

CORPORATE GOVERNANCE, SIZE AND FIRMS' PERFORMANCE

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Abstrak: This study examines the performance of the entire population of Indonesian listed firms for years 2005 and 2006. The results show that Indonesian listed companies have a very low level of profit (as measured by ROA) of 3.73% and 20.70% of firms had losses with a larger percentage in the manufacturing sector. However, 58.48% of firms reported increase in profits from year 2005 to year 2006. This partly illustrates that these firms are still recovering from the Asian currency crisis. Regression analysis reveals that size of firm and level of ownership concentration help predict performance. Larger firms with high ownership concentrated have higher profit levels. Interestingly, firm corporate governance attributes such as percentage of independent directors and independent of the audit committee were not significant predictors. This has significant implications for Indonesian companies since globally companies are moving towards a more regimented corporate governance structure to enhance firm productivity. Indonesian, similar to that of other developing countries seems to have a less effective system of corporate governance prompting calls for more direct government intervention especially between majority and minority shareholders.

Keywords: corporate governance, size, performance, Indonesia

INTRODUCTION

The objective of this research paper is to provide insights on Indonesian firm performance using the entire population of Indonesian companies on the Jakarta Stock Exchange or JSX (now, Indonesia Stock Exchange or IDX) for years 2005 and 2006. In addition to firms' size, this paper examines the use of three corporate governance mechanisms to reduce agency problems between managers and shareholders. These mechanisms are ownership concentration, independent board of directors¹ and an independent audit committee. The firm's performance is measured by three different ways: return on assets (ROA), profit or loss and growth.

This study is important to better understand firm performance in a developing country context. Indonesia has not well recovered from the Asian Currency Crisis in 1997. To address the weaknesses that contributed to the economic crisis of 1997, since 2000, Indonesian regulators have taken significant actions. The reform has been focused, especially, on the strength of corporate governance framework. However, it is perceived that Indonesia has weak standards of corporate governance in the Asia Pacific (2006). Likewise, the practices of corporate governance in many Indonesian companies are lag behind those in the more developed economies (ROSC 2004). Indonesian equity market grew significantly since 2002.² As of November 2006, total market capitalisation amounted to about Indonesian Rupiah (IDR) 1,185 trillion and number of companies listed on JSX was 343 (JSX 2006). Indonesian business is characterised by highly concentrated ownership and family-owned businesses. The business culture is largely known as relationship-based rather than rule-based (Claessens, Djankov, and Lang 2000). In 1996, 71.50% of the Indonesian companies are owned by family members (Claessens *et al.* 2000). In addition, institutional investors do not play a significant role in improving corporate governance as they have in other capital markets (ROSC 2004).

Recent high profile financial reporting scandals around the world have prompted a new stream of international concern into the need for strong corporate governance mechanisms. Strong governance involves balancing corporate governance with appropriate level of monitoring or scrutiny of

¹ This paper uses the term 'board of directors' which has the same meaning as 'board of commissioners' that is applied in Indonesia.

² Total market capitalisation on the JSX increased from IDR 268 trillion in 2002 to IDR 801 trillion in 2005. Actually, there are two stock markets in Indonesia: JSX and Surabaya Stock Exchange (SSX). The SSX is much smaller than JSX and most of the stocks listed on SSX are listed on JSX. The SSX stock market is principally designed for smaller traded listed companies, fixed income securities, and for trading over the counter.

management's actions (Cadbury 1997). The role of governance in disciplining management has been the topic of an active debate among regulator, corporate governance reformists and academics. Proponents of corporate governance argue that the use of effective corporate governance is positively associated with a firm performance. Opponents of governance, on the other hand, claim that it will not necessarily improve the firm performance since each firm has different governance needs depending on its economic and regulatory environment (Vafeas and Theodorou 1998). In addition, studies concerning the relationship between various characteristics of corporate governance and firm performance report inconclusive results.

In the epicentre of recent efforts for the corporate governance's reform is monitoring role of governance, especially, by the controlling shareholders, board of directors and audit committee. Interestingly, most empirical research examining the association between corporate governance characteristics and firm performance use: (1) U.S. data (e.g., Yermack 1996; Bhagat and Black 2002; Vafeas 2005) and (2) one of corporate governance attributes at a time. For example, Hermalin and Weisbach (1991), Bhagat and Black (2002), and Mak and Kusrandi (2005) study the association between board composition and firm performance, while Cho (1998), Himmelberg, Hubbard and Palia (1999), and Lehmann and Weigand (2000) investigate the relationship between ownership structure and performance. This study analyses the joint relationship between three corporate governance attributes (board of directors, audit committee and ownership structures) and financial performance of Indonesian listed companies. As Vafeas and Theodorou (1998) remark, the study of key related corporate governance characteristics in isolation may hide key inferences, leading to misleading findings. In this study, I focus on several attributes of corporate governance, rather than a single component of multi-dimensional issue, to explain the firms' financial performance. In addition, using data from different and previously little explored domestic setting of Indonesia will help build a niche international profile of the association between corporate governance features and firms' performance.

The firms' financial performance has been measured in different ways. Some studies (e.g., Eisenberg, Sundgren, and Wells 1998; Lehmann and Weigand 2000; Bhagat and Black 2002; Krivogorsky 2006) use profitability ratios, for example return on equity, return on assets, market adjusted stock price returns; while other research (e.g., Yermack 1996; Cho 1998; Mak and Kusrandi 2005) utilise Tobin's Q model for calculating the companies' performance. This study uses ROA as a main proxy for firms' financial performance; however, both profit or loss and growth are used for additional sensitivity checks.

The study is organised as follows. Section 2 overviews the corporate governance in Indonesia. Section 3 provides the literature review and hypotheses development to better understand why there are differences in the economic performance of Indonesian firms. Section 4 outlines the research approach and Section 5 highlights the key descriptive and statistical findings. The study implications and conclusion are provided in the final section.

Corporate governance in Indonesia

It is claimed that poor corporate governance in East Asia countries, especially in Indonesia, as one of the primary factors that brought on the Asian economic crisis (Capulong, Edwards, Webb, and Zhuang 2000). The lack of transparency, accountability, fairness and responsibility practices in most of Indonesian companies have led to many deficiencies in their decision makings and corporate actions. These, finally, cause the Indonesian corporate sector vulnerable to the currency shock during the financial crisis.

In order to restore investors' confidence and increase quality of financial reporting, in March 2001, the National Committee of Corporate Governance (NCCG)³ issued the National Code for Good Corporate Governance (the Code). Some important issues addressed in this Code include the shareholders participation and protection and the role of supervisory board.

The ownership structure of Indonesian companies is highly concentrated. 61.10% of Indonesian publicly listed companies are controlled by 15 families (Claessens *et al.* 2000). In Indonesian capital market, there is also very high percentage of managers belongs to the controlling group. Members of Board of Directors (BOD) and Board of Commissioners (BOC) are generally family members or close relatives compared to professional managers (Rosner 2003). This condition creates incentives for controlling shareholders to expropriate wealth from minority shareholders (Fama and Jensen 1983). To concern on shareholder rights, in 1995, Indonesian government enacted two important laws namely Company Law and Capital Market Law. Additional recommendations are also suggested by the Code to the companies on protecting shareholders' rights, especially minority shareholders' rights. For example, companies should (1) treat all shareholders equally by providing full and accurate information to every shareholder; they should not report partially to certain shareholders and not disclosed to the other, and (2) have an effective internal control mechanism to monitor and address insider trading or self-dealing transactions with the intent of personal gain.

³ The NCCG was formed in 1999 with a mandate from the Coordinating Minister for Economic Affairs. Members of the Committee consist of prominent law practitioners and influential government officials.

Management structure of Indonesian companies is based on two-tier system where directors and commissioners are a separate legal entity. The Board of Directors (BOD) is fully responsible for the management of the firm, while the Board of Commissioners (BOC) has to supervise and advise the executive management. The Code requires each member of BOD and BOC to be of good character and have relevant experience. In addition, at least 20% of these members must be from independent third parties. To support the implementation of corporate governance, on 31 December 2004, the Indonesian Capital Market Supervisory Agency (Bapepam) issued a new regulation which obliged listed companies to establish an audit committee. The audit committee must consist of at least three members; one of them must be independent commissioner and the other members who are not affiliated with respective company. The same requirements are also suggested by JSX regulation. Additionally, this listing rule recommends that the chairman of the committee should be the independent commissioner.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Ownership Structure

The role of share ownership to reflect firm performance has been a subject of accounting research for years. The firm's share ownership is measured in several different ways. Some studies (e.g., Warfield, Wild, and Wild 1995; Cho 1998) use managerial or director ownership as a predictor for a firm performance. Another alternative is majority or control block-holding by outsiders, who may be institutional investors (e.g., Burn, Kedia, and Lipton 2005) or other block-holders (e.g. Dechow, Sloan, and Sweeney 1995; Becht and Roell 1999; Gedajlovic and Shapiro 2002). There is, however, no consensus as to the nature of the relationship between ownership and performance.

Warfield *et al.* (1995) find managerial ownership improves earnings quality, specifically, it is positively associated with earnings' explanatory power for returns and negatively related with the level of earnings management. However, Cho (1998) and Agrawal and Knoeber (1996) report insignificant association between managerial ownership and firms value. Similarly, Rajgopal, Venkatachalam and Jiambalvo (1999) fail to find any significant relationship between director ownership and earnings quality (proxied by the absolute value of discretionary accruals). Dechow *et al.* (1995) suggest firms subject to SEC's enforcement actions for earnings manipulation are associated with less likely to have substantial outside block-holders. The

same conclusion is also documented by Boubakri, Cosset and Guedhami (2005) who find that the concentration of shareholders is significantly and positively related to firm performance. Findings from past studies concerning relation between performance and institutional investors are also mixed. Balabat, Taylor, and Walter (2004) suggest that firms perform better when a fraction of their shares owned by the institutions. However, Sundaramurthy, Roades and Rechner (2005) note no substantive relationship between institutional ownership and firms' value.

These inconclusive empirical results are in line with on-going unresolved debates as to the relationship between ownership structure and firms financial performance. Jensen and Meckling (1976) posit a positive relationship, while, Fama and Jensen (1983) suggest a negative effects of ownership concentration on the firm performance. Hence, in regard to the relationship between ownership structure and firms financial performance, I propose:

H₁: The high ownership concentration influences Indonesian firm financial performance.

Board of Directors

It is argued that board of directors act as the most important control mechanism in disciplining management (Fama and Jensen 1983). Beasley (1996) and Dechow, Sloan and Sweeney (1996) suggest that the ability of the boards to act as an effective monitoring mechanism depends on their independence from management. The boards are considered to be independence if they do not have any relationship with the company beyond the role of director. Lipton and Lorsch (1992) define an independent director as a director who has no connection with the company, either as management, customer or supplier of good or services. Thus, the independent board refer to a non-executive director who is not employed by the company and entirely independent from management. The non-executive directors are more likely to have incentives to guard shareholder interests well as they have invested their reputation in a firm (Fama and Jensen 1983; Vafeas and Theodorou 1998). Lipton and Lorsch (1992) recommend: (1) at least two third of board of directors are independent from management and (2) board committees comprise of entirely independent directors which one of them should be the chair.

Empirical findings regarding an association between the independent board and corporate performance are inconclusive. Some studies suggest that the presence of the non-executive boards improve companies' value. For example, Beasley (1996) finds that the existence of independent directors

associates with less financial statement fraud. Using a sample of 692 U.S. firms, Klien (2002) reports a negative relation between board independence and firms' earnings quality (measured by the magnitude of earnings management). Peasnell, Pope and Young (2000) show evidence supporting Klein's findings in U.K. context. In addition, Dechow *et al.* (1996) reveal that the more proportion of independent directors the less likely the firm is subjected to Securities and Exchange Commission (SEC) enforcement actions because of violating U.S. GAAP.

Conversely, Agrawal and Knoeber (1996) indicate that more independent directors representation on the boards are associated with poor performance. Hermalin and Weisbach (1991) document no association between the percentage of non-executive directors serving on the board and firm value for a sample of 142 U.S. firms. Again, using the U.S country dataset, a study is conducted by Chtourou, Bedard and Courteau (2001) find no relation between the presence of the independent directors and the level of earnings management. Therefore, I test the following hypothesis:

H₂: The fraction of independent directors on the board influences Indonesian firm financial performance.

Audit Committee

Majority of previous studies concerning the relationship between board of directors' composition and firm value has concentrated on the role of the board at large; however, a great deal of board's decision-making occurs at the committee level (Ellstrand, Daily, and Johnson 1999). To oversee the accounting and financial reporting processes of a company as well as the audit of its financial statements, boards of directors delegate their responsibility to an audit committee. Thus, it is expected that this committee provides shareholders with the greatest protection in maintaining the credibility of a company's financial statements (Bradbury 1990). In performing its primary function, the audit committee meets regularly both with the company's external and internal auditors for reviewing the firm's financial statement, audit process, and internal accounting controls (Klein 1998, 2002). A study of 142 U.K. firms conducted by Collier (1993) suggests that firms establish audit committee to alleviate their agency problem and reduce an information asymmetry between insiders and outsider.

Prior literature indicates that the effectiveness of an audit committee depends on its objectivity or independence and its activity, especially, frequency of meeting and size (Bedard, Chtourou, and Courteau 2004; Davidson, Goodwin-Stewart, and Kent 2005). It is impossible for the audit

committee to function effectively if they are also members of executives of the firm (Lynn 1996). Thus, an audit committee should comprise entirely of non-executive or independent directors (Lipton and Lorch 1992; Menon and Williams 1994). This argument is supported by Jiambalvo (1996) who finds that audit committee independence is associated with a higher degree of active oversight and a lower incidence of financial statements fraud. However, Klein (2002) fails to find evidence that the majority of non-executive directors on the audit committee reduces levels of earnings management, but she finds no meaningful relationship between earnings management and audit committee consisted exclusively of independent directors. Following previous researches, my third hypothesis is:

H₃: The fraction of independent directors on the audit committee influences Indonesian firm financial performance.

Firm Size

A study concerning a nexus between firms' characteristics and their financial performance conducted by Kakani and Kaul (2002) find that the firm size is the most important factor influencing its financial performance. However, empirical evidence to date on the benefits and costs of big size firms or group affiliation is mixed and far from conclusive. The benefit of group affiliation of Japanese companies on overcome financial constraints or distress is reported by Hoshi, Kayshap and Scharfstein (1991). They find that Japanese group affiliation companies with close financial relationship to their banks benefits from reduced information and incentive problems. Additionally, Khanna and Palepu (2000) suggest that the performance of diversified business groups outperform unaffiliated firms in Indian context. However, a study of Japanese firms conducted by Lins and Servaes (1999) document that the diversification performance of Japanese group affiliated firms are inferior compared to the performance of independent firms. Evidence of an inverse relationship between firm size and profitability is also found by Cubbin and Leech (1986) and Dobson and Gerrard (1989). On the other hand, Geroski, Machin and Walters (1997) examine large U.K. companies and report that growth rates of the companies are random over the time, thus, difficult to predict. Accordingly, based on the foregoing arguments, my fourth hypothesis is:

H₄: The size of firm influences Indonesian firm financial performance.

RESEARCH APPROACH

This is an empirical positivist study seeking to explain ‘what’ is the level of Indonesian firms’ performance and ‘why’ there are differences in performance amongst firms. The entire population of Indonesian firms 2005 and 2006 annual reports are used⁴ as the data set. Performance is measured using the *ROA* ratio of net income to total assets.

The four independent⁵ predictor variables are measured as follows. Size is calculated as the natural logarithm of the total assets. Ownership structure is computed as percentage of outstanding shares owned by the top-1 ownership (*Top-1%*). Another monitoring mechanism is analysed in two ways, first by the percentage of the board of directors that is independent (*%IndDirector*) and second as the percentage of the audit committee that is independent (*%IndAudCom*).

The primary focus is on firm performance as measured by ‘return on assets’. T-tests, and multiple regression are the statistical techniques employed. Additional sensitivity analysis is conducted using two alternate measures of firm performance. As both measures are dichotomous in nature, logistical regression is used for this analysis. One alternate approach is the use of a dichotomous proxy measure of whether a company has a profit or loss in the year. The second alternate measure looks at whether performance has increased or decreased over the last two years.

RESULTS

Table 1a shows the descriptive results from the data set. The *ROA* performance measure was low at 3.73% and a median of an even lower 2%. Alternate measures of performance (Table 1b) reveal that almost 20.70% of the firms suffered a loss in the most recent year and that 58.48% of Indonesian companies had an increase in profit growth over the last two years.

⁴ Two key data sources are used to acquire the data. These are the Jakarta Stock Exchange, JSX Monthly Statistics - August 2006. Volume 15 No. 18. Retrieved: 18 September 2006, from <http://www.jsx.co.id/images/press/PRESSEN298.pdf>. and the Jakarta Stock Exchange, Company Report - November 2005. Retrieved: 21 September 2006, from <http://www.jsx.co.id/issuers.asp?cmd=listed>.

⁵ Three additional control variables are also analysed as consistent with much of the past literature on performance. These control variables are: 1) Leverage = Ratio of total liabilities to total assets; 2) Age from Founded = Number of years since firm *i* is founded to year 2006; and 3) Industry as sub-categorised into a dichotomous measure of industry being Industry 1: Manufacturing (Basic Industry and Chemicals, Miscellaneous Industry, Consumer Goods Industry, Property and Real Estate) and Industry, otherwise scored zero (0).

Table 1a Descriptive statistics – Metric variables

<i>Variable description</i>	N	Mean	Median	Std Dev
<i>Leverage</i>	343	59.47	55.56	41.92
<i>ROA</i>	343	3.73	2.00	8.39
<i>Size (Total Assets, in billion IDR)</i>	343	5.259	2.647	20.910
<i>Age Founded</i>	342	31.83	26.00	25.49
<i>Top-1%</i>	297	48.07	49.67	20.46
<i>%IndDirectors</i>	297	0.41	0.40	0.15
<i>%IndAudCom</i>	297	0.26	0.33	0.18

Table 1b Descriptive statistics – Categorical variables

Category	Industry grouping		Profit (Loss)		Growth	
	Freq	%	Freq	%	Freq	%
<i>0</i>	170	49.56	272	79.30	169	58.48
<i>1</i>	173	50.44	71	20.70	120	41.52
<i>Total</i>	343	100	343	100	289	100

Legend: *Industry Grouping*: indicator variable with firm *i* scored one (1) if it is a manufacturing (Basic Industry and Chemicals, Miscellaneous Industry, Consumer Goods Industry, Property and Real Estate) firm, otherwise scored zero (0). *Profit (Loss)*: indicator variable with firm *i* scored one (1) if it is a loss company, otherwise scored zero (0). *Growth*: indicator variable with firm *i* scored one (1) if its profit decreases between two years, otherwise scored zero (0).

Indonesian firms on average are 32 years old and have almost 50% ownership concentration from the top shareholder. Table 1a exhibits size of the firms that are included in the sample has a wide range. Size of the Indonesian companies (proxied by total assets) has a mean (median) of IDR5.259 (IDR2.647) billion. Average total liabilities to total assets ratio (*Leverage*) of the sample firms is 59.47%, demonstrating that Indonesian companies are heavily financed by third party funds rather than self-financing. In terms of corporate governance, consistent with many other developing countries the percentage of independent board directors and independent members of the audit committee are under 50%.

The correlations of the variables are presented in Table 2 They show that ROA is reasonably highly correlated with one alternative measure of performance (profit/loss) but not with growth over the two years. In terms of the independent variables there are low levels of correlations throughout, easing the concern about multicollinearity in the multiple regression results.

Statistical analysis is performed on the data set using ROA as the key concern. The results are shown in Table 3.

Table 3 Multiple regression: ROA

	t-stat	Sig.
(Constant)	-1.718	0.087
<i>Independent variables:</i>		
Size	3.525	0.000
Top-1%	2.407	0.017
%IndDirectors	1.583	0.115
%IndAudCom	-0.130	0.897
<i>Control variables:</i>		
Leverage	-1.209	0.228
Age Founded	0.994	0.321
Industry	-1.666	0.097
Model Summary		
F-Statistic	4.157	0.000
R-Square		0.091
Adjusted R-Square		0.069
Sample Size		297

The regression results in Table 3 highlight the predictive ability of size and ownership concentration to explain Indonesian firm performance. Larger and more concentrated firms have significantly higher performance.

Of great interest is the inability of corporate governance measures to influence firm performance. The lack of a clear link is consistent with past developing country studies (e.g., Hermalin and Weisbach 1991, Chtourou *et al.* 2001, Klein 2002). The presence of independent directors or a more independent audit committee does not influence performance. This may be caused by the dominant and persuasive power of the Top-1 shareholder (ownership concentration).

Further regressions (not shown here for sake of brevity) portioned by size reveal that the smaller firms' performance is based on size (and not ownership concentration). However, the larger firms performance is directly related to ownership concentration and lower levels of debt. Extra analysis portioned by level of ownership concentration shows that less concentrated firms performance is statistically linked positively to both size and leverage but higher concentrated firms are statistically linked to size, ownership concentration and percentage of independent directors (but negatively related to leverage).

Additional⁶ analysis is conducted on the key variables. These two other measures of performance are computed for further sensitivity analysis. These are first, *Profit (Loss)* = Indicator variable with firm *i* scored one (1) if it has occurred a financial loss; otherwise scored zero (0). Second, *Growth* = Indicator variable with firm *i* scored one (1) if its net income between two years decreased; otherwise scored zero (0).

Table 4 provides the analysis for the logistical regression using profit or loss as the key⁷ variable. The results are only somewhat similar to that of the ROA multiple regression analysis. Size is again a clear predictor with larger Indonesian firms demonstrating significantly higher performance (p-value 0.000). Interestingly, ownership concentration and the two measures of corporate governance do not help predict whether an Indonesian firm has a profit in this latest year. However, industry category (p-value 0.004) does more clearly explain with 26% of manufacturing companies suffering a loss in the latest year but only 16% of non-manufacturing firms in a loss situation. When the data is sub-partitioned (manufacturing versus non-manufacturing), again only size is a predictor variable.

⁶ Further sensitivity analysis is also used for the industry categories. The four categories are: Industry Grouping Industry 1: Basic Industry and Chemicals, Miscellaneous Industry, Consumer Goods Industry, Property and Real Estate; Industry 2: Agriculture, Mining, Infrastructure, Utilities & Transportation, Industry 3: Trade, Services & Investment and Industry 4: Finance. Further sensitivity analysis is conducted using an alternate. Multiple and logit regressions are similar to that of the two industry groups used.

⁷ A different set of conclusions is reached when performance is alternatively measured as growth (increased or decreased profit over last two years). None of the hypotheses are accepted (table is not shown for sake of brevity) and only the control variable of leverage is significant at p-value 0.049).

Table 4 Results of logistic regression - Profit or Loss

	Sig.
(Constant)	0.572
<i>Independent variables:</i>	
Size	0.000
Top-1%	0.743
%IndDirectors	0.261
%IndAudCom	0.894
<i>Control variables:</i>	
Leverage	0.367
Age Founded	0.126
Industry Grouping	0.004
Model Summary	
Overall Percentage	78.11
Cox & Snell R-Square	0.104
Nagelkerke R-Square	0.162
Sample Size	297

IMPLICATIONS AND CONCLUSION

The results of this study partially support the empirical validity of the claims that the size of the firm and the three governance characteristics (composition of the both board of directors and audit committee, and ownership concentration) influence the firm performance. As expected, the findings show a strong positive association between ROA and size of the firm (especially large firms) as well as level of ownership structure. In contrast to Lins and Servaes (1999), Cubbin and Leech (1986), and Dobson and Gerrard (1989), this evidence suggests that increases (decreases) in firm size raise (reduce) the performance of the firm. The results of this study, however, are in line with the conclusion reported by Hoshi *et al.* (1991) and Khanna and Palepu (2000).

These findings also imply that the presence of large shareholders provide a greater incentive to monitor management, reduce agency costs, thus, enhance firm value. In other words, companies with high ownership

concentration have better performance than that of widely held companies. This evidence contradicts to La Porta, Lopez-de-Silanes and Shleifer (1999) who suggest that there is an agency problem related with high ownership concentration. Moreover, Claessens, Djankov, Fan, and Lang (2002) report that the concentrated control reduces firm performance. However, Fan and Wong (2002) argue that previous studies which mostly focus on U.S. and U.K. context are not applicable to East Asian firms because the differences in ownership concentration and in type of agency problems.

This study indicates that no significant relationship between the proportion of both independent board of directors and audit committee and profitability of Indonesian listed firms. The results fail to confirm the Agrawal and Knoeber's (1996) argument that greater use of outside directors can lead to more effective internal monitoring. Thus, advocating increased the proportion of independent board of directors and audit committee may be premature. The findings of this study have implication, especially, to regulators and corporate governance reformists. Special attentions need to be given by Indonesian policy makers in strengthening corporate governance framework; primarily, in regard to: (1) the process for monitoring and selection of independent board of directors and audit committee, (2) enhance the skills and knowledge of the independent boards and audit committee members, and (3) separation of management from the owners and appointment of professional managers.

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