THE EFFECT OF GOOD CORPORATE GOVERNANCE IMPLEMENTATION AND PROPORTIONS OF STATE OWNERSHIP ON BANKING FIRMS MARKET VALUE

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ABSTRACT

The purpose of this paper are to examines the impact of GCG implementation and proportion of government ownership on market value of listed banking companies in Indonesia. GCG implementation index is constructed to summarize the annual report information contained in GCG implementations variable using criteria of annual report award (ARA). The paper presents data for listed bank in Indonesia from 2009 up to 2013 which are used for estimating market value. Eviews was used to analyze the research purpose, that consist are descriptive statistics and weighted least square-fixed efect method of panel data. Findings revealed that conditions of GCG index implementation on banking companies is well enough, nevertheless the gaps of banks is wide enough. The result of estimation revealed that there is a positive and significant relationship between the explanatory variables of GCG implementation index and proportion of state ownership on market value. Based on this research, a policy that needs to be taken by the relevant parties in the development of corporate governance on the banking sector is expected to be directed to the purpose to overcome the implementation of GCG.

Keywords: good corporate governance, market value, state ownership

INTRODUCTION

Attention for the implementation of good corporate governance (GCG) principles and practices is crucial in maintaining and increasing the investor's trust. The multi-dimensional crisis in 1998 has made the good governance issues serious and popular concerns in Indonesia. The event has shown that one of fundamental factors causing the crisis is the ignorance of GCG principles (Arafat, 2008).

The survey conducted by La Porta, Lopez, Shleifer, dan Vishny during 1998-2000 classified Indonesia as the country which having low level of good corporate governance implementation. The survey corresponds to the survey conducted by Price, Waterhouse & Coopers in 1999 on the Investors in Asia which is able to illustrate how corporate governance is applied in many Asian countries. Meanwhile, the Asian corporate governance Association states that compared to nine Pacific Asian countries, the GCG level in Indonesia is still the lowest during 2000-2004. From the survey reuslt we can be seen that our country is the lowest level in implementing GCG.

One sector included in the ignorance on the implementation of GCG practices is national banking sector. According to Husnan (2000), there are many experts posing that the weakness in the implementation of corporate governance on banking industries in the developing countries such as Indonesia is one of the factors leading to the economic deterioration during 1997-1998. The deterioration of GCG principles implementation in Indonesia is depicted by Published Survey of Views of Institutional Investors in Singapore (2002) which stated that Indonesia belongs to the worst performers in implementing GCG principles.

Hawkins (1999) explained that the fragility of banking sector is indicated by some banking key indicators in 1998 which were in the worst condition. That time, the performance of national banking industries were worse compared to those of many Asian countries which also were experiencing economic crisis, such as South Korea, Malaysia, Phillipines, and Thailand.

The condition was worsened by the big scandals in national banks that had decreased the people's trust on those intermediate institutions. Arafat (2008) noted that the amount of financial losses caused by banking fraud during 1999-2005 were 6.3 trillion IDR and 153 million USD. Such financial losses could not have happened or at least been reduced if the national banks had applied the following principles: prudential principles, internal control, risk management, dan business ethics. In other words, the banks should implement GCG well and correctly.

GCG practices are important for the banking sector since the sector is one of dominant pillars in the economic growth of a nation. The healthy banking management will help nation to grow, through the appropriate mobilization of financial resources and its usage. Without principles such as transparency, accountability, responsibility, independency, and fairness, the robustness of national banking will not be assured. Hasan (2001) stated that GCG principles (fairness, responsibility, transparency, dan accountability) will encourage value drivers (for example, net interest margin, cost to income, risk management, asset quality, fee-based income, etc) to perform better as the corporations are managed with the best practices which in turn will increase the corporations' value creations.

Another important issue which is able to influence market value of the firm is the form of ownership. Wahyudi and Pawesti (2006) stated that the ownership structure is believed to be able to influence a company's progress which eventually will also influence the company's performance in maximizing its corporate value. The studies on state ownership conducted by La Porta et. al. (1999), Kusumawati (2007) and Fauziah (2011) found that the government ownership has negative impacts on the corporate performance. The government slows the performance down because it has not been able to manage the company well. Even the government may intervene the performance for the sake of its interests.

2. THEORY AND HYPOTHESES DEVELOPMENT

2.1. Corporate Governance Concept

The main theories related to the corporate governance concept are stewardship theory dan agency theory. Stewardship theory views management as a trusted party to perform best for the shareholders' interests. On the other hand, the agency theory considers the management as 'the agent' for the shareholders that will consciously act for its own sake, not as a wise party and be fair with the shareholders.

Corporate governance develops based on the agency theory in which the corporate governance must be monitored and controlled to ensure that the governance is performed according to the rules and policies. Corporate governance is a set of relationships among corporate governance, committee, the shareholders, and other parties who have interests with the company. World Bank defines good corporate governance as a set of laws, rules, and policies which must be followed in order to motivate the corporate sources to perform efficiently, producing a long-term economic value which will be beneficial for the shareholders and the citizens.

In the academic literature, corporate governance is acknowledged as related to "the issues on the separation of ownership and control". According to Cadburry committee, GCG is a set of principles which guides and control a company to reach the balance between the power and the authority of the company in giving its accountability especially for to the shareholders, and to the stakeholders generally. In this case, the implementation of GCG is aimed to create additional value for the involved parties.

Syakhroza (2002) defines corporate governance as a system used by "the committee" to guide, control, as well as monitor the good governance of corporate resources based on transparency, accountability, responsibility, independence, and fairness in the attempts for reaching the corporate goals." Furthermore, Syakhroza (2003) stated that corporate governance consists of six elements, namely are:

1. Focusing on the board,
2. Employing the laws and the rules as the means for leading and controlling.
3. Governing the corporate resources efficiently, effectively, economically, and productively (E3P).
4. Transparency, accountable, responsible, independent, dan fairness (TARIF).
5. The organizational goals
6. Strategic control.

National committee on Corporate Governance (2004) stated that as a intermediate, trusted institution, bank must follow the transparency principle, own the performance measurement from every bank based on the measurements consistent to the corporate values, corporate goals and strategies as the reflection of bank accountability, hold the prudential banking practices and ensure the implementation of the policies as the manifestation of bank responsibilities, be objective and free from any pressures in making decision (independency), and always recognize the stakeholders' interests based on the fairness principle.

2.1.1. Transparency

Transparency means open information, both in the decision making process and disclosure of the material information which is relevant to the company. In realizing the transparency, a company must provide information which is adequate, accurate, and on time to the related parties and presents the financial reports as well as other information which are significant to the corporate performance. In addition, the investors must be able to access the critical information about the company when needed.

By implementing this principle, the stakeholders are able to know the possible risks in conducting transactions with the company. Besides that, transparency allows the market efficiency due to the information on the corporate performance which is reported accurately, on time, clearly, consistently, and comparably. If the principle is followed well and correctly, then the conflict of interest may be avoided.

2.1.2. Accountability

Accountability is one of primary solutions for handling agency problems between the shareholders and the management or between the management and the stakeholders. Accountability can be realized by an effective control which is based on the balance of power among the shareholders, the board of commissioners, and the director. The director is in charge of daily operations while the commissioners accompany the shareholders in monitoring the company's progress. In this context, the relationship between the commissioners and the director implicitly is one of the corporate governance's domains which should be performed well. With accountability, the clarity of the function, structure, system and the responsibility of the company can be achieved so the corporate governance can be implemented effectively.

In Indonesia, the recurring problem is the malfunction of the commissioners or when the commissioners take the roles and the authorship of the director. In this case, accountability demands the clarity of the functions, rights, duties, authorities, and the responsibilities of the shareholders, the commissioners and the director. With the clarity, the company will avoid the agency problem (the clash of the roles' interests).

2.1.3. Responsibility

Responsibility encompasses those related to the fulfillment of the company's social duties as part of society, such as the development of the community environment. Responsibility is also related to the director's responsibility on the managerial aspects of company, such as the attempts for cost efficiency, competitiveness improvisation, exploration for any potential profits, etc (Corporate governance in APEC, December 1998). By implementing this principle, it's expected the company realizes that in its operations it oftens produces negative impacts on the society and help the government reduce the gap between the people's income and job chances for the people who have not received the benefits of the market mechanism.

2.1.4 Independency

GCG will be well realized if the company managed independently so that every part of it will not dominate each other and cannot be intervened by any external party. The presence of an independent commissioner is essential for supporting such realization. The independent commissioner may help planning the corporate long term strategies and review the implementations frequently.

In Indonesia, KNKCG organizes the availability of an independent board of commissioners. KNKCG stated that a board of commissioners has the responsibility and authority to monitor the director's policies and the activities as well as provide advices when needed. In order to increase the effectiveness and transparency on the board's considerations, the members of the independent commissioners are at least 20% of all members. The independent board of commissioners must be independent from the directors and the shareholders and has no personal interests which affects his ability to do its duties fairly and for the sake of the organization.

2.1.5. Fairness

Fairness is a fair, equal treatment in fulfilling the stakeholders' rights which were determined by the agreements and the rules. With this principle a company must be able to ensure the protection for the shareholders' rights, including the minor shareholders' and the foreign shareholders' ones. The framework of corporate governance designed in the company must be able to ensure the fair treatments for all shareholders, including the minor and the foreign ones. All of the shareholders must own chances to receive compensation every time their rights are violated. This principle also encourages an equal treatment on the stocks in the same level, forbids insider trading or slef-dealing, and have the members of the board to be open when some suspicious transactions are found.

There are many studies concerning the effects of implementing GCG on company's market value. Bai et. al. (2004) examined the relationship between the implementation of corporate governance and the market value of some companies that go public in China. Corporate governance variabel was constructed in an index consisting of internal mechanisms (board of directors, executive compensation, ownership structure, dan financial transparency) and the external mechanisms (the market for corporate control, legal infrastructures and protection of minority shareholders, dan product market competition). The results show that the corporate governance variable statistically significant impact on the company's market value.

Black et. al. (2003) examined the impact of the GCG implementation on the companies' market value in Korea. The results show that corporate governance was statistically significant on the companies' market value. Chahine (2004) studied the relationship between the corporate governance variable and the companies' market value which go public in small to middle scales in Nouveau. The results show that the corporate governance mechanisms statistically had significant impacts on the market value or the company.

In indonesia, there is a number of studies on GCG. Isgiyarta and Tristiarini (2005) studied the effects of implementing corporate governance principles on the abnormal return in the financial reports announcement. The results show that the implementation of the corporate governance principles namely transparency, fairness, accountability, and responsibility had significant effects 0n the abnormal return. Mayangsari and Murtanto (2002); Sulistyanto and Linggar (2002); and Simanjuntak (2002) also revealed the GCG roles in increasing the corporate values. Unlike others, the studies by Darmawati (2003) on the manufacturing organisation and Sukmawati (2004) on the organisation in financial sector found the diverse proofs that the GCG implementation had no positive effects on the market value of companies.

From the previous studies, empirically its proven that the investors are willing to give a rather high premium to the companies which employ *corporate governance* principles consistently (Lukuhay, 2002). The increment of stock prices can be seen by the presence of the abnormal return, particularly the increment of stock prices as the result of the increment of the investors' trust caused by the GCG implementation.

2.2. Proportion Of Government (State) Ownership

Some studies show that the government's ownership on banks has not guaranted that its performance is better than the non-government's. There is a number of national banks which are technically almost bankrupt due to their poor performances, but due to "owned by the government", they still survive. The basic inquiry on such issues is does the government still need to own banks or even expand its ownership? the issues can be reviewed in the context of agency conflict. Jensen and Meckling

(1976:305-360) posed that individuals have self interest behaviors. Its implications can be seen in the owner who gives his authority to the management to run the company.

More serious problems may occur when the government acts as both player and supervisor. The government have all of the roles: regulator, supervisor, bank owner, creditor, obligor, customer bank depositors, and Deposit Insurance Corporation (Indonesian: LPS). With such numerous roles, the agents can perform any possible manuevers in order to acquire bigger profits for themselves instead for the principals (people as the owners). If each agent's acts is based on self-interest, according to the game theory, whatever the scenarios of the conflicts between multi-agents versus the principals, it could be predicted that the game will not be fair (Kaaro dan Mahadwartha, 2007).

Kaaro dan Mahadwartha (2007) show that the government's ownership on banks and multi-roles as the agents in banking industries potentially increase the damages of the major people as the principals. Based on the agency theory, maintaining the government's ownership on corporations will likely to increase denasionalism. The theory shows the controversy that nationalism is not identical with the government's ownership on corporations, but how the corporations are able to increase the people's prosperity.

The perspective of governance aspect states that the private corporations are more successful in handling the *corporate governance* issues compared to the government's corporations. Their superiorities are based on the better performances in handling the contract and incentives especially in its function as the driver of the corporate efficiency. Based on the explanation above it can be concluded that the government's ownership on the banks and equity participation have negative impacts on the banking industries' market values.

A study related to the impacts of the government's equity ownership on the company's market value was conducted by Wei et. a. (2005) in china government's corporations which were privatized during 1991-2001. The result shows that the government's equity ownership significantly has negative impacts on the company's market value. Barth, Caprio Jr and Levine (2001), with the empyrical data from 60 countries, show the negative correlation between the government's ownership on banks and the financial development. The countries whose government's ownership is bigger have the tendency to own little developing banks.

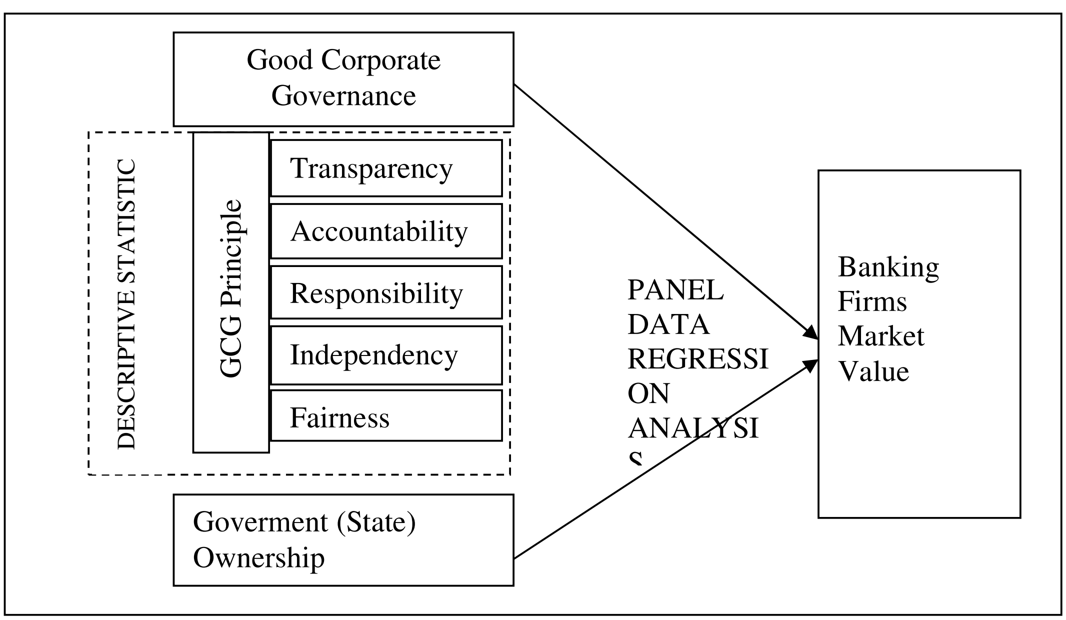
La Porta, Lopez-de-Silanes dan Shleifer (1999) tested the relation of the government's equity participation and the financial development and its results correspond to the results of Barth, Caprio Jr dan Levine (2001)'s work. They show that the government's equity participation actually slows down the progress in financial sector. Marciano (2008) stated that the government's corporations controlled by bureaucrats have political interests, not for the prosperity of the corporate or even the people. This would lead to the reduction of the government control over the corporation managers.

Kartikawati (2007) and Fauziah (2011) stated that the concentration of the government's ownership has negative impacts on corporate performance. The government may slow it down because it cannot manage the organization well. Even the government may intervene the performance for the sake of its self-interest.

2.3. The Logical Framework And Hypotheses

The logical framework of this study is shown in Figure 2.1.

Figure 2.1: Logical Framework Of Study



Based on the background, objectives, literary reviews and the theoretical background as explained before, the hypotheses to be tested in this study are as follows.

H1. The implementation of good corporate governance significantly and positively influences the banking firms market value.

H2. The government's ownership significantly and negatively influences the banking firms market value.

3. THE RESEARCH METHODOLOGY

3.1. Population And Sample

The population used in this study consists of the banks which listed in Indonesian Stock Exchange per 31 December 2009 until 31 December 2013. The sample consists of the public banks which meet these criteria:

1. Enlisted in BEI during 2009-2013 periods.
2. Providing the financial reports ranged from 2009-2013.
3. Publishing the auditor financial statement with the book year which ended on 31 December for each observation period.
4. Providing stock prices data during estimation and observation phases.

3.2. Types Of Data

The data used in this study are panel data which combined time series and cross section. The types of data are primary and secondary data. The primary data used are the GCG implementation index of each bank from 2009-2013. The data was obtained from the content analysis of the GCG implementation information which was disclosed in the annual report according to Annual Report Award (2007) criteria with some simplification and adjustment to the nature and the characteristics of the banking corporations. The secondary data was obtained from the financial report published during 2009-2013. The market value data of the banks were obtained from the results of calculation using Tobin's Q corporate market value equation.

3.3. Measurements And Definition Of Operational Variables

The study employed two independent variables (GCG, and the proportion of the government's ownership) as well as a dependent variable (market value of the firm). The following are the description and measurement of each variable.

1. Market value (MV)

   Market value is the wealth value which cannot be found in the balance sheet, such as good governance, good reputation, and bright prospects. This ratio provides indications for the banking corporations' governance about the investor's assessment on the corporate performance in the past and the future prospects. The ratio is measured with Tobin's Q. Some researches using Tobin's Q as the proxies of corporate value are Chong and López-de-Silanes (2006) and Darmawati et.al. (2004).

   The Tobin's Q ratio used in this study corresponds to the work of Darmawati et.al. (2004: 391-407) which is calculated with the equation:

$$\text{Tobin's Q} = \frac{\text{Market Value of Equity + Book Value of Liabilities}}{\text{Book Value of Assets}}$$

2. The implementation of GCG (GCG)

   The implementation of GCG is represented by the information disclosure concerning the implementation of GCG in banking annual report which is realized in GCG index. The instrument used for generating score is the SIMAK list of the fullfilment of information disclosure on the implementation of GCG which refers to the Annual Report Award 2007 (ARA 2007) criteria. GCG index obtained is compared to the maximum score of each classification, multiplied by the weight of each classification of ARA criteria. ARA 2007 consists of 8 classifications: General (5%), the summary of important finance data (5%), the reports of the board of commissioners and the board of directors (5%), the company profile (5%), the management analysis and discussion on the management performance, good corporate governance (30%), financial information (20%), and others: The GCG practices which are beyond criteria (maximum of +5%) and bad corporate governance which is not included in criteria (maximum of -5%).
   The measurements of each GCG principle in this study are as follows:

1. Transparency, measured by using the scores of implementing transparency principle (ARA criteria) and PBI no: 3/22/PBI/2001, PBI no.8/14/2006, the GCG guidence by Indonesian banking-National committee on Corporate Governance (Indonesian: *Komite Nasional Kebijakan Corporate Governance (KNKCG)*). The total score, if all requirements are met, is 40 points.
2. Accountability, measured by the information disclosure in the annual report on the organizational structure, the board of commissioners, the board of directors, the audit committee, the nominations committee, the remuneration committee, risk policy committee, and other committee, the compliance officers and the corporate secretary. The total score, if all of information disclosure elements on the implementation of accountability are met,is 32 points.
3. Responsibility, measured by the cost related to the company's social duties on the community. Total score, if all of information disclosure elements on responbility in the annual report are met, is 10 points.
4. Independence, measured from the amount of the proportion of the independent commissioners in each bank. Total score, if all of information disclosure elements on independence are met, is 2 points.
5. Fairness is measured from the information disclosure on the results of the general meeting of shareholders (Indonesian: *Rapat Umum Pemegang Saham (RUPS)*) and the extraordinary general meeting of shareholders (*Indonesian: RUPS Luar Biasa (RUPSLB)*) held by the banking corporations and the fairness score of the financial report presented by the independent auditor to a given bank. The total score, if all of information disclosure elements on the implementation of this principle are met, is 6 points

3. The proportion of govenrment's ownership (GOV_SHARE)

   It describes the amount of the proportion of govenrment's equity ownership on banks in the form of stocks ownership in the name of government or through banking recapitalization on behalf of Indonesian Bank Restructuring Agency (Indonesian: Badan Penyehatan Perbankan Nasional (BPPN)), Assets Management Corporation (Indonesian: PT. Perusahaan Pengelola Aset/PPA) or Finance Minister. The variable is calculated with the following formula:

$$\text{GOV\_SHARE} = \frac{\text{Government capital stocks}}{\text{Total capital stock of company}} \times 100\ \%$$

The following is the spesification of panel data regression analysis empirical model which will be used:

$$MV_{it} = \beta_1 + \beta_2 GCG_{it} + \beta_3 GOV\_SHARE_{it} + \varepsilon_{it}$$

where:

1. it represents panel data in which i represents banking corporation and t represents time period,
2. β_1 adalah constanta,
3. β_2 β_3 are the parameters of independent variables, and
4. ε is the resistance level.

4. THE RESULT OF DATA ANALYSIS

4.1 The Descriptive Statistics

Table 4.1: Descriptive Statistic

	TRANSP	ACUNT	RESPONS	INDEPENDEN	FAIR	GCG	GOV_SHARE	MV
Mean	32.44950	23.60333	6.283333	1.641667	5.300000	0.708742	14.08774	1.119625
Median	32.07500	24.00000	7.000000	2.000000	5.000000	0.765050	0.000000	1.104500
Maximum	38.85000	32.00000	10.00000	2.000000	6.000000	0.939200	99.11210	1.674000
Minimum	26.00000	12.00000	2.000000	0.000000	4.000000	0.400400	0.000000	0.833000
Std. Dev.	3.743926	5.060158	2.682603	0.498668	0.705322	0.154506	27.10666	0.113085
Skewness	-0.007912	-0.068556	-0.120925	-0.793998	-0.493498	-0.448913	1.707687	1.186162
Kurtosis	1.631311	2.008698	1.660884	2.124096	2.112080	1.814312	4.507605	7.222024
Jarque-Bera	9.367807	5.007394	9.258616	16.44470	8.812816	11.05973	69.68827	117.2671
Probability	0.009243	0.081782	0.009762	0.000269	0.012199	0.003967	0.000000	0.000000
Sum	3893.940	2832.400	754.0000	197.0000	636.0000	85.04900	1690.529	134.3550
Sum Sq. Dev.	1668.021	3047.019	856.3667	29.59167	59.20000	2.840765	87437.76	1.521792
Observations	120	120	120	120	120	120	120	120

Based on table 4.1, GCG principles implementation in Indonesia's banking sector during 2009-2013 are as follows:

1. Tansparency, the lowest score of 26.00, the highest score of 38.85, the mean score of 32.4495, dan the standard deviation score of 3.7439. Its show that the banking firms have good transparency, although there are still wide gaps in disclosing the implementation of transparency principle which is represented by the information disclosure in the annual financial report about the bank profile and ownership, the summary of important financial report, the detailed financial information, the management analysis and the discussion about the bank performance, the explanation of risk management, internal audit and control as well as any important events which influence bank conditions, the easy access to information and bank data, and the punctuality of the financial report.
2. Accountability, with the lowest score of 12.00, the highest score of 32.00, the mean score of 23.6033, and the standard deviation score of 5.0601. Its shows that most of banks have disclosed the information about its organizational structures, the availability and the functions of the board of commisioners, the board of directors, the audit committee, the nomination committee, the remuneration committee, the corporate secretary, the risk policy committee, and other committee owned by the banks. But from its relatively high standard deviation score it can be seen that there are still wide gaps among tne banks in announcing the information which reflects the implementation of the accountability principle.
3. Responsibility, with the lowest score of 2.00, with the highest score of 10.00, the mean score of 6.2833 above the median score and the standard deviation score of 2,62603. Its shows that most of public banks have disclosed the information concerning the bank’s responsibilities towards the principals and the environment in its annual financial report.
4. Independence, with the lowest score of 0.00, the highest score of 2.00, mean score of 1.6416 and the standard deviation score of 0.4986. Its shows that most of the banks have disclosed information that their corporations have independent board of commissioners and that board also lead the audit committee as prescribed in Indonesian Bank policies number 8/14/PBI/2006 on the implementation of GCG to general banks and the guide of GCG banking.
5. Fairness, with the lowest score of 4.00, the highest score of 6.00, the mean score of 5.30, and the standard deviation score of 0.7053. Its shows that most of the banks have disclosed the information about the results of RUPS and RUPSLB and the financial reports which are presented receive both qualified opinion and unqualified opinion.
6. GCG index, with the lowest score of 0.4004, the highest score of 0.9392, the mean score of 0.7087 and standard deviation score of 0.1545. Its shows that most of the banks have implemented GCG, although there are few that have low GCG implementation with the lowest index score of 0,4004, far behind the banks that implement GCG with the index scire of 0,9392.
7. Market value, with the lowest score of 0.833, the highest score of 1.674, the mean score of 1.1196 and the standard deviation score of 0.1130. Its shows that most of public banks have market value above 1.00. It indicates that there is a prospect of growth for the banking firms in Indonesia.

4.2 The Panel Data Analysis And Discussion

Random Effect method was employed in this study. The reason was due to t = 5 year and n = 24, where T < N. Using Eviews 8 software, the estimation on regression model produced some coefficient value and parameter of each variable which is presented as follows:

Dependent Variable: MV?
Method: Pooled EGLS (Cross-section weights)
Date: 09/07/14 Time: 19:42
Sample: 1 5
Included observations: 5
Cross-sections included: 24
Total pool (balanced) observations: 120
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.977768	0.032845	29.76949	0.0000
GCG?	0.181027	0.043440	4.167265	0.0001
GOV_SHARE?	0.000962	0.000351	2.744467	0.0073
Fixed Effects (Cross)				
ABKB--C	0.004055			
BABP--C	-0.086261			
BBCA--C	0.040274			
BBIA--C	0.081909			
BBNI--C	-0.123812			
BBNP--C	-0.020777			
BBRI--C	0.047221			
BCIC--C	0.101258			
BDMN--C	0.068545			
BEKS--C	0.028508			
BKSW--C	-0.018732			
BMRI--C	0.015331			

BNGA--C	0.025349		
BNII--C	-0.017865		
BNLI--C	-0.010629		
BSWD--C	-0.013211		
BVIC--C	-0.052471		
INCP--C	-0.059414		
LPBN--C	-0.040565		
MAYA--C	-0.053094		
MCOR--C	0.038410		
MEGA--C	-0.006262		
NISP--C	0.004929		
PNBN--C	0.047303		
	Effects Specification		
Cross-section fixed (dummy variables)			
	Weighted Statistics		
R-squared	0.708374	Mean dependent var	2.208178
Adjusted R-squared	0.630814	S.D. dependent var	1.641765
S.E. of regression	0.099867	Sum squared resid	0.937501
F-statistic	9.133246	Durbin-Watson stat	2.076858
Prob(F-statistic)	0.000000		
	Unweighted Statistics		
R-squared	0.346968	Mean dependent var	1.119625
Sum squared resid	0.993779	Durbin-Watson stat	1.914888

From the result of regression estimation, a regression model equation was derived:
MV = 0.9777 + 0.1810*GCG + 0.0009*GOV_SHARE + ε_{it}
The equation shows:

1. The GCG regression coefficient is 0.1810, which means that every 1% increment in the value of GCG implementation causes 0.18% increment in the bank's market value. This result corresponds to the ones of similar studies done by Bai et.al. (2004), Chahine (2004) and Black et.al. (2003) as well as Indonesian authors, Isgiyarta and Tristiarini (2005). The GCG implementation means a lot for the banks to promote better performance and increase corporate value as explained by Thager et. al. (2003) that, theoretically, GCG practices can increase corporate valuation by improving financial performance, reducing possible risks caused by the committee's decisions based on their self-interests.
2. The regression coefficient of the proportion of the government's ownership is 0.0009, which means that every 1% increment of the proportion of the government's ownership will cause 0.0009% increment of the bank's market value. In the case of public banks in Indonesia, the proportion of the government's equity participation on a national bank or private one gives statistically positive and significant influences on the bank's market value. The result of the estimation in this study does not correspond to the work by Wei et, al, (2005) which concludes that the government's equity participation give significant, negative influence on the company's market value (Tobin's Q). In this study the amount of proportion of the government's equity participation are not only from the equity participation but also capital injection in the attempt of recovering national banks towards the private banks which experience capital problem through the recapitalization of banks to recover the banking equity. The program is assumed to be welcomed positively by the capital market in Indonesia although in its implementation there are pros and contras.
3. Based on the t-statistic test, by comparing t-test and t-table it can be derived that: first, the GCG implementation on each bank positively and significantly influences the bank's market value. It was shown with the value of t-test > t-table (4.1672 > 1.711) that H0 is rejected and H1 is accepted. Second, the proportion of government ownership on each bank significantly and positively influence on the bank's market value. It is shown with the values of t-test > t-table (2.7444 > 1.711), that H0 is rejected and H2 is accepted.
4. f-statistic test was used to examine the relationships among independent variables and dependent variable. It was performed by comparing f-test and f-table. The result shows that the value of f-tests 9.1332 while the value of f-table is 3.01 (9.1332 > 3.01). Therefore it can be concluded that H0 is rejected, or, in other words, along with the GCG variables, the proportion of government equity and the form of government ownership significantly influence the bank's market value.
5. The value of R^2 coefficient is 0.6308. It means that approximately 63.08% of the bank's market value can be defined by the variation of GCG implementation, the proportion of the government ownership, while the remaining, 36,92%, is defined by the factors beyond the scope of the study.

5. CONCLUSION

First, due to the implementation of GCG principles, descriptive statistic result show that generally the implementation of transparency, accountability, responsibility, independence, and fairness in the banking firms are good enough although there are gaps among the banks marked by the standard deviations which are relatively significant, especially on transparency and accountability principles. Second, the analysis results with multiple regression show that the GCG implementation positively and significantly influence the banking market value. In other words, the variable has an important role in increasing the banks' market value. Third, the proportion of government ownership positively and significantly influence the banks' market value. The variable has an important role in increasing the banks' market value.

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