Investor Reaction on the Implementation of Good Corporate Governance in Banking Companies in Asean

Cris Kuntadi
University of Mercu Buana, Jakarta, Indonesia.
E-mail: cris.kuntadi@mercubuana.ac.id

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Abstract

This study aimed to examine The effect of Good Corporate Governance on Investor Reactionin 5 ASEAN Countries. The populations in this research were financial sector companies in ASEAN (Indonesia, Singapura, Malaysia, Thailand, Phillipine) as the members of ASEAN CG Scorecard members assesment 2014 in the period 2015-2016. By using purpose sampling method obtained 146 sample with size, growth, leverage and county as the variable control.The result shows that Good Corporate Governance has positive effect on Market Reaction. Size, Growth and Leverage has no effect on Market Reaction. On the other hand Country variable has no effect on Market Reaction.

Keywords

Good Corporate Governance, Investor Reaction, ASEAN Market, Financial Reporting.

Research Background

Since the implementation of the World Trade Organization (WTO) at the global level and the ASEAN Free Trade Area (AFTA) at the regional level, international cooperation between ASEAN countries has increased and is open. Cooperation in terms of economic improvement in countries in Southeast Asia is also more flexible with the presence of the ASEAN Economic Community (AEC). The main objective to be achieved from the implementation of the various concepts of cooperation is to create ASEAN as a single market and unified production base where free flow of goods, services, factors of production, investment and capital and the elimination of tariffs for trade between ASEAN countries. With the implementation of the various cooperation schemes, it will increasingly have an impact on the various information available that becomes the choice of investors in investing.

The available information is an important component in making business decisions by investors in the capital market. To get information that is useful and relevant for these business actors, accounting has a role in providing all necessary information. Accounting products in the form of financial statements are one source of information that is very important and can be trusted by internal and external parties of the company, because it provides information about the company's development for each particular period of Weigant and Kieso (2014). Lev (1989) also states that earnings are the main information presented in the company's financial statements. One of the information in financial statements that receives the most attention from investors is the profits contained therein (Lev, 1989; Istianingsih, 2020). One of the information in financial statements that receives the most attention from investors and creditors is profit (Istianingsih, 2020).

In addition to improving the quality of resources, the quality system of governance is also important for banking companies, which must be managed professionally, modernly and in accordance with their objectives. Along with the development of existing banking management, the banking function has become broader and has a central role in economic and business development, trust is the main factor for someone in allocating their funds into the bank. Meanwhile there are still banks that abuse this trust so that it is detrimental to the customer that causes customer confidence to decline. One of the causes of abuse of trust is due to lack of good governance in a banking company or what we are familiar with Good Corporate Governance (GCG). For this reason, Good Corporate Governance (GCG) is needed in building public trust and the international world as an absolute requirement for the banking world to develop well and healthily.

Corporate Governance is a structure that facilitates the determination of the goals of a company and as a means of determining performance monitoring techniques. Corporate Governance is a concept based on agency theory and is expected to function as a tool to provide investors with confidence that they receive a return on the funds they invest. La Porta et al. (2002) explain that the application of corporate governance will protect investors and increase market value. The implementation of Good Corporate Governance (GCG) in a company makes the company more trusted so that the market response to profits is influenced by poor or good corporate governance of business entities that announce profits.Utami and Pernamasari (2019) stated that GCG has no direct effect on stock prices, but GCG can be a trigger for companies to be able to manage assets efficiently.

The existence of Good Corporate Governance (GCG) now is not only an obligation for every company but has become a necessity that bridges the relationship between investors and company management. An effective Good Corporate Governance (GCG) system in a company will make a management not abuse the authority and work in the company's interests.

Good Corporate Governance (GCG) is able to reduce the risks that may be carried out by the board of directors and commissioners with various decisions that are self-interested. In the process of maximizing the value of the company, a conflict of interest arises between the manager and the shareholders (company owners), which is often called the agency problem. It is not uncommon for the management, the company manager, to have other goals and interests that conflict with the company's main objectives and often ignore the interests of shareholders. This difference in interests between managers and shareholders results in a conflict that can be called agency conflict, because the manager prioritizes personal interests, otherwise the shareholders do not like the personal interests of the manager because what the manager does will add to the cost of the company causing a decrease in profits company and affect the stock price thereby reducing the value of the company.

The main objective of investments made by investors in the capital market is to maximize the value of the company and increase expected returns. Investors or people who will buy shares have an investment plan both in the short and long term. To make stock purchase decisions, investors need clear, reasonable and timely information as a basis for decision making. One source of that information is the company's financial statements that reflect the company's financial performance.

This study examines the implementation of Good Corporate Governance (GCG) as a determinant variable for investor reaction because GCG is needed to fulfill the trust of the public and the international world as an absolute requirement for the industrial world to develop properly and healthily with the ultimate goal of realizing stakeholder value. GCG is used as a mechanism designed by the company to manage the company well which includes transparency, accountability, responsibility, independence and fairness. With the application of these principles the company is expected to work effectively and efficiently in an effort to maximize company performance. With the implementation and implementation of good corporate governance, managers and business people are expected to be able to best manage the company. Work effectively and efficiently in efforts to maximize company performance thereby reducing capital costs and minimizing risk. Businesses that are expected to produce high profitability. Improved financial performance raises the confidence of various interested parties in the company and investors are expected to get a positive signal that allows investors to eventually invest their capital and provide a high premium to the company.

Banks, which are one component in a country's economy, play an important role in economic growth and are exposed to many risks in practice. Banks are required to have the ability to maintain the confidence of stakeholders, investors and the public towards banks, therefore the application of GCG to the banking world needs to have a long-term impact. This research will compare the application of GCG in banks in ASEAN so that it can be seen the readiness of each country in terms of banking in facing the era of global competition through the ASEAN Economic Community.

This research is a learning tool about how the effect of the Implementation of Good Corporate Governance (GCG) Principles on Investor Reaction. This research is expected to be a reference material for researchers who are currently or will conduct research related to the influence of the Application of Good Corporate Governance (GCG) Principles to Investor Reaction that can add information and become a consideration in measuring Good Corporate Governance (GCG) that can be used to assess the company's competitive advantage with respect to their investment decisions.

Review of Literature and Hypothesis Development

a. Review of Literature

Jensen and Meckling (1976) explain that an agency relationship is a contract in which one or more people (principals) govern others (agents) to perform a service on behalf of the principal and authorize the agent to make the best decision for the principal. If both parties have the same goal to maximize the value of the company, then it is believed the agent will act in a manner that is in accordance with the interests of the principal. Agency theory focuses on determining the most efficient contract underlying the relationship between the principal and agent.

Scott (2015) states that companies have many contracts, for example work contracts between companies and their managers and loan contracts between companies and their creditors. The employment contract in question is a work contract between the capital owner and the company manager. Where the agent and principal want to maximize their respective utility with the information they have. Management is an agent of the shareholders, as the owner of the company.

Investors are motivated to improve themselves with ever-increasing profitability. Managers are motivated to maximize the fulfillment of economic and psychological needs, including in terms of obtaining investment. Conflicts of interest are increasing, especially because the principal cannot oversee the daily activities of agents. Company management has a tendency to obtain large profits at the expense of other parties.

Good Corporate Governance as the effectiveness of mechanisms aimed at minimizing agency conflicts, with special emphasis on legal mechanisms that prevent the exporations of majority and minority shareholders. Good Corporate Governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, the board of commissioners, shareholders and other stakeholders. Good Corporate Governance also provides a structure that facilitates the determination of the objectives of a company, and as a means of determining performance monitoring techniques.

The company must be open in making every decision and open in providing information to shareholders, creditors, and other stakeholders in order to be able to make decisions properly, including to the public as a means of information. This is necessary so that there is no misuse by related parties that have their own interests (IstianingsihSastrodiharjo, 2015).HariSetyawati et al., (2020) examine the quality of financial reporting in relation to the application of the principles of good corporate governance, compliance with laws and implementation of internal control systems. They found that the application of the principles of good corporate governance has a significant effect on the quality of financial reporting.

The economic crisis in Asia and Latin America is believed to have arisen because of the failure of GCG implementation. In 1999, we saw countries in East Asia that were equally affected by the crisis began to experience recovery, except for Indonesia. It must be understood that global competition is not competition between countries, but between corporations in these countries. So win or lose, win or fall, recover or remain in a country's economic downturn depending on their respective corporations. This understanding opens up insights that our corporation has not been properly managed. In a special language, our corporation has not yet run governance. A survey from Booz-Allen in East Asia in 1998 showed that Indonesia had the lowest corporate governance index with a score of 2.88 far below Singapore (8.93), Malaysia (7.72) and Thailand (4.89).

After that, since the crisis hit, we can now see the re-growth of countries which were devastated by the crisis. South Korea, which had contracted financial crimes involving top executives of blue-chip companies, has now recovered. The same development was also seen with Thailand and other ASEAN countries.

The Pricewaterhouse Coopers study published in the Report on Institutional Investor Survey (2002) places Indonesia at the bottom along with China and India with a value of 1.96 for transparency and openness. When viewed from the availability of investors to provide premiums on the price of shares of public companies in Indonesia, the results of the 2002 survey showed progress compared to the results of the 2000 survey. In 2000 investors were willing to pay a 27% premium, while in 2002 they were only willing to pay 25%. This shows investors' perceptions of the risk of not implementing GCG, getting better. Overall, the top ranking is still occupied by Singapore with a score of 3.62, Malaysia and Thailand score of 2.62 and 2.19. On the other hand, Utami and permanasari (20198) found thatGCG Score Card had a significant positive effect on operational performance, while the GCG Score had no significant positive effect on market performance of the FTSE ASEAN Star companies. GCG has no direct effect on stock prices, but GCG can be a trigger for companies to be able to manage assets efficiently. Implementation of good governance will help management to achieve long-term performance and sustainable growth.

Investor's reaction is measured by calculating the company's stock returns which are the results obtained from investments (Istianingsih, 2018). Investors invest a number of funds by buying shares with the aim of getting a return. To see the development of a company's stock price an investor can analyze the company's stock return. There are two types of stock returns, namely realized returns and expected returns. Returns that have occurred and are calculated based on historical data (past) are called realized returns. Realized return can serve as a measure of company performance and besides that it also functions to determine future expected returns. Expected return is the expected return obtained by investors in the future.

b. Hypotheis Development

To make an investment decision, the investor will consider the risk and the expected level of profit. So investors need information to conduct stock analysis. The information circulating in the stock market will change investor confidence in making decisions. Any information circulating will cause a market reaction. The market reaction can be seen from the activity of stock trading volume. Gordon Opuodhoet el., (2018) said that Trading Volume Activity is a comparison between the number of shares traded at a certain time with the number of shares of companies that circulated in a certain period. While

Gunaasih and Irfan (2015), argued "Trading Volume Activity (TVA) is an instrument used to observe and measure capital market reactions to information or events that occur in the capital market". Certain information or events can trigger stock movements in the capital market which will affect the supply and demand of shares. Trading volume activity is the sale of every transaction that takes place on the stock exchange at a certain time for a particular stock, and is one of the factors that also influences the movement of shares. How much information or events cause a capital market reaction can be measured using TVA.

Zulfikar's research (2006) explains his research which states that the formation of an audit committee which is an important component in good corporate governance in Indonesia will be responded to by the market. His research proves that a positive market reaction to the announcement of the audit committee as a form of good corporate governance. This indicates that the announcement attracted investors to invest their capital. With market interest, it proves the reflection of public trust that the concept of good corporate governance will increase the professionalism and welfare of shareholders.

TotokDewayanto's research (2010) examines the effect of good corporate governance mechanisms on national banking performance. Summing up the results of his research good corporate governance mechanisms such as regulator monitoring mechanisms, disclosure monitoring mechanisms show significant positive results. Meanwhile, the mechanism for monitoring ownership and monitoring internal control showed significant negative results. This indicates that the overall mechanism of good corporate governance can affect the performance of national banks.

The research of Arifin et al (2014) concluded the results of his research that GCG has a significant negative effect on firm value. It is indicated that GCG does not have a long-term impact on company value so that market reaction is not directly influenced by GCG.Arsani's research (2015) which examines the effect of good corporate governance on market reactions, shows that good corporate governance in the form of independent commissioners has an influence on market reactions. This shows that the independent commissioner has succeeded in carrying out the monitoring function within the company so as to increase the company's profitability. This gets a response from the market because investors who buy shares tend to be more interested in companies that have high profitability.

GCG which is a system of regulating and controlling the company is expected to provide oversight to management as an agent in managing the company to minimize agency problems. In general, GCG increases investor confidence, but the opposite applies when poor governance occurs that can reduce investor confidence.Investors will be more inclined to avoid companies that symbolize bad predicate GCG. Arifin's research (2003) also shows that GCG is an important point that makes one of the factors causing an explanation of stock returns.

GCG can increase investor confidence. the application of the principles of good corporate governance has a significant effect on the quality of financial reporting (HariSetyawati et al., 2020). Management works more effectively and efficiently so as to reduce capital costs and be able to minimize risks that may be carried out by management with decisions that benefit themselves, thereby increasing company performance. In the end this maximizes the value of the company. The company's performance which is getting better along with the increasing value of the company will provide hope of rising share prices.

H_1: ***Good Corporate Governance has a positive effect on market reactions.***

Research Method

a. Variable Definition

a.1. Market Reaction

Stock trading volume is an indicator used to see market reactions to events or information related to a stock. Stock trading volume is the number of shares traded in a certain period. The volume of stock trading is measured by Trading Volume Activity (TVA) by comparing the number of shares of a company that circulate in a certain period with the number of shares outstanding at a certain time. After that, the average of each stock trading volume between before and after the stock split is calculated to find out the magnitude of the difference. To determine whether or not the significance of the difference test is used two averages between before and after the stock split. The formula used to find TVA is as follows:

$$\boxed{TVA = \frac{\text{Number of shares traded}}{\text{Number of shares outstanding}}}$$

a.2. Good Corporate Governance

The proxy used to measure good corporate governance is an index that attaches overall good corporate governance that has been set in the GCG ASEAN CG Scorecard Index which consists of 179 points.

$$GCG = n / k * 100\%$$

Where:
GCG: Good corporate governance practice index
n: number of elements of GCG practices implemented
k: the sum of all possible elements of GCG practiceheld

This study also includes the control variable Size measured by Ln total assets, Leverage as measured by the ratio of total debt divided by total assets, Growth is sales growth calculated from sales this year less previous period sales divided by sales last period, and Country variables to accommodate differences in characteristics each country.

b. Sampling

The sampling method used in this study was purposive sampling, namely the selection of non-random samples whose information was obtained using certain considerations which are generally adjusted to the objectives or research problems. The sample of this study is companies that have criteria for sales, administration and general costs not to exceed their net sales. The type of data used in this study is secondary data in the form of financial statements of each sample company that enters the banking system in 5 ASEAN countries. The documentation carried out was to collect all secondary data published on banking companies in 5 ASEAN countries in 2015-2016.

Research Result

Poplulation in this study is the banking sector in 5 ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) who are members of the ASEAN CG Scorecard 2014 (Top 50 & 30) as follows: Indonesia as many as 43 companies, Malaysia 10 companies, Singapore 3 companies, Thailand 22 companies, andPhilippines as many as 17 companies.

Sampling is done by purposive sampling method which is part of the non-probability sampling method. For members of the population who do not qualify, no research sample is chosen.

Sampling based on the following criteria:

1. Banking sector company member of ASEAN CG scorecard assessment in 2014 (TOP 50 & 30)
2. ASEAN CG scorecard member companies that have complete data in accordance with the needs of the research sample.

Table 4.1 Research Samples

No	**Remark**	Number of **Companies**
1	ASEAN member company CG 2014 scorecard assessment (TOP 50 & 30)	95
2	Banking sector companies that are members of the ASEAN CG 2014 scorecard assessment whose data is incomplete	(22)
3	Number of companies that meet the criteria (1 year)	(73)
	Number of sample companies during 2014-2016 (3 years)	**146**

Source: ASEAN 5 ASEAN Stock Exchange & ASEAN CG Scorecard Assessment

Figure 1 shows a description of the implementation of GCG in the 5 ASEAN countries that became the study sample, Indonesia, Malaysia, Singapore, the Philippines and Thailand.

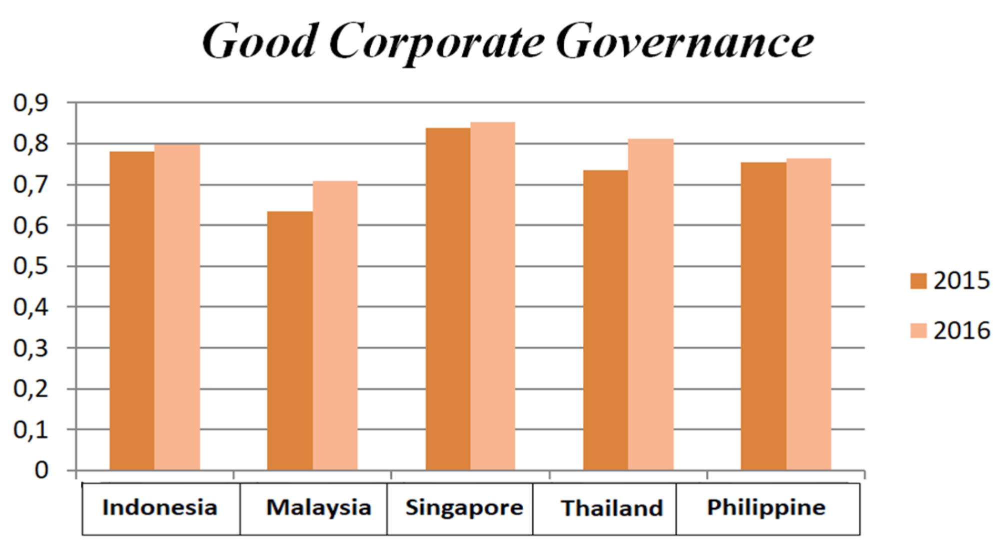

Figure 1 Implementation of Good Corporate Governance in 5 sample countries

The principles of Good Corporate Governance Implementation have an average value of.77187249, a standard deviation value of.084454557 with a minimum value of.531860, namely Public Bank Berhad Malaysia and a maximum value of.933087, namely in companies including Bank Mandiri (Persero) Indonesia Tbk. It states that with a fairly large average value means the application of the principles of good Corporate Governance has been implemented well, especially in Indonesia, represented by Bank Mandiri (Persero) Tbk.

The chart above shows the average results of applying the principles of good corporate governance in the 5 countries that were sampled in this study. Good corporate governance which is proxied by the ASEAN CG Scorecard index is a benchmark in calculating the value of CG in this study. In theory, if good corporate governance is implemented properly, the company will be better too. The average graph shows the State of Singapore getting a high position that is above 80% in terms of applying the principles of good corporate governance, followed by Thailand with a value of 80%, Indonesia 79%, Philippines 75% and the last position Malaysia with a value of 70%. In conclusion, the implementation of good corporate governance in the 5 ASEAN countries is quite good.

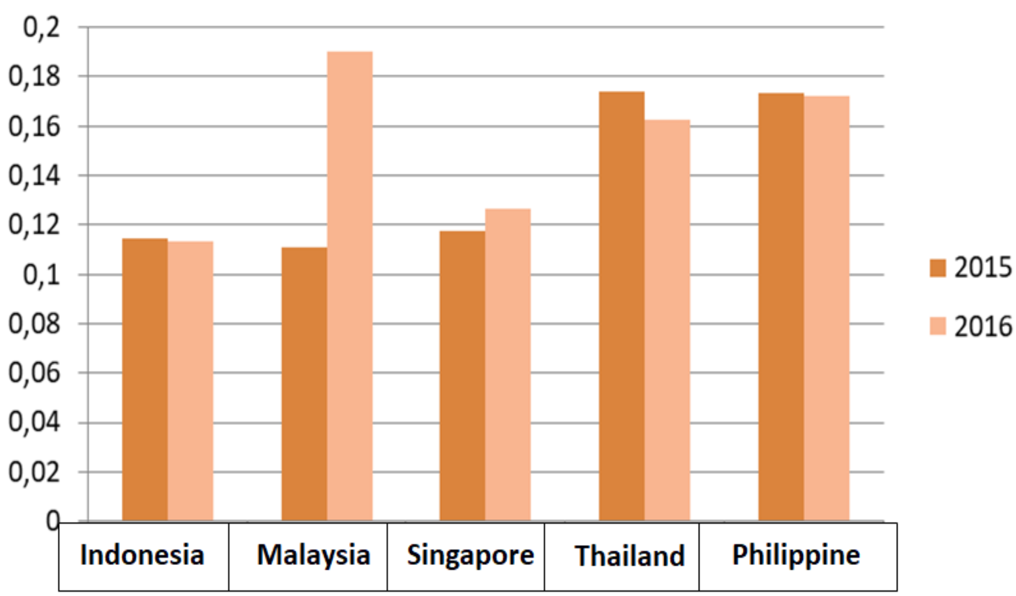

Figure 2 Market Reaction in 5 sample countries

Market Reaction, has an average value of.13294110 with a standard deviation of.090024612 with a minimum value of.011200 namely at Bank Rakyat Indonesia ArgoniagaTbk Indonesia and a maximum value of.569500 Tisco Financial Group Public Company Thailand. A fairly small average indicates that the market reaction is also not showing a good thing.

In 2016 Malaysia had the highest market reaction value compared to 4 other countries namely 0.19%, followed by Philippines 0.17%, 0.16% owned by Thailand and Indonesia with the lowest position with a value of 0.11%. This proves that the market reaction in Malaysia is very large or the market response to economic activities that occur quite quickly compared to other countries. Market reaction is measured by calculating the company's stock returns. Returns are the results obtained from investments (Fidhayatin and Dewi, 2012). Investors invest a number of funds by buying shares with the aim of getting a return. The graph above shows that the average market reaction in these 5 countries is quite high.

The coefficient of determination or Adjusted R Square is 0.85, this means that 8.5% of variation in Market Reaction can be explained by variations in GCG. While the rest (100% - 8.5% = 91.5%) is explained by other causes outside the model. The correlation coefficient (R) of 0.85 shows that the relationship between the independent variable and the dependent variable is moderate. Because it has a correlation coefficient above 0.5 close to 1.

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.151	7	.022	2.918	.007[b]
	Residual	1.024	138	.007		
	Total	1.175	145			

a. Dependent Variable: MR

b. Predictors: (Constant), Country, GCG, Leverage, FV, ICD, Growth, Size Ln

From the regression test above, the calculated F value is 2.918 with a probability of 0.007. Because the probability is much smaller than 0.05, the regression model can be used to predict Market Reaction or it can be said that the Principles of Applying Good Corporate Governance and control variables together influence Market Reaction.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.103	.086		-1.193	.235
	GCG	.184	.090	.173	2.053	.042
	Size Ln	.003	.002	.118	1.286	.200
	Leverage	5.326	.000	.026	.321	.749
	Growth	-.012	.018	-.057	-.676	.500
	Country	.012	.006	.190	2.102	.037

The results obtained from the linear regression equation, the t test was performed. If the statistics t t table ≤ t count ≤ t table then Ho is accepted and if the statistics t count ≥ t table then Ho is rejected. The GCG variable is significant at 0.05 with a GCG value of 0.42, it can be concluded that the Market Reaction variable is influenced by GCG. A constant value of 0.103 states that if the independent variable is considered constant, the average Market Reaction will decrease by 0.103. Regression coefficient on the variable Good Corporate Governance (GCG) of 0.184. This means that the GCG variable has a positive relationship with Market Raices. This shows that every 1% increase in GCG will cause a decrease in Market Reaction received by the coefficient value.

Disscusion

The test results of the Implementation of Good Corporate Governance Principles measured using the CG Scorecard Indicator on Market Reaction have a significant effect. In theory, if the company has good governance towards the company, the company will be able to increase public trust which will certainly have an impact on the resulting market reaction. The results of this study are in line with research conducted by Zulfikar (2006) which states that Good Corporate Governance influences Market Reaction.

The average results of applying the principles of good corporate governance in the 5 countries that were sampled in this study. Good corporate governance which is proxied by the ASEAN CG Scorecard index is a benchmark in calculating the value of CG in this study. In theory, if good corporate governance is implemented properly, the company will be better too. The average graph shows the State of Singapore getting a high position that is above 80% in terms of applying the principles of good corporate governance, followed by Thailand with a value of 80%, Indonesia 79%, Philippines 75% and the last position Malaysia with a value of 70%. In conclusion, the implementation of good corporate governance in the 5 ASEAN countries is quite good.

This study uses a control variable which certainly has its own influence. From the results of the study above shows that the control variables in this case namely size, growth and leverage do not have an influence on market reactions seen from the significance value that does not show a figure below 5%. This indicates that the variable does not have an influence on market reaction or whether or not the control variable does not affect the other independent variables in relation to market reaction. In contrast to size, growth and leverage, the dummy country variable used as a control variable has an influence on market reactions. This variable is used to see the market reaction caused by Indonesia and

4 other countries which, if seen from the statistical results, Thailand is the country that has the highest market reaction compared to 4 other countries.

This research implies that the Application of Good Corporate Governance and Country Principles has an influence on Market Reaction. Investors who have only seen Anuual Reports and Financial Report Performance, are expected to also be able to look at the CG Scorecard Report, because this is proven by the CG Scorecard assessment that can affect Market Reactions. With the CG Scorecard, it is expected that future policy contributions will be made for companies to submit a CG Scorecard assessment so that investors, and stakeholders and users of financial statements can make good use of it. For regulators, it is expected that in the future there will be a CG Scorecard policy, and some valid items in the Asean CG Scorecard indicator must be disclosed.

Conclusions

The purpose of this study is to find out significantly the effect of the Application of Good Corporate Governance Principles on Market Reaction in Banking Companies in 5 ASEAN Countries 2015-2016. Based on data that has been analyzed using multiple linear regression analysis methods, it can be concluded that the application of the Principles principles of Good Corporate Governance significantly influence Market Reaction.

Based on the results of research conducted there are several limitations in this study. The independent and control variables are only able to explain 8.5% of the dependent variable, this shows that other variables not used in this study have a greater influence on Market Reactions.Secondly, limited data from the Annual Report from several ASEAN countries which are published using local languages, especially Thailand. So it is expected that subsequent studies can conduct research for TOP 50 and TOP 30 for all companies listed in the ASEAN CG Scorecard. Lastly, limitations of secondary data surveys, due to limited information from the Annual Report published by the issuer, the researcher suggests being able to conduct research or surveys through primary data, such as interviews, specifically for the CG Scorecard assessment.

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