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

DESI ILONA

UNIVERSITI UTARA MALAYSIA
2008

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

DECLARATION

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

Desi Ilona

89363

College of Business

Universiti Utara Malaysia

06010 Sintok

Kedah

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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.

ACKNOWLEDGEMENTS

In the name of Allah, the Most Gracious and the Most Merciful

Completing a thesis is like running a marathon – I would have never made it to the finish line without the support of countless people. I have many supporters to thank.

First and foremost, Praise to the Allah, whose blessing and guidance have helped me in completing this study.

Second, I would like to take a moment to thank my husband, Zaitul, for his support and encouragement during this educational trek. I also want to thank my son; Nadlif Afra, who was willing to cut our playing time short so I could go and work on my "homework". To may parents, late Zainuddin and Ramayunas, thank for always silently encouraging me to press on. To my bothers and my sisters, thank you for praying and supporting me all the time.

Third, I would like to thank my thesis supervisor, Dr. Shamharir Abidin, for putting up with my comma deficiency and for pushing me towards the journey of excellence he models so very well in everything he does. I would like to thank to all MSc (International Accounting) lecturers, for outstanding accounting knowledge during knowledge building time.

Last but certainly not least, I would like to thank my Colleagues and friend, Hafizah, Aniah, Ruzniza, Nana, and Hotma, for modeling a healthy intensity, matched by none. Thanks for living out a true collaborative spirit, both in and out of the class.

Desi Ilona

College of Business

Universiti Utara Malaysia

October 2008

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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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