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THESIS

BOARD OF COMMISSIONERS AND FIRM VALUE: THE CASE OF INDONESIA

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BOARD OF COMMISSIONERS AND FIRM VALUE : THE CASE OF INDONESIA

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ABSTRACT

This thesis reexamines the relation between firm value and board structure. The thesis found that complex firm in Indonesia have larger board of commissioners and more non-independent commissioners than simple firm. The others founding is high R&D firms will have a higher fraction of non-independent commissioners on the board. This thesis using Tobin's Q as the proxy for firm value. There are two founding in relation to the Tobin's Q. First, Tobin's Q increases in board of commissioners. Meanwhile the second told that fraction of non-independent commissioners on the board in high R&D firms do not affected the Tobin's Q. This thesis is the replication of the journal of Jeffrey L. Coles, Naveen D. Daniel and Lalitha Naveen which is published in 2007. Coles, Daniel and Naveen apply one tier governance model, meanwhile this research took the European Continental governance model.

Keywords: Corporate Governance, Board of Commissioners, Board of Commissioners size, Tobin's Q

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CHAPTER 1

INTRODUCTION

1.1. Background

The 1997 economic crisis in the East Asian region provoked the countries within this region to consider the issue of corporate governance. The Asian Development Bank (2000) identified structural weaknesses in corporate governance as one of the major sources of the economic meltdown in these countries. Economies that took early steps to improve corporate governance have recovering from the crisis at a more rapid pace than those who have not addressed the issue (OECD, 2001). Many issues about corporate governance become popular in Indonesia in the end of 20^{th} century, precisely after economic crisis in June 1997 (Lukviarman, 2004). The similar issues arise back after the collapse of the big corporation such as Enron and WorldCom in USA, and the fall of HIH and One-Tel in Australia in the beginning of 21st century (Lukviarman, 2004). Indonesia is the most suffering country and the latest country that recover from the impact of the crisis (ADB, 2000).

Indonesia, as one of the countries most affected by the crisis, is seeking to do financial systems reform and corporate reform by developing rules, institutions, and mechanisms to achieve 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 Corporate Governance, 2006).

Board is one of the subjects which often discuss in corporate governance. Board play important role in a corporate. Boards give the advice and have other task to do. In other word, board is also responsible in making a corporate can compete with their competitors.

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). The central objectives of sound corporate governance is that business behave honestly, equitably, and transparently toward all their stakeholders; employees, customers and suppliers; and society at large (Patrick 2001).

Coles, Daniel and Naveen (2007) argued that the board of directors of a corporation is meant to perform the critical functions of monitoring and advising top management. Conventional wisdom suggests that a greater level of board independence allows for more effective monitoring and improves firm performance (Coles, Daniel and Naveen, 2007). Several studies show how outside (non-management) directors on the board affect discrete tasks, including hiring and firing of the Chief Executive Officer (CEO) (Weisbach, 1988; Borokhovich, Parrino, and Trapani, 1996 in Coles et al. 2007), adoption of anti-takeover devices (Brickley, Coles, and Terry, 1994 in Coles et al 2007), and negotiating takeover premiums (Byrd and Hickman, 1992; Cotter, Shivdasani, and Zenner, 1997 in Coles et al 2007).

CHAPTER 5

CONCLUSION AND LIMITATION

The preceding chapter has presented the empirical result and in this chapter will present the conclusion of this research. All of this conclusion will derived from the chapter 1 until the fourth chapter. This chapter also contains the limitation for future research.

5.1 Conclusion

This study has examined the board of commissioners 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 larger board of commissioners than simple firm, complex firms does not have more independent commissioners than simple firms (2) high-R&D firms have a higher fraction of non-independent commissioners on the board (3) Tobin's Q have positive relationship with board of commissioners size at complex firms (4) Tobin's Q have negative relationship with fraction of non-independent commissioners at high-R&D firms.

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