ECONOMICS FACULTY
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THESIS

BOARD GOVERNANCE AND FIRM'S LEVERAGE; A RESOURCE DEPENDENCE PERSPECTIVE

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ABSTRACT

While most literature in Corporate Governance has been dealed with agency theory, this study includes resource dependence perpective to look at the relationship between board governance, specifically consist of board size and proportion of Independent Commissioners and firm's leverage as a part of capital structure decision in Real Estate and Property listed companies in Jakarta Stock Exchange (JSX). Results show leverage as measured by total debt to total assets indicates positive insignificant influence with board size and proportion of Independent Commissioners. These results suggest that in agency perspective, the choice more leverage in mitigating agency problem is not really relevant, while resource dependence perspective is more pronounced.

Keywords: *corporate governance, agency theory, resource dependence theory, board size, independent commissioners, leverage.*

CHAPTER I

INTRODUCTION

1.1 Background

Over the last several decades, the issue of corporate governance has been growing area of management research especially among large and listed firms. Particularly, since the economic crisis have occurred in both developed and developing countries. The increasing volume of research on corporate governance is also due to the financial crisis in Asia in 1997, which was partly blamed on corporate governance issues and led to urgent analysis to help to guide corporate governance reforms. The Asian Development Bank (ADB) and the International Monetary Fund identified structural weaknesses in corporate governance as one of the major resources of the economic meltdown in these countries.

The Asian economic crisis which was devastating for Indonesia, exert to implement economic and institutional reform by infusing better management practices, effective control and accounting systems, stringent monitoring, effective regulatory mechanism and efficient utilization of firm's resources to achieve good corporate governance. If sound corporate governance implemented in a proper and continuous manner, subsequently resulting in an improved performance and sustainable growth of the firms.

Corporate governance is the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and

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corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders (Ministry of Finance Singapore 2001). It is also defined by Keasey et al (1997) to include the structures, processes, cultures and systems that engender the successful operation of the organizations. The Cadbury Committee on the Financial Aspects of Corporate Governance in its final report described corporate governance as 'the system by which companies are directed and controlled' (MacMillan & Downing 1999, p. 18). Corporate governance describes how companies ought to be run, directed and controlled. It is about supervising and holding to account those who direct and control the management.

Corporate governance mechanisms can be broadly characterized as being internal or external to the firm. The internal mechanism include managerial incentives schemes, board of directors monitoring role and accountability reinforced by credible external auditing procedures (Patrick 2001) while the external mechanisms which commonly called market for corporate control rely on the effectiveness of the market providing discipline over a company and the legal regulatory system. Based on such disciplinary mechanisms, one could expect different corporate governance system to arise as the result of varied financial system, legal and regulatory framework, and the market for capital mobilization across countries (Lukviarman 2004).

In the case of Indonesia, as in most developing economies, some of the control devices may not work as well as in countries with fully develop financial systems. For instance, the market for corporate control through take-over processes is

CHAPTER V

CONCLUSION

This chapter provides the conclusions drawn from the findings and discussion presented in the previous research, followed by an assessment of the potential limitations present in this study and possible future directions for research.

5.1 Conclusion

The purpose of this research is to get statistical data that shows whether board governance: large board size and large proportion of Independent Board of Commissioners lead to higher leverage.

This research use independent sample t-test to measure the differences between Independent variable groups toward leverage. These results give indication: (1) On average, there is positive relationship between board size and leverage. However this result is not significantly show that leverage, as measured by total debt to total asset, is higher in large board of director size. This finding is also supported by the result from multiple regressions which show insignificant relationship between board of director size toward leverage. On the other hand, after controlling variable with firms size, in large firm there is negative significantly show that leverage, as measured by total debt to total asset, is higher in small board of commissioner size. This finding is also supported by the result from multiple regressions which show

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