THE INFLUENCE OF BOARD PRACTICES ON FINANCIAL PERFORMANCE (Study of Manufacturing Firms Listed in IDX)

SKRIPSI

ALLEVIA SYARIF
07153136

FAKULTAS EKONOMI
UNIVERSITAS ANDALAS
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ACCOUNTING DEPARTMENT
FACULTY OF ECONOMICS
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	: Allevia Syarif
Student's ID Number	: 07 153 136
Field of Study	: Accounting
Degree	: S-1
Thesis Title	: The Influence of Board Practices on Financial Performance (Study of Manufacturing Firms Listed in IDX)

has already passed the thesis seminar on June 16, 2011 based on procedures and regulations prevailed in The Faculty of Economics, Andalas University.

Padang, July 18th 2011

Thesis Advisor

Prof. Dr. Eddy R. Rasyid M.Com (Hons) Akt
NIP. 19571010 1986091001

Approved by:

Dean of Economic Faculty	**Head of Accounting Department**
Dr.H. Syafruddin Karimi, SE, MA	**Dr. H. Yuskar, S.E., M.A., Akt**
NIP. 19541009 1980121001	**NIP. 19600911 1986031001**

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ABSTRACT

This study includes Multiple Linear Regressions to analyze the influence of board practices on financial performance of Manufacturing Firms listed in Indonesia Stock Exchange, specifically consist of board of commissioners' size, board of directors size, independent board size, audit committees' size, meeting frequency of board of commissioners, frequency meeting of board of directors, frequency meeting of audit committees and board remuneration as independent variable. In measure financial performance, this study use return on asset and return on equity as efficiency ratio. The result indicated that generally the board practices have insignificant influence toward financial performance of manufacturing firms according to the correlation between variables in measure the relationship is tight.

Keywords: Board practices, financial performance, manufacturing firms, board of commissioners, board of directors, audit committees, meeting frequency, remuneration, return on asset, return on equity

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CHAPTER I

INTRODUCTION

1.1 Background

Bad corporate governance is one of main reasons why economic and political crisis occurred in Indonesia in early 1997 and created impact to all sectors until today. Financial crisis in United States is also being affected by not implementing the principle of Good Corporate Governance. Some scandals happened in United States like Enron Corp., Worldcom, Xerox and others force the board of executive from several corporations to suggest that there is no implementation of Good Corporate Governance principle.

The experience of United States must do reconstruction in corporate governance as an impact of market crash in 1929. The recent scandals and corporate failures in the United States and in Europe have led to a renewed interest in research of corporate governance. Scandals are simply manifestations of a number of structural reasons why corporate governance has become a central issue in the last two decades: the worldwide wave of privatization; pension fund reform and the growth of private savings; deregulation and the integration of capital markets (Becht, Bolton, and Röell 2003).

Indonesia was deeply affected by the 1997-1998 crises, more than others East Asian countries. The 1998 economic crisis has undermined big corporations which had dominated the business world in Indonesia. After the phenomenon, the new

concept is born – as the answer of the bankruptcy of many companies as the result of management failures in the company management – which is called Good Corporate Governance. The economic and monetary crisis which in Indonesia turned into a multidimensional crisis was mostly influenced by the inconsistency of Good Corporate Governance (GCG) implementations by many companies; particularly on the business ethics. However, despite the low rating of GCG in Indonesia, the awareness and commitment of market participants to implement GCG has improved. Discussion about the need for reform efforts in the implementation of corporate governance is increasing; it is marked by the signing of letter of intent between Republic of Indonesia Government and IMF (Lukviarman, 2001). Conditions surrounding corporate governance practices are facing continuous changes in every part of the world, and this has led to the necessity to refine any governance guidelines that may exist, including in Indonesia.

Talking about corporate governance, the discussion's focus is about board (Mansen and Van den Bosch, 1999; Turnbull, 1997; Fama, 1980; Fama and Jensen, 1983 cited in Sari, 2004). This is because board is the responsible one and has full authority in making decision about how to do direction, control on managing resource according to corporate objective. Beasley and Petroni (2001) stated that if corporate has board governance so that corporate will have good performance. So, board governance is key input factor for optimalizing resource management in achieving organization's objectives.

In context of Indonesian corporation, board is divided into Board of Commissioners and Board of Director, as consequence of the fact that Indonesia has

adopted and used Company Law (40/2007) that uses dual board system. But the board system used in Indonesia is unique compared with dual board system used in origin country where it first grew (Europe Continent). The major characteristic is, in other country using this system, Board of Commissioners is elected by and responsible to Share Holder General Meeting, and this board then will elect Management Board. Meanwhile Company Law (40/2007) in Indonesia stated that Board of Commissioners and Management Board are elected by and responsible to Share Holder General Meeting.

The success of doing good corporate governance is highly determined by leader's quality i.e Board of Commissioners as supervisor and Board of Director as doer (Syakhroza, 2004). Thus, Management Board is supposed to do corporate resources management openly and is responsible to public. Board of Commissioners will do anything important to maintain its responsibility to public. Suwardi (2008) also stated that if good corporate governance has been achieved, so corporate share performance will increase.

Observations about board governance and audit committee have been done by Beiner et al (2003), Hopt and Leyens (2004), Adam and Ferreira (2004), Duleweis and Hjerbert (2004), Raheja (2005), Yermack (2003), and Zhou and Chen (2004). Observation about board governance and financial performance also has been done by Nanda, (2006), Yulia (2009), Sari (2008), Rahmawati (2008) by using measurement of board size, female representation, and board independence, board education, cross directorship. Observation about influence of board meeting on company performance has been done by Mehran (2003), showing that there is

positive relation between board meeting with company performance measured with ROA, ROE, Tobins' Q.

Manufacturing industry is the largest sector in GNP (Gross National Product) of Indonesia. Manufacturing segment business environment consists of several value chains that are always interacted in giving added value from producer to consumer. The value chains consist of supply chain management, manufacturing operational management, and consumer delivery channel management. Manufacturing industry is one of the sectors demanded for efficiency, if not, it will not be able to compete with similar industry abroad like China and other countries. The manufacturing sectors of developing countries have traditionally been relatively protected. They have also been subject to heavy regulation, much of which is biased in favor of large enterprises. Accordingly (Tybout, 1999), it is often argued that manufacturers in these countries perform poorly in several respects: (1) markets tolerate inefficient firms, so cross-firm productivity dispersion is high; (2) small groups of entrenched oligopolists exploit monopoly power in product markets; and (3) many small firms are unable or unwilling to grow, so important scale economies go unexploited.

In relation with that empiric fact, writer is interest to do observation about board governance practice measured by board size, audit committees' size, frequency of board meeting and remuneration in manufacturing firm. Performance measurement indicators used in this observation are Return on Asset (ROA) and Return on Equity (ROE). The reason of choosing ROA is because it is a measurement that is focused on company performance in a whole and it reflects

annual return rate produced by the company in its historical value (Lukviarman, 2004). Meanwhile, ROE is ratio which described the company performance by compare the profit with equity, which is the equity is the actually stockholder property rights.

The above mentioned discussion gives brief explanation to researcher to study the issue, since manufacturing industry is the largest sector in GNP, and there might be no study that examines the relationship between board practices and financial performance in Indonesia. However, this study focus in manufacturing firms that well known as listed in IDX and trusted manufacturing company based on CGPI and investor and analyst's survey which applied the Europe Continental Governance model that bring uniqueness. In this study researcher uses board practices measured by size of board of commissioners, board of directors, audit committees, and meeting frequency of board of commissioners, board of directors, audit committees, and remuneration as independent variable while return on asset and return on equity as dependent variable.

1.2 Problem Definition

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

1. How is the influence of board of directors' size on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity)?

2. How is the influence of board of commissioners' size on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity)?
3. How is the influence of independence board's size on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity)?
4. How is the influence of audit committees' size on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity)?
5. How is the influence of meeting frequency of BOD on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity)?
6. How is the influence of meeting frequency of BOC on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity)?
7. How is the influence of meeting frequency of audit committees on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity)?
8. How is the influence of remuneration on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity)?

1.3 Research Objectives

The purposes of this research are to explain the influence of board practices toward company performance in manufacturing firms listed in IDX. The specific objectives are follows:

1. To determine the influence of board of directors' size on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity).
2. To determine the influence of board of commissioners' size on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity).
3. To determine the influence of independence board's size on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity).
4. To determine the influence of audit committees' size on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity).
5. To determine the influence of meeting frequency of BOD on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity).
6. To determine the influence of meeting frequency of BOC on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity).

7. To determine the influence of meeting frequency of audit committees on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity).
8. To determine the influence of remuneration on financial performance of manufacturing firms listed in IDX measured by ROA (Return on Asset) and ROE (Return on Equity).

1.4 Benefit of the Research

This study is intended to:

1. To provide more useful evidence about the influences of board practices on financial performance.
2. To contribute the literature related with the practices of board governance that influence financial performance which measured by ROA and ROE.
3. To support previous research about the variable of board practices that has influences on financial performance.

1.5 Writing Systematic

Chapter 1 describes about background, problem definition, research objectives and writing systematic.

Chapter 2 provides an overview literature survey about corporate governance, agency theory, board system, board governance, board practices, and financial performance. It also gives preview of previous research conducted.

Chapter 3 discusses about framework to solve the research problem analysis, data method, variable operational definition and also collection method used in this thesis.

Chapter 4 analyzes data needed in order to achieve research objectives. This chapter also contains the result of analysis which variables that has significant influence to company performance.

Chapter 5 consists of conclusion, limitation, and possibilities for the next research.

CHAPTER II

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Sekaran (2003) stated that the conceptual framework is the foundation of the entire research project, it also an important step in the research process. The relationship between the literature survey and the theoretical framework is a solid foundation for developing the latter. The literature survey identifies the variables which are determined by previous research findings, in addition to other logical connections that can be conceptualized.

2.1 Corporate Governance

Nowadays, the implementation of Corporate Governance has become an important issue for national business world. This demand appears as a continuation of economic crisis. Indonesia has adopted and implemented Corporate Governance immediately to avoid larger crisis which is it will increase company's opportunity to manage professionally.

Corporate Governance is a subject that notoriously difficult to explain in one sentence. Some view of corporate governance in 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 (Wymeersch, 2006). This definition deals with management structure and ownership.

2.1.1 Definitions of Corporate Governance

In The World Bank (2004) point of views, governance defined as the exercise of political authority and the use of institutional resources to manage society's problems and affairs. Blair (1995) similarly stated that the definition of corporate governance should consider business environment, social, and cultural as well as political framework.

Based on Forum Corporate Governance Indonesia, corporate governance can be defined as a set of rules that define the relationship between shareholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities, or the system by which companies are directed and controlled (taken from Cadbury Committee of United Kingdom). The objective of corporate governance is to create added value to the stakeholders. Similarly, the Organzation for Economic Co-operation and Development (OECD) (2004) states that corporate governance involves a set of rules the relation among share holder, management, creditor, government, employee and other intern and extern importance holder in relation with their privilege and responsibility or in other word, system that control the company.

2.1.2 Main Issues on Corporate Governance

The outcome of corporate governance practice is an accountable board of directors who ensures that the investors' interests are not jeopardized (Hashanah and Mazlina, 2005 cited in Mokhtar 2009). The accountability and transparency component of corporate governance would help companies gain shareholders' and investors trust. These stakeholders need assurance that company will be run both

honestly and cleverly. This is where corporate governance is critical (Morck and Steier, 2005). Corporate governance improves stakeholders' confidence and this would aid the sustainability of business in the long run.

Many stock exchange and regulators around the world are increasingly looking to set standards or codes of best practices for corporate governance to attract more capital or foreign investment to the country.

Turnbull (1997) said that corporate governance is like a big elephant, means that it deals with many issues all at once. Concurrently, study by Lukviarman (2004), there are five issues concern in corporate governance concept; the first one is accountability and performance, second; mechanism for controlling managerial inefficiency or failure to maximize value; next, control and coordination of various self-interested stakeholders; after that accountability to shareholders, and the last one is control mechanism designed for efficient operation of the corporation.

2.1.3 Principles and Benefit of Corporate Governance

Forum for Corporate Governance in Indonesia (FCGI, 2001 cited in Suwardi, 2008) formulate corporate governance principles as follows:

1. Transparency, openness in decision making process and the disclosure of material and relevant information regarding to the firm's condition.
2. Independency, a situation where company is professionally managed without conflict of interest and influence / pressure from a certain party that not in accordance with corporate regulation and sound corporate principles.

3. Accountability, which is clarity of function, implementation and responsibility of management's organ, thus corporate governance is effectively executed.
4. Responsibility, which is conformity in corporate management toward the prevailing law and regulation and corporate principles.
5. Fairness, which is justice and equality in fulfilling stakeholders' right arising from agreement and law or regulation applied.

Further, according to FCGI, benefit can be acquired from corporate governance implementation are;

1. Improving firm performance through better and fair decision making, improving operational efficiency, and enhancing services to stakeholders.
2. Facilitate lower financing capital and not rigid (due to trustworthiness) that will increasing firm's value.
3. Retain investor confidence in capital investment in Indonesia.
4. Increasing in shareholder satisfaction of firm performance that also enhancing shareholder's value and dividend.

Realizing the urgency of corporate governance practice and motivate its implementation in Indonesia, The Indonesia Institute of Corporate Governance (IICG) conducting Corporate Governance Perception Index (CGPI) for the first time in the year 2001. Result of this research has been published for public in Swa Magazine from year 2001 to 2009

According to Suwardi (2008) result of this perception is obtained by three approaches, which are: (1) ownership of minority interest, (2) interview with

corporate representative, and (3) public information analysis comprise of financial statements, corporate site, and news from mass media. Average constructions of CGPI are based on: (1) corporate commitment toward corporate governance implementation; (2) Rights of shareholder; (3) Board of commissioner governance; (4) Board of director structure; (5) Functional committee; (6) Transparency and accountability; (7) Relations with stakeholders.

Some public companies participated in CGPI stated they have gained valuable benefit from this participation. Among others, corporate governance is able to maximize firm's value for stakeholders through orientation improvement in disclosure principle, accountability, responsibility, independency and fairness in running the business. According to the participants, primary benefit from corporate governance implementation is lies in the commitment of executives and entire members in adapting corporate governance principles within business activities.

2.1.4 Corporate Governance Mechanism

Corporate governance mechanism divided into internal governance mechanism and external governance mechanism. Internal corporate governance criticizes the relationship between managers and stakeholders or between company's internal parties (managers and shareholders) and minority shareholders. The aim of the internal control mechanism is to provide an early warning system to put the organization back on path before difficulties reach a crisis stage (Jensen, 2000 cited in Lukviarman 2004). Indeed, external corporate governance discusses the relationship between the company with the investor or industrialist in the capital market. It is a compliment of the internal corporate governance which

gives a punishment in form of taking over when the managers are not efficient, and on the other hand gives a reward in form of stock price increasing when the managers evaluated being efficient (Jeanly, 2005).

Corporate governance can best be interpret as the set of mechanisms that induce controllers of the firm (managers) to make decisions that maximize the value of the firm in order to owners of the firm (shareholders). The objective of these mechanisms is to reduce the agency costs that arise from the principal-agent problem.

Problems occurred in Corporate Governance is as the result of agency problem in the organization. Agency theory developed by Jensen and Meckling (1976) was based on the preposition of the separation between ownership and control. The purpose of the separation system is to create efficiency and effectiveness by hiring professional agents in managing the company. It is happened where the CEOs of public companies have responsibility to act as agents for the owners. While the owners seek to gain information (by evaluation), develop incentive systems to ensure agent actions in the owner's interests, agency theorists attempt to design the most cost effective information systems (FCGI, 2006). Then, Jensen and Meckling (1976) argued that the condition as the result of separation of function of management with ownership function that called "the separation of decision-making and risk bearing function of the firm". Management do not take a risk with the decision has been made, the risk is totally beard by shareholder (principal). Furthermore, manager as the decision maker in company is tend to be consumptive and unproductive for his own again, like increase salary and status (Jensen and Meckling cited in Rahmawati, 2008)

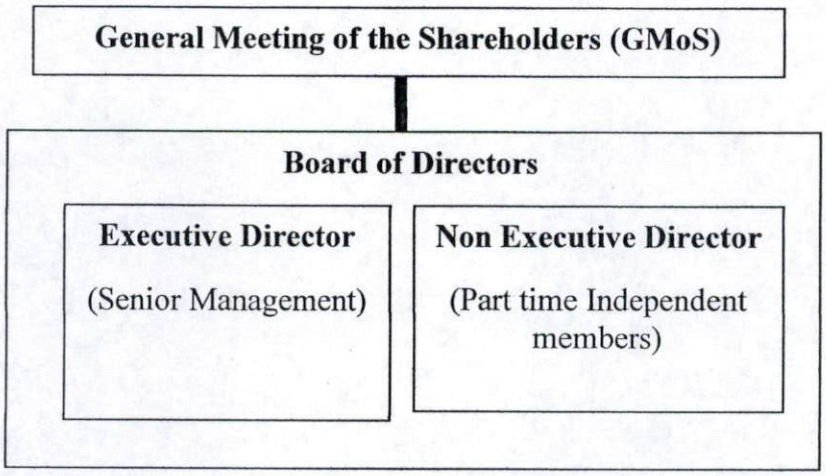
Corporate Governance is related with how to convince investor that manager will do the best for them, convince the investor that manager will not doing something fraud or invest to other project that doesn't related for them and related with how the investor can control the manager (Shleiver and Vishny, 1997)

2.2 Board Governance

The practices of Board of Director in Corporate Governance framework could classify as one tier or The Anglo Saxon Model (Lukviarman, 2004). This system only has one board, which called Board of Director functioned in monitoring the activity of management. Unitary board system is most commonly used in Anglo – Saxon countries i.e U.S and U.K whereas two tier board systems is most commonly used in Continental Eurpoe and Japan (Lukviarman, 2004). In unitary board system, there is only one board exist which called as Board of Directors where there is usually a combination of senior managers (Executive directors) and independent directors who work on part time basis (Non-executive directors), whereas two tier board consists supervisory board which called as Board of Commissioners and executive board which called as Board of Directors. The executive directors are responsible for running the business, Meanwhile, the non-executive directors will provide the oversight or supervisory responsibility over the executive directors' activities. The countries with a One Tier System are United States and United Kingdom.

Figure 2.1

The Board Structure in the One Tier System

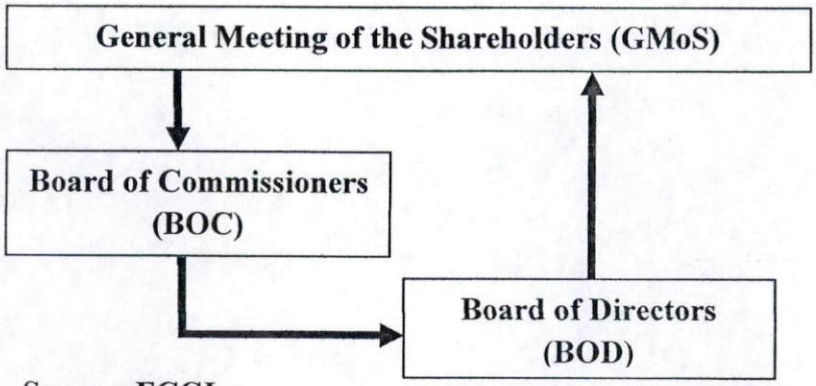


Source: FCGI

In Indonesia, under Indonesian Company Law No. 40 year 2007 have two boards: Supervisory Board that performs supervisory roles, and the Management Board that performs executive role. The Board of Commissioners (Supervisory Board) is clearly separated from and independent of the executive or management board, consistent with the characteristic of Continental Europe model since Indonesia influences much by Dutch era. Two-tier boar system makes a clear separation between Board of Management and Board of commissioners. Board of Management charged with the management of the company and Board of commissioners is responsible to supervise the Board of Directors as company's organizer. This system enhances the check and balances required for corporate governance (Tumbuan, 2005).

Figure 2.2

The Board Structure in Two Tiers System as adopted in Indonesia



Source: FCGI

In Indonesia company's law 2007, paragraph 108 stated that the board of commissioner is one of the company element which have monitoring role, generally and specifically, and give advice to the management in handling the company. The Board of Commissioner lies at the core of corporate governance charged with ensuring strategic guidance mechanism. Since management is responsible for the firm's efficiency and competitiveness and Board of Commissioners is the proper focal point of the corporation's perpetuation and success (Zehnder, 2000 cited in Pratiwi, 2008). The Board of Commissioner is responsible for supervising the performance of Board of Directors and policies made by Board of Directors and giving advice to Board of Directors. The effectiveness of a board in monitoring the management is determined by its composition, independence and size (John and Senbet, 1998). Additionally, board composition is determined by the type of members that constitute the board (Lukviarman, 2004). Meanwhile, Independent commissioners are expected to monitor managements' compliance with the applicable laws and regulations and

they are also expected to ensure the accuracy of information provided by the management (FCGI, 2006)

The Board of Directors as a company organ shall function and be responsible collegially for the management of the company. Paragraph 92 on Company's law on 2007 explain that Board of Director running the company for their own interest and appropriate with Company's purpose and objective Directors represent the Company as well as in and out of Jurisdiction.

Meanwhile, an audit committee plays an important monitoring role to assure the quality of financial reporting and corporate accountability (Zhou and Chen, 2004). As a liaison between the external auditor and the board, an audit committee bridges the information asymmetry between them, facilitates the monitoring process (Klein, 1998 cited in Zhou and Chen, 2004), and enhances the independence of an auditor from management (Mautz, 1977 cited in Zhou and Chen, 2004). A properly functioning audit committee is thus critical in enhancing effective oversight of the financial reporting process and achieving high quality financial controls.

2.3 Board Practices

There are board practices in measuring Board Governance generally. Researches that are measuring board practices did by Beiner et al (2003), Al-Farrel and Hersch (2001), Kostyuk (2003), Al-Najjar (2004), Crespi and Gispert (1998), Yermack (2003), and Mehran (2003). Other countries generally define

board practices into board size, frequency meetings of board, independence of directors, committees, board election, employee participation and remuneration.

2.3.1 Board of Commissioners and Directors' Size

One factor that determined the effectiveness of Board of Commissioners' monitoring function is the board size. A natural question arise is whether there is an optimal board size. Amazingly, most previous studies looked at board structure and board composition and their influence on corporate performance. The position and composition of the boards differs considerable from one country to another country (Moerland, 1995 cited in Pratiwi, 2008). The primary board related issues that have been studied in the Anglo-Saxon countries concern the size and structure of the board. The key to good corporate governance practice is in getting the right board into the tight place. A company with a properly balanced board and effective independent directors should be left to run its business with board being accountable for its stewardship (Saad and Zamani, 2007).

According to Brown (2004), his study proves that firms with board sizes of six to fifteen are relatively more profitable. Lipton and Lorsh (1992) cited in Pratiwi (2008) argued that the preferred board size is eight or nine with ten being the limit in order for a board to be effective. Along with Lipton and Lorsh, Jensen (1993) notes that 'when boards get beyond seven or eight people they have less likely to function effectively and are easier for the CEO to control. Loderer and Peyer (2002) also find that larger board size is associated with lower firm value. Eisenberg and Sundgren (1996) also have the same finding, where there is a

negative correlation between board size and profitability in small and mid-size Finnish firms.

Theoretically, based on Mancur Olson's arguments from the study of collective actions problems, Jensen (1993) and Lipton and Lorsch (1992) cited in Julia (2008) have argued that large corporate boards may be less efficient due to difficulties in solving the agency problem among the members of the board. The idea is that when boards become too big, agency problems increase within the board and the board becomes more symbolic and less a part of the management process. However, boards serve many roles in a corporation. To allow for having boards that have core competencies, it is often necessary to choose more than the minimum number of boards.

In Indonesia, there is precise number of boards stated in Company Law No.40 year 2007 and the Code of Good Corporate Governance (2006) as the regulation and national reference for business community and regulators in developing, implementing, and communicating Good Corporate Governance. The Company Law (2007) declares every public listed company in Indonesia should have a minimum of two boards of commissioner members and two boards of director members. The composition of the board of commissioners and the board of director shall be of sufficient size that suits the complexity of the business of the company by taking into account the effectiveness in decision making and to act independently (Code of GCG, 2006). In order to improve the effectiveness of Indonesia corporate boards, the Indonesia Stock Exchange (IDX) regulation requires publicly listed companies to have independent commissioners not less than 30% of the total number of commissioners.

2.3.2 Audit Committees' Size

The number of members employed on audit committee is also considered as the factor that influences the effectiveness of audit committee in order to consider the board practices in carrying out its oversight responsibility over financial performance within a firm. Although Jensen (1993) in Felo et al. (2003) states that "...when boards get beyond seven or eight people they are less likely to function effectively and are easier for the CEO to control", Felo et al (2003) argue that audit committees rarely have more than six members and a larger audit committee may make it more likely that potential problems in financial reporting process will be uncovered and resolved. This could arise if a larger committee size increases the resources available to the Audit Committee and improves the quality of its oversight (Yulia, 2009)

2.3.3 Frequency of Board Meeting

The Code of best practice issued by the Cadbury committee in 1992 recommends that the role of Chairman and CEO should be separated to avoid the concentration of power in "boardrooms" as well as to employ independent directors to help board discussions. The Code concentrates on the importance of internal monitoring systems in the firms without stressing board meetings (Cadbury report, 1992; Lasfer, 2002). Hence, if board meetings reflect board activity, then firms with separate Chairman and CEO roles should meet more frequently since more discussion will be required within the board.

There is limit evidence in the literature as regard board activities. Vafeas (1999) cited in Al-Najjar (2009) detects a negative association between board

meetings (an an index for board activity) and firm value. Research in the area of board activity contains contradicting arguments. Lipton and Lorsch (1992) argue that the main problem facing the directors is the lack of time to run their activities. On the same note, Conger et al (1998) cited in Al-Najjar (2009) suggests that board effectiveness improves with the frequency of board meetings. Then, Al-Najjar (2009) suggests that more frequent board meetings lead managers to work in line with the interests of shareholders.

The internal monitoring role is not just related to the board of directors: corporate governance literature provides evidence that other mechanisms are active in this role. For example, audit committees play a dominant role s internal control mechanisms to effectively monitor firms' audit practices. This suggests that audit committees can alleviate agency problems by reducing information asymmetry between inseiders and outsiders (Klein, 1998) Classically, Tricker (2009) argues the audit committee would be a standing committee of the main board. Typically, the audit committee would meet three or four times a year to discuss the details of the audit, to consider any contentious points that had arisen on the accounts and to receive the auditor's recommendations on audit related matters such as management control.

2.3.4 Board Remuneration

Remuneration is one of the most important and complex human resources management systems. While encouraging the search for better and better performances, the remuneration system should try to align people's behavior with the company's goals. According to Dutra (2002) cited in Krauter and Sousa,

2008), remuneration is the economic and/or financial counterpart of a job performed by the individual". It may be divided into direct and indirect remuneration".

Direct remuneration is the total amount received in cash, by an individual for a job he/she has performed. It includes fixed and variable remuneration. Indirect remuneration is represented by the benefits the company grants people for the job performed, aiming at providing security and comfort (Krauter, 2008).

The design of remuneration for the company managers in an agency context has been an important subject in the microeconomic literature (Crespi and Gispert, 1998). The problem to solve is the determination of an optimal compensation scheme that motivates managers to make a maximum effort, taking into account that managers are risk-averse, and that contract is done in a context of asymmetric information. The conceptual framework of the agency theory provides a set of useful elements to evaluate the manager-shareholder relationship. Then, Crespi and Gispert (1998) confirmed that the positive relationship between board remuneration and company performance, which is stronger for book values than for stock market measures. Industry performance also explains the remuneration and provides useful information to evaluate board behavior. Company size is also related to board remuneration, and affects the pay-performance relationship, although is not relevant when used an elasticity approach.

2.4 Financial Performance

Several financial performance measurement models have been developed as improvements on the traditional models that very much finance related and take

the position in business process, can be viewed through focusing on financial performance measurement. Among these models are Balances Scorecard, the Economic Value Added and the Strategic Performance Measurement (Lukviarman, 2004). Although new performance measurement models have been introduced, these improved performance measures use additional indicators that are non-financial still using, and operational performance measures utilizes as complementary (Lukviarman, 2004).

There is no unique definition of firm performance (Brown, 2004). However, Investorwords (2011) define performance as 'the results of activities of an organization or investments over a given period of time', and define enterprise value as 'a measure of what the market believes a company's ongoing operations are worth'. Most of experts use both 'value' and 'performance' terms refer to firm performance. The term 'performance' tends to be associated with accounting performance measures which take account to the current status of the firm as the result of past performance e.g. return on asset (ROA), return on equity (ROE).

2.4.1 Return on Asset (ROA)

ROA is measurement focused on company performance in the whole reflects annual return rate produced by company in its historical value (Lukviarman, 2004). ROA is derived from division between net incomes with total asset (Keown et al, 2002). From that formula, denominator is total asset that can reflect all resources needed by company to run business activity in managing company that is financed by shareholders and stakeholders of other company.

2.4.2 Return on Equity (ROE)

Companies are increasingly using return on equity as the ultimate performance scorecard. The adoption of risk adjusted capital adequacy guidelines, successive years of poor profitability and the conceptual and practice failings of previously used measures, such as asset growth, have led management to focus on return on equity (ROE). They are measuring of ROE's of each of company's component parts, such as sectors, lines of business and products. This shareholder value-oriented framework has spawned considerable changes not only in the way that performance is measured, but in the management process used to plan, operate and control to the company (Brown, 2004). The reasons why ROE selected because of this ratio describe the company performance by compare the profit with equity, which is the equity is the actually shareholder property rights.

2.5 Review of Previous Research

In previous research in term of corporate governance practices, there is significant relationship between corporate governance practice and company performance (Mokhtar et al, 2009). They grouped the companies into two clusters namely good corporate governance practices and weak corporate governance practices, then computed four financial ratios (namely ROA, ROE, EPS, and profit margin) from the information obtained from the respective companies' annual report for the year 2000 until 2004. They then compared these ratios using a Mann-Whitney U test to determine whether there is any significant difference between the performances of good corporate governance practices companies and

weak corporate governance practices companies. The study predicts that if companies practice good corporate governance, the company will be able to perform better than companies that did not practice good corporate governance because company practicing good governance would have an effective and efficient board of directors that could play the role of monitoring and thus reduce the agency problem in companies. Since a company practicing good governance would have an effective and efficient board of directors that could play the role of monitoring and thus reduce the agency problem in companies. Continuously Kostyuk (2003) studied an international review of board practices. As a result of investigation on the board practices undertaken, he concluded board practices is measured by size of board, frequency of board meetings, committees size, director election and nomination, employee participation and remuneration.

Most researchers studied about board and audit committees' size and the influence on financial performance. Beiner (2003) found that board size and ROA is insignificant negative relationship. Similarly with Anderson et al (2003) states that board and audit committee's size are inversely related to the cost of debt. Lenggogeni (2010) and Julia (2008) also argued that no significant influence between board size toward ROE and BOPO and no significantly influence of board size and independent board in leverage as capital structure. In other side, Brown (2004), Lipton and Lorsch (1992) cited in Pratiwi (2008) found that large board size are relatively more profitable. Belkhir (2004), Sari (2008), Rahmawati (2008) and Pratiwi (2008) found that there is positive and significant correlation between board size and financial performance. Concurrently, Yulia (2009) found

that there is significant relationship between audit committee size and abnormal accruals.

In term frequency of board meetings, Mehran (2003) showing that there is positive relation between board meeting with company performance measured with ROA, ROE, Tobin's Q. Similarly with Al-Najjar (2004) found that board size and structure are positively related to board meetings.

Empirical evidence related to the value of board remuneration on financial performance is mixed. Crespi and Gispert (2005) found positive relationship between board remuneration and firm performance, negative relationship between industry performance and board remuneration. Lawrence, Stapledon (1999) and Fernandes (2005) showing no relationship between the proportion of board and the level of remuneration on company performance. Contradictory results with Krauter and de Sousa (2008) which found there is positive relationship between bonus, remuneration and ROE, positive relationship between bonus and ROS.

Table 2.1
Overview of previous research

Researcher	Sample	Independent Variable	Dependent Variable	Control Variable	Result
Beiner (2003)		Board Size, Outsider, Ownership, Firm Leverage	Tobin's Q, ROA	Firm's size, The average annual sales growth, industry, GOV also chairman on board (COB)	Size and ROA is insignificant negative relationship between outsider and CEOCOB, significant negative relationship between ownership and Tobin's Q
Anderson et al. (2004)		Independent Directors, Board Independence, Inside Directors, Audit Committee Size, Board Tenure, Board Age, Audit committee size, Financial expert on audit committee, independent board member occupation	Corporate-debt financing	Firm's size, total capital, leverage, duration, credit ratings, bond age, volatility perform	1) Board and audit committee independence are associated with significantly lower debt financing cost, 2) Board and audit committees size are inversely related to the cost of debt, 3) independence director attributes significantly relate to lower debt costs, 4) The frequency of audit committee meeting is associated with lower debt costs, firms with large independent boards and audit committees are associated with a lower cost of debt financing
Belkhir (2004)		Board Size	Tobin's and ROA		significant correlation between board size and performance

Lenggogeni (2010)		Board Size, Independent Board, Board Tenure, Board Age	ROE and BOPO		1) no significant influence between Board size toward ROE and BOPO, 2) no significant influence between Independent Board toward ROE and BOPO, 3) no significant influence between Board Tenure toward ROE and BOPO, 4) no significant influence between Board age toward ROE and BOPO
Julia (2008)	Real Estate and Property listed companies in IDX	Board size and proportion of independent Commissioners	Firm's Leverage		Board size and proportion of independent board of commissioners is not significantly influence in leverage as capital structure
Pratiwi (2008)	11 banks registered on IDX for the time period 2003 - 2006		ROE and BOPO		1) the existence of the board committees and female representation on the board committees is positive influence measured by ROE, and positive influence measured by BOPO, 2) the existence and practice of board committees (remuneration, nomination committee and management risk policy committee) is positive influence to the bank performance as measured by ROE and negative influence measured by BOPO

Sari (2008)	13 banks listed in IDX for the time period 2003 - 2006	Board Size, Board of Commissioners' Size, Board with banking experience, Board meeting	ROA and NIM		1) Board size is positively related to bank's performance, 2) proportion of board with banking experience is negatively related to bank's performance (3) board meeting is positively related with bank's performance
Rahmawati (2008)	45 companies listed in IDX for the time period 2002 - 2006	BOD, BOC, CEO tenure, Cross directorhip of the board of directors	ROA and PER		1) Board size is positively related to company's performance, 2) CEO tenure increase company's performance, 3) cross directorship on the board is positively related ith company's performance
Pratiwi (2008)	60 manufacturing firms listed in IDX (2001 - 2005)	BOC size and BOC composition	ROA and NPM		1) BOC size is significant influence towardd NPM but insignificant toward ROA, 2) The proportion of independent commissioners is significant influence toward ROA and insignificant toward NPM
Yulia (2009)	40 manufacturing firms	BOC Size, BOC ind, BC edu, AC Size, AC Ind	abnormal accruals		significant relationship between audit committee size and abnormal accruals
Crespi and Gispert (1998)	large Spanish compnies	board remuneration, board compensation	company performance	company size	1) positive relationship between board remuneration and firm performance, 2)negative relationship between industry performance and board remuneration, 3) positive relationship between company size and board remuneration

Lawrence and Stapledon (1999)	large Australian companies	proportion of independent directors on the board	accounting or share price measures		1) No relationship between the proportion of independent directors on the board and the level of remuneration on company performance
Fernandes (2005)	firms from Portuguese Stock Market	Board structure, top executive pay			There is no relationship between the board remuneration and company performance.
Krauter and de Sousa (2008)	28 manufacturing companies listed in magazine Você S/A 2007	executive remuneration	ROE, ROS, and sales growth		there is a positive relationship between a) bonus, remuneration and ROE, b) bonus and ROS, c) fringe benefits and ROE, d) fringe benefits and ROS and e) fringe benefits and sales growth.
Al-Najjar (2009)	120 UK firms for the time period 2003 - 2008	frequency of board meetings			1) Board size and structure are positively related to frequency of board meetings. 2) There is negative impact of audit committee diligence on the frequency boar meetings 3) Frequency of boar meeting have impact on firm size, leverage, free cash flows, and Tobin's Q
Mehran (2003)		Frequency of board meetings	ROA, ROE, Tobin's Q		positive relation between board meeting with company performance measured with ROA, ROE, Tobin's Q

2.6 Hypothesis Development

There are eight hypotheses to be developed in this research. First, regarding by relationship between board of directors' size toward financial performance of manufacturing firms. Second, regarding by relationship between board of commissioners' size toward financial performance of manufacturing firms. Third, in regarding by size of independent board toward financial performance of manufacturing firms. Forth, regarding by audit committees' size toward financial performance of manufacturing firms. Fifth, regarding by frequency meetings of board of directors toward financial performance. Sixth, regarding by frequency meetings of board of commissioners and financial performance. Seventh, regarding by frequency meetings of audit committees and financial performance. Eight, regarding by the amount of remuneration toward financial performance.

2.6.1 Board of Commissioners' Size, Board of Directors' Size and Audit committees' Size on Financial Performance

Based on the previous research, study about board and audit committees' size and the influence on financial performance are mostly occurred. Beiner (2003) found that board size and ROA is insignificant negative relationship. Similarly with Anderson et al (2003) states that board and audit committee's size are inversely related to the cost of debt. Lenggogeni (2010) and Julia (2008) also argued that no significant influence between board size toward ROE and BOPO and no significantly influence of board size and independent board in leverage as capital structure. In other side, Brown (2004), Lipton and Lorsch (1992) cited in

Pratiwi (2008) found that large board size are relatively more profitable. Belkhir (2004), Sari (2008), Rahmawati (2008) and Pratiwi (2008) found that there is positive and significant influence between board size and financial performance. Concurrently, Yulia (2009) found that there is significant relationship between audit committee size and abnormal accruals.

The empirical evidence shows a different influence between board size, which is representing by Board of Commissioners' Size, Board of Directors' Size, Independent Board Size and Audit Committees' Size. Applying in manufacturing firms the research hypothesizes:

H1: There is positive influence between of board of directors' size on manufacturing firms' financial performance

H2: There is positive influence between of board of commissioners' size on manufacturing firms' financial performance measured by ROA (Return on Asset) and ROE (Return on Equity)

H3: There is positive influence between of size of independence board on manufacturing firms' financial performance ROA (Return on Asset) and ROE (Return on Equity)

H4: There is positive influence between of audit committees' size on manufacturing firms' financial performance ROA (Return on Asset) and ROE (Return on Equity)

2.6.2 Frequency of Board Meetings and Board Remuneration on Financial Performance

Crespi and Gispert (2005) present empirical evidence on the relationship and the influence between board remuneration of a sample of large Spanish companies and a set of explanatory variables such as performance and size of the company. Empirical evidence related to the value of board remuneration on financial performance is mixed. Crespi and Gispert (2005) found positive relationship between board remuneration and firm performance, negative relationship between industry performance and board remuneration. Lawrence, Stapledon (1999) and Fernandes (2005) showing no relationship between the proportion of board and the level of remuneration on company performance. Contradictory results with Krauter and de Sousa (2008) which found there is positive relationship between bonus, remuneration and ROE, positive relationship between bonus and ROS.

In term frequency of board meetings, Mehran (2003) showing that there is positive relation between board meeting with company performance measured with ROA, ROE, Tobin's Q. Similarly with Al-Najjar (2004) found that board size and structure are positively related to board meetings.

This leads to another testable hypothesis:

H5: There is positive influence between frequency meetings of BOD on manufacturing firms' financial performance ROA (Return on Asset) and ROE (Return on Equity)

H6: There is positive influence between frequency meetings of BOC on manufacturing firms' financial performance ROA (Return on Asset) and ROE (Return on Equity)

H7: There is positive influence between frequency meetings of Audit Committees on manufacturing firms' financial performance ROA (Return on Asset) and ROE (Return on Equity)

H8: There is positive influence between of board remuneration on manufacturing firms' financial performance ROA (Return on Asset) and ROE (Return on Equity)

CHAPTER III

RESEARCH METHOD

3.1 Research Design

The next step in research after having identified the variables in a problem situation and developing the theoretical framework is to design the research in a way that the requisite can be gathered and analyzed to arrive at a solution (Sekaran, 2003). This study is designed to test the hypothesis which is significant relationship between independent variables consist of board practices, board of commissioners' size, board independence, board tenure, and board age rely on dependent variable namely company performance which are measured by return on equity.

3.2 Variable Identification and Measurement

There are eight variables elaborated in this research, they are frequency of board meetings (commissioners, directors, audit committees), Board Size (board of directors' size, board of commissioners' size, board independence, audit committees) and board remuneration as independent variable. Then return on asset and return on equity as dependent variable.

3.2.1 Dependent Variable

The dependent variable is the variable of primary interest (Sekaran, 2003). In this research, company performance regarding to financial performance is determined by two dependent variables which is measured by ROA (return on asset) and ROE (return on equity).

3.2.1.1 Return on Asset (ROA)

Return on Asset is defined as an indicator of how profitable a company which relative to its total assets. ROA gives an idea to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage.

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Source: Lukviarman (2004)

3.2.1.2 Return on Equity (ROE)

Return on Equity is defined as the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

$$\text{Return on Equity} = \frac{\text{Earning after tax}}{\text{Total shareholders equity}}$$

Source: Lukviarman (2004)

3.2.2 Independent Variable

Independent variables are variables that estimated freely influenced to dependent variable in either a positive or negative way (Sekaran, 2003). In this research, there are four independent variable consist of board practices (frequency of meetings, independence of directors, committees, director nomination and election, employee participation), board of commissioners' size, board independence, board tenure, and board age, which are:

3.2.2.1 Board of Directors' Size and Board of Commissioners' Size

Board of Directors' Size is the total number of the board of directors within the company (Julia, 2008). Board of Commissioners' Size is the total number of the board of commissioner within the company.

3.2.2.2 Board Independence

Board independence is proportion of number of independence board member toward total number of board member. The effectiveness of a board in monitoring the management is determined by its composition, independence and size (John and Sehbet, 1998). Additionally, board composition is determined by the type of members that constitute the board (Lukviarman, 2004).

3.2.2.3 Audit Committees' Size

Audit Committees' size is the total number of audit committee within the company (Felo, Andrew Khrisnamurthy, 2003). Existence of audit committee is

regulated by SE Ketua BAPEPAM No. SE-3/PM/2002 for going public companies and Keputusan Menteri BUMN No. KEP-103/MBU/2002 for state owned companies (BUMN). The membership of audit committee is regulated by Surat Keputusan Direksi PT. BEJ No.KEP-315/BEJ/06/2000 part C, that stated minimum numbers of three.

3.2.2.4 Frequency of Boards and Audit Committees Meetings

Frequency of meeting is the total number of meetings which the members of the supervisory boards within the companies meet as a rule quarterly (Kostyuk, 2003). Frequency of meetings here refers to the total number of meetings held by each board's governance – board of directors, board of commissioners, and audit committees.

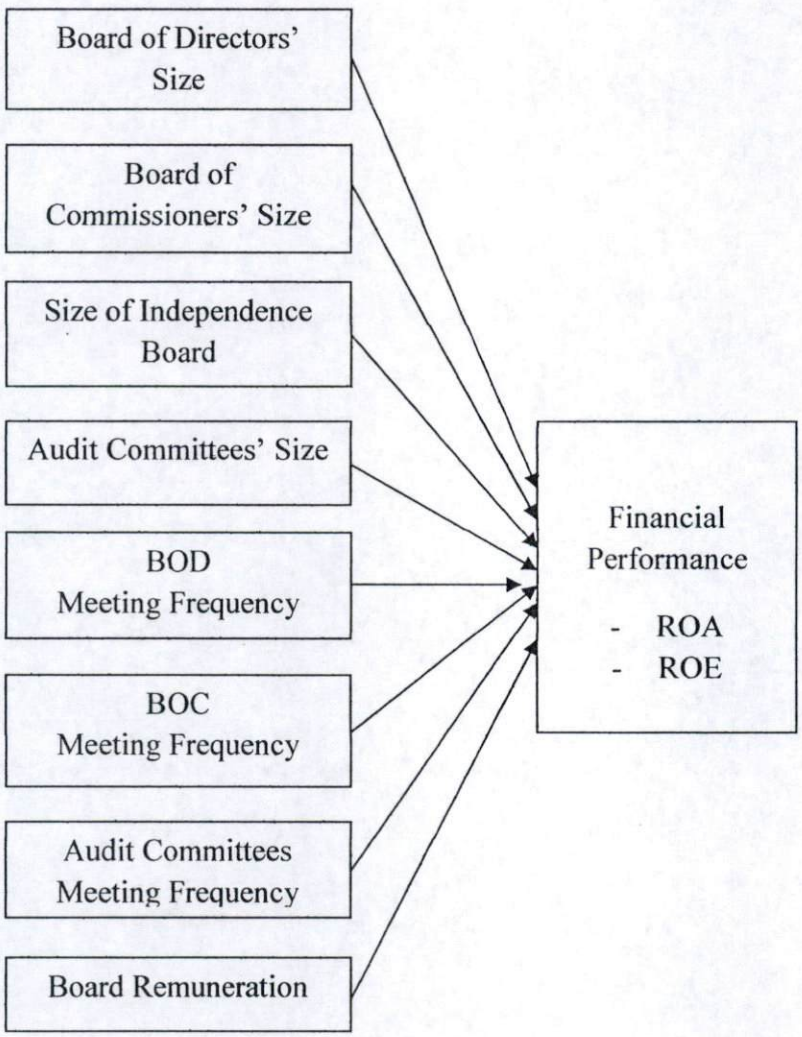
3.2.2.7 Board Remuneration

Remuneration is the total amount of cash received as salary, the amount of risky performance – related cash, stock, restricted stock or options, retirement benefits, non-pecuniary benefits such as prestige, the emolument package which is received by board governance (Jensen, Murphy, 2004)

3.2.3 Variable Interrelationship Framework

Figure 3.1

***Supervisory* Board Practices**



3.3 Data Collecting

This research use secondary data, which refer to information gathered from sources already existing (Sekaran, 2003). All data are gathered from annual report that published by company's website, and Indonesian Capital Market Directory (ICMD), Indonesian Stock Exchange (IDX) publications, books, and internet accessed.

This research covers manufacturing firms which are fulfilling this criteria:

1. Manufacturing firms based on ICMD listed in IDX from January 1, 2006 to December 31, 209
2. Audited Financial Statement data end in December 31st.
3. Issuing the Financial Statements and Annual Report for explained years.
4. The most trusted manufacturing company 2006 - 2009 based on Corporate Governance Perception Index and Investor and Analyst's survey.

Based on purposive sampling above conducted in the observation in the sum, the total number of sample in the study is 6 companies for 4 years period. The manufacturing firms that involved in this research are PT Astra International, PT Astra Otoparts, PT Indofood Sukses Makmur, PT Unilever Indonesia, PT United Tractors, PT Semen Gresik (Persero).

3.4 Data Analysis Method

In analyzing the data, the method that used to examine the research hypothesis is multiple regression models by using SPSS (Statistical Package for Social Sciences) 16.0 software program. The method of analysis will be used the regression model. The regression analysis will propose the answer on how much the influence of one variable to another variable. Regression analysis is used to measure relationship between board practices and company performance especially in manufacturing firms listed in IDX in Indonesia. In examining the hypothesis, independent variable effect to dependent variable is analyzed. In testing the relationship between the board practices and company performance, the following models are utilized:

Model 1: $Y1 = a + b1X1 + b2X2 + b3X3 + b4\,X4 + b5X5 + b6X6 + b7X7 + b8X8 + €i$

Model 2: $Y2 = a + b1X1 + b2X2 + b3X3 + b4\,X4 + b5X5 + b6X6 + b7X7 + b8X8 + €$

Where,

Y1 = ROA

Y2 = ROE

X1 = BOD size

X2 = BOC size

X3 = INDB size

X4 = Audit Committees' size

X5 = Frequency Meetings of BOD

X6 = Frequency Meetings of BOC

X7 = Frequency Meetings of Audit Committees

X8 = Remuneration

a = intercept

b = Regression Coefficient

Test carried out with a significant degree 5% while the conviction rate is 95%.

Since of the value of H_0 is relatively the same, thus the difference will be in the Ha.

H_0 = There is negative influence between of board practices toward financial performance – each of indicators.

Ha1: There is positive influence between of board of directors' size toward manufacturing firms' financial performance

Ha1-1: There is positive influence between of board of directors' size toward the ROA (Return on Asset)

Ha1-1: There is positive influence between of board of directors' size toward the ROE (Return on Equity)

Ha2: There is positive influence between of board of commissioners' size toward manufacturing firms' financial performance

Ha2-1: There is positive influence between of board of commissioners' size toward the ROA (Return on Asset)

Ha2-2: There is positive influence between of board of commissioners' size toward the ROE (Return on Equity)

Ha3: There is positive influence between of size of independence board toward manufacturing firms' financial performance

Ha3-1: There is positive influence between of size of independence board toward the ROA (Return on Asset)

Ha3-2: There is positive influence between of size of independence board toward the ROE (Return on Equity)

Ha4: There is positive influence between of audit committees' size toward manufacturing firms' financial performance

Ha4-1: There is positive influence between of audit committees' size toward the ROA (Return on Asset)

Ha4-2: There is positive influence between of audit committees' size toward the ROE (Return on Equity)

Ha5: There is positive influence between frequency meetings of BOD toward manufacturing firms' financial performance

Ha5-1: There is positive influence between frequency meetings of BOD toward the ROA (Return on Asset)

Ha5-2: There is positive influence between frequency meetings of BOD toward the ROE (Return on Equity)

Ha6: There is positive influence between frequency meetings of BOC toward manufacturing firms' financial performance

Ha6-1: There is positive influence between frequency meetings of BOC toward the ROA (Return on Asset)

Ha6-2: There is positive influence between frequency meetings of BOC toward the ROE (Return on Equity)

Ha7: There is positive influence between frequency meetings of Audit Committees toward manufacturing firms' financial performance

Ha7-1: There is positive influence between frequency meetings of Audit Committees toward the ROA (Return on Asset)

Ha7-2: There is positive influence between frequency meetings of Audit Committees toward the ROE (Return on Equity)

Ha8: There is positive influence between of board remuneration toward manufacturing firms' financial performance

Ha8-1: There is positive influence between of board remuneration toward the ROA (Return on Asset)

Ha8-2: There is positive influence between of board remuneration toward the ROE (Return on Equity)

BAB IV

DATA ANALYSIS

4.1 Samples

The study is intended to examine the relation between the board governance practices and company performance of manufacturing firms. The main focus of this study is to investigate the significant influence of board of commissioners' size, board independence, board director, audit committee, frequency meetings, remuneration, toward company financial performance. The analysis is conducted on the samples cover all manufacturing firms which listed in IDX and get award as the trusted company based on Corporate Governance Perception Index and investor and analysis's survey held by Indonesia Institute Corporate Governance and SWA Magazine from January 1, 2006 to December 31, 2009. Using purposive sampling method, there are 6 manufacturing firms involved in this research as a subject of analysis for four years-period, starts in 2006 and ends in 2009. In these samples, there are only 6 manufacturing firms that issue the data about of independent variable about board practices completely. Other manufacturing firms listed in IDX and also get Certificate from CGPI are PT Kalbe Farma and PT Indofood Sukses Makmur. Nevertheless, they didn't issue the data that make the data for statistical test or those companies are not available. Therefore, the writer is only use 6 manufacturing firms who issue all available data.

Tabel 4.1

List of the Samples

NO	CODE	COMPANY NAME
1	ASII	PT Astra International
2	AUTO	PT Astra Otoparts
3	UNVR	PT Unilever Indonesia Tbk
4	UNTR	PT United Tractor
5	SMGR	PT Semen Gresik (Persero)
6	ASGR	PT Astra Graphia Tbk

Sources: IDX, CGPI, Investor and Analyst's survey

4.2 Descriptive Statistics

The descriptive statistics summarize the data and the means are calculated for all of observations throughout the period of the study. The descriptive statistics for the variable characteristics are showed in the following table:

Table 4.2

Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
BOD	24	4.00	9.00	6.7917	1.25036
BOC	24	3.00	10.00	6.6250	2.41035
INDB	24	1.00	5.00	3.0417	1.23285
KOMITE AUDIT	24	2.00	5.00	3.4583	.88363
FREQUENCY MEETINGS BOD	24	16.00	58.00	33.6250	11.73924
FREQUENCY MEETINGS BOC	24	2.00	24.00	6.4583	4.89879
FREQUENCY MEETINGS AUDIT COMMITTEE	24	3.00	23.00	7.5833	4.31294
REMUNERATION	24	6.68	376.50	73.5458	114.44769
ROA	24	9.98	56.76	24.4237	15.18612
ROE	24	16.57	114.74	45.6050	30.09681
Valid N (listwise)	24				

The descriptive statistics show an average (mean) value number of board of directors' size (BOD) is 6.79 and this number range between 4 as the smallest and 9 as the largest number of board of directors' size. Then, the average number of board of commissioners' size (BOC) is 6.62 and this number range between 3 as the smallest and 10 as the largest. Further, the average number of board independence (INDB) is 3.04 or 45.91% from the total number of BOC. This number ranges between 1 or 33% as the minimum and 5 or 50% as maximum number. The average number for audit committees' size is 3.45 which 2 as the smallest size and 5 as the largest. Then, for frequency meetings of Board of directors, the average number is 33.62 meetings with 16 times as minimum and 58 as maximum. The average number of frequency meetings of BOC is 6.45 meetings and this number range between 2 as the minimum and 24 as maximum number of frequency meetings of BOC. Audit Committee is doing meetings for 7.58 as average which 3 as the minimum frequency and 23 as the maximum frequency meetings. Then, the average number of remuneration board governance is 73.54 billion. This number range between 6.68 billion as the smallest remuneration and the biggest remuneration is 376.5 billion.

For dependent variables, the average number of ROA is 24.42% which is range between 9.98 % and 56.76 %. Finally, the average number of ROE is 45.60% and this range between 16.57% as the smallest number and 114.74% as the largest number of ROE.

4.3 Assumptions of the Statistical Tests

Prior to statistical tests, it is necessary for a researcher to assess the underlying assumptions of the statistical analysis. The following sections describe the major assumptions before conducting the analysis.

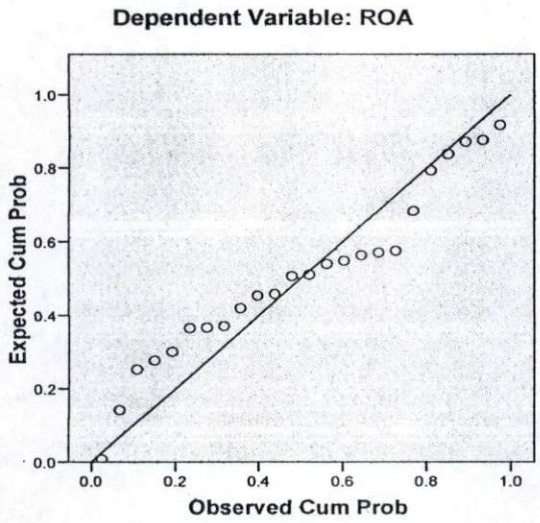
4.3.1 Normality Test

To employ the next test of this research, it should be assumed that the populations from which the samples or observations are taken to be normally. This assumption is particularly important when a researcher is willing to conduct parametric statistical techniques (Tabachnick & Fidel, 2001). Pallant (2001) argues that the issue of non-normal distribution of variables is frequent in social science research.

This study use Kolmogorov-Smirnov and Shapiro-Wilk of each group and comparing between asymptotic significant with $\alpha = 5\%$. The data will be distributed normally if value of asymptotic significance > 0.05 (Cahyani, 2007). Based on result above, these data that use for researcher are quite normal or symmetric. If the data spread around the diagonal line and follow the direction of the diagonal line, then the regression model meets the assumptions of normality. If the data are spread far from the diagonal line or do not follow the direction of the diagonal line, then the regression model did not meet the assumption of normality (Nugroho, 2005).

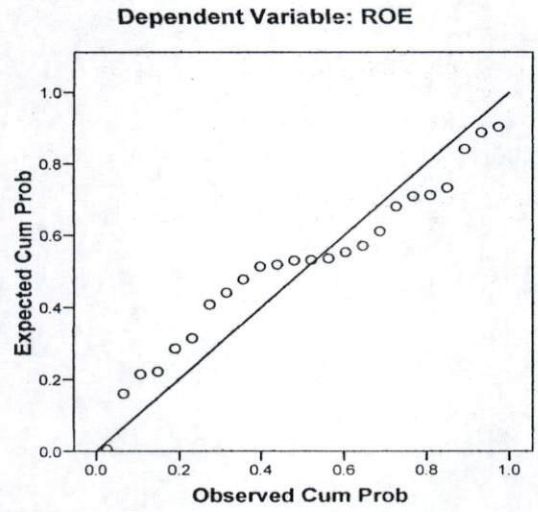
Picture 4.1

Normal P-P Plot of Regression Standardized Residual



Picture 4.2

Normal P-P Plot of Regression Standardized Residual



4.3.2 Multicollinearity Test

Multicollinearity test is needed to determine whether there is an independent variable that has similarities with other independent variables in a model. Similarities between variables in a model will cause strong correlation between an independent variable with other independent variables. Detection of multicollinearity in a model can be viewed on the value of Variance Inflation Factor (VIF). If the VIF value is not more than 10 and the tolerance value is not less than 0.1, then the model can be said to be free of multicollinearity (Nugroho, 2005)

Table 4.3

Collinearity Statistics

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	BOD	.296	3.383
	BOC	.321	3.117
	INDB	.143	6.999
	KOMITE AUDIT	.266	3.764
	FREQUENCY MEETINGS BOD	.461	2.169
	FREQUENCY MEETINGS BOC	.246	4.058
	FREQUENCY MEETINGS AUDIT COMMITTEE	.369	2.708
	REMUNERATION	.232	4.312

a. Dependent Variable: ROA

Based on the table above, we know that VIF value for each independent variable is not more than 10 and tolerance value is not less than 0.1. Then it can be declared multiple linear regression models free from classical statistical assumptions and can be used in research process.

4.3.3 Autocorrelation Test

Autocorrelation testing aims to determine whether the error bullies at certain periods correlated with errors in other periods. Autocorrelation can be detected by using the method of Durbin Watson (DW). Based on Sujianto, 2007 basis for decision making whether or not the autocorrelation is:

1. $1.65 < DW < 2.35$ means no autocorrelation
2. $1.21 < DW < 1.65$ or $2.35 < DW < 2.79$ means can not be concluded
3. $DW < 1.21$ or $DW > 2.79$ means autocorrelation occurred

Table 4.4

Autocorrelation Test Result

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	.954[a]	.910	.861	5.65366	.910	18.868	8	15	.000	2.050

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY M BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROA

Table 4.5

Autocorrelation Test Result

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	.962[a]	.925	.885	10.18576	.925	23.226	8	15	.000	1.988

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENC BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROE

Based on data processing results in Table 4.3 and Table 4.4 above, the Durbin Watson values obtained for the dependent variable for ROA is 2.050 and for ROE is 1.988. Therefore, the DW value obtained lie between $1.65 < DW <$

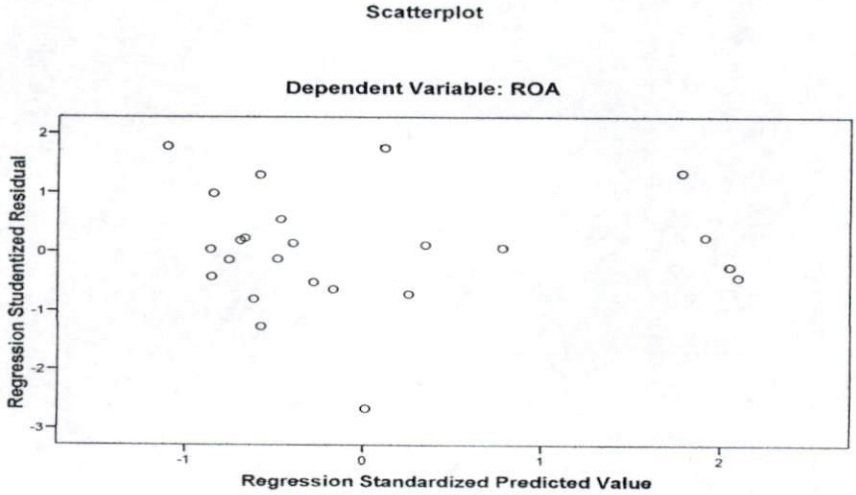
2.35, it can be concluded that there is no autocorrelation in the regression model used in this research.

4.3.4 Heteroscedasticity Test

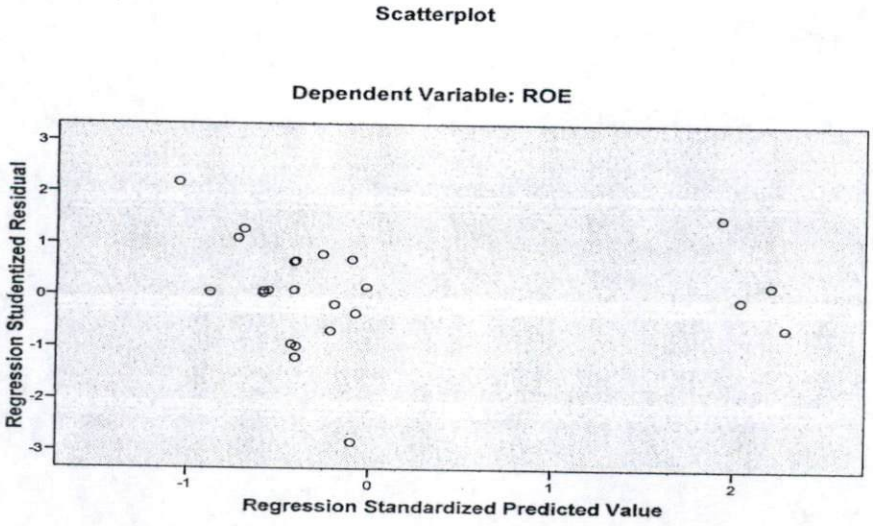
Heteroscedasticity testing aims to test the differences in residual variance of an observation period to another period of observation, or a picture of the relationship between predicted values by studentized delete residual value. The way to predict whether heteroscedasticity exist on a model can be seen from the pattern Scatterplot image of regression model. Basic analysis on the Scatterplot image stating multiple linear regression models there is no heteroscedasticity if (Nugroho, 2005):

1. The points of data spread above and below or near zero.
2. The points of data do not accumulate only above or below.
3. Spread of data points must not form widens wavy pattern
4. Spread of data points should not be pattern

Picture 4.3



Picture 4.4



Based on the picture above can be seen that the points spread above and below or near zero and do not accumulated only above and below. Thus, it can be concluded regression model is free from heteroscedasticity assumptions and feasible used in this research.

4.4 Result of Hypothesis Testing

The following subsections describe the testing of hypothesis. Discussion result will consider the implications of findings, based on the various constructs employed in this study.

4.4.1 Multiple Regressions

This sub-section describes the relationship among variables in the study by incorporating all variables into one model. Particularly, this analysis aims to determine how well a set of independent variables is able to predict a particular outcome and which independent variables are the best predictors of an outcome.

4.4.1.1 Influence of Board Practices toward ROA

Determinant Coefficient (R^2) is used to measure is used to measure the ability of models to explain in variation of independent variable. The coefficient of determinant value is ranged from 0 to 1. If R^2 is getting close 1, thus it indicates there is strength relationship between the variables and independent variables provide almost all information needed to predict dependent variable. The result for determinant coefficient test is shown in table below:

Table 4.6

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	.954[a]	.910	.861	5.65366	.910	18.868	8	15	.000	2.050

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BC BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROA

In table above is shown that coefficient of correlation (R) is 0.954. It means that the relationship between BOD, BOC, INDB, audit committee, frequency meetings of BOD, frequency meetings of BOC, frequency meetings of audit committee, and remuneration toward ROA is tight. Coefficient of determinant (R^2) is 0.910 which is the influence of variation of independent variables is 91 % toward ROA. While the residue is 9% (100% - 91%) explained by other causes beyond the research model. R square amount around 0 until 1. More R square, the connection between variables become stronger. So, the correlation between variables is tight because R square results for 0.910 which is close to 1.

The value of column market sig. indicates whether the variables are making a significant unique contribution to the equation. If the sig. value less than 0.05 then the variable is making significant contribution to the prediction of the dependent variable. From the regression result above, it evidences that the variable having significant influence toward manufacturing firms financial performance measured with ROA.

Table 4.7

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4824.758	8	603.095	18.868	.000[a]
	Residual	479.458	15	31.964		
	Total	5304.216	23			

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROA

In alpha level 5% with df numerator (horizontal) 8 and df2 or dr denominator (vertical) 15 is in the amount of 2.85. The result shows data can be used for advance analyzing. It shows statistically significant by $\alpha < 0.05$. Because $F_{count} < F_{table}$, that is 18.868 > 2.85 means that from the analysis result, can be conclude that existing variables have significant influence to the ROA indicator, so that can be continue for advance analyzing.

The table below shows the result for correlation between BOD, BOC, INDB size, Audit Committee size, Frequency Meetings BOD, Frequency Meetings BOC, Frequency Meetings Audit Committee, and Remuneration toward ROA as indicator for financial performance. It shows no significant correlation between the variables.

Table 4.8

Correlations

		ROA	BOD	BOC	INDB	KOMITE AUDIT	FREQUENCY MEETINGS BOD	FREQUENCY MEETINGS BOC	FREQUENCY MEETINGS AUDIT COMMITTEE	REMUNERATION
Pearson Correlatic	ROA	1.000	.495	-.306	.222	.091	-.445	.170	-.446	-.187
	BOD	.495	1.000	.521	.683	-.107	-.115	-.147	-.210	.318
	BOC	-.306	.521	1.000	.766	.166	.370	.026	.248	.661
	INDB	.222	.683	.766	1.000	.221	.268	.126	-.005	.752
	KOMITE AUDIT	.091	-.107	.166	.221	1.000	.068	.723	.132	.065
	FREQUENCY MEETINGS BOD	-.445	-.115	.370	.268	.068	1.000	-.053	.472	.562
	FREQUENCY MEETINGS BOC	.170	-.147	.026	.126	.723	-.053	1.000	-.326	.085
	FREQUENCY MEETINGS AUDIT COM	-.446	-.210	.248	-.005	.132	.472	-.326	1.000	.098
	REMUNERATION	-.187	.318	.661	.752	.065	.562	.085	.098	1.000
Sig. (1-tailed)	ROA	.	.007	.073	.148	.336	.015	.214	.014	.191
	BOD	.007	.	.005	.000	.310	.296	.247	.162	.065
	BOC	.073	.005	.	.000	.219	.038	.452	.122	.000
	INDB	.148	.000	.000	.	.149	.102	.278	.491	.000
	KOMITE AUDIT	.336	.310	.219	.149	.	.377	.000	.269	.381
	FREQUENCY MEETINGS BOD	.015	.296	.038	.102	.377	.	.403	.010	.002
	FREQUENCY MEETINGS BOC	.214	.247	.452	.278	.000	.403	.	.060	.347
	FREQUENCY MEETINGS AUDIT COM	.014	.162	.122	.491	.269	.010	.060	.	.325
	REMUNERATION	.191	.065	.000	.000	.381	.002	.347	.325	.
N	ROA	24	24	24	24	24	24	24	24	24
	BOD	24	24	24	24	24	24	24	24	24
	BOC	24	24	24	24	24	24	24	24	24
	INDB	24	24	24	24	24	24	24	24	24
	KOMITE AUDIT	24	24	24	24	24	24	24	24	24
	FREQUENCY MEETINGS BOD	24	24	24	24	24	24	24	24	24
	FREQUENCY MEETINGS BOC	24	24	24	24	24	24	24	24	24
	FREQUENCY MEETINGS AUDIT COM	24	24	24	24	24	24	24	24	24
	REMUNERATION	24	24	24	24	24	24	24	24	24

Analyses for the table are:

a. Relationship between variable ROA and Size of BOD which counting by using correlation coefficient is 0.495. This point out less relationship since 0.495 < 1. Positive sign show if ROA increase parallel by increasing of BOD and vice versa. The degree of significance correlation coefficient one side from output result 0.007 which means tight correlation since 0.007 <0.05

b. Relationship between variable ROA and Size of BOC which counting by using correlation coefficient is -0.306. This point out less relationship since -0.306 < 1. Negative sign show if ROA increase parallel by decreasing of BOC and vice versa. The degree of significance correlation coefficient one side from output result 0.073 which means weak correlation since 0.073 > 0.05

c. Relationship between variable ROA and Size of INDB which counting by using correlation coefficient is 0.222. This point out less relationship since 0.222 < 1. Positive sign show if ROA increase parallel by increasing of INDB and vice versa. The degree of significance correlation coefficient one side from output result 0.148 which means weak correlation since 0.148 > 0.05

d. Relationship between variable ROA and Size of Audit Committee which counting by using correlation coefficient is 0.091. This point out less relationship since 0.091< 1. Positive sign show if ROA increase parallel by increasing of Audit Committee and vice versa. The degree of significance correlation coefficient one side from output result 0.336 which means weak correlation since 0.336 > 0.05

e. Relationship between variable ROA and Frequency meetings of BOD which counting by using correlation coefficient is -0.445. This point out less relationship since -0.445 < 1. Negative sign show if ROA increase parallel by decreasing of Frequency Meetings of BOD and vice versa. The degree of significance correlation coefficient one side from output result 0.015 which means tight correlation since 0.015 < 0.05

f. Relationship between variable ROA and Frequency Meetings of BOC which counting by using correlation coefficient is 0.170. This point out less relationship since 0.170 < 1. Positive sign show if ROA increase parallel by increasing of Frequency Meetings of BOC and vice versa. The degree of significance correlation coefficient one side from output result 0.214 which means weak correlation since 0.214 > 0.05

g. Relationship between variable ROA and Frequency Meetings of Audit Committee which counting by using correlation coefficient is -0.446. This point out less relationship since -0.446 < 1. Negative sign show if ROA increase parallel by increasing of Frequency Meetings of Audit Committee and vice versa. The degree of significance correlation coefficient one side from output result 0.014 which means tight correlation since 0.014 <0.05.

h. Relationship between variable ROA and Remuneration which counting by using correlation coefficient is -0.187. This point out less relationship since -0.187 < 1. Negative sign show if ROA increase parallel by decreasing of remuneration and vice versa. The degree of significance correlation coefficient one side from output result 0.191 which means weak correlation since 0.191 > 0.05.

Table 4.9

Coefficients a

Model	Unstandardized Coefficients		Standardized Coefficents	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-15.280	11.929		-1.281	0.220		
BOD	7.830	1.734	0.645	4.515	0.000	0.296	3.383
BOC	-6.855	0.863	-1.088	-7.939	0.000	0.321	3.117
INDB	10.075	2.530	0.818	3.983	0.001	0.143	6.999
KOMITE AUDIT	-0.344	2.588	-0.020	-0.133	0.896	0.266	3.764
FREQUENCY MEETINGS BOD	-0.086	0.148	-0.066	-0.579	0.571	0.461	2.169
FREQUENCY MEETINGS BOC	0.807	0.485	0.260	1.664	0.117	0.246	4.058
FREQUENCY MEETINGS AUDIT COMMITTEE	0.383	0.450	0.109	0.852	0.407	0.369	2.708
REMUNERATION	-0.037	0.021	-0.282	-1.752	0.100	0.232	4.312

a. Dependent Variable: ROA

Based on table above, form of regression Equation is:

$$Y = -15.280 + 7.83\ X1 - 6.855\ X2 + 10.075\ X3 - 0.344\ X4 - 0.086\ X5 + 0.807\ X6 + 0.383\ X7 - 0.037\ X8$$

From the equation above, stated that constant value is -15.280. It means without independent variables exist, the amount of ROA is -15.280. Analyses from the equation are:

a. The Influence of Board of Directors' Size toward ROA

Coefficient b1 is 7.83 showed that every increasing in board of directors' size for 1 point, it will increase ratio of ROA 7.83 point, meanwhile if other factors is constant. Based on statistic test, significant result is 0.000 (below 0.05). This research result shows that board of directors' size has significant influence toward ROA. Thus, this research accepted hypothesis H1 because board of directors' size has positive influence toward ROA.

b. The Influence of Board of Commissioners' Size toward ROA

Coefficient b2 is -6.855 showed that every increasing in board of commissioners' size for 1 point, it will decrease ratio of ROA 6.855 point, meanwhile if other factors is constant. Based on statistic test, significant result is 0.000 (below 0.05). This research result shows that board of directors' size has significant influence toward ROA. Thus, this research rejected hypothesis H2 because board of commissioners' size has negative influence toward ROA.

c. The Influence of Size of Independent Board toward ROA

Coefficient b3 is 10.075 showed that every increasing in size of independent board for 1 point, it will increase the ratio of ROA 10.075 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.001 (below 0.05). This research result shows that size of independent board has significant influence toward ROA. Thus, this research accepted hypothesis H3 because size of independent board has positive influence toward ROA.

d. The Influence of Audit Committees' Size toward ROA

Coefficient b4 is -0.344 showed that every increasing in size audit committees for 1 point, it will decrease the ratio of ROA 0.344 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.896 (above 0.05). This research result shows that audit committees size has insignificant influence toward ROA. Thus, this research rejected hypothesis H4 because audit committees has negative influence toward ROA.

e. The Influence of Frequency Meetings of Board of Directors toward ROA

Coefficient b5 is -0.086 showed that every increasing in frequency meetings of BOD for 1 time, it will decrease the ratio of ROA 0.086 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.571 (above 0.05). This research result shows that frequency meetings of BOD have insignificant influence toward ROA. Thus, this research rejected hypothesis H5 because frequency meetings of BOD has negative influence toward ROA.

f. The Influence of Frequency Meetings of Board of Commissioners toward ROA

Coefficient b6 is 0.807 showed that every increasing in frequency meetings of BOC for 1 point, it will increase the ratio of ROA 0.807 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.117 (above 0.05). This research result shows that frequency meetings of BOC have insignificant influence toward ROA. Thus, this research accepted hypothesis H6 because frequency meetings of BOC have positive influence toward ROA.

g. The Influence of Frequency Meetings of Audit Committees toward ROA

Coefficient b7 is 0.383 showed that every increasing in frequency meetings of audit committees for 1 point, it will increase the ratio of ROA 0.383 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.407 (above 0.05). This research result shows that frequency meetings of audit committees have insignificant influence toward ROA. Thus, this research accepted hypothesis H7 because frequency meetings of audit committees have positive influence toward ROA.

h. The Influence of Remuneration toward ROA

Coefficient b8 is -0.037 showed that every increasing in amount of remuneration 1 billion, it will decrease the ratio of ROA 0.037 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.100 (above 0.05). This research result shows that remuneration have insignificant influence toward ROA. Thus, this research rejected hypothesis H8 because the amount of board remuneration has negative influence toward ROA.

4.4.1.2 Influences of Board Practices toward ROE

The table below shows the coefficient determinant (R^2) stated the result of correlation value is 0.962. Since the value is getting closer to 1, means that the relationship between BOD, BOC, INDB, audit committee, frequency meetings of BOD, frequency meetings of BOC, frequency meetings of audit committee, and remuneration toward ROE is tight. Coefficient of determinant (R^2) is 0.925 which is the influence of variation of independent variables is 92.5 % toward ROE. While the residue is 7.5% (100% - 92.5%) explained by other reasons.. R square

amount around 0 until 1. More R square, the connection between variables becomes stronger. So, the correlation between variables is tight because R square results for 0.925 which is close to 1.

Table 4.10

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	.962[a]	.925	.885	10.18576	.925	23.226	8	15	.000	1.988

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY M BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROE

The value of column market sig. indicates whether the variables are making a significant unique contribution to the equation. If the sig. value less than 0.05 then the variable is making significant contribution to the prediction of the dependent variable. From the regression result above, it evidences that the variable having significant influence toward manufacturing firms' financial performance measured with ROE.

Table 4.11

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19277.568	8	2409.696	23.226	.000[a]
	Residual	1556.246	15	103.750		
	Total	20833.814	23			

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROE

In alpha level 5% with df numerator (horizontal) 8 and df2 or dr denominator (vertical) 15 is in the amount of 2.85. The result shows data can be used for advance analyzing. It shows statistically significant by $\alpha < 0.05$. Because

$F_{count} < F_{table}$, that is 23.226 > 2.85 means that from the analysis result, can be conclude that existing variables have significant influence to the ROA indicator, so that can be continue for advance analyzing

The table below shows the result for correlation between BOD, BOC, INDB size, Audit Committee size, Frequency Meetings of BOD, Frequency Meetings of BOC, Frequency Meetings of Audit Committee, and Remuneration toward ROE as indicator for financial performance. It shows no significant correlation between the variables.

Table 4.12

Correlations

		ROE	BOD	BOC	INDB	KOMITE AUDIT	FREQUENCY MEETINGS BOD	FREQUENCY MEETINGS BOC	FREQUENCY MEETINGS AUDIT COMMITTEE	REMUNERATION
Pearson Correlati	ROE	1.000	.557	-.271	.286	-.094	-.321	-.071	-.340	-.063
	BOD	.557	1.000	.521	.683	-.107	-.115	-.147	-.210	.318
	BOC	-.271	.521	1.000	.766	.166	.370	.026	.248	.661
	INDB	.286	.683	.766	1.000	.221	.268	.126	-.005	.752
	KOMITE AUDIT	-.094	-.107	.166	.221	1.000	.068	.723	.132	.065
	FREQUENCY MEETINGS BOD	-.321	-.115	.370	.268	.068	1.000	-.053	.472	.562
	FREQUENCY MEETINGS BOC	-.071	-.147	.026	.126	.723	-.053	1.000	-.326	.085
	FREQUENCY MEETINGS AUDIT CO	-.340	-.210	.248	-.005	.132	.472	-.326	1.000	.098
	REMUNERATION	-.063	.318	.661	.752	.065	.562	.085	.098	1.000
Sig. (1-tailed)	ROE	.	.002	.100	.088	.330	.063	.371	.052	.385
	BOD	.002	.	.005	.000	.310	.296	.247	.162	.065
	BOC	.100	.005	.	.000	.219	.038	.452	.122	.000
	INDB	.088	.000	.000	.	.149	.102	.278	.491	.000
	KOMITE AUDIT	.330	.310	.219	.149	.	.377	.000	.269	.381
	FREQUENCY MEETINGS BOD	.063	.296	.038	.102	.377	.	.403	.010	.002
	FREQUENCY MEETINGS BOC	.371	.247	.452	.278	.000	.403	.	.060	.347
	FREQUENCY MEETINGS AUDIT CO	.052	.162	.122	.491	.269	.010	.060	.	.325
	REMUNERATION	.385	.065	.000	.000	.381	.002	.347	.325	.
N	ROE	24	24	24	24	24	24	24	24	24
	BOD	24	24	24	24	24	24	24	24	24
	BOC	24	24	24	24	24	24	24	24	24
	INDB	24	24	24	24	24	24	24	24	24
	KOMITE AUDIT	24	24	24	24	24	24	24	24	24
	FREQUENCY MEETINGS BOD	24	24	24	24	24	24	24	24	24
	FREQUENCY MEETINGS BOC	24	24	24	24	24	24	24	24	24
	FREQUENCY MEETINGS AUDIT CO	24	24	24	24	24	24	24	24	24
	REMUNERATION	24	24	24	24	24	24	24	24	24

Analyses for table above:

a. Relationship between variable ROE and Size of BOD which counting by using correlation coefficient is 0.557. This point out less relationship since 0.557 < 1. Positive sign show if ROE increase parallel by increasing of size of BOD and vice versa. The degree of significance correlation coefficient one side from output result 0.002 which means tight correlation since 0.002< 0.05

b. Relationship between variable ROE and Size of BOC which counting by using correlation coefficient is -0.271. This point out less relationship since -0.271 < 1. Negative sign show if ROE increase parallel by decreasing of size of BOC and vice versa. The degree of significance correlation coefficient one side from output result 0.073 which means weak correlation since 0.1 > 0.05

c. Relationship between variable ROE and Size of INDB size which counting by using correlation coefficient is 0.286. This point out less relationship since 0.286 < 1. Positive sign show if ROE increase parallel by increasing of INDB and vice versa. The degree of significance correlation coefficient one side from output result 0.148 which means weak correlation since 0.088 > 0.05

d. Relationship between variable ROE and Size of Audit Committee size which counting by using correlation coefficient is -0.094. This point out less relationship since -0.094< 1. Negative sign show if ROE increase parallel by decreasing of Audit Committee and vice versa. The degree of significance correlation coefficient one side from output result 0.330 which means weak correlation since 0.330 > 0.05

e. Relationship between variable ROE and Frequency meetings of BOD which counting by using correlation coefficient is -0.321. This point out less

relationship since -0.321 < 1. Negative sign show if ROE increase parallel by decreasing of Frequency Meetings of BOD and vice versa. The degree of significance correlation coefficient one side from output result 0.063 which means weak correlation since 0.063 > 0.05

f. Relationship between variable ROE and Frequency Meetings of BOC which counting by using correlation coefficient is -0.071. This point out less relationship since -0.071 < 1. Negative sign show if ROE increase parallel by decreasing of Frequency Meetings of BOC and vice versa. The degree of significance correlation coefficient one side from output result 0.371 which means weak correlation since 0.371 > 0.05

g. Relationship between variable ROE and Frequency Meetings of Audit Committee which counting by using correlation coefficient is -0.340. This point out less relationship since -0.340 < 1. Negative sign show if ROE increase parallel by decreasing of Frequency Meetings of Audit Committee and vice versa. The degree of significance correlation coefficient one side from output result 0.052 which means weak correlation since 0.052 > 0.05

h. Relationship between variable ROE and Remuneration which counting by using correlation coefficient is -0.063. This point out less relationship since -0.063 < 1. Negative sign show if ROA increase parallel by decreasing of remuneration and vice versa. The degree of significance correlation coefficient one side from output result 0.385 which means weak correlation since 0.385 > 0.05

Table 4.13

Coefficients a

Model	Unstandardized Coefficients		Standardized Coefficents	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-25.627	21.491		-1.192	0.252		
BOD	16.035	3.124	0.666	5.133	0.000	0.296	3.383
BOC	-15.472	1.556	-1.239	-9.946	0.000	0.321	3.117
INDB	21.962	4.558	0.900	4.819	0.000	0.143	6.999
KOMITE AUDIT	-2.601	4.663	-0.076	-0.558	0.585	0.266	3.764
FREQUENCY MEETINGS BOD	-0.052	0.266	-0.020	-0.193	0.849	0.461	2.169
FREQUENCY MEETINGS BOC	0.407	0.873	0.066	0.466	0.648	0.246	4.058
FREQUENCY MEETINGS AUDIT COMMITTEE	1.161	0.810	0.166	1.432	0.173	0.369	2.708
REMUNERATION	-0.036	0.039	-0.138	-0.943	0.360	0.232	4.312

a. Dependent Variable: ROE

Based on table above, form of regression equation is:

$$Y= -25.627 + 16.035\ X1 - 15.472\ X2 + 21.962\ X3 - 2.601\ X4 - 0.052\ X5 + 0.407\ X6 + 1.161\ X7 - 0.036\ X8$$

From the equation above, stated that constant value is -25.627. It means without independent variables exist, the amount of ROA is -25.627 Analyses from the equation are:

a. The Influence of Board of Directors' Size toward ROE

Coefficient b1 is 16.035 showed that every increasing in board of directors' size for 1 point, it will increase ratio of ROE 16.035 point, meanwhile if other factors is constant. Based on statistic test, significant result is 0.000 (below 0.05). This research result shows that board of directors' size has significant influence toward ROE. Thus, this research accepted hypothesis H1 because board of directors' size has positive influence toward ROA.

b. The Influence of Board of Commissioners' Size toward ROE

Coefficient b2 is -15.472 showed that every increasing in board of commissioners' size for 1 point, it will decrease ratio of ROA -15.472 point, meanwhile if other factors is constant. Based on statistic test, significant result is 0.000 (below 0.05). This research result shows that board of directors' size has significant influence toward ROE. Thus, this research rejected hypothesis H2 because board of commissioners' size has negative influence toward ROE.

c. The Influence of Size of Independent Board toward ROE

Coefficient b3 is 21.962 showed that every increasing in size of independent board for 1 point, it will increase the ratio of ROE 21.962 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.000 (below 0.05). This research result shows that size of independent board has significant influence toward ROE. Thus, this research accepted hypothesis H3 because size of independent board has positive influence toward ROE.

d. The Influence of Audit Committees' Size toward ROE

Coefficient b4 is -2.601 showed that every increasing in size audit committees for 1 point, it will decrease the ratio of ROE -2.601 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.585 (above 0.05). This research result shows that audit committees size has insignificant influence toward ROE. Thus, this research rejected hypothesis H4 because audit committees has negative influence toward ROE.

e. The Influence of Frequency Meetings of Board of Directors toward ROE

Coefficient b5 is -0.052 showed that every increasing in frequency meetings of BOD for 1 time, it will decrease the ratio of ROE -0.052 point,

meanwhile if other factors are constant. Based on statistic test, significant result is 0.849 (above 0.05). This research result shows that frequency meetings of BOD have insignificant influence toward ROE. Thus, this research rejected hypothesis H5 because frequency meetings of BOD has negative influence toward ROE.

f. The Influence of Frequency Meetings of Board of Commissioners toward ROE

Coefficient b6 is 0.407 showed that every increasing in frequency meetings of BOC for 1 point, it will increase the ratio of ROE 0.407 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.849 (above 0.05). This research result shows that frequency meetings of BOC have insignificant influence toward ROE. Thus, this research accepted hypothesis H6 because frequency meetings of BOC have positive influence toward ROE.

g. The Influence of Frequency Meetings of Audit Committees toward ROE

Coefficient b7 is 1.161 showed that every increasing in frequency meetings of audit committees for 1 point, it will increase the ratio of ROE 1.161 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.173 (above 0.05). This research result shows that frequency meetings of audit committees have insignificant influence toward ROE. Thus, this research accepted hypothesis H7 because frequency meetings of audit committees have positive influence toward ROE.

h. The Influence of Remuneration toward ROE

Coefficient b8 is -0.036 showed that every increasing in amount of remuneration 1 billion, it will decrease the ratio of ROE 0.036 point, meanwhile if other factors are constant. Based on statistic test, significant result is 0.360 (above

0.05). This research result shows that remuneration have insignificant influence toward ROA. Thus, this research rejected hypothesis H8 because the amount of board remuneration has negative influence toward ROA.

Table 4.18

Summary of the Results of Hypothesis Testing

	Hypotheses	ROA	ROE
H1	There is positive influence of Board of Directors' Size toward Manufacturing firms financial performance	Accepted*	Accepted*
H2	There is positive influence of Board of Commissioners' Size toward Manufacturing firms financial performance	Rejected*	Rejected*
H3	There is positive influence of Independence Board of Commissioners' Size toward Manufacturing firms financial performance	Accepted*	Accepted*
H4	There is positive influence of Audit Committees' Size toward Manufacturing firms financial performance	Rejected	Rejected
H5	There is positive influence of frequency meetings of Board of Directors toward Manufacturing firms financial performance	Rejected	Rejected
H6	There is positive influence of frequency meetings of Board of Commissioners toward Manufacturing firms financial performance	Accepted	Accepted
H7	There is positive influence of frequency meetings of Audit Committees toward Manufacturing firms financial performance	Accepted	Accepted
H8	There is positive influence of Remuneration of Board toward Manufacturing firms financial performance	Rejected	Rejected

*Significant

4.5 Results and Discussion

This study has examined whether there is an influence between board practices and financial performance of Indonesian manufacturing firms. Hypothesis states that there are positive influences of board of directors' size, independence board of commissioners' size, frequency of board of commissioners' meeting and frequency of audit committees' meeting. On the other hand, there are negative influences of board of commissioners' size, audit committees' size, meetings frequency of board of directors and board remuneration. The statistical testing result shows board of commissioners' size, audit committees' size, meetings frequency of board of directors and board remuneration reject the hypothesis is evidence of having negative influence towards manufacturing firms' performance measured by ROA and ROE indicators. There is significant influence occurred in Size of Board of Directors, Board of Commissioners' and independence boards. First, the researcher using classical assumption to measure the samples fulfill normality test and classical test assumption. Then, since sample <30, researcher implement t-test then analyses used multiple linear regression model.

This results indicate that larger board size, more meetings frequency of board of commissioners' and meeting frequency of audit committees' increase its financial performance measured by ROA and ROE. This finding is consistent with Belkhir (2004), Rahmawati (2008) and Pratiwi (2008). In contrast, audit committees' size has negative influence on financial performance. This suggests that a smaller audit committee size is more effective in mitigating the managerial actions over income. This finding is consistent with Yulia (2009) who argues that

there is a relationship between audit committee size and financial reporting quality.

However, this study fails to find positive influence between board of directors' meeting and board remuneration on financial performance. Indeed, there is negative influence and no significant association between board of directors' meeting and board remuneration. These findings are contradictive with the previous evidence which argued there is relationship between bonus and remuneration on ROE, yet in other side, it supports Fernandes (2005) which found no relationship between board remuneration and company performance. In term of board meetings frequency, the results support previous research which done by Mehran (2003) findings positive relation between board meeting with company performance measured with ROA, ROE, Tobin's Q.

In term of further research, the equation from multiple linear regression above, can be used in findings the value of ROA and ROE. The amounts of ROA and ROE consecutively without independent variable are -15.280 and -25.627. Then, those equation might be used in measuring the influence of board governance practices on financial performance, in manufacturing firms.

CHAPTER V

CONCLUSION

The proceeding chapter has presented the empirical results and this chapter provides conclusions drawn from the findings and discussions presented in the previous chapter, followed by an assessment of the potential limitations present in this study and possible future directions for research.

5.1 Research Conclusion

This purpose of this research is to get statistical data that shows whether board practices which represent by Board of Directors' Size, Board of Commissioners' Size, Size of Independent Board, Audit Committees' Size, Frequency Meetings of BOD, Frequency Meetings of BOC, Frequency Meetings of Audit Committees, and Remuneration have significant influence toward financial performance measure by ROA and ROE.

This research investigates hypotheses states that there are insignificant influences of the board practices variables towards manufacturing firms financial performance which covers four years data, the results are:

1. There is positive significant influence between Board of Directors' Size toward financial performance measure by ROA and ROE.

2. There is negative significant influence between Board of Commissioners' Size toward financial performance measure by ROA and ROE
3. There is positive significant influence between Size of Independent Board toward financial performance measure by ROA and ROE
4. There is negative insignificant influence between Audit Committees' Size toward financial performance measure by ROA and ROE
5. There is negative insignificant influence between frequency meetings of BOD toward financial performance measure by ROA and ROE
6. There is positive insignificant influence between frequency meetings of BOC toward financial performance measure by ROA and ROE
7. There is positive insignificant influence between frequency meetings of Audit Committees toward financial performance measure by ROA and ROE
8. The writer concludes that generally the board practices have insignificant influence toward financial performance of manufacturing firms.

5.2 Research Limitation for Further Research

There are still limitations that might influence the result of this research:

1. The performance indicator utilized in this research is limited to the accounting return. Further research can be conducted by adding the performance indicators not only considering the accounting return. Actually, so many indicators might

be used in measuring the performance, for example: Tobin's Q, NIM, PER, ratio to market value,, equity to book value of liabilities, sales, and so on.

2. This research categorized the board practices for only three cut of points; Board Governance Size, Frequency Meetings of Board Governance and Remuneration. In addition, next research can use several cut off points for board practices, for example by adding others variable, such as; board election, director nomination and employee participation.
3. The sample of these research only six manufacturing firms which listed in IDX and has certificate as trusted company based on corporate governance perception index and investor and analyst's survey and four consecutive years as the timeline. Then, it causes the bias impact in results of the research. Thus, the results achieve in this research cannot represent the company in general.
4. Thus, the further research finding is expected to support the current research findings and contribute for governance practice in Indonesia.

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APPENDIXES

Appendix 1: Data of the research

YEAR	COMPANY	SIZE				FEQUENCY MEETINGS			REMUNERATION (in billions)
		BOD	BOC	INDB	AC	BOD	BOC	AC	
2006	ASII	7	10	5	3	58	4	10	277.8
	AUTO	7	7	2	3	23	4	5	10.7
	UNVR	9	5	4	3	24	4	5	26.51
	UNTR	6	8	3	5	38	2	23	16.55
	SMGR	6	6	3	5	22	12	5	17.75
	ASGR	4	3	1	2	16	4	5	6.68
2007	ASII	7	10	5	3	48	4	10	297.7
	AUTO	7	7	3	3	20	5	5	10.6
	UNVR	8	5	4	3	24	4	6	26.5
	UNTR	7	8	3	5	43	4	5	16.17
	SMGR	6	6	3	5	23	14	5	21.67
	ASGR	5	3	1	3	41	4	7	10.37
2008	ASII	8	10	5	4	52	10	7	323.6
	AUTO	8	9	3	3	22	5	6	16.2
	UNVR	8	5	4	3	22	4	4	28.8
	UNTR	7	8	3	5	43	4	12	15.6
	SMGR	6	6	3	5	41	12	5	29.14
	ASGR	5	3	1	3	44	5	10	10.92
2009	ASII	8	10	5	4	38	9	7	376.5
	AUTO	8	9	3	3	28	5	7	39.7
	UNVR	8	4	3	3	23	4	3	34.4
	UNTR	7	8	3	5	37	4	14	90.1
	SMGR	6	6	3	5	32	24	5	48.66
	ASGR	5	3	1	3	45	4	11	12.48

Dependent Variable

NO	CODE	COMPANY NAME	ROA (%)			
			2006	2007	2008	2009
1	ASII	PT Astra International	10.14	16.74	19.03	18.44
2	AUTO	PT Astra Otoparts	12.78	10.85	19.39	20.39
3	UNVR	PT Unilever Indonesia Tbk	53.28	52.9	53.01	56.76
4	UNTR	PT United Tractor	12.02	15.75	16.86	22.31
5	SMGR	PT Semen Gresik (Persero)	24.77	30.07	33.85	35.94
6	ASGR	PT Astra Graphia Tbk	13.95	15.26	9.98	11.7

NO	CODE	COMPANY NAME	ROE (%)			
			2006	2007	2008	2009
1	ASII	PT Astra International	26.24	39.44	46.44	41.11
2	AUTO	PT Astra Otoparts	20.75	16.57	29.09	29.51
3	UNVR	PT Unilever Indonesia Tbk	104.06	106.8	111.23	114.74
4	UNTR	PT United Tractor	29.42	35.73	34.6	39.33
5	SMGR	PT Semen Gresik (Persero)	33.77	38.63	44.48	45.65
6	ASGR	PT Astra Graphia Tbk	27.57	30.34	25.21	23.81

Appendix 2: Regression

ROA

Descriptive Statistics

	Mean	Std. Deviation	N
ROA	24.4238	15.18612	24
BOD	6.7917	1.25036	24
BOC	6.6250	2.41035	24
INDB	3.0417	1.23285	24
KOMITE AUDIT	3.4583	.88363	24
FREQUENCY MEETINGS BOD	33.6250	11.73924	24
FREQUENCY MEETINGS BOC	6.4583	4.89879	24
FREQUENCY MEETINGS AUDIT COMMITTEE	7.5833	4.31294	24
REMUNERATION	73.5458	114.44769	24

Correlations

		ROA	BOD	BOC	INDB	KOMITE AUDIT	FREQUENCY MEETINGS BOD	FREQUENCY MEETINGS BOC	FREQUENCY MEETINGS AUDIT COMMITTEE	REMUNERATION
Pearson Correla	ROA	1.000	.495	-.306	.222	.091	-.445	.170	-.446	-.187
	BOD	.495	1.000	.521	.683	-.107	-.115	-.147	-.210	.318
	BOC	-.306	.521	1.000	.766	.166	.370	.026	.248	.661
	INDB	.222	.683	.766	1.000	.221	.268	.126	-.005	.752
	KOMITE AUDIT	.091	-.107	.166	.221	1.000	.068	.723	.132	.065
	FREQUENCY MEETINGS BOD	-.445	-.115	.370	.268	.068	1.000	-.053	.472	.562
	FREQUENCY MEETINGS BOC	.170	-.147	.026	.126	.723	-.053	1.000	-.326	.085
	FREQUENCY MEETINGS AUDIT CO	-.446	-.210	.248	-.005	.132	.472	-.326	1.000	.098
	REMUNERATION	-.187	.318	.661	.752	.065	.562	.085	.098	1.000
Sig. (1-tailed)	ROA	.	.007	.073	.148	.336	.015	.214	.014	.191
	BOD	.007	.	.005	.000	.310	.296	.247	.162	.065
	BOC	.073	.005	.	.000	.219	.038	.452	.122	.000
	INDB	.148	.000	.000	.	.149	.102	.278	.491	.000
	KOMITE AUDIT	.336	.310	.219	.149	.	.377	.000	.269	.381
	FREQUENCY MEETINGS BOD	.015	.296	.038	.102	.377	.	.403	.010	.002
	FREQUENCY MEETINGS BOC	.214	.247	.452	.278	.000	.403	.	.060	.347
	FREQUENCY MEETINGS AUDIT CO	.014	.162	.122	.491	.269	.010	.060	.	.325
	REMUNERATION	.191	.065	.000	.000	.381	.002	.347	.325	.
N	ROA	24	24	24	24	24	24	24	24	24
	BOD	24	24	24	24	24	24	24	24	24
	BOC	24	24	24	24	24	24	24	24	24
	INDB	24	24	24	24	24	24	24	24	24
	KOMITE AUDIT	24	24	24	24	24	24	24	24	24
	FREQUENCY MEETINGS BOD	24	24	24	24	24	24	24	24	24
	FREQUENCY MEETINGS BOC	24	24	24	24	24	24	24	24	24
	FREQUENCY MEETINGS AUDIT CO	24	24	24	24	24	24	24	24	24
	REMUNERATION	24	24	24	24	24	24	24	24	24

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ROA

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	.954[a]	.910	.861	5.65366	.910	18.868	8	15	.000	2.050

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQU BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROA

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4824.758	8	603.095	18.868	.000[a]
	Residual	479.458	15	31.964		
	Total	5304.216	23			

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROA

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)	-15.280	11.929		-1.281	.220	-40.705	10.145					
	BOD	7.830	1.734	.645	4.515	.000	4.134	11.526	.495	.759	.351	.296	3.383
	BOC	-6.855	.863	-1.088	-7.939	.000	-8.695	-5.015	-.306	-.899	-.616	.321	3.117
	INDB	10.075	2.530	.818	3.983	.001	4.683	15.467	.222	.717	.309	.143	6.999
	KOMITE AUDIT	-.344	2.588	-.020	-.133	.896	-5.861	5.173	.091	-.034	-.010	.266	3.764
	FREQUENCY MEETINGS BOD	-.086	.148	-.066	-.579	.571	-.401	.230	-.445	-.148	-.045	.461	2.169
	FREQUENCY MEETINGS BOC	.807	.485	.260	1.664	.117	-.227	1.840	.170	.395	.129	.246	4.058
	FREQUENCY MEETINGS AUDIT COMM	.383	.450	.109	.852	.407	-.575	1.342	-.446	.215	.066	.369	2.708
	REMUNERATION	-.037	.021	-.282	-1.752	.100	-.083	.008	-.187	-.412	-.136	.232	4.312

a. Dependent Variable: ROA

Coefficient Correlations[a]

Model			REMUNERATION	KOMITE AUDIT	FREQUENCY MEETINGS AUDIT COMMITTEE	BOD	FREQUENCY MEETINGS BOD	BOC	FREQUENCY MEETINGS BOC	INDB
1	Correlations	REMUNERATION	1.000	.293	.080	.326	-.448	-.159	-.135	-.631
		KOMITE AUDIT	.293	1.000	-.529	.090	.050	.069	-.793	-.346
		FREQUENCY MEETINGS AUDIT COMMITTEE	.080	-.529	1.000	.263	-.345	-.351	.644	.086
		BOD	.326	.090	.263	1.000	.150	-.227	.225	-.609
		FREQUENCY MEETINGS BOD	-.448	.050	-.345	.150	1.000	-.034	-.037	.056
		BOC	-.159	.069	-.351	-.227	-.034	1.000	-.132	-.304
		FREQUENCY MEETINGS BOC	-.135	-.793	.644	.225	-.037	-.132	1.000	.080
		INDB	-.631	-.346	.086	-.609	.056	-.304	.080	1.000
	Covariances	REMUNERATION	.000	.016	.001	.012	-.001	-.003	-.001	-.034
		KOMITE AUDIT	.016	6.699	-.616	.404	.019	.154	-.995	-2.265
		FREQUENCY MEETINGS AUDIT COMMITTEE	.001	-.616	.202	.205	-.023	-.136	.140	.098
		BOD	.012	.404	.205	3.007	.038	-.341	.189	-2.670
		FREQUENCY MEETINGS BOD	-.001	.019	-.023	.038	.022	-.004	-.003	.021
		BOC	-.003	.154	-.136	-.341	-.004	.746	-.055	-.664
		FREQUENCY MEETINGS BOC	-.001	-.995	.140	.189	-.003	-.055	.235	.099
		INDB	-.034	-2.265	.098	-2.670	.021	-.664	.099	6.399

a. Dependent Variable: ROA

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions								
				(Constant)	BOD	BOC	INDB	KOMITE AUDIT	FREQUENCY MEETINGS BOD	FREQUENCY MEETINGS BOC	FREQUENCY MEETINGS AUDIT COMMITTEE	REMUNERATION
1	1	7.622	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	.650	3.424	.00	.00	.00	.00	.00	.00	.01	.00	.20
	3	.423	4.244	.00	.00	.00	.00	.00	.00	.12	.07	.01
	4	.170	6.705	.00	.01	.01	.02	.00	.02	.07	.16	.03
	5	.068	10.549	.01	.00	.06	.02	.00	.37	.01	.19	.00
	6	.031	15.684	.02	.01	.69	.02	.05	.18	.03	.06	.22
	7	.019	19.879	.10	.02	.11	.48	.01	.34	.01	.01	.43
	8	.012	24.807	.00	.08	.12	.06	.81	.00	.75	.50	.04
	9	.005	40.742	.86	.87	.01	.41	.13	.09	.00	.01	.07

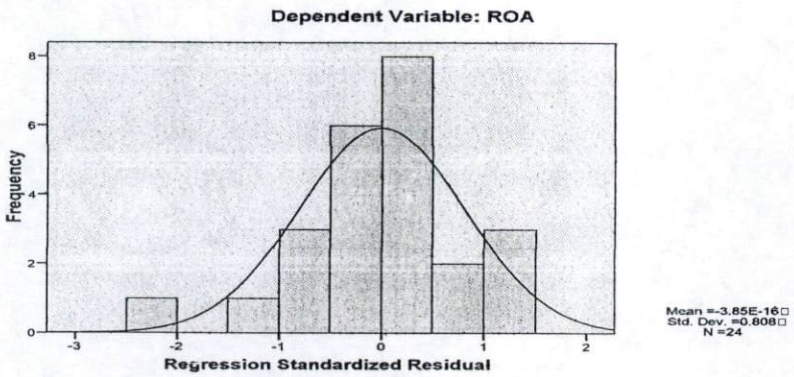
a. Dependent Variable: ROA

Residuals Statistics [a]

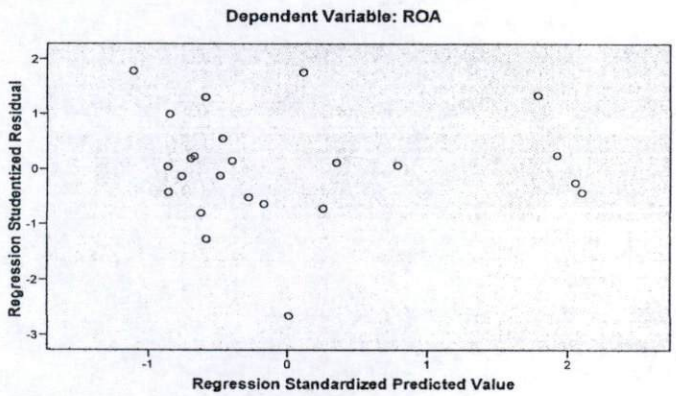
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	8.3863	54.8342	24.4237	14.48351	24
Std. Predicted Value	-1.107	2.100	.000	1.000	24
Standard Error of Predicted Value	2.303	5.173	3.389	.722	24
Adjusted Predicted Value	-4.2812	55.9164	23.8799	15.28346	24
Residual	-13.73041	7.77887	.00000	4.56574	24
Std. Residual	-2.429	1.376	.000	.808	24
Stud. Residual	-2.659	1.781	.033	.982	24
Deleted Residual	-16.46272	18.23120	.54381	7.11124	24
Stud. Deleted Residual	-3.534	1.938	.013	1.121	24
Mahal. Distance	2.859	18.294	7.667	4.034	24
Cook's Distance	.001	.803	.067	.165	24
Centered Leverage Value	.124	.795	.333	.175	24

a. Dependent Variable: ROA

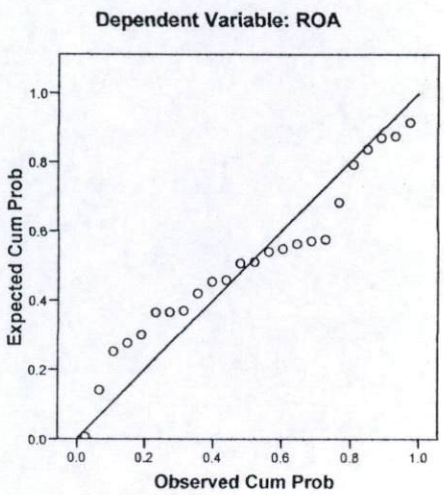
Histogram



Scatterplot



Normal P-P Plot of Regression Standardized Residual



ROE

Descriptive Statistics

	Mean	Std. Deviation	N
ROE	45.6050	30.09681	24
BOD	6.7917	1.25036	24
BOC	6.6250	2.41035	24
INDB	3.0417	1.23285	24
KOMITE AUDIT	3.4583	.88363	24
FREQUENCY MEETINGS BOD	33.6250	11.73924	24
FREQUENCY MEETINGS BOC	6.4583	4.89879	24
FREQUENCY MEETINGS AUDIT COMMITT	7.5833	4.31294	24
REMUNERATION	73.5458	114.44769	24

Correlations

		ROE	BOD	BOC	INDB	KOMITE AUDIT	FREQUENCY MEETINGS BOD	FREQUENCY MEETINGS BOC	FREQUENCY MEETINGS AUDIT COMMITTEE	REMUNI RATIO
Pearson Correlatior	ROE	1.000	.557	-.271	.286	-.094	-.321	-.071	-.340	-.06
	BOD	.557	1.000	.521	.683	-.107	-.115	-.147	-.210	.31
	BOC	-.271	.521	1.000	.766	.166	.370	.026	.248	.66
	INDB	.286	.683	.766	1.000	.221	.268	.126	-.005	.75
	KOMITE AUDIT	-.094	-.107	.166	.221	1.000	.068	.723	.132	.06
	FREQUENCY MEETINGS BOD	-.321	-.115	.370	.268	.068	1.000	-.053	.472	.56
	FREQUENCY MEETINGS BOC	-.071	-.147	.026	.126	.723	-.053	1.000	-.326	.08
	FREQUENCY MEETINGS AUDIT COMMI	-.340	-.210	.248	-.005	.132	.472	-.326	1.000	.09
	REMUNERATION	-.063	.318	.661	.752	.065	.562	.085	.098	1.00
Sig. (1-tailed)	ROE	.	.002	.100	.088	.330	.063	.371	.052	.38
	BOD	.002	.	.005	.000	.310	.296	.247	.162	.06
	BOC	.100	.005	.	.000	.219	.038	.452	.122	.00
	INDB	.088	.000	.000	.	.149	.102	.278	.491	.00
	KOMITE AUDIT	.330	.310	.219	.149	.	.377	.000	.269	.38
	FREQUENCY MEETINGS BOD	.063	.296	.038	.102	.377	.	.403	.010	.00
	FREQUENCY MEETINGS BOC	.371	.247	.452	.278	.000	.403	.	.060	.34
	FREQUENCY MEETINGS AUDIT COMMI	.052	.162	.122	.491	.269	.010	.060	.	.32
	REMUNERATION	.385	.065	.000	.000	.381	.002	.347	.325	
N	ROE	24	24	24	24	24	24	24	24	2
	BOD	24	24	24	24	24	24	24	24	2
	BOC	24	24	24	24	24	24	24	24	2
	INDB	24	24	24	24	24	24	24	24	2
	KOMITE AUDIT	24	24	24	24	24	24	24	24	2
	FREQUENCY MEETINGS BOD	24	24	24	24	24	24	24	24	2
	FREQUENCY MEETINGS BOC	24	24	24	24	24	24	24	24	2
	FREQUENCY MEETINGS AUDIT COMMI	24	24	24	24	24	24	24	24	2
	REMUNERATION	24	24	24	24	24	24	24	24	2

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: 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	.962[a]	.925	.885	10.18576	.925	23.226	8	15	.000	1.988

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19277.568	8	2409.696	23.226	.000[a]
	Residual	1556.246	15	103.750		
	Total	20833.814	23			

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: ROE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-25.627	21.491		-1.192	.252	-71.433	20.179					
	BOD	16.035	3.124	.666	5.133	.000	9.376	22.694	.557	.798	.362	.296	3.383
	BOC	-15.472	1.556	-1.239	-9.946	.000	-18.788	-12.157	-.271	-.932	-.702	.321	3.117
	INDB	21.962	4.558	.900	4.819	.000	12.248	31.676	.286	.779	.340	.143	6.999
	KOMITE AUDIT	-2.601	4.663	-.076	-.558	.585	-12.540	7.338	-.094	-.143	-.039	.266	3.764
	FREQUENCY MEETINGS BOD	-.052	.266	-.020	-.193	.849	-.619	.516	-.321	-.050	-.014	.461	2.169
	FREQUENCY MEETINGS BOC	.407	.873	.066	.466	.648	-1.455	2.268	-.071	.119	.033	.246	4.058
	FREQUENCY MEETINGS AUDIT C	1.161	.810	.166	1.432	.173	-.567	2.888	-.340	.347	.101	.369	2.708
	REMUNERATION	-.036	.039	-.138	-.943	.360	-.118	.046	-.063	-.237	-.067	.232	4.312

a. Dependent Variable: ROE

Coefficient Correlations[a]

Model			REMUNERATION	KOMITE AUDIT	FREQUENCY MEETINGS AUDIT COMMITTEE	BOD	FREQUENCY MEETINGS BOD	BOC	FREQUENCY MEETINGS BOC	INDB
1	Correlations	REMUNERATION	1.000	.293	.080	.326	-.448	-.159	-.135	-.631
		KOMITE AUDIT	.293	1.000	-.529	.090	.050	.069	-.793	-.346
		FREQUENCY MEETINGS AUDIT CON	.080	-.529	1.000	.263	-.345	-.351	.644	.086
		BOD	.326	.090	.263	1.000	.150	-.227	.225	-.609
		FREQUENCY MEETINGS BOD	-.448	.050	-.345	.150	1.000	-.034	-.037	.056
		BOC	-.159	.069	-.351	-.227	-.034	1.000	-.132	-.304
		FREQUENCY MEETINGS BOC	-.135	-.793	.644	.225	-.037	-.132	1.000	.080
		INDB	-.631	-.346	.086	-.609	.056	-.304	.080	1.000
	Covariances	REMUNERATION	.001	.053	.003	.039	-.005	-.010	-.005	-.111
		KOMITE AUDIT	.053	21.744	-2.000	1.312	.062	.501	-3.229	-7.353
		FREQUENCY MEETINGS AUDIT CON	.003	-2.000	.657	.666	-.074	-.443	.455	.317
		BOD	.039	1.312	.666	9.761	.125	-1.105	.614	-8.666
		FREQUENCY MEETINGS BOD	-.005	.062	-.074	.125	.071	-.014	-.009	.068
		BOC	-.010	.501	-.443	-1.105	-.014	2.420	-.179	-2.154
		FREQUENCY MEETINGS BOC	-.005	-3.229	.455	.614	-.009	-.179	.763	.320
		INDB	-.111	-7.353	.317	-8.666	.068	-2.154	.320	20.771

a. Dependent Variable: ROE

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions								
				(Constant)	BOD	BOC	INDB	KOMITE AUDIT	FREQUENCY MEETINGS BOD	FREQUENCY MEETINGS BOC	FREQUENCY MEETINGS AUDIT COMMITTEE	REMUNERATION
1	1	7.622	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	.650	3.424	.00	.00	.00	.00	.00	.00	.01	.00	.20
	3	.423	4.244	.00	.00	.00	.00	.00	.00	.12	.07	.01
	4	.170	6.705	.00	.01	.01	.02	.00	.02	.07	.16	.03
	5	.068	10.549	.01	.00	.06	.02	.00	.37	.01	.19	.00
	6	.031	15.684	.02	.01	.69	.02	.05	.18	.03	.06	.22
	7	.019	19.879	.10	.02	.11	.48	.01	.34	.01	.01	.43
	8	.012	24.807	.00	.08	.12	.06	.81	.00	.75	.50	.04
	9	.005	40.742	.86	.87	.01	.41	.13	.09	.00	.01	.07

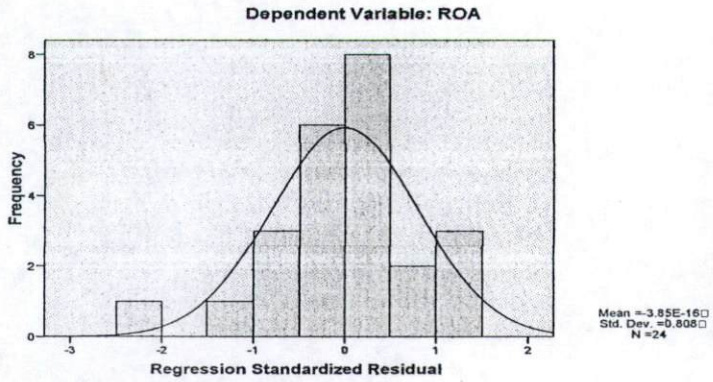
a. Dependent Variable: ROE

Residuals Statistics[a]

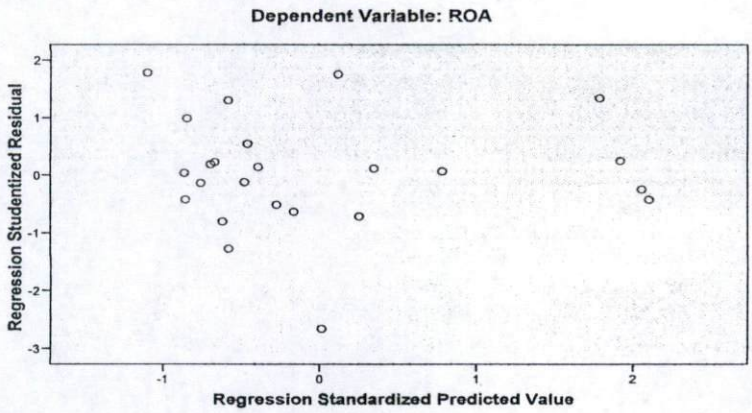
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	8.3863	54.8342	24.4237	14.48351	24
Std. Predicted Value	-1.107	2.100	.000	1.000	24
Standard Error of Predicted Value	2.303	5.173	3.389	.722	24
Adjusted Predicted Value	-4.2812	55.9164	23.8799	15.28346	24
Residual	-13.73041	7.77887	.00000	4.56574	24
Std. Residual	-2.429	1.376	.000	.808	24
Stud. Residual	-2.659	1.781	.033	.982	24
Deleted Residual	-16.46272	18.23120	.54381	7.11124	24
Stud. Deleted Residual	-3.534	1.938	.013	1.121	24
Mahal. Distance	2.859	18.294	7.667	4.034	24
Cook's Distance	.001	.803	.067	.165	24
Centered Leverage Value	.124	.795	.333	.175	24

a. Dependent Variable: ROA

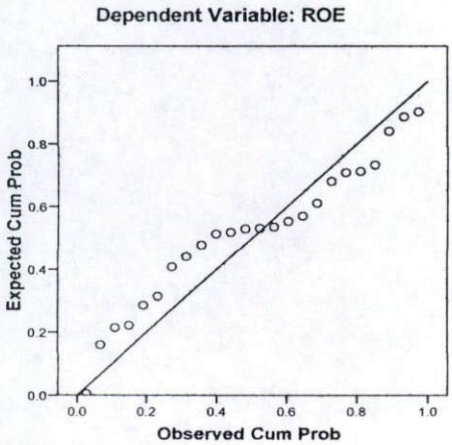
Histogram



Scatterplot



Normal P-P Plot of Regression Standardized Residual



Appendix 3: Heterokedasticity Testing Glesjer Method

ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.346[a]	.120	-.349	3.74097

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.617	8	3.577	.256	.971[a]
	Residual	209.923	15	13.995		
	Total	238.540	23			

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: AbsUt1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13.085	7.893		1.658	.118
	BOD	-1.049	1.147	-.407	-.914	.375
	BOC	-.032	.571	-.024	-.056	.956
	INDB	.514	1.674	.197	.307	.763
	KOMITE AUDIT	-.200	1.713	-.055	-.117	.908
	FREQUENCY MEETINGS BOD	-.041	.098	-.149	-.416	.683
	FREQUENCY MEETINGS BOC	-.156	.321	-.238	-.488	.633
	FREQUENCY MEETINGS AUDIT COMMITTEE	-.164	.298	-.220	-.553	.589
	REMUNERATION	.002	.014	.087	.172	.865

a. Dependent Variable: AbsUt1

ROE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.489[a]	.239	-.167	6.36639

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	191.027	8	23.878	.589	.772[a]
	Residual	607.963	15	40.531		
	Total	798.990	23			

a. Predictors: (Constant), REMUNERATION, KOMITE AUDIT , FREQUENCY MEETINGS AUDIT COMMITTEE, BOD, FREQUENCY MEETINGS BOD, BOC, FREQUENCY MEETINGS BOC, INDB

b. Dependent Variable: AbsUt2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	31.307	13.432		2.331	.034
	BOD	-3.341	1.953	-.709	-1.711	.108
	BOC	-.108	.972	-.044	-.111	.913
	INDB	3.182	2.849	.666	1.117	.282
	KOMITE AUDIT	-1.440	2.915	-.216	-.494	.628
	FREQUENCY MEETINGS BOD	-.061	.167	-.122	-.368	.718
	FREQUENCY MEETINGS BOC	-.302	.546	-.251	-.553	.588
	FREQUENCY MEETINGS AUDIT COMMITTEE	-.257	.507	-.188	-.508	.619
	REMUNERATION	-.014	.024	-.268	-.574	.574

a. Dependent Variable: AbsUt2

Appendix 4: Normality Testing

NPar Test

One-Sample Kolmogorov-Smirnov Test

	N	Normal Parameters[a,b]		Most Extreme Differences			Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
BOD	24	6.7917	1.25036	.191	.125	-.191	.937	.344
BOC	24	6.6250	2.41035	.132	.102	-.132	.649	.794
INDB	24	3.0417	1.23285	.278	.263	-.278	1.363	.049
KOMITE AUDIT	24	3.4583	.88363	.406	.406	-.260	1.991	.001
FREQUENCY MEETINGS BOD	24	33.6250	11.73924	.211	.211	-.113	1.031	.238
FREQUENCY MEETINGS BOC	24	6.4583	4.89879	.367	.367	-.266	1.798	.003
FREQUENCY MEETINGS AUDIT COMMITT	24	7.5833	4.31294	.262	.262	-.191	1.284	.074
REMUNERATION	24	73.5458	114.44769	.378	.378	-.280	1.851	.002
ROA	24	24.4238	15.18612	.230	.230	-.171	1.125	.159
ROE	24	45.6050	30.09681	.322	.322	-.167	1.579	.014
Standardized Residual	24	.0000000	.80757285	.157	.157	-.126	.769	.596
Standardized Residual	24	.0000000	.80757285	.141	.096	-.141	.690	.728

a. Test distribution is Normal.

b. Calculated from data.