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The effect of corporate governance and firm size on company's financial performance

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A B S T R A C T

The company's financial performance is very important, as one of the ways that can be done by the company's management, to meet the obligations of the parties concerned in achieving the vision and mission of the company. Good Corporate governance is one way to make the company more optimal in achieving the goals of the company. Based on the Corporate Governance Perception Index, some companies are included in the CGPI ratings with the category of very reliable and reliable. This will bring more investors to come so that the companies can develop into bigger investment with funds provided by the investors. As such, the research aims to test the effect of good corporate governance, as measured by CGPI score and firm size on the company's financial performance, consisting of profitability, leverage, and liquidity. This research is using purposive sampling method to select all the population, i.e. companies included in the CGPI ratings with the category of very reliable and reliable, and listed in Indonesia Stock Exchange period 2010-2013. There are 59 companies used as the samples in this study. The results of the analysis show that good corporate governance affects profitability and leverage, but it does not affect liquidity. While, firm size affects profitability, leverage, and liquidity.

A B S T R A K

Kinerja keuangan perusahaan sangat penting, sebagai salah satu cara yang dapat dilakukan oleh manajemen perusahaan, untuk memenuhi kewajiban para pihak terkait dalam mencapai visi dan misi perusahaan. Tata kelola perusahaan yang baik adalah salah satu cara untuk membuat perusahaan lebih optimal dalam mencapai tujuan perusahaan. Berdasarkan the Corporate Governance Perception Index (CGPI), beberapa perusahaan yang dimasukkan dalam peringkat CGPI dengan kategori sangat handal dan dapat diandalkan. Hal ini akan membawa lebih banyak investor untuk datang sehingga perusahaan dapat berkembang menjadi investasi yang lebih besar dengan dana yang disediakan oleh investor. Penelitian ini bertujuan untuk menguji pengaruh tata kelola perusahaan yang baik, yang diukur dengan skor CGPI dan ukuran perusahaan terhadap kinerja keuangan perusahaan, yang terdiri dari profitabilitas, leverage, dan likuiditas. Penelitian ini menggunakan metode purposive sampling untuk memilih semua penduduk, perusahaan yaitu termasuk dalam peringkat CGPI dengan kategori sangat handal dan dapat diandalkan, dan terdaftar di Bursa Efek Indonesia periode 2010-2013. Ada 59 perusahaan yang digunakan sebagai sampel dalam penelitian ini. Hasilnya menunjukkan bahwa tata kelola perusahaan yang baik mempengaruhi profitabilitas dan leverage, tetapi tidak mempengaruhi likuiditas. Adapun ukuran perusahaan mempengaruhi profitabilitas, leverage, dan likuiditas.

1. INTRODUCTION

Company's financial performance is a very important element for the management that is as a way to meet its obligations to stakeholders, in achieving the vision and mission of the company. The company's financial performance is the result and condition of the company's financial position analyzed by using analysis instruments so that the company's financial condition in a specified period can be recognized.

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The assessment of company's financial performance is indicated by, among others, through profitability, liquidity, and leverage. According to Supatmi (2007), profitability reflects the company's ability to generate profits, which is commonly measured by ROE, ROI, Net Operating Profit Margin, or Net Profit Margin. Liquidity reflects the company's ability to meet its short-term liabilities, which is usually measured by current ratio, quick ratio, or cash ratio. Leverage shows how big the company funds its business with debt, which is usually measured by the leverage ratio in its capital turnover. The high ratio of profitability and liquidity is indicating that the company has a good performance. Conversely, the high ratio of leverage is indicating that the company has higher risk to meet its obligations in the future.

The financial performance of the company would be optimal if the company implements good corporate governance (GCG). By implementing GCG, the company is expected to be more optimal in achieving the corporate goals because GCG can shape the wok pattern of clean, transparent and professional management, which in turn can give a positive effect for the improvement of company's financial performance. This view is supported by Supatmi (2007) stating that good corporate governance has positive and significant effect on profitability, liquidity, and the activities of the company.

A research conducted by Like (2012) also concluded that corporate governance has significant effect on company's financial performance, as measured by ROE and NPM, in companies listed in Indonesia Stock Exchange included in the rating list of the Indonesian Institute for Corporate Governance (IICG). However, the research by Dian (2012) concluded that good corporate governance, with the proxy of CGPI score, has no effect on ROA and Tobin's Q. The research results conducted by Paradita (2009) also showed that the variable of good corporate governance partially does not affect the financial performance (ROI, ROE and NPM).

Firm size has an influence on the use of debt by the company. The easiness of a large company in accessing the capital markets gets a good rating for the issuance of bonds and lower payment of the debt interest. The greater the asset means the more capital invested. The higher the number of sales means the more the turnover. And the higher the market capitalization means the more recognized in the community (Dinni and Djoko 2012). This certainly makes the company easier in finding debt for funding its business, so the company would be more careful in reporting its financial condition to the public. It is supported by the research conducted by Lin (2006) stating that firm size has positive influence on performance. But Huang (2002) in the research of Khaira (2011) found that firm size has no influence on the performance of Taiwanese company located in China.

The phenomenon occurring in the state capital of Japan, Tokyo, recorded the strongest economic growth in two years more in the first quarter - 2014. Sales surged ahead of the enactment of the sales tax increase on April 1, 2014. Millions of consumers bought everything from cars and refrigerators to televisions and alcoholic beverages. The action of massive spending encouraged the economic expansion of 1.5% from January to March 2014 (Investor Daily Indonesia, May 16, 2014; 3). Manufacturing products were so attractive to buyers in Japan, and it also enabled the products of manufacturing companies in Indonesia to be much in demand by buyers and would bring a lot of investors who were interested in the share of the manufacturing companies, considering there were many large companies from Japan that dominated the market in Indonesia.

PT Astra Honda Motor (AHM) is one of manufacturing companies from Japan that is experiencing rapid grow in Indonesia. It can be seen from its plan to increase the production capacity of motor sport around 50,000 units per year in 2015, and PT Astra Honda Motor (AHM) is ready to expand its plant, considering the number of motor production capacity, that will be carried out in 2015 (Investor Daily Indonesia, May 16, 2014; 8). From the phenomenon, it can be seen that good corporate governance (GCG) is implemented in PT Astra Honda Motor, as evidenced by the results of a research conducted by the Indonesian Institute for Corporate Governance in Corporate Governance Perception Index in 2012, with the score of 78.08, or reliable category (SWA-27, December 20, 2012; 34).

The impact of the presence of Corporate Governance Perception Index is that the companies included in CGPI rating, with the category of being very reliable and reliable, and coupled with the firm size, which can attract many investors to come. For that reason, the companies can become larger with the investment funds provided by the investors.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

According to Suwardjono (2005: 485), agency relationship is a relationship between principal and agent, in which the agent acts on behalf and for the benefit of the principal, and for his actions the agent gets certain reward. The relationship is usually expressed in terms of contract. In agency theory, an agent is usually regarded as the party who wants to maximize himself but he still always tries to fulfill the contract. Agency conflicts that arise tend to be caused by the difference in the interest between the principal and the agent, in which both of them want to earn a profit. Therefore, financial statement, as a form of the responsibility of the agent, becomes a medium to minimize the conflict of interest.

In the research conducted by Khaihatu (2006), the agency theory developed by Michael Johnson saw that the company's management, as the agents for shareholders, would act with full awareness for their own interest, not as a party who acts wisely, prudently and fairly to the shareholders. In the subsequent developments, agency theory gets wider responses because it is seen better reflecting the reality. Various thoughts on corporate governance develop on basis of the agency theory, in which management is conducted with full adherence to the applicable rules and regulations.

On a company whose capital consists of shares, the shareholders act as a principal and the Chief Executive Officer (CEO) acts as their agent. Company's financial statement, as the responsibility of the agent, will provide information to the principal about the company's financial situation and reduce fraud between the two sides. Supported by the existence of good corporate governance, the financial statement is expected to serve as a tool to give confidence to the investors that they would receive a return on their invested funds. Agent and principal can work in accordance with the principles of good corporate governance and the rules of law governing good corporate governance.

Good Corporate Governance

Good corporate governance, according to Muh (2009: 2) can be briefly defined as a set of systems that regulates and controls the company to create value added for stakeholders. This is because good corporate governance can encourage the formation of work pattern of clean, transparent, and professional management. Good Corporate Governance can be defined as a structure, system, and process used by the organs of the company in an effort to provide the value-added of the company sustainably and in the long term, by taking into account the interests of other stakeholders, based on the applicable laws and norms (Corporate Governance Perception Index 2008).

The implementation of good corporate governance also provides benefits to the organs and members of the company in supporting the achievement of the company's performance and the fulfillment of accountability, reducing agency cost, maintaining independence and professionalism of the company's organs and members, fulfilling compliance, managing the risk and many things that affect the sustainability of the company, and realizing ethical, fair, and dignified work relationship.

According to the Indonesian Institute for Corporate Governance, Corporate Governance Perception Index (CGPI) is a research program and improvement of the implementation of good corporate governance in Indonesia. Corporate Governance Perception Index (CGPI) is one of the initiatives to encourage the enforcement of good corporate governance in Indonesia through the assessment of the implementation of good corporate governance that requires the companies to continue to develop and improve the quality of corporate governance from a variety of perspectives on an ongoing basis.

The result of Corporate Governance Perception Index (CGPI) is in the form of perception index of corporate governance that describes the quality of the implementation of good corporate governance (GCG) in companies participating in Corporate Governance Perception Index (CGPI) based on the utilization of knowledge and is classified according to the categorization of rating; very reliable, reliable, and reliable enough.

Corporate Governance Perception Index (CGPI) gives appreciation and recognition to companies that have implemented good corporate governance as "The Trusted Company" whose results are presented in SWA magazine as the cover story.

Firm Size

Kristianto (2010) stated that firm size will affect the capital structure based on the fact that the larger the company, the higher the level of sales growth, so that the company would be more courageous to issue its new shares and tend to use a greater amount of loan. Firm size is one of the factors that affect the company's financial performance.

A large company tends to be more cautious in managing the company and tend to perform its financial management efficiently. Large company is noticed more by the public, so the company will be more careful in conducting financial reporting, and thus affecting the company to report its condition more accurately (Nasution and Setiawan 2007).

Research by Dinni and Djoko (2012) stated that firm size is the value, which gives an overview of the size of a company.

The classification of firm size, according to Suwito (2006), basically, the firm size is divided into three categories: large company, medium company, and small company. The size of the company is a scale, which can be classified into large or small company in a variety of ways, including total assets, log size, stock market value, market capitalization, and others. According to Agus (2011), the size of the company is the magnitude of the scope or the extent of the company in running its operations. As a proxy, the firm size uses log of total assets to measure the size of the company.

Financial Performance

Financial performance is the determination of certain sizes which can measure the success of a company to generate profits (Dian 2012).

Financial performance, according to Supatmi (2007), can be measured by (1) profitability which reflects the company's ability to generate profits, usually measured using ROE, ROI, net operating profit margin, or net profit margin, (2) liquidity which reflects the company's ability to meet its short term obligations, usually measured using current ratio, quick ratio, or cash ratio, and (3) leverage which shows how big the company to fund its business with debt, usually measured using leverage ratio in the capital turnover.

Relationship between Good Corporate Governance (GCG) and Company's Financial Performance

According to Like (2012), the financial performance of a company is determined by the extent of the seriousness of the company in implementing good corporate governance. It is in accordance with the theory which states that good corporate governance is beneficial to improve the financial performance of the company. National Committee on Good Corporate Governance Policy (2004) stated that the GCG contains five main principles; openness, accountability, responsibility, independence, and fairness, and they were created in order to protect the interests of all parties. It is expected that the better the good corporate governance owned by a company, the better the performance of the company.

In connection with one of the principles of good corporate governance defined in Article 3 of the Decree of the Minister of State-Owned Enterprises (SOEs) No. 117 / M-MBU / 2002 dated on July 31, 2002, on the application of corporate governance in SOEs, i.e. the disclosure, the presentation of information to stakeholders, whether requested or not requested, on matters pertaining to operating performance, finance, and business risks of the company. Thus, the company is obliged to report its financial performance to the stakeholders.

According to Djatmiko (2002) in Cahyani (2009), the benefit for the company that implements good corporate governance (GCG) is that the essence of good corporate governance will economically maintain the business continuity, both profitability and growth.

Good corporate governance is a guideline for a manager to manage the company as a best practice. The manager will make financial decisions that can benefit all parties (stakeholders). The manager works effectively and efficiently so as to be able to lower the cost of capital and able to minimize the risk. The business is expected to be able to generate high profitability. Investors will earn return in line with their expectations.

Relationship between Firm Size and Company's Financial Performance

According to Suwardjono (2005: 459), financial reporting concerns with information about the ability or power of a business entity to generate profit using the assets controlled in a certain period. The power to generate profit is systematic information which is expected to be carried by the accounting information through the financial statement, such as the element, size, and relationship. The power to generate profit will have meaning when the profit is associated with the period and the resources used. Thus, to determine the power to generate profit, there are three components that must be known; profit, period, and the level of resources (investment).

It is seen in the research conducted by Agus (2011) that firm size is the size of the scope or extent of the company in running its operations. Therefore, the size of the company has a relationship with the company's financial performance. The company which has profit orientation will do any activities to generate profit from the sale. According to Suwardjono (2005: 458), company performance is a manifestation of management performance, so profit can also be interpreted as a measure of the effectiveness and efficiency of the management in managing the resources entrusted to it. It is expected that the larger the size of the company, the better the financial performance produced.

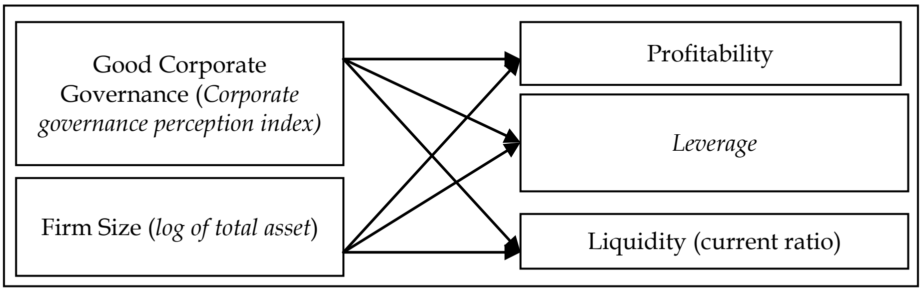

Figure 1
Research Framework

The implementation of good corporate governance and the size of firm size is necessary to influence many variables in the company. This study will show that good corporate governance and firm size have an effect on the company's financial performance as measured by profitability, leverage, and liquidity. Figure 1 is the framework of this study and the hypothesis is:

H1 : Good corporate governance affects profitability.
H2 : Good corporate governance affects leverage.
H3 : Good corporate governance affects liquidity.
H4 : Company size affects profitability.
H5 : Company size affects leverage.
H6 : Company size affects liquidity.

3. RESEARCH METHOD

In this study, the type of data used is quantitative data, such as the financial statements of companies that are included in the category of very reliable and reliable based on the CGPI ranking ended on December 31each year.

The data used in this research are secondary data, i.e. the data which are obtained indirectly, collected, and processed by other parties. In this case, the data of company's financial statements are obtained from the website www.idx.co.id and the rating results of Corporate Governance Perception Index (CGPI) organized by the Indonesian Institute for Corporate Governance (IICG) obtained from SWA magazine.

This study uses population of companies that enter the category of very reliable and reliable based on the CGPI rating from 2010 to 2013 as the research subject, and are listed in Indonesia Stock Exchange from 2010 to 2013.

This study uses purposive sampling method whose results are more in line with the needs to meet the study variables.

Dependent variable is a variable that becomes the major concern of the researcher. The dependent variables of this study are:

Y_1 = Profitability
Y_2 = Leverage
Y_3 = Liquidity

Independent variable is the variable that affects the dependent variable, either positively or negatively. The independent variables in this study are:

X_1 = Corporate Governance
X_2 = Company Size

Operational Definition and Variable Measurement

Dependent Variable

Profitability is the company's ability to generate profits at the level of sales, assets, and certain share capital. The profitability which is measured by Return on Assets (ROE) indicates the level of efficiency of the assets management done by the company. The greater the Return on Assets (ROA), the greater the profit rate. And this results in the better the company's position in terms of the use of the assets. Mathematically, the formula to measure Return on Assets (ROA) is:

$$ROA = \frac{NetProfit}{TotalAsset} \quad (1)$$

Leverage is the ability of the company to meet its long-term liability. A company is not solvable if its total debt is greater than the total assets (Hanafi and Abdul 2006: 81). The formula to measure leverage is:

$$Leverage = \frac{TotalDebt}{TotalA\ sset} \quad (2)$$

Liquidity is the ability of the company’s short-term liquidity by seeing the company's current assets relative to current debt. The current ratio measures the company's ability to meet its short-term debt using its current assets. The formula to measure current ratio is:

$$CurrentRatio = \frac{CurrentAsset}{CurrentDebt} \quad (3)$$

Independent Variable

Good corporate governance is a set of systems that regulate and control the company to create value added for stakeholders. The purpose of the pro

Table 1
Sampling Technique

Number of Population:	116
Sampling criteria:	
Not publish financial statements from 2010 to 2013	(1)
Not publish financial statements in Indonesian Rupiah (IDR)	(3)
Not listed as issuer in Indonesia Stock Exchange from 2009 to 2013	(44)
Number of research observation	68
Outliers	9
Number of samples used	59

Source: Processed Data, 2014.

Table 2
Descriptive Statistics Test Result

	N	Minimum	Maximum	Mean	Std. Deviation
GCG	59	70.1000	91.9100	83.53302	5.64833
SIZE	59	26.2945	34.2283	31.39058	1.68909
PRFIT	59	-.0723	.2684	.05918	.06728
LVRGE	59	.1633	.9195	.64742	.24203
LIKUI	59	.1522	4.6325	1.09116	1.06687

Source: Processed Data, 2014.

gram held by the Indonesian Institute for Corporate Governance (IICG) is Corporate Governance Perception Index (CGPI) to stimulate companies to compete in the implementation of good corporate governance for the long-term interest of the company. Then, the measurement used is the scores of Corporate Governance Perception Index (CGPI) with the category of very reliable for the company that receives a score from 85.00 to 100.00 and reliable for the company that receives a score from 70.00 to 84.99.

Firm size is a scale which can be classified as large or small company based on a variety of ways and values that give the description on the size of a company. Thus, the measuring instrument used is Logs of Total Assets.

4. DATA ANALYSIS AND DISCUSSION

This study examines the effect of good corporate governance and firm size on company's financial performance as measured by profitability, leverage, and liquidity. The researcher is also using purposive sampling technique to obtain the sample. It is expected that with the use of purposive sampling technique, the results can be more in line with what is needed to meet the study variables.

The research subjects are selected by using purposive sampling technique to obtain the samples to be studied. The technique is using specific criteria to select the samples used in this study. The number of companies included in the rating of CGPI and listed in Indonesia Stock Exchange from 2010 to 2013 is 72 issuers. From the selection process, there are three companies that do not use Indonesian Rupiah (IDR) in their financial reporting. There is one company that does not publish financial statements in Indonesia Stock Exchange (IDX) from 2010 to 2013. And there are 44 companies that are not listed as issuers in Indonesia Stock Exchange (IDX) from 2010 to 2013. Thus, there are 68 companies that meet the criteria. Furthermore, based on the classical assumption test performed using program of SPSS version 21, it is found some outlier data, or nine data that are not normal, so the final number of the samples used in this study are 59 samples (see Table 1).

Data Analysis

This stage explains the analysis result of the data that have been collected. The analysis is performed using SPSS version 21. In accordance with the description in chapter three, there are three major groups of analysis to be performed, namely descriptive statistics analysis, classical assumption test, and multiple regression analysis.

Descriptive statistics analysis is one of the analytical techniques used to determine the description of the data. This technique is not as a medium to test the hypothesis but merely used to present and analyze the data including the calculations in order to clarify the circumstances or characteristics of the data to be processed in the program of SPSS (Ghozali 2011; 19).

The variables of this research are good corporate governance, firm size, profitability, leverage, and liquidity. Table 2 is the results of descriptive statistical analysis of the data in this study.

The Value of Good Corporate Governance

Based on Table 2, it is found that the minimum value of good corporate governance variable is 70.10, which means that the company has the lowest CGPI score. This minimum value is obtained by PT Panorama Transport Tbk. from 2010 to 2013. The maximum value of good corporate governance variable is 91.91, which means that the company has the highest CGPI score. This maximum value is obtained PT Bank Mandiri (Persero) Tbk. from 2010 to 2013. The mean value of good governance variable is 83.5332, which means the average during the study period for the company in implementing good corporate governance. During the study period, from 2010 to 2013, there are 35 companies with CGPI scores above the average, and 24 companies with CGPI scores below the average. It can be concluded that good corporate governance (GCG) is implemented well in the companies as there are more companies that have CGPI score above the mean value. The standard deviation from 2010 to 2013 is 5.64833, which means that there is no deviation. It can be seen from the number of companies that have CGPI score above the average.

The Value of Firm Size

Based on Table 2, it is found that the minimum value of firm size variable is 26.2945, which means that the company has the lowest value of log of total assets. This minimum value is obtained by PT Panorama Transport Tbk. from 2010 to 2013. The maximum value of firm size variable is 34.2283, which means that the company has the highest value of log of total assets. This maximum value is obtained PT Bank Mandiri (Persero) Tbk. from 2010 to 2013. The mean value of firm size that has the value of the log of the total assets from 2010 to 2013 is 31.390582. There are 30 companies with the value below the average, and 29 companies with the value above the average. It can be concluded that there are many companies with firm size value approaching the mean value which are included in the rating of CGPI score in the period from 2010 to 2013. The standard deviation of 2010-2013 is 1.6890918, which means that it is far from deviation when compared with the mean value of firm size, and its standard deviation value is below 10.

The Value of Profitability

Based on Table 2, it is found that the minimum value of profitability variable is -0.0723, which means that the company has the lowest profitability value, as measured by ROA, and it is not good for the company. This minimum value is obtained by PT Bakrieland Development Tbk. from 2010 to 2013. The maximum value of profitability variable is 0.2684, which means that the company has the highest profitability value, as measured by ROA, and it is very good for the company. This maximum value is obtained by PT Bukit Asam (Persero) Tbk. from 2010 to 2013. The mean value of the company's profitability, during the study period, is 0.059177. There are 30 companies with the profitability value below the average, and 19 companies with the profitability value above the average. It can be concluded that there are still many companies that have profitability value below the mean value based on the CGPI rating in the period from 2010 to 2013. The standard deviation from 2010 to 2013 is 0.0672841, which means that it is far the deviation.

The Value of *Leverage*

Base on Table 2, it is found that the minimum value of leverage variable is 0.1633, which means that the company with the lowest value of leverage is highly favored by investors because the investors have greater protection against the loss of creditors in the event of liquidation. This minimum value is obtained by PT Aneka Tambang. The maximum value of leverage variable is 0.9194, which means that the company with highest value of leverage is not very good, because it has a lot of debt. On the other hand, shareholders may want more leverage because it will increase the expected profit (Brigham and Houston 2010: 194). This maximum value is obtained by PT Bank Nusantara Parahyangan Tbk. from 2010 to 2013. The mean value of leverage variable obtained during the study period is 0.647422. There are 31 companies with the leverage value above the average, and 31 companies with the leverage value below the average. So it can be concluded that there more companies with the leverage value above the average. This means that the use of debt is preferred by shareholders to pursue the desired profit. The standard deviation from 2010 to 2013 is 0.2420320, or below the deviation, because it is less than 10.

The Value of Liquidity

The minimum value of liquidity variable is 0.1522, which means the company with the lowest liquidity value indicates that the company's ability to repay its short-term debt is weakened. This minimum value is obtained by PT Bank Permata Tbk. The maximum value is 4.6325, which means the company with the highest liquidity value indicates that the company’s ability to repay its short term debt is

Table 3
Normality Test Results

Model	Asymp. Sig (2-tailed)	Conclusion
1	0.312	Normally distributed
2	0.728	Normally distributed
3	0.096	Normally distributed

Source: Processed Data, 2014.

Table 4
Test Results of Variance Inflation Factor (VIF)

Model	Independent Variable	Dependent Variable	Tolerance	VIF	Conclusion
1	GCG	Profitability	0.435	2.297	Free of multicollinearity
	SIZE		0.435	2.297	Free of multicollinearity
2	GCG	Leverage	0.435	2.297	Free of multicollinearity
	SIZE		0.435	2.297	Free of multicollinearity
3	GCG	Liquidity	0.435	2.297	Free of multicollinearity
	SIZE		0.435	2.297	Free of multicollinearity

Source: Processed Data, 2014.

high and it is good for the company. This maximum value is obtained by PT Bukit Asam (Persero) Tbk. from 2010 to 2013. The mean value of the liquidity variable is 1.091164. There are 26 companies with the liquidity value above the average and 33 companies with the liquidity value below the average. It shows that there are still many companies that have weaknesses to repay their short-term debt. The standard deviation is 1.0668733. When compared to the mean value of the data, it is still far from the deviation.

Interpretation of Statistics Test Result
Testing of Classical Assumption Test

Regression testing which is done on the regression equation will be conducted classical assumption test, consisting of normality test, multicollinearity, heterocedastisity test and autocorrelation test.

Normality Test

The results of normality test can be seen in Table 3. From the table of classical assumption test, it can be seen that the significance level of one sample Kolmogorov-Smirnov indicates the value above 0.05. So, it can be concluded that the data are normally distributed.

Multicollinearity Test

Multicollinearity test aims to test whether, in the regression model, there is a correlation between the independent variables (Ghozali 2011: 105-106).

From the table of multicollinearity test, it can be seen that the VIF value for the variables is less than 10, for the variables in the regression model 1. It can be concluded that in the regression model 1, there is no multicollinearity between the independent variables in the regression model, because VIF < 10 and tolerance values > 0.1, which means that there is no multicollinearity. Multicollinearity test results can be seen in Table 4.

Heteroscedasticity Test

From the graph of heterocedastisity generated from SPSS for model 1, model 2 and model 3, it can be seen that the graph plots between the prediction value of ZPRED and the residual value of SRESID, there is no particular pattern, and the pattern of dots spreads on the scatter plot graph. Thus, it can be concluded that there is no heterocedastisity.

Autocorrelation Test

Autocorrelation test aims to test whether, in the linear regression model, there is a correlation between the disturbing errors in the period t and the disturbing errors in the period t-1 (previously). To determine the presence or absence of an autocorrelation, it can perform statistical test of Durbin Watson (DW test). To test for the presence or absence of autocorrelation, it uses criteria. If d is located between du and (4-du), the null hypothesis (HO) is accepted, which means that there is no autocorrelation (du < d < 4-du). The regression model in this study produces the value of the Durbin Watson as shown in Table 5.

Hypothesis Testing

To determine the effect of independent variables on dependent variable in the regression model 1, it can be done using multiple linear regression analysis which can be seen in Table 6.

So, based on the table above, the regression equations are as follows:

Table 5
Autocorrelation Test Results

Model	Du Value	Durbin Watson Value	4-Du Value	Conclusion
1	1.6497	2.037	2.3503	No autocorrelation
2	1.6497	2.192	2.3503	No autocorrelation
3	1.6497	2.266	2.3503	No autocorrelation

Source: Processed Data, 2014.

Table 6
Multiple Linear Regression Analysis for Equation I

Model	Variable	Coefficient	t-statistic	Sig.	Conclusion of Hypothesis
1	Constant	0.300	1.919	0.060	
	GCG	0.005	2.375	0.021	Hypothesis is accepted
	Size	-0.022	-2.910	0.005	Hypothesis is accepted
	R	0.364	R square	0.132	
	F count	4.273	Sig F	0.019	< 0.05 = Fit
2	Constant	-1.492	-2.988	0.004	
	GCG	-0.017	-2.412	0.019	Hypothesis is accepted
	Size	0.114	4.757	0.000	Hypothesis is accepted
	R	0.561	R square	0.315	
	F count	12.865	Sig F	0.000	< 0.05 = Fit
3	Constant	9.885	4.230	0.000	
	GCG	0.042	1.263	0.212	Hypothesis is rejected
	Size	-0.393	-3.497	0.001	Hypothesis is accepted
	R	0.477	R square	0.228	
	F count	8.253	Sig F	0.001	< 0.05 = Fit

Source: Processed Data, 2014.

Equation 1:
PRFIT = 0.300 + 0.005 GCG – 0.022 SIZE
Equation 2:
LVRGE = - 1.492 – 0.017 GCG + 0.114 SIZE
Equation 3:
LIKUI = 9.885 + 0.042 GCG – 0.393 SIZE

Discussion

The Effect of Good Corporate Governance (GCG) on Profitability

Good corporate governance (GCG) is a set of systems that regulates and controls the company to create value added for stakeholders. The purpose of the program held by the Indonesian Institute for Corporate Governance (IICG), in the form of Corporate Governance Perception Index (CGPI), is to stimulate companies to compete in the implementation of GCG in the interest of long-term of company. This study aims to examine whether the corporate governance affects the profitability of the company.

Profitability is the company's ability to generate profits at the level of sales, assets, and certain share capital. Profitability, as measured by Return on Assets (ROA), shows the level of efficiency of the asset management conducted by the company. The greater the Return on Assets (ROA), the greater the profit rate, and thus resulting in the better the company's position in terms of the use of the asset. On average, the companies that implement good corporate governance have a high value of profitability. This result is very good for the companies.

Based on the results of regression, it is found that there is an effect between good corporate governance and profitability. This means that the profitability of the company can grow well with the presence of good corporate governance. It can be seen that the maximum value of profitability variable is 0.2684, which means that the company with the highest value of profitability, as measured by ROA, is very good. This maximum value, or 84.33, is obtained by PT Bukit Asam (Persero) Tbk. from 2010 to 2013. With the high value of good corporate governance, the profitability value of the company is considered very high when compared with the mean value of the company's profitability during the study period, which is 0.059177.

The result of this study is different from the result of the study conducted by Dian (2012), in which good corporate governance variable does not significantly affect the company's financial performance, as measured by ROA. This is likely caused by the long term of good corporate governance, whereas ROA is only in short term, where the results achieved can be directly used as the basis for a decision making by the company. While the results of this study indicate that the financial profitability of the company can be improved with the presence of good corporate governance. This is in line with the study conducted by Like (2012) which states that the practices of good corporate governance, according to the criteria Corporate Governance Perception Index (CGPI), significantly influence the company's financial performance, as measured by the ratio of profitability. This suggests that the function of good corporate governance, as its benefits have been described by the Indonesian Institute for Corporate Governance (2012), is able to improve the performance, efficiency and service to stakeholders.

The Effect of Good Corporate Governance on Leverage

Good corporate governance can be defined as a set of systems that regulates and controls the company to create value added for stakeholders. So the company will strive to develop by implementing good corporate governance in the hope that the company can obtain added value. While financial leverage is an alternative that can be used by companies to increase profits. The use of debt in an investment as an addition to fund the company's assets is expected to be able to increase the benefits obtained by the company, because the company's assets are used to generate income. The relationship between good corporate governance and leverage is that the company with good corporate governance will have less leverage value, because the level of debt held by the company is little, so the management of the company will be better and far from bankruptcy due to inability to meet its obligations.

Based on the regression results, there is an effect between good corporate governance and leverage. This means that through company’s leverage, the debt funding can be pressed using good corporate governance. It can be seen that the minimum value of the leverage variable is 0.1633, which means that the company with the lowest leverage is highly favored by investors because the greater the investors to have protection against the loss of creditor in the event of liquidation. This minimum value is obtained by PT Aneka Tambang, with a good corporate governance value of 85.99. The maximum value of leverage variable is 0.9194, which means that the company with the highest leverage value is not good, because it has a lot of debt. On the other hand, shareholders may want more leverage because it will increase the expected profit (Brigham and Houston, 2010; 194). The maximum value is obtained by PT Bank Nusantara Parahyangan Tbk. from 2010 to 2013. The mean value of leverage variable obtained during the study period is 0.647422. There are 31 companies with the leverage value above the average, and 28 companies with the average value below the average. So it can be concluded that there are more companies with the leverage value above the average. This means that the use of debt is preferred by shareholders to pursue the desired profit.

These results are not in line with the research conducted by Supatmi (2007) which states that corporate governance is found to have negative effect on the level of leverage with the proxy of leverage ratio, but statistically, it is not significant. The results of this study indicate that the company's financial leverage can work well because the company's ability to fund its business using debt can be maximum by implementing good corporate governance. This study is precisely in line with the research conducted by Diah et al. (2012) which states that her research, specifically, shows that good corporate governance has an effect on leverage ratios. This is in accordance with one of the principles of good corporate governance in accordance with Article 3 of the Decree of the Minister of State Owned Enterprises (SOEs/BUMN) No. 117/M-MBU/2002 dated on July 31, 2002 on the application of good corporate governance in SOEs, namely accountability, about the clarity of functionality, implementation, and company’s management liability, so that the management of the company runs effectively and economically. The company can finance its business with debt, but should be responsible for its management so that the company is away from the risk of bankruptcy

The Effect of Good Corporate Governance on Liquidity

Good corporate governance can be defined as structures, systems, and processes used by the organs of the company in an effort to provide value-added to the company sustainably in the long term, with regard to the interests of stakeholders, and based on the applicable laws and norms (Corporate Governance Perception Index 2008). Liquidity measures the company’s short-term liquidity ability by viewing the company’s current assets against its current debt or the company's ability to repay its short-term debt. There is no effect between good corporate governance and liquidity. This could happen because CGPI is assessed by external parties of the company, or by IICG, while those who know a lot about the company are the internal parties of the company.

Based on the regression results, it shows that there is no effect between good corporate governance and liquidity. It can be seen that the minimum value of the liquidity variable is 0.1522, which means that the company with the lowest value of liquidity indicates that the company's ability to repay its short-term debt is weakened. This minimum value is obtained by PT Bank Permata Tbk. But the company has a high value of GCG, or 81.82. The maximum value of liquidity is 4.6325, which means that the company's ability to repay its short-term debt is high and it is good for the company. This maximum value is obtained by PT Bukit Asam (Persero) Tbk. from 2010 to 2013. However, it is different from PT Bank Mandiri (Persero) Tbk. This company obtains the highest value of GCG of 91.91, but it even has small levels of liquidity at 0.2430. This could be that the diversity of these results make good corporate governance (GCG) has no effect on liquidity.

The results of this study indicate that the company's financial liquidity is not influenced by good corporate governance. This study is not in line with the research conducted by Diah et al. (2012) which states that, specifically, their research shows that GCG has an effect on liquidity ratios. This is probably because most companies included in the CGPI rating in the period from 2010 to 2013 have the liquidity level below the average. So, although the company has implemented good corporate governance well, it does not mean that the company's ability to repay its debts will also good. However, this study is in line with the research conducted by Supatmi (2007) which states that the practice of good corporate governance has no positive and significant effect on the level of liquidity with the proxy of current ratio.

The Effect of Firm Size on Profitability

The firm size is a scale which can be classified as large or small company in a variety of ways and the value that gives a description on the size of a company. Profitability is the company's ability to generate profits. This study examines whether the firm size affects the company's profitability as measured by ROA. However, these results are not in line with the research by Khaira (2011) which states that the firm size does not affect the company's profitability, as measured by ROA. This shows that the firm size is not a guarantee that the company will have a good performance. The firm size can be seen from the Log of total Asset, ie the higher the assets owned by the company, the greater the size of the company to be favored by investors, so that the size of the company can be influential. This shows that the company's financial profitability is affected by the size of the company. In line with the research by Wright et al. (2009), it is found that firm size has positive influence on the performance of the terms of the ratio of profitability.

Based on the regression results, it shows that there is an effect between firm size and profitability. This means that if the profitability value is high, the size of the company will also big, because the assets owned are large. The maximum value of profitability variable is 0.2684, which means that the company with the highest value of profitability, as measured by ROA, is good for the company. This maximum value is obtained by PT Bukit Asam (Persero) Tbk. from 2010 to 2013, which has the firm size value of 30.07399. The mean value of the company's profitability, during the study period, is 0.059177. When compared with the average value of the maximum value, it has a large margin, so that it is in line with the conclusion that large companies usually have a high level of profitability. So, the firm size is influential.

The Effect of Firm Size on Leverage

Firm size is the size of the scope or extent of the company to run its operations. Therefore, the size of the firm has a relationship with the company's financial performance. The company, which aims for profit, will do an activity to make a profit from the sale. According to Suwardjono (2005: 458), company performance is a manifestation of the performance of management, so profit can also be interpreted as a measure of the effectiveness and efficiency of the management to manage the resources entrusted to it. Leverage is measured using the ratio of total debt which includes all current liabilities and long-term debt. Creditors prefer low debt ratios, because the lower the debt ratio, the greater the protection against the lost of creditors in the event of liquidation. On the other hand, shareholders may want more leverage because it will increase the expected profits (Brigham and Houston 2010; 143).

Based on the regression results, it shows that there is an influence between firm size and leverage. This means that in leverage can be suppressed by debt based on the firm size owned by each company. It can be seen that the minimum value of leverage variable is 0.1633, which means the company with the lowest leverage value is highly favored by investors because the investors have greater protection against the loss of creditor in the event of liquidation.

The minimum value of leverage is obtained by PT Aneka Tambang. The maximum value of leverage variable is 0.9194, which means that the company with the highest value of leverage is not good for the company because it has a lot of debt. On the other hand, shareholders may want more leverage because it will increase the expected profit (Brigham and Houston 2010; 194). The maximum value of leverage is obtained by PT Bank Nusantara Parahyangan Tbk. from 2010 to 2013.

The mean value of leverage variable obtained during the study period is 0.647422. There are 31 companies with the leverage value above the average, and 29 companies with the firm size value above the average. This shows that there are many large companies which also have high leverage value. Yet, there are 28 companies that are below the average. So it can be concluded that there are more companies that have leverage value above the average, which means that the use of debt is preferred by shareholders to pursue a desired profit.

The results of this study indicate that the company's financial leverage is influenced by the size of the company. In line with the theory put forward by Warner (1997) and Kim (1978) in Sawir (2004: 102) that the firm size has an influence on leverage if the cost of bankruptcy is a decreasing function of the size of the company. In his book, Sawir (2004: 102) also wrote that the size of the company determines the bargaining power in the financial contracts. Large companies usually can choose the financing from various forms of debt, including special offers, which are more favorable than that offered by smaller companies. This will provide convenience to large companies in accessing additional funds from the capital market. The credibility of large companies is usually more trusted by the creditor or lender. Therefore, the firm size greatly affects the company's ability to finance its business with debt.

The Effect of Firm Size on Liquidity

The size of the company is one of the factors that affect the company's financial performance. Large companies tend to be cautious in managing the company and tend to perform the financial management efficiently. Large companies are more noticed by the public in terms of financial reporting, so it makes the company reports its condition more accurately (Nasution and Setiawan 2007). Liquidity is the ability of the company to meet its short-term liabilities. The effect of firm size on liquidity is that a great company is easier and more flexible in seeking funding because the public then to give more trust on large company. Therefore, if the value of firm size is high, the value of liquidity is usually also high due to the many investors who enter the company.

Based on the regression results, it is found that firm size has an effect on the liquidity of the company, which means that the high value of the firm size will also make the high value of liquidity. It can be seen also that the minimum value of liquidity variable of 0.1522, which means the company with the lowest value of liquidity indicates that the company's ability to repay short-term is weakened. This minimum value is obtained by PT Bank Permata Tbk. The maximum value is 4.6325, which means that the highest value of liquidity indicates that the company's ability to repay its short-term liability is high and it is good for the company. This maximum value is obtained by PT Bukit Asam (Persero) Tbk. from 2010 to 2013. The mean value of the liquidity variable is 1.091164. There are 26 companies with the liquidity value above the average, and there are 30 companies with the firm size value above the average, while there are 30 companies that are above the average firm size. There are 33 companies that are below the average. It shows that there are still many companies that have weaknesses to repay their short-term debt.

The results of this study indicate that the company's financial liquidity is affected by the firm size. In line with the theory written by Asnawi and Wijaya (2005; 139), the cost of the liquidity of the shareholders would be increased if the firm size increases. In general, companies will face bankruptcy or get financial difficulties because the companies cannot meet their short-term liabilities. The firm size is considered as a proxy for the cost of diversification, which implies that before buying shares, an investor must be sure that the company's liquidity is not a problem.

Liquidity, which is measured using current assets, has an important meaning, and becomes the focus of the company to reduce current assets without disturbing the sale, so that the profitability will rise (Brigham and Houston 2011; 300). If the value of liquidity generated by the company is high, the company's ability to meet its long-term is also high and it is also good for the company. Investment in current assets should be financed, and this funding can be in the form of long-term debt, regular equity, or short-term credit. In general, companies use commercial credit and accruals, and may use bank loans or securities (Brigham and Houston 2011; 300).

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

H1 is accepted = Good corporate governance affects company's financial profitability.
H2 is accepted = Good corporate governance affects company's financial leverage.
H3 is rejected = Good corporate governance does not affect company's financial liquidity.
H4 is accepted =Firm size affects company's financial profitability.
H5 is accepted = Firm size affects company's financial leverage.
H6 is accepted = Firm size affects company's financial liquidity.

Good corporate governance used in this study is using CGPI score, with the category of reliable and highly reliable in the period from 2010 to 2013.

There are some outlier data, which are considered not normal, thus reducing the number of samples.

For further researches, it is recommended to use the samples which are expanded to the entire companies listed in Indonesia Stock Exchange so that the results of the study are able to describe the situation in Indonesia, or the further researchers could add more categories which are quite reliable in the rating of CGPI score, other than very reliable and reliable. Further researchers may add the company's financial performance ratios such as the activities of the company, and so on.

For further researchers may use other proxies to measure good corporate governance, such as the proportion of commissioners, the size of the board of directors, compensation of directors, managerial ownership, and so on.

Further researches should be more focused in choosing the corporate sector to be studied, because the companies included in the rating of CGPI consist of various sectors.

For companies, it is expected that the companies in Indonesia continue to implement the practice of good corporate governance (GCG) as defined by government regulation.

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