Chapter I

Introduction

A. Research Background

The most important goal to establish a company is to improve the welfare of owners and to maximize shareholder wealth through well firm performance. The main success key to get well firm performance is having a good management team. Management is delegated to responsible toward company by the owners.

In reality it is not easy to control the management that works inside the company. A term called agency problem is commonly occurred during the operational time. This is frequently happened because a management is responsible for owner wealth but also for their wealth. It causes they works beyond the boundaries and forgets the essential of management's existence there. Cases dealing with corporate scandals are occurred Enron in the United States, Marconi in the United Kingdom, and recently in Indonesia about money laundry in Citibank.

From those problems, it shows how Good Corporate Governance (GCG) is needed within a company. GCG can be used as a parameter of company's accountability, transparency, etc. Furthermore corporate governance is a fundamental basic of economy in a country. Bad corporate governance will give impacts to financial performance and could affect the stabilization of economy in a country. Each country has its own character of rule which made GCG in each country are different also Perez (2009). Not only in developed countries corporation scandals occurred but also in developing countries. According to Sukamulja (2004) manipulation problems occurred more within developing country rather than developed country such as Indonesia.

A simple issue of bad accounting disclosure and transparency which is occurred in Indonesia and taken from thejakartapost.com (Thu, 7/29/2010), Bakrie firms admit mistake and revise their financial report. Bakrie Firm is fined US$ 222.000 for miscalculating bank deposits in their financial report. It is revealed from the different between the report from bank and from Bakrie Firm. Its gap is almost IDR 8.6 trillion from the first quarter financial report. Those mistakes affect the investors' trust and it is also related to GCG. So at that time, it is implied that Bakrie Firm is not well governed. Automatically it decreases the trading volume of Bakrie & Brother Tbk. from IDR 268,392,200 in 19th July, 2010 into IDR 3,124,000 in 16th August, 2010.

Nowadays GCG received a lot of attention from the financial institutions. Including Mc Kinsey (2002), famous business advisor and counselor, surveyed among global investors and figured out more facts about good corporate governance. According to his survey's result, more than 80% investors would like to pay more (premium) for shares of a well governed company rather than poor governed company. Moreover, broad investors are willing to pay until 27% of premium in Indonesia. This is the second highest percentage of premium under Venezuela. It means that the more premium which investor willing to pay is the more extent of investors trust toward well governed company in Indonesia. This is also the main background factor why researcher curious to find out whether investors' trust (27% of premium) is worth it or not.

An action of Indonesian government in 1999 formed KNKGC stand for *Komite Nasional Kebijakan Corporate Governance* but then in 2004 KNKCG became KNKG (*Komite Nasional Kebijakan Governance*) is a good step to make the implementation of GCG became better in the future. Through the implementation of good corporate governance, it is expected that: (1) the company can improve its performance through the creation process of making better decisions, improve operational efficiencies enterprise, and be able to improve its service to stakeholders, (2) the company can easily obtain the lower cost financing fund so that it can enhance the corporate value, (3) to increase investors' confidence to invest in Indonesia and (4) shareholders will be satisfied with the performance of the company and at the same time it will increases shareholder value and dividends.

GCG has been discussed by many academics. Several empirical evidences show that the implementation of GCG improves the company performance, such as: (1) Research conducted by Ashbough et al. (2004) of 1500 companies in the United States, shows that companies that implement good corporate governance has increased the credit rating (credit rating firm) significantly, (2) Research conducted by Alexakis et al. (2006) to companies listed in the Greek capital market indicates that companies which already applied a good corporate governance are able to increase their stock return rate and to decrease its risk significantly, (3) Research which is done by Drobetz et al. (2003) to companies listed in the German capital market indicates that companies which apply good corporate governance could increase the expected stock return, (4) Research conducted by Firth et al. (2002) against the companies listing in Hong Kong stock market shows that companies that implement good corporate governance could raise the performance of their company (corporate performance). Similarly, a study conducted by Brown and Caylor (2004) in Georgia, also show that companies which implement good corporate governance are able to increase their corporate performance well. Research conducted by Cornett et al (2005) of companies incorporated in the S & P 100, also showed similar results where the companies has a significant performance improvement when it applied good corporate governance insight its management. Brown and Caylor (2004) showed that the implementation of good corporate governance can significantly improve the return on equity, net profit margin, Tobin's Q.

Moreover, Prior studies have used the 24-factor Investor Responsibility Research Center (IRRC) database as a proxy for corporate governance, and have found that better governance is related to higher firm valuation as proxied by Tobin's Q (Gompers et al, 2003; Bebchuk and Cohen, 2005; Cremers and Nair, 2005). All of those researches have been done abroad and this is also a factor for writer to find out whether good corporate governance affects Tobin's Q or not in Indonesia.

Referring to the results of some empirical researches which have been done, it appears that several empirical evidences demonstrate the importance of implement good corporate governance to accomplish the company's objectives. Based on it, writer interested to do research on "The Impact of Implementing Good Corporate Governance toward Tobin's Q".

1. Problem Statement

Is the implementation of Good Corporate Governance impact the Tobin's Q?

2. Problem Limitation

The limitation of this research is the companies which joined the (Indonesian Institute for Corporate Governance) IICG's rating for (Corporate Governance Index Perception) CGPI calculation and became the top ten ranks. It is also focus on the implementation of Good Corporate Governance toward Tobin's Q. The implementation of Good Corporate Governance is measured by CGPI and the measurement of Tobin's Q is market value divided by book value of each companies.

3. The Originality of the Writing

This research is carried out based on the previous researcher that has been done before:

a. This research is based on the previous research with the title "*The Relationship between Corporate Governance and Firm Value: A Simultaneous Equations Approach for Analyzing the Case of Spain"* performed by Eloisa Perez-de Toledo and this research was published in Grant Mac Ewan University, Rm 5-225K, 10700 – 104 Avenue, Edmonton, Alberta, Canada T5J 4S2.

b. This research is based on the previous research with the title *"Empirical Evidence on Corporate Governance in Europe"* performed by Bauer, Rob, Nadja, G., and Roger.

c. It is also based on the previous research with the title " Good Corporate Governance *di Sektor Keuangan: Dampak GCG terhadap Kinerja Perusahaan (Kasus di Bursa Efek Jakarta)* conducted by Sukmawati Sukamulja (2004).

d. The fourth reference from the previous research is "*Pengaruh Corporate Governance dan Struktur Kepemilikan Terhadap Kinerja Perusahaan*" performed by Anindhita Ira Sabrina (2010)

B. Purpose and Benefit of the Research

1. Purpose of the Research

The purpose of this study is to know the impact of the implementation of Good Corporate Governance using Governance Index based on IICG calculation toward Tobin's Q.

2. Benefits of the Research

a. Benefits for researcher

The result of this paper is expected to give more empirical knowledge to the author about the effect of implementation of good corporate governance in Indonesia, particularly its impact on corporation financial performance.

b. Benefit for Readers

The result of this paper is expected to give more empirical knowledge to the reader about the effect of implementation of good corporate governance in Indonesia, particularly its impact on corporate financial performance.

c. Benefit for Companies

The results are expected to provide benefits to the company, specifically about the effect of implementing good corporate governance to increase the firm value (Tobin's Q). It is such feedback information for the company of their good corporate governance implementation so far that has been done by them.

C. Writing Structure

1. Chapter I Introduction

This chapter describes the research background, problem statement, scope of the research, objective of the research, benefits of the research, and the originality of writing.

2. Chapter II Theoretical Background

This chapter describes the theoretical background relevant to this research and it contains several literatures also: understanding and good corporate governance purposes, the benefits of good corporate governance, the basic principles of good corporate governance, rating system of good corporate governance, corporate financial performance, the influence of the implementation of corporate governance toward firm value, results of previous research and the formulation of hypotheses.

3. Chapter III Research Methodology

This chapter describes the research design and it consist of type of methodology, sampling, research data, data gathering and data source, research variable, and method of analysis.

4. Chapter IV Data Analysis

This chapter describes the analysis of the research results and explain the impact of individual investor sentiment is significant or not to the return and volatility.

5. Chapter V Conclusion and Suggestion

This chapter describes the conclusion, managerial implication, limitation of the research, and suggestion for further research.