HOW DOES GCG AFFECT OPERATING PERFORMANCE?
EVIDENCE FROM STATE-OWNED ENTERPRISES LISTED IN
INDONESIA STOCK EXCHANGE

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Abstract

Objectives The first objective of this research is to empirically study the extent to which the Good Corporate Governance principles have been implemented in public listed SOEs. Furthermore, the research tries to get evidence whether there is a correlation between GCG implementation and company’s operating performance represented by Return on Equity (ROE) DuPont Analysis which consists of Asset Turnover, Net Profit Margin, and Equity Multiplier. Moreover, the findings can be used as an input in socializing and promoting the implementations of GCG throughout Indonesian public and private sectors.

Method The author analyzes the Annual Report from 2004 to 2007 from 12 SOEs publicly listed in Indonesia Stock Exchange (IDX). The author develops 3 hypotheses which then analyzed using descriptive analysis, paired t-test, Wilcoxon Signed Rank Test, and Multiple Regression Analysis.

Results The results reveal that there is an improvement of both GCG and its 5 components implementation in Indonesian SOEs from 2004 to 2007. Moreover, it is also evidenced that GCG implementation positively affect the company’s operating performance represented by ROE. As for 3 ROE building blocks, GCG implementation positively influences Net Profit Margin and Equity Multiplier, whereas it negatively influences Asset Turnover.

Conclusion In conclusion, Indonesian government has been succeeding to improve or develop the GCG implementation especially in SOEs as advised by IMF Letter of Intent. Moreover, the improvement of GCG implementation becomes an important factor in maintaining company’s financial performance as the level of implementation affects the operating performance including profitability, efficiency, and leverage.

Key Words
GCG, State Owned Enterprises (SOEs), operating performance, Indonesian Stock Exchange (IDX).