BOARD SIZE, INDEPENDENT COMMISSIONERS, ACADEMIC QUALIFICATION AND PERFORMANCE OF BANKING SECTOR IN INDONESIA

THESIS

Submitted In Partial Fulfilment of The Requirement

For Undergraduate Degree In Economics

EFWAN PERMATA PUTRA

(03 153 039)

ACCOUNTING DEPARTMENT

FACULTY OF ECONOMICS

ANDALAS UNIVERSITY

2010

ABSTRACT

Board of commissioners of a bank is ultimately responsible for the bank's decision and its performance. To be the key of success of the banking organization, board must be functioning effective and efficient. Reviewing the board performance is valuable in contributing to the function of the board. To reviewing the board is through the structure of the board; that is within its size, independent commissioners proportion and academic qualification. This thesis tried to investigate whether the board size, independent commissioners proportion and academic qualification have positive influence to bank performance are also found in Indonesia's banking sector. This thesis used 12 Indonesian's banks as a data samples, and used ROA, ROE and BOPO as bank performance measurement. This thesis found that, contrary to the hypotheses, board size and independent commissioners proportion have positive influence toward bank performance, as suggested by previous research, wasn't found in Indonesia banking sector. Only for the hypotheses, academic qualification with doctoral degree have positive influence toward bank performance, was found in Indonesia banking sector.

KeyWords: Board of Commissioners Size, Independent Commissioners, Academic Qualification, Bank Performance.

CHAPTER I

INTRODUCTION

1.1 Background

Over the last several decades, the issue of corporate governance has been growing area of management research. The wide attention paid to corporate governance was further fuelled by the 1997 Asian financial crisis and the recent corporate scandals and accounting failure around the world. A study by Asian development bank (ADB 2000) reported that the economic crisis in Asia were caused by the failure in implementing prudent corporate governance.

As one of the countries most affected by the crisis, Indonesia is seeking to do financial systems reform and corporate reform by developing rules, institutions, and mechanisms to achieve good corporate governance (Patrick 2001). If Corporate Governance (CG) implemented substantially and adhere to the rules, the CG may directly influence toward company's performance. In a corollary, implementation of CG encourages fair competition and conducive business climate leading to sustainable economic growth and stability (Indonesia's Code of Good Corporate Governance 2006).

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

Although corporate governance is essential to the success of firms in many industries, the banking sector deserves special attention (UFJI & FCGI 2005). The banking sector is mainly responsible for the allocation of financial resources to all other sectors of an economy, whose efficiency very much determines the performance of the economy. The importance of banks to national economies is underscored by the fact that banking is virtually universally a regulated industry and that banks have access to government safety nets. It is of crucial importance therefore that banks have strong corporate governance (Basel Committee on Banking supervision.1999).

In Corporate Governance, 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

CHAPTER V

CONCLUSIONS AND IMPLICATIONS

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 Conclusions

This research investigates the significant influence of board governance toward performance of bank firm. The board governance are represented by board size, proportion of independent commissioners and educational qualification, while financial performances are profitability measured by ROA and ROE and efficiency measured by BOPO.

These results give indication: (1) There is negative relationship between board size and bank performance. After controlling variable with firms size, in large firm and small firms also found there is no significant relationship between board size toward bank perform. (2) Independent board of commissioner is negatively related to bank performance. After controlling variable with firms size, in large firm and small firms also found there is no significant relationship between board size toward bank perform. (3) There is positive relationship between educational qualification towards bank performance. This Positive relationship found in large bank and small bank.

References

Asian Development Bank/A.D.B. 2000,'Corporate Governance and Finance in East Asia: a Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand', *Consolidated Report Vol. 1*, The Asian Development, Manila.

Adams,R.B. & Mehran, H. 2005,'Corporate Performance, Board Structure and its Determinants in the Banking Industry', Stockholm School of Economics, Sweden.

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

Bank Indonesia Regulation Number 8/4/PBI/2006, Indonesia.

Basel Committee on Banking Supervision 2005, *Enhancing Corporate Governance for Banking Organizations*, Bank for International Settlements.

Bathula, H. 2008, "Board Characteristic and Firm's Performance; Evidance from New Zealand", http://www.ssrn.com

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

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

Berle, A.A. & Means, G.C. 1932 (reprint 1997), *The Modern Corporation and Private Property*, Transaction Publishers, New Brunswich.

Blair, M.M. 1995, *Ownership and Control: Rethinking Corporate Governance for the Twenty-first Century*, The Booking Institution, New York.

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

Cadbury, A. 1999,'What Are The Trends in Corporate Governance? What Do We Know?', Journal of Financial Intermediation, vol.9, no.1.

Caprio, G., Laeven, L. & Levine, R. 2006, 'Governance and Bank Valuation', http://www.ssrn.com.