BOARD SIZE, BOARD COMPOSITION AND FIRM VALUE IN R&D COMPANIES

THE CASE OF INDONESIA

THESIS

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ABSTRACT

Board of directors of a corporation is ultimately responsible for the organization's decision and its performance. To be the key of success of the organization, board must be functioning effective and efficient. Reviewing the board performance is valuable in contributing to the function of the board. One of method to reviewing the board is through the established structure of the board; that is within its size and composition balances. This thesis tried to investigate whether the optimum board size and board composition balances for complex firms and high R&D firms are also found in Indonesia's Manufacturing firms. This thesis used 6 Indonesian's R&D manufacturing companies as a data samples, and used Tobin's Q as a firm performance measurement. This thesis found that, contrary to the hypotheses, the optimum board size and board composition balances for complex firms and high R&D firms, as suggested by previous research, wasn't found in Indonesian's R&D manufacturing companies and also have a negative relationship toward firm performance as measured by Tobin's Q.

Keywords: Board of Directors, Board Size, Board Composition, R&D Firms, Tobin's Q

CHAPTER 1

INTRODUCTION

1.1. Background

In the last two decades, there are the series of the financial catastrophes around the globe along with their financial crisis impact. Further research following those series of crisis confirms that the cause of the financial catastrophe was related with the weakness in the implementation of corporate governance within the countries. Prasetyantoko (2008) state that, the cause of many economic crises that happened throughout the world in the last two decades, was a failure in applying good Corporate Governance, aside from reckless economic liberalization and improper financial regulation. Similar opinion was stated by The International Corporate Governance Network (ICGN) on his statement concerning 2008 global financial meltdown, saying that Corporate Governance failings were not the only factor, but they were critical and significant. On the other hand, good corporate governance also practice plays a critical role in both maintaining and pushing economy growth of one country (Morck and Nakamura, 1999).

As for Indonesian studies, many issues related with corporate governance became popular in Indonesia in the end of 20th century, precisely after the economic crisis in 1997 (Lukviarman, 2004). Lukviarman, Syakhroza, Prasetyantoko and Sutojo are few the names of scholars are willing to understand corporate governance within the Indonesian banking and corporate nature. Indonesian corporate governance system is an interesting subject to observe, because of the absences of the common corporate control, relative to other countries (Lukviarman, 2004). Hence, any research conducted in this field of study, should be used as a tool to improving the implementation of corporate governance, by then, stakeholders and wide scale of national economic growth will gain positive impact (Daniri, 2006).

So why the corporate governance matter? It is because corporate governance is a structure of the relationship among various participants in determining the direction and performance of corporation, the primary participants are the shareholders, the management and the board of directors (Monks & Minow, 2001), and distributed the rights and responsibilities among them (OECD). Therefore, the central to the study of corporate governance are the board (as the governing body), the management and the shareholders (Tricker, 2010).

Board of directors of a corporation is ultimately responsible for the organization's decision and its performance. It's the board that is accountable to the owners, members, and other legitimate stakeholders. The board should be providing direction and supervising the work of executive management (Tricker, 2010), along with resources and useful information to help the companies against the uncertain business environment. Thus properly structured governing boards have the effect of the organizational outcomes (Siciliano, 1996).

Since Indonesia applied two-tier board instead of unitary board in the corporate governance structure, there are consequences in the term of

CHAPTER V

CONCLUSION AND LIMITATION

5.1 Conclusion and Implications

This study has examined the board of commissioners sizes and its structure toward firm's performance. Independent variable in this study is board commissioner's structure and the dependent variable is firm's performance which took Tobin's Q as the proxy. This study also used two control variables which are the firm's size and firm-specific knowledge. Firm's size divided into complex and simple firm meanwhile firm-specific knowledge using R&D intensity as the proxy that divided into high-R&D firm and low-R&D firm.

The result found that (1) complex firms has smaller board of commissioners than simple firm (2) complex firms does not have more independent commissioners than simple firms (3) high-R&D firms have lower fraction of non-independent commissioners on the board (4) Tobin's Q have negative relationship with board of commissioners size at complex firms (5) Tobin's Q have negative relationship with fraction of non-independent commissioners at high-R&D firms.

The discussion on the research result illustrated the nuance of board of commissioner in Indonesian R&D firms. First result stated that complex firm in Indonesia has smaller board than simple firms; also have negative relationship with the firms performance as measured by Tobin's Q. The hypothesis testing also figured that a complex firm doesn't have more independent commissioners than their counterpart, the simple firms.

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