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Contents

FOREWORD

People may hear your words, but they feel your attitude.
John C. Maxwell

It is my delight and joy to be able to write my brief thoughts for this compilation of research papers by the participants of the Academy Faculty Development Program. More than just words describing their research ideas in their infancy or completed research in their final phase of write-up, this publication is intended for reader to feel their exemplary attitude held throughout the program and the willingness to take the step towards making themselves the complete academics. I am positive that the outcome of the program is an upsurge of interest in teaching and research. All the participants had benefited from the development of the thinking and dialogue initiated and it is now their obligations to tell the UNTAR community about how to develop teaching excellence and do research that will impact the world of science or social science.

The linkage between research and teaching must never be forgotten. Research informs teaching and teaching inspires research. Research is a particular way of asking questions, albeit hard questions sometimes so that useful understanding can flow. Implicit in our teaching are many aspects of the scientific method as it is actually practiced in the research. There are new bodies of knowledge that we can draw on to reflect on our teaching practice and improve our ability to think about how we should teach. In the end, our research efforts will benefit our students by making their UNTAR experience unique as they will have a headstart in deciphering the intricacies and complexities of the real world in which they will be the future citizens.

So, please continue to improve upon your ability to reflect on what you are doing and what would be a meaningful outcome as an academic. I am really pleased that this is the second step in a continuing process to enhance the quality of teaching and research.

My special thanks go to Prof. Ir. Roesdiman Soegiarso for his vision and continuing support, as well as Mr Richard Andrew and Ms Verawati who worked tirelessly to see the program come to fruition. Also thanks to A/P Ooi Chui Ping who has worked with me to pull this publication together.

Dr Chong Chee Leong, Clanworks, September 2015.

INFLUENCE OF THE CHARACTERISTICS OF BOARD OF DIRECTORS ON COMPANY PERFORMANCE

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ABSTRACT
This study will explore the influence of board characteristics on the performance of the company. Samples are drawn from high performance companies in the consumer goods industry between the period of 2010 to 2014. The Board characteristics of interest are the board size, female-in board, ethnic diversity, CEO tenure and board meeting. Board size is expected to have a significant negative effect on the performance of the company. Ethnic diversity, CEO tenure and frequency of board meetings are expected to have a significant positive effect on company performance.

INTRODUCTION

An agency relationship is "*a contract under which one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent*" (Jensen and Meckling 1976, p. 308). Conflict of interest arises between managers or controlling shareholders, and outside or minority shareholders as there is a tendency that the former may extract "*perquisites*" (or perks) out of a firm's resources and are less interested to pursue new profitable ventures. Agency costs are costs incurred to reduce possible expropriation of a firm's resources by managers or controlling shareholders, and they include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interests between the principal and the agent.

As seen from above, an agency problem can involve the CEO, the shareholders, and many other stakeholders such as creditors, suppliers, clients and employees, and other parties with whom the CEO engages in business on behalf of the firm. Boards and external auditors act as intermediaries or representatives of these different constituencies (Becht et al. 2002; Bernheim & Whinston 1986).The duties of the board of directors include being a coordinator, communicator, decision maker, leader, manager and executor in running and leading the company. They can also, decide and determine the highest regulations and policies of the company, responsible for leading and running the company, plan and develop sources of revenue and expenditure of wealth the company, acting as a representative of the company in relation to the world outside the company. While based on the rule of law in Indonesia, namely Law No. 40 of 2007, the duties and responsibilities of directors are 1) to lead the company to create company policies, 2) selecting, specifying, supervise the work of employees and 3) approved the company's annual budget and report the shareholders. Given their comprehensive tasks therefore, it seems believable that boards may positively or negatively impact firm performance. (Ruigrok, 2006; Nazar, 2014).

This research explores the characteristics of the board of directors and high performance companies in consumer goods industry. This research will provide inputs to other companies on how the composition of boards of directors can generate high performance. Characteristics of the board of directors focused on size, gender diversity, CEO tenure, ethnic diversity and board meeting.

LITERATURE REVIEW

Several studies have explored the influence of the characteristics of the board of directors on the performance of the company. Tian and Lau (2001) studied Chinese shareholding companies to contrast agency and stewardship theories, and found that the stewardship hypothesis received stronger support. They used two different board composition measures, i.e. independent directors and affiliated directors, to highlight their differences in motivation, firm-specific knowledge, information advantage, interpersonal relationship and mutual trust with the managers, along which dimensions that agency and stewardship theories diverge from each other.

CEO duality is also seen as a supporting attribute to the stewardship theory and used in the test by Tian and Lau (2001). Shukeri, et al (2012) explored six board of directors' characteristics being studied, including managerial ownership, board size, board independence, CEO duality, gender diversity and ethnic diversity. Return on Equity (ROE) is used as a measurement for firm financial performance. There were 300 Malaysian public listed companies being randomly selected from each sector. The results showed that board size and ethnic diversity have positive relationship with ROE while board independence has negative relationship. There was no significant relationship between managerial ownership, CEO duality and gender diversity on firm performance. Horvath & Spirollari (2012) examined the relationship of selected Board of Directors' characteristics and firm's financial performance. Using a sample of large U.S fi rms in 2005-2009, they found that the degree of insider ownership influences positively firm performance, because it reduced agency problems. The age of the Board of Directors mattered, to a certain degree, as well. Younger members were probably willing to bear more risk and to undertake major structural changes to improve fi rm's future prospects. On the other hand, independent directors reduced firm performance and this negative effect was even more important during the recent fi nancial crisis. Independent directors preferred overly conservative business strategies in order to protect shareholders, but this goes at the cost of lower firm's performance. Azar et al (2014) investigated the relationship between traditional board characteristics such as nonexecutive directors and board meeting as well as other organizational characteristics such as CEO tenure, and member of professional body and performance of Malaysian companies. The authors used Generalized Least Squares (GLS) regression analysis. The panel data set consisted of 1206 year observations among 2007to 2012 in 201 companies listed in Bursa Malaysia. The authors considered Tobin''s Q for proxy of performance. It was found that CEO tenure, board meeting, and member of professional body had a significant negative relationship with performance but the authors failed to establish any relationship between percentages of non-independent directors and firm performance. Moreover, the authors investigated the impact of some control variables such as leverage ratio, and managerial shareholdings on firm performance. Some of the findings were consistent with previous studies but there were some others which were inconsistent with the previous studies. Overall, the findings indicated that the consideration of both board effectiveness and board experience characteristics play a essential role in better performance of companies. Finally, Johl et al (2015) tested the effects of board meeting, board independence, board size and directors accounting expertise on firm accounting performance. The research used both financial and non-financial data from annual reports of the 700 public listed firms in Malaysia for the year 2009. The result showed that board independence does not affect firm performance, whilst board size and board accounting/financial expertise are positively associated with firm performance. Board diligence in terms of board meetings was found to have an adverse effect on firm performance.

HYPOTHESES

Mizruchi (1983) explained that the board of directors will establish a strategy and policy to achieve short and long term goals. Goodstein et al., (1994) explained that the greater the size of the board of directors will make them better manage company resources. Likewise, if the company requires external relations more effective, then the greater the size of the board will be more profitable. Fan (2012) stated there is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. This is supported by research conducted by Sukheri et al (2012); Kiel and Nicholson (2003); Bozec and Dia (2007); Johl (2015). Larger board size tends to ensure that management control of the company is strong.

But instead Yermack, 1996, Eisenberg et al., 1998, Ibrahim and Fazilah (2011), Nazar (2014) proved that the larger the size of the board of directors will negatively affect the performance of the company. This relates to the lack of communication, coordination tasks and effective decision making. As expressed by Jensen (1993) that the maximum amount of the board of directors should not be more than seven or eight people. Keeping small boards can help improve reviews their performance. When boards get beyond seven or eight people they are less Likely to function Effectively and are Easier for the CEO to control. "(P. 865) Lipton and Lorsch (1992) Also call for adoption of small boards, and recommend that the board size be limited to seven or eight members.

H1 : Board size has a negative effect on firm performance

Several studies have explored the role of gender in the board of directors on the performance of the company. Farrell and Hersch (2001); Adamss and Ferreira (2009), Puthenpurackal & Upadhyay (2006) proving that the board of directors will give a woman's perspective, different experiences and opinions. In addition, the board of directors of women can improve team performance and reduce the level of the existing problems in the company. Dezso & Ross (2012) proved that more female of board of director would increase innovation intensity. Verner (2006) stated that woman directors may better understand particular market condition than man, which bring more creativity and quality to board decision making so they positively affet to firm performance. But research conducted by Laible (2013) proved that there is a negative gender diversity-performance relationship. Richard et al (2013) "predict that group heterogeneity alone may not be advantageous": The outcomes of team diversity are dependent on several mediators, such as the culture of the firm and the right mix of members in a team. It is also supported by research conducted by Adams and Ferreira (2009), which proved that in years in which firms have women on their boards have worse performance in terms of Tobin's q. Then Dobbin & Jung (2011) & Horvath & Spirollari (2012); Fan (2012) proved that no effect of gender diversity on company performance.

H2 : Female in board has a postive effect on firm performance

Ethnic diversity broadens knowledge, ideas and experience through the range of information resources of different cultural background among the board members. An organization with a high level of cultural heterogeneity in management is able to share ideas and reach the ultimate decision based on the various thinking and, will improve management performance through a common consensus among the multiracial group of the boards. Large ethnic diversity may improve firm performance by sharing and reaching the ultimate decision (Hambrick, Cho and Chen, 1996). Shukeri et al (2012) proved that ethnic diversity positively impact firm performance. But Fan (2012) proved that ethnic diversity does not affect the company's performance.

H3 : Ethnic diversity has a positive effect on firm performance

Brookman and Thistle (2009) examined the effect of firm's value on tenure and found that the superior related performance may increase as expected tenure increases. Then Shen (2003) stated that the optimum occupancy which was correlated with return of the shareholder was around eight years. Therefore, some scholar believe that when CEO tenure increases due to CEO power by board selection and good choices of investment, this will lead to decreases in CEO's termination risk. But Bruce et al (2007); Azar et al (2014) proved there is a negative association between ceo tenure and firm performance.

H4 : CEO tenure has a postitive effect on firm performance

Conger & Lawler (2009), Adams & Ferreira (2009) reported that frequency of board meeting are considered to be important way of improving the effectiveness of the board Because they can make better communication, coordination, decision making etc. Francis et al (2012) indicated that firms with poor board attendance at meeting perform significantly worse than boards which has good attendance. But Lipton & Lorsch (1992), Jensen (1993) argued that that board meetings are not necessarily useful because the limited time the independent directors spend together is not used for the meaningful exchange of ideas among themselves or with management. Then, Evans et al (2002) stated that frequent meetings involve managerial time and increase travel expenses, administrative support requirements and director's meeting fees. This may affect enterprise activities within the firm as resources are being channeled towards less productive activities. Azhar et al (2014) & Johl et al (2015) proved that there was a negative association between board meeting and firm performance.

H5 : Board meeting has a positive effect on firm performance

METHODOLOGY

This research selected the consumer goods industry as the population as industrial products such as shampoo, soap, floor cleaners and others,are used by people daily and so that the performance of the industry is more stable. Purposive sampling is used with the following criteria: (1) consumer goods companies between 2010 – 2014 (2) complete data needed in research. (3) high performance company where a company has a ROA above average for five consecutive years

The variables are:

1. Dependent variable : Firm performance (Return on Assets)
2. Independent variables : (a) Board size : the number of board members, (b) Female of board of directore : female board members (%), (c) Etnic diversity : the number of foreign employee, (d) CEO tenure : how long experience of being directors , (e) Board meeting : how many meeting in a year.
3. Control variables : (1) Firm size : Total asset (2) Year : how many years the company's listing on the stock exchange

Regression analysis of data will be carried out to estimate these research models:

1. Consumer goods industry as a whole
   $$PERFORMANCE = \alpha + \beta 1BODSIZE + \beta 2FEMALE + \beta 3\ ETHNICDIV + \beta 4\ CEO\ TENURE + \beta 5BOARDMEET + \beta 6\ FIRMSIZE + \beta 7YEAR + \varepsilon$$
2. Consumer goods industry that has the high performance
   $$PERFORMANCE = \alpha + \beta 1BODSIZE + \beta 2FEMALE + \beta 3\ ETHNICDIV + \beta 4\ CEO\ TENURE + \beta 5BOARDMEET + \beta 6\ FIRMSIZE + \beta 7YEAR + \varepsilon$$

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