ABSTRACT

This study aims to empirically examine the effect of corporate governance on financial performance and financial distress. The existence of the agency problem increased the attention on implementation of corporate governance practices to resolve the problems. A Corporate Governance Index has been constructed to assess the quality of corporate governance practices at a sample of companies listed on the Indonesia Stock Exchange. The constructed index is composed of categories which consist of four dimensions: disclosure and transparency, characteristics of board of directors and board of commissioners, shareholders' rights and relationship with investors, and ownership and control structure.

The population in this study consist of all non-financial firms listed on Indonesia Stock Exchange in 2014-2015. Based on purposive sampling method, this study takes 486 firms that used as final amounts of the samples. Tobin's Q is adopted in the current study to measure firm performance. At the same time, the Altman Z-score is used as a financial distress indicator. The Altman Z-score is used as a proxy of the converse of financial distress, which the lower the value of Z-score, the more likely a company is to go bankrupt.

Multiple regression analysis is used to analyze the first hypothesis, while logistic regression analysis is used to test the second hypothesis. The empirical result of this study show that corporate governance has positive significant relationship on financial performance, and has negative significant relationship on financial distress.

Keyword: corporate governance, agency problems financial performance, financial distress.