

INDEPENDENCE, SIZE AND PERFORMANCE OF THE BOARD: AN EMERGING MARKET RESEARCH

Joy Elly Tulung^{*}, Dendi Ramdani^{**}

^{*} Corresponding author Faculty of Economic and Business, Sam Ratulangi University, Indonesia;
Contact details: Faculty of Economic and Business, Sam Ratulangi University, Manado 95115, Indonesia
^{**} Office of Chief Economist, Bank Mandiri, Indonesia



Abstract

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The purpose of this article is to find the link between board independence, board size and BPD (regional development bank) performance for describing the corporate governance in regional development bank. The sample of firms consists all 26's BPD in Indonesia in the period 2010-2014; we take secondary data from the annual report of each BPD, total 203 top executives who are members of the boards of all BPD in Indonesia. The results are the influence of the board independence and board size on the BPD performance. The sample employed all the members of the boards of BPD in Indonesia giving us a confidence in generalization our findings. The statistical method used to test the hypotheses is OLS regression. This method was applied to measure the relationship between board independence, board size and BPD performance. The results suggested that there is a positive relationship between board independence, board size and BPD performance.

Keywords: Corporate Governance, Board Independence, Board Size, BPD Performance

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, the 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 to help the stockholders in terms of increasing the economic value of the company. 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. 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 & Levine, 1993). Second, in countries that have been labelled not developing by the stock market, banks have a role to support the company financially. Third, banks are the centre of mobilizing national saving. Fourth, liberalization of the banking system through private or economic deregulation can make bank managers have the power to operate banks (Arun & Turner, 2004).

It is based on the growth of Regional Development Banks across Indonesia which continues to be committed and appear to be 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. 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 all BPD in Indonesia 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.

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 to 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 non-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 Commissioner 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. 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.

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 the reason for respect or appreciation that the loyalty is aimed at 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 the 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 of 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 necessary.

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 on the 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 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 & Witteloostuijn (2010), there are two theories that concern with Corporate Governance; those are stewardship theory and agency theory. Stewardship theory was established on the philosophical assumption that humanly 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 at the regional level, BPD can cover the potentials in the regions and thus can help the economic development of the areas. Previous studies have presented several differences between the 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. This paper structure will answer three questions, firstly, the effect between board independence and BPD performance, secondly, the effect between board size and BPD performance, and lastly, the effect between the interaction of board independence and board size to BPD performance.

2. LITERATURE REVIEW

2.1. 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 establish 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 achieving 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. The 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 the two-tier system in which there are Board of Commissioners and Board of Directors. Within the Board of Directors, the 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 hold good leadership. Tulung & Ramdani (2016) argue the characteristics of the board in Indonesian regional development bank have influenced the performance.

While Tsene (2017) found that Greek company law provides traditionally for the establishment of the general duties of loyalty and care of all board members in companies limited by shares.

2.2. Agency theory

Jensen & Meckling (1976) initiated agency theory 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 & Means (1932) that Agency theory is based on the assumption of the existence of a separation between ownership and control in the concept of the modern company. Ownership focuses on the claim on the residual cash flow, while control focuses on the claim of voting right. The voting right, containing the legal content (the law that regulates the voting right of certain shares and another controlling mechanism), of agency theory is known as the core of corporate governance. Ronald Coase (1937) then developed it by developing a model of transaction cost economies. Nevertheless, it does not focus on the role of the 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 behaviour. This argument shows that there usually occurs a conflict between the shareholder and the manager.

2.3. Board independence

Recent empiric studies on the board independence are so various that the results are still debatable. Baysinger & 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 & Wyatt (1990), Pearce II & Zahra (1992), Daily & Dalton (1993), Cho & Kim (2007) who stated similar ideas with Agrawal & Knoeber (1996), Yermack (1996), Bhagat & Black (2002), Kiel & Nicholson (2003), Cornett et al. (2008), Coles et al. (2008) Knyazeva et al. (2013) and Chen et al. (2015) 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 & Dalton (1992) who took the data of 100 American companies registered in Inc Magazine; Ezzamel & Watson (1993) on 184 companies in UK; Klein (1998), Ghosh (2006), and Al Farooque et al. (2007), also Abdullah (2016) with research in Malaysian Listed firm. 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 company.

Table 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 et al. (1985)	Prop. of outside directors	Firm failure	21 pairs of retailing firms in the US	Not significant	ANOVA
Kesner et al. (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 on investment (ROI)	205 firms of <i>Fortune 500</i>	Significantly positive Not significant Significantly positive Not significant Significantly negative Not significant	Correlation Analysis
Schellenger et al. (1989)	Prop. of outside directors	ROA ROE ROI	526 random firms from <i>Compustat Database</i>	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. Magazine</i>	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 Company Guide</i>	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 et al. (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 et al. (2007)	Prop. of non-executive directors	Market to book value equity	723 firms in Bangladesh	Not significant	OLS and 2SLS regression
Cornett et al. (2008)	Prop. of outside directors	Discretionary accruals	100 firms of <i>S&P Index</i>	Significantly negative	Pooled and panel data regression
Coles et al. (2008)	Prop. of inside directors	Adjusted EBIT/assets Tobin's Q	8165 years-firms taken from <i>Execucomp</i> 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 et al. (2015)	Independent directors	ROA ROE	2057 listed firms in SHSE & SZSE	Significantly positive	Panel regression
Abdulah (2016)	CEO Duality, Board Independence	ROA	2510 listed companies in Bursa Malaysia Main Market	Not significant	Regression

Note: 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 slight modification by authors 2017.

2.4. 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 of the board may result in worsening the performance of the company (Eisenberget et al., 1998; and Jensen, 1993). Then, Hermalin & 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 the 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, and support by Isik & Ince (2016) who found a significantly positive effect

between board size and bank performance in Turkey, Singh & 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.

2.5. 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 & 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 on BPD performance.

Table 2. Summary of studies on board size

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 & Bradstreet Reference Book of Corporate Management, 1969.	Significant positive Significant positive Not significant Not significant	Regression
Pearce & 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 et al. (1998)	Board size	ROA	879 Finnish firms	Significantly negative	Regression
Barnhart et al. (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 & Li (2001)	Board size	Tobin Q	147 Singaporean firms	Significantly positive	OLS
Bhagat & Black (2002)	Board size	ROA	934 US large corporations	Not Significant	OLS and 3SLS regression
Mak & 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 et al. (2004)	Board size	ROA	1836 Danish firms	Not Significantly	OLS
Bonn et al. (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 & Mehran (2005)	Board size	Tobin Q	35 banks	Significantly positive	
Boone et al. (2007)	Board size	ROA	2746 firms	Significantly positive	RLS Regression
Coles et al. (2008)	Board size	Tobin Q	8165 firms Execucomp	Significantly positive	OLS Regression

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

3. 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 the annual report of each BPD,

total 203 top executives that are a member of the 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 the total asset. Besides ROA for measures the bank performance we need another measurement for bank performance, then ROE for supporting it because the owners care about most. They are really concerned about the bank earning on their equity investment that is measured by ROE, it defines as net income divided 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 a total number of the board. Board size is the number of executives sits on board including the 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.

4. RESULTS

Table 3. Descriptive statistics and correlation N=203

	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	-0.483	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

Table 4. 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 Variable						
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
R ²	0.368		0.187		0.331	
N=203						

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

This table shows 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 lead 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 result supports the arguments from Bhagat & Black (2002), Kiel & Nicholson (2003), Cornett et al. (2008), and Coles et al. (2008) board independence is positively impacted 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, and 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 & Zahra (1992), Mak & Li (2001), Bonn et al. (2004), Adams & Mehran (2005), Ghabayen et al. (2016) who found that board size has significantly positive impact the firm performance and contrary with the finding from Nguyen et al. (2015) and Rodriguez-Fernández (2015) that found a negative relationship between board size and firm performance. The other additional results are provided in Table 4, reporting the interaction effects as to board independence 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.

5. 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 was 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 is a positive relationship between 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 supports the results from Baysinger & Bulter (1985), Schellenger et al. (1989), Rosensstein & Wyatt (1990), Pearce II & Zahra (1992), Daily & Dalton (1993), Cho & Kim (2007) who found that the proportion of independent commissioners positively influences the company's performance. This study also found that board size has a positive impact on BPD performance and supports 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 the interaction of board independence and board size and the results are about a positive impact on the BPD performance, this means that the larger board size the performance will be better than the smaller board size. Although this research has answered the questions, there were some limitations and shortcomings. Firstly, the data is limited to Regional Development Bank and could be developed to more broad that include all banks in Indonesia, so the result would be more interesting and can describe the corporate governance in Indonesian banking. Secondly, the length of the year could be more add, it would be better for 10 years and we can use a data panel for a measure that data. So, in the future research, we suggest adding more variables to make more interesting finding such as the characteristics and composition of the board.

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