TEST OF CORPORATE GOVERNANCE CLASSIFICATION WITH MARKET VALUE

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Abstract
This research constructs a proxy of corporate governance using price spread approach. Price spread approach will divide each market activity into price premium and price discount. The price premium will have sufficient governance practices then price discount therefore price premium firms have higher market value then price discount firms. The relationship of the corporate governance index then tests with market value of the firm. This research argues that price spread (bid and offer) will justify the corporate governance practices. However, the proxy not yet tests with firm’s market value that viewed by shareholders as their wealth. This research uses Indonesian listed firm from 1995 to 2007. This research suggests that corporate governance proxy will summarize the information contained in the corporate governance practices therefore implied on market value of the firms. This research argues that investors pay a significant premium for well-governed firms, benefiting firms that improve their governance mechanisms.

Keywords: market value, corporate governance index, price premium, price discount

FINANCIAL REPORTING QUALITY AND COST OF CAPITAL

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Abstract
The aim of this research is to test and prove empirically: 1) do the accounting based quality attributes of financial reporting (accrual quality, persistence, and predictability and smoothness) and the market based (relevance value, timeliness, and conservatism) be the quality representation of financial reporting and different each other, 2) what are the determinants of the quality of financial reporting, and 3) do the quality of financial reporting influence the cost capital. The research used purposive sampling to obtain 141 listed manufacturing businesses from 2001 to 2006. The research used four data analysis techniques 1) auxiliary regression R2, 2) confirmatory factor analysis, 3) simple regression, and 4) multiple regressions. The results showed that from the seven attributes, there were five attributes that gave contribution for financial reporting quality i.e. accrual quality, predictability, smoothness, relevance value, and conservatism while the persistence and timeliness gave small contribution. The five attributes were different each other. The next analysis was factor analysis testing toward the five attributes that produced three formed variables i.e. accounting based financial reporting quality, market based financial reporting quality and quality of financial reporting. From the thirteen determinants, there were nine factors that produced significant influences i.e. operation cycle, sales volatility, firm size, firm age, loss proportion, leverage, environmental risk, institutional ownership, market concentration, and auditor quality, while the other three, which are liquidity, managerial ownership, and investment growth were not significant. The higher financial reporting quality of companies the lower cost of capital.

Keywords: Financial Reporting Quality, Determinant Factors, Cost of Capital.