© 2017 IJSRST | Volume 3 | Issue 4 | Print ISSN: 2395-6011 | Online ISSN: 2395-602X
Themed Section: Science and Technology

Study of Corporate Governance and Company Growth : In Manufacturing Companies Listed In Bei for the Year Ended 2013

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ABSTRACT

This paper studied a life cycle analysis was performed to identify differences in corporate governance characteristics of "initial growth", "maturity" and "revival" firms, since third groups face the same challenge of dealing with increasing sales, customers, product and innovation. The population consisted of 147 manufacturing companies listed in Indonesia Stock Exchange. Sample consisted of 42 manufacturing companies using purposive technique. Data collection was done by analyzing the financial statements and note to financial statements. The result indicate that initial growth firms had lower corporate governance scores when compared to other firms. Revival firms showed higher scores, indicating that a well developed system of corporate governance added a much needed synergy for growth. Finally, a regression analysis indicated that certain fundamental characteristics such as Board Structure, Audit Committee role and disclosure were equally well for growth and revival firms, but other corporate governance features such as Board Operation and Effectiveness were much better elaborated for revival firms.
Keywords : Corporate Governance Characteristics, Growth Companies And Life Cycle.

I. INTRODUCTION

After the economic crisis that occurred in 2008, countries in Asia began to realize the importance of implementing good corporate governance. However, the development of the implementation of corporate governance is still uneven, as indicated by the fact that many companies are unsure of the benefits of corporate governance, weak institutions (capital market, legal system, investors), weak law enforcement and Regulations, and still lack of accountants and other professionals. Therefore, it should be realized by all parties that improvement in corporate governance in Asia takes time and patience.

Corporate governance is important because it promotes the efficient use of resources both within firms and larger economies, and helps companies and economies attract investment capital-lower costs through increased investor and creditor trusts, both domestically and internationally. They also suggest that it helps in enhancing the company's responsiveness to community needs and expectations in improving the company's long-term performance. In other words, company performance is perhaps reflected in the way companies are managed and the effectiveness of corporate governance structures (Roszaini Haniffa and Mohammad Hudaib, 2006).

This research had previously been studied by Vinita R., C. Joe Ueng and Lee Carl in 2008, the results of his research showed that early growth companies had lower corporate governance scores when compared to other companies. The revival firms show higher scores, suggesting that systems developed with good corporate governance add a much-needed synergy to growth.

II. METHODS AND MATERIAL

A. Literature Review

Company Growth and Strategy

The growth rate of a company will show how far the company will use its debt as a source of financing. Companies with high potential future growth rates and high market capitalization thus allowing companies to have low capital costs Sriwardany, (2008).
Vinita R., C. Joe Ueng and Lee Carl (2008) explains that the organizational life cycle model shows that the firm moves predicted through a sequence of developmental

stages over time. This stage is natural selection, and not easily aborted. Each stage can clear its boundaries and involve various organizational activities and structures. There are a number of models that describe the life cycle of a company, but most models divide the life of a company into five stages as follows:

1. Start-up: This is the initial stage in which a business organization is formed, raised funds, and a written business plan.
2. The Growth phase: products / services that are now being marketed, revenue increase, employment and growth of common assets.
3. Maturity: The organization of these markets and products has been fully developed, revenue growth has been leveled, there are profit margins, and debt burden.
4. The Renewal phase: With new management injection, new ideas, products and funds, the organization goes into second phase growth, once again leading to higher revenues and products.
5. Decline: Due to changes in economic conditions, people or markets, sales and profits may decline. Negative cash flow and shrinking market can cause the company to exit the field.

Different stages in the life cycle of a company require changes that match the company's goals, strategy, planning, organizing, controlling, technology and even the culture of the company. The growth phase is usually the most demanding area of panic, where the company identifies new products, new markets, new financing sources and strategies, as it is constantly changing. This is usually identified with major chaos as companies try to cope with changing outlook on business. The focus of the organization is to create customer value, marketing strategy, product / service innovation and cost control. In this stage, corporate governance is a necessity, not a competitive tool Vinita R., C. Joe Ueng, Lee Carl, (2008).

Corporate Governance (Corporate Governance)

In 2004, The Organization for Economic Co-operation and Development (OECD) defines corporate governance as follows:

"Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, the managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions and corporate affairs. By doing this, it also provides the structure through which the company objectives are sets and the means of attaining those objectives and monitoring performance "

The main purpose of good corporate governance is to provide adequate protection and treat shareholders and other interested parties fairly. A recent study by Institutional Shareholder Service (ISS) found that corporate governance is not just a compliance goal, it has now become a major business imperative. The company found that a good system of corporate governance has increased again, providing better risk management, enhancing investor satisfaction and reputation, and providing better access to capital markets. According to ISS research, respondents estimate the increasing importance for corporate governance Vinita,

C. Joe Ueng and Lee Carl, (2008).

This is a cyclical process that requires ongoing management engagement for the company to fully realize the advantages of the corporate governance framework. In a rapidly changing environment of growth, high risk and uncertainty, the managerial focus on developing effective strategies for competitive advantage, innovation and market positioning. A company may not have the time, resources or leadership to formulate and institutionalize an effective corporate governance corporate policy, with all the accompanying details. This study discusses the corporate governance policies of high growth companies compared with the control group to test the hypothesis that there is a clear distinction in the characteristics of corporate governance between groups. A life cycle analysis shows that firms experience rapid growth twice: once during their initial growth stage, and then during the renewal phase. Therefore, companies are segregated according to their life cycle stages, and the characteristics of corporate governance are compared for firms at different stages of the life cycle Vinita, C. Joe Ueng and Lee Carl, (2008).

B. Research Methods

Population and Sample

The population in this study is a manufacturing company listed on the Indonesia Stock Exchange (IDX) in 2013. Based on the information obtained by the number of manufacturing companies listed on the Indonesia Stock Exchange is 147 companies. Sampling method used is purposive sampling method, where the selected sample carefully until relevant with certain criteria. So the sample in this study amounted to 42 manufacturing companies listed on the Stock Exchange.

Technique Data Collection

Data collection techniques used in this study is literature study (Library Research), the technique of collecting data and reviewing the literature-related issues discussed for clarity in the preparation of the theoretical basis used as a foothold in problem solving. Data obtained by visiting the Indonesia Stock Exchange (BEI) or obtained through the website www.idx.co.id.

Data Analysis Method

1. Descriptive Statistics

Descriptive statistical methods provide a description or description of data seen from the mean (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis and skewness (kemencengan distribution).

2. Measuring the life cycle / life cycle of the company

Vinita R., C. Joe Ueng, Lee Carl (2008) explained that based on the above variables, life cycle scores were developed for each company in high growth, median growth and low growth samples, as follows:

$$LCSC = SCYL + SCSG + SCDV + SCCI + SCCF$$

This study using the LCSC model is the Life Cycle Score from Vinita R., C. Joe Ueng, Lee Carl (2008):
A. Years of life (SCYL), the early growth phase (early growth) occurs at the beginning of the life cycle, then there is a revival.

5 - 10 years = score 1
11-15 years = score 2
> 15 years = score 3

B. Sales growth (SCSG), ie the growth of the company will increase sales growth, mature companies and the decline of the company will have a decrease in sales growth.

3 years firm sales growth - average industry sales growth
Get a score of 3 if above 33%, 2 if 33% and 1 if below 34%.

C. Dividends (SCDV), which will pay very little dividends. Mature and revival companies will continue to pay higher dividends to avoid possible news of decline.

Firm dividends - industry average of dividends
Get a score of 3 if above 33%, 2 if 33% and 1 if below 34%.

D. Capital investment (SCCI), the revival company will have the resources to invest and will further grow the company. Cash investment from statement of cashflows

Get a score of 3 if above 33%, 2 if 33% and 1 if below 34%.

E. Cash flows (SCCF), ie the company's growth has positive operations, financial and negative investments. The revival firm must have a high positive operating flow. Operating cash flows - (investing + financing cash flows)
Get a score of 3 if above 33%, 2 if 33% and 1 if below 34%.

III. RESULTS AND DISCUSSION

Descriptive statistics

Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Company Growth	42	,0328509	59,6698803	7,408891980	14,1625210406
CG (corporate governance)	42	29,75922	60,41466	41,6548883	7,12491488
Valid N (listwise)	42				

1. The variable growth of the company shows the amount of data (N) there are 42 and has the smallest

value (minimun) of 0328509 is in PT Eratex Djaja Tbk. (2013) and a maximum value of 59,669,8803 to PT Kedawung Setia Industrial Tbk. (2013). The growth of the company has an average value (mean) of 7.408891980 with a standard deviation of 14.1625210406.

2. Corporate governance variables show the amount of data (N) is 42 and has the smallest value (minimum) of 29.75922 at PT Nusantara Inti Corpora Tbk. (2013) and a maximum value of 60.41466 at PT Kimia Farma Tbk. (2013). Corporate governance has an average value (mean) of 41.6548883 with a standard deviation of 7.12491488.

Analysis of Corporate Growth Data and Life Cycle

From cluster analysis to enterprise growth and life cycle data, the firms are ranked according to their life cycle scores in each growth sample. If above 33% are in the revival phase, 34% are in the maturity stage and 33% is in the "initial" growth stage. Companies with a life span of less than 5 years, and not paying dividends in the annual report are not included because they will be in the start-up phase or declining stage. Corporate governance scores are then calculated for each firm in the growth sample. Based on the previous calculations, six groups of companies from the sample that is, 58 companies identified as follows:

Results of Company Growth Analysis and Life Cycle

Growth/Life Cycle	High Growth	Median Growth	Low Growth
Initial Growth	1	2	25
Maturity	0	1	10
Revival	0	0	3

As for the results of the above group of companies then obtained the average value on the company of each group, as follows:

Result of Average Company Growth and Life Cycle

Growth/Life Cycle	High Growth	Median Growth	Low Growth
Initial Growth	28,23	51,03	2,99
Maturity	0	59,67	3,35
Revival	0	0	4,28

The average value is derived from calculations on the growth of the company, where the results are divided by the number of companies that have been grouped in table 2 above.

Discussion

The purpose of this study is to know the characteristics of corporate governance from corporate growth, to determine the effects of a company's life cycle / life cycle on corporate governance, and specifically examine differences in the various components of corporate governance. Companies are classified according to their growth rate and life cycle position with the company's growth as independent variables. Hypothesis testing is used to test the significance of all groups, while cluster analysis has been done to know the groups in the sample manufacturing companies. Where from the cluster analysis shows the following results:

1. The corporate governance score for high growth in initial growth is significantly lower than that of maturity growth companies in the median growth. This shows that corporate governance scores on firms with high growth characteristics are lower than those of other firms.
2. Corporate governance scores on revival companies score higher than other firms.
3. Corporate governance scores on the company's initial growth show uneven progress on the corporate governance element compared with revival company score.

Companies in low growth across all phases in three lifecycles have the lowest corporate governance score. And in high growth / corporate maturity has the highest score among all groups in the low growth phase. The results of this study are similar to the research conducted by Vinita Ramaswany, C.Joe Ueng, and Lee Carl (2008).

IV. CONCLUSION

This study examines the characteristics of corporate governance in the company's growth in three stages of their life cycle, namely initial growth, maturity and revival. Cluster analysis shows that initial growth firms have lower corporate governance scores compared with slower corporate growth, while revival firms have the highest scores compared to maturity firms, and company growth is slower in the initial phase. This suggests that faster revival companies are growing fully utilizing the advantages of a well-developed corporate governance system to improve their growth strategy.

A further analysis of the specific characteristics of a corporate governance system demonstrates that certain basic features of corporate governance, such as Board structure, composition, and Audit committees and the transparency and disclosure used by most firms, many of these features are mandatory requirements of exchange rules but In this study had no significant effect. Other features in corporate goernance such as board operation and effectiveness show significant differences in company growth.

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