

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