Board Characteristics and Firm Performance; Evidence from state-Owned Enterprises (SOEs) Listed in Indonesia Stock Exchange

SKRIPSI

FINELLA AYI ADELINA
05153030

JURUSAN AKUNTANSI
FAKULTAS EKONOMI
UNIVERSITAS ANDALAS
PADANG 2010

FACULTY OF ECONOMIC
ANDALAS UNIVERSITY

THESIS APPROVAL LETTER

Herewith, Dean of Economic Faculty of Andalas University, Head of Accounting Program, Thesis Advisor, and Thesis Examiner, stated that:

Name	: Finella Ayi Adelina
Student's ID Number	: 05153030
Field of Study	: Accounting
Degree	: Bachelor Degree (S1)
Thesis Title	: *Board Characteristic and Firm Performance; Evidence from State Owned Enterprises Listed on IDX*

Has already passed the thesis seminar on April 8, 2010 based on procedures and regulations prevailed in the Faculty of Economic - Andalas University.

The Thesis Advisor and Examiner Committee,

Thesis Advisor	Thesis Examiner
Prof. DR. Niki Lukviarman, SE. Akt. MBA	**Drs. Edi Herman, MBA. Ak.**
NIP. 19630906 1990011001	**NIP. 131 954 222**

Approved by:

Head of Accounting Program	Dean of Faculty of Economics
Dr. H. Yuskar, SE. MA. Ak.	**Dr. H. Syafruddin Karimi, SE. MA.**
NIP. 19600911 1986031001	**NIP. 19541009 1980121001**

ACKNOWLEDGEMENT

Alhamdulillah, praise to Allah SWT, the Almighty God, for every blessing He gives me everyday of my life, and for giving me chance to finish my thesis titled Board Characteristic and Firm Performance; Evidence from State Owned Enterprises listed in IDX. Shalawat also sent to Greatest Prophet, Muhammad SAW.

Also a word of sincere thanks and appreciation for the following persons and institutions which with their assistance this research thesis is possible to be finished:

1. My beloved family. Papi, Mami, sisters and brother, thank you for all of your prayer, support and encouragement. It has been and always be my greatest happiness to find myself around great people who love me.
2. Dean of Faculty of Economics, Dr. H. Syafruddin Karimi, SE., MA.; Assistant of Dean I, Dr. Tafdil Husni, SE., MBA.; Assistant of Dean II, Drs. Masrizal, M.Soc., Sc.; Assistant of Dean III, Drs. Wirzon, M.Si.
3. Head of Accounting Department, Dr. H. Yuskar, SE. MA. Ak.; Secretary of Accounting Department, Drs. Riwayadi, MBA. Ak.; Head of Study Program of Accounting Department, Rita Rahayu, SE. M.Si. Ak.
4. My Thesis supervisor, Prof. Dr. Niki Lukviarman SE. MBA. Ak. Thank you for your guidance and enormous support in the writing of this thesis. Every meeting with you full of life advice. Thank you so much, Sir.
5. Dudi Permana, ST. MM. For your support and guidance in writing this thesis.
6. Staff Member of Accounting Dept., Mami Lolly Varianti, Da Ary, and Ni Fa, thank you very much for all your help and support.

7. My academic counselor, Drs. Jonhar, SE. M.Si. Ak. thank you for your guidance in academic advices over these years.
8. Lecturers of Andalas University especially Faculty of Economy for the knowledge given over the year. Thank you very much.

May Allah SWT bless us and my prayer is for us to be success and able to achieve our dreams in this life. I hope that this research could be useful and contribute in advancement of accounting field.

Padang, April 2010

Finella Ayi Adelina

CONTENT

CONTENT		**i**
LIST OF TABLE		**iii**
CHAPTER I	**INTRODUCTION**	
1.1	Background	1
1.2	Research Objective	8
1.3	Problems Definition	8
1.4	Writing Systematic	9
CHAPTER II	**LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**	
2.1	Corporate Governance	11
2.2	Board Governance	16
2.3	Performance Measurement	21
2.4	Literature Review	25
2.5	Hypothesis Development	27
	2.5.1 Supervisory Board's Composition	27
	2.5.2 Supervisory Board's Size	28
	2.5.3 Educational Background	28
	2.5.4 Government Ownership	28
CHAPTER III	**RESEARCH METHODOLOGY**	
3.1	Research Object & Data Collection Method	33
3.2	Research Sample Profile	33
3.3	Variable Identification and Measurement	34
	3.3.1 Independent Variable	35

	3.3.2 Dependent Variable	35
3.4	Controlling Variable	36
3.5	Data Analysis Method	37
CHAPTER IV	**DATA ANALYSIS**	
4.1	Samples	39
4.2	Result of Hypothesis Testing	40
4.4	Results and Discussion	56
CHAPTER V	**CONCLUSION**	
5.1	Research Conclusions	60
5.2	Research Limitations Areas for Further Research	61
REFERENCES		**62**
APPENDIXES		**vi**

LIST OF TABLE

Table:

Table 1	List of Samples	39
Table 2	Coefficients of ROE for all firms	40
Table 3	ANOVA of ROE for all firms	40
Table 4	Model Summary of ROE for all firms	41
Table 5	Coefficients of ROE for small ownership	41
Table 6	ANOVA of ROE for small ownership	42
Table 7	Model Summary of ROE for small ownership	42
Table 8	Coefficients of ROE for large ownership	43
Table 9	ANOVA of ROE for large ownership	43
Table 10	Model Summary of ROE for large ownership	44
Table 11	Coefficients of ROE for Banking Industries	44
Table 12	ANOVA of ROE for Banking Industries	45
Table 13	Model Summary of ROE for Banking Industries	45
Table 14	Coefficients of ROE for Non-Bank Industries	46
Table 15	ANOVA of ROE for Non-Bank Industries	46
Table 16	Model Summary of ROE for Non-Bank Industries	47
Table 17	Coefficients of PBV for all firms	47
Table 18	ANOVA of PBV for all firms	48
Table 19	Model Summary of PBV for all firms	48
Table 20	Coefficients of PBV for small ownership	49
Table 21	ANOVA of PBV for small ownership	49
Table 22	Model Summary of PBV for small ownership	50
Table 23	Coefficients of PBV for large ownership	50
Table 24	ANOVA of PBV for large ownership	51
Table 25	Model Summary of PBV for large ownership	51
Table 26	Coefficients of PBV for Banking Industries	52
Table 27	ANOVA of PBV for Banking Industries	52
Table 28	Model Summary of PBV for Banking Industries	53

Table 29	Coefficients of PBV for Non-Bank Industries	54
Table 30	ANOVA of PBV for Non-Bank Industries	54
Table 31	Model Summary of PBV for Non-Bank Industries	55
Table 32	Summary of Hypothesis Testing	56

CHAPTER 1

INTRODUCTION

1.1 Background

The enactment of the Sarbanes-Oxley Act of 2002 ("SOX") has radically changed the face of corporate governance systems all over the world. The case of Enron has seemed particularly disturbing because it represents the failure of the corporate governance applied at the company. A study by Asian Development Bank (ADB, 2000) revealed that poor corporate governance was one of the major contributing factors to the build-up of vulnerabilities in the affected by the crisis, has been forced to consider corporate governance issues at the forefront of the nation's agenda for corporate and economic policy (Lukviarman, 2004).

Implementation of GCG encourages fair competition and conducive business climate leading to a sustainable economic growth and stability (Indonesian Code of Good Corporate Governance, 2006). Corporate governance system gives an effective protection to company's stakeholder and creditor so they are sure to get an appropriate return from their investment. Corporate governance also helps to make conducive environment for creating an efficient and sustainable growth in corporate sector. Corporate governance defined as a set of rule which determines the relationship between stakeholder, manager, creditor, government, employee and internal and external stakeholder to their rights and responsibilities (FCGI, 2003). Corporate governance deals with the ways in which suppliers of finance to corporations ensure a fair and safe return on their

investments (Shleifer & Vishny, 1997), by managing the mechanisms with which a corporation conducts basic operation.

Sound corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring (OECD, 2004). Mechanisms to achieve sound corporate governance are both internal and external to the firm. The external mechanisms which commonly called market for corporate control rely on the effectiveness of the market in providing discipline over a company and the legal regulatory system (Lukviarman 2004) while the internal mechanisms include managerial incentives schemes, board of directors monitoring role and accountability reinforced by credible external auditing procedures (Patrick 2001).

Corporate governance also helps to make conducive environment for creating an efficient and sustainable growth in corporate sector. Corporate governance defined as a set of rule which determine the relationship between stakeholder, manager, creditor, government, employee and internal and external stakeholder to their rights and responsibilities (FCGI, 2003).

Definitively, corporate governance has explanation in how the central parties who have an interest in the company interacting each other (Wheelen & Hunger, 2000 cited in Igra, 2008). The central parties are shareholders, top management, and board of directors. Shareholders always have an interest in protecting their investment in order to produce dividend every year. Because of that, they assign the Supervisory Board to monitoring the performance of management to be appropriate with the shareholder's importance.

Though modern organizatin emphasizes the importance of the separation of ownership and control system, but it has been commonly observed among the corporation that there exists agency problem (Jensen and Meckling, 1976). It is because separating entities have their own interest can differ from interests of those that supply external finance and for those who control them. The so-called "principal-agent" problem is reflected in management pursuing activities which may not be at the best interest of the shareholders of the company and other stakeholders.

It is not efficient for all diffused shareholders to get involved directly in managing the firm. Moreover, the competent person possessing the adequate expertise will be needed to manage the firm as the firm becomes larger and complex. As a result, the professional manager will be hired to run the business on the diffused shareholders' behalf. However, Jensen and Meckling (1976) argue that the issues associated with the separation of ownership and control in the modern diffuse ownership corporation are intimately associated with the general problem of agency, since the relationship between the shareholders and the managers of a corporation fits the definition of a pure agency relationship. An agency relationship can be defined as a contract under which one or more persons (the principal) engages another person (the agent) to perform some services on their behalf which involves delegating some decision making authority to the agent.

The corporate governance structure consists of a set of both internal and external mechanisms designed to manage, monitor, control, reward, and discipline arrangements, and relationship among all corporate governance participants in

order to create sustainable and enduring value for shareholders and to protect the interest of other stakeholder. Examples of internal governance mechanisms are the management and supervisory board (particularly independent members, the audit committee composed solely of independent directors at public company), internal control, and internal audit functions. Example of the external mechanisms are the capital market, the market for capital control, the labor market, state and federal statutes, court decisions, shareholder proposals, and best practices of investor activists (Rahmadani, 2008).

Supervisory board in the company has an important role in implementing sound corporate governance. Supervisory board gives initiative and strategic policy directives, supervising, and monitoring company activities and providing business advice. Three crucial elements that influence the effectiveness of supervisory board are independency, competency, and commitment (Alijoyo, 2004, cited in Rahmadani, 2008).

Supervisory board has responsibility to supervise the quality of information in financial statement. This is important to consider management need on doing earning management which could affect the decreasing of investor belief. In order to overcome this problem, supervisory board has permit to have an access on company information. supervisory board does not have authority in the company, so board of management responsible to deliver the information that related to the company (NCCG, 2001 cited in Igra, 2008). Additionally, the function of supervisory board is to make sure a company have done social responsibility and consider the stakeholder need as good as monitoring the

effectively of corporate governance practice (*National Code for Good Corporate Governance,* 2001 cited in Igra, 2008)

The supervisory board should be composed in such a way that its members act independently and critically in relation to each other and the management board, in order to increase the effectiveness of its management role, and the transparency of its deliberations (ICGCG, 2001). The JSX regulation dated on July 1st, 2000, consists of the minimum requirement for independent commissioner is 30 percent of the supervisory board membership. The independent commissioner must be appointed by the General Meeting of the Shareholders from among persons who are not affiliated with majority shareholder, any member of management board and the other members of the supervisory board.

Orden and Garmendia (2005, cited in Razak, Ahmad and Aliahmed, 2006) examined the relationship between ownership structure and corporate performance in Spanish companies. Ownership structure has been analyzed in terms of concentration of control and the type of investor exerting control. Company performances which used in research were return on assets (ROA) and return on equity (ROE). One of the findings is companies which under controlled government showed negative impact and have worse performance that other ownership structures.

More recently, Zeitun and Tian (2007) examined the impact of ownership structure mix on company performance and the default risk of a sample of 59 publicly listed companies in Jordan from 1989 to 2002. They documented that the

ownership structure has significant impact on performance based on accounting measure however, government involvement are significantly negative related to the company's performance based on ROA and ROE (return on equity) but shows positively related to market performance based on Tobin's Q.

Corporate governance supposed to be implemented in institutions and corporations from any sectors, including State Owned Enterprises. State Owned Enterprises (SOE) are defined as companies that have a primary commercial objective and in which the Indonesian Government has a direct controlling stake to appoint Board members, senior management, and/or make major decision (e.g. contract award, strategy, restructuring and financing, acquisition and divestments etc. SOE and their controlling shareholders constitute a significant part of the economic structure of the nation (Razak, Ahmad and Aliahmed, 2006).

Corporate governance is a crucial importance to apply in state-owned enterprises to increase company performance through supervising or monitoring management performance and guarantee management accountability to stakeholder based on rule's framework. The objective of this concept is to achieve a company management transparency for the users of financial statement. If the company could implement this concept so the economics growth could keep on going well together with company management transparency which is also going well and give benefit for many side. Through majority ownership in state-owned enterprises, the government is also a major player in the Indonesian economy. While some of the bigger and better managed state owned enterprises have successfully gone public, many others are still struggling with poor performance characterized by low profitability, unfocused operation, red tape intricacies, lack

of customer and market orientation, low productivity and low asset utilization (Kurniawan & Indratoro, 2000, cited in Igra, 2008).

In practicing corporate governance there are several problems that occur and must be solved. The dominant view of corporate governance hinges on the issue of separation of ownership and control within the firm, which is modeled by "the agency theory" (Keasey, Thompson and Wright 1997). Agency theory is a perspective which clearly described the potential conflicts arises by the separation of ownership and control, known as the agency problem, as argued by Jensen and Meckling (1976). Problem arises when the agent (e.g. borrower) have had different interest with the principal (provider or finance e.g. lender). To avoid such problems the companies have to implement the concept of control that will further develop as good corporate mechanisms of control.

Realizing this situation, Indonesian government through "Kementerian Negara BUMN" has introduced the concept of corporate governance for Indonesian state owned enterprises, as an effort to increase the performance of SOE which has a high number of assets. Additionally to fight inefficiency practices, corruption, collution, nepotism and other deviations on behalf to strengthen SOE competitiveness to face the global market (Rahmadani, 2008).

State-owned enterprises has to be aware on the implementation of Good Corporate Governance since the weaknesses of corporate governance in a company could affect the company performance. Conducting the study over the effectiveness of corporate governance's mechanisms, especially in improving firm's performances, will provide more useful evidence for regulators in

Indonesia about the weaknesses of Indonesian corporate governance regulations. Realizing the importance of board to be effective in implementing corporate governance in corporations, especially in state owned enterprises, writer interested to examine the relationship between corporate governance mechanisms and firm performance in Indonesian state-owned enterpries that has listed in Indonesia Stock Exchange. In this study, board characteristics include Supervisory Board's Composition, Supervisory Board's Size, and Educational Background of Supervisory Board,

1.2. Research Objectives

The purpose of this research are to observe the effect of board characteristics such as, Supervisory Board's Composition, Supervisory Board's Size, and Educational Background of Supervisory Board, to firm performance in Indonesian SOEs that have listed in Indonesian Stock Exchange. The specific objectives are:

1. To determine whether there is relationship between Supervisory Board's Composition and firm performance in manufacturing firms listed in IDX (measured by ROE and PBV).
2. To determine whether there is relationship between Supervisory Board's Size and firm performance in state owned enterprises listed in IDX (measured by ROE and PBV).
3. To determine whether there is relationship between Educational Background of Supervisory Board and firm performance in state owned enterprises listed in IDX (measured by ROE and PBV).

1.3. Problem Definition

Based on the explanation in the background, the major questions of the research are:

1. Is there any relationship between the Supervisory Board's Composition and company performance in state owned enterprise?
2. Is there any relationship between Supervisory Board's Size and company performance in state owned enterprise?
3. Is there any relationship between Educational Background of Supervisory Board and company performance in state owned enterprise?

1.4. Writing Systematic

In Chapter I as the introduction chapter, it will contain the background, research objectives and benefits, problem definition, and writing systematic.

In chapter II, it will explain the theoretical framework and review the literature about all related research.

In chapter III, it will explain the research method including the population that taken, the sampling method, variables identification and measurement, data gathering method and techniques.

In chapter IV, it will discuss the research analysis, like empirical findings and other related things that is analyzed during the research.

In chapter V, it is the concluding section, which contains the research limitations and suggestions.

CHAPTER 2

LITERATURE SURVEY

This chapter presents the theoretical framework used in this study. It reviews the existing literature of government ownership, corporate governance mechanism and corporate performance.

2.1. Corporate Governance

In a corporation, the separation of ownership and decision control can result in agency cost. Jensen and Meckling (1976) argue that the issues associated with the separation of ownership and control in the modern diffuse ownership corporation are intimately associated with the general problem of agency, since the relationship between the shareholders and the managers of a corporation fits the definition of a pure agency relationship. An agency relationship can be defined as a contract under which one or more persons (the principal) engages another person (the agent) to perform some services on their behalf which involves delegating some decision making authority to the agent. This relationship will turn to be a problem if both parties, especially the agent, are utility maximizers. The agent is considered to not always act in the best interest of principal if she or he only focuses on maximizing his or her own interest rather than principal's interest.

The conflict of interests between shareholders and managers within a firm can be minimized by implementing monitoring mechanism over the management actions. Corporate governance is generally believed to act as monitoring

mechanism within a firm in minimizing agency problem that exists between owners (shareholders) and the managers. More specifically, corporate governance will provide "a rule for the game" to balance the diverging interests that exists as a consequence of the separation of ownership and control in the firm (Nuryanah, 2001).

Corporate governance is a subject that notoriously difficult to explain in one sentence. Some view of corporate governance in the narrow sense, dealing with the structure and functioning of the board of directors, and their relationship to management. A broader definition includes a company's relationships with shareholders, especially in organizations with concentrated ownership. There are many definitions about corporate governance. Corporate governance is a subject that notoriously difficult to explain in one sentence. Related to this study's topic, this research conducts the definition of corporate governance from Indonesian SOE Ministerial Decree No. 117/2002 as follows:

> Corporate governance is a process and structure that SOE used for increasing organization efficiency and accountability in order to achieve all stakeholders' values for long term prospect, accordance with government regulation and ethic principle.

Indonesia has adopted and implemented corporate governance immediately to avoid a larger crisis than happened in late 1997. By implementing corporate governance in a company will increase company's opportunity to be managed professionally, to get a good performance, reducing corruption risks and getting back the investors' trust. The objective of corporate governance is to achieve a responsible, value oriented management and control of companies.

Corporate governance rules promote and reinforce the confidence of current and future shareholders, lenders, employees, business partners and the general public in national and international markets, Drobetz, Schillhofer and Zimmermann (2003).

2.1.1 Corporate Governance in State Owned Enterprises

Corporate governance supposed to be implemented in institutions and corporations from any sectors, including SOE. SOE (state owned enterprises) are defined as companies that have a primary commercial objective and in which the Indonesian government has a direct controlling stake to appoint board members, senior management, and/or make major decision (e.g. contract award, strategy, restructuring and financing, acquisition and divestments etc. SOE and their controlling shareholders constitute a significant part of the economic structure of the nation (Razak, Ahmad and Aliahmed, 2006).

There are four principals or essential elements of corporate governance in Indonesian state-owned enterprises elaborated by the Indonesian SOE Ministerial Decree No. 117/2002, those are:

1. Fairness. Ensuring the protection of shareholder rights, including the rights of minority and foreign shareholders and ensuring the enforceability of contracts with resource providers.
2. Transparency. Requiring timely disclosure of adequate, clear and comparable information concerning corporate financial performance, corporate governance and corporate ownership.

3. Accountability. Clarifying governance roles and responsibilities and supporting voluntary efforts to ensure the alignment of managerial and shareholder interests, as monitored by the Board of Directors (or Board of Commissioners in two-tier system).
4. Responsibility. Ensuring corporate compliance with other laws and regulations that reflect the respective society's value.

Good corporate governance is a crucial importance to apply in state-owned enterprises to increase company performance through supervising or monitoring management performance and guarantee management accountability to stakeholder based on rule's framework. The objective of this concept is to achieve a company management transparency for the users of financial statement. If the company could implement this concept so the economics growth could keep on going well together with company management transparency which is also going well and give benefit for many side. Through majority ownership in state-owned enterprises, the government is also a major player in the Indonesian economy. While some of the bigger and better managed state owned enterprises have successfully gone public, many others are still struggling with poor performance characterized by low profitability, unfocused operation, red tape intricacies, lack of customer and market orientation, low productivity and low asset utilization (Kurniawan & Indratoro, 2000, cited in Igra, 2008).

Over the past few years SOEs have had their ups and downs, caused by the changes in business environments affected by both external and internal factors such as poorly managed, ineffective and inefficient use of resources. Thus, a new policy or improvement acceleration of SOE is needed to be applied.

Realizing this situation, Indonesian government through Indonesian SOE Ministerial has introduced the concept of corporate governance for Indonesian state owned enterprises, as an effort to increase the performance of SOE which has a high number of assets. Additionally to fight inefficiency practices, corruption, collution, nepotism and other deviations on behalf to strengthen SOE competitiveness to face the global market (Rahmadani, 2008).

Implementation of corporate governance in Indonesia SOE had regulated by the regulations as follows (Rahmadani, 2008):

1. *Keputusan Presiden Republik Indonesia Nomor 122 Tahun 2001 tentang Tim Kebijakan Privatisasi Badan Usaha Milik Negara.*
2. *Keputusan Menteri Badan Usaha Milik Negara Nomor: Kep-103/Mbu/2002 tentang Pembentukan Komite Audit bagi Badan Usaha Milik Negara.*
3. *Keputusan Menteri Badan Usaha Milik Negara Nomor: Kep-104/Mbu/2002 tentang Penilaian Calon Anggota Direksi Badan Usaha Milik Negara.*
4. *Lampiran Keputusan Menteri Badan Usaha Milik Negara Nomor: Kep-104/Mbu/2002 tanggal 4 Juni 2002.*
5. *Keputusan Menteri Badan Usaha Milik Negara Nomor: Kep-117/M-Mbu/2002 tentang Penerapan Praktek Good Corporate Governance pada Badan Usaha Milik Negara.*

6. *Surat Edaran Menteri Badan Usaha Milik Negara Nomor: Se-01/Mbu/2004 tentang Pengaturan Anggota Direksi, Komisaris dan DewanmPengawas serta Karyawan BUMN yang menjadi Pengurus Partai Politik dan/atau Calon Anggota DPR, DPD, DPRD Provinsi, dan DPRD Kabupaten/Kota (Calon Angota Legislatif).*

From the regulations mentioned above, we can conclude that Indonesian government has a concern of corporate governance implementation in Indonesia. In this research, writer tried to find out whether the implementation has an impact to SOE performance in Indonesia.

2.2. Board Governance

An important issue in corporate governance relates to the structure and effectiveness of the boards of directors. The agency theory, as has addressed by Jensen and Meckling (1976) was based on the proportion of separation between ownership and control. The agency theory implies that the board of director is elected to manage the potential conflict between management and shareholder (Rezaee, 2007, cited in Rahmadani, 2008).

There are several explanations about board, like the system and the duties of them. In general, the practices of board of directors within the corporate governance framework could be classified as one-tier (unitary board model) or two-tier board model (Lukviarman, 2004). On the other hand, the two-tier board, also called two-board system, is found mostly in Continental European countries, there is a separation of executive and supervisory roles under different boards. Those are the supervisory board and management board. The responsibility of the

management board is running the business, while the supervisory board controls the management (not the corporation), (Ningsih, 2006).

Indonesia has also adopted this two-tier system of board. Companies incorporated under the Indonesian Company Law (2007) have two boards; Supervisory Board that performs monitoring roles, and the Management Board that performs the executive role (Lukviarman, 2004).

The supervisory board is clearly separated from and independent of the executive or management board, consistent with the characteristic of Continental European governance model. The board structured adopted in Indonesia is a modified board structure that has been adopted by the Netherlands. The main differences are the rights and obligations of the supervisory which under normal circumstances do not include the power of appointment and dismissal of director. In Indonesia (Company Law, 2007) both the members of supervisory board and management board are elected, expelled, and held responsible to shareholders through the General Meeting of the Shareholders (Lukviarman, 2004).

The supervisory board shall be responsible and shall have the authority to supervise the actions of the management board, and shall give advice to the management board when required. Each member of the supervisory board shall be a person of good character and shall have relevant experience (ICCG, 2001 cited in Igra, 2008).

Supervisory board has responsibility to supervise the quality of information in financial statement. This is important to consider management need on doing earning management which could affect the decreasing of investor

belief. In order to overcome this problem, Supervisory board has permit to have an access on company information. Supervisory board does not have authority in the company, so management board responsible to deliver the information that related to the company (NCCG, 2001 cited in Igra, 2008). Additionally, the function of supervisory board is to make sure a company have done social responsibility and consider the stakeholder need as good as monitoring the effectively of corporate governance practice (*National Code for Good Corporate Governance,* 2001 cited in Igra, 2008)

2.2.1 Supervisory Board's Composition

Supervisory Board should be composed in such a way that its members act independently and critically in relation to each other and the management board, in order to increase the effectiveness of its management role, and the transparency of its deliberations (ICCG, 2001 cited in Igra 2008). The Indonesian Ministry decreed the requirement for independent commissioners through the Indonesian BUMN Ministerial Decree No. 117/2002; in the fourth section. It remarks that SOE companies are obliged to have independent commissioners proportionally equal to the shares owned by the non-controlling shareholders. In this rule the minimum requirement for the independent commissioners is 20 percent of the Board of Commissioners membership. The decree of Jakarta Stock Exchange's Director (No. Kep-305/BEJ/07-2004) defines the criteria for the independent commissioners as follow;

1. The independent commissioner has no affiliation relationship with the controlling shareowner of the company.

2. The independent commissioners have no affiliation relationship with the director and other commissioners of the company.
3. The independent commissioners have no double position as director in other companies affiliated to the related company.
4. The independent commissioners should understand capital market laws and regulations.
5. The independent commissioner is proposed by the non-controlling shareholders (minority share holders) through the general meeting of shareholders.

According to FCGI (2000), the criteria of independent commissioner respectively;

1. The commissioner is not a member of management.
2. The commissioner is not substantial shareholder of the company or an officer of or otherwise associated directly or indirectly with substantial shareholders of the company.
3. The commissioner has not within the last three years been employed in an executive capacity by the company/another group member or been a commissioner after ceasing to hold any such employment
4. The commissioner is not a principal of a professional advisor to the company or another group.
5. The commissioner is not a significant supplier or customer of the company or another group member or an officer of or otherwise associated directly or indirectly with a significant supplier or customer.

6. The commissioner has no significant contractual relationship with the company or another group member other than as a commissioner of the company.
7. The commissioner is free from any interest and business or other relationship which could, or could reasonably be perceived to, materially interfere with the commissioner's ability to act in the best interest of the company.

The independent commissioner(s) must be appointed by the General Meeting of Shareholders from among persons who are not affiliated with the majority shareholder, any member of the Board of Directors and the other members of the Board of Commissioners (Tumbuan, 2005 cited in Igra, 2008).

2.2.2 Supervisory Board's Size

The second characteristic of supervisory board is board size. Nuryanah (2001) argues that board size might influence the dynamics in board functions. Furthermore, she believes that large and diverse board may increase board performance in terms of knowledge and skills. Similarly, Chaganti et al. (1985) in Beasley and Salterio (2007) also believes that large boards are valuable due to their breadth of their knowledge and the services they can provide. In sum, large board will protect the interest of stakeholders well since they have more efforts in terms of skill, knowledge, and experience in monitoring managerial performance.

Many researches have been conducted in term of board governance, but in the American perspective (Beiner et al. 2003) which used one tier board system. Yermack (1996) in his study found a significant negative relationship between

board size with Tobin's Q. This is similar with Loderer and Peyer (2002) that the bigger board size will result on smaller firm value.

Beiner et al. (2003) that conduct research in Swiss' company found that size of board directors is an independent controlling mechanism that has no significant relationship with firm value. In this research they also investigate whether there is an optimal board size in a firm. This study related to Jensen (1993) who found that when board size reaches seven or eight members, the board function effectivity decreased and become easier to be controlled by CEO.

2.2.3 Educational Background of Supervisory Board

Knowledge possessed by board members also influences the effectiveness of board functions. A good understanding of the company's strategy as well as its business environment contributes to creating an effective board (Nuryanah, 2001). Having this knowledge will support the board to perform their oversight role effectively. Similarly, ICCG (2006) also states that members of the Board of Commissioners shall have the capability and integrity required to ensure that the oversight and advisory function can be carried out properly. Board members should have sufficient educational background, specifically accounting and/or finance background, to better support their oversight responsibility over management actions, especially in improving firm performance.

According to Murali (2006), board must be composed of professional members, with expertise in, say, law, taxation, or accounting. He concedes, however, that without such specialized qualifications, one can still contribute to

the company, make a difference to decisions, bring objectivity to discussions, be independent in views, and act without fear.

2.3 Performance Measurement

There are two ways to measure firm's performance, first is financial measurement, and the second is non-financial measurement. In general, financial measurement divided into financial accounting information and market based financial performance. In the other hand, non-financial measurements that commonly used are Economic Value Added and Balanced Scorecard (Lukviarman, 2004).

The company's performances are influenced by some factors, such as management strategic concept that are determined by the company. Wealth composition, firm's capitalization, the process of taking decision in rationally, and also macroeconomic condition. In taking management decision process, the problem that are faced by the firm related to the effectiveness in using capital, the efficiency in doing firm's activities, and also the claim by the third side.

The importance from the third side is related with the firm's performance that usually could be seen from the financial position of the firm. Through financial report analysis, so the parties that are concerned with the firm can take a right decision.

The parties that having interest or being concerned with the financial position of a firm are (Agus, 2002);

1. The owners, which are people who owns the firm and also as majority stock holder. Financial report is needed by the owner to see possibility of

the result that are going to be achieved in the future, so they can predict the proportion of the profit that are going to be received and the growth of theirs stock.

2. Manager, which is the people who manage and arrange the company's activities, so the company can achieve the objectives. The managers can use financial report to take a decision in running the company's activities
3. Investor, banker and creditors.

   The investors need financial information to analyze the firm, and to determine which stock are going to buy, which stock that are going to sell, and which stock that are going to maintain. The investors, bankers and creditors are very concern with financial report information because it is related to the fund that has been invested, so before taking decision, they need to observe the firm's prospect in the future. The investor, bankers, or creditors as "an outsiders" from the firm, so in doing financial report analysis, they only get limited data based on the data that are published by that company.

4. Government

   Government concern with firm's financial report is related to determine the taxes that are going to be paid by the firm. Beside that financial report is also needed by government as a basic planning.

5. Labor

   The labor as employee together with their organization will try to get the proper wages and the social guarantee

6. Another side, such as stock exchange, capital market, etc.

Financial statement basically is the result from the accounting process that can be used as communication tools between financial data or firm's activities with the parties that concern and interest with that data and that firm's activities. Based on evaluation and interpretation from the financial data, the analyst could see or evaluate the firm's performance in creating the value added into the basic value of the firm.

The choice of performance measures should consider the appropriateness of measurement in relation to specified research objectives. Among the profitability indicators which evaluate firm performance, return on assets (ROA) and return on equity (ROE) are widely used. McNaughton and Barltrop (1992) argued that these ratios are very valuable when comparing performance among different banks operating in the same market.

Price to book value ratio is a ratio that shows how much a company's stock book value will increase the credibility of the company in the market eyes (Sisdelen, 2007). PBV is the ratio of stock's market value divided to stock's book value. The higher this ratio, will impact on higher investor's expectation of a company, and the higher demand on stock market for that company.

Based on foregoing arguments, this study will utilized ability ratios, those are return on equity (ROE) and price to book value (PBV).

2.4 Literature Review

The corporate governance may directly influence toward firm's performance, if the corporate governance implemented substantially and adhere to the rules (code for good corporate governance). Previous research related to this research has been done by Razak, Ahmad and Aliahmed (2006) that stated SOE and their controlling shareholders constitute a significant part of the economic structure of the nation. Bhagat and Black (2002) find no linkage between the proportion of outside directors and Tobin's Q, return on assets, asset turnover and stock returns. Razak, Ahmad and Aliahmed (2007) do not find Tobin's Q to increase in board independence (in fact, they found the opposite), but they found that firms with independent boards have higher ROE, higher profit margins, and larger stock repurchases, suggesting that board independence is associated with other important measures of firm performance aside from Tobin's Q.

Managers have incentives to expropriate a firm's assets by undertaking projects that benefit themselves personally but that impact shareholder wealth adversely (Jensen and Meckling, 1976; Fama and Jensen, 1983; Shleifer and Vishny, 1997). Effective corporate governance reduces "control rights" stockholders and creditors confer on managers, increasing the probability that managers invest in positive net present value projects, (Shleifer and Vishny, 1997), suggesting that better-governed firms have better operating performance.

Brennan and McDermott (2004) argue that improvements in the independence of corporate boards ought to yield in improvements in corporate performance. Thus, many empirical researches conducted to investigate the

relationship between independent commissioners and firm performance (Hermalin and Weisbach 1988; Agrawal and Knoeber 1996; Baghat and Black 2002; Belkhir 2004).

Limiting board size is believed to improve firm performance because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision-making of larger groups (Lipton and Lorsch 1992; Jensen 1993). Consistent with this notion, Yermack (1996) documents an inverse relation between board size and profitability, asset utilization, and Tobin's Q. This is relevant with Lorderer and Peyer (2002). Anderson et al. (2004) shows that the cost of debt is lower for larger boards, presumably because creditors view these firms as having more effective monitors of their financial accounting processes.

Beiner et al (2003), which use sample in Swiss' firms listed in stock exchange found that board director's size is an independent controlling mechanism that has no significant relationship with firm's value, that is measured by Tobin's Q. They also investigated whether there is an optimal board size in a company.

Ponnu (2008) found that educational background of BOD members of a company does not seem to have an impact on its performance, and Casper (2007) also believes that there is no significant relationship between educational background of board members and firm's performance.

The above mentioned discussion motivate the researcher to study the issue, since there is still no study that examine the relationship between board characteristics; board composition, board size and educational background of

supervisory board, and corporate performance in Indonesian SOE. The difference of this study with the previous researches is the sample used. This study employs Indonesian SOE that listed in Indonesian Stock Exchange, that brings uniqueness to the study.

2.5 Hypotheses Development

2.5.1 Supervisory Board's Composition

Existing empirical evidence generally support the board effectiveness in protecting shareholder's wealth is a positive function of the proportion of outsiders on the board. Bhagat and Black (2002) find no linkage between the proportion of outside directors and Tobin's Q, return on assets, asset turnover and stock returns. In contrasts, Razak, Ahmad and Aliahmed (2007) do not find Tobin's Q to increase in board independence but they found that firms with independent boards have higher ROE, higher profit margins, and larger stock repurchases, suggesting that board independence is associated with other important measures of firm performance aside from Tobin's Q. Brickley, Coles and Terry (1994) find a positive relation between the proportion of outside directors and the stockmarket reaction to poison pill adoptions

Therefore, based on foregoing arguments, the first hypothesis would be:

H1: *There is significant positive influence of Supervisory Board's* Composition to firm's Performance.

2.5.2 Supervisory Board's Size

Limiting board size is believed to improve firm performance because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision-making of larger groups (Jensen 1993). Consistent with this notion, Yermack (1996) documents an inverse relation between board size and profitability, asset utilization, and Tobin's Q. Beasley and Salterio (2007) believe that smaller board member play a controlling function rather than a larger board.

Based on the above mentioned discussion, the second hypotheses is:

H2: There is negative relation of Supervisory Board's Size to Firm's Performance.

2.5.3 Educational Background of Supervisory Board

ICCG (2006) states that members of Supervisory Board shall have the capability and integrity required to ensure that the oversight and advisory function can be carried out properly. Specifically, board members should have sufficient educational background, such as accounting and/or finance background, to better support their oversight responsibility over management actions that result to firm's performance.

Bilimoria and Piderit (1994, cited in Ponnu, 2008) examined board committees in terms of the qualifications of directors, tenure, age, internal activity, and external activity. In choosing board members, nomination committees of boards covered by the Securities and Exchange Commission should

be guided by the requirements on educational attainment, adequate competence and understanding of the business, age requirement, integrity/probity and assiduousness, among others.

According to Murali (2006), BOD must be composed of professional members, with expertise in, say, law, taxation, or accounting. He concedes, however, that without such specialized qualifications, one can still contribute to the company, make a difference to decisions, bring objectivity to discussions, be independent in views, and act without fear. Nader (1984) proposed that specific dimensions of large corporate activity (consumers, workers, environment, research marketing, finance, compliance, etc.) be assigned to different members of the boards.

Based on foregoing arguments, the third hypotheses shall be:

H3: There is a positive relation between accounting and/or finance background possessed by supervisory board and firm's performance.

2.5.4 Government Ownership

The understanding on the empirical differences in corporate control particularly government involvement has advanced recently. However, search has been very limited for Malaysian capital market to ascertain whether or not the involvement of government in corporate control system provides additional explanation for company value. The relationship between ownership structure and company performance has been an important research topic during the last decades, and produced ongoing debate in the literature of corporate finance. Cited

in Sari (2009), theoretical and empirical research on the relationship between ownership structure and company performance was originally motivated by the separation of ownership from control and currently by three theories, such as: *agency theory* (Jensen and Meckling, 1976; Fama and Jensen, 1983), *property rights theory* (Lindlom, 1977) and *public choice theory* (Hughes, 1998).

- In agency theory, shareholders of company wish to maximize value while managers prefer self-interested strategies which are far from maximizing company value, and in the absence of either appropriate incentives or sufficient monitoring, managers can exercise their discretion to the detriment of owners.
- The property rights theory focuses on the ownership effect of private shareholders (Lindblom, 1977). The argument is as old as subject of economics. Adam Smith (1776) said that "when the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated" (Smith 1776, quoted in Hughes, 1998). Given the different incentive structures in both BUMN and private enterprises, it is expected that corporate performance will differ significantly between ownership types. The basic premise of the property rights is that they encourage the property holders to develop the property or assets, generate wealth, and efficiently allocate resource based on the operation of the market (Lindblom, 1977; Vickers and Yarrow, 1998; and Martin and Parker, 1997).
- Public choice is a sub-branch of economic thought concerned with the application of microeconomics to political and social areas (Hughes,

1998). The behavioural assumption is that people are selfish-rationalist. Individuals generally prefer to seek their interests in rents. Public choice theorists claim that the root of the problem lies in the state, and argue that the best outcome would involve a maximum role for market forces and a minimal role for government (Hughes, 1998). The prediction of public choice theory is that government organisations or public enterprises are often captured by those who traditionally supply the services of the organisation, and that in the absence of the profit motive, bureaucrats in government maximise the size of their own bureau rather maximising benefits to customers or citizens.

Based on three theories above, it has argued that government ownership mostly give negative impact to firm performance. There are many reasons may lead to why government ownership results in poor financial performance. First, the government is guided by social altruism, which may not be in line with the profit motive. Second, the government is not the ultimate owner, but the agent of the real owners – the citizens. And it is not the real owners who exercise governance, but the bureaucrats. There is no personal interest that bureaucrats have to ensure that an organization is run efficiently or governed well since they do not have any benefits from good governance.

The literature on government ownership and performance has been limited and no systematic pattern of relationship between government ownership and company performance has been uncovered. A majority of other studies in India

and abroad (Shleifer and Vishny, 1997; Shleifer, 1998) draw conclusions that state owned enterprises had the worst performance among all companies.

This study employs government ownership as the control variable, that is measured by the total percentage of government ownership in a company. This control variable will be categorized government ownership in a company into two criteria; small ownership and large ownership. Government ownership will be categorized as small ownership if the government ownership in a company is less than the mean of all total assets. Meanwhile, this variable will be categorized as large ownership if the government ownership in a company is greater than the mean of all firms' government ownership.

CHAPTER 3

RESEARCH METHOD

3.1 Research Object & Data Collection Method

Research population is the SOE Company, listed in Indonesian Stock Exchange in 2004-2007. The data collection method is purposive sampling in order to get representative sample which is appropriate with the criteria. The criteria to choose the sample are:

1. SOE Companies listed on Indonesian Stock Exchange in 2004 - 2007
2. The company publish the annual financial statement for December 31st 2004-2007 state in Rupiahs (Rp)
3. Data available is complete (all of data is available in period of December 31st 2004-2007 publication), data related to corporate governance of company and data needed to detect the company financial performance. Research data is collected from the financial statement and annual report of SOE Company listed in Indonesian Stock Exchange in 2004-2007.

3.2 Research Sample Profile

1. Research Period

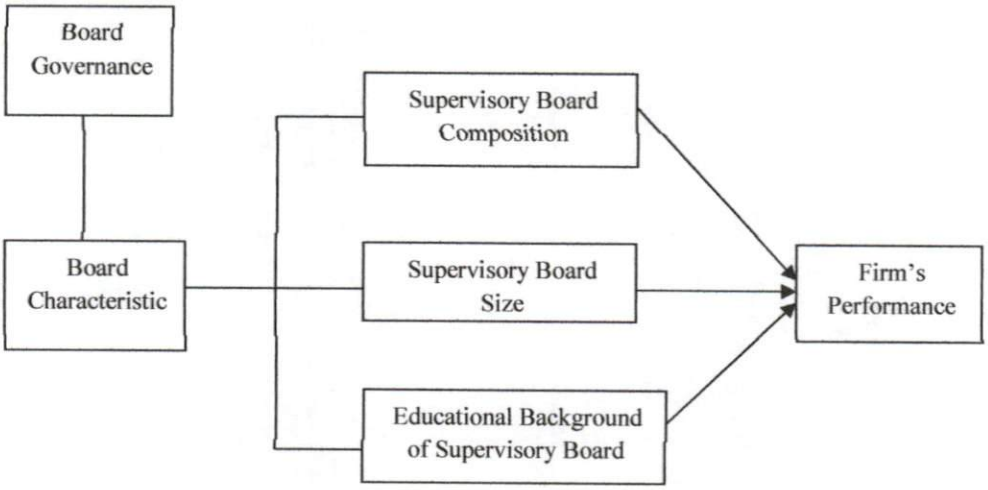
This research includes 4 consecutive years by gathering some data as financial statement of SOE companies which are listed on Indonesia Stock Exchange from 2004-2007, consist of many kind of industries sector such as banking, property, telecommunication and other various industries.

2. Research Scope

The subjects of this study are SOE companies in Indonesia. Based on the research sample's criteria above, the number of sample in this research uses 12 SOE companies in each year, for 4 consecutive years, 2004 – 2007. So, the total number of samples are 48.

3.3. Variable and Measurement

This research focused on the Supervisory Board's Composition, Supervisory Board's Size, and Educational Background of Supervisory Board to Company's Financial Performance (ROE and PBV), with government ownership as variable control, practice in Indonesian BUMN. The research framework can design as follow (Figure 1):



3.3.1 Independent Variable

The independent variables in this study are:

1. *Supervisory Board's composition*, it is defined as the number of independent commissioners to total number of commissioners on the board. Supervisory Board composition is measured by the total number commissioners on the board, whether from external and internal company.
2. *Supervisory Board's size*, it is defined as the number of supervisory board's member in the company. Supervisory board have responsible and power to supervise management's action. Supervisory Board size is measured by using the number of supervisory board indicator in the company.
3. *Educational Background of Supervisory Board.* Defined as the number of member of supervisory board who possesses the accounting and/or financial background. This study use the following classification in determining the term of educational background; (1) having professional certification in accounting (accounting degree and/or Certified Public Accountant (CPA), or (2) having experience as the chief or staff of accounting department, or (3) having experience as the Chief of Financial Officer, or (4) having experience as the internal auditor (Yulia, 2009).

3.3.2 Dependent Variable

The dependent variable in this research is the company's financial performance, indicated by two ratios

1. *ROE (Return on Equity)*

   Formula:

$$ROE = \frac{PBT}{(E_t + E_{t-1})/2}$$

   PBT is Profit before Taxes; E is Equity; and t is time (period). The higher the ratio is better, because the company can add the retained earnings and able to pay higher dividend.

2. *PBV (Price to Book Value)*

   PBV shows how much a company's stock book value will increase the credibility of the company in the market eyes. PBV is the ratio of stock's market value divided to stock's book value. Stock's book value measured by stockholder's total equity divided to outstanding stocks.

3.3.3 Controlling Variable

Several variables might influence the governance process (Bradbury et al., 2002). This study employs government ownership and bank-non bank firm as controlling variables to separate and compare the board characteristics impact on firm performance between firm with large portion of ownership and firm with small portion of ownership, and also between banking firm and non banking firm.

1. Government ownership, which is measured by the total percentage of government ownership in a company. This control variable will be categorized government ownership in a company into two criteria; small portion of ownership and large portion of ownership. Government ownership will be categorized as small ownership if the government ownership in a company is less than the mean of all total firms' government ownership. Meanwhile, this variable will be categorized as large ownership if the government ownership in a company is greater than the mean of all firms' government ownership.

2. Bank-non bank firm, which separates this research samples in to two categories, those are banking industries and non-bank industries. The objective of using this controlling variable is to compare the relationship between board characteristics, which is one of corporate governance mechanisms, and firm performance in banking industries and non-bank industries. Although corporate governance is essential to the success of firms in many industries, the banking sector deserves special attention (UFJI & FCGI, 2005). The banking sector is mainly responsible for the allocation of financial resources to all other sectors of an economy, whose efficiency very much determines the performance of the economy. The importance of banks to national economies is underscored by the fact that banking is virtually universally a regulated industry and that banks have access to government safety nets. It is of crucial importance therefore that banks have strong corporate governance (Basel Committee on Banking Supervision, 2005).

3.4. Research Model

Analyses method that is used to examine the research hypothesis is doubled regression model. Based on the hypothesis previously stated, the model to examine the influence of Supervisory Board Composition, Supervisory Board Size, and Educational Background of Supervisory Board to Company's Financial Performance is as follow:

$$Y1 = a + b1x1 + b2x2 + b3x3 + e \ldots\ldots\ldots\ldots \quad (1)$$

$$Y2 = a + b1x1 + b2x2 + b3x3 + e \ldots\ldots\ldots\ldots \quad (2)$$

Where:

Y1 = Return on Equity

Y2 = Price to Book Value

x1 = Board of Commissioner's Composition

x2 = Boards of Commissioner's Size

x3 = Educational Background of Supervisory Board

a = constant

b = coefficient regression

e = coefficient error

Controlling variables are:

1. Government ownership
2. Bank-non bank Industries

CHAPTER IV

RESULT AND DISCUSSION

4.1 Samples

This study is intended to examine the relation between board characteristics and firm's performance on Indonesian state-owned enterprises listed in Indonesian Stock Exchange (IDX). Using the purposive sampling method, there are 12 firms employed in this study as the subject analysis for four years period (2004-2007).

Table 1

List of Samples

No.	Sample Name	Code
1.	PT Adhi Karya (Persero) Tbk.	ADHI
2.	PT Aneka Tambang (Persero) Tbk.	ANTM
3.	PT Bank Negara Indonesia (Persero) Tbk.	BBNI
4.	PT Bank Rakyat Indonesia (Persero) Tbk.	BBRI
5.	PT Bank Mandiri (Persero) Tbk.	BMRI
6.	PT Indofarma (Persero) Tbk.	INAF
7	PT Kimia Farma (Persero) Tbk.	KAEF
8.	PT Tambang Batubara Bukit Asam (Persero) Tbk.	PTBA
9.	PT Semen Gresik (Persero) Tbk.	SMGR
10.	PT Perusahaan Gas Negara (Persero) Tbk.	PGAS
11.	PT Timah (Persero) Tbk.	TINS
12.	PT Telekomunikasi Indonesia (Persero) Tbk.	TLKM

4.2 Results and Hypothesis Testing

4.2.1 The Relation between Board Characteristics and Return on Equity

The association between board characteristics and firm's performance (Return on Equity) can be examined from the following table;

Table 2

Coefficients of ROE for all firms

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	16.722	8.907		1.878	.067	-1.228	34.672					
	COMP	1.539	2.777	.139	.554	.582	-4.057	7.135	.119	.083	.083	.355	2.820
	SIZE	.014	2.815	.001	.005	.996	-5.659	5.686	.087	.001	.001	.255	3.924
	ED BACK	-.334	3.075	-.029	-.109	.914	-6.531	5.862	.074	-.016	-.016	.306	3.270

a. Dependent Variable: ROE

From coefficient table, it can be formed in to regression equation,

ROE = 16.722 + 1.539 COMP + 0.014 SIZE – 0.334 EDBACK. And it can be concluded that all of independent variables (COMP / X1, SIZE / X2, ED BACK / X3) have no significant relationship with Return on Equity (Sig. Value > 0.05).

Table 3

ANOVA of ROE for all firms

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	113.920	3	37.973	.215	.885[a]
	Residual	7756.120	44	176.275		
	Total	7870.040	47			

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: ROE

ANOVA table can be used for general analysis. From ANOVA table, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) collectively have no significant relationship with Return on Equity (Sig. value 0.885 > 0.05).

Table 4

Model summary of ROE for all firms

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.120[a]	.014	-.053	13.27688	.014	.215	3	44	.885	1.921

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: ROE

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 1.4 % of the variation of Return on Equity (R Square 0.014).

The analysis of the relation between board characteristics and firm's performance (Return on Equity) under the control variable (government ownership) can be seen as follows;

a. *Small* Portion of Ownership

Table 5

Coefficients of ROE for Small Ownership

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	36.923	14.022		2.633	.013	8.362	65.484					
	COMP	.659	3.817	.057	.173	.864	-7.116	8.434	-.067	.030	.030	.277	3.606
	SIZE	-3.502	3.950	-.302	-.887	.382	-11.549	4.544	-.138	-.155	-.154	.262	3.818
	ED BACK	1.580	4.119	.141	.384	.704	-6.811	9.971	-.065	.068	.067	.226	4.432

a. Dependent Variable: ROE

From coefficient table, it can be concluded that Supervisory Board's Composition (COMP / X1) and Educational Background of Supervisory Board (ED BACK / X3) have no significant relationship with Return on Equity (Sig. Value > 0.05). Meanwhile, variable Supervisory Board's Size (SIZE / X2) has a negative relationship with Return on Equity.

Table 6

ANOVA of ROE for Small Ownership

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	147.896	3	49.299	.315	.814[a]
	Residual	5009.936	32	156.561		
	Total	5157.832	35			

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: ROE

From ANOVA table, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) collectively have no significant relationship with Return on Equity (Sig. value 0.814 > 0.05).

Table 7

Model Summary of ROE for Small Ownership

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.169[a]	.029	-.062	12.51241	.029	.315	3	32	.814	2.344

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: ROE

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 2.9 % of the variation of Return on Equity (R Square 0.029).

b. Large Portion of Ownership

Table 8

Coefficients of ROE for Large Ownership

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	6.492	2.174		2.987	.017	1.480	11.505					
	COMP	1.769	.873	.781	2.026	.077	-.245	3.783	.496	.582	.471	.365	2.743
	SIZE	-1.829	.952	-1.133	-1.921	.091	-4.024	.367	.380	-.562	-.447	.156	6.422
	ED BACK	2.688	1.104	1.084	2.435	.041	.142	5.234	.563	.652	.567	.273	3.658

a. Dependent Variable: ROE

From coefficient table, it can be concluded that all of independent variables (X1, X2, X3) have no significant relationship with Return on Equity (Sig. Value > 0.05).

Table 9

Anova of ROE for Large Ownership

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65.964	3	21.988	3.488	.070[a]
	Residual	50.426	8	6.303		
	Total	116.391	11			

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: ROE

From ANOVA table, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) collectively have no significant relationship with Return on Equity (Sig. value 0.070 > 0.05).

Table 10

Model Summary of ROE for Large Ownership

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.753[a]	.567	.404	2.51064	.567	3.488	3	8	.070	1.823

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: ROE

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 56.7 % of the variation of Return on Equity (R Square 0.567).

c. *Bank Industries*

Table 11

Coefficients of ROE for Banking Industries

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	64.134	31.731		2.021	.078		
	SIZE	-10.248	6.205	-.685	-1.652	.137	.538	1.859
	COMP	-1.911	7.978	-.133	-.240	.817	.301	3.321
	EDBACK	7.100	9.339	.494	.760	.469	.220	4.551

a. Dependent Variable: ROE

From coefficient table, it can be concluded that all of independent variables (X1, X2, X3) have no significant relationship with Return on Equity (Sig. Value > 0.05).

Table 12

ANOVA of ROE for Banking Industries

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	476.931	3	158.977	.930	.469[a]
	Residual	1367.101	8	170.888		
	Total	1844.032	11			

a. Predictors: (Constant), EDBACK, SIZE, COMP

b. Dependent Variable: ROE

From ANOVA table, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) collectively have no significant relationship with Return on Equity (Sig. value 0.469 > 0.05).

Table 13

Model Summary of ROE for Banking Industries

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.509[a]	.259	-.019	13.07240	.259	.930	3	8	.469	2.742

a. Predictors: (Constant), EDBACK, SIZE, COMP

b. Dependent Variable: ROE

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 25.9 % of the variation of Return on Equity (R Square 0.259).

d. Non-Bank Industries

Table 14

Coefficient of ROE for Non-Bank Industries

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	.059	8.931		.007	.995					
	SIZE	-1.008	3.058	-.083	-.330	.744	.410	-.058	-.049	.342	2.923
	COMP	4.274	2.900	.295	1.474	.150	.384	.252	.217	.543	1.840
	EDBACK	9.691	4.258	.456	2.276	.030	.494	.373	.336	.543	1.842

a. Dependent Variable: ROE

From coefficient table, it can be concluded that ED BACK has a significant relationship with ROE (Sig. Value 0.030 < 0.05). meanwhile COMP and SIZE has no significant relationship with ROE (Sig. Value > 0.05).

Table 15

ANOVA of ROE for Non-Bank Industries

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1787.465	3	595.822	4.657	.008[a]
	Residual	4094.003	32	127.938		
	Total	5881.467	35			

a. Predictors: (Constant), EDBACK, COMP, SIZE

b. Dependent Variable: ROE

From ANOVA table, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) collectively has a significant relationship with ROE (Sig. value 0.008 < 0.05).

Table 16

Model Summary of ROE for Non-Bank Industries

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.551[a]	.304	.239	11.31095	.304	4.657	3	32	.008	2.306

a. Predictors: (Constant), EDBACK, COMP, SIZE

b. Dependent Variable: ROE

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 30.4 % of the variation of Return on Equity (R Square 0.304).

4.2.2 The Relationship between Board's Characteristics and Price to Book Value

The association of board characteristics and firm's performance (Price to Book Value) can be examined from the following tables;

Table 17

Coefficients of PBV for all firms

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	1.855	1.686		1.101	.277	-1.544	5.255					
	COMP	-.994	.525	-.464	-1.891	.065	-2.053	.066	-.116	-.277	-.276	.355	2.821
	SIZE	.430	.533	.234	.807	.424	-.644	1.504	.051	.122	.118	.255	3.924
	ED BACK	.490	.582	.223	.842	.405	-.684	1.665	.072	.127	.123	.306	3.273

a. Dependent Variable: PBV

From coefficient table, , it can be formed in to regression equation,

$PBV = 1.855 - 0.994\ COMP + 0.430\ SIZE + 0.490\ EDBACK$. And it can be concluded that all of independent variables (COMP / X1, SIZE / X2, ED BACK / X3) have no significant relationship with Return on Equity (Sig. Value > 0.05).

Table 18

ANOVA of PBV for all firms

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.142	3	8.047	1.276	.295[a]
	Residual	271.226	43	6.308		
	Total	295.368	46			

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

From ANOVA table, it can be concluded COMP (X1), SIZE (X2), and ED BACK (X3) collectively have no significant relationship with Price to Book Value (Sig. value 0.295 > 0.05).

Table 19

Model Summary of PBV for all firms

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.286[a]	.082	.018	2.51149	.082	1.276	3	43	.295	2.340

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 8.2 % of the variation of Return on Equity (R Square 0.082).

a. Small Portion of Ownership

Table 20

Coefficients of PBV for Small Ownership

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	3.790	2.742		1.382	.177	-1.803	9.382					
	COMP	-2.391	.746	-.937	-3.207	.003	-3.912	-.871	-.277	-.499	-.494	.277	3.604
	SIZE	.144	.771	.056	.186	.853	-1.429	1.717	-.069	.033	.029	.263	3.805
	ED BACK	1.848	.805	.743	2.294	.029	.205	3.490	.013	.381	.353	.226	4.421

a. Dependent Variable: PBV

From coefficient table, it can be concluded that COMP (X1) has a significant negative relationship with Price to Book Value (Sig. Value 0.003 < 0.05). Meanwhile, the other variables (SIZE, ED BACK) have no significant relationship with Price to Book Value (Sig. Value > 0.05).

Table 21

ANOVA of PBV for Small Ownership

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66.793	3	22.264	3.731	.021[a]
	Residual	185.000	31	5.968		
	Total	251.793	34			

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

From ANOVA table, it can be concluded COMP (X1), SIZE (X2), and ED BACK (X3) collectively have a significant relationship with Price to Book Value (Sig. value 0.021 < 0.05).

Table 22

Model Summary of PBV for Small Ownership

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.515[a]	.265	.194	2.44290	.265	3.731	3	31	.021	2.405

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 26.5 % of the variation of Price to Book Value (R Square 0.265).

b. Large Portion of Ownership

Table 23

Coefficients of PBV for Large Ownership

Coefficients[a]

Model		*Unstandardized* Coefficients		*Standardized* Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	1.359	.387		3.508	.008	.466	2.252					
	COMP	-.078	.156	-.284	-.502	.629	-.437	.281	-.018	-.175	-.171	.365	2.743
	SIZE	.046	.170	.236	.273	.792	-.345	.437	.142	.096	.093	.156	6.422
	ED BACK	.045	.197	.151	.231	.823	-.408	.499	.193	.081	.079	.273	3.658

a. Dependent Variable: PBV

From coefficient table, it can be concluded that all of independent variables (X1, X2, X3) have no significant relationship with Price to Book Value (Sig. Value > 0.05).

Table 24

ANOVA of PBV for Large Ownership

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.117	3	.039	.194	.897[a]
	Residual	1.601	8	.200		
	Total	1.718	11			

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

From ANOVA table, it can be concluded COMP (X1), SIZE (X2), and ED BACK (X3) collectively have no significant relationship with Price to Book Value (Sig. value 0.897 < 0.05).

Table 25

Model Summary of PBV for Large Ownership

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.260[a]	.068	-.282	.44737	.068	.194	3	8	.897	1.002

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 6.8 % of the variation of Price to Book Value (R Square 0.068).

c. Banking Industries

Table 26

Coefficients of PBV for Banking Industries

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.767	2.434		1.548	.160		
	SIZE	-.661	.476	-.564	-1.389	.202	.538	1.859
	COMP	.213	.612	.189	.348	.737	.301	3.321
	EDBACK	.591	.716	.524	.825	.433	.220	4.551

a. Dependent Variable: PBV

From coefficient table, it can be concluded that all of independent variables (X1, X2, X3) have no significant relationship with Price to Book Value (Sig. Value > 0.05).

Table 27

ANOVA of PBV for Banking Industries

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.301	3	1.100	1.095	.406[a]
	Residual	8.042	8	1.005		
	Total	11.342	11			

a. Predictors: (Constant), EDBACK, SIZE, COMP

b. Dependent Variable: PBV

From ANOVA table, it can be concluded COMP (X1), SIZE (X2), and ED BACK (X3) collectively have no significant relationship with Price to Book Value (Sig. value 0.406 > 0.05).

Table 28

Model Summary of PBV for Banking Industries

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.539[a]	.291	.025	1.00259	.291	1.095	3	8	.406	2.927

a. Predictors: (Constant), EDBACK, SIZE, COMP

b. Dependent Variable: PBV

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 29.1 % of the variation of Price to Book Value (R Square 0.291).

d. Non-Bank Industries

Table 29

Coefficients of PBV for Non-Banking Industries

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.994	2.002		-.496	.623		
	SIZE	.550	.685	.210	.802	.428	.342	2.923
	COMP	-.916	.650	-.293	-1.409	.169	.543	1.840
	EDBACK	1.847	.954	.403	1.935	.062	.543	1.842

a. Dependent Variable: PBV

From coefficient table, it can be concluded that all of independent variables (X1, X2, X3) have no significant relationship with Price to Book Value (Sig. Value > 0.05).

Table 30

ANOVA of PBV for Non-Bank Industries

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	67.915	3	22.638	3.522	.026[a]
	Residual	205.697	32	6.428		
	Total	273.612	35			

a. Predictors: (Constant), EDBACK, COMP, SIZE

b. Dependent Variable: PBV

From ANOVA table, it can be concluded COMP (X1), SIZE (X2), and ED BACK (X3) collectively have a significant relationship with Price to Book Value (Sig. value 0.026 < 0.05).

Table 31

Model Summary of PBV for Non-Bank Industries

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.498[a]	.248	.178	2.53535	.248	3.522	3	32	.026	2.811

a. Predictors: (Constant), EDBACK, COMP, SIZE

b. Dependent Variable: PBV

From model summary table above, it can be concluded that COMP (X1), SIZE (X2), and ED BACK (X3) can collectively explain 24.8 % of the variation of Price to Book Value (R Square 0.248).

Table 32

Summary of Hypothesis Result

	Hypothesis	Independent Variable	Dependent Variable	Result for All Firms	Result After Controlled			
					Small Ownership	Large Ownership	Bank Industries	Non-Bank Industries
H1	There is significant positive influence of Supervisory Board Composition to Firm's Performance	Supervisory Board Composition	ROE	Not Significant **(H1 Rejected)**	Not Significant **(H1 Rejected)**	Not Significant **(H1 Rejected)**	Not Significant **(H1 Rejected)**	Not Significant **(H1 Rejected)**
			PBV	Not Significant **(H1 Rejected)**	Significant Negative **(H1 Rejected)**	Not Significant **(H1 Rejected)**	Not Significant **(H1 Rejected)**	Not Significant **(H1 Rejected)**
H2	There is negative relation of Supervisory Board's Size to Firm's Performance	Supervisory Board's Size	ROE	Positive **(H2 Rejected)**	Negative **(H2 Accepted)**	Negative **(H2 Accepted)**	Positive **(H2 Rejected)**	Positive **(H2 Rejected)**
			PBV	Positive **(H2 Rejected)**	Positive **(H2 Rejected)**	Positive **(H2 Rejected)**	Positive **(H2 Rejected)**	Positive **(H2 Rejected)**
H3	There is a positive relation between accounting and / or finance background possessed by supervisory board and Firm's Performance	Educational Background of Supervisory Board	ROE	Negative **(H3 Rejected)**	Positive **(H3 Accepted)**	Significant Positive **(H3 Accepted)**	Positive **(H3 Accepted)**	Significant Positive **(H3 Accepted)**
			PBV	Positive **(H3 Accepted)**	Significant Positive **(H3 Accepted)**	Positive **(H3 Accepted)**	Positive **(H3 Accepted)**	Positive **(H3 Accepted)**

4.4 Results and Discussion

This study is intended to examine the relationship between board characteristics and firm's performance. According to the results of hypothesis testing, this study also has a contradictive result with previous empirical evidence that generally supports the significant positive influence of supervisory board's composition to firm's performance. The writer found no significant relationship between board composition, or independent board member and firm performance, that has the same result with Rahman and Haniffa (2003), which found insignificant influence between non-executive and both performance indicators ROA and Tobin's Q. These findings are also consistent with Hermalin and Weisbach (1991) that find no association between the proportion of outsider directors and Tobin's Q. They conclude that there is no relationship between the percentage of outsiders on the board and firm value. Bhagat and Black (2002) also find no linkage between the proportion of outside directors and Tobin's Q, return on assets, asset turnover and stock returns.

After controlled, only one significant negative result between Supervisory Board's Composition and PBV for the small number of government ownership. This might happened because of in the firm with smaller portion of government ownership, the importance of politic and bureaucracy is lesser than the firm with larger portion of government ownership. Corporate governance implementations in Indonesian Ministerial context incline to unite bureaucracy and corporation activities (Sari,2009). In this condition, the board member changes mostly follow the political and government recycle that go on every five years. This biased groove absolutely gives influence to the changes of Ministerial of SOE, the

primary holder in Shareholders General Meeting. As the result, the changes of the SOE board members will be happen consistent with the ups and downs of the political parties after the election. In other word, it can be conclude that SOE board members are still not resistant to political parties' interferences.

Nuryanah (2001) argues that most of the Indonesian publicly listed firms just hit the minimum requirement of the regulation (related with supervisory board). This indicates the minimal condition for corporate governance implemented by Indonesian publicly listed firms, including SOEs. In addition, she also argues that the legal system implemented in Indonesia still weak in requiring the publicly listed firms to comply with the regulations of corporate governance.

In sum, Indonesian SOEs need a new model of governance system that more independent, such as by creating an independent institutional that responsible to arrange the Indonesian SOE companies. Principally, the aim of this institutional is to sterilize the SOE component from government, legislative and political interferences (National Committee on Corporate Governance, 2007).

According to the results of hypothesis testing, the supervisory board's size has a contradictive result with Yermack (1996) who believed that limiting board size is to improve firm performance, and Jensen (1993) who argues that document an inverse relation between board size and profitability. In this research, supervisory board's size has a positive relation with Price to Book Value for all firms, small portion of government ownership, large portion of ownership, banking industries, and non-bank industries, and positive relation with Return on

Equity for all firms, banking and non-bank industries, and negative result only when using controlling variable for large and small portion of ownership.

This result is inconsistent with the research by Demsetz and Villalonga (2001) that found no statistically significant relation between ownership structure and firm performance. This contrast might be caused by the different board systems that are adopted, where this research is using Indonesian SOEs as sample that adopt two-tier board system, while the previous researchers used sample from countries that adopt one tier board system. The different company characteristic, regulation factor, and macroeconomic factor also could be considered as the reasons of this different result.

On the other hand, this is result supported by Xu and Wang (1993) that found significant effect on the performance of the stock companies. Beside that, this result also supported by Andreyeva and Dean (2000) that found there is statistically significant positive relationship between concentrated shareholding and company performance in Ukraine. These findings confirm the corporate theory that predicts better performance of companies held by large shareholders due to effectiveness of a corporate governance system.

Based on Jensen (1993), when board members are more than seven or eight, board function effectiveness would be reduce. This fact indicates that, averagely, board of commissioners' size in SOE is not the reason of ineffectiveness function of that board. Based on the result of this research, it can be concluded that bigger board of commissioners' size effect to increasing of PBV. Researcher concludes that, averagely, board of commissioners' function in

SOEs could be effective by increasing board size, as long as that increasing still below critical number (7 or 8 members).

Meanwhile, the result of hypothesis testing for educational background of supervisory board has only one rejected hypothesis, that show there is a negative relation between educational background of supervisory board and return on equity for all firms. In the other hand, after controlled the regression test shows positive relation between educational background of supervisory board and return on equity after using controlling variable for small and large portion of government ownership firms, and also for banking firm and non-bank firm, and price to book value for all firms, and after using controlling variables small and large portion of government ownership firms, and also bank-non bank industries, which means third hypothesis is accepted. This has contradictive result with Ponnu (2008) who found that educational background of BOD members of a company does not seem to have an impact on its performance, and Casper (2007) that found no significant relationship between educational background of board members and firm's performance.

The result of hypothesis testing for educational background of supervisory board shows that there is a positive relation between educational background of supervisory board members and firm performance. The writer believes that having supervisory board member with relevant educational backgrounds and industry experience is beneficial to the board as a whole. Supervisory board member with this experience can provide a useful perspective on significant risks and competitive advantages and an understanding of the challenges facing the business, that will result in improving firm performance.

competitive advantages and an understanding of the challenges facing the business, that will result in improving firm performance.

Afterall, there are no significant difference result for banking and non banking industries, although banking industries have stronger corporate governance regulation than non-banking industries. This might cause of banking industries used in this research sample are too little, so the result doesn't show any difference with non-bank industries. In this research, banking industries only consist of 3 samples.

In general, we can concluded that the differences between this research's result from previous literature research because of applied in different board system, different industry and also because of the sample of this research is using SOE that has some different regulations from private company.

CHAPTER V

CONCLUSION

5.1 Conclusion

The purpose of this research is to examine the board characteristics and firm performance in Indonesian state-owned enterprises. The population of this research is Indonesian state-owned enterprises listed in Indonesian Stock Exchange (IDX) in 2004-2007.

1. There is no significant influence of supervisory board composition to return on equity and price to book value. Generally, we can conclude that Indonesian BUMN still has to design more optimal board structure that could encourage the company to have efficient board governance in order to increase the firm's performance. This is so crucial because board of commissioner is one of primary element in corporate governance, and corporate governance it self, is really needed to maximize firm's value.

2. It is found that there is a positive influence of supervisory board's size on PBV in all firms, small and large portions of government ownership, banking and non-banking industries, and positive relationship with Return on Equity for all firms. This implies that SOE which has more supervisory board member could increase PBV, but in the other hand decrease ROE in small and large portion of government ownership firms.

and large portion of government ownership firms, banking industries and non-banking industries.

5.2 Limitation and Areas for Further Research

This study only employs composition, size, and educational background of supervisory board as the proxies of board characteristics. Further research can be conducted by adding another board's characteristics, and adding samples not only from supervisory board but also from management board. In addition, further research can expand the number and the period of observations in order to provide more reliable empirical evidence, since the effects of corporate governance practices cannot be observe for short term period.

References

Adams, Renee B., and Ferreira, Daniel. 2004. Gender Diversity in the Board Room. http://www.ssrn.com.

Agrawal, A. & C.R. Knoeber 1996,'Firm Performance and Mechanisms to Control Agency Problems Between Managers and Shareholders', *Journal of Financial & Quantitative Analysis*, pp.377-397.

Agus, Syafril. 2002. *Dasar – dasar Akuntansi.* Lecturer Notes. Economic Faculty, Andalas University of Indonesia.

Andreyeva, T. and Dean J.W. (2000), Privatization, Ownership Structure and Company Performance: The Case of Ukraine, http://www.gov.si/zmar/conference/2000/pdf/andreyefa.pdf.

Baysinger, B. D. & Butler, H. N. (1985). Corporate Governance and The Board of Directors: Performance Effects of Changes in Board Composition. *Journal of Law, Economics and Organization* **1**: 101–124.

Bhagat, Sanjay, and Black, Bernard. 1999. The Uncertain Relationship Between Board Composition and firm Performance. http://www.ssrn.com.

Belkhir, M. 2004, Board of Directors Size and Performance in Banking, University of North Texas.

Brennan, N. & McDermott, M. 2004, 'Alternative Perspectives on Independence of Directors', *Blackwell Publishing*, USA.

Carcello, Joseph V., Carl W. Hollingsworth, April Klein, and Terry L. Neal. 2006. Audit Committee Financial Expertise, Competing Corporate Governance Mechanisms, and Earnings Management. www.ssrn.com

Casper, Rose. 2007. Does Female Board Representation Influence Firm Performance? The Danish Evidence. www.ssrn.com

Demsetz, H. and Villalonga, B. (2001), Ownership Structure and Corporate Perfromance, http://www.ssrn.com

Forum for Corporate Governance in Indonesia. Undated. The Roles of the Board of Commissioners and the Audit Committee in Corporate Governance. http://www.fcgi.or.id.

Heidrick and Struggles, Inc. 1977. The Changing Board Profile of the Board of Directors, Heidrick and Struggles, Chicago, IL.

Hermalin, B. & Weisbach, M. 1988,'The Effects of Board Composition and Direct Incentives on Firm Performance', *Financial Management* 20, no.4, pp.101-112.

Igra. 2008. The Influence of Board of Commissioners' Characteristics on Earning management; In Case of Banking Company Listed in Indonesia Stock Exchange, *Undergraduate Degree Thesis*, Andalas University of Indonesia.

Indonesian BUMN Ministerial Decree. 2002. No. 117. *Tentang* Corporate Governance.

Indonesian Code for Good Corporate Governance. 2006, Indonesia.

Indonesian Company Law. 2007, UU RI No. 40 *Tentang Perseroan Terbatas.*

Jensen, M.C. & Meckling, W.H. 1976,'Theory of The Firm: Management Behavior, Agency Costs and Ownership Structure', http://www.ssrn.com

Jensen, M.C. & Fama, E. (1983), *Separation of Ownership and Control*, http://www.ssrn.com

Lipton, M., & Lorsch, J. W. (1992). A modest proposal for improved corporate governance? *Issues in Business Lawyer, 48,* 59-77.

Loderer, C., & U. Peyer (2002). Board overlap, seat accumulation and share prices. *Issues in European Financial Management 8*, 165-192.

Lukviarman, N. 2004. Ownership Structure and Firm Performance: The Case of Indonesia, *DBA Thesis*, Graduate School of Business, Curtin University of Technology, Perth.

Monks, R. A. G., & Minnow, N. (1995). *Corporate Governance*. Blackwell, Cambridge.

Murali, D. 2006. Professionals as Directors vs Professional Directors. www.google.com

Nader, R. 1984. Reforming Corporate Governance. California Management Review.www.google.com

Ningsih, L.U. 2006, Board Monitoring Effectiveness and Financial Disclosure; The view of Corporate Governance, *Undergraduate Degree Thesis*, Andalas University of Indonesia.

Nuryanah, Siti. Undated. Corporate Governance Practice in Indonesia, Status Quo? An Empirical Study of the Relationship between Corporate Governance Practice and Performance of Listed Companies. *Staff.ui.edu (Nov 11th, 2009).*

OECD. 2004. OECD Principles of Corporate Governance. http://www.google.com.

Parulian, Safrida Rumondang. 2007. *Komite Audit, Komisaris Independen dan Manajemen Laba; Studi Kasus Perusahaan di Bursa Efek Jakarta.* The 1st Accounting Conference at Economic Faculty of Universitas Indonesia.

Peasnell, K.V., P.F. Pope, and S. Young. 2000. Board Monitoring and Earnings Management. Do Outside Directors Influence Abnormal Accruals? www.ssrn.com

Ponnu, Cyrill H. 2008. Academic Qualifications of Board of Directors and Company Performance. www.ssrn.com

Rahmadani, M.R. 2008. Corporate Governance and the Effectiveness of Board of Commissioner in Cement Industry; the Case of State Owned Enterprises, *Undergraduate Degree Thesis,* Andalas University of Indonesia.

Rahman, R. A. and Haniffa, R. M. 2003, Internal Governance Mechanisms and Performance of Malaysian Listed Companies, *Journal*, presented at ANZAM 2003 Conference, Perth, Australia 2-4 December 2003

Razak, N.H., Ahmad, R. and Aliahmed, H.J. 2008. Government Ownership and Performance; An Analysis of Listed Company in Malaysia. http://www.ssrn.com.

Sari, Dewi Y. 2009. Impact of Corporate Governance Mechanisms on Firm Performance. *Undergraduate Degree Thesis,* Andalas University of Indonesia.

Shleifer, A., Vishny, R.W. 1997. A Survey of Corporate Governance. http://www.ssrn.com.

UFJI & FCGI. 2005. Corporate Governance of Banks in Indonesia, PT UFJ Institute Indonesia-for Corporate Governance in Indonesia.

Yulia, Ewi. 2009. Board Governance and Financial Reporting Quality. *Undergraduate Degree Thesis,* Andalas University of Indonesia.

Appendixes

All Firms

Regression of PBV

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.286[a]	.082	.018	2.51149	.082	1.276	3	43	.295	2.340

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.142	3	8.047	1.276	.295[a]
	Residual	271.226	43	6.308		
	Total	295.368	46			

a. Predictors: (Constant), ED BACK, COMP, SIZE

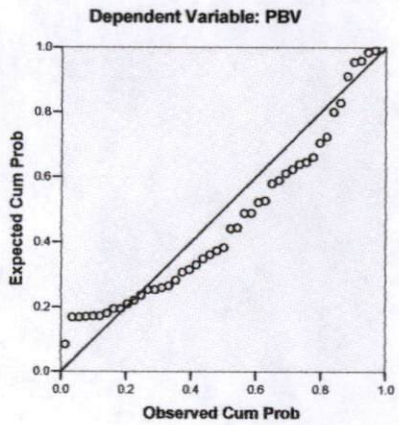
b. Dependent Variable: PBV

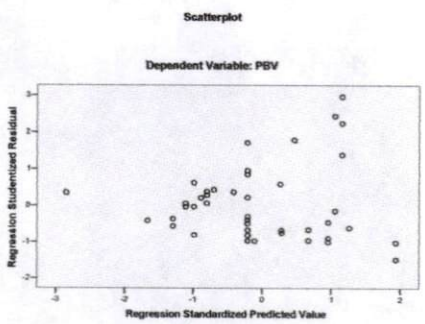
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	1.855	1.686		1.101	.277	-1.544	5.255					
	COMP	-.994	.525	-.464	-1.891	.065	-2.053	.066	-.116	-.277	-.276	.355	2.821
	SIZE	.430	.533	.234	.807	.424	-.644	1.504	.051	.122	.118	.255	3.924
	ED BACK	.490	.582	.223	.842	.405	-.684	1.665	.072	.127	.123	.306	3.273

a. Dependent Variable: PBV

Normal P-P Plot of Regression Standardized Residual





Regression of ROE

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.120[a]	.014	-.053	13.27688	.014	.215	3	44	.885	1.921

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: ROE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	113.920	3	37.973	.215	.885[a]
	Residual	7756.120	44	176.275		
	Total	7870.040	47			

a. Predictors: (Constant), ED BACK, COMP, SIZE

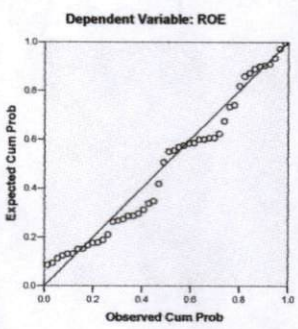
b. Dependent Variable: ROE

Coefficients[a]

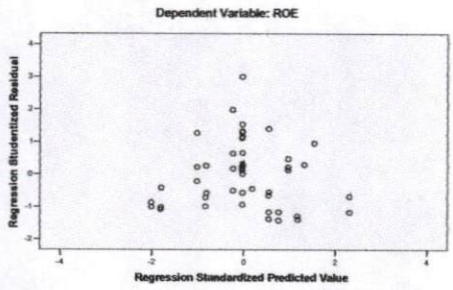
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	16.722	8.907		1.878	.067	-1.228	34.672					
	COMP	1.539	2.777	.139	.554	.582	-4.057	7.135	.119	.083	.083	.355	2.820
	SIZE	.014	2.815	.001	.005	.996	-5.659	5.686	.087	.001	.001	.255	3.924
	ED BACK	-.334	3.075	-.029	-.109	.914	-6.531	5.862	.074	-.016	-.016	.306	3.270

a. Dependent Variable: ROE

Normal P-P Plot of Regression Standardized Residual



Scatterplot



Small Ownership

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.169[a]	.029	-.062	12.51241	.029	.315	3	32	.814	2.344

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: ROE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	147.896	3	49.299	.315	.814[a]
	Residual	5009.936	32	156.561		
	Total	5157.832	35			

a. Predictors: (Constant), ED BACK, COMP, SIZE

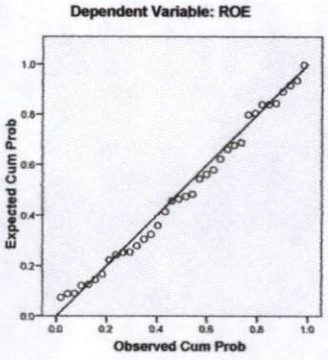
b. Dependent Variable: ROE

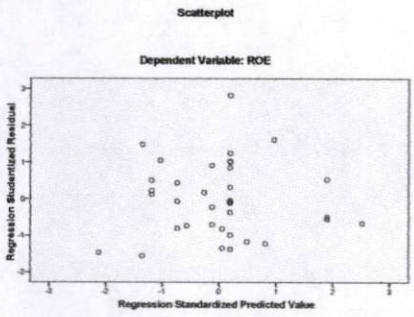
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	36.923	14.022		2.633	.013	8.362	65.484					
	COMP	.659	3.817	.057	.173	.864	-7.116	8.434	-.067	.030	.030	.277	3.606
	SIZE	-3.502	3.950	-.302	-.887	.382	-11.549	4.544	-.138	-.155	-.154	.262	3.818
	ED BACK	1.580	4.119	.141	.384	.704	-6.811	9.971	-.065	.068	.067	.226	4.432

a. Dependent Variable: ROE

Normal P-P Plot of Regression Standardized Residual





Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.515[a]	.265	.194	2.44290	.265	3.731	3	31	.021	2.405

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66.793	3	22.264	3.731	.021[a]
	Residual	185.000	31	5.968		
	Total	251.793	34			

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

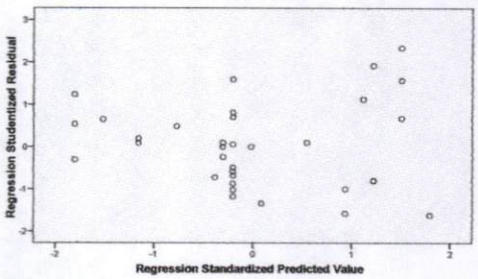
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	3.790	2.742		1.382	.177	-1.803	9.382					
	COMP	-2.391	.746	-.937	-3.207	.003	-3.912	-.871	-.277	-.499	-.494	.277	3.604
	SIZE	.144	.771	.056	.186	.853	-1.429	1.717	-.069	.033	.029	.263	3.805
	ED BACK	1.848	.805	.743	2.294	.029	.205	3.490	.013	.381	.353	.226	4.421

a. Dependent Variable: PBV

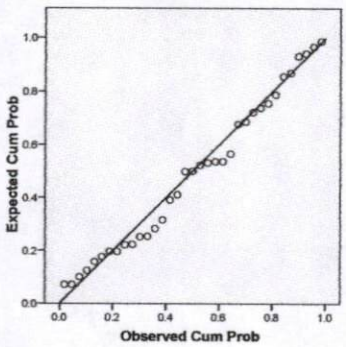
Scatterplot

Dependent Variable: PBV



Normal P-P Plot of Regression Standardized Residual

Dependent Variable: PBV



Large Firms

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.753[a]	.567	.404	2.51064	.567	3.488	3	8	.070	1.823

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: ROE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65.964	3	21.988	3.488	.070[a]
	Residual	50.426	8	6.303		
	Total	116.391	11			

a. Predictors: (Constant), ED BACK, COMP, SIZE

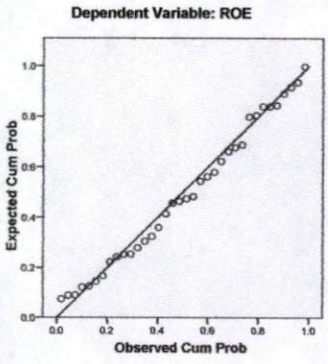
b. Dependent Variable: ROE

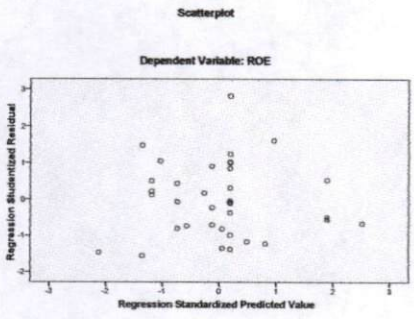
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	6.492	2.174		2.987	.017	1.480	11.505					
	COMP	1.769	.873	.781	2.026	.077	-.245	3.783	.496	.582	.471	.365	2.743
	SIZE	-1.829	.952	-1.133	-1.921	.091	-4.024	.367	.380	-.562	-.447	.156	6.422
	ED BACK	2.688	1.104	1.084	2.435	.041	.142	5.234	.563	.652	.567	.273	3.658

a. Dependent Variable: ROE

Normal P-P Plot of Regression Standardized Residual





Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.260[a]	.068	-.282	.44737	.068	.194	3	8	.897	1.002

a. Predictors: (Constant), ED BACK, COMP, SIZE

b. Dependent Variable: PBV

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.117	3	.039	.194	.897[a]
	Residual	1.601	8	.200		
	Total	1.718	11			

a. Predictors: (Constant), ED BACK, COMP, SIZE

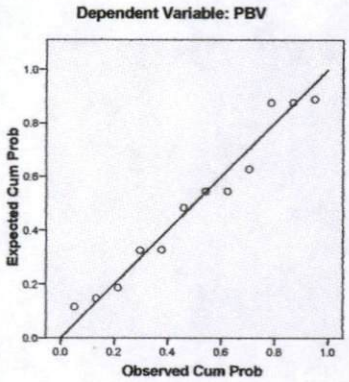
b. Dependent Variable: PBV

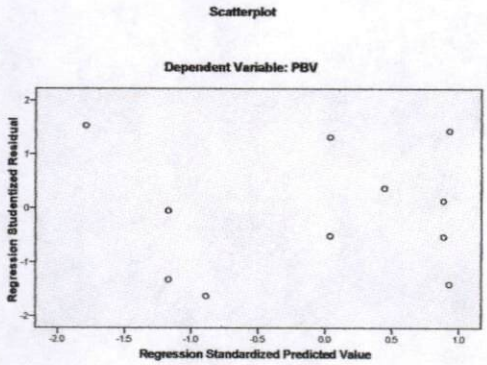
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	1.359	.387		3.508	.008	.466	2.252					
	COMP	-.078	.156	-.284	-.502	.629	-.437	.281	-.018	-.175	-.171	.365	2.743
	SIZE	.046	.170	.236	.273	.792	-.345	.437	.142	.096	.093	.156	6.422
	ED BACK	.045	.197	.151	.231	.823	-.408	.499	.193	.081	.079	.273	3.658

a. Dependent Variable: PBV

Normal P-P Plot of Regression Standardized Residual





Banking Industries

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.539[a]	.291	.025	1.00259	.291	1.095	3	8	.406	2.927

a. Predictors: (Constant), EDBACK, SIZE, COMP

b. Dependent Variable: PBV

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.301	3	1.100	1.095	.406[a]
	Residual	8.042	8	1.005		
	Total	11.342	11			

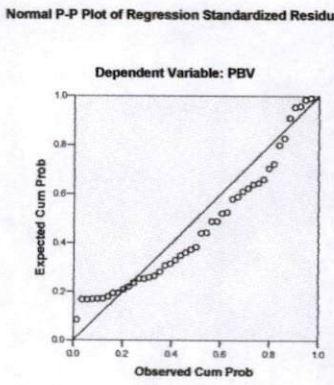
a. Predictors: (Constant), EDBACK, SIZE, COMP

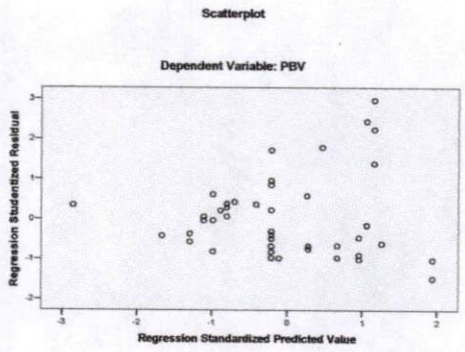
b. Dependent Variable: PBV

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.767	2.434		1.548	.160		
	SIZE	-.661	.476	-.564	-1.389	.202	.538	1.859
	COMP	.213	.612	.189	.348	.737	.301	3.321
	EDBACK	.591	.716	.524	.825	.433	.220	4.551

a. Dependent Variable: PBV





Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.509[a]	.259	-.019	13.07240	.259	.930	3	8	.469	2.742

a. Predictors: (Constant), EDBACK, SIZE, COMP

b. Dependent Variable: ROE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	476.931	3	158.977	.930	.469[a]
	Residual	1367.101	8	170.888		
	Total	1844.032	11			

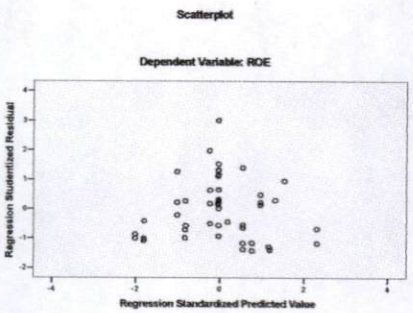
a. Predictors: (Constant), EDBACK, SIZE, COMP

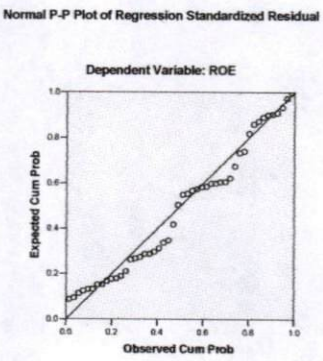
b. Dependent Variable: ROE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	64.134	31.731		2.021	.078		
	SIZE	-10.248	6.205	-.685	-1.652	.137	.538	1.859
	COMP	-1.911	7.978	-.133	-.240	.817	.301	3.321
	EDBACK	7.100	9.339	.494	.760	.469	.220	4.551

a. Dependent Variable: ROE





Non Bank Industries

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.498[a]	.248	.178	2.53535	.248	3.522	3	32	.026	2.811

a. Predictors: (Constant), EDBACK, COMP, SIZE

b. Dependent Variable: PBV

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	67.915	3	22.638	3.522	.026[a]
	Residual	205.697	32	6.428		
	Total	273.612	35			

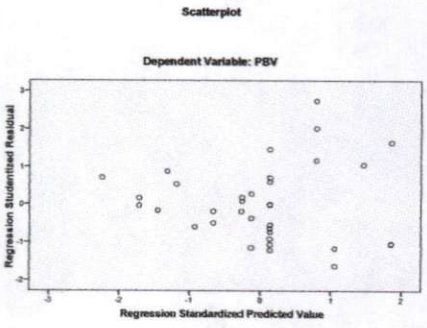
a. Predictors: (Constant), EDBACK, COMP, SIZE

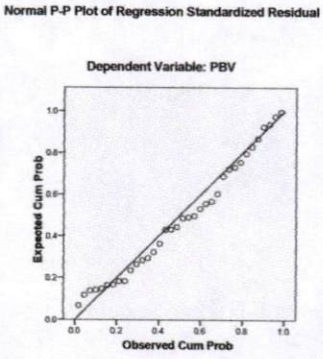
b. Dependent Variable: PBV

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.994	2.002		-.496	.623		
	SIZE	.550	.685	.210	.802	.428	.342	2.923
	COMP	-.916	.650	-.293	-1.409	.169	.543	1.840
	EDBACK	1.847	.954	.403	1.935	.062	.543	1.842

a. Dependent Variable: PBV





Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.551[a]	.304	.239	11.31095	.304	4.657	3	32	.008	2.306

a. Predictors: (Constant), EDBACK, COMP, SIZE

b. Dependent Variable: ROE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1787.465	3	595.822	4.657	.008[a]
	Residual	4094.003	32	127.938		
	Total	5881.467	35			

a. Predictors: (Constant), EDBACK, COMP, SIZE

b. Dependent Variable: ROE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Correlations			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	.059	8.931		.007	.995					
	SIZE	-1.008	3.058	-.083	-.330	.744	.410	-.058	-.049	.342	2.923
	COMP	4.274	2.900	.295	1.474	.150	.384	.252	.217	.543	1.840
	EDBACK	9.691	4.258	.456	2.276	.030	.494	.373	.336	.543	1.842

a. Dependent Variable: ROE