ABSTRACT

This research aims at examining the effect of corporate governance on profitability of the firm. Corporate governance used in this research is measured by corporate governance perception index (CGPI). This research assumes that high (low) CGPI indicates superior (inferior) corporate governance. CGPI is an index resulting from voluntarily survey conducted by The Indonesian Institute for corporate Governance (IICG). The subject is firms listed in Jakarta Stock Exchange. IICG has been conducting this research for 4 years started from 2001. The profitability ratios measured in this research are earning per share (EPS), dividend yield, gross profit margin, operating profit margin, net profit margin, return on assets (ROA), and return on equity (ROE). The analysis includes correlation between CGPI 2001 and each of its components with profitability ratio from the year 2001-2003 and the difference on profitability between firms with the high index and the low ones. The research’s result shows that there is no significant correlation between CGPI and profitability, and no difference in their profitability between firms with higher index and lower index.

Keyword: corporate governance, corporate governance perception index, profitability ratio.