

BOARD INDEPENDENCE, BOARD SIZE AND BPD PERFORMANCE

Joy Elly Tulung

Faculty of Economic and Business, Universitas Sam Ratulangi

Manado, Indonesia

Email: joy.tulung@unsrat.ac.id

Dendi Ramdani

Lembaga Penyelidikan Ekonomi Masyarakat (LPEM)

Faculty of Economics and Business, Universitas Indonesia

Depok, Indonesia

Abstract: The purpose of this article is find the relation between board independence, board size and BPD performance. The sample firm consists all 26's BPD in Indonesia in the period 2010 – 2014, we take secondary data from annual report of each BPD, total 203 top executives that are member of board from all BPD in Indonesia. Board independence is independent commissioner in BPD. Board size is the number of executives sitting both on the board of commissioners and board of directors. The results are the influence of board independence, board size and the interaction between board independence and board size to BPD performance. The sample employed all the members of the boards on BPD in Indonesia giving us a confidence in generalization our finding. The statistical method used to test the hypotheses is OLS regression, this method used to measure the relationship between board independence, board size and BPD performance.

Keywords: *Board Independence, Board Size, BPD Performance*

JEL Classification: G34, G21

1. Introduction

Good Corporate Governance (GCG) is a concept that emphasizes the importance of stockholders having a right and accurate information on time. It also shows the responsibility of the company to present all information about the financial states accurately, on time and transparently. Because of that, public or small companies need to see GCG not as accessories, but to improve the performance and value of the company (Tjager, 2003). Corporate Governance is a key element to improve the economic efficiency, which includes relationships between the company's management, board of commissioners, stockholders and other stakeholders. Corporate Governance also facilitates the company to choose their goals, and as

a tool to decide the monitoring technique for the performance of a Corporate Governance that can create a conducive relation and can be accountable inside the element of a company to elevate the performance of a company. In this paradigm, the board of commissioners is in a position to make sure the management has worked for the sake of the company according to its strategy and also to help the stockholders in terms of increasing the economic value of the company. Auditing committee also has an important and strategic role to keep the credibility of financial report, just like guarding and improving the system of the company itself. Referring to the fact that Corporate Governance has been a hot topic since the publication about frauds in a company or bankruptcy that happen because of the management's fault, this creates a question about the adequacy of Corporate Governance. It also includes the credibility in the making of financial report. Because of these reasons, it is very important that the entire member that in the process of making the financial report has to decrease or even get rid of the credibility gap by reviewing the roles of each member on the process.

Corporate Governance of Bank industry in some developing countries such as Indonesia after the monetary crisis becomes much more important because of several reasons. First, banks have a dominant place in the economic system, especially as a growth economy machine (King and Levine, 1993). Second, in countries that have been labeled not developing by the stock market, banks have a role to support the company financially. Third, banks are the center of mobilizing national saving. Fourth, liberalization of banking system through private or economic deregulation can make bank managers have the power to operate banks (Arun and Turner, 2004).

It is based on the growth of Regional Development Banks across Indonesia that continues to be committed and appears as leaders in their respective regions. This commitment is even stronger since the declaration of BPD Regional Champion (BRC) by Bank of Indonesia through 23 packages of monetary policy and banking on December 21, 2010. Regional development banks continually transform in order to escape from the shadows of national banks and become the motor for economic growth in the region.

There are three pillars that are the main focus of attention to BRC, the first is strong institutional resistance; BPD is committed to increase capital, improve efficiency in order to achieve an adequate level of profitability so it can provide credit premises with competitive rates to the public. Second, in its role as an agent of regional development; BPD targets a larger portion of

the credit to the productive sectors and improves intermediation, particularly micro, small, and medium enterprises (SMEs) in collaboration with the BPR, either through linkage program or by becoming an APEX bank. The third pillar, as the form of increasing the ability to serve the needs of the community; BPD will have a program of standardization to improve the quality of human resources (HR) which is supported by the expansion of branch network to support the realization of the financial system that is inclusive (financial inclusion) by increasing the widest access to the local community through the creation of products and services that are increasingly varied and superior.

Most of BPDs have been trying to expand the network of offices or opening some micro-credits stores. Up to December 2014 there were 4,833 BPDSI service offices, with a total number of 3,895 of ATM cash machine. Tangible results of the seriousness of the BPD to the Regional Champion can be viewed from various aspects of BPD performance that continues to increase. Within the last 5 years, the performance of BPD in terms of the financial and operational performance has increased. It can be seen from the various indicators recorded by BPD throughout Indonesia. In 2015, BPD assets have reached Rp. 547.82 trillion; an increase of 18.76% compared to the position in 2014, that is, Rp. 461.28 trillion, placing BPD to the fourth rank in Indonesia.

The application of the concept of good corporate governance is also very important for the banking sector. The banking sector as the financial services industry plays an important role in the development of the country's economy; moreover, banks have tighter regulation compared to other industry sectors. Banks must have the minimum of CAR conditions and been declared healthy by Bank of Indonesia, determined from the financial statements. To create a healthy banking industry, that is strong and can be trusted by the public, banks should be managed professionally in terms of human resources and management. Banking deregulation in 1988 indirectly has a role in the economic crisis experienced by Indonesia in 1998. The crisis has destroyed the country's economy, including the banking sector which resulted in the declining of bank financial performance. Regional Development Banks (BPD) as conventional banks have to implement good corporate governance.

BPD ownership is dominated by the local government, provincial and district governments. BPD is a bank that has operational areas at the regional level, and therefore BPD understands better the potentials that exist in the area and this makes the scope of regional economic growth

is heavily influenced by the performance of BPD. According Darwanto (2012), BPD has several problems including limited products and services, lack of human resources, lack of partnership and lack of capital. Therefore, the application of the concept of good corporate governance in BPD is expected to minimize the risk and overcome the problems in BPD and to increase the performance of BPD

The board role in corporate governance has become important to banks and their regulators following the Asian financial crisis in 1997. This study examines the relationship between board independence and board size with BPD performance. Indonesia was the suffering country when the crisis happened so this research will find interesting results, in terms the regional development banks (BPD).

The term 'independent' in independent commissioners or independent directors does not show that the other commissioners or directors are not independent. The term independent commissioners show their existence as the representative of independent shareholders (minority) as well as representing the interest of the investors. The definition of Independent Commissioners is the member of the board of commissioners that is not affiliated with the directors, member of other board of commissioners, and the controlling shareholders, as well as independent from the business relations or other relations that may affect their ability to act independently or for the sake of the company's interest. In short, Independent Commissioners is the commissioners that do not have family relationships or business relationship with the directors as well as the shareholders. Therefore, the independent commissioner is expected to act objectively and can see that the company's problems need to be solved by the independent commissioners, such as an open limited liability company. Independent Commissioners are the commissioners that are not members of the management, majority shareholders, officials, or that are in other way related either directly or indirectly to the majority shareholders of certain company controlling the company management. The consideration of 'independent' in the word Independent Commissioner is the point of view in solving the problems by leaving aside the private interest and avoiding conflicting interests. Basically, all commissioners are independent. It means that they have to be able to accomplish their task independently, and see the interest of the company, and are free from any influence bearing the interest conflicting with the interest of the company.

The existence of Independent Commissioners cannot be separated from the commissioners. The commissioner is the organ of the organization that controls the policies of the directors in carrying out its supervisory function effectively towards the directors. Or, in the opposite, the role of the commissioner is too great that it intervenes the policies established by the directors. These phenomena become the problem in a limited liability company. However, it will be different when the company has gone public. Having passive attitude or intervening every policy taken by the directors may lead to the loss of the interest of the minority shareholders as well as causing a loss to other stakeholders.

These phenomena happened because the structure of the company ownership in Indonesia is still centralized. The position of the commissioner is assigned to a person and this assignment is not based on the competence and the professionalism of the person. Indeed, it is by the reason of respect or appreciation that the loyalty is aimed to the party that has assigned the position of the commissioner. This position is usually given to the officer or to the former government official that has certain influence to improve the bargaining power of the company in the government.

It can be said that the selection of commissioners in the company in Indonesia has not considered the integrity as well as the competence of the recruited person. The independence of the board of the commissioner of the companies in Indonesia towards the directors or the shareholders is still in doubt. Therefore, the idea on the existence of Independent Commissioners appears. The main idea of Independent Commissioners comes from the fact that most Commissioners became “the puppet” of the majority shareholders. Independent Commissioner is required to represent the interest of the minority shareholders, and considering the condition of Indonesia, its existence has become a must.

The term Independent Commissioners is similar to the term of independent directors in countries implementing the legal system of Anglo-Saxon. The different term is caused by two legal systems of different companies. The legal system of Anglo Saxon implements One Tier System that only owns one board of directors. In this system, it is then known the term of independent director as the party who controls the performance of the board of directors. While the legal system of Continental Europe implements Two Tiers System. There are two separated bodies in one management (board of directors). Both organs should be independent towards each other. The commissioners should be able to carry out independent supervisory function

towards the directors. In the opposite, the directors should be able to independently manage the company in daily basis without too much pressure from the Commissioners.

Independent Commissioners exist in Two Tiers System. Indonesia applies this system so that we know the term Independent Commissioners. The existence of Independent Commissioners is aimed to create objective and independent climate, and to maintain the fairness as well as creating a balance between the interest of the majority shareholders and the protection towards the interest of the minority shareholders, including the interest of other stakeholders.

The existence of Independent Commissioner in each BPD is expected to help BPD to achieve good corporate governance. It is also hoped that independent commissioner can be a bridge among the shareholders (province and regency with the board of directors). According to Ramdani and Witteloostuijn (2010), there are two theories that concern with Corporate Governance; those are stewardship theory and agency theory. Stewardship theory was established on philosophical assumption that human is essentially reliable, responsible, integrated, and truthful. In other words, this theory views management as a reliable entity that acts appropriately for the interest of the public in general and for the shareholders in particular. Meanwhile, agency theory views that the management cannot be trusted to do anything for the interest of the public and the shareholders. BPD is required to practice good corporate governance. Having the authority in regional level, BPD can cover the potentials in the regions and thus can help the economy development of the areas. Previous studies have presented several differences between independent commissioner and the banking performance. The results show that there are both positively and negatively significant and insignificant influences. Therefore, in the present study, we are trying to answer whether the board independence and board size can affect the performance of BPD.

2. Literature Review

3. 1. Corporate Governance

Corporate governance is a management of a company that explains the relationship among participants of the company determining the direction and performance of the company (Monks & Minow, 2002). According to the Forum of Corporate Governance in Indonesia (FCGI), Corporate Governance is defined as a set of regulations that manage the relationship among the shareholders, stakeholders, creditors, governments, employees, as well as internal and external stakeholders that are bound to their rights and obligations to regulate and control the

company. Added by the Organization for Economic Cooperation and Development (2004), the definition of Corporate Governance is a set of regulations that establishes the relation among the shareholders, the management of the creditors, government, employees, as well as internal and external stakeholders in accordance with their rights and obligations. In other words, it is a system that leads and controls the company. From the definitions, it can be concluded that the essence of Corporate Governance is an improvement of the company performance through the observation on the management performance and on the availability of the accountability of the management towards the stakeholders and other shareholders. In this case, the management is led to achieve the targets of the management and is not busy on things that are not included in the target of the management performance. Corporate Governance means a company management that explains the relationship among a number of parties within the company that determine the vision and performance of the company. Appropriate practice of corporate governance or known as good corporate governance can help the shareholders to know the condition of the company through the disclosure of accurate, timely, and transparent financial performance. Indonesia follows two-tier system in which there are Board of Commissioners and Board of Directors. Within the board of Directors, independent commissioner is the member and the main organ that is responsible for the practice of good corporate governance. Therefore, as the name implies, independent commissioners are required to be independent in their monitoring function, to practice professionalism, and to held good leadership.

3. 2. Agency Theory

Agency Theory was initiated by Jensen and Meckling (1976) by redefining the agency relation among the shareholders (principal) and manager (agent). The model was based on the concentrated ownership. In this condition, the manager can have different interests from the shareholders. However, it has ever been stated by Berle and Means (1932) that Agency theory is based on the assumption of existence of separation between ownership and control in the concept of modern company. Ownership focuses on the claim on the residual cash flow, while control focuses on the claim on voting right. The voting right, containing the legal content (law that regulates the voting right of certain shares and other controlling mechanism), of agency theory is known as the core of corporate governance. It was then developed by Ronald Coase (1937) by developing a model of transaction cost economies. Nevertheless, it does not focus

on the role of human in the company. According to agency theory, the act of a manager can violate the interest of the shareholders. The manager's act is motivated by pecuniary benefits and non-pecuniary benefits. This deviant action of the manager is called an opportunistic (hyper rational) or discreet behavior. This argument shows that there usually occurs a conflict between the shareholder and the manager.

3. 3. Board Independence

Recent empiric studies on the board independence are so various that the final results are still debatable. Baysinger and Bulter (1985) in their study on 266 firms in the US found that the proportion of independent commissioners positively influence the company's performance. It is supported by the findings of Schellenger et al (1989), Rosensstein and Wyatt (1990), Pearce II and Zahra (1992), Daily and Dalton (1993), Cho and Kim (2007) who stated similar ideas with Agrawal and Knoeber (1996), Yermack (1996), Bhagat and Black (2002), Kiel and Nicholson (2003), Cornett et. al (2008), and Coles et. al (2008) who stated that the proportion of independent commissioners positively influences the company's performance. On the other hands, there was a finding stating that the proportion of independent commissioners does not influence the company's performance. It was stated by Chaganti et al (1985) who conducted the research in retailing companies; Daily and Dalton (1992) who took the data of 100 American companies registered in Inc Magazine; Ezzamel and Watson (1993) on 184 companies in UK; Klein (1998), Ghosh (2006), and Al Farooque et al (2007). In addition, the results of the mentioned researchers have not mentioned the companies in Indonesia, especially companies in the field of banking.

H1: Board independence is positively associated with firm performance

Tabel 1. Summary of the studies on board Independence

Author(s)	Independent Variables	Dependent Variables	Data	Results	Methods
Baysinger & Butler (1985)	Prop. of independent directors	Relative return on equity	266 major US corps from <i>Forbes</i>	Significantly positive	Simultaneous Equation Regression
Chaganti <i>et al.</i> (1985)	Prop. of outside directors	Firm failure	21 pairs of retailing firms in the US	Not significant	ANOVA
Kesner <i>et al.</i> (1986)	Prop. of outside directors	Illegal activities	384 firms of <i>Fortune 500</i>	Not significant	ANOVA and OLS regression
Kesner (1987)	Prop. of inside directors	Profit margin Return on equity (ROE) Return on assets (ROA) Earnings per share (EPS) Stock market performance Total return to investment (ROI)	205 firms of <i>Fortune 500</i>	Significantly positive Not significant Significantly positive Not significant Significantly negative Not significant	Correlation Analysis
Schellenger <i>et al.</i> (1989)	Prop. of outside directors	ROA ROE ROI	526 random firms from <i>Compustat</i> Database	Significantly positive Not significant Not significant	Correlation Analysis
Rosenstein & Wyatt (1990)	Prop. of financial outside directors Prop. of corporate outside directors Prop. of neutral outside directors	Abnormal market return	1251 observations of director announcements in NYSE and AMEX Corporations	Significantly positive Not significant Significantly positive	Weighted Least Square
Pearce II & Zahra (1992)	Prop. of outside directors	ROA ROE EPS Net profit margin	450 firms from <i>Fortune 500</i>	Significantly positive Significantly positive Significantly positive Not significant	MANOVA
Daily & Dalton (1992)	Prop. of outside directors	ROA ROE Price earnings ratio	100 US firms listed in <i>Inc.</i> Magazine	Outside significantly higher	ANOVA and MANOVA
Daily & Dalton (1993)	Prop. of outside directors	ROA ROE PER	186 small firms listed in the US	Significantly positive	MANOVA
Ezzamel & Watson (1993)	Prop. of independent directors	Average profit to capital ratio Change in profit to capital ratio	184 UK companies from <i>Exstat</i> database and <i>Hambro</i> Company Guide	Not significant Significantly positive	Linear regression
Agrawal & Knoeber (1996)	Prop. of outside directors	Tobin's Q	400 US large firms	Significantly negative	OLS and 2SLS regression
Yermack (1996)	Prop. of outside directors	Tobin's Q	452 large US industrial corporations	Significantly negative	OLS and panel data regressions with fixed

Klein (1998)	Prop. of outside directors Prop. of inside directors on finance Prop. of inside directors on investment Prop. of inside directors on audit committee Prop. of inside directors on compensation committee	ROA Productivity Market return Productivity ROA ROA Productivity Market return Productivity	641 firms in listed <i>S&P 500</i>	Not significant Significantly negative Not significant Significantly positive Significantly positive Not significant Not significant Not significant Significantly negative	OLS regression
Bhagat & Black (2002)	Board independence (prop. of indep minus prop. of insiders)	Tobin's Q Operating income to assets ratio Sales to assets ratio Stock price return Assets growth Operating income growth Sales growth	934 US large corporations	Significantly negative Significantly negative Not significant Not significant Not significant Not significant Not significant	OLS and 3SLS regression
Kiel & Nicholson (2003)	Prop. of outside directors	Tobin's Q ROA	348 Australian listed corporations	Significantly negative Not significant	Linear regression and correlation
Ghosh (2006)	Prop. of non-executive directors	ROA Adjusted Tobin's Q Average value of ROA, ROE and ROS	127 listed manufacturing firms in India	Not significant Not significant Not significant	Linear regression
Cheung <i>et al.</i> (2006)	Prop. of indep non-executive dir.	Market-Adjusted CAR	1338 listed firms in Hong Kong	Not significant	OLS regression
Cho & Kim (2007)	Outside directors participation rate	ROA		Significantly positive	Linear regression
Al Farooque <i>et al.</i> (2007)	Prop. of non-executive directors	Market to book value equity	723 firms in Bangladesh	Not significant	OLS and 2SLS regression
Cornett <i>et al.</i> (2008)	Prop. of outside directors	Discretionary accruals	100 firms of <i>S&P Index</i>	Significantly negative	Pooled and panel data regression
Coles <i>et al.</i> (2008)	Prop. of inside directors	Adjusted EBIT/assets Tobin's Q	8165 years-firms taken from Execucomp database	Significantly positive Significantly negative	3SLS regression
Ramdani & Witteloostuijn (2010)	Board Independence (prop. of indep. Directors	ROA	66 in Indonesia 111 in South Korea 75 in Malaysia 61 in Thailand	Significantly positive	Quantile regression
Zhang & Wang (2013)	Independent Directors	ROE	1515 listed firm in SHSE & SZSE	Significantly negative	OLS
Liu <i>et al.</i> (2015)	Independent directors	ROA ROE	2057 listed firms in SHSE & SZSE	Significantly positive	Panel regression

Notes: ROE, return on equity; ROA, return on assets; ROI, return on investment; ROS, return on sales; EPS, earning per share; CAR; cumulative abnormal return; EBIT, earnings before interest and tax. Source: Ramdani & Witteloostuijn (2010) with slightly modification by author 2015

3. 4. Board Size

Board size is the number of board members in the company's organizational structure of banking, of which many researchers already studied and the results are varied; Yermack (1996) found a negative relation between board size and firm performance, he use Tobin's Q as a firm performance, and take a firm from Forbes in 1984-1991, then some researchers argue that more members into the board may result in worsening the performance of the company (Eisenberger et al 1998, and Jensen 1993). Then, Hermalin and Weisbach (1988) support with their argument, stating that smaller boards are more effective than larger boards due to agency problems arising from increasing board size. The larger boards face difficulties in expressing their views in limited time available during the board meetings (Yermack 1996, Jensen 1993). On the other hand, some researchers have a different result on their research. Coles et al (2008) state that a larger board size has a positive impact on the firm performance, that larger boards provide greater monitoring so as to improve firm performance. Singh and Harianto (1989) also found a positive result in agency perspective, the larger board size is the same in monitoring the overall management so as to improve the firm performance.

H2: Board size has a positive influence to BPD Performance

3. 5. Interaction Board Independence and Board Size

The effect of board independence on firm performance may be dependent on the board size. The positive effect of board independence as the prediction of agency theory can be bigger if the board size is larger (Ramdani & Witteloostuijn, 2010). This argument support by Lipton and Lorsch (1992) and Jensen (1993) found that when boards expand beyond seven or eight executives, they are less likely to effectively control management. Lorsch (1997) suggests that a board size of 12 executives would lead to more effective.

H3: Interaction between board independence and board size has a positive influence to BPD performance

Author(s)	Independent Variables	Dependent Variables	Data	Results	Method
Pfeffer (1972)	Board size	Sales Debt Equity Local Regulation National Regulation	80 corporations drawn from the Dun and Bradstreet Reference Book of Corporate Managements, 1969.	Significant positive Significant positive Not significant Not significant	Regression
Pearce and Zahra (1992)	Board size	ROA ROE EPS	119 Fortunes 500 industrial companies	Significantly positive	MANOVA and ANOVA
Yermack (1996)	Board size	ROA Tobin Q	452 large US Industrial corporation	Significantly negative	OLS Regression
Eisenberg <i>et al</i> (1998)	Board size	ROA	879 Finnish firms	Significantly negative	Regression
Barnhart <i>et al</i> (1994)	Board size	Tobin Q	369 S&P Firms	Significantly negative	OLS IV
Vafeas (2000)	Board size	ROA	307 firms	Significantly negative	OLS, Cross-sectional test
Wu (2000)	Board size	Return-2_M	420 firms in 500 Forbes	Significantly negative	Panel regression
Mak and Li (2001)	Board size	Tobin Q	147 Singaporean firms	Significantly positive	OLS
Bhagat and Black (2002)	Board size	ROA	934 US large corporations	Not Significant	OLS and 3SLS regression
Mak and Yuanto (2003)	Board size	Tobin Q Leverage Sales Growth	271 firms listed in SGX & 279 firms listed in KLSE	Significantly negative	OLS Regression, Multivariate models
Bennedsen <i>et al</i> (2004)	Board size	ROA	1836 Danish firms	Not Significantly	OLS
Bonn <i>et al</i> (2004)	Board size	ROA MB Ratio	169 Japanese firms listed in Nikkei 300 Index 104 Australian firms from top 500 companies in Australia	Significantly negative Significantly positive	Multiple regression analysis
Adams and Mehran (2005)	Board size	Tobin Q	35 banks	Significantly positive	
Boone <i>et al</i> (2007)	Board size	ROA	2746 firms	Significantly positive	RLS Regression
Coles <i>et al</i> (2008)	Board size	Tobin Q	8165 firms Execucomp	Significantly positive	OLS Regression

Tabel 2. Summary of studies on board size

Note: ROA (return on asset), ROE (return on equity), EPS (earning per share)

4. Data and Methodology

This paper is to examine the relation between board independence and board size its effect on BPD performance. The sample firm consists all 26's BPD in Indonesia in the period 2010 – 2014, we take secondary data from annual report of each BPD, total 203 top executives that are member of board of commissioners and board of directors from all BPD in Indonesia. Board independence is independent commissioner in BPD. Board size is the number of executives sitting both on the board of commissioners and board of directors.

Empirical examination of impact of board independence and board size on BPD performance requires selection of appropriate performance measures for objective analysis, most studies examining the board used a variety financial performance, such as return on asset (ROA) by Blackburn & Iles (1997); Kiel & Nicholson (2003), and return on equity (ROE) by Bhagat et al., (1999); and Adjaoud et al. (2007). In our paper we use ROA, ROE and CAR for measure financial performance as a dependent variable for measures the BPD performance, and also we include capital adequacy ratio (CAR) because is normally to use for measure a banking performance. ROA is a useful measure of how well a bank executive is doing on the job because it indicates bank's assets are being used to make an income. ROA is defined as net income divided by total asset. Besides ROA for measures the bank performance we need another measurement for bank performance, then ROE for support it because the owners care about most. They are really concerned about the bank earning on their equity investment, that is measured by ROE, is defines as net income divide by capital. CAR was employed in this research as the dependent variable to measure the BPD performance because it is one of several indicators of healthy bank issued by the Bank of Indonesia. CAR is defined as capital divide by risk weight assets. Our independent variables are (a) the proportion of independent directors and (b) board size. The proportion of independent directors is the number of independent commissioners divided by total number of board. Board size is the number of executives sit on board including board of commissioners and board of directors. Independent Commissioners is the member of the board of commissioners that is not affiliated with the directors and other board of commissioners, shareholders, etc. A control variable in this study is the size of the company that is determined by the value of the natural logarithm of the total assets of the company. The size of the company used as a control variable based on the premise that the large companies have the resources and greater financial resources and greater access flexibility in the acquisition of funds. With it enables large enterprises to create a better

operational and financial performance than small companies are relatively limited both in terms of resources, sources of funds and access to fundraising.

5. Results

	Mean	SD	Min	Max	Skew	Kurt	1	2	3	4	5	6
ROA	3.36	0.83	2	6	0.967	0.618						
ROE	26.29	4.71	19	36	-0.40	-1.07	0.612					
CAR	18.79	3.93	12	28	0.508	-.0483	0.503	0.019				
Prop. Indep. Com.	0.29	0.08	0.14	0.50	0.710	0.137	-0.198	-0.161	0.278			
Board Size	8.11	1.82	5	14	2.10	4.92	-0.342	-0.217	-0.153	-0.023		
Log Total Asset	7.00	0.40	6.22	7.80	0.144	-0.733	-0.501	-0.341	-0.353	-0.056	0.669	
Total Asset	15271326.19	15379370.50	1657285.8	63106001.2	2.010	3.821	-0.390	-0.291	-0.178	-0.089	0.839	0.882

Tabel 3 Descriptive Statistics and Correlation N=203

Tabel. 5 Board Independence, Board Size and BPD Performance

	ROA		ROE		CAR	
	Coef.	t	Coef.	T	Coef.	t
Corporate Governance						
Prop. of Indep. Com.	0.001***	3.49	0.006***	2.76	0.005***	2.84
Board Size	0.001***	3.34	0.003***	3.02	0.085*	1.73
Control Variabel						
Total Asset	0.000***	4.07	0.142	1.47	0.000***	6.06
Log Total Asset	0.000***	-7.09	.0000***	-3.75	0.000***	-7.82
Interaction Effect						
Prop. of Indep. Com * Board Size	0.000***	-3.82	0.003***	-3.02	0.17	-2.39
Constant	0.000	6.98	0.000	3.91	0.000	8.61
R²	0.368		0.187		0.331	
N=203						

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

This table show us the results of regression, board independence has the coefficient value of 0.001 with p value of 0.01 in ROA, has the coefficient value of 0.006 with p -value 0.01 in ROE and coefficient value of 0.005 with p -value of 0.01 in CAR, the results leads to the acceptance of H1 so the relation of board independence and BPD performance is significantly positive, Moreover, the result suggests that independent commissioners depict inside control which helps to raise BPD Performance. This results supports the arguments from Bhagat and Black (2002), Kiel and Nicholson (2003), Cornett et. al (2008), and Coles et. al (2008) board independence is positively impact the firm performance. Board size has the coefficient value of 0.001 with p -value 0.01 in ROA, has the coefficient value 0.003 with p -value 0.01 in ROE and has the coefficient value 0.085 with p -value 0.1 in CAR, then H2 also accepted, the board size has influence significantly positive BPD performance in ROA, ROE and CAR. This results support the finding from Pfeffer (1972), Pearce and Zahra (1992), Mak and Li (2001), Bonn *et al* (2004), Adams and Mehran (2005) who that found board size has significantly positive impact the firm performance. The other additional results are provided in Table 3.4, reporting the interaction effects as to board independent and board size. The interaction of proportion independent commissioners and board size is positively significant to BPD performance in ROA (0.000 with < 0.01) and ROE (0.003 with < 0.01) and not significant in CAR (0.17, with p -value 0.1), this result leads to acceptance of H3.

6. Conclusion

Using a large sample of BPD in Indonesia from 2010 – 2014, we examine the influence of board independence, board size and the interaction between board independence and board size

to BPD performance measure by return on asset (ROA), return on equity (ROE) and capital adequacy ratio (CAR). The sample employed all the members of the boards on BPD in Indonesia giving us a confidence in generalization our finding. The statistical method used to test the hypotheses is OLS regression, this method used to measure the relationship between board independence, board size and BPD performance. Firstly, the proportion of independent commissioners with ROA, ROE and CAR then control by total asset, secondly, board size and BPD performance with ROA, ROE and CAR then control by total asset, and lastly, interactions between board independence and board size to BPD performance. The thesis contributes to the literature related to board independence, board size and firm performance in the regional development banks in Indonesia. The results suggest that there a positive relationship of board independence and board size to BPD performance. This means that independent commissioners play a vital role in improving the performance of banks. According to the results of this study, independent commissioners play an important role in providing independent recommendations during corporate decision-making process to directors, and positively enhance overall good corporate governance. This finding support the results from Baysinger and Bulter (1985), Schellenger et al (1989), Rosensstein and Wyatt (1990), Pearce II and Zahra (1992), Daily and Dalton (1993), Cho and Kim (2007) found that the proportion of independent commissioners positively influence the company's performance. This study also found board size has a positive impact to BPD performance support the arguments from Mak & Li (2001), Adams & Mehran (2005), Boone et al (2007) and Coles et al (2008) board size has a positive impact on the firm performance. The additional results are interaction of board independence and board size and the results is positive impact to the BPD performance, this means larger board size the performance will be better than the smaller board size.

References

- Adam, R. B., & Mehran, H. (2003). Is Corporate Governance Different for Bank Holding Companies? *Economic Policy Review – Federal Reserve Bank of New York*, 9(1), 123–142.
- Agrawal, A., & Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of Financial and Qualitative Analysis*, 31 (3), 377–397. <http://dx.doi.org/10.2307/2331397>

- Arun, T. G. and Turner, J. D. (2004), Corporate Governance of Banks in Developing Economies: concepts and issues. *Corporate Governance: An International Review*, 12: 371–377. doi: 10.1111/j.1467-8683.2004.00378.x
- Barnhart, S. W., Marr, M. W., & Rosenstein, S. (1994). Firm Performance and Board Composition: Some New Evidence. *Managerial and Decision Economics*, 15(4), 329-340.
- Baysinger, B. D. & Butler, H. N. (1985). Corporate Governance and the Board of Directors: Performance Effects of Changes in Board Composition *JLEO (1985) 1 (1): 101-124*
- Bennedsen, M., Kongsted, H. C. & Nielsen, K. M. (2004). Board Size Effects in Closely Held Corporations', *CAM Institute of Economics, University of Copenhagen Working Papers*, vol. 25.
- Berle, A. A. & Means, G. C. (1932). *The Modern Corporation and Private Property* (New York: Harcourt, Brace & World, 1968).
- Bhagat, S., & Black, B. (2002). The non-correlation between board independence and long-term firm performance. *Journal of Corporation Law*, 27(2), 231–273.
- Bonn, I., Yoshikawa, T. & Phan, P. H. (2004). Effects of Board Structure on Firm Performance: A Comparison Between Japan and Australia, *Asian Business & Management*, vol. 3, pp. 105- 125.
- Boone, A. L., Field, L. C., Karpoff, J. M., & Raheja, C. G. (2007). The Determinants of Corporate Board Size and Composition: An Empirical Analysis. *Journal of Financial Economics*, 85(1), 66–101.
- Cho, D.-S. and Kim, J. (2007), Outside Directors, Ownership Structure and Firm Profitability in Korea. *Corporate Governance: An International Review*, 15: 239–250. doi: 10.1111/j.1467-8683.2007.00557.x
- Coase, R. (1937). The Nature of the Firm. *Economica, New Series*, 4(16) pp. 386-405
- Coles, J. L., Daniel, N. D. and Naveen, L. (2008) Boards: Does one size fit all? *Journal of Financial Economics*, 87, 329-356. doi:10.1016/j.jfineco.2006.08.008
- Cornett, M.M., Marcus, A.J., Tehranian, H., 2008. Corporate governance and pay-for-performance: the impact of earnings management. *Journal of Financial Economics* 87, 357 – 373. doi:10.1016/j.jfineco.2007.03.003
- Eisenberg, T., Sundgren, S., & Wells, M. T. (1998). Large Board Size and Decreasing Firm Value in Small Firms. *Journal of Financial Economics*, 48(1), 35–54.
- Ezzamel, M. and R. Watson (1993). Organizational Form, Ownership Structure and Corporate Performance: A Contextual Empirical Analysis of UK Companies, *British Journal of Management*, 4, 3, pp. 161-176.
- Farooque, O. A., Zijl, T. V., Dunstan, K., & Karim. A. W. (2007) Corporate governance in Bangladesh: link between ownership and financial performance. *Corporate governance in Bangladesh*, 15 (6), 1453–1468.

- Ghosh, S. (2006). Do board characteristics affect corporate performance? Firm-level evidence for India. *Applied Economics Letters*, 13(7), 435-443. [dx.doi.org/10.1080/13504850500398617](https://doi.org/10.1080/13504850500398617)
- Guedhami, O., and Pittman, J. (2006). Ownership Concentration in Privatized Firms: The Role of Disclosure Standards, Auditor Choice, and Auditing Infrastructure, *Journal of Accounting Research* 44, 889-929.
- Hermalin, B. E., & Weisbach, M. S. (1988). The Determinants of Board Composition. *RAND Journal of Economics*, 19(4), 589-606.
- Jensen, M., & Meckling, W. (1976). Theory of the firm: managerial behaviour, agency cost and ownership structure. *Journal of Financial Economics*, 3, 305-350. [http://dx.doi.org/10.1016/0304-405X\(76\)90026-X](http://dx.doi.org/10.1016/0304-405X(76)90026-X)
- Jensen, M. C. (1993). The Modern Industrial Revolution, Exit and the Failure of Internal Control Systems. *Journal of Finance*, 48(3), 831-880.
- Kiel, G. C. and Nicholson, G. J. (2003), Board Composition and Corporate Performance: how the Australian experience informs contrasting theories of corporate governance. *Corporate Governance: An International Review*, 11: 189-205. doi: 10.1111/1467-8683.00318
- King, R. G. and Levine, R. (1993). Finance and Growth: Schumpeter Might Be Right *The Quarterly Journal of Economics* (1993) 108 (3): 717-737 doi:10.2307/2118406
- Klein, G. A. (1998). *Sources of power: How people make decisions*. Cambridge, MA: MIT Press
- Lipton, M., & Lorsch, J. W. (1992). A Modest Proposal for Improved Corporate Governance. *Business Lawyer*, 1(1). 59-77.
- Mak, Y. T. & Li, Y. (2001). Determinants of Corporate Ownership and Board Structure: Evidence from Singapore, *Journal of Corporate Finance*, vol. 7, pp. 236-256.
- Mak, Y. T. & Yuanto, K. (2003). Board Size Really Matters: Further Evidence on the Negative Relationship Between Board Size and Firm Value, *Pulses by Singapore Stock Exchange*.
- Monks, R.A.G. and Minow, N. (2011). *Corporate Governance, Fifth Edition*, John Wiley & Sons
- Pearce II, J. A., & Zahra, S. A. (1992). Board Composition from a Strategic Contingency Perspective. *Journal of Management Studies*, 29(4), 411-438.
- Pfeffer, J. (1972). Size and Composition of Corporate Boards of Directors: The Organization and its Environment. *Administrative Science Quarterly*, 17(2), 218-228.
- Ramdani, D. and Witteloostuijn, A. v. (2010), The Impact of Board Independence and CEO Duality on Firm Performance: A Quantile Regression Analysis for Indonesia, Malaysia, South Korea and Thailand. *British Journal of Management*, 21: 607-627. doi: 10.1111/j.1467-8551.2010.00708.x

- Rosenstein, S. and J. G. Wyatt, (1990). Outside Directors, Board Independence, and Shareholder Wealth, *Journal of Financial Economics* 26, pp. 175-192.
- Schellenger, M., Wood, D., & Tashakori, A., (1989). Board of director composition, shareholder wealth, and dividend policy, *Journal of Management*, 15 (3), 457-467.
- Singh, H., & Harianto, F.. (1989). Management-Board Relationships, Takeover Risk, and the Adoption of Golden Parachutes. *The Academy of Management Journal*, 32(1), 7–24.
- Tjager, I.Nyoman, (2003). *Corporate Governance; Tantangan dan Kesempatan bagi Komunitas Bisnis Indonesia* . PT Prenhallindo, Jakarta.
- Tulung, Joy Elly dan Dendi, Ramdani. (2015). The Influence of Top Management Team Characteristics on BPD Performance. *International Research Journal of Business Studies* vol. 8 no. 03
- Vafeas, N. (1999). Board Meeting Frequency and Firm Performance. *Journal of Financial Economics*, 53(1), 113–142.
- Wu, Y. (2000). Honey, CalPERS Shrunk the Board, *Working Paper*. University of Chicago.
- Yermack, D. (1996). Higher Valuation of Companies with a Small Board of Directors. *Journal of Financial Economics*., 40(2), 185–211.