rules and regulations (Tri Gunarsih, 2003 quoted by Daniri, 2005). Daniri (2005) explains about the benefits of GCG implementation. GCG can:

1. Reduce the agency cost, which is a cost to be borne by shareholders as a result of the delegation of authority to management. These costs may include losses suffered by the company as a result of abuse of authority (wrong-doing), or in the form of oversight costs incurred to prevent it.
2. Reduce the cost of capital (cost of capital). As a result of good corporate management, it causes the interest rate on the funds or resources borrowed by the company gets smaller as the decline in the firm's risk level.
3. Increase the value of company stock while increasing the company's image in the public for long term.
4. Create supports for stakeholders in the enterprise environment is the existence of the company and the various strategies and policies pursued by the company, because generally they received assurances that they also can get the maximum benefits of all the actions and the operations of enterprises in creating wealth and prosperity.

Benefits of Good Corporate Governance is not just for today but also for long term, it can become the main supporting pillar of the company development as well as the pillars of global competition winners.

Firm Size

One of the benchmarks that show the size of the company is the total assets of the company. Large firms are considered to have reached the stage of maturity is a picture that the company is relatively stable and better able to produce profits than small firms. For companies that are stable can usually predict the amount of profits in the coming years due to a very high degree of certainty of profit. Conversely for a company that has not been established, most likely the profit earned has been unstable due to lower earnings certainty (Sembiring 2008).

One of the major determinants of small firm can be determined by total assets. Total assets which are large show that the company has reached maturity stage or well established (Sembiring, 2008). In general, companies that have relatively large total assets can operate with higher efficiency levels than the company that total assets is low. Therefore, firms with large total assets will be able to produce higher profit levels.

Economic Value Added (EVA)

EVA is the economic added value created by the company from the activity or strategy in a certain period. The principle of EVA gives a good measurement system for assessing a performance and financial performance of management because EVA is directly related to a company's market value.

Stern states that EVA is not only a tool for measuring a company's financial performance, but also a management system consisting of financial policies, procedures, methods and measurements that guide the operations of a company and strategies (Mouritsen, 1998).

The steps used in calculating EVA as follows:

a. Counting the Cost of Debt

Cost of debt (cost of debt) or k_d is a rate which must be paid by the company in the market at the moment to get a new long-term debt.

$$k_d = \frac{\text{annual interest expense}}{\text{total long-term debt}}$$

Value of company stock that is maximized relies on after-tax cash flows. Since interest is a deductible expense, the interest produce tax savings that reduce the cost of net debt that makes the after-tax cost of debt is smaller than the cost of debt before taxes. The cost of debt is not the interest rate for debt that is still outstanding, but it's for new debt. In other words, the cost involved is the marginal cost of debt. Hence, the after-tax cost of debt used in calculating the cost of capital weighted average.

$$\begin{aligned} \text{Cost of Debt after Tax} &= \text{interest rate} - \text{tax savings} \\ &= kd - kdT \\ &= kd(1-T) \end{aligned}$$

b. Counting the Cost of Equity

The cost of capital itself is called the cost of equity (k_e). When investors hand over their funds in the form of equity to the company, then they are entitled to dividends in the future as well as served as a partial owner of the company. The amount of dividends is not determined when investors hand over their funds, but it is arbitrary, depending on the performance of companies in the future (retained earnings gain). This is in contrast to debt because debt has a certainty of interest rate. To calculate k_e used an approach based on the prevailing market value rather than book value. The formula is:

$$k_e = \frac{1}{PER}$$

c. Calculating the Capital Structure of the Balance Sheet

Capital structure that is used is the proportion of debt and the proportion of equity as a percentage of total debt and equity capital. The proportion of debt (W_D) is obtained by dividing the company's debt to the sum of debt and equity:

$$W_D = \frac{D}{(D + E)}$$

The proportion of equity (W_E) obtained by dividing by the total of debt to the sum of debt and equity:

$$W_E = \frac{E}{(D + E)}$$

d. Calculating NOPAT

Net Operating Profit after Tax (NOPAT) is the adjustment of income after tax. The net operating profit after tax has no impact nor on the profitability and on the risk of the

current business. In other words, both the company financed by debt and by their equity, NOPAT value will be identical. Here the steps for calculating NOPAT:

$$\text{Net sales} - \text{Operating Cost} = \text{Operating Income (or EBIT)} - \text{Tax} = \text{Net operating profit after taxes (NOPAT)}$$

e. Counting the Weighted Average Cost of Capital (c *)

Calculation of WACC or c * using the sum of the multiplication between the weights of the weighted components of debt and weighted component of equity of the company's capital structure with the percentage of the cost of debt and equity capital cost of the formulation as follows:

$$WACC = k_d(1 - T).W_d + k_e.W_e$$

Where,

T= tax the government levied on companies

k_d = cost of debt

k_e = cost of equity

W_d = proportion of debt

W_e = proportion of equity

f. Calculating EVA

$$EVA = NOPAT - c^* \times \text{invested capital, or}$$

$$EVA = (r - c^*) \times \text{invested capital}$$

Where,

r = rate of return

c* = weighted average cost

Capital= the amount of funds available for company to finance its activity which is the summation of total debt and capital stock.

To assess the company, the calculation of EVA is not only in the present period, but also includes the future period. This is because the EVA shows the magnitude of value creation in the particular year. While the company's value indicates the current value of the total value created over the life of the company.

Arifin (2004) explains the parameters used to assess the performance of a company with EVA approach as follows:

1. If $EVA > 0$, there is economic added value to the company after the company pay all obligations to funders both creditors and shareholders in accordance with expectations.
2. If $EVA < 0$, meaning there is no economic added value to the company. That is because the profits that are available cannot meet the expectations of the funders. In other words, companies cannot afford to pay obligations to funders both creditors, and shareholders in accordance with expectations.

Farawati (2010) explains that basically, EVA serves as:

1. Indicators about the value creation of an investment;

2. Performance indicators of a company in every economic operations;
3. Measure of the corporate performance by paying attention to creditors or shareholders fairly.

The privileges of EVA as follows:

1. Assessment of EVA in the future leads the company to pay more attention to development policy of capital structure;
2. EVA helps the top management to focus their business activities, namely having the EVA as high as possible in order to obtain the shareholders to get the maximum revenue. This approach will help reduce conflicts between management and the owner of the company;
3. EVA focuses on value-added assessment by considering the cost of capital as a consequence of investment;
4. EVA can be used independently without the needs for comparative data such as industry standards or similar companies;
5. The use of EVA minimizes the occurrence of misleading in making conclusions on the actual condition of the company, due to the consideration of the level of business growth and inhibiting factors for investors to receive dividends.

Research Model

Based on the research background and the theory above, the research model is reflected in Figure 1 below:

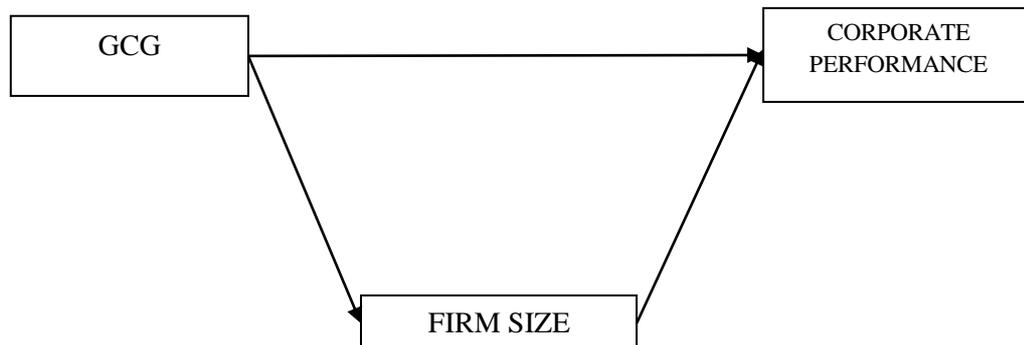


Figure 1: Research Model

Research Hypotheses

Based on theory, previous studies and the research model outlined, this study makes hypotheses to examine the relationship between variables:

H_1 : GCG implementation has direct effect on corporate performance as measured by EVA.

H_2 : GCG implementation has indirect effect on corporate performance as measured by EVA through Firm size.

Research Methods

The object of this research is companies those implement GCG, while the units of observation in this research are the Annual Reports and Financial Reports of the companies that listed on Indonesia Stock Exchange (IDX) and have been audited. From those observation units, the author calculated the GCG index of companies, the size of companies, and the EVA of companies.

Population and Sample

The population in this research is all manufacturing companies listed on IDX period 2006-2010. The sampling technique that is used is Purposive Sampling Technique with the aim to obtain a representative sample in accordance with the specified criteria. The criteria used to select the sample are as follows:

1. Go Public Manufacturing companies in period 2006-2010 which consistently publish annual reports and financial reports on the website of IDX
2. Companies that have selected as 40 companies with the largest size

Based on IDX data in the period 2006-2010, the population of manufacturing companies as many as 438 companies, but based on the criteria of the samples that have been presented above and after going through the analysis of outliers, then this research uses 34 manufacturing companies as the samples.

Sampling Methods

The samples in this research were taken by the method of time series and cross section data. This is done for minimizing the obstacles that arise over homoscedasticity and autocorrelation (Nur'Ainy, 2010). Source of data used in this research were obtained from annual reports and annual financial statements of listed manufacturing companies on IDX or www.idx.co.id in the period 2006-2010.

From 438 companies listed in IDX from 2006 until 2010, 133 companies included as manufacturing companies. The population that meets the criteria and completeness of the data is 34 companies. Here is a sampling process is carried out:

Table 1: Sample Collecting Process

The Information	Total
The number of companies listed on the Stock Exchange since the year 2006-2010	438
The number of non-manufacturing companies	(305)
The number of manufacturing companies	133
The number of companies that do not meet criteria	(93)
The 40 companies with the largest size	40
The number of outliers companies	(6)
The number of companies selected as the sample	34

Source: IDX Secondary Data processed (2011)

Result

Companies that are used in this study are the manufacturing companies. Companies included in this type of manufacturing business, which is a company engaged in sectors: Basic Industry and Chemicals, Consumer Goods Industries and Miscellaneous Industry. Manufacturing companies rated to have a greater contribution in improving the economy in Indonesia because of the company with this type of business to absorb more labor, so the number of unemployed in Indonesia was reduced and the level of Earnings per Capita increases. Along with the growth of prosperity, Indonesia's economy will also increase. Therefore, the implementation of GCG on the type of manufacturing business estimated to have a great contribution to the economy enhancement in Indonesia.

Descriptive Analysis

The first analysis was done to analyze the data by using descriptive statistics which describes all the variables of the research. The variables of this research are variable

GCG index (GCG), variable size (SIZE), and corporate performance as measured by EVA (PERFORMANCE). General description of these variables appears on the Table 2 below:

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GCG	34	80.00	94.00	88.2941	3.32055
SIZE	34	20.05	23.96	21.3979	1.04789
PERFORMANCE	34	-1.89E6	1.43E6	-1.8289E5	4.93509E5
Valid N (listwise)	34				

Sources: SPSS Secondary Data Processed (2012)

The average GCG for 5 years at 34 companies shows a positive value. GCG has an average value of 88.2941 with a standard deviation of 3.32055. The maximum value during the period of observation is at 94.00, and the minimum value during the period of observation is at 80.00. The maximum value of 94.00 indicates the highest GCG value achieved by the sampled companies and the lowest GCG value that is achieved by the sampled companies is 80.00.

The average of size for 5 years at 34 companies is 21.3979 with a standard deviation of 1.04789. The maximum value during the period of observation is at 23.96, and the minimum value during the period of observation is at 20.05. The maximum value of 23.96 indicates the biggest size of the sampled companies and the minimum value of 20.05 indicates the smallest size of the sampled companies.

The average of corporate performance as measured by EVA for 5 years at 34 companies is -1.8289×10^5 with a standard deviation of 4.93509×10^5 . The maximum value during the period of observation is at 1.43×10^6 and the minimum value during the period of observation is at -1.89×10^6 . The maximum value of 1.43×10^6 indicates the highest EVA created by the sampled companies and the minimum value of -1.89×10^6 indicates the lowest EVA created by the sampled companies

Hypothesis Testing Results

Testing of hypothesis performed using the software AMOS version 5.0. Limit of significance (p) which is used in decision making admissibility hypothesis, that is equal to 0.05 or 5%. In another words, hypothesis will be accepted if the significance value (p) obtained less than or equal to 0.05 or 5% ($p \leq 5\%$).

H1: GCG implementation has direct effect on Corporate Performance Measured by EVA

The first hypothesis examination describes the direct effect of GCG implementation on corporate performance as measured by EVA.

H1: GCG implementation has direct effect on the corporate performance as measured by EVA.

The null hypothesis is defined that GCG implementation has no direct effect on the corporate performance as measured by EVA. While the alternative hypothesis is GCG implementation has direct effect on the corporate performance variables as measured by EVA.

H1₀: $b_1 = 0$: GCG implementation has no direct effect on the corporate performance as measured by EVA.

H1_a: $b_1 \neq 0$: GCG implementation has direct effect on the corporate performance as measured by EVA.

Based on the results of path analysis using AMOS software, it is known that hypothesis 1 can be accepted because the value of significance (p) generated is smaller than the limit, that is equal to 0.05 or 5%. Estimate value is standardized regression weight and the p-value is a significant value, as seen in the following table:

Table 3: Result of Path Analysis for Hypothesis 1

	Estimate	Direction	P
GCG → Performance	0.599	Positive	0.012

Source: AMOS Secondary Data Processed (2012)

The results of path analysis shows that GCG variable has a value of standardized regression weight at 0.599 in predicting corporate performance as measured by EVA. These results are significant which can be seen from the p-value, amounting to 0.012. Thus, H1₀ is rejected and it can be said that the variable GCG is a good predictor of corporate performance as measured by EVA. Therefore, H1_a which states that GCG implementation has direct effect on corporate performance as measured by EVA can be accepted.

H2: Indirect Effect of GCG Implementation on Corporate Performance Measured by EVA Through Firm Size

The second hypothesis illustrates the indirect effect of GCG implementation on corporate performance as measured by EVA through firm size. For hypothesis testing purposes, we divide the second hypothesis into hypothesis 2A and hypothesis 2B as follows:

H2A: GCG has direct effect on Firm Size.

H2B: Firm Size has direct effect on Corporate performance

The null hypothesis is GCG has no direct effect on firm size. While the alternative hypothesis is GCG implementation has direct effect on firm size.

H2A₀: $b_1 = 0$: GCG has no direct effect on Firm Size

H2A_a: $b_1 \neq 0$: GCG has direct effect Firm Size

The null hypothesis is Firm Size has no direct effect on Corporate performance. While the alternative hypothesis is Firm Size has direct effect on Corporate performance.

H2B₀: $b_1 = 0$: Firm Size has no direct effect on Corporate performance

H2B_a: $b_1 \neq 0$: FirmSize has direct effect on Corporate performance

Based on the results of path analysis using AMOS can be seen that hypothesis 2 can be accepted because the value of significance (p) generated is smaller than the limit that is

equal to 0.05 or 5%. Estimates value is standardized regression weight and the p-value is the value of significance, as seen in the following table:

Table 4: Result of Path Analysis for Hypothesis 2

	Estimate	Direction	P
GCG → Size	0.639	Positive	***
Size → Performance	-0.714	Negative	0.002

Source: AMOS Secondary Data Processed (2012)

The results of path analysis showed that GCG variable has a value of standardized regression weight for 0.639 and significant in predicting the firm size. The significance of this can be seen in the p-value which is smaller than 0.001 (in AMOS marked ***) and smaller than the limit that has been required, which is 0.05 or 5%. Something similar happened to firm size on predicting corporate performance. Firm size has a value of standardized regression weight at -0.714 and significant in predicting corporate performance. Significance can be seen from the p-value for 0.002 which is smaller the limit, i.e. 0.05 or 5%, so we can accepted H2. Thus, it can be said that the variable GCG is a good predictor for Firm Size and Firm Size is a good predictor for corporate performance. So, we could said that GCG implementation has indirect effect on corporate performance through Firm Size.

Discussion

The result of path analysis of GCG → PERFORMANCE shows that the GCG implementation has a value of standardized regression weight for 0.599 and significant in predicting corporate performance as measured by EVA. The significance can be seen from the p-value which is 0.012. Thus, this study supports that the GCG implementation influences directly on corporate performance as measured by EVA.

The results is supported by the use of Corporate Governance presented by the Forum for Corporate Governance in Indonesia, that corporate governance makes companies raise capital easier; reduces cost of capital; improves business performance, and improves economic performance. The results of this study support the research conducted by Darmawati et al (2005); and Nur'Ainy (2010), but it is in contrast to research conducted by Sayidah (2007).

The result of path analysis of GCG → SIZE indicates that GCG implementation has a value of standardized regression weight at 0.639 and significant in predicting size. The significance can be seen in the p-value which is smaller than 0.001 (in AMOS marked ***) and smaller than the limit that has been required, which is 0.05 or 5%. Something similar happened to path of SIZE → PERFORMANCE. Firm Size which represented by natural logarithm has a value of standardized regression weight at negative 0.773 (-0.773) and significant in predicting corporate performance as measured by EVA. Significance can be seen from the p-value for 0.002 is smaller the limit, i.e. 0.05 or 5%. Therefore, this study supports that the GCG implementation influences on corporate performance as measured by EVA through firm size.

The result of path analysis of GCG → SIZE indicates that there's a positive effect of GCG implementation on size significantly. A consistent implementation of GCG makes the company easier to obtain debt because of a consistent GCG able to boost the company's image in the public for long term (Daniri, 2005). Therefore, the creditors were not afraid to lend the funds to the company. The debt are used to fund the company's assets are expected to increase company productivity. Whereas, the results of path analysis of SIZE → PERFORMANCE indicates a negative effect of size which is

represented by natural logarithm on corporate performance as measured by EVA. It happens because the company uses debt to fund the company's assets. While the greater use of debt causes interest expense is greater (Brigham and Gapenski, 1997 in Fachrudin, 2011). If interest expense is very large while the operating profit is not large enough, it will raise the problem of financial difficulties that caused the performance decline. The results of this study contradict the results of research Sembiring (2008) which states that the size has positive and significant effect on financial performance. Based on the path analysis, it can be concluded that GCG implementation has impact on corporate performance as measured by EVA through firm size. Thus it can be said that Firm Size has a role as mediator (Baron and Kenny, 1986) in the effect of GCG implementation on corporate performance as measured by EVA.

Conclusion

Based on the analysis and hypothesis testing, it can be concluded that the implementation of Good Corporate Governance consisted of transparency principle, accountability principle, responsibility principle, independence principle, and fairness principle (TARIF) have direct effect on corporate performance as measured by EVA. GCG implementation consisted of those TARIF principles also influences on corporate performance as measured by EVA through firm size. It is at once proved that firm size has a role as mediator in the effect of GCG implementation on corporate performance as measured by EVA.

Its only mean that consistence in implementation of Good Corporate Governance will make improvement on corporate size directly and then it will has impact in increasing the corporate performance as measured by Economic Value Added. In other words we can say that corporate performance as measured by EVA, will increase while the firm size increase because of the consistence in implementation of Good Corporate Governance by the corporate's boards of management. So, we can said that investors should be look at the implementation of Good Corporate Governance in the firm before they invest their money in.

Research Limitation, suggestion, and implication

This study is expected to contribute in providing an overview of the implementation of GCG in Indonesia which can be used by investors and potential investors as one consideration in making investment decisions, and reinforcing previous studies regarding the relationship between GCG implementation and corporate performance.

Besides of that result, this study has limitations that must be considered in interpreting the research results. Collecting data of GCG index is only done based on company's annual report. By this method, the scoring tends to be subjective and is not strong enough to make an assessment of the actual practices. Future studies are expected to be able to collect data by conducting surveys and observations directly to the intended objects, or by sending questionnaires to sampled enterprises, so the assessment of GCG practices to be more objective.

Limitations of this study also lay in the used of sample. The sample of this study using 34 companies engaged in the manufacturing industry which has the largest total assets. The number of samples probably causes the goodness of fit in this study to be not good enough. Therefore future research is expected to make observations on a larger sample, so the quality of data held to be better.

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To cite this article:

Nur'ainy, R., Nurcahyo, B., Sri Kurniasih, A., & Sugiharti, B. (2013). Implementation of Good Corporate Governance and Its Impact on Corporate Performance: The Mediation Role of Firm Size (Empirical Study from Indonesia). *Global Business and Management Research: An International Journal*, 5(2), 91-104.