

DETERMINANTS OF STRINGENT CORPORATE GOVERNANCE: EVIDENCE FROM COMPANIES SELECTED IN THE INDONESIAN INSTITUTE FOR CORPORATE GOVERNANCE

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ABSTRACT

In Indonesia, corporate governance becomes increasingly important after the financial crisis. There are several regulations relating to the implementation of good corporate governance both issued by Bank Indonesia (BI), the Financial Services Authority (OJK), and the decree of the Minister of State Owned Enterprises. There is also a non-governmental organization that every year made the corporate governance practices index of public companies, namely The Indonesian Institute for Corporate Governance (IICG).

This study investigates the determinants of stringent corporate governance at firm level among Indonesian listed companies, in order to identify the firm characteristics that are associated with the probability of stringent of the firm's corporate governance implementation. This study is based of 93 firms as sample and firms listed in Indonesian Stock Exchange and include in IICG in 2008-2012.

The analysis method used logistic regression model. The dependent is a dummy variable of corporate governance, which is one if firm has stringent corporate governance and zero otherwise. The result show that profitability, leverage, firm size and institutional ownership effect positively on the probability of stringent corporate governance implementation. The business risk and sales growth effect negatively on the probability of stringent corporate governance implementation. The type of industry has no effect on the probability of stringent corporate governance implementation.

JEL CLASSIFICATION & KEYWORDS

■ G34 ■ GOVERNANCE ■ FIRM ■ OWNERSHIP ■ RISK

INTRODUCTION

Corporate governance has become an interesting issue to conducted research. Keasey & Wright (1993) argue that corporate governance has two dimensions, namely monitoring the performance of management and the structure and a mechanism that motivates behavior of managers to increase the prosperity of the company. McKinsey & Company (2002) conducted a survey that investors tend to avoid companies with poor predicate in corporate governance. The attention paid to the investor of good corporate governance (GCG) as great as the attention of the company's financial performance. The investors believe that companies that implement good corporate governance practices have attempted to minimize the risk, thus improving the performance of the company, which in turn maximizes the value of the company.

However, firms within the same country may have markedly different corporate governance standards. Furthermore, differences between firms' corporate governance quality

could be due to some of their observable characteristics. Klapper & Love (2004), who have noted a large degree of variation in the quality of corporate governance practices of firms that are submitted to the same contractual environment, finding examples of firms with high corporate governance ratings in countries with weak investor protection and vice-versa.

Many previous studies have examined the impact of corporate governance on firm value and stock performance. Many studies have documented that there were a positive relationship between corporate governance and company performance (Brown & Caylor 2009; Chen, Chen, & He, 2008; Chalhoub 2009; Humera, Maryam, Khalid, Sundas, & Bilal. 2011). The study on the effectiveness of corporate governance has been conducted also in Indonesia, e.g. Madiastuty & Machfoedz (2003), Veronica & Siddhart (2005), and Triyono (2012, 2013). However, the research related to determinants companies adopt stringent corporate governance is still rare.

There are several studies related to the implementation of quality good corporate governance. Darmawati (2006), and Hormati (2009) showed that firm size affects the quality of corporate governance. Otherwise, Klapper & Love (2004) stated that the firm size is ambiguous as large firms may have greater agency problems. Durnev & Kim (2005) showed that leverage has positive influence on the quality of the implementation of good corporate governance. Black, Jang, & Kim (2006a) found the results of different studies that leverage negative affect on the quality of corporate governance. Different finding shown by Darmawati (2006) and Hormati (2009) that the leverage does not affect the quality of corporate governance.

There are several regulations relating to the implementation of good corporate governance issued by Bank Indonesia (BI), the Capital Market Supervisory Agency (Bapepam) or the Financial Services Authority (OJK), and Indonesian Government. Bank Indonesia Regulation No. 8/14/PBI/2006 concerning amendment to Bank Indonesia Regulation Number 8/4/PBI/2006 on Implementation of Good Corporate Governance for Banks and Letter No. 9/12/DPNP dated May 30, 2007 on the Implementation of Good Corporate Governance for Banks. In addition, the decree of the Minister of State Owned Enterprises No. 117/2002, which has required the same thing for State-Owned Enterprises.

There is also a non-government organization that made the rating practices of good corporate governance annually for public companies, namely The Indonesian Institute for Corporate Governance (IICG). The ranking is conducted based on a survey of corporate governance practices and resulted in a score of Corporate Governance Perception Index (CGPI). The CGPI score describes the quality of the implementation of corporate governance and classification of ranked categories, namely very reliable, reliable, and fairly reliable. The CGPI consisted of 11 aspects, i.e. commitment, transparency, accountability, responsibility, independence,

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fairness, competence, leadership, strategy, ethics, and knowledge management.

The purpose of this study is to find the determinants of the probability that firms will have stringent corporate governance. This line of research is important because most academic papers on corporate governance have focused on evaluating the impact of corporate governance mechanisms and practices on firm value. The previous studies have not yet obtained accurate and consistent evidence dealing with the effect of variable firm characteristic to implementation corporate governance. However, analyzing the of corporate governance quality at firm level and relating voluntarily adopted practices to firms' characteristics is important, since it helps one to understand what can lead firms to improve their governance practices in places where the level of corporate governance quality reflects decisions voluntarily taken by firms.

Corporate Governance in Indonesia

Theory related to corporate governance is stewardship theory and agency theory (Shaw, 2003). Stewardship theory states that humans are intrinsically trustworthy, responsibility, integrity and honesty of the other party. This is implicit in the fiduciary relationship that is desired by the shareholders. In other words, stewardship theory views that the management can be trusted to act in the best interests of the public and stakeholders. Meanwhile, the agency theory which holds that the management company as agents for the shareholders, it will act with full awareness of their own, not as the wise and prudent and fair to shareholders. Agency theory got wider response, because it is deemed better reflect of the fact (Kaihatu, 2006).

The corporate governance is a set of procedures relationships between management, the directors, board of commissioners, shareholders and other stakeholders that regulates and directs corporate activities. (OECD, 2004). The main components required in the concept of good corporate governance, i.e. fairness, transparency, accountability, and responsibility (Kaen, 2003; Shaw, 2003; Faisal, 2005). The four components are essential for the implementation of good corporate governance principles consistently proven to improve the quality of financial reporting and can also be inhibiting performance management activities that result in the financial statements do not describe the fundamental value of the company.

There are several regulations relating to the implementation of good corporate governance both issued by Bank Indonesia (BI), the financial services authority (OJK) and the decree of the Minister of State Owned Enterprises. Decree of the Minister of State Owned Enterprises number: KEP-117/M-MBU/2002 on the Application Practice of Good Corporate Governance (GCG) at State Owned Enterprises. He issued also the decree Number: 103/2002 on the Establishment of the Audit Committee of the Capital Market Supervisory Board. Especially for banks, including state-owned bank, Bank Indonesia issued also Bank Indonesia Regulation Number: 8/4/PBI/2006 on GCG Implementation for Banks. There is also a non-governmental organization that every year made the corporate governance practices ranking for public companies, i.e. The Indonesian Institute for Corporate Governance (IICG). The ranking is based on a survey of practices on GCG and produces score of Corporate Governance Perception Index (CGPI). But the participating companies are low and suggest the existence of a public company's reluctance to openly assess its corporate governance practices.

The Effect of Firms Characteristics on Stringent of the Firm's Corporate Governance Implementation

The characteristics of the firms are factors that determine the firms adopt good corporate governance. Klapper & Love (2004) indicate there are three determinants of good corporate governance quality, i.e. benefits of good corporate governance, the nature of the company's operations, and the size of the company. First, because the primary goal of corporate governance is to reduce agency costs by increasing investor confidence that they will get the right result on their investment. Second, companies that have greater in tangible assets have more incentives for the adoption of good corporate governance practices, because they should give a signal investors that they do not intend to use their resources by not properly. The size of the firm is the third potential determinant of the quality of corporate governance. However, Klapper & Love (2004) stated that the size of the firm affects the quality of corporate governance is still ambiguous. On the one hand, large firms adopted the practice of good corporate governance in order to reduce the problem of agency costs. On the other hand, small firms need more external funding, thus encouraging adopt practices of corporate governance better too.

Implementation of Corporate Governance directs the management of the company on the achievement of profit and sustainability (Daniri, 2006). Achievement of these profit is a form of compliance to shareholders and cannot be separated from efforts to achieve sustainability that reflects the fulfillment of interest to the stakeholders. Setyaningrum (2013) state that profitability is used by investors to see how the firms will provide probability income in the future. The firms with better operating performance might be more willing to be more transparent, resulting in a higher corporate governance rating. Additionally, perhaps firms with poor performance might voluntarily improve their corporate governance level to offset their weak performance. Based on the literature review and previous research, the first research hypothesis is as follows:

H1: Profitability affects on the probability of stringent of the firm's corporate governance implementation.

The firm risk is expected to be negative to corporate governance because firms with high total equity risk are less likely to have stringent corporate governance. High total equity risk means high volatility of stock price changes. Firm with high total equity risk may put more resources to reduce stock price volatility rather than to focus on corporate governance (Poramapojn, 2013).

The firm risk is significantly negative to corporate governance level. Firms with high total equity risk are more likely to have less stringent corporate governance as they may put more effort into reducing risk rather than improving corporate governance (Poramapojn, 2013). However, this result is inconsistent with Black et al. (2006a) as they conclude that firm risk is positively related to corporate governance. Their explanation is that firms with high risk are intensively monitored, therefore, those firms tend to have rigorous corporate governance. Based on the literature review and previous research, the second research hypothesis is as follows:

H2: Business risks affects on the probability of stringent of the firm's corporate governance implementation.

The debt holders are concerned to protect their investment in the company and will actively monitor the level of leverage of the company. Black, Jang, & Kim (2003) stated that there are two alternative explanations of the relationship between capital structures with the quality of corporate governance.

First, the company has a high-level of debt in the capital structure will tend to be subject to monitoring more stringent by creditors. Thus, the company is less concerned with the quality of corporate governance, because there has been monitoring of external parties. Second, creditors have an interest in corporate governance practices and has more power than shareholders to force the company improve the quality of corporate governance.

The studies related the effect of leverage on the implementation of corporate governance quality were also inconsistent. Blacket al. (2003) found a negative relationship between leverage and corporate governance quality. However, Durnev & Kim (2005) found a positive relationship between the practice of corporate governance and disclosure requirements to external funding. Based on the arguments above, the third research hypothesis is as follows:

H3: Lverage affects on the probability of stringent of the firm's corporate governance implementation.

Durnev & Kim (2005) also analyzed the potential determinants of quality of corporate governance at the company level. Durnev & Kim (2005) concluded that the investment opportunities (measured by sales growth), the need for external funding, and sales related positively to the quality of corporate governance. Anand, Milne, & Purda (2006) examined the factors drive companies to adopt corporate governance guidelines in Canada. They found that investment opportunities and research and development expenditures affected the level of good corporate governance. Thus, the firm has an investment opportunity that requires high quality corporate governance.

Klapper & Love (2004) found that the company with high investment opportunities will be sought to expand so it will increasingly require external funding. For that purpose, the firm will strive to improve the quality of implementation of corporate governance for more ease in obtaining external funding sources and lower the cost of capital. Based on theory and previous research, the fourth research hypothesis can be formulated as follows:

H4: Investment opportunity affects on the probability of stringent of the firm's corporate governance implementation.

Firm size is a potential determinant of the quality of corporate governance. According to Klapper & Love (2004), firm size affects the quality of corporate governance is still ambiguous. On the one hand, large companies can face greater agency costs that cause them to voluntarily adopt practices of good corporate governance to reduce the problem of agency costs. On the other hand, small firms need more external financing. This lead the small firms to adopt the practices of corporate governance are better too. Therefore, the both will have different incentives to voluntarily achieve the quality of corporate governance.

Black et al. (2006a) examined the small firms in the Korea Stock Exchange and concluded that firm size is significantly positive influence on corporate governance, while other factors such as the age of the company and the company's market share are not effect on corporate governance. Based on literature review and previous studies, the fifth research hypothesis is as follows:

H5: Firm Size affects on the probability of stringent of the firm's corporate governance implementation.

The Effect of Institutional Ownership on Stringent of the Firm's Corporate Governance Implementation

Pound (1988) examined the effect of institutional ownership on corporate performance and proposed hypotheses about the relationship between institutional shareholders and firm

performance, i.e. The Efficient Monitoring Hypothesis, The Strategic Alignment and The Conflict of Interest Hypothesis. The study related to the ownership structure much emphasis on the monitoring hypothesis. The reason is the high cost of supervision, so that only large shareholders such as institutional investors have incentive to monitor (Shleifer & Vishny, 1997). In addition, institutional investors have the opportunities, the resources, and the ability to monitor and influence managers. They proved that institutional investors can force managers to focus more on the company's performance and reduce opportunistic of manager behavior.

Zhuang (1999) argues that the ownership structure is one of the most important factors in establishing good corporate governance, as it relates to the agency problem. Zhuang (1999) argues that if the ownership of a company is concentrated, then they will play an important role in monitoring management. Durnev & Kim (2005) state that the controlling shareholder will enhance the implementation of quality corporate governance. Fidyati (2004) explains that institutional investors spend more time to analyze investments and they have access to information and potentially costly acquisition for other investors. Institutional investors play an active role in the implementation of corporate governance by reducing the level of investment risk through effectiveness management monitoring. Based on theory and previous studies, the sixth hypothesis of this study as follows:

H6 : Institutional ownership effects on the probability of stringent of the firm's corporate governance implementation.

The Effect of Type Industry on Stringent of the Firm's Corporate Governance Implementation

The type of industry influence firm-level corporate governance. For instance, in more regulated sectors, such as banking and financial sector, firms might be forced to adopt stricter levels of disclosure. Regulation in the banking sector contained in the Circular Letter of Bank Indonesia number: 8/4/PBI/2006 regarding of corporate governance. Firms owned by the government (State Owned Enterprises) also get a major concern in the enforcement of corporate governance in Indonesia as stipulated in the regulations number: KEP-117/M-MBU/2002 on Implementation of GCG of State Owned Enterprises. It is expected that the realization of the above legislation can improve the implementation of corporate governance in Indonesia.

Some of the literature reveals that regulatory factors have a role on the implementation of corporate governance but the result is not consistent. Black et al. (2006a) states that the banking industry is subject to strict regulation in relation to the implementation of corporate governance.

Klapper & Love (2004) found a relationship between the corporate governance regulatory factors. However, Darmawati (2006) found that state-owned enterprises and the banking regulatory factors have not influence on the quality of corporate governance implementation. Based on theory and previous research, the seventh research hypothesis of this study as follows:

H7: Type industry affects on the probability of stringent of the firm's corporate governance implementation.

Research Method

The population of this study is listing company on the Indonesian Stock Exchange. Samples were taken by using purposive sampling method with the criteria that companies listed on Indonesian Stock Exchange and include on ranking corporate governance conducted by the Indonesian Institute

for Corporate Governance (IICG) in the year 2008-2012. This study used secondary data, where the data obtained from the IICG survey and published by SWA magazine and the internet, while other data obtained from the Indonesian Capital Market Directory and yahoo finance. The analysis of this study is based on samples of 93 companies.

The stringent of corporate governance variable (QualGCG) in this study is based on score of Corporate Governance Perception Index (CGPI) developed by IICG. The results of the assessment is grouped into three as follows: very reliable with the score of 85 -100, reliable with score of 70 - 84.99 and fairly reliable with score of 55 - 69.99. Based on these scores are used as a cut-off basis to distinguish the company implemented stringent corporate governance and less stringent. The company has a score above 77.5, means the company applied stringent corporate governance and is given a score of 1 and if it is below 77.5, means the company applied less stringent corporate governance and is given a score of 0.

The performance variable in this study is corporate performance and risk. The performance of company is based on accounting-based measures, i.e. return on equity (ROE). Risk of company is based based on the company's business risk using accounting-based measures, i.e. the standard deviation of earnings (SDEAT). The ownership structure is institutional ownership (INSTO). Institutional ownership is measured by the proportion of shares outstanding held by institutions.

The leverage is measured by total debt divided by total assets (DEBT), the investment opportunity is measured by sales growth during three years (GROWTH), and firm size is measured by the natural logarithm of total assets (SIZE). Type of industry is measured using a dummy variable, with a score of 1 for companies including the banking and state-owned companies sectors and a score of 0 for other companies sectors.

Based on the hypothesis described above, we estimated the model below using the logistic regression procedures.

$$\ln \frac{P(Y_i = \text{Stringent})}{1 - P(Y_i = \text{Stringent})} = \alpha + \beta_1 ROE_{it} + \beta_2 SDEAT_{it} + \beta_3 DEBT_{it} + \beta_4 GROWTH_{it} + \beta_5 SIZE_{it} + \beta_6 INSTO_{it} + \beta_7 INDST_{it} + \mu_{it}$$

Before, the model is used to test the hypothesis, the first step is to test the overall fit model. Test statistics are used to test the model based on the value of Chi-Square, -2log likelihood, Nagelkerke's R-square value, and the Hosmer and Lemeshow goodness of fit test. Hypothesis test is based on the value of Wald for each variable.

Descriptive Statistic

Table 1 showed the descriptive statistic of data. Based on table 1 showed the quality of corporate governance variables (QualGCG), business risk (SDEAT), leverage (DEBT), institutional ownership (INSTO), firm size (SIZE), and type of industry (IDST) have an average value above the standard deviation. It showed that the distribution of data as the sample was not different or similar. However, variable of profitability (ROE), and investment opportunity or sales growth (GROWTH) have an average value below the standard deviation. This showed that the distribution of data is more spread out or uneven.

Goodness of Fit Test

Logistic regression does not require normality test and classical assumption (Ghozali, 2011). However, before to testing the hypothesis, it is necessary to test the overall model fit and the feasibility test of the regression model.

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	N	Minimum	Maximum	Mean	Std. Deviation
QualGCG	93	0	1	0.6344	0.48421
ROE	93	-1.92	0.78	0.1273	0.34667
SDEAT	93	0	10.15	0.2845	1.26791
DEBT	93	0.18	0.96	0.6324	0.24321
GROWTH	93	-0.26	1.18	0.1992	0.24091
SIZE	93	11.95	20.42	17.0558	1.71409
INSTO	93	5.26	96.92	64.0128	19.50158
INDST	93	0	1	0.6129	0.48973
Valid N (list-wise)	93				

Source: Authors

According to Table 2, the overall model fit test, initial value -2log likelihood is of 122.12 and the value -2log likelihood become of 38.87 with significance of 0.001 after all the independent variables include in model. This result means that the addition of the independent variables improve the model.

The feasibility test of regression model, the value of statistical Hosmer and Lemeshow Goodness of Fit of 2.784 with a significance probability of 0.947 and above 0.05, then the model is fit and acceptable. Nagelkerke R-square value is of 0.831 which means that variations on the stringent of corporate governance implementation can be explained by the variation of the independent variables by 80.9% and the others described other variables outside the model. The model is able to classify the company in implementing corporate governance between the stringent and less stringent at 87.1%. It can be concluded that the model is acceptable.

Hypothesis Test and Discussion

Based on the analysis in Table 2, the following results are obtained. The variable profitability (ROE) has a Wald value of 7.001 with value of significance of 0.008 and regression coefficients of 14.311. These results indicate that successfully supported H1. This means that the profitability effects positively on the probability of stringent of the firm's corporate governance implementation. The firms with high profitability more resources and more renowned and are more likely to possess better corporate governance. Moreover, those firms get strong attention from investors and stock analysts and have incentive to implement stringent corporate governance.

Barucci & Falini (2005) showed that the higher profitability will attract attention of the investor in equity market, then firms are likely to adopt high-quality governance. Therefore, more profitability will motivate firms to perform better corporate governance due to increasing number of stakeholders.

Variable	B	S.E.	Wald	df	Sig.
ROE	14.311	5.409	7.001	1	0.008
SDEAT	-17.213	8.508	4.094	1	0.043
DEBT	7.186	2.936	5.99	1	0.014
GROWTH	-7.048	2.774	6.454	1	0.011
SIZE	1.355	0.61	4.943	1	0.026
INSTO	0.198	0.065	9.342	1	0.002
INDST	1.43	1.057	1.831	1	0.176
Constant	-37.472	13.473	7.736	1	0.005
Initial -2log likelihood			122.12		-2log likelihood
Cox & Snell R-Square			0.597		Nagelkerke R-Square
					0.809
Hosmer and Lemeshow Test :					
Chi-square	2.784			Overall percentage correct	87.10%
Sig. Chi-square	0.947				

Source: Authors

The business risk variable (SDEAT) has a Wald value of 4.055 with value of significance of 0.043 and the regression coefficients of -17.213, then H2 supported successfully. This means that the higher the risk of the company's business, then the probability of stringent corporate governance implementation will decrease. The implication of these findings that companies have a high business risk more focus on business fluctuations rather than focus on corporate governance. These results are consistent with Poramapojn (2013) that firms with high total equity risk are more likely to have less stringent corporate governance as they may put more effort into reducing risk rather than improving corporate governance.

The leverage variable (DEBT) has a Wald value of 5.99 with value of significance of 0.014 and the regression coefficients of 7.186, then H3 supported successfully. This means that the level of leverage effects positively on the probability of stringent of the firm's corporate governance implementation. This result is consistent with Black, Jang, & Kim (2006b) as they conclude that firm risk is positively related to corporate governance. Their explanation are that firms with high risk are intensively monitored, therefore, those firms tend to have stringent corporate governance.

The investment opportunities or growth variable (GROWTH) has a Wald value of 9.963 with significance of 0.011 and the regression coefficients -7.048, then H4 supported successfully. This means that the higher of investment opportunities, then the probability of stringent of the firm's corporate governance implementation will decline. These findings suggest that if the company experienced growth, the management less focus on the implementation of corporate governance. In this condition, management has incentives to perform discretion. Taman & Nugroho (2011) explains that management would likely discretion as the company growth, so would ignore the implementation of corporate governance. Therefore, corporate governance is tend to be ignored even though firms have high investment opportunities.

The results of this study is not consistent with Durnev & Kim(2005) that the investment opportunities, the need for external funding, and sales are positively related to the quality of corporate governance. Anand et al. (2006) also provide empirical evidence that investment opportunities to encourage companies to adopt corporate governance guidelines.

The firm size variable (SIZE) has a Wald value of 4.943 with significance of 0.026 and the regression coefficients of 1.355, then H5 supported successfully. This means that the firm size effects positively on the probability of stringent of the firm's corporate governance implementation. In other words, large firms have more resources and renowned, then more likely to possess better corporate governance. Moreover, those firms get strong attention from investors and stock analysts and have an incentive to implement stringent corporate governance. Durnev & Kim(2005) explains that large companies tend to attract the attention and the spotlight of the public, thus encouraging companies to implement corporate governance structure better. Darmawati (2006) also explained that large companies are more likely to have greater agency problems anyway, so it requires a more stringent governance mechanisms.

The institutional ownership variable (INSTO) has a Wald value of 9.342 with significance of 0.002 and the regression coefficients of 0.198, then H6 supported successfully. These results indicate that institutional ownership effects positively on the probability of stringent of the firm's corporate governance implementation. The results is consistent with

Shleifer & Vishny (1997) that institutional investors have a greater incentive to monitor the management and policies of the company. Effectiveness monitoring of institutional investors can reduce opportunistic management behavior which leads to reduced agency costs. Fidyati (2004) explains that institutional investors have access to information that is costly for other investors. Institutional investors play an active role in corporate governance by reducing the level of risk of the company through effectiveness management monitoring.

The industrial type variable (INDST) has a Wald value of 1.831 with significance of 0.176 and the regression coefficients of 1.43, it means the hypothesis (H7) is not supported. These results indicate that the type of industry do not affect on the probability of stringent of the firm's corporate governance implementation. These results support the research of Darmawati (2006). The implication of this finding is not difference in the implementation of corporate governance between the financial and state-owned enterprises group with other group.

CONCLUSION

The purpose of this study is to find the determinants of the probability that firms will have stringent corporate governance. The results provide evidence that profitability (ROE), leverage (DEBT), firm size (SIZE) and institutional ownership (INSTO) effect positively on the probability of stringent of the firm's corporate governance implementation. The business risk (SDEAT) and investment opportunity or sales growth (GROWTH) effect negatively on the probability of stringent of the firm's corporate governance implementation. While, the type of industry (INDST) does not effect on the probability of stringent of the firm's corporate governance implementation.

The characteristics of the company are factors to determine the company adopt good corporate governance. The company with higher profitability has incentive to implement of stringent corporate governance. The company with higher leverage is monitored by debholders, so motivated to implement of stringent corporate governance. The firm size have more agency problem thus its implement of stringent corporate governance. The institutional ownership have interest in investments that will constantly monitor their investments. Therefore, institutional investors encourage management to implement of stringent corporate governance.

The company with higher business risk tends to focus on the business risk and implementation of corporate governance less stringent. The company with higher an investment opportunity will focus on business expansion. At the time the company experienced growth, management have incentive to discretion, so tend to be less focused on the implementation of stringent corporate governance.

This study has several limitations, i.e. 1) the results of this study cannot be generalized because the sample limited and not random, 2) the stringent corporate governance in this study only obtained from the Corporate Governance Perceptions Index, so it may not reflect the overall practice corporate governance are applied by the company.

For further research is recommended to increase the sample so as to distinguish the influence of corporate characteristics on implementation of corporate governance categories of very reliable, reliable, and fairly reliable. The further studies may add elements of other corporate governance, such as the effectiveness of the board of commissioners and the effectiveness of audit committees in calculating the index of corporate governance implementation. In addition, further

studies need to consider use of market-based variables, such as Tobin-q, and market risk.

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