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CORPORATE GOVERNANCE, GOVERNMENT INTERVENTION AND PERFORMANCE OF STATE OWNED ENTERPRISES, INDONESIA

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Universiti Utara Malaysia

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DOCTOR OF BUSINESS ADMINISTRATION
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CORPORATE GOVERNANCE, GOVERNMENT INTERVENTION AND PERFORMANCE OF STATE OWNED ENTERPRISES, INDONESIA

By

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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business
University Utara Malaysia
In Fulfillment of the Requirement for the Degree
Doctor of Business Administration

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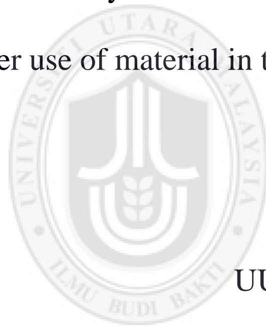

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ABSTRACT

This study examines the relationship between corporate governance, government intervention as a moderating variable and firm performance of Indonesian State Owned Enterprises (SOEs). According to the survey, it is found that the position of the implementation of corporate governance in Indonesia was still the worst among 11 countries located in the Pacific region. Data from 63 SOEs were collected and processed using PLS structured equation modelling to gauge the extent of the relationship. The result demonstrates that the relationship of most corporate, government indicators with ROA is positive except for the Independent Commissioner and the Independent Director. The relationship is significant only on the Independence of Committees and Supervisory board size variables. The results for ROE are also almost the same as ROA's. The relationship is positive for the Independent Director, Independence of Committees, Supervisory board size, Supervisory Board Meetings, Competence of Audit Committee, Reputation of Auditors and Audit Committee Meetings. The government intervention indicators of the appointment of senior executives, regulation and monitoring, and political pressure have positive effects on the relationship between certain corporate governance indicators and firm performance, but the influence is not significant. This result indicates that there are influences from the government to SOEs for good governance and performance. The study combines ten parameters of corporate governance and three parameters of government intervention to explore the performance of Indonesian SOEs that has added to the body of knowledge of corporate governance and the agency theory. The results of this study have practical implications for the Indonesian regulatory authorities to establish and revise the corporate governance practice standards tailored to the Indonesian unique background. The future direction of this research can be developed by changing or adding variables and broadening its scope.

Keywords: corporate governance, government intervention, firm performance, Indonesia

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ABSTRAK

Kajian ini bertujuan untuk melihat hubungan antara tadbir urus korporat, campur tangan kerajaan sebagai penyederhana dan prestasi firma milik negara Indonesia (SOE). Kajian mendapati kedudukan pelaksanaan tadbir urus korporat di Indonesia masih berada pada tahap yang paling buruk di antara 11 buah negara di rantau Pasifik. Data-data yang dikumpulkan dari 63 SOE diproses menggunakan *PLS* Permodelan Persamaan Berstruktur untuk mengukur sejauh mana hubungan tersebut. Dapatan menunjukkan kebanyakan ciri-ciri tadbir urus korporat dan ROA mempunyai hubugan yang positif, kecuali bagi ciri-ciri Pesuruhjaya Bebas dan Pengarah Bebas. Hanya terdapat hubungan yang signifikan bagi pemboleh ubah Jawatankuasa Bebas dan saiz Lembaga Pengawalselia. Keputusan bagi ROE juga hampir sama seperti ROA. Terdapat hubungan yang positif dengan Pengarah Bebas, Jawatankuasa Bebas, saiz Lembaga Pengawalselia, mesyuarat Lembaga Pengawalselia, kecekapan Jawatankuasa Audit, reputasi Juruaudit dan mesyuarat Jawatankuasa Audit. Petunjuk bagi campur tangan kerajaan ke atas pelantikan eksekutif kanan, peraturan dan pemantauan, dan tekanan politik mempunyai kesan yang positif ke atas hubungan di antara sebahagian penunjuk tadbir urus korporat dengan prestasi firma, tetapi pengaruh ini tidaklah signifikan. Keputusan ini menunjukkan bahawa terdapat pengaruh pihak kerajaan terhadap tadbir urus yang baik dan prestasi SOE. Kajian ini telah menggabungkan sepuluh parameter tadbir urus korporat dan tiga parameter campur tangan kerajaan untuk menilai prestasi SOE di Indonesia, serta memperkayakan karya dalam bidang tadbir urus dan teori agensi. Hasil kajian ini juga mempunyai implikasi praktikal untuk pihak berkuasa Indonesia bagi mewujudkan dan menyemak semula piawaian amalan tadbir urus korporat yang disesuaikan dengan latar belakang negara Indonesia yang agak unik. Kajian masa hadapan boleh dilakukan dengan menukar atau menambah pemboleh ubah bagi meluaskan lagi skop penyelidikan.

Kata kunci: tadbir urus korporat, campurtangan kerajaan, prestasi firma, Indonesia

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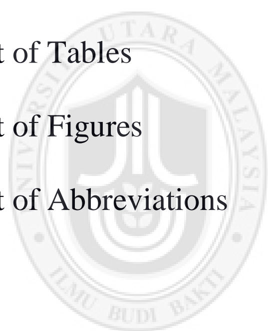

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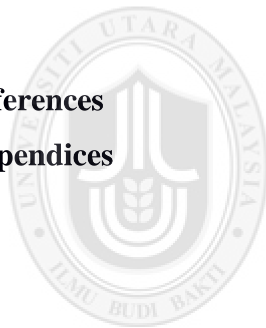

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List of Abbreviations

AC	Audit Committee
ADB	Asian Development Bank
APEC	Asia-Pacific Economic Corporation
AoA	Articles of Association
BKPM	Badan Koordinasi Penanaman Modal
BOC	Board of Commissioner
BOD	Board of Directors
CG	Corporate Governance
CV	Commanditair Vennootschap
CLSA	Credit Lyonnais Securities Asia
DJ-PBUN	Direktorat Jenderal Pembinaan Badan Usaha Negara
eBAE	electronik Biro Administrasi Efek
FCGI	Forum for Corporate Governance in Indonesia
FDI	Foreign Direct Investment
FTSE	Financial Times Stock Exchange
GCG	Good Corporate Governance
GDP	Gross Domestic Product
GmoS	General Meeting of Shareholders
HIH	Heath International Holdings Insurance
ICL	Indonesian Corporate Law
IDX	Indonesia Stock Exchange
IFC	International Finance Corporation
IGAAP	International Generally Accepted Accounting Principles
KNKG	Komite Nasional Kebijakan Governance

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KSEI	Kustodian Sentral Efek Indonesia
NPEA	Non-Performing Earning Assets
NPL	Non-Performing Loan
OECD	Organisation for Economic Co-operation and Development
OJK	Otoritas Jasa Keuangan
PC	Private Companies
PKPN	Pusat Kebijakan Pendapatan Negara
PLS	Partial Least Square
PT	Perseroan Terbatas
USD	US Dollar
ROA	Return on Asset
ROE	Return on Equity
SEM	Structural Equation Modelling
SOE	State-Owned Enterprises

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CHAPTER I

INTRODUCTION

1.0 Background of the Study

Corporate governance is a major concern after the financial scandals at Adelphia (2002), Enron (2001), and WorldCom (2002). The scandal has become a reason for the United States (US) government to issue a new law called the Sarbanes-Oxley Act in 2002 to protect investors. The said law of corporate governance was the most influential act since the failure of the market in the 1930s. The structure of corporate governance has traditionally been a private matter between shareholders and managers with some restrictions to law.

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The main weakness of corporate governance principles in the post-Enron period is due to the concentration of power at top management levels (Tipgos & Keefe, 2004). Concentrated ownership combined with an ineffective of external governance mechanisms, will generally lead to conflicts between controlling shareholders and minority shareholders (Young, Peng, Ahlstrom, Bruton and Jiang. 2008). As a result, the decisions of the controlling shareholder have led to poor performance of many companies in East Asia. Therefore, the realignment of power within the company is a need to be able to control the abuse of management (Nam & Nam, 2004).

The economic crisis of 1997 in Asian countries: Indonesia, Malaysia, the Philippines, Thailand and the Republic of Korea was caused by the failure to implement good corporate governance (Asian Development Bank, 2000). Performance factors of bad corporate governance, according to the Asian Development Bank (ADB), among others, include: (a) the presence of ownership concentration (between 57% to 65%);

(b) the lack of supervision on the board of directors and board of commissioners; (c) the inefficient control procedures and lack of transparency; (d) the reliance on external funding; and (e) the insufficient supervision of creditors (Forum for Corporate Governance in Indonesia, 2004).

Weak governance in the private sector and state-owned enterprises (SOE) have been blamed as part of the cause of the financial crisis in East Asia (Leng, 2004). Enterprises in East Asia largely follow the insider model wherein the main control enterprise is located in the original owner and/or major shareholders (Yamazawa, 1998). The decline in investor confidence was identified as one of the main causes which worsens the financial crisis in ASEAN countries such as Malaysia, Thailand, Indonesia, and the Philippines. Many experts (Mitton, 2002; Leng, 2004) believe that the erosion of confidence of investors was due to the lack of good corporate standards and transparency in financial reporting. Investors' confidence in the economic recovery will depend on the improvements made to the corporate governance standards and the application of transparency in the management of the company. Most corporate governance reforms involve increased transparency. Increasing transparency provides benefits to the firm, but entails costs as well. Good transparency will improve the board's monitoring by the CEO by providing it with an improved signal about whose quality (Hermalin & Weisbach, 2007)

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Dercon (2007) found that weaknesses in the corporate governance posture in Indonesia after the Asian crisis was still related to the issues of prevention and preparedness relating to the governance standards and also the behavior. Prevention and preparedness are a more common pair in crisis management terminology.

Prevention usually relates to system design, while preparedness deals with behavioral issues (Bautista, 2002).

The Indonesian government has introduced new governance instruments in response to previous failures. Indonesia had done a lot of initiatives and efforts to implement good corporate governance, both from government side as well as private. Those initiatives and efforts include the establishment of corporate governance institutions, the adoption of new laws and amendments of existing ones to support corporate governance implementation process in the country. A national committee for Good Corporate Governance has been established in 1999 and has issued the first Indonesia's Code of Good Corporate Governance in 2001, which was then amended in 2006. The Capital Market and Financial Institutions Supervisory Body (currently has merged into OJK) have continued to introduce and amend its regulation and enforced them, which resulted in improved investors' protection (IFC, 2004).

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SOEs are generally owned by the government as the primary owner and conduct their businesses in various areas like the private businesses. In Indonesia, the business fields run by the SOEs include the list of industries mentioned in Table 1.1.

Table 1.1 shows that there are 141 state-owned enterprises in Indonesia, which is engaged in a variety of industries. The number of state-owned enterprises in 2014 decreased to 119 companies of which there are 20 SOEs which were registered in the capital market. Reduction in the number of SOEs is caused by the formation of a holding company for the plantation and the merger of health insurance companies with enterprise social security. The importance of corporate governance of SOEs to

be studied for a total of its assets at the end of 2014 was USD 458 billion and employs 774 983 workers. This shows that the Indonesian state-owned enterprises have an important role in the Indonesian economy.

Table 1.1

Type of Indonesian SOEs

Type of Industry	No.
• Insurance	10
• Energy	5
• Strategic Industries	12
• Industrial Estate & Housing	6
• Forestry	6
• Contractors	14
• Logistics & Certification services	11
• Finance	7
• Agriculture Support	5
• Bank	5
• Printing & Publishing	6
• Fishing	2
• Plantations	15
• Mining	5
• Transport Infrastructure	8
• Transportation and Tourism	12
• Telecommunication	5
• Other industries	7
Total	141

Source: Ministry of SOE (2011)

SOEs in Indonesia and in other countries face unique challenges in governance reforms that have made their course more difficult compared to that of the private sector. Reform issues in SOEs is generally related to the problem of objectivity, transparency, and institutions. Thus, the government's seriousness is needed to improve the performance of public sector enterprises and this should be addressed in

a comprehensive manner. The major drawbacks of SOEs' governance, among others, are related to: the dual purpose (commercial and social which can be contradictory), including the existence of excessive political interference and lack of transparency. No government has fully managed to resolve the issues, although it is found that SOEs have made significant progress. This happened in New Zealand in 1986, where the corporate governance reforms were radically implemented to SOEs. The reforms have resulted in increased productivity and lower cost of goods and services provided by state enterprises. In Sweden, similar reforms were introduced in 1999 in which the government managed to focus the goal of the state enterprises to become commercial entities and also disciplined the financial management (Wong, 2004).

Although privatization has been extensive over the past two decades, but in many countries economic power is still held by the SOE. SOEs still has an important role in large developing countries such as China, India, Russia and Indonesia. In these countries, SOEs in full ownership or privatised, remains influential in the country's economy and have started to expand their business beyond their national borders (Shapiro and Globerman, 2007). SOEs have proven to be able to develop into bigger organisations with the ability to compete and succeed at the national level, and have also begun to intervene in the international market. For example, in 2006, Gazprom (Russia) were able to outperform the British Petroleum (UK) to become the second largest energy company in the world based on market capitalization, after Exxon Mobil. China has more than 20 state-owned companies listed in the Fortune Global 500. China Mobile, for example, has a market capitalization greater than Vodafone in the United Kingdom.

In the last two decades the management of SOEs has changed significantly. Many state-owned companies have improved their internal governance in different ways including the recruitment of independent directors. SOE has also started in providing incentives to the management for good performance and professionalism in managing the company. The movement to improve the internal governance of SOEs is necessary for these companies to be able to access financial markets and acquire additional capital. As a result, many SOEs in developed and developing countries such as Gazprom in Russia, Petrobras in Brazil, and Enel in Italy, Endesa, and SA in Spain were recorded on the New York Stock Exchange and other stock exchanges when they were privatized. SOEs with full government ownership are also permitted to be registered on the stock market to obtain additional funds through the issuance of bonds (Musacchio & Macias, 2009).

1.1 SOE in Indonesia

In Southeast Asia, Indonesia is a country that has the largest economy and is of the emerging market countries in the world. Indonesia has a market-based economy where the state has an important role as contained in a command economy. In this market-based system, many businesses and resources are owned by the Indonesian government. The Government has 141 state-owned enterprises (SOEs Ministry, 2011) and control prices on several basic commodities including gasoline, rice, sugar, electricity, and others. Indonesia's economy is based on agriculture and natural resources, especially plantation crops (oil palm and rubber), mining (oil, coal, and natural gas) and other natural products (fish and tourism).

Indonesian SOE's have a vital mission related to the lives of many people. They are one of the main pillars of the Indonesian economy. State enterprises are engaged in almost all sectors of the economy of Indonesia and in several economic sectors state-enterprises are companies that hold a dominant position. Due to their importance, the supervision and control of SOEs in the Republic of Indonesia has been undertaken by the government since 1973. Initially, the control organisation was part of a work unit within the Ministry of Finance. Thereafter, the organisation has experienced several changes and developments as shown in Figure 1.1 below:

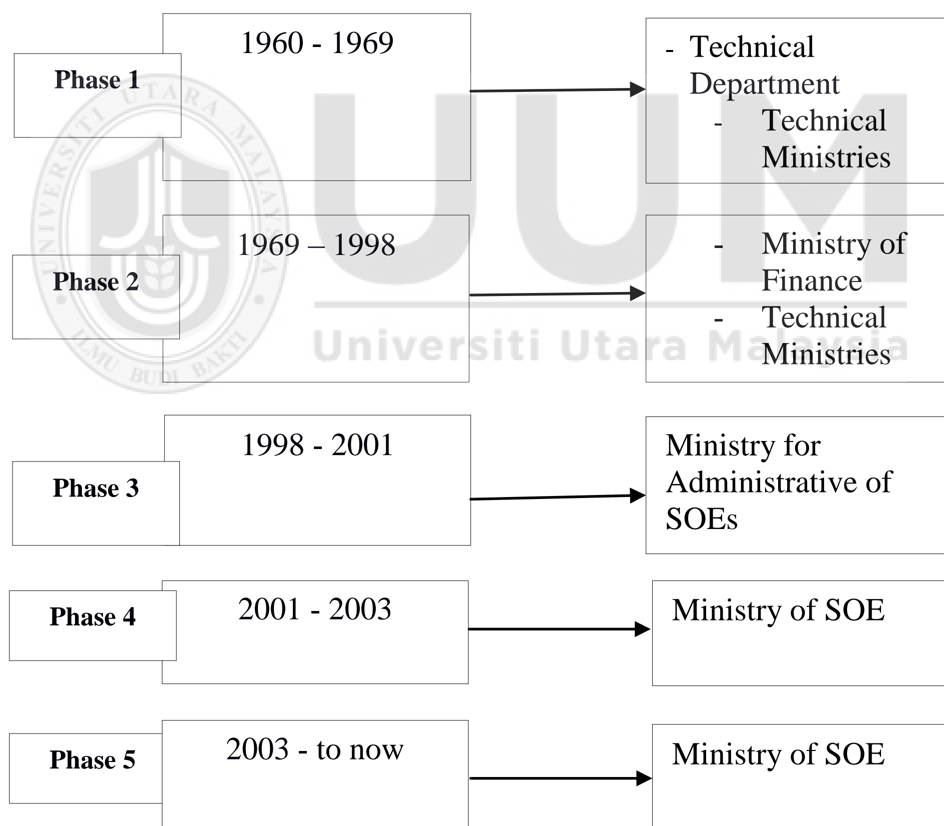

Figure 1.1. The Phases of SOE Control Organisation in Indonesia
Source: Ministry of SOE (2011)

Figure 1.1 shows the history of Indonesian SOEs control by the Indonesian government. In the first phase (between 1960 to 1969), the control of SOEs was

handled by the departments of the technical ministry. The second phase (1969 to 1998), SOEs was handled by the Ministry of Finance (relating to finance matters) and the Technical Ministries (relating to technical matters). The third phase was between 1998 and 2001. During this period, the government has appointed the Ministry of Finance as the shareholder of SOEs. The handling of SOEs was handed over to a new State Ministry handling SOEs. In the fourth phase, the handling of SOEs was fully conducted by the Ministry of SOE. Further, in the fifth phase, the handling of SOEs and ownership of SOEs was handed over to the Ministry of SOEs. Hence the start of responsibility and controlling of SOEs and the transitions of the phases was based on the Indonesian government regulations.

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The form of SOEs in Indonesia, according to the Law no. 19/2003 about SOEs can be divided into three kinds of corporations: Perum, Pesero, and Pesero Tbk. Perum is an acronym of *Perusahaan Umum*, which is a public company where the total capital belongs to the government. The objective of such enterprises is to serve the interest of the public. Persero is an acronym for *Perusahaan Perseroan* which is a government limited liability company where the capital is in the form of shares, of which more than 51% are owned by the government. Pesero Tbk on the other hand is an acronym for *Perusahaan Perseroan Terbuka* which is a listed company with a certain percentage of the shares owned by the government. The number of SOEs according to the Ministry of SOE in 2014, is as shown in the following table:

Table 1.2

Indonesian SOE based on Legality

Description	2008	2009	2010	2011	2012	2013
The number of SOEs	141	141	142	141	140	139
Listed SOE	14	15	17	18	18	20
Non listed SOE	113	112	111	109	108	105
Perum (public company)	14	14	14	14	14	14
Minority ownership	21	19	18	18	18	12

Source: Ministry of BUMN (2014)

The growth of assets, equity and sales SOE Indonesia between 2004 and 2012 seen from Table 1.3 shows good progress. The performance of Indonesian SOEs from 2004 to 2012 is presented in Table 1.2 below.

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Table 1.3

Selected Financial Data of SOEs (in millions of Rupiahs)

Years	Total Assets	Total Equity	Sales	Consolidated Net Income
2012	3.467.312.852	822.450.344	1.570.737.351	139.246.876
2011	2.946.789.485	688.682.078	1.378.260.551	121.665.221
2010	2.503.434.735	605.304.841	1.114.501.861	106.992.904
2009	2.241.388.392	565.811.275	950.975.273	87.198.394
2008	1.970.889.881	502.113.967	1.085.903.039	53.254.147
2007	1.743.017.316	472.648.800	825.996.754	55.779.200
2006	1.451.557.096	413.478.777	732.399.218	51.351.530
2005	1.300.077.581	366.094.121	643.970.964	26.845.050
2004	1.173.415.343	355.230.839	519.696.539	31.461.763

Source: Ministry of BUMN (2014)

Data in the above table shows that Total Assets increased from Rp 1.173.415.343 million (USD 117,341,534,300) in 2004 to Rp 3.467.312.852 million (USD 345.731.285.200) in 2012, which is a growth of 195% in nine years. The consolidated net income increased from Rp 31.461.763 million (USD 3,146,176,300) in 2004 to Rp. 139.246.876 million (USD 13,924,687,600) in 2012, which is an increase of 225% in nine years. It can be concluded from the data that the Indonesian SOEs are becoming more efficient in their performance.

The development of the Indonesian SOE's as indicated in the table above is quite convincing, but when compared with similar private enterprises, the performance is still inferior to that of the private firms. This statement is made based on the following comparison examples of private and SOEs in Table 1.4.

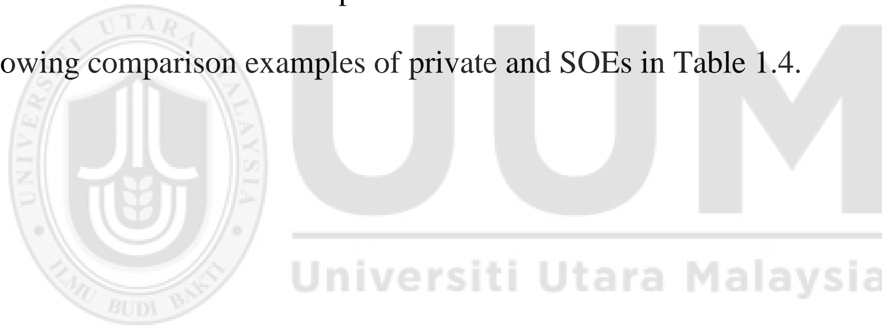
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Table 1.4

Performance Comparison between Private and State Owned Enterprises (2013)

Private Listed companies			SOE listed companies		
	ROA %	ROE %		ROA %	ROE %
Bank Central Asia	3.8	28.2	Bank Mandiri	3.7	27.3
Hongkong And Shanghai Banking Corporation Ltd, Indonesia	3.3	14.0	Bank Negara Indonesia	3.4	22.5
PT Astra Agro Lestrasi	12.7	18.5	PT Perkebunan Nusantara IV	4.4	9.9
PT London Sumatera Indonesia	9.9	11.9	PT Perkebunan Nusantara V	6.5	7.4
PT Kalbe Farma	17.0	22.6	PT Kimia Farma	8.7	13.3
PT Total Bangun Persada	11.2	25.8	PT Adhi Karya	7.3	34.6
PT Asuransi Jiwa Manulife, Indonesia	5.8	40.5	PT Asuransi Jiwasraya	2.7	26.3

* Non Listed Companies
Source: Annual reports of various companies (2013)

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Bank Central Asia is performing better than the state banks such as Bank Mandiri (Pesero Tbk) and Bank Negara Indonesia (Pesero Tbk) in the banking sector. PT Astra Agro Lestari and PT London Sumatera in the plantation sector are also performing much better than the state owned plantation, PT Perkebunan Nusantara IV (Pesero) and PT Perkebunan V (Pesero). In the construction sector, PT Total Bangun Persada perform better then PT Adhi Karya (Pesero). While in the pharmacy and insurance sector, the private sector was performing better than the SOEs.

An analysis of the difference in performance between private companies (PCs) and SOEs in Norway in the 1990s has been carried out by Grunfeld, Benito, and Goldeng (2004) related to the impact of the market structure. Norway is a country in Europe

where SOEs also play an important role in the regular market. The study was conducted through a comprehensive panel data on listed companies in the Norwegian capital market. The Return on Assets (ROA) has been used as a measure of performance using models to investigate the competition between SOEs and PCs. By controlling other factors that affect performance, it was found that the performance of SOEs is lower than that of the PCs.

In contrast to Norway, in China according to a study by Chen, Chun and Zhu (2005) the comparison of the performance in government-controlled listed companies shows that the performance in companies with direct government control is significantly weaker than other companies. However, the companies without direct control of the government were not significantly different (Chen, Chun, & Zhou, 2005).

In handling SOEs, Indonesia has experiencing the three models of controlling state ownership in the operation of SOEs (Shapiro and Globerman, 2007): the decentralised model, the dual model, and the centralised model. To date, the centralised model is used and the Indonesian government has appointed the Ministry of SOEs to oversees the government's interest in all SOEs.

SOEs in Indonesia are required to comply with the sectoral and technical regulations issued by each ministry in the same way as is practiced by private companies. SOE that does not use state budget for the procurement of goods and services are exempted from government procurement procedures, so that they can be more efficient and not lose business momentums. SOE Ministry has issued various decree

(such as No. 117/M-MBU/2002) to encourage all SOE to use the Code of Good Corporate Governance (GCG) as their basic operating guidelines.

Subsequently, to improve the governance and performance of SOEs, SOE Ministry has initiated (since 2010) recruited commissioners and directors are professional and independent to manage and supervise the company. The ministry has also changed the design of the annual performance contract managers who follows the pattern used in private business. SOE Ministry has also encouraged companies to use the scorecard to assess corporate governance, and further each company are encouraged to prepare the company's annual report and publish it.

Considering the low ranking of Indonesian companies in corporate governance, it is very important for Indonesian listed companies to improve their corporate governance practices. The role of SOEs is important because the presence of 14 SOEs in the Indonesian stock market has a market capitalisation of Rp 521.7 trillion which is equivalent to 31.42% of the total Indonesian market capitalization of Indonesia (Jakarta Post, 2009). However, the performance of the Indonesian SOEs in general is still behind their private sector counterparts. Out of the 139 SOEs in 2006, about twenty-five companies recorded a loss of Rp 2.27 trillion (equivalent to US $ 250 million), and the remaining 114 SOEs recorded net profits. 26 of these SOEs earned a total profit of Rp 54.42 trillion (equivalent to US $ 6 billion). Benchmarking of efficiency indicators between private companies and SOEs in several key industries such as banking and plantation shows that SOEs still lags behind the private sector. Indonesian SOE banks has a lower level of ROA (2.2%) compared to the private banks (2.6%) and also SOE banks has a higher non-performing loans

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(NPLs) and non-performing earning assets (NPEAs) rate compared to the private banks (Wicaksono, 2008). As Indonesian SOEs have multiple tasks, it may be disadvantageous to compete with the private sector for profit (Kamal, 2010). The World Bank (2011) states that the board of directors of SOEs in Indonesia has employs weak and unprofessional members. Members of the board are generally influenced by the government, because they are elected officials, civil servants and representatives of employees. Those board members may have their own agendas which could contrary to the interests of the company as a whole.

The government has distributed GCG information to all SOEs in order to improve corporate governance. To see its implementation, the government regularly use independent consultants to monitor GCG implementation. Furthermore, the ministry encourages the formation of committees such as the Audit Committee, Risk Management Committee and the Remuneration and Nomination Committee to assist the commissioners. The dissemination of GCG information by the ministry has caused an increase in the number of independent commissioners and directors in SOEs (Asian-Pacific Economic Corporation, 2010)

.

Discussion on corporate governance has been centred on large companies registered in the capital market, and in most cases in developed countries. Stephen and Backhaus (2003) stated that the governance of a company needs to ensure that the company operates in the interest of the owner and not in the interests of managers. This is in line with the concept of the separation between ownership and control. It is believed that good governance increases the goodwill and confidence of investors. Thus, corporate governance is identified to have a significant impact on the

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performance of the company. Dittmar and Smith (2007) concluded that good corporate governance is able to double the cash value of company ownership compared with poorly managed companies.

1.2 Problem Statement

Number of factors have been claimed as causes to the crisis in Indonesia this includes poor corporate governance practices both the private and state-owned companies. The poor system of corporate governance has contributed to the financial crisis by shielding the banks, financial companies, and corporations from market discipline (Sato, 2004; Dercon, 2007). ADB (2001) stated that the lack of practice of good corporate governance in SOEs Indonesia is deeply rooted in the financial system; therefore, it needs to be addressed clearly and should be a top priority. The main cause of the bad practices of governance is because of the government interference in the daily operations of state enterprises, the lack of transparency and management responsibility, the presence of practices and indiscriminate subsidies, and the absence of protection for minority shareholders (ADB, 2001; Sato, 2004).

Indonesia has 141 SOEs and hold a total asset of Rp 3.5 quadrillion (US$300 billion). The total revenue estimates of these enterprises stood at an estimated Rp 1.5 quadrillion or about a fifth of the Indonesian gross domestic product (GDP) in 2012. The SOEs are oversized, inefficient and still suffer from endemic poor practices. It is, nonetheless, essential to differentiate between the loss-making SOEs and the profit-making ones. The optimal approach would be for the government to divest its stakes in the loss-making businesses and radically reform even the profit-making ones (Jakarta Post, 2014). Table 1.3 also shows examples of comparison

performance between private companies and SOEs. Generally, the private companies are still better off than their SOE counterparts. The weight of the international evidence is that government ownership is generally inefficient compared to private ownership in terms of corporate economic performance. The most plausible explanation for the relative underperformance of SOEs may be weak governance practices arising from opposing objectives, political interference and lack of public scrutiny (Sim, Thompsen, & Yeong, 2014)).

In 2014, 26 SOE was still having a negative performance with a total loss of Rp 11.7 trillion. Although the SOEs are still losing. The number of SOEs and the nominal loss in 2014 turned out to be decreasing when compared to 2013. In 2013, 30 SOEs were suffering losses of Rp 34.68 trillion, with a decline of 65.77% (Detik Finance, 2015).

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Privatisation in Indonesian SOEs has positively affected the performance of the companies, both in the short term and long term period (Nahadi & Suzuki, 2012). Further investigation also reveals that residual state ownership has a negative effect all the time. The positive impact of privatization is a decrease in the number of commissioners appointed by the government. Further, recruitment of independent directors is a positive impact because it has a tendency for firms to become greater in the long run (Nahadi & Suzuki, 2012; Prabowo, Untoro, Trinugroho, & Agriawan, 2014).

It is widely acknowledged that bad corporate governance practices implemented by the Indonesian companies were the major cause of Indonesia's financial crisis in

1998. Disclosure and transparency, board practices, and protection of minority shareholders were poorly implemented by some publicly listed companies (PLCs). Since the crisis, regulators and the private sector have collaborated to strengthen regulatory and corporate governance frameworks in the country. The capital market and financial institution supervisory body, the Indonesian Capital Market and Financial Institution Supervisory Authority (BAPEPAM-LK) had issued various regulations to strengthen compliance. Similar regulations were also issued by the Bank of Indonesia. In the year 2006 later, the National Committee on Governance Policy revised the local standard of good corporate governance. Improvement continues to stem from these efforts. However, empirical evidence shows that, in general, the satisfactory implementation of corporate governance practices is still a big challenge for Indonesian PLCs (World Bank, 2010; CLSA, 2012; Asian Development Bank, 2013; Asian Development Bank, 2014).

The Asian Corporate Governance Association in association with CLSA in their 2014 report has ranks 11 Asian markets on macro corporate governance quality based on a survey of 944 companies on their internal governance systems. Table 1.15 shows the CG scores ranking of 11 Asia Pacific countries where in 2014 Hong Kong and Singapore is on the top of the list, and Indonesia and the Philippines is on the bottom of the list. Indonesia has a new “CG Roadmap” that envisages widespread rule changes (OJK, 2014). New super regulator, the Financial Services Authority (OJK), should be a catalyst for sustained reform. Some progress also apparent in audit regulation. But can it succeed? Much depends on political will, increasing regulatory resources and ensuring the right people are in place (Asian Corporate Governance Association Ltd, 2014)

Table 1.5

CG Watch market scores: 2010 to 2014

		2010	2012	2014	Change 2012 vs 2014 (points)	Trend of CG reform
1	Hong Kong	65	66	65	(1)	Weak leadership, tough enforcement.
2	Singapore	67	69	64	(5)	International vs. local contrast continues.
3	Japan	57	55	60	5	Landmark changes, can they be sustained?
4	Thailand	55	58	58	0	Improving, but new legislation needed.
5	Malaysia	52	55	58	3	Improving, but still too top-down.
6	Taiwan	55	53	56	3	Bold policy moves, can they be sustained?
7	India	48	51	54	3	Bouncing back, Delhi more supportive.
8	Korea	45	49	49	0	Indifferent leader, more active regulators.
9	China	49	45	45	0	Focus on SOE reform, enforcement 10.
10	Philippines	37	41	40	(1)	Slow reform, improved company reporting.
11	Indonesia	40	37	39	2	Big ambitions, can they be achieved?

Source: Asian Corporate Governance Association Ltd. (2014)

The main problems of Indonesian in general are conflicting objectives, political interference and lack of transparency (Kamal, 2010). Due to the conflicting objectives, SOEs do not only have commercial goals but that they are also under obligation to serve social objectives such as providing jobs, serving public interests and providing basic necessities. This is different from the conditions faced by private companies where they have a single goal as a business entity, i.e. profit maximisation. SOEs have the burden of satisfying public needs in addition to

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pursuing their business activities. Therefore, due to these multiple tasks, SOEs are at disadvantaged in competing with their private companies counterparts for profits.

Another major problem for Indonesian SOEs are the politicians and bureaucrats as agents who tends not to carry out their work in accordance with the interests of society as real owners (Kamal, 2010). The agents run the companies for their self-interest as opposed to the owners' interest. For instance, the politicians force companies to perform unprofitable activities in their electoral district in order to be re-elected in the next election. Likewise, politicians and bureaucrats are not serious in running their task as they do not benefit directly from SOEs. On the contrary, they are also likely to be blamed if SOEs gain high profits because it would be regarded as too commercial SOEs.

The constant meddling in the affairs of the state enterprises by influential legislators and members of the government is an issue that plagues these enterprises. The interference of political parties and the government in the appointment of executives to the board of SOEs is a reflection of how these enterprises are used as cash resources for political and economic gains (Jakarta Post, 2014)

It can be concluded that as at to date there are still problems in the implementation of corporate governance in Indonesia (SWA, 2014). Although many efforts have been made to develop and improve corporate governance in Indonesia, assessment results by international institutions show that there is still much to be improved (OJK, 2014). Therefore, the purpose of this study is to find out the relationship between corporate governance and government interventions as a moderating factor to firm

performance on Indonesian SOEs. The study is expected to provide additional input and guidelines on corporate governance to the Indonesian government and business managers of SOEs to maximise their companies' long-term financial performance.

1.3 Research Questions

This study has developed the following research questions as follows:

1. What is the relationship between independent commissioner and firm performance in Indonesian SOEs?
2. What is the relationship between independent director and firm performance in Indonesian SOEs?
3. What is the relationship between independence of committees and firm performance in Indonesian SOEs?
4. What is the relationship between supervisory board size and firm performance in Indonesian SOEs?
5. What is the relationship between management board size and firm performance in Indonesian SOEs?
6. What is the relationship between supervisory board meetings and firm performance in Indonesian SOEs?
7. What is the relationship between management board meetings and firm performance in Indonesian SOEs?
8. What is the relationship between the competence of audit committee and firm performance in Indonesian SOEs?
9. What is the relationship between the reputation of auditors and firm performance in Indonesian SOEs?

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10. What is the relationship between the audit committee meetings and firm performance in Indonesian SOEs?
11. Does government intervention moderate the relationship between corporate governance and firm performance.

1.4 Research Objective

The objective of a scientific research, in broad terms, is to answer questions and acquire new knowledge by conducting a research that permits drawing valid inferences about the relationship between two or more variables. Therefore, the main objective of this study is to identify corporate governance and government intervention practices in Indonesian SOEs. The objective of the study in detail is as follows:

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1. To determine the relationship between independent commissioner and firm performance in Indonesian SOEs?
2. To determine the relationship between independent director and firm performance in Indonesian SOEs?
3. To determine the relationship between independence of committees and firm performance in Indonesian SOEs?
4. To determine the relationship between supervisory board size and firm performance in Indonesian SOEs?
5. To determine the relationship between management board size and firm performance in Indonesian SOEs?
6. To determine the relationship between supervisory board meetings and firm performance in Indonesian SOEs?

7. To determine the relationship between management board meetings and firm performance in Indonesian SOEs?
8. To determine the relationship between the competence of audit committee and firm performance in Indonesian SOEs?
9. To determine the relationship between the reputation of auditors and firm performance in Indonesian SOEs?
10. To determine the relationship between the audit committee meetings and firm performance in Indonesian SOEs?
11. To examine the moderating effect of government intervention on the relationship between corporate governance and firm performance in Indonesian SOEs

1.5 Scope of Research

This research aims to study the relationship between corporate governance as independent variables with the performance of SOEs as the dependent variable. It also includes the role of government intervention as a moderating variable. The elements of corporate governance are examined individually and the overall relationship with performance with and without considering the intervention of the government. This study is unique because of the government's role in the determination of the board and the different form of board in Indonesia compared with other countries such as the United States, England, Malaysia and others. In most companies, the form of the board of directors is one-tier, but in Indonesia, the board consists of two tiers: The Board of Commissioners and the Board of Directors.

Data for the study is gathered through questionnaires sent to 141 executives and corporate secretaries of SOEs in Indonesia. The result of the study is expected to be useful for improving the academic knowledge on corporate governance, assisting the government in controlling SOEs, and managing state companies.

1.6 Significance of Research

The rationale for selecting SOEs as the focus of the study is the fact that SOEs play an important role in the Indonesian economy. Firstly, they provide a significant contribution to the Indonesian government revenues and the creation of wealth. Secondly, SOEs employ more than 600,000 people and are thus critical in job creation and in reducing unemployment. Thirdly, SOE in Indonesia has a major role in the capital market. For example, in September 2010, the contribution of listed SOEs reached 29.5% of the total market capitalisation on the Indonesia Stock Exchange (BEI). The value of the SOEs' market capitalisation was Rp. 803 trillion (USD 80.3 billion).

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The importance of this study is the contribution to the literature is by filling the gap in the body of knowledge of corporate governance, government intervention and firm performance in developing countries, particularly in SOEs. As corporate governance attracts the attention of practitioners and scholars from various disciplines, many studies have concentrated on the private sector but very few on corporate governance in the public sector. This study also highlights the roles of the Boards, committees and external auditor in SOEs which are under-studied despite many claims of their ineffectiveness. The results of this study reveal the likely causes and consequences of the ineffectiveness.

1.6.1 Theoretical Significance

This research studies the relationship between corporate governance and firm performance of Indonesian SOEs. Corporate governance for this study uses 10 indicators covering independent commissioners and independent directors, the independence of committees, the size of board of commissioners and board of directors, the number of meetings of the board of commissioners and board of directors, the competence of the audit committee, auditor reputation, and meetings of the audit committee. The results of the empirical study must be able to identify the strength and weakness relationship of each indicators of corporate governance to firm performance. Further, the result of the study will confirm the support of the agency theory on the relationship.

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This study further investigated the relationship between government intervention in the relationship between corporate governance with firm performance. Government intervention in this study uses three perspectives, namely; appointment of senior executive, regulation and monitoring by the government, and political pressure on the SOEs. This study therefore can determine the effect of government intervention in more detail on the relationship between corporate governance and firm performance.

1.6.2 Practical Significance

The results of this study will be very useful for governments, practitioners and investors. Because this study indicates the strengths and weaknesses or the significance of the relationship between each indicator of corporate governance and firm performance. Managers of companies, especially state-owned enterprises will be

guided in implementing corporate governance and further improve the performance of their companies. For the government it useful to know the pros and cons of government intervention in SOEs. If interventions are required, the government can choose the ones that have a lesser impact on firm performance.

Globalisation has led to a rapid increase in the scale of trade, and the size and complexity of companies. Bureaucracy is trying to control industries by strengthening corporate governance and internal regulations, but it becomes increasingly difficult to regulate externally. SOE as part of the business in many countries is an important part of the gross domestic product (GDP), employment and market capitalisation. SOEs are generally known to dominate the utility industry and the infrastructure industry including electricity, telecommunications, natural gas, transportation, health, and housing. The performance of those companies are very important for the economy and people's lives in the country. Therefore, it is essential for the management of SOEs to ensure their positive contribution to gain efficiency and competitiveness of the overall businesses in the country (OECD, 2005).

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1.7 Definition of Terms

Operational definitions of the research variables provide meanings of the constructs by specifying the activities or operation necessary in order to be able to measure the variables. This study has three variables: Corporate governance, government intervention and firm performance. The definitions of the variables are outlined below:

Corporate Governance

Corporate governance is viewed as both the structure and the relationships which determine corporate direction and performance. The board of directors is typically central to corporate governance. Its relationship to the other primary participants, typically shareholders and management, is critical. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community (Cadbury Committee, 1992).

Independent Commissioner

Good corporate governance practice suggests that, an independent commissioner is an individual who has not received substantial financial or other benefits from such company in the last three years, such as: an employee of the company, or a shareholder of 10% or more of the company, and have not been an External Auditor of the company.

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Independent Director

Good corporate governance practice suggests that an independent director is an individual who has not received substantial financial or other benefits from such company in the last three years, such as: an employee of the company, or a shareholder of 10% or more of the company, and have not been an external auditor of the company.

Independence of Committee

The CG Code recommends the establishment of certain Board Committees such as an Audit Committee, Risk Policy Committee, Nomination and Remuneration Committee.

The independence, aptitude and leadership skills of the chairman are crucial for the committee's success. According to the regulations for public listed company, the head of the audit committee shall be the independent commissioner.

Supervisory Board Size

According to IFC Advisory Services in Indonesia (2014), the number of commissioners shall be limited to the number stipulated in the Articles of Association (AoA). A board of commissioners must have a minimum of one commissioner or more. A board of commissioners consisting of more than one member shall constitute a board and no member of the board may act individually, but on the basis of a resolution of the board of commissioners.

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Management Board Size

Article 92 paragraph (3) to (6) of the Indonesian Company Law (ICL) determines that the Board of Directors (management board) should consist of one or more members. Companies dealing with the collection and management of public funds, the issuance of debt recognition (obligation) to the society, and other public companies are required to have a minimum of two members of the board of directors. In terms the board of directors is composed of two or more directors, the division of tasks and responsibilities among the members of the board of directors is determined

by the General Meeting of Shareholders (GMoS) and if GMoS does not make any decisions about the role, duties and authority of the board of directors, the division of tasks and responsibilities should be decided in the meeting of the Board of Directors.

Supervisory Board Meetings

The Board of Commissioners must ensure that the board meets regularly and that meetings are well organized. Every board member should participate actively in the meeting to discuss the development of the company, and in general, each member of the board should:

- Participate in the discussion and do voting's if necessary;
- If the commissioner become a part of the committee, then it should participate in the work of the board committees;
- Requesting a meeting of the board when there is a necessary discussion on matters of concern; and
- Notify the board if he/she is unable to attend the meeting.

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Management Board Meetings

The meeting of the Board of Directors is generally determined in the Articles of Association (AoA), or a specific resolution the board of directors that will determine:

- The frequency of meetings;
- The procedures for organising and carrying out meetings; and
- The procedures for making decisions during meetings.

The Articles of Association (AoA), or a specific resolution by the board of directors shall determine:

- The frequency of the Directors' meetings;
- The procedure to organize and carry out the meetings; and
- The procedure for making decisions during the meetings.

Competence of Audit Committee

The composition of the Audit Committee that was formed should be able to accommodate and handle the complexity of the company with regard to effectiveness in decision making. Public companies, SOEs, provincial and local state enterprises, financial firms that raise and manage public funds, companies whose products or services used by the public, and companies that have a broad impact on the environment, must have an audit committee chaired by an independent commissioner. An audit committee has several members consisting of commissioners and or professionals from outside the company. One of the committee members must have a background in finance or accounting.

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Reputation of Auditors

In accounting and auditing literature, several proxies are used to determine the quality of audit services which is characterised by the size of the public accounting firms, the industry specialisation, the duration of the auditor in auditing a company, and audit fee versus non-audit fee (Karaibrahimoglu, 2013). The most commonly used proxy is the size of the public accounting firms. Large public accounting firms generally have more clients and the amount of revenue received from the clients may be allocated broadly, and so their dependence on clients will decline. Therefore, auditors will be more independent and able to provide better quality audits.

Additionally, the Big-4 audit firms have reputation and experience and are more conservative in providing opinions (Karaibrahimoglu, 2013).

Audit Committee Meetings

An effective audit committee is a committee that meets regularly to ensure that the financial reporting process is functioning properly. Audit committees should be filled with members who have enough time to perform their task in monitoring the company's financial reporting process (Soliman and Ragheb, 2014). Meetings of the audit committee must be made prior to the meeting of the Board of Commissioners. Audit committee meetings must be done well before the meeting of the board of commissioners to allow the committee to evaluate and communicate their conclusions needed in the discussion of board meetings. The committee shall meet at least every three months (IFC Advisory Services in Indonesia, 2014).

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Government Interventions

Bureaucracy in a rational-legal form is the core institutions of modern capitalism because with bureaucracy it would allow the government to intervene to support the market with technical efficiency and strict calculation. Government bureaucracy has enough power to pursue the long-term objectives of the economy. With the good relationship between the government and private capital allows the state to affect change in the economic reality that may affect the interests of entrepreneurship. The government's involvement can be a positive contribution to the performance of the economy and business in a country. Direct intervention in corporate governance is likely to produce a negative economic effect on the level of the company (Nee, Opper, and Wong, 2007).

Appointment of Senior Executives

As the government firmly controls key personnel appointments in SOEs, the management appointment into SOEs is ultimately determined by the interests of the government for a business. There are three views of government intervention in a business: (i) The grabbing hand view holds that political executives appointed by the government pursue objectives that run counter to corporate productivity and extract rents from firms, (ii) The helping hand view maintains that in the absence of large and active private investors and well-functioning institutions of corporate governance, the direct appointment of political executives is the most powerful way that the government can use to constrain the abusive behaviour of enterprise insiders and thus reduce agency costs, and (iii) The appointment of political executives is just window dressing, as politically affiliated directors are puppets of the management (Hu and Leung, 2008).

Political Pressure

In many developing economies, SOEs use their political connections as a form of collateral for gaining preferential access to external capital for financing investment (Berkowitz, Ma, and Nishioka, 2014). Political interference in Indonesia has the potential to prevent state-owned professional as politicians and bureaucrats have the power to use the company as a means to carry out their agenda. Political interference can occur in many ways, such as by organising consultation meetings between the Indonesian parliament and SOEs. Excessive intervention is generally derived from the country's ruling party and the bureaucrats (Kamal, 2010).

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Political pressure in Indonesia SOEs could potentially prevent the company from being professional because politicians and bureaucrats have the power to use SOEs as a tool in implementing their agenda. It can occur in many ways such as the consultation meetings between the Indonesian Parliament and SOEs, and the excessive intervention by the state authorities and bureaucrats (Kamal, 2010).

Regulation and Monitoring

The Government sets the policy for SOEs, while at the same time regulates their operations. This provides a potential governance challenge. The effective corporate governance in Indonesia is carried out through three interrelated pillars, namely: the government as a regulator that also published policies, the business community as a market participant, and the general public as users of products and services produced by the business community. Indonesian corporate governance code requires three pillars to be able to work simultaneously as a corporate governance tripod. The success of the implementation of the Code depends a lot on the government that must provide regulations that could serve as guidelines for the business community. Because the government has an obligation to enact and enforce the relevant regulations to encourage the creation of a healthy business climate, efficient and transparent in addition to enforcing laws properly (Kamal, 2010).

Firm Performance

The performance measure schemes are traditionally based on measures of financial aspects, and this study uses two financial indicators: return on assets (ROA) and return on equity (ROE). Both profitability measurements are used in the study because it captures two different aspects of the performance of the company.

Indonesian State Owned Enterprises

SOE is a business entity where the capital is wholly or largely owned by the state through direct investments. SOE may also be a non-profit company that aims to provide goods or services to the public. This includes commercial companies operated directly by the government and other entities in which the government holds a majority of shares directly or indirectly through other SOEs. Government ownership also includes companies in which the state holds a minority stake when the remaining shares owned by the government still gives the government effective control. Government control of the public sector does not include activities such as education, health care, road construction, and maintenance which are funded by other means, usually from the government's general budget. Commercial companies are different because they are excluded from the data on state enterprises (World Bank, 2000).

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1.8 Organisation of the Study

The organisation of this study is divided into six chapters:

Chapter 1 – Introduction

This chapter presents a brief introduction on corporate governance, government intervention and firm performance. It outlines the problem statement, research questions, research objectives, scope of research, significance of research, definition of terms, and the organisation of the study.

Chapter 2 - Corporate Governance in Indonesia

This chapter discusses on the overview of the corporate governance practices in Indonesia.

Chapter 3 - Literature Review

This chapter sets the theoretical foundations of the topic by reviewing literatures on corporate governance, government interventions and firm performance. It deals with various definitions and important theories on corporate governance.

Chapter 4 - Research Framework and Methodology

This chapter describes the research framework of this study, the hypotheses development and the methodology of the study.

Chapter 5 – Research Analysis and Results

This chapter discusses the findings of the data analysis, which includes descriptive statistics and multiple regression analysis to test the hypotheses.

Chapter 6 – Discussion and Conclusion

The last chapter, Chapter 6 discusses the findings of the study, bringing to light the most important results, the research contribution, the implication, the limitation of the study and the directions for future studies.

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CHAPTER 2

CORPORATE GOVERNANCE IN INDONESIA

2.0 Introduction

In the last decade, corporate governance has become an important topic in the economic world, mainly due to the failure faced by many companies. Board of Directors, shareholders and corporate managers of companies have started to realise the advantages of having a good corporate governance structure. Good corporate governance can assist the management in increasing the share price and in the capital increase. Investors generally do not want to lend money or buy shares of companies that do not apply the principles of good corporate governance. Therefore, companies must apply the principles of transparency, recruit independent members of the board of directors and board of commissioners, as well as established an audit committee. (McGee & Bose, 2008).

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Corporate governance started in Indonesia with the enactment of the company law in 1995 and the start of the capital market. The published legislation became operational on March 7, 1996 (Tabalujan, 2002). The Indonesian Company Law of 1995 was the first major revision after the Dutch colonial government introduced the Commercial Code in 1847. This Company Law of 1995 defines a public company as an enterprise which capital amount and the number of shareholders meet the criteria or a company which makes a contribution to the public. Corporate governance in Indonesia practically began in 1999 after the financial crisis in Asia in 1997 and 1998 and the political instability in Indonesia. The government was forced to save the majority of the banking businesses in 1998 to 1999 at a cost of USD 70 billion

(World Bank, 2010). The bail out, then improved the economy of Indonesia. Over the last five years, the rate of growth reached an average of 5.2% per year since 2000 (World Bank, 2010). As in other Asian countries, the 1997 and 1998 crisis found weaknesses in the corporate governance framework which was implemented in each country. The concentration of ownership was controlled by large family groups, combined with weak rules on transactions with related parties and other forms of self-dealing. This led to the taking over of minority shareholders. Lack of transparency exacerbated investor response to the crisis. Hence, in response to the situation, the government and the private sector started to reform their governance system by creating a national code of corporate governance, regulations on reviews, approves, and disclosure of related party transactions, and also a significant reform in the governance of SOEs (World Bank, 2010).

The survey of Booz-Allen in 1998 in East Asia found that the best score of corporate governance across the region was held by Singapore (8.93) and one of the worst was Indonesia which had a score of only 2.88. Thailand and Malaysia had higher scores than Indonesia. Thailand obtained a score of 4.89 and Malaysia a score of 7.72. The low quality corporate governance (GCG) of corporations in Indonesia was suspected to cause the downfall of companies (Kaihatu, 2006).

Daniel (2003) categorised the problems that might affect the implementation of corporate governance in Indonesia into eight groups, namely:

- The concentration of ownership in a few families,
- The establishment of holding companies (including several sub-holding companies),

- Cross-shareholding (the possibility of creating a monopoly in certain business areas),
- The lack of independent directors,
- The heavy practice of corruption, cronyism, collusion and nepotism
- The weak protection of minority shareholders,
- The lack of law enforcement, and
- The reception of corporate governance

2.1 Corporate Governance Principles in Indonesia

Indonesia with a large-scale state enterprise sector in implementing corporate governance reforms will have a challenging exercise. In the supervision and management of companies, policy makers and bureaucrats often sit on the board of the SOEs and as a result, it put them in a situation where they would tend to be bias against their private sector counterparts in terms of accessing the public funds. This smacks of a conflict of interest as transparency, accountability and fairness will be difficult to achieve if these people are involved at the same time in corporate affairs (Corporate Governance Asia, 2009).

Indonesia in catching up of GCG in the past years, has passed legislations and implemented policies consistent with the establishment of an efficient and transparent market, which consistent with the principles and standards of internationally recognised corporate governance practices. The promotion of GCG has, therefore been made an important subject in the reform agenda in Indonesia. The government has requested assistance from international and multilateral agencies for the implementation of sound governance.

GCG application is expected to run in accordance with expectation and it needs to be supported by three interrelated functions: (1) the regulatory agencies, (2) the oversight and enforcement as a maker of regulators/policy, and (3) the business world as a market participant, and the public as users of products and services.

Each company must ensure that the principles of GCG apply to every aspect of business and at all levels of the company. In order to achieve corporate sustainability, it is necessary to implement the general principles of GCG, which includes transparency, accountability, responsibility, independence, and fairness, by also considering the interest of the stakeholders.

To obtain the long term success of corporate governance, the implementation of GCG should be based on high integrity. Therefore, companies should develop code of ethics or code of conducts that can be used as a reference by corporate organs and employees in implementing the values and ethics of the business, the process is expected to become part of the corporate culture.

2.2 Ownership Structure

There are several key elements that affect corporate governance in Asia in general and in Indonesia, in particular, which include the ownership concentration, the managerial position of the owner, and the creditor (Sato, 2004). The main owners of major companies in Indonesia and Southeast Asia are concentrated in the hands of a few families and have ignored minority shareholder in the control and cash flow rights. The insider control had contributed to the weak performance of companies and their risky investments before the crisis of 1997/1998 (Claessens, Djankov, and

Lang, 2004). The coincidence of ownership and management was another key element that was closely related with ownership concentration, especially in the existence of large shareholders who concurrently held top managerial positions (Sato, 2004). The traditional shareholder value perspective assumes the separation of ownership and management. The logical consequence is that if ownership coincides with management, the firm will have no agency problem. The economic crisis brought the corporate debt issue into sharp relief, revealing that the largest firms are heavily depended on borrowing from foreign and domestic creditors which was primarily caused by a sharp drop in currency values. The debt problem became a crucial issue for Indonesian firms in the post crisis corporate restructuring.

Indonesia in supporting the capital market has been using a modern stock recording system. All shares that are traded in the Indonesia Stock Exchange (IDX) must be dematerialized and stored in PT Indonesian Central Securities Depository (KSEI), which is a custodial company. Only the broker and the custodian have the access to the stock market system, KSEI also has been developed that it can be used to track up to the sub-account at the consumer level. The Capital Market Supervisory Agency (Bapepam-LK) which is currently referred to as the Financial Services Authority (OJK) is developing an electronic KSEI Registrar (eBAE) for reporting facilities which allow the Registrar (BAE) to report on stock ownership in script form to OJK (World Bank, 2010).

There are three shareholders who control approximately 60.9% of the total listed company shares held by the Central Depository, KSEI. More than 67% of the shares are owned by foreign entities and individuals. Most domestic shareholders are

registered as corporations (shows a group structure) or individuals. Listed companies in the Indonesian capital market by the Asian-Pacific Economic Corporation, (2010) have been categorised into five different categories, namely:

- **Groups**

The majority of listed companies on the stock market is controlled by around ten large family-owned company groups.

- **State owned enterprises**

The Indonesian Government manages 141 companies through the Ministry of State-Owned Enterprises and 20 of which are companies listed on the Stock Exchange.

- **Banks**

Indonesia operates 120 banks and 41 banks of which are listed in the stock market. These include the four major state-owned banks that have a market capitalization of 10.4% of the total market at the end of 2013. On average, 48% of bank assets are owned by foreigners (Bank Indonesia).

- **Controlled foreign companies**

Foreign-controlled companies are foreign direct investments (FDI) in most areas of the Indonesian economy. Approval of foreign investments is obtained through the Investment Coordinating Board (BKPM) in Jakarta or BKPM offices in every province.

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- **Independent companies that are not part of groups**

Independent companies are companies that are not included in the above groups, and most of the companies are listed in the stock market and also non-listed that are working in various industries.

2.3 Laws and Institutions

The corporate governance framework is usually composed of a variety of elements that will support the company's performance such as: laws, regulations, self-regulatory arrangements, voluntary commitments and business practices that is appropriate to the environmental situation in the country including its history and traditions. The legal and regulatory framework in Indonesia has some unique characteristics resulting from Indonesia’s history and the development of Indonesia’s economy. All forms of commercial companies in Indonesia and also in other countries should be subjected to the existing laws, regulations and governmental decisions as shown in Table 2.1. In addition to the existing legal framework and general rules, there are also: Decrees, Circulars and Decisions of the Government, Ministries and other law enforcement bodies that deal with specific corporate issues in Indonesia in more detail for SOEs, limited liability companies (LLCs) and other corporate entities

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Table 2.1

Basic Laws and Regulations Influencing on Corporate Governance

Law/Regulation	Application	Content summary
Law No. 8 of 1995: Capital Market Law)	All listed companies' activities	Capital market supervisory board (OJK), stock exchange, clearing and guarantee corporation, central securities depository, investment fund, security company, securities company representatives, and investment advisors, capital market, supporting institutions and professionals, issuers and public companies, public documents and reporting to OJK
Law No. 40 of 2007: Indonesian Company Law (ICL)	All limited liability company activities	Establishment of limited liability company, capital and shares, company organs (GMS, BOD, BOC), Aloe of the company, merger, acquisition, and dissolution, work program, annual report, and use of profit, liquidation, expiry of company.
Law No. 25 of 2007: Investment Law	All investment activities (domestic and foreign)	Form of business entity for investment, treatment of investor, manpower plan, and business sector for investment, rights and obligations and liabilities of investor, and investment facilities.
Law No. 13 of 2003: Manpower Law	Manpower in companies	Manpower management, rights and obligations of the employee, the rights and obligations of the company, and all related manpower plans for business activities.
Presidential Regulation No. 36 of 2010: Negative List of foreign investment	Business fields of foreign investment activities	List of business fields that are open and closed to foreign investment.
BKPM Reg. 12/2009: Procedures and Guidelines on Investment Application	Foreign investment activities	One stop service of permit application, procedure and mechanism to conduct foreign investment in Indonesia, transfer of foreign shares, fiscal and non-fiscal facilities, regional incentives, the foreign worker's manpower plan (RPTKA), Producer Importer

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Law/Regulation	Application	Content summary
Law No. 8 of 1995: Capital Market Law)	All listed companies' activities	Capital market supervisory board (OJK), stock exchange, clearing and guarantee corporation, central securities depository, investment fund, security company, securities company representatives, and investment advisors, capital market, supporting institutions and professionals, issuers and public companies, public documents and reporting to OJK
		Identification Number (API-P), tax facilities, and customs.
Ministry of Manpower and Transmigration Decree No. 40 of 2012: Positions that are Prohibited for Foreign Workers	Company with foreign workers	List of positions in a company that are restricted for foreign workers.
Indonesian Code of Good Corporate Governance 2006	All company practices	Code of conduct and business ethics, company organs, shareholders, stakeholders, good corporate governance principles, implementation of good corporate governance.
All related regulations in OJK Capital Market	Capital market activities	Capital market supervisory board (OJK), stock exchange, clearing and guarantee corporation, central securities depository, investment fund, security company, securities company representatives, and investment advisors, capital market, supporting institutions and professionals, issuers and public companies, sanctions, public documents and reporting to OJK.

Source: IFC (2014)

Indonesian Company Law (ICL) applies to all corporate entities in Indonesia and additionally, specific companies working in the banking, investment, and insurance sectors need to comply with specific legislation. Capital Market Law and its

implementing regulations apply to activities relating to the issuance, offering, sale and purchase of securities, securities-related services and information disclosure by corporate entities, shareholders and investors. Indonesian firms are also subject to other legislations on accounting, anti-corruption, auditing, bankruptcy, commerce, competition, construction, labour, tender process and taxation. In addition, the Indonesian law is consistently changing, evolving and improving. For example, ICL since its formation, has been amended several times to eliminate inconsistencies in the provisions that regulate the activities of government entities, issuance of securities, the implementation of shareholder rights and other related matters. The majority of the laws and regulations in ICL that affect corporate governance have been imposed in recent years, even though the rules may have evolved from the law of the past. Although the provisions of CG are an obligation for listed companies, but the government has encouraged all the companies in Indonesia comply with and apply the rules of CG.

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The law of corporate governance in Indonesia began to evolve at the end of the 1990s with a variety of unique characteristics, and especially the implementation of the model in SOEs. As seen in the text of the code of governance in Indonesia, the code has become a reference for almost all companies in Indonesia, including SOEs. The existence of SOEs in Indonesia is regulated by Law No. 19 year 2003. The law states that there are two forms of SOEs, namely: 1) limited liability company and 2) public (general) companies. Further, the limited liability company can be divided into two types of firms: SOEs whose capital is divided into shares where all or at least 51% of its shares are owned by the government, and listed SOEs where the

amount of capital and the number of shareholders has met with the criteria set by the capital market law.

SOEs are business entities that is wholly or largely owned by the government through direct investments coming from set aside state assets. Ownership of SOE could be full by the government, but also there are SOE whose ownership is not fully owned and especially who are listed on the stock market. As a result, code of good corporate governance in Indonesia also applies to all forms of SOEs including full ownership (Kamal, 2010).

2.4 The Governance Structure of a Company

A limited liability company by law must have the following three organs (Figure 2.1): General Meeting of Shareholders (GMoS), the Board of Commissioners and Board of Directors. The overall organ of the company should carry out their respective functions in accordance with applicable regulations. The functions of each organ in the organization must be made on the basis of the independent principle. Every organ of the company must carry out the duties, functions and responsibilities for the sole benefit of the company. The model of the organisation (Figure 2.1) in Indonesia is in compliance with corporate law No. 40/2007 which uses the two-tier board system to run a company.

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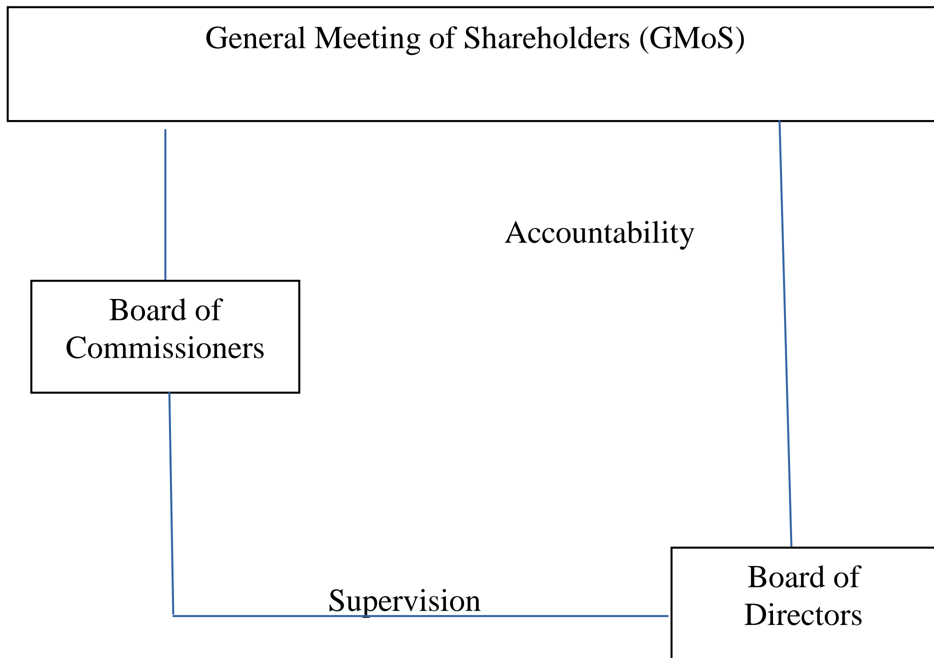

Figure 2.1. Board Structure
Source: FCGI (2001)

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The two-tier system is marked by the presence of (1) the board of commissioners (supervisory function) and (2) the board of directors (management function). Under this system, the Board of Commissioners as an organ of the company shall function and be responsible collectively for overseeing and providing advices to the Board of Directors and ensuring that the Company implements the GCG. They act in the best interests of the company and its shareholders. It sets the strategy of the company, protects shareholder rights, and oversees the Board of Directors and financial operations of the company. While, Board of Directors is the Company Organ with full authority and responsibility for the management of the Company in the interests of the Company in accordance with the Company's purposes and objectives and to represent the Company in and out of court in accordance with the provisions of the Articles of Association (AoA) (IFC, 2014).

The Board of Directors and the Board of Commissioners are determined by the GMoS. Both boards have different functions and powers of strengths within the company. In a two-tier system is not possible to occupy a double position on the board of commissioners and board of directors. The advantages of the two-board system are the existence of a clear monitoring mechanism, but the system is also considered less efficient in decision-making. This system was adopted from the Netherlands and is widely used in Germany (IFC, 2014).

The system of governing companies in the capital market consists of two systems, the first system is called the one board system which is used in the Anglo-Saxon countries. In this system, the board consists of one board which is also called The board of directors. The second system is the two board system and also called the two-tier board system. The two tier board system is widely used on the European continent (Bajuk, 2005).

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The one-tier system has two bodies of governance. They are the GMoS and the BOD. In its composition and competencies, the GMoS does not differ considerably from the general meeting seen in the two-tier system. Thus, the general meeting also has the authority to appoint the company's directors. There are big differences in the board of directors. Its members are directors who the law itself divides into non-executive and executive types (Bajuk, 2005).

The two-board system consists of two boards: the supervisory board and the management board. The establishment of the board is based on separate mandates, so that members of the supervisory board cannot become members of the management

board at the same time. In this system the company is run by the board of directors and its supervision is carried out by the board of commissioners. The two boards must be filled with directors and commissioners who have high profiles who are elected and can work together for a long-term sustainable value of the company and serves as a designated collective legal entity.

Which governance system is better is a difficult question. This is because the two different models are built on different economic and social system of governing companies (Bajuk, 2005). The one-board system is developed in the Anglo-Saxon countries, which is characterised by the presence of scattered stock structure, an active capital markets and, the use of majority voting in decision-making. Whereas the two-board system is developed on the European continent, especially in Germany, where the majority shareholder are companies, the presence of a strong employee's participation, less liquid capital markets, and the use of proportional voting system in decision making.

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2.4.1 Limited Liability Company

The ICL (article 1 UUPT 40/2007) is defining a Limited Liability Company (Perseroan Terbatas - PT), as a legal entity which is a joint-venture of capital, established by an agreement, conduct business with, authorized capital divided entirely into shares, and meets the requirements set forth in this law and its implementing regulations.

PT is the only legal entity that can issue shares. Shares in a PT may include (i) common shares, (ii) shares with or without voting shares, (iii) shares with special

rights to nominate members of the Board of Directors and/or members of the Board of Commissioners (iv) shares which after a certain period of time will be withdrawn or exchanged with other forms of classification, (v) shares which provide priorities to their owners and the right to receive dividends on the other shareholders that are classified for the distribution of cumulative or non-cumulative dividends, (vi) shares which provide priorities to their owners and the right to receive an allocation of the rest the company's assets in the liquidation of other shareholders with a different class of shares, and (vii) other preference shares specified in the company's AoA (IFC, 2014).

Indonesian law distinguishes clearly between listed and non-listed companies. In general, a listed company in the stock market is defined as a public company or a company which carries out an initial public offering. A listed company requires a larger amount of paid-up capital, and must be subject to complex and strict rules related to governance and disclosure. Where else, non-listed companies are limited liability companies whose shares can only be owned by certain people who have been determined and are not receiving external financiers in vain. Generally, non-listed companies are family owned businesses where the shares are written on the names of the owners and are not easily transferable to another person or party.

Besides enabling the establishment of limited liability companies, Indonesian law also enables the formation of the following business-related entities: Civil Partnership (Maatschap), Firma (Vennootshap onder firma), Commanditair Vennootschap (CV), Cooperatives, and Foundations. However, PT is the most popular form of a commercial entity in Indonesia.

2.4.2 The Governance Structure of a Limited Liability Company

The regulations in Indonesia to provides considerable flexibility for companies to build their governance structure. The bodies required by the company law does not depend on how much the number of shareholders or how much the total capital is recorded in the company establishment deed. The legal consequences of the number of bodies for the governance structure of the company is only different between the public and the private enterprises.

Non-listed companies must have the following bodies: (i) GMoS, (ii) Board of Commissioners, and (iii) Board of Directors. Listed Companies must have in addition: (iv) Internal Auditor, (v) External Auditor, (vi) Audit Committee, and (vii) a Corporate Secretary. In addition, the company also may establish other committees as well as its policies for: (viii) Risk Policy Committee, (ix) Corporate Governance Committee, (x) Nomination and Remuneration Committee, (xi) and other Board Committees

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2.4.2.1 The General Meeting of Shareholders (GMoS)

GMoS of a limited liability company is, a company organ that has exclusive authority which is not granted to the Board of Directors and Board of Commissioners. The authority of GMoS, the form and its range is determined by the Indonesian Corporate Law and/or the articles of association. Shareholders either alone or represented by power of attorney are entitled to become meeting participants and to attend the GMoS and exercise their voting rights in accordance with their corresponding shares held by them.

The GMoS approves nominations for the membership of the Board of Commissioners and the Board of Directors. In addition, the GMoS deliver the approval of the annual report and the financial statements, profit distribution (including bonuses for the management) and payment of dividends, amended authorised capital, amendments of the AoA, re-organisation and dissolution, and extraordinary transactions.

2.4.2.2 The Board of Commissioners (BOC)

The BOC is the oversight body that plays an important role in the framework of corporate governance. The BOC is accountable to supervise the management policy and its implementation and also to advise the Board of Directors. The CG Code provides that a BOC shall have the capability and integrity in order to perform its responsibilities and to ensure that the corporation's activities is in conformity with the applicable laws and regulations.

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2.4.2.3 The Board of Director (BOD)

Directors are appointed and dismissed by the GMoS the BODs are responsible for running the company's operations. Directors are also legally representing the company. The BOD is accountable to the GMoS. The Indonesian Corporate Law and the company's articles regulate the authority of the BOD and also their election and dismissal process.

2.4.2.4 Board Committee

A Board Committee has a duty to oversee and supervise the company's operations and providing advice to the BOD and BOC. The CG Code recommends the

establishment of certain Board Committees such as an Audit Committee, a Risk Policy Committee, and a Nomination and Remuneration Committee. The main task of each committee is to assist the function of the Board of Directors. The authority, composition, and function of each committee of the board are mostly based on recommendations from the CG Code and best practices.

2.4.2.5 External Auditor

ICL requires annual financial statements of limited liability companies to be audited by independent and certified public accountants. This is an obligation for the following types of companies:

- Companies considered to be compliance-audited companies (SOE, FIE, commercial banks, credit institutions, financial institutions, insurance companies, and listed companies);
- Controlling companies that make consolidated financial statements; and
- Companies issuing securities or other financial instruments traded on the organised market.

For listed companies, public accounting firms (external auditors) are separate organisation from the company. Selection of an independent auditor by GMoS must be based on the official list of auditors issued by the Ministry of Finance to conduct an audit on the financial statements of listed companies. The audit report must be presented to the Board of Directors.

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2.4.2.6 The Internal Auditor

OJK regulation (OJK Decree Kep. 496/BL/2008) states that, Indonesian listed companies are obligated to establish an internal auditing function. The role of internal auditors is important to strengthening the corporate governance of listed companies.

2.4.2.7 The Corporate Secretary

The Company Secretary is in charge of keeping abreast of regulations on capital markets; ensuring the availability of information of the company to be accessed by the public; advising the BOD of Issuers or Public Company to comply with Capital Market Law and its implementing regulations; and acting as a contact person between Issuers or Public Company with OJK and the public.

2.5 Overview of Indonesian Corporate Governance

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Good Corporate Governance implementation aims to create a conducive business environment in order to invite local and foreign investors to do business in Indonesia. GCG is needed to create legal certainty, transparency, good and efficient regulations and public services that are supported by a clean and responsive bureaucracy. This will also create a business sector that is responsible and ethical through the realisation and implementation of good corporate governance that integrates with the corporate culture. The implementation of business ethics should be a day to day business behaviour. This should include a transparent financial system that is expected to be accepted as a general a norm (Daniri, 2010).

The Asian financial crisis has become a significant momentum to urge reform of corporate governance in Asia, specifically in Indonesia. The crisis encouraged the Indonesian government to address corporate governance problems in Indonesia. Initiatives to enhance the quality of corporate governance has been initiated by:

- The formation of the National Committee on Corporate Governance Policy;
- The issuance of Limited Liability Company law (Law No. 40 of 2007); and
- The issuance of GCG Codes.
- The implementation of various other initiatives including annual report award, capital market award, and the corporate governance award.

OJK has published a roadmap of GCG Indonesia to meet the needs of issuers (including future listed companies) and public companies. The roadmap has been formulated by all the parties concerned with corporate governance and capital market. The formulation has been supported by the International Financial Corporation (IFC) which is a subsidiary of the World Bank. The corporate governance roadmap is expected to be used as the main reference for stakeholders to be able to comprehensively improve the quality of practice and rules relating to good corporate governance in Indonesia, especially for issuers and public companies (OJK, 2014).

The Roadmap provides a thorough overview of the company's management on various aspects of corporate governance that should be enhanced. An improvement over the corporate governance framework is conducted on the transparency of information, the protection of shareholders and the roles and responsibilities of the BOC and BOD. The roadmap of corporate governance has adopted international

standards and good corporate governance practices issued by international institutions.

OJK is aware that the contribution of all stakeholders on good corporate governance in Indonesia is very important in order to achieve the roadmap objectives. Improvement of corporate governance is very important for Indonesia, which causes OJK to form a task force of corporate governance (CGTF), which has a special duty to develop the roadmap of the Indonesian corporate governance structure together with the World Bank institution: IFC. Membership of CGTF composed of representatives of the following elements:

- Regulatory agencies: Bank Indonesia, State-Owned Enterprises Ministry, Taxation Directorate General, State Development and Finance Comptroller, Indonesian Accounting Association, and Indonesian Stock Exchange; and
- Governance agencies: National Committee on Governance Policy, Indonesian Institute for Corporate Directorship, Indonesian Institute for Corporate Governance, and Indonesian Institute of Commissioners and Directors.

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Indonesia's CG Code was developed based on the OECD principles and contains certain principles which conform to international best practices. The CG Code states that (i) it was developed to help ensure the sustainable development of capital markets and contribute to a cleaner and healthier economy, that (ii) it establishes the basic rules of corporate governance with a view to safeguard the rights and obligations of the legitimate shareholders, and sets the standard for professional conduct and morality of the BOCs, BODs and managers of listed companies, and that

(iii) it also serves as a foundation for assessing the implementation of corporate governance of a listed company (IFC, 2014).

The development of the Corporate Governance Roadmap for Issuers and Public Companies in the Indonesian capital market has the following objectives:

- To set milestones for improving governance of issuers and public companies;
- To improve the governance regulations and practices of issuers and public companies comprehensively; and
- To strengthen the governance practices of Indonesian issuers and public companies that are at least parallel to the companies in the ASEAN region.

Indonesia will be part of the ASEAN Economic Community in 2015. Therefore, there is a need and urgency to improve the business practices in Indonesia and raise competitiveness. Strengthening the competitiveness of Indonesian companies through improvement of corporate governance practices is one way to spur financial and operational performance, enhance investor confidence, and provide access to capital inflow (OJK, 2014).

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2.6 The Three Institutional Pillars of Corporate Governance

The GCG Code provides a reference for the creation of a conducive environment to implement corporate governance. The implementation of GCG requires three interconnected pillars, namely (i) the state and its apparatus as a regulator, (ii) the business world as a market participant, and (iii) the community as users of the products and services provided by businesses (KNKG, 2006).

2.6.1 The Role of the State

The state, based on the basic principles inherent to it, has various roles as follows:

- Coordinate effectively state officials in the preparation of legislation by the national legal system to prioritise policies in accordance with the interests of business and society.
- Involve the business community and the society as responsible parties in drafting laws and regulations.
- Create a sound political system with state officials who have high integrity and professionalism.
- Apply the laws and consistent law enforcement.
- Prevent corruption, collusion and nepotism.
- Organise the authority and the inter-agency coordination to improve public services with a high integrity, a short chain process, and an accurate order to support the creation of a healthy business climate, efficient and transparent.

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2.6.2 The Role of a Business Entity

The role of a business entity based on good corporate governance guidelines are as follows:

- Apply consistent business ethics to manifest a healthy, efficient and transparent business climate;
- Complying with all applicable laws and regulations in the business world;
- Prevent the occurrence of corruption;
- Improve the quality of management structures and work patterns of a company based on the GCG principles.

- Carry out the functions of the ombudsman to be able to accommodate information about irregularities that occur in the company.

2.6.3 The Role of the Community

The role of the community in the GCG Code, includes the following actions:

- Perform social control by providing attention and concern to the public service provided by government officials and also all the activities and the products and services produced by the business world, by sending an objective and responsible opinion;
- Communicate with state officials and the business community to express the opinion and objection of the community; and
- Comply with the existing laws and regulations with a full sense of awareness and responsibility.

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GCG implementation will be implemented through three stages (Daniri, 2010). The first stage is to increase shared commitment to implement the principles of GCG (transparency, accountability, responsibility, independence, and fairness). The second phase is to build a controlled company. This can be done through strengthening of the internal control and the risk control, and also through the implementation of the Whistle Blowing System. The third stage is to actualise business ethics as a basic principle in running the company's business. At this stage the approach is taken by the company through CSR activities. Ultimately, the vision and mission to maximise profitability and sustainable growth is also in the interest of all stakeholders. In short, after implementing the third stage of GCG, it is expected that there will be a change in the corporate culture, especially in the perception of

profit, human resources, and stakeholders. At the macro level, these efforts are meant to create a conducive business climate, reduce the high economic costs, and ultimately improve the competitiveness of Indonesia.

GCG application in the process will contribute greatly to the creation of a nation's resilience. With the implementation of GCG, it is expected that investors will not hesitate to make their investments in Indonesia. The implementation of GCG is an endless job of having to adjust to developments in the society. For this reason, certain institutions that already exist need to play their role in accordance with their function. It is conceivable that if every business and administrator in the State can work with ethics, the business attitude will change from the basis of achieving maximum profit in a short term to achieving sustainable profit by taking the environment into account. The effort will produce tangible results for the welfare of the society and create resilience for the country and its people (Kamar Dagang Indonesia, 2009).

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2.7 Chapter Summary

Corporate governance in Indonesia is very much an evolving area which started in the beginning of 2000. In recent years, the development of governance is driven to meet business needs and to recover the confidence of investors in the capital market. Indonesia, in catching up with good corporate governance, has passed legislations and implemented policies consistent with the principles and standards of internationally recognised corporate governance practices. The development of governance should be encouraged to create an efficient and transparent marketplace that is consistent with applicable regulations.

Indonesia is adopting the dual board system (two-tier system) which has two boards; the Board of Commissioners (supervisory board) and the Board of Directors (management board). In this system, there is a clear separation between the functions of supervision carried out by the BOC management functions performed by the BOD.

Regardless of the growing importance of good corporate governance in the global economy as well as in Indonesia, many companies in Indonesia still lag behind companies in other developing countries in the application of the principles of good corporate governance. The principles of corporate governance have been defined by the Indonesian National Committee on Governance and has adopted international principles as proposed by the OECD. The shortage of Indonesian companies is in terms of openness (disclosure), transparency, professionalism in the practice of the board, and compliances with laws and regulations. The existence of laws and regulations is not enough to ensure compliance by the commissioners and the directors in running the business since law enforcement is still the biggest challenge.

CHAPTER 3

LITERATURE REVIEW

3.0 Introduction

This chapter consists of literature review relating to the topic under study, namely: corporate governance, government intervention and firm performance in the Indonesian State Owned Companies. Below are sections that are included in this chapter:

1. Overview of firm performance
2. Overview of corporate governance
3. Overview of government intervention
4. Corporate governance and firm performance
5. Corporate governance, government intervention and firm performance
6. Underlying theory
7. Summary of literature review
8. Chapter Summary

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3.1 Overview of Firm Performance

The performance of a company is an essential variable in determining the success of an organization that should be measured financially. The financial performance of a company is generally determined objectively by using ratios such as return on assets, return on equity, return on investment, profit margins, sales turnover, and so on. The perceived business performance measures (PBPM) of clients of companies are measured relating to productivity in a variety of contexts, including industries, departments and individuals (Wei & Nair, 2006).

Financial performance is traditionally measured using a combination of conventional accounting measurements together with measures of risk and rate of return. Financial performance analysis is using various methodologies such as financial ratio analysis and benchmarking, as well as to measure performance against budget or by using a combination of different methods (Avkiran, 1995). The earning is a summary measure of corporate performance resulting from the accrual accounting system. Profit is a very important measure for businesses, because profit is a summary measure of corporate performance that is used by a wide range of users. For example, profit information is used to calculate executive compensation, approval of loans by creditors, and company's performance information in prospects of companies seeking to go public. Profit information is also used as a guidance for investors and creditors.

Ventrakaman and Ramanujam (1986) have divided firm performance into operational performance and financial performance. The operational performance of an enterprise is related to the measurement of specific variables of the organisation such as marketing effectiveness, market share, and product quality. Whereas firm performance is related to the financial performance of an enterprise which is broken down into two subcategories: (i) market-based performance (stock price, dividend payout and earnings per share) and (ii) accounting-based performance (ROA and ROE). The idea of enterprise performance in the accounting literature generally refers to financial aspects such as net income and return ratios.

Stakeholders and, in particular, investors have realised the importance of good corporate governance practices to protect their interests. Empirical research on

corporate governance since the late 1990s has experienced tremendous growth, especially, in developed countries where the data is pretty much available. Many theories have been used to examine the relationship between corporate governance and the general welfare of the company. Many studies have been conducted and the results have shown that there is an impact of corporate governance on corporate performance (Ehikioya, 2009).

Dawkins, Feeny and Harris (2007) in their study has compared the performance of companies using panel data to illustrate how the estimation results can be used to perform simulations. Econometric techniques have been used in this study to predict the function of profit, that has made possible to calculate the efficiency measures of companies which can then be used as a tool for benchmarking. The results of subsequent studies showed that large companies and companies with high specialization can enjoy higher profit margins than smaller companies. While capital-intensive companies receive lower profits compared to companies, non capital-intensive. Previous studies also provide evidence that there is a U-shaped relationship between market share and profitability. Also, it can be proven that the overall industrial enterprises are efficient and mainly the industry groups.

Liu, Zhao, Kim and Hahn (2008) in their study on the performance of Chinese large-sized firms using the data collected by All-China Federation of Industry and Commerce found that the financing difficulty of private firms, due to Chinese government's control policy, is the major factor resulting in the worsening performance of these large private firms. In order to examine changes in the performance of large private companies in China, some indicators have been

determined that can show the performance of a company. In general, indicators of the efficiency and profitability of a company are a form of good corporate performance measurement. Both indicators are used to demonstrate the competitiveness and the comprehensive strength of a company.

Research on corporate governance generally uses models based on market and accounting to evaluate enterprise performance. Gurbuz, Aybars and Kutlu (2010) have used ROA while Lo (2003) has used ROE as an indicator of operating performance. Khan, Nemati and Iftihar (2011) use both ROE and ROA indicators to also measure the operating performance of a company. The measurement of operating performance, which is carried through the ROA ratio, indicates the amount of revenue that has been generated by the number of assets invested (Epps & Cereola 2008). The management and the directors are directly responsible for business operations including the use of corporate assets. Thereby, the ROA ratio allows users to assess the effectiveness of corporate governance mechanisms to guarantee and to motivate efficient management of the company.

In this study, Return on Assets (ROA) is defined as the profitability ratio that measures a company's ability to generate earnings from assets that were used. ROA is the ratio between earnings before interest and taxes (EBIT) to total assets of the company. One of the main reasons for calculating the ROA ratio is to see the results of an enterprise performance for the benefit of common shareholders (Epps & Cereola 2008). Further, Return on Equity (ROE) ratio is a measure that shows investors how much profit can be made from the funds that have been invested by the

shareholders. ROE is the ratio between the number of earnings before interest and taxes to total equity of the year (Chaghadari, 2011).

3.2 Overview of Corporate Governance

Corporate governance after the Asian financial crisis in 1997 became an important issue for countries in Asia and the Pacific. The Effect of the crisis on the economy of the impacted countries has indicated that poor governance is not only an alarming obstacle, but also has an effect on the economic development issues. The Dilemma of the financial crisis shows that it is possible for companies to comply with corporate governance rules without complying with the principles and spirit of good governance (ADB, 2004).

Four Asian countries highly affected by the economic crisis that occurred in 1997 were Indonesia, Korea, Malaysia, and Thailand. These countries have some common characteristics such as: the existence of conglomerates controlled by a few families, weak corporate governance (including affiliated companies), the close relationship of the conglomerates with financial institutions, poor governance of banks that contributed to high Non Performing Loan, and the absence of mergers and market acquisitions as well as an effective bankruptcy process (Nam & Nam, 2004).

Corporate governance has also become an important topic for entrepreneurs in countries that are in a transition economy. The board of directors, owners and management of companies are fully aware that there are positive benefits for adopting good corporate governance practices, because good corporate governance can help companies to improve their performance and simultaneously it can increase

the share price and facilitate the company to obtain additional capital (McGee & Bose, 2008). Investors will be hesitant to buy shares or invest funds in companies that do not follow the principles of good corporate governance. Investors generally will pay attention to the issue of transparency, the presence of independent directors and separate audit committee in the governance system of an enterprise. Investors, both national and international ones will not invest in companies that do not apply the concept of good corporate governance.

The concept of corporate governance relates to the coordination of various company stakeholders such as shareholders, management, employees, creditors, customers, suppliers, and the state. A corporate culture as a part of governance consist of a set of special relationship of people who physically and legally have the same interest in a business of an enterprise. A healthy corporate culture needs to encourage entrepreneurial activity and governance by taking into account the inherent conflict caused by the coexistence of multiple interests contained in the company (Brezeanu & Stănculescu, 2008).

The literature on corporate governance has identified three main models (Onofrei, 2007): the traditional model, the co-determination model, and the stakeholder model. The traditional model uses a three-level hierarchical organization, namely: shareholders, directors and managers. This model is widely used in the North American countries. The co-determination model is widely used in Western European countries where the organization is divided into four hierarchical levels: shareholders, directors, managers and employees. The stakeholder model is mostly used in Southeast Asian countries, which is characterized by four hierarchical levels

as well. The difference with the co-determination model lies in the complexity of relationships that are formed. This last model allocates the load of tasks for each stakeholder by not explaining the scope of rights and obligations. The workings of this system makes a balance between the decision-making process between the levels involved (Brezeanu & Stănculescu, 2008).

Aras and Crowther (2007) in their study has shown that corporate governance is essential for the continuing operation of any company. Therefore, much attention should be given to the implementation of governance procedures. Similarly, the sustainability of business operations is the basis for each company, and is arguably the fashionable concept today. The meaning of corporate governance is generally clear, but the meaning of sustainability is still not clear. The two fundamental concepts, however, should have a relationship between the two. The study on the relationships was examined in FTSE 100 companies including their governance policies. The exploration found that the analysis has several strengths and has reasons for optimism. Some weaknesses were also found which have cause for concern.

Mardjono (2005) in his research has studied the failure of global companies and well-known Australian companies related to the differences of best practices by explaining how the relationship is between business continuity and the implementation of corporate governance. By studying the theories that exist and the findings of previous academic about corporate governance and business continuity published between 1998 and 2004 are compared and contrasted, which in turn is connected with empirical evidence obtained from what happened at Enron Inc.

(Enron) and Heath insurance International Holdings (HIH). Therefore, a matrix was built to obtain the key perspective of corporate governance and to get research propositions. The study found that Enron and HIH recognized the existence of good corporate governance as a framework in force, but the company in practice did not apply those principles. Each of the principles have been breached and it became an attribute to the failure of both companies.

Poor corporate governance is the reason for the poor performance of SOEs worldwide. The efforts of SOEs in many countries are generally less successful to provide continuous improvements in the performance of the company, because the government has not fully overcome the shortage of core corporate governance practices at public companies. This is due to the existence of the dual purpose, the conflicting objectives, the excessive political interference, and opacity. Wong (2004) in his study on SOEs in a number of jurisdictions has explored how an integrated approach, which includes a clear direction, political isolation, and transparency, can improve corporate governance of SOEs and clear the way to a higher level of performance.

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3.3 Overview of Government Intervention

Government intervention in the economy of a country can be in a variety of ways within the contours of the socioeconomic situation and politics. Government intervention in the economy is usually arranged through two different ways. The first way is through the control and regulation of the private sector who do not perform direct production through the implementation of appropriate economic policies. The second way is through the production and to refrain from imposing controls on the

private sector. The first approach is called the state as a controller while the second approach is called the state as a producing country. However, in practice, government intervention in the economy is in the form of mixed approach. Whatever the historical tradition of a country's economy, it appears that the intervention has caused improvisation, control and conditions for a variety of structural transformations in the economy, especially in the industry (Bala, 2006)

Neo-liberalism and market fundamentalism in the financial crisis have recently discovered that the needs of the business world cannot be met without the presence of an appropriate macro-governance and regulatory framework. Public policy makers see the need for an appropriate framework of governance architecture that has the right elements of surveillance, control, regulation and intervention by the State and regulatory agencies, while leaving optimal room for growing companies to grow and institutions and agencies to develop appropriate checks and balances. In this context, the vision of a modern private company that grows without any state commercial activity or state ownership equality has not been realized or in fashion. Instead, there is a fear of the prospect of undue conservatism and protectionism (Reddy & Padmakumar, 2009).

With the developments that occurred during this period, the active role of the state and the legislative process is needed to be able to ensure that systemic risk can be reduced at various levels of the country. This situation requires the existence of appropriate legislation and law enforcement which must be based on adequate openness and transparency. The issuance of the Company Law Enforcement Act and the Companies Act certainly has influenced the lives of the daily life of the

professionals and directors. The law was needed to mediate the relationship between the systemic steering media of money and power and the living world. The relationship between the economy and the company's legal system is not a simple relation, but a complex relationship that is influenced by various forces locally, nationally and globally. A complex relationship is the subject of an increased level of discourse that makes a sufficient reason to assert that the legislative initiatives has impacts. (Heneghan and O 'Donnel, 2007).

The existence of SOEs started to emerge in the 20th century, mainly as a vehicle for state intervention in cases where the market is considered a failure. Economists in general believe that government ownership in SOEs can be justified when there is a market failure, and when regulatory instruments are not efficient (Hart, Shleifer, and Vishny, 1997). In practice, the ownership of state enterprises is driven mostly by the failure of traditional markets. Nationalisation is undertaken to encourage economic development through industrialization, which, among others, is to limit foreign ownership and maintain employment. The reason for the existence of SOEs becomes less important because there is a strong argument that privatising would improve performance (Haggarty & Shirley, 1997), and, in reality, large-scale privatisation has taken place between the 1980s and 1990s. Even though the privatization efforts, the role of SOEs remains widespread in many countries, especially in the markets of developing countries and transition economies (Shapiro and Globerman, 2007).

SOEs are economic entities owned and controlled by the government and where its revenues are coming from sales of goods and services. SOEs include commercial companies which directly are operated by government departments and by people in

which the government holds a majority of shares directly or indirectly through investment of other state companies. This definition also covers only companies in which the government holds a minority stake, and if the distribution of the remaining shares, leaving the government with effective control. This definition also covers only companies in which the government holds a minority stake, and if the distribution of the remaining shares, leaving the government with an effective control. The definition does not include public sector activities such as education, health care and road construction and maintenance financed by other means; usually from the government's general revenues. Further, financial companies are of a different nature and they have generally been excluded from the data on state companies.

SOE definition varies from country to country and within countries over time. In exceptional cases, the government also has non-commercial activities, such as agricultural research institutions. These non-commercial activities are often eliminated from SOE data, although they are clearly SOEs. The most common omission occurs when the government uses a narrow definition of state-owned enterprises, for example, by excluding those with a particular legal form (such as company departments), which is owned by local governments (usually utilities), or those that are considered unimportant in terms of size or need for fiscal resources. Therefore, the data on SOEs tend to underestimate their relative importance in the economy.

In general, SOEs face different situations and a wider range of challenges in governance than those faced by private companies. SOEs usually have an ambiguous

objective which may be contradictory, even if ownership of the company centered on one ministry. Unlike private companies, they have a primary goal which is to maximize wealth. SOEs on the other hand has a broader objective which is a mix between commercial purposes and social objectives as well as political purposes. When an SOE is passive, then the manager may not fully understand the social objectives of the company, and when the SOEs is not passive, then the company may suffer from excessive political interference. If the political market is not perfect, then the government and the political actors have the potential to divert the resources of a company for their own and group purposes. More fundamentally, it can be said that the difficulty in corporate governance derived from the fact that there is a complex chain of agents that are not easily and clearly be identified by the principal. In a decentralized ownership model, an SOE has several actors, involving various government departments and the local government. Even in a centralized model, the principal can consist of various stakeholders such as parliamentarians, broad or narrow interest groups, and the SOE itself. Complex chain institutions can include various government levels, which can provide difficulties that are not seen in the relationship between the board and the managers of non-SOEs on the one hand and shareholders on the other. A complex chain structure can be implemented in order to encourage the management of SOEs to make efficient decisions which is a real challenge to create accountability. The challenge becomes greater when the SOEs is not a registered company and is not a subject to a capital market regulation (OECD, 2006).

Hadfield (2008) has reported on the results of the survey conducted by the Egyptian Institute of Directors (EIOD) regarding the comparison of corporate governance of

SOEs with the largest companies on the Cairo & Alexandria Stock Exchanges (Case) in Egypt. The study found that the country's SOEs fell behind Case's companies in implementing corporate governance standard. It states that the worst failings were found in the structure and function of the boards in SOEs.

The literature on the behaviour of SOEs and their interaction with the government shows an incredible diversity. In an essence, it can be described the relationship between the two is opposite. The government will try to put their political goals in the economical mind of the manager who rejects the intervention, and it can be said that the relationship is cooperative where SOEs act as an obedient servant to the state who works together to achieve the social and political goals. But on the contrary, there is a suggestion that SOEs should be actually almost completely autonomous (Hafsi, 1985).

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3.4 Corporate Governance and Firm Performance

Good corporate governance is concerned with the regulation, supervision, performance, and control of the behaviour of the corporation. Meanwhile, in the orthodox view, the primary objective of corporate governance is to assure that investors can get a return on their investment, the company can continue to improve profits, and that the company can fulfil its social responsibility. Good corporate governance is very influential for the performance of corporations. Therefore, the management should be aware of the principles of corporate governance, and how these principles can be used to improve business strategies. In practice, there are four basic principles of good corporate governance, namely: transparency, accountability, responsibility, and fairness. The Government of Indonesia in controlling many SOEs

has added one more principle, which is independence. This means that SOEs should be managed in a professional manner without any conflict of interest and influence or pressure from any party that is not in accordance with the laws and principles of sound businesses (SOE Ministry, 2011).

Corporate governance is not for the management of companies only. Governance is much broader and includes fair, efficient and transparent administration, which has fulfilled certain well defined goals. Governance is a system built for the arrangement, operation and control of the company with the intention to achieve a long-term strategic goal to meet the requirements of shareholders, creditors, employees, customers and suppliers, and fulfil the legal and regulatory requirements, while meeting the needs of the community and the local environment. Once corporate governance is practiced under a system that is well laid out, it will lead the company to the improvement and development of the legal, commercial and institutional framework, and there will emerge a demarcation of boundaries where management functions can be performed. The mechanism of good corporate governance works well in developing countries, because it is important for both local companies and foreign investors that are interested in the opportunities that are provided by such economies (Amba, 2014).

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Firms in developing countries have weaker corporate governance compared to their counterparts in developed countries. As a result of the weakness in corporate governance, these firms are discounted in the financial markets (LaPorta, Lopez de Silanes, Shleifer, & Vishny, 1999). Thus, improvement of corporate governance should be done to improve investors' confidence and increase corporate access to the

capital (Rajagopalan & Zhang, 2009). Amba (2014) in his study in a Middle East country discovered that corporate governance variables have a positive effect on the performance of companies that trade in the capital market.

Studies have found that better firm performance results from the adoption of a good corporate governance structure within the organization. But there are also differences in several European studies which report on the existence of a negative relationship between corporate governance and corporate performance (Bauer, Gunster, & Otten, 2004). Bauhede in 2009 has re-examined the relationship between corporate governance and firm performance, and found a positive relationship between the function and structure of the board (as seen from the level of compliance with international best practices) and operating performance (ROA). These results have provided some support and motivation to adopt good governance practices for other companies, and provide explicit evidence that the size of the operating performance is very important in examining the operating performance at the enterprise level.

The literature review of the ten attributes of corporate governance to firm performance is described as follows:

3.4.1 Independent Commissioner

In the Indonesian Corporate Law number 40 of 2007, a company is required to establish two boards in the organizational structure of the company, the Board of Commissioners (*Dewan Komisaris*) and the Board of Directors (*Dewan Direksi*). Each board must have their respective members, and membership overlaps in the two boards are not permitted. The members of BOC and BOD are elected by the

shareholders in the GMoS. Commissioners and Directors are responsible to the shareholders. BOC is a board whose members consist of at least two commissioners are generally a shareholder representative assigned to supervise the company. Where the Board is composed of two or more commissioners then one of them will be determined as the chairman of the board. Their roles are to give advice and to monitor the activities of the Board of Directors. Accordingly, the function of BOC in the company is a non-executive function. Members of the BOC may be affiliated with the company (representatives of shareholders) or may come from outside the company who are generally professionals (independent). The president of the BOC can be selected from either the independent or the non-independent commissioners. Based on the prevailing capital market regulations, companies listed on the capital market have an obligation to allocate 30% of the number of commissioners to independent commissioners (Darmadi, 2011).

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Based on GCG Guidelines, the composition or the number of independent commissioners is not specified, but nevertheless the number or composition of independent commissioners should ensure that supervisory mechanisms are running effectively and in accordance with statutory regulations. The criteria set is that one of the Independent Commissioners should have a background in accounting or finance. Although the Code of GCG does not specify the number of Independent Commissioners, in Bapepam-LK, the Issuer or Public Company must have at least one independent commissioner while the Indonesia Stock Exchange requires that at least 30 percent of the BOCs are Independent Commissioners (Ministry of Finance, 2010).

The Netherlands as in Germany is also a country that uses the two board system where the board of supervisors play an important role in the protection of investors in the country. Postma, Ees, and Sterken (2001) have used indicators of corporate governance as instrumental variables to analyse their impact to the company. They found that independent commissioners do not determine firm performance.

3.4.2 Independent Directors

The Board of Directors (BOD) is a council whose members are elected by the shareholders to run the company. They are executives who play an important role in controlling the agency problem which is the heart of corporate governance (Fama & Jensen, 1983). Normative literature has shown that the board can monitor the entity better and take appropriate action if the company has a sufficient number of independent directors to ensure effective control (Jensen, 1993).

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Peng (2004) in his survey of public companies in China, found that outside directors have made a difference in the performance of the company. Performance in this study was measured by sales growth and ROE. Both of the measures show that there is an influence, although the improvement in financial performance is in the low level. These results also documented the bandwagon effects of the practice of appointing an outsider to sit on the board of directors. The effect is not only to highlight the need to combine several theories outside agency theory in the study of corporate governance, but also to get a result which is in line with the policy implications of trends that lead to the use of independent directors on corporate boards in developing countries.

A study conducted by Atmaja (2009) using data from Australian public companies for the period 2000-2005 has found that the presence of independent directors is positively related to firm performance. In addition, the study also has discovered that the concentration of ownership in a company has a negative impact on the independence of the board of directors.

Lefort and Urzua (2008) have used a number of equation specification and econometric models to study board composition and corporate performance. They found that the number of independent directors on a board have an influence on the value of the company. A separate analysis that focuses on the proportion of outside and professional's directors show that the effect of their presence is only found in the value of the company. Further, for companies that have the potential to worsen the situation, as measured by a low chance on companies with cash flow and voting rights in the hands of the controlling shareholder, tend to appoint directors of the professional to the board, in an effort to improve corporate governance and enhance the agency problem. It also happens to companies that serve the financial needs are likely to include professional as a member of the board of directors.

3.4.3 Independence of Committee

In order to support the Board of Commissioners in performing supervisory functions, BOC can be supported by a number of committees under the supervision of the board, including the Audit Committee, the Remuneration and Nomination Committee, the Risk Management Committee, and the Corporate Governance Committee (IFC, 2014). These committees are generally established to assist BOC of

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the company to fulfil their fiduciary duties effectively, either as a protector of investors or as a supervisor and advisor to BOD.

The literature has underlined the important role of the audit committee in improving and maintaining corporate governance. The Audit Committee is one of the important committees within the board because the task of the committee is to assist the board of directors/commissioners in exercising supervision over the preparation of financial reports and conducting supervision over accounting, which in turn can reduce the information asymmetry between insiders and outsiders (Klein, 1998). Atmaja (2009) in his studies of the public companies in Australia (data period 2000 to 2005) concluded that the independence of the audit committee is vital to the success of the company. He also found that the independence of the committee has a positive relationship with the value of the company.

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As disclosed in the paragraph above, the independence of the audit committee has an influence on the increase in the company's performance. Level of independence and expertise of the committee members is associated with the company's value. This is due to the role of committees in overseeing the financial reporting process of the company, supervising internal accounting controls, overseeing the audit process, and reviewing the management risk practices, which in turn increases the ability of the Board of Commissioners in performing their duties (Aldamen, Duncan, Kelly, McNamara, & Nagel, 2012).

3.4.4 Supervisory Board Size

The number of commissioners of a limited liability company is determined in each company's AoA. A BOC must have at least one commissioner and usually a BOC consists of more than one member. A BOC which has more than one commissioner will constitute the board and the members are not allowed to act by themselves, but on the basis of the decision prepared by the Board (IFC, 2014). ICL Article 108 paragraph (5) states that financial institutions whose business activities related to the collection and management of public funds, companies that issue bonds, and companies listed on the stock market must have a minimum of two members of the Board of Commissioners.

Several studies conducted in Indonesia (Pudjiastuti & Mardiyah, 2007; & Amyulianthy, 2012) have shown that the number of commissioners at public manufacturing companies are significant and has a positive impact on firm performance. Xie et al. (2003) also has concluded that the number of board members of a company should be in an optimal condition (not too much and not too little) to be able to complement each other.

In contrast to the results of studies in Indonesia, Bermig and Frick (2010) in their research on listed companies in the German stock market (294 companies, data from 1998 to 2007), could not find the effect of board size on firm performance. Germany is a country that adopts the two board system which is almost the same as that used in Indonesia. Results obtained in the study are in contrast to those found in Indonesia.

3.4.5 Management Board Size

The Management Board is the board of directors whose number of members are prescribed in the AoA of the company, the internal regulations or the resolutions of the Board of commissioners. ICL Article 92 stipulates that the number of Directors of a company must be at least one person. When the board is composed of more than one person, then there should designed a division of tasks and responsibilities among the board members, which is specified in the GMoS. In case the GMoS does not specify the roles and responsibilities of management, then the task must be determined by the management in a Board of Directors meeting. Further, financial institutions, companies that issue bonds, and companies listed on the capital market must lift a minimum of two directors (IFC, 2014)

By using a meta-analysis, Dalton, Daily, Johnson, and Ellstrand (1999) have used a sample of 20,620 companies drawn from 131 studies and found a systematic relationship between the size of board and the company's performance. The research has indicated that the relationship between the size of the board with the company's performance was stronger in smaller firms. Dalton et al. (1999) also show that there is no difference in the results between the two types of performance measures, namely accounting-based performance measures and market-based measures of performance.

Cheng (2008) on the other hand had obtained different results about the relationship of the board of management size and the performance of the company. He found that the size of the board has a negative relationship associated with ROA (company performance). These results are consistent with the view that large size boards

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require more compromise to reach a consensus, making, the decision became less extreme than the decisions made by smaller management boards. Large management boards would have a less varied performance.

Belkhir (2009) also concluded that a small board is more effective than a large board. However, by increasing the number of directors at companies such as banks does not impair the performance of the company. Therefore, many evidence (although there are opposing) have been found stating that there is a positive relationship between the size of the board and corporate performance.

3.4.6 Supervisory Board Meetings

The Supervisory Board is the BOC whose function is to review the corporate financial reporting to ensure that the financial statements reflect accurately, fairly and completely the necessary information, and declare the state of financial position and the company's operations. Overseeing the activities of directors and managers to ensure that they comply with and not against company policy and rules in the implementation or management of their fiduciary duties, and do not act dishonestly or negligently causing harm to the shareholders or the company. BOC can play an active role in improving corporate governance by monitoring the activities of the management. Meetings of the supervisory board are of the most important steps in the board's activities, and researchers have found that there is a positive relationship between the number of board meetings and corporate performance. The frequency of meetings of the supervisory board reflects the amount of time and effort used by the board in supervising the management. Hu, Tam, and Tan (2009) and Cho and Rui (2009) found that the higher number of board meetings leads to a better performance

although, the supervisory board is usually much smaller than the board of directors, and meets less frequently than the board of directors.

In contrast to the other studies, Shan and Xu (2010) in their study of 28 financial institutions in China (data from 1999 to 2009) discovered and suggested that meetings of the supervisory board was negatively related to the financial performance of China's financial institutions.

3.4.7 Management Board Meetings

Implementation of corporate governance is an important key for the BOD in order to protect the interests of shareholders and the company by increasing the application of corporate governance standards. The frequency of meetings of the board become an important tool to improve the effectiveness of the BOD. BOD meetings and the presence of the directors form an important channel for the discussion and settlement of various companies specific information in accordance with the monitoring role of the BOD.

BOD meeting frequency according to Vafeas (1999) is related to corporate governance and is consistent with the contract and agency theory. Vafeas (1999) also found in his study that the number of Board of Directors meeting are inversely related to the value of the company. The results were driven by the increased activity of the board following the drop in stock prices. Further, it was found that the increase in operating performance in the following years was due to abnormal activities of the board. This improvement is most prominent for companies with poor performance, and companies that do not engage in corporate control transactions.

The frequency of board meetings is one of the theoretical propositions to measure the intensity of BOD, the quality of work, as well as the effectiveness of monitoring. Higher frequency of board meetings can produce good quality managerial monitoring, and at the end is able to produce a positive impact on the firm's financial performance (Vafeas 1999). In addition, Ntim and Osei (2011) also agree with other researchers that there is a relationship between the frequency of board meetings and corporate performance. BOD that meets more frequently tends to produce better financial firm performance.

3.7.8 Competence of Audit Committee

The audit committee (AC) is a committee established by the BOC consisting of professional charged with the responsibility of liaising between the external auditors and the BOD on one hand, and between management and the external auditors on the other hand. Members of the committee should possess qualities such as integrity, dedication, and a comprehensive understanding of the corporate businesses. Moreover, the composition of the AC and the manner in which they exercise their governance and oversight responsibilities have a major impact on the overall internal control mechanism of a company. Expectedly, the independence of the AC from management, the level of accounting knowledge possessed by the members, the experience and status of the members, the extent of their involvement, the scrutiny of their management activities, and the appropriateness of their actions, all determine the competency of this committee (Modum, Ugwoke, & Onyeanu, 2013).

The findings from a large sample of archive studies generally indicate that the quality of financial reporting in those companies that have qualified ACs are higher than

companies that have not established an AC. The main factors that have contributed to the competence of AC is positively related to the independence of the committee members as well as the knowledge and experience they have in financial reporting. Some surveys have also indicated that the competence of an AC is positively correlated with the company's financial performance (Gendron, Bedard, & Goldeng, 2004)

3.4.9 Reputation of Auditors

An independent audit that is carried out by an external auditor is an important element within the framework of a company's control. The objective of an audit of financial statements is to provide an opinion on the fairness of the financial statements prepared by the company which should be prepared in accordance with the applicable accounting standards. Audit reports provide assurance to shareholders, managers, employees and market participants about the financial position and performance of the company. An independent audit can only be carried out by a public accounting firm that is recognized and accredited, which will further enhance the credibility of the company in accordance with the prospects for attracting investment (IFC, 2014).

Siala, Adjaoud, and Mamoghli (2009) has conducted a study on the relationship of auditor reputation and performance of non-financial Canadian listed firms. They have discovered that the reputation of the auditor has a positive and significant effect on the performance of the company. Research results have supported the idea that the pre agency theory review has stated that the additional role of external auditors is a

means to limit the possibility of management to manipulate accounting data for their interests (Jensen & Meckling, 1976; Watts & Zimmerman, 1983).

Research conducted by Guedhami, Pittman, and Saffar (2009) by using the data of 176 privatized SOEs from 32 countries has found strong and robust evidence that companies, depending on the ownership, state or foreign, tend to designate a Big-Four auditor. In addition, they discovered that this relationship between shareholders' equity stakes and auditor choice strengthens when the state-level governance is weaker. This is consistent with their predictions on the divergent interests of shareholders in high-quality financial reporting that manifests in the selection of auditors.

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3.4.10 Audit Committee Meetings

Results of a study by Sharma, Naiker and Lee (2009) about AC in listed New Zealand firms found that the number of AC meetings, shows that high-growth firms meet less frequently, which is consistent with the view that high-growth firms present an environment where stringent internal monitoring may not be effective because the corporate infrastructure is unable to keep pace with rapid growth. The observation that audit committees meet more frequently when management ownership is higher implies that the AC may be addressing important agency problems associated with managerial power vesting through greater ownership. They have observed and concluded that companies with a greater institutional ownership will conduct audit committee meetings more frequently. The results show that institutional shareholders require the presence of a more effective governance and a better internal control in the preparation of financial statements.

AC in fulfilling their roles and responsibilities must conduct meetings sufficiently to be able to provide advice to the board. In the UK for example, the interim financial statements are usually prepared semi-annually, so the AC is recommended to have not less than three meetings a year (FRC, 2012). In North America, the best practices suggest that the committee should carry out at least four meetings in a year and even it is suggested more meetings for large public companies (Sabia & Goodfellow, 2005).

The survey of KPMG Audit Committee Institute (2006) has concluded that audit committees generally meet between 6 to 10 times per year (or more often), either face to face or via teleconference. Face-to-face meeting usually lasts up to four hours, while the teleconference meeting lasted for one hour. The qualitative research shows that the meeting can be attended by about ten persons (Gendron et al, 2004): members of the AC, internal audit, external auditors, CEO, CFO, and the corporate secretary. Gendron et al. (2004) indicated that the committee generally follows the best practices related to the meeting with the internal and the external auditors, by not presenting the management, to discuss such things as the quality of the relationship between the auditor and the management and also the competence of the management itself (Bedard & Gendron, 2010).

3.5 Corporate Governance, Government Intervention, and Firm Performance

Literature about government intervention is still very limited (Yu & Main, 2012). In pioneering studies of government intervention, the researchers started their work by examining the political role of outside directors on the company's operations. It was found that when the political role is more important to the company, the company

will have more directors with political background and legal experience. Companies that have political connections has been concluded by researchers that the company will have easier access to debt financing, have a greater market power and can enjoy lower taxation. The research observation is consistent with the theory of resource dependency. Faccio, Masulis, and McConnell (2006) in another study found that politically connected companies generally receive poorer performance than companies that are not connected. Their CEOs politically enjoy a strong relationship with the government and they tend to display weak characteristics governance and are less professional. Companies that are politically connected with the government is more likely to be saved rather than the non-connected. The performance of those connected companies is generally poorer than the non-connected.

The government has an important role in business development and it is an important factor in the company's operations. The magnitude of the government's role in the management of SOEs varies from country to country, and also variations can occur among industries in the same country. Government intervention can be in various forms, but usually the intervention is in the form of financial aid and trade protection. This phenomenon is sought by companies, and most of the interventions will cost the government. The reaction of the companies over unwanted government intervention varies. There are companies that will try to control the behaviour directly, while there are also other companies that treat intervention as a fact of life in which they have limited control (Poynter, 1982).

The development of state-owned companies in various countries are not the same. Therefore, there is a need to consider real world results. There are also many studies

on corporate governance found that many SOEs works inefficiently, not dynamic, and the occurrence of corruption. However, there is no systematic proof that SOEs have become a burden to the economy of a country. Moreover, to a certain extent there is selection bias on empirical materials relating to SOEs which are covered by poorly performing state-owned enterprises. This phenomenon is normal for people to talk about cases and issues, but the issue has given the false impression of the prevalence of poor SOE performance (Chang, 2007).

SOEs in many countries around the world are still an important part of a country's GDP, employment and market capitalization. In general, SOEs in many countries are engaged in the fields of utilities, infrastructure, energy, transport and telecommunications. The performance of the state-owned companies is very important for a large segment of the population and also for the business sector. As a result, the governance of SOEs would be very important to ensure that they provide a positive contribution needed for the efficiency of a country's overall economy and competitiveness. The experience of the OECD has proved that corporate governance of SOEs is an important prerequisite for effective privatisation of the economy, because it will make the company more attractive to potential buyers and increase their assessment of SOEs to be privatised (OECD, 2005).

Although there is a less popular perception of the SOEs which are published in the business media as well as the presence of contemporary conventional wisdom, many SOEs are still able to work efficiently and well managed. For example, Singapore Airlines have been chosen as the best airline in the world (2006). Singapore Airlines is an SOE where 57% of the total shares are owned by the government through

Temasek Holdings. Temasek Holdings are a Singapore government investment company that has a portfolio in Asia and Singapore which includes a broad spectrum of industries. Bombay Transport Authority of India is also an SOE and highly appreciated in the country. Regional jet manufacturer Embraer in Brazil, car manufacturer Renault in France, and the steel company POSCO in Korea are world class companies that are all being successfully SOEs (Chang, 2007).

In countries such as India, Turkey, and Egypt, SOEs has become an important vehicle for the economic development of their country. Those countries are directing their development in the development of industries to get strong growth and it occurs not only in countries which are based on socialism. Korea is an example of a country that decidedly became capitalist, where during the phase between the years 1960 to 1985 there has been a very rapid growth, state companies have been growing two times faster than the country's economy as a whole (Kennedy & Jones, 2003).

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In the late 1980s, the Chinese government began to reform the SOEs, and between the 1990s and the 2000s, many medium and small sized SOEs were privatized and went public. Until today, there are still a lot of SOEs where the government has an ownership of 100%. Wang (2009) in its survey of listed companies in China (1997 to 2007) found that the overall performance of SOEs improved subsequent to the transfer of the controlling shareholder in a way to the improvement of the operational and non-operational performance. Further testing also was performed on solely SOEs and other SOEs based on the controlling shareholder. Research results show that the company's operating performance improved significantly in the solely SOE group, while non-operating performance has improved significantly in the other SOE group.

Moreover, these results can also identify the source of performance improvement be viewed from two perspectives, namely corporate governance and related party transactions. The result suggests that the Chinese government should continue to decentralize control, and at the same time, continue to monitor the company's operational efficiency. Chen, Chun, and Zhu (2005) found indications that companies with direct government control were significantly weaker than other companies. The companies without direct supervision of the government do not differ significantly.

3.5.1 Appointment of Senior Executives

Yu and Main (2009) have conducted a study on the interaction of government and financial institutions and the existence of retired bureaucrat who was appointed to sit on boards of public companies (amakudari system). The empirical results have concluded that governments and financial institutions in Japan and Taiwan tend to appoint government representatives to sit on the board to help troubled companies. But there is a negative correlation with the presence of amakudari and company performance. Amakudari system that could save troubled companies, but it can also harm the company's overall performance due to the decreasing monitoring ability of the board.

In many countries, governments are involved not only in regulating the activities of the businesses but also in the corporate governance of individual companies through ownership and board ties. Companies that have a direct relationship with the government would have significant costs associated with the involvement of government officials in the process of corporate governance. Conversely, companies that have a relationship with a SOE which is indirectly connected with the

government will get access to government resources by avoiding costs associated with government intervention. A comparison between the consequences of the relationship of the board and ownership to the government and the consequences of the relationship on SOE boards and ownership associated with higher profitability found no significant difference for companies with direct links to the government (Okhmatovskiy, 2009).

3.5.2 Political Pressures

To ensure the development of SOEs, many countries have made performance agreements that include financial and non-financial objectives with the executives of the BOD and the SOEs. Goals are determined by the broad government policy, or by bodies or entities that perform the function of state ownership. In developing its policy, the government should consider not only the performance of the economy, the productivity of the company, its return on capital, and so on, but also the policy objective of the state ownership. For example, state-owned enterprises in Indonesia have two explicit duties on commercial and public sector liabilities, and are required to maintain a clear separation between these two objectives (World Bank, 2006).

In connection with the development of SOEs, the government tried to benefit from the operation of SOEs by autonomous agencies. At the same time, the government tried to encourage SOEs to redirect their purpose in line with government objectives. Relations between the state and the management of SOEs are commonly established through the role of a minister, generally produced a pattern of behaviour by the state that was very different from private companies. But articulating government objectives in a consistent internal manner proved difficult such as in securing the

benefits of autonomy. Some governments have tried to improve relations between the state and SOEs through the development of explicit agreements, or even contracts, between ministers and managers. Although this approach does not deal with the fundamental problem with the manager-minister relationship, it cannot be ruled out that the relationship is a significant step in improving the link (Vernon, 1984).

Many studies have found that political pressure on corporate decision-making is very detrimental to the performance of a company and this has been well documented in the body of theoretical studies on corporate governance. It is argued that, by maintaining control over corporate decisions, politicians can use the company to encourage what is called a higher national goal. The politicians may also be trying to control the company to achieve political goals and their own personal goals. The pursuit of such goals may result in the inability of shareholders to maximise the wealth of the company and thus achieve a less favourable performance. Most of the evidence obtained in the studies shows that political pressure has an influence on the performance of SOEs (Chang & Wong, 2004).

3.5.3 Regulation and Monitoring

SOEs have a long history in many developing countries, but until a few decades ago, such enterprises were largely concentrated in industries with the characteristics of national monopoly such as railroads, utilities, and the like. In the 1950s and later decades, however, most developing countries took to creating SOEs in manufacturing, banking, and trade. Some of these enterprises were created as part of a national import program as a substitute for industrialisation. Some enterprises,

especially dealing in oil and mining, came into existence as foreign owned properties and were later nationalised on a massive scale. For the most part, ideology seemed to play only a minor role. Countries that emphasised the development of a private sector, such as Brazil, Korea, and Morocco, acted about as strongly to increase SOEs as countries with a socialist bent, such as Algeria and India.

State ownership of public utilities in many countries has begun to be abandoned with the issuance of state regulations in favour of private ownership (Parker, 1999). To prevent the misuse of monopoly, the regulatory structure for businesses in telecommunications, gas, electricity and water, and sewerage sectors are in the process. UK since 1984 has privatized the major utility businesses and introduced various forms of regulations proved to be a model for other countries. It is concluded that government regulations depend on the institutional context of the regulations and that the regulatory system of in one country cannot be successfully transferred to other countries that have very different regulatory systems without proper adaptation (Parker, 1999).

Government agencies when issuing the decisions on important issues of SOEs should ensure that all necessary and relevant information has been received in a timely manner. Government agencies must also establish the means to monitor the activities and performance of SOEs constantly. Incepted should ensure that SOEs have adequate external reporting systems. The reporting system should provide an overview of the management of the entity, the performance of SOEs and the financial situation of the company, allowing them to react in a timely manner and selectively in making investments. Effective supervision over SOE performance can

be obtained by equipping the co-ordinating or ownership body with adequate accounting and auditing competencies to ensure that the communication is done right and well with the relevant counterparts, financial services institutes, external auditors and certain state supervisors.

The state, having a dominant position as the main shareholder of SOEs, has the potential to undermine some of the fundamental features of the modern enterprise. Traditionally, the main focus of SOEs is in their conformity with the rules and regulations, without putting adequate attention to the issue of performance. The focus on compliance to the rules has become a problem, because it has not gone far enough. The compliance/performance dichotomy is a major challenge for SOEs because it is not dealing effectively with the existing law problems. The application of appropriate international standards for SOE governance is still debated internationally. International standards or guidelines are needed for the development of SOE governance.

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OECD in 2005 issued guidelines for SOE's corporate governance which is intended to provide general advice to assist the government in improving the performance of SOEs. The issuance of corporate governance guidelines is needed because SOEs face the challenge of running integrated governance practices. Currently, SOEs are torn between pursuing conflicting objectives (social and commercial). The challenge is now to bring greater integration in SOEs and to ensure that they operate in a way that is less fragmented. In the case of private companies, the directors should perform their duties in the interests of the company as a whole

and not just for the sake of one shareholder or stakeholder group within the company. (Tomasic & Fu, 2006).

3.6 Underlying Theory

3.6.1 Agency Theory

Agency theory is a concept that describes the contractual relationship between principals and agents. The agency relationship is one of the oldest and most common codified modes of social interaction. This agency relationship arises between two (or more) parties when one, who is appointed as the agent, acts for, on behalf of, or as a representative of another, who is appointed principal, in a particular domain of decision problems. Basically, all contractual arrangements, as between employers and employees or the state and the governed, contain important elements of the agency (Ross, 1973).

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An agency relationship is a contract in which one or more persons (the principal) govern someone else (the agent) to perform a service on behalf of the principal and the authorized agent would make the best decisions for the principal. If the two sides have the same goal to maximize the value of the company, it is believed the agency would act in a manner consistent with the interests of the principal (Jensen & Meckling, 1976).

Agency theory is associated with the completion of two problems that can occur in an agency relationship. The first is the agency problem that arises when (a) there is a conflict between the goals of the principal to an agent, and (b) the costs (difficulty) for the principal in verifying what agents really do. The problem that arises is that the

principal cannot verify that the agent has behaved appropriately. The second is the division of risk that arises when the principal and the agent have a different attitude in terms of risk. The problem is when the principal and the agent choose different actions for different risk preferences (Eisenhardt, 1989).

Agency theory can explain how best to regulate the relationship in which one party (the principal) determines the shape of the work performed by another party (the agent). This theory argues that under conditions of incomplete information and the existence of uncertainty, a situation that characterizes most business settings, the situation raises two agency problems, namely adverse selection and moral hazard. Adverse selection is a condition in which the principal cannot be sure whether the agent has represented his ability accurately to do the job he is paid. Moral hazard is a condition in which the principal is unable to verify whether the agency has proposed a maximum effort (Eisenhardt, 1989).

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Corporate governance, in fact, is centered on the agency problems arising from the separation of management and ownership (Simanjuntak, 2001). This is the reason why the agency theory is important for the study of corporate governance. Agency theory argues that in modern enterprises, stock ownership is widely held, causing necessary managerial actions to maximize returns and secure the interests of shareholders (Berle & Means, 1932). The ideas of agency theory developed by Jensen and Meckling (1976) can be attributed to the American economist (Coase, 1930), which states that the theory only applies to the governance of the board of directors. The theoretical view based on the belief that people are more interested in themselves than altruistic that cannot be trusted to act in the best interests of others,

but rather, to maximize their own utility. The theory describes the relationship between directors and stakeholders, including shareholders as a contract. Accordingly, the board of directors, act as an agent of the stakeholders, who will make the decisions in their own interests and are therefore subject to transaction costs. Checks and balances are needed to reduce non-compliance of directors in enforcement costs.

Agency theory relates to the ownership structure of a company, how the interests of the owners are managed by the board and how the mechanisms are developed to align the interests of the owners and the executive. It is also related to the control of the mechanisms that actually work and prevent actions that are clearly not in line with the interests of the principal, such as fraud or negligence on the part of the agent. This mechanism is translated into a form of organizational structure of the board, the rules of strategy-setting and strategic decision-making processes, reporting and control mechanisms, and risk management as an integral part of the business elements.

The agency structure can be applied in a variety of settings, ranging from issues at the macro level such as regulatory policies to issues at the micro level such as blame, impression management, lying, and other expressions of self-interest. Most of agency theory is applied to organisation phenomena.

The separation between ownership and control has caused conflicts between shareholders and executives. The conflicts have also been caused by the different objectives between the management and the shareholders, and information

asymmetry between managers and shareholders. Because of the conflicts of interest, the management who runs the business have the incentive and the ability to maximise their own utility at the expense of the shareholders. Contract alone is not always sufficient to resolve this conflict (Hart, 1995). As a result, owners have the reason to establish the mechanisms to monitor the activities of the management and limit undesirable managerial behaviour (Jensen & Meckling, 1976). As a result, the development of a corporate governance structure can help shareholders in reducing agency conflicts.

The number of agency conflicts varies cross-sectional across companies depending on the convenience of the management in applying those preferences that can be contrary to maximising the value, the complexity of the operating environment of the company, and the attraction of additional income (Jensen & Meckling, 1976). Differences in agency conflicts among companies requires appropriate governance structures to tackle the problems in the respective companies. As a result, the relationship between various mechanisms of governance and the various aspects of the organisation's performance may not be uniform among companies. Consequently, in order to conduct a more meaningful analysis of the role of governance in influencing the performance of companies and other operating decisions, it is necessary to take a step back and examine how the governance mechanisms have emerged and are different from one company to another (Dey, 2008).

Most of empirical studies on corporate governance are rooted in the agency theory, and are related to the linking of various aspects of corporate governance to corporate

performance. The assumption is that by managing the principle-agent problem between shareholders and managers, the company will operate more efficiently and perform better. The main premise of this framework is that the manager as an agent and the shareholders as a principal can engage in behaviour that is selfish and may not be consistent with the principle of maximisation of the shareholder's wealth. To limit such management opportunism, shareholders may use a variety of corporate governance mechanisms, including monitoring by the board of directors and mutual monitoring by managers (Fama & Jensen 1983) as well as monitoring by large shareholders (Demsetz & Lehn 1985). In addition, the internal governance mechanism can include a variety of equity-based incentives that align managerial interests of agents and principles. Finally, external factors, such as the threat of takeover, product competition, and managerial labour markets may limit managerial opportunism (Filatotchev, 2008).

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3.6.2 Other Theories

Corporate governance consists of governance practices which can include all types of enterprises and its definition can also be extended to all economic and non-economic activities. Corporate governance literature provides some form of governance sense, but there are limitations on the exact meaning of governance. Obscurity can arise from words like control, regulate, manage, organise and governance. Because of the obscurity, there are many interpretations of governance. It may be important to consider the influence a company has or is exposed to in order to grasp a better understanding of governance. The vast influential factors of the proposed models of corporate governance can be flawed because every social scientist can form their own scope and concern.

The basic theory of corporate governance studies is the agency theory. The agency theory with many variations of governance in companies has expanded to various theories such as the theory of management, stakeholder theory, resource dependence theory, transaction cost theory, political theory, and theories related to ethics. Examples of ethical theories are the business ethics theory, virtue ethics theory, feminist ethics theory, discourse theory and postmodernism ethics theory (Abdullah & Valentine, 2009).

3.7 Summary of Literature Review

The summary of the literature review on corporate governance, government intervention and firm performance is as shown in Table 3.1:

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Table 3.1

The Summary of Literature Review

Author(s)/Year	Sample Data	Approach/Method	Results
Vafeas (1999)	The sample firms cover the period, 1990-1994. The total samples are 1382 observations for 307 firms. Source of data: COMPUSTAT database.	Cross-sectional tests of the relationship between board meetings, corporate governance and firm value.	The annual number of board meetings is inversely related to RM value.
Postma, Ees, & Sterken (2001)	Cross-sectional data for 1996 on 94 non-financial Dutch listed Manufacturing firms.	Instrumental Variable approach.	The size of the board of directors does not specify firm. Negative relationship between the size and composition (number of outsiders) of the BOC and the firm performance.
Peng (2004)	Based on an archival database (1992 – 1996) covering 405	Weighted generalised Least-squares procedure.	Outside directors do make a difference in firm performance.

	publicly listed firms and 1211 companies–years.		
Zhang, Zhou, and Zhou, (2007)	Sample period November 15, 2004 to July 31, 2005 from Compliance Week with a total sample of 208 companies.	Conditional logit analysis.	Internal control weaknesses can be identified, when the audit committee members lack expertise in accounting and finance
Cheng (2008)	1,252 firms covered in the Investor Responsibility Research Centre's (IRRC) data set over the period, 1996–2004	The empirical analysis focused on within-firm, over-time variability of corporate performance and value.	Corporate performance and value become less variable as a firm's board of directors grows larger.
Okhmatovskiy (2009)	The sample includes 450 banks in 2001, 640 in 2002, and 555 in 2003. The samples are taken from Russian Banks.	Regression analysis.	The study found that ties with SOEs are associated with higher profitability, while no significant difference was found for firms with direct links to the government.
Atmaja (2009)	Using panel data on a sample of Australian publicly listed firms over the period 2000–2005 (1,530 firm-year observations).	Simultaneous equation model.	The findings underline the important governance role that independent boards and audit committees can play in a country that has high ownership Concentration and high levels of private benefit control.
Oehmichen, Rapp, & Wolff (2009)	A hand-collected panel dataset consisting of 1,110 firm years (2004 - 2007) containing more than 5,600 BOC members of German companies	OLS regression.	A strong negative relation between business of the supervisory board members and firm performance
Guedhami, Pittman, and Saffar (2009)	176 SOEs from 32 countries: 21 emerging markets and	Collecting data from annual reports in a cross country analysis using	There is a strong, robust evidence that privatised firms

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	11 industrialized countries over the period, 1980–2002.	univariate and multivariate analysis	worldwide becomes less (more) likely to appoint a Big-Four auditor with the extent of state (foreign) ownership.
Sharma, Naiker and Lee (2009)	Listed New Zealand firms: 96 firm years that include 16 non repeat and 40 repeat companies	OLS.	The number of audit committee meetings, shows that high-growth firms meet less frequently.
Bermig and Frick (2010)	German firms listed in the DAX, MDAX and SDAX over the period 1998-2007 (n=294 companies with 2,382 firm-year-observations).	Uses estimations and the econometric model.	Find a significantly Positive influence of board size on performance.

3.8 Chapter Summary

It can be concluded that many new research topics that can be used for further studies have emerged from this limited article. Corporate governance and firm performance have been studied by many researchers but most of the research was conducted in developed countries. Studies on corporate governance and firm performance in developing countries are still limited. Studies on these topics will be very useful not only for academicians, but also for practitioners who invest in developing countries. Studies on SOEs are not new, but the existence of SOEs in developing countries is very important as these companies support the government in community development.

The literature shows that the effectiveness of SOEs is falling behind the private sector. This issue is very interesting as people know that SOEs are heavily affected by the interventions of various government agencies.

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CHAPTER 4

RESEARCH FRAMEWORK AND METHODOLOGY

4.0 Introduction

This chapter describes the methods and procedures used to study the relationship between corporate governance and firm performance with a moderating variable of government intervention. The chapter discusses the research framework of the study, the hypotheses about the relationship of variables, the design of the research to answer research questions, the collection of data, the instruments used in the research, and the methods of data analysis.

4.1 Research Framework

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The theoretical framework is a group of related ideas that provides guidance to a research project. A theoretical framework is a conceptual model that defines one relationship of several factors that have been identified as to the problems examined. These factors are referred to as variables that have been identified through the process of interviews with informants, observation, and literature review. The theoretical framework discusses the relationship between the variables that are considered integral to the dynamics of the situation being investigated. The development of a conceptual framework helps to hypothesize and test the relationships and to improve the understanding of the dynamics of the situation.

There are three basic features that should be considered in the construction of a theoretical framework (Sekaran & Bougie, 2010):

- The definitions of the variables relevant to the study,

- A conceptual model that describes the relationship between the variables, and
- A clear explanation of why the study expects that those relationships exist.

The theoretical underpinnings for most of the current framework of corporate governance come from the results of the classical work by Berle and Means (1932) which describes the agency problem in modern firms as one arising from the separation of the ownership and the control. In addition to agency theory, there are several approaches for the explanation and the organization of corporate governance. Most often the allocation of power and competence in corporate institutions is assumed to follow the American legal and political systems. Hawley and Williams (1997) indicate that there are differences in the basis of four different schools of thought, principal-agent theory (domination approach), service approach, stakeholder-approach, and the political approach. Despite the diversity of theories, their part in the debate varies and the principal agent theory plays a dominant role in the overall debate. The following is focusing on the principal-agent theory granted its dominance in the ongoing debate about the company's governance (Duhnfort, Klein, & Lampenius, 2008).

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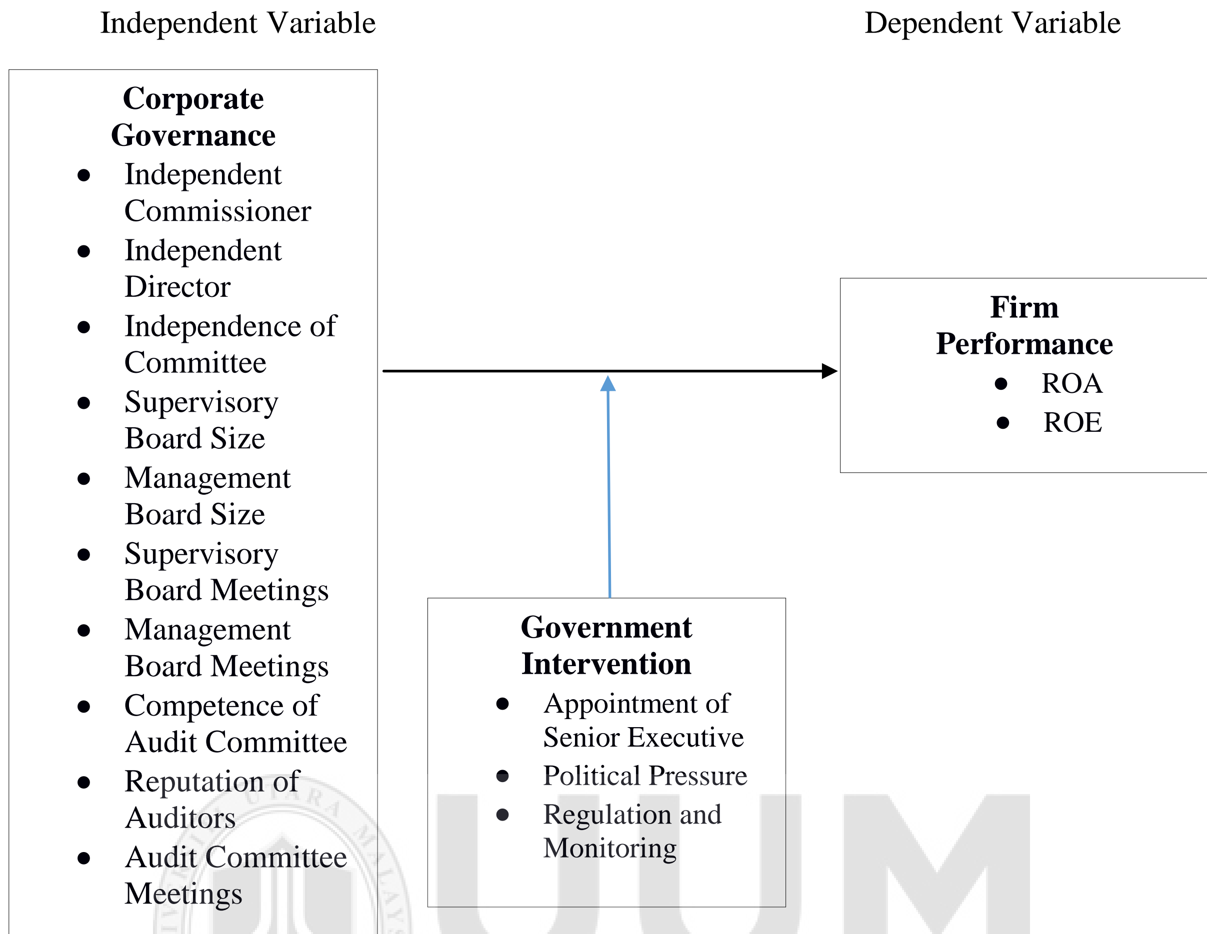

Figure 4.1. Research Framework

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Figure 4.1 shows the conceptual framework of the study which illustrates the potential relations between corporate governance, government intervention as a moderating variable with firm performance. The framework is built on the agency theory either to the relationship between corporate governance and firm performance and also with the moderating variable government intervention.

The reason for Agency theory is because it examines the relationships between agents, such as shareholders and principals or the executives who manage a company's holdings. It focuses on the problems that arise when the two encounter conflicts of interests and how to solve these problems. The principal-agent relationships are characterized by uncertainty and risk. The principal only has a

degree of certainty that the agent will be able to adequately learn or perform the task, and the principal accepts a degree of risk that the job will not be done in a manner that will help meet his or her goals because the agents are unable to do the job, shirking their responsibilities, or pursuing their goals in preference to those of the principal (Enotes, 2016).

The relationship between corporate governance, government intervention as a moderating variable with firm performance can be used to develop 10 main relationships where each relationship consists of eight detailed relations.

4.2 Hypotheses Development

The establishment of hypotheses is based on identifying variables which test the relationship between the variables. This study tested eleven main hypotheses to test the relationship between corporate governance and firm performance, government intervention and firm performance, and corporate governance mediated by government intervention and firm performance.

Good corporate governance is mainly aimed to discover a solution to the principal-agent problem. Principals are shareholders who become financial providers for the company and need some way to ensure that the agent (management) handles their investments in a manner to ensure maximum results for them as investors and other stakeholders (Ehikioya, 2009).

The corporate governance code provides a reference for the business community in implementing GCG. The code describes the steps to be taken in creating a process of

checks and balances, enforcing transparency and accountability, and promoting corporate social responsibility for the company's long-term life. Company governance codes have been published since the late 1990s and they repeatedly called for better company performance by adopting the corporate governance recommendations. This performance can be understood as a better performance of the market or a better operating performance (Bauhede, 2009).

The relationship between compliance with recommendations of corporate governance and operating performance is expected to improve the operating performance based on the argument that companies with good corporate governance structure could operate efficiently and improve their operating performance (Jensen, 1993). But in practice, the results of studies show that the relationship between governance and operating performance is mixed. Larckeret, Richardson and Tune (2005), for example, found evidence of a positive relationship between the overall metric governance (Corporate Library Board Effectiveness Rating) and the one year ahead ROA of major listed companies in the United States. Instead, Bauer, Günster, and Otten, (2004) found a negative relationship between the overall scores of governance and the operating performance of big European companies.

The agency theory is used to help explain the relationship of all corporate governance attributes in total to firm performance of Indonesian SOEs as a relation between principal and agents. In this respect, better corporate governance will lead to better firm performance.

Good corporate governance is required to obtain a better performance of the company and prevent the takeover of the controlling shareholders and ensure that better decision-making is carried out by the management (Alishah, Butt, and Hassan, 2009). The improvement expected is that stock prices will respond instantly to the news about the improvement in corporate governance. However, quantitative evidence supporting the relationship between the quality of corporate governance and the corporate performance is still relatively minimal (Asian Development Bank, 2007).

Agency theory states that better corporate governance should lead to higher stock prices or better long-term performance, because the manager is able to supervise better and there is a decrease in agency costs. However, Gompers, Ishii, and Metrick (2003) found evidence that there is a positive relationship between corporate governance and firm performance with regard to the agency explanation. Many studies have been conducted in connection with the relationship between corporate governance and performance, to find the relationship of the elements of corporate governance such as independent commissioners, independent directors, independent committees, board size and board meetings of commissioners and directors, the competence of members of the audit committee, the auditor's reputation, and audit committee meetings.

4.2.1 Independent Commissioner and Firm Performance and moderated by government intervention

Development of the first hypothesis in this study is to look at the relationship between the independent commissioner to firm performance (ROA and ROE) with

the presence of moderating variable government intervention that consisted of the appointment of senior executive, political pressure and regulation and monitoring. This relationship produces eight hypotheses.

4.2.1.1 Independent Commissioner and Firm Performance (ROA and ROE)

Independent commissioners are part of the board of commissioners who serves as a supervisor for the management (directors) of a company. The board acts as a mediator in disputes between managers and oversees internal management policy and provide advice to management (Fama & Jensen, 1983). The Independent commissioner as a member of the board has the ability to encourage the management not to perform acts that can harm the company. Based on the analysis of data from various studies conducted on listed companies in Indonesia, it can be concluded that an independent commissioner has a positive influence on the financial performance of those companies (Hapsoro, 2008; and Maryanah & Amilin, 2011,). This shows the supervision carried out by an independent commissioner is able to influence the behaviour of managers in an effort to improve company performance (Maryanah & Amilin, 2011).

Agency theory states that conflicts of interest between the agent by the principal can be reduced with proper supervision. The existence of an independent board of directors can improve the quality of the supervision function within the company. The greater the proportion of independent commissioners indicates that the supervisory function would be better. Sekaredi (2011) in his study found that the presence of independent directors had no effect on firm performance. Eulerich, Velte, and Uum (2014) on the other hand also did not found significant results of the

role of outsiders in performance as well as other various board diversity characteristics of German public firms. Germany is a country that adopts the two board tier system.

Based on the above discussion regarding thoughts about the relationship between independent commissioner and firm performance, this study will again test whether a positive relation also exists between independent commissioner and firm performance in Indonesian SOEs, with the following hypotheses:

H1a: There is a positive relationship between independent commissioner and firm performance (ROA).

and

H1b: There is a positive relationship between independent commissioner and firm performance (ROE).

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4.2.1.2 Independent Commissioner and Firm Performance (ROA and ROE) is moderated by the appointment of senior executive as an indicator of government intervention.

Placement of commissioners representing the interests of the shareholder is possible according to regulation Law No. 40/2007 on Limited Liability Companies. The rule indicates that a Commissioner affiliated with the majority shareholder of SOEs is possible and he or she will become the representation of the government. By basing on the principle of the right man on the right place, it is understandable that the government will chose commissioners of the institutions associated with the core business of SOE concerned. The problem of the appointment is to include

mechanisms to ensure the convergence of the capability and availability of time of the official, as well as aspects of professionalism and objectivity of the appointed officer.

There are other factors that affect the performance of the board in some state-owned companies where the CEO can be appointed directly by the relevant ministry without consultation with the board. These conditions occurred to companies in Russia in 2001. At that time, state controlled companies where the state is the major shareholder can nominate and ensure the newly elected CEO is a government official. Regardless of the origin of the CEO, this designation has a radical implication on the composition of the board. This designation can be used as a model in which the nomination by the state can be a positive factor for the company as a whole. By contrast, in other companies where the CEO appointment is made by the major shareholder, it only serves to reinforce the isolation of the board from the key decision-making boards because they will have less incentive to consult with the directors (Filatov, Tutkevich, & Cherkaev, 2004).

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Therefore, this study aims to analyse the relationship between the appointments of senior executives and firm performance in Indonesian SOEs in relation with independent commissioner by constructing the following hypothesis:

H1c: There is a positive relationship between independent commissioner and firm performance (ROA) moderated by appointments of senior executives.

And

H1d: There is a positive relationship between independent commissioner and firm performance (ROE) moderated by appointments of senior executives.

4.2.1.3 Independent Commissioner and Firm Performance (ROA and ROE) is moderated by the political pressure as an indicator of government intervention

Companies with political connections are companies or conglomerates which have a close relationship with the government (Gomez & Jomo, 1999). Companies with political connections are usually risk takers because those companies often use their influence to gain easier access to obtain facilities from the government such as soft loans (Yoshihara, 1988).

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The study by Hu and Leung (2008) has investigated government appointments of politically connected top management in SOEs in China and their impact on corporate operations. The results show that the government prefers executives who have a political background to alleviate distress in SOEs. They also show that there is no connection between poor corporate performance and the appointment of non-politically connected with top managers. Further, the results of the examination of post-appointment consequences indicate that political senior staff can improve firm performance in the short term and modify the internal governance structure, but not by obtaining significantly more government assistance.

Chen, Sun, Tang, and Wu (2011) found that political connections have a negative relationship with an efficiency of investments in SOEs, and they have no such

evidence for non-SOEs. The findings are consistent with the government's intervention in the appointment of top executives in SOEs with political ties, and it also reflects the different nature of political pressure between SOEs and non-SOEs.

Chang and Wong (2004) in the case of China, stated that control from the party can withstand the largest shareholder from takeover, but political pressure is not enough to control the largest shareholder. Secondly, their study also indicated that the decision-making power of local party committees relative to managers is negatively related to firm performance. This result indicates that the political costs associated with political pressure on managers are more detrimental to the performance of the firm than the agency problem, and that the level of political pressure that occurs over the managers can be termed excessive. Their conclusions indicate that excessive political pressure in decision making on local party committees should be reduced in order to improve the performance of the listed companies in China.

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Research on government intervention is mostly done in countries with transition economies such as China and Russia, and not many in developing countries. Therefore, this study examines the relationship of political pressure on the firm performance by establishing the following hypothesis:

H1e: There is a positive relationship between independent commissioner and firm performance (ROA) moderated by political pressure.

And

H1f: There is a positive relationship between independent commissioner and firm performance (ROE) moderated by political pressure.

4.2.1.4 Independent Commissioner and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of government intervention

The functions of the Ministry of SOEs (Article 106) is to help the President to formulate policy guidance and coordination in the field of SOEs are: (1) Formulation of national policy in the field of development SOE, (2) To coordinate the implementation of policies in the field of SOE development, (3) The management of property/wealth of the country, (4) Control over the execution of their duties, and (5) Submitting the evaluation report, suggestion, and consideration in the field of duty and functions of the President. Of those functions, it appears that the Minister of SOE is expected to serve as a non-executive agency and concentrate more on the preparation of regulations and ensure that the direction that had been developed could be better implemented. However, the function as the executive agency is still part of the Ministry of SOE.

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In a modern market economy, the influence of the government covers almost all areas of social life. The government cannot only affect the market economy through financial, monetary, or other macro policies, but also create rules in the field of micro enterprise development such as economic regulations. A regulation in general is a mechanism to confirm that the public interest must be respected by companies and other non-governmental organizations in their operations.

In the context of transition economies such as China, Jiang, Liang and Chen (2009) found that rules that are complex and not supported by the explicit implementation

will lead to improper implementation at the company level. This situation causes regulations to become ineffective. Likewise, regulations that are issued in a short, concentrated, powerful, and highly focused format, also do not always cause the problems of opportunism.

With limited literature available, this study analyses the relationship between regulation and monitoring, and the performance of Indonesian SOEs by constructing the following hypothesis:

H1g: There is a positive relationship between independent commissioner and firm performance (ROA) moderated by regulation and monitoring.

and

H1h: There is a positive relationship between independent commissioner and firm performance (ROE) moderated by regulation and monitoring.

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4.2.2 Independent Director and Firm Performance and Moderated by Government Intervention

Development of the second hypothesis in this study is to determine the relationship between the independent director of firm performance (ROA and ROE) with having the presence of moderating variable government intervention that consisted of the appointment of senior executives, political pressure and regulation and monitoring. The relationship produces eight hypotheses.

4.2.2.1 Independent Director and Firm Performance (ROA and ROE)

Lim, Matolcsy, and Chow (20077) argued that boards of directors which are dominated by directors of the company (inside directors), will likely to have a weak governance. This is because as an insider person, they have the obligation to monitor itself (self monitor). If the board is dominated by outsiders, it would generate stronger governance because they will act as independent witnesses. Implementation of better corporate governance is expected to improve the company's performance, which at the end will increase the company's value as desired by investors.

Peng (2004) in his study in China listed companies found that outside directors make difference in firm performance; if such firm performance is measured by sales growth. However, it has little impact on financial performance, such as ROE. The finding of Peng (2004) is consistent with Park and Luo (2001) that affiliated outside directors, mostly contribute to sales growth but not directly on firm performance. This implies that these directors may be more important in establishing external relations to make sales than to ensure a higher level of financial performance. Independent directors are often considered as a salient element of sound governance mechanisms since they represent the shareholders' interests, bring added expertise and contribute valued business relationships that should all benefit the firm (Fama & Jensen, 1983).

Based on the above discussions regarding the relationship between independent directors and firm performance, this study test whether a positive relation exists between independent directors and firm performance in Indonesian SOEs, with the following hypotheses:

H2a: There is a positive relationship between independent director and firm performance (ROA).

and

H2b: There is a positive relationship between independent director and firm performance (ROE).

4.2.2.2 Independent Director and Firm Performance (ROA and ROE) is moderated by appointment of senior executive as an indicator of Government Intervention

The Board of Directors is an organ that carries out and plays an important role in determining the reciprocation of a company. Directors are elected at the general meeting of shareholders and are generally recruited from within (insider) or associated with the owners and professionals recruited from outside (outsider). The outside directors are defined as directors who are not members of the management team. Fama and Jensen (1983) argue that outside directors generally care about their reputations and social status, thus have incentives to monitor the management and ensure the effective running of the company.

Board of directors in publicly listed firms in China consists mainly of representatives or officials from the government and other state enterprises, whose interests may not be in line with those of outside investors. Board members no doubt cares more about carrying out the wishes of the government, such as avoiding worker layoffs and maintaining some level of worker social security than about the concerns of shareholders. As a result, internal governance mechanisms, such as the number of outside directors on the board and the number of outside supervisors on the supervisory committee, may influence firm performance (Lin, Ma, & Su, 2009)

Therefore, this study aims to analyse the relationship between independent director and firm performance in Indonesian SOEs moderated by appointment of senior executives by constructing the following hypothesis:

H2c: There is a positive relationship between independent director and firm performance (ROA) moderated by appointments of senior executives.

and

H2d: There is a positive relationship between independent director and firm performance (ROE) moderated by appointments of senior executives.

4.2.2.3 Independent Director and Firm Performance (ROA and ROE) is moderated by political pressure as an indicator of Government Intervention

Political pressures and government interference can lead to sub-optimal allocation of resources and poor firm performance. The government usually interferes with SOEs' operations and investments (e.g., employment policy and directing mergers and acquisitions). As a result, SOEs tend to emphasise multiple objectives that diverge from profitability and consequently maintain surplus labor employment that is not based on efficiency or effectiveness considerations (Ho, Yang & Li, 2009).

Regulatory policies on SOEs are uniform and rigid that can lead to inflexible and inefficient of internal corporate governance (Chen et al., 2005). The regulatory authority does not seriously enforce the policy, so controlling shareholders and managers have more motivation to extract their private interests than we see in private enterprises (Li et al., 2004; Aharony, Lee, and Wong, 2000).

With limited literature available, this study analyses the relationship between regulation and monitoring, and the performance of Indonesian SOEs by constructing the following hypotheses:

H2e: There is a positive relationship between independent director and firm performance (ROA) moderated by political pressure.

and

H2f: There is a positive relationship between independent director and firm performance (ROE) moderated by political pressure.

4.2.2.4 Independent Director and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of Government Intervention

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SOEs are sometimes expected to fulfil special responsibilities and obligations for social and public policy purposes. In some countries, this includes a regulation of the prices at which SOEs have to sell their products and services. These special responsibilities and obligations should be clearly mandated and motivated by laws and regulations. They could also be incorporated into corporate bylaws. The market and the general public should be clearly informed about the nature and extent of these obligations, as well as about their overall impact on the SOEs' resources and economic performance.

The primary objective of developing equity markets in China is to help SOEs relax their external financing constraints. The regulations introduced have been asymmetrically in favour of SOEs or companies with close ties to the government.

SOE firms that go public sees that government regulations could serve them as an effective governance mechanism, especially when the law and law enforcement are weak or insufficient (Glaeser, Johnson, & Shleifer, 2001). Since the legal infrastructure is particularly weak in China, Pistor and Xu (2005) argue that the so-called "administrative governance" has played an active and positive role in the development of the Chinese stock markets, at least in the early stage. However, more recent evidence shows that government regulations are also the source of many problems (Tong, Junarsin, & Davidson III, 2013).

With limited literature available, this study analyses the relationship between regulation and monitoring, and the performance of Indonesian SOEs by constructing the following hypothesis:

H2g: There is a positive relationship between independent director and firm performance (ROA) moderated by regulation and monitoring.

and

H2h: There is a positive relationship between independent director and firm performance (ROE) moderated by regulation and monitoring.

4.2.3 Independence of Committee and Firm Performance and Moderated by Government Intervention

Development of the third hypothesis in this study is to determine the relationship between the independence of the committee to firm performance (ROA and ROE) with the presence of moderating variable government intervention that consisted of

the appointment of senior executive, political pressure and regulation and monitoring. The relationship produces eight hypotheses.

4.2.3.1 Independence of Committees and Firm Performance (ROA and ROE)

Firms establish committees for a number of reasons. For example, some committees are formed to evaluate and reward top management (e.g., compensation committee). Others exist in order to advise the CEO in his/her decisions (e.g., finance and investment committees). Another group of committees exists to ensure that the firm is in compliance with regulations and external factors (e.g., audit and environmental committees) (Hayes, Mehran & Schaefer; 2004).

Board members are also part of the various committees. Therefore, it is beneficial to examine the various aspects of committees. The government of New Zealand recommends that companies should have audit committees and remuneration committees to oversee the audit of financial statements and to set up remuneration for executive officers and directors. The committees are important to ensure that the financial procedure is carried out well and the directors are appropriately compensated, hence mitigating any agency problems (Fauzi & Locke, 2012).

Fauzi and Locke (2012) found that the board committees show a positive and significant relationship with firm performance. They suggest that the existence of the board committees can increase firm performance. Board committees are seen to be an important mechanism for reducing agency costs, hence improving firm performance.

Based on the above discussion, this study determines whether a positive relation exists between the independence of committee and firm performance in Indonesian SOEs, with the following hypotheses:

H3a: There is a positive relationship between independence of committees and firm performance (ROA).

and

H3b: There is a positive relationship between independence of committees and firm performance (ROE).

4.2.3.2 Independence of Committees and Firm Performance (ROA and ROE) is moderated by the appointment of senior executive as an indicator of Government Intervention

A Board Committee has the duty to oversee and supervise as well as advise the Board of Directors and the Board of Commissioners. The Indonesian CG Code (2006) recommends the establishment of certain Board Committees such as an Audit Committee, Risk Policy Committee, Nomination and Remuneration Committee. The primary task of these committees is to assist the Board of Directors functions. The number of members of a Board of Commissioners committee is determined by the Board of Commissioners. In every committee, at least one member should be a member of the Board of Commissioners and at least one member should fulfil all the conditions of an independent commissioner.

The management of SOEs in Indonesia over the past several decades is closely linked to the direct and indirect intervention of the government and its authorised

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agencies in aspects of management and supervision. The office of the Minister of SOEs plays an active role in the process of selection and placement of candidates for the directors and commissioners.

The boards of commissioners and its committees have an important contribution to make in addressing the obstacles to and challenges in reforming the corporate governance of SOEs. However, the findings reported in this study indicate that in terms of internationally accepted principles of corporate governance, the roles, responsibility and relationships of the two boards lack clarity; and that boards of commissioners are not playing significant roles in applying corporate governance to SOEs. This has important implications for the operation of state-owned enterprises and their control of major resources for the development of Indonesia (Sari, Halligan & Sutiyono, 2010)

Therefore, this study analyses the relationship between the appointments of senior executives and firm performance in Indonesian SOEs in relation with the independence of the committees by constructing the following hypotheses:

H3c: There is a relationship between independence of committees and firm performance (ROA) moderated by appointments of senior executives.

and

H3d: There is a relationship between independence of committees and firm performance (ROE) moderated by appointments of senior executives.

4.2.3.3 Independence of Committees and Firm Performance (ROA and ROE) is moderated by political pressure as an indicator of Government Intervention

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The evidence to date on whether political connections enhance firm value is mixed. Goldman, Rocholl, and So (2009) found that political connections obtained through board members add to the value of U.S. firms. Faccio (2006) also found a positive relation between such connections and firm value. As an interesting contrast, Fan, Wong, and Zhang (2007) report that Chinese firms with politically connected under perform those without in terms of firm performance. Cross-country analysis performed by Faccio (2006) and Boubakri, Cosset, and Saffar (2008) suggests that politically connected firms exhibit poor accounting performance compared to their unconnected counterparts (Chen, Luo, & Zhang, 2013).

Similar in their structure and functions, boards of directors in SOEs often do not engage in the same activities they undertake in private companies. SOEs' boards may act as a kind of parliament that represents the interests of employees, various ministries, and in some cases, non-state shareholders. In SOEs, state ownership and government control are governance challenges that might contribute to poor performance. However, efforts to improve corporate governance in SOEs have been weaker than in the private sector, where changes were extensive over the last two decades.

With limited literature available, this study analyses the relationship between political pressure, and the performance of Indonesian SOEs by constructing the following hypothesis:

H3e: There is a positive relationship between independent director and firm performance (ROA) moderated by political pressure.

and

H3f: There is a positive relationship between independent director and firm performance (ROE) moderated by political pressure.

4.2.3.4 Independence of Committees and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of Government Intervention

Board committees are formed to help the board of commissioners to oversee the performance of various company functions which is required for the commissioner in carrying out its duties. The duties and responsibilities of each committee should be recorded in a charter. Each committee should perform the duties and responsibilities professionally and independently, without interference from any party that does not comply with the legislation. The role of this independent committee is needed to help supervise the observance of the company in meeting the regulation (internal and external) to achieve the vision and mission of the company.

In the analysis of the effects of corporate governance practices and legal requirements for performance in 23 countries, Bruno and Claessens (2010) found consistent evidence that companies adopting good corporate governance practices in the form of independent boards with many committees perform the best in any legal regime. Further, less entrenched boards and better governance, transparency positively impact performance only in countries with low country investor protection. The effects of stringent country legal corporate governance requirements are neutral or negative. Companies with strong boards are valued less in the presence of strong country legal investor protection, consistent with the hypothesis that

excessive monitoring can harm managerial initiatives and hinder efficient company operations. At the same time, strong country legal investor protection does not reduce the valuation discount of companies with weak corporate governance practices.

Therefore, this study analyses the relationship between regulation and monitoring and firm performance in Indonesian SOEs in relation with the independence of the committees by constructing the following hypothesis:

H3g: There is a positive relationship between independence of committees and firm performance (ROA) moderated by regulation and monitoring.

and

H3f: There is a positive relationship between independence of committees and firm performance (ROE) moderated by regulation monitoring.

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4.2.4 Supervisory Board Size and Firm Performance and Moderated by Government Intervention

Development of the fourth hypothesis in this study is to determine the relationship between the supervisory board size to firm performance (ROA and ROE) with the presence of moderating variable government intervention that consisted of the appointment of senior staff, political pressure and regulation and monitoring. The relationship produces eight hypotheses.

4.2.4.1 Supervisory Board Size and Firm Performance (ROA and ROE)

Company Law (2007) determines that a limited liability company must form a board of commissioners whose members must be at least one person. The legislation also allowed a company to have more than one member. However, the Company Law (2007) does not specify the maximum limit on the number of members of the Board of Commissioners.

Postma et al. (2001) in their study of the composition of the Board and Firm Performance in the Netherlands found no relationship. These findings support the findings obtained by Yermack (1996) and show that small boards are more effective than big ones. Their observation found that the size of the supervisory board has a negative impact on firm performance.

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Hapsoro (2008) in his study on listed companies in Indonesia found that board size has a positive effect on firm performance. Meanwhile, Wardhani (2006) states that companies with large size BOCs are less able to do coordination, communication, and make better decisions compared to companies with smaller size boards. Moreover, larger boards have lower firm values compared to smaller boards. A larger supervisory board tends to meet more frequently, and the joint effect of meeting frequency and the size of the supervisory board should be taken into account.

The assessment of the relationship between board size and firm performance has a mixed result. This study reviews the relationship of board size on firm performance in Indonesian SOEs by establishing the following hypotheses.

H4a: There is a relationship between supervisory board size and firm performance (ROA).

and

H4b: There is a relationship between supervisory board size and firm performance (ROE).

4.2.4.2 Supervisory Board Size and Firm Performance (ROA and ROE) is moderated by appointment of senior executive as an indicator of Government Intervention

Companies should choose a supervisory board size that will enable it to hold productive and constructive discussions, make prompt and rational decisions, and efficiently organise the work of its committees. The number of Commissioners should be guided by legal requirements, the specific needs of the company and its shareholders. The function of the board is needed for management oversight.

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The determination to become a member of the Board of Commissioners on SOEs in Indonesia is conducted through a decision made by the ministry of SOE in fully government owned companies. However, for privatised SOEs the determination of board members is based on the GMoS or on a circular base of the shareholders.

Jensen (1993) found that a smaller size of the board is more effective in monitoring management performance. Larger size boards have greater emphasis on courtesy (politeness and courtesy) and harder to control. According to Jensen (1993), the board should consist of no more than eight people. Each member of the board cannot act alone in the line of duty and should be based on the decision of the board.

However, for a company that collect funds from the public has to have a bigger size board in order to prevent the misuse of public interest (Jensen, 1993).

According to Astrini, Biekayanti, Suhardjanto (2015) that the size of the supervisory board has no effect on firm performance. Umar (2014) on the other hand found a positive relationship effect, but not significant on firm performance.

Therefore, this study analyses the effect of appointment of senior executives on the relationship between the supervisory board size and firm performance in Indonesian SOEs by constructing the following hypotheses:

H4c: There is a relationship between supervisory board size and firm performance (ROA) moderated by appointments of senior executives.

and

H4d: There is a relationship between supervisory board size and firm performance ROE moderated by appointments of senior executives.

4.2.4.3 Supervisory Board Size and Firm Performance (ROA and ROE) is moderated by political pressure as an indicator of Government Intervention

Company Law No. 40 of 2007 requires that the Articles of Association to put at least one independent commissioner and one commissioner from the majority owner. It is expected with the appointment of an independent commissioner, he or she can act as an umpire within the company. In addition, independent commissioner could avoid conflicts of interest between majority and minority shareholders. In a company, the

commissioner is expected to be a counterweight to the decisions made by majority shareholders, so as to represent the minority shareholders. This is to undertake the interests of minority shareholders so that they are not neglected.

Indonesia is one of the countries in the world where the role of the state in the economy is relatively strong. This, is indicated by the large number of SOEs. However, the state's role is increasingly shrinking. Excessive state role in the economic system is often considered by various kinds of distortions that lead to inefficiencies. Therefore, there is a belief that one of the important steps to improve competitiveness is to reduce state intervention in the economy, which in the context of ownership of the SOEs is indicated by the privatisation policies (Daniri & Prasethiantoko, 2009).

Therefore, this study aims to analyse the relationship between supervisory board size and firm performance in Indonesian SOEs in relation with political pressure as a moderator by constructing the following hypotheses:

H4e: There is a relationship between supervisory board size and firm performance (ROA) moderated by political pressure.

and

H4f: There is a relationship between supervisory board size and firm performance (ROE) moderated by political pressure.

4.2.4.4 Supervisory Board Size and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of Government Intervention.

Post's failure of corporate governance in many countries in the early 2000s, critics are calling for a reform of the law and the practice of good corporate governance. Some countries have responded by issuing strict mandatory regulations (Sarbanes-Oxley Act in the US), while there are countries that do it more flexible, namely the voluntary approach to corporate governance practices (recommendation Cadbury in the UK). These country reforms, however, may not represent optimal public policy design to address corporate governance failures, but rather be due to other forces, including regulatory capture and political economy pressures (Bruno & Claessen, 2009).

Among the role of a regulator in a firm is the preparation of policies and regulations as well as in the supervision to sustain national economic stability (IFC, 2014). The rules of corporate governance in Indonesia are generally voluntary (voluntary) and the government will not interfere with the process of governance in the company.

Bruno and Claessen (2009) found consistent evidence that companies adopting good corporate governance practices in the form of independent boards have a better firm performance in any legal regime.

Therefore, this study analyses the relationship between supervisory board size and monitoring and firm performance in Indonesian SOEs in relation to regulation and monitoring by constructing the following hypotheses:

H4g: There is a positive relationship between supervisory board size and ROA moderated by regulation and monitoring.

and

H4h: There is a positive relationship between supervisory board size and ROE moderated by regulation and monitoring.

4.2.5 Management Board Size and Firm Performance and Moderated by Government Intervention

Development of the fifth hypothesis in this study is to look at the relationship between the management board size to firm performance (ROA and ROE) with having the presence of moderating variable government intervention that consisted of the appointment of senior staff, political pressure and regulation and monitoring. The relationship will produce eight hypotheses.

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4.2.5.1 Management Board Size and Firm Performance (ROA and ROE)

Darmadi (2011) found evidence that the size of the board of management is positively related to firm performance. This indicates that larger boards allow Indonesian listed companies to handle their business with greater complexity. Larger boards size has more expertise and experience that benefit the firm's performance.

Hapsoro (2008) in his study on listed manufacturing companies in Indonesia found that the size of the board of directors has a positive effect on a company's performance. The positive result indicates that the agency theory has provided a strong theoretical basis for the relationship between corporate governance and corporate performance.

Kumar and Singh (2013) in their study of companies listed on the Bombay Stock Exchange in India, found a negative relationship between the size of the board of directors and the firm performance. They also found a significant difference between smaller size boards and larger size boards on the firm performance. They found that the smaller size board of directors has a higher firm performance than the larger board size.

Several empirical studies claim that board size is an important determinant of firm performance. However, the nature of this relationship is the subject of an ongoing debate. According to Pearce and Zahra (1992), large board size strengthens the board of directors' control capacity, hence higher firm performance. Owing to its diversified structure, a board composed of a large number of directors provides a wider range of useful contacts, brings in added expertise and should counterbalance the managers' dominance of the board. Dalton et al. (1999), also found that firms with a large board of directors have better firm performance.

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The relationship between the size of the management board and firm performance among Indonesian SOEs is tested by developing the following hypotheses:

H5a: There is a positive relationship between management board size and firm performance (ROA).

and

H5b: There is a positive relationship between management board size and firm performance (ROE).

4.2.5.2 Management Board Size and Firm Performance (ROA and ROE) is moderated by the appointment of senior executives as an indicator of Government Intervention

The focus of regulation does not lie in shareholder wealth maximization; rather, the regulator is charged with ensuring the safety and health of the companies. Pressure on the regulations is to encourage companies to use a higher degree of monitoring, together with the approach of best practice. Basically, regulation and governance can work together to ensure effective governance structure (Bechera & Frye, 2008).

Bechera and Frye (2008) found that regulated firms do not have significantly lower levels of monitoring. These firms have greater proportions of monitoring directors and larger boards appears to be a complement to regulation.

Therefore, this study analyses the relationship between the management board size and firm performance in Indonesian SOEs moderated by appointment of senior executives by constructing the following hypotheses:

H5c: There is a positive relationship between management board size and firm performance (ROA) moderated by the appointment of senior executives.

and

H5d: There is a positive relationship between management board size and firm performance (ROE) moderated by the appointment of senior executives.

4.2.5.3 Management Board Size and Firm Performance (ROA and ROE) is moderated by political pressure as an indicator of Government Intervention

Politically connected firms are firms where at least one member on its board of directors is: (i) a former cabinet minister, (ii) a serving or former Member of Parliament, or (iii) a current or former senior civil servant of the government. The operating performance of companies run by politically connected CEOs was also consistently worse than that of otherwise comparable firms. Political connection may add value to either the connected firms and/or their managers. Politically connected firms may benefit through easier access to debt financing, lower taxes, or stronger market power (Ang, Ding & Thong, 2013).

The study of Fan, Wong and Zhang (2014) has provided support for the argument that bureaucrats and politicians CEOs extract resources from listed SOEs under their control to fulfill objectives that are not consistent with firm value maximisation.

However, this study analyses the relationship between management board size and firm performance in Indonesian SOEs in relation with political pressure as a moderator by the following hypotheses:

H5e: There is a positive relationship between management board size and firm performance (ROA) moderated by political pressure.

and

H5f: There is a positive relationship between management board size and firm performance (ROE) moderated by political pressure.

4.2.5.4 Management Board Size and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of Government Intervention

Allocation and exercise of power and decision-making in the corporate governance structure lie on managers, shareholders, and employees. In the structure of tripartite law, such as company law, securities regulation, and labour relations laws, define the judicial relations between these groups and thus establish the core of corporate governance as the main characteristics of the national political economy. The core structure of corporate governance will differ substantially in different types of organizations political economy in Indonesia.

Bechera and Fryec (2008) suggest that regulation and governance complements each other where regulators may pressure firms to adopt effective monitoring structures. The regulatory pressure hypothesis provides an explanation for some often puzzling empirical findings in the literature concerning whether regulation substitutes for governance. Essentially, they conduct a natural experiment examining whether firms utilise governance systems and high levels of monitoring mechanisms when information asymmetry and managerial discretion are limited. Given that such monitoring is costly, firms were expected to use less or none if such monitoring were not important. However, the results are not consistent with the substitution notion, implying governance systems appear important to shareholders and regulation does not replace traditional monitoring.

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Therefore, the following hypotheses analyses the relationship between management board size and firm performance in Indonesian SOEs moderated by regulation and monitoring:

H5g: There is a positive relationship between management board size and firm performance (ROA) moderated by regulation and monitoring.

and

H5h: There is a positive relationship between management board size and firm performance (ROE) moderated by regulation and monitoring.

4.2.6 Supervisory Board Meetings and Firm Performance Moderated by Government Intervention

Development of the sixth hypothesis in this study looks at the relationship between the supervisory board meetings to firm performance (ROA and ROE) with having the presence of moderating variable government intervention that consisted of the appointment of senior staff, political pressure and regulation and monitoring. The relationship produces eight hypotheses.

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4.2.6.1 Supervisory Board Meetings and Firm Performance (ROA and ROE)

Listed companies in countries that embrace the two tier corporate governance structure are required to have two forms of boards: The Board of Commissioners and the Board of Directors. The Board of Commissioners has an oversight function which oversees the Board of Directors and the management. Conceptually the two-tier corporate governance structure should encourage the presence of outsiders to supervise the management. The role of the outsider's act as the incentive and the

ability of agencies to control the internal governance, management, which is not independent from the external discipline, including legal infrastructure, activities of shareholders, executive compensation, external audit, and the takeover market (Cho and Rui, 2009).

Choi and Rhui (2009) in their study in China found that the frequency of meetings of the supervisory board is expected to have a positive effect. Their study indicates that the two levels of internal corporate governance structure that is the supervisory board and the board of directors, has the ability to affect the performance of the firm. They also indicated that the frequency of meetings of the supervisory board has a positive effect on firm performance. Large supervisory boards in China tend to meet more frequently, and the combined effect between the frequency of meetings and the size of the supervisory board support the performance of the company (Ding, Wu, Li, & Jia, 2009).

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The relationship between supervisory board meetings and firm performance in this study, especially for SOEs re-examined the following hypotheses:

H6a: There is a positive relationship between supervisory board meetings and firm performance (ROA).

and

H6b: There is a positive relationship between supervisory board meetings and firm performance (ROE).

4.2.6.2 Supervisory Board Meetings and Firm Performance (ROA and ROE) is moderated by the appointment of senior executives as an indicator of Government Intervention

In the literature of corporate governance, there is a notion that government intervention (appointment of senior executives) in the decision-making process within the company can harm the performance of the company (Chang & Wong, 2002). By retaining control over the company's decision-making processes, politicians or bureaucrats can use the company to pursue a higher national goal. They also may try to control the company to achieve their political goal for their own personal interest. Their influence can lead to the inability of the company to maximise shareholder's wealth and further can also be decisively affected the firm's performance.

Fan, Huang, Gee and Zhao (2009) in their study on China public listed companies found evidence that companies that assign former civil servants in the board system under perform then privetised listed companies. This is because of different strategic choices in managing the company. Tong, Junarsin and Davidson III (2013) found that SOE firms in China with larger boards, meet less often than do private firms Therefore, this study analyses the relationship between supervisory board meetings and firm performance in Indonesian SOEs in relation with the appointment of senior executives as the moderator by constructing the following hypotheses:

H6c: There is a relationship between supervisory board meetings and firm performance (ROA) moderated by the appointment of senior executives.

and

H6d: There is a relationship between supervisory board meetings and firm performance (ROE) moderated by the appointment of senior executives.

4.2.6.3 Supervisory Board Meetings and Firm Performance (ROA and ROE) moderated by political pressure as an indicator of Government Intervention

An essential way that a board exerts its influence on its firm is coming through decisions and plans made at board meetings. In other words, the members of the board of a firm have to attend their board meetings to monitor, stipulate and supervise the firm or to make strategic decisions for it. Failure to regularly attend board meetings can be seen as a member is unwilling or unable to fulfill his/her duties. Hence, attending board meetings is to accomplish a director's responsibility and should be associated with subsequent higher firm performance (Chou, Yung & Yin, 2013).

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Political pressure on SOEs in Europe is found to jeopardise the performance of the companies. Allowing politicians to sit on the board could seriously undermine the purpose of privatisation. Supporting a strong political connection in local public utilities can also destroy the positive effects of the reform of the sector (i.e. The process of corporatisation or attempt to introduce competition) as expected. (Menozzi, Urtiaga, and Vannonni, 2010).

Therefore, this study analyses the relationship between supervisory board meetings and firm performance in Indonesian SOEs in relation with political pressure as a moderator by constructing the following hypotheses:

H6e: There is a positive relationship between supervisory board meetings and firm performance (ROA) moderated by political pressure.

and

H6f: There is a positive relationship between supervisory board meetings and firm performance (ROE) moderated by political pressure.

4.2.6.3 Supervisory Board Meetings and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of Government Intervention

Internal mechanisms primarily include issues related to the supervisory board and the management board of the firm while external mechanisms include the market for corporate control and the legal/regulatory structure. Due to the recent corporate governance scandals, such as Enron and WorldCom, it was believed that aspects of both internal and external governance mechanisms failed and therefore new governance rules were mandated by many countries and stock exchanges to improve the quality of corporate governance. The main changes imposed by the Sarbanes-Oxley legislation (SOX) was meant to strengthen financial disclosure and internal governance mechanisms. The new rules have an impact on several areas of the corporate governance mechanism. One of the impact is related to the requirement of the boards to hold regular executive sessions without management being present. Aggarwal and Williamson (2006) found that new regulations mandated by the US Congress and exchanges were associated with higher firm performance.

Therefore, this study analyses the relationship between supervisory board meetings and firm performance in Indonesian SOEs in relation with regulation and monitoring as a moderator by constructing the following hypotheses:

H6g: There is a positive relationship between supervisory board meetings and firm performance (ROA) moderated by regulation and monitoring.

and

H6h: There is a positive relationship between supervisory board meetings and firm performance (ROE) moderated by regulation and monitoring.

4.2.7 Management Board Meetings and Firm Performance Moderated by Government Intervention

The seventh hypothesis in this study looks at the relationship between the management board meetings and firm performance (ROA and ROE) with moderating variable of government intervention that consisted of the appointment of senior staff, political pressure and regulation and monitoring. Such relationship produces eight hypotheses.

4.2.7.1 Management Board Meetings and Firm Performance (ROA and ROE)

Vafeas (1999) found that the frequency of management board meetings is related to firm performance and is consistent with the agency theory. He found that the firm performance improves in the next year after abnormally high board meetings.

Ntim and Osei (2011) have found that there is a statistically significant and positive relationship between the frequency of board meetings and firm performance. The

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findings imply that the boards in South Africa tend to meet more often in order to generate higher financial performance. Further investigation also showed a significant non-monotonic link between the frequency of board meetings and corporate performance. This shows that meetings of small boards or larger boards have a positive impact on firm performance.

Based on the experience of former studies, this study test testing the relationship of management board meetings and firm performance by considering the following hypotheses:

H7a: There is a positive relationship between management board meetings and firm performance (ROA).

and

H7b: There is a positive relationship between management board meetings and firm performance (ROE).

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4.2.7.2 Management Board Meetings and Firm Performance (ROA and ROE) is moderated by the appointment of senior executives as an indicator of Government Intervention

Former bureaucrats have a deep understanding of government processes, and many maintain close ties to their colleagues in government even after their departure from the civil service. In some countries, close ties to the bureaucracy are a mixed blessing. Well-connected companies benefit from preferential access to capital markets and reduced red tape (Rui & Zhao, 2008). There is also anecdotal evidence to suggest that government officials encourage connected companies to pursue

strategies that may not be in the best interest of shareholders. Some connected companies are required to absorb excess labor and help jump-start local industries (Young, 2000). Because well-connected companies face more attractive business opportunities and greater social obligations, the net impact of bureaucratic ties on financial performance is not obvious (Fan, Huang et al., 2009).

Therefore, this study analyses the relationship between the management board meetings and firm performance in Indonesian SOEs moderated by the appointment of senior executive in the following hypotheses:

H7c: There is a positive relationship between management board meetings and firm performance (ROA) moderated by the appointment of senior executives.

and

H7d: There is a positive relationship between management board meetings and firm performance (ROE) moderated by the appointment of senior executives.

4.2.7.3 Management Board Meetings and Firm Performance (ROA and ROE) is moderated by political pressure as an indicator of Government Intervention

An important measure of corporate boards' monitoring power and effectiveness is the frequency of board meetings (Jensen 1993). The continuing public and academic debate on the company's board meeting is testified to the view that the frequency of board meetings could affect the firm's performance. The effect of board meetings on

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firm performance may not just vary by firmlevel characteristics, but also by variations in country-specific corporate governance, institutional and legal practices (Ntim & Osei, 2011).

Political influence in the nomination process is still strong in developing countries. The key challenge is to prevent the process to degenerate into a situation characterized as political interference. The political interference goes either through the nomination process itself, involving a complex political negotiation among different government organs, or through direct nomination of political appointees. This is often identified as a main weakness of SOE corporate governance, as too often Boards are populated with people chosen for their political allegiance rather than business acumen (Vagliasindi, 2008).

Political pressure are connections with political parties, political actors and the government. Political pressure can give firms many forms of benefits such as preferential treatment by government-owned businesses (including banks and raw material producers), lower tax rates, preferential treatment in competitions for government contracts, less stringent regulatory oversight of the company in question or stiffer regulatory oversight of its rivals, and much more. Several studies have demonstrated positive impact of political pressure on firm performance (Dicko & El Ibrami, 2013).

Therefore, this study analyses the relationship between management board meetings and firm performance in Indonesian SOEs moderated by political pressure in the following hypotheses:

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H7e: There is a positive relationship between management board meetings and firm performance (ROA) moderated by political pressure.

and

H7f: There is a positive relationship between management board meetings and firm performance (ROE) moderated by political pressure.

4.2.7.4 Management Board Meetings and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of Government Intervention.

Numerous studies in Western settings have suggested that firm performance is affected by the management board such as the proportion of outside board members and frequency of board meetings (Vafeas, 1999; Fan, Cho & Rui, 2009). Vafeas (1999) found that the management board of a company increases their activity after having a decline in performance. The effect implies that board meetings are very beneficial for the performance of the firm. The intensity of the activities of the board of directors will have an impact on the company's performance (Fan, Cho & Rui, 2009).

By considering corporate governance as a problem of regulation, it is realized that there is a trade-off between effort inducement (due to moral hazard) and informational rent (due to adverse selection). The regulator faces moral hazard and adverse selection. The regulator is unable to monitor the firm's effort to reduce costs and has less information than the firm about technology. A framework for a quantitative indicator based on functional and technical quality is applied to follow best practices. It represents an enhancement to market efficiency and a strategic tool

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for management to evaluate corporate governance. The effectiveness of board meetings and the number of board meetings are variables included in the Corporate Governance Code Rating System (Betta & Amenta, 2004)

Therefore, this study analyses the relationship between management board meetings and firm performance in Indonesian SOEs moderated by regulation and monitoring in the following hypotheses:

H7g: There is a positive relationship between management board meetings and firm performance (ROA) moderated by regulation and monitoring.

and

H7h: There is a positive relationship between management board meetings and firm performance (ROE) moderated by regulation and monitoring.

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4.2.8 Competence of Audit Committee and Firm Performance Moderated by Government Intervention

The eight hypotheses in of this study determine the relationship between the competence of the audit committee and firm performance (ROA and ROE) with having the presence of moderating variable government intervention that consisted of the appointment of senior staff, political pressure and regulation and monitoring. The relationship produces eight hypotheses.

4.2.8.1 Audit Competence and Firm Performance (ROA and ROE)

Audit Committee is a body set up by the board of directors, which consists of at least one commissioner and two experts who are not employees (IFC, 2014). The specific

role of the committee is to protect the interests of shareholders in relation to the financial supervision and control (Mallin 2007). The Audit Committee has to assist the board in overseeing the company's financial reporting process, reviewing the financial reports, including internal accounting controls and auditing, and more recently, performing the practices of risk management.

By using multivariate analysis, Aldamen et al., (2012) have shown that the number of members of the Audit Committee and their skill levels have a positive impact on firm performance. This means that companies that have more members with financial expertise will achieve better performance. The accounting performance can be positive (better) in a shorter period with the presence of an experienced Audit Committee having expertise in accounting and finance.

The analysis of Gendron et al. (2004) indicates that the competence of the Audit Committee is to some extent is related to the background that the members possess in terms of expertise and independence, which is consistent with the present regulatory approach. The Audit Committee regulation consists more or less coercively of specifying prime features needed by the members, especially in terms of expertise and independence.

To determine the relationship between the competence of the Audit Committee and the SOE firm performance, the hypotheses are constructed as follows:

H8a: There is a positive relationship between the competence of audit committee members and firm performance (ROA).

and

H8b: There is a positive relationship between the competence of audit committee members and firm performance (ROE).

4.2.8.2 Competence of Audit Committee and Firm Performance (ROA and ROE) is moderated by the appointment of senior executives as an indicator of Government Intervention.

The audit committee is one of several committees established by the supervisory board. The board by having the committees can work more appropriate in a complex business environment. The Board should delegate some of their duties to the audit committee in supervising internal control and financial reporting. The existence of these committees is beneficial to the Board of Commissioners since they focus on special areas of the firm. The practice prevailing in the international community suggested that the members of these committees are filled by the independent board members. These rules have been accommodated by the Jakarta Stock Exchange (JSX) and OJK in the issuance of specific rules governing the audit committee within the framework of Good Corporate Governance (Utama, 2004).

The objective of the audit committee formation in the corporate governance structure is to increase the firm's accountability and transparency to its stakeholders by providing a more relevant and reliable financial information. Therefore, the implementation of an effective internal governance structure, i.e. board of commissioners and the audit committee in a company should have a positive impact on firm performance (Hermawan, 2011).

Therefore, this study analyses the relationship between competence of audit committees and firm performance in Indonesian SOEs in relation with appointment of senior executives as a moderator by constructing the following hypotheses:

H8c: There is a positive relationship between competence of audit committee and firm performance (ROA) moderated by the appointment of senior executives.

and

H8d: There is a positive relationship between competence of audit committee and firm performance (ROE) moderated by the appointment of senior executives.

4.2.8.3 Competence of Audit Committee and Firm Performance (ROA and ROE) is moderated by political pressure as an indicator of Government Intervention.

An audit committee has a dynamic monitoring role to ensure the quality of financial reporting and firm's accountability. The audit committee is a link between the board of directors and the external auditor in avoiding any information asymmetry between them. Audit committees are intended to monitor the financial reporting process and constrain opportunistic managerial reporting. This role reflects the agency theory and the need to monitor managers (agents) to reduce their ability to extract payments from the firm. Due to this monitoring role, numerous regulators have highlighted the importance of audit committees. The chairman of the security exchange commission in 2000 has echoed the advice of the Blue Ribbon Commission stated that the most reliable guardians of the public interest is a competent, committed, independent and

tough-minded audit committee. Further, SOX requires that firms must have fully independent audit committees (Badolato, Donelson, & Ege, 2013).

Therefore, this study analyses the relationship between competence of the audit committee and firm performance in Indonesian SOEs in relation political pressure as a moderator by constructing the following hypotheses:

H8e: There is a positive relationship between competence of audit committee and firm performance (ROA) moderated by political pressure.

and

H8f: There is a positive relationship between competence of audit committee and firm performance (ROE) moderated by political pressure.

4.2.8.4 Competence of Audit Committee and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of Government Intervention

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The role of the audit committee duties is closely related to the process of preparing and auditing of financial statements. Therefore, the audit committee should have the competence in accounting or finance to be able to function effectively. In Indonesia, the regulation of Bursa Efek Indonesia and OJK requires at least one member of the audit committee to have an educational background in accounting or finance.

Xie et al. (2003), Choi et al. (2004) and Park and Shin (2004) found that the audit committee financial background and experience in financial institutions may improve the performance of the firm. This indicates that the audit committee should have specific knowledge in accounting, and it is not enough to simply have knowledge in

finance. The study of Hermawan (2011) and Modum, Ugwoke and Onyeanu (2013) found that audit committee effectiveness has a positive influence on firm performance.

Therefore, this study analyses the relationship between competence of the audit committee and firm performance in Indonesian SOEs in relation to competence of the audit committee as a moderator by constructing the following hypotheses:

H8g: There is a positive relationship between competence of audit committee and firm performance (ROA) moderated by regulation and monitoring.

and

H8h: There is a positive relationship between competence of audit committee and firm performance (ROE) moderated by regulation and monitoring.

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4.2.9 Reputation of Auditors and Firm Performance Moderated by Government Intervention

The ninth hypothesis of this study is to look at the relationship between the reputation of auditors and firm performance (ROA and ROE) with having the presence of moderating variable government intervention that consisted of the appointment of senior staff, political pressure and regulation and monitoring. The relationship, hence produces eight hypotheses.

4.2.9.1 Reputation of Auditors and Firm Performance (ROA and ROE)

External audits are generally required by regulators as a means to deter attempts by managers to manipulate financial statements to the detriment of shareholders, to

reduce the information asymmetry between managers and shareholders, and therefore to reduce conflicts within the agency (Siala, Adjaoud, & Mamoghli, 2009). Therefore, an external audit is one of the governance mechanisms that is able to discipline managers and thereby reduce agency costs. However, although the law requires firms to hire external auditors, managers are the ones who will determine the external auditors to audit the firm's financial statements. Thus, the firms can be classified according to the quality of the selected external auditors. The quality of the external auditor in this context is defined as the possibility that the auditor may find fraud or irregularities contained in the financial statements and at the same time disclose and report their findings to the shareholders. Accordingly, a reputable auditor is said to encourage the improvement of the performance of the firm (Siala et al., 2009).

The study of Adjaoud et al. (2008) has given two important contributions to the literature of corporate governance. First, they found that not all the features of internal corporate governance are important in the selection of external auditors. Secondly, their findings also provide evidence that there are effects of some corporate governance mechanisms in the choice of reputable external auditors which is associated with the ownership concentration level. Further, the study of Siala et al. (2009) also indicates that there is strong evidence against the idea that the external auditor reputation is working as a substitute in reducing agency problems and therefore produces better firm performance.

In connection with the above discussion this study establishes the following hypotheses:

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H9a: There is a positive relationship between reputation of auditors and firm performance (ROA).

and

H9b: There is a positive relationship between reputation of auditors and firm performance (ROE).

4.2.9.2 Reputation of Auditors and Firm Performance (ROA and ROE) is moderated by the appointment of senior executives as an indicator of Government Intervention

Within an agency theory framework, external audit is a means to thwart managers' attempts to manipulate financial reports to the detriment of shareholders, to reduce the information asymmetry between managers and shareholders, and hence to lessen agency conflicts (Klein and Leffler, 1981). Therefore, external audit constitutes one of the governance mechanisms that allows for disciplining managers and hence reduces agency costs. Nevertheless, though legislation requires firms to hire an external auditor, managers are the ones who decide which external auditor to select. Thus, firms can also be classified according to the quality of their choice of auditor. In this context, DeAngelo (1981) defines auditor quality as the simultaneous possibility that the auditor will, at one and the same time, discover the frauds or irregularities in the customer's financial statements (depending on the auditor's global competence, technological capacities, level of expertise) and reveal to the market the frauds or irregularities he may have discovered (depending on the auditor's professional ethics level and level of independence with regard to his customer). The quality of an external auditor is determined based on two characteristics: size of the audit firm (DeAngelo, 1981) and its reputation (Klein and Leffler, 1981).

The study by Santoso and Wuryani (2013) found that the auditor's reputation has a significant influence on the firm performance. A highly reputable auditors have a greater commitment in maintaining audit quality. Company financial statements audited by the auditors of high repute will provide greater confidence to investors about the quality of the information presented in the prospectus and financial statements of the firm. So investors tend to choose for the IPO issuers audited by reputable auditors.

Therefore, this study next hypothesis as follows:

H9c: There is a positive relationship between reputation of auditors and firm performance (ROA) moderated by the appointment of senior executives.

and

H9d: There is a positive relationship between reputation of auditors and firm performance (ROE) moderated by the appointment of senior executives.

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4.2.9.3 Reputation of Auditors and Firm Performance (ROA and ROE) is moderated by political pressure as an indicator of Government Intervention

In the context of agency theory, it shows that the choice of a reputable external auditor represents one of the important factors for good corporate governance. However, the effect of this interaction on performance is not clear. It may result in a reinforcement mechanism (for instance, a more reputable external audit will have a positive relationship with firm performance) or there may be a substitution effect (in this case, the simultaneous existence of the above mechanism may have a negative

effect on firm performance, owing to the fact that the mechanism delegates to the task of controlling the managers (DeAngelo, 1981; Piot, 2005).

Brown, Falaschetti, and Orlando (2006) reveals that an independent auditor (external auditor) is able to effect in improving the quality of profits of a company. Furthermore, they reveal that the better the quality of the external auditor used by a company, then the quality of the resulting profit is also getting better. The amount of large costs incurred to utilize the services of a qualified Audit Firm commensurate with the results of audit produced. Yushita and Triatmoko (2013) found that the quality of the external auditor can have a positive effect on firm performance.

Based on the above discussions, the following hypotheses are developed:

H9e: There is a relationship between reputation of auditors and firm performance (ROA) moderated by political pressure.

and

H9f: There is a relationship between reputation of auditors and firm performance (ROE) moderated by political pressure.

4.2.9.4 Reputation of Auditors and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of Government Intervention

External auditors serve as one of the primary protectors of corporate governance in any organization. Corporate governance focuses on promoting transparency and fairness within establishments and organizations by monitoring performance and

ensuring accountability. In keeping with the 2002 Sarbanes–Oxley Act, external audits is required of most publicly listed companies. The efforts of an external auditor help foster a good relationship with regulators. Most regulators are supportive of companies and agencies that appear to have transparent operations. External auditors evaluate the organization of a company for compliance with regulations. Regulators are also more likely to trust company disclosures after an auditor attests to them.

ICL provides that an annual, independent audit shall be conducted by a certified independent external auditor. Companies that are obligated to be audited among others, are: listed companies, SOEs, FIE, commercial banks, credit institutions, financial institutions, and insurance companies. An independent audit conducted by a publicly recognised and accredited accounting firm normally enhances the company's credibility, and accordingly, its prospects for attracting investment (IFC, 2014).

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Previous researches provide evidence that reputable auditors spend more time on company audits, charge higher rate of their fees and resultantly has lesser lawsuits as compared to non-reputable audit firms. This shows that big auditors provide higher quality of audit than non-big auditors. An affiliation with big four audit firms enhances the firm's reputation in the capital markets. The reason is that investors feel more confident with the reliable and authentic information and financial disclosures of such firms that are affiliated with big (reputable) auditing firms. The findings provide evidence that reputable external audit has a positive relationship on firm performance (Afza & Nasir, 2014).

Hence, the following hypotheses are constructed as follows:

H9g: There is a positive relationship between reputation of auditors and firm performance (ROA) moderated by regulation and monitoring.

and

H9h: There is a positive relationship between reputation of auditors and firm performance (ROE) moderated by regulation and monitoring.

4.2.10 Audit Committee Meetings and Firm Performance Moderated by Government Intervention

The relationship between audit committee meetings and firm performance (ROA and ROE) with having the presence of moderating variable government intervention that consisted of the appointment of senior staff, political pressure and regulation and monitoring. The relationship will produce eight hypotheses is developed in this tenth hypothesis.

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4.2.10.1 Audit Committee Meetings and Firm Performance (ROA and ROE)

Chen and Zhou (2007) noted that audit committee meetings serve as an important mechanism for improving and promoting corporate governance in firms. There is likeliness that financial fraud would be reduced if the audit committee meets frequently and carry out its duties as required (Stewart & Munro, 2007). The frequency of audit committee meetings has also been observed to have a positive influence on firm performance (Azam, Hoque and Yeasmin, 2010). Aanu, Odianonsen and Foyeke (2014) found that audit committee meeting shows positive sign with respect to firm performance (ROA and ROE) but was not significant.

The number of meetings conducted by the audit committee is a proxy for the activity of the audit committee. Therefore, more frequent audit committee meetings will gain better information about audit and accounting issues. The frequency of committee meetings is also associated with the decrease in the level of discretionary current accruals. The problems that arise will soon be directed to completion by the existing functions in the company. Therefore, there is a tendency that the existence of an active audit committee may reduce the likelihood of financial fraud and cause an increase in firm performance ((Xie, Davidson III, & Dadalt, 2003; Matari et al., 2012).

Therefore, this study determines the relationship of audit committee meetings on firm performance in Indonesian SOEs by constructing the following hypotheses:

H10a: There is a relationship between audit committee meetings and firm performance (ROA).

and

H10b: There is a relationship between audit committee meetings and firm performance (ROE).

4.2.10.2 Audit Committee Meetings and Firm Performance (ROA and ROE) is moderated by the appointment of senior executives as an indicator of Government Intervention

The audit committee meetings, which refers to the frequency by which the committee meets together. It is expected that more active audit committees that meets often will be more effective monitors. An audit committee that rarely meets (considered

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inactive) may be less likely to monitor management effectively. The average number of audit committee meetings refers to the level of audit committee activity (Xie et al., 2001). The study of Amer, Ragab and Shehata (2014) founds that audit committee meetings positive and significantly associated with ROE, and it was also positive but insignificantly associated with ROA.

Another problem that can be addressed is that, based on several initiatives in improving corporate governance in Malaysian GLCs like MCCG 2000 (revised 2007) and transformation program, Malaysian GLCs generally have lower performance as compared to their rival private sector firms. Although an important aim of the transformation is to make GLCs top performing companies, this requires them to adopt a profit orientated corporate culture rather than retaining their bureaucratic practices. In addition, some GLCs are unable to meet their profit targets because of their parallel needs to address the social concerns. This could also be attributable to the weak management structures and possible undue political interference in the decision making processes (Nelson & Jamil, 2012).

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Therefore, this study analyses the relationship between the audit committee meetings and firm performance in Indonesian SOEs moderated by the appointment of senior executive by constructing the following hypotheses:

H10c: There is a relationship between audit committee meetings and firm performance ROA moderated by the appointment of senior executives.

and

H10d: There is a relationship between audit committee meetings and firm performance (ROE) moderated by the appointment of senior executives.

4.2.10.3 Audit Committee Meetings and Firm Performance (ROA and ROE) is moderated by political pressure as an indicator of Government Intervention

The role of the government in economic and business development is an important factor in a company's operations. The extent of the government's role in business varies from country to country, and in the same country, from industry to industry. SOEs also have to compete with the private sector, and so their performance will depend on their governance. Unlike private companies, which focus exclusively on profit maximization, SOEs have several purposes and they can be conflicting. The dual purpose of SOEs arises either because they are mandated by law or by government departments which are in a different position to provide influence to the SOEs. This latter situation becomes very problematic if the ministries have different goals for SOEs and do not reconcile their different views (Wong, 2004).

Government intervention in the company can be critical to the implementation of corporate governance practices in the company. The presence of government shares in the company can provide inherent commitment to better management practices associated with a greater level of monitoring. With this situation, it can be said that the government can exert more control and pressure to improve the corporate governance structure of the company (Zagorchev, 2009).

Therefore, this study analyses the relationship between audit committee meetings and firm performance in Indonesian SOEs moderated by political pressure in the following hypotheses:

H10g: There is relationship between audit committee meetings and firm performance (ROA) moderated by political pressure.

and

H10h: There is a relationship between audit committee meetings and firm performance (ROE) moderated by political pressure.

4.2.10.4 Audit Committee Meetings and Firm Performance (ROA and ROE) is moderated by regulation and monitoring as an indicator of Government Intervention

Audit Committee meetings should take place before the Board of Commissioners meets. This meeting should occur sufficiently in advance of the Board of Commissioners meeting to allow the Audit Committee to communicate its conclusions and allow the Board of Commissioners to thoroughly consider them. The Audit Committee should conduct meetings at least on a quarterly basis. It is suggested that Audit Committee meetings be held to coincide with key dates in the financial reporting and audit cycle, with no fewer than three formal meetings per year (IFC, 2014).

The main functions during the audit committee meeting is overseeing the firms' financial reports, internal accounting control, the audit process and more recently, its risk management practices. In order to pursue these functions, audit committee is to

meet regularly with the external and internal auditors to review the financial statements, audit process and internal controls of the firm.

Regulations which elaborate GCG principles to public companies through Capital Market and Financial Institutions Supervisory Agency (Otoritas Jasa Keuangan-OJK) regulations, such as regulations on disclosure, independent Commissioners, corporate secretary, audit committee, protection of minority shareholders and etc.

To the knowledge of the researcher, there are very limited studies on the moderating effect of regulation and monitoring to the relationship of audit committee meetings with firm performance. A limited number of studies are mainly related to firm performance and earning management. Aanu, Odianonsen, and Foyeke (2014) as a sample found that audit committee meeting shows positive sign with respect to ROA, ROE but was not significant.

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Therefore, this study analyses the relationship between the audit committee meetings and firm performance in Indonesian SOEs and moderated by regulation and monitoring with constructing the following hypotheses:

H10g: There is a positive relationship between audit committee meetings and ROA moderated by regulation and monitoring.

and

H10h: There is a positive relationship between audit committee meetings and ROE moderated by regulation and monitoring.

4.3 Methodology

4.3.1 Research Design

The design of the study is a master plan that determines the methods and procedures to collect, display, and analyse data in order to provide meaning to the collected data efficiently and effectively (Malik, 2012). The design includes the stages of determining tools and instruments for data collection, the methods of data collection, the organisation and analysis of data, as well as the provision of conclusions. All these processes are required in the planning and implementation stages of the research.

This study is expected to determine a correlation study of a cause-and-effect relationship through certain types of correlation, regression analysis and path analysis. Correlation studies are carried out in the natural environment of the organisation with minimum disruption. The minimum interference is caused by the use of secondary data and questionnaires. A correlation study is usually conducted in a non-contrived setting where field studies are conducted by the organisations. The level of aggregation of the data from Indonesian SOEs collected during data analysis is important for the research. The research is a cross-sectional study, where research is conducted one time and represent a snapshot of one point in time.

4.3.2 Sample and Data Collection

4.3.2.1 Sample

The number of SOEs in Indonesia is 141 companies which consist of 13 Perums, 115 Peseros, and 13 listed companies. All of these companies are mainly located in the big cities: Jakarta, Surabaya, Bandung, Medan, Palembang, and Makassar. Because

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the number of SOEs is only 141 companies, the population is becoming the main source of data for the study. Stevens (1996) states that a good general rule for the sample size is 15 cases per predictor in a standard ordinary least squares multiple regression analysis. Since SEM is closely related to multiple regression in some instances, 15 cases per variable size in SEM is not unreasonable. Bentler and Chou (1987) noted that researchers can reduce the number of cases to as low as five 5 per estimation parameters in SEM analysis, but only obtained if the data is perfectly well behaved (i.e., normally distributed, no missing data, outlying cases among others). It should be noted that Bentler and Chou (1987) mentioned 5 cases per parameter estimation rather than per measured variable.

Using Yamane's (1967) simple formula: n = N/ (1 + N*e2) to calculate the sample size, it was found that 58.333 (=140/ (1+140*0.1*.1) samples are sufficient to conduct the study. The calculation uses a 90% confidence level with a precision level (e) of 10% and where N is 141 companies. The result of the calculation is in line with the following Table 4.1, where the population is between 125 and 150 for precision of +/- 10 % is 56 to 61.

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Table 4.1

Sample Size and Precision

Size of Population	Sample Size (n) for Precision (e) of:		
	±5%	±7%	±10%
100	81	67	51
125	96	78	56
150	110	86	61
175	122	94	64
200	134	101	67
225	144	107	70
250	154	112	72
275	163	117	74
300	172	121	76
325	180	125	77
350	187	129	78
375	194	132	80
400	201	135	81
425	207	138	82

Source: Israel, 2003

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4.3.2.2 Data Collection

The data for this study consists of primary data. Primary data are collected through questionnaires which are mailed to the Corporate Secretary of all SOEs in Indonesia. The purpose of the questionnaire is to obtain a perspective relating to the implementation of corporate governance and the role of the government in achieving a company's goal. Questions in the questionnaire were mostly adapted from Nam and Nam (2004) who did a study for the Asian Development Bank on corporate governance in Indonesia, Malaysia, Thailand, and the Republic of Korea. Some questions relating to the competence of an audit committee and audit committee

meetings were taken from the International Finance Cooperation (IFC) questionnaires on corporate governance.

The secondary data consists of the financial reports of the SOEs gathered from the Ministry of BUMN for the year 2012. This data is used to determine the firm performance of state companies.

4.3.3 Research Instruments

The literature review of this study has identified the attributes of the independent, moderating and dependent variables. Questionnaires are designed to obtain primary data relating to corporate governance attributes and firm performance moderated by government intervention.

The questionnaire consists of four sections: A, B, C and D (refer to Appendix A). It has a total of 87 questions.

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a) Section A of the questionnaire collects information on the demographic profile of the SOEs. This section consists of 11 questions (1 – 11).

b) Section B of the questionnaire is adapted from Nam and Nam, (2004) on corporate governance attributes (independent variables). This section has 10 main questions as follows:

   i. Independent commissioner (7 questions: 1a – g)

   ii. Independent director (7 questions: 2a – g)

   iii. Independence of committees (5 questions: 3a - e)

iv. Supervisory board size (5 questions: 4a - e)

v. Management board size (5 questions: 5a - e)

vi. Supervisory board meetings (6 questions: 6a - f)

vii. Management board meetings (5 questions: 7a - e)

viii. Competence of audit committee members (5 questions: 8a - e)

ix. Reputation of Auditor (6 questions: 9a - f)

x. Audit committee meetings (5 questions 10a - e)

To obtain representative answers, some of the questions were reversed from positive direction in negative direction that aims to avoid the problem of set or bias responses (Zikmund, 2003): this is because some people tend to respond to a large number of items in the same way due to laziness or psychological predisposition. Respondents from 141 SOEs were asked to indicate the extent to which the variables affect the condition of their company with each statement on a five-point scale where 1 stands for "Very Often", 2 for "Frequent", 3 for "sometimes", 4 for "Rarely", and 5 to "Never", a "yes" and "no" answer and to fill "amounts" in the questionnaire.

c) Section C solicits information regarding government intervention (moderating variable) which consists of three attributes:

i. Appointments of senior staff (5 questions: 1a - e)

ii. Political pressures (6 questions: 2a - f)

iii. Regulations and monitoring (5 questions: 3a - e)

In this section, the respondents were required to answer the questionnaires based on a "Yes" or "No" answer.

d) Section D seeks information relating to financial performance (ROA and ROE) of SOEs by writing amounts, or ratios on the questionnaire for the years 2011 and 2010. The 2010 ROA and ROE is used to confirm the performance of the companies.

i. ROA (2 questions)
ii. ROE (2 questions)

The questionnaires are then translated to the Indonesian language by Mr. Joseph Harvey, translator at the Leuser International Foundation of Indonesia, and the equivalence of the meaning is then checked by comparing with the original questionnaire in English.

The questionnaire is summarised as follows:

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Table 4.2

Summary of Questionnaire

Section	Description	No. of questions
A	Demographic profile	11
B	Corporate governance (IV)	56
C	Government interventions (moderating)	16
D	Firm performance (DV)	4
	Total	**87**

4.3.4 Operational Definition and Measurement of Variables

The variables of this study consist of corporate governance as an independent variable, government intervention as a moderating variable, and firm performance as

the dependent variable. The following operational definition and measurement are used for the study.

4.2.4.1 Corporate Governance

This study has uses Khanchel's (2007) determinants of strong corporate governance: independent director, independence of committees, board size, board meetings, competence of audit committees, the reputation of auditors, and audit committee meetings as a base to set up corporate governance variables. Because in Indonesia is adopting the two-tier board system, the researcher has added independent commissioner, supervisory (commissioner) board size, and supervisory board meetings as the determinants of corporate governance. The determinants of corporate governance for this study is arrange as follows:

- Independent commissioner
- Independent director
- Competence of Audit Committee
- Supervisory board size
- Management board size
- Supervisory board meetings
- Management board meetings
- Competence of audit committee
- Reputation of auditors
- Audit Committee meetings

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i. Independent Commissioner

According to the CG Regulations (2014), about one-third of the board members in listed companies must be independent commissioners. The Indonesian CG Code (2006) stated that the number of independent commissioners should be able to convince that the control mechanism can operate effectively in accordance with applicable laws and regulations. Further, one of the independent commissioners should have a background in accounting or finance.

Based on the CG regulation (2014), an independent commissioner is an individual who has not received substantial financial or other benefits from such company in the last three years, such as:

- Has not been an employee of the company or a shareholder of 10% or more of the company.
- Has never received substantial payments from the company, or been a major shareholder of a company that has paid to or received from the company a substantial amount (the threshold of such amount should be determined by the GMoS and set out in the AoA of the company).
- Has not been an External Auditor of the company.

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Table 4.3

The Measurement of Independent Commissioner

	Variables	Measure	Rating scale
1	Independent Commissioner	Meeting formally and informally with management, altering/adding meeting agenda, participating in discussions, disapproval with board of directors, on the position of individual commissioner (7 questions)	Likert scale 1 - 5

4.2.4.1.2 Independent Director

The board of directors performs the day-to-day management of the corporation and is headed by a president director who is comparable to a CEO in the one board structure system (ICL, 2007). A board of directors must have at least 2 members and is responsible to the shareholders and the supervisory board.

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Listed companies are required to have at least one unaffiliated member (CG Regulation, 20144). Unlike the unitary board structure, there is no role duality of the chairman and the CEO due to separate membership (Darmadi, 2011).

Table 4.4

The Measurement of Independent Director

	Variables	Measure	Rating scale
2	Independent Director	Meeting formally and informally with management, altering/adding meeting agenda, participating in discussions, disapproval with board of directors, on the position of individual director (7 questions)	Likert scale 1 - 5

4.2.4.1.3 Independence of Committee

The Board of Commissioners may establish committees to assist them in carrying out its functions. The types of committees can be formed and suggested by Indonesian CG Code (2014) is the Audit Committee, Nomination and Remuneration Committee, the Risk Policy Committee and Corporate Governance Committee. Each committee must have at least one member of the Board and the members must meet all the requirements to meet the criteria of independent commissioners, and the committee also has to hire professionals (in the field) from outside the company (IFC., 2014).

Table 4.5

The Measurement of Independence of Committee

	Variables	Measure	Rating scale
3	Independence of committee	The existence of committees The number of members The effectiveness of the board, recommendations and the effectiveness of committee (3 questions)	Yes / no Number Likert scale (1 – 5)

4.2.4.1.4 Supervisory Board Size

The size of the board has been empirically proven to have a material effect on firm performance (Khanchel, 2007). According to the Indonesian Company Law (2007), each company must have a Board of Commissioners (BOC) which is a non-executive function and is assigned to supervise the activities of the directors. The Board is assigned to oversee the aspects of corporate governance and the policy of the board of directors. In certain circumstances, the board may do some executive functions on a temporary basis if all of the directors are terminated or no member of the directors are available for any reason. According to the law, the minimum requirement of a company is to have one director and one commissioner, which should not be held by the same person.

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Table 4.6

The Measurement of Supervisory Board Size

	Variables	Measure	Rating scale
4	Supervisory board size	The number of commissioners, outside commissioners, independent commissioners, active bureaucrats, and retired bureaucrats (5 questions)	Number

4.2.4.1.5 Management Board Size

The size of the board of directors has been proven to have a material effect on the quality of corporate governance (Setia & Atmaja, 2008). The Company may appoint one or more directors, one of which shall become the president director. The Board

of Directors oversees the daily operations and are usually full-time employees of the company or a related party or from a group of companies.

Table 4.7

The Measurement of Management Board Size

	Variables	Measure	Rating scale
5	Management board size	The number of directors, outside directors, independent directors, active bureaucrats, and retired bureaucrats (5 questions)	Number

4.2.4.1.6 Supervisory Board Meetings

The frequency of meetings of the supervisory board varies among companies in the two-tier board countries. The minimum number of meetings of the supervisory board to carry out their responsibilities depend on the code of the respective countries. However, the frequency of meetings of the boards is quite varied among companies and countries. In Indonesia, according to the GCG guidelines (2014) a minimum of two meetings in a year should be conducted (IFC 2014).

The board of commissioners must have a plan that works alongside the meeting schedule, including topics to be discussed. The board shall hold regular meetings. They should be able to hold at least two meetings a year. The Board can actually conduct meetings as often as possible if deemed necessary.

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Table 4.8

The Measurement of Supervisory Board meetings

	Variables	Measure	Rating scale
6	Supervisory board meetings	The number of meetings, average meeting hours, average attendance rate (3 questions)	Number
		Monitoring of management board, examination of reports, combined meetings (3 questions)	Yes / No

4.2.2.1.7 Management Board Meetings

It is the board of director's task to run the business activities of the company to achieve the agreed goals. Accordingly, members of the board, in determining the strategy, evaluation, and other matters would require to hold separate meetings among themselves. The board should be ready to increase the frequency of the meetings if the situation requires more supervision (Shivdasani & Zenner, 2004). The AoA of the company, or a specific resolution by the board shall specify:

- The frequency of board of director's meetings;
- The procedure to organise and hold meetings of the board of directors; and
- The procedure to make decisions in board of director's meetings.

The number of meetings of the directors, however, ultimately depends on the unique circumstances in each company (IFC, 2014). Thus, the frequency of the meetings of the directors may vary between companies and countries.

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Table 4.9

The Measurement of Management Board meetings

	Variables	Measure	Rating scale
7	Management board meetings	The number of meetings, average meeting hours, average attendance rate (3 questions)	Number
		Monitoring of management, examination of reports (2 questions)	Yes / No

4.2.4.1.8 Competence of Audit Committee

The purpose of the Audit Committee that is formed by the board is to strengthen the quality of financial information and to maintain/increase investor confidence in the quality of financial reporting and financial markets (IFC, 2014). The Audit Committee can improve the quality of information directly through the supervision of the preparation of financial reporting, and indirectly through oversight of the internal control and the external audit (Be´dard & Gendron, 2010). The composition of the Audit Committee shall be such that it can accommodate the complexity of the company and pay attention to the effectiveness of decision making (Be´dard & Gendron, 2010).

Public companies, state-owned enterprises, provincial and regionally owned companies, companies that raise and manage public funds, companies whose products or services are used by consumers, and companies that have a broad impact on the environment, must have an Audit Committee. The committee should be chaired by an independent commissioner and the members of the committee may

consist of commissioners and or professionals from outside the company. One of the committee members must have the related accounting and finance experience.

Table 4.10

The measurement of the Competence of Audit Committee

	Variables	Measure	Rating scale
8	Competence of Audit Committee	The existence of expertise, the chairman, rules, selection of external auditor, supervision and appointment of internal audit (5 questions)	Yes / No

4.2.4.1.9 Reputation of Auditors

The selection of the accounting firm is highly dependent on the motivation of the company. The selection of a public accounting firm that has a global reputation as the Big-4 is because the company wants to get better disclosure practices (Aung, Citro, Sudarsaman, & Taffler, 2005; Farouk & Hassan, 2014). Auditor reputation is measured by the size of audit firms and their incentive in ensuring high quality disclosure as demonstrated by the ratio of the audit fee to the cost of non-audit fee, which can significantly reduce the dissonance between the auditors and the directors on going-concern disclosures (Aung et.al., 2006).

External audit constitutes one of the governance mechanisms that allows to discipline managers and at the same time reduces agency costs for disciplining managers. The quality of the auditor is also related to the ability to discover frauds or irregularities in the customer's financial statements and disclose it to market the fraud or irregularities discovered. Research on the quality of public accounting firms found

that the size of the office and its reputation are the indicators that determines (Adjaoud et al., 2008).

Table 4.11

The Measurement of Reputation of Auditor

	Variables	Measure	Rating scale
9	Reputation of Auditor	Methods to engage external auditors, experience of auditor, prior audit opinion, peer review, international association, partner/firm rotation (6 questions)	Yes / No

4.2.4.1.10 Audit Committee Meetings

To carry out its control functions, the audit committee must be able to maintain the level of activity through increased frequency of meetings (Be'dard et al., 2010). This will enable the company to avoid enforcement actions by the capital market regulator and the Securities and Exchange Commission enforcement actions.

Table 4.12

The Measurement of Audit Committee Meetings

	Variables	Measure	Rating scale
10	Audit Committee Meetings	The number of meetings (1 questions)	Numbers
		Attendance of CEO and CFO, Meeting with the external auditor, supervising internal auditor, oversee the external audit process (5 questions)	Yes / No

4.3.4.2 Government Intervention

The Ministry of State Enterprises has the task to assist the government in formulating policies, managing assets and the monitoring of SOEs in Indonesia. SOEs are expected: (1) to improve the maintenance of goods and services in the amount and quality sufficient to fulfil the domestic market; (2) to contribute to national income, and (3) to increase the contribution to the development of national economy. Hence, in this study government intervention in SOEs may occur due to the appointment of senior executive, political pressures, and regulation and monitoring.

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4.3.4.2.1 Appointment of Senior Executive

The appointment of senior executive is when the government appoints a top politician executive to replace the Chairman of the Board or the Chief Executive Officer (CEO) in its affiliated enterprises.

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Table 4.13

The Measurement of Appointment of Senior Executive

	Variables	Measure	Rating scale
1	Appointment of senior executive	Bases for appointment of executive on the boards, involvement of technical department, approval of the appointment by the board, direct intervention by the owner and technical department, interest of various parties (5 questions)	Yes / No

4.3.4.2.2 Political Pressures

Government and politicians are said to be making poor economic managers. Managers are motivated by political pressure rather than by economic sense and sound business. For example, the state company can employ inefficient excess of workers. Companies are reluctant to get rid of workers who are less productive because of the negative publicity involved in the loss of jobs. Therefore, state enterprises, often use too many workers, which increased inefficiency (Economics, 2011).

Table 4.14

The Measurement of Political Pressure

	Variables	Measure	Rating scale
2	Political pressure	The Impact of corporate culture to improve productivity, improve efficiency, increase innovation, the presence of specific task in tackling local problems, Correlation between politics and the role of management, donation from the government (6 questions).	Yes / No

4.3.4.2.3 Regulation and Monitoring

Regulations may set market conditions, such as price controls, market-entry conditions, product requirements and contract terms, or social obligations, such as environmental controls, safety regulations or advertising and labeling requirements. The impact of regulations on the economy depends on the nature of the regulation

and how efficiently and effectively it is implemented. Monitoring and enforcing regulations are important parts of the regulatory process (Castro, 2011).

The measurement for regulation and monitoring is as follows:

Table 4.15

The Measurement of Regulation and Monitoring

	Variables	Measure	Rating scale
3	Regulation and monitoring	Submission of business plan and budget, Financial reporting base on IFRS, submission of financial and technical reports to the government, receiving funds from the government, the use of benchmark (5 questions).	Yes / No

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4.3.4.3 Firm Performance

The financial performance is a measure of how well the company can use its assets to produce earnings from the business in the respective fields. It is the management's The responsibility of the management is to improve the financial performance of a company as stakeholders are concerned about the corporate financial performance. Higher financial performance leads to the increase in wealth of these stakeholders (Fauzi, Svensson, & Rahman, 2010). Financial performance in this study is measured by using the accounting-based measures. In this approach, it is derived from a company's competitive effectiveness and a competitive internal efficiency as well as optimal utilization of assets, for some certain measures. Measures such as net

income, return on assets (ROA), and return on equity (ROE) are some examples used in this approach.

This study, however, does not include all dimensions of a firm's performance, it is limited only on Return on Assets (ROA) and Return on Equity (ROE):

4.3.4.3.1 Return on Assets (ROA)

ROA is a measurement tool to see how a company is deemed in favour of total assets. ROA can provide the sense of how efficient the management has been using its assets to produce earnings. ROA is calculated by dividing the annual profit of the company with the total assets (Khatab, Masood, Zaman, Saleem, and Saeed, 2010). ROA is displayed as a percentage. ROA is sometimes referred to as "return on investment".

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Table 4.16

The Measurement of Firm Performance (ROA)

Variable	Measure	Rating
Performance	• Return on Assets (ROA)	Percentage

4.3.4.3.2 Return on Equity (ROE)

ROE is a business health measurement instrument by calculating the net income returned as a percentage of shareholders' equity (Khatab et al., 2010). ROE measures the profitability of a company by revealing how much profit the company has obtained from the number of funds invested in the form of shareholder capital. ROE is expressed as a percentage and is calculated as: Equity Return on Equity = Net

Income / Shareholders' equity.

Table 4.17

The Measurement of Firm Performance (ROE)

Variable	Measure	Rating
Performance	• Return on Equity (ROE)	Percentage

4.3.5 Method of Data Analysis

Data analysis is a process for inspecting, cleaning, transforming, and modelling the data with the aim of highlighting the collected information (Sekaran & Bougie, 2010). The data analysis is used to produce conclusions, and support for decision-making. Data analysis has multiple facets and approaches, encompassing diverse techniques under various names in different business, science, and social science domains. The method of data analysis involves three main phases:

- Data preparation: cleaning and organising the data for analysis
- Descriptive statistics: describing the data
- Inferential Statistics: testing hypotheses and models

4.3.5.1 Data Preparation

Data preparation involves examining or logging into the data, checking the correctness of the data, inputting the data into the computer for processing, converting the data, and developing and documenting a database structure that integrates various measurements (Myers & Well, 2003).

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4.3.5.1.1 Missing Data

The missing data by using Structural Equation Modelling (SEM) techniques for data analysis can create problems (Myers & Well, 2003). This is because SEM and multivariate methods require a complete data to perform analysis. Missing data refer to the invalid data in which respondents may decline to answer a question in the survey or may not know the answer due to lack of knowledge of the subject (Hair, Black, Babin, & Anderson, 2010). Missing data can be handled in many different ways, for example, by replacing missing data with a known value, or by deleting the individual case if more than 5% of the data are missing. Another example of handling missing data is by replacing the variable mean with substitutions (Hair et al., 2010).

4.3.5.1.2 Detecting Outliers

Outliers are the values contained in a data set that stray far away from the other values (Sekaran & Bougie, 2010). Outliers can be caused by experimental or measurement errors, or by long-tailed populations. Detecting multivariate outliers follow the missing data step. In order to detect outliers, Mahalanobis distance was applied as a multivariate outlier's measurement in this study. Mahalanobis distance can be acquired from SPSS 18.0 as well as from Analysis of Moments Structures (Smart PLS) 18.0 program. Each case (observation) was assessed based on the alpha level of $p< 0.001$.

4.3.6 Assessment of Multicollinearity

Multicollinearity is a statistical phenomenon in which two or more independent variables in a multiple regression model are highly correlated. It refers to a condition

when the predictor variables are strongly correlated among themselves (Myers and Well, 2003). Variables are said to be multicollinear if there is a linear relationship between them. According to Fields (2009), multicollinearity exists between independent variables and makes it difficult to evaluate the significance of individual predictors. Field (2009) recommends to diagnose by seeing the variance inflation factor (VIF) and the tolerance values. Hair et al. (2010) suggests multicollinearity below 10 for VIF and over 0.10 for tolerance as acceptable values.

4.3.7 Structural Equation Modelling

Structural equation modelling (SEM) is a statistical method for testing and estimating causal relationship by using a combination of statistical data and qualitative causal assumptions (Alavifar, Karimimalayar & Anuar, 2012). It is a statistical modelling technique that is highly cross-sectional, linear, and general. SEM is a statistical methodology that uses the confirmation approach to the analysis of a structural theory bearing on some of the phenomena. Typically, this theory is a "causal" process that produces observations on multiple variables.

The term SEM convey two important aspects of the procedure: (a) that the causal process under study is represented by a series of structural equation (regression), and (b) that the structural relationship can be modelled in the form of images to enable a clearer conceptualisation of the theory under study (Byrne, 2010). The hypothetical model can then be tested statistically by simultaneous analysis of the whole system variables to determine the extent of its consistency with the data. If the goodness-of-fit is adequate, the model argues for the plausibility of the relationship postulated

between the variables; if it is not sufficient, the relationship resilience is rejected (Byrne, 2010).

Structural equation modelling (SEM) has grown out of the need to test complete theories and concepts. Much of SEM's success can be attributed to the method's ability to evaluate the measurement of latent variables, while also testing relationships between latent variables. The initial application of this method embraced a covariance-based approach (CB-SEM), researchers also have the option of choosing the variance-based partial least squares technique (PLS-SEM). PLS is an SEM technique which was originally developed by Wold (1974, 1980, 1982) based on an iterative approach that maximizes the explained variance of endogenous constructs (Hair Jr, Sarstedt, Hopkins, & Kuppelwieser, 2014)

4.3.7.1 Partial Least Squares Approach to Structural Equation Modeling

Partial Least Square (PLS) is a powerful statistical tool of second generation allows to model and examine a series of relationships simultaneously, thus suitable for theory construction in explanatory sense and can be used for causal predictive analysis. Wolds (1985) explains that PLS is primarily intended for causal predictive analysis where complex models and multiple sets of endogenous and exogenous indicators are involved and is useful for theory development, as such, this study focuses on measuring the impact of CG on firm performance. It is a regression based prediction oriented approach, focusing on explanation of variance for predicting the dependent constructs rather than covariance between items. It focuses on minimising the variance of dependent variables explained by independent variables instead of reproducing the covariance matrix (Chin, 1998). It calculates all path coefficients and

individual item loading simultaneously, thus, allowing researchers to avoid biased and inconsistent parameter estimates (Cabrita and Bontis, 2008). Yu and Main (2010) suggest that SEM to be used in dealing concepts which is difficult to capture, such as governance and board monitoring. Thus, PLS based SEM is a common research methodology in management research (O'Regan, Donnel, Kennedy, Bontis, & Cleary, 2001; Bontis, Corsan, & Hulland, 2002). Although it is possible to handle formative indicators with covariance based SEM rather than PLS, it can lead to problems such as identification of the model or the existence of equivalent models (Chin, 1998). Considering the features of PLS such as a smaller sample requirement, no assumption about multivariate normality, ability to handle both reflective and formative indicators, capacity to handle different measurement scales and its robustness with fewer identification problems, hence it has been used for this study.

4.3.8 Research Model

The research model of this study is built on the basis theories and concepts related to the relationship of corporate governance attributes, government intervention (moderator) and firm performance. Overview of the empirical research model is presented in Figure 4.2.

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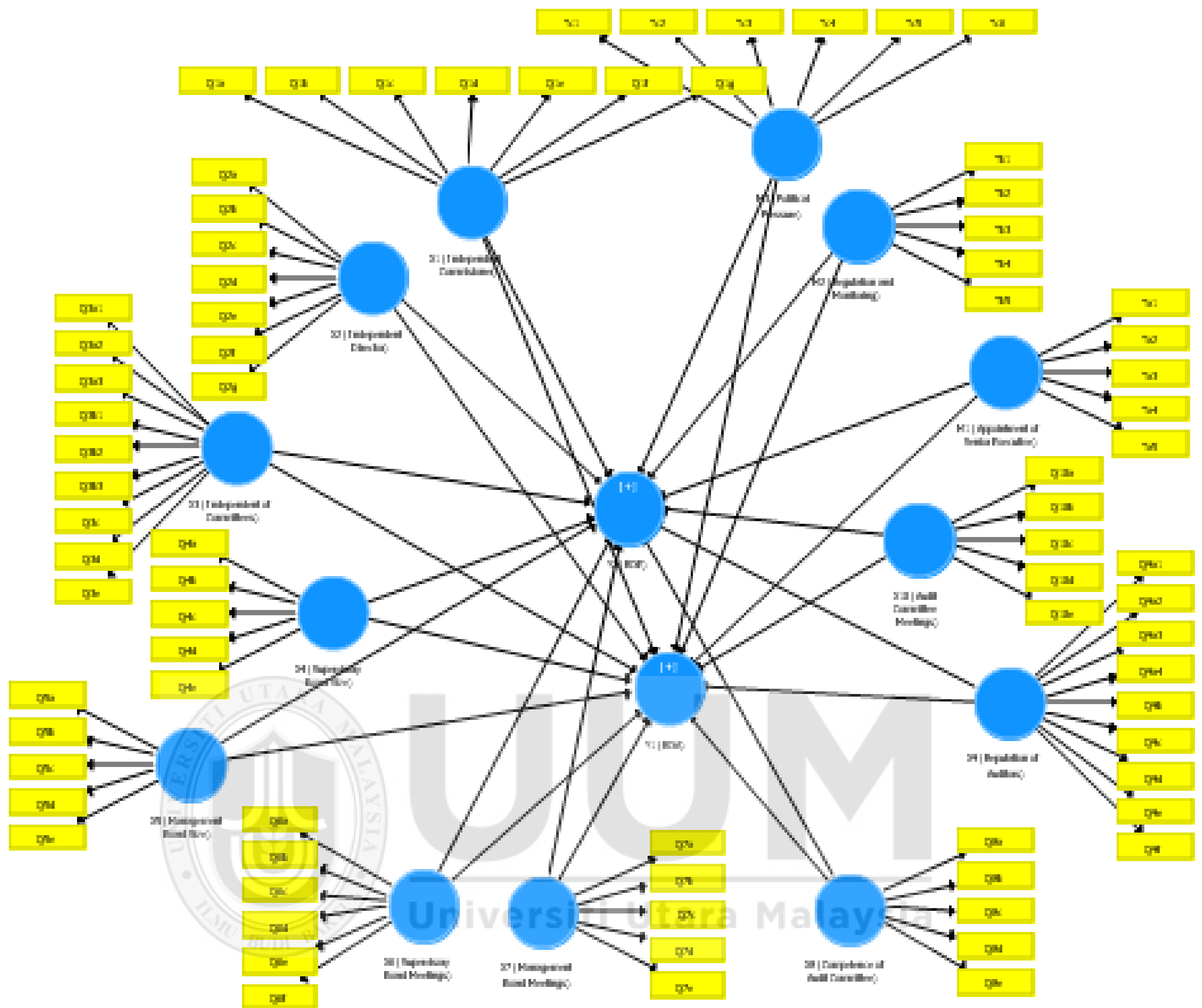

Figure 4.2 Research Model

4.3.9 Evaluation of the PLS Model

The PLS evaluation model is based on the measurement of predictions that in nature are non-parametric. Therefore, the evaluation model of PLS is performed by assessing the outer model and the inner models.

4.3.9.1 Evaluation of the Measurement Model: Outer Model

The evaluation of the outer model is also known as the measurement model evaluation, which has to be performed to assess the validity and reliability of the model. Outer models with reflexive indicators are evaluated through convergent validity and discriminant to indicator forming latent constructs, as well as through the composite reliability and Cronbach's alpha for the block indicator (Chin, 1998).

Convergent validity is a "redundancy analysis" that can be taken out for each latent variable separately. This requires the utilisation of an existing formative latent variable as an exogenous latent variable to predict an endogenous latent variable operationalised through one or more reflecting measured indicator (Kwong & Wong, 2013). Validity test convergent reflexive indicators can be seen from the loading factor for each construct. The value of the recommended loading factor must be greater than 0.7 for studies that are confirmatory, and the value of the loading factor between 0.6 to 0.7 are for explanatory studies is still acceptable, and the value of the average variance extracted (AVE) must be greater than 0.5.

Discriminant validity relates to the rule that the measure (Manifest variables) of different constructs should not be highly correlated. The evaluation of reflective indicators is the judgment of robustness. Validity is examined by noting a construct's convergent validity and discriminant validity. Supported is provided for convergent validity when each point has an outer loading above 0.70 and when each construct's average variance extracted (AVE) is 0.50 or higher. The AVE is the grand mean value of the squared loadings of a set of indicators (Hair et al., 2014) Another method to test the discriminant validity is by comparing the square root of AVE for

each construct value correlations among constructs in the model (Fornell and Larcker, 1981). Discriminant validity is good to show on the square root of AVE for each construct if it is greater than the correlation among constructs in the model.

The rule of thumb of convergent and discriminant validity test is shown in the following table:

Table 4.18

Checking Validity

What to check?	***What to look for in SmartPLS?***	***Where is it in the report?***	***Is it OK?***
Convergent validity	"AVE" numbers	PLS→Quality Criteria→Overview	It should be **0.5 or higher** (Bagozzi and Yi, 1988)
Discriminant validity	"AVE" numbers and Latent Variable Correlations	PLS→Quality Criteria→Overview (for the AVE number as shown above) PLS→Quality Criteria→Latent Variable Correlations	Fornell and Larcker (1981) suggest that the "**square root**" of AVE of each latent variable should be greater than the correlations among the latent variables

Source: Kwong and Wong (2013)

In addition to validity test, the measurement of the model should also convey the reliability test (accuracy) of the construct. Reliability tests are executed to test the accuracy, consistency and accuracy in evaluating the instrument of the constructs. Reliability testing of a construct with reflexive indicators can be answered in two ways: namely Indicator Reability and Internal Consistency Reability (Kwong & Wong, 2013).

The rule of thumb in testing reliability of constructs with reflexive indicators are presented in the following table:

Table 4.19

Checking Reliability

What to check?	***What to look for in SmartPLS?***	***Where is it in the report?***	***Is it OK?***
Indicator Reliability	"Outer loadings" numbers	PLS→Calculation Results→Outer Loadings	Square each of the outer loadings to find the indicator reliability value. **0.70 or higher** is preferred. If it is an exploratory research, 0.4 or higher is acceptable. (Hulland, 1999)
Internal Consistency Reliability	"Reliability" numbers	PLS→Quality Criteria→Overview	Composite reliability should be **0.7 or higher**. If it is an exploratory research, 0.6 or higher is acceptable. (Bagozzi and Yi, 1988)

Source: Kwong and Wong (2013)

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The outer model with formative indicators are being evaluated through its substantive content by comparing the magnitude of relative weight and the significance of the construct indicator. The weight value with the formative construct the indicator should be significant at $p < 0.05$ (Chin, 1998).

4.3.9.2 Evaluation of Structural Models (Inner Model)

In the structural model, also called inner model, the Latent Variables (LV) are related with each other according to substantive theory. LVs are divided into two classes, exogenous and endogenous. Exogenous LVs do not have any predecessor in the structural model, all others are endogenous (Kwong & Wong, 2013).

For each regression in the structural model we have an R2 that is interpreted similarly as in any multiple regression analysis. R2 indicates the amount of variance

in the endogenous latent variable explained by its independent latent variables (Sanches, 2013).

In fact, values for the R-squared can be classified in three categories (Kwong, & Wong, 2013):

1. Low: $R < 0.30$ (although some authors consider $R < 0.20$)
2. Moderate: $0.30 < R < 0.60$ (you can also find $0.20 < R < 0.50$)
3. High: $R > 0.60$ (alternatively there's also $R > 0.50$)

The main evaluation criteria of the structural model is to measure R^2 and the level of significance of the path coefficients. Since the purpose of the prediction oriented PLS-SEM approach is to explain the variance of the endogenous latent variable, then the key targets of the construct for R^2 should be at a high level.

The PLS-SEM approach does not assume that the data are normally distributed. As a result, The PLS apply non-parametric bootstrap that involves repeated random sampling with replacement from the original sample to create a bootstrap sample in order to obtain standard errors for hypothesis testing. The procedure assumes that the sample dispersion is a fair representation of the intended population distribution. The bootstrap sample enables the estimated coefficients in PLS-SEM to be tested for their significance. The minimum number of bootstrap samples is 5,000, and the number of cases should be equal to the number of observations in the original sample. Critical *t*-values for a two-tailed test are:

- 1.65 (significance level = 10 percent),
- 1.96 (significance level = 5 percent), and

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- 2.58 (significance level = 1 percent) (Hair, Ringle, & Sarstedt,2011).

4.3.10 Hypotheses Testing

The primary purpose of statistical techniques is to estimate the probability that the pattern of data collected could have occurred by chance rather than by the causes proposed by the theory being tested (Myers & Well, 2003). These techniques should be carefully selected based on the type of data collected and should be carried out in the context of theory using measures derived from a theory.

A statistical hypothesis test is a method of statistical inference using data from a scientific study. According to Hair et al. (2010), the difference between the measurement model and structural model are: (1) The CFA model emphasises the moving from the latent constructs and their measured indicators to the relationship and magnitude between constructs, (2) in the CFA model, the exogenous and the endogenous variables are not distinguished, but in the structural model the exogenous (predictors) and the endogenous (outcome) are identified, (3) in the CFA model, all constructs are related to one another, but in the structural model the correlation relationships are replaced with dependence relationships (theoretical) with either direct or indirect effects.

After the measurement model is tested, inspected and validated by using CFA analysis, the focus in the SEM shifts toward the structural model to test the structural relationships (testing hypothesis) in the model. Hypothesis testing is recommended after assessing the structural model overall fit and the constructs validity (Hair et al., 2010).

4.4 Chapter Summary

The research framework of this study is based on the agency theory where the relationship of corporate governance attributes as independent variables, government intervention as a moderating variable and firm performance as the dependent variable is tested. The significance of the hypotheses is tested using descriptive and inferential statistical analysis. Ten hypotheses were developed to test the significance of relationship between variables. Data for the study is primary data and secondary data collected from SOEs and the ministry of SOE for the year 2011. To test the relationship of variables, this study uses SPSS 18 and SmartPLS.

CHAPTER 5

RESEARCH ANALYSIS AND FINDINGS

5.0 Introduction

This chapter presents the data profile of research and analysis of the study to answer the questions and prove the hypothesis proposed in the previous chapters. Analysis of the data used is a full model of Structural Equation Models (SEM) by first evaluating the outer model and evaluating the structural model. The evaluation is the initial step in the PLS-SEM analysis process to evaluate the goodness of fit criteria of the proposed research model.

5.1 Overall Response Rate

141 questionnaires have been sent by mail to the Corporate Secretary of the Indonesian SOEs throughout Indonesia: Jakarta, Surabaya, Bandung, Medan, Palembang, and Makassar. The address of the Indonesian SOEs was obtained from the ministry of SOE website, where the addresses of the SOEs were recorded in the SOE's profile. In an attempt to get as many answers to the send questionnaires, the follow-up is conducted by visiting the SOE directly and also through telephone calls for those who are far-away.

As a result of the efforts, 63 questionnaires have been returned which represents a response rate of 45%. The remaining 77 questionnaires were not returned and 1 questionnaire did not reach the respondent and was returned to the researcher (see Table 5.1).

Table 5.1

Response Rate

	Description	Results
1	Questionnaire distributed	141
2	Questionnaire not reached the SOE	(1)
3	Not returned	77
	Questionnaire returned	63
	Response rate	45 %

5.2 Descriptive Statistics

Respondents in this study are the corporate secretary or general manager of SOEs in Indonesia. They are expected to know the knowledge regarding corporate governance, government intervention, and firm performance. The final respondents in this study were 63 respondents (45%).

5.2.1 Respondents by Type of Business

It can be seen from Table 5.2 that the compositions of the Indonesian SOEs are in the service business (banking) amounted to 41.27% or 26, companies, agriculture/forestry (plantations) 20.63% or 13 companies, 14.29% or 9 companies in manufacturing, and the remaining 23.81% or 15 companies are in trading, mining, and others.

Table 5.2

Respondents by Type of Business

Type of Business	Number of Companies	Percentage (%)
Trading	1	1.59
Service (Banking)	26	41.27
Manufacture	9	14.29
Agriculture/Forestry (plantations	13	20.63
Mining	3	4.76
Others	11	17.46
Total	63	100.00

5.2.2 Auditors of Indonesian State Own Enterprises

84.13% or 53 of the studied SOEs were audited not by the Big Four accounting firms. They were audited by various local audit firms who are affiliated to the second level and below international audit firms. 15.87% of the remaining companies, 6.35% (4) were audited by audit firm Purwanto, Suherman & Rekan who is affiliated with Ernst & Young. 4.76% (30 Tanudiredja & Partners (PwC) and 4.76 % (3) by Siddharta & Wijaya (KPMG).

Table 5.3

Auditors of Indonesian State Own Enterprises

Audit Firms	Number of companies	Percentage (%)
PwC (KAP Tanudiredja, Wibisana & Rekan)	3	4.76
Deloitte Touche Tohmatsu (KAP Osman Bing Satrio & Rekan)	0	-
Ernst & Young (KAP Purwantono, Suherman & Surya)	4	6.35
KPMG (KAP Siddharta & Wijaya)	3	4.76
Other firms	53	84.13
Total	63	100.00

5.2.3 Size of Enterprises based on Rupiah

The sizes of the companies are divided into three groups: total assets of less than Rp 500,000,000,000 (USD 50,000,000) are categorised as small business, between Rp 500,000,000,000 to Rp 1,000,000,000,000 (USD 100,000,000) medium business, and big business are companies with a total of more than Rp 1,000,000,000,000 (USD 100,000,000). The size of the companies specified in this study is not based on any provision or specific reference. The goal is simply to distinguish the size of Indonesian SOEs (small, medium and big).

The collected data (Table 5.4) have shown that 63.49% (40) were big businesses, 26.99% (17) were small businesses, and the remaining 9.52% were medium businesses.

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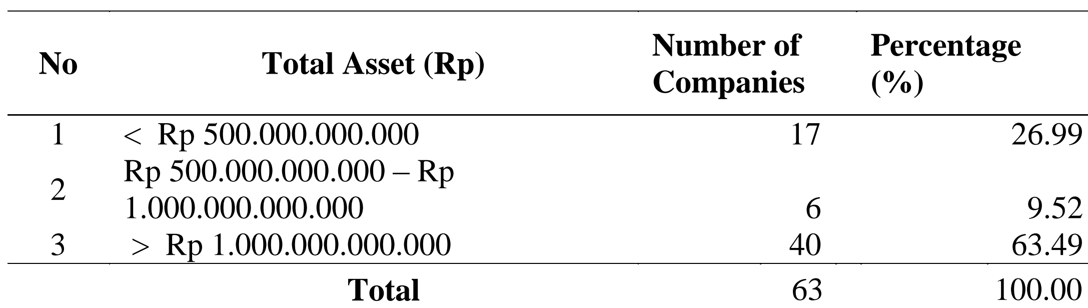
Table 5.4

Size of Assets based on Rupiah



No	Total Asset (Rp)	Number of Companies	Percentage (%)
1	< Rp 500.000.000.000	17	26.99
2	Rp 500.000.000.000 – Rp 1.000.000.000.000	6	9.52
3	> Rp 1.000.000.000.000	40	63.49
	Total	63	100.00

5.2.4 Supervisory Board Size

A supervisory board with 5 members is the most widely adopted board, which is used by 28.57% (18) companies. Further, the next highest number of board members is with 4 and 7 people which are used by respectively 22.22% of the companies (see Table 5.5).

Table 5.5

Supervisory Board Size

Supervisory Board Size (members)	Number of Companies	Percentage (%)
1	1	1.59
2	4	6.35
3	8	12.70
4	14	22.22
5	18	28.57
6	4	6.35
7	14	22.22
Total	63	100.00

5.2.5 Management Board Size

Table 5.6 shows that the most sizes of the management board in SOEs are 5 people, which represent 39.68 % (25), and the next most are 4 members (19.05 %) or 12 companies, and further companies with three and or 6 directors representing respectively 11.11% of the population.

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Table 5.6

Management Board Size

Management Board Size (members)	Number of Companies	Percentage (%)
1	1	1.59
2	3	4.76
3	7	11.11
4	12	19.05
5	25	39.68
6	7	11.11
7	3	4.76
8	1	1.59
9	1	1.59
10	2	3.17
11	1	1.59
Total	63	100.00

5.2.6 Age of the Companies

The highest number of SOEs in Indonesia (Table 5.7) is aged less than 25 years old, which comprises 34.92% (22) of the companies. Then, the second largest group, aging between 26 to 50 years was 31.75% (20 companies). Further, the age group between 51 to 75 years totaled to 23.81% (15). The remaining 9.52% (6) are companies with ages above 76 years, and generally they are companies that were established before the independence of Indonesia in 1945.

Table 5.7

Company Age

Establishment of the companies (years)	Number of Companies	Percentage (%)
0 - 25	22	34.92
26 - 50	20	31.75
51 - 75	15	23.81
76 - 100	2	3.17
> 100	4	6.35
Total	63	100.00

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5.3 Inferential Statistics

Inferential statistics, also referred to as inductive statistics, are results beyond the description of the data and arrive at inferences regarding the phenomenon or phenomena for which sample data were obtained (Myers & Well, 2003). It is a mathematical methods that employ probability theory for deducing (inferring) the properties of a population from the analysis of the properties of a data sample drawn from it. It is concerned also with the precision and reliability of the inferences it helps to draw. The inferences of the data are through the outer model

evaluation by evaluating the loading factors and the average variance extracted.

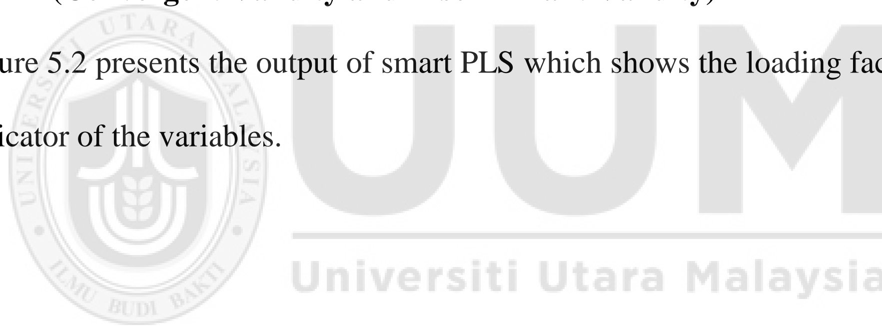
5.3.1 Data Preparation

The data used in PLS SEM does not have to meet the requirements of the assumption of normality. The data of the questionnaires were manually typed into Microsoft Excel and saved as .xlsx format. This dataset has a sample size of 63 without any missing values and invalid observations.

5.3.2. Outer Model Evaluation (Measurement Model)

5.3.2.1 Evaluation of Loading Factor and Average Variance Extracted (Convergent Validity and Discriminant Validity)

Figure 5.2 presents the output of smart PLS which shows the loading factors of every indicator of the variables.



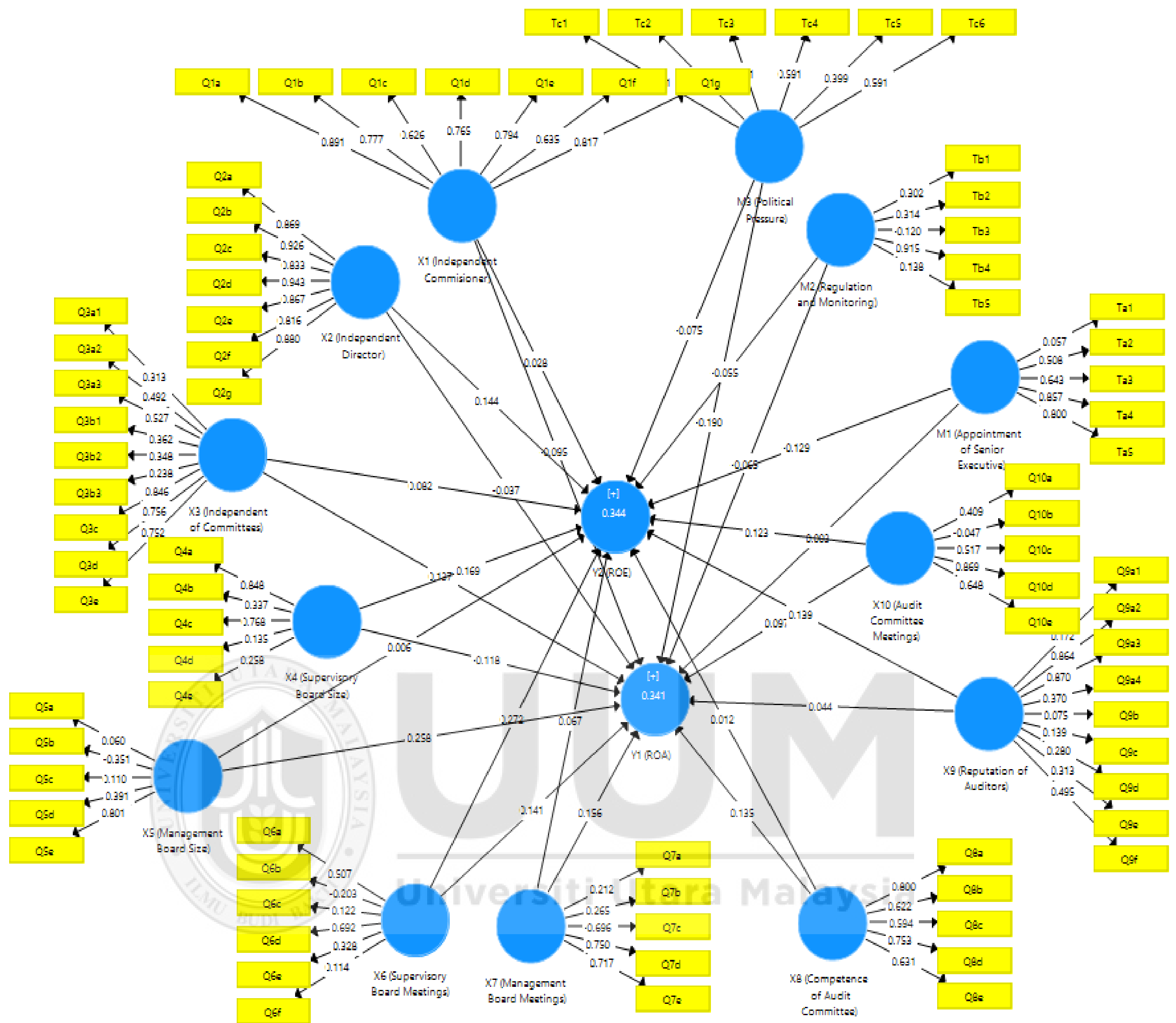


Figure 5.1 Outer Measurement Model

The loading factors of the model are presented in the following table:

Table 5.8

Output Smart PLS for the Loading factors of Each Indicator

Quest.	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10
1	0.891	0.869	0.313	0.848	0.060	0.507	0.212	0.800	0.870	0.409
2	0.777	0.926	0.492	0.337	-0.351	-0.203	0.265	0.622	0.370	-0.047
3	0.626	0.833	0.527	0.768	0.110	0.122	-0.696	0.594	0.075	0.517
4	0.765	0.943	0.362	0.135	0.391	0.692	0.750	0.753	0.139	0.869
5	0.794	0.867	0.348	0.258	0.801	0.328	0.717	0.631	0.280	0.648
6	0.635	0.816	0.238			0.114			0.313	
7	0.817	0.880	0.846						0.495	
8			0.756							
9			0.752							

X1	Independent Commissioner
X2	Independent Director
X3	Independence of Committee
X4	Supervisory Board Size
X5	Management Board Size
X6	Supervisory Board Meetings
X7	Management Board Meetings
X8	Competence of Audit Committee
X9	Reputation of Auditors
X10	Audit Committee Meetings

Quest.	M1	M2	M3
1	0.057	0.801	0.302
2	0.508	0.711	0.314
3	0.643	0.611	-0.120
4	0.857	0.591	0.915
5	0.800	0.399	0.138
6		0.591	

M1	Appointment of Senior Executives
M2	Political Pressure
M3	Regulation and Monitoring

Table 5.8 presents the loading factor of each indicator of the independent variable corporate governance attributes and the moderating variable that is government intervention. The table clearly shows that the model consists of loading factors that

are below 0.4 which should be removed from the model. Loading factor indicators that are below 0.4 are:

Corporate Governance:

-	Independent supervisory board	non	
-	independent management board	non	
-	Independence of committee	four:	Q3a1, Q3b1, Q3b2, and Q3b3
-	Supervisory board size	three:	Q4b, Q4d, and Q4e.
-	Management board size	four:	Q5a, Q5b,Q5c and Q5d
-	Supervisory board meetings	four	Q6b, Q6c, Q6e, and Q6f
-	Management board meetings	three:	Q7a, Q7b, and Q7c
-	Competence of Audit committee	non	
-	Reputation of external auditor	five:	Q9a4, Q9b, Q9c, Q9d and Q9e
-	Audit Committee meetings	one:	Q10b

Government Intervention:

-	Appointment of senior staff	one:	Ta1
-	Political pressure	four:	Tb1, Tb2, Tb3, and Tb5
-	Regulation and monitoring	one:	Tc5

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As mentioned in the former paragraph, all loading factors of indicators below 0.4 has to be removed from the model. As a result of the abolition of questions with loading factor below 0.4, a new model is obtained that consists of questions with loading factor above 0.4, as shown in the following model.

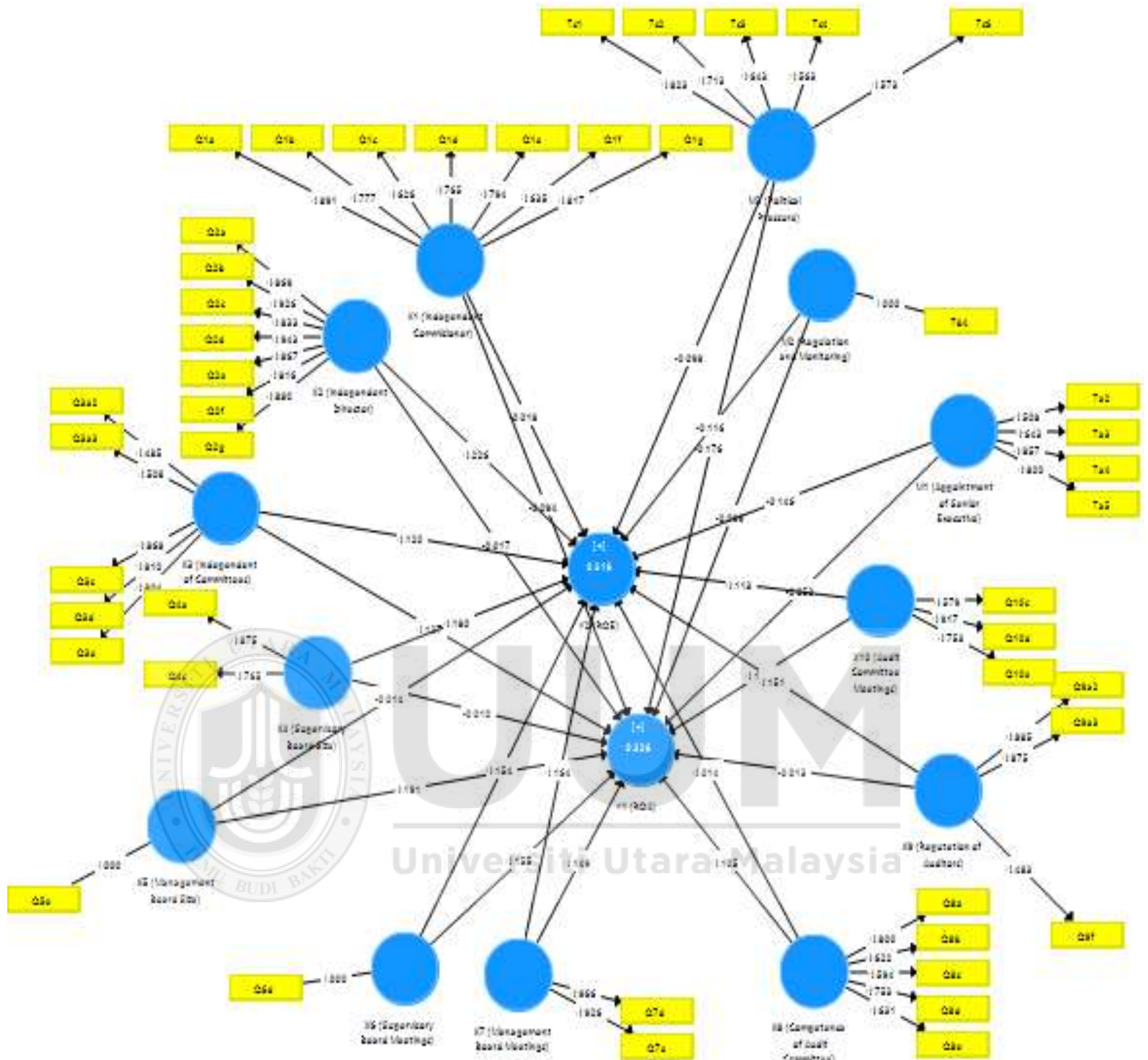

Figure 5.2 Output Smart PLS Output for the Variables and Indicators with Loading Factors above 0.4

The loading factors of every indicator of the independent variable and moderating after removing the ones that are under 0.4 are presented in the following table.

Table 5.9

Loading Factors of the Indicators of the Variables

Quest.	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10
v	0.891	0.869	0.485	0.875	1.000	0.507	0.966	0.800	0.885	0.579
v	0.777	0.926	0.508	0.765		1.000	0.926	0.622	0.875	0.917
v	0.626	0.833	0.868					0.594	0.483	0.753
v	0.765	0.943	0.810					0.753		
v	0.794	0.867	0.804					0.631		
v	0.635	0.816								
v	0.817	0.880								

X1	Independent Commissioner
X2	Independent Director
X3	Independence of Committee
X4	Supervisory Board Size
X5	Management Board Size
X6	Supervisory Board Meetings
X7	Management Board Meetings
X8	Competence of Audit Committee
X9	Reputation of Auditors
X10	Audit Committee Meetings

Quest.	M1	M2	M3
v	0.508	0.823	1.000
v	0.643	0.713	
v	0.857	0.643	
v	0.800	0.563	
v		0.573	

M1	Appointment of Senior Executives
M2	Political Pressure
M3	Regulation and Monitoring

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5.3.2.2 Measurement Fit for Reflective Models

The tests for convergent validity is done through the composite reliability and Cronbach's alpha on the reflective models and not on the formative model. The Goodness-of-fit (GoF) index is an index measuring the predictive performance of the measurement model. The measurement is through the evaluation of composite reliability and Cronbach alpha.

5.3.2.3 Evaluation of Composite Reliability and Cronbach Alpha

Evaluation of reliability is assessed by the composite reliability and cronbach alpha. Composite reliability may lead to higher estimates of true reliability. The acceptable cutoff for composite reliability is the same as for any measure of reliability, including Cronbach's alpha. Cronbach's alpha also addresses the question of whether the indicators for latent variables display convergent validity and hence display reliability. By convention, the same cutoffs apply: greater or equal to .80 for a good scale, .70 for an acceptable scale, and .60 for a scale for exploratory purposes.

Table 5.10

Cronbach Alpha and Composite Reliability of each Latent Variable

Variable	Alpha Cronbach	Composite Reliability
X1 (Independent Commissioner)	0.899	0.906
X2 (Independent Director)	0.951	0.959
X3 (Independent of Committees)	0.750	0.831
X4 (Supervisory Board Size)	0.525	0.805
X5 (Management Board Size)	1.000	1.000
X6 (Supervisory Board Meetings)	1.000	1.000
X7 (Management Board Meetings)	0.888	0.945
X8 (Competence of Audit Committee)	0.724	0.813
X9 (Reputation of Auditors)	0.634	0.805
X10 (Audit Committee Meetings)	0.665	0.801
M1 (Appointment of Senior Executive)	0.669	0.802
M2 (Regulation and Monitoring)	1.000	1.000
M3 (Political Pressure)	0.695	0.799

Table 5.10 shows that the entire value of composite reliability are above 0.8, which qualifies for a good scale of the composite reliability. Almost the entire variable gain Cronbach alpha value above 0.8, except for X4 (supervisory board size) whose value is 0.525. The Cronbach alpha value of X4 is also not bad, because it is approaching 0.6 which is feasible in exploratory cases.

5.3.2.4 Average Variance Extracted (AVE)

AVE is used as a test for both convergent and divergent validity. AVE reflects the average commonality for each latent factor in a reflective model. In an adequate model, AVE should be greater than .5 (Chin, 1998; Höck & Ringle, 2006: 15) as well as greater than the cross-loadings, which means factors should explain at least half of the variance of their respective indicators.

Table 5.11

Average Variance Extracted (AVE) Value from Each Latent Variable

Variable	Average Variance Extracted (AVE)
X1 (Independent Commissioner)	0.582
X2 (Independent Director)	0.770
X3 (Independent of Committees)	0.510
X4 (Supervisory Board Size)	0.675
X5 (Management Board Size)	1.000
X6 (Supervisory Board Meetings)	1.000
X7 (Management Board Meetings)	0.896
X8 (Competence of Audit Committee)	0.469
X9 (Reputation of Auditors)	0.594
X10 (Audit Committee Meetings)	0.581
M1 (Appointment of Senior Executive)	0.512
M2 (Political Pressure)	0.449
M3 (Regulation and Monitoring)	1.000

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Table 5.11. shows most of the indicators are around 0.5 and two indicators are very close to 0.5 (Competence of audit committee and political pressure) which can be accepted for models that are in development.

5.3.3 Evaluation of Structural Model

Structural model or inner model describes the relationships between the latent variables. PLS-SEM only permits recursive relationships in the structural model. Therefore, the structural paths between the latent constructs can only head in a single

direction. In the structural model, it distinguishes between exogenous and endogenous constructs. The term exogenous is used to describe latent constructs that do not have any structural path relationships pointing at them. Thus, the term endogenous describes latent target constructs in the structural model that are explained by other constructs via structural model relationships.

The primary evaluation criteria for the structural model are the R^2 measures and the level and significance of the path coefficients. Because the goal of the prediction-oriented PLS-SEM approach is to explain the endogenous latent variables's variance, the key target constructs' level of R^2 should be high. R^2 values of 0.75, 0.50, or 0.25 for endogenous latent variables in the structural model can be described as substantial, moderate, or weak, respectively (Hair, Ringle, & Sarstedt, 2011)

The R^2 of the endogenous latent variable for this study is 0.332 for ROA and 0.297 for ROE. The result can also be considered moderate because it is > 0.20 and < 0.50 (Sanchez, 2013).

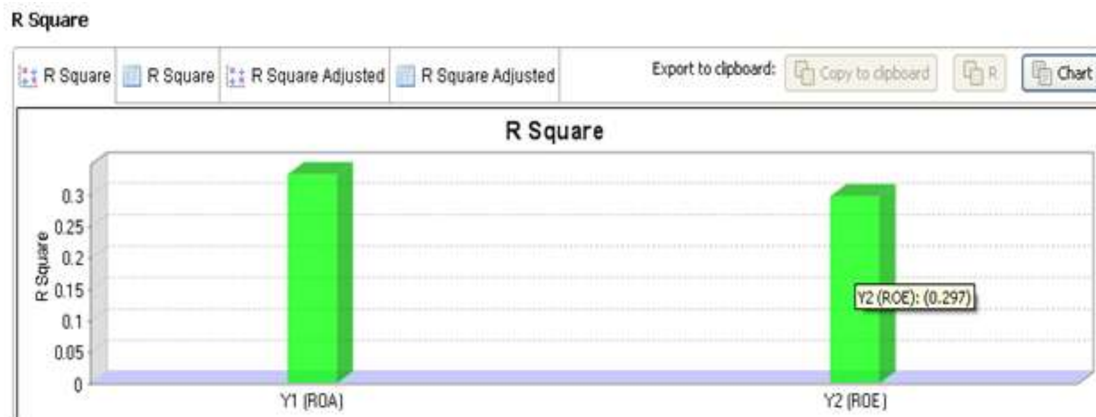

Figure 5.3 R Square

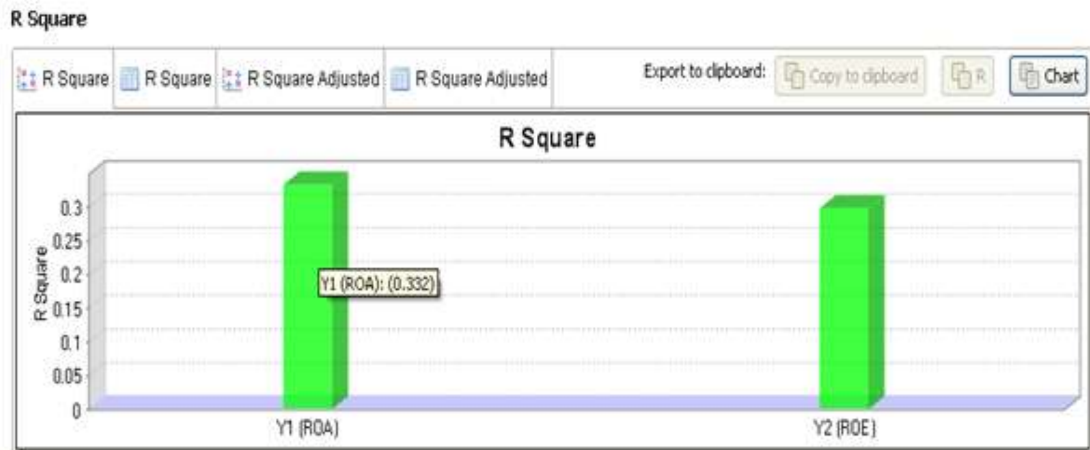

Figure 5.4 R Square

5.3.4 Hypotheses Testing

5.3.4.1 The Relationship of Independent Commissioner and Firm Performance with Government Intervention as a moderating variable

H1 Significance Test of Appointment Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the Relationship Between Independent Commissioner (X1) to ROA (Y1) and ROE (Y2).

Figure 5.5 presents the path coefficient value where it shows that the path coefficient values of the independent commissioner (X1) to ROA (Y1) is -0.233 (see Figure 6). The path coefficient value of the relationship is negative, which means that the relationship between the independent commissioner (X1) to ROA is negative. Further, the path coefficient values of the independent commissioner (X1) to ROE (Y2) is -0.026. This also means the relationship between the independent commissioner (X1) on ROE is negative. Figure 5.4 presents in more detail the path coefficient value diagram.

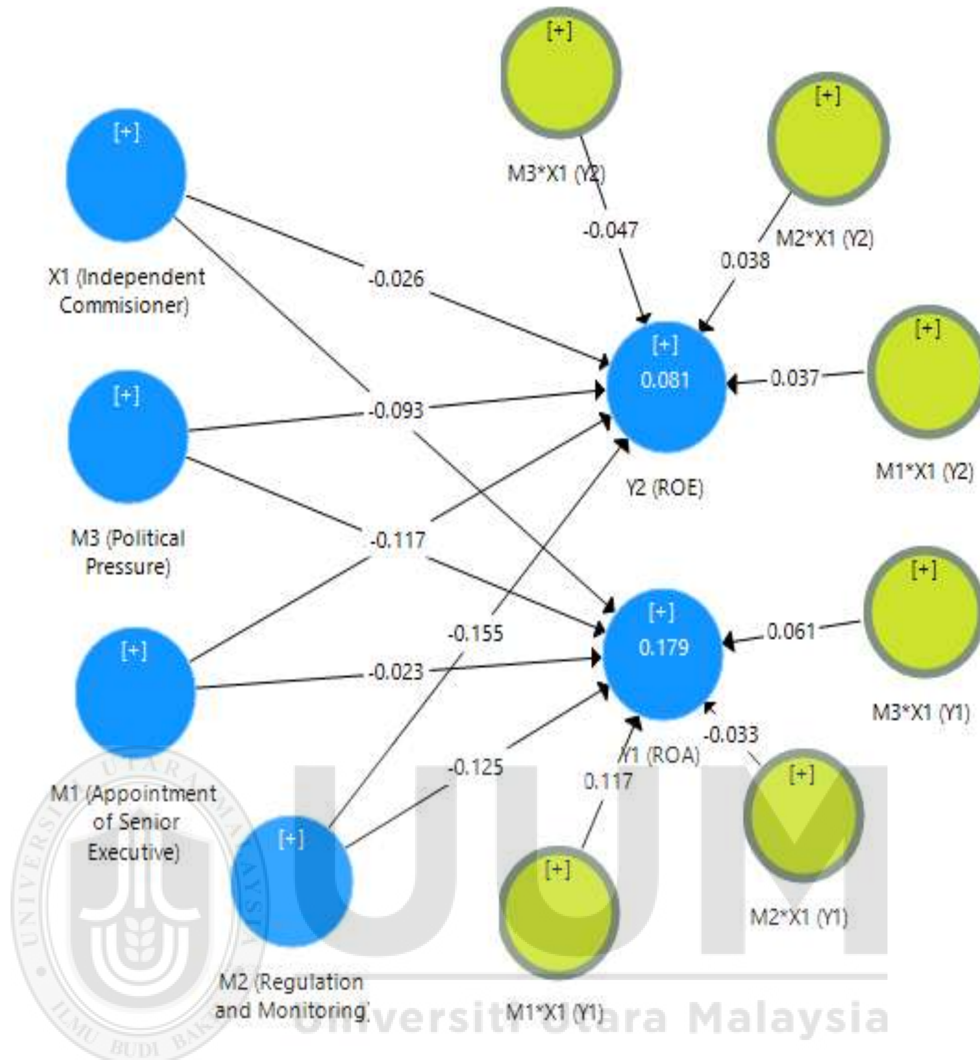

Figure 5.5 Path Coefficient: Independent Commissioner

Table 5.12 shows the list of path coefficient values of the relationship between independent commissioner and firm performance, and also the effects of the moderating variable (government intervention) on the relationship.

Table 5.12

Path Coefficients: Independent Commissioner

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.023	-0.117
M1*X1 (Y1)	0.117	
M1*X1 (Y2)		0.037
M2 (Political Pressure)	-0.232	-0.093
M2*X1 (Y1)	0.061	
M2*X1 (Y2)		-0.047
M3 (Regulation and Monitoring)	-0.125	-0.155
M3*X1 (Y1)	-0.033	
M3*X1 (Y2)		0.038
X1 (Independent Commissioner)	-0.233	-0.026

Table 5.12 shows that independent commissioner has a negative relation with firm performance for ROA and ROE. The moderating effect of government intervention is positive for the appointment of senior executive (ROA and ROE), positive for Political pressure (ROA), and positive for Regulation and monitoring (ROE).

Table 5.13 further shows the significance test of each path coefficient of the relationship.

Table 5.13

The Significancy Test of the Path Coefficient Value

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.159	0.874
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.671	0.502
M1*X1 (Y1) -> Y1 (ROA)	0.630	0.529
M1*X1 (Y2) -> Y2 (ROE)	0.160	0.873
M2 (Political Pressure) -> Y1 (ROA)	1.871	0.062
M2 (Political Pressure) -> Y2 (ROE)	0.708	0.479
M2*X1 (Y1) -> Y1 (ROA)	0.371	0.711
M2*X1 (Y2) -> Y2 (ROE)	0.282	0.778
M3 (Regulation and Monitoring) -> Y1 (ROA)	0.816	0.415
M3 (Regulation and Monitoring) -> Y2 (ROE)	0.856	0.392
M3*X1 (Y1) -> Y1 (ROA)	0.192	0.848
M3*X1 (Y2) -> Y2 (ROE)	0.162	0.871
X1 (Independent Commissioner) -> Y1 (ROA)	1.012	0.312
X1 (Independent Commissioner) -> Y2 (ROE)	0.107	0.915

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Table 5.12 and 5.13 are the result of Smart PLS processing that describes the Path Coefficients, and the Significance test and Path coefficient value of the first hypothesis testing. Explanations on the strength of the relationship between independent commissioner and firm performance and the effect of the moderating variable (government intervention) on the relationship are as follows:

1. Independent commissioner has a negative correlation with ROA because the path coefficient is negative, ie -0.233 and the relationship is not significant (p value of 0.312 values is > 0.05).

2. Independent commissioner has a negative correlation to ROE (path coefficient is negative, ie -0.026), but not significant (p value of 0.915 which is > 0.05).

3. Appointment of a senior executive as a moderating variable has a positive effect on the relationship between the independent commissioner and ROA (path

coefficient is positive, ie 0.117), but not significant (p value of 0.529 which is > 0.05).

4. The appointment of senior executive as a moderating variable has a positive effect on the relationship between the independent commissioner and ROE (path coefficient is positive, ie 0.037), but not significant (p value of 0.873 which is > 0.05).

5. Political pressure as a moderating variable has a positive effect on the relationship between the independent commissioner and ROA (path coefficient is positive, ie 0.061), but not significant for alpha 5 % (p value of 0.062 which is > 0.05).

6. Political pressure as a moderating variable has a negative effect on the relationship between the independent commissioner and ROE (path coefficient is negative, ie -0.047), but not significant (p value of 0.479 which is > 0.05).

7. Regulation and monitoring as a moderating variable has a negative effect on the relationship between the independent commissioner and ROA (path coefficient is negative, ie -0.033), but not significant (p value of 0.415 which is > 0.05).

8. Regulation and monitoring as a moderating variable has a positive effect relationship between the independent commissioner and ROE (path coefficient is positive, ie 0.038), but not significant (p value of 0.392 which is > 0.05).

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5.3.3.2 The Relationship of Independent Director and Firm Performance with Government Intervention as a Moderating Variable

H2 Significance Test of Appointment of Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the Relationship Between Independent Director (X1) to ROA (Y1) and ROE (Y2).

Figure 5.6 presents the path coefficient value. It can be seen that the path coefficient value of independent directors (X2) to ROE (Y2) is worth 0.181. The path coefficient value is positive which means that the relationship between an independent director (X2) on ROE is positive. Figure 5.5 also shows that the path coefficient value of independent directors (X2) to ROA (Y1) is -0.129. The path coefficient value is negative means that the relationship between the independent commissioner (X2) on ROA is negative. Figure 5.6 presents in more detail the path coefficient value.

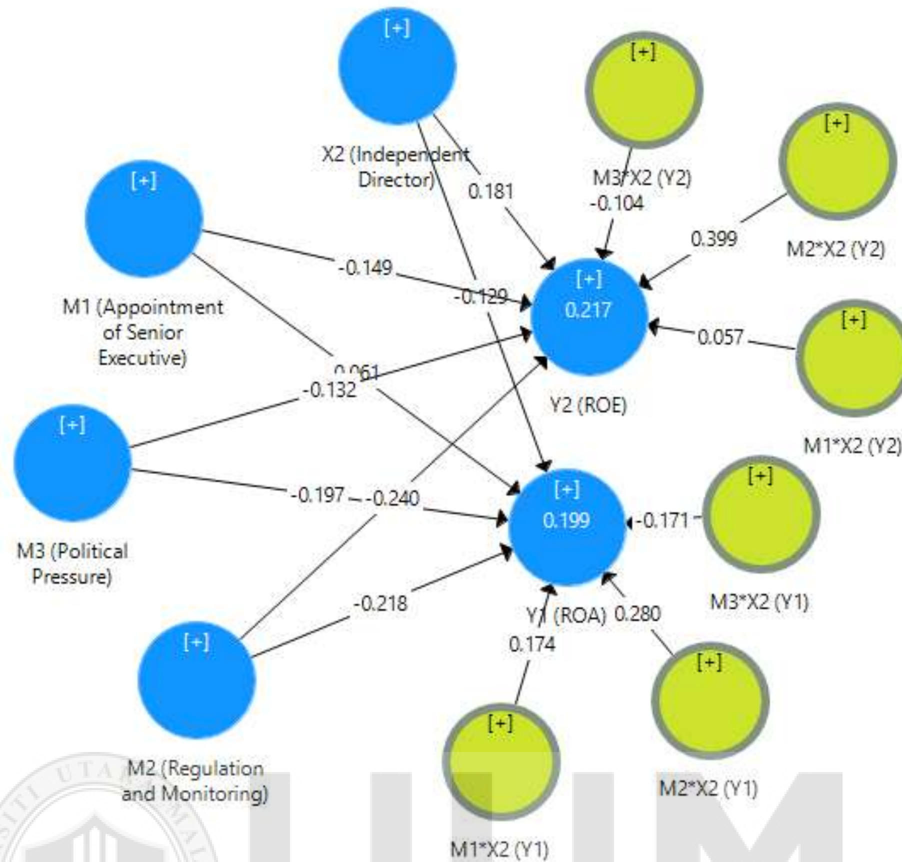

Figure 5.6 Path Coefficient: Independent Director

Table 5.14 shows the list of path coefficient values of the relationship between independent director and firm performance, and also the effects of the moderating variable (government intervention) on the relationship.

Table 5.14

Path Coefficients: Independent Director

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.061	-0.149
M1*X2 (Y1)	0.174	
M1*X2 (Y2)		0.057
M2 (Political Pressure)	-0.197	-0.132
M2*X2 (Y1)	-0.171	
M2*X2 (Y2)		-0.104
M3 (Regulation and Monitoring)	-0.218	-0.240
M3*X2 (Y1)	0.280	
M3*X2 (Y2)		0.399
X2 (Independent Director)	-0.129	0.181

The relationship of independent director and firm performance (ROE) is positive and negative for ROA. The moderating effect on the relationship is positive for the appointment of senior executive and regulation and monitoring on both ROA and ROE.

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Table 5.15 further shows the significance test of each path coefficient of the relationship.

Table 5.15

The Significancy Test of the Path Coefficient Value

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.366	0.715
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.929	0.353
M1*X2 (Y1) -> Y1 (ROA)	0.711	0.478
M1*X2 (Y2) -> Y2 (ROE)	0.248	0.804
M2 (Political Pressure) -> Y1 (ROA)	0.777	0.437
M2 (Political Pressure) -> Y2 (ROE)	0.730	0.466
M2*X2 (Y1) -> Y1 (ROA)	0.416	0.677
M2*X2 (Y2) -> Y2 (ROE)	0.378	0.706
M3 (Regulation and Monitoring) -> Y1 (ROA)	1.029	0.304
M3 (Regulation and Monitoring) -> Y2 (ROE)	0.736	0.462
M3*X2 (Y1) -> Y1 (ROA)	0.855	0.393
M3*X2 (Y2) -> Y2 (ROE)	0.773	0.440
X1 (Independent Director) -> Y1 (ROA)	0.505	0.614
X1 (Independent Director) -> Y2 (ROE)	0.545	0.586

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Table 5.14 and Table 5.15 are the result of Smart PLS processing that describes the Path Coefficients, and the Significance test and Path coefficient value of the second hypothesis testing. Explanations on the strength of the relationship between independent directors and firm performance and the effect of the moderating variable (government intervention) on the relationship are as follows:

1. Independent directors have a negative correlation to ROA (the path coefficient is negative, i.e. -0.129), but not significant (p-value of 0.614 which is > 0.05).

2. Independent directors have a positive relationship to ROE (path coefficient is positive, i.e. 0.181), but not significant (p-value of 0.586 which is > 0.05).

3. The appointment of senior executive as a moderating variable has a positive effect on the relationship between Independent directors and ROA (the path coefficient is positive, i.e. 0.174), but not significant (p-value of 0.478 which is > 0.05).

4. The appointment of senior executive as a moderating variable has a positive effect on the relationship between Independent directors and ROE (the path coefficient is positive, i.e. 0.057), but not significant (p-value of 0.804 which is > 0.05).

5. Political pressure as a moderating variable has a negative effect on the relationship between Independent directors and ROA (the path coefficient is negative, i.e. -0.171), but not significant (p-value of 0.677 which is > 0.05).

6. Political pressure as a moderating variable has a negative effect on the relationship between Independent directors and ROA (the path coefficient is negative, i.e. -0.104), but not significant (p-value of 0.706 which is > 0.05).

7. Regulation and monitoring as a moderating variable has a positive effect on the relationship between Independent directors and ROA (the path coefficient is positive, i.e. 0.280), but not significant (p-value of 0.393 which is > 0.05).

8. Regulation and monitoring as a moderating variable has a positive effect on the relationship between Independent directors and ROE (path coefficient is positive, i.e. 0.399), but not significant (p-value of 0.440 which is > 0.05).

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5.3.3.3 The Relationship of Independent of Committee and Firm Performance with a Moderating Variable (Government Intervention)

H3 Test of Significance of Appointment of Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the Relationship between Independence of Committee (X3) to firm performance (ROA (Y1) and ROE (Y2)).

Figure 5.7 presents the path coefficient value. It is known that the coefficient of independent lines of committees (X3) to ROE (Y2) is worth 0.241. The path coefficient value is positive which means that the relationship between independent of committees (X3) on ROE is positive. It also shows that the path coefficient value of independent of committees (X3) to ROA (Y1) is 0.259 (see Figure 5.6). The path coefficient value is positive which means that the relationship between independent of committees (X3) on ROA is positive (0.259). Figure 5.6 presents in more detail the path coefficient value diagram.

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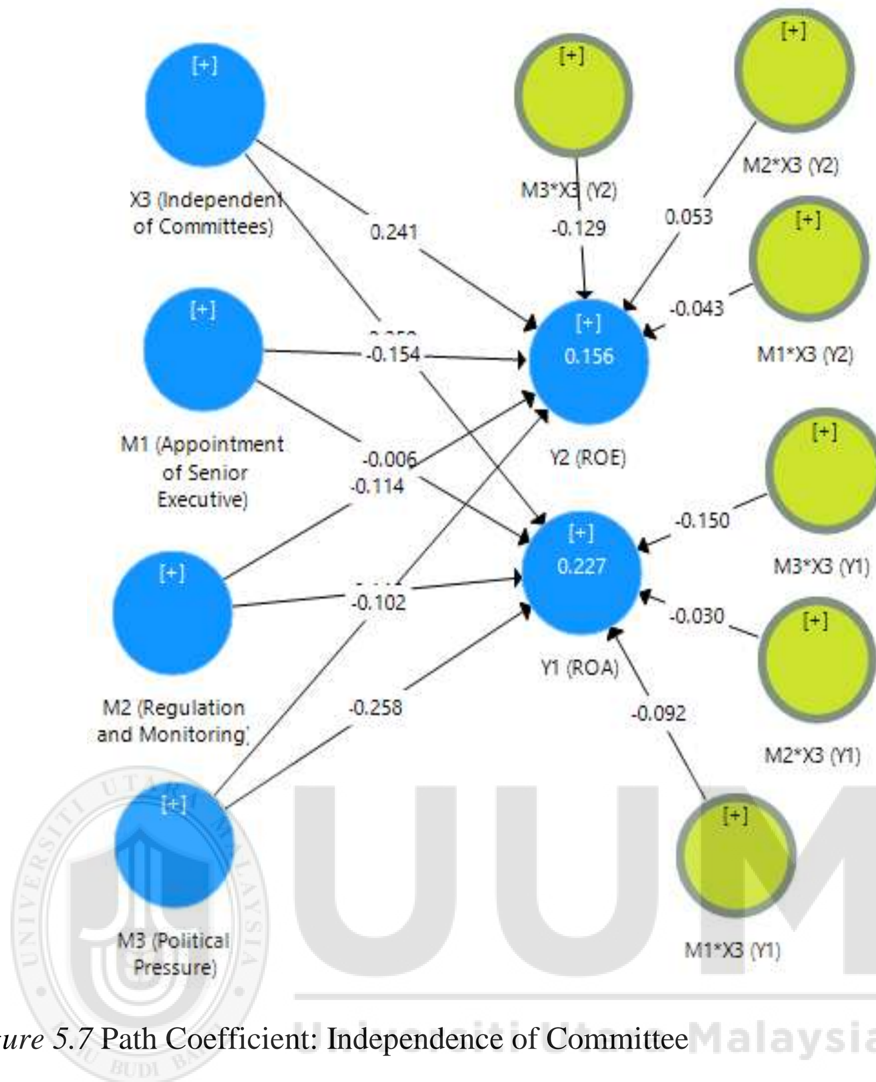

Figure 5.7 Path Coefficient: Independence of Committee

Table 5.16 shows the list of path coefficient values of the relationship between independence of committees and firm performance, and also the effects of the moderating variable (government intervention) on the relationship.

Table 5.16

Path Coefficient: Independence of Committee

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.006	-0.154
M1*X3 (Y1)	-0.092	
M1*X3 (Y2)		-0.043
M2 (Political Pressure)	-0.258	-0.102
M2*X3 (Y1)	-0.150	
M2*X3 (Y2)		-0.129
M3 (Regulation and Monitoring)	-0.146	-0.114
M3*X3 (Y1)	-0.030	
M3*X3 (Y2)		0.053
X3 (Independence of Committee)	0.259	0.241

Table 5.16 shows that the relationship of independence of committee and firm performance (ROA and ROE) is positive. The moderating effect of government intervention on the relationship of independence of committee and firm performance are mostly negative, except for regulation and monitoring on the ROE case.

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Table 5.17 further shows the significance test of each path coefficient of the relationship.

Table 5.17

The Significancy Test of the Path Coefficient Value

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.036	0.971
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.853	0.394
M1*X3 (Y1) -> Y1 (ROA)	0.482	0.630
M1*X3 (Y2) -> Y2 (ROE)	0.243	0.808
M2 (Political Pressure) -> Y1 (ROA)	1.623	0.105
M2 (Political Pressure) -> Y2 (ROE)	0.717	0.474
M2*X3 (Y1) -> Y1 (ROA)	0.724	0.470
M2*X3 (Y2) -> Y2 (ROE)	0.775	0.439
M3 (Regulation and Monitoring) -> Y1 (ROA)	0.995	0.320
M3 (Regulation and Monitoring) -> Y2 (ROE)	0.761	0.447
M3*X3 (Y1) -> Y1 (ROA)	0.160	0.873
M3*X3 (Y2) -> Y2 (ROE)	0.270	0.787
X3 (Competence of Committee) -> Y1 (ROA)	2.109	**0.035**
X3 (Independence of committee) -> Y2 (ROE)	1.601	0.110

Table 5.16 and Table 5.17 concludes the relationship between Independence of Committee with firm performance (ROA and ROE), and also the effect of the moderating variable (Government Interventions) on the relationship:

1. Independence of committees is positively related to ROA (the path coefficient is positive: 0.259), and significant (p-value of 0.035 which is < 0.05).

2. Independence of committees is positively related to ROE (the path coefficient is positive: 0.241), but not significant (p-value of 0.110 which is > 0.05).

3. Appointment of a senior executive as a moderating variable has a negative effect on the relations between Independent of committees and ROA (path coefficient is negative: -0.092), but not significant (p-value of 0.630 which is > 0.05).

4. Appointment of a senior executive as a moderating variable has a negative effect on the relations between Independent of committees and ROE (path coefficient is negative: -0.043), but not significant (p-value of 0.873 which is > 0.05).

5. Political pressure as a moderating variable has a negative effect on the relationship between Independent of committees and ROA (the path coefficient is negative: 0.150), but not significant (p-value of 0.105 which is > 0.05).

6. Political pressure as a moderating variable has a negative effect on the relationship between Independent of committees and ROA (the path coefficient is negative: -0.129), but not significant (p-value of 0.474 which is > 0.05).

7. Regulation and monitoring as a moderating has a negative effect on the relationship between Independent of committees and ROA (the path coefficient is negative: -0.039), but not significant (p-value of 0.787 which is > 0.05).

8. Regulation and monitoring as a moderating has a positive effect on the relationship between Independent of committees and ROE (the path coefficient is positive: 0.053), but not significant (p-value of 0.447 which is > 0.05).

5.3.3.4 The Relationship of Supervisory Board Size and Firm Performance with a Moderating Variable (Government Intervention)

H4 Significance Test of Appointment of Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the

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Relationship between Supervisory Board Size (X4) and Firm Performance (ROA (Y1) and ROE (Y2)).

Figure 5.8 presents the values of the path coefficient. The figure shows that the path coefficient value of the supervisory board size (X4) to ROE (Y2) is 0.545. A positive path coefficient value means that the relationship between the supervisory board size (X4) on ROE is positive. Further, the relationship of supervisory board size (X4) with ROA (Y1) is also positive. The value of the path coefficient is 0.375. Table 5.18 presents in more detail the path coefficient value.

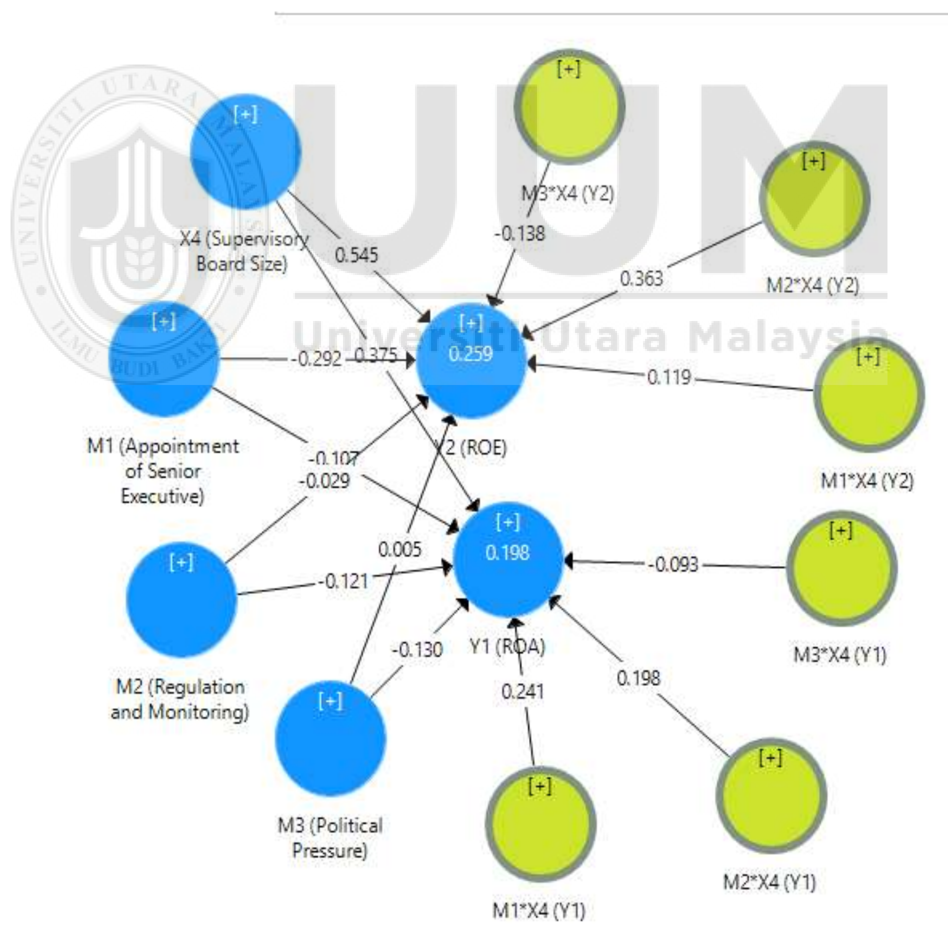

Figure 5.8 Path Coefficient: Supervisory Board Size

Table 5.18 shows the list of path coefficient values of the relationship between supervisory board size and firm performance, and also the effects of the moderating variable government intervention on the relationship.

Table 5.18

Path Coefficient: Supervisory Board Size

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.107	-0.292
M1*X4 (Y1)	0.241	
M1*X4 (Y2)		0.119
M2 (Political Pressure)	-0.130	0.005
M2*X4 (Y1)	-0.093	
M2*X4 (Y2)		-0.138
M3 (Regulation and Monitoring)	-0.121	-0.029
M3*X4 (Y1)	0.198	
M3*X4 (Y2)		0.363
X4 (Supervisory Board Size)	0.375	0.545

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Table 5.18 shows that the relationship of supervisory board size and firm performance (ROA and ROE) is positive. The moderating effect of government intervention is positive for the appointment of senior executive and regulation and monitoring.

Table 5.19 further shows the significance test of each path coefficient of the relationship.

Table 5.19

The Significancy Test of the Path Coefficient Value

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.679	0.497
M1 (Appointment of Senior Executive) -> Y2 (ROE)	1.641	0.101
M1*X4 (Y1) -> Y1 (ROA)	1.080	0.281
M1*X4 (Y2) -> Y2 (ROE)	0.625	0.532
M2 (Political Pressure) -> Y1 (ROA)	0.852	0.394
M2 (Political Pressure) -> Y2 (ROE)	0.035	0.972
M2*X4 (Y1) -> Y1 (ROA)	0.471	0.638
M2*X4 (Y2) -> Y2 (ROE)	0.804	0.422
M3 (Regulation and Monitoring) -> Y1 (ROA)	0.761	0.447
M3 (Regulation and Monitoring) -> Y2 (ROE)	0.214	0.831
M3*X4 (Y1) -> Y1 (ROA)	0.945	0.345
M3*X4 (Y2) -> Y2 (ROE)	2.058	**0.040**
X4 (Supervisory Board Size) -> Y1 (ROA)	2.730	**0.007**
X4 (Supervisory Board Size) -> Y2 (ROE)	4.373	**0.000**

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Table 5.18 and Table 5.19 show the result of the relationship between supervisory board size and firm performance and its effect of the moderating variable (government intervention). The results are as follows

1. Supervisory board size is positively related to ROA (the path coefficient is positive: 0.375) and significant (p value of 0.007 is < 0.05).

2. Supervisory board size is positively related to ROE (the path coefficient is positive: 0.545) and significant (p value of 0.000 is < 0.05).

3. Appointment of senior executive as a moderating has a positive effect on the relationship between the Supervisory board size and ROA (the path coefficient is positive: 0.241), but not significant (p-value of 0.281 > 0.05).

4. Appointment of senior executive as a moderating has a positive effect on the relationship between the Supervisory board size and ROE (the path coefficient is positive: 0.119), but not significant (p-value of 0.532 > 0.05).

5. Political pressure as a moderating variable has a negative effect in the relationship between the supervisory board size and ROA (the path coefficient is negative: -0.093), but not significant (p-value of 0.638 is > 0.05).

6. Political pressure as a moderating variable has a negative effect in the relationship between the supervisory board size and ROA (the path coefficient is negative: -0.138), but not significant (p-value of 0.422 is > 0.05).

7. Regulation and monitoring executive as a moderating has a positive effect on the relationship between the Supervisory board size and ROA (the path coefficient is positive: 0.198), but not significant (p-value of 0.345 which is > 0.05).

8. Regulation and monitoring of moderate positive affect relations between the Supervisory board size and ROE (path coefficient is positive: 0.363), and significant (p value 0.0.040 which is < 0.05).

5.3.3.5 The Relationship of Management Board Size and Firm Performance with a Moderating Variable of Government Intervention

H5 Significance Test of Appointment of Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the Relationship of Management Board Size (X5) and Firm Performance (ROA (Y1) and ROE (Y2)).

Figure 5.9 presents the path coefficient value of the relationship. It shows that the coefficient lines of management board size (X5) and ROE (Y2) is -0.017. The path coefficient value is negative which means that the relationship between management board size (X5) on ROE is negative. The path coefficient value for the relationship of management board size with ROA is positive, where the value is 0.246. Table 5.20 is presented in more detail the path coefficient value.

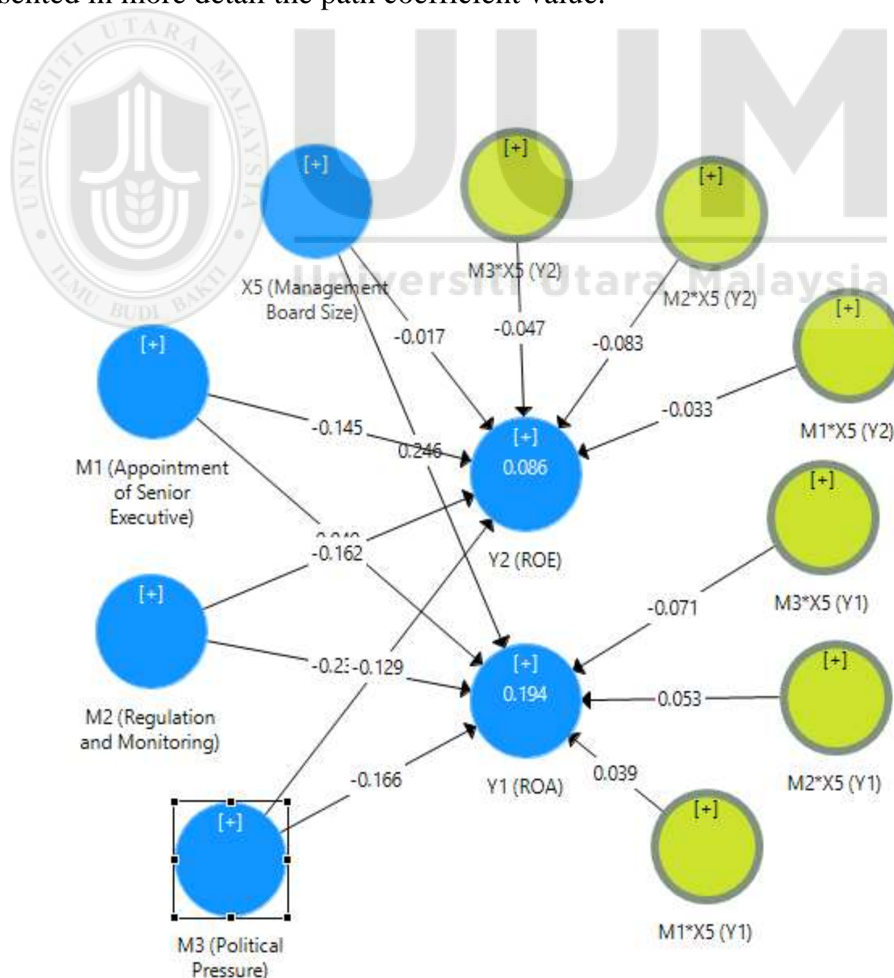

Figure 5.9 Path Coefficient: Management Board Size

In the following table: Table 5.20 shows the list of path coefficient values of the relationship between management board size and firm performance, and also the effects of the moderating variable government intervention on the relationship. The relationship of management board size and firm performance is positive for ROA and negative for ROE. The moderating effect of government intervention is positive only by appointment of senior executive and regulation and monitoring for ROA. All relationships and its moderating effect are negative to ROE.

Table 5.20

Path Coefficient: Management Board Size

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	0.040	-0.145
M1*X5 (Y1)	0.039	
M1*X5 (Y2)		-0.033
M2 (Political Pressure)	-0.166	-0.129
M2*X5 (Y1)	-0.071	
M2*X5 (Y2)		-0.047
M3 (Regulation and Monitoring)	-0.237	-0.162
M3*X5 (Y1)	0.053	
M3*X5 (Y2)		-0.083
X5 (Management Board Size)	0.246	-0.017

Table 5.21 further shows the significance test of each path coefficient of the relationship.

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Table 5.21

Significancy Path Coefficient Test

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.249	0.804
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.874	0.382
M1*X5 (Y1) -> Y1 (ROA)	0.145	0.885
M1*X5 (Y2) -> Y2 (ROE)	0.144	0.886
M2 (Political Pressure) -> Y1 (ROA)	1.165	0.245
M2 (Political Pressure) -> Y2 (ROE)	0.831	0.407
M2*X5 (Y1) -> Y1 (ROA)	0.251	0.802
M2*X5 (Y2) -> Y2 (ROE)	0.192	0.848
M3 (Regulation and Monitoring) -> Y1 (ROA)	1.184	0.237
M3 (Regulation and Monitoring) -> Y2 (ROE)	1.082	0.280
M3*X5 (Y1) -> Y1 (ROA)	0.212	0.832
M3*X5 (Y2) -> Y2 (ROE)	0.343	0.732
X5 (Management Board Size) -> Y1 (ROA)	0.902	0.368
X5 (Management Board Size) -> Y2 (ROE)	0.073	0.942

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Table 5.20 and Table 5.21 shows the power and significance of relationship of management board size and firm performance. It also shows the effect of the moderating variable (government intervention) on the relationship of management board size and firm performance. The explanation is as follows:

1. Management board size is positively related to ROA (the path coefficient is positive: 0.246) but not significant (p-value of 0.368 is > 0.05).

2. Management board size is negatively related to ROE (the path coefficient is negative: -0.017) and also not significant (p values of 0.942 are > 0.05).

3. The appointment of senior executive as a moderating variable has a positive effect on the relationship between Management board size and ROA (The path

coefficient has a positive value: 0.039) but not significant (p values of 0.885 are > 0.05).

4. The appointment of senior executive as a moderating variable has a negative effect on the relationship between Management board size and ROE (the path coefficient has a negative value: -0.033), but not significant (p values of 0.886 are > 0.05).

5. Political pressure as a moderating variable has a negative on the relationship between Management board size and ROA (the coefficient value has a negative value: -0.071), but not significant (p values of 0.802 are > 0.05).

6. Political pressure as a moderating variable has a negative effect on the relationship between Management board size and ROE (the path coefficient has a negative value: -0.047) but not significant (p values of 0.848 are > 0.05).

7. Regulation and monitoring as a moderating variable has a positive effect on the relationship between Management board size and ROA (the path coefficient has a positive value: 0.053), but not significant (p values of 0.832 are > 0.05).

8. Regulation and monitoring as a moderating variable has a negative effect on the relationship between Management board size and ROE (the path coefficient has a negative value: -0,083), and not significant (p values of 0.732 are > 0.05).

5.3.3.6 The Relationship of Supervisory Board Meetings and Firm Performance with a Moderating Variable of Government Intervention

H6 Significance Test of Appointment of Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the Relationship between Supervisory Board Meetings (X6) and Firm Performance (ROA (Y1) and ROE (Y2)).

Figure 5.10 presents the value of the path coefficient. The figure shows that the path coefficient value of the supervisory board meetings (X6) and ROA (Y1) is 0.145. The path coefficient value is positive which means the relationship between supervisory board meetings (X6) to ROA is positive. The path coefficient from supervisory board meetings and ROE is 0.068, this means that the relationship is positive. Table 5.22 presents the path coefficient value:

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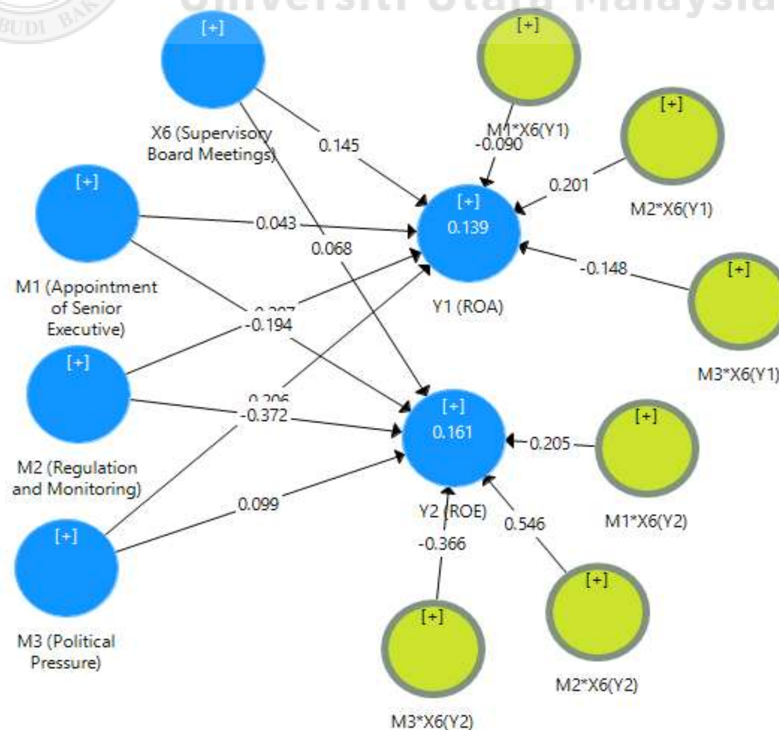

Figure 5.10: The Path Coefficient: Supervisory Board Meetings

Table 5.22 shows the list of path coefficient values of the relationship between supervisory board meetings and firm performance, and also the effects of the moderating variable government intervention on the relationship.

Table 5. 22

The Path Coefficient: Supervisory Board Meetings

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	0.043	-0.194
M1*X6 (Y1)	-0.090	
M1*X6 (Y2)		0.205
M2 (Political Pressure)	0.206	0.099
M2*X6 (Y1)	-0.148	
M2*X6 (Y2)		-0.366
M3 (Regulation and Monitoring)	-0.297	-0.372
M3*X6 (Y1)	0.201	
M3*X6 (Y2)		0.546
X6 (Supervisory Board Meetings)	0.145	0.068

Table 5.22 shows that the relationship between supervisory board meetings and firm performance (ROA and ROE) is positive. The moderating variable (government intervention) is positive only to regulation and monitoring for both ROA and ROE, and positive for the appointment of senior executive in the case of ROE.

Table 5.23 further shows the significance test of each path coefficient of the relationship.

Table 5.23

Significance Test of the Path Coefficient

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.249	0.796
M1 (Appointment of Senior Executive) -> Y2 (ROE)	1.014	0.311
M1*X6 (Y1) -> Y1 (ROA)	0.356	0.722
M1*X6 (Y2) -> Y2 (ROE)	0.903	0.367
M2 (Political Pressure) -> Y1 (ROA)	1.278	0.202
M2 (Political Pressure) -> Y2 (ROE)	0.465	0.642
M2*X6 (Y1) -> Y1 (ROA)	0.676	0.499
M2*X6 (Y2) -> Y2 (ROE)	1.111	0.267
M3 (Regulation and Monitoring) -> Y1 (ROA)	1.877	0.061
M3 (Regulation and Monitoring) -> Y2 (ROE)	1.527	0.127
M3*X6 (Y1) -> Y1 (ROA)	0.710	0.478
M3*X6 (Y2) -> Y2 (ROE)	1.345	0.179
X6 (Supervisory Board Meetings) -> Y1 (ROA)	0.878	0.380
X6 (supervisory Board Meetings) -> Y2 (ROE)	0.354	0.724

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Table 5.22 and Table 5.23 shows the power and significance of relationship of supervisory board meetings and firm performance. It also shows the effect of the moderating variable (government intervention) on the relationship of supervisory board meetings and firm performance. The explanation is as follows:

1. Supervisory board meetings have a positive relationship to ROA (The path coefficient is positive: 0.145) but not significant (p values of 0.380 are > 0.05).

2. Supervisory board meetings have a positive relationship with ROE (the path coefficient has a positive value: 0.068), but not significant (p values of 0.724 are > 0.05).

3. The appointment of senior executive as a moderating variable has a negative effect on the relationship between Supervisory board meetings and ROA (the path value is negative: -0.090) but not significant (p values of 0.722 > 0.05).

4. The appointment of senior executive as a moderating variable has a positive effect on the relationship between Supervisory board meetings and ROE (the path coefficient is positive: 0.205), but not significant (p values of 0.367 > 0.05).

5. Political pressure as a moderating variable has a negative effect on the relationship between Supervisory board meetings and ROA (the path coefficient is negative: -0.148), and not significant (p values of 0.499 are > 0.05).

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6. Political pressure as a moderating variable has a negative effect on the relationship between Supervisory board meetings and ROE (the path coefficient is negative: -0.366), but not significant (p values of 0.267 are > 0.05).

7. Regulation and monitoring as a moderating variable has a positive effect on the relationship between Supervisory board meetings and ROA (the path coefficient value is positive: 0.201), but not significant (p values of 0.478 are > 0.05).

8. Regulation and monitoring as a moderating variable has a positive effect on the relationship between Supervisory board meetings and ROE (the path coefficient value is positive: 0.546), but not significant (p values of 0.179 are > 0.05).

5.3.3.7 The Relationship of Management Board Meetings and Firm Performance with Government Intervention as a Moderating Variable.

H7 Significance Test of Appointment of Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the Relationship Between Management Board Meetings (X7) and Firm Performance (ROA (Y1) and ROE (Y2)).

Figure 5.11 presents the coefficient value of the relationship between management board meetings and firm performance (ROA and ROE). The figure shows that the path coefficient value of management board meetings (X7) and ROA (Y1) is 0.031. The path coefficient value is positive which means that the relationship between management board meetings (X7) and ROA is positive. The relationship between management board meeting with ROE is negative. The path coefficient value is – 0.011. Table 5.24 further presents the path coefficient value in detail.

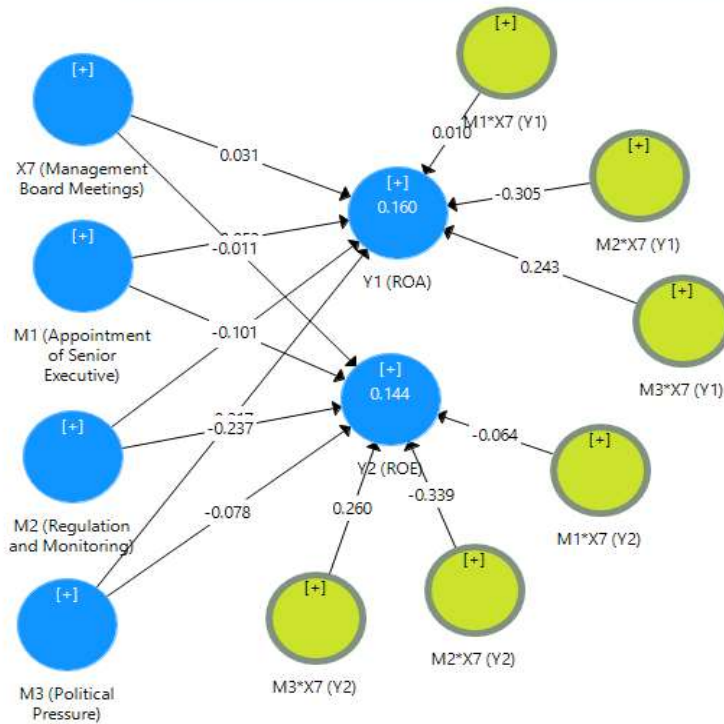

Figure 5.11: The Path Coefficient: Management Board Meetings

In the following table: Table 5.24 shows the list of path coefficient values of the relationship between supervisory board meetings and firm performance, and also the effects of the moderating variable government intervention on the relationship.

Table 5.24

The Path Coefficient: Management Board Meetings

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	0.052	-0.101
M1*X7 (Y1)	0.010	
M1*X7 (Y2)		-0.064
M2 (Political Pressure)	-0.217	-0.078
M2*X7 (Y1)	0.243	
M2*X7 (Y2)		0.260
M3 (Regulation and Monitoring)	-0.258	-0.237
M3*X7 (Y1)	-0.305	
M3*X7 (Y2)		-0.339
X7 (Management Board Meetings)	0.031	-0.011

Table 5.24 shows that the relationship between management board meetings and firm performance is positive for ROA and negative for ROE. The moderating effect of government intervention on the relationship of management board meetings with firm performance is mixed. It is positive for the appointment of senior executive for ROA and political pressure for ROA and ROE. The other relations and moderating effect are negative.

Table 5.25 further shows the significance test of each path coefficient of the relationship.

Table 5.25

Significance Test of the Path Coefficient

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	1.103	0.271
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.817	0.415
M1*X7 (Y1) -> Y1 (ROA)	0.060	0.952
M1*X7 (Y2) -> Y2 (ROE)	0.146	0.884
M2 (Political Pressure) -> Y1 (ROA)	1.308	0.191
M2 (Political Pressure) -> Y2 (ROE)	0.514	0.508
M2*X7 (Y1) -> Y1 (ROA)	0.817	0.415
M2*X7 (Y2) -> Y2 (ROE)	1.103	0.271
M3 (Regulation and Monitoring) -> Y1 (ROA)	1.733	0.084
M3 (Regulation and Monitoring) -> Y2 (ROE)	1.371	0.171
M3*X7 (Y1) -> Y1 (ROA)	0.970	0.333
M3*X7 (Y2) -> Y2 (ROE)	1.251	0.211
X7 (Management Board Meetings) -> Y1 (ROA)	0.878	0.380
X7 (Management Board Meetings) -> Y2 (ROE)	0.354	0.724

Table 5.24 and Table 5.25 shows the power and significance of relationship of management board meetings and firm performance. It also shows the effect of the

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moderating variable (government intervention) on the relationship of management board meetings and firm performance. The explanation is as follows:

1. Management board meetings have a positive relationship to ROA (The path coefficient value is positive: 0.031) but not significant (p values of 0.884 which is > 0.05).

2. Management board meetings have a negative relationship to ROE (the path coefficient value is negative: -0.011) and not significant (p values of 0.952 which is > 0.05).

3. The appointment of senior executive as a moderating has a positive effect on the relationship between Management board meetings and ROA (the path coefficient value is positive: 0.010), but not significant (p values of 0.969 which is > 0.05).

4. The appointment of senior executive as a moderating has a negative effect on the relationship between Management board meetings and ROE (the path coefficient value is negative: -0.064), but not significant (p values of 0.797 which is > 0.05).

5. Political pressure as a moderating variable has a positive effect on the relationship between Management board meetings and ROA (the path coefficient has a positive value: 0.243), but not significant (p values of 0.0415 which is > 0.05).

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6. Political pressure as a moderating variable has a positive effect on the relationship between Management board meetings and ROE (the path coefficient has a positive value: 0.260), but not significant (p values of 0.271 which is > 0.05).

7. Regulation and monitoring as a moderating has a negative effect on the relationship Management board meetings and ROA (the path coefficient value is negative: -0.305), and not significant (p values of 0.333 which is > 0.05).

8. Regulation and monitoring as a moderating has a negative effect on the relationship Management board meetings and ROE (the path coefficient value is negative: -0.339), and not significant (p values of 0.608 > 0.05).

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5.3.3.8 The Relationship of Competence of Audit Committee and Firm Performance with a Moderating Variable of Government Intervention

H8 Significance Test of Appointment of Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the Relationship Between Competence of Audit Committee (X8) and Firm Performance (ROA (Y1) and ROE (Y2)).

Figure 5.12 presents the path coefficient value. The figure shows the path coefficient value of competence of audit committee (X8) and ROA (Y1) is 0.226. The path coefficient has a positive value which means that the relationship between

competence of audit committee (X8) and ROA is positive. The relation is also positive for ROE. Table 5.26 presents the path coefficient value in detail.

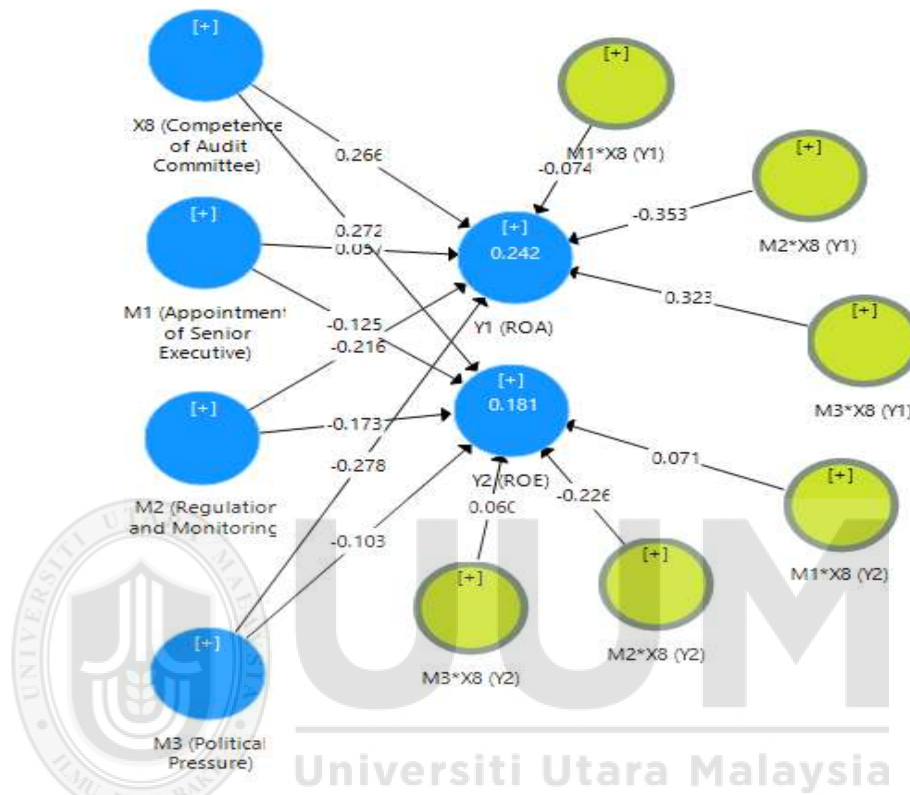

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Figure 5.12: The Path Coefficient: Competence of Audit Committee

Table 5.26 shows the list of path coefficient values of the relationship between competence of the audit committee and firm performance, and also the effects of the moderating variable (government intervention) on the relationship. The table shows that the relationship of competence of the audit committee is positive. The moderating effect of government intervention is also positive for political pressure (ROA and ROE) and appointment of senior executive in the case of ROE.

Table 5.26

The Path Coefficients: Competence of Audit Committee

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	0.057	-0.125
M1*X8 (Y1)	-0.074	
M1*X8 (Y2)		0.071
M2 (Political Pressure)	-0.278	-0.103
M2*X8 (Y1)	0.323	
M2*X8 (Y2)		0.060
M3 (Regulation and Monitoring)	-0.216	-0.173
M3*X8 (Y1)	-0.353	
M3*X8 (Y2)		-0.226
X8 (Competence of Audit Committee)	0.266	0.272

Table 5.27 further shows the significance test of each path coefficient of the relationship.

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Table 5.27

Significance Test of the Path Coefficient

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.357	0.721
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.705	0.481
M1*X8 (Y1) -> Y1 (ROA)	0.354	0.724
M1*X8 (Y2) -> Y2 (ROE)	0.336	0.737
M2 (Political Pressure) -> Y1 (ROA)	1.744	0.082
M2 (Political Pressure) -> Y2 (ROE)	0.627	0.531
M2*X8 (Y1) -> Y1 (ROA)	0.921	0.357
M2*X8 (Y2) -> Y2 (ROE)	0.197	0.844
M3 (Regulation and Monitoring) -> Y1 (ROA)	1.107	0.269
M3 (Regulation and Monitoring) -> Y2 (ROE)	0.894	0.372
M3*X8 (Y1) -> Y1 (ROA)	0.663	0.508
M3*X8 (Y2) -> Y2 (ROE)	0.520	0.603
X8 (Competence of Audit Committee) -> Y1 (ROA)	0.995	0.320
X8 (Competence of Audit Committee) -> Y2 (ROE)	1.110	0.268

Table 5.26 and Table 5.27 shows the power and significance of relationship of competence of the audit committee and firm performance. It also shows the effect of the moderating variable (government intervention) on the relationship of competence of the audit committee and firm performance. The explanation is as follows:

1. The competence of the audit committee has a positive relationship with ROA (the path coefficient value is positive: 0.266) but not significant (p values of 0.320 are > 0.05).

2. The competence of the audit committee has a positive relationship with ROE (the coefficient value is positive: 0.272), but not significant (p values of 0.268 which is > 0.05).

3. The appointment of senior executive as a moderating variable has a negative effect on the relationship between Competence of the audit committee and ROA (the path value coefficient is negative: -0.074) and also not significant (p values of 0.724 which is > 0.05).

4. The appointment of senior executive as a moderating variable has a positive effect on the relationship between Competence of the audit committee and ROE (the path coefficient value is positive: 0.071) but not significant (p values of 0.737 is > 0.05).

5. Political pressure as a moderating variable has a positive effect on the relationship between Competence of the audit committee and ROA (the path

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coefficient value is positive) but not significant (p values of 0.357 which is > 0.05).

6. Political pressure as a moderating variable has a positive effect on the relationship between Competence of the audit committee and ROA (the path coefficient value is positive) but not significant (p values of 0.844 which is > 0.05).

7. Regulation and monitoring as a moderating variable has a negative effect between the relationship of Competence of the audit committee and ROA (the path coefficient value is negative: -0.353), and also not significant (p values of 0.508 are > 0.05).

8. Regulation and monitoring as a moderating variable has a negative effect between the relationship of Competence of the audit committee and ROE (the path coefficient value is negative: -0.226), and also not significant (p values of 0.603 which is > 0.05).

5.3.3.9 The Relationship of Competence of Reputation of Auditors and Firm Performance with a Moderating Variable (Government Intervention)

H9 Significance Test of Appointment of Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the Relationship Between Reputation of Auditors (X9) and Firm Performance (ROA (Y1) and ROE (Y2)).

Figure 5.13 presents the path coefficient value of the relationship between reputation of auditors and firm performance (ROA and ROE). The figure shows that the path coefficient value of the reputation of auditors (X9) to ROA (Y1) is 0.169. The path coefficient value has a positive value which means that the relationship is positive. The relationship between reputation of auditors and ROE is positive (0.269). Table 5.28 presents in more detail the path coefficient value.

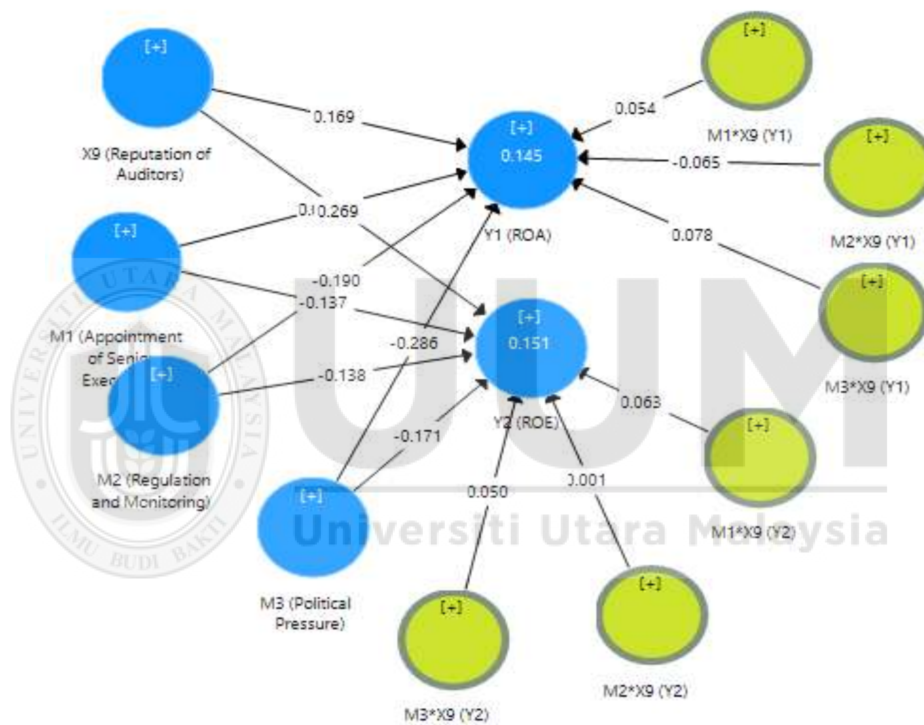

Figure 5.13: Path Coefficient: Reputation of Auditor

Table 5.28 shows the list of path coefficient values of the relationship between reputation of auditors and firm performance, and also the effects of the moderating variable government intervention on the relationship. The table shows that the relationship between reputation of auditors and firm performance for ROA and ROE is positive. The moderating effect of government intervention is positive for the appointment of senior executive and political pressure in both cases ROA and ROE. Regulation and monitoring are positive only on ROE.

Table 5.28

Path Coefficients: Reputation of Auditor

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	0.015	-0.137
M1*X9 (Y1)	0.054	
M1*X9 (Y2)		0.063
M2 (Political Pressure)	-0.286	-0.171
M2*X9 (Y1)	0.078	
M2*X9 (Y2)		0.050
M3 (Regulation and Monitoring)	-0.190	-0.138
M3*X9 (Y1)	-0.065	
M3*X9 (Y2)		-0.001
X9 (Reputation of Auditors)	0.169	0.269

Table 5.29 further shows the significance test of each path coefficient of the relationship.

Table 5.29

Significance Test Path Coefficient

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.094	0.925
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.880	0.379
M1*X9 (Y1) -> Y1 (ROA)	0.324	0.746
M1*X9 (Y2) -> Y2 (ROE)	0.318	0.750
M2 (Political Pressure) -> Y1 (ROA)	2.126	0.034
M2 (Political Pressure) -> Y2 (ROE)	1.244	0.214
M2*X9 (Y1) -> Y1 (ROA)	0.478	0.633
M2*X9 (Y2) -> Y2 (ROE)	0.300	0.764
M3 (Regulation and Monitoring) -> Y1 (ROA)	1.423	0.155
M3 (Regulation and Monitoring) -> Y2 (ROE)	0.956	0.339
M3*X9 (Y1) -> Y1 (ROA)	0.466	0.642
M3*X9 (Y2) -> Y2 (ROE)	0.006	0.995
X9 (Reputation of Auditor) -> Y1 (ROA)	1.123	0.262
X9 (Reputation of Auditor) -> Y2 (ROE)	2.074	**0.039**

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Table 5.28 and Table 5.29 shows the power and significance of the relationship of the reputation of auditors and firm performance. It also shows the effect of the moderating variable (government intervention) on the relationship of the reputation of auditors and firm performance. The explanation is as follows:

1. The reputation of auditors has a positive relation to ROA (the path coefficient value is positive: 0.169) but not significant (p values of 0.262 > 0.05).

2. The reputation of auditors has a positive relation to ROE (the path coefficient value is positive: 0.269), and also significant (p values of 0.039 which is < 0.05).

3. The appointment of senior executive as a moderating variable has a positive effect on the relationship between Reputation of auditors and ROA (the path coefficient value is positive: 0.054) but not significant (p values of 0.746 which is > 0.05).

4. The appointment of senior executive as a moderating variable has a positive effect on the relationship between reputation of auditors and ROE (the path coefficient value is positive: 0.063) but not significant (p values of 0.750 which is > 0.05).

5. Political pressure as a moderating variable has a positive effect on the relationship between reputation of auditors and ROA (the path coefficient value is positive: 0.078) and significant (p values of 0.633 which is < 0.05).

6. Political pressure as a moderating variable has a positive effect on the relationship between reputation of auditors and ROE (the path coefficient value is positive: 0.050) but not significant (p values of 0.764 which is > 0.05).

7. Regulation and monitoring as a moderating variable has a negative effect on the relationship between reputation of auditors and ROA (the path coefficient value is negative: -0.065) and also not significant (p values of 0.642 which is > 0.05).

8. Regulation and monitoring as a moderating variable has a positive effect on the relationship between reputation of auditors and ROE (the path coefficient value is positive: 0.001) but not significant (p values of 0.995 which is > 0.05).

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5.3.3.10 The Relationship of Audit Committee Meetings of Auditors and Firm Performance with a Moderating Variable (Government Intervention)

H10 Significance Test of Appointment of Senior Executive (M1), Political Pressure (M2), and Regulation and Monitoring (M3) in Moderating the Relationship Between Audit Committee Meetings (X10) and Firm Performance (ROA (Y1) and ROE (Y2)).

Figure 5.14 presents the path coefficient value of the above relationship. The figure shows that the path coefficient value of audit committee meetings (X10) and ROA (Y1) is 0.291. The path coefficient is positive, which means that the relationship between audit committee meetings (X10) and ROA is positive. The relationship for

ROE is also positive: 0.250. Table 5.30 present in more detail the path coefficient value of the relationship.

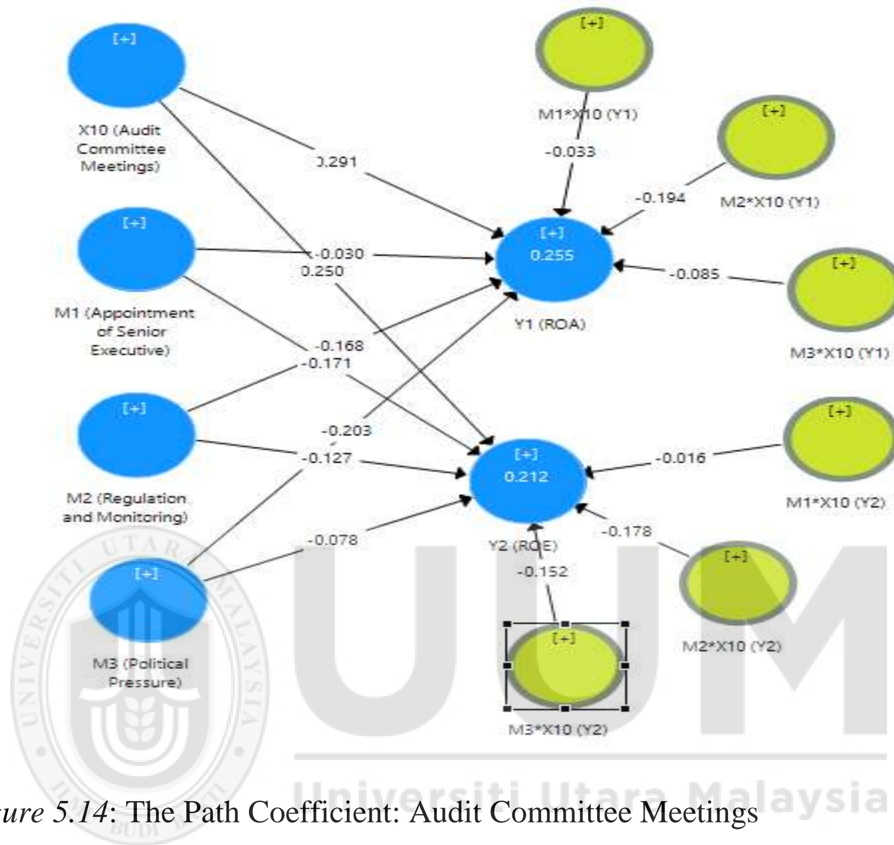

Figure 5.14: The Path Coefficient: Audit Committee Meetings

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Table 5.30 shows the list of path coefficient values of the relationship between audit committee meetings and firm performance, and also the effects of the moderating variable government intervention on the relationship. The table shows that the relationship between audit committee meetings and firm performance (ROA and ROE) is positive. Whereas the moderating effect of government intervention: appointment of senior executive, and political is negative on the relationship for both ROA and ROE.

Table 5.30

Path Coefficients: Audit Committee Meetings

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.030	-0.171
M1*X10 (Y1)	-0.033	
M1*X10 (Y2)		-0.016
M2 (Political Pressure)	-0.203	-0.078
M2*X10 (Y1)	-0.085	
M2*X10 (Y2)		-0.152
M3 (Regulation and Monitoring)	-0.168	-0.127
M3*X10 (Y1)	-0.194	
M3*X10 (Y2)		-0.178
X10 (Audit Committee Meetings)	0.291	0.250

Table 5.31 further shows the significance test of each path coefficient of the relationship.

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Table 5.31

Significancy Test of Path Coefficient

	T Statistics	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.197	0.844
M1 (Appointment of Senior Executive) -> Y2 (ROE)	1.044	0.297
M1*X10 (Y1) -> Y1 (ROA)	0.139	0.889
M1*X10 (Y2) -> Y2 (ROE)	0.056	0.955
M2 (Political Pressure) -> Y1 (ROA)	1.557	0.120
M2 (Political Pressure) -> Y2 (ROE)	0.548	0.584
M2*X10 (Y1) -> Y1 (ROA)	0.451	0.652
M2*X10 (Y2) -> Y2 (ROE)	0.687	0.492
M3 (Regulation and Monitoring) -> Y1 (ROA)	1.020	0.308
M3 (Regulation and Monitoring) -> Y2 (ROE)	0.713	0.476
M3*X10 (Y1) -> Y1 (ROA)	0.828	0.408
M3*X10 (Y2) -> Y2 (ROE)	0.719	0.472
X10 (Audit Committee Meetings) -> Y1 (ROA)	1.790	**0.074**
X10 (Audit Committee Meetings) -> Y2 (ROE)	1.303	0.193

Table 5.30 and Table 5.31 shows the power and significance of the relationship of the reputation of auditors and firm performance. It also shows the effect of the moderating variable (government intervention) on the relationship of the reputation of auditors and firm performance. The explanation is as follows:

1. Audit committee meetings have a positive relationship to ROA (the path coefficient value is positive: 0.291) but it is not significant (p values of 0.074 which is > 0.05).

2. Audit committee meetings have a positive relationship to ROE (the path coefficient value is positive: 0.250) but it is not significant (p values of 0.193 which is > 0.05).

3. The appointment of senior executive as a moderating variable has a negative effect on the relationship between audit committee meetings and ROA (the path coefficient has a negative value: -0.033) and also not significant (p values of 0.889 which is > 0.05).

4. The appointment of senior executive as a moderating variable has a negative effect on the relationship between audit committee meetings and ROE (the path coefficient has a negative value: -0.016) and also not significant (p values of 0.955 which is > 0.05).

5. Political pressure as a moderating variable has a negative effect on the relationship between audit committee meetings and ROA (the path coefficient

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has a negative value: -0.085) and also not significant (p values of 0.652 which is > 0.05).

6. Political pressure as a moderating variable has a negative effect on the relationship between audit committee meetings and ROE (the path coefficient has a negative value: -0.152) and also not significant (p values of 0.492 which is > 0.05).

7. Regulation and monitoring as a moderating variable has a negative effect on the relationship between audit committee meetings and ROA (the path coefficient has a negative value: -0.194) and also not significant (p values of 0.408 which is > 0.05).

8. Regulation and monitoring as a moderating variable has a negative effect on the relationship between audit committee meetings and ROE (the path coefficient has a negative value: -0.178) and also not significant (p values of 0.472 which is > 0.05).

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5.13 Chapter Summary

This chapter presents the research findings derived from the quantitative analysis. Reliability analysis was tested and accepted during the establishment of the measurement model terms of convergent validity, discriminant validity and goodness of fit measures. The structural model was also tested for goodness of fit and hypotheses testing. There were 20 hypotheses tested to see the relationship between ten corporate governance attributes with firm performance (ROA and ROE). The effect of moderating variable (government intervention) to each attribute of corporate

governance (10) and firm performance (20) were tested to the appointment of senior executive, political pressure and regulation and monitoring.

CHAPTER 6

DISCUSSIONS AND CONCLUSION

6.0 Introduction

This chapter presents the discussion and conclusion of the study that are obtained through the quantitative analysis (Chapter 5) regarding the relationships among each construct in fulfilling of the study objectives. It is accompanied by a discussion of the contributions from both the theoretical and practical perspective. This chapter concludes with the research implications, research limitations, future research direction, and a conclusion.

6.1 Recapitulation of the Research Objectives

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To recapitulate, the purpose of this study as mention in Chapter 1 is as follows: 1) To determine the relationship between independent commissioner and firm performance in Indonesian SOEs, 2) To determine the relationship between independent director and firm performance in Indonesian SOEs, 3) To determine the relationship between independence of committees and firm performance in Indonesian SOEs, 4) To determine the relationship between supervisory board size and firm performance in Indonesian SOEs, 5) To determine the relationship between management board size and firm performance in Indonesian SOEs, 6) To determine the relationship between supervisory board meetings and firm performance in Indonesian SOEs, 7) To determine the relationship between management board meetings and firm performance in Indonesian SOEs, 8) To determine the relationship between the competence of audit committee and firm performance in Indonesian SOEs, 9) To determine the relationship between the reputation of auditors and firm performance

in Indonesian SOEs, 10) To determine the relationship between the audit committee meetings and firm performance in Indonesian SOEs, 11) To examine the moderating effect of government intervention on the relationship between corporate governance and firm performance in Indonesian SOEs

6.2 Findings from Hypotheses Testing

To provide answers to the research questions and to achieve the research objectives, this study postulated eleven hypotheses based on extensive literature reviews. Table 5.12 to 5.31 summarises the results of the research hypotheses for the study using alpha level 5%. An alpha level of .05 is used to identify the marginal relationship, the differences or other statistical phenomena's as a precursor to further studies (Bartlett, Kotrlik, & Higgins, 2001). In total, the study has produce 80 results which is divided in 10 groups relating to the number of corporate governance attributes, two firm performance indicator, and three government intervention attributes. The results are discussed in more detail in the following sub chapter.

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6.3 Discussions

The relation of corporate governance attributes and firm performance has been investigated by numerous studies with mixed results. There are studies which found a positive relationship between corporate governance and firm performance (Jensen, 1993, Bauhede, 2009), but there are also studies which found a negative relationship between them (Yasser, Entebang & Mansor, 2011, Bauer et al., 2004). The relationship of corporate governance attributes with firm performance (ROA and ROE) and moderated by government intervention are as follows:

6.3.1 The Relationship of Independent Commissioner and Firm Performance with a Moderating Variable Government Intervention

The relationship between independent commissioner and firm performance (ROA and ROE moderated by government intervention (appointment of senior executives, political pressure, and regulation and monitoring) are divided into 8 hypotheses. The result of the hypotheses testing in summary are presented in the following table.

Table 6.1

Hypotheses of Independent Commissioner

		Relationship	Path Coefficient	Significance
1	A	Independent Commissioner and ROA	Negative	Not supported
	B	Independent Commissioner and ROE	Negative	Not supported
	C	Independent Commissioner and ROA moderated by Appointment of Senior Executives	Positive	Not supported
	D	Independent Commissioner and ROE moderated by Appointment of Senior Executives	Positive	Not supported
	E	Independent Commissioner and ROA moderated by Political Pressure	Negative	Not supported
	F	Independent Commissioner and ROA moderated by Political Pressure	Positive	Not supported
	G	Independent Commissioner and ROA moderated by Regulation and Monitoring	Negative	Not supported
	H	Independent Commissioner and ROE moderated by Regulation and Monitoring	Positive	Not supported

The relationship of Independent Commissioner and firm performance (ROA and ROE) is negative and not significant. This result supports the findings of Postma et al. (2001) where he found that the number of outsiders (independent commissioners) is negatively associated with firm performance. This negative relationship, which is of course strongly related to the size, however, suggests that the introduction of more

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outsiders in the supervisory board not necessarily is the best solution to the Berle-Means problem of free-ridership of shareholders. The number of board members in the Indonesian SOE's is 4, 5, or 7 members (22%, 29% or 22% of the sample) and most of them are bureaucrats (Kamal, 2010) except for listed SOEs. Currently, the government is the only party entitled to appoint and dismiss members of the Board of Commissioners. This led the government's role becomes very dominant to SOEs. It is very likely the occurrence of agency conflict where the Board of Commissioners as a representative of the government (the agent) is not equal and even contrary to the public interest (principal). Hence, Independent Commissioners are appointed by criteria's which does not have any interest relationship with the management or the government as the largest shareholder (Astrini, Biekayanti, & Suhardjanto, 2015).

Nugrahaini and Nugroho (2010) on the other hand found that independent commissioners proved has a positive influence on the company's performance as measured by return on equity (ROE). Their findings support the theory given that the supervisory function of independent commissioners could reduce opportunistic behaviour of directors and management which could improve the performance of the company.

The influence of the moderating variable (government intervention) on the relationship between independent supervisor and firm performance is mixed. The influence is positive on the appointment of senior executive (ROA and ROE, political pressure for ROA, and regulation and monitoring for ROE.

In general, conflicting objectives, agency issues (political interference) and lack of transparency, consider the main problems of SOEs in Indonesia (Kamal, 2010). Agency issue is considered one of the SOEs' major problems because politicians and bureaucrats as agents tend not to carry out their work in accordance with the interests of society as real owners. The agents run the company for their self-interest as opposed to the owners' interest

6.3.2 The Relationship of Independent Director and Firm Performance with a Moderating Variable (Government Intervention)

The relationship between independent director and firm performance (ROA and ROE moderated by government intervention (appointment of senior executives, political pressure, and regulation and monitoring) are divided into eight hypotheses. The result in are presented in the following table.

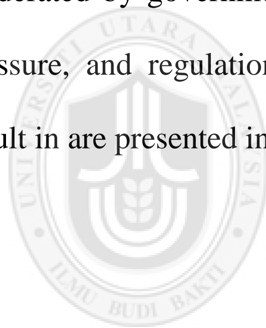
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Table 6.2

Hypotheses of Independent Director

		Relationship	Path Coefficient	Significance
2	A	Independent Director and ROA	Negative	Not supported
	B	Independent Director and ROE	Positive	Not supported
	C	Independent Director and ROA moderated by Appointment of Senior Executives	Positive	Not supported
	D	Independent Director and ROE moderated by Appointment of Senior Executives Independent Director and ROA moderated by Political Pressure	Positive	Not supported
	E	Independent Director and ROA moderated by Political Pressure	Negative	Not supported
	F	Independent Director and ROE moderated by Political Pressure	Negative	Not supported
	G	Independent Director and ROA moderated by Regulation and Monitoring	Positive	Not supported
	H	Independent Director and ROE moderated by Regulation and Monitoring	Positive	Not supported

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Table 6.2 shows that the relationship of independent director with ROA is negative but positive for ROE. The findings for ROA of this is in line with the findings of Kumar and Singh (2012) that there is a negative effect of outside directors on the firm value of Indian companies is mainly due to the grey directors (non-executive non-independent), whereas independent directors have a positive but insignificant effect.

Bhagat and Black (2002) further found a negative relation exists between board independence and firm performance. They argue that insiders do have a positive effect on firm value due to their knowledge and expertise about the corporation. They add that although inside directors are conflicted, but they are well informed.

However, independent directors are not conflicted, but are relatively ignorant about the company (Dah, Beyrouti, & Showeiry,2012).

The moderating effect of government intervention on the relationship of independent directors and firm performance is positive and not significant for the appointment of senior executive and regulation and monitoring in both cases of ROA and ROE. The effect is negative and not significant for political pressure. These empirical evidences are in line with the Agency Theory, suggesting that board composition, presence of committees and politically affiliated members in the board do have an impact on companies' performance.

For the establishment of good governance, the government should be strict in separating the regulatory function with the corporate functions. The regulatory functions include issuing regulations and policies, including monitoring and supervision in order to develop the SOEs to generate profits, growth and become a locomotive to drive the development the real sector economy. As an executor of the Government's obligations, some of the companies should also organizing public services. Corporate functions include financing companies, the determination and the changes in the constitution, appointment of directors and commissioners, dividend policy, the action of the company (corporate action), the holding of the GMoS, and getting information and relevant material about the activities of the company.

6.3.3 The Relationship of Independence of Committees and Firm Performance with Government Intervention as a Moderating Variable

The relationship between independence of committees and firm performance (ROA and ROE moderated by government intervention (appointment of senior executives, political pressure, and regulation and monitoring) are divided into eight hypotheses. The result in summary are presented in the following table.

Table 6.3

Hypotheses of Independence of Committees

		Relationship	Path Coefficient	Significance
3	A	Independence of Committees and ROA	Positive	Supported
	B	Independence of Committees and ROE	Positive	Not supported
	C	Independence of Committees and ROA moderated by Appointment of Senior Executives	Negative	Not supported
	D	Independence of Committees and ROE moderated by Appointment of Senior Executives	Negative	Not supported
	E	Independence of Committees and ROA moderated by Political Pressure	Negative	Not supported
	F	Independence of Committees and ROE moderated by Political Pressure	Negative	Not supported
	G	Independence of Committees and ROA moderated by Regulation and Monitoring	Negative	Not supported
	H	Independence of Committees and ROE moderated by Regulation and Monitoring	Negative	Not supported

Table 6.3 shows that there is positive relationship between Independence of Committees and firm performance (ROA and ROE) and the result is significant for ROA (at alpha 5%). Whereas the significance of the relationship for ROE is at alpha 10%. This result is in line with the findings of Fauzi and Locke (2012) where they found that board committees shows positive and significant relationship with firm performance. Board committee here is an important mechanism for reducing agency costs, which could increase firm performance. Corporate boards are one of the main

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monitoring mechanisms used in solving the agency problems, they are expected to control executive management (Puni, 2015).

The moderating effect of government intervention (appointment of senior executive, political pressure, and regulation and monitoring on the relationship between independence of committees and firm performance are all negative and not significant. Thus, it can be said that government intervention does not have any influence on the relationship between the independence of committee and firm performance. These results are possible because the committees are formed by the board of commissioners, which has to follow corporate governance guidelines and Indonesian Corporate Law 2007.

The effect of government intervention on the relationship of corporate governance attributes and firm performance to the knowledge of the researcher has not been done. So, there is no comparison with the results of previous studies. Therefore, there is no literature obtained which are related to government intervention either through appointment of senior executive, political pressure, and regulation and monitoring.

6.3.4 The Relationship of Supervisory Board Size and Firm Performance with Government Intervention as a Moderating Variable

The relationship between supervisory board size and firm performance (ROA and ROE moderated by government intervention (appointment of senior executives, political pressure, and regulation and monitoring) are divided into eight hypotheses. The result in summary is presented in the following table.

Table 6.4

Hypotheses of Supervisory Board Size

		Relationship	Path Coefficient	Significance
4	A	Supervisory Board Size and ROA	Positive	Supported
	B	Supervisory Board Size and ROE	Positive	Supported
	C	Supervisory Board Size and ROA moderated by Appointment of Senior Executives	Positive	Not Supported
	D	Supervisory Board Size and ROE moderated by Appointment of Senior Executives	Positive	Not Supported
	E	Supervisory Board Size and ROA moderated by Political Pressure	Negative	Not Supported
	F	Supervisory Board Size and ROE moderated by Political Pressure	Negative	Not Supported
	G	Supervisory Board Size and ROA moderated by Regulation and Monitoring	Positive	Not Supported
	H	Supervisory Board Size and ROE moderated by Regulation and Monitoring	Positive	Supported

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This study found that supervisory board size has a positive and significant relationship with firm performance for both ROA and ROE model. The results of this study are similar to the research conducted by Sahu and Manna (2013), and Darmadi (2011) where they found a positive relationship between supervisory board size and firm performance. Further, in the context of Indonesia, taking into account the differences in board structure, it is expected that a supervisory board with larger size has more members with specific experiences and expertise, which could increase the quality of the board's advising and monitoring roles on the management board. This condition has brought a positive influence on the firm's performance (Darmadi, 2011).

Table 6.4 (page 261) further shows that the moderating effect of appointment of senior executives and regulation and monitoring in Indonesian SOEs on the relationship of supervisory board size and firm performance is positive. The moderating effect is even significant regulation and monitoring of the relationship on the ROE case. SOEs in carrying out its activities will always follow the regulations issued by the government and are periodically monitored by the Ministry of SOE. By running these regulations SOEs can be encouraged to implement good corporate governance, which can drive firm performance

In corporations where the separation between ownership and control exists, agency problems may arise because the management may not behave in the best interests of the shareholders (Jensen & Meckling, 1976). Internal and external corporate governance mechanisms play important roles in minimizing the principal-agent conflicts. These governance mechanisms include, among others board size. The purpose of such mechanisms is to encourage managers to act in the best interest of the shareholders to minimize the agency conflicts (Darmadi, 2011).

The allegations that political pressure on corporate decision-making is detrimental to the company's performance is widespread in the literature on corporate governance (Chang and Wong, 2004), is not proven in this study. Most theoretical arguments depends on the assumption that politicians use the company to pursue their political and social goals, such as, to correct market failures, to reduce regional income and inequality, and to provide employment. All of these political objectives can hurt the economic performance of companies.

6.3.5 The Relationship of Management Board Size and Firm Performance with Government Intervention as a Moderating Variable

The relationship between management board size and firm performance (ROA and ROE moderated by government intervention (appointment of senior executives, political pressure, and regulation and monitoring) are divided into eight hypotheses. The result in summary is presented in the following table.

Table 6.5

Hypotheses of Management Board Size

		Relationship	Path Coefficient	Significance
5	A	Management Board Size and ROA	Positive	Not Supported
	B	Management Board Size and ROE	Negative	Not Supported
	C	Management Board Size and ROA moderated by Appointment of Senior Executives	Positive	Not Supported
	D	Management Board Size and ROE moderated by Appointment of Senior Executives	Negative	Not Supported
	E	Management Board Size and ROE moderated by Political Pressure	Negative	Not Supported
	F	Management Board Size and ROA moderated by Political Pressure	Negative	Not Supported
	G	Management Board Size and ROA moderated by Regulation and Monitoring	Positive	Not Supported
	H	Management Board Size and ROE moderated by Regulation and Monitoring	Negative	Not Supported

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Table 6.5 shows that the relationship between management board size and firm performance is positive for ROA and negative for ROE. The results of this study are the same as the research conducted by Sahu and Manna (2013), Darmadi (2011) where they found a positive relationship between management board size and firm performance. Handayani (2013) also found that the size of the board of directors

have a positive influence on Indonesian SOE’s firm performance. The results explain that the greater the company's need effective external relations, it will need a large number of directors to handle the company's interests.

Guest (2009) found strong evidence of a negative relation between board size and firm performance, which is the same as this study relating to ROE. As a result of the negative effect of large board size is more likely to reflect problems in carrying out the advisory role rather than the monitoring role. Guest (2009) findings support the argument that the problems of poor communication and decision-making undermine the effectiveness of large boards.

The moderating effect government intervention on the relationship between management board size and firm performance, except for the appointment of senior executives and regulation and monitoring to ROE is negative and not significant. The moderating effect is positive and not significant for the appointment of senior executive and regulation and monitoring. The result of the appointment of senior executive (ROA) and political pressure (ROA) supports the findings of Fan et al., (2014) that bureaucrats and politicians in the board are not fulfilling the firm’s interest. The results for ROE are contradicting with ROA, but in both cases the relation is not significant for Indonesian SOE’s

Appointment of board members according to the resource dependency theory was conceived as a mechanism to cope with the environment. The agency theory interprets the appointments as potentially subvert to the alignment of managerial and shareholder interests. Care is obviously needed to elaborate on the motives for

making the appointment of the board from the consequences of such appointments (Yu & Main, 2012).

Large management boards can benefit a company from the standpoint of resource dependence (Mintzberg, 1983). The purpose of the resource dependence view is that the company will depend on the its board to be able to manage its resources better. While the in advantage of large boards are associated with: the increasing problem with communication and coordination. The increasing number of directors can decline the ability of the board to control, causing agency problems emerging from the separation between the management and control (Jensen, 1993; Yermack, 1996).

The impact of board size on performance may be expected to differ not just according to firm specific characteristics, but also by country, since the role and function of boards may differ by country (Guest, 2009). The potential problems of large boards will depend on the specific functions and effectiveness of boards and this will differ according to the institutional and legal environment.

6.3.6 The Relationship of Supervisory Board Meetings and Firm Performance with a Moderating Variable Government Intervention

The relationship between supervisory board meetings and firm performance (ROA and ROE moderated by government intervention (appointment of senior executives, political pressure, and regulation and monitoring) are divided into eight hypotheses. The result in summary is presented in the following table.

Table 6.6

Hypotheses of Supervisory Board Meetings

		Relationship	Path Coefficient	Significance
6	A	Supervisory Board Meetings and ROA	Positive	Not Supported
	B	Supervisory Board Meetings and ROE	Positive	Not Supported
	C	Supervisory Board Meetings and ROA moderated by Appointment of Senior Executives	Negative	Not Supported
	D	Supervisory Board Meetings and ROE moderated by Appointment of Senior Executives	Positive	Not Supported
	E	Supervisory Board Meetings and ROA moderated by Political Pressure	Negative	Not Supported
	F	Supervisory Board Meetings and ROE moderated by Political Pressure	Negative	Not Supported
	G	Supervisory Board Meetings and ROA moderated by Regulation and Monitoring	Positive	Not Supported
	H	Supervisory Board Meetings and RO moderated by Regulation and Monitoring	Positive	Not Supported

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The relationship of supervisory board meetings with firm performance in this study on ROA and ROE is positive but not significant. These results are supported by Tong, Junarsin and Davidson III (2013), Maidorfer and Hoffmann (2013), and Sahu and Manna (2013) Their studies discovered that higher board meeting frequency is positively related to firm performance. The result means that if the board meets more frequently, it benefits the firm by enhancing firm performance. Evidence from these studies indicate that the number of board meetings is an important determinant of the performance of companies. Although the results are not always consistent, the agency theory believes that companies having boards with better monitoring ability, such as those with more outside directors and higher board ownership, are expected to have better performance (Yu & Main, 2012).

The main obstacle of the board of commissioners in completing their task is generally time constraints. Commissioners generally show high persistence in carrying out their responsibility to improve the oversight of the financial reporting process and the value of the company. The perseverance of the board meetings is shown in the number of commissioners and the behavior of members in the meeting, such as the preparation before the meeting, attendance, attention and participation during the meeting, and follow-up after the meeting (Sukmono, 2015)

The moderating effect of government intervention on the relationship of supervisory board meetings and firm performance are positive (not significant) for the appointment of senior executive (ROE) and for regulation and monitoring (ROA and ROE) in Indonesian SOEs. The positive influence (although not significant) of appointment of senior officers as well as the effect of regulation and monitoring could be caused due to the appointment of commissioners is done by the ministry of SOE. The ministry also issues a lot of regulations in order to improve SOE performance, and conduct monitoring on regularly basis the performance of SOEs.

The moderating of political pressure (ROA and ROE) and appointment of senior executive is negative and not significant. It can be caused the commissioners of Indonesian SOEs are able to avoid political pressures that arise.

6.3.7 The Relationship of Management Board Meetings and Firm Performance with Government Intervention as a Moderating Variable

The relationship between management board meetings and firm performance (ROA and ROE moderated by government intervention (appointment of senior executives,

political pressure, and regulation and monitoring) are divided into eight hypotheses. The result in summary are presented in the following table.

Table 6.7

Hypotheses of Management Board Meetings

		Relationship	Path Coefficient	Significance
7	A	Management Board Meetings and ROA	Positive	Not Supported
	B	Management Board Meetings and ROE	Negative	Not Supported
	C	Management Board Meetings and ROA moderated by Appointment of Senior Executives	Positive	Not Supported
	D	Management Board Meetings and ROE moderated by Appointment of Senior Executives	Negative	Not Supported
	E	Management Board Meetings and ROA moderated by Political Pressure	Positive	Not Supported
	F	Management Board Meetings and ROE moderated by Political Pressure	Positive	Not Supported
	G	Management Board Meetings and ROA moderated by Regulation and Monitoring	Negative	Not Supported
	H	Management Board Meetings and ROE moderated by Regulation and Monitoring	Negative	Not Supported

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The relationship between management board meetings and firm performance is positive for ROA and negative for ROE. This result supports the findings of Vafeas (1999), and Tong et al. (2013) the relationship with ROA. They found that board meetings in the two tier board system is positively related to firm performance. Meeting frequency is a factor which helps to assess whether the board of directors are active or passive boards. Board meetings should be held often enough to let the board get continuous reports on the situation of the company. The frequency of board meetings can offer information about the importance attributed to it, since a greater

amount of meetings, information is offered to others and there are more issues to decide on the board.

The relationship between management board meetings and ROE on the other hand is negative and not significant. This finding is in line with the findings of Rui and Cho (2009), and Arosa, Iturralde, and Maseda (2013) where they found no significant relationship with the number of management board meetings and firm performance.

The influence of the moderating variable government intervention on the relationship between management board meetings and firm performance is quite diverse. There is a positive influence on the appointment of senior executives to ROA as well as for political pressure. This shows that Indonesian SOEs executives originating from government bureaucrats or political parties are joining and actively participating in the management board meetings and are able to improve performance of the firm. However, regulation and monitoring is negative to the relationship of management board meetings with firm performance.

Hu and Leung (2008) and Yu and Main (2012) found that political executives can improve firm performance in the short term and modify the internal governance structure by not obtaining significantly more government assistance. On the hand Kamal (2010) sees that conflicting objectives, the agency problem (political pressure) and the lack of transparency, are considered as a major problem of SOEs worldwide and that may also be faced by the Indonesian SOEs. Conflicting objectives are related to the objectives of SOEs that are not only commercial purposes but also to serve social objectives such as providing jobs, serve the public

interest, and provide basic necessities to the community. The agency issue is another major problem facing SOEs because politicians and bureaucrats as agents tend not to carry out their work in accordance with the interests of the society or as the actual owner. The agents run the company for their personal benefit that is not necessarily the same as the interests of the owner. Lack of transparency is a big problem for SOEs because they are unable to disclose important information to the public which is the main owner. The lack of transparency causes SOEs becoming inefficient.

6.3.8 The Relationship of the Competence of Audit Committee and Firm Performance Government Intervention as a Moderating Variable

The relationship between competence of audit committee and firm performance (ROA and ROE moderated by government intervention (appointment of senior executives, political pressure, and regulation and monitoring) are divided into eight hypotheses. The result in summary are presented in the following table.

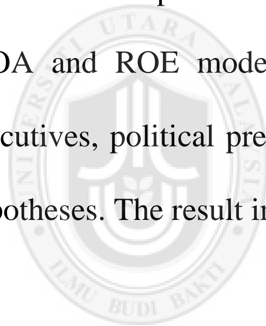

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Table 6.8

Hypotheses of Competence of Audit Committee

		Relationship	Path Coefficient	Significance
8	A	Competence of Audit Committee and ROA	Positive	Not Supported
	B	Competence of Audit Committee and ROE	Positive	Not Supported
	C	Competence of Audit Committee and ROA moderated by Appointment of Senior Executives	Negative	Not Supported
	D	Competence of Audit Committee and ROE moderated by Appointment of Senior Executives	Positive	Not Supported
	E	Competence of Audit Committee and ROA moderated by Political Pressure	Positive	Not Supported
	F	Competence of Audit Committee and ROE moderated by Political Pressure	Positive	Not Supported
	G	Competence of Audit Committee and ROA moderated by Regulation and Monitoring	Negative	Not Supported
	H	Competence of Audit Committee and ROE moderated by Regulation and Monitoring	Negative	Not Supported

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Competence of Audit Committee in this study shows a positive relationship and firm performance for both models (ROA and ROE). This results is supported by Chan and Li (2008) where they found that the presence of expertise in finance and accounting in the committee has increased the performance of the firm. Higher levels of independence and expertise at the board well as the audit committee will improve the performance of the company. Evidence suggests that expertise, which is a combination of education and experience, are positively related on firm performance. Results of studies have supported the view in the literature that the knowledge and experience in the Audit Committee has encouraged better financial reporting and in turn has improved the performance of the firm (Aldamen, Duncan, Kelly, McNamara and Nagel, 2012).

The role of the audit committee reflects the agency theory and the need to monitor managers (agents) to reduce their ability to extract rents from the firm (Fama and Jensen, 1983). Due to this monitoring role, regulators have highlighted the importance of audit committees (Badolato, Donelson & Ege, 2013).

Therefore, an audit committee is used as an integral part in the corporate governance system to obtain an overview of SOEs and listed companies. The role of the Audit Committee becomes important for stakeholders to be able to get good-quality financial reporting. The Audit Committee is a key component of the monitoring function and is an increased focus of public attention and regulation. The responsibility of the Audit Committee is currently overseeing accounting, auditing and financial reporting processes of the company. To perform its functions, audit committee members must have competencies that meet certain requirements regarding independence and qualifications in accounting and finance (Köhler, 2005).

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Government intervention in the relationship between the competence of audit committee and firm performance has a mix result. Appointment of senior executive (ROA) and regulation and monitoring (ROA and ROE) were negative and not significant. This means that the competence of Indonesian SOE audit committee has no effect on government regulations and monitoring. The moderating effect on the relationship of competence of audit committee and firm performance for political pressure (ROA and ROE) and appointment of senior executive (ROE) is positive and not significant.

6.3.9 The Relationship of the Reputation of Auditors and Firm Performance with Government Intervention as a Moderating Variable

The relationship between competence of reputation of auditors and firm performance (ROA and ROE moderated by government intervention (appointment of senior executives, political pressure, and regulation and monitoring) are divided into eight hypotheses. The result in summary are presented in the following table.

Table 6.9

Hypotheses of Reputation of Auditors

		Relationship	Path Coefficient	Significance
9	A	Reputation of Auditors and ROA	Positive	Not Supported
	B	Reputation of Auditors and ROE	Positive	Supported
	C	Reputation of Auditors and ROA moderated by Appointment of Senior Executives	Positive	Not Supported
	D	Reputation of Auditors and ROE moderated by Appointment of Senior Executives	Positive	Not Supported
	E	Reputation of Auditors and ROA moderated by Political Pressure	Positive	Not Supported
	F	Reputation of Auditors and ROE moderated by Political Pressure	Positive	Not Supported
	G	Reputation of Auditors and ROA moderated by Regulation and Monitoring	Negative	Not Supported
	H	Reputation of Auditors and ROE moderated by Regulation and Monitoring	Positive	Not Supported

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The relationship between reputation of auditors and firm performance of both models (ROA and ROE) are positive. It is even significant in the case of ROE. This finding is supported by the findings of Waweru (2014), Ping, Elizabeth and Roger, (2011), and Al-Mamun, Yasser, Rahman, Wickramasinghe, and Nathan (2014). They all found that the reputation of auditors has a positive effect on firm performance.

Auditor reputation has a positive effect on performance that is significant at the 10 % level. These results agree with the work of Jensen and Meckling (1976) and Watts and Zimmerman (1983). In fact, these studies affirm the presuppositions of agency theory that characterises the recourse to an external auditor as a means of limiting the possibilities for managers to manipulate accounting data.

The moderating effect of government intervention on the relationship between the auditor's reputation with firm performance of Indonesian SOEs has shown positive results (except for ROA in the case of regulation and monitoring). These results can be interpreted that the government as the owner of the companies are very concerned about the ability of the external auditors in performing their functions.

SOEs in general are protecting their political interests and may prefer to appoint auditors who are more conducive to rendering financial statements less informative about underlying firm performance. States that owns economic enterprises may suppress firm-specific information to hide expropriation activities by politicians and their cronies. It is also possible that a benevolent government uses its SOEs to directly govern and manage firms, obviating the need for public information. These arguments imply a negative relation between corporate transparency and the extent of state-owned enterprises. SOEs are more apt to engage a lower-quality auditor since they can raise capital through these connections without having to reduce information asymmetry with more credible financial statements. 16% of Indonesian SOEs had used Big 4 audit firms, and the 84% had used non Big 4 audit firms.

Big 4 audit firm generally has a large market share of listed companies in many countries for their services. To maintain their reputation and to increase their market share, Big 4 audit firms in their practice are more likely to be mean to their clients and stringent in accounting fraud and manipulation (Al-Mamun et al., 2014). Further, Fan and Wong (2005) has documented that the company with an agency problem that is embedded in the ownership structure will be more potential for hiring Big 4 audit firms. This relationship is evident to companies that frequently increase their amount of capital. Consistently, the company that uses Big 4 audit firm receive smaller stock prices discount associated with the agency conflicts. Likewise, they found that Big 4 auditors consider the problems of their client's agency problems when making audit fee and audit reporting decisions. Taken together, these results indicate that Big 4 audit firms have a major role in corporate governance in emerging markets.

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6.3.10 The Relationship of the Audit Committee Meetings and Firm with Government Intervention as a Moderating Variable

The relationship between competence of audit committee meetings and firm performance (ROA and ROE) moderated by government intervention (appointment of senior executives, political pressure, and regulation and monitoring) are divided into eight hypotheses. The result in summary is presented in the following table.

Table 6.10

Hypotheses of Audit Committee Meetings

		Relationship	Path Coefficient	Significance
10	A	Audit Committee Meetings and ROA	Positive	Not Supported
	B	Audit Committee Meetings and ROE	Positive	Not Supported
	C	Audit Committee Meetings and ROA moderated by Appointment of Senior Executives	Negative	Not Supported
	D	Audit Committee Meetings and ROE moderated by Appointment of Senior Executives	Negative	Not Supported
	E	Audit Committee Meetings and ROA moderated by Political Pressure	Negative	Not Supported
	F	Audit Committee Meetings and ROE moderated by Political Pressure	Negative	Not Supported
	G	Audit Committee Meetings and ROA moderated by Regulation and Monitoring	Negative	Not Supported
	H	Audit Committee Meetings and ROE moderated by Regulation and Monitoring	Negative	Not Supported

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This study found that audit committee meetings have a positive relationship (but not significant) with firm performance (ROA and ROE). This result is also supported by Hsu (2007) where he also found that there is a positive relationship between audit committee meetings and firm performance. Beasley, Carcello, Hermanson, and Lapides (2000) further stated that the audit committee that do more meetings will have more time to oversee the financial reporting process, identify risk management and monitor the internal control. As a result, the performance of the company increased by the audit committee activity. Empirical evidence has shown that the frequency of audit committee meetings, play an important role in reducing a variety issues including agency problems that ultimately affect the performance of the company.

The moderating effect of government intervention for all the three attributes (appointment of senior executive, political pressure, and regulation and monitoring) are negative and not significant on the relationship of audit committee meetings and firm performance.

6.4 Research Contributions

This study empirically tests the relationship of corporate governance and government intervention as a moderating variable to firm performance of Indonesian State Own Enterprises. This study has made several significant contributions to the corporate governance research and it can be summarised into:

6.4.1 Theoretical Contributions

The extension of corporate governance attributes to include the independent commissioner, independent director, independence of committees, supervisory board size, management board size, competence of the audit committee, the reputation of auditors and audit committee meetings to the model is increasing it explanatory power. Because in this study it can be known the strength of the relationship between corporate governance (10 attributes) and firm performance (2 attributes) which is essential for the knowledge.

The extension of government intervention to include appointment of senior executive, political pressure, and regulation and monitoring of the model are increasing its explanatory power. Not many studies in the field of corporate governance have used government intervention as a moderating variable. Thus, the results of this study with respect to the use of government intervention as a

moderating variable is the contribution of the researcher for the development of the knowledge about corporate governance and firm performance of SOEs.

The empirical validation of decomposing firm performance into ROA and ROE also added to the body of knowledge of the phenomenon of firm performance and the agency theory.

6.4.2 Practical Contributions

This study adds to the body of knowledge of corporate governance, especially for Indonesian SOEs. Understanding the adoption of corporate governance is needed to guide future development of corporate governance research in the ASEAN countries.

The findings of this study should help practitioners of SOEs to promote the usage of corporate governance and government intervention in Indonesia. To summarise, the findings can help public and private sectors to invest in the SOEs based on the knowledge gained from the results of this study.

6.5 Research Implications

In this study, the relationship between corporate governance and firm performance with a moderating variable government intervention in Indonesian SOEs is empirically tested. This study has collected data from 63 companies from various industries and has responded to the questionnaires. The collected data has been processed using Smart PLS and the results in summary are as follows:

6.5.1 The Relationship of Corporate Governance and Firm Performance

Variable corporate governance consists of 10 indicators (X1 to X10) and firm performance two indicators (Y1 and Y2) which produce 20 results as presented in Table 6.11.

Table 6.11

Hypotheses Results on the Relationship of Corporate Governance Indicators with Firm Performance

		ROA		ROE	
	Corporate Governance attributes	**Path Coeif.**	**Significance**	**Path Coeif.**	**Significance**
1	Independent Commissioner	Negative	Not Supported	Negative	Not Supported
2	Independent Director	Negative	Not Supported	Positive	Not Supported
3	Independence of Committees	Positive	**Supported**	Positive	Not Supported
4	Supervisory Board Size	Positive	**Supported**	Positive	**Supported**
5	Management Board Size	Positive	Not Supported	Negative	Not Supported
6	Supervisory Board Meetings	Positive	Not Supported	Positive	Not Supported
7	Management Board Meetings	Positive	Not Supported	Negative	Not Supported
8	Competence of Audit Committee	Positive	Not Supported	Positive	Not Supported
9	Reputation of Auditors	Positive	**Supported**	Positive	**Supported**
10	Audit Committee Meetings	Positive	Supported*	Positive	Not Supported

Supported* at alpha 10%

The relationship between corporate governance attributes and firm performance (ROA) are positive, except for independent commissioner and Independent director. The relationship is positive and significant for independence of committee, supervisory board size, reputation of auditor audit committee meeting. This result is in line with the findings of Gompers, Ishii, and Metrick (2003), and Bhagat and Bolton (2008) found that corporate governance attributes are positively related to firm performance. Agency theory suggests that corporate governance mechanisms, such as independent boards, board size, board meetings that control owner-manager

agency conflicts, enhance firm performance (Jensen and Meckling, 1976; Jensen, 1986).

The relationship between corporate governance attributes and firm performance (ROE) as shown in table 6.11 are also positive except for Independent commissioner, management board size, and management board meetings. In total the results are almost the same as for ROA. In this relationship, supervisory board size and reputation of auditors are also significant.

The results generally indicate that the practice of corporate governance affects the firm performance (ROA and ROE) of Indonesian SOEs positively. The strongest influence in the ROA case is coming from the independence of the committee, supervisory board size, the reputation of auditor and audit committee meetings. For ROE, the significant influence is on the supervisory board size and reputation of auditors.

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6.5.2 The Moderating effect of Appointment of Senior Executive to the relationship of Corporate Governance and Firm Performance

The moderating effect of government intervention which in this case is appointment of senior executives to the relationship of corporate governance and firm performance produce 20 results (for both ROA and ROE) as presented in Table 6.12.

Table 6.12

Hypotheses Results on the moderating effect of Appointment of Senior Executive on the Relationship of Corporate Governance Indicators with Firm Performance

		ROA		ROE	
Moderating variable: Appointment of Senior Executives		**Path Coeif.**	**Significance**	**Path Coeif.**	**Significance**
1	Independent Commissioner	Positive	Not Supported	Positive	Not Supported
2	Independent Director	Positive	Not Supported	Positive	Not Supported
3	Independence of Committees	Negative	Not Supported	Negative	Not Supported
4	Supervisory Board Size	Positive	Not Supported	Positive	Not Supported
5	Management Board Size	Positive	Not Supported	Negative	Not Supported
6	Supervisory Board Meetings	Negative	Not Supported	Positive	Not Supported
7	Management Board Meetings	Positive	Not Supported	Negative	Not Supported
8	Competence of Audit Committee	Negative	Not Supported	Positive	Not Supported
9	Reputation of Auditors	Positive	Not Supported	Positive	Not Supported
10	Audit Committee Meetings	Negative	Not Supported	Negative	Not Supported

Table 6.12 shows that the moderating effect of appointment of senior executive on the relationship of corporate governance with ROA are positive and not significant on Independent Commissioner, Independent Director, Supervisory Board Size, Management Board Size, Management Board Meetings and Reputation of Auditors. Whereas Independence of committees, supervisory board meetings, the competence of the audit committee and audit committee meetings are negative and not significant.

The moderating effect of appointment of senior executive on the relationship of corporate governance attributes and firm performance (ROE) is positive and not significant for independent commissioner, independent director, supervisory board size, supervisory board meetings, the competence of the audit committee, and reputation of auditors. The moderating effect is negative and not significant for independence of committee, management board size, management board meetings, and audit committee meetings.

In total, it can be said that the moderating effect of the appointment of senior executive on Indonesian SOE's is positive, but not significant in relationship of corporate governance and firm performance (ROA and ROE).

6.5.3 The Moderating effect of Political Pressure to the relationship of Corporate Governance to Firm Performance

The moderating effect of government intervention which in this case is political pressure to the relationship of corporate governance and firm performance produce 20 results as presented in Table 6.13

Table 6.13

Hypotheses Results on the moderating effect of Political Pressure on the Relationship of Corporate Governance Indicators with Firm Performance

		ROA		ROE	
Moderating variable: Political Pressure		**Path Coeif.**	**Significance**	**Path Coeif.**	**Significance**
1	Independent Commissioner	Positive	Not Supported	Negative	Not Supported
2	Independent Director	Negative	Not Supported	Negative	Not Supported
3	Independence of Committees	Negative	Not Supported	Negative	Not Supported
4	Supervisory Board Size	Negative	Not Supported	Negative	Not Supported
5	Management Board Size	Negative	Not Supported	Negative	Not Supported
6	Supervisory Board Meetings	Negative	Not Supported	Negative	Not Supported
7	Management Board Meetings	Positive	Not Supported	Positive	Not Supported
8	Competence of Audit Committee	Positive	Not Supported	Positive	Not Supported
9	Reputation of Auditors	Positive	Not Supported	Positive	Not Supported
10	Audit Committee Meetings	Negative	Not Supported	Negative	Not Supported

Table 6.13 shows that the moderating effect of political pressure on the relationship of corporate governance attributes and firm performance (ROA) is positive and not significance only for independent commissioner, management board meetings, the competence of the audit committee and the reputation of auditors. The moderating effect on the other attributes: independent director, independence of committees,

supervisory board size, management board size, supervisory board meetings and audit committee meetings are all negative and not significant.

Further table 6.13 shows that the moderating effect of political pressure on the relationship of corporate governance attributes and firm performance (ROE) is positive and not significance only for 3 attributes: management board meetings, the competence of the audit committee, and reputation of auditors. The moderating effect on the other attributes: independent commissioner, independent director, independence of the committees, supervisory board size, management board size, supervisory board meetings and audit committee are all negative and not significant.

The moderating influence of political pressure on the relationship of corporate governance and firm performance (ROA and ROE) on Indonesian SOEs is negative and not significant. Thus, it can be said that Indonesian SOEs has practically no political pressure from politicians and government officials.

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6.5.4 The Moderating effect of Regulation and Monitoring to the relationship of Corporate Governance to Firm Performance

The moderating effect of government intervention which in this case is regulation and monitoring of the relationship of corporate governance and firm performance produce 20 results (for both ROA and ROE) as presented in Table 6.14.

Table 6.14

Hypotheses Results on the moderating effect of Regulation and Monitoring on the Relationship of Corporate Governance Indicators with Firm Performance

		ROA		ROE	
Moderating variable: Regulation and Monitoring		**Path Coeif.**	**Significance**	**Path Coeif.**	**Significance**
1	Independent Commissioner	Negative	Not Supported	Positive	Not Supported
2	Independent Director	Positive	Not Supported	Positive	Not Supported
3	Independence of Committees	Negative	Not Supported	Positive	Not Supported
4	Supervisory Board Size	Positive	Not Supported	Positive	**Supported**
5	Management Board Size	Positive	Not Supported	Negative	Not Supported
6	Supervisory Board Meetings	Positive	Not Supported	Positive	Not Supported
7	Management Board Meetings	Negative	Not Supported	Negative	Not Supported
8	Competence of Audit Committee	Negative	Not Supported	Negative	Not Supported
9	Reputation of Auditors	Negative	Not Supported	Positive	Not Supported
10	Audit Committee Meetings	Negatiive	Not Supported	Negative	Not Supported

Table 6.14 shows that the moderating effect of regulation and monitoring on the relationship of corporate governance attributes and firm performance (ROA) is positive and not significant only for independent director, supervisory board size, management board size, and management board meetings. The moderating effect is negative and not significant for independent commissioner, independence of committees, management board meetings, competence of the audit committee, and audit committee meetings.

Table 6.14 further shows that the moderating effect of regulation and monitoring on the relationship of corporate governance attributes and firm performance (ROE) is positive and significant for supervisory board size. The moderating effect is not significant for independent commissioner, independent director, independence of the committees, supervisory board meetings, and reputation of auditors. The moderating effect is negative and not significant for management board size, management board

meetings, the competence of the audit committee, the reputation of auditors, and audit committee meetings.

The influence of the moderating variable regulation and monitoring of the relationship of corporate governance and firm performance is negative in terms of ROA and positive in terms of ROE. This suggests that the regulation and monitoring has an insignificant influence on the management of SOEs.

6.5.5 Overall Results of the Study

The empirical findings in this study shed light on the role of corporate governance, government intervention relating and firm performance, and thus offer insights to policy makers interested in improving corporate governance systems in an emerging economy such as Indonesia and other countries.

Most of the attributes of corporate governance (10 indicators) have a positive relationship with firm performance (ROA and ROE). This means that corporate governance is implemented by most Indonesian SOEs in managing the business. The relationship of supervisory board size and reputation of auditors has a positive and significant relationship with firm performance (ROA and ROE). This result is closely related to the size of the supervisory board (57% of SOE's have a board with more than five members) in Indonesian SOEs. Further, all SOEs have to be audited by external auditors who are listed in the OJK's office. Besides those two corporate governance attributes, Independence of committees and audit committee meetings also has a positive and significant relationship with firm performance (ROA).

The government intervention attributes of appointment of senior executives, regulation and monitoring, and political pressure have positive effects on the relationship of certain corporate governance indicators with firm performance, but the influence is not significant. This result means that there are influences from the government to SOEs for good governance and performance. Influences are directed through the appointment of senior executive at the commissioner and director level to the companies. Those executives will focus on the implementation of government regulations and monitoring by establishing professional board committees.

The ROA ratio is not a perfect measure, but this ratio is the most effective ratio, it is a financial measure that is widely available to assess the performance of the company. ROA can capture the basics of business performance in a holistic way, with a view to both income statement performance and assets necessary to run the business. Commonly used metrics such as ROE, or return on shareholders are vulnerable to financial engineering, particularly through debt leverage, which may obscure the basics of business. ROA is also less susceptible to short-term type of gaming that may occur in the income statement because many assets, such as property, plant, and equipment, and intangibles, involves long-term asset decisions that are more difficult to tamper with in the short term (Hagel, Brown, Samoylova, Lui, Damani & Grames, 2013).

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6.6 Limitations of the Study

The greatest limitation of this study is that the study derived its empirical results from a small sample of SOEs in Indonesia. 63 questionnaires were collected from the 141 SOEs which consist of various industries; raising some concern about the

generalisation of the findings. However, considering the distribution of companies that returned the questionnaires, the findings would be applicable to other emerging economies with SOEs.

Another limitation is the lack of longitudinal data to determine how certain changes in the institutional and economic environment affects the relationship of corporate governance, government intervention, and firm performance of SOEs.

6.7 Future Research Direction

There is still a lot of work to be done regarding this issue. In particular, the empirical part of this study can be extended in several directions. An important extension will be to include more attributes on corporate governance, and government intervention such as broading the study by adding control variables, focusing on the internal and external corporate structures on the actions of management and directors.

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The empirical setting of this study is based in Indonesia, which is a state-led economy. Therefore, the generalisation of the findings on state ownership may be greater for developing countries similar to Indonesia. Extending this study to emerging economies with high levels of government intervention will be a remaining avenue for future research.

6.8 Conclusion

This study has investigated the influencing factors that are contributing to the relationship of corporate governance attributes and firm performance by using government intervention as a moderating variable. A framework was established and ten hypotheses were developed to see the agency relationship between corporate

governance (10 attributes) and firm performance (2 attributes). The moderating effect of government intervention (3 attributes) was tested to each relationship, which produces in total 80 results.

This study has combined 10 corporate governance attributes and three government intervention attributes to extend the scope and empirically see the effect of the moderating variables on the relationship of the independent variable with the dependent variable.

The results of the study show that the relationship of most corporate governance indicators and firm performance are positive except for the independent commissioner, Independent director (ROA), management board size (ROE) and management board meetings (ROE). The relationship of corporate governance attributes with firm performance is positive and significant for the supervisory board size and reputation of auditors. It is also positive and significant for independence of committee (ROA) and audit committee meetings (ROA).

The result of the moderating effect of government intervention (appointment of senior executive) on the relationship of corporate governance attributes and firm performance are mostly positive. The moderating effect is negative for independence of committee and audit committee meetings. It is also negative for supervisory board meetings (ROA, the competence of the audit committee (ROA), management board size (ROE), and management board meetings (ROE). The positive and negative effects of appointment of senior executive on the relationship of corporate governance attributes and firm performance were not significant.

The moderating effect of political pressure on the relationship of corporate governance attributes and firm performance was mostly negative and not significant. Positive on four indicators for ROA (Independent Commissioner, Management Board Meetings, Competence of Audit Committee, and Reputation of Auditors) and three for ROE (Management Board Meetings, Competence of Audit Committee, and Reputation of Auditors). All of the relationship were not significant.

The moderating effect of regulation and monitoring on the relationship of corporate governance attributes and firm performance (ROA) are mostly negative and not significant except for independent director, supervisory board size, management board size, and supervisory board meetings. The moderating effect on the relationship are mostly positive in the case of ROE, and for supervisory board size the effect is positive and significant. The moderating effect is negative for management board size, management board meetings, the competence of the audit committee, and audit committee meetings.

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Finally, it can be concluded that the relationship between corporate governance attributes and firm performance for both ROA and ROE are positive and significant in SOEs Indonesia. These results support the theory of agency which is concerned with resolving problems that can exist in agency relationships between principals (government) and agents of the principals (supervisory and management board).

The moderating effect of government intervention on the relationship of corporate governance attributes and firm performance is positive (not significant) for appointment of senior executive (ROA and ROE) and regulation and monitoring

(ROE). The moderating effect is negative (not significant) for political pressure and regulation and monitoring (ROA). Moreover, the findings of this study, especially for the moderating effect is the contribution of this study on corporate governance and firm performance.

The findings of the study show a picture of corporate governance practices and government interventions in Indonesia, especially for SOEs. The result of this study has many similarities with other studies and also differences with other studies on corporate governance. Differences may occur due to differences in culture, government policies, or differences in the board system.

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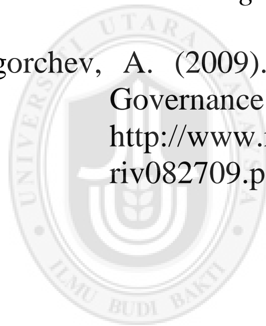
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Appendix 1: Questionnaire

QUESTIONNAIRE ON:
CORPORATE GOVERNANCE, GOVERNMENT INTERVENTION AND FIRM PERFORMANCE OF INDONESIAN STATE-OWNED ENTERPRISES

Date: 1st October 2012

The Corporate Secretary

Dear Sir/Madam,

I am conducting a study on the above topic. This study is undertaken to fulfil the partial requirement of the academic program leading to a Doctor in Business Administration at the School of Business, Universiti Utara Malaysia. By taking fifteen minutes of your valuable time, you are providing information that is pertinent to the study.

The corporate secretary from state own enterprises in Indonesia have been asked to complete this survey. I will be most appreciative if you will complete and return the enclosed survey in the pre-addressed, stamped envelope by **30th October, 2012**.

Strictly confidentiality is assured. The identity related to the code reflected on the instrument is known only to the researcher and will not be communicated in any form anytime.

Thank you for your kind cooperation.

Yours sincerely,

(Erwin Abubakar)
HP 0811645224

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DEMOGRAPHIC PROFILE
(CORPORATE SECRETARY)

SECTION A

Please tick (/) the appropriate choice.

1. Your current position

☐	Manager
☐	Senior
☐	Assistant
☐	Other

If other, please specify: ____________________

2. Your qualification (excluding professional qualification which are covered in question 3 and question 4 of this questionnaire). Please tick all qualifications that you have.

☐	D3
☐	S1 degree in accounting/related disipline
☐	S2
☐	S3
☐	Other

If other, please specify: _____________________

3. Do you have a professional accounting and/ or auditing qualification?

☐	Yes
☐	No

If "yes", please proceed to the next question. If "no", please proceed to question 5.

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4. Accounting and/or auditing professional qualifications (have completed and passed).

- [ ] CPA (Institute of Indonesian Certified Public Accountants).
- [ ] CMA (Certified Management Accountant).
- [ ] Indonesian Accountant Register
- [ ] Other

If other, please specify: ____

5. Name of company currently working in.

____

6. Type of business of your company is working in.

- [ ] Trading
- [ ] Services
- [ ] Industry/Manufacturing
- [ ] Plantation/Agriculture
- [ ] Mining
- [ ] Others

If other, please specify: ____

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7. Name of audit firm that does audit for your company.

☐	PwC (KAP Tanudiredja, Wibisana & Rekan)
☐	Deloitte Touche Tohmatsu (KAP Osman Bing Satrio & Rekan
☐	Ernst & Young (KAP Purwantono, Suherman & Surya
☐	KPMG (KAP Siddharta & Wijaya
☐	Other

If other, please specify: ___________________________

8. When was company established?

_________________. (Year)

9. What is the number of employees in your company?

_________________________.

10. How many branches does your company operate?

_________________________.

11. Does your company has subsidiaries?

Please spesify _____________________________________

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CORPORATE GOVERNANCE

SECTION B

Instructions:

Please indicate the extent of your opinion with the statements describing the practice of corporate governanced by 'circling" the corresponding box using the following scales:

1 Very frequently
2 Frequently
3 Occasionally
4 Rarely
5 Never

II	CORPORATE GOVERNANCE							
	1	Independent Commissioner		Very freq.	Freque ntly	Occasi onally	Rarely	Never
		a.	Independent commissioners meeting formally without management to discuss corporate matters	1	2	3	4	5
		b.	Independent commissioners meeting informally without management to discuss corporate matters	1	2	3	4	5
		c.	Independent commisioners altering the board meeting agenda set by the chairman	1	2	3	4	5
		d.	Independent commisioners adding the board meeting agenda set by the chairman	1	2	3	4	5
		e.	Independent directors participating actively in board discussions	1	2	3	4	5
		f.	Agenda items disapproved at the board meetings by independent directors	1	2	3	4	5
		g.	Individual commissioners' positions on board meeting agendas recorded in minutes	1	2	3	4	5

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	2	Independent Director		Often	Some times	Rarel y	Never	
		a.	Independent directors meeting formally without management to discuss corporate matters	1	2	3	4	5
		b.	Independent directors meeting informally without management to discuss corporate matters	1	2	3	4	5
		c.	Independent directors altering the board meeting agenda set by the CEO	1	2	3	4	5
		d.	Independent directors adding the board meeting agenda set by the CEO	1	2	3	4	5
		e.	Independent directors participating actively in board discussions	1	2	3	4	5
		f.	Agenda items disapproved at the board meetings by independent directors	1	2	3	4	5
		g.	Individual directors' positions on board meeting agendas recorded in minutes	1	2	3	4	5

	3	Independence of Committee		Yes	No
		a.	Does your board have the following committees • Audit Committee • Compensation Committee • Nomination Committee	Y Y Y	N N N
				Amount	Description
		b.	What proportion of the committee members are independent directors • Audit Committee • Compensation Committee • Nomination Committee	--------------- --------------- ---------------	Members Members Members

Please indicate the extent of your opinion with the statements describing the practice of corporate governance by 'circling" the corresponding box using the following scales:

- **1 Strongly disagree (SD)**
- **2 Disagree (D)**
- **3 Neither agree nor disagree (NA ND)**
- **4 Agree (A)**
- **5 Strongly agree (SA)**

				SD	D	NA ND	A	SA
		c.	How effective do you believe the Supervisory Board's committees to be.	1	2	3	4	5
		d.	Do they provide useful recommendations allowing for better decision-making,	1	2	3	4	5
		e.	Do they consequently make Supervisory Board meetings more efficient and effective?	1	2	3	4	5

	4	**Supervisory Board Size**		Amount	Description
		a.	How many directors does your (supervisory) board have in total?	--------------	Persons
		b.	How many outside commissioners does your board have?	--------------	Persons
		c.	How many independent commissioners does your board have?	--------------	Persons
		d.	How many commissioners are active government officers?	--------------	Persons
		e.	How many commissioners are retired government officers?	--------------	Persons

	5	**Management Board Size**		Amount	Description
		a.	How many directors does your (management) board have in total?	--------------	Persons
		b.	How many outside directors does your board have?	--------------	Persons
		c.	How many independent directors does your board have?	--------------	Persons
		d.	How many directors are former government officers?	--------------	Persons
		e.	How many of directors are professionals?	--------------	Persons

	6	**Supervisory Board Meetings**		Amount	Description
		a.	How many board meetings were held last year?	--------------	Times
		b.	On average, how many hours did a board meeting last?	--------------	Hours
		c. .	What was the average attendance rate for board meetings?	--------------	Percent (%)
				Yes	No
		d.	Does the supervisory board monitor the executive board's management of the enterprise?	Y	N
		e	Does the supervisory board examine the annual financial statement, management report, and the suggested appropriation of the enterprise's profits?	Y	N
		f..	Does the supervisory board have combined meetings with the management board?	Y	N

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	7	**Management Board Meetings**		Amount	Description
		a.	How many board meetings were held last year?	--------------	Times
		b.	On average, how many hours did a board meeting last?	--------------	Hours
		c. .	What was the average attendance rate for board meetings?	--------------	Percent (%)
				Yes	No
		d.	Does the management board monitor the executive board's management of the enterprise?	Y	N
		e	Does the management board examine the annual financial statement, management report, and the suggested appropriation of the enterprise's profits?	Y	N

	8	**Competence of Audit Committee**		Yes	No
		a.	Does it have someone with accounting/finance expertise?	Y	N
		b.	Is it chaired by a genuine independent director?	Y	N
		c.	Are there written rules governing overall audit function?	Y	N
		d.	Does it autonomously select/recommend the external auditor and conduct a proper review of his work?	Y	N
		e.	Does it approve the appointment of the internal auditor and supervise him to routinely review risk exposure and accounting procedures?	Y	N

	9	**Reputation of Auditors**		Yes	No
		a.	How does the company engage an external auditor		
			• Shareholder anual meeting	Y	N
			• Supervisory board	Y	N
			• Management board	Y	N
			• others	Y	N
		b.	Does the audit organisation have experience in performing the required work for entities of the company's type and size	Y	N
		c.	Do prior clients have a positive opinion of the audit organisation?	Y	N
		d.	Has the auditor passed its latest peer review?	Y	N
		e.	Does the audit organisation have an international auditing firm assocition?	Y	N
		f.	Does the company require for partner and firm rotation?	Y	N

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	10	Audit Committee Meetings		Amount	Description
		a.	How many meetings of the Audit Committee took place during the last twelve months?	--------------	Times
				Yes	No
		a.	How many meetings of the Audit Committee took place during the last twelve months?	Y	N
		b.	Did CEO & CFO also attend the Committee meetings?	Y	N
		c.	During the last 12 months: Did the Committee meet the External Auditors without CFO and the Head of Internal Audit?	Y	N
		d.	Does the Audit Committee oversee internal audit functions?	Y	N
		e.	Does the Audit Committee recommend the external audit appointment and oversee the external audit process?	Y	N

SECTION C

Instructions:

Please indicate the extent of your opinion with the statements describing the practice of government intervention in state own enterprises by 'circling" the corresponding box using the following scales:

III	GOVERNMENT INTERVENTION				
	1	Appointment of Senior Executives		Yes	No
		a.	Has the appoinment of the board of commisioner and board of management based on a fit and proper test conducted by professional	Y	N
		b.	Does the SOE ministry invovle technical departements in the rekruitment of board member	Y	N
		c.	Has the appointment of CFO, CS and HIA been approved by the Board on the recommendation of CEO?	Y	N
		d.	The management of state-owned enterprises are closely linked to the direct intervention of the owner, or technical department	Y	N
		e.	Interests of various parties outside the company who claim they may have a role and function and participate in the management of the company.	Y	N

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	2	**Regulation and Monitoring**		Yes	No
		a.	The company has to submit their business plan and annual budget periodically	Y	N
		b.	The company has to prepare their financial reports based on the Indonesian Financial Reporting Standards.	Y	N
		c.	The company has to submitt their financial and technical report on a regular basis to the government	Y	N
		d.	Does the government provide additional funds to the company.	Y	N
		e.	Does the government use bench marking to value performance of the company	Y	N

	3	**Political Presures**		Yes	No
		a.	There are tendencies that the corporate culture has no positive inpact on efforts to increase productivity to win the competition	Y	N
		b.	There are tendencies that the corporate culture has no positive inpact on efforts to improve efficiency of business processes to win the competition	Y	N
		c.	There are tendencies that the corporate culture has no positive inpact on efforts to increase innovation and the ability to win the competition	Y	N
		d.	Does the presence of specific tasks that are unexpected from the government to help them in tackling local problems.	Y	N
		e.	Does the presence of a fairly strong correlation between politics and the role of management in the budget proposal	Y	N
		f.	Does the company provide donations base on instructions from the government	Y	N

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SECTION D

Instructions:

Please fill up the amounts in the boxes:

IV	**FIRM PERFORMANCE**				
	1	**Return on Assets (ROA)**			
				2009	**2010**
			Net profit after tax		
			Total Assets		
	2	**Return on Equity (ROE)**			
				2009	**2010**
			Net profit after tax		
			Total Equity		

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THANK YOU

Appendix 2: Smart PLS Results

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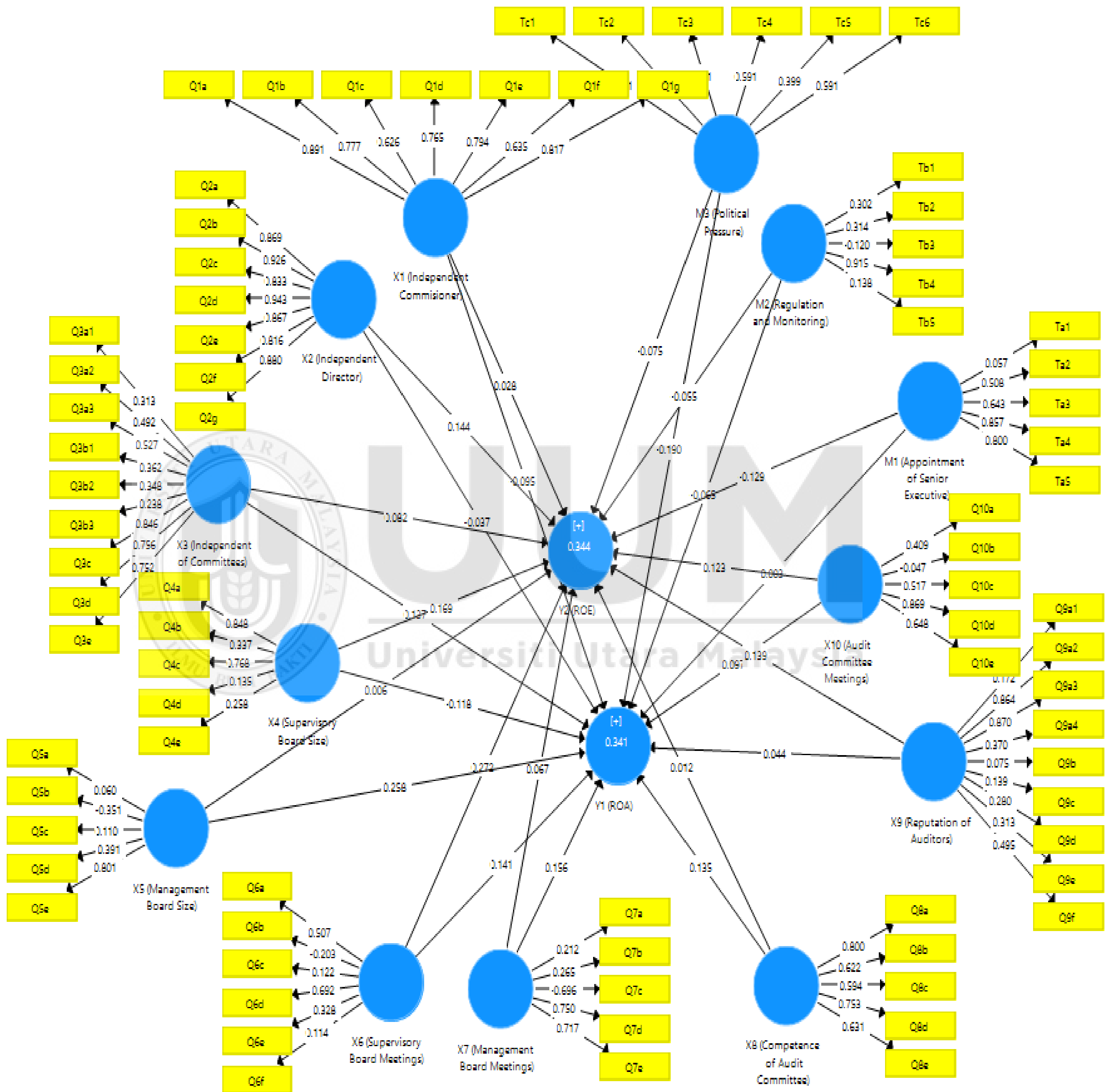
1. Path Coefficient Diagram with *Loading Factor for Each Indictor*



2 *Output* SmartPLS for Loading Values of Each Indicator

Outer Loadings

Matrix

	X1 (Independent...	X2 (Independent Direc...
Q1a	0.891	
Q1b	0.777	
Q1c	0.626	
Q1d	0.765	
Q1e	0.794	
Q1f	0.635	
Q1g	0.817	
Q2a		0.869
Q2b		0.926
Q2c		0.833
Q2d		0.943
Q2e		0.867
Q2f		0.816
Q2g		0.880

Outer Loadings

Matrix

	X3 (Independent of ...	X4 (Supervisor...	X5 (Managem...
Q3a1	0.313		
Q3a2	0.492		
Q3a3	0.527		
Q3b1	0.362		
Q3b2	0.348		
Q3b3	0.238		
Q3c	0.846		
Q3d	0.756		
Q3e	0.752		
Q4a		0.848	
Q4b		0.337	
Q4c		0.768	
Q4d		0.135	
Q4e		0.258	
Q5a			0.060
Q5b			-0.351
Q5c			0.110
Q5d			0.391
Q5e			0.801

Outer Loadings

Matrix

	X6 (Supervisory B...	X7 (Managem...	X8 (Competen...
Q6a	0.507		
Q6b	-0.203		
Q6c	0.122		
Q6d	0.692		
Q6e	0.328		
Q6f	0.114		
Q7a		0.212	
Q7b		0.265	
Q7c		-0.696	
Q7d		0.750	
Q7e		0.717	
Q8a			0.800
Q8b			0.622
Q8c			0.594
Q8d			0.753
Q8e			0.631

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Outer Loadings

Matrix

	X9 (Reputation...
Q9a3	0.870
Q9a4	0.370
Q9b	0.075
Q9c	0.139
Q9d	0.280
Q9e	0.313
Q9f	0.495

Outer Loadings

Matrix

	M1 (Appointment of...	M2 (Regulation and ...	M3 (Political Pressure)
Ta1	0.057		
Ta2	0.508		
Ta3	0.643		
Ta4	0.857		
Ta5	0.800		
Tb1		0.302	
Tb2		0.314	
Tb3		-0.120	
Tb4		0.915	
Tb5		0.138	
Tc1			0.801
Tc2			0.711
Tc3			0.611
Tc4			0.591
Tc5			0.399
Tc6			0.591

Outer Loadings

Matrix

	X10 (Audit Committee Meetings)
Q10a	0.409
Q10b	-0.047
Q10c	0.517
Q10d	0.869
Q10e	0.648

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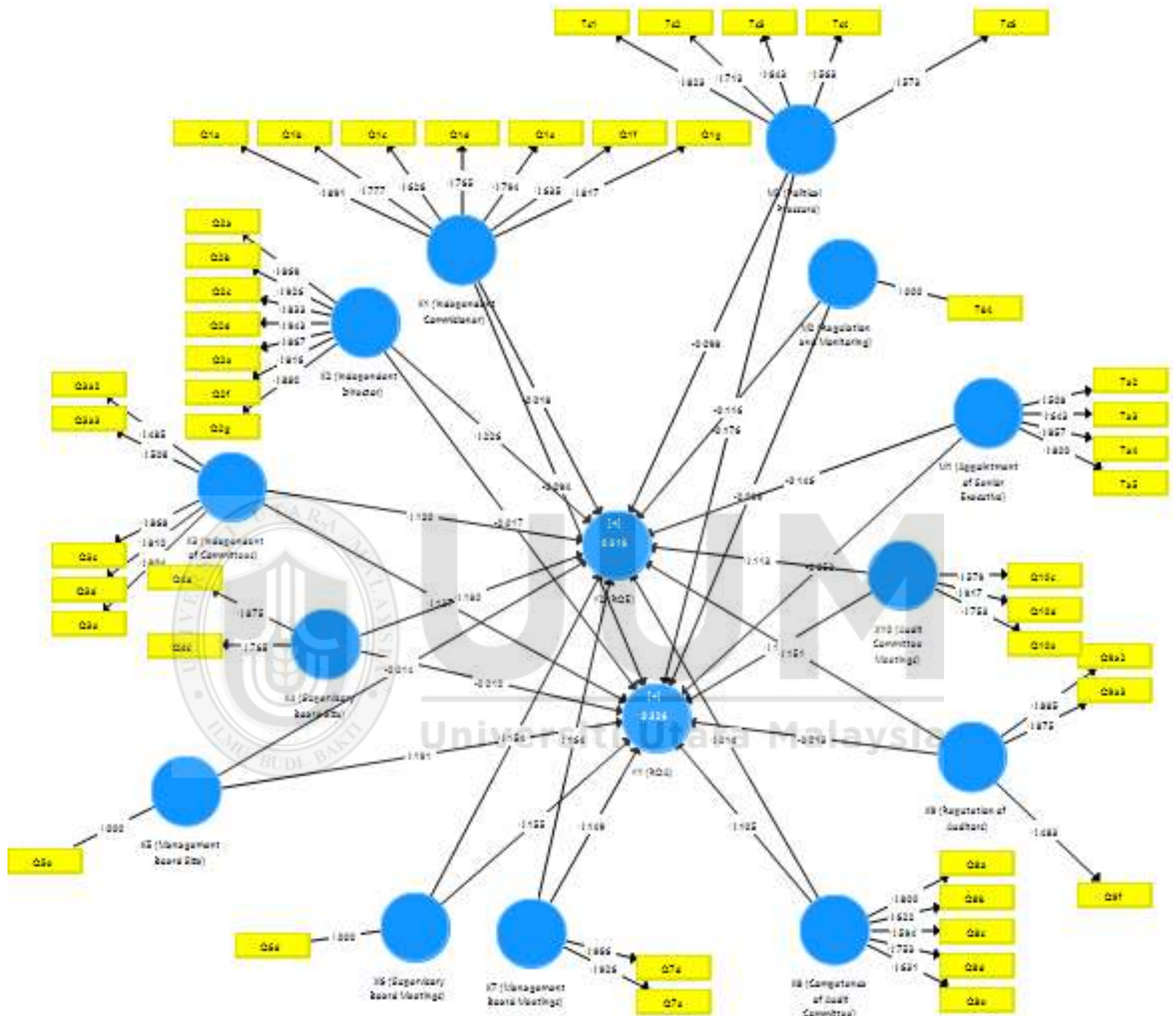
3. Path Coefficient Diagram with *Loading Factor for Each Indictor (with loading factors above 0.4*



4. *Output* SmartPLS for Loading Values of Each Indicator (*Loading Factors* above 0,4)

Outer Loadings

Matrix

	X1 (Independe...	X2 (Independe...	X3 (Independe...
Q1a	0.891		
Q1b	0.777		
Q1c	0.626		
Q1d	0.765		
Q1e	0.794		
Q1f	0.635		
Q1g	0.817		
Q2a		0.869	
Q2b		0.926	
Q2c		0.833	
Q2d		0.943	
Q2e		0.867	
Q2f		0.816	
Q2g		0.880	
Q3a2			0.485
Q3a3			0.508
Q3c			0.868
Q3d			0.810
Q3e			0.804

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Outer Loadings

Matrix Ex

	X4 (Supervisor...	X5 (Managem...	X6 (Supervisor...	X7 (Managem...	X8 (Competen...	X9 (Reputation...
Q3e						
Q4a	0.875					
Q4c	0.765					
Q5e		1.000				
Q6d			1.000			
Q7d				0.966		
Q7e				0.926		
Q8a					0.800	
Q8b					0.622	
Q8c					0.594	
Q8d					0.753	
Q8e					0.631	
Q9a2						0.885
Q9a3						0.875
Q9f						0.483

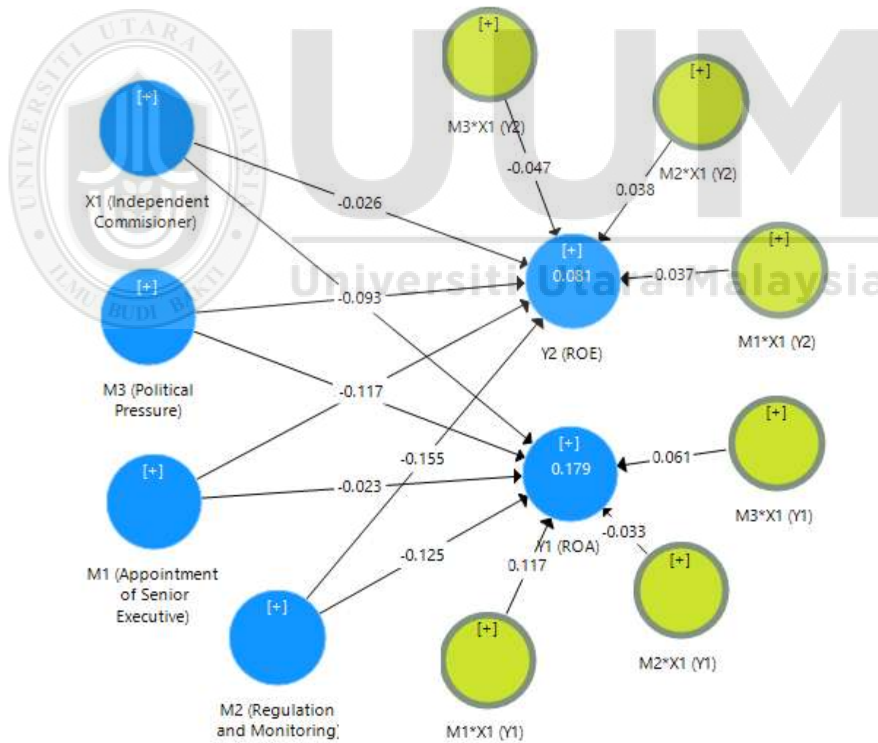
Outer Loadings

	X10 (Audit Commi...
Q10c	0.579
Q10d	0.917
Q10e	0.753

Outer Loadings

	M1 (Appointm...	M2 (Regulatio...	M3 (Political P...
Ta2	0.508		
Ta3	0.643		
Ta4	0.857		
Ta5	0.800		
Tb4		1.000	
Tc1			0.823
Tc2			0.713
Tc3			0.643
Tc4			0.563
Tc6			0.573

5. Path Coeifficeint: Independent Commissioner



6. Path Coeficient

Path Coefficients

Matrix | Path Coefficients

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.023	-0.117
M1*X1 (Y1)	0.117	
M1*X1 (Y2)		0.037
M2 (Regulation and Monitoring)	-0.125	-0.155
M2*X1 (Y1)	-0.033	
M2*X1 (Y2)		0.038
M3 (Political Pressure)	-0.232	-0.093
M3*X1 (Y1)	0.061	
M3*X1 (Y2)		-0.047
X1 (Independent Commisioner)	-0.233	-0.026
Y1 (ROA)		
Y2 (ROE)		

Gambar 7 Uji Signifikansi Koefisien Jalur

	T Statistics (|O/STDEV|)	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.159	0.874
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.671	0.502
M1*X1 (Y1) -> Y1 (ROA)	0.630	0.529
M1*X1 (Y2) -> Y2 (ROE)	0.160	0.873
M2 (Regulation and Monitoring) -> Y1 (ROA)	0.816	0.415
M2 (Regulation and Monitoring) -> Y2 (ROE)	0.856	0.392
M2*X1 (Y1) -> Y1 (ROA)	0.192	0.848
M2*X1 (Y2) -> Y2 (ROE)	0.162	0.871
M3 (Political Pressure) -> Y1 (ROA)	1.871	0.062
M3 (Political Pressure) -> Y2 (ROE)	0.708	0.479
M3*X1 (Y1) -> Y1 (ROA)	0.371	0.711
M3*X1 (Y2) -> Y2 (ROE)	0.282	0.778
X1 (Independent Commisioner) -> Y1 (ROA)	1.012	0.312
X1 (Independent Commisioner) -> Y2 (ROE)	0.107	0.915

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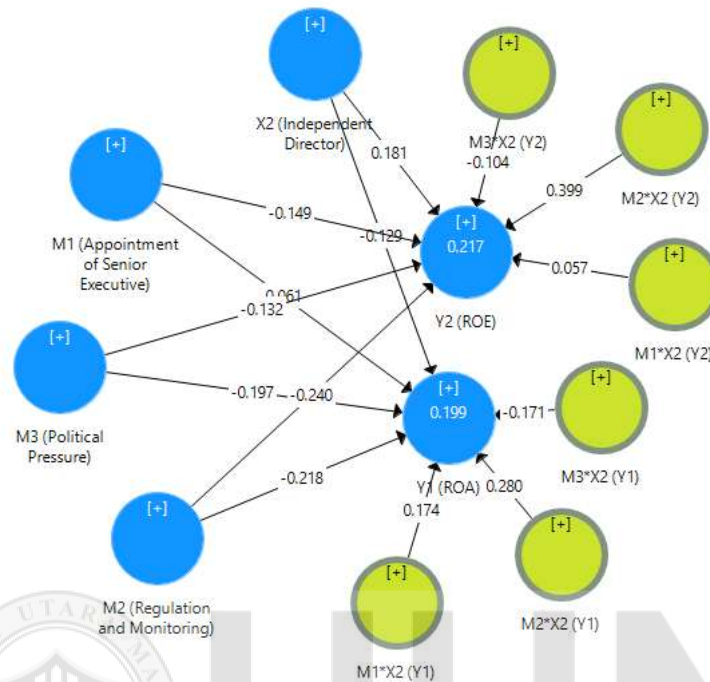
8 Path Coeficient: Independent Director



9 Path Coefficients

Path Coefficients

Matrix | Path Coefficients

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.061	-0.149
M1*X2 (Y1)	0.174	
M1*X2 (Y2)		0.057
M2 (Regulation and Monitoring)	-0.218	-0.240
M2*X2 (Y1)	0.280	
M2*X2 (Y2)		0.399
M3 (Political Pressure)	-0.197	-0.132
M3*X2 (Y1)	-0.171	
M3*X2 (Y2)		-0.104
X2 (Independent Director)	-0.129	0.181
Y1 (ROA)		
Y2 (ROE)		

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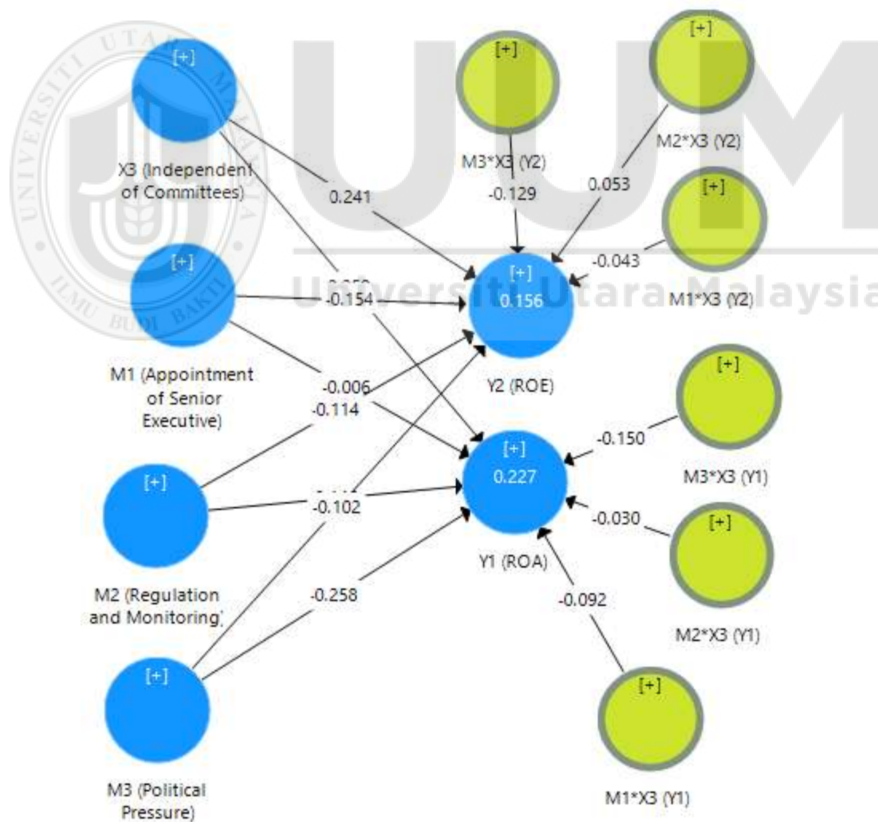
10 Significance Test

Path Coefficients

Mean, STDEV, T-Values,... | Confidence Intervals | Confidence Intervals B... | Samples | Exp

	T Statistics (|O/STDEV|)	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.366	0.715
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.929	0.353
M1*X2 (Y1) -> Y1 (ROA)	0.711	0.478
M1*X2 (Y2) -> Y2 (ROE)	0.248	0.804
M2 (Regulation and Monitoring) -> Y1 (ROA)	1.029	0.304
M2 (Regulation and Monitoring) -> Y2 (ROE)	0.736	0.462
M2*X2 (Y1) -> Y1 (ROA)	0.855	0.393
M2*X2 (Y2) -> Y2 (ROE)	0.773	0.440
M3 (Political Pressure) -> Y1 (ROA)	0.777	0.437
M3 (Political Pressure) -> Y2 (ROE)	0.730	0.466
M3*X2 (Y1) -> Y1 (ROA)	0.416	0.677
M3*X2 (Y2) -> Y2 (ROE)	0.378	0.706
X2 (Independent Director) -> Y1 (ROA)	0.505	0.614
X2 (Independent Director) -> Y2 (ROE)	0.545	0.586

11 Path Coefficient: Independence of Committee



12 Path Coefficient

Path Coefficients

Matrix | Path Coefficients

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.006	-0.154
M1*X3 (Y1)	-0.092	
M1*X3 (Y2)		-0.043
M2 (Regulation and Monitoring)	-0.146	-0.114
M2*X3 (Y1)	-0.030	
M2*X3 (Y2)		0.053
M3 (Political Pressure)	-0.258	-0.102
M3*X3 (Y1)	-0.150	
M3*X3 (Y2)		-0.129
X3 (Independent of Committees)	0.259	0.241
Y1 (ROA)		
Y2 (ROE)		

13 Significance Test

Path Coefficients

Mean, STDEV, T-Values, ... | Confidence Intervals | Confidence Intervals Bi... | Samples | Export

	T Statistics (|O/STDEV|)	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.036	0.971
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.853	0.394
M1*X3 (Y1) -> Y1 (ROA)	0.482	0.630
M1*X3 (Y2) -> Y2 (ROE)	0.243	0.808
M2 (Regulation and Monitoring) -> Y1 (ROA)	0.995	0.320
M2 (Regulation and Monitoring) -> Y2 (ROE)	0.761	0.447
M2*X3 (Y1) -> Y1 (ROA)	0.160	0.873
M2*X3 (Y2) -> Y2 (ROE)	0.270	0.787
M3 (Political Pressure) -> Y1 (ROA)	1.623	0.105
M3 (Political Pressure) -> Y2 (ROE)	0.717	0.474
M3*X3 (Y1) -> Y1 (ROA)	0.724	0.470
M3*X3 (Y2) -> Y2 (ROE)	0.775	0.439
X3 (Independent of Committees) -> Y1 (ROA)	2.109	0.035
X3 (Independent of Committees) -> Y2 (ROE)	1.601	0.110

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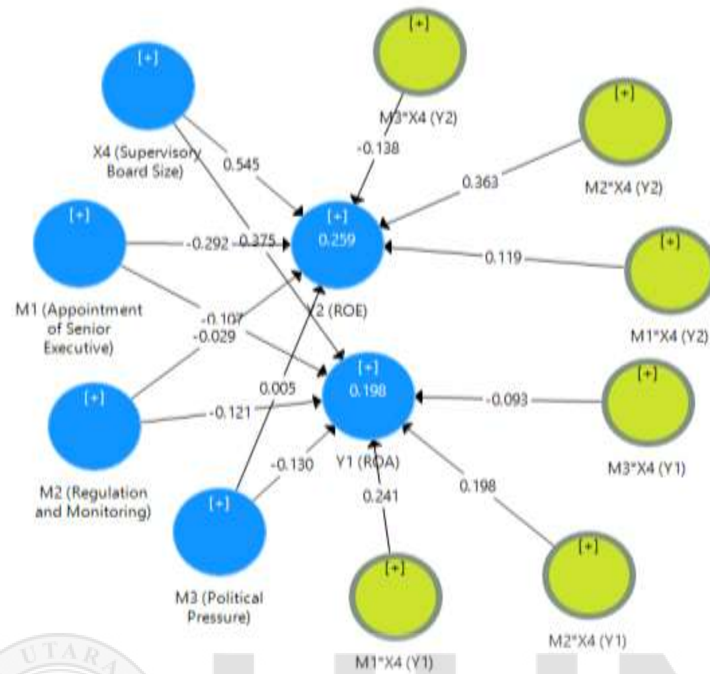
14 Path Coefficient: Supervisory Board Size



15 Path Coefficient

Path Coefficients

Matrix | Path Coefficients

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.107	-0.292
M1*X4 (Y1)	0.241	
M1*X4 (Y2)		0.119
M2 (Regulation and Monitoring)	-0.121	-0.029
M2*X4 (Y1)	0.198	
M2*X4 (Y2)		0.363
M3 (Political Pressure)	-0.130	0.005
M3*X4 (Y1)	-0.093	
M3*X4 (Y2)		-0.138
X4 (Supervisory Board Size)	0.375	0.545
Y1 (ROA)		
Y2 (ROE)		

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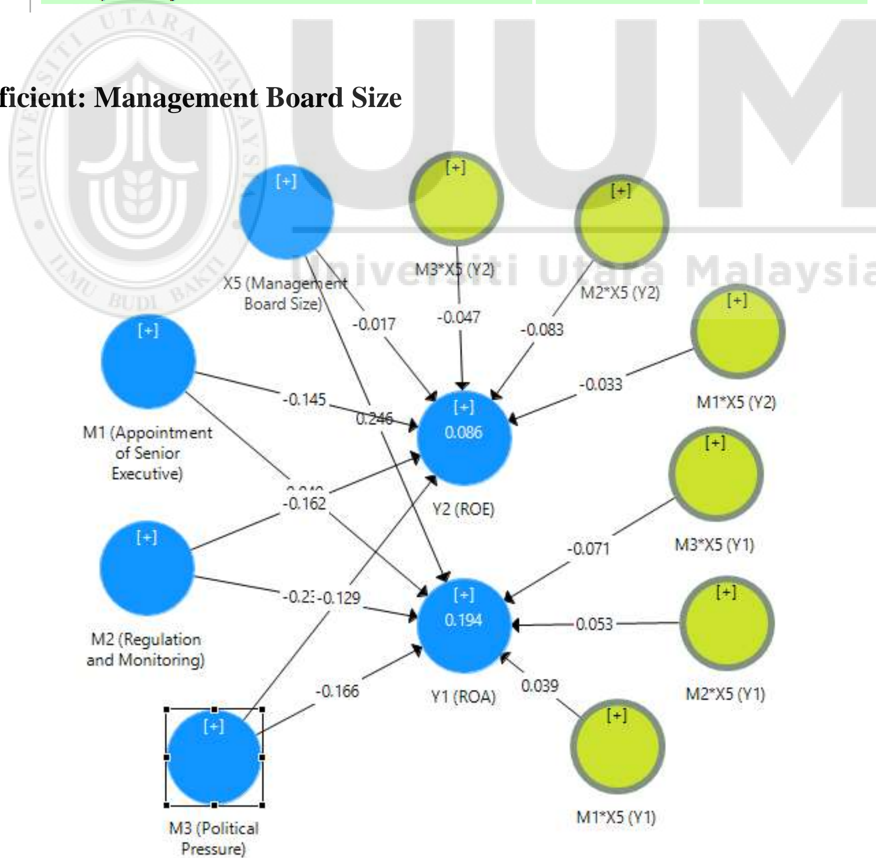
16 Significance Test

Path Coefficients

Mean, STDEV, T-Values, ... | Confidence Intervals | Confidence Intervals Bi... | Sa

	T Statistics (|O...	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.679	0.497
M1 (Appointment of Senior Executive) -> Y2 (ROE)	1.641	0.101
M1*X4 (Y1) -> Y1 (ROA)	1.080	0.281
M1*X4 (Y2) -> Y2 (ROE)	0.625	0.532
M2 (Regulation and Monitoring) -> Y1 (ROA)	0.761	0.447
M2 (Regulation and Monitoring) -> Y2 (ROE)	0.214	0.831
M2*X4 (Y1) -> Y1 (ROA)	0.945	0.345
M2*X4 (Y2) -> Y2 (ROE)	2.058	0.040
M3 (Political Pressure) -> Y1 (ROA)	0.852	0.394
M3 (Political Pressure) -> Y2 (ROE)	0.035	0.972
M3*X4 (Y1) -> Y1 (ROA)	0.471	0.638
M3*X4 (Y2) -> Y2 (ROE)	0.804	0.422
X4 (Supervisory Board Size) -> Y1 (ROA)	2.730	0.007
X4 (Supervisory Board Size) -> Y2 (ROE)	4.373	0.000

17 Path Coefficient: Management Board Size



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18 Path Coefficient

Matrix | Path Coefficients

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	0.040	-0.145
M1*X5 (Y1)	0.039	
M1*X5 (Y2)		-0.033
M2 (Regulation and Monitoring)	-0.237	-0.162
M2*X5 (Y1)	0.053	
M2*X5 (Y2)		-0.083
M3 (Political Pressure)	-0.166	-0.129
M3*X5 (Y1)	-0.071	
M3*X5 (Y2)		-0.047
X5 (Management Board Size)	0.246	-0.017
Y1 (ROA)		
Y2 (ROE)		

19 Significance Test

Path Coefficients

Mean, STDEV, T-Values, ... | Confidence Intervals | Confidence Intervals Bi... | Samples | Export to

	T Statistics (|O/STDEV|)	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.249	0.804
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.874	0.382
M1*X5 (Y1) -> Y1 (ROA)	0.145	0.885
M1*X5 (Y2) -> Y2 (ROE)	0.144	0.886
M2 (Regulation and Monitoring) -> Y1 (ROA)	1.184	0.237
M2 (Regulation and Monitoring) -> Y2 (ROE)	1.082	0.280
M2*X5 (Y1) -> Y1 (ROA)	0.212	0.832
M2*X5 (Y2) -> Y2 (ROE)	0.343	0.732
M3 (Political Pressure) -> Y1 (ROA)	1.165	0.245
M3 (Political Pressure) -> Y2 (ROE)	0.831	0.407
M3*X5 (Y1) -> Y1 (ROA)	0.251	0.802
M3*X5 (Y2) -> Y2 (ROE)	0.192	0.848
X5 (Management Board Size) -> Y1 (ROA)	0.902	0.368
X5 (Management Board Size) -> Y2 (ROE)	0.073	0.942

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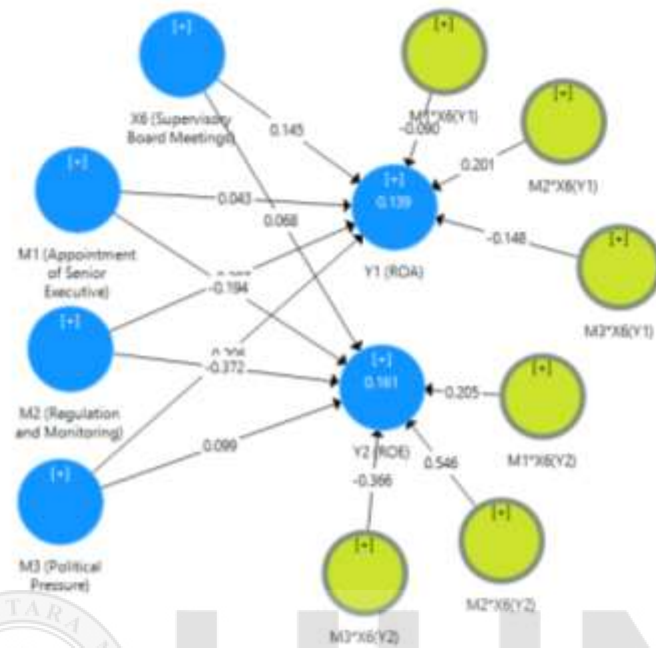
20 Path Coefficient: Supervisory Board Meetings



21 Path Coefficient

Matrix | Path Coefficients

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	0.043	-0.194
M1*X6(Y1)	-0.090	
M1*X6(Y2)		0.205
M2 (Regulation and Monitoring)	-0.297	-0.372
M2*X6(Y1)	0.201	
M2*X6(Y2)		0.546
M3 (Political Pressure)	-0.206	0.099
M3*X6(Y1)	-0.148	
M3*X6(Y2)		-0.366
X6 (Supervisory Board Meetings)	0.145	0.068
Y1 (ROA)		
Y2 (ROE)		

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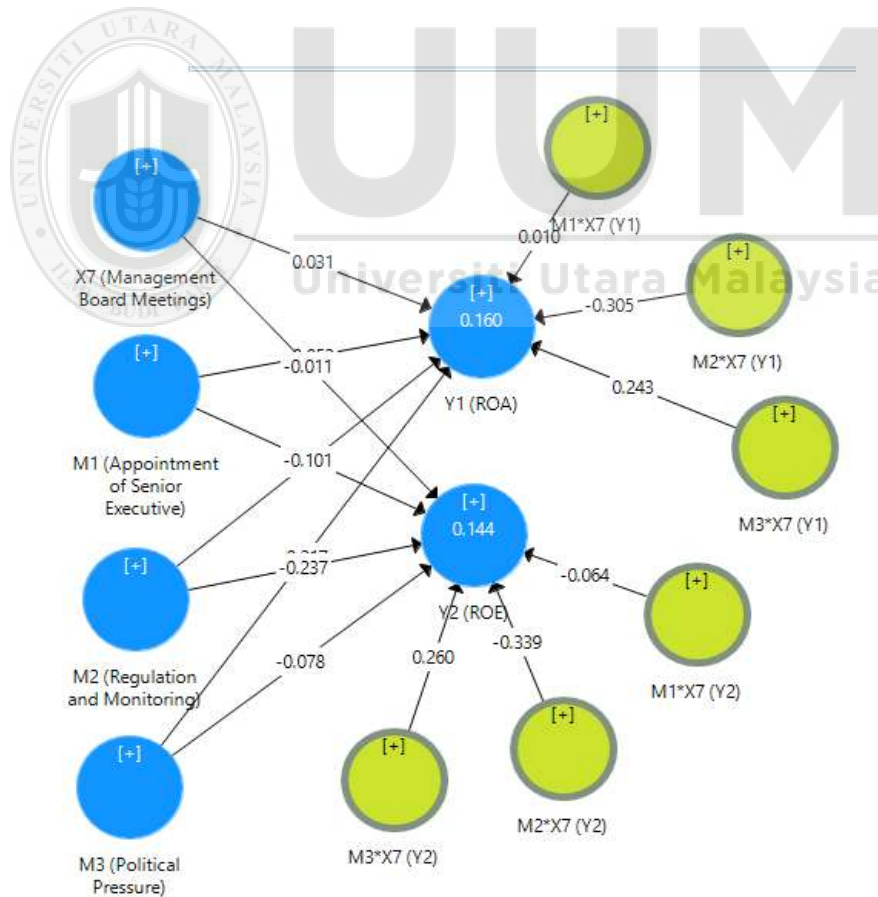
22 Significance Test

Mean, STDEV, T-Values,... | Confidence Intervals | Confidence Intervals B... | Samples | Exp

	T Statistics (|O/STDEV|)	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.259	0.796
M1 (Appointment of Senior Executive) -> Y2 (ROE)	1.014	0.311
M1*X6(Y1) -> Y1 (ROA)	0.356	0.722
M1*X6(Y2) -> Y2 (ROE)	0.903	0.367
M2 (Regulation and Monitoring) -> Y1 (ROA)	1.877	0.061
M2 (Regulation and Monitoring) -> Y2 (ROE)	1.527	0.127
M2*X6(Y1) -> Y1 (ROA)	0.710	0.478
M2*X6(Y2) -> Y2 (ROE)	1.345	0.179
M3 (Political Pressure) -> Y1 (ROA)	1.278	0.202
M3 (Political Pressure) -> Y2 (ROE)	0.465	0.642
M3*X6(Y1) -> Y1 (ROA)	0.676	0.499
M3*X6(Y2) -> Y2 (ROE)	1.111	0.267
X6 (Supervisory Board Meetings) -> Y1 (ROA)	0.878	0.380
X6 (Supervisory Board Meetings) -> Y2 (ROE)	0.354	0.724

23 Path Coefficient: Management Board Meetings



24 Path Coefficient

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	0.052	-0.101
M1*X7 (Y1)	0.010	
M1*X7 (Y2)		-0.064
M2 (Regulation and Monitoring)	-0.258	-0.237
M2*X7 (Y1)	-0.305	
M2*X7 (Y2)		-0.339
M3 (Political Pressure)	-0.217	-0.078
M3*X7 (Y1)	0.243	
M3*X7 (Y2)		0.260
X7 (Management Board Meetings)	0.031	-0.011
Y1 (ROA)		
Y2 (ROE)		

25 Significance Test

	T Statistics (|O/STDEV|)	P Values
M3*X7 (Y2) -> Y2 (ROE)	1.103	0.271
M3*X7 (Y1) -> Y1 (ROA)	0.817	0.415
X7 (Management Board Meetings) -> Y2 (ROE)	0.060	0.952
X7 (Management Board Meetings) -> Y1 (ROA)	0.146	0.884
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.325	0.745
M1*X7 (Y1) -> Y1 (ROA)	0.039	0.969
M1*X7 (Y2) -> Y2 (ROE)	0.257	0.797
M3 (Political Pressure) -> Y2 (ROE)	0.514	0.608
M2*X7 (Y1) -> Y1 (ROA)	0.970	0.333
M2 (Regulation and Monitoring) -> Y2 (ROE)	1.371	0.171
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.577	0.565
M2*X7 (Y2) -> Y2 (ROE)	1.251	0.211
M2 (Regulation and Monitoring) -> Y1 (ROA)	1.733	0.084
M3 (Political Pressure) -> Y1 (ROA)	1.308	0.191

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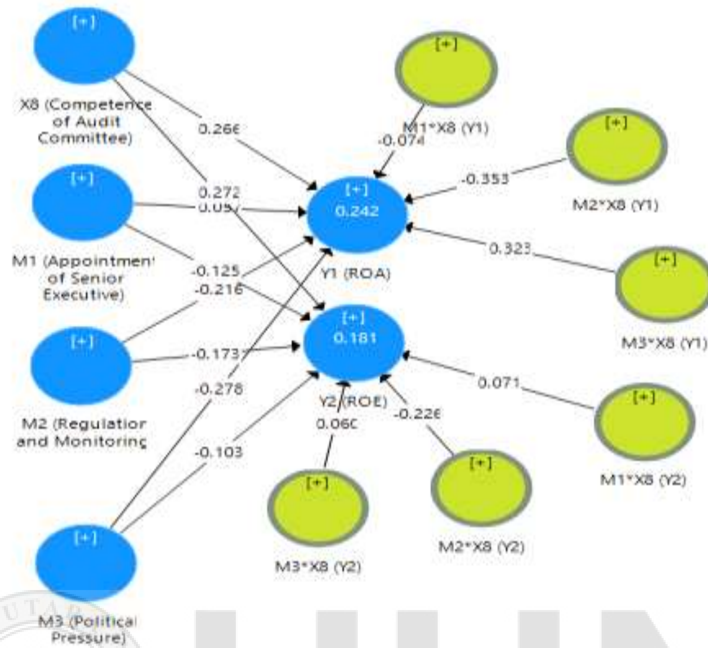
26 Path Coefficient: Competence of Audit Committee



27 Path Coefficient

Path Coefficients

Matrix | Path Coefficients

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	.057	-0.125
M1*X8 (Y1)	-0.074	
M1*X8 (Y2)		0.071
M2 (Regulation and Monitoring)	-0.216	-0.173
M2*X8 (Y1)	-0.353	
M2*X8 (Y2)		-0.226
M3 (Political Pressure)	-0.278	-0.103
M3*X8 (Y1)	0.323	
M3*X8 (Y2)		0.060
X8 (Competence of Audit Committee)	0.266	0.272
Y1 (ROA)		
Y2 (ROE)		

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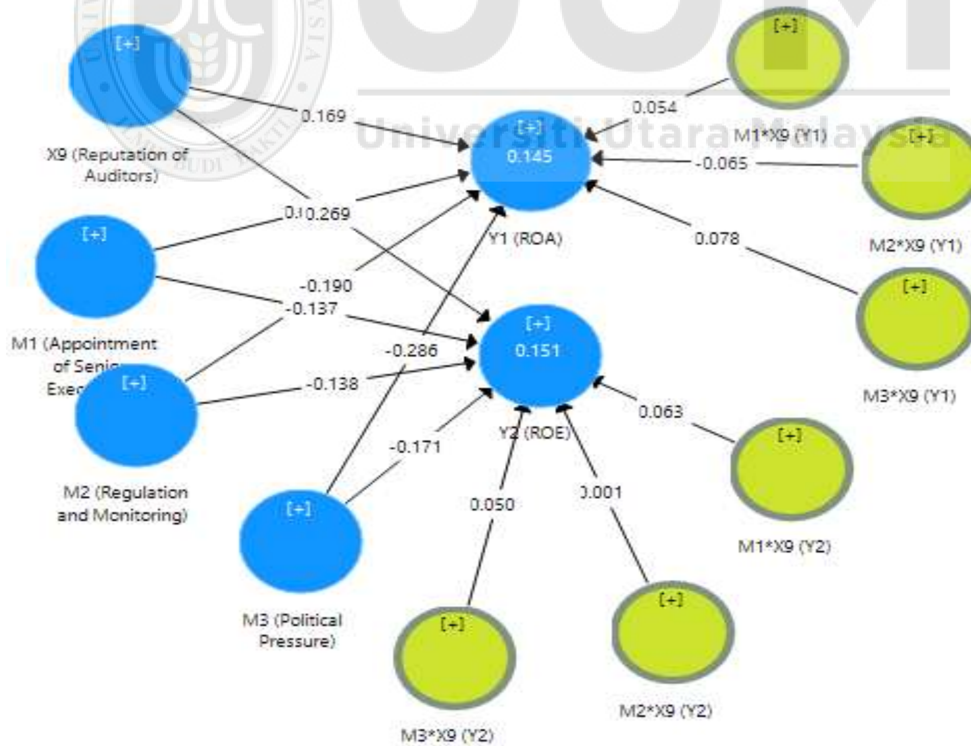
28 Significance Test

Path Coefficients

Mean, STDEV, T-Values, ... | Confidence Intervals | Confidence Intervals Bi... | Samples | Export

	T Statistics (|O/STDEV|)	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.357	0.721
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.705	0.481
M1*X8 (Y1) -> Y1 (ROA)	0.354	0.724
M1*X8 (Y2) -> Y2 (ROE)	0.336	0.737
M2 (Regulation and Monitoring) -> Y1 (ROA)	1.107	0.269
M2 (Regulation and Monitoring) -> Y2 (ROE)	0.894	0.372
M2*X8 (Y1) -> Y1 (ROA)	0.663	0.508
M2*X8 (Y2) -> Y2 (ROE)	0.520	0.603
M3 (Political Pressure) -> Y1 (ROA)	1.744	0.082
M3 (Political Pressure) -> Y2 (ROE)	0.627	0.531
M3*X8 (Y1) -> Y1 (ROA)	0.921	0.357
M3*X8 (Y2) -> Y2 (ROE)	0.197	0.844
X8 (Competence of Audit Committee) -> Y1 (ROA)	0.995	0.320
X8 (Competence of Audit Committee) -> Y2 (ROE)	1.110	0.268

29 Path Coefficient: Reputation of Auditors



30 Path Coefficient

Path Coefficients

Matrix | Path Coefficients

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Execut...	0.015	-0.137
M1*X9 (Y1)	0.054	
M1*X9 (Y2)		0.063
M2 (Regulation and Monitoring)	-0.190	-0.138
M2*X9 (Y1)	-0.065	
M2*X9 (Y2)		0.001
M3 (Political Pressure)	-0.286	-0.171
M3*X9 (Y1)	0.078	
M3*X9 (Y2)		0.050
X9 (Reputation of Auditors)	0.169	0.269
Y1 (ROA)		
Y2 (ROE)		

31 Significance Test

Mean, STDEV, T-Values, ... | Confidence Intervals | Confidence Intervals Bi... | Samples | E

	T Statistics (|O/STDEV|)	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.094	0.925
M1 (Appointment of Senior Executive) -> Y2 (ROE)	0.880	0.379
M1*X9 (Y1) -> Y1 (ROA)	0.324	0.746
M1*X9 (Y2) -> Y2 (ROE)	0.318	0.750
M2 (Regulation and Monitoring) -> Y1 (ROA)	1.423	0.155
M2 (Regulation and Monitoring) -> Y2 (ROE)	0.956	0.339
M2*X9 (Y1) -> Y1 (ROA)	0.466	0.642
M2*X9 (Y2) -> Y2 (ROE)	0.006	0.995
M3 (Political Pressure) -> Y1 (ROA)	2.126	0.034
M3 (Political Pressure) -> Y2 (ROE)	1.244	0.214
M3*X9 (Y1) -> Y1 (ROA)	0.478	0.633
M3*X9 (Y2) -> Y2 (ROE)	0.300	0.764
X9 (Reputation of Auditors) -> Y1 (ROA)	1.123	0.262
X9 (Reputation of Auditors) -> Y2 (ROE)	2.074	0.039

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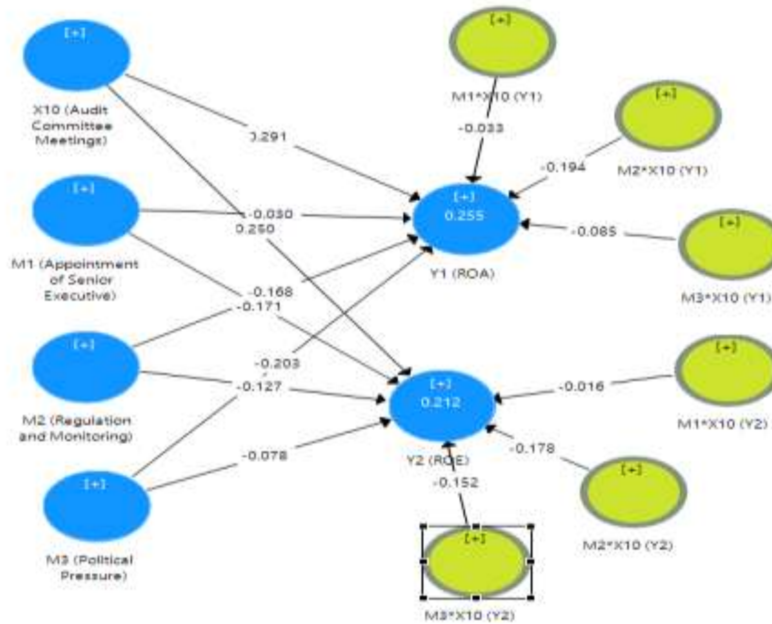
32 Path Coefficient: Audit Committee Meeting



33 Path Coefficient

Path Coefficients

Matrix | Path Coefficients

	Y1 (ROA)	Y2 (ROE)
M1 (Appointment of Senior Executive)	-0.030	-0.171
M1*X10 (Y1)	-0.033	
M1*X10 (Y2)		-0.016
M2 (Regulation and Monitoring)	-0.168	-0.127
M2*X10 (Y1)	-0.194	
M2*X10 (Y2)		-0.178
M3 (Political Pressure)	-0.203	-0.078
M3*X10 (Y1)	-0.085	
M3*X10 (Y2)		-0.152
X10 (Audit Committee Meetings)	0.291	0.250
Y1 (ROA)		
Y2 (ROE)		

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34 Significance Test

Path Coefficients

Mean, STDEV, T-Values, ... | Confidence Intervals | Confidence Intervals Bi... | Sam

	T Statistics (|O...	P Values
M1 (Appointment of Senior Executive) -> Y1 (ROA)	0.197	0.844
M1 (Appointment of Senior Executive) -> Y2 (ROE)	1.044	0.297
M1*X10 (Y1) -> Y1 (ROA)	0.139	0.889
M1*X10 (Y2) -> Y2 (ROE)	0.056	0.955
M2 (Regulation and Monitoring) -> Y1 (ROA)	1.020	0.308
M2 (Regulation and Monitoring) -> Y2 (ROE)	0.713	0.476
M2*X10 (Y1) -> Y1 (ROA)	0.828	0.408
M2*X10 (Y2) -> Y2 (ROE)	0.719	0.472
M3 (Political Pressure) -> Y1 (ROA)	1.557	0.120
M3 (Political Pressure) -> Y2 (ROE)	0.548	0.584
M3*X10 (Y1) -> Y1 (ROA)	0.451	0.652
M3*X10 (Y2) -> Y2 (ROE)	0.687	0.492
X10 (Audit Committee Meetings) -> Y1 (ROA)	1.790	0.074
X10 (Audit Committee Meetings) -> Y2 (ROE)	1.303	0.193

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