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THESIS

Board Characteristics and Firm Performance; Evidence from State – Owned Enterprises (SOEs) Listed in Indonesian Stock Exchange

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CHAPTER 1

INTRODUCTION

1.1 Background

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

Implementation of GCG encourages fair competition and conducive business climate leading to a sustainable economic growth and stability (Indonesian Code of Good Corporate Governance, 2006). Corporate governance system gives an effective protection to company's stakeholder and creditor so they are sure to get an appropriate return from their investment. Corporate governance also helps to make conducive environment for creating an efficient and sustainable growth in corporate sector. Corporate governance defined as a set of rule which determines the relationship between stakeholder, manager, creditor, government, employee and internal and external stakeholder to their rights and responsibilities (FCGI, 2003). Corporate governance deals with the ways in which suppliers of finance to corporations ensure a fair and safe return on their investments (Shleifer & Vishny, 1997), by managing the mechanisms with which a corporation conducts basic operation.

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

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

CHAPTER V

CONCLUSION

5.1 Conclusion

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

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

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

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