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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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