CHAPTER I
INTRODUCTION

1.1 Background of Study

Corporate Governance explained as a process and structure that used for directing and controlling a business and also for other business activities. Corporate governance to be intended to increase the accountability of the company and the main purpose is to realizing the value of the long term shareholder and at the same time have a consideration of another stakeholder. (Malaysian Finance Committee and Corporate Governance February 1999).

Corporate governance also explained as a bunch of processes and procedures for management activities and control process of corporations. Corporate Governance aimed to show correctness and responsibilities that distributed among different stakeholders in the corporations. Corporate governance is intended to provides the answer to the question who controls corporation and how the way (Monks & Minow, 2003).

Meanwhile there is another definition made by OECD (Organization for Economic Cooperation and Development, 2004) said that "Corporate governance ... a bunch of relationship between a company's management, which is including board, shareholders and other stakeholders. Corporate governance also providing the structure about which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should offer proper incentives for the board and management to maintain the objectives that are in the interest of the companny and its shareholders ...".

Corporate governance also a tool for controlling and monitoring action, policies, decisions made by cooperations, agent and affected stakeholder and also the practices in the company activites. Another purpose is for prevent and avoid another massive disaster that could causing losses for company before it occur. In this era of business world, every inventos is looking for a company that has a profitability and of course also a great corporate governance. Because if a company can obtained a great profitability through a great corporate governance, that it could promise that company can giving advantages for every investors.

Until now there are so many study has been made for proving a great way or looking for the best answer about the effect of Good Corporate Governance for improve or obtain good Firm Performance. So far until now there are some failure in some corporations for example Enron, Tyco, Lehman Brothers, etc made it clear that company should reflect about this problem and made some change in their corporate governance to increase transparency and to guarantee shareholders belief on directors management (Hermalin & Weisbach, 2012).

According to Herfelt (1996), that company performance is the final result of many individual opinions that are made continuously by management members. From this judgement it can be seen that performance is one of the indicator to show good or bad management action in decision making, management can communicate with the internal and external environment with information provided, this information is further outlined or summarized into company's financial statements.

Company performance defined as an illustration of the financial condition of a company that is test with financial analysis program which is can

be provide a result about how good or how bad the financial condition of a company that can reflects the work performance of company in a certain period. This is very important because considering resources are expected used optimally in the face of environmental changes within the specified timeframe. (Fahmi, 2011)

Peter Jennergren in Nystrom and Starbuck (1982), said that the meaning of Performance is "Doing the Assignment in an actual way". Meanwhile Osborn in John Willey and Sons (1980) said that "That is a tool for measure whether a corporatin already reach their goal or not". And we could conclude that as "A condition that we can see as a result from the process that already done by the company and also the mission of the company".

Some expert also giving statement about how to know whether a corporation already reach their best firm performance. Levine (1990) proposed 3 concept that can be used for measure firm performance which is Responsiveness, Responsibility and Accountability. But Stodgil and James D. Thomson (1967) said that for measure firm performance then should looking at Productivity / Performances, Integration, Morale, Adaptiveness and Institutionalization.

We know that when there is a group of people start to build a company of course the main goal is for getting a lot of profit through their business activity. And the help from the investors is also a way for a corporation to expand and get more profit. But if a company didn't has a good firm performance we could know that investors also do not want to invest on that company. And still so many parties that assume that a business is in good firm performance condition while

they can sell or get a lot of profit and can fulfill the needs of every stakeholder and shareholder of the corporation.

Through mostly study until now a lot of reseacher using Board of Directors Size, Independent Board Size, Outside directors Size, number of Audit comittee and frequency of Audit Comittee hold Meeting in a year that we could be found in a company financial statement as the variable of the research they are did. And for measure the firm performance it will be use Return on Asset, and also include Leverage and Firm Size included as the control variable.

So for this study will prove that for making criteria of firm performance not only based on corporation profit. As we know that can be prove through Corporate Governance. So many study has been done for foreign country and for this study with title of "The Impact of Corporate Governance Implementation on Firm Performance : A Case Study of Indonesia" will be compare between company that published in Indonesia Stock Exchange (IDX).

1.2 Problem Statement

The history of GCG began to be known in Indonesia since the 1997 crisis. This was based on the fact that at that time a lot of companies were downturned because of the terrible financial crisis. And also the management of companies is not responsible, and ignores regulations and is full of KKN practices (corruption, collusion, nepotism) (Budiati, 2012). It is not surprising if this period becomes a dark period especially for the Indonesian economy as an example of cultural conflict in Indonesia. So that GCG came into force for implemented since 1998 in Indonesia.

A survey held at 1998 in East Asia from Booz-Allen showed Indonesia has the lowest corporate governance index with a score of 2.88 and this show a score below Singapore with 8.93, Malaysia followed after Singapore with score 7.72 and after that Thailand with score 4.89. An example of other research conducted by McKinsey & Company, which was published in the Corporate Governance Investor Forum in Jakarta on June 19, 2000 (a collaboration of the World Bank, Asia Development Bank (ADB), and the National Committee on Good Corporate Governance) shows that Indonesia ranks the lowest of the five Asian countries studied in the implementation of GCG. This issue was caused by more than 75 percent of respondents stating that the government and control holders were not serious about implementing GCG. In the study, it was also revealed that in fact, investors were on average willing to pay 27 percent premium if companies in Indonesia applied the GCG principle (The Jakarta Post, July 27, 2000). The survey shows that investors are willing to give their respective premiums of 20 percent for Japanese and Taiwanese companies that implement GCG, 24 percent for South Korea, 26 percent for Thailand, and 25 percent for Malaysia. According to this study indicated as long as Indonesia has not implemented the GCG principle seriously, foreign investors will not come to Indonesia (Kompas, June 20, 2000). The low quality from implementation of corporate governance (GCG) at Indonesia is suspected the reason why these companies bankrupt.

These weaknesses can be seen from the lackness of reporting on financial performance, the lackness of supervision of management activities by the Board of Commissioners and the Auditors, and the lackness of intensive external

measures to encourage efficiency in companies through fair competition. The worse implementation of corporate governance is the main problem for many financial scandals in the company's business. Many people starting to think the implementation of corporate governance is a necessity in the business world, because can be used as a measure tools of accountability of a company.

Some time ago, there were several issuers affected by legal problems. For example, there is AISA (Tiga Pilar Sejahtera Food Tbk). Then later there was the Lippo Group, including LPKR (Lippo Karawaci Tbk) and LPCK (Lippo Cikarang Tbk). The two issuers were accused of not implementing GCG properly because they secretly transferred ownership of Meikarta.

Other cases, such as the SMCB (PT Solusi Bangun Indonesia Tbk) whose shares rose very significantly, without any news of openness from the issuer. Until finally a few months later, there was news of the acquisition by SMGR. It was also reported that no investigation into the transaction had taken place. The investigation in question is to examine the possibility of transactions that fall into the category of insider trading or the act of conducting a sale or purchase transaction by utilizing the company's internal information that has not been announced to the public. Because this action causes reduction in investor belief in the performance of directors and commissioners in overseeing business activities and in decision making. Along with this, it will cause potential investors not to invest and of course, this will affect the company's performance.

Another example is the Lapindo Mud incident, which is the accident of the hot mud spurt at the PT Lapindo Brantas drilling site in Banjar Panji 1 Well (BJP-1) located in Sidoarjo Regency, East Java, Indonesia. This dangerous

mudflow continues and cannot be closed, or even to be dismissed. This mudflow is a very heartbreaking and detrimental event for many parties. In this case, the board of directors and commissioners were criticized for failing to carry out their duties and deal with the events that occurred. The Directors of PT Lapindo Brantas who should act based on clear information, in good faith, based on diligence and prudence, and prioritizing companies and shareholders. The Directors of PT Lapindo Brantas did not act following these principles, where there were efforts to make savings seen from not installing casings, vertical drilling, and limited mud supply.

1.3 Research Question

Based of the background of study that explained above, the statement of the problem that will explained in this study is :

a. Is number of Board of Director has impact on Firm Performance ?
b. Is number of Independent Board has a impact on Firm Performance ?
c. Is number of Outside Director has impact on Firm Performance ?
d. Is number of Audit Comittee has impact on Firm Performance ?
e. Is Audit Committee Meeting has impact on Firm Performance ?

1.4 Research Objectives

This study aimed to know the real aspect that can give any effect on firm performance through some criteria of Corporate Governance. To know that whether Corporate Governance really giving or having any impact for making or obtain a good firm performance. The Independent Variable that will be use in this study is Board of Director size, Independent Board Size, Outside Director Size, Number of Audit Comittee, and Frequency of Audit Comittee Meeting Annually.

Dependent Variable that will be used is Return on Asset (ROA). Control Variable that will be use Leverage (LEV) and Firm Size.

1.5 Research Contribution

a. For Writer, this study not only a task for witer to finish bachelor in university but will give author a deep meaning of how a good coporate governance that implicant at the company especially go-public company in Indonesia and the effect that brings out when good corporate governance did not applied in a right way. As well can be writer next study reference in the future.

b. For Corporation, the result obtained from this study hope to be information for company for making another modification of coorporate governance, so that if company had a goal for reaching a good firm performance can do in a proper and good way. So that corporation can redesign and implement a better corporate governance and obtain a good firm performance.

c. For Shareholder, the result from this study expected become an useable information so that can be more consider the implement of Corporate Governance in the corporation. And also could be know the impact of a wrongful implement Corporate Governance in corporatio which is can giving result of bad firm performance

d. For Academics, the result from this study expected to be another knowledge for learning more about Corporate Governance and also Firm Performance. Especially about impact of corporate governance also can become a factor of resulting of Good and Bad Firm Performance.

1.6 Systematic of Writings

The outline of this study which is targeted to help reader to understand more about the study, so the outline of the study separated into five chapter, i.e,

CHAPTER I INTRODUCTION

This chapter will be explained about the background of the study, purpose and benefit of the study also outline of the study

CHAPTER II THEORETICAL FRAMEWORK AND HYPOTHESIS

This chapter will be explained about literature review of previous research and theory that related to the research and hypothesis

CHAPTER III RESEARCH METHODS

This chapter will be explained research design, object of research, variable of research, method of data collecting, and processing of data

CHAPTER IV ANALYSIS AND DISCUSSION

This chapter will be provide information about the result of research, data analysis, examination of hypothesis and collecting of observation data

CHAPTER V CONCLUSION, LIMITATION AND RECOMMENDATION

This chapter will provide infomation about conclusion from the entire chapter and suggestion which from the statement that

taken from the result of analysis and research, and also recommendation for the next research