The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.
CORPORATE GOVERNANCE, GOVERNMENT INTERVENTION AND PERFORMANCE OF STATE OWNED ENTERPRISES, INDONESIA

DOCTOR OF BUSINESS ADMINISTRATION
UNIVERSITI UTARA MALAYSIA
AUGUST 2016
CORPORATE GOVERNANCE, GOVERNMENT INTERVENTION AND PERFORMANCE OF STATE OWNED ENTERPRISES, INDONESIA

By

ERWIN ABUBAKAR

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
Permission to Use

In presenting this thesis in full fulfillment of the requirements for a Doctor of Philosophy degree from Universiti Utara Malaysia, I agree that the University Library may make it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or, in their absence, by Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying, publication, or use of this thesis or parts thereof for financial gain shall not be allowed without written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholar use which may be made of any material from my thesis. Request for permission to copy or to make other use of material in this thesis in completely or in part should be addressed to:

Dean of Othman Yeop Abdullah
UUM College of Business Administration
Universiti Utara Malaysia
06010 UUM Sintok
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
ABSTRAK


Kata kunci: tadbir urus korporat, campur tangan kerajaan, prestasi firma, Indonesia
Acknowledgement

First of all, I would like to thank Allah SWT, the ONE and the ONLY GOD, the king of all the kings for the strength and the power that have given me to accomplish this thesis. Also, I have been in debt in the preparation of this thesis to my supervisor, Associate Professor Dr. Faudziah Hanim for her academic experience and patience; she made things easy for me when they were difficult. Also, I am grateful to my DBA class mates Associate Professor Dr Syed Soffian and Dr Shukor for their comments, guidance and their academic experience.

Last but not least, my wife Sofiana, and my son Keulana Erwin, my daughter in law Diana Sriwidati and my two grandsons Armada Rajasa Abubakar and Arsyaka Dewangga Abubakar, who are always my guiding light in preparing and finishing my theses.

Finally, thank you my wife for her long support and patience, and also thanks for everyone who helped me to complete this thesis.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title page</td>
<td>I</td>
</tr>
<tr>
<td>Certification of theses work</td>
<td>ii</td>
</tr>
<tr>
<td>Permission to use</td>
<td>iv</td>
</tr>
<tr>
<td>Abstract</td>
<td>v</td>
</tr>
<tr>
<td>Abstrak</td>
<td>vi</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>vii</td>
</tr>
<tr>
<td>Table of Content</td>
<td>viii</td>
</tr>
<tr>
<td>List of Tables</td>
<td>xv</td>
</tr>
<tr>
<td>List of Figures</td>
<td>xvii</td>
</tr>
<tr>
<td>List of Abbreviations</td>
<td>xviii</td>
</tr>
</tbody>
</table>

## Chapter 1  INTRODUCTION

1.0 Background of the Study | 1
1.1 SOE in Indonesia | 6
1.2 Problem Statement | 15
1.3 Research Questions | 20
1.4 Research Objectives | 21
1.5 Scope of Research | 22
1.6 Significance of Research | 23
    1.6.1 Theoretical Significance | 24
1.6.2 Practical Significance

1.7 Definition of Terms

1.8 Organisation of the Study

Chapter 2 CORPORATE GOVERNANCE IN INDONESIA

2.0 Introduction

2.1 Corporate Governance Principles in Indonesia

2.2 Ownership Structure

2.3 Laws and Institutions

2.4 The Governance Structure of a Company

2.4.1 Limited Liability Company

2.4.2 The Governance Structure of a Limited Liability Company

2.5 Overview of Indonesian Corporate Governance

2.6 The Three Institutional Pillars of Corporate Governance

2.6.1 The Role of the State

2.6.2 The Role of the Business

2.6.3 The Role of the Community

2.7 Chapter Summary

Chapter 3 LITERATURE REVIEW

3.0 Introduction

3.1 Overview of Firm Performance

3.2 Overview of Corporate Governance

3.3 Overview of Government Intervention
3.4 Corporate Governance and Firm Performance

3.4.1 Independent Commissioner

3.4.2 Independent Director

3.4.3 Independence of Committee

3.4.4 Supervisory Board Size

3.4.5 Management Board Size

3.4.6 Supervisory Board Meetings

3.4.7 Management Board Meetings

3.4.8 Competence of Audit Committee

3.4.9 Reputation of Auditors

3.4.10 Audit Committee Meetings

3.5 Corporate Governance, Government Intervention, and Firm Performance

3.5.1 Appointment of Senior Executive

3.5.2 Political Pressures

3.5.3 Regulation and Monitoring

3.6 Underlying Theory

3.7 Summary of Literature Review

3.8 Chapter Summary

Chapter 4 RESEARCH FRAMEWORK AND METHODOLOGY

4.0 Introduction
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Research Framework</td>
<td></td>
</tr>
<tr>
<td>4.2</td>
<td>Hypotheses Development</td>
<td></td>
</tr>
<tr>
<td>4.2.1</td>
<td>Independent Commissioner and Firm Performance and Moderated by</td>
<td>109</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td></td>
</tr>
<tr>
<td>4.2.2</td>
<td>Independent Director and Firm Performance and Moderated by Government</td>
<td>116</td>
</tr>
<tr>
<td></td>
<td>Intervention</td>
<td></td>
</tr>
<tr>
<td>4.2.3</td>
<td>Independence of Committee and Firm Performance and Moderated by</td>
<td>121</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td></td>
</tr>
<tr>
<td>4.2.4</td>
<td>Supervisory Board Size and Firm Performance and Moderated by</td>
<td>127</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td></td>
</tr>
<tr>
<td>4.2.5</td>
<td>Management Board Size and Firm Performance and Moderated by</td>
<td>133</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td></td>
</tr>
<tr>
<td>4.2.6</td>
<td>Supervisory Board Meetings and Firm Performance and Moderated by</td>
<td>138</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td></td>
</tr>
<tr>
<td>4.2.7</td>
<td>Management Board Meetings and Firm Performance and Moderated by</td>
<td>143</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td></td>
</tr>
<tr>
<td>4.2.8</td>
<td>Competence of Audit Committee and Firm Performance and</td>
<td>148</td>
</tr>
<tr>
<td></td>
<td>Moderated by Government Intervention</td>
<td></td>
</tr>
<tr>
<td>4.2.9</td>
<td>Reputation of Auditor and Firm Performance and Moderated by</td>
<td>153</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td></td>
</tr>
<tr>
<td>4.2.10</td>
<td>Audit Committee Meetings and Firm Performance and Moderated by</td>
<td>159</td>
</tr>
<tr>
<td></td>
<td>Government Intervention</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Methodology</td>
<td>165</td>
</tr>
<tr>
<td>4.3</td>
<td>Research Design</td>
<td>165</td>
</tr>
<tr>
<td>4.3.1</td>
<td>Sample and Data Collection</td>
<td>165</td>
</tr>
<tr>
<td>4.3.2</td>
<td>Research Instruments</td>
<td>168</td>
</tr>
<tr>
<td>4.3.3</td>
<td>Operational Definition and Measurement of Variables</td>
<td>170</td>
</tr>
</tbody>
</table>
## Chapter 4.3.5 Method of Data Analysis

4.3.6 Assessment of Multicollinearity

4.3.7 Structural Equation Modelling

4.3.8 Research Model

4.3.9 Evaluation of the PLS Model

4.3.10 Hypotheses Testing

### 4.4 Chapter Summary

---

## Chapter 5  RESEARCH ANALYSIS AND FINDINGS

5.0 Introduction

5.1 Overall Response Rate

5.2 Descriptive Statisticcs

5.2.1 Respondents by Type of Business

5.2.2 Auditors of Indonesian State-Owned Enterprises

5.2.3 Size of Enterprises Based on Rupiah

5.2.4 Supervisory Board Size

5.2.5 Management Board Size

5.2.6 Age of the Companies

5.3 Inferential Statistic

5.3.1 Data Preparation

5.3.2 Outer Model Evaluation

5.3.3 Evaluation of Structural Model

5.3.4 Hypotheses Testing

5.4 Chapter Summary
## Chapter 6 DISCUSSION AND CONCLUSION

### 6.0 Introduction

### 6.1 Recapitulation of Research Objectives

### 6.2 Findings from Hypotheses Testing

### 6.3 Discussions

- **6.3.1 Independent Commissioner**
- **6.3.2 Independent Director**
- **6.3.3 Independence of Committees**
- **6.3.4 Supervisory Board Size**
- **6.3.5 Management Board Size**
- **6.3.6 Supervisory Board Meetings**
- **6.3.7 Management Board Meetings**
- **6.3.8 Competence of Audit Committee**
- **6.3.9 Reputation of Auditors**
- **6.3.10 Audit Committee Meetings**

### 6.4 Research Contribution

- **6.4.1 Theoretical Contributions**
- **6.4.2 Practical Contributions**

### 6.5 Research Implication

- **6.5.1 The Relationship of Corporate Governance and Firm Performance**
- **6.5.2 The Moderating Effect of Appointment of Senior Executive to the Relationship of Corporate Governance and Firm Performance**

---

257 | 257
258 | 258
258 | 259
261 | 263
265 | 268
270 | 272
275 | 278
280 | 282
282 | 283
283 | 284
285 | 285
6.5.3 The Moderating Effect of Political Pressure to the Relationship of Corporate Governance to Firm Performance

6.5.4 The Moderating Effect of Regulation and Moderating to the Relationship of Corporate Governance to Firm Performance

6.5.5 Overall Results of the Study

Limitation of the Study

Future Research Direction

6.6 Conclusion

6.7

6.8

References

Appendices
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Type of Indonesian SOEs</td>
<td>4</td>
</tr>
<tr>
<td>1.2</td>
<td>Indonesian SOEs based on Legality</td>
<td>9</td>
</tr>
<tr>
<td>1.3</td>
<td>Selected Financial Data of SOEs</td>
<td>9</td>
</tr>
<tr>
<td>1.4</td>
<td>Performance Comparison between Private and SOEs</td>
<td>11</td>
</tr>
<tr>
<td>1.5</td>
<td>CG Watch Market Scores</td>
<td>18</td>
</tr>
<tr>
<td>2.1</td>
<td>Basic Laws and Regulations Influencing on Corporate Governance</td>
<td>42</td>
</tr>
<tr>
<td>3.1</td>
<td>The Summary of Literature Review</td>
<td>101</td>
</tr>
<tr>
<td>4.1</td>
<td>Sample Size and Precision</td>
<td>167</td>
</tr>
<tr>
<td>4.2</td>
<td>Summary of Questionnaire</td>
<td>170</td>
</tr>
<tr>
<td>4.3</td>
<td>The Measurement of Independent Commissioner</td>
<td>173</td>
</tr>
<tr>
<td>4.4</td>
<td>The Measurement of Independent Director</td>
<td>174</td>
</tr>
<tr>
<td>4.5</td>
<td>The Measurement of Independence of Committee</td>
<td>174</td>
</tr>
<tr>
<td>4.6</td>
<td>The Measurement of Supervisory Board Size</td>
<td>175</td>
</tr>
<tr>
<td>4.7</td>
<td>The Measurement of Management Board Size</td>
<td>176</td>
</tr>
<tr>
<td>4.8</td>
<td>The Measurement of Supervisory Board Meetings</td>
<td>177</td>
</tr>
<tr>
<td>4.9</td>
<td>The Measurement of Management Board Meetings</td>
<td>178</td>
</tr>
<tr>
<td>4.10</td>
<td>The Measurement of the Competence of Audit Committee</td>
<td>179</td>
</tr>
<tr>
<td>4.11</td>
<td>The Measurement of Reputation of Auditor</td>
<td>180</td>
</tr>
<tr>
<td>4.12</td>
<td>The Measurement of Audit Committee Meetings</td>
<td>180</td>
</tr>
<tr>
<td>4.13</td>
<td>The Measurement of Appointment of Senior Executive</td>
<td>181</td>
</tr>
<tr>
<td>4.14</td>
<td>The Measurement of Political Pressures</td>
<td>182</td>
</tr>
<tr>
<td>4.15</td>
<td>The Measurement of Regulation and Monitoring</td>
<td>183</td>
</tr>
<tr>
<td>4.16</td>
<td>The Measurement of Firm Performance (ROA)</td>
<td>184</td>
</tr>
<tr>
<td>4.17</td>
<td>The Measurement of Firm Performance (ROE)</td>
<td>185</td>
</tr>
<tr>
<td>4.18</td>
<td>Checking Validity</td>
<td>192</td>
</tr>
<tr>
<td>4.19</td>
<td>Checking Reability</td>
<td>193</td>
</tr>
<tr>
<td>5.1</td>
<td>Response Rate</td>
<td>198</td>
</tr>
<tr>
<td>5.2</td>
<td>Respondents by Type of Business</td>
<td>199</td>
</tr>
<tr>
<td>5.3</td>
<td>Auditors of Indonesian State Owned Enterprises</td>
<td>199</td>
</tr>
<tr>
<td>5.4</td>
<td>Size of Assets base on Rupiah</td>
<td>200</td>
</tr>
<tr>
<td>5.5</td>
<td>Supervisory Board Size</td>
<td>201</td>
</tr>
<tr>
<td>5.6</td>
<td>Management Board Size</td>
<td>201</td>
</tr>
<tr>
<td>5.7</td>
<td>Company Age</td>
<td>202</td>
</tr>
<tr>
<td>5.8</td>
<td>Output Smart PLS for the Loading Factors of Each Indicator</td>
<td>205</td>
</tr>
<tr>
<td>5.9</td>
<td>Loading Factor of the Indicators of the Variables</td>
<td>208</td>
</tr>
<tr>
<td>5.10</td>
<td>Cronbach Alpha and Composite Reliability of Each Indicator</td>
<td>209</td>
</tr>
<tr>
<td>5.11</td>
<td>Average Variance Extracted (AVE) Value from Each Latent Variable</td>
<td>210</td>
</tr>
<tr>
<td>5.12</td>
<td>Path Coefficient: Independent Commissioner</td>
<td>214</td>
</tr>
<tr>
<td>5.13</td>
<td>The Significance Test of the Path Coefficient Value</td>
<td>215</td>
</tr>
<tr>
<td>5.14</td>
<td>Path Coefficient: Independent Director</td>
<td>219</td>
</tr>
<tr>
<td>5.15</td>
<td>The Significance Test of the Path Coefficient Value</td>
<td>220</td>
</tr>
<tr>
<td>5.16</td>
<td>Path Coefficient: Independence of Committee</td>
<td>224</td>
</tr>
<tr>
<td>5.17</td>
<td>The Significance Test of the Path Coefficient Value</td>
<td>225</td>
</tr>
<tr>
<td>5.18</td>
<td>Path Coefficient: Supervisory Board Size</td>
<td>228</td>
</tr>
</tbody>
</table>
Table 5.19  The Significance Test of the Path Coefficient Value
Table 5.20  Path Coefficient: Management Board Size
Table 5.21  The Significance Test of the Path Coefficient Value
Table 5.22  Path Coefficient: Supervisory Board Meetings
Table 5.23  The Significance Test of the Path Coefficient Value
Table 5.24  Path Coefficient: Management Board Meetings
Table 5.25  The Significance Test of the Path Coefficient Value
Table 5.26  Path Coefficient: Competence of Audit Committee
Table 5.27  The Significance Test of the Path Coefficient Value
Table 5.28  Path Coefficient: Reputation of Auditors
Table 5.29  The Significance Test of the Path Coefficient Value
Table 5.30  Path Coefficient: Audit Committee Meetings
Table 5.31  The Significance Test of the Path Coefficient Value
Table 6.1   Hypotheses of Independent Commissioner
Table 6.2   Hypotheses of Independent Director
Table 6.3   Hypotheses of Independence of Committee
Table 6.4   Hypotheses of Supervisory Board Size
Table 6.5   Hypotheses of Management Board Size
Table 6.6   Hypotheses of Supervisory Board Meetings
Table 6.7   Hypotheses of Management Board Meetings
Table 6.8   Hypotheses of Competence of Audit Committee
Table 6.9   Hypotheses of Reputation of Auditors
Table 6.10  Hypotheses of Audit Committee Meetings
Table 6.11  Hypotheses Results on the Relationship of Corporate Governance Indicators with Firm Performance
Table 6.12  Hypotheses Results on the Moderating Effect of Appointment of Senior Executive on the Relationship of Corporate Governance Indicators with Firm Performance
Table 6.13  Hypotheses Results on the Moderating Effect of Political Pressure on the Relationship of Corporate Governance Indicators with Firm Performance
Table 6.14  Hypotheses Results on the Moderating Effect of Regulation and Monitoring on the Relationship of Corporate Governance Indicators with Firm Performance
## List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1.1</td>
<td>The History of SOE Control Organisation in Indonesia</td>
<td>7</td>
</tr>
<tr>
<td>Figure 2.1</td>
<td>Board Structure</td>
<td>21</td>
</tr>
<tr>
<td>Figure 4.1</td>
<td>Research Framework</td>
<td>106</td>
</tr>
<tr>
<td>Figure 4.2</td>
<td>Research Model</td>
<td>190</td>
</tr>
<tr>
<td>Figure 5.1</td>
<td>Outer Measurement Model</td>
<td>204</td>
</tr>
<tr>
<td>Figure 5.2</td>
<td>Outer Measurement Model (loading factors above 0.4)</td>
<td>207</td>
</tr>
<tr>
<td>Figure 5.3</td>
<td>R Square ROE</td>
<td>211</td>
</tr>
<tr>
<td>Figure 5.4</td>
<td>R Square ROE</td>
<td>212</td>
</tr>
<tr>
<td>Figure 5.5</td>
<td>Path Coefficient: Independent Commissioner</td>
<td>213</td>
</tr>
<tr>
<td>Figure 5.6</td>
<td>Path Coefficient: Independent Director</td>
<td>218</td>
</tr>
<tr>
<td>Figure 5.7</td>
<td>Path Coefficient: Independence of Committee</td>
<td>223</td>
</tr>
<tr>
<td>Figure 5.8</td>
<td>Path Coefficient: Supervisory Board Size</td>
<td>227</td>
</tr>
<tr>
<td>Figure 5.9</td>
<td>Path Coefficient: Management Board Size</td>
<td>231</td>
</tr>
<tr>
<td>Figure 5.10</td>
<td>Path Coefficient: Supervisory Board Meetings</td>
<td>235</td>
</tr>
<tr>
<td>Figure 5.11</td>
<td>Path Coefficient: Management Board Meetings</td>
<td>240</td>
</tr>
<tr>
<td>Figure 5.12</td>
<td>Path Coefficient: Competence of Audit Committee</td>
<td>244</td>
</tr>
<tr>
<td>Figure 5.13</td>
<td>Path Coefficient: Reputation of Auditor</td>
<td>248</td>
</tr>
<tr>
<td>Figure 5.14</td>
<td>Path Coefficient: Audit Committee Meetings</td>
<td>252</td>
</tr>
</tbody>
</table>
**List of Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>Audit Committee</td>
</tr>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Corporation</td>
</tr>
<tr>
<td>AoA</td>
<td>Articles of Association</td>
</tr>
<tr>
<td>BKPM</td>
<td>Badan Koordinasi Penanaman Modal</td>
</tr>
<tr>
<td>BOC</td>
<td>Board of Commissioner</td>
</tr>
<tr>
<td>BOD</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>CG</td>
<td>Corporate Governance</td>
</tr>
<tr>
<td>CV</td>
<td>Commanditair Vennootschap</td>
</tr>
<tr>
<td>CLSA</td>
<td>Credit Lyonnais Securities Asia</td>
</tr>
<tr>
<td>DJ-PBUN</td>
<td>Direktorat Jenderal Pembinaan Badan Usaha Negara</td>
</tr>
<tr>
<td>eBAE</td>
<td>elektronik Biro Administrasi Efek</td>
</tr>
<tr>
<td>FCGI</td>
<td>Forum for Corporate Governance in Indonesia</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FTSE</td>
<td>Financial Times Stock Exchange</td>
</tr>
<tr>
<td>GCG</td>
<td>Good Corporate Governance</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GmoS</td>
<td>General Meeting of Shareholders</td>
</tr>
<tr>
<td>HIH</td>
<td>Heath International Holdings Insurance</td>
</tr>
<tr>
<td>ICL</td>
<td>Indonesian Corporate Law</td>
</tr>
<tr>
<td>IDX</td>
<td>Indonesia Stock Exchange</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IGAAP</td>
<td>International Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>KNKG</td>
<td>Komite Nasional Kebijakan Governance</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>KSEI</td>
<td>Kustodian Sentral Efek Indonesia</td>
</tr>
<tr>
<td>NPEA</td>
<td>Non-Performing Earning Assets</td>
</tr>
<tr>
<td>NPL</td>
<td>Non-Performing Loan</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OJK</td>
<td>Otoritas Jasa Keuangan</td>
</tr>
<tr>
<td>PC</td>
<td>Private Companies</td>
</tr>
<tr>
<td>PKPN</td>
<td>Pusat Kebijakan Pendapatan Negara</td>
</tr>
<tr>
<td>PLS</td>
<td>Partial Least Square</td>
</tr>
<tr>
<td>PT</td>
<td>Perseroan Terbatas</td>
</tr>
<tr>
<td>USD</td>
<td>US Dollar</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Asset</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>SEM</td>
<td>Structural Equation Modelling</td>
</tr>
<tr>
<td>SOE</td>
<td>State-Owned Enterprises</td>
</tr>
</tbody>
</table>
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.

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%);
The contents of the thesis is for internal user only
REFERENCES


http://www.acga-asia.org/loadfile.cfm?SITE_FILE_ID=658


Malik, M.T., Research Methods in Business Studies, Virtual University of Pakistan, Retrieved from http://vustudents.ning.com/group/sta630researchmethods/


Nam, S.W., and Nam, I.C. (2004). Corporate Governance in Asia: Recent Evidence from Indonesia, Republic of Korea, Malaysia, and Thailand, Asian Development Bank Institute.


Reddy, Y. R. K., & Padmakumar, K. SOE GOVERNANCE: INTERNATIONAL TRENDS AND UNIQUENESS OF KERALA EXPERIENCES.


Sato, Y. (2005), Bank Restructuring and Financial Institution Reform in Indonesia, The Developing Economies, 18 (1), 91-120.


Sim, I., Steen Thomsen, S., & Yeong, G., (2014). The State as Shareholder: The Case of Singapore, Chartered Institute of Management Accountants (CIMA) & Centre for Governance, Institutions and Organisations (CGIO).


