The Effect Of Good Corporate Governance, Motivated Behavior, Accounting Information System Implementation, And Real Earning Management Behavior On Company Performance (Study of Manufacture Companies that Go Public at Indonesia Stock Exchange)

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ABSTRACT

Research object is the manufacture companies that go public at Indonesia Stock Exchange. A reason why examining these manufacturing companies becomes quite attractive is because this sector is the key supporter to Indonesia economic and has been successfully providing employment in significant term. This research is aimed to provide empirical evidence, as well as to investigate and to explain the effect of Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior on company performance. Type of research is quantitative at explanatory level. Research design is a census with some criteria subjected against 173 manufacturing companies that go public at Indonesia Stock Exchange. Data analysis uses multiple regression analysis but the analysis is preceded by Method of Successive Interval to increase measurement scale. Result of testing indicates several findings. (1) Four independent variables such as Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior, are simultaneously, positively and significantly influential to the performance of Indonesia manufacture companies. The explained variance of company performance is rated for 64.1%; (2) All variables including Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior, are partially, positively and significantly influential to the performance of Indonesia manufacture companies; (3) Variable with the most dominant effect on company performance is motivated behavior; and (4) Good Corporate Governance, motivated behavior, and accounting information system implementation are variables that influence indirectly but positively and significantly through real earning management behavior on the performance of manufacture companies that go public at Indonesia Stock Exchange. It is concluded that good management in manufacture companies is always supported by the integrity and best quality of human resource with great motivation to work, by the implementation of Accounting Information System that respects work ethic and better work culture, and also by the implementation of professional work principles. All of these can improve company performance. In order to balance the interests of both manager and stockholders, principal may look for other format in calculating management compensation, for example by basing the number on the price of company stock in capital market.

INTRODUCTION

Indonesia economic performance has grown to 6.5% in 2011 but it begins slow and declining to 6.2% in 2012 (Source from BPS). In 2013, economic growth of Indonesia has been retarded. First quarter in 2013 shows an unfavorable trend because Indonesia GDP grows only 6.1%, and it decreases to 5.8% on second quarter. By third quarter, economic growth lags again by 5.6%.

The existing significant economic driver in Indonesia, at least recently, may be household expense. It grows 5.5% at third quarter in 2013. The growth rate of export and investment tends to slow. Export weakens due to retarded recovery of global economic, and the consequence involves the suppression of demand and commodity price. The declining export performance has been apparent since 2012. Export rate only reaches 2.1% in 2012 after its magnificent growth of 13.9% in 2011. Nowadays, export growth gradually restores as shown by 3.6% at first quarter in 2013 and the increase to 5.3% at third quarter in the same year. However, investment also shows a declining fashion. Investment growth reaches two digits in 2012 but suddenly decreases by 4.5% at third quarter in 2013. The ascending of bank interest rate push down investment growth because the cost of finance becomes more expensive (Source from BPS in KEN, 2014).

Interest rate increase may slow down economic growth, and gives adverse impact on financial performance of Indonesia manufacture companies. In 2013, these companies have reached earning on two digit increment, but in 2013, this achievement subsides. For example, the growth of Astra International retrogrades by 16.8%, lower than 2.2% from the growth in 2012. It is shown in Table 1.

II. Review Of Literatures:

Applying Good Corporate Governance into company context is not easy as understanding the concept. Misleading is inevitable because the management of company may lack of integrity in performing its managerial task Gunarianto et al. (2015). Rini (2012) in Widagdo (2014) has found that successful application of Good Corporate Governance not only relies on the existing principles and rules, but also depends on integrity and quality of human resource in the company, work ethic and work culture, and professional work principles.

Critical study done by Bukhori (2012) in Widagdo (2014) has examined the effect of Good Corporate Governance application on the performance of 160 companies listing at Indonesia Stock Exchange in 2010. In that study, sampling technique used is random sampling. Company performance is measured with cash flow return on asset (CFROA). The study finds that the board of directors, the board of commissioners, and company size, do not have significant effect on company performance.

Furthermore, Gunarianto et al. (2015) have observed that managerial ownership has significant effect on problem-solving mechanism against the problems of agency problem, moral hazard, and manager behavior.
This mechanism involves balancing the interests of manager and stockholder for the favor of better ownership structure of the company.

Similar kind of research is done by Carningsih (2009) who concludes that there is no relationship between corporate governance with company value if measured from Tobin’s Q and also with company performance if measured with ROA of manufacture companies in Indonesia.

Murty and Hudiwinarsih (2012) assert that company performance is work output in term of quality and quantity of actual behavior among employees in compatible with the responsibility assigned to them. Finding proposed by Murty and Hudiwinarsih (2012) is supported by Agiel et al (2013) who conclude that company performance may improve through compensation and work motivation. Compensation helps the company to increase employees’ enthusiasm, willingness and minuteness to work, and persuades employees toward maximizing their focus and discipline in achieving company goal.

Company performance is influenced by individual performance. If individuals inside the company have poor performance, it may impact company performance. Research results Sani and Maharani (2015) showed that there was a close relationship between HRM practices and organizational performance. As said by Jumaili (2005), the presence of new information system technology and trust onto this technology will improve individual performance. Astuti (2008) also finds that accounting information system influences performance. Ma’rifah (2004) declares that work motivation is positively influential to company performance. Motivation and performance are perpendicularly related, meaning that highly motivated employees at work will produce higher performance.

According to Theresia (2005) in Luluk and Gigh (2011), earning management is a factor that influences company performance. Poor earning quality may be obtained because in running the company, the management is not company owner. In this case, cash flow will be then a very important measure to ensure better company performance in the future. Cash flow will show if the outcome of operational fund has been obtained in cash by the company, or been subtracted with cash expense or actual expense of the company.

In general, Gunarianto et al (2014) have found that bonus contract for manager may influence the interest of management (agent) to maximize the reported earning as long as it does not defy the generally accepted accounting principle. It is what so called creative accounting practices. If at current year, company shall suffer from loss, then management will understate the reported earning as low as possible given an assumption that the reported earning will increase in the future (above net earning, thus it will produce a bonus). It is arranged in such way that management will obtain bonus contract at current year. As a consequence, principal is always cautious against bonus contract that must be given to agent because it is always set from the obtained earning. Principal can use other format in calculating management compensation, for example the price of company stock in capital market.

Main problems can be formulated as follows: (1) Do Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior have positive and significant effect simultaneously on the performance of manufacture companies that go public at Indonesia Stock Exchange?; (2) Do Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior have positive and significant effect partially on the performance of manufacture companies that go public at Indonesia Stock Exchange?; (3) Among Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior, which one is with the most dominant effect on the performance of manufacture companies that go public at Indonesia Stock Exchange?; and (4) Do Good Corporate Governance, motivated behavior, and accounting information system implementation, have indirect effect through real earning management behavior that is positive and significant on the performance of manufacture companies that go public at Indonesia Stock Exchange?

The objective of research is to obtain empirical evidence and to find out a clear phenomenon about the effect of Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior on the performance of manufacture companies that go public at Indonesia Stock Exchange.

III. Method Of Research:

This research attempts to obtain empirical evidence and to investigate and explain about the effect Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior on the performance of manufacture companies that go public at Indonesia Stock Exchange. Census technique is used with certain criteria for all population of listing companies at Indonesia Stock Exchange (ISE), especially those with business in manufacture sector. There are 173 manufacture companies listing at ISE. Of these 173 companies, 34 of them correspond with research criteria.

Data collected in this research are derived from ordinal measurement scale. For the analysis, the level of measurement scale is increased from ordinal scale to interval scale through Method of Successive Interval. The analysis instrument of this research is multiple regression analysis.
RESULT AND DISCUSSION

Before hypothesis testing, research instrument is subjected to validity test, reliability test, and regression classical assumption test. Result of hypothesis testing is understood with multiple-linear regression model because dependent variable in this model, respectively company performance, remains at ordinal scale but it has been increased to interval scale with Method of Successive Interval. Result of SPSS output from hypothesis testing is shown in Table 2.

Table 2: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R-Square</th>
<th>Adjusted R-Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
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<tbody>
<tr>
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<td></td>
<td>R Square</td>
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<td></td>
<td></td>
<td></td>
<td>F Change</td>
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<td>df1</td>
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<td></td>
<td>df2</td>
</tr>
<tr>
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<td></td>
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<td>Sig. F Change</td>
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<td></td>
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<td></td>
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<td>Durbin-Watson</td>
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<tr>
<td>1</td>
<td>.0801*</td>
<td>.641</td>
<td>.625</td>
<td>1.5474971</td>
<td>.002</td>
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<td>.068</td>
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<td>4</td>
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<td></td>
<td></td>
<td>2.585</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Real Earning Management, Motivated Behavior, AIS Implementation, GCG
b. Dependent Variable: Company Performance

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>417.310</td>
<td>4</td>
<td>102.822</td>
<td>41.078</td>
<td>.000*</td>
</tr>
<tr>
<td>Residual</td>
<td>65.076</td>
<td>119</td>
<td>.547</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>65.226</td>
<td>123</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Real Earning Management, Motivated Behavior, AIS Implementation, GCG
b. Dependent Variable: Company Performance

As indicated by SPSS output in Table 2, R-square of the model is 0.641 with significance level of 0.000 lower than 0.05, meaning that four independent variables, precisely Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior, are simultaneously influential positively and significantly to the performance of manufacture companies listing at Indonesia Stock Exchange. Simultaneous influence rate of independent variables on dependent variable is 64.1%, while the remaining 35.9% are influenced by other variable beyond this research.

Good Corporate Governance mechanism protects the interest of stockholders and director to obtain their return on investment in fair, precise, and efficient ways as possible. It also helps them to ensure that management has acted in proper way in favor of company interest. To create Good Corporate Governance in effective way will require both Accounting Information System implementation accountably by the personnel who is motivated toward achievement, and also real earning management behavior that supports earning improvement which in turn increases company performance.

This finding seems consistent to Gunarianto et al (2015) who suggest that manipulative behavior by manager (earning management) is caused by a conflict of interest, but its potential can be minimized through a monitoring mechanism called Good Corporate Governance. Both credible implementation of Accounting Information System and motivated behavior of management shall increase the alignment of various interests in order to increase company performance. Several steps can be taken to ensure that this condition will occur. First, stock ownership of the management (managerial ownership) must be increased (Jensen and Meckling, 1976), and thus, the interests of company owner or stockholders can be aligned with managerial interest. Second, stock ownership by institutional investors shall be introduced. Moh’d et al (1998) in Pratana and Mas’ud (2003) says that institutional investors can monitor the work of agent through their big stock ownership, and therefore, it decreases the motivation of manager on earning management. Third is the monitoring by the board of directors. Dechow et al (1996) and Beasley (1996) find a significant relationship between the role of the board of commissioners and financial reporting. It is also found that the size and independence of the board of commissioners have influenced the capacity of the board in monitoring financial reporting process.

It corroborates Shah et al (2009) who discover the relationship between Good Corporate Governance (GCG) quality and earning management in the companies listing at Pakistan Stock Exchange. There is also a positive relationship between GCG and earning management. However, Cornett et al (2006) declare that corporate governance mechanism is influential to the decline of discretionary accrual that becomes a measure of earning management, and this mechanism also associates positively with Cash Flow Return on Assets (CFROA). Further interpretation indicates that CFROA represents a positive function of the indicator of corporate governance mechanism.
Result of SPSS output provides data as shown in Table 3.

Table 3: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Correlations</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>T</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.015</td>
<td>0.948</td>
<td></td>
<td>1.183</td>
</tr>
<tr>
<td>GCG</td>
<td>233</td>
<td>0.076</td>
<td>0.331</td>
<td>3.221</td>
</tr>
<tr>
<td>Motivated Behavior</td>
<td>801</td>
<td>0.056</td>
<td>0.780</td>
<td>5.278</td>
</tr>
<tr>
<td>AIS Implementation</td>
<td>611</td>
<td>0.081</td>
<td>0.577</td>
<td>3.770</td>
</tr>
<tr>
<td>Real Earning Management</td>
<td>305</td>
<td>0.854</td>
<td>0.372</td>
<td>3.51</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Company Performance

As noted by SPSS output in Table 3, Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior are partially influential positively and significantly to the performance of manufacture companies listing at Indonesia Stock Exchange. It is proved by the significance value of the effect of each independent variable on dependent variable. This value is smaller than significance level of 0.05. Result of hypothesis testing with multiple-linear regression model has obtained a following equation:

\[
\text{Performance} = 1.015 + 0.233 \text{GCG} + 0.801 \text{Motivation} + 0.611 \text{AIS} + 0.305 \text{REM}
\]

Good Corporate Governance contains with several items such as the percentage of outsider in board membership, the percentage of stock owned by management, and the percentage of stock owned by institutional investors. These items have a positive effect on company performance. If Good Corporate Governance can be developed effectively and efficiently, all company activities shall be also well and so shall company performance either in financial or non-financial affairs (Brown and Caylor, 2004). Financial performance of a company is determined by how serious the company is to apply Good Corporate Governance. Empirically, result of this current research signifies that Good Corporate Governance practice can improve financial performance of company, may reduce the risk incurred by the board in the case of wrong decision, and will increase trust from investors. All of them impact on better company performance. According to Xie et al (2003), stockholders are always monitoring company performance because they consider that Good Corporate Governance help them to ensure higher return on their stock.

Accounting information system implementation positively influences company performance. One important function of accounting information system is internal control to produce healthy practice in the company. One object of internal control is company performance. Accounting information system implementation in the company will provide the added-value to the user of the system, which in turn impacting on the increased company performance. The usage of accounting information system technology in the company also confers one added-value, precisely by providing financial information that must be useful for planning, control and decision-making in the company, which in the end, be contributive to the improvement of company performance either in financial or non-financial affairs.

Motivated behavior is positively influential to company performance. The analysis on company performance concentrates upon two factors: (1) motivation of employees and (2) ability of employees to work. Human resource manager must understand the utility of this motivation and consider it as a key variable in persuading employees Ermita et.al (2016). Delegating discretion, controlling employees and counseling with employees, shall be preceded by ensuring that employees have adequate motivation. It must be done because behavior and attitude of employees must be directed toward achieving company goal. To be called as motivated, employees must have enthusiasm and interest to their work. Few steps can be taken to develop employees’ interest at work, such as engaging them into employee committee, making work group, inviting them to training program, giving chance for external education, asking for periodic report, and organizing contest or even sending a congratulation message (Kennish, 1998).

Real earning management behavior has a positive effect on company performance. In relevant with performance, financial statement is often used as the base to assess company performance. However, by possessing such information, manager may act opportunistically by disregarding the interest of company owner. It is possible because manager has better information about the company whereas company owner does not have it. There is asymmetric information in this case. Earning management is one specific factor influencing company performance. Earning may not be reported in good quality because when running the company, management is not company owner. Manager may do earning management against fundamental factors of the company by intervening the making of financial statement and imposing elements of accrual accounting.
However, investors rely on the reported company performance to assess company prospect, and the prospect is reflected on performance of company stock. Earning management done by manager against financial statement definitely implicates to stock performance. Bryshaw and Eldin (1989) discover that management does earning management with reasons. These reasons are: (1) that compensation scheme for management is associated with company performance as shown on the reported accounting profit; and (2) that fluctuated performance of management may force the owner to intervene by replacing the suspected manager through direct takeover.

Table 4 indicates that motivated behavior has the biggest standardized coefficient of beta, rated for 0.780, if compared to other independent variables. Motivated behavior has a dominant effect on the performance of manufacture companies listing at Indonesia Stock Exchange. Result of hypothesis testing signifies that motivated behavior in manufacture companies contributes greater to company performance if related with Good Corporate Governance, accounting information system implementation, and real earning management behavior. Performance of a certain company is basically the achievement of employees, from those in executive level to those in operational staff level. Human resource refers to the vital asset at almost all manufacture companies. Therefore, improving company performance may not succeed unless the behavior of employees is properly directed. Information from performance measurement can be used as feedback to guide employees’ behavior into motivated behavior in favor of improving company performance. Feedback contains with objective information about individual and collective performance. It functions as a tool to motivate behavior of employees. Performance information in feedback can be the useful guide for making decision on reward and punishment.

This finding so far corroborates Expectation Theory suggested by Victor Vroom (1968) in Robbins (2006). This theory states that people are motivated when they assure that when they finish their work, they get reward and the reward is compatible with their effort. This theory is based on several assumptions: Both internal factor (demand) and external factor (environment) have an impact on behavior; Behavior is individual decision; People have different demand, passion and goal; and People make decision based on their perception of outcome. Until now, Expectation Theory is still popular.

Vroom’s Equation of Motivation comprises of three factors. (1) EXPECTATION. It refers to what people perceive about their ability (their chance) to achieve goal. The higher expectation is the better chance that motivation shows up. If they do not assure that they can finish their work, they will not be motivated even to try on. (2) INSTRUMENTALITY. It stands for a belief that performance will produce reward. The higher instrumentality in certain people is the higher chance that motivation develops. If employees assure that they get reward, then motivation develops. If they do not sure of obtaining reward, motivation subsides. (3) VALENCE. It is a value (importance) attributed by people to certain outcome or reward. The higher valence (importance) of certain outcome or reward is the better chance that motivation emerges.

For testing indirect effect, few steps are taken. Two stages of testing are involved. First stage is analyzing Sub-Structure One. It means testing the first year of research period. Result of this testing is shown in the following table.

<table>
<thead>
<tr>
<th>Table 4: Omnibus Tests of Model Coefficients</th>
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<tbody>
<tr>
<td>Step</td>
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<tr>
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</tr>
<tr>
<td>Step</td>
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<tr>
<td>Block</td>
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<tr>
<td>Model</td>
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<table>
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<tr>
<th>Table 5: Model Summary</th>
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<tr>
<td>Step</td>
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<td>1</td>
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</table>

a. Estimation terminates at iteration number 4 because parameter estimates change by less than .001.
Based on the result of hypothesis testing and discussion, some conclusions are made:

1. Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior are simultaneously influential either positively or significantly to the performance of manufacture companies that go public at Indonesia Stock Exchange.

2. Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior are partially influential either positively or significantly to the performance of manufacture companies that go public at Indonesia Stock Exchange.

3. Motivated behavior is a variable with the most number of attributes. The attributes include: focus on accounting information system implementation, focus on internal control, focus on performance achievement, intensity of accounting information system implementation, intensity of internal control, intensity of performance achievement, quality of accounting information system implementation, quality of internal control, quality of performance achievement, duration of accounting information implementation.

Conclusion:

As shown by Table 4 to 6, the dependent variable at Sub-Structure One is real earning management behavior. Second stage of testing is analyzing Sub-Structure Two with company performance as the dependent variable. Result of testing on second year is shown in Table 2 and 3. From all these tables, the indirect effect may be understandable. Significance value of all tested variables is below 0.05 or under 5%. Therefore, Good Corporate Governance, motivated behavior, accounting information system implementation, and real earning management behavior are indeed influential positively and significantly to the performance of manufacture companies listing at Indonesia Stock Exchange.

As said by Sarwono (2006), calculating the indirect effect rate of independent variables on dependent variable is done by multiplying each value of standardized coefficients beta (the partial effect rate) from independent variables on dependent variable through intervening variable. It can be said then that the indirect effect rate of Good Corporate Governance on company performance through real earning management behavior is counted for 3.899. The indirect effect of motivated behavior on company performance through real earning management behavior is rated to 2.168. Indirect effect rate of accounting information system implementation on company performance through real earning management behavior is about 0.986.

Earning management is an influential factor to company performance. Earning in poor quality can be obtained because in running the company, the management is not company owner. In this case, cash flow is a very important measure to deliver better company performance in the future. Cash flow shows that the outcome of operational fund has been obtained in cash by the company, or been subtracted with cash expense or actual expense of the company. Monitoring can be performed by the company through internal control, or by implementing accounting information system to produce healthy practice, and/or involving institutional investors to create Good Corporate Governance supported with motivated behavior from employees. All these measures may limit managerial behavior toward earning management and these truly give good impact on company performance. From the perspective of accounting theory, earning management depends on the motivation of company manager. Different motivation can produce different amount of earning management, and this amount will influence company performance.

A very contradictive issue is obvious when Good Corporate Governance is applied, in one hand, with motivated behavior and accounting information system implementation in order to achieve company goal, but in other hand, management is hesitant to apply this arrangement. Reason behind this is the less significant impact on company financial performance (with the existence of real earning management behavior). This contradiction becomes the background of research, and result of current research shows that although real earning management behavior already exists, the application of Good Corporate Governance, motivated behavior, and accounting information system implementation still can improve company performance if measured with balanced scorecard concept.

Result of this research shall be contributive to the development of accounting theory and science, or must give important additions to the collection or compilation of theories relevant with accounting science, such as positive accounting theory, agency theory, contracting cost theory and creative accounting practices, which until now, are rarely examined as review material within Indonesia context.
system implementation, duration of internal control, and duration of performance achievement. Motivated behavior is also the variable with the dominant effect on the performance of manufacture companies that go public at Indonesia Stock Exchange.

4. Good Corporate Governance, motivated behavior, and accounting information system implementation are influencing indirectly through real earning management behavior either positively or significantly on the performance of manufacture companies that go public at Indonesia Stock Exchange.

Implication Of Research Results:
The implication of research results can be explained as following. Good Corporate Governance in manufacture companies supported by strong integrity and better quality of human resources who are highly motivated, also by work ethic and better work culture, and also by the implementation of professional work principles, all of these can improve company performance. Balancing the interests of both manager and stockholders requires principal to be cautious against bonus contract given to agent because bonus is often determined on the obtained earning. Principal can use other format in calculating management compensation, for example by considering the price of company stock in capital market.

REFERENCES


