EFFECTS OF THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE ON PROFITABILITY

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ABSTRACT: *The Indonesian Institute for Corporate Governance (IICG) always conducts research about the proper application of corporate governance every year, especially in public companies in Indonesia's Stock Exchange. Basically, Good Corporate Governance is the procedure of company management in running their goals that result in optimal profitability or profit for the investors. In theory, the application of good corporate governance will increase the profitability of a company. But in reality, it is necessary to conduct research on the issue. Some problem identifications that arise are the questions about the implementation of good corporate governance, the level of profitability (return on assets) and how much the implementation of Good Corporate Governance affects the profitability (return on assets). This study involved 9 companies which participated in The Indonesian Institute for Corporate Governance (IICG) research. For this study, the authors used quantitative research method to test the hypothesis that has been set. The variables correlation is causal or causal associative. The statistical test measurement used to determine the effects is simple regression. The statistical tool to measure the effect of the used measurement scale is ratio and interval. Based on the research conducted by the author, the result that is obtained is the implementation of CGPI that is measured through CGPI increased and decreased, although in general it increased. Meanwhile profitability that is measured through average ROA increased. Based on the result of hypothesis testing, the implementation level of Good Corporate Governance has a positive effect on the sampled company's profitability (return on assets). The effect is 19.8%.*

KEYWORDS: Corporate Governance, Profitability,

INTRODUCTION

Research Background

The financial crisis that hit Asia, especially Indonesia in from 1997 to 1998 had a tremendous impact on the companies that dominate the business world in Indonesia. Many companies were liquidated because they could not survive. This can be observed from the fluctuations of exchange rate against foreign currencies, especially against the US dollar caused by the lack of management foundation in those companies.

There were many companies that were liquidated and this caused the government to initiate restructuring action and recapitulation. Recapitulation and restructuring actions indicates the lack of those companies ability to survive. The poor performance and low competitive sense of Government or State-Owned Enterprises (BUMN) were also identified as the cause of the financial crisis that hit Indonesia.

By the end of 2006, Indonesia's economy life showed signs of improvement. The better economic conditions in Indonesia were marked by the decline in BI (Bank of Indonesia) interest

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rate which was below 10.75% (www.bi.go.id). It is expected that by the decreasing of BI rate, it will trigger a decline of bank credit rates, so that real sector will start to grow and move the Indonesian economy. The government also expected that public sectors of BUMN would grow and evidently would give a considerable effect on the improvement of Indonesia's economy.

Good Corporate Governance (GCG) or better known as a good corporate governance emerged as an option that not only became a formality, but also became a value system which is very influential in increasing in company's value. There is an opinion that the economic crisis that occurred in Southeast Asia and other countries was not only caused by macroeconomic factors but also because of weak corporate governance in these countries (Iskander and Chamlo, 2000: 145).

These factors include the weakness in law enforcement, in established accounting standards and auditing, the under-regulated capital market, the lack of supervision and neglected minority rights.

This phenomenon forced companies to adopt and implement GCG to achieve the companies' goals. The statement ACT of Ministry of BUMN No. KEP-117 / M-MBU / 2002 about the application of GCG in BUMN, BUMN companies are encouraged to consistently apply compulsory GCG and or make GCG as the cornerstone of its operations.

The research of The Indonesian Institute for Corporate Governance (IICG) in 2002 found the main reason companies applied GCG is their compliance to regulations. Companies believe that the GCG implementation is another form of business ethics and work ethic enforcement that has been a commitment of companies and, the implementation of GCG is associated with the companies 'image building. IICG's main activity is to carry out research about the implementation of GCG, which results in the Corporate Governance Perception Index (CGPI).

CGPI is a research and a rating action of GCG implementation in public companies listed on Indonesia's Stock Exchange. CGPI implementation is based on the idea of the importance of knowing to what extent public companies have applied GCG. Therefore, this study analyzed whether the corporate governance practices can affect companies' performance, especially companies' profitability.

Several previous studies that are used as a reference for this study are: Frediawan Ridwan's research (2008), which aims to measure the effect of GCG implementation on financial performance at PT. Jamsostek, Branch II Bandung, with the result of GCG's effects on the company's financial performance measured by ROI.

Diah Kusuma Wardani 's research (2008) which used ROE as a measurement of companies' performance and, the result does not show that GCG had any direct effect on companies' financial performance . Based on these descriptions, the authors are interested in conducting research under the title "Effects of Implementation of Good Corporate Governance on Profitability" (case studies on public companies in Indonesia's Stock Exchange).

Problem Identification

Based on the above descriptions and explanations, there are some underlying issues that became the basis of this study:

1. What is the level of implementation of Good Corporate Governance in the studied

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company?

2. What is the performance of the company's profitability?

3. How does the level of GCG implementation affect the company’s profitability?

THEORETICAL BASIS

Good Corporate Governance

Definition of Good Corporate Governance

Good Corporate Governance is regulation of a company’s management that should be applied to any company, especially a public company (BUMN). According to Forum for Corporate Governance in Indonesia (fcgi) (2001: 3) the definition of corporate governance is:

> *A set of rules that define the relationship between shareholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities, or the system by which companies are directed and controlled. The objective of corporate governance is to create added value for the stakeholders.*

According to Hirata (2003: 23), the meaning of GCG is the relationship between a company and related parties such stakeholders, employees, creditors, competitors, customers, and others. GCG is defined by IICG (Indonesian Institute of Corporate Governance) as a process and structure that is applied in running a company, with its main goal to improve shareholder value in the long term and at the same time consider the interest of other stakeholders.

According to World Bank Journal, March edition (2008: 2), the meaning of good corporate governance is:

> *The blend of law, regulation and appropriate voluntary private sector practices, which enable a corporation to attract financial and human capital, perform efficiently and thereby perpetuate itself by generating long term economic value for its shareholders and society of the whole*

GCG is laws, rules that allow companies to use capital and human resources efficiently, and thereby it is able to deliver value to shareholders and society over a long time period.

From some of the definitions mentioned above, it can be concluded that good corporate governance is a system of rules that govern, manage and supervise a company in running its business to obtain additional value for the shareholders.

Principles of Good Corporate Governance

According to Adrian Sutedi (2001: 11) there are five main principles that are important in Corporate Governance ,namely ; Transparency, Independence, Accountability, Responsibility and Fairness.

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Stages of Good Corporate Governance Implementation

In general, companies that are successful in implementing GCG use the following phasing (Chinn, 2000; 32), namely: Preparatory Phase, Implementation Phase, and Evaluation Phase.

Objectives of Good Corporate Governance Implementation

The purpose of good corporate governance implementation according to the Forum of Corporate Governance in Indonesia (FCGI) (2006: 12), among others:

1. Optimizing economic empowerment of business resources.
2. Protecting the interests of shareholders and keeping the interests of other stakeholders.
3. Increase national investment climate.
4. Enlarge national advantage.

Benefits of Application of Good Corporate Governance

By implementing corporate governance, according to Adrian Sutedi (2001: 23), there are some benefits acquired:

1. Improve a company's performance through the creation of a better decision making process, improve operational efficiencies, and improve company's service to stakeholders
2. Simplify obtaining cheaper and non rigid financing (because of a trust factor), which in turn will increase the Corporate Value,
3. Restoring the confidence of investors to invest in Indonesia,
4. Shareholders will be satisfied with the performance of the company as well by increasing Shareholder Value and dividends.

Company Profitability

Profitability

Profitability is the net result of a number of policies and decisions of the company. According to Simamora (2000: 528), profitability is a fundamental measure of the overall success of the company. Meanwhile, according to APB Statement profitability is an excess of income over expenses for one accounting period (Harahap, 2001: 226). From the above statements, we can conclude that profitability is a measure of a company's success in achieving its objectives in a particular accounting period.

Indicators in Profitability Calculation

Profitability ratio can be measured by several indicators; profit margin, ROA (return on assets), ROE (return on equity), ROI (return on investment), and EPS (earnings per share).

1. *Profit Margin*

   Gross Profit Margin = Gross profit / sales x 100 %

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Net Profit Margin = Net profit/sales x 100 %

2. ROA (*Return on Asset*)

   Profit is profit before interest and tax (EBIT)

   ROA=net profit/ asset profit x 100%

3. ROE (*Return on Equity)*

   ROE=net profit/ share capital

4. ROI (Return *on Investment*)

   ROI = EAT / total assets

5. *Earnings per Share* (EPS)

   Profit used is a measure of profit for the owners or EAT.

   EPS = EAT / Number of shares

OBJECT AND METHODS

Research Method

Methods Used

The method used by researchers is correlational method and case study method. The steps of testing begin from the test of variable operationalization, population and population target determintaion , data collection techniques, and research measurement scale.

Variable Operationalization

Operational variables in this study can be seen in the following table

Table 3.1: Operasionalization of Independent Variable

Good Corporate Governance (GCG)

Variable	Indicators		Measurement
Good Corporate Governance (Variable X)	*Corporate Governance Perception*		Interval
	Score	**Reliability level**	
	10-24.99	Very unreliable	
	25-39.99	Unreliable	
	40-54.99	Minimum reliable	
	55-69.99	Fluctuating	
	70-84.99	Reliable	
	85-100	Very reliable	

Source: SWA magazine, December 2010"Mereka Yang Terpercaya (The Reliable ones)"

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Table 3.2: Operasionalization of dependent Variable 2

Company Profitability

Variables	Indicators	Measurement scale
Company's profitability (Variable Y)	ROA $= \frac{\text{net profit after tax}}{\text{total aktiva}} \times 100\ \%$	Ratio

Source: Kuswandi 2008"Memahami Rasio-Rasio Keuangan Bagi Orang Awam" (understanding financial ratio for the Layman).

Corporate Governance Perception Index

In this study to measure the level of GCG implementation , authors use the study result of The Indonesian Institute for Corporate Governance (IICG) .Meanwhile the assessment aspects used by IICG to measure GCG implementation cover 12 indicators : Commitment, Transparency, Accountability, Responsibility, Independence, Justice, competence, leadership, ability to cooperate, Vision, Mission and Values, morals and ethics, and Strategy.

In its research, CGPI measures the 12 aspects, while the CGPI research includes four stages with different values. The value is presented in the following table:

Table 3.3: Stages and Research measurement credit and Ranking of *Corporate Governance Perception Index*

No	Stages	Credits (%)
1	*Self Assessment*	15
2	Complete Documents	25
3	Paper Report that reflects the program and the result of good corporate governance as a system in a company	12
4	Observation	48

Source: *Corporate Governance Perception Index report*, 2010

CGPI ranking is designed into three categories based on the reliable level that can be explained by GCG implementation score as presented in Table 3.4 below:

Table 3.4: Rank category

Corporate Governance Perception Index

Score	Reliability Level
10-24,99	Very Unreliable
25-39,99	Unreliable
40-54,99	Minimally unreliable
55-69,99	Insignificant
70-84,99	reliable
85-100	Very Reliable

Source; *Corporate Governance Perception Index report*, 2010

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Data Analysis Techniques

Data analysis techniques used in this research is descriptive statistical analysis and parametric statistics, which is a simple linear regression method.

Simple Linear Regression Analysis

Regression is a relationship between one dependent variable (variable Y) and one independent variable (variable X). The relationship is generally expressed in the form of a mathematical equation in the form of regression model as follows:

$$\hat{Y} = a + bX$$

The value of a and b can be determined by the following formula:

$$a = \frac{(\sum Y_i)(\sum X_i^{\,2}) - (\sum X_i)(\sum X_i Y_I)}{n\sum X_i^2 - \left(\sum X_i\right)^2}$$

$$b = \frac{n\sum X_i Y_i - \sum X_i \sum Y_i}{n\sum X_i^2 - \left(\sum X_i\right)^2}$$

(Sugiono, 2008 : 270)

Description::

$\hat{Y}$ = Subject in dependent variable that is predicted

X = Subject in independent variable which has certain value

2. Correlation Analysis

The formula to measure the correlation coefficient is Pearson formula:

$$r = \frac{n\sum XY - (\sum X)(\sum Y)}{\sqrt{\{n\sum X^2 - (\sum X)^2\}\{n\sum Y^2 - (\sum Y)^2\}}}$$

Description :

r = correlation coefficient sought

X = deviation of each X from the mean x (X - X)

Y = deviation of Y form the mean of y (Y - Y)

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XY = Multiplication of x and y

X2 = x squared

Y2 = y squared

a) The coefficient of r^2 determination

r^2 x 100%

β Hypothesis Testing

To determine the influence of independent variables on dependent variable, the authors made a β hypothesis testing. The steps of β hypothesis testing according to Nurhayati and Aspiranti (2005: 133) in their book "Fundamentals of Business Statistics" are as follows;

Determine Ho and Ha

Ho: $\beta = 0$. There is no influence of the implementation of Good Corporate Governance on profitability (Return on Assets)

Ha: $\beta \neq 0$ there is the influence of the level of implementation of Good Corporate Governance on profitability (Return on Assets)

Determine the significant level

Significance level used is 0.05 ($\alpha = 0.05$),

Degree of freedom (df) = n-2

Determine

$$t = \frac{b - \beta}{\frac{Se}{\sqrt{\sum x^2}}}$$

in which

$$Se = \sqrt{\frac{\sum (Y - \hat{Y})^2}{n-2}}$$

Se = Standards error of estimate

b = parameter of regression coefficient is the amount of dependent variable due to the changes in each unit of independent variable

X = Independent Variables

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Y = Dependent Variables

n = number of samples used

y = regression equation

Decision Criteria

$-t\frac{1}{2}\alpha \leq t \leq t\frac{1}{2}\alpha$ Ho is accepted

$t < -t\frac{1}{2}\alpha$ or $t > \frac{1}{2}\alpha$ Ho is rejected

Make Conclusion

Collection Techniques and Data Sources

A technique used in the data collection is documentation method which collects data about things or variables that are studied. The data used in this research is secondary data. The data used in this study is taken from the financial statements of each of the companies' official website and historical data from IICG by downloading through www.iicg.org and also from SWA magazine.

RESULTS AND DISCUSSION

Research

Level of Good Corporate Governance Implementation

The following table shows the CGPI overviews of 9 companies in the period of 2008-2010.

Table 4.1: Corporate Governance Perception Index

Period 2008-2010

Companies	Periods	Self Assesment	Documents	Paper Report	Observation	CGPI
PT,Bank Mandiri	2008	11.95	16.96	9.33	38.69	76.93
	2009	10.53	20.44	10.60	40.17	81.74
	2010	13.64	21.87	11.02	45.14	91.67
PT,CIMB Niaga	2008	10,06	14.09	8.13	30.34	62.62
	2009	11.88	17.96	9.78	40.68	80.30
	2010	13.18	22.56	10.98	44.49	91.42
PT,Aneka Tambang	2008	12.94	20.54	10.76	44.13	88.37
	2009	12.35	18.77	8.24	46.08	85.44
	2010	13.22	21.77	9.51	41.49	85.99
PT,Elnusa	2008	12.15	17.97	8.11	44.04	82.27
	2009	13.22	21.71	9.51	41.43	85.87
	2010	10.75	20.68	10.93	40.19	82.55
PT,Adhi Karya	2008	12.44	18.09	8.53	42.48	81.54
	2009	10.53	20.44	10.60	40.17	81.74
	2010	12.53	18.94	8.60	42.16	82.23

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PT,United Traktor	2008	12.76	20.11	10.56	44.10	87.53
	2009	13.27	21.61	10.52	44.67	90.07
	2010	12.85	19.07	8.62	46.35	86.89
PT,Bakrie Development	2008	12.53	18.94	8.35	42.25	82.07
	2009	11.14	16.59	8.80	40.08	76.61
	2010	11.98	16.96	9.33	38.69	76.96
PT,Bank DKI	2008	10.53	19.54	9.60	34.15	73.82
	2009	12.54	20.01	8.88	33.92	75.35
	2010	11.33	16.69	8.89	40.62	77.05
PT,Bukit Asam	2008	13.32	21.76	10.60	44.97	90.65
	2009	12.15	17.97	8.11	44.04	82.27
	2010	11.99	22.25	9.56	40.31	84.11

Source: IICG Report (Data re-processed)

Level of Profitability

Profitability ratio used to assess companies' performance in this study is Return on Asset (ROA). The following table shows an overview of profitability of nine companies in the period of 2008-2010.

Table 4.2: Level of Company's Profitability
Period 2008-2010

Companies	Period	Profit (in millions)	Total Assets (in millions)	ROA
PT.Bank Mandiri	2008	5.313.000	358.439.000	0,014
	2009	7.155.000	394.617.000	0,018
	2010	9.218.000	449.775.000	0,020
PT.CIMB Niaga	2008	678.189	103.197.574	0,006
	2009	1.568.130	107.104.274	0,014
	2010	2.548.153	143.652.852	0,017
PT.Aneka Tambang	2008	1.368.130	10.245.040	0,133
	2009	604.310	9.940.000	0,060
	2010	1.683.400	12.310.730	0,136
PT.Elnusa	2008	133.722	3.317.816	0,040
	2009	466.233	4.207.629	0,110
	2010	63.906	3.678.566	0,017
PT.Adhi Karya	2008	81.482	5.125.369	0,015
	2009	165.530	5.629.454	0,029
	2010	189.484	4.927.696	0,038
PT.United Traktor	2008	2.660.742	22.847.721	0,116
	2009	3.817.541	24.404.828	0,156
	2010	3.872.931	29.700.914	0,130
PT.Bakrie Development	2008	272.100	8.334.991	0,032
	2009	132.256	11.592.631	0,011
	2010	178.705	17.064.196	0,010
PT.Bank DKI	2008	114.000	13.548.000	0,008
	2009	137.000	15.344.000	0,008
	2010	317.000	15.563.000	0,020
PT.Bukit Asam	2008	1.707.771	6.106.392	0,279
	2009	2.727.734	8.078.578	0,337
	2010	2.008.891	8.722.699	0,230

Source: Financial Statement (data reprocessed)

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RESULT DISCUSSION

Level of Good Corporate Governance Implementation

The data and information show that generally the level of GCG implementation, in this case CGPI of the surveyed- companies, only five companies experienced the decrease described in the following table:

Table 4.3: Corporate Governance Perception Index

Period 2008-2010

Companies	Period	Self Assesment	Document	Paper	Observation	CGPI	Fluctuation
PT,Bank Mandiri	2008	11.95	16,96	9.33	38.69	76.93	-
	2009	10.53	20.44	10.60	40.17	81.74	4.81
	2010	13.64	21.87	11.02	45.14	91.67	9.93
PT,CIMB Niaga	2008	10.06	14.09	8.13	30.34	62.62	-
	2009	11.88	17.96	9.78	40.68	80.30	17.68
	2010	13.18	22.56	10.98	44.49	91.42	11.12
PT,Aneka Tambang	2008	12.94	20.54	10.76	44.13	88.37	-
	2009	12.35	18.77	8.24	46.08	85.44	-2.93
	2010	13.22	21.77	9.51	41.49	85.99	0.55
PT,Elnusa	2008	12.15	17.97	8.11	44.04	82.27	-
	2009	13.22	21.71	9.51	41.43	85.87	2.72
	2010	10.75	20.68	10.93	40.19	82.55	-3.32
PT,Adhi Karya	2008	12.44	18.09	8.53	42.48	81.54	-
	2009	10.53	20.44	10.60	40.17	81.74	0.20
	2010	12.53	18.94	8.60	42.16	82.23	0.49
PT,United Traktor	2008	12.76	20.11	10.56	44.10	87.53	-
	2009	13.27	21.61	10.52	44.67	90.07	2.54
	2010	12.85	19.07	8.62	46.35	86.89	-3.18
PT,Bakrie Development	2008	12.53	18.94	8.35	42.25	82.07	-
	2009	11.14	16.59	8.80	40.08	76.61	-5.46
	2010	11.98	16.96	9.33	38.69	76.96	0.35
PT,Bank DKI	2008	10.53	19.54	9.60	34.15	73.82	-
	2009	12.54	20.01	8.88	33.92	75.35	1.53
	2010	11.33	16.69	8.89	40.62	77.05	1.7
PT,Bukit Asam	2008	13.32	21.76	10.60	44.97	9065	-
	2009	12.15	17.97	8.11	44.04	82.27	-8.38
	2010	11.99	22.25	9.56	40.31	84.11	1.84

Source: IICG Report (Data re-processed)

Level of Profitability

The level of profitability that is measured by ROA from the 9 companies studied is different from one another, within a 3 year- period as described in the following table:

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Table 4.4: Profitability level (ROA)

Period 2008-2010

Companies	Period	Net profit (in millions)	Total cash (in millions)	ROA	Fluctuation
PT.Bank Mandiri	2008	5.313.000	358.439.000	0,014	-
	2009	7.155.000	394.617.000	0,018	0,004
	2010	9.218.000	449.775.000	0,020	0,002
PT.CIMB Niaga	2008	678.189	103.197.574	0,006	-
	2009	1.568.130	107.104.274	0,014	0,008
	2010	2.548.153	143.652.852	0,017	0,003
PT.Aneka Tambang	2008	1.368.130	10.245.040	0,133	-
	2009	604.310	9.940.000	0,060	-0,073
	2010	1.683.400	12.310.730	0,136	0,076
PT.Elnusa	2008	133.722	3.317.816	0,040	-
	2009	466.233	4.207.629	0,110	0,070
	2010	63.906	3.678.566	0,017	-0,093
PT.Adhi Karya	2008	81.482	5.125.369	0,015	-
	2009	165.530	5.629.454	0,029	0,014
	2010	189.484	4.927.696	0,038	0,009
PT.United Traktor	2008	2.660.742	22.847.721	0,116	-
	2009	3.817.541	24.404.828	0,156	0,040
	2010	3.872.931	29.700.914	0,130	-0,026
PT.Bakrie Development	2008	272.100	8.334.991	0,032	-
	2009	132.256	11.592.631	0,011	-0,021
	2010	178.705	17.064.196	0,010	-0,001
PT.Bank DKI	2008	114.000	13.548.000	0,008	-
	2009	137.000	15.344.000	0,008	0,000
	2010	317.000	15.563.000	0,020	0,012
PT.Bukit Asam	2008	1.707.771	6.106.392	0,279	-
	2009	2.727.734	8.078.578	0,337	0,058
	2010	2.008.891	8.722.699	0,230	-0,107

Source: Financial statement (Data reprocessed)

Descriptive Analysis

The following is a descriptive statistic of each variable consisting of the GCG measured using Corporate Governance Perception Index (CGPI) and the company's profitability measured by ROA.

Table 4.5: CGPI and ROA description in 2008-2010

Variable	Minimum	Maximum	Mean	Deviation standard
CGPI	62.620	91.670	82.373	6.372
ROA	0.006	0.337	0.074	0.090

Source: secondary data

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Normality Test

The normality testing is performed through Kolmogorov-Smirnov test Lilliefors correction. With SPSS 13, it obtained the following results:

Table 4.6: Normality Testing

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		27
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.08041925
Most Extreme Differences	Absolute	.195
	Positive	.195
	Negative	-.160
Kolmogorov-Smirnov Z		1.012
Asymp. Sig. (2-tailed)		.258

a. Test distribution is Normal.

b. Calculated from data.

Normality analysis based on Kolmogorov-Smirnov method requires normal curve when the value Asymp. Sig. is above the maximum limit of error which is 0.05. As in the regression analysis, which is the normality tested is random stochastic disturbances, variable. The above data can be used because the residual variable residue has a normal distribution.

Effects of Good Corporate Governance Implementation on Profitability

Simple Linear Regression Analysis

To see the effect of the level of good corporate governance implementation on a company's profitability (Return on Assets), simple linear regression analysis is used with the following equation:

$Y = a + bX$

in which :

Y = ROA

X = CGPI

a = Constant

b = Regression Coefficient

The Results of SPSS 13 software process for simple regression analysis are presented in Table 4.7 below:

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Table 4.7: Simple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.443	.209		-2.124	.044
	CGPI	.006	.003	.445	2.487	.020

a. Dependent Variable: ROA

Based on the calculations in the table above, the form of linear regression equation is as follows:

$$Y = -0.443 + 0.006\ X$$

From simple linear regression equation above , the constant value obtained is -0.443. This means if ROA variable (Y) is not affected by independent variable (CGPI zero), the ROA average value will not be -0.443.

Independent variable regression coefficient sign shows the direction of the relationship of the variables concerned. The regression coefficient for the independent variable X is positive, indicating the existence of a direct relationship between the CGPI (X) and ROA (Y).

If the X variable regression coefficient is 0.006 ,it means that for every one unit increment of CGPI (variable X), there will be an increase in ROA (variable Y) equals to 0.006.

Correlation Analysis

To determine the relationship between the level of good corporate governance implementation and corporate profitability (Return on Assets) simple correlation analysis (R) is used.

Table 4.8: Simple Correlation analysis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.445[a]	.198	.166	.08201

a. Predictors: (Constant), CGPI

b. Dependent Variable: ROA

Based on SPSS software output result, the value of correlation coefficient (R) is 0.445. This shows that there is a sufficient / moderate correlation between good corporate governance and corporate profitability (Return on Assets). The determination coefficient is 19.8% which indicates that the contribution of good corporate governance to company profitability (Return on Assets) is 19.8% while the remaining 80.2% is the contribution of other variables.

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β Hypothesis testing

This study conducts β hypothesis testing to determine whether good corporate governance implementation gives any effects on the development of profitability.

Hypothesis:

Ho: β = 0. Good Corporate Governance implementation does not give any effects on profitability (Return On Assets)

Ha: β ≠ 0 Good Corporate Governance Implementation gives effects on profitability (Return On Assets)

α = 5%

testing statistic :

$$t = \frac{b - \beta}{\frac{Se}{\sqrt{\sum x^2}}}$$, degree of freedom df) = n-2

Testing criteria : 1. Accept Ho if –t table ≤ t count ≤ t table

2. Reject Ho if t count < -t table or t count > t table

The result of t –test based on SPSS process are as follows

Table 4.9: Partial Hypotesis Testing (t-test)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.443	.209		-2.124	.044
	CGPI	.006	.003	.445	2.487	.020

a. Dependent Variable: ROA

The Table shows the t value for CGPI score variable (X) is 2.487. Because t (2.487)> t table (2.060), Ho is rejected. Therefore, it can be concluded that corporate governance has a positive effect on company's profitabilty (Return on Assets).

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the study result and discussion, There are some conclusions as follows:

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Level of Good Corporate Governance Implementation

Good Corporate Governance is measured using CGPI in 9 surveyed- companies during the three-year period from 2008 to 2010. There are four companies experiencing an increase every year and 5 other companies experiencing fluctuation (ups and downs). This situation indicates that in general, companies have already applied good corporate governance implementation. In 2010 there were four companies that fall into the category of highly reliable, and 6 companies in the category of reliable, no company was in the lower level category. Companies in Indonesia are aware that by implementing good corporate governance, the company's performance will be better and ultimately increase their profitability, and it will attract national and international investors.

Level of Profitability

The level of profitability measured by ROA in 9 sampled companies during the period 2008-2010 shows there are four companies experiencing the increase every year, four companies experienced ups and downs and one company declined. . This situation indicates that some companies have a good ability to manage their assets to generate profits. The decrease in profitability is generally caused by the subprime mortgage global economy crisis in 2009, but the impacts still exists in 2010 and also due to the weakening of US dollar against Rupiah, as we know generally large companies always have assets in US dollars, because the dollar is more resistant to inflation.

Effects of Good Corporate Governance Implementation on Profitability

Based on the results of hypothesis testing, there is no effect of Good Corporate Governance implementation on profitability (return on assets) of the sampled companies.

The effect is 19.8%. This happened because those companies understand the importance of good corporate governance and seriously implemented the GCG. The factors that cause a small influence of GCG implementation is only 19.8% during the three year research period, from 2008 to 2010.

Suggestions

Based on the results, the authors propose some suggestions that are expected to be useful for the parties it may concern:

1. GCG is one of the factors that drive improved performance of a company, because of GCG implementation in a company, the level of public confidence, especially investors will increase. Therefore, a company should always improve the quality of GCG implementation.

2. In order to achieve maximum financial performance, a company has to improve the quality of GCG implementation, and should develop and implement the principles of GCG regularly to obtain a positive result.

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