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Research Article

Impact of Corporate Governance Characteristics on Corporate Performance

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Abstract

The objectives of this study are To investigate the relationship between board size and corporate performance, To investigate the relationship between independent board of commissioners and corporate performance, To investigate the relationship between board meeting frequency and corporate performance, To investigate the relationship between audit committee size and corporate performance, To investigate the relationship between independent audit committee and corporate performance, To investigate the relationship between audit committee meeting frequency and corporate performance, To investigate the relationship between managerial ownership and corporate performance. Sample in this research is manufacturing companies listed in BEI for period 2008-2012. Technique data used is regression analysis with classic assumption. From the discussion and data analysis, the conclusion in this research are: There is positive relationship between board size and corporate performance. So the higher board size, it means the better monitoring and will make the better corporate performance. There is no relationship between independent board of commissioners and corporate performance. There is positive relationship between board meeting frequency and corporate performance. There is no relationship between audit committee size and corporate performance. There is no relationship between independent audit committee and corporate performance. There is no relationship between audit committee meeting frequency and corporate performance. There is positive relationship between managerial ownership and corporate performance.

Keywords: *Board size, independent board of commissioners, board meeting frequency, audit committee size, independent audit committee, audit committee meeting frequency, managerial ownership, corporate performance.*

1. Introduction

Research Background

Good corporate governance (GCG) is an important pillar of market economy as it relates to the investors' confidence both in the companies as well as in the overall business environment. Implementation of GCG encourages fair competition and conducive business climate leading to sustainable economic growth and stability. It is further expected that GCG implementation support the efforts of government in imposing good governance toward clean and credible government. In that light, the government has transformed the National Committee for Corporate Governance in 2004 to become National Committee on Governance, which consists of Public Governance Sub-Committee and Corporate Governance Sub-Committee (Yasser *et al*, 2011).

One of the main roles of Corporate Governance Sub-Committee is to carry out a review and revision on the existing national code of corporate governance to be more contextual and fit to the current situation. As a result, the revised Code is expected to become a national reference for business community and regulators in developing, implementing, and communicating GCG. Although this Code is not a regulation, it is a fundamental guidance for companies to exercise their efforts in assuring long-term continuity within the corridor of appropriate business ethics. Whilst the companies are expected to implement GCG voluntarily, business associations and other institutions are expected to be active in socializing and promoting GCG implementation at a larger scale. The regulators are also expected to adopt basic principles in this Code as reference in formulating their respective regulation to broaden GCG implementation in Indonesia.

Corporate governance is an interesting topic in many studies. In fast growing markets, investors are eager to improving the governance mechanism. Research on this topic are increasing in recent years (see for example, Yasser *et al.*, 2011; Shah *et al.*, 2011, Rashid *et al.*, 2010), however, many of these studies

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have obtained inconclusive findings because of various reasons such as fast changing of the market, management methods and different approaches.

Board of commisioners as the monitors for management and trustee for shareholders play an important role because the important monitoring of the performance a company. Corporate governance is one of the most important areas, widely studied and improved by researchers for increased corporate or firms performance (Khan, 2012). It is commonly known that if corporate governance improves then firm performance will also improve (Shah, Butt, & Saeed, 2011). There are various dimensions of corporate governance such as board size, audit committee, CEO compensation structure, CEO duality, ownership structure and frequency of meetings etc., which are mostly researched earlier. According to the agency theory and stakeholder theory there is conflict between manajer and principal, so this will be interesting to examine the relationship between board composition which is the agent and principal (ownership structure). This study aims to find relationship between commissioners board, audit committee, ownership structure and its effects on firm's performance. This area is studied by different researchers (Yasser, Entebang, & Mansor, 2011) but the results contradict with each other. This is the phenomena that is interesting to be examined.

Some of the researchers (Hermalin, 2005; Rashid, Zoysa, Lodh & Rudkin, 2010; Shah *et al*., 2011; Yasser *et al*., 2011) revealed that Independent board may improve the firm performance while other (Bhagat & Black, 1999) found no such relationship. Therefore the current study attempts to address the confusion prevalent in earlier studies and re-examine the relationship between board composition and corporate or firm performance.

Postma *et al*. (2001) find a negative relationship between number of outside director and firm performance. Khan (2012) concluded that companies having independent directors in their board composition will show greater firm performance, so there is positive relationship between corporate governance and firm performance. Meanwhile, Gallo (2005) stated that board composition have no relationship on corporate performance.

Lawal (2012) attempts to conduct a comprehensive survey of relevant literatures in respect of the relationship between board dynamics and firm performance. The investigation reveals that equivocal findings still dominates most of the previous studies on key board dynamics such as Size, composition, CEO duality and diversity amongst others. While the need to assess the connection between board characteristics and corporate performance would for a longtime remained a legitimate and interesting area of investigation, the paper recommend that the researchers avoid mistakes of the past. These include over reliance on singular theory, the use of lone performance measure and most importantly the assumption of express relationship between the two variables. The use of more purposeful process based approach that identifies the cause effect of the relationship would be of tremendous benefit to this field of study.

Rashid *et al* (2010) examine the influence of corporate board composition in the form of representation of outside independent directors on firm economic performance in Bangladesh. The result of the study are the outside (independent) directors cannot add potential value to the firm's economic performance in Bangladesh. The idea of the introduction of independent directors may have benefits for greater transparency, but the non-consideration of the underlying institutional and cultural differences in an emerging economy such as Bangladesh may not result in economic value addition to the firm. The findings provide an insight to the regulators in their quest for harmonization of international corporate governance practices. Francis *et al* (2005) stated that the higher ownership structure will reflects the better moniroting process and will affect the corporate performance. Black (2001) stated that audit committee is the one of important role of corporate governance. The higher audit committee meeting frequency so it will be the better performance of a company and this will affect the corporate performance.

Board size means the person or size in board commissioners in a company, the higher board size will be the better idea and monitoring, so this will affect the better corporate performance. Independent board of commissioners means how many person from outside or independent board of commissioners, and the higher independent board of commissioners will be the better monitoring, this will affect the better corporate governance. The higher board meeting frequency will make the better discussion and affect the better corporate governance. Meanwhile, the higher audit committee size, independent audit committee and audit committee frequency, reflects the better performance auditing and will make the better corporate performance. The higher managerial ownership will reflect the better monitoring process and will affect the higher corporate performance. So all this factors will be the important corporate governance element that affect corporate performance.

Based on the research gap above (Rashid, Zoysa, Lodh & Rudkin, 2010; Shah *et al*., 2011; Yasser *et al*., 2011; Bhagat & Black, 1999; Postma *et al*., 2001; Khan, 2012), so this research will analyze the relationship between performance and board commissioners, audit committee, ownership structure of Indonesia listed firms. This research will analyze both the impact of the size of the management board and the supervisory board. The supervisory board plays a role in investor protection in the corporate governance system. Therefore, this research will use indicators of corporate governance as independent variables. So this research is very important in Indonesia companies which the corporate governance still weak in practice.

Reseach Problem

Based on the background and research gap by Rashid *et al* (2010), Lawal (2012), Postma *et al*. (2001), Khan (2012) which has different result, so the research problem is there any relationship between board commissioners, audit committee and managerial ownership on corporate performance.

Reseach Questions

The research questions in this research arranged as follows:

a. Is there any relationship between board size and corporate performance?
b. Is there any relationship between independent board of commissioners and corporate performance?
c. Is there any relationship between board meeting frequency and corporate performance?
d. Is there any relationship between audit committee size and corporate performance?
e. Is there any relationship between independent audit committee and corporate performance?
f. Is there any relationship between audit committee meeting frequency and corporate performance?
g. Is there any relationship between managerial ownership and corporate performance?

Research Objectives

The objectives of this research arranged as follows:

a. To investigate the relationship between board size and corporate performance.
b. To investigate the relationship between independent board of commissioners and corporate performance.
c. To investigate the relationship between board meeting frequency and corporate performance.
d. To investigate the relationship between audit committee size and corporate performance.
e. To investigate the relationship between independent audit committee and corporate performance.
f. To investigate the relationship between audit committee meeting frequency and corporate performance.
g. To investigate the relationship between managerial ownership and corporate performance.

Literature Review

The Relationship between Board Size and Corporate Performance

The relationship that exists between firm performance and corporate governance was reflected by Yasser *et al*. (2011); using two proxies (ROE and Profit Margin) and four corporate governance mechanisms (board size) Duality) and found different linkages between them. There is positive relationship between board size, audit committee and firm performance, but there is no relationship between CEO duality and firm performance. Bhagat & Black (1999) and Shah *et al*. (2011) also found linkage between corporate governance and firm performance while studying board composition. Javed & Iqbal (2007) analyzed the relationship between firm value and total corporate governance index (CGI) and three sub-indices (Shareholdings, Board and Ownership, and Transparency and Disclosures). Their result reflects that corporate governance and firm value are linked and also it does matter in Pakistan.

Based on the agency theory, there always agency conflict in a company, so the higher board size means the better quality and good idea to the company, so this will make the better performance. So it can be say that there is positive relationship between board size and corporate performance. So the hypothesis in this research is:

H1a: There is positive relationship between board size and corporate performance (ROA)
H1b: There is positive relationship between board size and corporate performance (ROE)

The Relationship between Independent Board of Commissioners and Corporate Performance

Shah *et al*. (2011) revealed that Independent board of commissioners may improve the firm performance. Their study revealed that independent board has a positive impact on firm's performance. An independent board is generally composed of members who have no ties to the firm in any way, therefore there is no or minimum chance of having a conflict of interest because independent directors have no material interests in a company. Dalton, Daily, Ellstrand, & Johnson (2005) stating that independent board of commisioners are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm's outside or independent directors (e.g., CEOs of other firms, former governmental officials, investment bankers, Social worker or public figures, major suppliers). Moreover, for advice/counsel inside or dependent directors are available to the CEO as a function of their employment with the firm; their appointment to the board is not necessary for fulfillment of this function.

Based on the agency theory, there always agency conflict in a company, so independent board of commissioners is one of the corporate governance that have important rule in this part. Yasser *et al*. (2011) stated that there is positive relationship between independent board of commissioners and corporate performance. So the higher independent board of commissioners will make the better idea and quality and this will affect the better corporate performance. So hypothesis in this research is:

H2a: There is positive relationship between independent board of commissioners and corporate performance (ROA)
H2b: There is positive relationship between independent board of commissioners and corporate performance (ROE)

The Relationship between Board Meeting Frequency and Corporate Performance

Literature on audit committees suggests that the roles of regulatory and controlling authorities are mainly important in improving the market value of the firm. Good audit committee is focused on the protection of the rights of shareholders and plays an important role in the development of capital markets by protecting investor interests (Abdurrouf *et al*., 2010). The role of an audit committee is important also in implementing corporate governance principles. These principles suggest that audit committee should work independently and perform their duties with professional care. In case of any financial manipulation possibilities, the audit committee is held accountable for their actions as the availability of transparent financial information reduces the information asymmetry, which can be helpful for improvement of the value of the firm (Bhagat, Jefferis 2002).

Based on the agency theory, there always agency conflict in a company, so the board meeting frequency will affect this conflict. Khan (2012) stated that board meeting frequency will affect the corporate performance because the higher board meeting frequency, so there will become more effective and make the better corporate performance. So the hypothesis in this research is:

H3a: There is positive relationship between board meeting frequency and corporate performance (ROA)
H3b: There is positive relationship between board meeting frequency and corporate performance (ROE)

The Relationship between Audit Committee Size and Corporate Performance

An audit committee is the entity that safeguards public interest. The board usually delegates responsibility for the oversight of financial reporting to the audit committee to enhance the breadth of relevance and reliability of annual report. Thus, an audit committee can be a kind of monitoring mechanism that improves the quality of information flow between firm owners (actual and potential shareholders) and managers. Klein (1998) and Anderson *et al*. (2004) reported a positive relationship between the audit committee and developmental speed of the firm.

Li (2008) stated that audit committee can strengthen intra-company control and can reduce opportunistic behaviours and lower the asymmetry information, so it has positive impact on high quality financial statement and will affect the better performance.

Based on the agency theory, there always agency conflict in a company, so the higher committee audit size will make the better performance of a company so it will affect the corporate performance. So it can be say that there is positive relationship between committee audit size and corporate performance. So the hypothesis in this research is:

H4a: There is positive relationship between audit committee size and corporate performance (ROA)
H4b: There is positive relationship between audit committee size and corporate performance (ROE)

The Relationship between Independent Audit Committee and Corporate Performance

The empirical studies increasingly recognise that audit committees have a central role in reducing agency problems (Zahra, Pearce 2000). Agency theory argues that the delegation of managerial responsibilities by principals (owners) and agents (managers) requires the presence of mechanisms that either align the interests of principals and agents or monitor the performance of managers to ensure that they use their delegated powers in the best interests of the principals. It has been argued that weak internal or external auditing, controlling and limited protection of minority shareholders intensify the traditional principal agent problems in transitioning economies (Dharwadkar *et al*., 2000). In accordance with the agency theory, it is hypothesised that the independence of the audit committee, the proportion of directors with financial expertise on the audit committee, and the proportion of block shareholding are all positively associated with firm efficiency. Researchers are also interested in whether there is an improvement in efficiency after implementation of audit committees because it addresses corporate governance issues including auditor independence.

Based on the agency theory, there always agency conflict in a company, so independent audit committee have more experience and more objective in their performance so will make the better performance of company (Morrin and Jarrell, 2001). The higher independent audit committee will make the better performance of a company so it will affect the corporate performance. So it can be say that there is positive relationship between independent audit committee and corporate performance. So the hypothesis in this research is:

H5a: There is positive relationship between independent audit committee and corporate performance (ROA)
H5b: There is positive relationship between independent audit committee and corporate performance (ROE)

The Relationship between Audit Committee Meeting Frequency and Corporate Performance

A small size of an audit committee is generally believed to improve efficiency of the firm because the benefits by larger committee of increased monitoring are outweighed by the poorer communication and decision making in larger groups. Lipton and Lorsch (2002) suggest that the optimal audit committee size is between seven and nine persons. In this respect, empirical studies have shown that the value of the firms increases with relatively small sizes of audit committees and audit committee meeting frwquency (Eisenberg *et al.,* 2008).

Based on the agency theory, there always agency conflict in a company,. Black (2001) stated that audit committee is one of important role of corporate governance. The higher audit committee meeting frequency will make the better performance of a company so it will affect the corporate performance. So it can be say that there is positive relationship between audit committee meeting frequency and corporate performance. So the hypothesis in this research is:

H6a: There is positive relationship between audit committee meeting frequency and corporate performance (ROA)
H6b: There is positive relationship between audit committee meeting frequency and corporate performance (ROE)

The Relationship between Managerial Ownership and Corporate Performance

The influence of managerial ownership on firm performance has been researched extensively in the theoretical and empirical literature. In firms with high managerial ownership concentration some studies focused on the conflict between large and small shareholders or controlling and minority shareholders (La Porta *et al*., 2000; Francis *et al*., 2005; Miller *et al*., 2007). When large shareholders effectively control firms, their policies may result in the expropriation of minority shareholders. The conflicts of interest between large and small shareholders can be numerous, including controlling shareholders enriching themselves by not paying out dividends or other expropiatory practices.

Managerial ownership refers to the percentages that share owned by managers (directors, board commissioners). Ownership will provide managers an incentive to be better bargainers when they negotiate the price. This argument parallels Song and Walkling (2003) who argue that ownership by target firm managers gives them incentive to negotiate a higher price once the decision to merge has been made. In takeovers, however, control of voting rights give managers the power to strike a hard bargain, whereas in divestitures the incentive to bargain hard arises from control of claims on the firm's cash flow.

Based on the agency theory, there always agency conflict in a company, so the higher ownership structure it reflects the better monitoring process and this will make the better performance, so there will be positive relationship between ownership structure and corporate performance. So the hypothesis in this research is:

H7a: There is positive relationship between ownership structure and corporate performance (ROA)
H7b: There is positive relationship between ownership structure and corporate performance (ROE)

Research Method

Population and Sample

In this research, the population is all the companies that listed on IDX (Indonesian Stock Exchange) in period 2008-2012. The sample is the manufacturing companies that listed on IDX period 2008-2012. The sampling method use is purposive sampling. The characteristics of samples are:

1. Manufacturing companies that listed on IDX period 2008-2012. Because the manufacturing is majority listed companies in IDX.
2. Data available for board size, board commissioners, board meeting frequency, audit committee size, independent audit committee, audit committee meeting frequency, and managerial ownership.
3. Data financial performance available.

Data Collection

The data used in this research is secondary data. The method of data collection is documentation. The source of data is from www.idx.co.id and another supporting sources, such as the website of the company. The data is about board size, independent board of commissioners, board meeting frequency, audit committee size, independent audit committee, audit committee meeting frequency, and managerial ownership.

Operational Definition and Measurement of Variables

Independent Variables

In this research, the independent variables are:

a. Board size : which measure with number of board commisioners of the company (Jawal, 2012).
b. Independent board of commissioners: which measure with comparison between independen commisionerts and total board commissioner of the company (Postma *et al*, 2002).
c. Board meeting frequency: which measure with frequency meeting of board commissioners in a year (Postma *et al*, 2002).
d. Audit committee size : which measure with number of committee audit that a company have.

e. Independent audit committee: which measure with the comparison between number of committee audit independent and total committee audit of a company (Szczepankowski, 2012).
f. Audit committee meeting frequency: which measure with frequency meeting of committee audit in a year (Szczepankowski, 2012).
g. Managerial ownership: which measure with the percentages of managerial ownership (directors and commisioners) (Arosa, 2010).

Dependent Variables

The dependent variables is corporate performance, which measure with Return On Asset (EAT / Total Asset) (Rahmayanti, 2012). In this research will use the firm performance that is ROA because it will measure how effective assets used to make earnings (Matolcsy & Wright, 2011).

Another measurement used is ROE (Return on Equity) which the formula is proportion between EAT and Total Equity.

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Regression Model

In this research, model regression use are:

Y1 = a + b1X1 + b2X2 + b3X3 + b4X4+ b5X5+ b6X6+ b7X7 + e…….(1)
Y2 = a + b1X1 + b2X2 + b3X3 + b4X4+ b5X5+ b6X6+ b7X7 + e…….(2)

Where as:

Y1 = corporate performance (ROA)
Y2 = corporate performance (ROE)
a = constanta
b1-b7 = beta coefficient
X1 = board size
X2 = independent board of commissioners
X3 = board meeting frequency
X4 = audit committee size
X5 = independent audit committee
X6 = audit committee meeting frequency
X7 = managerial ownership
e = error term

Data Analysis Technique

Before the hypothesis testing, the writer use classic assumption, that is normality test (outlier test), Heteroscedasticity test, Autocorrelation test, Multicollinearity test and linearity test. After that Hypothesis testing. Hypothesis testing in this research use are t-test for analyze the effect of independent variables toward the dependent variables (Regression analysis). The criteria will be:

a. If sig.t < 0.05 so the hypothesis accepted.
b. If sig.t > 0.05 so the hypothesis rejected.

Analysis and Interpretation

Descriptive Statistics

From the population company listed in Indonesia Stock Exchange, the sample that have completed data (data of corporate performance and corporate governance) for this research is 45 company in a year, so total observation will be 45 x 5 years = 225. From 225 observation, there are some companies that have data not normal (outlier) so the normal data only 115.

From the table 4.1. we can see the descriptive statistic for 115 data normal in this research:

Based on Table 4.1., data that can be processed are 115 data and there is no missing data. It means all data have been processed. Minimum and maximum value of X1 (Board Size) is 2 and 10 respectively. Based on Table 4.1., mean of board size is 4.6783 with standard deviation of 2.36401.

Table 4.1. Descriptive Statistic

Variable	N	Minimum	Maximum	Mean	Std.Deviation
Board Size	115	2.00	10.00	4.6783	2.36401
Independent board of commissioners	115	0.17	1.00	0.3691	0.11802
Board meeting frequency	115	3.00	50.00	12.8522	7.71106
Audit committee size	115	3.00	4.00	3.0609	0.24014
Independent audit committee	115	0.25	0.33	0.3272	0.02121
Audit committee meeting frequency	115	2.00	34.00	12.6261	7.10999
Managerial ownership	115	0.0001	0.0958	0.021395	0.0243381
ROA	115	0.0001	0.2225	0.044314	0.0504627
ROE	115	0.0005	2.1140	0.398795	0.4688437

Thus, on average the companies that become the samples has board size between 4-5 persons.

X2 (independent board of commissioners) has mean 0.3691 this reflects that the proportion between independent board of commissioners and total board commissioners is 36.91%. Meanwhile for X3 (board meeting frequency) has mean 12.8522 this describe that in a year the board meeting frequency is between 12-13 times. This meet the rules that minimum in a year is 4 meetings.

X4 (audit committee size) has mean 3.0609 this reflects that the companies has on average audit committee size between 3-4 persons. X5 (independent audit committee) has mean 0.3272 and this means the average of company has proportion between independent audit committee and total audit committee is 32.72%.

X6 (audit committee meeting frequency) has means 12.6261 this describe that the average audit committee meeting frequency in a year is about 12-13 times. This meet the rules that minimum in a year is 4 meetings.

Meanwhile X7 (managerial ownership) has the average 0.021395 this means the average of sample companies in this research has managerial ownership about 2.1395%.

Y1 (ROA) has minimum 0.0001 and maximum 0.2225 , this means the lower proportion between earnings after tax and total assets is 0.01% and the highest is 22.25%. Meanwhile the mean is 0.044314 and standard deviation is 0.0504627. This reflects that the proportion between earnings after tax and total assets is 4.4314%.

Y2 (ROE) has minimum 0.0005 and maximum 2.1140 , this means the lower proportion between earnings after tax and total equity is 0.05% and the highest is 2.1140. Meanwhile the mean is 0.398795 and standard deviation is 0.4688437. This reflects that the proportion between earnings after tax and total equity is 39.8795%.

Classic Assumption Test

Normality Test

Normality test has purpose to test whether regression model and residuals have normal distribution or not. A good regression model must have normally distributed data. In this research, normal distribution is detected by Kolmogorov-Smirnov Test.

Table 4.2. Normality Test 1 (Before Normal)

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.298	225	.000	.432	225	.000

a. Lilliefors Significance Correction

From table 4.2. the value sig.Kolmogorov-Smirnov is 0.000 < 0.05 so the data is not normal. So the outliers must be deleted (the highest and lowest) for the outliers, and the result is:

Table 4.3. Normality Test 2 (After Normal)

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.060	115	.200*	.977	115	.044

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

From table 4.3. the value sig.Kolmogorov-Smirnov is 0.200 > 0.05 so the data is normal.

Multicolinearity Test

Multicolinearity test has purpose to test whether there is correlation among independent variables in a regression model or not. A good regression model should not has no correlation between independent variables. The existence of multicolinearity can be seen from tolerance values and its opposite, Variance Inflation Factor (VIF). Multicolinearity exists if tolerance < 0,10 and VIF > 10. Table 4.5. shows the result of multicolinearity test.

Table 4.4. Multicolinearity Test

Variable	Tolerance	VIF
Board Size	0.808	1.238
Independent board of commissioners	0.970	1.031
Board meeting frequency	0.915	1.092
Audit committee size	0.126	7.919
Independent audit committee	0.131	7.641
Audit committee meeting frequency	0.954	1.048
Managerial ownership	0.926	1.080

Based on Table 4.4. X1, X2, X3, X4, X5, X6 and X7 shows tolerance > 0,10 and VIF < 10. Thus, independent variables used in this research are free from multicolinearity.

Heteroscedasticity Test

Heteroscedasticity test has purpose to see whether there is inequality of variance of the residuals of the observations to other observations. If variance of residuals is fixed, it is called homoscedasticity. Otherwise, it is called heteroscedasticity. A good regression model is homoscedasticity. The result of heteroscedasticity test can be seen from table 4.5.

Table 4.5. Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.270	1.981		.137	.892
	X1	.020	.012	.171	1.638	.104
	X2	.196	.222	.084	.880	.381
	X3	.005	.004	.131	1.334	.185
	X4	-.114	.303	-.100	-.378	.706
	X5	-.067	3.367	-.005	-.020	.984
	X6	-.004	.004	-.107	-1.115	.267
	X7	-.299	1.103	-.026	-.271	.787

a. Dependent Variable: ABS_RES

In table 4.5. there is the value significant of variable independent is higher than 0.05. Thus, the researcher concludes that there is no heteroscedasticity.

Autocorrelation Test

Table 4.6. Durbin-Watson Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.518[a]	.268	.220	.0445559	1.883

a. Predictors: (Constant), X7, X4, X2, X6, X3, X1, X5

b. Dependent Variable: Y

The next assumption that must be fulfilled is that the residuals are not correlated serially from one observation to the next. This means the size of the residuals for one cases has no impact on the size of residuals for the next cases. The Durbin-Watson Statistic is used to test for the presence of serial correlation among the residuals. The value of Durbin-Watson statistic ranges from 0 to 4. From Table 4.5. Durbin-Watson statistic (d) is 2.144,while dU is 1.883 and 4-dU = 2.1736. Since dU< d < 4-dU, the researcher can conclude that there is no positive or negative autocorrelation.

Correlation Analysis

Table 4.7. Correlation Analysis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.518[a]	.268	.220	.0445559	1.883

a. Predictors: (Constant), X7, X4, X2, X6, X3, X1, X5

b. Dependent Variable: Y

The correlation analysis is 0.518 (R), this means the correlation between independent variables (corporate governance) and dependent variables (corporate performance) is 51.8%.

Multiple Regression Analysis

Table 4.8. Multiple Regression Analysis (1)

Variable	Unstandardized Residual B	Std. Error	Standardized Coefficient Beta	t	Sig.
Constant	-0.055	0.320		-0.173	0.863
Board Size	0.006	0.002	0.271	2.941	0.004
Independent board of commissioners	-0.055	0.036	-0.130	-1.543	0.126
Board meeting frequency	0.002	0.001	0.301	3.485	0.001
Audit committee size	0.013	0.049	0.061	0.264	0.793
Independent audit committee	0.248	0.544	0.104	0.456	0.649
Audit committee meeting frequency	-0.001	0.001	-0.107	-1.264	0.209
Managerial ownership	0.510	0.178	0.246	2.861	0.005

After classic assumption test has been done and all assumption fulfilled so the regression model can be used to test the hypothesis in this research. Table 4.9. shows the result of T-Test. The summary of hypothesis testing based on the t-test are as follow:

Table 4.9. Hypothesis Testing (1)

Variable	Beta	Sig.	Result
Board Size	0.006	0.004	Accept
Independent board of commissioners	-0.055	0.126	Reject
Board meeting frequency	0.002	0.001	Accept
Audit committee size	0.013	0.793	Reject
Independent audit committee	0.248	0.649	Reject
Audit committee meeting frequency	-0.001	0.209	Reject
Managerial ownership	0.510	0.005	Accept

1) Hypothesis 1a (H_{1a})

The ρ-value of X1 is 0.004 < 0.05 and the coefficient beta is +0.006 means that $H_1$is accepted. There is positive relationship between board size and corporate performance.

2) Hypothesis 2a (H_{2a})

The ρ-value is 0.126 > 0.05 (level of significance) so H_2 is rejected. There is no relationship between independent board of commissioners and corporate performance.

3) Hypothesis 3a (H_{3a})

The ρ-value is 0.001 < 0.05 (level of significance) and coefficient beta is +0.002 so H_3 is accepted. There is positive relationship between board meeting frequency and corporate performance.

4) Hypothesis 4a (H_{4a})

The ρ-value is 0.793 > 0.05 (level of significance) so H_4 is rejected. There is no relationship between audit committee size and corporate performance.

5) Hypothesis 5a (H_{5a})

The ρ-value is 0.649 > 0.05 (level of significance) so H_5 is rejected. There is no relationship between independent audit committee and corporate performance.

6) Hypothesis 6a (H_{6a})

The ρ-value is 0.209 > 0.05 (level of significance) so H_6 is rejected. There is no relationship between audit committee meeting frequency and corporate performance.

7) Hypothesis 7a (H_{7a})

The ρ-value of X7 is 0.005 < 0.05 and the coefficient beta is +0.510 means that H_7 is accepted. There is positive relationship between ownership structures and corporate performance.

Table 4.10. Multiple Regression Analysis (2)

Variable	Unstandardized Residual		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
Constant	-0.826	2.945		-0.281	0.780
Board Size	0.052	0.018	0.261	2.862	0.005
Independent board of commissioners	-0.442	0.330	-0.111	-1.337	0.184
Board meeting frequency	0.019	0.005	0.310	3.623	0.000
Audit committee size	0.166	0.450	0.085	0.369	0.713
Independent audit committee	2.686	5.005	0.122	0.537	0.593
Audit committee meeting frequency	-0.009	0.006	-0.133	-1.581	0.117
Managerial ownership	5.197	1.640	0.270	3.169	0.002

After classic assumption test has been done and all assumption fulfilled so the regression model can be used to test the hypothesis in this research. Table 4.11. shows the result of T-Test. The summary of hypothesis testing based on the t-test are as follow :

Table 4.11. Hypothesis Testing (2)

Variable	Beta	Sig.	Result
Board Size	0.052	0.005	Accept
Independent board of commissioners	-0.442	0.184	Reject
Board meeting frequency	0.019	0.000	Accept
Audit committee size	0.166	0.713	Reject
Independent audit committee	2.686	0.593	Reject
Audit committee meeting frequency	-0.009	0.117	Reject
Managerial ownership	5.197	0.002	Accept

1) Hypothesis 1b (H_{1b})

The ρ-value of X1 is 0.005 < 0.05 and the coefficient beta is +0.052 means that $H_1$is accepted. There is positive relationship between board size and corporate performance.

2) Hypothesis 2b (H_{2b})

The ρ-value is 0.184 > 0.05 (level of significance) so H_2 is rejected. There is no relationship between independent board of commissioners and corporate performance.

3) Hypothesis 3b (H_{3b})

The ρ-value is 0.000 < 0.05 (level of significance) and coefficient beta is +0.019 so H_3 is accepted. There is positive relationship between board meeting frequency and corporate performance.

4) Hypothesis 4b (H_{4b})

The ρ-value is 0.713 > 0.05 (level of significance) so H_4 is rejected. There is no relationship between audit committee size and corporate performance.

5) Hypothesis 5b (H_{5b})

The ρ-value is 0.593 > 0.05 (level of significance) so H_5 is rejected. There is no relationship between independent audit committee and corporate performance.

6) Hypothesis 6b (H_{6b})

The ρ-value is 0.117 > 0.05 (level of significance) so H_6 is rejected. There is no relationship between audit committee meeting frequency and corporate performance.

7) Hypothesis 7b (H_{7b})

The ρ-value of X7 is 0.002 < 0.05 and the coefficient beta is +5.197 means that H_7 is accepted. There is positive relationship between ownership structures and corporate performance.

Discussion

1. Relationship between board size and corporate performance

Based on the hypothesis testing, the ρ-value of X1 is lower than 0.05 and the coefficient beta is positive, this means that H_1 is accepted. There is positive relationship between board size and corporate performance. The higher board size is reflected the better performance and will increase the corporate performance (ROA and ROE).

Based on the agency theory, in a company there is agency problem because the conflict interest between shareholders and managers, so if in a company there is many board size with the same perception, it will be the good idea and the better performance. The relationship that exists between firm performance and corporate governance was reflected by Yasser *et al.* (2011); using two proxies (ROE and Profit Margin) and four corporate governance mechanisms (board size, audit committee, board composition and Chairman (CEO) Duality) and found different linkages between them. Bhagat & Black (1999) and Shah *et al*. (2011) also found linkage between corporate governance and firm performance while studying board composition and ownership structure. This result is consistent with Javed & Iqbal (2007).

2. Relationship between board iindependent and corporate performance

The ρ-value is higher than 0.05 (level of significance) so H_2 is rejected. There is no relationship between independent board of commissioners and corporate performance. Dalton, Daily, Ellstrand, & Johnson (2005) stating that independent directors are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm's outside or independent directors (e.g., CEOs of other firms, former governmental officials, investment bankers, Social worker or public figures, major suppliers). Moreover, for advice or counsel inside or dependent directors are available to the CEO as a function of their employment with the firm; their appointment to the board is not necessary for fulfillment of this function. From statistic descriptive, the mean independent board of commissioners is 36.91% so independent board only 36.91% and this cannot make optimal working to affect the corporate performance.

According to the agency theory, there always be agency conflict in a company because the different perception between managers and stakeholders. So the higher board commissioners there will be more conflict and the performance independent board of commissioners will not optimal and not affecting corporate performance. Based on the result there is no relationship between independent board of commissioners and corporate performance. This means that the independent board of commissioners is not optimal working so it is not affecting the corporate performance.

3. Relationship between board meeting frequency and corporate performance

Based on the hypothesis testing, the ρ-value is lower than 0.05 (level of significance) and coefficient beta is positive so H_3 is accepted. There is positive relationship between board meeting frequency and corporate performance. Khan (2012) stated that board meeting frequency will affect the corporate performance because the higher board meeting frequency, so the word will become more effective and make the better corporate performance. So the higher board meeting frequency, it means the better performance and will affect the higher corporate performance. This result is consistent with the previous research done by Khan (2012).

4. Relationship between committee audit size and corporate performance

Based on the hypothesis testing, the ρ-value is higher than 0.05 (level of significance) so H_4 is rejected. There is no relationship between audit committee size and corporate performance. This is because from the statistic descriptive, the mean of committee audit size is about only 3 persons and the performance is not optimal, so it can be concluded that there is no relationship between audit committee size and corporate performance.

Based on the agency theory, in a company will always been agency conflict so in the company if there is higher committee audit size will be more conflict interest and this will not make the optimal performance, so committee audit size does not affect corporate performance. So although the audit committee have meet the rules minimum 3 persons, but the working performance is not optimal so it cannot affect the corporate performance. This findings is not consistent with Li (2008).

5. Relationship between committee audit independent and corporate performance

Based on the hypothesis testing, the ρ-value is higher than 0.05 (level of significance) so H_5 is rejected. There is no relationship between independent audit committee and corporate performance. This is because the performance of audit committee independent is not optimal and will not affect the higher corporate performance because the agency problems. So it can be concluded that there is no relationship between independent audit committee and corporate performance. This findings is not consistent with Morrin and Jarrell (2001).

6. Relationship between committee audit meeting frequency and corporate performance

Based on the hypothesis testing, the ρ-value is higher than 0.05 (level of significance) so H_6 is rejected. There is no relationship between audit committee meeting frequency and corporate performance. From the statistic descriptive, the average committee audit meeting frequency in a year is 12 and although this meet the rules minimum 4 meetings in a year but this is not effective meeting of audit committee. So there is no relationship between audit committee meeting frequency and corporate performance. This findings is not consistent with Black (2001).

7. Relationship between ownership structure and corporate performance

Based on the hypothesis testing, the ρ-value of X7 is lower than 0.05 and the coefficient beta is positive, this means that H_7 is accepted. There is positive relationship between ownership structures and corporate performance. The influence of ownership structures on firm performance has been researched extensively in the theoretical and empirical literature. In firms with high ownership concentration some studies focused on the conflict between large and small shareholders or controlling and minority shareholders (La Porta *et al*., 2000; Francis *et al*., 2005; Miller *et al*., 2007). When large shareholders effectively control firms, their policies may result in the expropriation of minority shareholders.

According to the agency theory, the conflicts of interest between large and small shareholders can be numerous, including controlling shareholders enriching themselves by not paying out dividends or other expropiatory practices. So the hypothesis is accepted and this means there is positive relationship between ownership structures and corporate performance. This result is consistent with La Porta *et al*. (2000).

Conclusion and Recommendation

Conclusion

Based on the result and analysis data, it can be concluded that:

1. There is positive relationship between board size and corporate performance. So the higher board size, it means the better monitoring and will make the better corporate performance. This result is consistent with Javed & Iqbal (2007) and support agency theory.
2. There is no relationship between independent board of commissioners and corporate performance. This result does not support the agency theory.
3. There is positive relationship between board meeting frequency and corporate performance. So the higher board meeting frequency, it means the better performance and will affect the higher corporate performance. This result is consistent with the previous research done by Khan (2012) and support agency theory.
4. There is no relationship between audit committee size and corporate performance. This result does not support the agency theory.
5. There is no relationship between independent audit committee and corporate performance. This result does not support the agency theory.
6. There is no relationship between audit committee meeting frequency and corporate performance. This result does not support the agency theory.
7. There is positive relationship between managerial ownership and corporate performance. This result is consistent with La Porta *et al*. (2000) and support agency theory.

Limitation

The limitation in this research are there is use manufacturing companies, so in the future research should be more companies to be add more sample in another sector such as baking, telecommunication, and add more variables that affect corporate performance.

Recommendation

The recommendation from this research is:

1. The company and investor should pay attention in board size, board meeting frequency and ownership structures (managerial ownership) because empirically proved affect corporate performance.
2. In the future research can be added by another variable affect corporate performance, such as financial ratio.

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