BOARD QUALITY AND FIRM PERFORMANCE: THE CASE OF INDONESIA’S LISTED COMPANIES

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BOARD QUALITY AND FIRM PERFORMANCE: THE CASE OF INDONESIA’S LISTED COMPANIES

A thesis submitted to the Graduate School in partial fulfillment of the requirement for the degree Master in Science (International Accounting)

By

Desi Ilona

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I certify that the substance of this thesis has not been already been submitted to any degree and is not currently being submitted for and other degree qualification.

I certify that any help received in preparing this thesis and all sources used have been acknowledge in this thesis

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ABSTRACT (ENGLISH)

This study aims to investigate the effect of board quality on firm performance of Indonesia’s listed companies post revision of code of corporate governance. In addition, the study is built based on the premise (agency theory) that board quality is associated with the firm performance.

The study used 133 Indonesia listed companies for the year of 2007 financial statement. In addition, board quality is measured by five independent variables; board quality, board shareholding, outside board, Audit Committee Independence, and Audit Committee Financial Expertise. Hence, firm performance is measured by return on asset. The study also used three control variables; company size, fixed asset to total asset ratio, and leverage.

By using the multiple regression analysis, the result show that out of five independent variables are hypothesized, only board independence is significantly negative associated with the firm performance. Hence, leverage and company size (control variables) are also associated with firm performance. In addition, leverage is negatively associated with firm performance and thus, company size is positively related to the firm performance.
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CHAPTER ONE

BACKGROUND OF STUDY

1.1 Introduction

The number of Indonesian’s listed companies has been growing rapidly over the time. In 2000, the number of companies listed in Indonesia stock exchange was 347 and then increased to 468 by the end of the year 2007. In other word, it grew 4.8% in average from 2000 to 2007 (Bapepam, 2008).

The performance of listed companies also fluctuated over time. Some companies have experienced good performance, while others perform badly. In 2005, 17% of the listed companies experienced negative Return on Assets (ROA). Despite, the percentage decreased to 15% in 2006; the number was still large. Poor companies’ performance is believed to be caused by many factors. According to Porter (1991), the firm’s strategy and its implementation are the factors affecting the company performance. In addition, it is also suggested that amongst another factor contributes to the companies’ performance is corporate governance.

The respond of corporate governance in Indonesia has been shown by code of corporate governance. Indonesian’s corporate governance committee issued the code in 2001 and in 2006, a revised version was released. Even though the success of the firm is caused by the strategy and its implementation, the corporate governance is also believed as firm’s success driver (Porter, 1991).
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REFERENCE


Hsu, H.-E. (2007). *Boards of directors and audit committees in initial public offerings*. USA.


