BOARD MEMBER DUALITY, AGENCY COSTS, PERFORMANCE, AND ACCOUNTABILITY:

THE EVIDENCE IN PARENT AND SUBSIDIARY OF STATE-OWNED ENTERPRISES IN INDONESIA

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ABSTRACT

The study of corporate governance of parent and subsidiary companies in the State-Owned Enterprises (BUMN) in Indonesia has received little attention from the public. In fact, an interlocking directorship between a parent company and a subsidiary is a common occurrence in BUMN in Indonesia; it is called “board member duality”, a new terminology proposed in this research. This terminology refers to the director of a parent company who is simultaneously serving as the commissioner of a subsidiary company. This addresses the gap found among several types of director duality which generally fall under CEO duality, Interlocking, and Multiple Directorships.

Three research instruments used in this research were panel data, a survey, and in-depth interviews. The results obtained by these instruments were compared, integrated, and analyzed using an integrated matrix analysis as the triangulation method.

The research revealed that board member duality influences agency costs; on the other hand, it does not affect firm performance. The six dimensions of accountability of the board member duality reveal that the age of the parent company may reflect the level of BUMN's maturity which contributes to shaping ethics and integrity, and reflects that the regulations regarding conflicts of interest have been included in corporate policies. The attribute of income is the best predictor of how the board member holding these dual directorships performs his/her tasks, and finally, the holders of board member duality tend to favor the parent company when making decisions.

The immediate implication of this research is the establishment of guidelines for the board member duality, as part of the parent and subsidiary governance. The agency problems, demographic and company characteristic regarding the accountability of board member duality examined in this research can be used to enhance the decision about dual board member appointment.

DECLARATION

I, Agus Widodo declare that this PhD thesis titled "Board Member Duality, Agency Costs, Performance, and Accountability: The evidence in parent and subsidiary of state-owned enterprises in Indonesia" is no more than 100,000 words in length, including quotes and exclusive of tables, graphs, figures, appendices, bibliography, references, and footnotes. This thesis contains no material that has been submitted previously, in whole or in part for the award of other academic degrees or diplomas. Except where otherwise indicated, this thesis is my own work.

Signature [redacted]

Date 10/1/2017

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When I began with my research, I felt as if I were undertaking a journey to an alien territory. I was challenged by the questions: Did I know how to explore the unpredicted alien territory? Did I have a compass to show the direction? Could I finish the complicated exploration on time? When the exploration was completely recorded in a thesis, then I understood that research was the process; not the end result; and the research itself was the measure of success in this exploration. This research was conducted over four years approximately, and this would not have been possible without the support of numerous people, whom I wish to acknowledge.

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I dedicate my work to a better Indonesia.

List of Publications and Awards

Peer Reviewed Proceedings

1. Widodo, Agus; Armstrong, Anona, 2013, "The duality dilemma faced by directors of state-owned enterprises who are appointed to represent their parent companies in their subsidiaries: a conflict or an interest?" Paper presented at the 27th Australian and New Zealand Anzam Academy of Management (ANZAM) Conference, Hobart Tasmania 4-6 December.

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LIST OF ABBREVIATIONS

ABCD	America, British, China, Dutch
ABRI	Angkatan Bersenjata Republik Indonesia (National Army Forces)
ACW	Artilerie Constructie Winkel
AI	Artilerie Inrichtingen
ANIEM	Indische Electriteit Maatschappij
ASEAN	Association of South East Asian Nations
ATO	Asset Turn Over
BC	Before Christ
BCOM	Board Composition
BD	Board Member Duality
BFO	Bijeenkomst voor Federal Overleg
BOD	Board of Director
BOC	Board of Commissioner
BPM	Bataviaasche Petroleum Maaschappij
BPIS	Badan Pengelola Industry Strategis (the Strategic Industry Management Board)
BSIZE	Board Size
BUMN	Badan Usaha Milik Negara (State-Owned Enterprise)
BTW	Banka Tin Winning Bedrijf
CAPEX	Capital Expenditure
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
COO	Chief Operating Officer
DPR	Dividend Payout Ratio
DR	Debt Ratio
EBIT	Earnings Before Interest and Tax
ECM	Error Component Model
EKON	Ekonomi (Economy)
FAGE	Firm Age
FCGI	Forum for Corporate Governance in Indonesia
FGROWTH	Firm Growth

FSIZE	Firm Size
GCG	Good Corporate Governance
GLS	Generalized Least Square
GMB	Gemeenschappelijke Mijnbouw Maatschappij
GDP	Gross National Product
GMOS	General Meeting of Shareholders
GOWN	Government Ownership
GW	Geweemarkelschool
H_0	Null Hypothesis
H_a	Alternative Hypothesis
IBRA	Indonesian Banking Restructuring Agency
IBW	Indische Bedrijvenwet
ICW	Indische Comptabiiteitswet
IDR	Indonesia Rupiah
IFRS	International Financial Reporting Standard
IGGI	Inter Governmental Group on Indonesia
IMF	International Monetary Fund
INKA	Industry Kereta Api (Train Industry)
INTI	Industri Telekomunikasi Indonesia (Indonesia Telecommunication Industry)
KEP	Keputusan (Decree)
KLM	Koningkelijke Luchvaart Maatschappij
KPM	Koninlijke Paketvaart Maatschappij
KPI	Key Performance Indicator
LEN	Lembaga Elektronika (Electronic Institute)
LIQ	Liquidity
LSDV	Least Square Dummy Variable
LKBN	Lembaga Kantor Berita Nasional (The National News Agency Institute)
LKIP	Laporan Kinerja Instansi Pemerintah (the Performance Report of the Government Institution)
MBCfPE	Malcolm Baldridge Criteria for Performance Excellent
MP3EI	Master Plan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia (Master Plan for the Acceleration and Expansion of Indonesia's Economic Development)
MSOE	The Ministry of State-Owned Enterprises
NCCG	National Committee on Corporate Governance

NHM	Nederlandsche Handel Maatschappij
NIEM	Nederlandsche Indische Electriciteit Maatschaapij
NVNISM	Naamloze Vennoostchap Nederlandsch Indische Spoorweg Maatshappij
NVSITEM	Naamloze Vennoostchap Singkep Tin Exploitatie Maatschappij
OECD	The Organization for Economic Co-operation and Develpopment
OPEX	Operating Expenditure
PAL	Penataran Angkatan Laut (Navy Yard Industry)
PELNI	Pelayaran Nasional Indonesia (National Shipping Company)
PF	Proyektiel Fabriek
PERJAN	Perusahaan Jawatan (Bureau Company)
PERUM	Perusahaan Umum Negara (Special Purpose Entity)
PINDAD	Perusahaan Industri Angkatan Darat (Army Industrial Company)
PPA	Perusahaan Pengelola Aset (Asset Management Company)
PPKI	Panita Persiapan Kemerdekaan Indonesia (the Indonesian Independency Preparatory Committee)
PSO	Public Service Obligation
PTPN	Perseroan Terbatas Perkebunan Nusantara (Plantation State Company)
ROA	Return on Assets
ROE	Return on Equity
REIT	Real Estate Investment Trust
SLA	Service Level Agreement
SOE	State-Owned Enterprise
SUPERSEMAR	Surat Perintah Sebelas Maret (The Presidential Decree of March, 11th)
TARIF	Transparency Accountability Responsibility Independence Fairness
Tbk	Terbuka (Listed)
US	United States
UNCI	United Nation Commission for Indonesia
UK	United Kingdom
VOC	Vereenigde Oost-Indische Compagnie

CHAPTER 1: INTRODUCTION TO THE STUDY

"Logic will get you from A to B. Imagination will take you everywhere" (Albert Enstein, 1879)

1.1. BACKGROUND TO THE RESEARCH

1. State-Owned Enterprises Need Better Performance

The increased role of the State-Owned Enterprises (SOE) or BUMN[1] in economic development is going to receive more attention from governments, especially when capitalism cannot prevent market failure which leads to financial crises worldwide such as the crisis of neoliberal capitalism in 2008, capitalism crisis in the mid-1970s, and at the end of 1920s (Kotz, 2009). However, from the evidence, the performance of SOEs in developing economies often falls below stakeholders' expectations (Tivedi, 2008). Even when SOEs have shown a better performance compared to their 'counterparts' in the private sector, governments will constantly encounter pressures from stakeholders to improve SOE's performance.

There are three theories why the State-Owned Enterprises underperform, namely monopoly theory, property theory, and principal-agent theory (Siahaan, 2005). According to the **monopoly theory**, State-Owned Enterprises are usually given a privilege as a monopoly to explore and/or exploit particular goods and/or services. As a result, often they are trapped into doing the business inefficiently. The second theory is **property right theory**. State-Owned Enterprises are owned by the state not by the public. In reality, the state is not defined clearly, so the State-Owned Enterprises are perceived as having no owner. Hence, there is little incentive for management to conduct the business efficiently. The **principal-agent theory** assumes that a relationship exists between principal and

[1] BUMN stands for Badan Usaha Milik Negara, a popular terminology referring to State-Owned Enterprises in Indonesia.

agent, where government is the principal and the State-Owned Enterprise is the agent. However, since the ultimate beneficiaries of State-Owned Enterprises are actually the people of the country, then the government and SOEs in a broader context are also the agents susceptible to political intervention, thereby complicating the situation. According to this theory, principal and agent have different goals and each will try to maximise its opportunities. This relationship between principal and agent will incur agency costs which become the principal's expenses (Jensen and Meckling, 1976).

2. Corporate Board as a Priority Target for Improving Company Performance

Frederick (2011) revealed in an interview describing his research that directors in many OECD countries admitted that, generally, the top priority target to increase SOE performance is to reform the function of the SOE boards. One strategic issue in terms of reforming the SOE corporate boards is that of duality whereby a corporate board member has more than one role or position at director level in more than one company. Previous research on duality is usually one of three types: chief executive director (CEO) duality, interlocking directorship, and multiple directorships. CEO duality, the most popular duality occurring in companies which follow a one-tier system, exists when a director holds two positions simultaneously, that is, as a chief executive officer and as a chairman of the board of directors (Dalton and Dalton, 2011). Hence, a duality holder has a management function as a CEO and an oversight function as a chairman of the board that may influence a corporate decision. The results of previous research show that impact of CEO duality on company performance is not consistent and seems to vary. Donaldson and Davis (1991b), Boyd (1995), and Brickley et al. (2005) found that CEO duality had a positive impact on company performance, whereas Rechner and Dalton (1991), Pi and Timme (1993), and Daily and Dalton (1994) found the opposite. However, the findings of Berg and Smith (1978), Chaganti et al. (1985b), and Baliga et al. (1996) did not support the results of either of the other researcher groups. The latter's results indicate that there is no systematic relationship between CEO duality and company performance.

The other dualities are the interlocking directorships and the multiple directorships. These dualities occur when a director of a company also serves as a director of another company/s. The difference between those the two dualities is the relative position of the director to the company, where an interlocking director will interlock two companies, let us say A and B. Each director in companies A and B holds a duality position as a director in the two companies, A and B (direct interlocking), or director A and B also serves as a director in C company (indirect interlocking), (Gabrielsen et al., 2011), (Shropshire, 2010), and (Hallock, 1997), whereas a multiple director does not interlock the companies in his/her role as a member of the board of directors of the companies.

This research proposes a new terminology to describe a new type of duality which is slightly different from the three dualities mentioned above. This terminology is ***Board Member Duality***, and refers to the situation in which a director of a parent company also has a position as a commissioner in a subsidiary company/s. Board member duality occurs in the context of a relationship between parent and subsidiary company. To date, no corporate governance literature has explored this board member duality situation. Furthermore, this type of duality has rarely been addressed in previous research although board member duality is a very common occurrence in companies which follow a two-tier board system.

Why has duality rarely been explored in previous research? Previous researchers may have loosely assumed that all companies are basically the same and are viewed as a single entity, without considering the parent and subsidiary relationship. The parent and subsidiary relationship should be differentiated from the nonparent-subsidiary company, especially if a subsidiary is fully controlled by the parent company[2] (Kirk, 2009). The parent company can constrain its subsidiary company to conform to parent company policy, thereby substantially influencing the subsidiary's own policy. In particular, a parent company can influence a subsidiary company's policy through a decision resulting from a general meeting of shareholders of the subsidiary company, or by channeling the parent's policy through directors and/or commissioners originating from the parent company.

3. Board Member Duality in Indonesia

Corporations in a country which follows a two-tier board system, generally have two corporate boards: a board of directors which is responsible for managing company operations, and a board of commissioners responsible for the oversight of the company (Belot et al., 2014). In the context of parent and subsidiary relationships which follow the two-tier board system, it is very common for a director of a parent company to be appointed as a commissioner in a subsidiary company. In this case, board member duality would occur. The implication of board member duality is drawn from agency theory which states that the interests of principal and agent are different, and therefore a conflict of interests may occur. This situation raises the question of loyalty. Will the agent give his/her loyalty to the parent company or to the subsidiary company? There are at least two main sources of potential conflict regarding board member duality. Firstly, the conflict of interests could arise at the administration level where the duality holder who is a parent director/s is also involved in setting the agenda and becoming a chairman of a general meeting of shareholders of the subsidiary company. Secondly, at the technical level, the conflict of interests could arise when the duality holders are involved in deciding intercompany transactions such as dividend payments, subcontracting a project, transfer pricing and taxes allocation, purchases or swaps of assets.

[2] From the accounting perspective, the consolidated financial statement indicates that a parent company can control a subsidiary company even though its ownership is less than 50% of shares.

Board member duality occurs in companies which operate in countries which follow the two-tier board structure, which is common in companies operating in Indonesia. The corporate law[3] does not prohibit a director from serving as a commissioner in a subsidiary company. As a result, if a parent company has many subsidiary companies, then a parent company director could have more than one position as commissioner in the subsidiary companies. In fact, the tasks of director and commissioner are different. The director's tasks are more focused on execution functions whereas commissioner tasks are more focused on oversight functions. This duality leads to several issues that are typical of corporate boards such as span of control, conflict of interests, dual roles, efficiency, and control. Will these positions potentially leverage the SOE's performance by aligning, accelerating, and cost-efficient decision making process in both parent and subsidiary company? Or will the duality position holders abuse their position for their own self-interest that inflicts a financial loss on companies?

The corporate law allows a director to hold more than one position as a director and/or commissioner. However, there is a principle in law called the 'special law repeals general law' (lex specialis derogat legi generali) that can be applied (Zimmermann, 1997) and may specify terms and conditions for the position of director and commissioner. For example, in Indonesia, if corporations are going to go public or be listed in the capital market, then the appointment of the directors and commissioners must follow regulations enacted by the Financial Services Authority[4]. In addition, the companies also must follow their sector's regulations. For example, in the financial services sector, especially in the banking business, the Central Bank, '*Bank Indonesia*' prohibits a director of a bank to have other positions as a commissioner, director or executive officer at another bank, company, or

[3] *Undang-Undang Nomor 40 Tahun 2007 Tentang Perseroan Terbatas* [Law No.40 of 2007 on Limited Liability Companies) (Indonesia) art 93 and art 110.

[4] *Peraturan Otoritas Jasa Keuangan Nomor 33/POJK.04/2014 Tentang Direksi dan Komisaris Emiten atau Perusahaan Publik* [Regulation of Financial Services Authority No.33/POJK.04/2014 Regarding Directors and Issuer Commissioner or Public Company.

other institution[5]; as a consequence, at the same time a banking director cannot serve as a commissioner in its group or its subsidiary company. The Ministry of State-Owned Enterprises prohibits a director of a state-owned enterprise from having a duality position at the same level of board directors in other corporations[6]. The duality position in a company is also tightly regulated by the Commission for the Supervision of Business Competition which identifies monopolistic practices and unfair business competition which could occur in a dual director and/or commissioner position[7].

If the Central Bank and the Commission for the Supervision of Business Competition regulate director duality mainly to prevent monopolistic practices and unfair business competition, then the Ministry of State-Owned Enterprises regulates the duality position mainly to prevent a conflict of interests which harms the performance of State-Owned Enterprises. However, according to State-Owned Enterprise Law[8], the Ministry of State-Owned Enterprises can regulate only the state-owned enterprise, and not the subsidiary company. The State-Owned Enterprise is defined as a corporation in which all or a majority of its shares are owned by the state through direct investment from state wealth which is separated from state budget[9]. This means that by definition, a subsidiary company is not a state-owned enterprise and is therefore not included in the legislation.

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[5] *Peraturan Bank Indonesia Nomor 8/14/PBI/2006 Tentang Amandemen peraturan bank Indonesia Nomor 8/4/PBI Mengenai Penerapan Tata Kelola Yang Baik bagi Bank-Bank Komersiil* [Regulation of Bank Indonesia No. 8/14/PBI/2006 on amendment to Regulation of Bank Indonesia Number 8/4/PBI/2006 Regarding Implementation of Good Corporate Governance for Commercial Banks] (Indonesia) art 22

[6] *Peraturan Menteri BUMN Nomor PER-01/MBU/2012 Tentang Persyaratan dan Tata Cara Pengangkatan dan Pemberhentian Anggota Direksi Badan Usaha Milik Negara* [Ministerial Decree No. PER-01/MBU/2012 on Terms and Procedures for Appointment and Dismissal of Director of the State-owned Enterprises] (Indonesia) art 36

[7] *Undang-Undang Nomor 5 Tahun 1999 Tentang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat* [Law No.5 of 1999 on The Prohibition of Monopolistic Practices and Unfair Business Competition] (Indonesia) art 26

[8] *Undang-Undang Nomor 19 Tahun 2003 Tentang Badan Usaha Milik Negara* [Law No.19 of 2003 on Stateowned Enterprise) (Indonesia) art 1.1

[9] *Ibid*

The government cannot directly control the subsidiary companies, but it can control them indirectly through parent company directors who are appointed by the government and who also act as shareholders of the subsidiary company. This governing structure seems to overlap (when duality occurs) if the parent director/s is also appointed as a commissioner of the subsidiary company. There are at least three positions which are held by the parent company director at the same time. The first position is as a parent company director, the second position is as a shareholder of the subsidiary company/s, and the third position is as a commissioner of subsidiary company/s. This board member duality which occurs in SOEs in Indonesia is the focus of this research.

1.2. Research Problem

Board member duality is embedded in the parent and subsidiary relationship, in which a parent director also serves as a commissioner in a subsidiary company, and this produces several challenges. The first role is an executive function which more heavily focuses on managing the day-to-day business of the parent company, and the second role is an oversight function, which more heavily focuses on oversight of the subsidiary company. Common issues arising as a result of duality include: how many companies a parent director can serve as a commissioner in a subsidiary company/s (span of control); to whom the duality holder should give his/her allegiance, to the parent company or the subsidiary company, and does it involve self-interest (conflict of interests); how to differentiate a leadership style for the executive role and oversight role (dual roles); will it be efficient if integrating executive and oversight function in one person; and it be better control? All and all, according to agency theory, the process involved in the relationship between principal and agent, or in this context between shareholder and corporate board, will incur costs, called agency costs. Thus, board member duality and agency costs are the main theme of this research. This research will address a main research question:

"Does the duality position of the board of directors in parent and subsidiary impact on the agency cost of the State-Owned Enterprises in Indonesia?"

1.3. OBJECTIVES OF THE STUDY

The three primary objectives of the study are to:

1. Measure agency costs incurred by board member duality from the two-tiered board perspective and a parent—subsidiary relationship, and also their impact on the company performance of state-owned enterprises.
2. Determine the progress of accountability of parent and subsidiary governance in State-Owned Enterprise based on dimension of ethics and integrity, cost and benefit, regulation, role of dual director, financial accountability, and leadership.
3. Recommend to the Ministry of State-Owned Enterprises how to improve parent and subsidiary governance in SOE and proposals to amend or improve the SOE Act if needed.

1.4. CONTRIBUTION TO KNOWLEDGE

This research contributes to the international literature on corporate governance in the two-tiered model and has potential, through synthesizing the strands of literature into 'Agency Theory and 'Stewardship Theory, to bring together these themes into a coherent investigation of a corporate board role. This study will result an original contribution to knowledge in the following areas:

1. It will enhance an understanding of agency costs incurred in a board member duality in the two-tiered context;
2. It will contribute to a better understanding of the different variables that influence a better corporate governance implementation in parent—subsidiary governance relationship.

3. It will add a new horizon and opportunity for improvement of the performance corporate board in connection with parent—subsidiary governance relationship in Indonesia and this might be useful beyond the research site—both nationally and internationally;

1.5. Statement of Significance

This research is intended to make several practical contributions in the following ways:

1. It will assist shareholders, investors, regulators and stakeholders of State-Owned Enterprises with their analyses, evaluations and decision-making and more importantly, it is significant for further improving corporate governance policy regarding the parent—subsidiary governance relationship.
2. It will generate recommendations and a framework for better appointment of board membership and composition of both SOEs and their subsidiaries.
3. The research could help relevant personnel to better understand agency problems, such as conflicts of interest that might occur and agency costs associated with the agency problem of duality positions.
4. This research is of particular relevance to the parent and subsidiary governance relationship of SOEs in the context of board member duality in the two-tiered board system (European model) used in Indonesia. The increase in value and performance of SOEs as a result of this research is very significant given the ongoing pressure to improve the transparency and accountability SOEs.

1.6. Scope of The Research

The research project is intriguing, complex and challenging due to the dynamic nature of state-owned enterprises which are usually encumbered with various political interests. The scope of the research is board member duality in state-owned enterprises having subsidiary/s in Indonesia, ranging from 2009 to 2013. The number of state-owned enterprises in Indonesia as of December 31, 2013 was 139 SOEs comprised of 20 listed SOEs in the capital market, 105 non-listed SOEs, and 14 Special Purpose Entities (Perum), plus 12 enterprises with minority government ownership (BUMN, 2015). In fact, 74 out of 139 are State-owned Enterprises which have subsidiaries. The total number of subsidiary companies owned by the 74 state owned enterprises is 270.

This research will focus on investigating the impact of the parent directors (SOEs directors) who also serve as commissioners in subsidiary/s, and agency costs in the state-owned enterprises in Indonesia. The main challenge of this research was to source data and information from subsidiary companies, which by definition are not state-owned, and which usually means that they are less transparent than parent companies. However, in order to acquire and explore an adequate amount of information about subsidiary companies, this research will use the triangulation method (sometimes called mix method) which combines three different sources of information - survey, interview and secondary data - in order to obtain more comprehensive results.

1.7. Definition of Key Terms

Agency Costs are the sum of the monitoring expenditure incurred by the principal/owner, the bonding expenditures by the agent and the residual loss (Jensen and Meckling, 1976). The agency costs may increase when a conflict of interests between principal/owner and agent/manager occurs, moral hazard of the agents, and shirking and perquisite consumption by agents. This research uses efficiency ratios to measure the agency costs.

Board refers to “a group of people who officially administer a company”

Board Member Duality is a situation in which a director of a parent company also serves as a commissioner in its subsidiary company/s.

Board of Commissioners is a company organ which has the task of being an oversight board in the context of a two-tier board system. A member of a board of commissioners is called a commissioner.

Board of Directors is a company organ which has a task to manage company day-to-day operations. A member of a board of directors is called a director.

BUMN stands for Badan Usaha Milik Negara, an Indonesian terminology for the State-Owned Enterprise.

CEO Duality is a situation in which a chief executive officer of a company also serves as chairman of a board of director

Conflict of Interests is a situation in which the public interests conflict with company interests.

Corporate Governance is "the system by which companies are directed and controlled" (Cadbury, 1992).

Duality is the state or quality of being two or in two parts.

Efficiency Ratio measures how well a company utilizes its assets to generate income. This research uses two efficiency ratios: expense ratio and asset utilization ratio.

Interlocking Directorship can be direct or indirect. A direct interlocking directorship refers to a situation in which a director in company A is also a member of the board of directors in company B, or vice versa, (Chhaochharia and Grinstein, 2007). Whereas, an indirect interlocking directorship refers to a situation in which a director in companies A and B also serves on the board of directors in company C.

Multiple Directorship is a situation in which a director sits on more than one corporate board (Scott, 1997).

Parent Company is a corporation or other business enterprise that owns controlling interests in one or more subsidiary companies (Dictionary.Com, 2015).

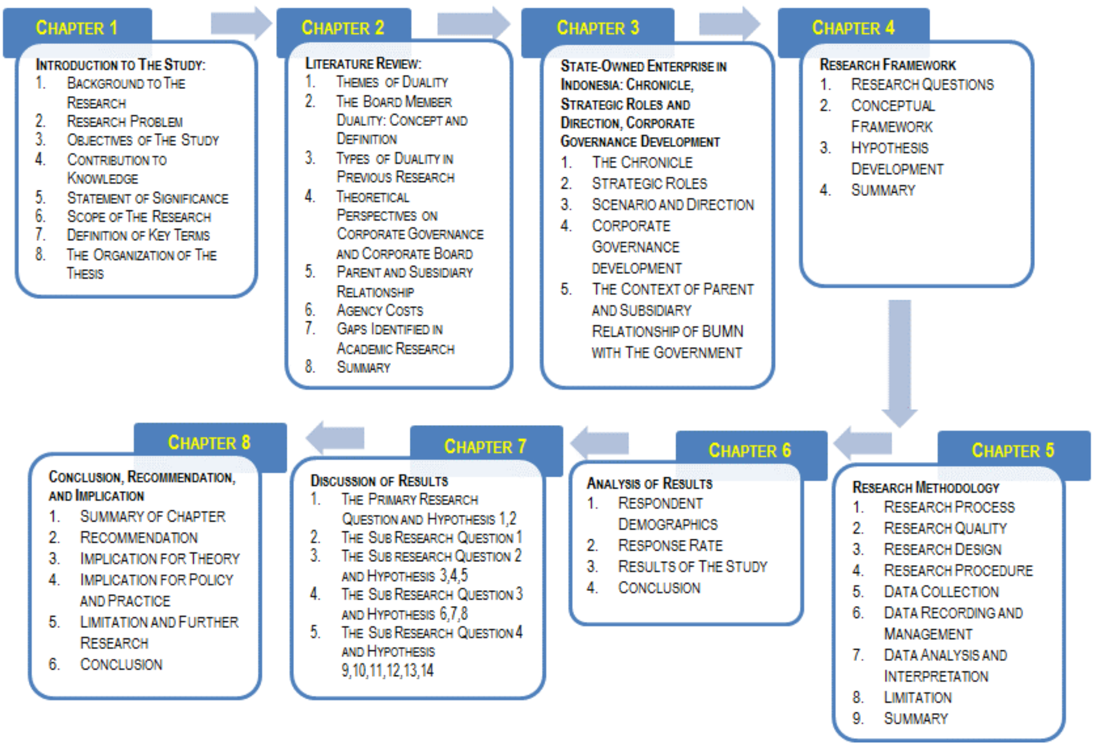
Subsidiary Company is a company whose controlling interest is owned by another company (Dictionary.Com, 2015).

State-Owned Enterprises is a business entity where 100% or the majority of its capital is owned by the state through direct investment originating from a separated state fund[10].

1.8. THE ORGANISATION OF THE THESIS

This thesis consists of eight chapters which are depicted in FIGURE 1-1 as follows:

FIGURE 1-1 THE ORGANIZATION OF THESIS



CHAPTER 1: INTRODUCTION TO THE STUDY provides a brief description about the background of the research, and explains why the State-Owned Enterprises

[10] *Undang-Undang Nomor 19 Tahun 2003 Tentang Badan Usaha Milik Negara* [Law No.19 of 2003 on Stateowned Enterprise) (Indonesia) art 1.1

(BUMN) needs better performance, a corporate board target for improving a SOEs performance, and the regulation of board member duality in Indonesia. The research problem, objective of the study and scope of the research guides to the major focus of this research. Contribution of knowledge, statement of significance and definition of key terms are the integral parts of this chapter.

CHAPTER 2: LITERATURE REVIEW explains previous research and research gap which is found in a theme of corporate board duality such as CEO duality, interlocking directorship, and multiple directorship, whereas the board member duality is a new terminology which introduced in this chapter. Furthermore, this chapter also examines theories relevant to duality positions in corporations and compares and contrasts various theories in order to acquire a more comprehensive understanding about the research project. In addition, the history of corporate governance and corporate boards, the relationship of parent and subsidiary companies, and agency costs are explored in this chapter.

CHAPTER 3: STATE-OWNED ENTERPRISES IN INDONESIA: CHRONICLE, STRATEGIC ROLES AND DIRECTION, AND CORPORATE GOVERNANCE DEVELOPMENT examines the history of State-Owned Enterprises in Indonesia which comprises five periods: the Dutch era, the Japan era, the Old Order era, the New Order, and the Reform era. This chapter also outlines the strategic role and direction of state-owned enterprises which are formulated by the Ministry of State-Owned Enterprises. Corporate governance development is also an important part of this chapter which explains the legal infrastructure system, board model, internal and external corporate governance, structure and process of the governing body in Indonesia.

CHAPTER 4: RESEARCH FRAMEWORK begins with a formulation of the research questions. Then this chapter explores the theoretical perspectives on corporate boards, focusing on the two-tier board model, duality versus non-duality, and agency costs associated with costs incurred in the principal-agent relationship. The two competing theories, namely agency theory and stewardship theory, are compared and elaborated to develop a theoretical framework for the research. Maximising shareholder value, internal governing rules, process and structure and the relationship between parent and subsidiary company is the basis for the development of the conceptual framework of board member duality. This chapter concludes with the development of hypotheses.

CHAPTER 5: RESEARCH METHODOLOGY explains what scientific method is used in this research. The chapter starts with research design which is inspired by the triangulation method or previously called a mixed method. This method combines quantitative and qualitative data resulting from surveys, interviews, and empirical quantitative data processing. This chapter also outlines the research procedures which cover ethics including confidentiality, questionnaire preparation, data collection management, analyses, and interpretation. In addition, research quality and limitations are included in this chapter.

CHAPTER 6: ANALYSIS OF RESULTS presents the analysis of the research data resulting from field work, surveys, interviews, and secondary data collection which basically are categorized as primary and secondary data. Descriptive and inferential statistical analyses explained the population group characterised by board member duality in state-owned enterprises. The response rate and sources of data are also included in this chapter.

CHAPTER 7: DISCUSSION OF RESULTS explains and elaborates the results from the previous chapter and answers the research questions formulated in Chapter 1 and Chapter 4

CHAPTER 8: CONCLUSION, IMPLICATIONS AND RECOMMENDATIONS presents the concluding remarks for the current research, along with the implications of the results, and recommendations to the Legislative and the Ministry of State-Owned Enterprises, in order to improve corporate governance in general, and specifically the parent and subsidiary governance of State-Owned Enterprises.

CHAPTER 2: LITERATURE REVIEW

*"**Power tends to corrupt, and absolute power corrupts absolutely. Great Men are almost all bad men**", the Lord Acton expressed his opinion in a letter to Bishop Mandell Creighton on April, 5 1887 (Waterlow, 1907).*

INTRODUCTION

This chapter is intended to provide a detailed background of the research in the field of duality of corporate board membership in the corporate governance arena, and to show that there is a gap in the current research regarding the practice of corporate board members serving in more than one position as directors. There are seven sections in this chapter: the Introduction is followed by section 2.1: Themes of Duality Position and Research Gap; section 2.2: The Board Member Duality: Concept and Definition; section 2.3: Types of Duality in Previous Research; section 2.4: Theoretical Perspective on Corporate Governance and Corporate Board; and section 2.5: Parent and Subsidiary Relationship; 2.6: Agency Cost; 2.7: Gap identified in Academic Research, and Conclusion.

2.1. THEMES OF DUALITY POSITION AND RESEARCH GAP

In previous research themes related to duality positions in corporate boards generally fall into three categories, namely: CEO Duality, Interlocking Directorships, and Multiple Directorships. Research on CEO Duality focuses on matters associated with the position of a chief executive officer who also holds the position of company chairman (see Dalton and Dalton (2011), Dey et al. (2011), Bliss (2011), Horner (2010), Ramdani and Witteloostuijn (2010)), whereas a multiple directorship is one where a person holds a position as a director in more than one company (see Ahn et al. (2010), Jiraporn et al. (2008), Kiel and Nicholson (2006), Wells (2000)). Then, slightly more specific is the interlocking directorship, which can be either direct or indirect (see Gabrielsen et al. (2011), Shropshire (2010), Hallock (1997), Mizruchi (1996)). A direct interlock occurs if two companies, let us say A and B, share the same director; an indirect interlock occurs when two companies have the same director serving as a board member in a third company.

This research differs from previous studies in that it investigates the duality position of an executive board member in a parent company who also serves as an the oversight board member in a subsidiary company in a state-owned enterprise. There is little research on the duality position of corporate board members that specifically focuses on the parent and subsidiary companies' relationship. This lack of research may be due to the loose assumption that all companies basically are the same so that the parent company and subsidiary company are viewed as a single entity compared to other companies. This researcher argues that the parent and subsidiary companies should be differentiated from the nonparent-subsidiary company, especially if the parent company has full control over the subsidiary[11]. This is because, naturally, the parent company as the major shareholder will have a substantial influence on the subsidiary company's policy. The influence can formally be enforced through the General Meeting of Shareholders (GMOS) or informally through the executive board members who have executive positions in the subsidiary company.

This research will propose a new terminology - "the board member duality" - to differentiate it from CEO Duality, Interlocking Directorship and Multiple Directorship as previously researched. This thesis argues that each of the previous duality themes is different from this current research for a number of reasons. Firstly, the board member duality occurs in more than one company, whereas the CEO duality occurs in only one company. Secondly, compared to interlocking directorship, the board member duality occurs only as a result of

[11] In accounting terms, the consolidated financial statement indicates that the parent company has control over the subsidiary company even though it may own less than 50% of shares.

an appointment made by the parent company, not by the subsidiary. However, in the interlocking directorship, both companies have an equal position. Thirdly, regarding the terminology, the board member duality is in fact a part of a multiple directorship. However, only a limited amount of major research has focused on the duality functions which are the *execution function* and *oversight function* in parent company-subsidiary relationship. Most of the research on multiple directorship focuses on the multiple positions of an executive director who usually has the same role in more than one company, and it may be assumed that the companies in which he or she holds the duality positions are equal. For example, an executive director may have the same position and function in two or more companies.

The current research identifies the gap in previous research concerning the issue of duality. In general, previous research addressed the accountability of executive directors from the perspective of Agency theory and comparability with the common interest in Stewardship theory. However, not much research has addressed the potential conflicts that can arise as a result of executive directors having a duality position in both the parent and the subsidiary company, especially for duality in the State-Owned Enterprises. This thesis argues that the present laws and governance guidelines offer little guidance to the directors holding these positions when they are faced with having to make ethical decisions.

2.2. THE BOARD MEMBER DUALITY: CONCEPT AND DEFINITION

According to the Collins English Dictionary—Complete and unabridged (Harper, 2003), the word “duality” means “the state or quality of being two or in two parts; dichotomy”; whereas, the word “board” refers to “a group of people who officially administer a company, trust, etc”. Thus, the words “board member duality” means “a group of people who officially administer a company who has a quality of being two or in two parts”. The terminology of “board member duality” is unknown in the corporate governance area. The related common terminologies are CEO duality, interlocking directorship and multiple directorships. In addition, the majority of research on those dualities has focused on the one-tier board structure. For that reason, this research proposes a new terminology - “board member duality” - to define what occurs specifically in a parent-subsidiary governance relationship in order to differentiate this terminology from others used for previous research.

The problems that may arise in a board member duality structure are essentially similar to those experienced in a multiple directorship structure in the sense that the duality holders who have a position in more than one board may be less effective in monitoring the companies. This argument is frequently expressed by shareholder activists and institutional investors (Ferris et al., 2003). The duality holders have to proportionately balance their executive function in the parent company with their oversight function in the subsidiary company. Interestingly, in State-Owned Enterprises, if the duality holder is a CEO of the parent company, then he/she also has an additional role as ex-officio shareholder. With three significant functions allocated to the duality holder, he/she becomes more powerful and susceptible to conflict of interests that may emerge as a result of those functions. There is a saying “power tends to corrupt, absolute power corrupts abolutely”[12] . Given the power held by the duality holder, especially the one who has a dual position as CEO of a parent company and also as chairman of the board of commissioners in the subsidiary company, he/she will be in a dominant position to decide policies that will affect both companies. If companies have poor accountability, duality holders could abuse their power. At the very least, two types of conflict of interests may occur.

The first is conflict of interests occuring between the entities, meaning that there is a conflict between the best interests of the parent company and the best interests of a

[12] The Lord Acton expressed his opinion in a letter to Bishop Mandell Creighton on April 5, 1887

subsidiary company. The second type of conflict of interests occurs between the best interests of the company and the private interests. There is an increased chance of conflict of interests occurring in board member duality in the two-tier board model. As identified by Aste (1999), the principal-agent problem could occur in the two–tiered board model in which the board member duality also uses the two-tier board model. These principal-agent problems include: the problems that arise in the interlocking directorship situation (see Chapter 2), the appointment of the corporate board members based on political rather than economic reasons, and creating an alternate scenario where it appears that the two-tier board process is being followed, but in fact it operates as a one-tier board because of the power of the executive director. All these problems can produce agency costs for both parent and subsidiary companies; ultimately, this will influence the shareholders' returns; in this case, it is the state's income.

2.3. TYPES OF DUALITY IN PREVIOUS RESEARCH

2.3.1. CEO Duality

CEO duality is the situation in which a CEO of a company and a chairman of the board of directors is the same person (Baliga et al., 1996), and is within the corporate governance context of a one-tier system (Anglo American model). In US, until the early 1990s, more than 70% of the companies had CEO duality, but now the companies are under pressure to abolish it (Yang and Zhao, 2012). This issue has prompted researchers to investigate its impact on company performance (see Rashid (2012), Dey et al. (2011) Cashen (2011), Horner (2010), and Tuggle et al. (2008) among others). However, the majority of the research in recent years has produced inconsistent and varying results. Kim and Buchanan (2008) state that some researchers such as Donaldson and Davis (1991b), Boyd (1995), and Brickley et al. (2005) have found a positive impact of Chief Executive Officer (CEO) duality on company performance. On the other hand, researchers such as Rechner and Dalton (1991), Pi and Timme (1993), and Daily and Dalton (1994) have found opposite results. Furthermore, Kim and Buchanan (2008) also note that some researchers such as Berg and Smith (1978), Chaganti et al. (1985b), and Baliga et al. (1996) find that there is no consistent relationship between CEO duality and company performance.

Bezemer et al. (2012) argue that CEO duality in the two-tier context (European model) is impossible. This is quite understandable since the position of chairman on a single-tiered board model is very different from the two-tiered model. The board of directors in the single-tiered board model comprises executive and non-executive directors integrating control and management decisions (Fama and Jensen, 1983), whereas the two-tiered board model separates the two functions into management decisions by the management board and control decisions by the supervisory board (du Plessis and Saenger, 2012, Benedicte and Ronald, 2010, Jungmann, 2006, Hubert and Tine De, 2002).

2.3.2. Interlocking Directorship

Another type of corporate board executive duality is the “interlocking director” whereby the CEO of company A is also a member of the board of company B, and vice versa where the CEO of company B is also a member of the board of company A (Chhaochharia and Grinstein, 2007). The interlocking directorship could occur indirectly where a CEO of company A and B also serve on the board of company C. Chhaochharia and Grinstein (2007) argue that interlocking directorship leads to ineffective monitoring because directors are likely to look out for their own interests rather than those of the shareholders. This argument is consistent with that of Hallock (1997) who states that a CEO in an interlocking directorship situation tends to receive a higher salary than others. According to Chhaochharia and Grinstein (2007), percentage of interlocking directorships in the USA decreased from 1993 to 2003 regardless of the size of firms. This trend is similar to a previous research finding in the UK for the period 1906 to 1973 (Hughes et al., 1977).

2.3.3. Multiple Directorships

A person who sits on more than one corporate board is called a multiple director (Scott, 1997) but according to the company status, not all multiple directors are in an interlocking directorship situation. The maximum number of directorships that may be held simultaneously is open to debate (see Kiel and Nicholson (2006), (Ferris et al., 2003)). Shareholder activists and institutional investors often criticize multiple directorships, arguing that the multiple directorships in multiple companies are not effective in monitoring a management (Ferris et al., 2003). However, research conducted by Ferris et al. (2003) found that the number of appointments held by a director has a positive effect on company performance. The fundamental issues associated with multiple directorships, the conflict of interests, and the fiduciary duties that could potentially arise when one director serves more than one company (Wells, 2000).

2.4. THEORETICAL PERSPECTIVES ON CORPORATE GOVERNANCE AND CORPORATE BOARD

2.4.1. The Milestones of Corporate Governance Development

The Romans in the early 3rd century BC, applied a corporation concept in the natural science area instead of in jurisprudence, and its meaning was much broader than today's concept (Patterson, 1983). Many corporate attributes can be found in the Roman natural science area conceptualized in The Stoic's Scientific Theory. This theory is considered to be the origin of the general theory of corpora which suggests that "all objects which appear as separate things possess an inner spirit, called a species or spiritus, which made that object into a separate body, or corpus" (ibid. p. 90).

Eventually, the "corpora" concept evolved into the corporation concept and became the modern corporation concept in Europe. The milestones in the development of the modern corporation concept are described below.

1) *The First Pre-Modern Corporation Prototype*

Historically, the emergence of pre-modern corporation can be traced back to 1601 when the State-General of the Netherlands established the Dutch East India Company called the Vereenigde Oost-Indische Compagnie, VOC and granted a 21-year monopoly to exploit Asia. Then, the VOC issued its shares to business chambers in the Netherlands' major harbor cities and, through them, many smaller investors also bought the VOC's shares. At the end of the annual financial period, investors who had bought the VOC's share would receive dividends. The establishment of the VOC, the schema of share selling, and dividend payment were a significant improvement on the first corporate model. The VOC survived for over 200 years with that schema and it was considered to be a highly successful business model (Ibid. page 7).

2) *Industrial Revolution Era*

The Industrial Revolution that began in England in the 19th century, was a major turning point in the world's history. This revolution influenced almost all aspects of daily life (Johnston, 2002). The application of technology to new manufacturing processes occurred during that period, with machines taking over manual tasks. The innovations of the Industrial Revolution were applied to three main sectors: textiles, steam power and iron making. This era saw the emergence of "entrepreneurship", with entrepreneurs being the heroes and central figures of the Industrial Revolution era (More, 2000). Historians noted that the number of businessmen during this time was increasing and they were coming from various backgrounds such as mercantile families, manufacturing families, and farmers. The number of companies that quickly became large-scale companies increased rapidly. In consequence, there developed an important distinction between blue collar workers, white collar employees, and owners.

3) Management Era

A century later, “management” become a phenomenal theme even though the early writings on management can be traced back to several ancient military texts such as *The Art of War* of Sun Tzu, a Chinese General, in the 6th century BC, *Arthashastra* of Chanakya, Indian, around 300 BC, and *The Prince* of Niccolo Machiavelli, Italian (c 1515) (Gomez-Mejia et al., 2005). Many prominent figures in management in the 20th century introduced the management concept more comprehensively. For example, there are the works of Frederick Winslow Taylor with *The Principle of Scientific Management* (Copley, 1923), Gilbreth and Gilbreth (1919) with *Applied Motion Study*, Henry L. Gantt with *Chart of Gantt* (Gantt, 1961), and Yoichi Ueno with *The Japanese-management Style* (Tsutsui, 2001). Furthermore, principles from other disciplines such as economics, psychology and sociology contributed to the development of the management concept. A notable writer of the era, Henry Fayol, saw management as having six functions: forecasting, planning, organizing, commanding, coordinating and controlling (George, 1972).

4) Governance Era

Nowadays, in the 21th century, “corporate governance” has been the strategic agenda for the stock market and for corporations. The US stock market crash of 2001/2002 and the corporate collapse of Enron Corp. in December 2001, from which not only their investors but also many people in US suffered, have been a wake-up call for policy makers, business leaders, governments, regulators, investors, academicians and politicians around the world, especially in developed countries, all of whom saw that it was necessary to change the way in which stock markets and companies conduct business. Since then, the term “corporate governance” has gone “viral” worldwide. Every company collapse is assumed to be caused by bad corporate governance practice. World class companies such as Enron, World Com, Qwest, Swissair, Parmalat, HIH Insurance, Arthur Andersen, and Lehman Brothers are just a few examples of companies that have collapsed due to perceived bad corporate governance practices.

2.4.2. The Definition of Corporate Governance

1) The Etymology, Lexical and Grammatical Concept of Corporate Governance

The term ‘corporate governance’ comprises two words: corporate and governance which originated from Latin and Ancient Greek respectively. The word ‘corporate’ is derived from Latin word ‘corpus’ meaning ‘body’. Then, ‘corpus’ as a noun is changed into the Latin verb ‘corporare’ meaning “to form into one body or united in one body”. Therefore, a corporation is a group of people to do as an individual. The word ‘governance’ is derived from the Latinized Greek ‘gubernatio’ that means government or management. The word ‘gubernatio’ originates from the Ancient Greek ‘kybernao’ meaning to steer, to drive, to guide, to act as a pilot (Clarke, 2007). The original meaning of corporate governance was explained by Sir Adrian Cadbury who also cited Cicero as follows:

> *Governance is a word with a pedigree that dates back to Chaucer and in his day the word carried with it the connotation wise and responsible, which is appropriate. It means either the action of governing or the method of governing and it is in the latter sense it is used with reference to companies …A quotation which is worth keeping in mind in this context is: ‘He that governs sits quietly at the stern and scarce is seen to stir’.*
>
> *It appeals to me, because it suggests that governance need not be heavy-handed. The governor should be able to keep the corporate ship on course with a minimum use of the tiller.*
>
> *(Cadbury 2002: 1)*

2) The First Theory of Corporate Governance

It is quite surprising that even though the notion of corporate governance has gained popularity in the 21st century, the root of corporate governance theory can be traced back to the 18th century when Adam Smith (1776) in *The Wealth of Nations* wrote:

> *Being the managers of other people's money rather their own, it cannot be expected that they [managers] should watch over it with the same anxious vigilance which [they would] watch over their own. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.*

This philosophical concept may have influenced Berle and Means (1932), Jensen and Meckling (1976) and Fama and Jensen (1983) when constructing their theories regarding a corporation.

The next event that greatly affected the development of the corporate governance concept was the UK's introduction of the Limited Liability Act 1855 that subsequently passed into English Law[13]. This Act legislates the basic structure of a company board (Mahoney, 2000). These two significant milestones above seem phenomenal because Adam Smith's statement is still relevant until today and is often cited by many corporate governance theorists; the Limited Liability Act 1855 drives modern corporate law which is very important to the construction of corporate governance.

3) Contemporary Definition and Concept

The earliest formal work on corporate governance can be found in the publication of a series papers by the UK's Institute of Chartered Secretaries and Administrators in

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[13] However, historically, the pre-modern corporation was created in The Netherlands when The Dutch East India Company was established in 1601. See CALDER, A. & EBOOKS CORPORATION, L. 2008. *Corporate governance: a practical guide to the legal frameworks and international codes of practice,* London, Kogan Page.

1979. However, the term “corporate governance” was firstly popularised by Robert Tricker when he used it in his book titled *The Independent Director (Calder, 2008)* He explained corporate governance as being “*concerned with the way corporate entities are governed, as distinct from the way businesses within those companies are managed. Corporate Governance addresses the issues faced by boards of directors, such as the interaction with top management, and relationships with the owners and others interested in the affairs of the company*” (ibid. Page 10).

In its development, far before corporate governance become a buzzword in this decade, Sir Adrian Cadbury, a pioneer in raising the awareness and stimulating corporate governance issues, defined Corporate governance as “*the system by which companies are directed and controlled* (Cadbury, 1992)”. This definition is short and succinct. In 1999, the Organization for Economic Co-operation and Development (OECD) elaborated the definition of corporate governance by incorporating its structures and objectives. Then, in 2004, the OECD developed a corporate governance definition as “*a set of relationships between a company’s management, its board, its stakeholders and other stakeholders*” (Organisation for Economic et al., 2004).

Shortly after Sir Adrian Cadbury raised the corporate governance issue, a number of authors offered definitions of corporate governance from various perspectives. Farinha (2003) considered the definitions suggested by several authors such as Zingales (1997), Shleifer and Vishny (1997), Garvey and Swan (1994), John and Senbet (1998), and Caramanolis-Cötelli et al. (1996). Farinha concluded that implicitly or explicitly, a conflict of interests between insiders and outsiders of a company caused by the separation of ownership and control (see Jensen and Meckling, 1976) was the common element shared by the definitions.

4) *Diversity of Corporate Governance Forms*

The diversity of corporate governance structures has encouraged many authors to amalgamate various corporate governance models with similar characteristics into one group. Paradoxically, this created a new type of corporate governance model. Examples of various models include: Outsider System versus Insider System (Clarke, 2007: 9), Market-Based System versus Bank-Based System (Boyd and Cohen, 2000), Anglo American Model versus Continental European Model (Hubert and Tine De, 2002). There is also a bulk of research on corporate governance models based on the major economy countries: Germany, Japan, the United Kingdom and the United States (Correia da Silva et al., 2004, Dignam et al., 2009, Mallin, 2006, Clarke, 2007), the emerging market countries: Asia countries (OECD, 2007, Braga-Alves and Morey, 2012, John and Pamela, 2011, Minna, 2011), listed companies (Sakulrat and Institute of Southeast Asian, 2006, Minh and Walker, 2008, Shanthy, 2010, Rachagan, 2010) non-listed companies (McCahery and Vermeulen, 2008, Njoya, 2009, Wanjiru, 2009, Publishing et al., 2006); and state-owned companies (Kaen, 2005, Whincop, 2005, Lowy, 2003). Even though all forms of corporate governance mentioned above have individual characteristics, in general, the board of directors is the prime factor in corporate governance issues (Hopt, 2012).

5) Board of Director as an Essential Element in Corporate Governance

Corporate governance provides a mechanism for resolving a conflict of interests that could occur among the entities of a corporation, namely shareholders, corporate board, management and stakeholders. The conflict of interests has a wide spectrum; it can occur between or within the various entities of a corporation. From empirical evidences, when bad corporate governance practices lead to the bankruptcy or collapse of a corporation, many parties blame the board of directors, such as in the

Enron case (Gerald, 2002), HIH Insurance case (Westfield, 2003), and WorldCom (Romero and Atlas, 2002). Hence, it is not surprising that there are numerous research studies and reports on the corporate governance issue that focus on the role and responsibilities of the board of directors.

Higgs and Britain (2003) described past board structures and practices, and prescribed various effective corporate governance practices that need to be improved or undertaken. Dalton and Dalton (2005) investigated the relationship between board structure and company financial performance. They concluded that personnel with the highest integrity and soundness of character will contribute much to the effective boardroom process, so no amount of structural prescription can guarantee an effective board of directors. Muth and Donaldson (2002) conducted a research on the validity of several theoretical frameworks which resulted in different predictions about the effect, on the company, of the board structure.

2.4.3. A Comparison of Corporate Governance Theories

1) Agency Theory

Agency theory is much influenced by the brilliant argument of Berle and Means (1932) in their early works; they posited that, in a modern corporation, those who legally have ownership over companies have been separated from their control. When the company is on the small-capital scale, the owners could maximize their utility by managing their own company. However, in line with the company's growth, the owners will require more capital and management to transform into a modern corporation. At this stage, it is impossible for owners to manage their own company. In consequence, the owners will hire an agent to manage the business. In corporate governance terminology, this agent is known as the corporate board.

In terms of corporate governance, Agency theory makes two basic assumptions. The first assumption is that the participants of a corporation are simplified into two actors: principal (shareholder/owner) and agent (manager/director) whose interests lie in maximizing their utility. This assumption is clear and consistent. Then, the second assumption is that humans are unwilling to sacrifice their personal interests for the interests of others; hence, they tend to be self-interested (Daily et al., 2003b). This theory is known as the principal-agency theory.

Agency theory first gained prominence when Jensen and Meckling (1976) formulated a theory relating to the ownership structure of the firm. They developed their theory by integrating various elements of agency theory, property right theory, and finance theory. Since then, the majority of researchers into corporate governance who cite the agency theory very often refer to the theory proposed by Jensen and Meckling (1976).

Jensen and Meckling (1976) defined an agency relationship from the perspective of contract whereby the owners (s)/principal (s) engage the agent (manager) to undertake services on behalf of the owner; this involves the owner delegating some decision-making authority to the agent. The problem arises when principal and agent have different interests arising from asymmetric information that is owned by each party. The manager as an agent would not act in the best interests of shareholders (principal) but acts in the best interests of himself/herself as a manager (agent). According to Jensen and Meckling (1976), the principal's losses resulting from the principal's and agent's divergent interests can be reduced by imposing a control structure (corporate governance structure) upon the agent. In the context of the modern corporation, this means that shareholders should apply a control mechanism to the corporate board.

From the historical development perspective of agency theory, there is still no consensus about who was the first scholar to formulate the agency theory. Mitnick (2006) claims that Stephen Ross and Barry Mitnick were the first scholars to explicitly propose a theory of agency. Stephen Ross introduced the theory of agency from an economic perspective where there is a problem in compensation contracting known as the incentive problem; whereas, Barry Mitnick considered it from the institutional perspective where there is an inherent imperfection in the agency relationship. They developed the agency theory concurrently and independently. However, some previous researchers in different subject areas, such as Cooper (1949) in accounting and control literature; Downs (1957) in economic theory of democracy; Arrow (1963) in medical care; Pitkin (1967) in political science; Tussman (1960) in political philosophy; and Swanson (1971) in sociology; all contributed to the shaping of an agency theory, well before Ross and Mitnick formally proposed their own versions of it (ibid.7).

Agency theory may argue that the execution function and oversight function of a corporate board have to be separated and should not be the responsibility of the same person. It is a reason why various countries have introduced company legislation to separate the role of a corporate board. Such legislation ensures that in a unitary board or single-tier board, the execution function will be performed by executive directors and the oversight function by non-executive directors and or committees. Alternatively, in a two-tier board, the execution function will be performed by the management board and oversight function by supervisory board and or committees (Millet-Reyes and Zhao, 2010).

2) Stewardship Theory

Stewardship Theory was conceptualised by Donaldson and Davis (1991) in response to the need for a more positive view of manager or agent, and to explain the inconsistent findings of several research studies on Agency theory (Stigler and Friedland, 1983, Vance, 1978, Donaldson and Davis, 1991b). Some researchers in sociology and psychology fields identified the limitation imposed by the assumptions underlying agency theory (Hirsch et al., 1987). The agency theory's assumption that states that motivations of maximizing an individual utility that cause the divergence of interests in principal-agent relationships, may not hold true for all managers, so that an alternative theory should be developed in order to explain the phenomenon.

The stewardship theory proposes an assumption that is in contrast to that of Agency theory. It assumes that managers and principals have converging goals and their interests are aligned so that the managers' behaviour will not diverge from the principal's expectations. Managers do not have an inner motivational problem such as the executive compensation problem, and because of having the same goal, they will both establish a mechanism and a structure that will enable them to coordinate effectively (Donaldson and Davis, 1990). Thus, it is assumed that managers will maximize the shareholders' interests (Donaldson and Davis, 1991b).

In order to adhere to the goal-oriented behaviour that is aligned with the principal's expectations, a manager's actions are motivated by several factors. Donaldson (2008) explains that there are two different motivations for managers who follow stewardship theory, namely a reward type and a non-utilitarian type. The first motivation type is identified when managers are satisfied if they act pro-organizationally. Thus, the psychological needs such as achievement, responsibility, work challenge, and performing well, are important considerations for the managers. The second motivation type is when a reward and psychological factors are not the reasons for performing the tasks.

The stewardship theory is consistent with the motivation theory which states that there are models of men who are motivated by achievement, gaining intrinsic satisfaction, exercising responsibility and authority and achieving recognition from peers and/or bosses (McClelland, 1961, Herzberg, 1959).

3) Agency Theory versus Stewardship Theory

In the corporate governance arena, Agency theory and Stewardship theory are competing with each other. The Agency theory popularized by Jensen and Meckling (1976) was introduced earlier than the Stewardship theory that was proposed by Donaldson and Davis (1991). The competition between the two theories has arisen not only because of the way each views a model of man; it is also a result of the different rationale behind each theory. From the economic perspectives of governance, homo-economicus as a model of man that represents opportunistic, individualistic, and self-serving behaviour tends to fit the Agency theory; whereas, from psychological and sociological perspectives on governance, the notion of a collectivist, trustworthy, and pro-organization approach seems to fit the Stewardship theory (Davis et al., 1997). To promote a better understanding of the two competing theories, Davis et al. (1997) summarised the basic differences between Agency theory and Stewardship theory. This is shown in TABLE 2-1 below.

TABLE 2-1 THE COMPARISON OF AGENCY THEORY AND STEWARDSHIP THEORY

	Agency Theory	Stewardship Theory
Model of Man Behaviour	Economic man, Self-serving	Self-actualizing man, Collecting-serving
Psychological Mechanisms		
Motivation	Lower order/economic needs (security physiological, economic), Extrinsic	Higher order needs (growth, achievement, self-actualization), Intrinsic
Social Comparison	Other managers	Principal
Identification	Low value commitment	High value commitment
Power	Institutional (legitimate, coercive, reward)	Personal (expert, referent)
Situational Mechanisms		
Management Philosophy	Control oriented	Involvement oriented
Risk orientation	Control mechanisms	Trust
Time frame	Short term	Long Term
Objective	Cost control	Performance Enhancement
Cultural Differences	Demographicism	Collectivism
	High power distance	Low power distance

(Sources: *Toward a stewardship Theory of Management* by Davis, Schoorman and Donaldson; page 37**)**

Interestingly, Davis et al. (1997) also attempted to reconcile the contradictory assumptions behind the two competing theories into a model that resulted in a principal—steward relationship. According to the model, a manager chooses to behave as an agent or steward, and so does the principal. The reasons for choosing to engage in certain behaviour depend on psychological motivation(s) and perception of the situation. However, the situation above leads to a dilemma as demonstrated in

FIGURE 2-2 THE PRINCIPAL—MANAGER CHOICE MODEL

		Principal's Choice	
		Agent	Steward
Manager's Choice	Agent	Minimize Potential Costs Mutual Agency Relationship 1	Agent Acts Opportunistically Principal Is Angry 2 Principal Is Betrayed
	Steward	3 Principal Acts Opportunistically Manager Is Frustrated Manager Is Betrayed	4 Maximize Potential Performance Mutual Stewardship Relationship

Sources: ***Davis, Schoorman, and Donaldson (1997)***

From **FIGURE 2-2** above, it can be concluded that the most efficient outcome is if both parties choose the stewardship relationship (Cell 4, The principal—stewardship relationship) and there is the least risk of losses if both parties choose the agency relationship) (Cell 1, the principal—agent relationship).

4) Social Contract Theory

Social Contract theory emerged in early modern Europe during the seventeenth and eighteenth centuries to address issues about political legitimacy and obligation in connection with avowal to sovereignty on consensus among people to establish a political community (Bevir, 2010). Therefore, the local norms have to be followed when a company needs legitimacy and sets an ethical standard. This theory is the opposite of the theory that states that the King has a grounded political authority mandate from God. Some of the major political theorists who espoused Social Contract theory are Hugo Grotius, Thomas Hobbes, Samuel von Pufendorf, John Locke, Jean-Jacques Rousseau, and Immanuel Kant (ibid. p. 1287). Social Contract theory inspired several theorists, called neo-Hobbesian, to formulate models to explain the internal structure of a firm such as those based on agency theory (Alchian and Demsetz, 1972, Eisenhardt, 1989, Jensen and Meckling, 1976), transaction cost theory (Williamson, 1975, Williamson, 1985), game theoretic reputation model, and narrow economic (functionalist) approaches to organizational culture (Camerer and Vepsalainen, 1988, Kreps, 1990), because models rely on opportunism as a basic concept (Mahoney et al., 1994).

In the context of corporate governance, social contract theory reveals the limitation of agency theory in explaining the ethics involved in the human behaviour in the principal-manager relationship. Thus, Mahoney et al. (1994) argued that because the description of agent behaviour and its assumption in agency theory is too limited, agency theory is less useful as a guide to productive firm alliances. Mccarthy and Puffer (2008) extended the work of Mahoney et al. (1994) when they investigated the ethicality interpretation of corporate governance decisions in Russia, using Integrative Social Contract Theory. They concluded that in Russia, the norms under the agency theory are not appropriate since the economic system in Russia tends to be a central planned economy rather than a market-oriented economy. More importantly, the theory is more able to explain the conflict that often occurs between the traditional Russian values and market-oriented values.

5) Institutional Theory

Two centuries later, after the social contract theory had sparked a comprehensive review by researchers, the Institutional theory emerged as one of the dominant theoretical views at the end of the nineteenth century. This theory established authoritative guidelines for social behaviour in terms of certain processes and mechanisms that involve structures, schemas, rules and routines (Scott, 2004). The core assumptions of Institutional theory are: "(1) institutions are governance structures, embodying rules for social conduct, (2) groups and organizations conforming to these rules are accorded legitimacy, a condition contributing to their survival, (3) institutions are characterized by inertia, a tendency to resist change, and (4) history matters, in the sense that past institutional structures constrain and channel new arrangements (ibid p. 408)." However, a strong criticism of Institutional theory is that it is too focused on control and constraint, but neglects innovation and choice.

6) Managerial and Class Hegemony Theory

Managerial hegemony and class hegemony basically originated from the Hegemony theory. This theory was developed by Antonio Gramsci (1891-1937), a Marxist philosopher, who argued that a single group or class can rule a society that comprises various groups and subcultures having different values and goals (Bretz, 2010). This is made possible because the subordinate groups believe that the dominant group can serve their interests and goals (Ibid p. 350). Gramsci conceptualised Hegemony theory to explain why the working class movement in Western Europe after World War I collapsed (Vallas, 2003).

Kosnik (1987) summarised the notions posited by Galbraith (1967), Mace (1971), Herman (1981), Vance (1964), and Wolfson (1984) in relation to Managerial Hegemony theory. Kosnik depicts the corporate board as a legal fiction, in the sense that the board is only an appendage of a firm that is a necessary formality to comply with a regulation, whereas in fact, the management is more dominant than the corporate board. Thus, the corporate board may not be able to address effectively the conflicts of interests between shareholders and management. The cynicism associated with the role of the corporate board according to this theory is evident in comments by some researchers such as Pfeffer (1972) who argued that the role of the corporate board in corporate governance is co-opted to being “another management [-dominated] tool”, and Herman (1981) who argued with even greater cynicism that the corporate board is only the rubber stamp for management’s decisions and management's proposals.

Vallas (2003) questioned the hegemony theory, when the result of an ethnographic analysis of four manufacturing plants showed little evidence of an increase in worker integration within a new management regime. He concluded the finding after analysing the data regarding the connection among the various levels of management, the significance of class boundaries, and instances of worker defiance in both traditional and team-based production areas.

7) Stakeholder Theory

In 1963, the Stanford Research Institute (SRI) used the word “stakeholder” for the first time in an internal memorandum of management literature as part of a corporate planning process to generalize the thoughts of stockholders. The SRI defined the stockholders as “those groups without whose support the organization would cease to exist” (Freeman, 2010). Freeman (1984), a scholar and consultant at The Wharton School, refined the stakeholder concept, making it more comprehensive in response to the prevailing trend which focused on understanding the theories of business and management, which are generally formulated during times when business conditions are less turbulent.

Freeman (1984) sketchily proposed that the Stakeholder theory is basically a theory about business, how it works at best and how it could work. The theory states that business basically is a set of relationships among parties having a stake in the business activity, and they can affect or be affected by their actions in the business. The parties include (at least) customers, employees, suppliers, the community and financiers.

In the broader sense, there are three specific problems that are addressed by the stakeholder theory: value creation and trade, ethics of capitalism, and managerial mindset. It is interesting that stakeholder theory proposes that the business and ethics cannot be separated; they are similar to a coin having two sides. In today's more complex and turbulent business world, changes in business relationships occur frequently. These changes definitely influence the value creation and business trade across national boundaries and industries. In addition, because of the successful penetration of capitalism in almost all business activities, ethics issues emerge that are related to capitalism. Finally, the stakeholder theory encourages managers to acquire a better understanding of the business. If managers have an understanding of the stake or interest of groups or individuals in the business, and how those groups or people can affect or be affected by decisions and actions, the managers will have a better chance of dealing effectively with the three aforementioned problems.

8) ***Resource Dependency Theory***

Compared to the Stakeholder theory, Resource Dependency theory has a different focus. The type of inter-organization relations that have caused recent ‘market failure’, mergers of business entities, and interlocking boards in some corporations, have given rise to the Resource Dependency theory, which offers an alternative explanation of the economic theory behind those events (Pfeffer and Salancik, 2003). This theory has three core elements to explain why organizations act internally or externally: “(1) social context matters; (2) organization’s strategies to enhance their autonomy and pursue interest; and (3) power (not just rationality or efficiency)” (Davis and Cobb, 2010).

2.4.4. Corporate Board

1) A Glance at the History and Origin of Corporate Boards

The long history of corporations in England has pioneered the worldwide concept of corporate board. The Charter of the Bank of England 1694 was the first charter to use the term “director” and it is considered as a pioneer in the use of this terminology (Gevurtz, 2004). Then, the term “corporate director” as a governing body of a corporation became popular in England. However, the notion of a governing body to govern a corporation can be found long before establishment of the Bank of England. For example, in 1606, the Virginia Company and Plymouth Company that were established to trade and colonize in North America, have knights, merchants, gentlemen, and merchant adventurers named in their charters. The governing body named in a charter is also found in other corporations such as the East India Company, the Russian Company, the Eastland Company, the Levant Company, the Hudson’s Bay Company, and the South Sea Company (ibid p.22).

Gevurtz (2004) stated that a representative board working with a chief executive officer is a reflection of the political practice and ideas that were widespread in the Western Europe in the Middle Ages. This is because at that time the political ideology and practice in Europe tended to use collective governance by a body of representatives. Along with the term “director”, the use of the term “committee” for the first time was attributed to the two earliest English trading companies - The

Company of the Merchants of the Staple and the Company of Merchant Adventurers (ibid p.27).

2) *Corporate Board as the Prime Organ of a Corporation*

Corporate boards are the important governing bodies of corporations who decide the corporations' activities. They are the link between fund providers and those who manage the funds, the bridge between shareholders to whom the board is accountable and managers who are accountable to the board, and the connection between companies and their stakeholders. For these reasons, the corporate boards are the centre of the corporate governance system (Cadbury, 2002).

The board-centre model derives from three underlying concepts: shareholders elect the directors, a group composed of peers acting together makes a collective decision, and a group has the ultimate responsibility for selecting and supervising the corporate senior executives (Gevurtz, 2004). The various rationales behind a concept of the board-centre structure in corporate governance can be summarised as follows: (1) the need for central management; (2) group decision making; (3) representation of corporate constituents and mediating claims to distributions; and (4) monitoring of management (ibid p.6-10). However, those rationales seem to place more emphasis on the internal corporate side, whereas the corporate board should have both internal and external responsibilities. Stiles and Taylor (2001) stated that the board should be responsible internally for the guidance and leadership of the corporation, and externally for investors and the wider stakeholders.

3) *Board Model*

The board structures usually follow board models that are enshrined in a company law and/or capital market regulation. Companies that operate in countries using a common law code, such as England and its former colony, USA, Singapore and some other countries, generally follow the single-tiered model which evolves from the UK Corporate Law. This board model is characterized by the integration of the management function and supervisory function within a single board, in the sense that executive and non-executive members are on the same board. The executives who run the day-to-day business are known as the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Operation Officer (COO), and in some large corporations, the board very often needs a Chief Information Officer (CIO) as well. The non-executives have an oversight function on the executive board. A chairman leads the board and is appointed by shareholders at a general meeting, based on a recommendation by the nominating committee or by the board as a whole (Jonge, 2013).

The single-tiered model has only a one-tier board comprising executive and non-executive members. Hence, the number of board members is relatively large. It is often the case that the CEO is also the chairman of the board; this situation is called CEO duality. In the US, until the 1990s, the statistic figure of the CEO duality occurred in US companies shows on average 70%, but in today's situation the statistic figure or the trend of it has been decreasing significantly. This is because of pressure from the outside to abolish CEO duality (Yang and Zhao, 2012).

According to Heidrick and Struggles who published the 2007 report on corporate governance in Europe that is cited by Millet-Reyes and Zhao (2010), the board model is classified into three types. The first type is the two-tiered structure; the German two-tier system and the French board system strongly influence 22% of companies in Europe. The second type is a unitary board structure adopted by England and Spain which is also followed by several other countries. Lastly, the third type is a modified two-tiered board which allows some executive directors to sit on the supervisory board. Some countries that follow the third type are Belgium, Italy, Portugal, Sweden, and Switzerland.

Millet-Reyes and Zhao (2010) who investigated the effect of one-tiered and two-tiered boards on company and stock performance used in French companies conclude that a combination of ownership and board structures can be used as a corporate governance tool of companies. According to their research findings, the institutional block-holders play a more positive role in monitoring the one-tiered structure; on the other hand, they tend to misuse the two-tiered structure by promoting board opacity, interlocked directorship and their own interests (ibid p. 307). Jonge (2013) summarised the differences between one-tiered and two-tiered boards based on six characteristics as shown in FIGURE 2-3.

FIGURE 2-3 ONE-TIER BOARD VERSUS TWO-TIER BOARD

Source: 12manage.com

Characteristics	One-tier Boards (also "Unitary model")	Two-tier Boards (also "Dual model")
Organization	One-layered board structure	Two-layered board structure
Composition	Executives and Non-executives Directors are in the same board, called Board of Director. Nowadays, there is a trend that the majority member of the board is Non executive Directors.	Executives Directors are in the board of directors, Non-Executives Directors (supervisory directors) are in the supervisory board
Committees	The oversight committee structures are compulsory, primarily an audit committee. In addition, there is a trend that other oversight committee, such as a compensation committee, a nominating committee, and a corporate governance committee are also created. The majority members of those committees are Non-executive Directors.	The oversight committees were not compulsory historically. However, due to increasing complexity, there currently increases the oversight committee structures in two-tiered model, as well.
CEO and Chairman position	CEO and chairman position can be held the same person called CEO duality.	There is no CEO duality in two-tier boards
Executive directors	General meeting of shareholder appoints executive directors based on recommendation from nominating committee or from board as a whole or by the general	General meeting of shareholders appoints executive directors based on recommendation from supervisory board, the nominating committee (if there is one), or by the general

	meeting. Some jurisdictions also allowed the board to appoint executive directors if there is a vacancy arising on death or resignation, or adding to the existing directors. ,	meeting.
Non-executive (supervisory) directors	General meeting of shareholder appoints executive directors based on recommendation from nominating committee or from board as a whole or by the general meeting. Some jurisdictions also allowed the board to appoint executive directors if there is a vacancy arising on death or resignation, or adding to the existing directors.	General meeting of shareholders appoints executive directors based on recommendation from supervisory board, the nominating committee (if there is one), or by the general meeting. Sometimes, some of the supervisory directors are appointed by third parties, such as the government, a bank or the employees

Even though the one-tiered and two-tiered board structures seem to be predominant across the globe, companies may implement these in various ways due to different jurisdictions, local customs and policy implementations. Clarke (2007) gave the following examples of board models that have different characteristics: US Boards, UK Boards, European Boards (Germanic), European Boards (Latin), Asian Boards, and Japanese Boards.

4) Board Design

Corporate boards face the challenge of improving corporate governance and best practice in today's business environment that is constantly changing. The increase in accountability, transparency and responsibility imposed from the outside is the reason why shareholders and corporate boards have to take initiatives to reform the boards. The establishment of a board design is a guide to reforming the board and will help the decision makers of a corporation to establish board structures that are appropriate for the business environment and industry characteristics.

Board design is important in order to determine the function and role of the board in the future. Carter and Lorsch (2004) propose three elements for the board design, namely: (1) the board structure, (2) the board composition, (3) and the board processes. All the elements combined with the board's culture will shape the directors' behaviour. In order to promote the right behaviours, the boards should encourage the members to behave according to certain expectations and discourage unacceptable behaviour.

(1) Board structures: size, leadership, and the committees

The board size plays a significant role in achieving efficiency and effectiveness of the board process. Carter and Lorsch (2004) identified two factors that influence board size. The first factor is the skill set that the boards need and second factor is the efficient use of time. The more skill is needed, the bigger the board size will be. For example, in the United States, the Sarbanes-Oxley Act requires at least one member of the audit committee to have accounting and financial expertise. Moreover, the larger boards need more time to coordinate meetings and arrive at decisions. Carter and Lorsch (2004) argued that the boards should strive to be as small as possible. Recently, many studies have proposed average board numbers for various regions. Stuart (2006) concluded that on average, a US company has 12 directors, down from around 16 in 1980s; in Europe, it is around 13 directors, although in Germany, it is around 20 directors. In addition, Partner (2001) conducted a survey regarding the board size and revealed that European and North American directors believe that the maximum number of board members should be about fourteen (ibid p.90).

The important aspect of a leader on a corporate board is whether his/her capacity to lead the board can create profit for companies. In companies that have a one-tiered board, sometimes the CEOs are also appointed as chairmen of their boards (CEO Duality). As a result, the chairman has greater authority and power compared to other directors. Previous research that investigated CEO duality related to company performance has produced divergent conclusions. On the other hand, companies that follow two-tiered board system take the view that the CEO and the chairman of the board should be separated. "Most American can't imagine how a company can operate with shared leadership, while the British, Australians, and many European have difficulty understanding how a CEO can also be chairman" (Carter and Lorsch, 2004). To increase the transparency and decision quality, shareholders might appoint independent directors to the corporate board. Currently, almost all capital market regulators have established a regulation stipulating that some of the board members should be independent directors.

(2) Board Compositions: the mix of experience, skills and other attributes

The mix of experiences and skills of board members creates a balance in the composition of the board. The experiences and skills which are considered when forming the board include strategic expertise, accounting and finance, legal, risk management, managing people, and management of change. The board composition should also consider the proportion of outside/independent directors and inside directors. Shareholders who espouse the agency theory tend to argue that a greater proportion of outside/independent directors is needed to increase shareholder value. This view may correspond to those of researchers such as Lorsch and MacIver (1989), Zahra and Pearce (1989), and Mizruchi (1983) who investigated issues associated with boards of directors and financial performance. On the other hand, shareholders who adhere to the stewardship theory may argue that high financial performance is mainly due to inside directors. This view is supported by the research findings of Kesner (1987) who investigated Fortune 500 companies, and Vance (1978) in his early work. However, several researchers such as Daily and Dalton (1992), and Chaganti et al. (1985a) found that there is no relationship between board composition and financial performance. Thus, Dalton et al. (1998) conclude that the research findings on board composition and financial performance shows little consistency.

(3) *Board processes: effort norm, cognitive conflict, and the board's use of its knowledge and skills*

There are fewer studies on board processes than there are on board structure and board performance. This is because it is extremely difficult to have access to the interaction of corporate board members in a boardroom (see Leblanc and Schwartz (2007), Zald (1969), and Zahra and Pearce (1989)). Effort norms, cognitive conflict, and knowledge and skills are the three board processes investigated by Forbes and Milliken (1999) in order to determine their influence on a board's cohesiveness and the performance of its tasks.

This research finds that effort norms will ensure preparation, increase participation and create better analysis. Then cognitive conflict will leverage different perspectives among the board members. Finally, knowledge and skills in functional and firm-specific areas will be needed in order to access external networks to obtain information and assist with problem solving. The board members use their collective knowledge and skills to undertake their tasks. Effort norms refer to the effort of each individual to adhere to the group's shared beliefs when completing a task. Cognitive conflict refers to a difference in task-orientation among group members when they judge events, whereas the board's use of its knowledge and skill refers to the board members' ability to use their knowledge and skills when carrying out their tasks (Wageman, 1995).

McNulty et al. (2012) who researched risk management, similarly found that effort norms, cognitive conflict, and cohesiveness affect financial risk. They suggested that the non-executive directors who have high effort norms, for example by scrutinizing and researching the relevant information or issues and involvement in discussions critically prior to the board meeting, will contribute to lowering financial risk. On the other hand, the board members who do not have high effort norms frequently are less likely to engage in constructive and fruitful discussions, and this will impact on the quality of decisions. Excessive financial risk will be diminished if the degree of cognitive conflict is high, such as when the board frequently challenges and presents different perspectives on issues under discussion. However, the cohesiveness of the board will reduce the cognitive conflict.

5) Board Duties

Most boards of directors are familiar with the legal and fiduciary concept of duty of care and duty of loyalty. The concept of duty of care obliges boards of directors to carry out their duties in good faith, with care, and in a manner that is in the best interests of a company. The concept of duty of loyalty obliges boards of directors to give their undivided loyalty to the company (Hyatt and Charney, 2005). Svehla (2006) stated that a board of directors has four duties when undertaking their performance and conformance roles, namely: (1) statutory duties; (2) common law duties; (3) contractual duties; and (4) equitable duties.

The statutory duties are imposed upon the board of directors by the provisions of a corporation act. These duties include acting in good faith in the best interests of the company and for appropriate purposes, not engaging in self-interested behaviour such as using insider information for their own or others' advantage that is detrimental to the company, and exercising their powers and discharging their duties with a level of care and diligence that a reasonable person would take if they were in a similar position in a company given the company's circumstances and the same responsibilities.

The common law states that corporate directors have a fiduciary duty to owners/shareholders. As fiduciaries, the corporate directors act in the interests of the owners/shareholders (Boatright, 1994). Hence, corporate directors are required to exercise care and skill when performing their roles.

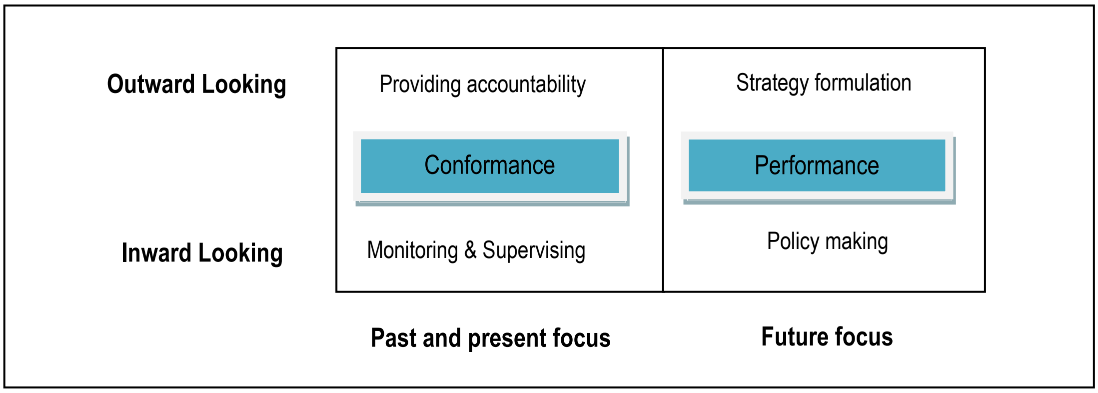
The contractual duties oblige the corporate directors to follow the terms stated in their contracts. To discharge these duties, according to Bainbridge (2002), the board of directors uses a corporation as a vehicle to deliver various factors of production. Therefore, not only are the board directors acting as agent of shareholders, but they also serve as the nexus of various contracts.

Corporate directors also have equitable duties that usually align with the common law duties. Even though corporate directors act in the best interests of shareholders, they should consider other stakeholders when they make decisions. Corporate directors will face a complicated situation when equitable duties involve business judgement. This is because business judgement sometimes emphasizes return on investment (ROI) that involves commercial risk acceptance and entrepreneurial flair (Svehla, 2006).

6) Board Activities

Hilmer and Tricker (1990) are the pioneers who formulated a framework for analysing the activities and functions of a board of directors (Clarke, 2007). The framework depicts the multi-dimensional roles and responsibilities of the board of directors who should maintain a balance between their conformance role and performance role, monitoring the present and preparing for the future, outward looking and inward looking, providing accountability and endorsing a strategy formulation. The framework is depicted in FIGURE 2-4.

FIGURE 2-4 THE FRAMEWORK ANALYSING BOARD ACTIVITIES



Source: Hilmer, F. and Tricker, R.I. (1991), An Effective Board, Company Director's Manual, Sydney: Athol Yeomans, Pearson/Prentice Hall.

The inward looking perspectives emphasizes the corporate board's monitoring, supervising and policy making in the context of both past and present, whereas the outward looking perspective inspires the corporate board to more heavily focus on providing accountability and formulating business strategy. Clarke (2007) who refers to Zahra and Pearce (1989), Johnson et al. (1996) and Daily et al. (2003a) concluded that the key roles of corporate boards are: (1) Control: Monitoring the company management and ensuring accountability; (2) Strategy: Approving and monitoring the company's strategic direction; (3) Counsel: Providing advice and counsel to the executives of company on critical matters; (4) Institutional: Building institutional relationships with stakeholders, investors and communities.

7) Board Accountability

"Accountability" is a word that is not easily understood by ordinary people. The Cambridge dictionary (2011) explains accountability as follows "someone who is accountable is completely responsible for what they do and must be able to give a satisfactory reason for it". In order to clarify the lexical meaning of accountability, Giddens (1984) explains it: "[T]o be accountable for one's activities is to explicate the reasons for them and to supply the normative grounds whereby they may be justified." However, it is not easy to understand the contextual meaning of board accountability. The popular idea of board accountability in the corporate world, again, is very often initially inspired by the legal duty and fiduciary duty of directors which oblige directors to act in good faith, with care and in the best interests of the company. A company is only an artificial entity which cannot do anything or take a legal action without a real person representing it. Directors are appointed to fulfil this role; therefore, the essence of accountability of the board of directors based on the fiduciary and legal duty initially is for the best interests of the company. Huse (2005) perceived that the notion of accountability proposed by Roberts et al. (2005) was intended to bridge the gap between what is expected of the board and its actual performance.

In the context of the principal and agent relationship, directors as agent have to be accountable to shareholders as principal and devote all their efforts to maximizing principal value popularly known as shareholder value. Cadbury (1992) stated that strengthening the board's accountability to shareholders is essential when a corporation needs to improve its corporate governance practice. Corporate law[14] has provided a mechanism for shareholders to obtain all information about the company from the board of directors and board of commissioners as a part of their accountability. At the end of the accounting period, an external auditor who is appointed by shareholders will audit a company's financial statement and annual account provided by the board of directors as part of their accountability. The gathered information and the auditor's report are used by shareholders at the general shareholder meeting to ask about the accountability of the board of directors and board of commissioners regarding their fiduciary duties. If shareholders agree to

[14] Undang-Undang Nomor 40 Tahun 2007 Tentang Perseroan Terbatas [Law No.40 of 2007 on Limited Liability Companies) (Indonesia) art 75

all the accountability undertaken by the board of directors and board of commissioners, then shareholders will give a release and discharge (acquit et de charge) to them for their management and supervision during the past financial year, which is stated in the financial statement audited as long as there has been no criminal action, and is reflected in the Annual Report of the company.

The board accountability issue has been extended not only to shareholders, but also to stakeholders. Blair and Stout (2001) proposed two antecedent questions in order to understand the director accountability: "To whom should directors be accountable? And for what?" They attacked the argument of shareholder primacy which emphasises that directors are obliged to be accountable only to shareholders because the shareholder is a residual claimant. In fact, the current development in economics science suggests that there is a wide variety of stakeholders bearing significant residual risk and at the same time having a right to residual claims on company earnings (ibid p.404). These stakeholders include employees, customers, creditors, investors, government, and other parties which have a stake or interest in the company. In short, Blair and Stout (2001) considered directors as "mediating hierarchs" rather than as "agents".

2.5. Parent and Subsidiary Relationship

2.5.1. The Establishment of Parent and Subsidiary Relationship

The concept of separation of ownership and control for a modern corporation cannot be avoided when the corporation grows and needs more capital to expand the business (Berle and Means, 1932). A growing company forms a subsidiary when a number of situations exist. These include: local changes and opportunities in the market that need to be anticipated and responded to quickly; some authority needs to be delegated to lower management; and succession plans for managers and directors need to be put in place for the next generation; (Strikwerda, 2003). Huston and Edward (2013) identify four common reasons why a corporation forms a subsidiary company: a corporation develops a new line of business which is unrelated to the current business; a corporation develops a new business that carries risk which is unacceptable to the parent company; the shareholders have a specific reason; and lastly, the parent company wants to protect its assets. Even though the subsidiary is part of the parent company, it is a legally independent entity that is differentiated from the parent company. In practice, parent and subsidiary companies still follow the Berle and Means (1932)'s concept in which they separate the ownership by issuing stocks and maintain control by appointing the supervisory board and management board of the subsidiary. A subsidiary can be established as a result of a merger or acquisition, buying shares of other companies or as a spin-off of a branch or division of a company. When a subsidiary is created, then control becomes an important element that determines how far a parent company can influence a subsidiary company.

The International Financial Reporting Standard (IFRS)[15] defines "parent company" as an entity which controls one or more other entities. The control over another entity is applied when a company has power over the entity including control over the specified entity's assets, having rights to have variable returns and the ability to use its power to affect variable returns from the entity, and it also involves the type of principal-agent relationship. This control arrangement will differ if the subsidiaries are classed as investment entities, that is: (a) they obtain funds from one or more investors for the purpose of providing investment management services; (b) their business purpose is to invest funds solely for returns from capital appreciation,

[15] IFRS 10 consolidated Financial Statement, http://www.ifrs.org/IFRSs/IFRS-technical-summaries/Documents/English%20Web%20Summaries%202013/IFRS%2010.pdf

investment income, or both; and (c) the performance of their investments are measured and evaluated on a fair value basis[16].

2.5.2. Typology of Group companies and Conflict of Interest

When a company shows a constantly increasing growth rate of its earnings and assets resulting from the growth of several businesses, generally the board of directors may propose to shareholders that subsidiary companies be established to double the growth. Then, the company will evolve to become a conglomerate company which has multi businesses which are not concentrated only on the main core business (Maksimovic and Phillips, 2013). However, when a company has multiple businesses, it runs the risk of having various interests associated with many parties including its subsidiaries. Wymeersch (2003) stated that the issue of conflict of interests in groups of companies has attracted much attention in Europe and needs to be analysed. Prohibition, structures, and procedures are commonly used to regulate the groups of companies in most European states. The conflict of interests among members of a group of companies is very often complicated. Hence, Wymeerschp (2003) suggested considering a typology of groups of companies prior to analysing the conflict of interests within them. This typology is summarised below.

1) ***The 100% Subsidiary***

Generally, if a parent company has 100% shares in its subsidiary companies, the conflict of interests occurring between them is minimal. The parent company can freely direct its subsidiaries. As a result, there is no restriction on the parent company's influence over the subsidiary's decisions.

[16] See above

2) ***The Subsidiary with Minority Shareholders***

According to this typology, minority shareholders will introduce some conflict in a group companies. The minority shareholder commonly has to accept the decision of the director and the majority of shareholders. Any conflict issues regarding minority shareholder protection are resolved according to an agreement prior to joining the company. If no such prior protection of minority shareholders is given by a contractual agreement, then the legal system provides protection for minority shareholders by offering withdrawal rights from company share ownership.

3) ***Publicly Listed Companies***

Issues regarding investor protection wil add an exposure of conflict of interest when the company policy will be monitored by regulator to safeguard the reliability of the capital market and prevent the destabilization of the financial system. Thus, the directors' fiduciary duties are intensified proportionally to maintain investor confidence where the company has been listed in securities markets. The control influence which is exercised by controlling shareholders may change frequently, because directors sometimes try to benefit themselves by obtaining a management fee, excessive remuneration, or benefits in kind from the company.

4) ***Holding Companies***

A holding company is a company whose main purpose is to control another company or companies by owning shares in it or in them (McIntosh, 2013). Tuving et al. (2003) divided holding companies into two categories, namely investment holding companies and operating holding companies. The main difference between them is that an investment holding company usually holds a minority stake, is committed to owning the share for the long term, and is relatively stable. On the other hand, the operating holding company invests in a mix of majority, minority, and sometimes 100% wholly owned companies, is not committed to owning the shares for a long term, and its portfolios are subject to modification. The operating holding companies very often put directors in the subsidiary company to represent the parent company and act as executive directors. The possibility of conflict of interests in holding companies is greater when there are so many intercompany transactions, cross subsidies, even financial transactions between the parent company and its subsidiary and/or among the member of the holding companies. “Synergy” and “integrated basis” are the keys to leveraging the company performance. Transactions without noticeable justification such as sweetheart deals, management fee, even excessive rents could frequently occur and the minority shareholders of the parent company frequently have no clear picture of the financial situation of the group. In addition, the other minority shareholders in subsidiary companies may be afraid that the parent company will engage in activities associated with shifting profits, salary, transfer pricing, subsidized personal loans, or non-arm-length asset transactions to other group members, known as “tunnelling” (Porta et al., 2002).

5) **Parent and Subsidiary Engaged in the Same Line of Business**

Having a subsidiary that is engaged in the same line of business could create competition with parent company, especially if the parent company has only a minority interest in the subsidiary company. Normally, when it comes to projects, the parent company will give preference to its subsidiaries which are fully owned or majority owned by the parent company. The potential for conflict of interests in this typology may occur in the form of “corporate opportunities” such as research initiative, know-how, research, and production facilities that are transferred to other group members.

6) Companies with a State Interest

When setting goals, the aims of companies with a state-based interest frequently differ from those of companies with no state interest. The profit motive will be combined with other motives such as social motives or those in the interest of the general public, and/or political motives. In addition, the state's interest sometimes is structurally opposed to the company's interest. For example, the company's interest is profit maximization; on the other hand, the state's actions may reduce company profits as a result of taxes, price regulation, safeguards introduced by public policy makers and employment policy makers. Hopt and Wymeersch (2003) stated: "when the state, directly or indirectly, owns a significant part of the shares, and even more when it owns a majority, the sets of conflicting issues become even more acute". Furthermore, in order to limit a conflict of interests, in some cases the state declares that it will not intervene in the company's management.

2.5.3. Board Ethics and Conflict of Interest in Parent and Subsidiary Relationship

The agency relationship arises when the parent company forms a subsidiary. As a consequence, the principal-agent risk may occur in that relationship. In the context of agency theory, the parent company that invests in the subsidiary's stocks is called the principal, whereas the subsidiary is the agent. The agency theory argues that the agent will not perform in the best interests of the principal unless the letter applies an appropriate control structure (Jensen and Meckling, 1976). However, the appropriate control structure will incur an agency cost which is the sum of the bonding expenditure by both the principal and agent, and the residual loss (Ibid., p. 5-6)

A conflict of interests may arise when a director encounters a situation in which his/her official actions regarding a primary interest will be unduly influenced by a secondary interest or private interest (MacKenzie and Cronstein, 2006). To prevent such conflict of interests, control devices are established such as a code of conduct, standard operation procedures, and an ethics committee. However, those control devices will never be perfectly effective since there is an inadequate understanding of the whole picture of the conflict of interests (Demski, 2003).

The conflict of interests and issue of board of director duality in corporations have attracted much interest from researchers. Some researchers investigated the CEO duality (see Dalton and Dalton (2011), Dey et al. (2011), Bliss (2011), Horner (2010), Ramdani and Witteloostuijn (2010)). Others have focused on multiple directorships (see Ahn et al. (2010), Jiraporn et al. (2008), Kiel and Nicholson (2006), Wells (2000)), and some are slightly more specific, focusing on interlocking directorships (see Gabrielsen et al. (2011), Shropshire (2010), Hallock (1997), Mizruchi (1996)). Even though the above research does not specifically focus on the conflict of interests, their discussions imply that all those positions are not immune to such conflict.

The conflict of interests in relation to a director who serves on the boards of companies that involve the subsidiaries was investigated by Major et al. (1986). Major et al. (1986) argued that under the English Law, there are three director's duties that may give rise to conflicts, namely "the duty to act *bona fide* in the best interests of company; the duty 'to have regard, among other things' to the interest of the company in general as well as to its members; and the duty to carry on the company's business with intent to defraud creditors or for any fraudulent purpose, and not to continue its business when they 'knew or ought to have concluded that there was no reasonable prospect that the company would avoid going into insolvent liquidation' (the reasonable prospect rule)".

It is common for parent companies as shareholders to appoint their management to their board of directors and/or the supervisory board in their subsidiary. This may be in order to simplify the coordination and integration of the subsidiary's resources to support the parent company's mission and vision. Biao et al. (2012) identified two basic functions of the parent company in relation to their subsidiaries, namely the creating value function and the prevention of loss function. In order to maintain those two functions, on the one hand, the parent company must anticipate the possible loss that is caused by the self-interested behavior of the subsidiary managers under the principal-agent risk. On the other hand, the parent company should allow the subsidiary manager to exercise flexible creativity in order to create value (Ibid., p. 198)

Biao et al. (2012) argued that there must be a management control system, called an interactive control mechanism, to support the two basic functions of the parent company. The placement of a parent's director to represent that parent on the subsidiary may be the one of examples to facilitate the interactive control mechanism. However, when a parent company's director is transferred to a subsidiary company, this creates the director duality situation. Since the subsidiary is an independent legal entity, the director duality in the board structure of the parent and subsidiary may increase the conflict of interests when the directors have to discharge the three directors' duties as explained by Major et al. (1986).

2.6. AGENCY COST

The principal-agent relationship occurs when under a contract, one or more persons as a principal/s engages another person as agent to provide some services on behalf of the principals (Jensen and Meckling, 1976). This relationship enables the principal to delegate some decision-making authority to the agent. This can be found in the relationship between shareholders and managers, voters and politicians, and members of the public and their government officers. Based on Agency Theory, the principal agent relationships will lead to the agency problem which incurs an agency cost.

In `its broader meaning, the cost arising from the agency problem is called an agency cost. Agency cost may arise from the conflict of interests between principal and agents, moral hazard of the agents, shirking, and perquisite consumption by agents ("perks"). Agency theory assumes that the interests of principal and agent may not be aligned, and more importantly, they also often have divergent goals in the sense the principals may demand a high principal's return but agents often tend to maximize their own benefits.

2.6.1. Definition

In academic terms, Jensen and Meckling (1976) define agency cost as the sum of: (1) the monitoring expenditures by the principal, (2) the bonding expenditures by the agent, and (3) the residual loss. The monitoring expenditures are those paid by the principal in order to monitor and control an agent's behavior that may include an audit and activities to ensure budget restrictions, the compensation policies, the operating rules, etc. Whereas, the bonding expenditure is what is paid by an agent when he/she acts or compensates in the best interests of the principal which have been established by the particular system or structure of the firm. The bonding cost is not always financial, but may include the provision of up-dated and accurate information to relevant stakeholders (Baker et al., 2010). Finally, the residual loss is the net loss (in excess of any accrued benefits) resulting from the impact of agency losses that are cause by the divergent interests of the principal and the agent.

2.6.2. Measurements

Many researchers have been motivated to confirm the Jensen and Meckling (1976) theory regarding agency cost. They have used diverse methods and approaches to measure it. However, the precise measurement of agency cost is a difficult and challenging task, requiring cost information transparency. Generally, researchers use a performance approach to measure it, either using a firm performance such as expense ratio or efficiency, or a market performance such as Tobin's Q. Some research has applied these agency cost measurements to certain issues such as payout policies, assets diversifications, capital structure, and cash holding, to name a few (Gesser et al., 2010). However, using profit as a measurement of performance is unreliable since profit can be manipulated by the accounting process (Rashid, 2012). Other researchers have measured agency cost by examining the ownership structure (Ang et al., 2000, Gesser et al., 2010), the corporation structure (Smith and Jensen, 2000), and the CEO duality (Rashid, 2012).

Ang et al. (2000) conducted a research on agency costs and ownership structure, and provided two measurements called an absolute and relative of equity agency costs measurements for firms having different management structures and ownerships. The research uses two alternate measures of agency costs, namely the direct agency cost and a proxy for revenue losses. The first measure is calculated by measuring the gap or differences in dollar expenses between two firms having different ownership and management structures where one of them is a no-agency-cost-based firm. For this proposition, Ang et al. (2000) referred to Jensen and Meckling (1976) who argued that the zero-agency-cost occurs if the manager is also the owner of a firm. The direct agency cost captures excessive costs that include 'perks'. The second measure is used to determine inefficient asset utilization that can result from poor investment decisions and/or management's shirking. Technically, the direct agency cost measure uses a standardized expense per annual sales, and the revenue loss measure uses efficiency ratios. Ang et al. (2000) found evidence that supports several predictions of agency cost theory: 1) Agency cost tends to be significantly higher if an outsider manages the firm; (2) Agency costs are inversely related to the manager's share of ownership; (3) Agency costs increase in proportion to the number of non-manager shareholders; and (4) Agency costs are lower when there is greater monitoring by banks.

Gesser et al. (2010) compared three measures related to the agency problem and ownership dispersion. The first two measures use managerial fractional holdings in the equity and Tobin's Q which has been used by prior researchers, and the third measure uses managerial equity wealth. Generally, the fractional holding in the equity is measured by the number of stocks held by management per total stock outstanding; Tobin's Q is measured by the market value of equity plus the book value of debt divided by the book value of equity and debt; and managerial equity wealth is measured by the dollar value of shares held by management. Gesser et al. (2010) argued that the managerial equity wealth measure performs better than the other two measures, the fractional holding in the equity and Tobin's Q. Rashid (2012) used two efficiency ratios, 'expense ratio' and 'utilization ratio', to measure agency cost. The expense ratio indicates how effectively the management controls the operating costs of a firm, whereas the utilization ratio indicates how effectively the management utilizes the firm's assets. Rashid concludes that there is no significant relationship between CEO duality and agency cost.

2.7. GAP IDENTIFIED IN ACADEMIC RESEARCH

As previously mentioned in Chapter 1, there are three types of director duality: CEO duality, interlocking directorship, and multiple directorships. Most of the research studies on those three types of director duality have focused on the one-tier board system which has only one board called the board of directors, which cannot occur in the two-tier board system which differentiates between the management board (Board of Directors) and the oversight board (Board of Commissioners) (Bezemer et al., 2012).

The practice of the board member duality in the two-tier board system compared to the academic research about director duality which is elaborated comprehensively in the literature review presented in this chapter, has enabled this researcher to identifying the gap. This is summarised as follows:

1) Board member duality is different from the other three types of duality, namely: **CEO duality** (Bezemer et al., 2012), (Cashen, 2011), (Donaldson and Davis, 1991c), (Baliga et al., 1996), **interlocking directorship** (Chhaochharia and Grinstein, 2007), (Hallock, 1997), (Hughes et al., 1977)), and **multiple directorships** (Kiel and Nicholson, 2006), (Ferris et al., 2003), and (Scott, 1997), in terms of the board system, the company status, and the number of companies that have directors who are duality holders.
2) The structure of the board member duality defined in this research is found in the structure of the director duality occurring in the parent and subsidiary company which follows the two-tier board system.
3) The structure of the parent and company also differentiates this research from the previous research on the director duality has loosely assumed that all companies are basically the same, in terms of the entity which is assumed to be independent. In fact, the parent company can force its subsidiary company to conform to the parent

company's policy, and this will substantially influence the subsidiary company's policy.

4) Specifically, the board member duality identified in this research will focus only on the duality occurring in the State-Owned Enterprises in Indonesia.

2.8. CONCLUSION

The review of literature pertaining to the director duality explored in this chapter covers a broad spectrum of duality structures that exist in both one-tier and the two-tier board systems. This chapter examined the different types of duality that have been investigated in previous research and has presented the theoretical perspectives which have been the basis of the corporate board systems. Taking a historical perspective, this chapter traced the development of the notion of corporate governance from its origins to its contemporary meaning. Several theories relevant to the structure and process of the corporate board were presented. The structure of the parent and subsidiary company and its impact on agency costs and performance was discussed. Lastly, the gap in the relevant extant literature was identified. The majority of the previous research has produced inconsistent findings regarding the relationship between director duality and agency costs and performance, regardless of the types of director dualities. The research will contribute to the current body of literature as it will consider board member duality and its impact on agency cost.

CHAPTER 3: STATE-OWNED ENTERPRISES IN INDONESIA: THE CHRONICLE, STRATEGIC ROLES AND DIRECTION, AND CORPORATE GOVERNANCE DEVELOPMENT

"One cannot step twice in the same river." –
Heraclitus *(ca. 540 – ca. 480 BCE)(Lorton, 2012)*

INTRODUCTION

This chapter which discusses the State-Owned Enterprises (SOEs), or BUMNs, in Indonesia addresses three main topics in order to provide a better understanding of the research context. The first topic, The Chronicle, will explore the BUMNs from the historical perspective and give an overview of them before and after the Proclamation of Independence of the Republic of Indonesia on August 17, 1945. The second topic concerns the strategic roles and direction of BUMNs in the context of the current situation and economic perspective since BUMNs are one of the pillars in Indonesia's economy. They are the main drivers of national development, the machine of economic growth, and the supporters of small and medium enterprises (Sinaga, 2013). Finally, the third topic covers the development and current progress of corporate governance of BUMNs in Indonesia.

3.1. THE CHRONICLE

"History has to be rewritten in every generation, because although the past does not change, the present does; each generation asks new questions of the past, and finds new areas of sympathy as it re-lives different aspects of the experiences of its predecessors."
Christopher Hill, an English Marxist historian
(6 February 1912 – 23 February 2003) (Bowen, 1984)

This section examines five periods in the history of the State-Owned Enterprises in Indonesia. The first period was the Dutch Colonialism period before the Dutch were defeated by Japan in 1942. Dutch Colonialism influenced the cultures of the State-Owned

Enterprises, the board model used, and also the legal infrastructure of corporations in Indonesia's law system. The second period is known as the Japan era (1942-1945). However, during the relatively short Japan era, Indonesia was stripped of enormous amounts of company assets and resources (Anderson, 1988). The third era is popularly called the Old Order era (1945—1965). During this time, the majority of State-Owned Enterprises were born when Soekarno, the first president of the Republic of Indonesia, ordered the nationalization of companies owned by the colonials, especially the Dutch companies (Robison, 2009). The fourth period is called the New Order era during which the second president of the Republic of Indonesia, Soeharto, led the country (Vatikiotis, 2004). During this period, there was a significant increase in the number of State-Owned Enterprises. More importantly, Soeharto focused his attention on developing strategic industries, having business as the main instrument of defense systems, aeroplanes, ships, and trains. Lastly, the fifth period is the Reform Order which was marked by the fall of Soeharto regime in 1998, to the present.

3.1.1. The Dutch Era (before 1942)

Long before 1945, the year in which the Republic of Indonesia proclaimed its independence, the Dutch had colonized the Indonesian territory for almost 3.5 centuries, although the length of the colonial period is still arguable. The number of years may be misleading, because they were counted from the time that De Houtman's ships landed in the port of Banten in June 1596 headed by Cornelis De Houtman (see Ricklefs (2001)), up until the proclamation of independence by Soekarno-Hatta on August 17^{th,} 1945. In fact, the Dutch controlled only some parts of Indonesia's territory such as Java after the Java War (1825—1830) during the 19th century, Aceh, after bitterly being contested from 1873—1904, and other kingdoms, such as South Bali and Bone (South Sulawesi) which could not be defeated until 1906 (Dick, 2002). The words "3.5 centuries" may have been intentionally used by Soekarno, the “Great Revolution Indonesia Leader” to strengthen the Indonesian people’s patriotic spirit during the struggle for independence (Airlangga, 2015). The colonialism era had two phases, namely the Vereenigde Oost-Indische Compagnie (VOC) phase and the Colonial Government of the Dutch phase. These phases are described briefly below.

1) Vereenigde Oost-Indische Compagnie (VOC)

The Vereenigde Oost-Indische Compagnie (VOC) was a company formed from the merger of Dutch companies that had competed for the spice business in East India; the merger had been proposed by the State-General of the Netherlands in March 1602 (Ricklefs, 2001). The merger was aimed to benefit the mutual interests of six different regions in the Netherlands having competing interests that were represented by the Chamber System of the Netherlands. The VOC comprised 17 directors who were approved by each chamber; they were called the *Heeren XVII* (Seventeen Gentlemen). Since almost a half of them (8 directors) came from Amsterdam, the headquarters of VOC was located there. More importantly, the State-General of the Netherlands granted the VOC a charter that enabled it to have quasi-sovereign powers to obtain personnel on an oath of allegiance, declare war, build forts, and conclude treaties throughout Asia (ibid; p. 31).

Even though the VOC was a Dutch organization, in actual fact, many personnel were not Dutch. They came from various places throughout Europe and many of them were wanderers, adventurers, criminals, and the unfortunates who had sworn an oath of allegiance. It was not surprising, therefore, that negative behaviors such as inefficiency, dishonesty, alcoholism, and nepotism, were widespread in the VOC (Ricklefs, 2001).

The VOC occupied Ambon, located in the eastern part of Indonesia, in 1605 and built a headquarters there. However, in order to impose a monopoly over all spices, the Dutch conquest of Ambon was still a far cry from their ultimate goals. The VOC wanted to find a better place for 'rendezvous' and found Jayakerta or Batavia (now Jakarta) on Java Island, establish permanent headquarters there (Ricklefs, 2001).

From the perspective of geographical areas that they wanted to control, basically the VOC was a multinational company with several preliminary features of a global company. Dick (2002) argued that at least two features of the VOC made it similar to a global company. Firstly, the VOC was an organization with a high degree of centralization. All policies and orders pertaining to all the VOC's organizations scattered across the Asian state were issued by the Governor-General's office in the Batavia headquarters. Secondly, the VOC basically was an armed organization, because it had a militia and powerful warships that patrolled the Asian waters. The maximization of profits was the sole goal of the VOC. However, to achieve this goal, the VOC did not practise good corporate governance, in the sense that it did not calculate profit and loss correctly and did not accurately use a book-keeping method (Ricklefs, 2001).

After establishing headquarters in Jayakerta, the VOC focused more on exploiting Java Island. Its presence outside Java until the mid-1830s was not significant. The VOC had only 15 small offices - in Bengkulu, Palembang, Padang, Muntok, Riau, Sambas, Pontianak, Banjarmasin, Makasar, Menado, Ternate, Ambon, Kupang, Banda and Bima. Products that were exploited at that time and controlled seriously by the VOC were the spices of Banda and the tin of Bangka (Dick, 2002). During this colonial era, tin mining in Bangka was managed by "Banka Tin Winning Bedrijf" (BTW), a colonial state enterprise, whereas the tin companies on Belitung Island and Singkep Island were managed by a private Dutch company called

Gemeenschappelijke Mijnbouw Maatschappij Biliton (GMB), and NV Singkep Tin Exploitatie Maatschappij (NV SITEM), respectively. These tin companies were nationalized during the Old Order era and merged into PT Timah Tbk, an Indonesian state-owned enterprise. The VOC also took control of the major ports in the Indies such as Batavia, Banten, Surabaya, Makasar, Menado, and Malacca and also smaller islands such as Ambon and Banda (Drakeley, 2005). These ports, except for Malacca, are now under the management of Indonesia Port Corporations, the State-Owned Enterprises of Indonesia.

More than 150 years after VOC's arrival in the Indies, a powerful political and economic position had been successfully established by this hybrid company-colony. For example, the VOC could enforce several treaties, constraining local rulers to supply rice, indigo and coffee in large quantities, and also to ensure that the VOC had a monopoly on spices, textiles, and opium (ibid p.34). However, at the same time, the VOC was almost bankrupt due to very poor corporate governance, which incurred huge costs. These costs were always much greater than expected, and corruption occurred because the VOC's officials engaged in collusive behavior at the company's expense. There was a greater acceleration towards bankruptcy when the greater portion of wealth did not flow to investors but into private hands. Finally, the VOC was declared bankrupt in 1799 and when the Government of Dutch took over the VOC's affairs and assets, the new era of Dutch Government began.

2) The Colonial Government of the Dutch

The transition period from the VOC to the Dutch Government was not effective because in Europe the Netherlands and Britain were at war from 1780 to 1784. Then, a decade later, the Netherlands was invaded by France until the end of the Napoleonic Wars in 1815 (Drakeley, 2005). When situation enabled the Dutch Government to re-take control of the Netherlands Indies, the Dutch continued to colonize it. It was noted that the international treaty defining the territorial area in which Indonesia was born, was called the Netherlands (East) Indies (Nederlandsch-Indië) which was under colonial state rule but with sovereignty of the Dutch crown (Dick, 2002). However, even though the Dutch claimed this territory and utilized international recognition of borders by bringing all local rulers or kingdoms under the rule of the colonial state, the British and Portuguese, and also the local rulers, exerted their influences on the territory and had no intention of recognizing the sovereignty of the Dutch (ibid p.21).

In this colonial government era, the infamous mechanism called Cultuurstelsel (the Cultivation System) was forced on the Netherlands Indies people by Johannes van den Bosch, the Governor General of the Netherlands Indies in 1830. This system obliged every village to give 20% of its land to be planted with exported commodities such as coffee, sugar cane, and indigo. The harvests had to be sold to the colonial government for a fixed, predetermined price. If people did not have land, then they were required to work for 75 days per year (20%) on farms owned by the colonial government (Drakeley, 2005). In reality, the lands provided for the exported commodities were more than 20% and all yields had to be given to the colonial government. All cultivated and harvested crops were shipped to Europe by Nederlandsche Handel-Maatschappij (Netherlands Trading Company). This agricultural system was the most exploitative period of the colonial era, squeezed out of the Netherlands Indies' natural wealth by means of "revenue farming"; this era proved to be harsher and crueler than the VOC era. This agricultural (cultivation) system contributed significantly to the Dutch Government's wealth. The Dutch could pay off their debts including those that were left by the VOC. They were able to pay for the massive public works in the Netherlands, and in their colonies, the Dutch could build roads, railways and ports to transport plantation crops. It was a golden era for colonial government; conversely, it was the worst era for Indonesia's people.

Several public corporations were established during the cultuurstelsel period, one of which was the *Nederlandsche Handel Maatschappij* (NHM), an organization that coordinated the Cultivation System, and opened an office in Batavia in 1826. The *De Javasche Bank* was established by the Dutch in 1828, and *Naamlooze Venootschap Nederlandsch Indische Spoorweg Maatschappij* (NV. NISM) began to build the first railway in Indonesia in 1864. Other organizations were established after the cultuurstelsel period and included *Nederlandche Indische Electriciteit Maatschappij* [NIEM], an electricity company that was established in 1897 in Batavia, *Koninlijke Paketvaart Maatschappij* (KPM), a shipping company that built an operational head office in Batavia in 1888, and The Post, Telegraph, and Telephone Service Office that was established by the *Post- Telegraaf- en Telefoondienst* in 1906 in Bandung. The public corporations established by the colonial government were governed under Indische Comptabiliteitswet (ICW) of 1864, an Indonesian Treasury Law introduced by the colonial government and which controlled the financial and budgetary aspects of the colonial government, and Indische Bedrijvenwet (IBW) of 1927, a new Indonesian law regarding enterprises (Pangestu and Habir, 1989). This is why both of these laws, ICW and IBW, have greatly influenced Indonesia's law system.

People were suffering during the Cultivation System period; moreover, the exploitation and corruption associated with the system exacerbated the suffering. Eduard Douwes Dekker, a former colonial official, wrote a novel titled *Max Havelaar* that effectively exposed the situation. Its publication pricked the consciences of the Dutch. As a result, from the 1860s, the colonial government gradually began to abolish this cultivation system and it had vanished completely by 1919 (Drakeley, 2005). After the end of the cultivation system period, the Dutch reformers brought modern capitalism to Indonesia and the Liberal era began.

The Ethical policy was introduced by the Dutch Government to the Netherlands Indies. It was intended to improve indigenous welfare because the Dutch felt they owed "a debt of honor" to the Netherlands Indies. A significant amount of public funds was injected into the building of public infrastructures such as bridges, roads, ports, storehouses, irrigations and the like, and also a raft of policies were implemented to improve the health and education of the indigenous Indonesian people. However, the results of the Ethical policy were disappointing. For instance, in 1931, only 8% of indigenous children attended school, and there were only 178 Indonesian students at universities (ibid p.46). The colonial government rule did not bring modernity to the Netherlands Indies.

3.1.2. The Japan Era (1942—1945)

The background history of the Japan era in Indonesia is related to Japan's desire to unify Asia under the concept of Hakko Ichiu ideology which emerged at the end of the 1930s, and which brought Japan into World War II (Edwards, 2003). Hakko Ichiu literally means "eight crown cords, one roof" that is "all the world under one roof", a Japanese slogan popularised by the Prime Minister of Japan, Fumimaro Konoe, in his speech on January 8, 1940 (Beasley, 1987). World War II was the global war that endured from 1933 to 1945, and involved many countries. These countries eventually formed two opposing military alliances, namely the Allies and the Axis. The Allies were originally France, Poland, and Britain. Subsequently, many countries joined them, including the Dutch. Finally, in order to stop the aggression of Germany, Japan, and Italy which by then were Axis members, The USA was motivated to join the Allies (Gilbert, 2004). In the Pacific, the Dutch joined with the ABCD front comprising America (USA), the British, China and the Dutch to combat Japan (Tugiyono et al., 2004). On May 1940, Holland was invaded and occupied by the

Germans (Warmbrunn, 1963) This situation prompted the Netherland Indies which ruled the Indonesian colony in that period, to announce a state of alert since this colony was a source of income for the Dutch, accounting for one-seventh of Holland's income (Friend, 1988).

In search of oil to support its war efforts, on March 1, 1942, the Japanese16th army, headed by General Immamura Hitoshi, landed on Java, the mostly densely populated island of Indonesia (Van De Ryt, 2002). The three coastal cities where the Japanese landed were Banten, Indramayu, and Rembang.[17] The conquest of Indonesia occurred rapidly and the Dutch surrendered unconditionally to Japan on March 8, 1942. In the handover ceremony, Holland was represented by General Governor Tjarda van Starkenborgh and General Ter Poorten; Japan was represented by General Imamura Hitoshi. This handover also included all companies owned by the Dutch in the Netherland Indies being handed to Japan's emperor. At first, most Indonesians welcomed the Japanese, seeing them as "liberators" from the Netherland Indies government, but they quickly realized their mistake.[18]

After the conquest of Indonesia, Japan imposed a military administration and bureaucratic system which was set out by Tokyo, but the guidelines were vague and unorganized (Van De Ryt, 2002). Japan argued that this system would utilize the existing administrative structure while simultaneously not disrupting the social customs. However, The Japanese did not realize that the higher-ranking bureaucrats had been removed from Indonesia by the Dutch, leaving only a little administrative structure.[19] Those who stayed in the bureaucrat structure refused to pledge loyalty to Emperor Hirohito and were eventually

[17] Banten and Indramayu are coastal cities in West Java Province, whereas Rembang is a coastal city in Central Java.

[18] Ibid p.59

[19] Ibid p.59

removed. Thus, the military and bureaucratic administration was not effective, and finally Japan ruled Indonesia by trial and error (Satō, 1994).

Both economically and socially, Japan exploited all Indonesia's resources to support its war industries. Even the Indonesians were forced to become *Roomusha,* "laborers in the war effort". It is estimated that this involved between four to eight million workers (see Satō (1994) and Friend (1988)). All plantation production, manufacturing, banks, and strategic companies were seized. The administration and organization of companies were changed into a military system (Pindad, 2015). The names of companies were changed as well. For example, ***Artilerie Inrichtingen (AI)***[20], a company in the defense industry which had four installations, had a name change. ***Artillerie Constructie Winkel (ACW)***[21] had its name changed to ***Daichi Ichi Kozo***, ***Geweemarkelschool (GW)***[22] became ***Dai Ni Kozo***, ***Proyektiel Fabriek (PF)***[23] became ***Dai San Kozo***, ***Pyrotechnische Werkplaats (PW)***[24] became ***Dai Shi Kozo***, ***Monrage Artilerie***[25] became ***Dai Go Kazo***. Japan took over the electricity company, ***Algemeene Nederlandsche Indische Electriciteit Maatschappij (ANIEM)***, and formed an organization called ***Djawa Denki Djigjo Kosja*** to handle all electricity matters in Java then, changed it into ***Djawa Denki Djigjo Sja*** as the branch of ***Hosjoden Kabusiki Kaisja*** of Tokyo (Pegadaian, 2014). The change of administration, organization, and name also occurred in all companies which had been taken over by Japan. For example, LKBN Antara[26], a news agency, became ***Yoshima*** (universal), and ***Bank van Leening***[27] became ***Sitji Eigeikyuku,*** *which also changed the*

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[20] PT Pindad, a BUMN having a domicile in Bandung, West Java was born from this Artilerie Inrichtingen company.

[21] ACW produced artillery weapons

[22] GW was an educational institute for maintenance and repair of weapons

[23] PF produced projectiles

[24] PW produced ammunition and other explosive materials

[25] The fragment of ACW

[26] A BUMN having a legal form of Perum

[27] An embryo of Pegadaian, a BUMN in finance industry

*head of **Bank van Leening** to Japanese, Ohno-san (Pegadaian, 2014).* However, the military and bureaucratic system applied by Japan during the period of Japanese occupation in Indonesia which lasted for only 3.5 years had not changed the corporate culture of all companies which had already been established by the Dutch.

3.1.3. The Old Order Era (1945—1965)

The proclamation of Independence of the Republic of Indonesia on August 17, 1945 by Soekarno and Hatta was the first milestone in the formation of Indonesia as a State. Then, the next day on August 18, 1945 the Indonesian Independence Preparatory Committee (PPKI) ratified the 1945 Constitution of the Republic of Indonesia as a basic law for the State of the Republic of Indonesia. The founding fathers of the Republic of Indonesia had formulated the philosophical and economic principles of the State in Chapter XIV titled "Social Welfare", which were detailed in paragraphs 1 to 3 of article 33 of the 1945 Constitution. Social welfare is one of the pillars and embraces the spirit of the State's vision, in addition to other pillars that are enshrined in the preamble of the 1945 Constitution: "*to protect the whole people of Indonesia and the entire homeland of Indonesia, and in order to advance general prosperity, to develop the nation's intellectual life, and to contribute to the implementation of a world order based on freedom, lasting peace and social justice*." Paragraphs 1 to 3 of article 33 of the 1945 Constitution stated that:

(1) The economy is to be structured as a common endeavour based on familial principles;

(2) Production sectors that are vital to the state and that affect the livelihood of a considerable part of the population are to be controlled by the state;

(3) The land and the waters as well as the natural riches therein are to be controlled by the state to be exploited to the greatest of the people.

Article 33 of the 1945 Constitution provided a very strong legal basis for the creation and establishment of State-Owned Enterprises in Indonesia.

The economic situation of the new state was disorganized, with the Dutch business interests still controlling the modern sector and the exports of primary commodities (Dick, 2002). Nan G. Amstutz stated that the indigenous Indonesian had only 19% of the privately owned non-agricultural capital, whereas the Dutch owners had 52% (Glassburner, 1962). It was estimated that in 1952, four Dutch firms still held 50% of all consumer imports, and eight Dutch firms held 60% of exports. Moreover, the private banking industry was shared by seven foreign banks, three of which were Dutch (ibid p.120).

The formal transfer of Dutch sovereignty over the Netherland Indies to the Republic of the United States of Indonesia[28], a federation of sixteen states, of which the Republic of Indonesia was one, began on 27th of December 1949 (Glassburner, 1962). However, the Republic of the United States of Indonesia did not bring political stability, so the interim legislature and the Senate of the Republic of the United States of Indonesia decided to go back to the Unitary State of Republic of Indonesia on 17th of August 1950. The transfer process from Dutch sovereignty ended with Dutch-owned business property being taken over in 1957 (ibid p.113).

The transfer of nationalization was both voluntary and involuntary. The voluntary nationalizations took the form of share acquisitions. For example, the Government of Indonesia purchased all the privately held Java bank shares on the Amsterdam Stock Exchange (soon to become the Bank of Indonesia); as a new state, Indonesia experienced problems with price negotiation and the financing of purchases such as the

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[28] The United States of Indonesia was established on 27th of December 1949 as a result of roundTable conference attended by delegations from Indonesia, the Dutch, BFO and UNCI

public utilities (gas and electricity) companies in Jakarta, Cirebon, Central and East Java, Balik Papan and Ambon; public transport in Jakarta; port facilities in Surabaya; and Dutch-owned railway companies in Java and Sumatra. The involuntary nationalization occurred when the Government of Indonesia issued the government decree number 23 of 1958 dated April 16, 1958 which was applied from April 17, 1958 to nationalize all the Dutch companies operating in Indonesia. Then, on December 27, 1958, the law for the nationalization of Dutch companies was established and was made retroactive from December 3, 1957.

It was noted that from the period of 1957 to 1960, approximately 700 Dutch companies were nationalized under military command (Lindblad, 2012). The military were given positions in SOEs by President Soekarno which might have been intended as a strategy to maintain national stability and military loyalty so the term 'entrepreneurial military officer' was quite popular at that time (Nugroho and Wrihatnolo, 2008). Then, 90% ownership of agricultural companies were taken over by the Government of Indonesia, 60% of export trading value and 246 companies comprising fabric manufacturers, mining companies, banking companies, shipping companies, and service sectors were taken over as well (Robison, 1986). Therefore, the majority of Dutch companies nationalized by the Government of the Republic of Indonesia became State-Owned Enterprises, and several of them were privatized and acquired by Chinese conglomerates (Lindblad, 2012). For example, all agricultural companies were placed under the umbrella of a new national organization: the Central State-owned Estates, New-styled (Pusat Perkebunan Negara-Baru, PPN-Baru) (ibid p.15); Koningkelijke Paketvaart Maatschappij (KPM) became the national shipping company (Perusahaan Pelayaran Nasional Indonesia—PELNI); Koningkelijke Luchvaart Maatschappij (KLM) became the national airline company (Garuda Indonesia Airways); Bataviaasche Petroleum Maatschappij (BPM) became the national oil and gas company (Perusahaan Minyak Nasional—Pertamin). However, the majority of Dutch companies that were nationalized had already transferred their assets to Holland, so the government of Indonesia only obtained a remnant of assets that did not contribute much to the economy, and even these companies turned out to be a burden (Nugroho and Wrihatnolo, 2008). During this period, the SOEs that initially numbered more than 600 were restructured into 223 companies (Ibid p.6).

Two years after the nationalization process, the Government of Indonesia issued the law and the government regulation in lieu of law number 19 of 1960 regarding State-Owned Enterprises in order to integrate all State-Owned Enterprises into economic government programs as outlined in the political manifesto of the Republic of Indonesia on August 17, 1959. This required mandatory reorganization in terms of production and distribution directed towards the implementation of article 33 of the constitution. This government regulation was intended to establish more uniformity in the management and control of State-Owned Enterprises, taking into account the legal form of the State-Owned Enterprises in order to guide the economic structure. This concept of a guided economy was intended to achieve “a just and prosperous society” in which decisions about resources allocation, production, investment and distribution are made by a central governmental institution (Tan, 1966). In addition, this regulation was used to synchronize all economic activities of both the State-Owned Enterprises and the local, autonomous cooperatives and private sectors. Regulations related to the SOE in the Old Order era provided a foundation for further development in the New Order Era. These are summarized in TABLE 3-2.

TABLE 3-2 THE REGULATIONS TO SUPPORT SOEs IN OLD ORDER ERA

No.	Name of Regulation	Number	Description
1.	Government Decree about Placement of all Dutch Companies under the control of the Government of Indonesia	Government Decree number 23 of year 1958	In connection with the West Papua Liberation from the Dutch.
2.	Nationalization of the Dutch Companies Act	Act number 86 of year 1958	In accordance with cancellation policy of the RoundTable Conference
3	The Obligation Task of Compensation Committee on the Dutch Companies which was nationalized and How to file the compensation	Government Decree number 9 of year 1959	To implement the Act number 86 of year 1958
4.	The law and the government regulation in lieu of law about State-Owned Enterprises	the law and the government regulation in lieu of law number 19 of 1960	to integrate all State-Owned Enterprises into the government programs in economic as outlined in the political manifesto of the Republic of Indonesia on August 17, 1959

Sources: **http://www.hukumonline.com**

3.1.4. The New Order Era (1965—1998)

The historical handing over of power from Old Order 'Soekarno era' to the New Order 'Soeharto' era has been a controversial issue. The original document that was used for handing over the presidential authority, the Decree of 11th March 1966 or popularly called SUPERSEMAR (*Surat Perintah Sebelas Maret*), has been 'lost' (Vickers and McGregor, 2011). It has long been rumoured that the handing over was achieved by coercion (ibid p.44-3). Public debates, studies, and books analyzing this historical controversy and related events were numerous in Indonesia, especially after the resignation of President Soeharto (see: Van Klinken (2001), Sophiaan (2008), and Adam (2010) among others).

The new regime brought a new approach to the economic development concept that was very different from the Old Order era. Backed up by economists who had graduated from the University of California Berkeley, the economic liberal policy began to be introduced and implemented in the Indonesian economy. Theoretically, economic liberal policy tends to implement policy based on the market mechanism; on the other hand, economic socialist policy tends to give more roles to the state rather than the market. The economic liberal policy can be traced back formally to the issuing of the Foreign Investment Act number 1 of 1967. This Act paved the way for foreign investors to invest in Indonesia.

Indonesia a more friendly country for foreigner investors when Law number 6 of 1968 regarding Domestic Investment was issued. This law enables foreigners to invest in the industries that previously were closed to them by law number 1 of 1967. Since the issuance of those two laws, gradually the multinational companies began to control several important natural resources owned by Indonesia. Then, the international financial institutions such as World Bank, International Monetary Fund (IMF), Inter Governmental Group on Indonesia (IGGI)[29], and Paris Club competed to lend money to Indonesia, expecting that Indonesia would be trapped by its debts and be forced to sell its State-Owned Enterprises to its competitors.

Although he took a different approach to economic development, Soeharto continued to implement the Soekarno strategy; in particular, he appointed military personnel to key positions in the State-Owned Enterprises. There are two reasons why the military still predominate in these positions. Firstly, from the historical perspective, the military played a significant role when the government of Indonesia under Soekarno decided to nationalize the Dutch companies. Secondly, the government policy during the Soeharto era applied the dual function doctrine of the military, called "Dwi Fungsi ABRI[30]"; that is, the military has a social function and a political function. In fact, the application of the "Dwi Fungsi ABRI" has been overused. Almost all key positions in regional administrations, the bureaucracy, and the State-Owned Enterprises are controlled by the military.

The strategy to generate economic activity by implementing a more liberal economic policy, has been gradually achieving success even though the policy is considered to be too pragmatic (Glassburner, 1971). Due to a perception that the State-Owned Enterprises

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[29] The international organization established in 1967 initiated by United States of America to coordinate the multilateral financing for Indonesia. The group members are the Asian Development Bank, International Monetary Fund, United Nations Development Programme, World Bank, Australia, Belgium, UK, Canada, France, Germany, Italy, Japan, New Zealand, Swiss, and United States of America.

[30] Abbreviation of Angkatan Bersenjata Republik Indonesia (The Armed Forces of the Republic of Indonesia)

have run businesses inefficiently, the people consultative assembly enacted the decree number XXII/MPRS/1966 and then, law number 9 of 1969 to revise the government regulation in lieu of Law No. 19 of 1960. This law categorizes SOEs into three types based on their socio-economic functions. Firstly, the Bureau Company (popularly called PERJAN (Perusahaan Jawatan)) is a State-Owned Enterprise established and governed by the provision contained in the Indonesische Bedrijvennwet[31] (stbl. 1927:419 as it has been amended and supplemented several times). This act contains regulations that are still greatly influenced by the Dutch Law. Secondly, the Special Purpose Entity (popularly called PERUM (Abbreviation of Perusahaan Umum)) is a State-Owned Enterprise established and governed by the provision contained in government regulation in lieu of Law No.19 of 1960. Thirdly, Limited Liability Company (popularly called PERSERO) is a State-Owned Enterprise established as a limited liability company that is governed by the provisions of the Code of Commercial Law (stbl. 1847: 23 amended and supplemented several times).

The economic liberal policy that enables foreigners to buy shares in State-Owned Enterprises shares began to be implemented when the Foreign Investment Act No. 1 of 1967 and the Domestic Investment Act No. 6 of 1968 were issued at the beginning of the Soeharto era. The purpose of Act No. 6/1968 was to encourage economic and business growth, and also to encourage people to have shares in State-Owned Enterprises, which is consistent with article 33 of the Constitution 1945. However, at the same time, Act No. 6/1968 also enables foreigners to invest in the negative investment list in accordance with Act No.1/1967. This may not be in the spirit of article 33 of the Constitution 1945.

In 1995, the New Order Era enacted two new laws which are very important to support legal infrastructure of corporate governance. The first law is Limited Liability Company Act

[31] This act still uses the legacy of the Ducth

No. 1 of 1995 which came into force on March 7, 1996. This act is aimed at to substitute regulation about limited liability company which previously apply the Indonesian Commercial Code (the wetboek van koophandel) which is very the Dutch Centric and promulgated firstly in 1847. The second law is the Capital Market Law No. 8 of 1995 which replaced Law No. 15 of 1952 which was the Bourse Emergency law. The regulations issued during this era to support the State-Owned Enterprises are summarised in TABLE 3-3.

TABLE 3-3 THE REGULATIONS TO SUPPORT SOEs IN NEW ORDER ERA

No.	Name of Regulation	Number	Description
1.	Foreign Investment Act	Act number 1 of 1967	Enabling foreign investor to invest in Indonesia
2	Presidential Instruction	Number 17 of 1967	Briefing and simplification of the State-Owned Enterprise in three forms business state
3.	the Domestic Investment Act	Number 6 of 1968	to encourage economic and business growth, and to encourage people to have shares of the State-Owned Enterprises
4.	The government regulation in lieu of law	Number 1 of 1969	Concerning with the form of the State-Owned Enterprise
5.	State Business Form	Number 9 of 1969	Determination government regulation in lieu of law No.1/1969 into Law
6.	Limited Liability Company Act	Number 1 of 1995	Substituting regulation about limited liability company which previously apply the Indonesian Commercial Code (*the wetboek van koophandel*)
7.	Capital Market Law	Number 8 of 1995	Substituting law number 15 year 1952 about Bourse Emergency law

Sources: **http://www.hukumonline.com**

In the New Order era, the management and coordination of State-Owned Enterprises was more structured. This started at the beginning of the 1970s when the Ministry of Finance established a unit whose responsibilities and functions was to develop and to give a direction to the State-Owned Enterprises. Since then, the unit has undergone change several times. During 1973 to 1993, the unit was the second echelon of the Ministry of Finance, and was known as the Directorate of 'Persero' and Corporate State Finance Management. Then, it was changed to The Directorate of 'Persero' and State-Owned Enterprises. Finally, in 1993, the name was changed to The Directorate of State-Owned Enterprises (www.BUMN.go.id, 2014).

Foreign investors began buying shares in State-Owned Enterprises in 1991 when the Government of the Republic of Indonesia under the New Order era launched a privatization policy that continued into the Reform era. The number of State-Owned Enterprises that were privatized from 1991 to 2001 is depicted in FIGURE 3-5.

FIGURE 3-5 THE PRIVATIZATION OF THE STATE-OWNED ENTERPRISES 1991—2001

Year	SOEs	% sale	Method	Initial Price	Proceeds	% hold by the state
1991	PT Semen Gresik, Tbk	27 (new shares) 8 (state shares)	IPO	Rp.7.000	Rp.280 Billion Rp.126 Billion	65
1994	PT Indosat, Tbk	10 (new shares) 25 (state shares)	IPO	Rp.7.000	Rp.2.537 Billion	65
1995	PT Tambang Timah, Tbk	25 (new shares) 10 (State shares)	IPO	Rp.2.900	Rp.511 Billion	65
	PT Telkom, Tbk	10 (new shares) 13 (state shares)	IPO	Rp.2.050	Rp.5.058 Billion	80
1996	PT BNI, Tbk	25 (new shares)	IPO	Rp.850	Rp.920 Billion	75
1997	PT Aneka Tambang, Tbk	35 (new shares)	IPO	Rp.1.400	Rp.603 Billion	65
1998	PT Semen Gresik, Tbk	14 (state shares)	Strategic Sales	-	Rp.1.317 Billion	51
1999	PT Telkom, Tbk	9,62 (state shares)	Placements	-	Rp.3.188 Billion	66,19
2001	PT Kimia Farma, Tbk	9,2 (new shares)	IPO	Rp.200	Rp.110 Billion	90,8
	PT Indo Farma, Tbk	19,8 (new shares)	IPO	Rp.250	Rp.150 billion	80,2
	PT Sucofindo, Tbk	30 (state shares)	Strategic Sales	-	US$ 45,4 Million	10
	PT Telkom, Tbk	11,9 (State shares)	Placement	-	Rp.3.100 Billion	54,29

Source: The Ministry of State-Owned Enterprises website: http://www.bumn.go.id/wp-content/uploads/2010/10/Privatisasi_BUMN.pdf

The privatization program was implemented for external and internal reasons. External reasons include the wave of globalization since the 1990s and pressures from international lenders driven by the International Monetary Fund which forced the Government of Indonesia to privatize the State-Owned Enterprises in order to pay the state debts. Internal reasons include the need to improve the performance of State-Owned Enterprises, even though those politicians who supported socialism did not want state-owned enterprises to be controlled by foreigners.

The increased need for optimal control and management of the State-Owned Enterprises, during 1993—1998, the Directorate of State-Owned Enterprise which was an echelon II of the Ministry of Finance, was upgraded to echelon I of the Ministry of Finance; it was called The Directorate General of State-Owned Enterprise Management. It was noted that from 1993 to 1998, there were two director generals who led the Directorate.

At first, the State-Owned Enterprises achieved much developmental progress. For example, the government assisted the State-Owned Enterprises with business in strategic industries by establishing the Strategic Industry Management Board (Badan Pengelola Industry Strategis—BPIS). BPIS managed ten State-Owned Enterprises which were categorized as strategic; these were: Dahana Inc. (explosive material industry), Barata Indonesia Inc. (heavy equipment industry), Boma Bisma Indra Inc. (equipment industry), LEN Inc.(Electronic industry), INKA Inc.(train industry), INTI Inc.(telecommunication industry), Dirgantara Indonesia Inc. (aircraft industry), Krakatau Steel Inc.(steel industry), PAL Inc., (ship industry), and Pindad Inc. (weapons industry). However, by the end of the New Order era, the State-Owned Enterprises had a poor reputation. They were not efficient, were very often mismanaged, and were also cash cows for political groups and other parties who had a network within the ruling regime (Agung, 2008). According to Prof. Dawam Rahardjo, an Indonesian economist, the State-Owned Enterprises in the New Order had the following characteristics: (1) key positions of SOEs were dominated by military personnel and bureaucrats; (2) the corporate decisions were influenced by much political nuances; (3) the SOEs had a tendency to be social institutions rather than corporations; (4) they were less innovative; and (5) they conformed less to the Constitution goals (Putra, 2013).

At the end of the New Order's government which was foreshadowed by the fall of President Suharto, The Directorate General of State-Owned Enterprises was upgraded to a ministerial level named The Ministry of Empowerment of the State-Owned Enterprise/Chief of the State-Owned Enterprise Development Board.

3.1.5. The Reform Era (1998—Current)

The Reform Era began in May 1998 when Asia's longest serving (32 years) strongman, Suharto, stepped down from his presidency after he failed to address various crises that had occurred in Indonesia since the beginning of 1997 (King, 2003). The crises also led to widespread political turmoil and social unrest. The handover of authority from Soeharto to his successor did not run smoothly. Over a short five-year period, the national leadership succession changed three times: Prof. Dr. Ing. Habibie, Adurrahman Wahid (Gus Dur), and Megawati Sukarnoputri. Ironically, the management of State-Owned Enterprises usually depends on the cabinet formed by the new president; as a result, the organization of the Ministry of State-Owned Enterprises changed several times since the beginning of the Reform Order. From 26th October 1999 until 24th April 2000 it changed its name to the Ministry of State Investment and State-Owned Enterprise Development. Then, on 24th April 2000, the position of Minister of State Investment and State-Owned Enterprise Development was removed and became echelon I in the Ministry of Finance. Finally, on 9th of August 2004 the "Gotong Royong" Cabinet under President Megawati re-established the Ministry of State-Owned Enterprise, and this continues to this day.

At the beginning of the Reform era, the Government was determined to reform the corporate sector, especially the banking industry, which had experienced crises which led to monetary crises and finally economic disaster as a legacy from the New Order era. The crises were mainly caused by poor corporate governance in the banking sector which was connected to many corporations which also had weak corporate governance practices. Therefore, the Government of Indonesia established a series of strategic policies in response to the crises. One of the policies involved the establishment of an ad hoc agency called the Indonesian Banking Restructuring Agency (IBRA) that has a lifespan for five years by issuing Presidential Decree No. 27 dated January 26, 1998. The main goals of the IBRA were to restructure the banking sector, resolve the problem of assets, and recover the state money and funds that had been channeled to the banking sector. The technical details of the overall objective were to administer the government's blanket guarantee program[32], and supervise, manage and restructure distressed banks. Then, a year later, on February 27, 1999 the government issued more objectives to the IBRA including the management of the government's assets in those banks undergoing a restructure and the optimization of the recovery rate of assets from distressed banks. When the IBRA was terminated, many assets were clear and free, so the government considered it necessary to establish a State-Owned Enterprise to manage those assets. Then, the government issued government regulation No. 10 of 2004 on February 27, 2004, which established the PT Perusahaan Pengelola Aset (PPA) to manage the free and clear assets of the IBRA.

In the macro context, the Reform government made it a priority to improve the quality of both public and corporate governance. Subsequently, the Coordinating Minister of Economics, Finance and Industry issued decree number KEP/31/M.EKUIN/8/1999 which established the National Committee on Corporate Governance (NCCG) which had the task of providing Corporate Governance Guidelines for corporations in Indonesia. Subsequently, on February 8 of 2000, five professional and business associations namely, the Association of Indonesian Public Listed Companies, the Indonesian Accountant Association—Management Compartment, the Indonesian Financial Expert Association, the Indonesian Netherlands Association, and the Indonesian Society for Transparency formed the Forum for Corporate Governance in Indonesia (FCGI), the main goal of which was to improve corporate governance in Indonesia (FCGI, 2011). In 2004, the Coordinating Minister of Economics, Finance and Industry issued decree number KEP-49/M.EKON/11/TAHUN 2004 to revitalize the National Committee on Corporate Governance that was established by a previous decree.

[32] A declaration by the government that all deposits and perhaps other financial instruments will be protected

The regulations related to corporate governance of State-Owned Enterprises that were issued during this period are shown in TABLE 3-4.

TABLE 3-4 **THE** REGULATIONS TO SUPPORT SOEs IN REFORM ERA

No.	Name of Regulation	Number	Description
1.	State Finance Act	Act number 17 of year 2003	The mandate of the Constitution 1945
2.	State-Owned Enterprise Act	Act number 19 of year 2003	To focus on regulating the State-Owned Enterprises which previously scatter in many regulations
3.	Limited Liability Act	Act number 40 of year 2007	To substitute Limited Liability Act No.1 of year 1995 that is not fit with the business environment anymore.
4.	Establishment, Management, Control, and Dissolution of State-Owned Enterprise	Governmental Decree number 45 of year 2005	Technical regulations for State-Owned Enterprise Act number 19 of year 2003
5.	Transfer of position, duties, and authority of the minister of finance in SOE to the minister of State-Owned Enterprise	Governmental Decree number 64 of year 2001	Transfer of shareholder position from the minister of finance to the minister of State-Owned Enterprise
6.	Good corporate governance in the State-Owned Enterprises	Ministerial Decree number 117 of year 2002	To implement good corporate governance in SOEs

Sources: Ministry of State Secretariat of the Republic of Indonesia and Ministry of State-Owned Enterprises Websites

The progressive development of the corporate governance of State-Owned Enterprises during the Reform era will be described in sections 3.3 and 3.4.

Several regulations such as the government decree, the president's instructions, and ministerial decrees, derived from SOE Act no.19/2003 to support the privatization of BUMNs, had also been issued during this era. The regulations are shown in TABLE 3-5.

TABLE 3-5 THE REGULATION TO SUPPORT PRIVATIZATION IN REFORM ERA

No.	Name of Regulation	Number	Description
1.	The procedure of persero privatization juncto the government decree No. 59 of year 2009	Governmental Decree number 33 of year 2005	Technical regulations for State-Owned Enterprise Act number 19 of year 2003
2.	The establishment of Privatization Committee of the Persero	President Instruction number 18 of year 2006	Technical regulations for State-Owned Enterprise Act number 19 of year 2003
3.	Privatization method, making annual program of privatization, and appointing an institution of association and/or profession or other profession	Ministerial Decree number PER-01/MBU/ 2010	Technical regulations for State-Owned Enterprise Act number 19 of year 2003

Sources: The Ministry of State-Owned Enterprises Websites; http://bumn.go.id/halaman/147/Privatisasi

There were two periods of privatization of several BUMNs from 2002 until 2011: the privatization period of 2002—2004 as shown in FIGURE 3-6 and the privatization period of 2006—2011, as shown in FIGURE 3-7.

FIGURE 3-6 THE PRIVATIZATION OF THE STATE-OWNED ENTERPRISES 2002—2004

Year	SOEs	% sale	Method	Initial Price	Proceeds	% hold by the state
2002	PT Indosat, Tbk	8.06 (state shares) 41.94(state shares)	Placement Strategic Sales	-	Rp.967 Billion US$608.4 Million	56.94 14.39
	PT Telkom, Tbk	3.1 (state shares)	Placement	-	Rp. 1,100 Billion	51.19
	PT Tambang Batubara Bukit Asam, Tbk	15 (State shares) 1.26 (State shares)	IPO	Rp.675	Rp.156 Billion	84
	PT WNI, Tbk	41.99(State shares)	Strategic Sales	-	Rp.255 Billion	0
2003	PT Bank Mandiri, Tbk	20 (State shares)	IPO	Rp.575	Rp. 2,547 Billion	80
	PT Indocement TP, Tbk	16.67 (State shares)	Strategic Sales	-	Rp. 1,157 Billion	0
	PT BRI, Tbk	30 (state shares) 15 (New shares)	IPO	Rp.875	Rp. 2,512 Billion	57.57
	PT PGN, Tbk	20 (state shares) 19 (New shares)	IPO	Rp.1500	Rp.1.235 Billion	60,03
2004	PT Pembangunan Perumahan	49 (State shares)	Employee/MBO	-	Rp.60.49 Billion	51
	PT Adhi Karya, Tbk	24.5 (State shares)	Employee/MBO/IPO	Rp.150	Rp.65 billion	51
	PT Bank Mandiri, Tbk	10 (state shares)	Placement	-	Rp. 2,844 Billion	69.96
	PT Tambang Batubara Bukit Asam, Tbk	12.5 (State shares)	Secondary Public Offering	-	Rp.180 Billion	65.02

Sources: The Ministry of State-Owned Enterprises website: http://bumn.go.id/halaman/147/Privatisasi

The most significant proceeds after the privatization of BUMNs during 2002-2004 came from PT Bank Mandiri Tbk.,[33] that is Rp. 5,391 Billion (US$ 580.30 Million with an average exchange rate 1 US$ = 9,290)[34]. The rest of the state shares in PT WNI, tbk (49.99%) and PT Indocement TP, Tbk (16.67%) were sold entirely, which meant that the Government of the Republic of Indonesia no longer had shares in those companies.

[33] The biggest bank in Indonesia which is resulted from the merger of 4 banks on October 2nd, 1998 namely Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor Indonesia, dan Bank Pembangunan Indonesia; http://www.bankmandiri.co.id/english/index.aspx

[34] http://www.bi.go.id/en/moneter/informasi-kurs/transaksi-bi/Default.aspx

FIGURE 3-7 THE PRIVATIZATION OF THE STATE-OWNED ENTERPRISES 2006—2011

Year	SOEs	% sale	Method	Initial Price	Proceeds	% state
2006	PT PGN, Tbk	5.31 (state shares)	Placement	-	Rp. 2,088 Billion	55.33
2007	PT BNI, Tbk	11.3 (state shares) 15 (new shares)	Secondary Public Offering	-	Rp. 3,088 Billion Rp.3,854 Billion	76.36
	PT Jasa Marga, Tbk	30 (new shares)	Initial Public Offering	Rp. 1,700	Rp. 3,362 Billion	70
	PT Wijaya Karya, Tbk	31,7 (new shares)	IPO	Rp.420	Rp.759.58 Billion	68.3
2009	PT BTN, Tbk	27,08 (new shares)	IPO	RP.800	Rp. 1,819 Billion	72.92
2010	PT Pembangunan Perumahan, Tbk	21.46(new shares)	IPO	Rp.560	Rp.566 Billion	51
	PT Krakatau Steel, Tbk	20 (new shares)	IPO	Rp.850	Rp. 2,593 Billion	80
	PT BNI, Tbk	3.1 (state shares) 18.1 (right state and new shares)	Divestment (eks greenshoe) Right Issue	- - -	Rp. 1,355 Billion Rp.742 Billion Rp. 10,460*)	60
	PT Kertas Blabak	0.84 (state shares)	Strategic Sales (existing Shareholder)	-	0.49	0
	PT Intirub	9.99 (state shares)	Strategic Sales (existing Shareholder)	-	Rp.6.3 Billion	0
2011	PT Garuda Indonesia, Tbk	26.67(new shares)	IPO	Rp.750	Rp. 3,187 Billion	69.14
	PT Bank Mandiri, Tbk	10 (right state) 12 (new shares)	Right issue	-	Rp.389.5 billion 11,680*)	60
	PT Kertas Basuki Rachmat	0.38 (state shares)	Strategic Sales (existing Shareholder)	-	Rp.2.85 Billion	0
	PT Atmindo	36.65(state shares)	Strategic Sales (existing Shareholder)	-	Rp.9.68 Billion	0
	PT Jakarta International Hotel Development, Tbk	1.33 (state shares)	Drip Sale (Capital Market)	-	Rp.19.89 Billion	0

*) = Gross proceed (it had not calculated with the expense);
Sources: The Ministry of State-Owned Enterprises website http://bumn.go.id/halaman/147/Privatisasi

The largest proceeds resulting from the privatization of BUMNs during 2006-2011 came from PT BNI Tbk. is Rp. 19,947 Billion. The rest of state shares in PT Kertas Blabak (0.84%), PT Intirub (9.99%), PT Kertas Basuki Rahmat (0.38%), PT Atmindo (36.65%) and PT Jakarta International Hotel Development, Tbk (1.33%) was sold entirely. Therefore, the Government of the Republic of Indonesia no longer had shares in these companies.

3.2. STRATEGIC ROLES

3.2.1. Profile and Development of BUMN

State-Owned Enterprise Act No. 19 of 2003 defines the SOE as “a business entity which 100% or the majority of its capital is owned by the state through direct investment originating from a separate state fund”. According to the Act, State-Owned Enterprises have only two legal forms, namely “Persero”, a Limited Liability Company and “Perusahaan Umum (Perum)”, a Special Purposes Company. Therefore, the State-Owned Enterprise of “Perjan”, a Bureau Company which was established by Law No. 9 of year 1969, ceased to exist.

“Persero”, or a limited liability corporation, is a State-Owned Enterprise the goal of which is to make a profit. Its capital is divided into shares with the state holding 51%. On the other hand, Perusahaan Umum (Perum) or A Special Purpose Entity is a State-Owned Enterprise moltivated by both profit and social concerns. Its capital is not divided into shares; instead, it is owned 100% by the Government. Perjan is an enterprise operating in public service which has a social welfare motive (Fitriningrum, 2015). These three types of SOEs are shown in TABLE 3-6.

TABLE 3-6 THE THREE TYPES OF SOES

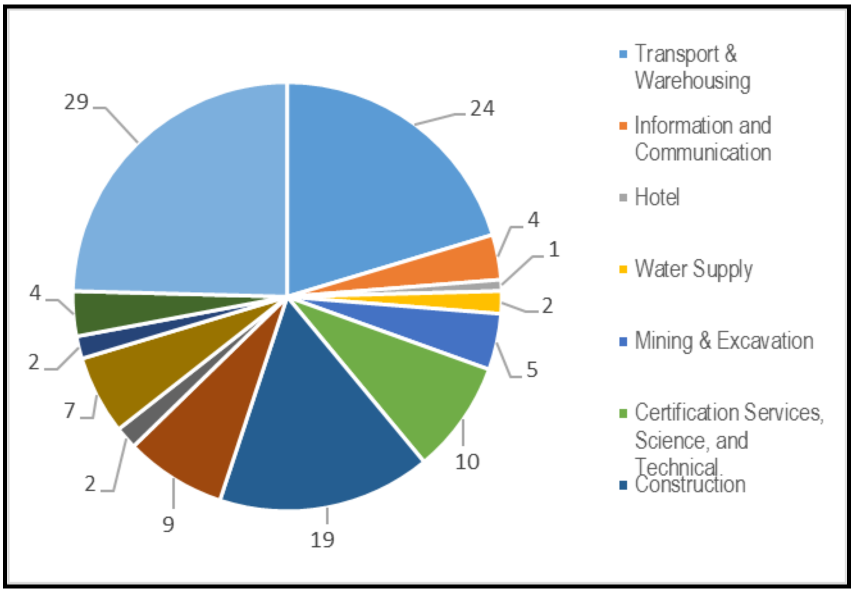
PERSERO	PERUM	PERJAN (before eliminated)
▪ Profit orientation	▪ Profit and Public Service orientation (income-cost=0)	▪ Public service (income<cost)
▪ Income > Cost	▪ Income = Cost	▪ Income < Cost
▪ No government subsidy, only in certain case	▪ If cost exceed income, it will get government subsidy	▪ Totally getting government budget allocation
▪ Limited Liability, capital is divided into shares	▪ Not Limited Liability so its capital is not divided into shares	▪ Part of the Government Unit and not divided into share
▪ Private law	▪ Private and Public law	▪ Public Law
▪ Director	▪ Director	▪ Head
▪ Equity	▪ Equity	▪ No Equity
▪ Getting state facility at minimum level	▪ Getting state facility at medium level	▪ All state facility
▪ Capital can be owned by private parties	▪ Capital is owned by the government	▪ Capital is owned by the government
▪ Employee follows persero rule	▪ Employee follows specific rule	▪ Government employee
▪ commissioners	▪ supervisory body	▪ Inspector general of department
▪ Independent	▪ Tariff or price is set by the government	▪ Not independent

Sources: Law no.9 of year 1969 and SOE Act no. 19 of year 2003

1) Industrial Sector Profile of BUMNs

The LKIP of 2015 provides the profile of BUMNs and the number of BUMNs as of December 31, 2015. The total number of BUMNs is 118 companies comprising 13 industrial sectors which are shown in Pie GRAPH 3-1.

GRAPH 3-1 THE BUMN INDUSTRIAL SECTOR CATEGORY 2015



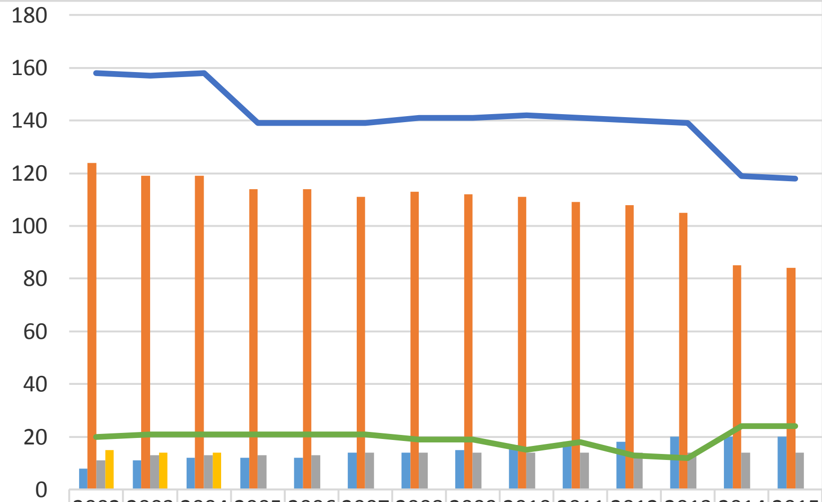
Sources: Performance Accountability Report of The Ministry of BUMNs 2015 (LAKIP 2015)

The largest three industrial sectors dominated by BUMN are: Processing (29 BUMN), Transport and Warehousing (24 BUMN), and Construction (19 BUMN). However, this does not mean that the largest industrial sectors have the biggest assets.

2) The Number and Category of BUMNs

According to the SOE Act No. 19 of year 2003, there are only two categories of the legal forms of BUMN, namely BUMN Persero and BUMN Perum. BUMN Perjan which is based on Law No. 9 of year 1969 did not exist after 2005. The total number of BUMNs and their categories are presented in GRAPH 3-2.

GRAPH 3-2 THE NUMBER AND CATEGORY OF BUMN



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Persero (Listed)	8	11	12	12	12	14	14	15	17	18	18	20	20	20
Persero (Non Listed)	124	119	119	114	114	111	113	112	111	109	108	105	85	84
Perum	11	13	13	13	13	14	14	14	14	14	14	14	14	14
Perjan	15	14	14	0	0	0	0	0	0	0	0	0	0	0
Total SOE	158	157	158	139	139	139	141	141	142	141	140	139	119	118
Minority Gov' Ownerships	20	21	21	21	21	21	19	19	15	18	13	12	24	24

Sources: The Ministry of State-Owned Enterprises Website: http://bumn.go.id/halaman/238/Statistik.Jumlah.BUMN and LKIP 2015

The total number of BUMNs decreased from 158 in 2002 to 118 in 2015. This was in line with the rightsizing program from the Master Plan 2009—2014. On the other hand, the number of companies with Minority Government Ownership slightly increased from 20 companies in 2002 to 24 companies in 2015. Fourteen Perjan entities in 2004 were converted into persero or perum, or were liquidated by means of the Governmental Decrees. The significant decrease in the number of BUMNs occurred in the BUMN Persero (Non-listed) category caused by the Holding Program of The Ministry of SOEs. The holding program initiated by the government was implemented during 2012—2014, when several BUMNs merged into a holding company in three industrial sectors namely fertilizer, cement, and plantation. In the fertilizer industry, PT Pupuk Sriwidjaya (Persero) became the holding company or parent company of BUMNs which had similar businesses in the fertilizer industry; these included PT Pupuk Kalimantan Timur (Persero), PT Petrokimia Gresik

(Persero), PT Kudjang (Persero), and PT Pupuk Iskandar Muda (Persero)[35]. Then, PT Pupuk Sriwidjaya changed its name to PT Pupuk Indonesia Holding Company (Persero).[36] In the cement industry, PT Semen Gresik (Persero) Tbk became the holding company or parent company of BUMNs which had similar business in the cement industry; these included PT Semen Padang, and PT Semen Tonasa. On December 12th, 2012, PT Semen Gresik (Persero) Tbk changed its name to PT Semen Indonesia (Persero) Tbk. In the plantation industry, PT PN III became the holding company or parent company of BUMNs which had similar business in the plantation industry.[37]

3) Financial Profile of the BUMN for a decade of 2005--2014

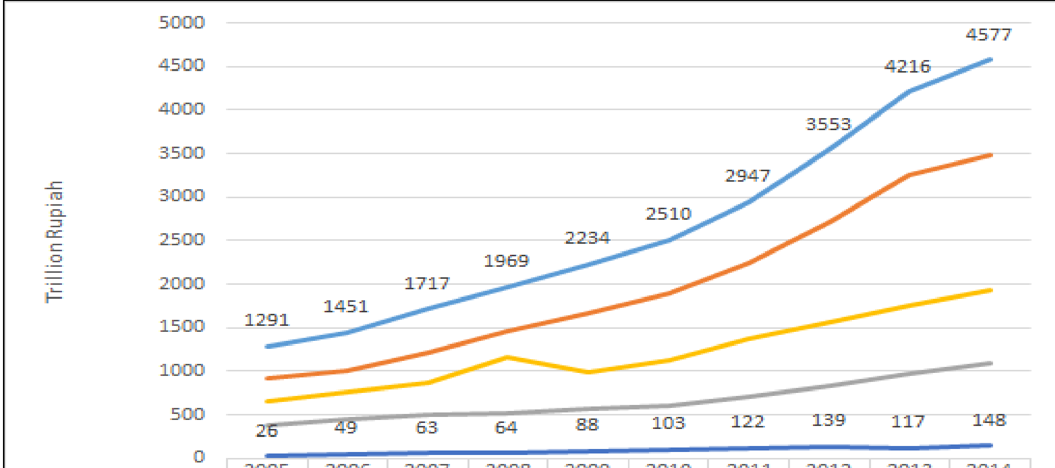
All the financial profiles of BUMNs for a decade (2005—2014) show an increasing trend. On the balance sheet side, the assets of BUMN over a decade had an almost fourfold increase from 1,291 trillion rupiahs in 2005 to 4,577 trillion rupiahs in 2014, but the liability and equity for the same period increased linearly with the assets. For example, the liability increased from 921 trillion rupiahs in 2005 to 3,487 trillion rupiahs in 2014, while the equity increased from 370 trillion rupiahs to 1,091 trillion rupiahs in 2014. The financial profiles of BUMN assets and income statements for the period of 2005—2014 are shown in GRAPH 3-3.

[35] On August 7, 1997, the Government issued the Governmetal Decree number 28 of year 1997 to appoint indirectly PT Pupuk Sriwidjaya as a holding company for several BUMN in fertilizer. Then, in 1998 the share of ownership PT Mega Eltra was given to PT Pupuk Sriwidjaya, and in 2010 PT Pupuk Sriwidjaya spinned-off PT Pupuk Sriwidjaya Palembang into a unit production.

[36] Based on the Ministerial Decree of Law and Hman Right of the Republic of Indonesia number AHU-17695.AH.01.02 of year 2012

[37] The Government of Republic of Indonesia issued the Government Decree number 72 of year 2014 about The Additional Investment Capital of The Republic of Indonesia Into The Capital Stock of BUMN PT Perkebunan Nusantara III (PT PN III)

GRAPH 3-3 THE FINANCIAL PROFILE OF THE BUMN 2005—2014 (IN TRILLION IDR)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Asset	1291	1451	1717	1969	2234	2510	2947	3553	4216	4577
Liability	921	1005	1217	1454	1662	1903	2239	2715	3253	3487
Equity	370	446	500	515	575	602	708	838	963	1091
Revenue	655	755	865	1161	987.3	1136	1378	1571	1750	1937
Net Income	26	49	63	64	88	103	122	139	117	148

Sources: Performance Accountability Report of The Ministry of BUMN 2015 (LAKIP 2015) and website: http://bumn.go.id/halaman/241/Kinerja.BUMN and LKIP 2015

On the income statement side, the revenue and net income of BUMN for the period of 2005—2014 also tends to increase on the balance sheet side even though the increasing slope of the income statement side is not as steep as the balance sheet side. Even though, in 2009, the revenue of BUMN decreased from 1161 trillion rupiahs to 987.3 trillion rupiahs, the net income increased from 64 trillion rupiahs to 88 trillion rupiahs.

3.2.2. BUMN Roles

The philosophical concept behind the formation of the State-Owned Enterprises was enshrined in The Constitution 1945 article 33 paragraph 2 stating that "Sectors of production which are important for the country and affect the life of the people shall be under the powers of the State" meaning that "*The economy is based on economic democracy which envisages prosperity for everybody. Therefore, economic sectors which are essential for the country and which affect the life of the people, must be controlled by the state. Otherwise, the control of production might fall in the hands of powerful* *demographics who could exploit people. Hence; only enterprises which do not affect the life of the general population may be left to private demographics"[38].* However, the meaning of "under the powers of the state" was questioned and became a polemical issue when the Electricity Law No.30 of year 2009 which enabled private sectors to enter the electricity business (more liberal economic policy) was undergoing judicial review. The arguments from all experts regarding this polemical issue in the judicial review process were summarized by Ilyas (2011) as follows:

> **Mustafa Abubakar[39]**, the Minister of SOE in the judicial review argues that "under the powers of the state meaning that state as regulator, facilitator, and operator which dynamically towards only as a regulator and facilitator. This argument is accepted by the Constitutional Court;
>
> **The Constitutional Court[40]** interprets that "Under the powers of the State" means that people collectively give a mandate to the State to establish policies (beleid), acts of management (bestuursdaad), regulation (regelendaad) and controlling (toezichthhoudensdaad) for maximizing of people's prosperity. Then, the Constitutional Court concluded that "the share-ownership by the Government in business entity which relates to the sectors of production which are important for the country and affect the lives of the people, and as long as the government is the relative majority shareholder, then the government legally remains in the position of determining the decision-making of the business entity in question. The majority shareholder

[38] Annotation of Constitution 1945 article 33 paragraph 2

[39] Mustafa Abubakar is the 5th Minister of State-Owned Enterprise of Indonesia of the Second United Indonesia Cabinet, under President Susilo Bambang Yudhoyono Administration.

[40] The Decision, No 36/PUU-X/2012 ('the Decision') November 13th of 2012; http://www.mahkamahkonstitusi.go.id/public/content/persidangan/risalah/Putusan%2036.PUU-X.2012%20dan%20Perkara%20Nomor%2078,79,80,81,82.PHPU.D-X.2012,%2013%20November%202012.pdf

can be characterized as an absolute majority (> 50%) or as a relative majority (< 50%).

Prof. Sri Edi Swasono[41], senior economist from the University of Indonesia who supports the people's economy argues that from an imperative point of view of a constitution, "under the powers of the state" must be followed "having", because, if it does not follow by "having", then state control would not be effective, more importantly in a globalization era (Court, 2013).

Dr. Muhammad Hatta, the founding father of Indonesia cooperative who was also the former first vice president of the Republic of Indonesia provides a loose explanation of the meaning of "under the powers of the state" in article 33 of Constitution 1945. According to Dr. Hatta, this does not mean that the state becomes entrepreneur, businessman, or *ordernemer*[42]*.* It is better if "under the powers of the state" is taken to mean that the state establishes regulations to support economic development and prevent exploitation of the weak by the capital owners (Magnar et al.).

In practice, the Government of Indonesia has the power to control the State-Owned Enterprises listed in the Capital Market by issuing a golden share (Siahaan, 2005), called a "Red—White share" (the color of the national flag), a share which has a privilege vote or veto in: (i) nomination, appointment, and termination of directors; (ii) nomination, appointment, and termination of commissioners; (iii) issuance of new shares; (iv) changes in corporate charter; including merger, divestiture, increase in or decrease in authorized capital or decrease in subscribed capital. The Government of the Republic of Indonesia urged SOEs to become a developmental locomotive and make a real contribution to every aspect of the national developmental agenda, through poverty alleviation programs, food

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[41] A former of a member of People's Consultative Assembly of the Emissary Group Orde Baru Era.

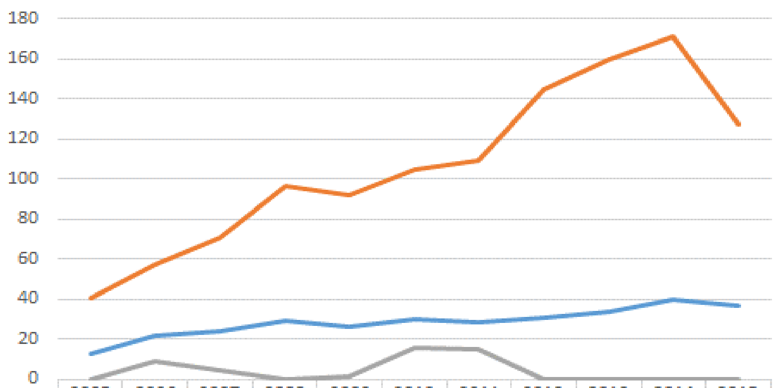
[42] Dutch Language meaning *an Entrepreneur*

security and energy, infrastructure, and transport which is environmentally friendly (AM, 2012).

1) Contribution of BUMN to State Revenues (2005—2015)

The strategic roles of BUMN can be measured by their contribution to the state budget through taxes, dividends, and proceeds of privatization. These contributions are presented in GRAPH 3-4.

GRAPH 3-4 THE CONTRIBUTION BUMN TO STATE REVENUES 2005—2015 (IN TRILLION IDR)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dividend (Trillion)	12.84	21.45	23.78	29.09	26	30.1	28.8	31	34	40	37
Taxes (Trillion)	40.92	57.6	70.88	96.4	92	105	109	145	160	171	127
Privatization (Trillion)	0	9.03	4.12	0	1.82	15.7	15.3	0	0	0	0

Sources: The Ministry of SOE Website: http://bumn.go.id/halaman/241/Kinerja.BUMN and LKIP 2015

From 2005 to 2015, there is a fourfold increase in the BUMN contribution to state revenues in the form of taxes, whereas, the dividend payment fluctuates. For example, in the period 2005—2008 there is a slight increase from 12.84 trillion rupiahs to 29.09 trillion rupiahs; it fluctuates in the period 2009—2012,and in the period 2013—2014 increases from 34 trillion rupiahs to 40 trillion rupiahs, then decreases to 37 trillion rupiahs in 2015. The privatization began to occur after the establishment of the New Order, and in this decade occurred in 2006, 2007 and 2009 until 2011.

2) ROA, ROE and Market Capitalization

The corporate health of BUMN can be determined by two important financial ratios, namely return on asset (ROA) and return on equity (ROE). Return on asset indicates the extent to which management effectively operates the assets of BUMN. In other words, return on asset reveals

how much profit the BUMN earns for every rupiah (dollar) of its assets. ROA is calculated by net income divided by total assets (Bragg, 2012):

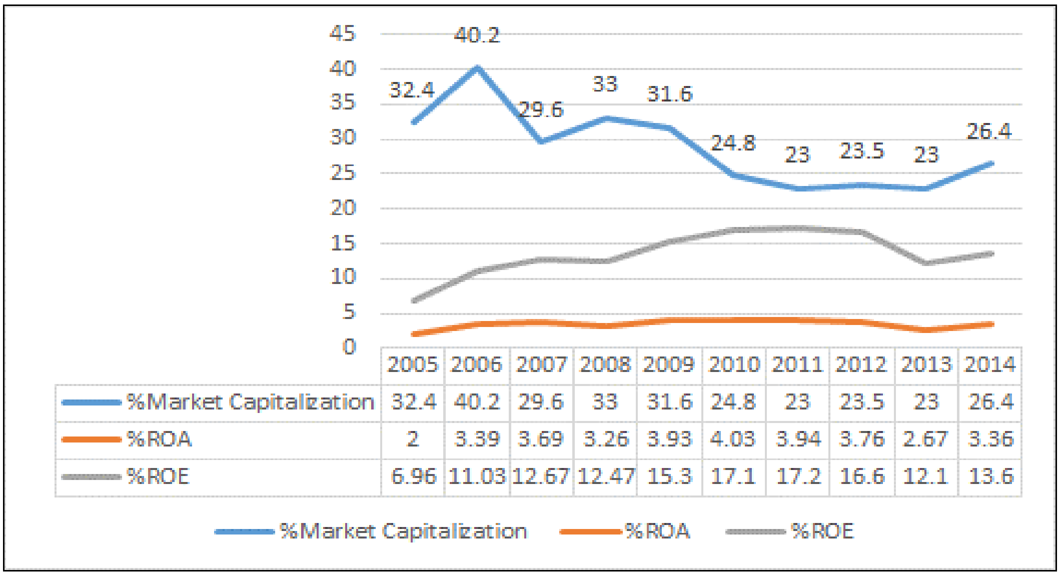
The return on equity of a BUMN indicates how effectively the directors of a BUMN have used its equity. In other words, the return on equity of a BUMN reveals how much profit the BUMN earns for every rupiah (dollar) of every rupiah (dollar) of its equity. ROE is calculated by net income divided by total equity (Bragg, 2012):

$$\frac{\textbf{Net Income}}{\textbf{Total Equity}}$$

The market capitalization of BUMN shows the total rupiah (dollar) market value of all BUMN's outstanding shares, meaning that the market capitalization of BUMN measures only the BUMNs which have been listed in the capital market. The market capitalization is calculated by outstanding shares multiplied by the market price of one share (Bulkowski, 2012).

The ROA, ROE, and market capitalization of BUMNs are presented in **GRAPH 3-5**.

GRAPH 3-5 ROA, ROE, AND MARKET CAPITALIZATION 2005—2014



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
%Market Capitalization	32.4	40.2	29.6	33	31.6	24.8	23	23.5	23	26.4
%ROA	2	3.39	3.69	3.26	3.93	4.03	3.94	3.76	2.67	3.36
%ROE	6.96	11.03	12.67	12.47	15.3	17.1	17.2	16.6	12.1	13.6

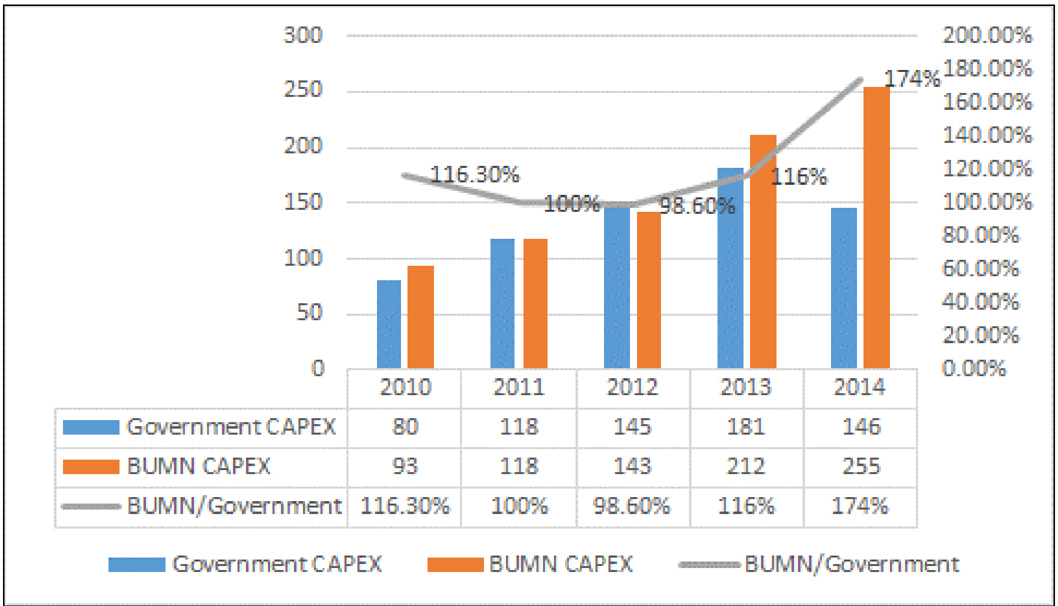
Sources: The Ministry of State-Owned Enterprises website: http://bumn.go.id/halaman/241/Kinerja.BUMN and LKIP 2015

Return on assets of BUMNs for the period 2005—2014 are relatively stable at between 2% and 3.5%, return on equities of BUMN for the same period have increased nearly doubled in 2006 from 6.96% to 11.03%, then slightly increased from 12.67% to 17.2% for the period of 2007—2011, decreased in 2012 and fluctuated at the end of period 2005—2014. The market capitalization of BUMN for the period of 2005—2014 tends to decrease from 32.4% to 26.4% after the highest market capitalization of 40.2% in 2006.

3) Capital Expenditure of BUMN and Government

Capital expenditure is a budget allocation for procurement, maintenance, and replacement which is capitalized based on accounting principles and procedures (both the government and BUMN). The capital expenditure of a BUMN is intended to expand the business or increase the production capacity. The increase in capital expenditure will be expected to increase the role of BUMN as the agent of development. The comparison between Government CAPEX and BUMN CAPEX is presented in GRAPH 3-6.

GRAPH 3-6 CAPEX OF BUMN AND GOVERNMENT FOR THE PERIOD 2010—2014 (IN TRILLION IDR)



	2010	2011	2012	2013	2014
Government CAPEX	80	118	145	181	146
BUMN CAPEX	93	118	143	212	255
BUMN/Government	116.30%	100%	98.60%	116%	174%

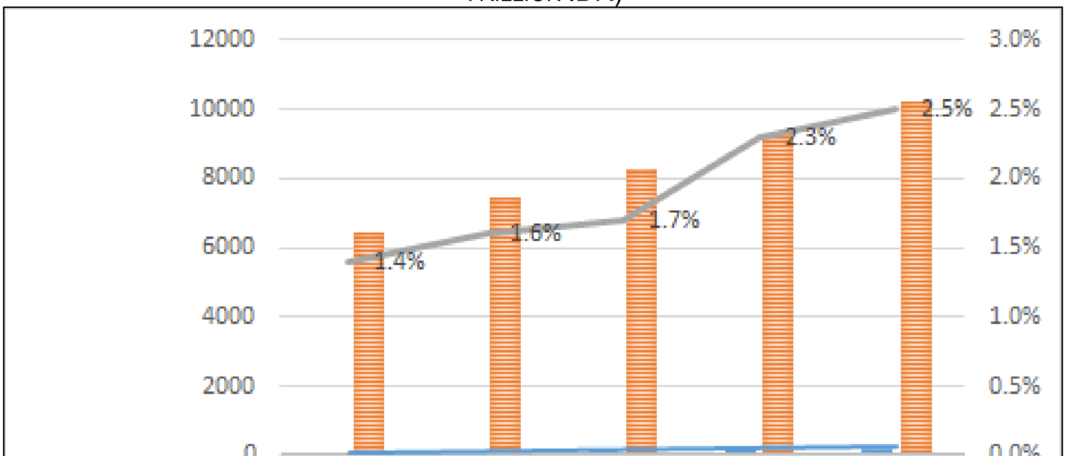
Sources: http://bumn.go.id/halaman/241/Kinerja.BUMN and LKIP 2015

From the graph above, it can be seen that on average, the capital expenditure of BUMN is greater than that of the government. In addition, the total capital expenditure of BUMN increased steadily from 93 trillion rupiahs in 2010 to 255 trillion rupiahs in 2014; this is 174% of the government capital expenditure.

4) *Nominal GDP and BUMN CAPEX*

The Gross Domestic Product Nominal measures the gross domestic product which consists of all finished products and services based on the current market prices. Nominal GDP does not include inflation or a rise in the overall price level. The comparison of BUMN CAPEX and Nominal GDP is presented in Graph 3-7.

GRAPH 3-7 NOMINAL GDP AND BUMN CAPEX FOR THE PERIOD OF 2010—2014 (IN TRILLION IDR)



	2010	2011	2012	2013	2014
BUMN CAPEX	93	118	143	212	255
Nominal GDP	6,447	7,423	8,242	9,269	10,196
BUMN/GDP	1.4%	1.6%	1.7%	2.3%	2.5%

Sources: The Ministry of State-Owned Enterprises website http://bumn.go.id/halaman/241/Kinerja.BUMN and LKIP 2015

The BUMN CAPEX increased steadily from 93 trillion rupiahs in 2010, to 255 trillion rupiahs in 2014. Thus, the percentage of BUMN CAPEX to Nominal GDP has tended to increase steadily, going from 1.4% in 2010 to 2.5% in 2014.

3.3. SCENARIO AND DIRECTION

3.3.1. Master Plan BUMN of 2005—2009 and 2010—2014

In the Master Plan BUMN of 2005—2009 and 2010—2014, there are three programs intended to increase BUMN performance and shareholders' value in managing BUMN portfolios. These programs pertain to restructuring, revitalizing, and profit maximization. The implementation of all three programs is expected to increase the direct contribution of BUMN to the state revenues in the form of dividend payments and taxes, and indirectly in the form of corporate social responsibility which they develop.

Since the establishment of the State-Owned Enterprises as a result of the nationalization of the Dutch companies, a huge task for the government of the Republic of Indonesia has been to empower the State-Owned Enterprises so they can contribute to the people's prosperity. The task was made more challenging when the majority of the State-Owned Enterprises which were born from the nationalization process were not in a healthy condition. The term 'restructuring' has become a buzzword among consultants, company specialists, and organizational experts brought in to change and improve a company's situation. Restructuring is a multidimensional process and the form it takes will depend on the company needs; hence, restructuring can have several forms. Nag and Pathak (2009) gave examples of restructuring in the forms of mergers, acquisitions, or demergers; other forms of restructuring are structural changes and undertaking resource optimization in the organization. Furthermore, Gaughan (2011) provided more technical details, stating that corporate restructuring covers issues such as divestitures, equity carve-outs, spin-offs, split-offs, change-over, and split-ups. During the period of guided economy of the Old Order era, after the nationalization of the Dutch companies, the government restructured 600s companies to form 223 (Nugroho and Wrihatnolo, 2008).

The estimation of total State-Owned Enterprises based on the Master Plan of 2005—2009 compared to the realization is depicted in FIGURE 3-8.

FIGURE 3-8 THE REALIZATION OF MASTER PLAN 2005--2009

Master Plan 2005—2009			**Realization**		
No.	Year	Total	No.	Year	
1	2007	102	1	2007	139
2	2008	87	2	2008	141
3	2009	69	3	2009	141
4	2012--2015	50	4	2012	141
5	>2015	25	5		

Sources: Master Plan 2005—2009 and 2010—2014 of State-Owned Enterprises issued by The Ministry of State-Owned Enterprises

From Figure 3-8 above, the number of BUMNs set up in the Master Plan 2005—2009 does not achieve the rightsizing target. The BUMNs which are still under bureaucrat management are probably resistant to change. Another factor that may be responsible for the failure to achieve the rightsizing target is that the speed of bureaucratic decisions almost always lags behind the speed with which business decision are made.

1) Rightsizing

Rightsizing is a term used to mean corporate restructuring to most effective size. It is also called rationalization with the main goal being to reduce costs and improve efficiency and effectiveness (Black, 2010). Black (2010) stated that rightsizing is a euphemism for downsizing or delayering. However, rightsizing can also mean that the size of an organization is increased. The Ministry of State-Owned Enterprises stated that rightsizing policy will drive the SOEs to be more competitive and enable them to compete with multinational companies in the global competition era.

Rightsizing policy is aimed at reorganizing the number of SOEs through business scale improvement and SOEs' resources scale. This can be done by implementing policies such as stand-alone, merger/acquisition, consolidation, holding, divestiture, and liquidation.

The government of Indonesia implemented a variety of rightsizing policies during the 1990s and 2000s as depicted in TABLE 3-7.

TABLE 3-7 THE RIGHTSIZING IMPLEMENTATION

No	Year	Initial Condition	Policy	Result
1.	92/93	4 docking and ship companies	Merger	2 companies
2.	1995	32 Plantation	Regrouping	14 companies
3.	1997	5 Fertilizer Companies	Holding	1 companies
4.	1999	4 banks	Merger	1 bank
5.	2012	3 Cements Companies	Holding	1 Companies
6.	2014	13 Plantation Companies	Holding	1 Companies

Sources: Processed from the Strategic Plan 2012—2014 issued by the Ministry of State-Owned Enterprises

The Ministry of State-Owned Enterprises intends to rightsize the SOEs based on a scenario that is conceptualized in the Strategic Plan 2012—2014 (MSOE, 2012). The SOEs which operate in sectors such as plantation, forestry, pharmaceutical, miscellaneous industry, printing, dredging, and construction were to be rightsized in 2012, so the total number of SOEs at the end of 2012 would be ± 114 SOEs. Then, in 2013 the rightsizing would take place in the sectors of agriculture, energy, printing, land transport, construction consultancy, logistics, and valuation services, so that at the end of 2013 there would be ± 104 SOEs. Finally, in 2014 the rightsizing would be in sectors of other services, paper, dock and ships, technology-based industries, land transport and insurance. It was estimated that at the end of 2014 the total number of SOEs would be ± 91.

2) Revitalization

Revitalization and restructuring are two closely-related terms. SOEs which are in an unhealthy condition and always incur losses need to be revitalized so that they will be healthier, competitive, and profitable. The revitalization could be in the form of restructuring in order to increase performance and company value, providing benefits such as increase in dividend and taxes, producing good quality products and services offered to consumers at competitive prices, and preparing adequately for privatization.[43] According to a ministerial decree from the Minister of State-Owned Enterprise[44], there are several means of revitalizing and restructuring the SOEs, namely:

(1) Financial Restructuring: for example, restructuring the company debts and/or adding equity which can be used by the SOEs for investment, working capital, or buyback of promisaory notes or shares.
(2) Organization or management: for example, streamlining or merging the unit business.
(3) Operational: for example, joint operation with a third party, acquisition, selling of non-core or non-productive assets, or divestment.
(4) System and Procedures: for example, improving accounting procedures, internal control and/or decision mechanisms.

3) Profit-maximization

The BUMN Master Plan 2010—2014 uses the term “profitization” to mean profit-maximization. This profitization of the state-owned enterprise is an integral part of the strategic plan of the Ministry of State Owned Enterprises2010-2014. This strategic plan includes:

(1) Confirming that the selection processes of the state board are professional, transparent, and objective;
(2) Determination of state laws and regulations implementing the legislation in accordance with the Limited Liability Act and/or the Capital Market Protocol;
(3) Implementation of Good Governance and Good Corporate Governance;

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[43] Undang-Undang Nomor 19 Tahun 2003 Tentang Badan Usaha Milik Negara [Law No.19 of 2003 on State-Owned Enterprise] (Indonesia) art 72 (1)
[44] Peraturan Menteri BUMN Nomor 1/MBU tahun 2009 dan 5/MBU tahun 2012 tentang restrukturisasi BUMN [The Ministerial Decree of The Minister of SOEs No.1/MBU of 2009 and 5/MBU of 2012] (Indonesia)

(4) Improved performance and competitiveness and sustainability of State-Owned Enterprises;

(5) Improving the quality of public services;

(6) Enhancing the role of SOEs in promoting the implementation of national development priorities;

(7) Privatization of state owned enterprises to improve competitiveness and corporate value.

3.3.2. Road Map BUMN 2015-2019

This section summarizes the main points of the Road Map BUMN 2015—2019 and LKIP 2015 of The Ministry of BUMN which describes the scenario and direction of BUMN. In the Performance Report of the Government Institution of the Ministry of BUMN 2015, commonly known as the LKIP (Laporan Kinerja Instansi Pemerintah)[45], the Roadmap Framework of BUMN is based on the vision of BUMN as the agent of development and value creation. This vision encompasses three main themes, namely The Strategic Pillars, The Sectoral Roadmap, and The Organization Restructuring.

These three aspects of the vision will be achieved by applying strategic goals which are formulated in the Key Performance Indicators enshrined in the LKIP of the Ministry of BUMN. The LKIP 2015 of the Ministry of BUMN states that BUMN is directed to become an optimal agent of development that is big, strong, and agile through 9 key performance indicators, namely: (1) BUMN Asset, (2) BUMN Profit, (3) BUMN Equity, (4) BUMN Capital Expenditure, (5) The Number of BUMN listed in the Global Fortune 500, (6) BUMN Contribution to State Revenue (7) The Assessment of Performance Score of BUMN, (8)

[45] The Government Institutions are obliged to provide a Performance Report called LKIP every year based on the Government Decree number 8 of year 2006 and the Presidential decree number 29 of year 2014, and technical guidance provided by the Ministerial Decree of the State Minister for the State Apparatus Reform

the Percentage of BUMN Progress, and (9) Achieving the Service Level of Agreement (SLA) and Public Service Obligation (PSO).

3.4. Corporate Governance Development

"If management is about running the business, governance is about seeing that it is run properly." - R Tricker

The development of Good Corporate Governance (GCG) in the SOEs became a formal concern of the Government when the Ministry of State-Owned Enterprises in 2001 for the first time cooperated with and gave a special task to the Development and Finance Supervisory Agency, an internal auditor of the government, to assess the corporate governance practised in 16 State-Owned Enterprises[46]. The first group of state-owned enterprises which were willing to have their corporate governance implementation assessed is shown in **Table 3-8**.

Table 3-8 The First Group of SOE included in the GCG Assessment

NO	SOE	Business Areas	Status
1	PT Adhi Karya (Persero)	Construction	Non Listed
2	PT Asuransi Ekspor Indonesia	Insurance	Non Listed
3	PT Bank Negara Indonesia, Tbk.	Banking	Listed
4	PT Danareksa	Financial Services	Non Listed
5	PT HI Natour	Tourism	Non Listed
6	PT Jasa Marga	Transport Infrastructure	Non Listed
7	PT Kereta Api Indonesia	Railway	Non Listed
8	PT Kimia Farma Tbk	Pharmacy	Listed
9	PT Krakatau Steel	Steel	Non Listed
10	PT Pelabuhan Indonesia II	Port	Non Listed
11	PT Pelayaran Nasional Indonesia	Shipping	Non Listed
12	PT Perusahaan Listrik Negara	Electricity	Non Listed
13	PT Perkebunan Nusantara VIII	Plantation	Non Listed
14	PT Sarinah	Retail	Non Listed
15	PT Surveyor Indonesia	Survey	Non Listed
16	PT Timah Tbk	Mining	Listed

Sources: Finance and development Supervisory Agency website: http://www.bpkp.go.id/dan/konten/299/good-corporate

The result of the assessment was used by the Ministry of State-Owned Enterprises to establish guidelines for the all SOEs to implement Good Corporate Governance. The corporate governance aspects that were assessed were: structure, process, and

[46] This assessment task can be seen in *Finance and Development Supervisory Agency website: http://www.bpkp.go.id/dan/konten/299/good-corporate*

commitment of the governing body of SOEs. Overall, the result showed that those corporate governance aspects needed to be improved. The results of the assessment gave inputs for the Ministry of State Owned Enterprise to prepare corporate governance guidelines. The Ministerial Decree No. KEEP-117/M-MBU/2002 pertaining to the implementation of Good Corporate Governance Practice in State-Owned Enterprises was issued to ensure that the guidelines were followed.

3.4.1. The Separation of Powers, Legal System, and Board Model in Indonesia

1) The Separation of Powers

The separation of powers was conceptualized by Aristotle, the Greek philosopher (384—322 B.C.). It became a model for the governance of a state that was used for the first time by Ancient Greece and Rome, and has had worldwide influence (Brookes, 1951). This concept was redeveloped by John Locke (1632—1704) in his book titled Two Treatises of Government (Locke, 1947), and refined by Montesquieu (1689—1755) (Krause, 2000) and popularly known in political science as Trias Politica, namely legislature, executive and judiciary (Labuschagne, 2006). The legislature enacts laws; the executive implements the legislation; and the judiciary interprets the law and metes out punishment to those who disobey the law.

Indonesia enshrined this concept in the 1945 Constitution of the Republic of Indonesia in Chapter VII on **The People's Representative Council** (Dewan Perwakilan Rakyat or DPR), article 20 paragraph (1) stated that "*the DPR shall hold the authority to establish the law*". Then, In Chapter III on **The Executive Power**, article 4 paragraph (1) states that "*The President of the Republic of Indonesia shall hold the power of government in* *accordance with the Constitution".* The judiciary concept is enshrined in Chapter IX on **The Judicial Powers**, article 24.[47]

2) Legal System

Essentially, the legal system in Indonesia is influenced by three legal systems, namely the western laws, the Islamic law, and the customary laws. The Indonesian legal system is akin to the European system of law commonly called the Civil Law System (Achmad Santosa, 2009). This is because Indonesia was under the legal system introduced by the colonial administration of the Dutch when the Dutch colonized Indonesia for almost 3.5 centuries. According to article 24 paragraph (2) of the 1945 Constitution, the judicial power shall be carried out by a Supreme Court and its subordinate judicatory bodies, namely general courts, religious courts, military courts, administrative courts, and constitutional court.

The legislation order is regulated in accordance with Law No.12 of 2011 for the establishment of legislation regulation, type and hierarchy of legislation. This law established the sequence of legislation as follows:

(1) *The Constitution 1945 of the Republic of Indonesia*;

(2) Provision of the People's Consultative Assembly;

(3) Law and Government Regulation in Lieu of Law;

(4) Government Regulation;

(5) Presidential Regulation;

(6) Provincial Regulation; and

(7) District Regulation.

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[47] Paragraph (1): "*The judicial powers shall be independent with the authority to organize the judicature in order to uphold law and justice";*
Paragraph (2): "*The Judicial powers shall be carried out by a Supreme Court and by its subordinate judicatory bodies dealing with general, religious, military, state administrative judicial fields, and by a constitutional court".*

3) The Legal Basis of the State-Owned Enterprises for Operational Activities

The 1945 Constitution of the Republic of Indonesia is the legal basis for the SOE establishment which is enshrined in article 33 paragraphs 1,2,3,4 and 5.[48] Then, further elaboration of the purposes and the goals of SOE establishment were enshrined in the SOE Act No.19/2003 article 2 (see FIGURE 3-9). The purposes and the goals are (1) to contribute to the development of the national economy in general and the state income especially; (2) profit motive; (3) to organize the public need in the form of supplying a high quality of goods and/or services and adequate for the fulfillment of the most people; (4) to be a pioneer in business activity that cannot be done by the private sectors and cooperatives; (5) to participate actively in providing a guidance and an assistance to weak entrepreneurs, small enterprises, cooperatives and society.

To achieve these purposes and the goals, the SOE must follow several laws: (1) SOE Act No.19/2003; (2) Limited Liability Act No.40/2007; (3) the packet of the Financial State Laws; (4) Capital Market Law No.8/1995; (5) Sector regulation; (6) Government Degree No.41/2003. The Corporate Act No.40/2007 and the SOE Act No.19/2003 define the board model applied to SOEs.

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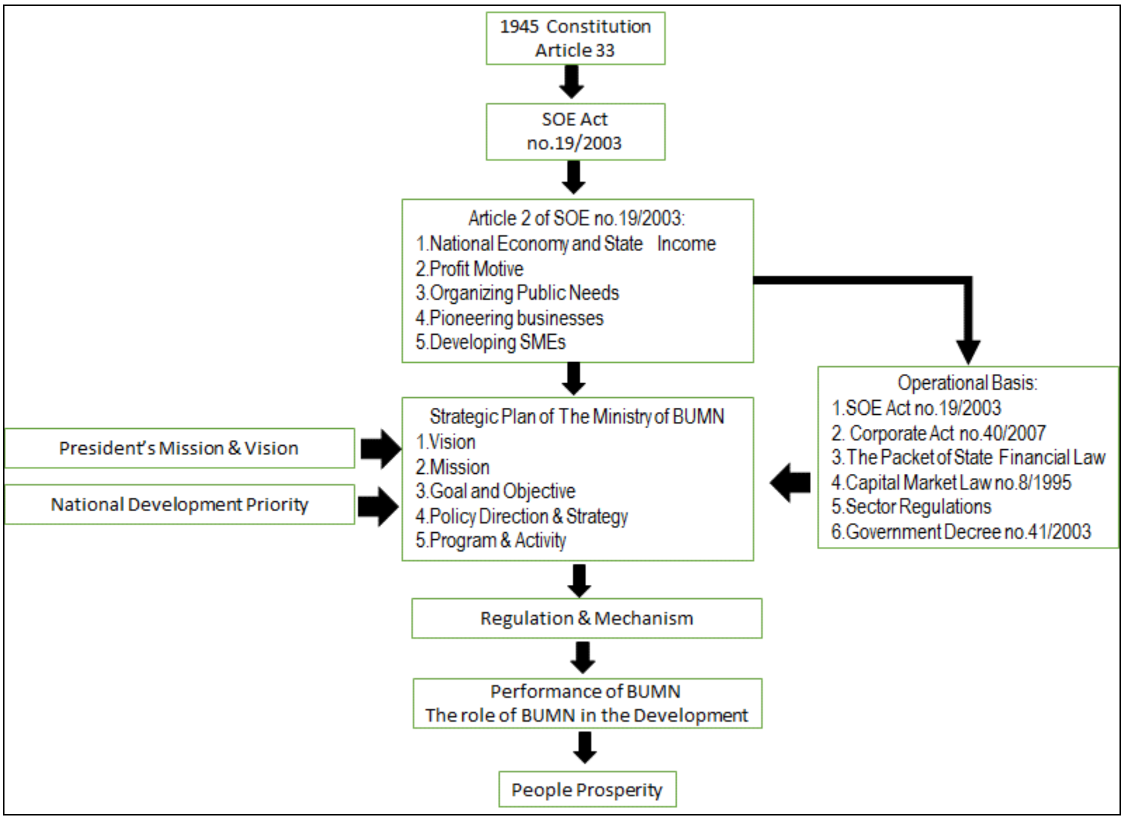
[48] Paragraph 1: "*The economy shall be organized as a common endeavour based upon the principles of the family system*";
paragraph 2: *"Sector of production which are important for the country and affect the life of the people shall be under the power of the State*";
paragraph 3: "*The land, the waters and the natural resources within shall be under the powers of the State and shall be used to the greatest benefit of the people";*
paragraph 4:*"The organisation of the national economy shall be conducted on the basis of economic democracy upholding the principles of togetherness, efficiency with justice, continuity, environmental perspective, self-sufficiency, and keeping a balance in the progress and unity of the national economy";*
paragraph 5: "*Further provisions relating to the implementation of this article shall be regulated by law*".

FIGURE 3-9 THE LEGAL AND OPERATIONAL BASIS OF BUMNS



Sources: The Master Plan of BUMN 2009—2014

(1) *The board model of SOEs*

The board model of corporations in Indonesia tends to follow the European model, generally known as the two-tier model. The two-tiered board model differentiates between the management board and the supervisory board (see Chapter 2).

(2) *Board of commissioners or board of trustees*

In line with the Corporate Act No.40/2007, the SOE Act No.19/2003 defines the board of commissioners and/or the board of trustees as a Persero and/or Perum organ that is in charge of supervising and providing advice to the board of directors in carrying out their activities in the Persero/Perum. These supervisory boards are company organs which represent shareholders (Persero) or the SOE Minister (Perum) that function as supervisors of the company (conformance role) and provide expertise (performance role). The supervisory boards have statutory duties concerning the environment, human rights, gender equity etc, and fiduciary duties that comprise the duty of loyalty meaning loyalty to their shareholders, and the duty of care which means "protecting" the company.

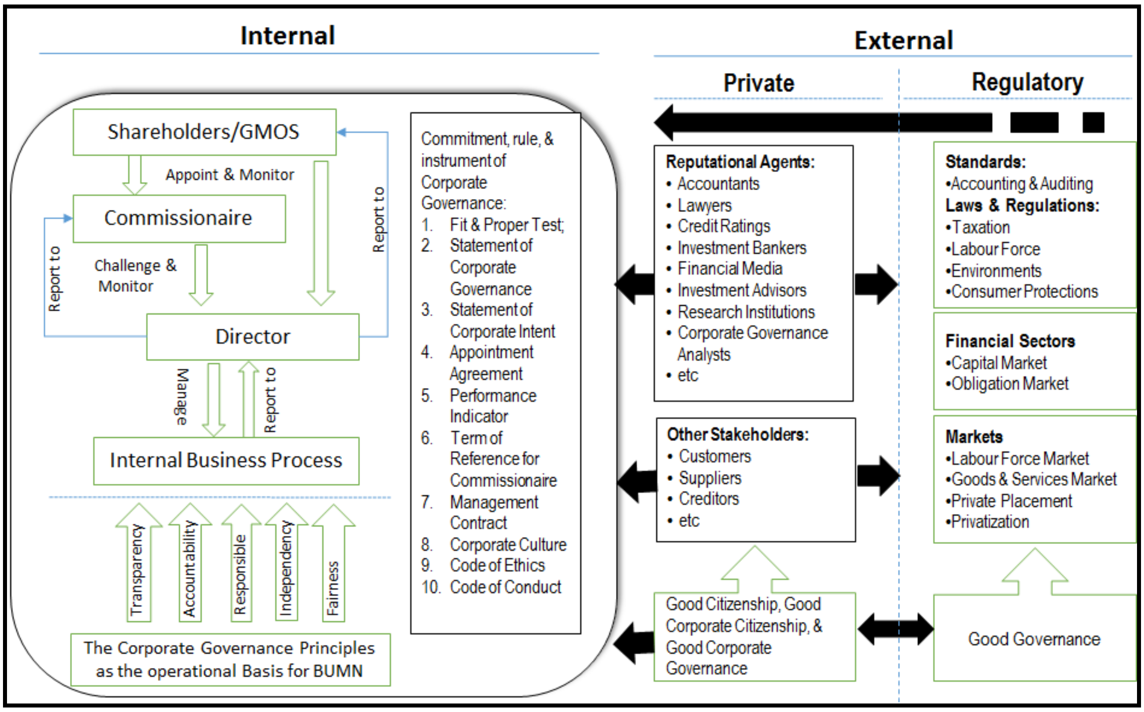
(3) Board of directors

The board of directors in persero and perum has the authority and full responsibility for managing the company in the interests of the company, in accordance with the provision of the article in the SOE Act 19/2003 and the Corporate Act 40/2007. The directors also represent the company in and out of court, arrange the handover of directors' power, and give an authorization in writing to one or more persons or other persons for and on behalf of the company to take certain legal actions.

3.4.2. The External Governance of BUMNS

The external governance mechanisms of SOEs are external forces such as policies, legal, any regulatory control and market shares for corporate control together with stakeholders and reputational agents such as the private sector agents, self-regulating bodies, the media and civic society that reduce asymmetric information. They oversee and discipline the internal governance mechanisms (Iskander and Chamlou, 2000). The pressure from external governance will minimize the gap between social and private returns, thereby reducing agency problems that are sometimes very costly (ibid p.7). The corporate governance team of the Finance and Development Supervisory Board describes the internal-external governance mechanism for the State-Owned Enterprises as shown in **FIGURE 3-10**.

FIGURE 3-10 THE CORPORATE GOVERNANCE MECHANISM IN BUMN



Sources: Adopted and adapted from World Bank, 2000 and Corporate Governance Team of BPKP, Iwan TP

The private sector and regulatory infrastructure drive the external governance mechanism in BUMN. The private sector comprises various reputational agents who also shape the image and value of BUMN such as accountants, lawyers, credit ratings, investment bankers, research institutions, corporate governance analyst, etc. Whereas, the regulatory infrastructure which also influences the BUMN is the accounting and auditing, taxation, labor force, environment, consumer protection. In the financial sector, BUMNs wanting to obtain funds from the financial market will be influenced by the capital market and bond market. In addition, markets which provide and are ready for labor forces, goods and services, private placement, and privatization are used by BUMNs.

3.4.3. The Internal Governance of BUMNS

The Ministry of BUMN defines corporate governance as the principles which underlie the process and governance mechanism of a corporation based on law and regulations, and business ethics.[49] There are five corporate governance principles that guide BUMNs in implementing good corporate governance (GCG), namely: (1) Transparency; (2) Accountability; (3) Responsibility; (4) Independency; and (5) Fairness. These principles are commonly known by the acronym TARIF.

The company organs according to Company Act number 40/2007 are shareholder(s), board of commissioners, and board of directors. These three organs, called the main company organs, have a central role in corporate governance practices. BUMNs having the legal form of 'Persero' have these organ structures as regulated by the Company Act; whereas, 'Perum' has a slightly different organ structure where the shareholder is the minister and the board of commissioners[50] is the oversight board ('Dewan Pengawas'). The internal governance mechanism of these organs, after the BUMN has been formed, starts with the shareholder role which is articulated in the general meeting of shareholders. The general meeting of shareholders appoints the corporate boards, namely the board of commissioners as the oversight body and the board of directors as the management body (see Chapter 2). Corporate boards perform their duties and report their tasks to the shareholders at the annual general meeting of shareholders. The shareholder evaluates the corporate board's performance based on the information given, although most of the useful information comes from the audit report established by the external auditor.

The board of directors that manages and executes the BUMN's business is involved in the internal business process and periodically reports it to the commissioner at corporate board meetings. The board of commissioners responds and gives advice to the board of directors. In addition, the board of director appoints a corporate secretary to ensure that

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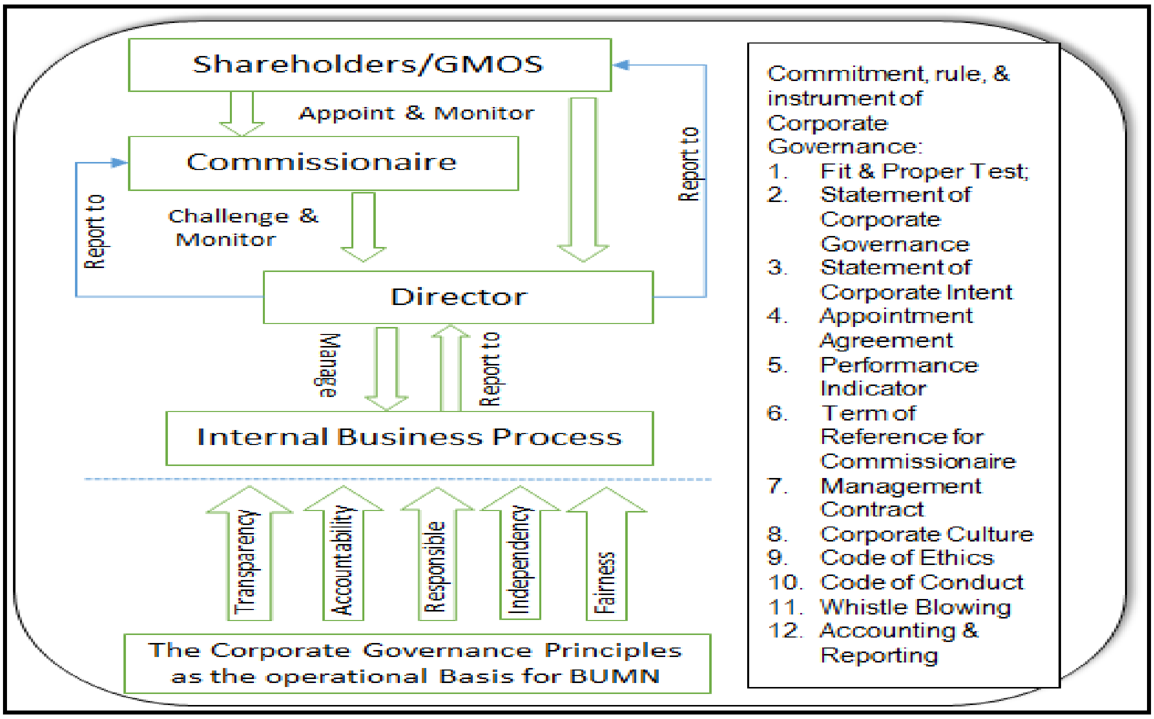
[49] Peraturan Menteri BUMN Nomor Per—01/MBU/2011 mengenai Penerapan Tata Kelola yang baik di BUMN [The Ministerial Decree of BUMN No. Per—01/MBU/2011 of 2011 on the implementation of Good Corporate Governance in BUMN] (Indonesia). Art1 (1)
[50] UU No.19/2003 mengenai BUMN [Law No.19/2003 about SOE] (Indonesia)

the BUMN obeys the law, to provide timely information to the corporate boards, to act as a liaison officer and to administer the corporate documents[51]. The interaction among the main organs of BUMN corporate governance, namely the shareholder, commissioners, and directors is depicted in FIGURE 3-11.

FIGURE 3-11 THE INTERNAL MECHANISM OF CORPORATE GOVERNANCE IN BUMN



Sources: adapted from the Fundamental of Corporate Governance, Corporate Governance Team of BPKP

The internal mechanism of corporate governance of a BUMN involves commitment, rules and instruments of corporate governance. There are several rules that govern the BUMN including corporate policy, code of corporate governance, code of conduct, code of ethics, board manual, management policy, standard operating procedures, and working instructions (see also Armstrong (2004)).

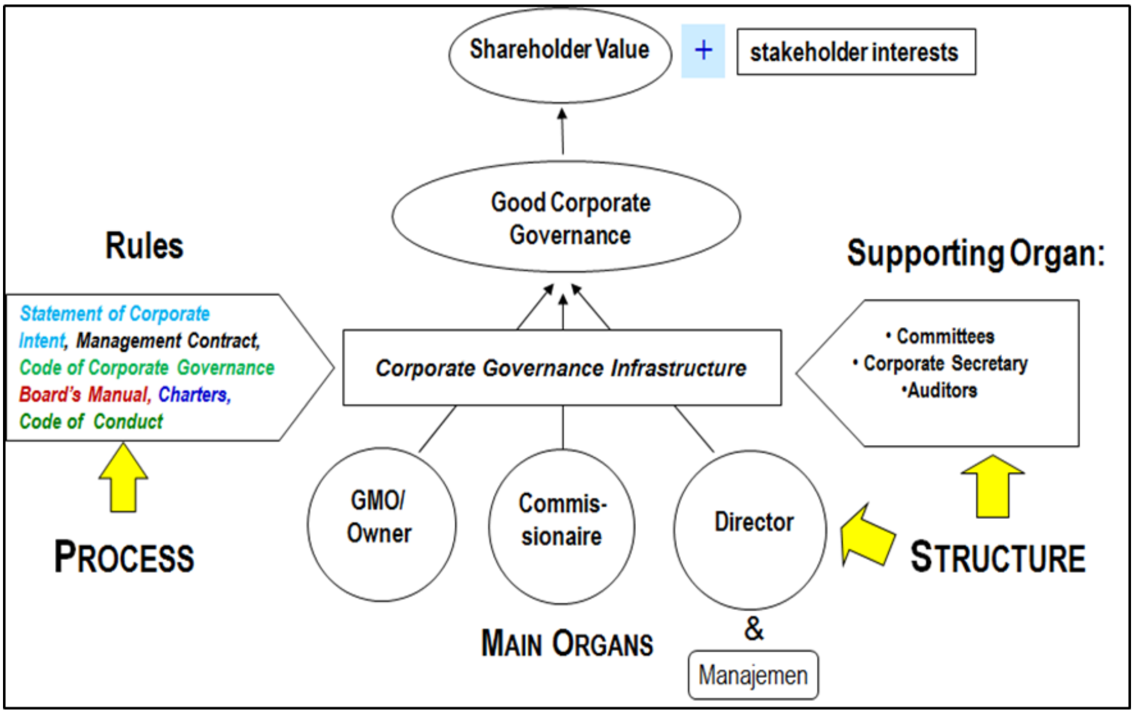
3.4.4. Structure and Process

The ministerial decree of BUMN number 117/M-MBU/2002 regarding the implementation of good corporate governance practice in BUMN which was refined by the ministerial decree of BUMN number Per—01/MBU/2011, clearly states that coporate governance is

[51] Ibid 29

the structure and process used by BUMN organs to increase shareholder value and keep the balance of the stakeholder's interests in the long-term based on the regulations and ethics. The structure and process of corporate governance in BUMN is depicted in FIGURE 3-12.

FIGURE 3-12 THE STRUCTURE AND PROCESS OF CORPORATE GOVERNANCE IN BUMN



Sources: The Fundamental of Corporate Governance, Corporate Governance Team of BPKP

1) Structure

"Structure" refers to the way in which the parts of a system or object are arranged or organized.[52] The corporate governance structure refers to the way in which the corporate governance bodies are arranged and organized. The internal structure of corporate governance in BUMN is comprised of the corporate governance infrastructure, known in legal terms as the corporate organs[53]. The main organs of BUMN Persero are specified in Company Act number 40/2007 and SOE Act number 19/2003, and pertain to the general meeting of shareholders, board of commissioners, and board of directors; whereas, the main organs of BUMN Perum are specified in SOE Act number 19/2003, namely RPB

[52] Definition from the Cambridge Advanced Learner's Dictionary & Thesaurus @ Cambridge University Press

[53] Undang-Undang Nomor 19 Tahun 2003 Tentang Badan Usaha Milik Negara [Law No.19 of 2003 on State-Owned Enterprise] (Indonesia) art 1 (7,8,9)

(Rapat Pembahasan Bersama) or Joint Discussion Meeting similar to the general meeting of shareholders in Persero, Dewan Pengawas or the oversight body similar to the board of commissioners in persero, and board of directors. The main organs are supported by supplementary organs which are appointed by the board of commissioners called commissioner committees[54], and by the board of directors called director committees, corporate secretary, internal audit, and management. In addition, as a part of the external governance mechanism, (see 3.4.2.) the external auditor is also included in the supporting organs of corporate governance in BUMN. External auditor will be appointed by the board of commissioners using a bidding process to perform the financial and operational audits of the company activities which are managed by the board of directors.

2) Process

The process of corporate governance which involves the main organ of BUMN is required to obey several rules which are usually enshrined in corporate policies such as Corporate Charter, Code of Corporate Governance, Code of Ethics and Conduct, Management Contract, and Board Manual. The supporting organs also have charters to guide their tasks, such as a committee audit charter, internal audit charter, corporate secretary charter, etc. The corporate governance process that is enshrined in the corporate policies can include board meetings, coordination, planning and budget approval, and a feedback system. The guidelines for board meetings can adopt Francis and Armstrong (2012).

3.4.5. Linking the Corporate Board with the Bureaucracy as "shareholding agent"

BUMNs emerged as a result of article 33 (2) of the Constitution 1945 which stated that "Production sectors that are vital to the state and that affect the livelihood of a considerable part of the population are to be controlled by the state". The legal aspects of BUMN derived from the Constitution 1945 are explained in section 3.4.1 point 3). Before the Ministry of BUMN was established, all supervision and guidance of BUMN was

[54] For example, the ministerial decree of BUMN No. Kep. 103/MBU/2002 perfected with PER-05/MBU/2006, guides the establishment of the audit committee.

performed by the Ministry of Finance. Then, in order to empower and optimize the BUMNs' contribution to national economic development, the Government of the Republic of Indonesia formed the Ministry of BUMN to supervise and guide BUMNs (see sections 3.2.3. and 3.2.4.).[55] The Minister of Finance gave to the Minister of BUMN, as a BUMN shareholder, the position, authority and several duties [56]. However, this delegation of position, duties and authority was not included in the administration of any capital state participation including any amendment to BUMNs; the proposal of capital state participation in BUMNs originated from the state budget, and from already-established BUMNs[57].

The Ministry of BUMN has a unique position which is quite unlike those of any other government ministries in Indonesia. On the one hand, the Ministry of BUMN follows the bureaucratic system which applies the public governance principles and, on the other hand, it also implements corporate governance principles in its role as a BUMN shareholder. Therefore, the Ministry of BUMN could be considered as a "shareholding agent"[58]. This position very often creates ambiguity when deciding the government programs that may impact on profit and investment in BUMN. Said Didu[59] argued that the Ministry of BUMN caused the BUMN to become more bureaucratic and also prone to intervention. Therefore, he proposed to form the super holding BUMN to replace the role of the Ministry of BUMN (Agustinus, 2016). Vernon (1984) stated that the government wants to reap benefits from state-owned enterprises. He believed that State-Owned Enterprises should be an autonomous institution. However, at the same time, the

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[55] Peraturan Pemerintah Nomor 41 Tahun 2003 Tentang Pelimpahan kedudukan, tugas dan kewenangan menteri keuangan pada Perusahaan Perseroan (Persero), Perusahaan Umum (Perum) dan Perusahaan Jawatan (Perjan) [Government Regulation No.41 of 2003 on the delegation of the position, duties and authority the Minister of Finance on BUMN) (Indonesia)

[56]Ibid Art.1

[57] Ibid Art.3 (1)

[58] The new terminology proposed in this research as the position of agent who is delegated as shareholder with all rights and obligations enshrined in the company act No.40/2007.

[59] The former Chief Secretary of the Ministry of BUMN of 2005-2010

government demands that State-Owned Enterprises run their business so as to achieve certain government goals.

As a bureaucrat and at the same time as an operator and delegated shareholder of BUMN, the Ministry of BUMN is responsible for creating a climate conducive to the growth and development of BUMN in order to achieve the vision and mission of BUMN. The Ministry of BUMN as the bureaucrat and operator of BUMN, issues the ministerial decrees which are applied to all BUMNs. For example, ministerial decrees may pertain to the procedure for appointing commissioners and directors who are fit and proper[60], the appointment agreement and management contract between the corporate board and its shareholders, the assessment of BUMN's performance and corporate governance implementation[61], the guidelines for financial accountability implementation for BUMN[62], etc. Whereas, as a BUMN shareholder, the Ministry of BUMN represents the government at the annual general meeting of shareholders which usually approves the annual plan, releases and discharges commissioners and directors for the financial statements related to their services throughout the financial year, the remuneration and facilities given to commissioners and directors, and other items on the agenda. Furthermore, the Ministry of BUMN also represents the government in any extraordinary meeting of shareholders which is usually related to a dismissal and the appointment of a new member of the boards of commissioners and directors.

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[60] Peraturan menteri BUMN Nomor PER-03/MBU/02/2015 tentang persyaratan, tata cara pengangkatan, dan pemberhentian anggota direksi badan usaha milik negara [The Ministerial Decree of BUMN No.PER-03/MBU/02/2015 on the requirements, procedures for appointment and dismissal of director of the State-Owned Enterprise]

[61] Peraturan menteri BUMN Nomor PER-01/MBU/2011 tentang penerapan tata kelola yang baik [The Ministerial Decree of BUMN No.PER-01/MBU/2011 on good corporate governance practice]

[62] Peraturan menteri BUMN Nomor PER-21/MBU/2012 tentang pedoman penerapan akuntabilitas keuangan BUMN [The Ministerial Decree of BUMN No.PER-21/MBU/2012 on the Guidance of Financial accountability implementation of BUMN]

3.5. THE CONTEXT OF PARENT AND SUBSIDIARY RELATIONSHIP OF BUMN WITH THE GOVERNMENT

As regulated by company law, the parent company and any subsidiary company which are limited liability companies operating in Indonesia, must follow the two-tiered board model. However, the State-Owned Enterprise as a parent company has the power to decide whether the composition of the board of commissioners in the subsidiary company includes no-one from the parent company. The parent company may decide otherwise, in which case it is possible to have several commissioners in the subsidiary company who have been transferred from the parent company's board of directors (the board member duality structure).

3.5.1. The level of entity involvement and governance structure

There are three important entities that should be involved in the parent-subsidiary relationship, namely the government as shareholder of SOEs, the State-Owned Enterprise, and the subsidiary company. If contextualized broadly in terms of the principal-agency theory which involves the public (society) as the real residual claimant, then this will create three layers in the governance structure. The first layer in the governance structure is the public as the principal and the government as the agent (Anwar and Sam, 2006). The second layer comprises the government as the principal and the corporate board of BUMN as the agent. The third layer in the governance structure is the BUMN as the principal and corporate board of the subsidiary company is the agent.

1) Public Society

The public elect the president. Then, in turn the elected president will form the government to run the country on the public's behalf based on the Constitution. The public expects the government to increase the public prosperity by means of all state instruments, including the State-Owned Enterprises, as stated explicitly in article 33 of the Constitution 1945. Hence, the government as an agent is expected to empower BUMN to operate based on good corporate governance principles, and in turn this will contribute to society's prosperity.

2) The Government

The first entity is the government; based on the State Financial Law No.17/2003, the central government is the owner of the SOEs[63]. The central government ownership of SOE shares can be a minority, majority or 100% of shares, and these are categorized as separate state wealth. Since 2003, the government of Indonesia has been enacting the government decree number 41/2003 which enabled the Finance Minister to delegate status, duties and authorities to the Minister of State-Owned Enterprises.[64]

3) The State-Owned Enterprises (BUMN)

The second level entity is the State-Owned Enterprise which is also the parent company. The parent company as shareholder of its subsidiary companies appoints the board of directors and the board of commissioners in its subsidiaries. The shareholder of the state-owned companies or parent companies is the Ministry of State-Owned Enterprises which is represented by the Minister of SOE. However, in practice, the minister of SOE delegates his/her responsibilities as shareholder of SOE to several deputies who are assigned to manage the portfolios of specific SOEs.

4) Subsidiary company

The third level entity is the subsidiary of the State-Owned Enterprises; this is where there is a board member duality structure. Essentially, the processes which occur in the parent company are the same as those which occur in the subsidiary company. This is because

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[63] Undang-Undang Nomor 17 Tahun 2003 Tentang Keuangan Negara [Law No.17 of 2003 on Financial State] (Indonesia) art 1 (5).

[64] Peraturan Pemerintah Nomor 41 Tahun 2003 Tentang Pelimpahan Kedudukan, Tugas dan Kewenangan Menteri Keuangan pada Perusahaan Perseroan (Persero), Perusahaan Umum (Perum), dan Perusahaan Jawatan (Perjan) kepada Menteri Negara Badan Usaha MIlik Negara [Government Decree No.41 of 2003 on the Delegation Status, Duties and Authorities of the Finance Minister regarding the State-Owned Enterprises to the State-Owned Enterprise Minister] (Indonesia).

the legal form of the subsidiary company and parent company are the same, namely the limited liability company.

However, even though both companies have similar processes, the Ministry of SOE as the shareholder of the parent company cannot intervene directly in the subsidiary company. Only the Ministry of SOEs can influence the subsidiary policy indirectly through an arms-length mechanism in which the director of parent company is a shareholder ex-officio of the subsidiary company. The total number of subsidiary companies and the 'grandchild' companies of the State-Owned Enterprise are so many, that even the control exercised indirectly by the Ministry of SOEs probably cannot effectively reach all of them. For example, PT Pertamina, the biggest SOE which operates in the oil and gas industry, has about 128 subsidiary companies (Sutianto, 2015).

The complexity of the relationship is one of the reasons why it is very important to have a control mechanism that will reduce the agency costs incurred as a result of principal-agent problems. This is in line with the sentiments expressed by Rini Soewandi, the Minister of State-Owned Enterprises of the Republic Indonesia from 2014 to 2019, who said that there are numerous subsidiary companies which have business lines outside the core business of the parent company (Sitepu, 2015).

3.5.2. Rule of the game

The different regulations are divided into five hierarchies. The highest hierarchy comprises those regulations that regulate the three entities contained in *the Constitution 1945*. The second hierarchy of rules regarding this entity involves the Financial State Law No.17/2003 and the Treasury Act No.1/2004, in which the regulation which specifically regulates the SOEs has been enacted in SOE Law No.19/2003 and the Limited Liability Company Law

No.40/2007. Then, the third hierarchy of rules is the Government Decree No.41/2003[65] and 44/2005[66]. The technical details of all these rules are in the fourth hierarchy. Finally, the company and management policies as the fifth hierarchy should comply with, and not contradict, all regulations which have been established in the higher hierarchies. The five hierarchies of rules are summarized in TABLE 3-9.

TABLE 3-9 THE HIERARCHY OF THE RULES OF THE GAME

THE LEVEL OF HIERARCHY	LAW NAME	RELEVANT ISSUE
The highest	The 1945 Constitution of the Republic of Indonesia	The use and empowerment of SOEs for benefiting people should refer to chapter XIV, article 33;
The second	Financial State Law No.17/2003	The central government is the owner of the SOEs
	Treasury Act No.1/2004	The Finance Minister as the State Treasurer is authorized; to put state money and manage/administer investment;
	SOE Law No.19/2003	It governs comprehensively the SOEs including the formation, organization, control, and managing of the business;
	Limited Liability Company Law No.40/2007	It governs the business entity having a limited liability company form comprehensively;
The third	Government Decree No.41/2003	The delegation status, duties and authorities of the Finance Minister in the SOE to the State-Owned Enterprise Minister;
	Government Decree No.44/2005	The procedures & administration of state equity placement in SOEs and corporations which is conducted by the MoF
The fourth	The Ministerial Decrees	Decrees issued by the Ministry of SOE as Shareholder
The fifth	Corporate & Management Policy	Policies issued by the company in both parent and subsidiary company

[65] Peraturan Pemerintah Nomor 41 Tahun 2003 Tentang Pelimpahan Kedudukan, Tugas dan Kewenangan Menteri Keuangan pada Perusahaan Perseroan (Persero), Perusahaan Umum (Perum), dan Perusahaan Jawatan (Perjan) kepada Menteri Negara Badan Usaha MIlik Negara [Government Decree No.41 of 2003 on the Delegation Status, Duties and Authorities of the Finance Minister regarding the State-Owned Enterprises to the State-Owned Enterprise Minister] (Indonesia)

[66] Peraturan Pemerintah Nomor 44 Tahun Tentang Tata cara Penyertaan dan Penatausahaan Modal Negara pada Badan Usaha Milik Negara dan Perseroan Terbatas [Government Decree No.44 of 2005 on Procedures for Investment and Administration of State Capital on The State Owned Enterprise and on Limited Liability Company] (Indonesia).

CHAPTER 4: RESEARCH FRAMEWORK

"Above all we have to go beyond words and images and concepts. No imaginative vision or conceptual framework is adequate to the great reality." Bede Griffiths, 1906—1993

INTRODUCTION

This chapter comprises four sections which explain the development of the Research Framework, beginning with the Research Questions presented in **Section 4.1**. The research questions relate to issues arising from the phenomenon known as the "board member duality" in a corporation which applies to the two-tier board model which usually characterises the relationship between a parent and a subsidiary company.

Section 4.2 presents the conceptual framework of the research which illustrates the relationship between a board member duality structure and agency costs. The board member duality structure will be elaborated based on the two-tier board model which typifies the State-Owned Enterprises in Indonesia. The agency costs will be measured using an approach that examines firm efficiency and company performance. The interrelationship of board member structure, agency costs, and several other variables will be depicted in a schematic model which uses boxes, arrows and other symbols to represent the propositions within the conceptual framework.

Section 4.3 explains the development of hypotheses which comprise null hypotheses and alternative hypotheses to test the propositions which are derived from Agency Theory and Stewardship Theory. The hypotheses will be tested by using the triangulation method, which combines qualitative and quantitative methods and which will be explained more comprehensively in Chapter 5.

Section 4.4 presents a summary of the research questions that were detailed in the previous sections.

4.1. RESEARCH QUESTIONS

The duality position (board member duality) held by parent company directors of a State-Owned Enterprise and who, at the same time, represent it as supervisory board members (commissioner) in a subsidiary company, is allowed in Indonesia, especially when the business entity of the parent company is a holding company (Kertiyasa, 2011). The limited liability law which lays down provisions for the corporate boards, does not rule specifically on the duality position.[67]

However, the Limited Liability Law 2007 allows the regulator or technical agencies to establish additional requirements pursuant to legislative regulations, as stated in article 93 (2).[68] In regard to that article, as described in Chapter 3, there are several laws which regulate the duality of executive directors in Indonesia. Some of these laws are the State-Owned Enterprise Law[69], Indonesia's Anti-Monopoly Law[70], The Financial Services Authority Regulations[71], and the Ministerial Decrees of the Minister of State-Owned Enterprises[72]. These laws have been put in place to regulate the duality positions[73], as the

[67] Undang-Undang Nomor 40 Tahun 2007 Tentang Perseroan Terbatas [Law No.40 of 2007 on Limited Liability Companies) (Indonesia) art 93 (1).

[68] Undang-Undang Nomor 40 Tahun 2007 Tentang Perseroan Terbatas [Law No.40 of 2007 on Limited Liability Companies) (Indonesia) art 93 (1).

[69] Undang-Undang Nomor 19 Tahun 2003 Tentang Badan Usaha Milik Negara [Law No.19 of 2003 on State-Owned Enterprise) (Indonesia) art 25.

[70] Undang-Undang Nomor 5 Tahun 1999 Tentang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat [Law No.5 of 1999 on The Prohibition of Monopolistic Practices and Unfair Business Competition] (Indonesia) art 26.

[71] Peraturan Otoritas Jasa Keuangan Nomor 33/POJK.04/2014 Tentang Direksi dan Komisaris Emiten atau Perusahaan Publik [Regulation of Financial Services Authority No.33/POJK.04/2014 Regarding Directors and Issuer Commissioner or Public Company.

[72] Peraturan Menteri BUMN Nomor PER-01/MBU/2012 Tentang Persyaratan dan Tata Cara Pengangkatan dan Pemberhentian Anggota Direksi Badan Usaha Milik Negara [Ministerial Decree No. PER-01/MBU/2012 on Terms and Procedures for Appointment and Dismissal Director of the State owned Enterprises] (Indonesia) art 36.

[73] See footnote no.69, 70, 71, 72.

duality positions of board members in parent and subsidiary companies is a common occurrence. Board member duality in parent and subsidiary companies generally occurs because of the appointment of a board member to a subsidiary company which is the responsibility of the shareholder who, in practice, is the CEO of the parent company in an ex officio position[74].

As described in Chapter 2, this director duality falls into three categories, namely the CEO duality, the interlocking directorship, and the multiple directorships. However, the findings of previous research which investigated the impact of the duality on company performance or agency cost are frequently not consistent and are often contradictory. Donaldson and Davis (1991a), Boyd (1995) and Brickley et al. (1997) found that the director duality has a *positive impact* on company performance. On the other hand, Rechner and Dalton (1989), and Pi and Timme (1993) found *a negative impact* on the relationship, whereas Berg and Smith (1978), Chaganti et al. (1985a), Baliga et al. (1996) found that there was *no systematic* relationship between CEO duality and performance. Interestingly, the research findings on interlocking directorships are consistent, and may indicate that the interlocking directorship causes ineffective monitoring because the directors tend to look out for their own interests rather than those of their shareholders (Chhaochharia and Grinstein, 2007, Hallock, 1997). Institutional investors and shareholder activists expressed outrage at the multiple directorships in multiple companies because these are not effective in monitoring company management (Ferris et al., 2003). In contrast to the bulk of research on the CEO duality which has been conducted in the one-tier board context, previous research on director duality in the context of two-tier boards is rare or very limited. Bezemer et al. (2012)'s argument that the CEO duality cannot occur in the two-tier board context may

[74] Peraturan Menteri BUMN Nomor PER-03/MBU/2012 tentang Pedoman Pengangkatan Anggota Direksi dan Anggota Dewan Komisaris Anak Perusahaan [Ministerial Decree No. PER-03/MBU/2012 on Guidance for the Appointment of Director and Commissioner of Subsidiary Company] (Indonesia) art 2 (2).

explain why there has been little research on CEO duality. This is because, by design, the execution and oversight functions rest with different boards. However, this researcher argues that if this situation were extended to the parent-subsidiary company relationship, the duality, similar to the CEO duality, could occur whereby the CEO of the parent company has a dual position as a commissioner (usually a chairman) in a subsidiary company. Given the fact that in the absence of previous research into board member duality in a two-tier board system, this research raises questions about whether the values and the factors that influence CEO duality also occur in board member duality.

With board member duality, which occurred in the State-Owned Enterprises in Indonesia in fact, the duality holders hold three positions simultaneously as: the director of the parent company, the shareholder of the subsidiary company, and the commissioner of the subsidiary company. These positions enable them to establish strategic corporate policies that influence how the parent company and its subsidiaries operate their businesses. Based on the Agency theory (see Chapter 2), agency problems could arise when principal and agent have divergent interests that lead to a conflict of interests. The conflict of interests could be more severe if there is a wide gap in the information owned by both parties, popularly called the asymmetric information gap. The agent usually has more comprehensive information than does the principal regarding the company under his/her management. Consequently, if the control of the principal over the agent is too weak, then it could produce a moral dilemma for the agent. The costs that are incurred due to agency problems are called the agency costs (see Jensen and Meckling (1976)).

Given that previous research on director duality and agency costs has produced inconsistent results, this research will start with a very basic research question: “Does the duality position of the board of directors in parent and subsidiary companies have an impact on the agency costs?” The question will be addressed through the formulation of important sub questions which are intended to explain more comprehensively board member duality and its impact on the agency costs. The scope of this research will be limited to the SOEs in Indonesia. The research question is:

"**Does the duality position of the board of directors in parent and subsidiary companies have an impact on the agency cost and performance of the SOEs?"**

The sub-questions are:

1. *Does the board member duality have an impact on company performance?*
2. *Do endogenous factors, namely board size, board composition, and ownership of the parent company contribute to agency costs and influence performance?*
3. *Do explanatory variables for board member duality such as firm size, firm age, firm growth, firm risk, debt, and liquidity impact on agency costs and performance?*
4. *Is there a significant difference between individual attributes and company characteristic attributes of directors or commissioners in the six (6) dimensions of accountability of the board member duality?*

By answering those research questions, recommendations can be proposed for the improvement of Indonesian corporate governance regulations so that the duality relationship in parent and subsidiary companies of the State-Owned Enterprises (BUMN) can be regulated more effectively.

4.2. Conceptual Framework

There are three conceptual frameworks in this research which simplify the phenomenon of board member duality and agency costs:

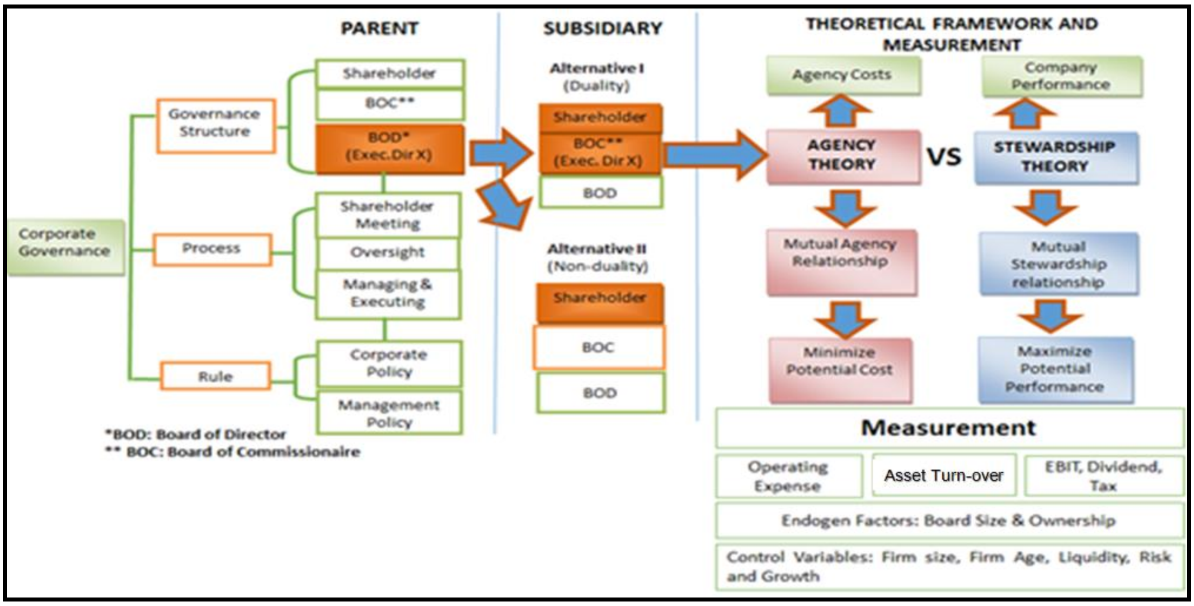
1. The first conceptual framework is intended to show the big picture of the phenomenon. It uses a schematic model depicted in the structure of board member duality in the context of the relationship of parent and subsidiary companies, and also includes the theories and measurements used in this research.

2. The second conceptual framework is intended to show the flow-in and flow-out of agency costs and other financial flows amongs the three entities, namely the Government, the parent company, and the subsidiary company.
3. Finally, the third conceptual framework depicts the core of the technical measurement of board member duality in terms of agency costs which will be investigated comprehensively in Chapter 5 under Research Methodology.

4.2.1. Conceptual Framework of Board Member Duality, Theories, and Measurement

As described in Chapter 2, board member duality occurs in a two-tiered board model and involves the executive directors of the parent company who also hold a duality role as commissioners in a subsidiary company. However, the move to appoint the executive director to the position of commissioner of a subsidary company depends on the shareholders' decision. The shareholders can choose a structure that accommodates either board member duality or non-duality. This is depicted in FIGURE 4-13 as alternative I and alternative II.

FIGURE 4-13 THE CONCEPTUAL FRAMEWORK FOR THE RESEARCH



The theoretical background used to analyse the phenomenon of board member duality in this research comprises Agency Theory and Stewardship Theory as explained in detail in

Chapter 2. Finally, the measurement approach for agency costs involves financial ratios, namely, operating expenses ratio and asset turn-over ratio resulted from accounting processes.

Alternative I is the board member duality structure in which the member of the executive director of a parent company is appointed by the shareholders (which is CEO of parent company as an ex-officio holder) to sit on the board of commissioners in its subsidiary company. Alternative II is the non-duality structure in which members of the board of commissioners of a subsidiary company come from other than the executive board of the parent company. This structure (the alternative II) is not the focus of the research, although it will be used for discussion.

4.2.2. Conceptual Framework of the Flow-In and Out of Agency Costs

The governance processes of a corporate board's obligation to perform its fiduciary duties mandated by the shareholders, whether occurring in the boardroom or not, will have an impact on the agency costs. These agency costs, as identified by Jensen and Meckling (1976) are the sum of (1) the monitoring expenditures by the principal, (2) the bonding expenditures by the agent, and (3) the residual loss. However, measuring these agency costs accurately is not always simple, because the financial figures produced by the accounting processes are not classified based on the types of agency costs but follow the generally accepted accounting principles of the industry in which the companies operate. This research depicts the flow of agency costs, investment, return, and expense from the Government as shareholder to the state-owned enterprise and its subsidiary, as shown in FIGURE 4-14.

FIGURE 4-14 THE FLOWS OF AGENCY COSTS, INVESTMENT, RETURN, AND EXPENSE IN THE SOE AND SUBSIDIARY COMPANY

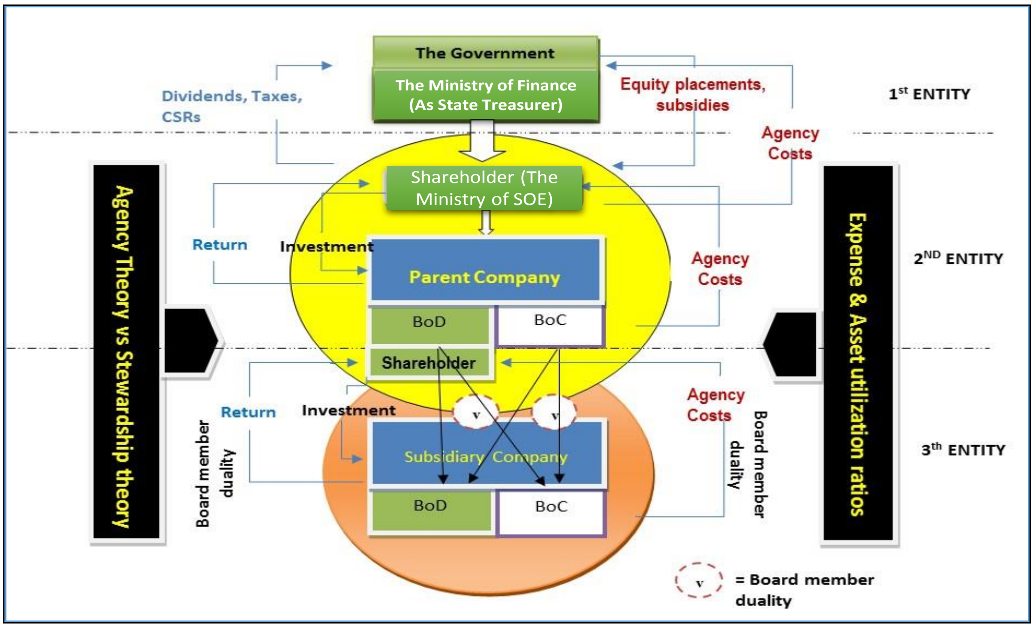


FIGURE 4-14 shows the critical role of the corporate boards, namely the board of directors and the board of commissioners, in the parent and subsidiary companies (as agents) who are delegated by the Government (as principal/shareholder) to manage the equity placements and subsidies (investment) using the corporate mechanism. The Government (principal) expects that the corporate boards of BUMNs will be able to utilize the equity placement and subsidies to provide goods and services for people. In turn, the return on the investment will be in the form of dividends, taxes, and perceived corporate social responsibility. The structure and processes, by which the corporate board utilizes the equity placement and subsidy by using the corporate mechanisms, may produce agency problems which lead to agency costs (see also FIGURE 4-13). The conceptual framework above depicts the flows of the agency costs which hypothetically occur when there is board member duality. The conceptual framework for measuring the agency costs is presented in section 4.2.3.

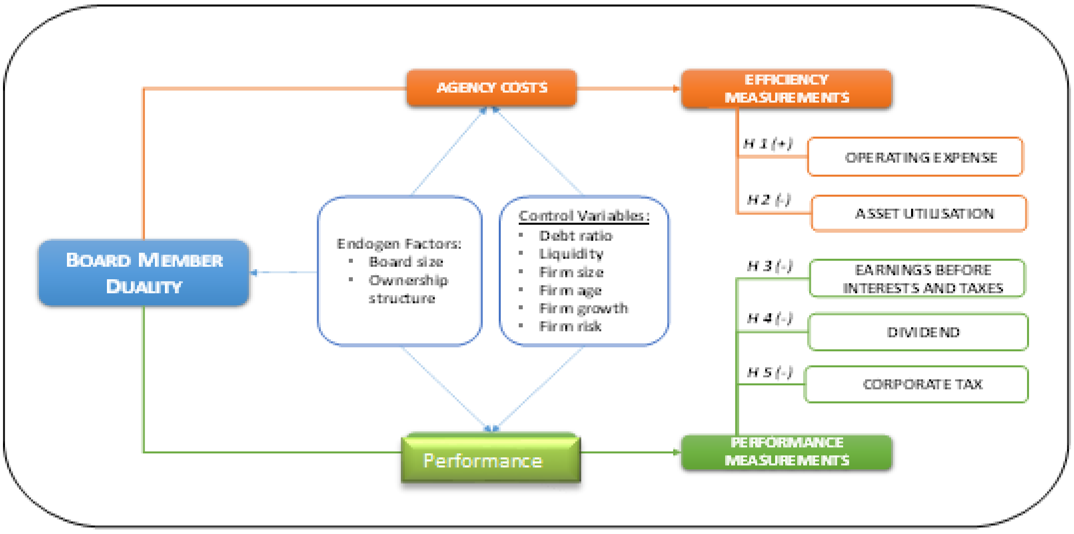
4.2.3. Conceptual Framework for Measuring the Agency Costs and Performance

Previous research on director duality tended to use operating expenses and the asset utilization ratio as the efficiency measurement approach to measure agency costs (see

Ang et al. (2000), Rashid (2013) and Singh and Davidson Iii (2003). Thus, the dependent variables of operating expenses and asset utilization (asset turnover) as indicators of agency costs are modeled into a multiple panel regression model consisting of board member duality, the endogenous variables, and the control variables. The endogenous variables that may influence the agency costs are the board composition, the board size, and the government ownership; whereas, the control variables are debt ratio, liquidity, firm size, firm age, firm growth, and firm risk.

If the relationship between the board member duality and agency costs can be modeled by including the dependent variables which are the indicators of the agency costs, then the other perspective of the board member duality which may influence the firm performance can be duplicated by using the same performance measurement approach, to test the firm performance indicator of earnings before interest and tax (EBIT), dividend payouts (DPR), and corporate tax. The conceptual framework of variables used to measure the agency costs and performance is depicted in FIGURE 4-15 below.

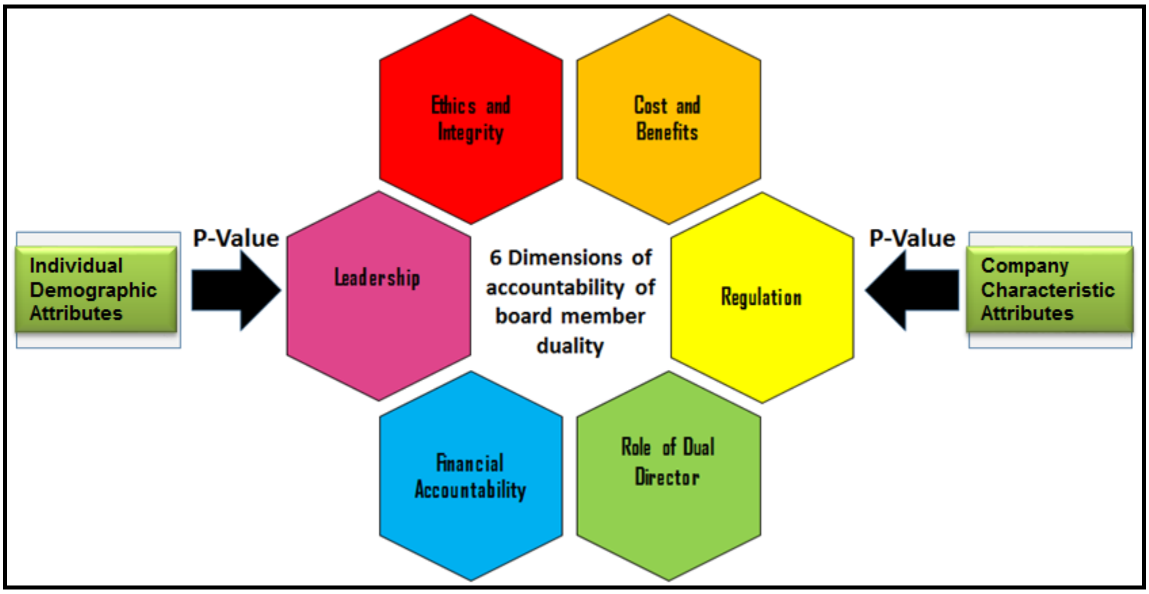
FIGURE 4-15 THE CONCEPTUAL FRAMEWORK FOR MEASURING AGENCY COSTS AND PERFORMANCE



4.2.4. Conceptual Framework for accountability

The survey conducted in this research assessed the demographic attributes and the company characteristic attributes across the six dimensions of accountability: ethics and integrity, cost and benefits, role of dual director, regulation, financial accountability and leadership. The conceptual framework of the attributes tested for the six dimensions of accountability is depicted in **FIGURE 4-16**.

FIGURE 4-16 THE CONCEPTUAL FRAMEWORK OF THE ATTRIBUTES TESTED TO SIX DIMENSIONS OF ACCOUNTABILITY



1) Individual Attributes

The word "attribute" refers to a property, quality, or feature belonging to or representative of a person or thing, whereas "individual" refers to a single person, especially when regarded as distinct from others (Brookes, 2011). Thus, demographic attributes (i.e. gender, age, education, the number of director positions held, company served, and income) are those belonging to a specific person; in this research, the specific entity is a corporate board member who is a director or commissioner of a BUMN or of a subsidiary company..

2) Company Characteristic Attributes

In this research, company characteristics are those of the company in which the corporate board member serves, and refer to the company itself, the parent company's age, and the industrial sector to which it belongs.

4.3. HYPOTHESIS DEVELOPMENT

Agency theory argues that agency costs incurred as a result of agency problems can be minimized if the principal applies an appropriate mechanism to monitor and control the agent. This means that appropriate control, which inevitably incurs costs, cannot be avoided by a shareholder who seeks to keep an agent's behavior on the right track and in line with the interests of the shareholder. If both parties compromise their conflicts of interests that theoretically could arise in such relationships, then the mutual agency relationship as described by Davis et al. (1997) will occur. However, this mutual agency relationship is not always the case, as every member of the corporate board has his/her own characteristics, values, and integrity. Furthermore, Agency theory assumes that man tends to be an economic creature who is self-serving, demographic, and more oriented to being controlled (Davis et al. 1997).

On the other hand, as described in Chapter 2, Stewardship theory argues that the agency theory which describes the principal-agent relationship does not hold true for all managers. Occasionally, the principal and agent have goals which are convergent and aligned, so they will create a mechanism and a structure which enable them to achieve effective coordination. If both parties can coordinate effectively, then a mutual stewardship relation will ensue. The mutual stewardship relationship will imorive the managers' performance and will ultimately influence the overall company performance.

From the two theories above, as described by Davis et al. (1997), the ideal relationship between principal and agent in both theories has a different focus. While agency theory emphasizes how to minimize agency costs by applying a control mechanism and a structure, stewardship theory focuses on optimizing performance by applying a mechanism and structure which enables the parties in the relationship to achieve effective coordination.

4.3.1. Board Member Duality and Agency Costs

The efficiency measurement approach used to measure the agency costs in this research consists of the operating expense ratio and the asset utilization ratio, otherwise known as the asset turnover ratio. The operating expense ratio is formulated as the total operating expenses (excluding any non-recurring expense such as loss on sale of assets, and financing expense) divided by annual sales. A low operating expense ratio means that the corporate management is able to control the operating expenses efficiently. On the other hand, a high operating expense ratio means that the corporate management cannot efficiently control the operating expenses. This is in line with Singh and Davidson III (2003) who argued that higher operating expenses indicate greater agency conflicts within a company, and vice versa. Therefore, this argument results in the first hypothesis of this research that: **"there is a relationship between board member duality and operating expenses"**.

The second measurement of efficiency, namely the assets utilization ratio or asset turnover ratio, measures how effectively the corporate management utilizes the company assets. The higher the asset turnover ratio, the more efficiently the corporate management can utilise the company assets. Singh and Davidson Iii (2003) stated that companies with considerable agency conflict will have lower asset utilisation ratios relative to those companies which have less agency conflict. This argument gives rise to the second hypothesis of this research that **"there is a relationshhip between board member duality and asset turnover"**.

4.3.2. Board Member Duality and Corporate Performance

As described in Chapter 2, previous research on director duality and its impact on company performance produced inconsistent results. This research refers to the findings from the studies conducted by Rechner and Dalton (1989), and Pi and Timme (1993) who concluded that director duality has a negative impact on company performance. Referring to the arguments which follow the same logic described for the previous variable, that is the asset utilization ratio, then the performance measurement approach implies that companies with considerable agency conflict would have lower performance compared with those companies which have less agency conflict. Thus, this led to the three hypothesis which have a statistically similar formulation regarding three company performance measurements, namely earnings before interest and taxes, dividend payout ratio, and corporate taxes.

1) Earning Before Interests and Taxes (EBIT)

EBIT is an indicator that shows a company's profitability. This indicator is also referred to as operating profit and is formulated as revenues minus expenses, but excluding interest and taxes. This indicator is also useful for predicting the company's earnings potential and is used by investors to compare how effectively a company generates profit from industries which operate in different tax environments and have different financing strategies for capital structure. Referring to the findings of Rechner and Dalton (1989), and Pi and Timme (1993), the companies with considerable agency conflict would have a lower performance compared with those companies which have less agency conflict, so that the third hypothesis will be that **"There is a relationship between board member duality and earnings before interest and taxes (EBIT)"**.

2) Dividend Payout Ratio

Dividend payout ratio is a ratio which is calculated as dividend divided by net income. This ratio indicates several important financial aspects. Firstly, the dividend payout ratio shows how much money a company is returning to shareholders or the rate of return to shareholders. Secondly, this ratio shows how much money is being kept on hand to be re-invested in the company's growth. Thirdly, this ratio shows the reserve kept for paying off debt or adding to the cash reserve, technically called retained earnings. Again, referring to the previous statement that "the companies with considerable agency conflict would have lower performance compared with those companies which have less agency conflict", the fourth hypothesis will be that **"There is a relationship between board member duality and dividend payout ratio"**.

3) Corporate Income Tax

Corporate income tax is defined as a levy placed on the profit of a firm, with different rates applying to different levels of profit. The performance of state-owned enterprises can be measured by how much money these enterprises pay in corporate income tax and dividends compared with the income target from the state-owned enterprises anticipated in the state budget. Using the same logic as the previous statement, then, the fifth hypothesis is that ***"There is a relationship between board member duality and corporate taxes"***.

4.3.3. Endogenous variables

1) Board Size

Board size and composition affect the functioning of the board in terms of effectiveness and efficiency. The resource dependence theory argues that the increase in board size and diversity will increase the amount of networking with the external environment and will secure a broader source of resources (Pearce and Zahra, 1992, Pfeffer, 1972). On the other hand, several studies have concluded that smaller boards are more effective than larger boards (see (Shaw, 1981); (Jewell and Reitz, 1981); and (Lipton and Lorsch, 1992). This conclusion is also consistent with the empirical research conducted by Yermack (1996) and Eisenberg et al. (1998) who concluded that the smaller boards will enhance corporate performance. Thus, the hypothesis regarding the board size and agency costs which will be measured by operating expenses will be **"there is a relationship between board size and agency costs"**.

2) **Board Composition**

Johnson et al. (2012) stated that the composition of a board critically affects the performance of the firm. The board composition reflects the diversity of the board members. Pearce and Zahra (1992) argued that the diversity of the board members will increase the external networking and also secure a broader range of resources. This is in line with the resource-dependent theory as explained in Chapter 2. Thus, the hypothesis regarding the board composition and agency costs which is measured by operating expenses is that **"there is a relationship between board composition and agency costs"**.

3) Government Ownership

As described in Chapter 3, originally, the state as the owner of shares of the state owned enterprises usually has 100% of shares or a majority. However, under a privatization program or when going public, the public and the institutions could acquire the shares of the state-owned enterprises by buying the shares in the capital market where the state-owned enterprises are listed. The existence of the public and block holders in the ownership of the state-owned enterprises could be of benefit to the SOE and at the end, all shareholders (Lukviarman, 2004). Thus, the hypothesis regarding the ownership and agency costs which is measured by operating expenses is that **"there is a relationship between government ownership and agency costs"**.

4.3.4. Control or Explanatory Variables

This research will use six explanatory variables, namely debt, liquidity, firm size, firm age, firm growth, and firm risk as used by Rashid (2013) who investigated

CEO duality and agency costs. These explanatory variables are also analysed and included in the formulation in order to find a comprehensive explanation of its influence in the correlation of the board member duality against agency costs in the state-owned enterprises in Indonesia.

1) Firm Size

Firm size may have an impact on the firm's efficiency and performance. A large company has pool of various capabilities, but at the same time also has a problem with coordination. A smaller company is sometimes more agile than a bigger company. The corporate board of a large company is sometimes trapped in the managerial hubris which influences decisions and their impacts which produce higher agency costs. This has been found in research which has investigated the effect of size on acquisitions conducted by Moeller et al. (2004). The natural logarithm of total assets will be used to represent firm size measurement. Thus, the hypothesis regarding firm size and agency costs is that **"there is a relationship between firm size and agency costs".**

2) Firm Risk

Firm risk is potentially an important determinant of a firm efficiency. This risk usually has to be taken into consideration in an investment decision. The principal-agent problems in investment decisions could severely increase this risk. However, the principal-agent problems inherent in delegated asset management can be reduced by applying effective risk-control tools (Alankar et al., 2013). Hedging as a mechanism to mitigate the risk is frequently of greater benefit when the agency costs are low (Leland, 1998). Thus, the hypothesis regarding firm risk and agency costs is that **"there is a relationship between firm risk and agency costs"**.

3) *Liquidity*

The accounting discipline refers to liquidity as the ease with which a firm can meet its financial obligations with the liquid assets available to the firm. Liquidity may be an impact of efficiency and performance, in the sense that the board of directors will formulate the first-best investment policy for a given capital structure. The formula that may achieve the optimal liquidity will eliminate the agency costs (Hirth and Uhrig-Homburg, 2010). Liquidity is calculated as current assets scaled by current liabilities. Thus, the hypothesis regarding liquidity and agency costs is that **"there is a relationship between liquidity and agency costs"**.

4) *Firm Age*

The age of a firm may also influence its efficiency. There is a learning curve that can explain why older firms may be more efficient than younger firms. However, when companies have become more mature, they usually will be in a strong position to generate money from their operation. As a result, they have enough funds to expand their business and drive an increase in the company's growth. At this point, in line with the size effect on acquisition (see Moeller et al. (2004), Agency theory predicts that management becomes more entrenched and pursues growth at the expense of shareholders (see Arikan and Stulz (2011), Mueller (1972) and Jensen (1986). The natural logarithm of the number of years since the state owned enterprises was established until 2013 will be used to represent firm age measurement. Thus, the hypothesis regarding firm age and agency costs is that **"there is a relationship between firm age and the agency costs"**.

5) *Firm Debt*

Essentially, the value of debt can be viewed as a transfer value from creditor to shareholder which has an impact that increases asset risk. The asset substitution acquired from debt has the potential to impose agency costs. As a result, the choice of capital structure has to be addressed (Leland, 1998). Choice of debt in the capital structure plays a role in the control of the corporation (Jensen and Meckling, 1976). Thus, the use of debt is expected to have an impact on the firm's efficiency. The debt ratio (DR) is calculated as total debt scaled by total assets. Thus, the hypothesis regarding the debt and agency costs is that **"there is a relationship between firm debt and agency costs"**.

6) Firm Growth

Firm growth also probably influences the firm's efficiency. The financing of a firm's growth can originate from internal financing or external financing. If the growth is driven by internal financing, then the company will use its retained earnings and income from its operations to expand the business. If this mechanism is used, then shareholders' dividend payments will be constrained; if an external financing mechanism is used, then the company should be exposed to scrutiny and monitoring by market participants as they are the providers of external financing. Ghosh and Sun (2014) concluded in REITs' case that externally financed growth has a significantly positive correlation with dividend payments. A firm's growth is calculated as the percentage of annual change in sales. Thus, the hypothesis regarding firm growth and agency costs is that **"there is a relationship between firm growth and agency costs"**.

4.3.5. The Hypotheses of attribute variables

1) Demographic Attribute Variables

a. Gender

The gender issue in a corporate directorship has prompted researchers to investigate whether there are performance differences if women are on the boards of corporations. Farrell and Hersch (2005) and Daily et al. (1999) noted that the number of women appointed as directors increased significantly during the decade of the 1990s. This trend was also found by Bilimoria and Piderit (1994) who investigated the specific issue of the “effects of sex-based bias”. The increase in the number of women appointed to corporate boards is not merely because of gender equality; recent research has shown that companies with an increased number of women on corporate boards experienced higher corporate performance (see Lückerath-Rovers (2013), Liu et al. (2014), and Post and Byron (2015). The hypothesis related to gender is that **“there is no difference accountability between male and female directors”**

b. Age of respondents

The diversity of ages of corporate board members may impact on corporate performance. Waelchli and Zeller (2013) found “a robust negative relationship between the age of chairmen of the board and firm performance which was mainly influenced by the deterioration of cognitive ability and shifting in motivation” (see also Taylor (1975)). The hypothesis regarding for the demographic attribute of respondent age is that **“There is no relationship between the age of a respondent and his/her accountability ”.**

c. Level of education

Level of education is very often used as a prerequisite for corporate board candidate selection and as an indicator of formal knowledge. However, Ladegard et al. (2013) concluded that the experience of the candidate was more important for performance than was formal knowledge. The hypothesis regarding an individual’s education level is that **“There is no difference between the education level of a board member and his/her accountability”.**

d. Average monthly income

Remuneration is the financial reward given to directors and commissioners in order to drive and improve the firm's performance. In SOEs, the remuneration of directors and commissioners is according to a scale established by the Ministry of State-Owned Enterprises. The correlation between a director's remuneration and company performance has been investigated by several researchers. Krauter and da Sousa (2013) found no support for the hypothesis that there is a positive and significant relationship between executive compensation and company performance. This finding is also similar to that of Gill (2014) who stated that the remuneration-performance sensitivity and flexibility were weak. The progress of director's remuneration in selected ASEAN countries was highlighted by Talha et al. (2011) which underlined the need for disclosure, the need for shareholders' approval, the separation of the chairman of the board of directors from the chief executive officers, and the maximum tenure offered to directors. The hypothesis of demographic attribute of income will be **"There is no relationship between level of director's income and his/her accountability"**

e. The number of director positions held

The multiple directorships of several companies may impact on the company performance which is reflected in the company's earnings. The debate among academics on the issue of multiple directorships still continues (Jiraporn et al., 2009). Carpenter and Westphal (2001) argued that the executive experience of the multiple directorship holders can add value to the company. This argument was bolstered by Mace (1986), Loderer and Peyer (2002) who argued that multiple directorships can add value by increasing the network which also help to monitor the business relations. On the other hand, some researchers argue that multiple directorship may result in over-commitment, which in turn will lead to poor company performance (Ferris et al. (2003), Fich and Shivdasani (2006)). Even though, the aforementioned researchers came to conclusions based on several studies, each of them also produced ambiguous results regarding the link between company performance and multiple directorships (Jiraporn et al., 2009). The hypothesis of demographic attribute of gender will be **“There is no relationship between the number of director positions held by a director and his/her accountability”.**

2) The Company Characteristics Attribute Variable

a. Company status

The company status concerns the type of company in which the respondent serves as a director and/or commissioner, namely parent company, subsidiary company, both parent and subsidiary company, or stand-alone company. The connection between parent companies and their subsidiary companies is very important when applying the corporate law. This is similar to the principal-agency relationship in the sense that one company is the mere “agency”, “adjunct”, or “instrumentality” of the other (Ballantine, 1925). Chen et al. (2012) examined the relationship between parent companies and their subsidiaries using the resource dependency theory, and concluded that the relationship was more of a political coalition than a hierarchy. The subsidiary’s autonomy which can be indicated by the corporate board’s decisions, can be increased by accepting initiatives taken by the subsidiary company (Raziq et al., 2014). The hypothesis related to company status is that **“There is no relationship between company status where a director hold a position and director accountability”.**

b. Age of parent company

Abzari et al. (2012) found that the company age has a positive correlation with deviation of earning prediction. An older company has had time to accumulate knowledge, expertise and growth capability. Thus, age will have an increased positive impact on a company's customer-related performance (Islam et al., 2012). The hypothesis regarding the age of the parent company is that **"There is no relationship between the age of parent company and directors accountability".**

c. Industrial sector

Every industrial sector has a specific characteristic, which may lead to having different rules for corporate governance. As a SOE's shareholder, the Minister of BUMN treats SOEs relatively the same, but every SOEs also follows the regulations for the sector in which it conducts business. The hypothesis for the company characteristic attribute of industrial sector will be that **"There is no relationship between the industrial sector in where a director has a position and director accountability"**

4.4. SUMMARY

All hypotheses are summarized in the tables below.

1. The Null Hypotheses and the Alternative Hypotheses pertaining to the main research questions:

FIGURE 4-17 THE MAIN HYPOTHESES OF THE RESEARCH

No.	Null Hypothesis (H0)	Alternative Hypothesis (Ha)*
	I. Efficiency Measurement Approach	
	H0$_1$: THERE IS NO RELATIONSHIP BETWEEN BOARD MEMBER DUALITY AND AGENCY COSTS	***HA$_1$: THERE IS A RELATIONSHIP BETWEEN BOARD MEMBER DUALITY AND AGENCY COSTS***
1.	**H$_{01.1.}$** There is no relationship between board member duality and operating expense	**H$_{a1.1.}$** There is a relationship between board member duality and operating expense
2.	**H$_{01.2.}$** There is no relationship between board member duality and asset turnover	**H$_{a1.2.}$** There is a relationship between board member duality and asset turnover
	II. Performance Measurement Approach	
	H0$_2$: THERE IS NO RELATIONSHIP BETWEEN BOARD MEMBER DUALITY AND FIRM PERFORMANCE	***HA$_2$: THERE IS A RELATIONSHIP BETWEEN BOARD MEMBER DUALITY AND FIRM PERFORMANCE***
3.	**H$_{02.1.}$** There is no relationship between board member duality and Earnings Before Interest and Taxes (EBIT)	**H$_{02.1.}$** There is a relationship between board member duality and Earnings Before Interest and Taxes (EBIT)

4.	$\mathbf{H}_{02.2.}$ There is no relationship between board member duality and Dividend Payout Ratio (DPR)	$\mathbf{H}_{02.2.}$ There is a relationship between board member duality and Dividend Payout Ratio (DPR)
5.	$\mathbf{H}_{02.3.}$ There is no relationship between board member duality and company tax	$\mathbf{H}_{02.3.}$ There is a relationship between board member duality and corporate tax

2. The Null Hypotheses and the Alternative Hypotheses for the Endogen Factors are as follows:

FIGURE 4-18 THE HYPOTHESES OF ENDOGENOUS VARIABLES

No. Null Hypothesis (H0)	**Alternative Hypothesis (Ha)***
H0₆: *There is no relationship between board size and agency costs and performance*	***Ha₆:*** *There is a relationship between board size and agency costs and performance*
H0₇: *There is no relationship between board composition and agency costs and performance*	***Ha₇:*** *There is a relationship between board composition and agency costs and performance*
H0₈: *There is no relationship between government ownership and agency costs and performance*	***Ha₈:*** *There is a relationship between government ownership and agency costs and performance*

3. The Null Hypotheses and the Alternative Hypotheses regarding the Control Variables are as follows:

FIGURE 4-19 THE HYPOTHESES OF CONTROL VARIABLES

No. Null Hypothesis (H0)	**Alternative Hypothesis (Ha)***
H0₉: *There is no relationship between firm size and agency costs and performance*	***Ha₉:*** *There is a relationship between firm size and agency costs and performance*
H0₁₀: *There is no relationship between firm risk and agency costs and performance*	***Ha₁₀:*** *There is a relationship between firm risk and agency costs and performance*
H0₁₁: *There is no relationship between firm liquidity and agency costs and performance*	***Ha₁₁:*** *There is a relationship between firm liquidity and agency costs and performance*
H0₁₂: *There is no relationship between firm age and agency costs and performance*	***Ha₁₂:*** *There is a relationship between firm age and agency costs and performance*
H0₁₃: *There is no relationship between firm debt and agency costs and performance*	***Ha₁₃:*** *There is a relationship between firm debt and agency costs and performance*
H0₁₄: *There is no relationship between firm growth and agency costs and performance*	***Ha₁₄:*** *There is a relationship between firm growth and agency costs and performance*

4. The Null Hypotheses and the Alternative Hypotheses of the demographic attributes and company characteristic attributes are as follows:

FIGURE 4-20 THE HYPOTHESIS OF DEMOGRAPHIC AND COMPANY CHARACTERISTIC ATTRIBUTES AGAINST THE ACCOUNTABILITY OF THE BOARD MEMBER DUALITY

No. Null Hypothesis (H0)	Alternative Hypothesis (Ha)
H0₁: There is no difference accountability between male and female director	***Ha₁:*** *There is difference accountability between male and female director*
H0₂: There is no relationship between age of respondent and his/her accountability	***Ha₂:*** *There is a relationship between age of respondent and his/her accountability*
H0₃: There is no difference between the education level of a board member and his/her accountability	***Ha₃:*** *There is difference between the education level of a board member and his/her accountability*
H0₄: There is no relationship between level of director's income and his/her accountability	***Ha₄:*** *There is a relationship between level of director's income and his/her accountability*
H0₅: There is no relationship between the number of director positions held by a director and his/her accountability	***Ha₅:*** *There is a relationship between the number of director positions held by a director and his/her accountability*
H0₆: There is no relationship between company status where a director hold a position and director accountability	***Ha₆:*** *There is a relationship between the company status where a director hold a position and director accountability*
H0₇: There is no relationship between the age of parent company and director accountability	***Ha₇:*** *There is a relationship between the age of parent company and director accountability*
H0₈: There is no relationship between the industrial sector in where a director has a position and director accountability	***Ha₈:*** *There is a relationship between the industrial sector in where a director has a position and director accountability*

CHAPTER 5: RESEARCH METHODOLOGY

*"**Everything must be taken into account. If the fact will not fit the theory—let the theory go.**" Agatha Christie, The Mysterious Affair at Styles.*

INTRODUCTION

This chapter comprises eight (8) sections which will elaborate the research methodology which begins with **SECTION 5.1: RESEARCH PROCESS** which describes step-by-step the research process conducted for this study. The research began with a research proposal and will conclude with data analysis and interpretation. A detailed and comprehensive description of the research methodology begins in section 5.3: Research Design.

SECTION 5.2: RESEARCH QUALITY will examine four factors which are usually taken into consideration when evaluating the quality of a research. These factors are: validity, reliability, generalisability, and objectivity.

SECTION 5.3: RESEARCH DESIGN will describe the strategy used to integrate the various components of the research in a logical and coherent way in order to address the research questions effectively. The main aim of the research questions is to determine whether there is a correlation between the board member duality and agency costs in parent and subsidiary companies which follow the two-tier board system in the state-owned enterprises in Indonesia. The two of the most important parts of the research design, namely research method and research instrumentation, will be described in detail.

SECTION 5.4: **RESEARCH PROCEDURES** will describe about how to collect the data as defined in the previous section. This includes the preparation for the survey questionnaires and interview questionnaires which will result primary data, and database design to acquire secondary data. All the preparation process and documents herewith have to be informed and enclosed to the ethics application. Thus, the human research ethics approval from the ethics committee of the Victoria University is a must before acquiring the data. This process will be described in this section, as well.

SECTION 5.5: DATA COLLECTION will elaborate the process of collecting data from respondents. The data comprises primary data, which is collected from respondents using the research instrument of survey and interview, and secondary data, which is collected from the annual reports of the state owned enterprises and their subsidiary companies for the period of 2008 until 2013.

SECTION 5.6: DATA RECORDING AND MANAGEMENT will elaborate the process of recording primary data and secondary data, and how to manage the data in order to be available as required for analysis and interpretation. This section will include the transcript resulted from interview and the coding of data.

SECTION 5.7: DATA ANALYSIS AND INTERPRETATION will present the analysis of the data gathered through surveys, interviews, and panel data. These data will be processed by using two research survey tools - Qualtrics software and E-views software.

SECTION 5.8: LIMITATION covers the situation and assumptions that the research analyses are supposed to be occur, but several assumptions are not applicable, due to the data acquired.

SECTION SUMMARY will summarise all main points of previous sections and will lead into the next chapter.

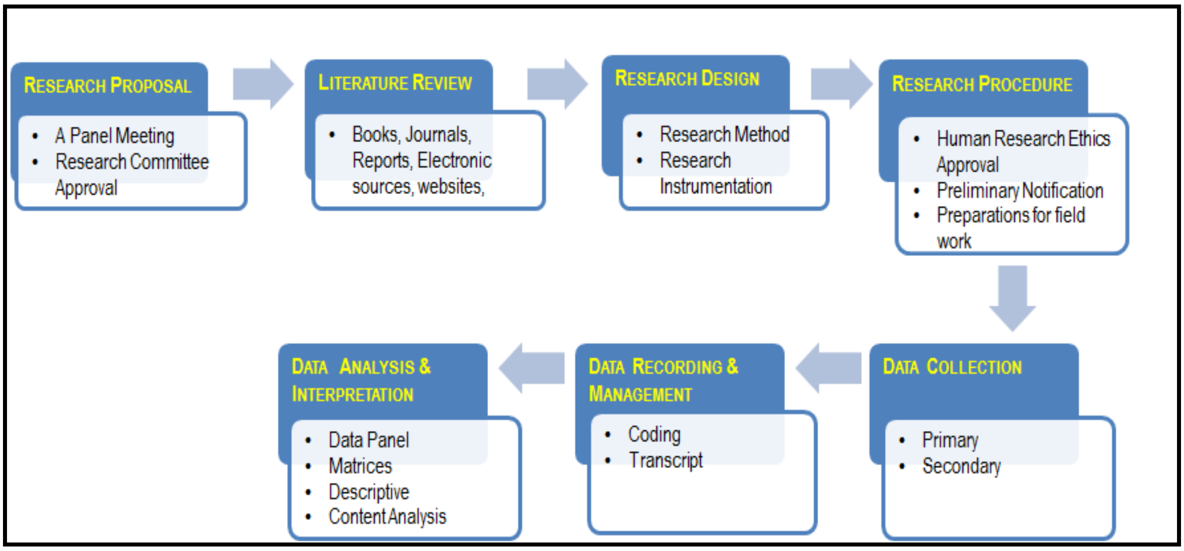
5.1. Research Process

The research process involves several steps. Data and information are collected and then analysed in order to address the research question and increase our understanding of the issue or topic (Creswell, 2013). Creswell (2013) condensed the research process into three steps, namely: pose a question, collect data to answer the question, and present an answer to the question. This research process will expand Creswell's definition into seven steps to address the research questions, namely:

1. Research Proposal
2. Literature Search
3. Research Design
4. Research Procedures
5. Data Collection
6. Data Recording and Management
7. Data Analysis and Interpretation

These steps in the research process are depicted in Figure 5-21 below.

Figure 5-21 The Research Process



The primary sources of the literature review are the journal databases provided by the library of the university which provides online databases collectively covering a huge range of disciplines and subjects. More importantly, the library website is connected with

Google scholar, the incredible search engine for academic literature on the internet provided by Google Inc., which offers a vast range of literature sources in the form of journals, books, papers, electronic documents, etc. The list of the main journal data bases used in this research is presented in TABLE 5-10.

TABLE 5-10 THE MAIN JOURNAL DATABASES

No.	Database Name	Focus
1.	Academy of Management (AOM)	Historical documents at Cornell University
2.	Business Source Complete	All Discipline Business
3.	Cambridge Digital Library	Multidisciplinary Collections
4.	Emerald	Management, HRM, Marketing, Information Management, Mechanical Engineering, Electronic and Electrical Engineering.
5.	JSTOR	Arts and Science Collections
6.	Sage Journals	Business, Humanities, Social Sciences, & Science, Technology & Medicine
7.	ScienceDirect	science, technology, medicine, the social sciences and business
8.	Scopus	Multidisciplinary Collections
9.	Willey Online Library	Multidisciplinary Collections

The other sources of literature are government and legislature documents, reports, magazines, newspapers, and electronic documents retrieved from the internet. The university library provided books related to the theories relevant to the themes of this research. Lastly, the websites of various institutions were an important source of relevant literature especially in providing information on laws, regulations, annual reports, strategic plan, performance report, etc. Several institution websites which were used to search for documents needed for this research are shown in **TABLE 5-11**.

TABLE 5-11 THE LISTS OF THE MOST VISITED WEBSITES

No.	Institution	Website Address	Document
1.	The Supreme Auditor	http://www.bpk.go.id/	Regulations
2.	The State of Secretary of the Republic of Indonesia	http://www.setneg.go.id/	Regulations
3.	The Ministry of State Owned Enterprise	http://www.bumn.go.id/	The Ministerial Decrees and Annual Report of SOEs
4.	The Finance and Development Supervisory Agency	http://www.bpkp.go.id/	Regulation and Reports
5.	State Owned Enterprises	Various Addresses	Annual Reports
6.	Subsidiary Companies	Various Addresses	Annual Reports

5.2. RESEARCH QUALITY

The research quality will be determined by four quality aspects, namely validity, reliability, generalisability, and objectivity (Mishra, 2004). These quality factors should be involved in the research process, so that the process is rigorous, can be repeated, will produce the same results, and will be of some benefit as mentioned in Chapter 1 in the section explaining the contribution of the research project .

5.2.1. Validity

Essentially, validity means that the conceptual framework of the research, the measurements used, and the conclusions drawn from the research project will be an accurate reflection of a real-world phenomenon or situation (Seliger et al., 1989). Validity also applies to the contents of the research project (content validity), the measurement approach or the instrument(s) used in the research project which is called the concurrent validity, and the use of variables in the research project which can predict the result accurately, known as the predictive validity. These three components of validity are discussed in detail below.

1) Content Validity

Content validity is the extent to which all contents of the research are relevant to what is being examined. Board member duality in the governance of parent and subsidiary companies in the state-owned enterprises in Indonesia is very common. However, there is no consensus on whether this duality structure will increase agency costs and company performance or otherwise. Agency costs, the costs incurred as a result of an agency problem, which have a greater chance of occurring in such a relationship, probably can explain this phenomenon. Thus, the correlation between board member duality and agency costs in parent and subsidiary governance are valid theorized issues to be investigated.

Several other relevant issues that are covered in this research project include the cost and benefit of the board member duality, regulation of the board member duality, ethics and integrity, the roles of the dual director, and financial accountability. All of those issues will be addressed in the formulation of survey and interview questions which will be the research instruments used for acquiring primary data. However, the conclusions drawn from primary data only, may not be accurate since all business activities will impact on financial figures. Thus, the issues that emerge from the survey and questionnaires will be compared to secondary data, i.e. the financial figures extracted from companies' annual reports.

2) Concurrent Validity

Concurrent validity can be assessed by by comparing primary data obtained from one source with secondary panel data. These were modelled using multiple regression analysis similar to previous research (see Chapter 4). This measurement approach was used in previous research on corporate director duality which also measured agency costs and performance. The primary data which will be acquired using surveys and interviews, will be processed using the Qualtrics software and will include the descriptive statistics embedded in the software. The result of the primary data processing will be used to explain the results of regression analysis of panel data of the secondary data (as explanatory variables).

3) Predictive Validity

The research project will use control variables and endogenous factors that were generally used in previous research to investigate similar themes (see Chapter 4). The use of variables and endogenous factors which are the same as those in previous research is intended to give the predictive values which have been hypothesized, but in a different context. Basically, the dependent variable is 'agency costs' measured by asset turnover and operating expenses; and the independent variable is 'board member duality'.

Then, several control variables which are usually used by researchers in this research topic such as, firm age, firm size, firm risk, firm growth, liquidity, and debt, and two endogenous variables, namely board size and ownership, will be formulated into regression analysis as panel data. In addition, company performance measurements such as earnings before interest and taxes, corporate tax, and dividends are also applied using a similar formula as for dependent variables, to predict the impact of the board member duality in parent and subsidiary companies of state-owned enterprises. This is intended to measure the correlation between board member duality and agency costs.

5.2.2. Reliability

Primary data and secondary data collected from the field work of this research should always be able to be tested. The data for this research was collected from reliable sources including the respondents and the annual reports downloaded from formal websites. Reliability is determined by testing whether the formula used to find the impact of the board member duality on agency costs can produce consistent results when repeated by other researchers. Reliability is also characterized by objectivity and precision (Mishra, 2004). Prior to distributing the questionnaires to respondents for the collection of primary data, the questionnaire contents were discussed with academics and practitioners who had expertise in the area of corporate governance and performance. The practitioners included an expert on state-owned enterprises in Indonesia. In addition, some content of the questionnaire was adopted from previous research conducted by Ismail (2013).

5.2.3. Generalisability

Board member duality, which is one of the relationship mechanisms between parent and subsidiary companies, usually exists in companies whose corporate board structure follows the two-tier model. Thus, essentially, the research results could apply to all situations where there is board member duality in corporate boards which follow the two-tier model. However, the specific focus of the research is the board member duality occurring in the state-owned enterprises in Indonesia. Thus, the research findings might be different in a different research context such as board member duality in private sectors or board member duality in other countries which have a different legal infrastructure, politics, culture, and best practices.

5.2.4. Objectivity

The phenomenon of board member duality which is proposed by the researcher is a reality that exists in state-owned enterprises in Indonesia which have one or more subsidiary companies. The research process adhered to objectivity principles, in the sense that this research avoided personal prejudice, preference, and/or predilection of researcher. Thus, the bias which is often associated with findings as identified by Silverman (2000) is expected not to occur in this research. Leedy and Ormrod (2001) stated that bias is “any influence, condition or sets of condition that singly or together distort data”. Hence, every care should be taken to minimize bias throughout the research process. Firstly, every step of the research process from the research proposal to the interpretation of results has gone through a review process. Secondly, statistical methods are used for calculating the number and categorizing the characteristics of respondent sample prior to data collection. Thirdly, the data collection process was conducted according to appropriate research and ethical procedure. Fourthly, secondary data was extracted from annual reports that are published on formal sites, and from formal documents made available by the Ministry of State Owned Enterprise. Lastly, data processing and analysis was conducted using application software, namely Qualtrics web-based software and E-views software. However, Silverman (2000) and Leedy and Ormrod (2001) also acknowledge that it is really difficult to avoid contamination with some form of bias when data are collected. Thus, the absolute objectivity of the researcher may also not be possible. However, at least some degree of value neutrality is possible and some aspects of objectivity should be maintained and defended (Mishra, 2004).

5.3. RESEARCH DESIGN

RESEARCH DESIGN is developed in order to address the research problems defined in the research proposal. It includes the research method used for collecting and processing data.

This research uses the *Triangulation Method* commonly known as the mixed-method approach which combines quantitative and qualitative data to address the research problem. The triangulation method is intended to produce more comprehensive conclusions and more importantly, it strengthens the instruments used to acquire qualitative and quantitative data.

For the purpose of analysis, this research uses the secondary data collected from the financial data extracted from the annual reports of the state-owned enterprises and their subsidiary companies. The financial figures published in the annual reports have already been audited by public accountants; thus, it is expected that the financial figures will give an accurate indication of the agency costs. Then, the result of the primary data derived from surveys and interviews will be used as explanatory variables for the findings from the secondary data. The analysis tool used for the secondary data is panel data analysis which combines longitudinal data and cross-sectional data of parent companies and their subsidiaries which are available for the 5-year period from 2008 until 2013.

5.3.1. Research Method

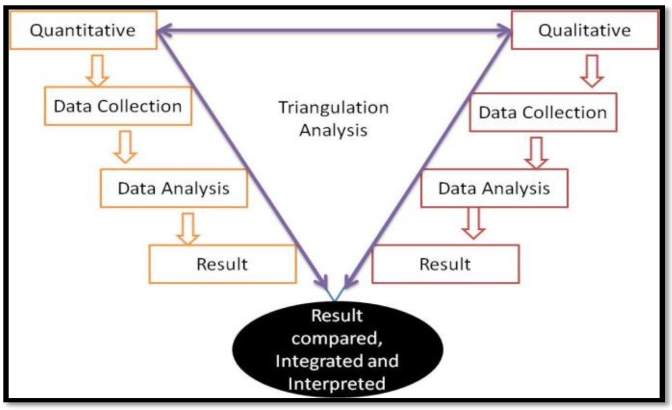
1) Triangulation Method

The triangulation method is a research method whereby more than one approach is used to obtain richer and more comprehensive data, and is intended to confirm the validity of the research results. This method enables researchers to use both qualitative and quantitative data. Flick (2014) argued that the triangulation method is just a mixed methods research, whereas

Mertens and Hesse-Biber (2012), Flick (2014) stated "base on the claims made by many scholars in the field that triangulation provides a justification for the use of mixed methods". According to Flick (2014) summarized by Denzin (1978), there are four types of triangulation: (1) data triangulation, (2) investigator triangulation, (3) theory triangulation, and (4) methodological triangulation. Data triangulation means that the research will use different sources of data including different times and different places for data collection, and different people for the research study. Investigator triangulation uses several people (or at least more than one) for the data gathering and data analysis process. Theory triangulation approaches data with multiple theories and perspectives. Lastly, methodological triangulation uses more than one method to collect data.

This research used a combination of data triangulation and methodological triangulation. That is, this research used both qualitative and quantitative data and utilized several methodologies to analyze the data. The qualitative data is the primary data which was acquired from in-depth interviews, whereas the quantitative data is the primary data obtained from on-line and off-line surveys; secondary data was obtained from companies' audited financial statements. The triangulation analysis schema is depicted in **FIGURE 5-22** below.

FIGURE 5-22 THE TRIANGULATION ANALYSIS SCHEME



Qualitative data was analyzed using Qualtrics web-based software which provided descriptive and inferential statistics (Snow and Mann, 2013), which were compared with the results of the in-depth interviews. Quantitative data was structured as panel data which was analyzed using E-views software (Baltagi, 2008). Then, the results of both quantitative and qualitative analysis were compared, integrated, and interpreted.

The primary data and secondary data were not collected sequentially but were acquired at the same time, in the sense that survey, interview, and secondary data are collected during same data collection period that is, from October to December 2014. However, the primary and secondary data were used for different purposes. The primary data was used to support and explain the results of the secondary data. That is, the surveys and interviews were used to explain, for example, the accountability of the board member duality, based on the result of the secondary data.

2) Justification for the Method

The triangulation method, commonly known as the mixed methods approach, combines qualitative and quantitative data and also combines the instruments used in the research. In the real world, the needs of both qualitative and quantitative data to explain a phenomenon comprehensively cannot be avoided. This is consistent with Olsen (2004) who argued that triangulation is not aimed merely at validation but at deepening and widening one's understanding. Thurmond (2001) extended that argument through her research that found that "the intent of using triangulation is to decrease, negate, or counterbalance the deficiency of a single strategy". This research used a survey and in-depth interviews to acquire primary data, whereas a data panel extracted from a financial database was used to analyse the secondary data. The primary data was analyzed using statistical methods which are integrated in the university's Qualtrics web-based software. Then, the secondary data was structured into panel data and analyzed using E-view software.

5.3.2. Research Instrumentation

1) *Panel Data*

Panel data, otherwise known as longitudinal or cross-sectional time series data, was used in this research. The secondary data was acquired from the annual reports of the parent companies and their subsidiary companies published on the internet. This secondary data was structured into panel data which captured the financial data having the longitudinal data and the cross-sectional data characteristics for the five-year period from 2009 until 2013 inclusive. The unit of analysis of the panel data is a company, which is different from the unit of analysis of the survey and interviews which involved corporate board members. Thus, the results of the survey and interviews are expected to confirm the results obtained from panel data analysis.

(1) Data structure and sample

The data is designed to be balanced, where the number of time observations (T) is the same for each company. Then, the data was also designed as a short panel, where the number of companies (N) is greater than the number of time periods (T). The sample data comprised financial data obtained from state-owned enterprises which have a parent-subsidiary relationship. The sample consisted of state-owned enterprises that have a parent-subsidiary relationship and that publish their annual reports on the internet. The data structure is as follows:

1. Unit analysis: company
2. Object analysis: endogen factors and variables defined

3. Type of data: Nominal and ratio/continuous
4. Sample size: total number of state owned enterprises and their subsidiaries which have published their annual reports in the internet.
5. Time period: 2009—2013

(2) Endogenous Variables and Description

Two endogenous factors were included in the regression model of this panel data, namely board size and ownership. The independent variable of the regression model is board member duality, whereas the dependent variable is agency costs measured by efficiency ratios. In addition, this research will measure the performance of those companies that have board member duality in their corporate board structure. The efficiency ratios used expense ratio and asset utilization ratio, whereas, the performance ratios used earnings before taxes (EBIT), dividends, and corporate tax. The control variable was the board composition, the debt ratio, the liquidity, the firm age, the firm size, the firm growth, and the firm risk. The notation of endogen factors and all variables are depicted in **TABLE 6-12** below.

TABLE 6-12 THE VARIABLE DEFINITION AND FORMULA

NO.	VARIABLES	NOTATION	DEFINITION	FORMULA
1.	Board Member Duality	**BD**	Director who have the duality position in parent and subsidiary company	$\frac{\text{Director duality holder}}{\text{Total number of director}}$
2.	Asset Turn-over	**ATO**	the efficiency of a company's use of its assets in generating sales revenue	$\frac{\text{Total Net Sales}}{\text{Average total assets}}$
3.	Operating Expenses	**OPEX**	The expenditures associated with a company's main **operating** activities and which are reported on its income statement.	$\frac{\text{Production \& Adm. expense}}{\text{Net sales}}$
4.	Board Size	**BSIZE**	The number of corporate board members	Directors + Commissioners
5.	Board Composition	**BCOMP**	Composition of director to total corporate board member	$\frac{\text{Directors}}{\text{(Directors + Commissioners)}}$
6.	Government	**GOWN**	SOE's Share owned by the	Total share owned by Government

	Ownership		government	Total share outstanding
7.	Firm Age	**FAGE**	The age of company until 2013	2013-$n^{t=0}$; n is the year of the company was born
8.	Firm Debt Ratio	**FDR**	The proportion of a company's assets financed by debt.	$\frac{\text{Total Debt}}{\text{Total Asset}}$
9.	Firm Growth	**FGROWTH**	The change of a specific variable within a specific time period.	$\frac{\text{Total sales year (n)}}{\text{Total sales year (n-1)}}$
10.	Firm Liquidity	**FLIQ**	The degree to which an asset can be quickly bought or sold in the market without affecting the asset's price. Market	$\frac{\text{Total current asset}}{\text{Total current liability}}$
11.	Firm Risk	**FRISK**	The financial uncertainty faced by an investor who holds securities in a specific firm	$\frac{\text{SD of } \Sigma \text{ EBIT}}{\text{Average of EBIT}}$ Note: SD = Standard Deviation; EBIT= Earnings Before Interest and Tax
12.	Firm Size	**FSIZE**	a measurement of how big the firm	Total Asset

(3) Model choices and equation

According to Gujarati (2003), panel data techniques are used to analyze the secondary time-series or cross-sectional data for the following reasons:

(3).1. Panel data techniques can explicitly take heterogeneity into account by allowing for demographic-specific variables;

(3).2. Panel data gives "more informative data, more variability, less collinearity among variables, more degree of freedom, and more efficiency;"

(3).3. Panel data are better suited to the study of *dynamic change*;

(3).4. Panel data can better detect and measure effects that simply cannot be observed in pure cross-section or pure time series data;

(3).5. Panel data enables researchers to study more complicated behavioral models.

There are three regression models that are commonly used in panel data: common effects model, fixed effects model, and random effects model. This research tested all the regression models, using E-views software in order to find the most appropriate regression model for the panel data of the board member duality research against agency costs in parent and subsidiary companies of state-owned enterprises in Indonesia.

1. The equation for the common effects model

   Common effects model is probably the simplest and most naive approach because all coefficients are assumed constant across time and demographics.

   The equation for the model, referring to Gujarati (2003), is as follows:

   $\mathbf{Y}_{i,t} = \alpha + X'_{i,t}\beta + \varepsilon_{i,t}$

   $\mathbf{Y}_{i,t}$ is alternatively Expense Ratio$_{i,t}$, Asset Utilization Ratio$_{i,t}$, EBIT$_{i,t}$, Dividend$_{i,t}$, and Corporate Tax$_{i,t}$ for *i*th firm at time *t*.

   α = the intercept is independent of *i* and *t*.

   $X'_{I,t}$ = is a K-dimensional vector of explanatory variables, without a constant term.

   β = a (K x 1) vector, the slopes, is independent of *i* and *t*

   $\varepsilon_{i,t}$ = the error, varies over *i* and *t*

   i = companies; and *t* = time

   SO the equation for this panel data will be:

   $$\mathbf{Y}_{i,t} = \alpha + \beta_1 \mathbf{BD}_{i,t} + \beta_2 \mathbf{BCOM}_{i,t} + \beta_3 \mathbf{BSize}_{i,t} + \beta_4 \mathbf{GOWN}_{i,t} + \beta_5 \mathbf{DR}_{i,t} + \beta_6 \mathbf{LIQ}_{i,t} + \beta_7 \mathbf{AGE}_{i,t} + \beta_8 \mathbf{FSIZE}_{i,t} + \beta_9 \mathbf{GROWTH}_{i,t} + \beta_{10} \mathbf{RISK}_{i,t} + \varepsilon_{i,t}$$

   As explained in the equation, $\mathbf{Y}_{i,t}$ is alternatively four (4) functions, namely Expense Ratio, Asset Utilization Ratio, EBIT, Dividend, and Corporate Tax for *i*th firm at time *t*. α is the intercept, **β** is the regression coefficient, $\beta_1\mathbf{BD}_{i,t}$ is board member duality for *i*th firm at time *t*, $\beta_2\mathbf{BCOM}_{i,t}$ is the board composition proportion of commissioners to total board for *i*th firm at time *t*, $\beta_3\mathbf{BSize}_{i,t}$ is the natural logarithm of the board size for *i*th firm at time *t*, $\beta_4\mathbf{GOWN}_{i,t}$ is percentage of shares owned by the Government for *i*th firm at time *t*, $\beta_6\mathbf{DR}_{i,t}$ is the debt ratio measured as total debt to total assets for *i*th firm at time *t*, β_7**LIQ**$_{i,t}$ is the liquidity for *i*th firm at time *t*, β_8**AGE**$_{i,t}$ is the firm age for *i*th firm at time *t*, β_9**FSIZE**$_{i,t}$ is the firm size for *i*th firm at time *t*, β_{10}**GROWTH**$_{i,t}$ is the firm growth in sales for *i*th firm at time *t*, β_{11}**RISK**$_{i,t}$ is the natural logarithm of business risk for *i*th firm at time *t*, and $\varepsilon_{i,t}$ is the error term.

From the common effects model or the general model of regression above, using the E-views software, the panel data was tested using the fixed effects model commonly known as the Least Square Dummy Variable (LSVD), and the random effects model to find the most appropriate model for the panel data of this research. In summary, the most appropriate model was hypothesized as follows:

H_o : Common Effects Model
Ha_1: Fixed Effects Model
Ha_2: Random Effects Model

2. The equation for the fixed effects model: LSDV (Least Square Dummy Variable)

The fixed effects model makes some assumptions about the intercept, the slope coefficient, and the error term as Gujarati (2003) mentions that "the complexity will increase if we add more regressors to the model because of the possibility of collinearity among the regressors". Hence, the several possibilities according to the assumptions based on Gujarati (2003) are:

- The intercept and slope coefficients are constant across time and space and the error term captures differences over time and demographics.
- The slope coefficients are constant but the intercept varies over demographics.

- The slope coefficients are constant but the intercept varies over demographics and time.
- All coefficients (the intercept as well as slope coefficients) vary over demographics.
- The intercept as well as slope coefficients vary over demographics and time.

The equation for the fixed effects model of panel data regression is as follows:

$$y_{it} = \alpha + i\alpha_i + X'_{it}\beta + \varepsilon_{it}$$

$$\begin{bmatrix} y_1 \\ y_2 \\ \vdots \\ y_n \end{bmatrix} = \begin{bmatrix} \alpha \\ \alpha \\ \vdots \\ \alpha \end{bmatrix} + \begin{bmatrix} i & 0 & \cdots & 0 \\ 0 & i & \cdots & 0 \\ \vdots & \vdots & \ddots & \vdots \\ 0 & 0 & \cdots & i \end{bmatrix} \begin{bmatrix} \alpha_1 \\ \alpha_2 \\ \vdots \\ \alpha_n \end{bmatrix} + \begin{bmatrix} X_{11} & X_{21} & \cdots & X_{p1} \\ X_{12} & X_{22} & \cdots & X_{p2} \\ \vdots & \vdots & \ddots & \vdots \\ X_{1n} & X_{2n} & \cdots & X_{pn} \end{bmatrix} \begin{bmatrix} \beta_1 \\ \beta_2 \\ \vdots \\ \beta_p \end{bmatrix} + \begin{bmatrix} \varepsilon_1 \\ \varepsilon_2 \\ \vdots \\ \varepsilon_n \end{bmatrix}$$

However, according to Gujarati (2003), the fixed effects model has limitations, namely:

- Every additional dummy variable will cost an additional degree of freedom.
- Too many additive and multiplicative dummies may lead to the possibility of multicollinearity, which make precise estimation of one or more parameters difficult.
- To obtain estimates with desirable statistical properties, we need to pay careful attention to the error term.

3. Random Effects Model: ECM (Error Component Model)

The random effects model assumes that β_{1i} is a random variable with a mean value of β_1 and the intercept of any cross-section unit is expressed as: $\beta_{1i} = \beta_1 + \varepsilon_{.}$ The equation for the random effects model of the data panel, referring to Gujarati (2003), is as follows:

$\mathbf{Y}_{i,j} = \alpha + X'_{I,t}\,\beta + w_{I,t}$

Where $w_{I,t} = \varepsilon_{I,t} + \mu_i$; $E(w_{I,t}) = 0$; $E(w_{I,t}^2) = \delta^2 + \delta_u$;

$E(w_{I,t}, w_{jt\text{-}1}) = 0$; $I \neq j$; $E(\mu_i\ \varepsilon_{I,t}) = 0$;

$E(\varepsilon_{I,t}\,\varepsilon_{i,s}) = E(\varepsilon_{I,t}\,\varepsilon_{i,j}) = E(\varepsilon_{I,t}\,\varepsilon_{j,s}) = 0$

2) Survey

Broadly speaking, there are two types of survey: the survey according to instrumentation and the survey according to a specific period of time. The questionnaire and interview which are used for this research are the instrumentation type of survey. The other types of survey that involve periods of time usually are the cross-sectional and longitudinal surveys.

(1) Questionnaire development

The draft of the questionnaire was based on several references which explored the topic of board member duality and agency costs. The literature review yielded six (6) dimensions comprising 50 questions which the researcher anticipated would explain or give a comprehensive understanding about the board member duality and agency costs. Then, the draft was discussed with experts in the corporate governance area, including a high-ranking government employee with expertise in the State-Owned Enterprises. The term “dual director” was used in the questionnaires rather than the term “board member duality” as it was more understandable to respondents.

The survey had two parts: the Respondent Profile in Part I and Questionnaire in Part II (see Appendix 1). **PART I, Respondent Profile,** consisted of 10 questions and was intended to elicit brief information about the respondent and his/her company. **PART II, The Questionnaire,** measured the accountability of dual directors in parent and subsidiary companies; this part was divided into six dimensions and comprised 50 questions (see Appendix D).

(2) Rating Scale

The rating scale is needed to quantify perceptions or opinions of respondents to statements provided in the survey questionnaires. The rating scale used in this research was a five-point Likert-type scale showing the degree of agreement from respondents which ranged from 'strongly agree' to 'strongly disagree' (Allen and Seaman, 2007). The rating scale is shown in TABLE 5-13.

TABLE 5-13 THE RATING SCALE

Code	Attribute
1	Strongly Disagree
2	Disagree
3	Not Sure
4	Agree
5	Strongly Agree

Participants' responses are neither "right" nor "wrong"; rather, they indicate the respondents' perceptions or opinions of something, so the conclusion is based on the central tendency of the issue which is perceived by the majority of respondents.

(3) Population and Sample Selection

There are several statistical techniques that can be used to calculate population and sample. It is up to the researcher to choose the method(s) most appropriate for his/her particular research. The choice of an appropriate population-sampling method is crucial because that researcher has to take into consideration the sampling procedure to follow, how big the sample size needs to be, and what the response rate is likely to be. However, there are several considerations that must be taken into account when choosing a sampling method: availability of resources such as time and money, workload involved in obtaining the representative respondents, and accuracy which can be calculated by mathematics. The target population for this research consisted of corporate board members of state-owned enterprises that were a parent company, and or one of their subsidiary companies. Hence, this meant that not all corporate boards of state-owned enterprises were for the sample.

This research used convenience sampling which is a type of non-probability sampling. This research used convenience sampling for several reasons:

(3).1. Not all companies publish the names of their corporate board members especially for the subsidiary companies, so that it is difficult to know the profiles of each corporate board member and whether board member duality exists in the companies.

(3).2. Gaining access to corporate board members is extremely difficult, because those in state-owned enterprises and their subsidiaries are very busy persons, and may be reluctant or slow to respond to the invitation to participate in the survey.

(3).3. Sometimes, bureaucratic processes are very complicated so it may take time to just distribute the survey questionnaire by hand to the corporate board members. Moreover, there may not be the technology available to distribute the questionnaire electronically.

(3).4. Only hundreds of corporate board members in both parent and subsidiary companies can readily be accessed using informal networking.

(3).5. A total sample of more than 30 respondents, commonly called N=30, is considered as a big sample (Tanis and Hogg, 2001).

According to the data base of the state-owned enterprises and subsidiary companies which was extracted from the website of the Ministry of State-Owned Enterprises (http://www.bumn.go.id) per 31 December 2014, the total number of state-owned enterprises is 119 companies, which comprises 59 parent companies and 60 stand-alone companies. The total number of corporate board members in parent companies is 622 members: 320 executive directors and 302 commissioners (see Appendix 2). The total number of registered subsidiary companies which were listed in the document published on the http://www.bumn.go.id is 331 companies (see Appendix 3). However, the total number of corporate board members of the subsidiary companies is unknown. This is because most of the subsidiary companies are less transparent as indicated by the fact that they do not publish their annual reports and financial statements on their websites; some do not even have a website. The summary of the total number of parent companies, subsidiary companies, and corporate board members is shown in TABLE 5-14

TABLE 5-14 THE NUMBER OF CORPORATE BOARD MEMBERS

No.	Type of Company	Number of Companies	Number of Directors	Number of Commissioners	Total Number of Directors & Commissioners
1.	Parent Companies	59	320	302	622
2.	Subsidiary Companies	331	n/a	n/a	n/a
	Total Parent and Subsidiary Company	390	-	-	-

(4) On-line and off-line survey distribution method

There are two methods used to distribute the survey questionnaires to respondents, namely the on-line method and off-line method.

(4).1. On-line method

With the on-line method, the survey questionnaires are distributed to respondents using the Qualtrics web-based software connected to the internet, and which processes the responses in real time. One of key success factors of this method is that it finds the email addresses of respondents which are still used actively, then inputs the email addresses in the Qualtrics web-based software. The email addresses of respondents can be found on business cards which have been collected in previous activities such as in conferences, in business meetings, and also from colleagues' collections. The email addresses can also be obtained from a company's websites and annual reports, or by contacting the corporate secretary. In total, 175 email addresses were collected for corporate board members of the state-owned enterprises and their subsidiary companies. This is shown in **TABLE 5-15** below.

TABLE 5-15 THE ON-LINE RESPONDENTS

RESPONDENT POSITION	E-MAILED
Commissioner of parent companies	22
Director of parent companies	69
Commissioner of subsidiary companies	22
Director of subsidiary companies	49
Senior manager	13
Total	**175**

(4).2. Off-line method

The off-line survey method involves the distribution of questionnaires by means of email, fax or courier, or personally by hand. A total of 336 survey questionnaires were distributed to potential respondents using the off-line method. In addition, a copy of the survey was sent to the senior secretary of the Ministry of State-Owned Enterprises for internal distribution as a means of securing more respondents.

(5) Descriptive statistics and cross tabulation

The Qualtrics web-based software facilitates the processing of data obtained from the survey. The software enables descriptive statistics and cross tabulation to be retrieved. The survey statistics include survey start times, survey start dates, survey completion percentage, question response rate, and drop-outs.

3) In-depth Interview

In-depth interviews were conducted in order to obtain the opinions of high profile respondents regarding the issue of board member duality and agency costs in the state-owned enterprises and their subsidiary companies. The respondents' opinions were compared with the survey findings to determine whether the latter were supported, not supported, or neither. The in-depth interview is essentially conducted one-to-one. However, respondents were allowed to bring their staff to clarify and add information if needed. Semi-structured questionnaires were used to keep the interview focused on the research topic. The semi-structured questionnaire was a brief version of the survey questionnaire.

(1) Interview questionnaire development

Issues covered in the interview questionnaires were essentially same as those in the survey questionnaires. The interview questionnaires consisted of semi-structured questions comprising 15 questions requiring responses that ranged from Strongly Agree, Agree, Not Sure, Disagree, to Strongly Disagree (see Appendix E).

(2) Interview procedures

The interview procedure began when the semi-structured questionnaires were ready, after having been reviewed, printed, and approved by the Human Research Ethics Committee of Victoria University. Then, the interviewer made the first contact with the targeted interviewees by means of e-mail, internet communicating software, telephone, and text messaging to explain why they were being contacted. After receiving the first response from the potential interviewees, an interview time and location were arranged. The interviewer brought to the interview all the interview documents, stationery and a recording device, the questionnaire, the letter of assignment from the supervisor, and the letter of support from the appropriate authority. The interviewer/researcher introduced himself formally, explained again the intention of the interview, and requested the interviewee's permission to record the interview. More importantly, the interviewer informed the interviewee of the confidentiality principles to guarantee the anonymity of the interviewee.

(3) Interviewee Target

The interviewees targeted for this research were high profile persons in public institutions who were responsible for improving corporate governance practice in the State-Owned Enterprise, commissioners and directors of State-Owned Enterprises which have subsidiary company/s, and commissioners and directors of subsidiary companies. It was intended that at least one member from the Supreme Auditor department would be interviewed to obtain his/her opinion about the oversight and control of State-Owned Enterprises and their subsidiaries. Several deputies of the Ministry of State-Owned Enterprise were interviewed to obtain their insight into board member duality and corporate governance practice in the State-Owned Enterprises and their subsidiaries; and interviews were conducted with commissioners and directors of State-Owned Enterprises and their subsidiaries to elicit their opinions on board member duality in State-Owned Enterprises and their subsidiaries.

(4) Interview schedule and venue

All interviews were conducted during October 2014 in Jakarta, on the basis that the first respondent would be the first to be interviewed. The schedule of the in-depth interviews is presented in **Table 6-16**.

Table 6-16 The Schedule Plan of Interview

October 2014							Location
Sun	Mon	Tue	Wed	Thu	Fri	Sa	
			1	2	3	4	n/a (Preparation to field work)
5	6	7	8	9	10	11	The Ministry of State Owned Enterprise
12	13	14	15	16	17	18	The Ministry of State Owned Enterprise
19	20	21	22	23	24	25	The Supreme Auditor
26	27	28	29	30	31		The State Owned Enterprises The Subsidiary Companies

(4).1. The week prior to the 7th of October was spent in preparation for the field work, and on October 8th, the researcher departed for Jakarta.

(4).2. 9th of October 2014: the researcher met with the Secretary of the Ministry of State Owned-Enterprise to explain the thesis project and the plan for in-depth interviews, the survey, and data collection. The researcher also elicited the secretary's opinion of and attitude towards the research topic.

(4).3. October 10th—17th: interviews with several deputies in the Ministry of State-Owned Enterprise.

(4).4. October 20th—21st: interview with a member of the Supreme Auditor department;

(4).5. October 22nd—24th:interviews with several deputies from the Finance and Development Supervisory Agency;

(4).6. October 26th—29th: interviews with several directors and commissioners on the boards of state-owned enterprises; finally

(4).7. October 30th—31st: interviews with several directors and commissioners of subsidiary companies.

5.4. RESEARCH PROCEDURE

The research procedure is essentially a step-by-step sequence of research activity which has a starting and ending points, so it will overlap with other research processes as explained in the previous section (section 5.1.). However, this section will present only the details of the human research ethics approval, preliminary notification, and preparation for fieldwork. The next research procedure which involved data collection, data recording and management, and data analysis and interpretation, will be elaborated in the next sections.

5.4.1. Human Research Ethics Approval

This research involved humans as participants, but only in a very low risk situation. However, whatever the risk, when humans are involved in research as respondents, the researcher has to obtain approval from the Human Research Ethics Committee which will ensure that the researcher involves the participants in an ethical manner and complies with all relevant legal requirements. All steps undertaken during the research fieldwork will implement the Australian Government's National Statement on Ethical Conduct in Human Research (2007). The research project obtained a two-year approval from the Human Research Ethics Committee on October 3, 2014 (see Appendix F).

Respondents were involved in the research as survey participants and interview participants. Respondents who agreed to participate in the research were required to sign a consent form and give this to the researcher. For the survey participants, their consent is implied when they voluntarily complete the survey questionnaires. However, prior to beginning the interview process, the researcher must obtain the consent of interviewees (see Appendix G). The respondents' identities are kept confidential.

5.4.2. Preliminary Notification

Prior to the research fieldwork, the researcher contacted anyone whom he thought could assist him to obtain respondents (contact person). The Prime Secretary of the Ministry of State-Owned Enterprise was the most important person to be contacted because he can influence the participation rate of respondents since the respondents are members of the corporate boards of state-owned enterprises. In the meantime, the researcher also sent informal e-mails to other contact persons prior to a visit in order to introduce himself and to give a brief explanation of the research project (see Appendix I). The principal supervisor of the research wrote a letter explaining the research assignment. The researcher brought this letter to meetings with the respondents and the Prime Secretary of the Ministry of State-Owned Enterprises as a research procedure (see Appendix J).

The researcher used a range of strategies to secure an adequate number of respondents, since the respondents were important persons in the state-owned enterprises and were likely to be very busy. Firstly, the researcher used the network of people that were already known and relatively close to the respondents. Secondly, the researcher asked the Senior Secretary of the Ministry of State-Owned Enterprises to issue a letter of recommendation to all state-owned enterprises, encouraging people to participate. Thirdly, the researcher used contact persons in the Finance and Development Supervisory Agency to distribute the questionnaires to their clients who generally are members of corporate boards of state-owned enterprises, and also could provide e-mail addresses of potential respondents from business cards received at meetings or conferences. Fourthly, the researcher contacted a friend at Ernst and Young who was able to provide business cards of clients who were on corporate boards. Lastly, the researcher contacted the corporate secretary of each state-owned enterprise requesting that s/he distribute the questionnaires and make appointments for interviews with the corporate board members. Using the Qualtrics survey instrument, the researcher sent questionnaires to several email addresses of corporate board members, and these could be responded to immediately.

5.4.3. Preparation for Fieldwork

After receiving approval from the ethics committee, the itinerary for the fieldwork in Jakarta was prepared, and travel documents were finalized. The soft copies and several hard copies of the survey questionnaires and interview questionnaires were packed, and the assignment letter for the research also had to be brought. The researcher had also prepared a list of State-Owned Enterprises from which the respondent candidates were sought, and also a list of corporate board members who would be contacted in Jakarta. After arriving in Jakarta, the researcher made 500 copies of the survey questionnaire and 30 copies of the interview questionnaire.

5.5. DATA COLLECTION

Data collection for this research was conducted by three means, depending on the instrument of research being used. The primary data was gathered from surveys and interviews, whereas the secondary data was gathered from a collection of annual company reports.

5.5.1. Primary data

The researcher coordinated with persons who had committed to helping, as mentioned in the previous section. Five hundred copies of the questionnaire were distributed according to regions and in agreement with the contact person. The contact person was free to reproduce as many copies as required, which depended on the number of members of boards in parent companies and subsidiary companies. When the respondents had completed the questionnaires, the contact person, who was usually the corporate secretary, informed the researcher who subsequently collected them.

1) Survey Distribution

   The distribution of the survey questionnaires is done by any means that will secure an appropriate number of respondents, as mentioned briefly in the previous section. Firstly, the survey questionnaires were accompanied by the assignment letter and request letter from the supervisor; these were given to the Senior Secretary of the Ministry of State-Owned Enterprises for approval. Then, based on the promise of the officer in the Ministry of State-Owned Enterprises to help with the survey distribution, the letter of approval from the prime secretary of the Ministry of State-Owned Enterprises together with the assignment letter and letter of support was faxed to every State-Owned Enterprise. However, subsequently, three other activities had to be performed: finding the respondent address, sending the survey questionnaires, and collecting the survey questionnaires. These activities are explained below.

   1) Finding the address

Finding the addresses of respondents is a challenging task. The addresses can be found by several means: formally or informally through documents acquired from the officer of the Ministry of State-Owned Enterprises who has the task of maintaining the contact details of all corporate board members of state-owned enterprises; from business cards obtained through networking; formally from sources such as office files and informally from friends; through the internet which could be used as a search engine, for social media, or for visits to the company websites. All the respondents' addresses were listed in Excel and categorized based on the ways the survey questionnaires were sent to them.

2) Sending the Survey questionnaires

The address category mentioned in the previous step was used to decide whether the survey questionnaires would be paper-based or sent digitally. Digital distribution was by means of on-line Qualtrics web-based software, or not on-line by sending the file electronically or scanning it. Paper-based questionnaires were sent by fax through the Ministry of State-Owned Enterprises or by courier who had already committed to help. Moreover, when employees of a company undertake to distribute the questionnaires, this could be a very effective means of securing responses.

3) Collecting the survey questionnaires

Basically, the way in which the responses are collected depends on the way the survey questionnaires were sent. If on-line, then the responses are automatically processed by the Qualtrics software, whereas, with the digital method, usually the respondents will scan their responses and send them to the researcher's email address. If the survey questionnaires are in hard copy, then the collection of responses depends on the people who were assigned to collect or the person who was assigned to send the paper-based questionnaires to the respondents.

5.5.2. Secondary data

The secondary data was mainly financial data acquired from the annual reports published by the companies and focused on the state-owned enterprises which have a subsidiary company. However, if the subsidiary companies do not publish their annual reports, then the parent company was excluded from the sample. The period of the financial data retrieved from the annual report of both parent company and subsidiary company, if available, was from 2008 until 2013 (five years). The data required consisted of financial figures and financial notes from balance sheets, income statements, statements of cash flow, and owners' equity and retained earnings statement of the state-owned enterprise for the research period. From the annual reports, the secondary data collected was categorized as dependent variables and independent variables including relevant control variables, commonly known as explanatory variables. Essentially, the research investigated the dependent variable which was the board member duality and the independent variable which was the agency costs. However, since the research conducted a further investigation of the indicators of agency costs, several independent variables, namely Earnings Before Interest and Tax (EBIT), Corporate Tax, and Dividend were included in the collection of secondary data. The collection of secondary data comprised information about each company’s percentage of parent and the Government ownership, the board composition, the debt ratio, the liquidity, the firm age, size, growth, and risk, asset turnover, and operating expenses.

5.6. DATA RECORDING AND MANAGEMENT

5.6.1. Recording Devices

Usually, a recording device is used for interviews. The recent advanced technology enabled the researcher to use a mobile phone device to record the interview. However, to prevent the accidental loss of recorded data, the researcher also used a second, traditional recording device which was a tape recorder with cassette tape. The data which was recorded by the recording devices was transferred or copied to the computer. A transcript was produced from the recordings and was used to analyze the research questions and enrich the explanatory variables. In the recording process, the researcher introduced himself and his tertiary institution, assured the interviewee that confidentiality would be maintained and that the interviewee would not refer to the interviewee by name.

5.6.2. Coding

The interview questionnaire contained semi-structured questions. However, during the interview process, the interviewee had the opportunity to give detailed explanations and provide a more comprehensive answer to the question asked by the interviewer, which cannot be done with semi-structured questions. Thus, the results of the interviews were coded based on five specific issues relating to the issues included in the survey questionnaire.

The survey questionnaires were coded automatically based on the menu provided by the Qualtrics software. The results of the off-line survey and the on-line survey obtained from the scanned survey questionnaires sent to respondents (not using Qualtrics software) were coded as 'manually input' to differentiate them from the questionnaires distributed and collected through Qualtrics. The secondary data was coded using three digits followed by the status as depicted in TABLE 6-17.

TABLE 6-17 THE CODING OF SECONDARY DATA

No.	Company	Code	Status	
1.	PT BNI 1946	100 P1	Parent Company 1	
2.	PT BNI Life Insurance	101 S1		Subsidiary Company 1
3.	PT Bank BNI Syariah	102 S1		Subsidiary Company 1
4.	PT Bank Mandiri	200 P2	Parent Company 2	
5.	PT Bank Syariah Mandiri	201 S2		Subsidiary Company 2
6.	PT AXA Mandiri Financial Services	202 S2		Subsidiary Company 2
7.	PT Mandiri Sekuritas	203 S2		Subsidiary Company 2
8.	PT Mandiri Tunas Finance	204 S2		Subsidiary Company 2
9.	PT Sinar Harapan Bali	205 S2		Subsidiary Company 2
.	……..	….. ..	………………	
.	…….	….. ..		…………..

5.6.3. Storage Devices

Data collected from primary sources and secondary sources was stored in different media. Data which could be digitalized in the form of softcopy was stored in a USB and CD with a specific name on it, whereas data collected in the form of hardcopy was stored in specific folders.

5.7. Data Analysis and Interpretation

5.7.1. Quantitative Data

There are two types of quantitative data in this research which will be subjected to different processes based on how the data was acquired: quantitative data was obtained from the survey and quantitative data was obtained from a data panel. The quantitative data from the survey was processed by the Qualtrics software which has several features which facilitate and enable descriptive statistics analysis, cross-tabulation, and the Chi Square (x^2) test. The results obtained through Qualtrics provide frequency distribution and percentages which are useful for summarizing and describing the observations. Facts and figures will enable the interpretation of results in the context of the research and can be formulated as statements that reflect the significance of the finding in terms of agency costs and board member duality. The occurrence and significant relationship among variables can be explained by cross-tabulation and Chi-Square (x^2) test.

The quantitative data obtained from the financial database was structured into a data panel and formulated into a regression model. Then the regression model was tested using E-views software which facilitate and explore the three means of testing, namely, (1) *Testing with Common Effects Model; (2) Testing with Fixed Effects Model;* and (3) *Testing With Random Effects Model*. The E-views software presented the best regression model of the three models mentioned above. Thus, the best regression model was used to determine the strength of the relationship among variables.

5.7.2. Qualitative Data

The qualitative data obtained from the in-depth interviews were essentially in line with the analysis of the survey questionnaires since the contents of both interview and survey questionnaires were basically the same. However, the interviewees all have high-profile roles in corporate governance and oversight, and therefore are different from the survey respondents. Thus, every statement relating to the research issue, which is board member duality and agency costs, is very important. All the interview responses were compared and presented in comparison matrices which enabled the identification of common themes that emerged during the in-depth interviews.

5.7.3. Mixed Data

The quantitative data and the qualitative data were integrated in order to draw a conclusion. Quantitative and qualitative data are separate but complementary. Thus, it needs a creative mechanism to process both types of data in order to arrive at comprehensive and meaningful conclusions that will answer the research questions. The creative mechanism is described below.

1. The quantitative and qualitative data will be processed separately
2. Quantitative data obtained from the financial database which was processed with E-Views software was the firm basis for other findings. This is because the accuracy and accountability of the financial database has been proven by an independent auditor, and reflected in the financial audited statements which are published in annual reports.
3. Quantitative data obtained from the survey was compared with the quantitative data obtained from the financial database.
4. Qualitative data obtained from the in-depth interviews was used to confirm the results of the quantitative data which were processed in previous stages.

5. All the findings resulting from this triangulation method were presented, investigated, and discussed prior to drawing several conclusions.

5.8. SUMMARY

This chapter presents the step-by-step research process used in the study. All the research steps should be followed in order to obtain the required quality of research that was established prior to commencing the research. The quality of research depends on its validity, reliability, generalisability, and objectivity in terms of both the research issue and the data collected.

This research used the triangulation method which was designed to integrate all research instruments, namely panel data, survey, and in-depth interview into an integrated data analysis matrix. The research field was pre-determined before the data collection began. This research was approved by VUT's Ethics Committee which took all ethics issues into consideration. The primary data was collected using the survey and in-depth interview tools as research instruments. The secondary data was collected from the websites of the targeted sample and from the Ministry of BUMN. Both primary and secondary data were documented in several files and saved in the storage devices of a computer. The analysis of the survey data was undertaken using the Qualtrics software. E-views software was used for the analysis of panel data. The in-depth interviews were transcribed and the responses were grouped according to the Likert scale used for the survey.

CHAPTER 6: ANALYSIS OF RESULTS

"If I disagree with you sometimes, it's because I have a mind of my own."
– Emma Paul –

INTRODUCTION

This chapter comprises five (5) sections, presenting the results of the research. **Section 6.1: RESPONSE RATE** presents the number of respondents who participated in the survey either on-line or off-line, and the response rates for the in-depth interviews, and the panel data of parent and subsidiary companies. The response rate for each research instruments was calculated based on the number of respondents targeted divided by the total number of respondents acquired.

SECTION 6.2: RESPONDENT DEMOGRAPHICS describes the profiles of respondents who completed the survey and those who were chosen for the in-depth interviews. However, the names and personal identities of the respondents remain confidential and are protected according to the principles of ethics.

SECTION 6.3: DATA PANEL SAMPLE presents the financial statement profile from the annual reports of state-owned enterprise companies and their subsidiaries from 2009 to 2013. The financial statements presented in the annual reports have usually been audited by the public accountant or the supreme auditor. Then, financial figures of the financial statements originating from the balance sheets, income statement, statement of changes in equity, and financial notes were extracted into the variables needed for this research.

SECTION 6.4: RESULTS OF THE RESEARCH summarises the results of the analyses of each research instrument individually based on the research methods used. The survey used Qualtrics software to process the data and summarize it in table format, the in-depth interviews were summarized in the table summary, and E-views software was used to process the panel data and build the panel data regression model which also presents the results.

6.1. Response Rate

The response rate for this research was divided into three parts based on the research instruments, namely panel data, survey, and interview. The response rate for all instruments is detailed below.

6.1.1. Financial Panel Data of the Parent and Subsidiary Companies

Secondary data were collected from the financial statements extracted from the annual reports of the State-Owned Enterprises and their subsidiaries from 2009 until 2013. There were a total of 59 parent companies as of 31 December 2013, having 272 subsidiary companies. However, only 10 parent companies and 37 subsidiary companies published on their websites their completed financial statements in their annual reports for 2009—2013 (see Appendix A). Thus, the total observations for the panel data were for 47 companies for the five-year period, which equals 235 observations.

6.1.2. The Parent and Subsidiary Governance Survey 2014

The parent and subsidiary companies survey was conducted in Jakarta, where the majority of respondents reside. The survey started in mid October 2014 and was concluded at the beginning of December 2014. The response rate for this survey which used the on-line and the off-line survey methods is summarized below.

1) The Response Rate for the On-Line Survey

Of the 175 online questionnaires sent to the e-mail addresses of directors and commissioners in both parent and subsidiary companies, 24 completed questionnaires were returned, which represented a 13.71% rate as indicated in TABLE 6-18. The e-mail addresses of the commissioners and directors of the SOEs and their subsidiaries were obtained from the networking and the business cards collected by the researcher, because the Ministry of BUMN is a shareholder simultaneously the operator of BUMN, and therefore does not have their e-mail addresses. As a result, the number of e-mail addresses obtained was very limited.

TABLE 6-18 THE RESPONSE RATE FOR THE ON-LINE SURVEY

RESPONDENT POSITION	E-MAILED	COMPLETED	%
Commissioner of parent companies	22	7	58.33%
Director of parent companies	69	5	7.25%
Commissioner of subsidiary companies	22	2	9.09%
Director of subsidiary companies	49	9	18.37%
Senior manager	13	1	7.69%
Total	175	24	13.71%

The details of the response rate of the on-line survey which is depicted in TABLE 6-18 above are summarized in **TABLE 6-19**.

TABLE 6-19 THE DATES FOR SENT EMAILS

Sent	Emails sent	Emails Failed	Emails Opened	Surveys started	Surveys Finished
Nov 28, 2014 1:09 PM	1	0	0	0	0
Nov 28, 2014 1:02 PM	1	0	1	1	1
Nov 15, 2014 6:17 PM	59	0	20	13	4
Nov 12, 2014 8:43 AM	36	0	17	10	6
Nov 07, 2014 6:21 PM	78	0	36	21	13
TOTAL	175	0	74	45	24

The table above shows that the first e-mail was sent on November 7, 2014 6:21 PM. In total, 175 e-mails were sent to respondents. Only 74 respondents opened them. Forty-five respondents began to respond to the questionnaires but only 24 respondents completed them.

To increase the response rate, ***the Qualtrics software*** provides a reminder facility, so the respondents were reminded by being re-sent the on-line survey questionnaires. **TABLE 6-20** shows the remainders sent to all respondents who had not finished answering the questionnaires.

TABLE 6-20 THE REMINDERS OF THE E-MAILS SENT TO RESPONDENTS

Sent	Emails sent	Emails Failed	Emails Opened	Surveys started	Surveys Finished
Dec 09, 2014 12:18 PM	61	0	12	0	0
Dec 09, 2014 12:17 PM	31	0	5	0	0
Dec 09, 2014 12:17 PM	52	0	9	0	0
Dec 03, 2014 4:48 PM	32	0	2	0	0
Dec 03, 2014 4:47 PM	53	0	9	0	0
Dec 02, 2014 12:51 AM	32	0	3	0	0
Dec 01, 2014 11:53 PM	64	0	9	0	0
Dec 01, 2014 11:49 PM	32	0	5	0	0
Dec 01, 2014 11:46 PM	53	0	10	0	0
Dec 01, 2014 11:30 PM	1	0	0	0	0
Dec 01, 2014 11:28 PM	1	0	0	0	0
Nov 28, 2014 2:11 PM	54	0	9	0	0
Nov 28, 2014 1:13 PM	64	0	9	0	0
Nov 28, 2014 1:12 PM	32	0	4	0	0
Nov 24, 2014 1:12 AM	65	0	10	0	0
Nov 24, 2014 1:11 AM	32	0	2	0	0
Nov 24, 2014 1:10 AM	55	0	8	0	0
Nov 19, 2014 10:14 AM	56	0	12	0	0
Nov 19, 2014 10:13 AM	34	0	6	0	0
Nov 19, 2014 10:12 AM	66	0	11	0	0
Nov 18, 2014 6:07 PM	67	0	9	0	0
Nov 17, 2014 3:03 PM	34	0	5	0	0
Nov 17, 2014 2:06 PM	58	0	12	0	0
Nov 12, 2014 11:45 PM	72	0	17	0	0
Nov 12, 2014 6:55 PM	35	0	8	0	0

The respondents were reminded many times - on November 12, 17, 18, 19, 24, 28 and December 1, 2, 3 9 in 2014. Table 6-14 shows that there is no e-mails failed, indicating that the e-mail addresses were valid. However, there were only 74 respondents who opened the e-mails and the remainder, that is, 101 respondents, did not open the e-mail at all.

2) The Response Rate for the Off-Line Survey

The off-line survey resulted in a significant number of responses. Of the 336 survey questionnaires sent by e-mail, fax or courier, or personally handed out, 115 completed questionnaires were returned which represented a 34.23% response rate as indicated in **TABLE 6-21**. The off-line survey response rate is shown in Table 6-21.

TABLE 6-21 THE RESPONSE RATE FOR THE OFF-LINE SURVEY

	fax	*couriers*	*e-mail*	*Subtotal respondent*	*Return*	*Response Rate*
Respondent	35	296	5	336	115	**34.23%**

However, four respondents did not complete the survey, leaving a total of 111 valid responses.

3) The Total Response Rate of the Survey

The total response rate for both on-line and off-line surveys can be seen in **TABLE 6-22**.

TABLE 6-22 THE RESPONSE RATE OF THE TOTAL SURVEY

	On-line	*fax*	*couriers*	*e-mail*	*Subtotal*	*Return*	*Response Rate*
Respondent	175	35	296	5	511	139	**27.20%**

The response rate of 27.20% was higher than those for several similar surveys, such as the survey conducted by Graham and Harvey (2001) which had a 9% response rate, Trahan and Gitman (1995)'s that resulted in a 12% response rate, and GÉCzy et al. (2007) with a 19% response rate.

6.1.3. In-depth interview of Parent and Subsidiary Governance 2014

Of the 15 targeted respondents who had high profile positions, 11 or 73.33% of them were ready and willing to be interviewed. Respondents who were interviewed are depicted in **TABLE 6-23**.

TABLE 6-23 THE INTERVIEW RESPONDENTS

RESPONDENT POSITION	TARGET	INTERVIEWED	%	RELEVANT INFORMATION TO RESEARCH
The Minister of SOE	1	-	-	SOE Shareholders
Deputy of the Ministry of SOE	4	2	50%	Public servants and commissioners
Commissioner of parent company	3	3	100%	Public servant and commissioners
Directors who held a board member duality position	3	2	67%	Board member duality in both parents and subsidiaries
Directors of subsidiary companies	3	3	100%	2 directors of subsidiary companies and 1 director who hold the board member duality in subsidiary and grandchild company)
A member of the Supreme Audit	-	1	-	State Auditor
Total	15	11	73.33%	

In-depth interviews were conducted with the 11 respondents each of whom had a different high level position in the Ministry of State-Owned Enterprises, or were directors and commissioners in both parent and subsidiary companies of the SOEs. Notably, one interviewee was a member of the Supreme Audit of the Republic of Indonesia.

6.2. RESPONDENT DEMOGRAPHICS

Previous research on respondents' demographics showed that the diversity of corporate board members may impact on corporate performance (Arioglu (2014), Erhardt et al. (2003), Maznevski (1994), and Murray (1989)). This section will present the respondent demographics from the panel data, survey, and in-depth interviews.

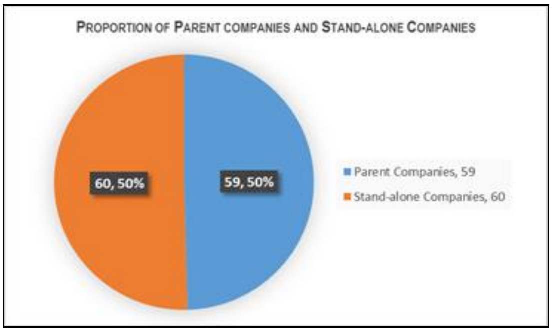
6.2.1. Panel Data Sample

The panel data contained financial figures extracted from the financial statements for 2009—2013 published in the annual reports by the State-Owned Enterprises and their subsidiary companies. This research found that 47 companies which published their financial statements had a parent and subsidiary structure for the period of 2009—2013. The 47 companies consisted of 10 parent companies and 37 subsidiary companies (see Appendix A).

1) Proportion of Parent and Stand-Alone Companies

The number of state-owned enterprises having a parent company was 59 companies as of December 31, 2014. This was 49.58% of the total of 119 companies (see Appendices B and C). The proportion of parent and stand-alone companies is depicted in **PIE CHART 6-1**.

PIE CHART 6-1 THE PROPORTION OF PARENT COMPANIES AND STAND-ALONE COMPANIES

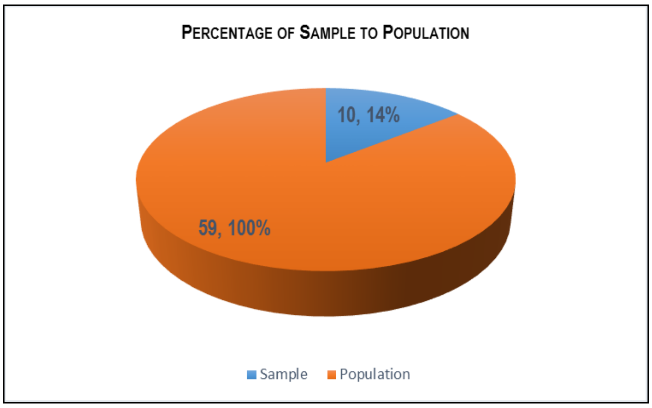


Sources: http://bumn.go.id/halaman/240/Profil.BUMN

2) *Proportion of Parent Companies in the Sample*

There were ten parent companies in the sample, operating across eight industrial sectors. These were 14% of the total 59 parent companies, as shown in **PIE CHART 6-2**.

PIE CHART 6-2 THE PERCENTAGE OF SAMPLE IN THE POPULATION



Sources: http://bumn.go.id/halaman/240/Profil.BUMN

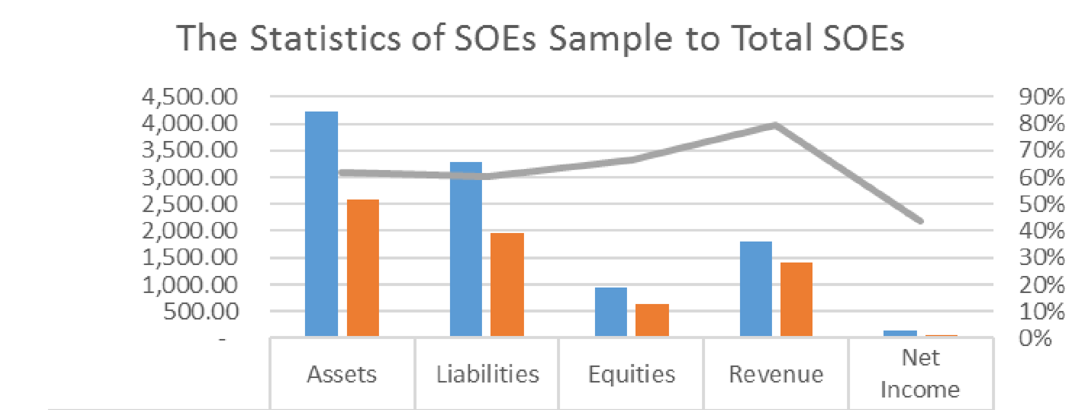
3) *Proportion of Financial Statistics Sample*

According to data released by the Ministry of State-Owned Enterprises of the Republic Indonesia[75], the total assets, liabilities, equities, revenues and net incomes of all State-Owned Enterprises per December 31, 2014 were: assets: IDR 4,216.00 Trillion, liabilities: IDR 3,279.00 trillion, equities: IDR 937.00 trillion, revenues: IDR 1,792.00 trillion, and net income: IDR 152.00 trillion, respectively. Whereas the total assets, liabilities, equities,

[75] http://bumn.go.id/halaman/241/Kinerja.BUMN

revenues, and net incomes of the parent company sample were IDR 2,597.00 trillion which is about 62% of the total SOEs' assets, IDR 1,973.00 trillion which is about 60% of the total SOEs liabilities, IDR 624.00 trillion which is about 67% of the total SOEs equities, IDR 1,426.00 trillion which is about 80% of the total SOEs revenues, and IDR 66.00 trillion which is about 43% of the total SOEs net income. The proportion of the financial figures of the parent company sample against that of the total number of state-owned enterprises is depicted in GRAPH 6.8 below.

GRAPH 6.8. THE PROPORTION OF THE FINANCIAL FIGURES OF THE PARENT COMPANY SAMPLE (IN TRILLION IDR)



	Assets	Liabilities	Equities	Revenue	Net Income
Population	4,216.00	3,279.00	937.00	1,792.00	152.00
Data Sample	2,597.00	1,973.00	624.00	1,426.00	66.00
Percentage	62%	60%	67%	80%	43%

4) Proportion of Sample of the Industrial Sector in the Population

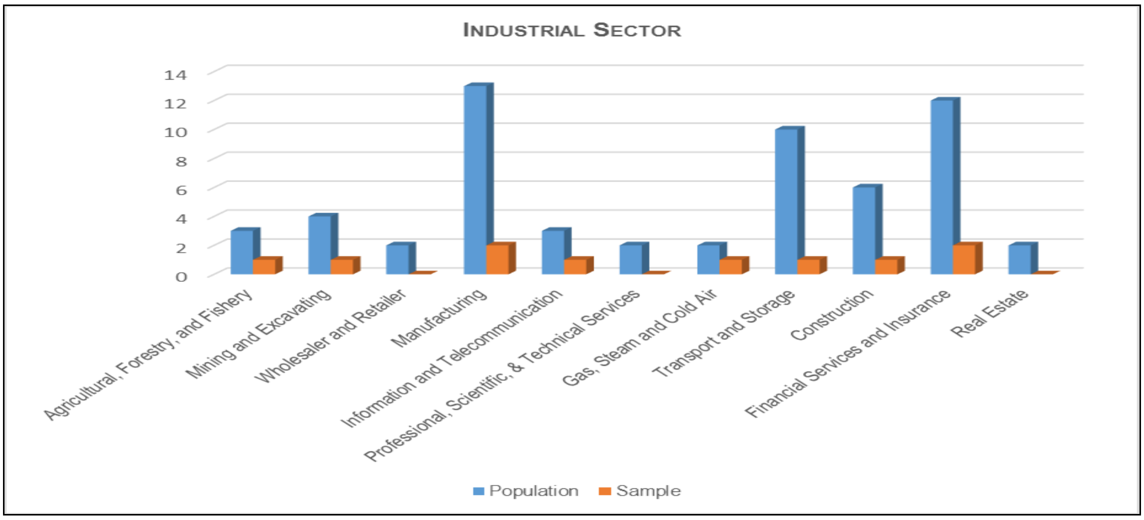
There were 14 industrial sectors in which state-owned enterprises operated. The number of parent companies in the sample was 10 companies distributed across 8 industrial sectors, which represents 72.73% of the total number of industrial sector categories, as shown in **TABLE 6-24** and GRAPH 6.9.

TABLE 6-24 THE PROPORTION OF THE INDUSTRIAL SECTOR OF PARENT COMPANY SAMPLE IN THE POPULATION

NO.	THE INDUSTRIAL SECTOR OF PARENT COMPANIES	POPULATION	PANEL DATA	%
1.	Agricultural, Forestry, and Fishery	3	1	33%
2.	Mining and Excavating	4	1	25%
3.	Wholesaler and Retailer	2	0	0
4.	Manufacturing	13	2	15%
5.	Information and Telecommunication	3	1	33%
6.	Professional, Scientific, & Technical Services	2	0	0
7.	Gas, Steam and Cold Air	2	1	50%
8.	Transport and Storage	10	1	10%
9.	Construction	6	1	17%
10.	Financial Services and Insurance	12	2	17%
11.	Real Estate	2	0	0
	Total	59	10	17%

The largest group of BUMN companies was in the manufacturing industry (13 companies), followed by the financial services and insurance industries (12 companies).

GRAPH 6.9. PROPORTION OF INDUSTRIAL SECTOR SAMPLE IN THE POPULATION



Only three industrial sectors are not represented in the sample for the panel data: Wholesale and Retail, the Professional, Scientific & Technical Services, and Real Estate.

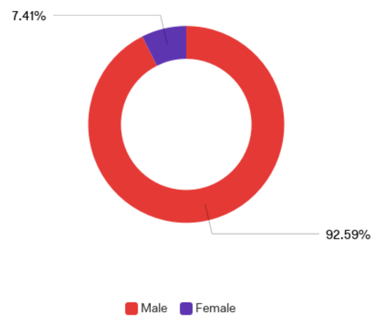
6.2.2. Survey

The respondent demographic of the survey encompasses gender, age, level of education, number of company, company status, average income, and industrial sector.

1) Gender

There was a predominance of male directors (92.59%) and few female directors (7.41%) among the 135 respondents as depicted in **PIE CHART 6-3**.

PIE CHART 6-3 THE DISTRIBUTION OF FREQUENCIES AND PERCENTAGE OF RESPONDENT GENDER

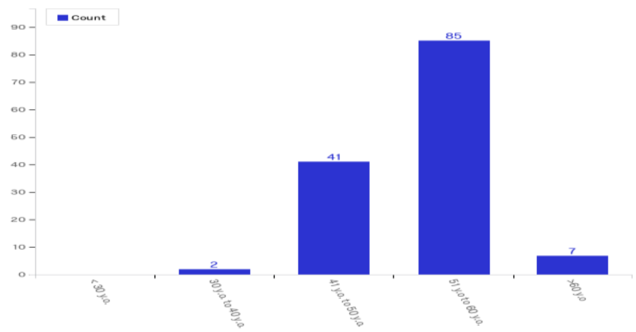


GENDER	%	COUNT
Male	92.59%	125
Female	7.41%	10
Total	100%	135

2) Age of Respondents

The largest group of respondents was aged between 51 and 60 years (63%), or 85 of 135 respondents. No respondent was younger than 30 years. The second largest group of respondents was in the 41-50 age bracket (30.37%) or 41 of 135 respondents. Seven of the 135 respondents were over 60 years old. Majority of the respondent age was within the 51—60 age bracket. The diversity of respondent ages is shown in GRAPH 6-10.

GRAPH 6-10 DISTRIBUTION OF FREQUENCIES AND PERCENTAGES OF RESPONDENT AGE



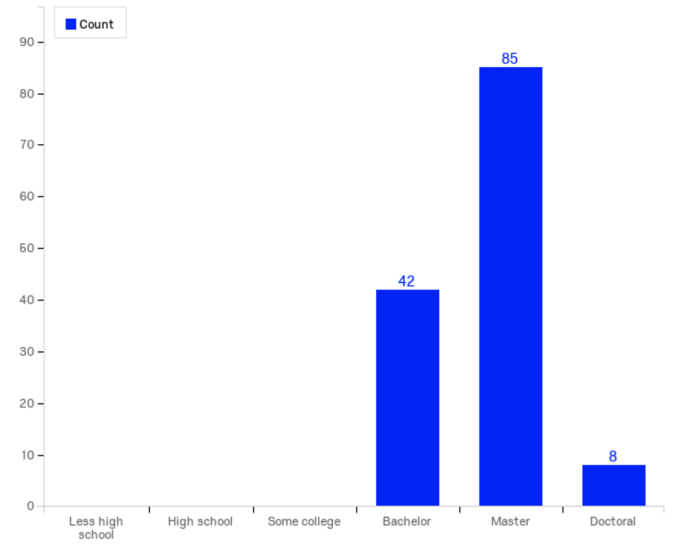
AGE	%	COUNT
<30	0.00%	0
30 -- 40	1.48%	2
41 – 50	30.37%	41
51 – 60	62.96%	85
>60	5.19%	7
Total	100%	135

QUESTION	MINIMUM	MAXIMUM	MAJORITY	Total Respondents
What is your age?	**30-40 Y.O.** 2 (1.48%)	**>60 Y.O.** 7 (5.19%)	**51-60 Y.O** 85 (62.96%)	135

3) Level of Education

The largest group of respondents, 85 of 135 respondents (63%), had a master degree. The minimum level of education was a bachelor degree at 31% or 42 of 135 respondents. The maximum level of education was the doctoral degree at 6% or 8 of 135 respondents. Majority of respondents possessed the master degree. No respondent had less than a bachelor degree. The level of education of respondents for this research was divided into 6 (six) groups, namely: less than high school, high school or equivalent, some college, bachelor or equivalent, master or equivalent and doctoral or equivalent, as shown in GRAPH 6-11.

GRAPH 6-11 THE DISTRIBUTION OF FREQUENCIES AND PERCENTAGES OF THE LEVEL OF EDUCATION



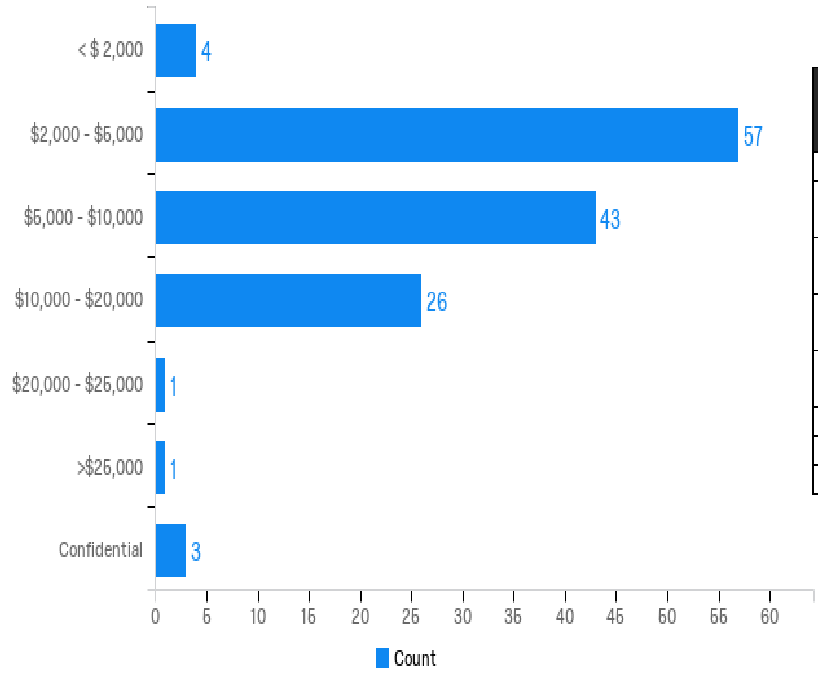
LEVEL OF EDUCATION	THE LOWEST	THE HIGHEST	THE MAJORITY	TOTAL RESPONDENTS
What is the highest level of education you have completed?	Bachelor 42 (31%)	Doctoral 8 (6%)	Master 85 (63%)	135 (100%)

4) Average Monthly Income

The largest percentage of the respondents was those with an average monthly income of US $2,000.00-$5,000.00 or 42.22% of 135 respondents. Majority of the average monthly income was between US$ 5,000.00-$10,000.00 or approximately US$ 9,500.00 ((2.84/3) x US $10,000.00). One respondent earned an average monthly income above US

$20,000.00 and 1 respondent earned over US $25,000.00. The average monthly income of research respondents is depicted in GRAPH 6-12

GRAPH 6-12 THE DISTRIBUTION OF FREQUENCIES AND PERCENTAGES OF THE AVERAGE MONTHLY INCOME



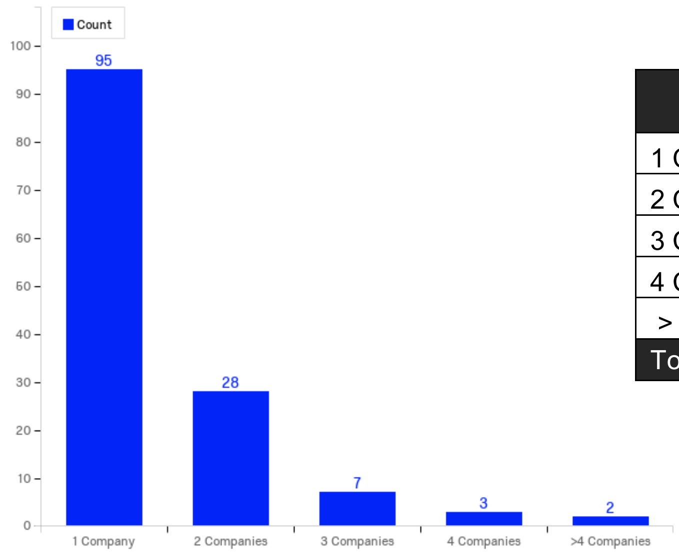
AVERAGE MONTHLY INCOME	%	COUNT
< $ 2,000	2.96%	4
$2,000 - $5,000	42.22%	57
$5,000 - $10,000	31.85%	43
$10,000 - $20,000	19.26%	26
$20,000 - $25,000	0.74%	1
>$25,000	0.74%	1
Confidential	2.22%	3
Total	100%	135

AVERAGE INCOME	THE LOWEST	THE HIGHEST	THE MAJORITY	TOTAL RESPONDENTS
What is your average income monthly?	<$2,000 4	>$25,000 1	$5,000-$10,000 43	135

5) The Number of Director Positions Held

The largest group of respondents who served as a director and/or commissioner in 1 (one) company was (70.37%) or 95 of 135 respondents. This means that the majority of the respondents held a non-duality position. On the other hand, 29.63% or 40 out of 135 respondents served in more than one company, or in what is called a duality position. Board member duality is part or a subset of the duality holder which is shown in Graph 4. Surprisingly, there were two respondents who served in more than four companies. However, this did not mean that they were in positions of board member duality. For example, a respondent could have 4 (four) positions as a commissioner in several companies. There were 5 categories of respondents based on the number of companies in which the respondents served as a director and/or a commissioner, namely 1 company, 2 companies, 3 companies, 4 companies, and more than 4 companies, as shown in GRAPH 6-13.

GRAPH 6-13 THE DISTRIBUTION OF FREQUENCIES AND PERCENTAGES OF THE NUMBER OF COMPANIES IN WHICH RESPONDENTS HELD DIRECTORSHIPS



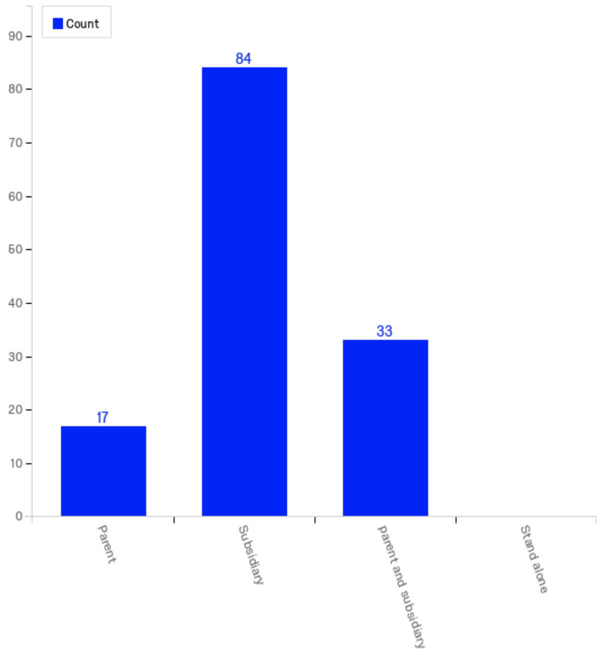
NUMBER OF COMPANY	%	COUNT
1 Company	70.37%	95
2 Companies	20.74%	28
3 Companies	5.19%	7
4 Companies	2.22%	3
> 4 Companies	1.48%	2
Total	100%	135

NUMBER OF COMPANY	THE LOWEST	THE HIGHEST	THE MAJORITY	TOTAL RESPONDENTS
In how many companies are you appointed to be a director and/or commissioner?	1 DIRECTOR 95 (70.37%)	>4 DIRECTOR 2 (1.48%)	1 DIRECTOR 95	135

6) The Company Status

The largest group of respondents who served as directors and/or commissioners in a subsidiary company was 62.69% or 84 of 135 respondents. The second largest group of respondents who held a board member duality was 24.63% or 33 out of 135 respondents. These respondents served as a director and/or commissioner in both parent and subsidiary company. There was no respondent who served on the board of stand-alone company. Majority of the type of company in which the respondent served as a director and/or commissioner was the subsidiary company group. The company status of respondents is depicted in GRAPH 6-14.

GRAPH 6-14 THE DISTRIBUTION OF FREQUENCIES AND PERCENTAGES OF COMPANY STATUS

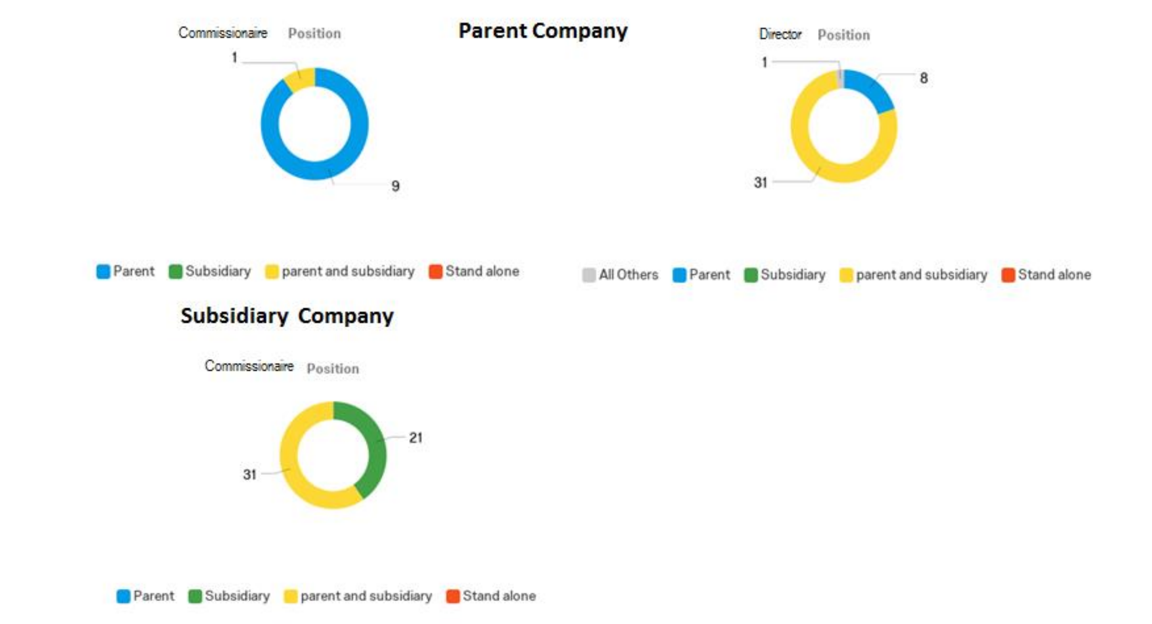


COMPANY STATUS	%	COUNT
Parent	12.69%	17
Subsidiary	62.69%	84
parent and subsidiary	24.63%	33
Stand alone	0.00%	0
Total	100%	134*)

*) Missing 1 respondent, it should be 135

A respondent can hold a position as a director and/or a commissioner in parent company, subsidiary company, or in a stand-alone company, as shown in **PIE CHART 6-4**.

PIE CHART 6-4 THE DISTRIBUTION OF FREQUENCIES OF COMMISSIONER AND DIRECTOR



(1) Parent company

Of the 17 of 135 respondents who had a position in a parent company, 9 were commissioners and 8 were directors.

(2) Subsidiary company

84 out of 135 respondents had a position in a subsidiary company, comprised 32 commissioners and 52 directors.

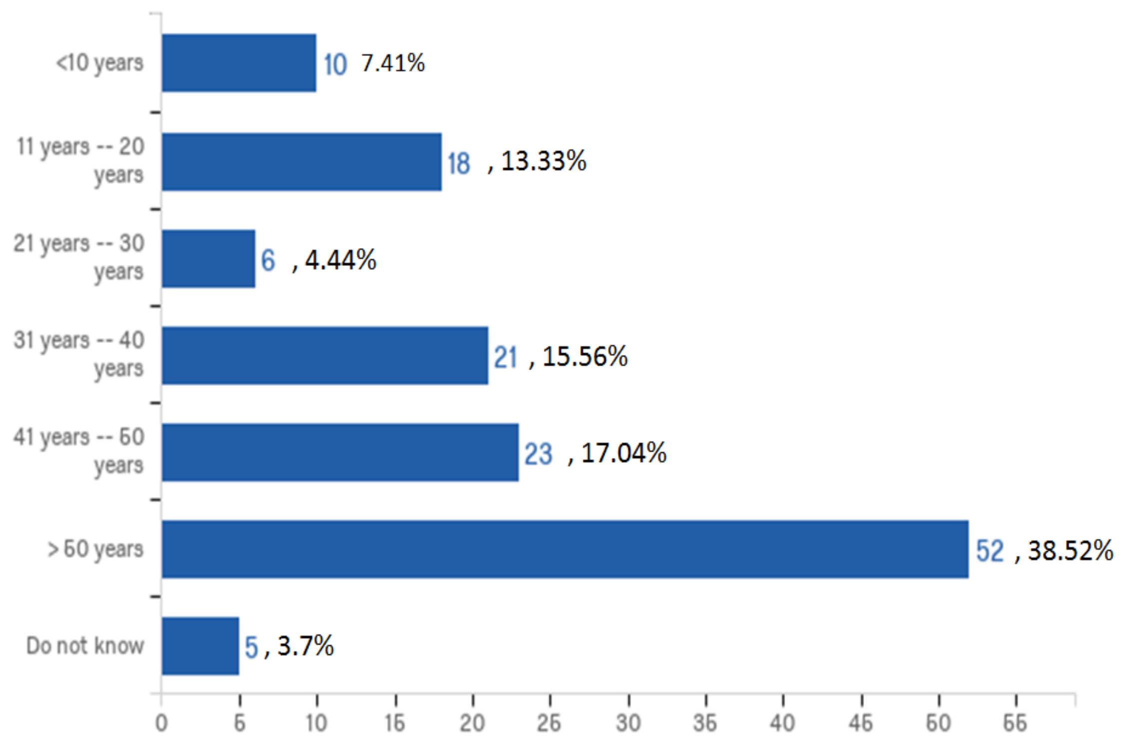
(3) Parent and subsidiary

33 out of 135 respondents who had a position in both parent and subsidiary companies comprised 1 respondent who had a position as a commissioner in the parent company and also in a subsidiary company, whereas 31 respondents had a position as director in the parent company and also as a commissioner in the subsidiary company. There was 1 (one) missing respondent.

7) Age of the Parent Company

The largest group of oldest companies (38.52%) was in the 50-plus age group, whereas the smallest group of the parent companies was in the range of 21-30 years old (4.44%). Interestingly, there were 10 respondents or 7.41% whose parent company was less than ten years old. Majority of the company was in the range of 41 - 50 years. The age of the parent company was based on the knowledge of respondents. Thus, it may differ from the real age of the parent company as stated on the legal documents. However, to minimize the gap between the real age according to legal document and the age according to respondent knowledge, the choices given in the survey were in blocks of 10 years and divided into 7 groups, as shown in GRAPH 6-15.

GRAPH 6-15 THE DISTRIBUTION OF FREQUENCIES AND PERCENTAGE OF THE AGE OF PARENT COMPANY

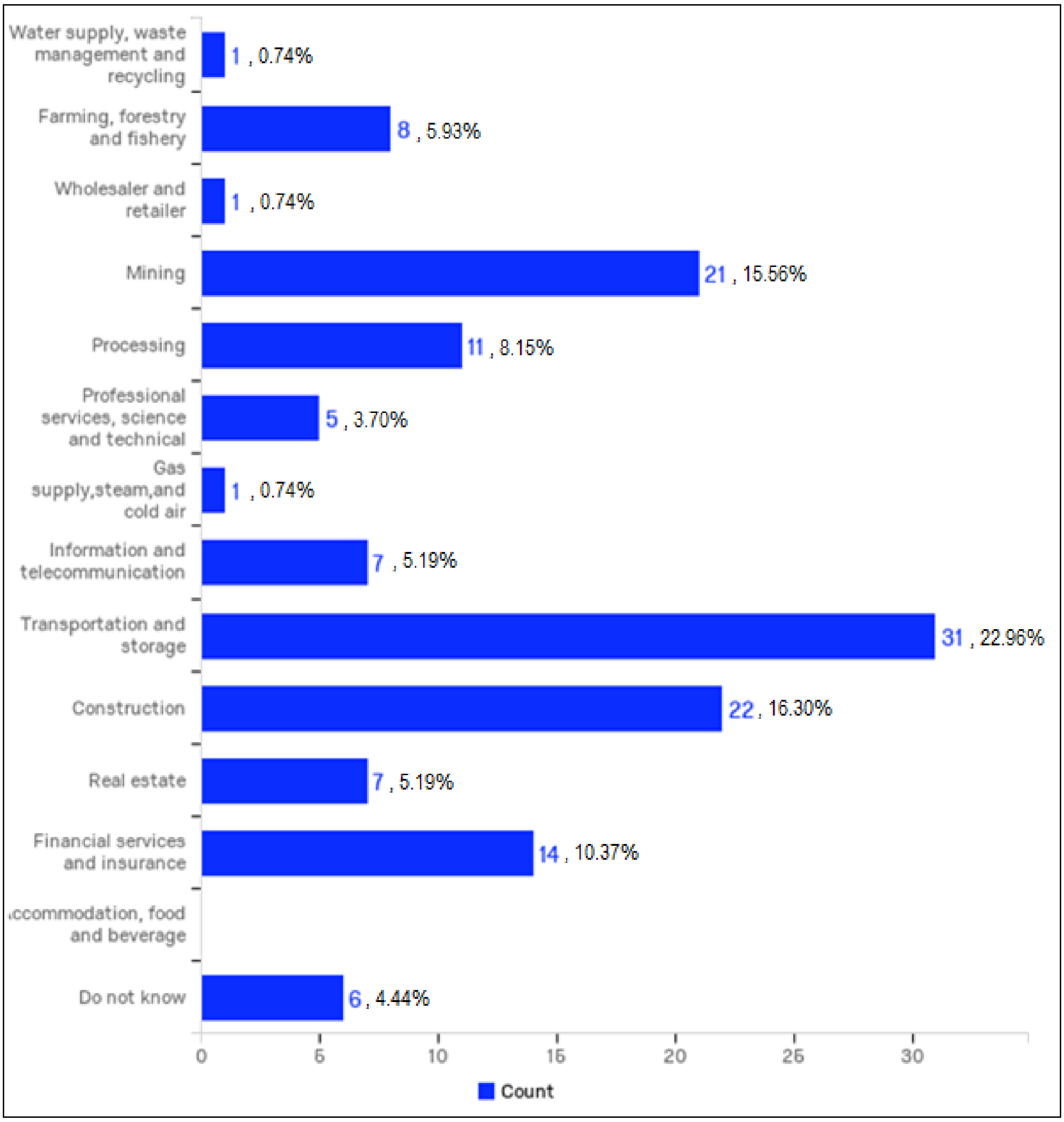


PARENT COMPANY AGE	THE YOUNGEST	THE OLDEST	THE MAJORITY	TOTAL RESPONDENTS
How old is the parent company?	<10 years	>50 years	>50 years	135

8) Industrial Sector of the Company

The industry sector of the largest group of respondents was *transportation and storage* at 22.96% or 31 of 135 respondents. This was followed by the *construction industry* at 16.30% or 22 of 135 respondents, and the *mining industry* at 15.56% or 21 of 135 respondents. The industrial sector of the state-owned enterprises where a respondent had the position was divided into 14 groups which are depicted in GRAPH 6-16.

GRAPH 6-16 THE DISTRIBUTION OF FREQUENCIES AND PERCENTAGES OF INDUSTRY



6.2.3. In-depth Interviews

There were five categories of selected respondents who participated in the in-depth interviews. The selected respondents had various roles but also had expertise in governing state-owned enterprises. The positions of selected respondents are depicted in **TABLE 6-25**.

TABLE 6-25 THE POSITIONS OF THE FIVE IN-DEPTH INTERVIEW RESPONDENTS

NO.	RESPONDENT POSITION	STATUS	EXPERTISE
1.	Deputy of the Ministry of SOE	Public Servant	Governing and managing portfolio of SOEs
2.	Commissioner of parent company	SOE	Oversight of SOEs
3.	Directors of parent companies at the same time as serving as commissioners of subsidiary companies	SOE	Managing SOEs and oversight of a subsidiary company
4.	Directors of subsidiary companies	Subsidiary	Managing subsidiary company
5.	A member of the Supreme Auditor	Member of the State Institution	State Auditor

6.3. RESULTS OF THE STUDY

The results of the research were comprised of three parts based on the research instruments, namely: panel data, the survey, and in-depth interview. The results of all the research instruments are explained in detail below.

6.3.1. Result of panel Data

The panel data of parent and subsidiary companies in this research comprised 10 parent companies and 37 subsidiary[76] companies which were observed for five years from 2009 until 2013. Thus, the total number of observations was 47x5 = 235. The descriptive statistics of all independent variables, i.e. the 10 variables used in this research, are summarized in two tables. Table 6-30 summarizes the descriptive statistics for DUALITY and the endogen variables of BCOMP, BSIZE, and GOWN. Table 6-31 summarizes the descriptive statistics of explanatory variables of FAGE, FDR, FGROWTH, FLIQ, FRISK, and FSIZE. The results of the descriptive statistics analysis of every independent variable are given below.

[76] A subsidiary company could be a parent of sub-subsidiary company if the former has a subsidiary company.

1) Descriptive Statistics for Duality and Endogen Variables

The descriptive statistics for the board member duality variable and endogenous variables i.e. board composition, board size, and government ownership, are presented in TABLE 6-26 below.

TABLE 6-26 THE DESCRIPTIVE STATISTICS OF DUALITY AND ENDOGEN VARIABLES

	DUALITY	BCOMP	BSIZE	GOWN
MEAN	0.159664	0.526967	9.217021	0.890334
MEDIAN	0	0.5	9	0.999
MAXIMUM	1	0.8	22	1
MINIMUM	0	0.363636	3	0.1
STD. DEV.	0.204004	0.07018	3.423106	0.180126
SKEWNESS	1.424285	0.456314	0.631376	-1.432228
KURTOSIS	5.119935	3.847315	3.627882	3.983046
JARQUE-BERA	123.458	15.18522	19.47345	89.80413
PROBABILITY	0	0.000504	0.000059	0
SUM	37.52103	123.8372	2166	209.2285
SUM SQ. DEV.	9.738518	1.152499	2741.932	7.59226
OBSERVATIONS	235	235	235	235

1) *Board member duality*

The board member duality variable was notated as DUALITY which was calculated by percentage of the board member duality in the board of directors in the parent company or the number of directors who held a position as a director in the parent company while simultaneously serving as a commissioner in a subsidiary company divided by the total number of directors in a parent company. As summarized in TABLE 6-26, the mean of the duality variable was 0.159664 or 15.97% which means that the average proportion of directors who held a duality position on the board of directors was 15.97%; in other words, 1 out of 6 directors had a board member duality position. The median value was 0, maximum value was 1 or 100%, the minimum value was 0, standard deviation was 0.204004, skewness was 1.424285, and kurtosis was 5.119935.

2) *Board composition*

The board composition variable was notated as BCOMP which was calculated by the percentage of total number of directors on corporate boards (directors and commissioners). As summarized in TABLE 6-26, the mean for the board composition variable was 0.526967 or 52.70%, meaning that the average proportion of the board composition for directors was 52.70%, or, in other words, the total number of directors was greater than the total number of commissioners. The median value was 50%, maximum value was 80%, the minimum value was 36.36%, standard deviation was 0.07018, skewness was 0.456314, and kurtosis was 3.847315.

3) Board size

The board size variable was notated as BSIZE which was calculated by the total number of directors and commissioners in the parent company. As summarized in TABLE 6-26, the mean of the board size variable was 9.217021, median value was 9, maximum value was 22, the minimum value was 3, standard deviation was 3.423106, skewness was 0.631376, and kurtosis was 3.627882.

4) Government ownership

The government ownership variable was notated as GOWN which was calculated by the percentage of shares owned by the government. As summarized in TABLE 6-26, the mean of government ownership of shares was 0.890334 or 89.03%, median value was 99.90%, maximum value was 100%, the minimum value was 10%, standard deviation was 0.180126, skewness was -1.432228, and kurtosis was 3.983046.

2) Descriptive Statistics for explanatory variables

The descriptive statistics for the explanatory variables, i.e. firm age, firm debt ratio, firm growth, firm liquidity, firm risk, and firm size are shown in **TABLE 6-27** below.

TABLE 6-27 THE DESCRIPTIVE STATISTICS OF EXPLANATORY VARIABLES

	FAGE	FDR	FGROW	FLIQ	FRISK	FSIZE
MEAN	28.50638	0.617293	0.181122	182.0293	0.703139	51.48684
MEDIAN	32	0.627557	0.127761	127.66	0.405464	4.880922
MAXIMUM	67	1.128758	4.906121	761.84	19.68447	733.0998
MINIMUM	3	0.104125	-0.734119	0.727157	-14.87833	0.009893
STD. DEV.	17.11833	0.243267	0.413549	142.9674	2.385128	128.2745
SKEWNESS	0.206097	-0.207344	6.847285	1.960989	1.523952	3.335099
KURTOSIS	1.929128	2.053975	75.49086	6.795915	31.99618	13.7197
JARQUE-BERA	12.8924	10.44701	53290.82	291.7024	8323.582	1560.826
PROBABILITY	0.001587	0.005388	0	0	0	0
SUM	6699	145.064	42.56368	42776.89	165.2376	12099.41
SUM SQ. DEV.	68570.74	13.8479	40.01925	4782884	1331.187	3850316
OBSERVATIONS	235	235	235	235	235	235

(1) Firm Age

The firm age variable was notated as FAGE which was calculated based on the year when the company was established as stated in the annual report. As summarized in TABLE 6-27, the mean of firm age was 28.50638 years, median value was 32 years, maximum value was 67 years, the minimum value was 3 years, standard deviation was 17.11833, skewness was 0.206097, and kurtosis was 1.929128.

(2) Firm debt ratio

The firm debt ratio was notated as FDR which was calculated by total debt divided by total assets. As summarized in Table 6-30, the mean of the debt ratio was 0.617293 or 61.73%, median value was 62.76%, maximum value was 112.88%, the minimum value was 10.41%, standard deviation was 0.243267, skewness was -0.207344, and kurtosis was 2.053975.

(3) Firm growth

The firm growth variable was notated as FGROW which was calculated by total sales year (n) divided by total sales year (n-1). As summarized in Table 6-30, the mean of firm growth was 0.181122 or 18.11%, median value was 12.77%, maximum value was 490.61%, the minimum value was negative at -73.41%, standard deviation was 0.413549, skewness was 6.847285, and kurtosis was 75.49086.

(4) Firm liquidity

The firm liquidity variable was notated as FLIQ which was calculated by total current assets divided by total current liability. As summarized in TABLE 6-27, the mean of firm liquidity was 182.0293%, median value was 127.66%, maximum value was 761.84%, the minimum value was 72.72%, standard deviation was 142.9674, skewness was 1.960989, and kurtosis was 6.795915.

(5) Firm risk

The firm risk variable was notated as FRISK which was calculated by standard deviation of ΣEBIT divided by the average of EBIT. As summarized in TABLE 6-27, the mean of firm risk was 0.703139, median value was 0.405464, maximum value was 19.68447, the minimum value was -14.87833, standard deviation was 2.385128, skewness was 1.523952, and kurtosis was 31.99618.

(6) Firm size

The firm size variable was notated as FSIZE which was calculated by total assets. As summarized in TABLE 6-27, the mean of firm size was IDR Rp.51.48684 trillion, median value was IDR Rp4.880922 trillion, maximum value was 733.0998 trillion, the minimum value was 0.009893 trillion or IDR Rp.9.893 billion, standard deviation was 128.2745, skewness was 3.335099, and kurtosis was 13.7197.

3) Result of Multicollinearity Analysis and Panel Data Regression Model

All independent variables used for the multiple linear regression of panel data were analyzed regarding the multicollinearity which may occur among the variables. The multicollinearity refers to a situation in which two or more independent variables in a multiple regression model are highly correlated. The multicollinearity problem may occur if the coefficient of correlation between two variables is close to 1 or -1. Multicollinearity can be detected in the correlation matrix table as depicted in TABLE 6-28.

TABLE 6-28 THE CORRELATION MATRIX OF ALL VARIABLES

	ATO	OPEX	EBIT	DPR	TAX	DUALITY	BCOMP	BSIZE	GOWN	FAGE	FDR	FGROW	FLIQ	FRISK	FSIZE
ATO	1.000	0.008	-0.044	-0.020	-0.036	-0.063	-0.052	-0.148	0.118	-0.131	-0.026	-0.001	-0.072	0.008	-0.096
OPEX	0.008	1.000	0.672	-0.015	0.750	0.305	0.121	0.345	0.088	0.263	-0.014	-0.013	-0.035	-0.076	0.619
EBIT	-0.044	0.672	1.000	-0.018	0.853	0.302	0.159	0.404	-0.146	0.093	-0.144	-0.012	0.007	0.024	0.533
DPR	-0.020	-0.015	-0.018	1.000	-0.020	-0.075	0.010	-0.013	-0.108	-0.040	0.030	0.094	0.004	-0.015	-0.026
TAX	-0.036	0.750	0.853	-0.020	1.000	0.376	0.122	0.392	-0.048	0.096	-0.125	-0.007	0.024	-0.121	0.587
DUALITY	-0.063	0.305	0.302	-0.075	0.376	1.000	0.225	0.113	0.129	0.022	-0.210	-0.099	0.037	-0.134	0.149
BCOMP	-0.052	0.121	0.159	0.010	0.122	0.225	1.000	0.135	-0.049	0.153	-0.101	-0.015	-0.052	-0.004	0.210
BSIZE	-0.148	0.345	0.404	-0.013	0.392	0.113	0.135	1.000	-0.298	0.357	-0.187	-0.134	0.019	-0.239	0.695
GOWN	0.118	0.088	-0.146	-0.108	-0.048	0.129	-0.049	-0.298	1.000	-0.283	-0.021	-0.014	0.129	0.072	-0.148
FAGE	-0.131	0.263	0.093	-0.040	0.096	0.022	0.153	0.357	-0.283	1.000	-0.001	-0.084	-0.184	0.045	0.234
FDR	-0.026	-0.014	-0.144	0.030	-0.125	-0.210	-0.101	-0.187	-0.021	-0.001	1.000	0.241	-0.524	0.280	0.113
FGROW	-0.001	-0.013	-0.012	0.094	-0.007	-0.099	-0.015	-0.134	-0.014	-0.084	0.241	1.000	-0.064	0.137	-0.032
FLIQ	-0.072	-0.035	0.007	0.004	0.024	0.037	-0.052	0.019	0.129	-0.184	-0.524	-0.064	1.000	-0.066	-0.122
FRISK	0.008	-0.076	0.024	-0.015	-0.121	-0.134	-0.004	-0.239	0.072	0.045	0.280	0.137	-0.066	1.000	-0.141
FSIZE	-0.096	0.619	0.533	-0.026	0.587	0.149	0.210	0.695	-0.148	0.234	0.113	-0.032	-0.122	-0.141	1.000

From TABLE 6-28 above, there was no coefficient of correlation between two independent variables which were close to 1 or -1. Thus, the multicollinearity problem among the independent variables was expected to be a minimum.

The appropriate model which was obtained after testing the model using E-views software was the fixed effect model weighted with GLS weight of cross-section. The appropriate model was the one where the P-value of the model was less than 0.05, and the R-squared was close to 1. The equation used for the panel data regression model was:

$$\mathbf{Y}_{i,t} = \alpha + \beta_1\mathbf{Duality}_{i,t} + \beta_2\mathbf{BCOM}_{i,t} + \beta_3\mathbf{BSize}_{i,t} + \beta_4\mathbf{GOWN}_{i,t} + \beta_5\mathbf{FAGE}_{i,t} + \beta_6\mathbf{FDR}_{i,t} + \beta_7\mathbf{FGROW}_{i,t} + \beta_8\mathbf{FLIQ}_{i,t} + \beta_9\mathbf{FRISK}_{i,t} + \beta_{10}\mathbf{FSIZE}_{i,t} + \varepsilon_{i,t}$$

(1) *Assets Turn-Over (ATO)*

The best model of data panel regression which had a P-value less than 0.05 and an R^2 close to 1 was the fixed effects model weighted by cross-section for asset turn-over depicted in TABLE 6-29 below.

TABLE 6-29 THE FIXED EFFECTS MODEL REGRESSION OF PANEL DATA OF ATO

Dependent Variable: **Asset Turn-Over (ATO)**
Method: Panel EGLS (Cross-section weights)
Date: 09/08/16 Time: 01:05
Sample: 2009 2013
Periods included: 5
Cross-sections included: 47
Total panel (balanced) observations: 235
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.863232	0.166959	11.15980	0.0000
DUALITY	-0.052435	0.044359	-1.182063	0.2388
BCOMP	-0.051458	0.117057	-0.439601	0.6608
BSIZE	-0.011683	0.006136	-1.903996	0.0585
GOWN	-0.242869	0.067438	-3.601391	0.0004
FAGE	-0.003422	0.002834	-1.207666	0.2288
FDR	-0.628175	0.080760	-7.778267	0.0000
FGROW	0.060876	0.016921	3.597690	0.0004
FLIQ	4.95E-05	7.67E-05	0.645770	0.5193
FRISK	-0.001772	0.004458	-0.397520	0.6915
FSIZE	-0.000278	0.000167	-1.665669	0.0975

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.986573	Mean dependent var	4.287819
Adjusted R-squared	0.982349	S.D. dependent var	3.641069
S.E. of regression	0.495388	Sum squared resid	43.68290
F-statistic	233.5586	Durbin-Watson stat	1.657387
Prob (F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.951329	Mean dependent var	1.022984
Sum squared resid	49.44973	Durbin-Watson stat	1.904789

The equation for the panel data regression model would be:

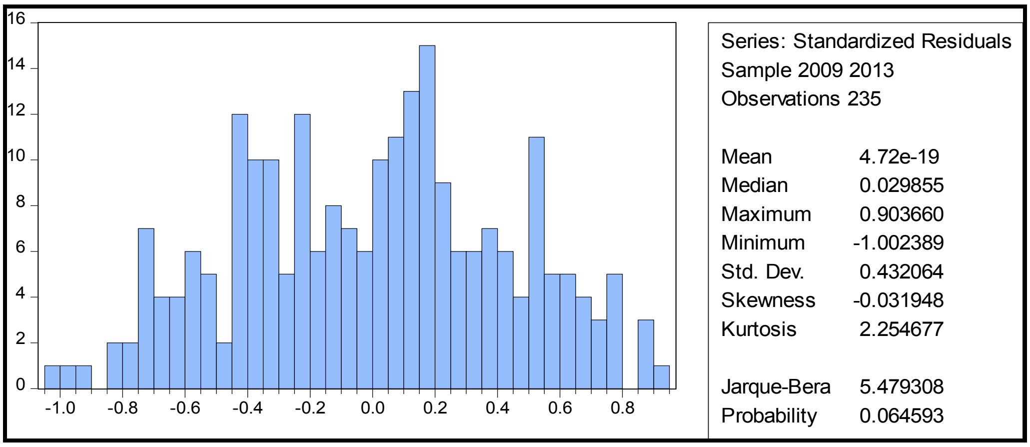
ATO = 1.863232 - 0.052435 (DUALITY) - 0.051458 (BCOMP) - 0.011683 (BSIZE) - 0.242869 (GOWN) - 0.003422 (FAGE) - 0.628175 (FDR) + 0.060876 (FGROW) + 4.95E-05 (FLIQ) - 0.001772 (FRISK)-0.000278(FSIZE)+[CX=F] ……………………………………………………………………………………6.1.

The model in the table above had a value of R^2 of 0.986573 with Prob (F-statistic) of 0.000, which means the P-value was significant. Thus, the model was appropriate. However, the board member duality was not significant since the p-value=0.2388 was greater than 0.05, meaning that we can ***accept the null hypothesis that there is no relationship between board member duality and asset turn-over (ATO)***.

There were 1 endogen variable i.e. GOWN or government ownership (0.0004) and 2 explanatory variables i.e. FDR or firm debt ratio (0.0000) and FGROW or firm growth (0.0004) which had P-value <0.05 which means significant. ***Thus, the result does not support the null hypothesis but accepts the alternative hypothesis that there is a relationship between endogen variable of government ownership and ATO, explanatory variable of debt and ATO, and explanatory variable of growth and ATO***.

The residual of the standard error of the model indicated the normality of standard error of the model. The residual diagnostic to test the normality of this model is shown in GRAPH 6-17.

GRAPH 6-17 THE RESIDUAL OF STANDARD ERROR OF THE MODEL



The residual of standard error was normally distributed since the value of probability was 0.064593 which was greater than 0.05

(2) *Operating Expenses (OPEX)*

The model that was better than the fixed effects model and the random effects model for panel data regression model of the operating expenses tested by the Hausman test was the random effects model depicted in TABLE 6-30 below.

TABLE 6-30 THE RANDOM EFFECT MODEL OF PANEL DATA REGRESSION OF OPEX

Dependent Variable: OPEX
Method: Panel EGLS (Cross-section random effects)
Date: 09/09/16 Time: 11:47
Sample: 2009 2013
Periods included: 5
Cross-sections included: 47
Total panel (balanced) observations: 235
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-123898.4	49632.30	-2.496325	0.0133
DUALITY	30458.85	13740.99	2.216642	0.0277
BCOMP	76741.12	47023.29	1.631981	0.1041
BSIZE	3739.078	1946.545	1.920879	0.0560
GOWN	33670.27	25415.81	1.324777	0.1866
FAGE	263.1308	550.1832	0.478260	0.6329
FDR	11223.59	23378.91	0.480073	0.6316
FGROW	8562.611	4561.532	1.877135	0.0618
FLIQ	-19.21398	26.74604	-0.718386	0.4733
FRISK	592.0503	963.5736	0.614432	0.5396
FSIZE	478.8510	46.29334	10.34384	0.0000

Effects Specification	S.D.	Rho
Cross-section random	70281.28	0.8967
Idiosyncratic random	23850.25	0.1033

Weighted Statistics

R-squared	0.414582	Mean dependent var	3510.940
Adjusted R-squared	0.388447	S.D. dependent var	31125.76
S.E. of regression	24340.92	Sum squared resid	1.33E+11
F-statistic	15.86324	Durbin-Watson stat	1.457191
Prob (F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.374912	Mean dependent var	23399.14
Sum squared resid	1.37E+12	Durbin-Watson stat	0.140949

The equation of the panel data regression model would be:

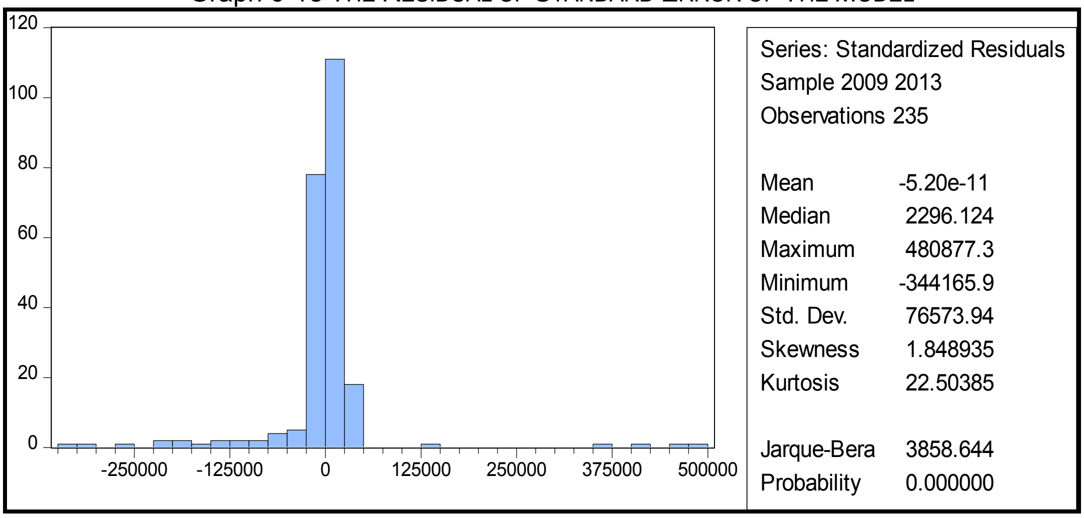
OPEX = -123898.4 + 30458.85 (DUALITY) + 76741.12 (BCOMP) + 3739.078 (BSIZE) + 33670.27 (GOWN) + 263.1308 (FAGE) + 11223.59 (FDR) + 8562.611 (FGROW) - 19.21398 (FLIQ) + 592.0503 (FRISK) + 478.8510 (FSIZE) + [CX=R] ……………………………………………………………………………………….6.1.

The model in the table above had a value of R^2 of 0.414582 with Prob (F-statistic) of 0.000 which means the P-value was significant. Thus, the model was appropriate even though the R^2 was not close to 1. The board member duality was significant since the p-value=0.0277 was less than 0.05. ***Thus, the result does not support the null hypothesis but accepts the alternative hypothesis that board member duality has a significant influence on operating expenses (OPEX).***

One independent variable or explanatory variable, namely FSIZE (0.0000), had a P-value <0.05 which is significant, Thus, ***the null hypothesis is rejected, and the alternative hypothesis that there is a significant relationship between a firm's size (FSIZE) and its operating expenses (OPEX), is accepted***.

The residual of the standard error of the model indicated the normality of standard error of the model. The residual diagnostic to test normality of this model is shown in Graph 6-18.

Graph 6-18 THE RESIDUAL OF STANDARD ERROR OF THE MODEL



The residual of standard error was not normally distributed since the value of probability was 0.00000 which was less than 0.05.

(3) Earnings Before Interest and Taxes Expenses (EBIT)

The best model of data panel regression which had a P-value less than 0.05 and an R^2 close to 1 was the fixed effects model weighted by the cross-section for earnings before interest and tax depicted in TABLE 6-31 below.

TABLE 6-31 THE FIXED EFFECT MODEL REGRESSION OF PANEL DATA OF EBIT

Dependent Variable: EBIT
Method: Panel EGLS (Cross-section weights)
Date: 09/08/16 Time: 02:20
Sample: 2009 2013
Periods included: 5
Cross-sections included: 47
Total panel (balanced) observations: 235
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-191.5391	1252.653	-0.152907	0.8786
DUALITY	99.52487	172.1967	0.577972	0.5640
BCOMP	1218.851	1086.881	1.121421	0.2636
BSIZE	185.3257	63.86350	2.901904	0.0042
GOWN	191.0313	299.4472	0.637947	0.5243
FAGE	-10.96093	14.41982	-0.760129	0.4482
FDR	-1134.036	544.1643	-2.083996	0.0386
FGROW	146.3389	90.14396	1.623391	0.1063
FLIQ	-0.219667	0.316715	-0.693579	0.4889
FRISK	68.18006	81.69903	0.834527	0.4051
FSIZE	45.75651	2.833539	16.14818	0.0000

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.978377	Mean dependent var	7354.071
Adjusted R-squared	0.971574	S.D. dependent var	11989.93
S.E. of regression	2219.596	Sum squared resid	8.77E+08
F-statistic	143.8197	Durbin-Watson stat	1.352966
Prob (F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.851665	Mean dependent var	3722.706
Sum squared resid	3.27E+09	Durbin-Watson stat	1.071568

The equation for the panel data regression model is:

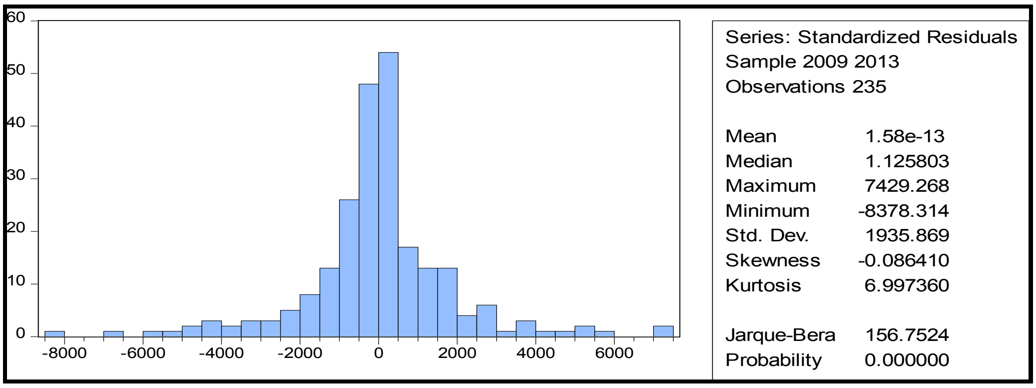
EBIT = -191.5391 + 99.52487 (DUALITY) + 1218.851 (BCOMP) + 185.3257 (BSIZE) + 191.0313 (GOWN) - 10.96093 (FAGE) - 1134.036 (FDR) + 146.3389 (FGROW) - 0.219667 (FLIQ) + 68.18006 (FRISK) + 45.75651 (FSIZE) + [CX=F] ……………………………………………………………………………………..….6.3.

The model depicted in the table above has an R^2 value of 0.974269 with Prob (F-statistic) of 0.000 which means the P-value is significant. Thus, the model was appropriate. However, the board member duality was not significant since the p-value=0.5640 was greater than 0.05. ***The result supports the null hypothesis that board member duality does not influence earnings before taxes (EBIT).***

There was one endogenous variable i.e. BSIZE or board size (0.0042) and two explanatory variables i.e. FDR or firm debt ratio (0.0386) and FSIZE or firm size (0.0000) which had a P-value <0.05 which is significant. ***Thus, the result shown that there is a significant relationship between the endogenous variable of board size (BSIZE) and earnings before interest and taxes (EBIT), between the explanatory variable of firm debt ratio (FDR) and earnings before interest and taxes (EBIT), and between the explanatory variable of firm size (FSIZE) and earnings before interest and taxes (EBIT).***

The residual of the standard error of the model indicated the normality of standard error of the model. The residual diagnostic to test normality of this model is shown in GRAPH 6-19.

GRAPH 6-19 THE RESIDUAL OF STANDARD ERROR OF THE MODEL



The residual of standard error was not normally distributed since the value of probability was 0.00000 which was less than 0.05.

(4) *Dividend Pay-out Ratio (DPR)*

The best model of data panel regression which had a P-value less than 0.05 and an R^2 close to 1 was the fixed effects model weighted by cross-section for dividend pay-out ratio, depicted in TABLE 6-32 below.

TABLE 6-32 THE FIXED EFFECT MODEL REGRESSION OF PANEL DATA OF DPR

Dependent Variable: DPR
Method: Panel EGLS (Cross-section weights)
Date: 09/08/16 Time: 02:22
Sample: 2009 2013
Periods included: 5
Cross-sections included: 47
Total panel (balanced) observations: 235
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.158690	0.574292	2.017597	0.0451
DUALITY	0.111046	0.132801	0.836183	0.4042
BCOMP	0.602736	0.412302	1.461878	0.1455
BSIZE	0.014470	0.019168	0.754924	0.4513
GOWN	0.041857	0.175910	0.237945	0.8122
FAGE	-0.015275	0.013740	-1.111723	0.2678
FDR	-0.445661	0.245878	-1.812526	0.0716
FGROW	0.048220	0.074559	0.646734	0.5186
FLIQ	-0.000282	0.000201	-1.400417	0.1631
FRISK	-0.016336	0.010722	-1.523580	0.1294
FSIZE	-0.000227	0.000363	-0.626227	0.5320

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.720193	Mean dependent var	3.070632
Adjusted R-squared	0.632164	S.D. dependent var	3.933634
S.E. of regression	2.259889	Sum squared resid	909.0635
F-statistic	8.181314	Durbin-Watson stat	2.440157
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.203229	Mean dependent var	0.888325
Sum squared resid	7076.839	Durbin-Watson stat	3.106226

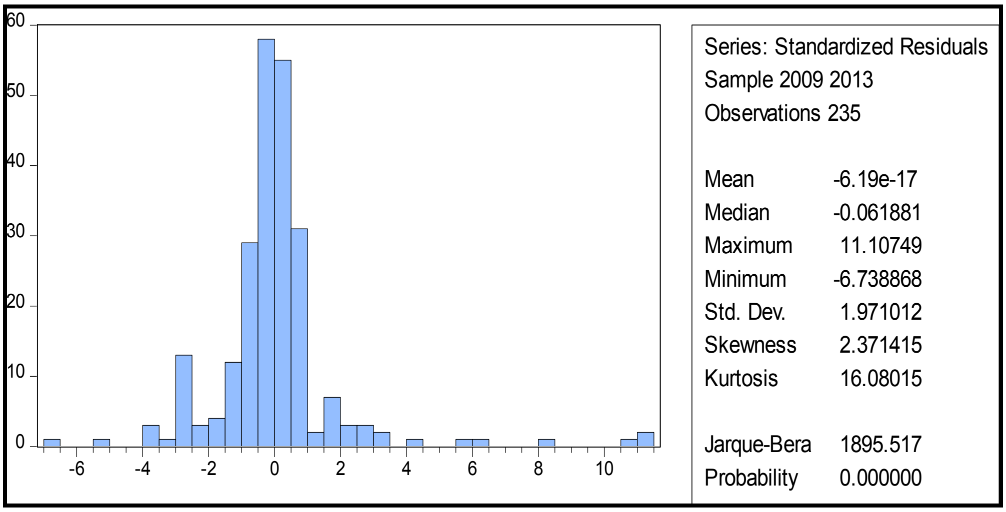
The equation for the panel data regression model is:

DPR = 1.158690 + 0.111046 (DUALITY) + 0.602736 (BCOMP) + 0.014470 (BSIZE) + 0.041857 (GOWN) - 0.015275 (FAGE) - 0.445661 (FDR) + 0.048220 (FGROW) - 0.000282 (FLIQ) - 0.016336 (FRISK) - 0.000227 (FSIZE) + [CX=F] ……………………………………………………………………………….……….6.4.

The model depicted in the table above had an R^2 value of 0.720193 with Prob (F-statistic) of 0.000 which means the P-value was significant. Thus, the model was appropriate. However, the board member duality was not significant since the p-value=0.4042 was greater than 0.05. More importantly, no independent variables or explanatory variables had a P-value <0.05. Thus, no endogenous variables or explanatory variables were significant. ***Therefore, the null hypothesis is accepted meaning that there is no significant relationship between board member duality and dividend payout ratio (DPR), between all endogen variables with dividend payout ratio (DPR), and between all explanatory variables and dividend payout ratio (DPR).***

The residual of the standard error of the model indicated the normality of standard error of the model. The residual diagnostic to test normality of this model is shown in GRAPH 6-20.

GRAPH 6-20 THE RESIDUAL OF STANDARD ERROR OF THE MODEL



The residual of standard error was not normally distributed since the value of probability was 0.00000 which was less than 0.05.

(5) *Corporate Tax*

The best model of data panel regression with a P-value less than 0.05 and an R^2 close to 1 was the fixed effects model weighted by cross-section for earnings before interest and tax is depicted in TABLE 6-33 below.

TABLE 6-33 THE FIXED EFFECT MODEL REGRESSION OF PANEL DATA OF TAX

Dependent Variable: TAX
Method: Panel EGLS (Cross-section weights)
Date: 09/08/16 Time: 02:23
Sample: 2009 2013
Periods included: 5
Cross-sections included: 47
Total panel (balanced) observations: 235
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	137.6792	505.3191	0.272460	0.7856
DUALITY	98.05533	129.1765	0.759080	0.4488
BCOMP	-215.2836	430.6509	-0.499903	0.6178
BSIZE	55.66904	23.62248	2.356612	0.0195
GOWN	57.21146	224.3697	0.254987	0.7990
FAGE	4.197678	6.804654	0.616883	0.5381
FDR	87.19230	158.3977	0.550464	0.5827
FGROW	35.13316	36.68157	0.957788	0.3395
FLIQ	0.245561	0.165141	1.486979	0.1388
FRISK	-17.26170	16.39998	-1.052544	0.2940
FSIZE	8.677042	1.129379	7.683020	0.0000

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.981586	Mean dependent var	1483.243
Adjusted R-squared	0.975793	S.D. dependent var	3047.702
S.E. of regression	510.1949	Sum squared resid	46333193
F-statistic	169.4372	Durbin-Watson stat	1.392859
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.924835	Mean dependent var	1263.091
Sum squared resid	1.94E+08	Durbin-Watson stat	0.995957

The equation for the panel data regression model is:

TAX = 137.6792 + 98.05533 (DUALITY) - 215.2836 (BCOMP) + 55.66904 (BSIZE) + 57.21146 (GOWN) + 4.197678 (FAGE) + 87.19230 (FDR) + 35.13316 (FGROW) + 0.245561 (FLIQ) - 17.26170 (FRISK) + 8.677042 (FSIZE) + [CX=F] ……………………………………………………………………………………..6.5.

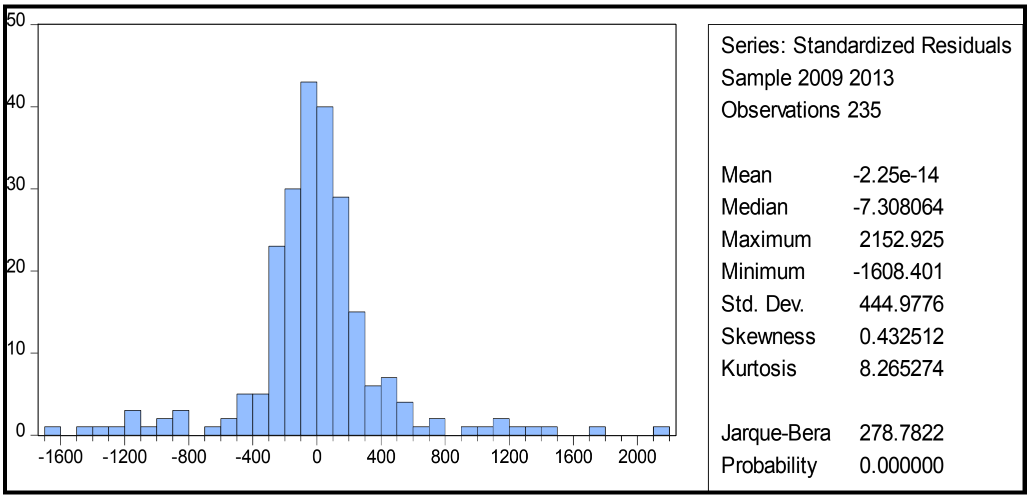
The model in the table above had an R^2 value of 0.981586 with Prob (F-statistic) of 0.000 which means the P-value was significant. Thus, the model was appropriate. However, the board member duality was not significant since the p-value=0.4488 was greater than 0.05. ***The result supports the null hypothesis that there is no significant relationship between board member duality and corporate tax.***

One endogenous variable i.e. BSIZE or board size (0.0195) and one explanatory variable i.e. FSIZE or firm size (0.0000) had P-value <0.05 which is significant. ***This does not support the null hypothesis but supports the alternative hypothesis***

that there is a significant relationship between the endogenous variable of board size (BSIZE) and corporate tax, and between the explanatory variable of firm size (FSIZE) and corporate tax.

The residual of the standard error of the model indicated the normality of standard error of the model. The residual diagnostic to test normality of this model is shown in GRAPH 6-21.

GRAPH 6-21 THE RESIDUAL OF STANDARD ERROR OF THE MODEL



The residual of standard error was not normally distributed since the value of probability was 0.00000 which was less than 0.05.

6.3.2. Results of the Survey

1) Cross Tabulation of Respondent Demographic

The results of the cross tabulation of respondent demographic focused on two explanatory variables, namely the respondent gender and the board member duality.

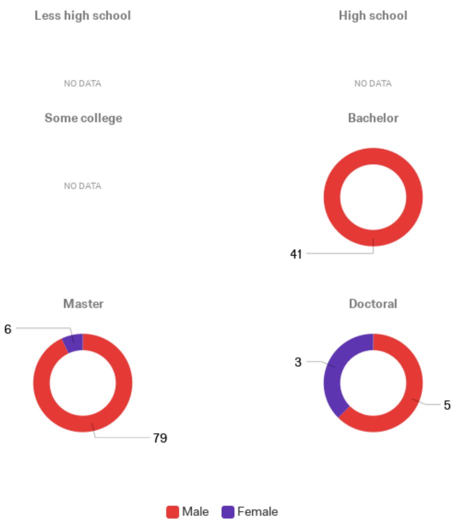
(1) Respondent gender

The results of the cross tabulation of respondent gender to level of education, age, number of company, status of company, and average monthly income are presented as charts and graphs below.

a. <u>The proportion of the level of education</u>

The level of education of male and female respondents was divided into 6 (six) groups as shown in PIE CHART 6-5.

PIE CHART 6-5 THE PROPORTION OF MALE AND FEMALE EDUCATION



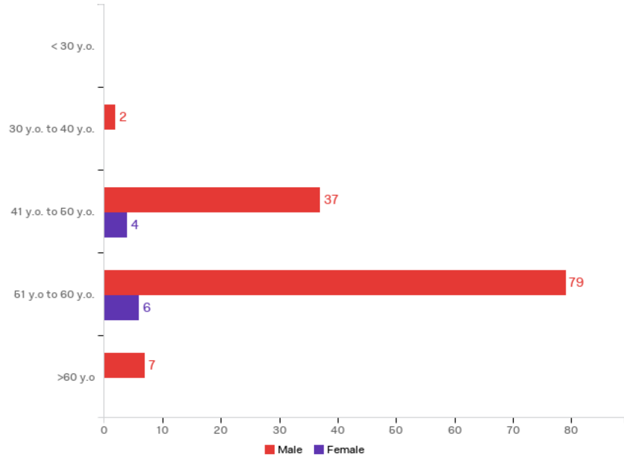
LEVEL OF EDUCATION	MALE	COUNT
Less than high school	0.00%	0
High school or equivalent	0.00%	0
Diploma	0.00%	0
Bachelor or equivalent	32.80%	41
Master or equivalent	63.20%	79
Doctoral or equivalent	4.00%	5
Total	Total	125
LEVEL OF EDUCATION	FEMALE	COUNT
Less than high school	0.00%	0
High school or equivalent	0.00%	0
Some college	0.00%	0
Bachelor or equivalent	10.00%	1
Master or equivalent	60.00%	6
Doctoral or equivalent	30.00%	3
Total		10

Pie Chart 6-5 above shows that neither male respondents nor female respondents have a level of education below a bachelor degree or equivalent. On average, the male (63%, 79) and female (60%, 6) respondents had a master degree. Five male respondents (4%) had a doctoral degree. Three (30%) of the 10 female respondents had a doctoral degree. Thus, the proportion of female respondents who had a doctoral degree or equivalent was higher than the proportion of male respondents in the same category.

b. <u>The distribution of the age categories of respondents</u>

The various male and female age groups (5) are shown in GRAPH 6-22.

GRAPH 6-22 THE DISTRIBUTION OF FREQUENCIES AND PERCENTAGE OF MALE AND FEMALE AGE



AGE	MALE		FEMALE	
>60	5.60%	7	0.00%	0
51-60	63.20%	79	60.00%	6
41-50	29.60%	37	40.00%	4
30-40	1.60%	2	0.00%	0
<30	0.00%	0	0.00%	0
Total	Total	125	Total	10

The 51-60 age group was the largest for the male respondents comprising 79 of 125 male respondents, or 63.20%. Within the same age group there were 6 out of 10 female respondents, or 60%.No male or female respondents were under 30 years old. Seven male respondents were over 60 years old. On the other hand, no female respondent was over 60 years old.

c. <u>The proportion of the number of companies in which directors held positions</u>

PIE CHART 6-6 shows the number of companies in which the male and female respondents served simultaneously as directors and/or commissioners.

PIE CHART 6-6 THE PROPORTION OF NUMBER OF COMPANY

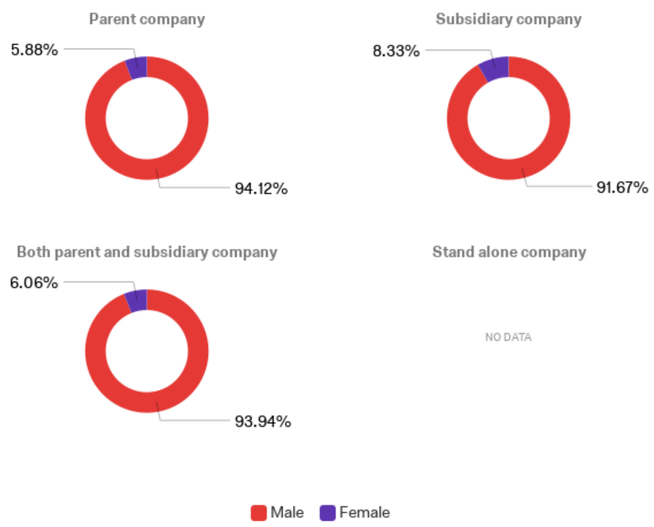
GENDER	1 COMPANY	
Male	68.80%	86
Female	90.00%	9
GENDER	2 COMPANIES	
Male	22.40%	28
Female	0.00%	0
GENDER	3 COMPANIES	
Male	4.80%	6
Female	10.00%	1
GENDER	4 COMPANIES	
Male	2.40%	3
Female	0.00%	0
GENDER	>4 COMPANIES	
Male	1.60%	2
Female	0.00%	0
GENDER	TOTAL	
Male	92.59%	125
Female	7.41%	10

On average, both male (68.80%, 86) and female (90%, 9) respondents served as directors and/or commissioners in one company. However, the percentage of the male respondents who served as directors and/or commissioners in more than one company was 31.20%, or 39 respondents. This was quite significant and higher than the percentage of their female counterparts which was only 10%, or one respondent. Of the 39 (31.20%) male respondents, 28 (22.40%) served on boards of two companies, six (4.80%) served on boards of three companies, three (2.40%) served in four companies, and two (1.60%) were on the boards of four companies.

d. <u>The company status of directors</u>

PIE CHART 6-7 shows the distribution of percentages of the type of company in which the male and female respondents served as directors and/or a commissioners.

PIE CHART 6-7 THE PROPORTION OF THE COMPANY STATUS



GENDER	PARENT	
Male	12.90%	16
Female	10.00%	1
GENDER	**SUBSIDIARY**	
Male	62.10%	77
Female	70.00%	7
GENDER	**BOTH**	
Male	25.00%	31
Female	20.00%	2
GENDER	**STAND-ALONE**	
Male	0.00%	0
Female	0.00%	0
GENDER	**TOTAL**	
Male	100%	124*)
Female	100%	10

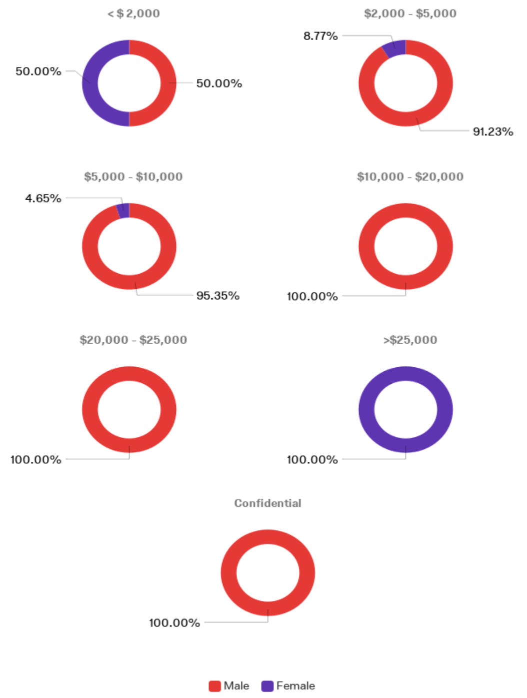
*) Missing 1 respondent

There was a predominance of male and female respondents who served as a director and/or commissioner in a subsidiary company. Seventy-seven (62.10%) of the 125 male respondents were in a subsidiary company, whereas, seven out of 10 (70%) of female respondents were in this category. However, the percentage of male respondents who served in both parent and subsidiary, commonly known as board member duality, was 25% or 31 respondents; this was higher than for female respondents, which was 20%, or two respondents. Thus, there were a total of 33 male and female respondents who served as directors and/or commissioners on parent and subsidiary company boards at the same time. No respondent had a position as a director and/or commissioner in a stand-alone company.

e. <u>The proportion of the average monthly income of all respondents</u>

The average monthly income for male and female respondents who served as directors and/or commissioners is depicted in PIE CHART 6-8.

PIE CHART 6-8 THE PROPORTION OF THE AVERAGE MONTHLY INCOME



GENDER	<$ 2,000	
Male	1.60%	2
Female	20.00%	2
GENDER	$2,000 - $5,000	
Male	41.60%	52
Female	50.00%	5
GENDER	$5,000 - $10,000	
Male	32.80%	41
Female	20.00%	2
GENDER	$10,000 - $20,000	
Male	20.80%	26
Female	0.00%	0
GENDER	$20,000 - $25,000	
Male	0.80%	1
Female	0.00%	0
GENDER	>$25,000	
Male	0.00%	0
Female	10.00%	1
GENDER	CONFIDENTIAL	
Male	2.40%	3
Female	0.00%	0
GENDER	TOTAL	
Male	100%	125
Female	100%	10

The biggest percentage of the average monthly income of male respondents was 41.60% or 52 respondents which was in the range of US$

2,000.00—US$ 5,000.00. The female respondents in the same category also had the biggest percentage, namely 50%, or five out of 10 female respondents. An equal number (two) of male and female respondents drew the least average monthly income (<US$ 2,000.00). The top average monthly income which was more than US$ 25,000.00 was earned by a female respondent. Three male respondents chose not to disclose their income.

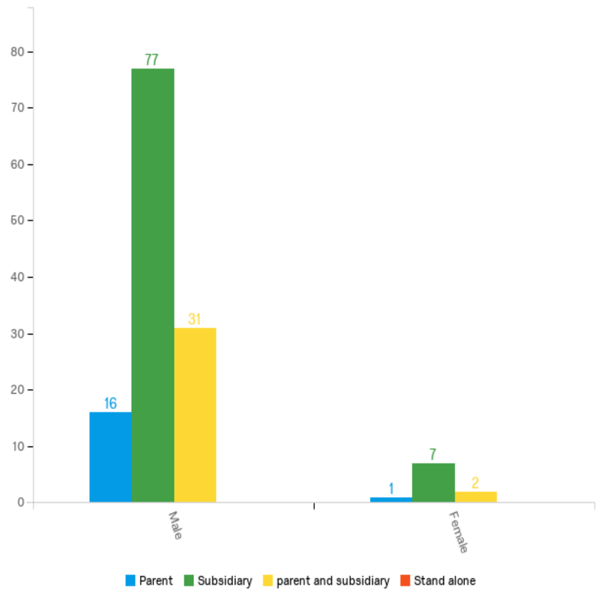
(2) The board member duality

Board member duality refers to the situation where a person serves as a director in the parent company, but at the same time also serves as a commissioner in a subsidiary company. As depicted in Graph 6-4, 33 of the 134 (24.63%) the respondents held board member duality positions. The cross tabulation of the board member duality in terms of gender, average monthly income, and industry sector is presented below.

a. <u>The proportion of gender</u>

The board member duality was the case for both male and female respondents. The board member duality in terms of gender is depicted in GRAPH 6-23.

GRAPH 6-23 THE PROPORTION OF GENDER



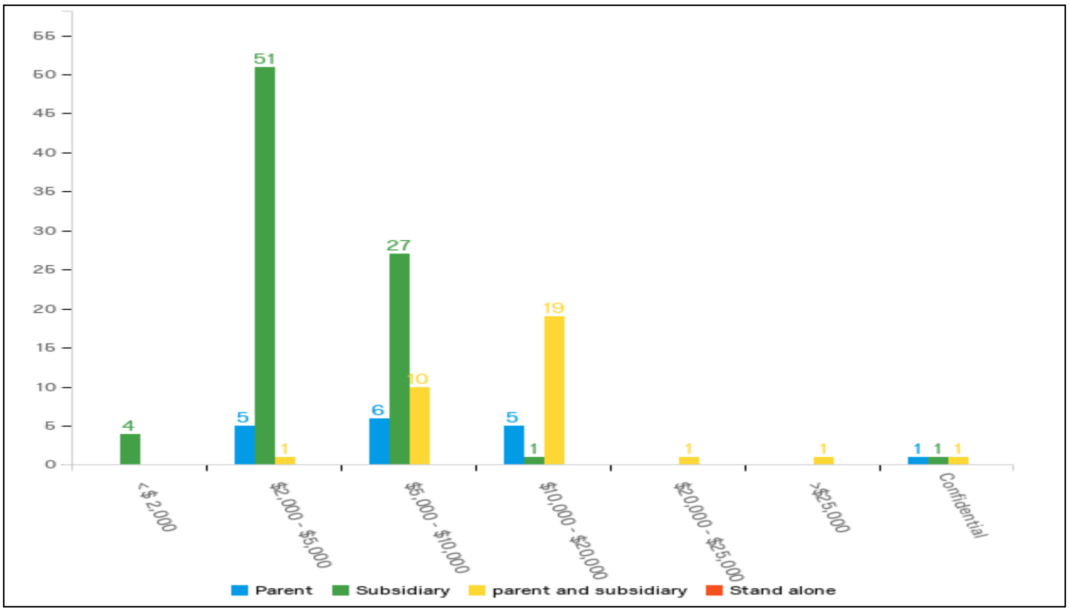
STATUS	MALE	COUNT
Parent	94.12%	16
Subsidiary	91.67%	77
parent and subsidiary	**93.94%**	**31**
Stand alone	0.00%	0
Total	92.54%	124
STATUS	FEMALE	COUNT
Parent	5.88%	1
Subsidiary	8.33%	7
parent and subsidiary	**6.06%**	**2**
Stand alone	0.00%	0
Total	7.46%	10
Parent	100%	17
Subsidiary	100%	84
parent and subsidiary	100%	**33**
Stand alone	100%	0
Total	100%	134

There were 31 of 124 (25%) male respondents serving as directors and/or commissioners in both parent and subsidiary companies (board member duality); of the female respondents, 2 of the 10 (20%) were in board member duality positions.

b. <u>The proportion of the average monthly income of holders of dual positions</u>

The proportion of the average monthly income of the respondents who held board member duality positions is depicted in Graph 6-24.

GRAPH 6-24 THE PROPORTION OF THE AVERAGE MONTHLY INCOME



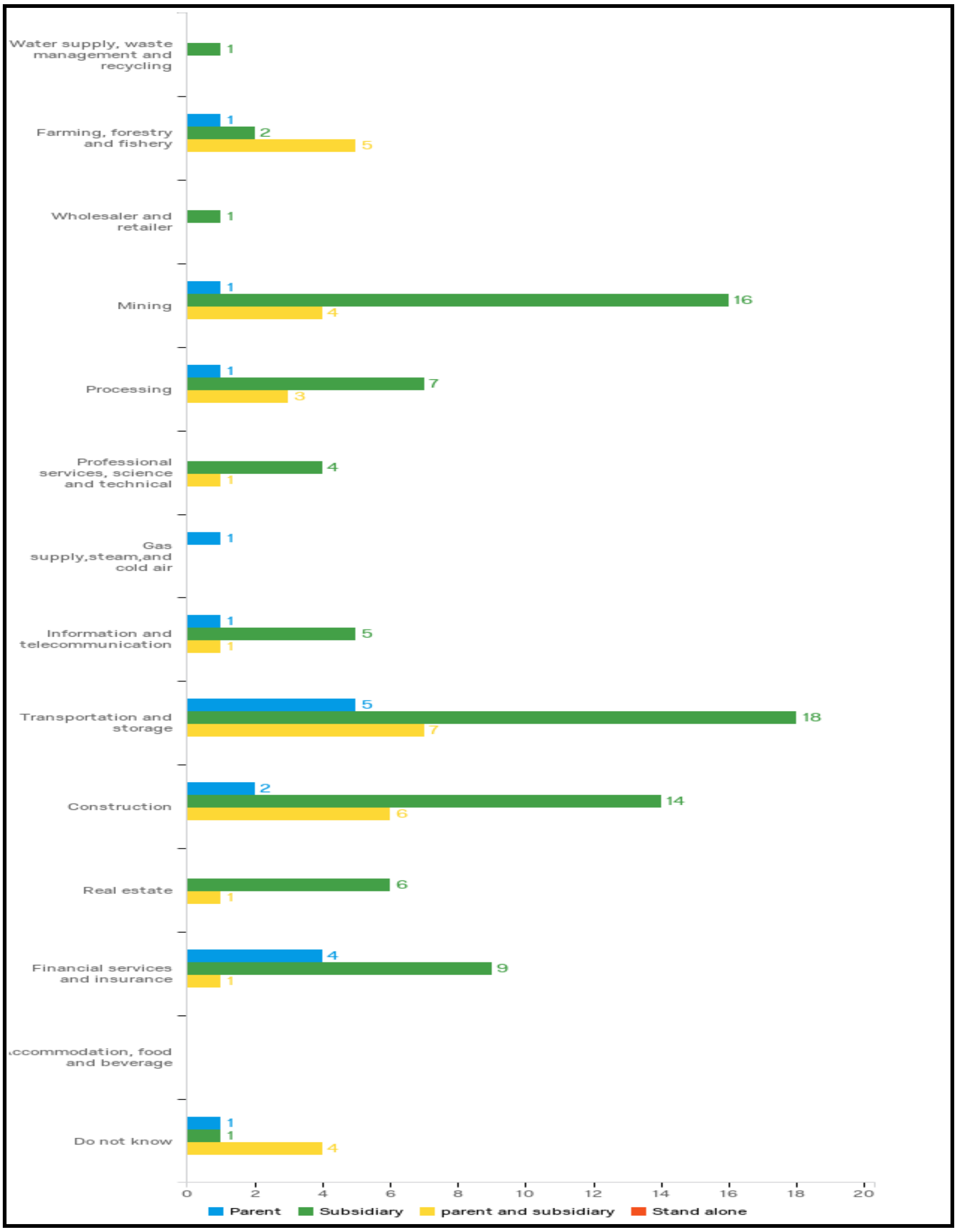
STATUS OF COMPANY	<$2,000		$2,000 - $5,000		$5,000 - $10,000		$10,000 - $20,000		$20,000 - $25,000		>$25,000		CONFIDENTIAL	
Parent	0.00%	0	29.41%	5	35.29%	6	29.41%	5	0.00%	0	0.00%	0	5.88%	1
Subsidiary	4.76%	4	60.71%	51	32.14%	27	1.19%	1	0.00%	0	0.00%	0	1.19%	1
parent and subsidiary	0.00%	**0**	3.03%	**1**	30.30%	**10**	57.58%	**19**	3.03%	**1**	3.03%	**1**	3.03%	**1**
Stand alone	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0
TOTAL	2.98%	4	42.54%	57	32.09%	43	18.66%	25	0.00%	1	0.00%	1	0.02%	3

The largest group of respondents who held the board member duality position had an average monthly income of US $10,000.00--$20,000.00. The percentage of respondents in that group was 57.58%, or 19 of 33 respondents. The respondents who had the highest average monthly income, above US$ 25,000.00, were also those who held board member duality positions. This was the same for those respondents who had the second largest average monthly income. No respondent who held a board member duality position had an average monthly income below US $2,000.00.

c. <u>The proportion of respondents holding position in each industrial sector</u>

The industries where the respondents served as directors and/or commissioners in parent and subsidiary companies are depicted in GRAPH 6-25.

GRAPH 6-25 THE PROPORTION OF RESPONDENTS IN EACH INDUSTRIAL SECTOR



Industry	Minimum	Maximum	Mean	Std Deviation	Variance	Count
What industrial sector is your company in?	1	14	8	3.27	10.67	135

Company Status	Water supply, waste management and recycling		Farming, forestry and fishery		Wholesaler and retailer		Mining		Processing		Professional services, science and technical		Gas supply,steam,and cold air	
Parent	0.00%	0	5.88%	1	0.00%	0	5.88%	1	5.88%	1	0.00%	0	5.88%	1
Subsidiary	1.19%	1	2.38%	2	1.19%	1	19.05%	16	8.33%	7	4.76%	4	0.00%	0
Parent and subsidiary	0.00%	0	15.15%	5	0.00%	0	12.12%	4	9.09%	3	3.03%	1	0.00%	0
Stand-alone	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0
TOTAL	0.00%	1	5.97%	8	0.00%	1	15.7%	21	8.20%	11	3.73%	5	0.00%	1

Company Status	Formation and elecommunication		Transportation and storage		Construction		Real estate		Financial services and insurance		Accommodation, food and beverage		Do not know		Total
Parent	5.88%	1	29.41%	5	11.76%	2	0.00%	0	23.53%	4	0.00%	0	5.88%	1	17
Subsidiary	5.95%	5	21.43%	18	16.67%	14	7.14%	6	10.71%	9	0.00%	0	1.19%	1	84
Parent and subsidiary	3.03%	1	21.21%	7	18.18%	6	3.03%	1	3.03%	1	0.00%	0	12.12%	4	33
Stand-alone	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0
TOTAL	5.22%	7	22.39%	30	16.4%	22	5.22%	7	10.44%	14	0.00%	0	4.48%	6	134

The three large industries where respondents had board member duality positions were transportation and storage (7 respondents: 21.21%), construction (6 respondents: 18.18%), and farming, forestry and fishery (5 respondents: 15.15%).

The standard deviation for respondents in the industry was 3.27 which meant that the frequencies of respondents were distributed among all industries. Four industries did not have respondents who held the board member duality positions, namely “water supply, waste management and recycling”, “wholesale and retail”, “gas supply, steam, and Air conditioning”, and “accommodation, food, and beverage”.

2) *Cross Tabulation of Six Dimensions of Accountability and Board Member Duality*

(1) The effective number of corporate board members

All respondents were asked "How many directors and commissioners in BUMN are considered effective?" The answers varied as shown by the statistics in TABLE 6-34.

TABLE 6-34 THE DISTRIBUTION OF FREQUENCIES AND PERCENTAGES OF PERCEPTION OF CORPORATE BOARD EFFECTIVENESS

POSITION	MINIMUM	MAXIMUM	MEAN	STANDARD DEVIATION	VARIANCE	COUNT
DIRECTOR	0	10	3.87	1.83	3.35	134
COMMISSIONER	0	7	3.33	1.61	2.59	134

a. The number of directors

The mean value of the respondents' rating of the number of directors in BUMN in order to be effective was 3.87 rounded to 4 directors with variance 3.35 rounded to 3 directors. It was considered that boards with a maximum number of 10 directors were effective.

b. The number of commissioners

The mean value of the respondents' rating of the number of commissioners on a board in BUMN in order for it to be effective was 3.33 rounded to 3 commissioners with a variance of 2.59 rounded to 3 commissioners. Seven commissioners were considered to be the desirable number for a board to be effective.

(2) The six dimensions of accountability of board member duality

I. ETHICS AND INTEGRITY

This dimension contains some important elements relating to the implementation of ethics and integrity and is aimed at determining the extent to which ethics and integrity exist in the relationship between parent and subsidiary companies in the state-owned enterprises in Indonesia. The statements and questions of the survey were formulated to assess normative views and not to judge the respondents' own ethics and integrity. Table 6-10 below shows the proportion of respondents who chose the predicate rating of Agree, Not Sure, and Disagree for the statements and/or questions related to the implementation of ethics and integrity. The results of the survey are shown in TABLE 6-35 and TABLE 6-36.

TABLE 6-35 THE DISTRIBUTION OF PERCENTAGES AND THE FREQUENCIES OF ETHICS AND INTEGRITY DIMENSION

NO.	STATEMENTS/QUESTIONS	PARENT			SUBSIDIARY			PARENT & SUBSIDIARY (BOARD MEMBER DUALITY)			DATA
		AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	
Q1	The company has stated Ethics and Integrity values formally	100%	0%	0%	95%	4%	1%	97%	3%	0%	C
		17	0	0	79	3	1	32	1	0	
Q2	The company has a code of conduct and/or policy relating to compliance	100%	0%	0%	96%	3%	1%	100%	0%	0%	C
		17	0	0	80	2	1	33	0	33	
Q3a	The company has code of conduct and/or policy relating to compliance specific for commissioner	100%	0%	0%	92%	7%	1%	97%	0%	3%	C
		17	0	0	77	6	1	32	0	1	
Q3b	The company has code of conduct and/or policy relating to compliance specific for director	100%	0%	0%	89%	10 %	1%	97%	0%	1%	C
		17	0	0	75	8	1	32	0	1	
Q4a	Communication about ethics and conversation exploring ethical dilemmas are stated honestly by commissioner	82%	18%	0%	94%	5%	1%	94%	6%	0%	C
		14	3	0	79	4	1	31	2	0	
Q4b	Communication about ethics and conversation exploring ethical dilemmas are stated honestly by director	88%	12%	0%	96%	4%	0%	94%	6%	0%	C
		15	2	0	81	3	0	31	2	0	
Q5a	Ethical values, performance, and corporate image which are closely connected are understood and reinforced by commissioner	100%	0%	0%	96%	4%	0%	100%	0%	0%	C
		17	0	0	81	3	0	33	0	0	
Q5b	Ethical values, performance, and corporate image which are closely connected are understood and reinforced by Director	100%	0%	0%	98%	2%	0%	97%	3%	0%	C
		17	0	0	82	2	0	32	1	0	
Q6	Directors are clear that upholding the principles and core ethical values and/or integrity comes before closing a contract, a deal, a sale, and/or unbridled profitability	100%	0%	0%	99%	1%	0%	97%	0%	3%	C
		17	0	0	83	1	0	32	0	1	
Q7	For a company's continuing success, ethical leadership and action are perceived as critical	100%	0%	0%	99%	1%	0%	97%	0%	3%	C
		17	0	0	83	1	0	32	0	1	

Note: C = the data was centered

Nearly all respondents in parent companies agree with the normative statements regarding Ethics and Integrity compared to the respondents in subsidiary companies and those with board member duality. Only 18% of respondents in parent companies were unsure that communication about ethics and conversations related to ethical dilemmas were expressed honestly by the commissioner (Q4a), and 12% of respondents in parent companies were not sure that communication about ethics and conversations related to ethical dilemmas were expressed honestly by directors (Q4b). On the other hand, respectively 4% and 6% of respondents were not sure about the Q4a and Q4b statements relating to subsidiary companies and to board member duality, both of which were less than those for parent companies.

The numbers of respondents who agreed with the corporate ethics policy stated by their company regarding the board member duality, i.e. Q1 (97%), Q2 (100%), Q3a (97%), and Q3b (97%) were higher than those for the subsidiary companies, i.e. (95%), (96%), (92%), and (89%), respectively.

The number of respondents who agreed with the statement that communication about ethics and conversations relating to ethical dilemmas were stated honestly by the commissioner (Q4a) in a subsidiary company and in the board member duality was the same at 94%.

The number of respondents who agreed with the statement that the ethical values, performance, and corporate image which are closely connected are understood and reinforced by commissioners (Q5a) in the board member duality, i.e. 100%, was higher than that in the subsidiary company at 96%.

However, the number of respondents who agreed with the statements about ethical values, performance, and corporate image for directors and also with the statements regarding ethical leadership (Q5b, Q6, and Q7) in the subsidiary, were 98%, 99%, 99% respectively, which were higher than those for the board member duality holder which were 97%, 97%, and 97% respectively. The answers of the majority of respondents in all categories -parent company, subsidiary company and board member duality - indicated that they agreed with the normative statements on Ethics and Integrity.

The Chi-Squared (X^2) Test Outputs

TABLE 6-36 below shows the output of the Chi-Squared (X^2) for statements/questions formulated for the dimension of ETHICS AND INTEGRITY in terms of data relating to the demographic attributes and company characteristic attributes. The output presents only several statements/questions which result in a significant statistical value for the attributes, i.e. $P< 0.05$. In terms of the hypothesis formulated in Chapter 4, if the Chi-Squared (X^2) analysis results in a significant value, then the conclusion is to reject the Null Hypothesis meaning that there is a significant difference among attributes in the dimension of ETHICS AND INTEGRITY. On the other hand, if the Chi-Squared (X^2) analysis results in a non-significant value, then the Null Hypothesis is accepted, meaning that there is no significant difference among attributes in the dimension of ETHICS AND INTEGRITY (see **FIGURE 4-20**)

TABLE 6-36 THE OUTPUT OF CHI-SQUARED (X^2) TEST FOR THE ETHICS AND INTEGRITY DIMENSION WHICH HAVE P-VALUE < 0.05 (REJECT H_0)

NO.	STATEMENTS/QUESTIONS	PARAMETER	PARENT COMPANY AGE	INDUSTRIAL SECTOR	RESPONDENT AGE	INCOME
Q1	The company has stated ethics and integrity formally	X^2	41.42			
		DF	24			
		P-VALUE	0.01			
Q2	The company has a code of conduct and/or policy relating to compliance	X^2	75.98			
		DF	24			
		P-VALUE	0.00			
Q3a	The company has code of conduct and/or policy relating to compliance specific for commissioners	X^2	55.84	75.99		
		DF	24	52		
		P-VALUE	0.00	0.02		
Q3b	The company has code of conduct and/or policy relating to compliance specific for directors	X^2	53.72	72.01		
		DF	24	52		
		P-VALUE	0.00	0.03		
Q4a	Communication about ethics and conversation that explores ethical dilemmas are stated honestly by commissioners	X^2	77.60			46.12
		DF	24			24
		P-VALUE	0.00			0.00
Q5a	Ethical values, performance, and corporate image which are closely connected are understood and reinforced by commissioner	X^2	88.32			
		DF	24			
		P-VALUE	0.00			
Q5b	Ethical values, performance, and corporate image which are closely connected are understood and reinforced by Director	X^2	43.16		33.38	
		DF	24		16	
		P-VALUE	0.01		0.01	

The output of the Chi-Squared ($x^{2)}$ test for the ETHICS AND INTEGRITY dimension is as follows:

1. Participants' responses to ETHICS AND INTEGRITY statements were not influenced by the attributes of "gender, education, and number of companies to serve". The "company status" characteristic also produced the same result (**TABLE 6-36**)

2. There were P-values < 0.05 for the statements/questions in the ETHICS AND INTEGRITY dimension which were tested in relation to the demographic attributes of respondent age and income, and to the company characteristic attributes of parent company age, and industrial sector. This means that the results did not support the Null Hypothesis, or in other words, the results support the Alternative Hypothesis that there is a significant difference between the demographic attributes of "age and income" and "ETHICS AND INTEGRITY". The same result regarding the company characteristic attributes also occurred for "the parent company age and industrial sector" in the dimension of ETHICS AND INTEGRITY. The details of the result of the demographic attributes and company characteristic attributes are presented below.

    a. Ages of Respondents

       In the ETHICS AND INTEGRITY DIMENSION, Q5b had a P-value of 0.01 with a degree of freedom of 16 when cross-tabulated with the ages of respondents, as shown in TABLE 6-36 above.

    b. Income

       Q4a in the ETHICS AND INTEGRITY dimension had P-value = 0.00 with a degree of freedom of 24 when cross-tabulated with the average monthly income of respondents, as shown in TABLE 6-36 above.

    c. Parent Company Age

       Seven statements/questions in the ETHICS AND INTEGRITY DIMENSION, i.e. Q1, Q2, Q3a, Q3b, Q4a, Q5a and Q5b, had P-value < 0.05, i.e. 0.01, 0.00, 0.00, 0.00, 0.00, 0.00, 0.01 respectively, when cross-tabulated with the parent company age, as shown in TABLE 6-36 above. All statements/questions related to company age had the same of degree of freedom of 24 which is almost a normal distribution (df=30) (Pandey and Bright, 2008).

d. Industrial Sector

Q3a and Q3b in the ETHICS AND INTEGRITY dimension had P-value = 0.02 and 0.03 respectively when cross-tabulated with the industrial sector, as shown in TABLE 6-36 above. These statements/questions had the same degree of freedom of 52 which means that the statements had a normal distribution curve.

II. THE COSTS AND BENEFITS

This section examines the impacts of board member duality on costs and benefits in the parent- subsidiary company relationship in state-owned enterprises in Indonesia. It was anticipated that the respondents would draw on their own experiences when responding to the questions and statements in this dimension. The results of the survey are shown in TABLE 6-37 and TABLE 6-38.

TABLE 6-37 THE DISTRIBUTION OF PERCENTAGES AND FREQUENCIES OF THE COSTS AND BENEFITS DIMENSION

NO.	STATEMENTS/QUESTIONS	PARENT			SUBSIDIARY			PARENT & SUBSIDIARY (BOARD MEMBER DUALITY)			DATA
		AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	
Q8	Dual directors who also hold as shareholder of subsidiary company are susceptible to conflict of interest	53%	23%	23%	50%	16%	34%	36%	6%	58%	D
		9	4	4	42	13	28	12	2	19	
Q9	Establishing a subsidiary is purely for business goals, free from intention to create Dual Director and/or political intervention	88%	12%	0%	89%	10%	1%	94%	0%	6%	C
		15	2	0	74	8	1	31	0	2	
Q10	A subsidiary company is an independent entity and does not give preference in decision to parent company	53%	18%	29%	58%	18%	24%	64%	6%	30%	D
		9	3	5	48	15	21	21	2	10	
Q11	Parent company decisions affect the performance of the subsidiary	100%	0%	0%	87%	10%	3%	90%	0%	10%	C
		17	0	0	73	8	3	30	0	3	
Q12	Director of parent company should not be appointed to be a commissioner in subsidiary	17%	17%	66%	28%	24%	48%	9%	15%	76%	S
		3	3	11	24	20	40	3	5	25	
Q13	Dual directors use all their experience to the advantage of both companies	94%	6%	0%	86%	12%	2%	91%	6%	3%	C
		16	1	0	72	10	2	30	2	1	

Q14	Dual Directors sometimes create a conflict of interest between parent and subsidiary interests	53%	12%	35%	46%	19%	35%	42%	9%	49%	D
		9	2	6	39	16	29	14	3	16	
Q15	Dual Directors are more effective in controlling subsidiaries than commissioners who are in non-dual director position	70%	18%	12%	61%	19%	20%	66%	12%	12%	S
		12	3	2	51	16	17	25	4	4	
Q16	Dual Directors are more efficient in controlling subsidiaries than commissioners do when they are not in dual director positions	70%	18%	12%	58%	20%	22%	73%	12%	15%	S
		12	3	2	49	17	18	24	4	5	
Q17	Dual Directors tend to choose the interests of the parent rather than those of its subsidiary	23%	23%	54%	29%	21%	50%	30%	10%	60%	D
		4	4	9	24	18	42	10	3	20	

Note: C=Data is centered; D=Data is diametric

Across all categories, participants' responses to statements about the costs and benefits of the dual director situation were varied. The statements numbered Q8, Q10, Q14, and Q17 related to the issue of conflict of interests. The number of respondents who chose 'Agree' for Q8 and Q14 for all categories, namely parent company, subsidiary company, and board member duality, was 53%, 50%, 36% and 53%, 46%, and 42% respectively; whereas, the number of respondents who chose 'Disagree' was 23%, 34%, 58%, and 35%, 35%, 49% respectively. The percentage of respondents who chose 'Agree' with those who has a position in parent company and in subsidiary company was bigger than those who chose Disagree (Q8: 53%>23% and 50%>34% and Q14: 53%>35%, 46%>35%). Conversely, the number of respondents who chose Disagree with those who has a position in the board member duality for Q8 and Q14 was higher than those who chose Agree (36% <58% and 42% <49%).

The number of respondents who chose 'Agree' for the statements regarding the costs and benefits associated with board member duality in the dual director dimension was relatively of the same for those in parent companies and greater than those in the subsidiary companies. Those statements were numbered Q9, Q11, Q13, Q15, and Q16. The respondents' choice of response for each statement pertaining to board member duality was 94%>89%, 90%>87%, 91%>86%, 66>61% and 73%>58% respectively.

In addition, the number of respondents (76%) who chose 'Agree' for the Q12 statement regarding board member duality was in line with those in parent companies (66%), but greater than those in subsidiary companies (48%), which was 76%>48%.

A substantial number (15% or more) of respondents in parent companies answered ' Not Sure' for the statements Q8, Q10, Q12, Q15, Q16, and Q17, in the subsidiary companies for the statements Q8, Q10, Q12, Q14, Q15, Q16, Q17, and in board member duality situations for the statement Q12. Thus, the statements Q8, Q10, Q12, Q15, Q16, and Q17 resulted in a considerable number of 'Not Sure' responses from those in parent companies and in subsidiary companies. A significant number of respondents from all categories answered 'Not Sure' in response to the Q12 statement.

If the percentages were converted into a trend defined as Centered (C), Scattered (S), Diametric (D), and Scattered with Diametric (S/D), then the results would be as follows:

The answers of the majority of respondents in all categories, that is parent company, subsidiary company and in board member duality, for Q9, Q11, Q13, were centered on 'Agree' to statements regarding the costs and benefits of having dual director situations. However, for all categories, the answers to Q15 and Q16 were interspersed with a number of 'Disagree' responses in the subsidiary company category, and this was higher than those in parent company and board member duality categories.

The answer of respondent in subsidiary company and in board member duality categories for Q8 and Q14 were equally distributed between 'Agree' and 'Disagree', whereas for the parent company category, they were scattered.

The answers of respondent in parent company and in subsidiary company categories for Q10 and Q17 were scattered with diametric opinions between 'Agree' and 'Disagree', whereas in board member duality they were diametric.

The answers of respondents in parent company and in board member duality categories for Q12 were scattered, whereas for the subsidiary company, they were diametrically scattered.

Chi-Squared (X^2) Test Outputs

TABLE 6-38 below shows the output of Chi-Squared (X^2) for statements/questions in the COSTS AND BENEFITS dimension for the group of data comprising the demographic attributes and company characteristic attributes. The output presents only several statements/questions which result in a statistically significant value among the attributes, i.e. P-value < 0.05.

TABLE 6-38 THE OUTPUT OF CHI-SQUARED (X^2) TEST FOR THE COSTS AND BENEFITS DIMENSION WHICH HAVE P-VALUE < 0.05 (REJECT H_0)

NO.	STATEMENTS/QUESTIONS	PARAMETER	INCOME	NUMBER OF COMPANY	PARENT COMPANY AGE	INDUSTRIAL SECTOR
Q9	Establishing a subsidiary is purely for business goals, free from intention to create dual director and/or political intervention	X^2		34.45		
		DF		16		
		P-VALUE		0.00		
Q10	A subsidiary company is an independent entity and does not give preference in decision to parent company	X^2		30.39	37.05	
		DF		16	24	
		P-VALUE		0.02	0.04	
Q13	Dual directors use their experiences to the advantage of both companies	X^2	59.33			77.17
		DF	24			52
		P-VALUE	0.00			0.01
Q14	Dual directors sometime create a conflict of interests between parent and subsidiary interests	X^2	40.54			
		DF	24			
		P-VALUE	0.02			
Q17	Dual directors tend to choose the interests of the parent company rather than those of its subsidiary	X^2	39.27		37.79	
		DF	24		24	
		P-VALUE	0.03		0.04	

The output of Chi-Squared (X^2) test for COSTS AND BENEFITS OF THE DUAL DIRECTOR DIMENSION IS as follows:

1. There was no P-value less than 0.05 for the statements/questions in the dimension of COSTS AND BENEFITS which were tested in terms of the demographic attributes of gender, age and education and of the company characteristic attributes of the

company status. This means that the results of the demographic attribute testing support the Null Hypothesis that there is no significant relationship between the demographic attributes of “gender, age, and education” in the dimension of COSTS AND BENEFITS. Results regarding the company characteristic attributes were the same as those for “the company status”, meaning *that there is no significant difference between corporate boards who serve in parent companies, subsidiary companies, parent and subsidiary companies, and stand-alone companies in the dimension of COSTS AND BENEFITS*.

2. There were P-values less than 0.05 for the statements/questions in COSTS AND BENEFITS dimension which were tested in terms of the demographic attributes of income and number of companies to serve, and to the company characteristic attributes of parent company age and industrial sector. This means that the results did not support the Null Hypothesis, or in other words, the results supported the Alternative Hypothesis that there is significant relationship between the demographic attributes of “income and the number of director position held” in the dimension of COSTS AND BENEFITS. The same result regarding the company characteristic attributes also occurred for “parent company age and industrial sector” in the dimension of COSTS AND BENEFITS. The details of the results of the demographic attributes and company characteristic attributes are presented below.

   a. Income

      Three statements/questions for COSTS AND BENEFITS i.e. Q13, Q14, Q17, had P-value less than 0.05, i.e. 0.00, 0.02, and 0.03 respectively, when cross-tabulated with the income, as shown in **TABLE 6-38** above. All statements/questions for COSTS AND BENEFITS above had the same of degree of freedom of 24 which is close to a normal distribution (df=30).

   b. Number of companies to serve

Q9 and Q10 in COSTS AND BENEFITS had P-value <0.05 i.e. 0.00 and 0.02 respectively when cross-tabulated with the number of companies, as shown in **TABLE 6-38** above. The statements above had the same degree of freedom of 16 which means the statements had a skewed distribution.

c. Parent company age

Q10 and Q17 in COSTS AND BENEFITS had P-value less than 0.05 at 0.04 and 0.04 with degree of freedom of 24 when cross-tabulated with the parent company age, as shown in **TABLE 6-38**. All statements relating to costs and benefits for the dual director above had the same of degree of freedom of 24 which is close to a normal distribution (df=30).

d. Industrial sector

The Q13 statement regarding costs and benefits for the dual director had P-value less than 0.05 that was 0.01 with degree of freedom of 52 when cross-tabulated with the industrial sector, as shown in **TABLE 6-38** above. The degree of freedom of 52 which was more than 30 showed that the Q13 statement had a normal distribution.

III. THE REGULATION

This dimension is intended to examine the regulation of the board member duality in BUMN. The results and the trend of the survey are shown in TABLE 6-39 and TABLE 6-40.

TABLE 6-39 THE DISTRIBUTION OF PERCENTAGES AND FREQUENCIES OF THE REGULATION DIMENSION

NO.	STATEMENTS/QUESTIONS	PARENT			SUBSIDIARY			PARENT & SUBSIDIARY			DATA
		AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	
Q18	Control of a subsidiary company by a Dual Director is preferable than by a Non Dual Director	82%	6%	12%	48%	15%	37%	64%	3%	33%	D
		14	1	2	40	13	31	21	1	11	
Q19	Dual position should not be allowed in any situation	0%	24%	76%	24%	18%	58%	6%	9%	85%	C
		0	4	13	20	15	49	2	3	28	
Q20	Dual Director should be limited	94%	0%	6%	83%	9%	7%	88%	9%	3%	C
		16	0	1	70	8	6	29	3	1	
Q21	The role of Dual Director should be regulated in the SOE Act	65%	12%	23%	73%	11%	16%	70%	12%	18%	S
		11	2	4	61	9	13	23	4	6	
Q22	The role of Dual Directors should be regulated by a code of ethics and/or code of corporate governance	94%	0%	6%	93%	6%	1%	97%	0%	3%	C
		16	0	1	78	5	1	32	0	1	

Q23	The parent company has a mechanism to overcome a conflict of interest that is faced by Dual Directors	94%	6%	0%	80%	20%	0%	94%	3%	3%	C
		16	1	0	67	17	0	31	1	1	
Q24	A guideline should be developed to regulate the parent-subsidiary relationship	94%	6%	0%	96%	4%	0%	97%	0%	3%	C
		16	1	0	81	3	0	32	0	1	
Q25	Directors and commissioners should not have business or involve as a subcontractor company to either parent or subsidiary	100%	0%	0%	95%	4%	1%	100%	0%	0%	C
		17	0	0	80	3	1	33	0	0	
Q26	The appointment of directors in a subsidiary company should pass fit and proper testing.	94%	6%	0%	93%	5%	2%	100%	0%	0%	C
		16	1	0	77	4	2	32	0	0	
Q27	The appointment of commissioners in a subsidiary company should pass fit and proper testing	82%	6%	12%	89%	5%	6%	94%	3%	3%	C
		14	1	2	74	4	5	30	1	1	
Q28	Commissioners and directors should sign a management contract which includes key performance indicator	100%	0%	0%	93%	6%	1%	100%	0%	0%	C
		17	0	0	78	5	1	33	0	0	

Note: C=Data is centered; D=Data is diametric

More than 80% of all respondents in parent, subsidiary, and parent and subsidiary companies responded with ‘Agree’ to statements Q20, Q22, Q23, Q24, Q25, Q26, Q27and Q28 concerning the regulation of the dual director in terms of best practices and normatives. The percentages of those who chose ‘Agree’ were 94%, 94%, 94%, 94%, 100%, 94%, 82%, and 100% for parent companies, 83%, 93%, 80%, 96%, 95%, 93%, and 89% for subsidiary companies, and 88%, 97%, 94%, 97%, 100%, 100%, 94%, and 100%.

The respondents’ answers for Q18 which asked about the preference for the dual director versus non-dual director produced an interesting pattern. In parent companies, 82% of respondents chose ‘parents in subsidiary companies had relatively scattered responses with ‘Agree’ 48%, ‘Not Sure’ 15%, and ‘Disagree’ 37%, and for the board member duality category was relatively diametric with ‘Agree’ 64% and ‘Disagree’ 33%.

The respondents’ answers for Q19 which asked about the limitation of the dual director position had the following pattern: in the parent company category, the percentage of respondents who chose ‘Not Sure’ was 24% and ‘Disagree’ was 76%; for the subsidiary company respondents, it was relatively scattered with ‘Agree’ 24%, ‘Not Sure’ 18%, and ‘Disagree’ 58%, and in the board member duality category 85% of respondents chose ‘ Disagree’.

The respondents' answers for Q21 which asked whether the dual director should be regulated in the SOE act was relatively diametric, even though more respondents chose 'Agree' ' rather than 'Disagree'. For the parent company category, it 65%:23%, for 'Agree' for the subsidiary company it was 73%:16%, and for the board member duality category, it was 70%:18%.

If the percentages were converted into the trend defined as Centered (C), Scattered (S), Diametric (D), Scattered with Diametric (S/D) then the results would be as follows:

The answers of the majority of respondents in all categories, that was in parent company, subsidiary company and in board member duality, for Q20, Q22, Q23, Q24, Q25, Q26, and Q28 were centered on 'Agree' to statements of the costs and benefits of the dual director. However, for all categories the answers to Q21 were scattered.

There were different tendencies for the answers to Q18 and Q19 for all categories.

The Chi-Squared (X^2) Test Outputs

TABLE 6-40 below shows the output of Chi-Squared (X^2) for statements/questions in the REGULATION dimension for the group of data comprising the demographic attributes and company characteristic attributes. The output presents only those statements/questions which resulted in a statistically significant value of the attributes, i.e. P-value is less than 0.05.

TABLE 6-40 THE OUTPUT OF CHI-SQUARED (X^2) TEST FOR THE REGULATION WHICH HAVE P-VALUE < 0.05 (REJECT H_0)

NO.	STATEMENTS/QUESTIONS	PARAMETER	PARENT COMPANY AGE	INCOME	GENDER	NUMBER OF COMPANY
Q20	Dual director position should be limited	X^2				28.43
		DF				16
		P-VALUE				0.03
Q21	The role of dual director should be regulated in the SOE act	X^2			12.55	
		DF			4	
		P-VALUE			0.01	

Q22	The role of Dual Directors should be regulated by a code of ethics and/or code of corporate governance	X^2		145.29		
		DF		24		
		P-VALUE		0.00		
Q25	Directors and commissioners should not have business or involve as a subcontractor company to either parent or subsidiary	X^2	42.89			
		DF	24			
		P-VALUE	0.01			
Q26	The appointment of directors in a subsidiary should pass fit and proper testing	X^2	55.68	49.22		
		DF	24	24		
		P-VALUE	0.00	0.00		
Q27	The appointment of a commissioner in a subsidiary should pass fit and proper testing	X^2	44.77			
		DF	24			
		P-VALUE	0.01			
Q28	Commissioners and directors should sign a management contract which includes key performance indicator	X^2	37.20			
		DF	24			
		P-VALUE	0.04			

The output of Chi-Squared (X^2) test for the Regulation dimension is as follows:

1. No P-value was less than 0.05 for the statements/questions in the REGULATION dimension which were tested in terms of the demographic attributes of age and education and to the company characteristic attributes of company status and industrial sector. This means that the results regarding the demographic attribute testing support the Null Hypothesis that there is no significant relationship between the demographic attributes of "age and education" in the dimension of REGULATION. The same results regarding the company characteristic attributes also occurred for "the company status and industrial sector" in REGULATION. This means that for the *dimension of REGULATION.*
2. there is no *significant difference between corporate boards who serve in parent company, subsidiary company, parent and subsidiary, and stand-alone companies.* There were P-values less than 0.05 for the statements/questions REGULATION DIMENSION pertaining to the demographic attributes of gender, income, and number of companies to serve and to the company characteristic attributes of parent company age, and industrial sector. This means that the results do not support the Null Hypothesis, or in other words, the results will accept the Alternative Hypothesis that there is significant difference between the demographic attributes of "gender, income and number of companies to serve for the dimension of REGULATION. The

same result regarding the company characteristic attributes also occurred for "parent company age" IN REGULATION. The details of the results *of the demographic attributes and company characteristic attributes are presented as below.*

a. *Gender*

   Q21 in the *REGULATIO*N dimension had a P-value of 0.01 with degree of freedom of 4 when cross-tabulated with the gender, as shown in **TABLE 6-40** above. The degree of freedom of 4 indicates that the statement of Q21 had no-normal distribution.

b. Income

   Two statements/questions stated in the REGULATION dimension, i.e. Q22 and Q26, had a P-value less than 0.05, i.e. 0.00 and 0.00 respectively, when cross-tabulated with the average monthly income, as shown **TABLE 6-40** above. All statements/questions in the REGULATION dimension above had the same of degree of freedom of 24 which is nearly a normal distribution (df=30).

c. NUMBER of companies

   Q20 in the REGULATION dimension had a P-value of 0.03 with degree of freedom of 16 if cross tabulated with the number of company, as shown in TABLE 6-40 above. The degree of freedom of 16 showed that the statement/question of Q20 had no normal distribution.

d. Parent company age

   Q25, Q26, Q27 and Q28 in the REGULATION dimension had P-values < 0.05, i.e. 0.01, 0.00, 0.01 and 0.04 respectively, when cross-tabulated with the parent company age, as shown in **TABLE 6-40** above. All statements of regulation for the dual director dimension above had the same of degree of freedom of 24 which is close to normal distribution (df=30).

IV. ROLE OF DUAL DIRECTOR

This dimension was intended to determine the progress of the dual director role in the parent- subsidiary company relationship in state-owned enterprises in Indonesia. The results and the trend of the survey are shown in TABLE 6-41, and TABLE 6-42.

TABLE 6-41 THE PERCENTAGES OF FREQUENCIES OF THE ROLE OF DUAL DIRECTOR DIMENSION

NO.	STATEMENTS/QUESTIONS	PARENT			SUBSIDIARY			PARENT & SUBSIDIARY (BOARD MEMBER DUALITY			DATA
		AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	
Q29	Dual Directors can separate their execution role (as a director) and oversight role (as a commissioner) correctly	94%	6%	0%	81%	17%	2%	97%	3%	0%	C
		16	1	0	68	14	2	32	1	0	
Q30	Dual Directors favor the parent company in decisions that affect both companies	59%	6%	45%	48%	23%	29%	36%	9%	55%	D
		10	1	6	40	19	25	12	3	18	
Q31	Directors of SOEs are less diligent than directors of privately owned companies	0%	6%	94%	10%	15%	75%	3%	6%	91%	C
		0	1	16	8	13	63	1	2	30	
Q32	Dual Directors report to shareholders when they make decisions affecting both companies	82%	6%	12%	80%	10%	10%	72%	12%	16%	S
		14	1	2	68	8	8	24	4	5	
Q33	The Directors and /or commissioners of SOEs are political appointments	12%	0%	88%	8%	29%	63%	3%	12%	85%	C
		2	0	15	7	24	53	3	4	26	
Q34	Political intervention on boards is common.	47%	24%	29%	60%	23%	17%	55%	24%	21%	S/D
		8	4	5	50	19	15	18	8	7	

Note: C=Data is centered; D=Data is diametric; S=Data is scattered

The respondents' answers to the statements related to the role of dual director were quite scattered. There were only two statements, Q29 and Q31, which had more than 90% 'Agree' and 'Disagree' responses from participants in the parent company category and in the board member duality it was 94%, 97% and 94%, 91% respectively. However, the percentage of answers to Q29 and Q31 from respondents in the subsidiary company category who answerered 'Not Sure' was more than 15%, at 17% and 23% respectively.

The respondents in the parent company category had diametric answers for Q30 where the 'Agree' was 59% and 'Disagree' was 45%. This also occurred in the board member duality which was 'Agree' at 36% and 'Disagree' at 55%. Whereas, in thesubsidiary company category, the choices were 'Agree' at 48%, 'Not Sure' at 23%, and 'Disagree' at 29%.

The respondents in parent company and in subsidiary company were agree on Q32 that was 82% and 80% respectively, whereas the board member duality answer on Q32 was scattered in 72%, 12%, and 16%.

The respondents in parent company and in board member duality categories did not agree on Q33, with results of 88% and 85% respectively, whereas in the subsidiary company category, 'Agree' was 8%, 'Not Sure' was 29%, and 'Disagree' was 63%.

Respondent answers to Q34 were scattered among 'Agree', 'Not Sure' and 'Disagree' for all categories of parent company, subsidiary company, and board member duality as shown in TABLE 6-41.

If the percentages were converted into the trend defined as Centered (C), Scattered (S), Diametric (D), Scattered with Diametric (S/D) then the results would be as follows:

Parent company and board member duality categories showed the same trend for Q29 (C), Q30 (D), Q31 (C), Q33 (C), and Q34 (S/D). However, for Q32, the parent company response was centred and the board member duality was scattered.

In subsidiary company category, Q29 and Q32 had the same tendency as that of the parent company category, and Q29 had the same tendency as that of board member duality. The remaining responses were scattered for Q31, Q33, and Q34, and scattered with diametric for Q30.

__The Chi-Squared (X^2) Test Outputs__

TABLE 6-42 below shows the output of Chi-Squared (X^2) for statements/questions in the ROLE OF DUAL DIRECTOR dimension related to the group of data comprising the demographic attributes and company characteristic attributes. The output presents only several statements/questions which result in a statistically significant value of the attributes, i.e. P-value < 0.05.

TABLE 6-42 THE OUTPUT OF CHI-SQUARED (X^2) TEST FOR THE ROLE OF DUAL DIRECTOR DIMENSION WHICH HAVE P-VALUE < 0.05 (REJECT H_0)

NO.	STATEMENTS/QUESTIONS	PARAMETER	GENDER	NUMBER OF COMPANY	INCOME	PARENT COMPANY AGE
Q30	Dual directors favor the parent company in decisions that affect both companies	X^2	10.24	37.38		
		DF	4	16		
		P-VALUE	0.04	**0.00**		
Q32	Dual directors report to shareholders (State) when they make decision affecting both companies	X^2		72.47		
		DF		16		
		P-VALUE		**0.00**		
Q33	The directors of SOE are political appointments	X^2			67.77	44.34
		DF			24	24
		P-VALUE			**0.00**	**0.01**
Q34	Political intervention on boards is common	X^2	11.53		42.41	
		DF	4		24	
		P-VALUE	**0.02**		**0.01**	

The output of Chi-Squared (X^2) test for ROLE OF DUAL DIRECTOR dimension as follows:

1. There was no P-value less than 0.05 for the statements/questions in ROLE OF DUAL DIRECTOR dimension related to the demographic attributes of age and education and to the company characteristic attributes of the industrial sector. This means that the results supported the Null Hypothesis that there is no significant difference between the demographic attributes of “age and education” in the dimension of ROLE OF DUAL DIRECTOR. The same results regarding the company characteristic attributes were obtained for “the company status and industrial sector” in the ROLE OF DUAL DIRECTOR DIMENSION. This means that *there is no significant difference between corporate boards who serve in parent company, subsidiary company, parent and subsidiary, and stand-alone company in the dimension of ROLE OF DUAL DIRECTOR.*

2. There were P-values less than 0.05 for the statements /questions formulated in ROLE OF DUAL DIRECTOR dimension which related to the demographic attributes of gender, income and number of companies to serve, and to the company characteristic attributes of parent company age. This means that the results did not

support the Null Hypothesis. In other words, the results supported the Alternative Hypothesis that there is a relationship between the demographic attributes of "gender, income, number of companies to serve" in the dimension of ROLE OF DUAL DIRECTOR. The same result regarding the company characteristic attributes was obtained for "parent company age" in ROLE OF DUAL DIRECTOR. The details of the results of the demographic attributes and company characteristic attributes are presented below.

a. Gender

   Q30 and Q34 in the ROLE OF DUAL DIRECTOR dimension had a P-value < 0.05 (0.04 and 0.02 respectively) with a degree of freedom of 4 when cross-tabulated with the gender, as shown in **TABLE 6-42** above. The degree of freedom of 4 showed that Q30 and Q34 had no normal distribution.

b. Income

   There were 2 statements/questions formulated in ROLE OF DUAL DIRECTOR dimension that was Q33 and Q34 which had P-value < 0.05 that was 0.00 and 0.01 respectively with degree of freedom of 24 when cross tabulated with the average monthly income, as shown in **TABLE 6-42** above. The degree of freedom 24 means that Q33 and Q34 were nearly to be the normal distribution (df=30).

c. Number of Company to serve

   There were 2 statements/questions formulated in ROLE OF DUAL DIRECTOR dimension that was Q30 and Q32 which had P-value less than 0.05 that was 0.00 and 0.00 respectively with degree of freedom of 16 when cross tabulated with the number of company, as shown in **TABLE 6-42** above. The degree of freedom of 16 showed that Q30 and Q32 did not have a normal distribution.

d. Parent company age

   Q33 in the ROLE OF DUAL DIRECTOR dimension had a P-value of 0.01 with a degree of freedom of 24 when cross-tabulated with the average monthly income, as shown in **TABLE 6-42** above. The degree of freedom of 24 means that Q33 was close to normal distribution (df=30).

V. FINANCIAL ACCOUNTABILITY

This dimension is intended to determine the level of financial accountability of board member duality in the of parent- subsidiary company relationship in the state-owned enterprises in Indonesia. The results and the trend of the survey are shown in TABLE 6-43 and TABLE 6-44.

TABLE 6-43 THE PERCENTAGES AND FREQUENCIES OF THE FINANCIAL ACCOUNTABILITY DIMENSION

NO.	STATEMENTS/QUESTIONS	PARENT			SUBSIDIARY			PARENT & SUBSIDIARY (BOARD MEMBER DUALITY)			DATA
		AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	
Q35	AGM of shareholders of subsidiary have a justified formula to determine the remuneration (salaries, allowance, bonus, and facilities) of directors and commissioners	88%	12%	0%	99%	1%	0%	94%	3%	3%	C
		15	2	0	83	1	0	31	1	1	
Q36	The formula of remuneration for directors and commissioners in a subsidiary should follow the same scheme as the parent company	88%	6%	6%	70%	6%	24%	88%	3%	9%	C
		15	1	1	59	5	20	29	1	3	
Q37	The Dual Directors should not be involved in voting for subsidiary director's remuneration proposal at an AGM of shareholders	65%	0%	35%	63%	10%	17%	61%	6%	23%	S
		11	0	6	53	8	23	20	2	11	
Q38	Dual Directors should not receive any income other than stated in the remuneration scheme, for example commission	88%	6%	6%	83%	5%	12%	82%	6%	12%	C
		15	1	1	70	4	10	27	2	4	
Q39	Expense or cost of internal company transactions between parent and subsidiary should be treated at fair value (arm's length transaction)	100%	0%	0%	97%	3%	0%	100%	0%	0%	C
		17	0	0	82	2	0	33	0	0	
Q40	Dual Directors increase in subsidiary performance	82%	18%	0%	79%	17%	6%	91%	6%	3%	C
		14	3	0	66	14	4	30	2	1	
Q41	Subsidiary companies lose profit when they undertake parent company contract	12%	18%	70%	21%	15%	64%	15%	12%	73%	S
		2	3	12	18	13	53	5	4	24	
Q42	Dividend payments to the parent are lower when directors hold dual directors	12%	12%	76%	10%	26%	64%	3%	12%	85%	C
		2	2	13	8	23	53	1	4	28	
Q43	When subsidiary have a loss, the loss is subsidized by the parent company	6%	6%	88%	33%	11%	66%	6%	15%	79%	S
		1	1	15	28	9	46	2	5	26	
Q44	The loss from subsidiary business is met by the parent	0%	12%	88%	25%	8%	67%	3%	9%	88%	C
		0	2	15	21	7	56	1	3	29	

	company										
Q45	The amount of remuneration from parent company to dual directors should include the amount for oversight of a subsidiary company	76%	6%	18%	71%	15%	14%	74%	9%	27%	S
		13	1	3	59	13	12	21	3	9	
Q46	In fact, Dual Director can undertake both of the execution and the oversight function equally well	82%	18%	0%	67%	25%	8%	82%	12%	6%	C
		14	3	0	56	21	7	27	4	2	

Note: C=Data is centered; S=Data is scattered

The majority of respondents in all categories chose ‘Agree’ for Q35, Q38, Q39, and Q40. Q35 results for the ‘Agree’ answer were 88%, 99%, and 94% for respondents in the parent company, subsidiary company, and the board member duality categories respectively. For Q38, results were 88%, 83% and 82%, Q39 was 100%, 97%, and 100%, and for Q40 they were 82%, 79%, and 91%. These were the same for Q36 and Q46. However, for Q36, the answers of respondents from subsidiary companies were diametric i.e. ‘Agree’ 70% and ‘Disagree’ (24%) and for Q46, ‘Agree’ was 67% and ‘Not Sure’ was 25%.

For Q37, respondents in all categories tended to have diametric opinions. The percentage of respondents in the parent company category who answered ‘Agree’ was 65% and ‘Disagree’ was 35%, in the subsidiary company it was 63% and 17%, and in board member duality it was 61% and 23%, respectively.

The majority of respondents in the parent company and the board member duality categories were relatively consistent in choosing ‘Disagree’ for Q41 (70%, 73%) Q42 (76%, 85%), Q43 (88%, 88%), and Q44 (88%, 88%) and ‘Agree’ for Q45 (76%, 74%). However, the majority of answers from respondents in subsidiary companies were scattered with percentages as follows: for Q41 (21%:15%:64%), Q42 (10%:26%:64%), Q45 (71%:15%:14%) and diametric percentages between ‘Agree’ and ‘Disagree’ for Q43 (33%:66%), Q44 (25%:67%).

If the percentages were converted into the trend defined as Centered (C), Scattered (S), Diametric (D), Scattered with Diametric (S/D) then the results would be as follows:

There were the same tendencies in all categories, namely parent company, subsidiary company and in board member duality for Q35 (C), Q38 (C), Q39 (C), Q41 (D), and Q45 (S). The answers to Q36 (C), Q40 (C), Q44 (C) and Q46 (C) had the same tendencies in parent company and board member duality categories, whereas in the subsidiary company category, they were D, S, S/D, S/D and S respectively.

Q42 (S) responses showed the same tendency in parent company and in subsidiary company categories, while the board member duality category was centered on 'Disagree'.

Q37 (S) responses showed the same scattered tendency in subsidiary company and in board member duality categories, while in the parent company category, it was diametric.

Q43 produced different results for all categories: the parent company was centered on Disagree, the subsidiary company was scattered with diametric between 'Agree' and 'Disagree', the board member duality was scattered.

The Chi-Squared (X^2) Test Outputs

TABLE 6-44 below shows the output of Chi-Squared (X^2) for statements/questions in the FINANCIAL ACCOUNTABILITY dimension for the group of data comprising the demographic attributes and company characteristic attributes. The output presents only several statements/questions which result in a statistically significant value among the attributes, i.e. P-value < 0.05.

TABLE 6-44THE OUTPUT OF CHI-SQUARED (X^2) TEST FOR THE FINANCIAL ACCOUNTABILITY WHICH HAVE P-VALUE < 0.05 (REJECT H_0)

NO.	STATEMENTS/QUESTIONS	PARAMETER	INCOME	NUMBER OF COMPANY	GENDER	PARENT COMPANY AGE
Q36	The formula of remuneration for directors and commissioners in a subsidiary should follow the same scheme as the parent company	X^2			15.11	38.96
		DF			4	24
		P-VALUE			0.00	0.03

Q37	The dual directors should not be involved in voting for subsidiary director's remuneration proposal at an AGM	X2		33.38		
		DF		16		
		P-VALUE		0.01		
Q38	The dual directors should not receive any income other than stated in the remuneration scheme, i.e. commission	X^2		28.36		
		DF		16		
		P-VALUE		0.03		
Q40	Dual directors increase in subsidiary performance	X^2	69.59		12.44	
		DF	24		4	
		P-VALUE	**0.00**		0.01	
Q43	When subsidiary companies have a loss, the loss is subsidized by the parent company	X^2				
		DF				
		P-VALUE				
Q44	The loss from subsidiary business is met by the parent company	X^2	41.79			
		DF	24			
		P-VALUE	0.01			
Q45	The amount of remuneration from parent company to dual directors should include an amount for oversight of a subsidiary company	X^2	43.56			
		DF	24			
		P-VALUE	0.01			

The output of Chi-Squared (X^2) test for FINANCIAL ACCOUNTABILITY dimension as follows:

1. There was no P-value less than 0.05 for the statements/questions formulated in the FINANCIAL ACCOUNTABILITY dimension which related to the demographic attributes of age and education and to the company characteristic attributes of the company status and industrial sector. This means that the results for the demographic attribute did not support the Null Hypothesis that there is no significant relationship between the demographic attributes of “age and education” in the dimension of FINANCIAL ACCOUNTABILITY. The same results regarding the company characteristic attributes also occurred for “the company status and industrial sector” in FINANCIAL ACCOUNTABILITY. This means that there is no significant difference between corporate boards who serve in parent company, subsidiary company, parent and subsidiary, and stand-alone company in the dimension of FINANCIAL ACCOUNTABILITY.
2. There were P-values less than 0.05 for the statements/questions in FINANCIAL ACCOUNTABILITY dimension related to the demographic attributes of gender, income, and number company to serve and to the company characteristic attribute of parent company age. Hence, the results did not support the Null Hypothesis. Therefore, the

results supported the Alternative Hypothesis that there is a significant different between the demographic attributes of “gender, income, and number of companies to serve” in the dimension of FINANCIAL ACCOUNTABILITY. The same result regarding the company characteristic attributes also occurred for “parent company age” in FINANCIAL ACCOUNTABILITY. The details of the results of the demographic attributes and company characteristic attributes are presented below.

a. Gender

   Q36 and Q40 in the FINANCIAL ACCOUNTABILITY dimension had P-values less than 0.05 at 0.00 and 0.01 respectively with a degree of freedom of 4 when cross-tabulated with the number of companies, as shown in TABLE 6-44 above. The degree of freedom of 4 showed that the statement of Q36 and Q40 had no normal distribution.

b. Income

   Q40, Q44 and Q45 in the FINANCIAL ACCOUNTABILITY dimension had P-values less than 0.05 at 0.00, 0.01 and 0.01 respectively with a degree of freedom of 24 when cross-tabulated with the income, as shown in TABLE 6-44 above. The degree of freedom of 24 showed that the statement of Q40, Q44 and Q45 had almost a normal distribution (df 30).

c. Number of Companies

   There were 2 statements/questions formulated to respond their FINANCIAL ACCOUNTABILITY dimension that were Q37 and 38 which had P-value = 0.01 and 0.03 respectively with a degree of freedom of 16 when cross-tabulated with the number of companies, as shown in TABLE 6-44. The degree of freedom of 16 showed that the statement of Q37 and Q38 had no-normal distribution.

d. Parent Company Age

   Q36 in the FINANCIAL ACCOUNTABILITY dimension had a P-value less than 0.05 (0.03) with a degree of freedom of 24 when cross-tabulated with the parent company age, as shown in TABLE 6-44 above. The degree of freedom of 24 showed that the statement Q36 had almost a normal distribution.

VI. LEADERSHIP

This dimension was intended to determine the leadership capacity of the board member duality in parent and subsidiary company in state-owned enterprises in Indonesia. The results and the trend of the survey are shown in TABLE 6-45 and TABLE 6-46.

TABLE 6-45 THE DISTRIBUTION OF PERCENTAGES AND FREQUENCIES OF THE LEADERSHIP DIMENSION

NO.	STATEMENTS/QUESTIONS	PARENT			SUBSIDIARY			PARENT & SUBSIDIARY (BOARD MEMBER DUALITY)			DATA
		AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	AGREE	NOT SURE	DIS-AGREE	
Q47	The chair of the AGM of shareholders should not have a conflict of interests	94%	0%	6%	87%	7%	6%	91%	9%	0%	C
		16	0	1	73	6	5	30	3	0	
Q48	Dual Directors should not chair the AGM of shareholders of a subsidiary company	65%	6%	29%	58%	14%	28%	64%	15%	21%	S
		11	1	5	48	12	24	21	5	7	
Q49	Dual Directors who are also shareholders in a subsidiary and who chair the AGM of shareholders have a potential of conflict of interest	59%	12%	29%	67%	18%	17%	36%	28%	36%	S/D
		10	2	5	56	15	13	12	9	12	
Q50	Dual Directors should be a commissioner chairman	76%	12%	12%	48%	30%	22%	76%	21%	3%	S
		13	2	2	40	25	19	25	7	1	

Note: C=Data is centered; D=Data is diametric; S=Data is scattered

The variability of respondent answers to Q47, Q48, Q49 and Q49 in the leadership dimension was quite high.

The majority of respondents in all categories, i.e., parent company, subsidiary company and board member duality chose ‘Agree’ for Q47, with 94%, 87%, and 91% respectively.

For Q48, Q49, and Q50 the answers of respondents in all categories were scattered, with choices being ‘Agree’, ‘Not Sure’, and ‘Disagree’ as shown, in TABLE 6-45. However, for Q49, the choice of ‘Agree’, ‘Not Sure’, and ‘Disagree’ from the board member duality respondents was relatively balanced, with 36%, 28%, and 36% respectively. In Q50, the answer of ‘Agree’, ‘Not Sure’, and ‘Disagree’ from the subsidiary company was also relatively balanced, with 48%, 30%, and 22% respectively.

If the percentages were converted into the trend defined as Centered (C), Scattered (S), Diametric (D), Scattered with Diametric (S/D) then the results would be as follows:

All categories, namely parent company, subsidiary company and board member duality, showed the same trends for Q47 (C) and Q50 (S).

Respondents’ answers to Q48 showed a scattered trend; in the parent company category it was diametric, in the subsidiary company it was scattered with diametric, and in board member duality it was scattered.

The answers of respondents in the parent company and in subsidiary company categories showed the same scattered trend for Q49, whereas in the board member duality category, it was scattered with diametric.

<u>The Chi-Squared (X^2) Test Outputs</u>

TABLE 6-46 below shows the output of Chi-Squared (X^2) for statements/questions in the LEADERSHIP dimension for the group of data comprising the demographic attributes and company characteristic attributes. The output presents only several statements/questions which result in a statistically significant value the attributes, i.e. P-value < 0.05.

TABLE 6-46THE OUTPUT OF CHI-SQUARED (X^2) TEST FOR THE LEADERSHIP WHICH HAVE P-VALUE LESS THAN 0.05 (REJECT H_0)

NO.	STATEMENTS/QUESTIONS	PARAMETER	NUMBER OF COMPANY	PARENT COMPANY AGE
Q47	The chair of the AGM of shareholders should not have a conflict of interests	X^2		42.69
		DF		24
		P-VALUE		0.01
Q49	Dual Directors who are also shareholders in a subsidiary and who chair the AGM of shareholders have a potential of conflict of interest	X^2	30.44	
		DF	16	
		P-VALUE	0.02	

The output of the Chi-Squared (X^2) test for the LEADERSHIP dimension is as follows:

1. There was no P-value <0.05 for the statements/questions in the dimension of LEADERSHIP which applied to the demographic attributes of gender, age, education and income and to the company characteristic attributes of the company status and industrial sector. This means that the results support the Null Hypothesis that there is no significant difference between the demographic attributes of "gender, age, education and income" in the dimension of LEADERSHIP. The same results were obtained for the company characteristic attributes of "the company status and industrial sector" in the LEADERSHIP DIMENSION. This means that *there is no significant difference between corporate boards who serve in parent company, subsidiary company, parent and subsidiary, and stand-alone company in the dimension of LEADERSHIP.*
2. There were P-values < 0.05 for the statements/questions in the dimension of LEADERSHIP which were tested for the demographic attribute of number companies to serve and the company characteristic attribute of parent company age. This means that the results did not support the Null Hypothesis. Therefore, the Alternative Hypothesis was accepted: that there is significant relationship between the demographic attribute of number of companies to serve and the company characteristic attributes of age of the parent company in the LEADERSHIP DIMENSION. The details of the result of company characteristic attributes are presented below.
   a. Number of company to serve

      Q49 in the LEADERSHIP dimension had a P-value of < 0.05 with degree of freedom of 16 when cross-tabulated with the number of companies, as shown in TABLE 6-46 above. The degree of freedom of 16 showed that Q49 had no normal distribution.

b. Parent company age

Q47 in the LEADERSHIP dimension had a P-value of < 0.05 with degree of freedom of 24 when cross-tabulated with the parent company age, as shown in TABLE 6-46 above. The degree of freedom of 24 showed that the statement Q47 had nearly a normal distribution (df 30).

6.3.3. Results of the In-depth Interviews

Both close-ended and open-ended questions and statements were used for the in-depth interviews. The results of the close-ended questions are presented as a summary of the options available to the respondents on the Likert scale, i.e. Agree, Not Sure, and Disagree, whereas the results of answer of the open-end questions are grouped according to the similarity of answers.

I. The summary of the answers of closed-end questions

The table below shows the summary of results for the in-depth interviews which used close-ended questions. The answers are categorized according to three groups namely ‘Agree’, ‘Not Sure’, and ‘Disagree’ as depicted in TABLE 6-47 below.

TABLE 6-47 THE SUMMARY OF THE RESPONDENT’S ANSWER FOR THE CLOSED-END QUESTIONS

No.	QUESTIONS	PREDICATE			TREND
		AGREE	NOT SURE	DIS AGREE	
Q1	The duality position such as multiple directorships or interlocking directorships sometimes could arise a dilemma, in one hand it could leverage company performance by utilizing the capacity of the duality position holders, but on the other hand, it may also create a conflict of interest for the duality holders.	64%	9%	27%	S/D
Q2	It is very common that the board of directors in parent company usually also have a duality position as a commissioner in subsidiary company (board member duality), even according to corporate charter, CEO of parent company is also a representative of subsidiary’s shareholders, this position lead to a conflict of interest	64%	9%	27%	S/D
Q3a	The board member duality where a director in parent company and at the same time has a position as commissioner in subsidiary company of SOEs have to be regulated and/or be limited	100%	0%	0%	C
Q3b	Where should the board member duality be regulated?	OPEN-END			
Q4a	Parent company decision can affect negatively to performance of subsidiary company	91%	0%	9%	C
Q4b	If that the case, subsidiary company can do objection to the parent company decision	82%	0%	18%	C

Q4c	Parent company interest is more priority than it in subsidiary company	91%	0%	9%	C
Q4d	How to solve the situation in order to get win-win situation?	OPEN-END			
Q5	If there is a conflict of interest between representing the parent company and at the same time also representing the subsidiary company in the decision making process, this situation should be regulated in code of ethic	73%	0%	27%	D
Q6	According to the SOE Act No.19 of 2003, the SOE is a business entity which 100% or majority of its capital is owned by the state through direct investment originated from the separated state fund, so the board of directors of the SOEs are not the owner of the company that slightly different with the private company that sometimes some of them are also the owner of the company. There will be a different in work ethos between a director who also the owner of the company and a director who is not the owner of a company	45%	45%	10%	S/D
Q7	The SOE Act No.19/2003 does not rule the subsidiary of the SOE, the subsidiary company should be included in the SOE status	36%	10%	54%	D
Q8	It is very common that the parent company subcontracts the jobs to subsidiary company even though the parent company can do the project (operating holding) therefore it will reduce the parent company's margin, in other cases the subsidiary companies get commission from procurement projects that are given by parent company. The cost chain given to the subsidiary will reduce the dividend payment to the state moreover if the subsidiary gets loss. Is this justified?	82%	9%	9%	C
Q9	In order to prove the accountability process, the duality holder that involves in a decision impact to parent and subsidiary should report his/her position or opinion of the decision to Shareholders	27%	9%	64%	S/D
Q10	The appointment of board of directors and boards of commissioner in SOE is a crucial point that sometimes not immune from political intervention, however, the appointment in Parent company has been regulated by the ministerial decree of MSOE but not reaching the subsidiary. The subsidiary company should adapt the guidance from the ministerial decree of MSOE	100%	0%	0%	C
Q11	The meeting leader is a crucial factor to result in a good decision; therefore, who will lead the meeting is very important. There is any regulation to appoint a leader who lead a General Meeting of Shareholder in a subsidiary company and based on your opinion, who should lead the General Meeting of Shareholders in a subsidiary company?	OPEN-END			
Q12a	According to the corporate charter, CEO is a representative of subsidiary's shareholder; therefore, if he/she also has a position as a commissioner in a subsidiary, he/she holds three positions at the same time: (1) a director of parent company; (2) a shareholders of a subsidiary company; (3) a commissioner of a subsidiary company. In this case, he/she can lead the General Meeting of Shareholders in a subsidiary company.	9%	0%	91%	C
Q12b	On the other hand, If one of commissioner or director or of subsidiary company lead the General Meeting of Shareholders whereas he/she is not a CEO of parent company but he/she is still the member of director or senior officer in parent company, this position will tend to inferior to the CEO of parent company who has a position as a commissioners in a subsidiary company	27%	0%	73%	D
Q13	The appointment of commissioner in subsidiary company should be regulated and be asked to the parent's	100%	0%	0%	C

	shareholders (the SOE) c.q. the Ministry of SOE or alternatively the board member duality in parent—subsidiary relationship should be regulated.				
Q14	Basically, salaries, allowances, bonus, and facilities of directors and commissioners are determined by General Meeting of Shareholders. However, if in the case of board member duality which at the same times the board member also represents the shareholders of subsidiary company, there will be an ethical issue in determining compensation for the directors and commissioners in the subsidiary company	100%	0%	0%	C
Q15a	Dividend policy and reinvestment are the crucial point when directors together with commissioners propose them to shareholders. In the case board member duality, which one the duality holders should stand their position, whether in the position of parent company or subsidiary company?	OPEN-END			
Q15b	Establishing the parent—subsidiary governance relationship guidance is urgent to arrange all the relationship matters today	91%	0%	9%	C

Note: Note: C=Data is centered; D=Data is diametric; S=Data is scattered, S/D=Data is somewhat scattered and Diametric ***(note: the real questionaires are in Indonesia language)***

There were centered (C) answer trends on 'Agree' for all respondents for Q3a, Q3b, Q4a, Q4b, Q4c, Q8, Q10, Q13, Q14, Q15b, whereas Q12a centered on 'Disagree'.

There were answer trends which were diametric (D) Agree versus Disagree for all respondents for Q5, Q7, and Q12b.

Answer trends were scattered diametrically for all respondents against questions Q1, Q2, Q6, and Q9.

II. The summary of the answers of open-end questions

TABLE 6-48 below shows the summary of results for the in-depth interviews which had open-end questions. The respondents' answers are grouped into identical answers, and then are proportioned as depicted below.

TABLE 6-48 THE SUMMARY OF THE RESPONDENT'S ANSWER FOR THE OPEN-END QUESTIONS

Q3b	Where should the board member duality be regulated?			
Answer	▪ Ministerial Decree	▪ Corporate Charter	▪ Holding	▪ Code of Conduct
	55%	9%	27%	9%
Q4d	How to resolve the situation in order to achieve a win-win situation?			
Answer	▪ Board Meeting	▪ Annual Plan	▪ Group Communicating	▪ Rule of the Game
Proportion	73%	9%	9%	9%
Q11	The meeting leader is a crucial factor to result in a good decision; therefore, who will lead the meeting is very important. There is any regulation to appoint a leader who lead a General Meeting of Shareholder in a subsidiary company and based on your opinion, who should lead			

	the General Meeting of Shareholders in a subsidiary company?			
Answer	▪ Director of Parent who is not in the board member duality position	▪ A Commissioner Chairman	▪ The Ministry of SOE	▪ CEO Holding as a shareholder
	64%	18%	9%%	9%
Q15a	Dividend policy and reinvestment are crucial points when directors together with commissioners propose them to shareholders. In the case of board member duality, should the duality holders consider themselves on the side of the parent company or the subsidiary company?			
Answer	▪ Parent Company	▪ Subsidiary Company	▪ Not Sure	▪ Never Discussed
Proportion	64%	9%	18%	9%

The largest responses of respondent to the every open-ended question were as follows:

Q3b: The board member duality should be regulated in the Ministerial Degree.

Q4d: Situations should be resolved at board meetings in order to achieve a win-win situation.

Q11: The director of parent company who is not in a board member duality position should lead the general meeting of shareholders in a subsidiary company.

Q15a: The preference for the board member duality regarding the dividend and reinvestment decision is in parent company.

6.3.4. Integrated Analysis

As discussed in Chapter 5, the triangulation method used in this research combined the results produced by the all research instruments, namely survey, in-depth interview, and data panel, in order to answer the research questions. However, not all the results were used for the integrated analysis. Only relevant results of the survey and in-depth interviews were combined with the results of panel data in order to focus on answering the central question of this research, that is, whether the board member duality impacts on agency costs.

The results of the survey which were used for the integrated analysis were the answers to several questions related to the costs and benefits dimension, role of dual director dimension, and financial accountability dimension. Then, the results of the in-depth interviews that were relevant to the research main question were confirmed by the results of panel data, as well. The relevant results produced by each research instruments used for the integrated analysis were summarized and presented separate tables and combined into the analysis matrix.

1) The Results of of the Survey Confirming the Results of Panel Data

The results of the survey which were used for the integrated analysis comprised three dimensions of accountability, namely costs and benefits, role of dual director, and financial accountability. Several questions relevant to the research questions of the three dimensions above are shown in TABLE 6-49, TABLE 6-50, and TABLE 6-51 below.

TABLE 6-49 THE COST AND BENEFIT DIMENSION FOR PANEL DATA RESULTS

NO.	STATEMENTS/QUESTIONS	PARENT & SUBSIDIARY (BOARD MEMBER DUALITY)			
		AGREE	NOT SURE	DIS-AGREE	TREND
Q8	Dual directors who also hold as shareholder of subsidiary company are susceptible to conflict of interest	36%	6%	58%	D
Q9	Establishing a subsidiary is purely for business goals, free from intention to create Dual Director and/or political intervention	94%	0%	6%	C
Q15	Dual Directors are more effective in controlling subsidiaries than commissioners who are in non-dual director position	66%	12%	12%	S
Q16	Dual Directors are more efficient in controlling subsidiaries than commissioners do when they are not in dual director positions	73%	12%	15%	S

TABLE 6-50 THE ROLE OF DUAL DIRECTOR DIMENSION FOR PANEL DATA RESULTS

NO.	STATEMENTS/QUESTIONS	PARENT & SUBSIDIARY (BOARD MEMBER DUALITY			
		AGREE	NOT SURE	DISAGREE	TREND
Q29	Dual Directors can separate their execution role (as a director) and oversight role (as a commissioner) correctly	97%	3%	0%	C
Q30	Dual Directors favor the parent company in decisions that affect both companies	36%	9%	55%	D
Q34	Political intervention on boards is common.	55%	24%	21%	SD

TABLE 6-51 THE FINANCIAL ACCOUNTABILITY DIMENSION FOR PANEL DATA RESULTS

NO.	STATEMENTS/QUESTIONS	PARENT & SUBSIDIARY (BOARD MEMBER DUALITY)			
		AGREE	NOT SURE	DISAGREE	TREND
Q37	The Dual Directors should not be involved in voting for subsidiary director's remuneration proposal at an AGM of shareholders	61%	6%	23%	S
Q41	Subsidiary companies lose profit when they undertake parent company contract	15%	12%	73%	S
Q42	Dividend payments to the parent are lower when directors hold dual directors	3%	12%	85%	C
Q45	The amount of remuneration from parent company to dual directors should include the amount for oversight of a subsidiary company	74%	9%	27%	S

2) In-depth Interview for Confirmimg the Results of the Panel Data

The responses to Q1, Q3a, Q13 and Q14 were used for the integrated analysis . The results and the questions of the in-depth interview are depicted in TABLE 6-52 below.

TABLE 6-52 SEVERAL QUESTIONS OF IN-DEPTH INTERVIEW FOR PANEL DATA

No.	QUESTIONS	PREDICATE			
		AGREE	NOT SURE	DISAGREE	TREND
Q1	The duality position such as multiple directorships or interlocking directorships sometimes could arise a dilemma, in one hand it could leverage company performance by utilizing the capacity of the duality position holders, but on the other hand, it may also create a conflict of interest for the duality holders.	64 %	9%	27%	S/D
Q3a	The board member duality where a director in parent company and at the same time has a position as commissioner in subsidiary company of SOEs have to be regulated and/or be limited.	100 %	0%	0%	C
Q13	The appointment of commissioner in subsidiary company should be regulated and be asked to the parent's shareholders (the SOE) c.q. the Ministry of SOE or alternatively the board member duality in parent—subsidiary relationship should be regulated.	100 %	0%	0%	C
Q14	Basically, salaries, allowances, bonus, and facilities of directors and commissioners are determined by General Meeting of Shareholders. However, if in the case of board member duality which at the same times the board member also represents the shareholders of subsidiary company, there will be an ethical issue in determining compensation for the directors and commissioners in the subsidiary company	100 %	0%	0%	C

3) Result of Panel Data for The Integrated Analysis

As described in section 6.3.3. point 4), the board member duality has no significant impact on the efficiency and performance measurement. The results of panel data for the integrated analysis are presented in **TABLE 6-53**.

TABLE 6-53 RESULTS OF PANEL DATA

No.	Variable relationship	Corr. (X,Y)	R^2	F Stat	P-Value	Results
	Efficiency					
1.	ATO—Duality	-0.06333	0.986573	0.000000	0.2388	Not significant
2.	OPEX—Duality	0.304646	0.414582	0.000000	0.0277	Significant
	Performance					
3.	EBIT—Duality	0.301948	0.978377	0.000000	0.5640	Not Significant
4.	DPR—Duality	-0.07463	0.720193	0.000000	0.4042	Not Significant
5.	Tax--Duality	0.375764	0.981586	0.000000	0.4488	Not Significant

4) Matrix of Integrated Analysis

The matrix of integrated analysis was a matrix that combined the relevant information produced by the research instruments of survey, in-depth interviews, and panel data. This method was part of the triangulation method discussed in Chapter 5. The results of the panel data were used for designing the integrated matrix analysis. The results from the survey and in-depth interviews were then used to confirm the results of the panel data inputed in the integrated matrix analysis.

The results of the panel data which present the correlation between the board member duality and dependent variables, p-value of the board member duality from the panel data regression model, and the level of significance of the board member duality in the panel regression model aresummarized in Table 6-49.

The survey results for the dimension of the costs and benefits associated with board member duality were taken from responses to questions. The questions were Q8, Q9, Q15, and Q16. These procedures also were applied for the dimension of the role of dual director, i.e. questions Q29, Q30, and Q34, and the dimension of financial accountability, i.e. questions Q37, Q41, Q42, and Q45.

All the results of the survey were denoted by C, I, or S. The C stands for Consistent, meaning that the results of the survey were consistent with the results of the panel data regression model. The 'I' stands for Inconsistent, meaning that the results of the survey were consistent with the results of the panel data regression model. The S stands for Scattered, meaning that the results of the survey were neither consistent nor inconsistent with the results of the panel data regression model. These procedures were also applied to the results of the in-depth interviews. The results of the survey and in-depth interviews chosen for the matrix of integrated analysis are summarized in Table 6-49.

TABLE 6-54 THE MATRIX OF INTEGRATED ANALYSIS

No	Data Panel						Survey											In-depth Interviews				TOTAL		
	Variable relationship	Corr. (X,Y)	R^2	F Stat	P-Value	Results	Cost and Benefit				Role of Dual Director			Financial Accountability				Question Number				C	S	I
							Q 8	Q 9	Q 15	Q 16	Q 29	Q 30	Q3 4	Q 37	Q 41	Q 42	Q 45	Q1	Q 3a	Q 13	Q 14			
	Efficiency																							
1.	ATO—Duality	-0.06333	0.986573	0.0000	0.2388	NS	I	C	-	S	C	I	S	-	-	-	-	S	I	I	I	2	3	5
2.	OPEX—Duality	0.30465	0.414582	0.0000	0.0277	S	C	I	-	S	I	C	S	-	-	-	S	S	C	C	C	5	4	2
	Performance																							
3.	EBIT—Duality	0.30195	0.978377	0.00000	0.5640	NS	-	-	S	-	C	I	S	S	S	-	S	S	-	-	-	1	6	1
4.	DPR—Duality	-0.07463	0.720193	0.00000	0.4042	NS	-	-	S	-	C	I	S	-	S	C	-	S	-	-	-	2	4	1
5.	Tax—Duality	0.37576	0.981586	0.00000	0.4488	NS	-	-	S	-	C	I	S	-	S	-	-	S	-	-	-	1	4	1

Explanation:

Q8: Dual directors who are also shareholders in subsidiary company are susceptible to conflict of interests.

The results of the survey showed that the respondents had diametric opinions meaning that the numbers of those who agreed and disagreed with the statement Q8 were relatively balanced. However, the Q8 responses were Inconsistent with the result of panel data which was that duality did not have a significant impact on the assets turn-over. If the respondents had not agreed with the statement made in Q8, then the results would have been consistent with those of the panel data. The conflict of interests, in this sense, referred to the issue of efficiency.

Q9: Establishing a subsidiary is purely for business goals, not intended to create dual director positions and/or to enable political intervention.

The results of the survey showed that the participants' responses to Q9 centered on "Agree" which means that it was consistent with the result of panel data: that the duality was not significant to asset turn-over, but it was inconsistent with that of operating expenses. Here, political intervention is related to the efficiency issue.

Q15: Dual Directors are more effective in controlling subsidiaries than commissioners who are in non-dual director positions.

The results of the survey showed that the respondents' responses to Q15 were scattered, which means that it could not be decided whether they were consistent or not consistent with the results of the panel data. Here, 'effective' is related to performance.

Q16: Dual Directors are more efficient in controlling subsidiaries than commissioners are when they are not in dual director positions.

The results of the survey showed that the respondents' answers to Q16 were scattered which means that there was neither consistency nor inconsistency with the panel data results. 'Efficient', in this sense, referred to the issue of efficiency.

Q29: Dual Directors can effectively separate their execution role (as a director) from their oversight role (as a commissioner).

The results of the survey showed that the respondents' opinions regarding Q29 centered on "Agree", which was consistent with the results of panel data which were not significant to the efficiency and performance variable, and inconsistent with those of operating expenses. The execution role and oversight role were related to all efficiency and performance variables.

Q30: Dual Directors favor the parent company in decisions that affect both companies.

The results of the survey showed that the respondents had diametric opinions regarding Q30, meaning that the numbers of those who agreed and disagreed with the statement were relatively balanced. In this sense, the Q30 responses were Inconsistent with the results of the panel data which indicated that duality had no significant impact on efficiency and performance, but it was consistent in that the duality had a significant impact on the operating expenses. In this statement, 'affect' referred to the issue of efficiency and performance.

Q34: Political intervention on boards is common.

The results of the survey showed that the respondents' opinions regarding Q34 were scattered which means that it was indecisive whether the results were consistent or not with the results of the panel data. Political intervention, in this sense was related to the issue of efficiency and performance.

Q37: The Dual Directors should not be involved in voting for subsidiary directors' remuneration proposal at an AGM of shareholders.

The results of the survey showed that the respondents' opinions regarding Q37 were scattered, which means that they were neither consistent nor inconsistent with the results of the panel data. Here, involvement in voting is related to the performance issue.

Q41: Subsidiary companies lose profit when they undertake parent company contracts.

The results of the survey showed that the respondents' opinions regarding Q41 were scattered, which means that there was no decisive consistency or otherwise with the results of the panel data. Remuneration, in this sense is in reference to performance.

Q42: Dividend payments to the parent are lower when directors hold dual directorships.

The result of the survey shown that the respondents' opinion on Q42 centered on "Disagree" which means that it was consistent with the results of the panel data which were not significant in terms of the dividend pay-out ratio. Dividend pay-out ratio, in this sense is related to the performance variable.

Q45: The amount of remuneration given by the parent company to dual directors should include the amount for the oversight of a subsidiary company.

The result of the survey showed that the respondents' responses to Q45 were scattered, which means that it could not be decided whether or not the results were consistent with the panel data results. Remuneration, in this sense, referred to the efficiency and performance issue.

Q1: The duality position, such as multiple directorships or interlocking directorships, could sometimes produce a dilemma. On the one hand, it could limprove company performance by utilizing the capacity of the duality position holders, but on the other hand, it may also create a conflict of interests for the duality holders.

The results of the in-depth interviews showed that the respondents' opinions regarding Q1 were scattered which means that it could not be decided whether the results were consistent with the results of the panel data. The dilemma, in this sense referred to efficiency and performance theme.

Q3a: The board member duality where a director in parent company at the same time has a position as a commissioner in a subsidiary company of an SOE has to be regulated and/or limited.

The results of the in-depth interviews showed that the participants' responses to Q3a centered on "Agree" which means that it was inconsistent with the results of the panel data which was not significant to the asset turn-over ratio but it was consistent with the operating expenses.

Q13: The appointment of a commissioner in a subsidiary company should be regulated and be put to the parent company's shareholders (the SOE) c.q. the Ministry of SOEs, or alternatively, the board member duality in a parent-subsidiary company relationship should be regulated.

The results of the in-depth interviews showed that the respondents' opinion regarding Q3a centered on "Agree" which means that it was inconsistent with the results of the panel data which were not significant to asset turn-over but were consistent with the operating expenses. Board member duality, in this sense referred to efficiency.

Q14: Basically, salaries, allowances, bonus, and facilities of directors and commissioners are determined by a General Meeting of Shareholders. However, in the case of board member duality whereby a board member also represents at the same time the shareholders of a subsidiary company, there will be an ethical issue associated with determining remuneration and benefits for the directors and commissioners in the subsidiary company.

The result of the in-depth interview showed that the respondents' opinions on Q14 centered on "Agree" which means that it was inconsistent with the result of the panel data which was not significant to asset turn-over but it was consistent with the operating expenses. "Ethical issue" here referred to efficiency.

6.4. CONCLUSION

The triangulation method used to analyse results this chapter was focused on answering the research questions stated in Chapter 4. In addition, there were also some interesting findings resulting from the survey that examined the progress of development of the six dimensions of accountability for the board. The research questions which were stated in Chapter 4 were addressed by combining the results produced by all the research instruments. Even though each research instrument addressed the research questions, the integrated analysis results provide a better understanding of board member duality and its impact on agency costs.

1. **Does the duality position of the board of directors in parent and subsidiary companies have an impact on the agency costs in the SOEs?**

TABLE 6-55 THE P-VALUE AND CORRELATION OF THE AGENCY COSTS WITH THE BOARD MEMBER DUALITY

No.	Efficiency (Agency Cost)	Correlation	P-Value	Results
1.	ATO—Duality	-0.06333	0.2388	Not significant
2.	OPEX—Duality	+ 0.304646	0.0277	Significant

OPEX = -123898.4 + 30458.85 (DUALITY) + 76741.12 (BCOMP) + 3739.078 (BSIZE) + 33670.27 (GOWN) + 263.1308 (FAGE) + 11223.59 (FDR) + 8562.611 (FGROW) - 19.21398 (FLIQ) + 592.0503 (FRISK) + 478.8510 (FSIZE) + [CX=R]

The integrated analysis which combined the results obtained by means of the three research instruments show that the board member duality does have an impact on the operating expense as one of proxies of the agency costs. This can be shown in the panel data regression of the random effects model tested using the Hausman test, where the model had a P-value of 0.0277 for the board member duality and a coefficient correlation of +0.3046 as depicted in TABLE 6-55.

The board member duality had a positive coefficient correlation of +0.3046 (see TABLE 6-55) with operating expense, meaning the higher the number of board member dualities, the greater would be the operating expenses. This result of the panel data was consistent with the result of the survey and the in-depth interviews as shown in the integrated analysis matrix.

The P-value of the board member duality was not significant for the panel data regression model of asset turn-over as a proxy of agency costs. The integrated analysis also shows that the panel data regression model for asset turn-over was inconsistent with the results of the survey and in-depth interviews. Whereas, the panel data regression model for earnings before interest and tax, dividend pay-out, and corporate tax were not supported by the results of the survey and in-depth interviews.

2. *Does the board member duality have an impact on company performance?*

TABLE 6-56 THE P-VALUE OF PERFORMANCE AND CORRELATION WITH THE BOARD MEMBER DUALITY

No.	Performance	Correlation	P-Value	Results
1.	EBIT—Duality	0.301948	0.5640	Not Significant
2.	DPR—Duality	-0.07463	0.4042	Not Significant
3.	Tax--Duality	0.375764	0.4488	Not Significant

The three performance measurements in this research, namely earnings before interest and tax, dividend pay-out ratio, and corporate tax were used to test the impact of the board member duality on company performance. The overall results based on the panel data regression model of three performance measurements as depicted in TABLE 6-56 above show that the P-value of the board member duality was greater than 0.05. This result supports the null hypothesis that there is no significant relationship between board member duality and corporate performance.

3. *Do the endogenous factors, namely board size, board composition, and ownership regarding board member duality, contribute to firm efficiency and performance?*

TABLE 6-57 THE P-VALUES OF THE ENDOGENOUS VARIABLES

No.	Variables	Board Size		Board Composition		Ownership	
		P-Value	Results	P-Value	Results	P-Value	Results
	Agency Cost						
1	ATO	0.0585	Not Sig.	0.6608	Not Sig.	0.0004	Significant
2	OPEX	0.0560	Not Sig.	0.1041	Not Sig.	0.1866	Not Sig.
	Performance						
3	EBIT	0.0042	Significant	0.2636	Not Sig	0.5243	Not Sig.
4	DPR	0.4513	Not Sig.	0.1455	Not Sig	0.8122	Not Sig.
5	TAX	0.0195	Significant	0.6178	Not Sig	0.7990	Not Sig.

Board size did not impact on firm efficiency (accepting the null hypothesis) but did impact on firm performance based on the panel data regression model, since the P-value was 0.0042 for the panel data regression model for the earnings before interest and tax (EBIT) and 0.0195 for corporate tax (rejecting the null hypothesis), as shown in TABLE 6-57.

Board composition did not impact on firm efficiency and firm performance based on the panel data regression model, since the P-values of the board composition for all efficiency and performance measurements was greater than 0.05. (accepting the null hypothesis) as depicted in TABLE 6-57.

Ownership did have an impact on firm efficiency based on the panel data regression model since the P-value was 0.0004 for the panel data regression model for asset turn-over (rejecting the null hypothesis), but did not influence the firm performance since the P-value for all performance measurements was greater than 0.05, (accepting the null hypothesis) as depicted in TABLE 6-57.

4. ***Do explanatory variables for the board member duality such as firm size, firm age, firm growth, firm risk, debt, and liquidity have an impact on efficiency and performance?***

TABLE 6-58 THE P-VALUE OF THE EXPLANATORY VARIABLE FOR THE EFFICIENCY AND PERFORMANCE MEASUREMENTS

No.	Variables	Firm Size		Firm Age		Firm Growth	
		P-Value	Results	P-Value	Results	P-Value	Results
	Agency Cost						
1	ATO	0.0975	Not Sig.	0.2288	Not Sig.	0.0004	Significant
2	OPEX	0.0000	Significant	0.6329	Not Sig.	0.0618	Not Sig.
	Performance						
3	EBIT	0.0000	Significant	0.4482	Not Sig	0.1063	Not Sig.
4	DPR	0.5320	Not Sig.	0.2678	Not Sig	0.5186	Not Sig.
5	TAX	0.0000	Significant	0.5381	Not Sig	0.3395	Not Sig.
No.	Variables	Firm Risk		Firm Debt		Firm Liquidity	
		P-Value	Results	P-Value	Results	P-Value	Results
	Agency Cost						
1	ATO	0.6915	Not Sig.	0.0000	Significant	0.5193	Significant
2	OPEX	0.5396	Not Sig.	0.6316	Not Sig.	0.0618	Not Sig.
	Performance						
3	EBIT	0.4051	Significant	0.0386	Significant	0.4889	Not Sig.
4	DPR	0.1294	Not Sig.	0.0716	Not Sig	0.1631	Not Sig.
5	TAX	0.2940	Significant	0.5827	Not Sig	0.1388	Not Sig.

Firm Size did impact on firm efficiency and firm performance based on the panel data regression model since the P-value was 0.0000 for the panel data regression model for the operating expense, earnings before interest and tax, and corporate tax, (rejecting the null hypothesis) as depicted in TABLE 6-58.

Firm Age did not affect the efficiency and firm performance based on the panel data regression model, since the P-value was greater than 0.05 for panel data regression models for all efficiency and performance measurements (accepting the null hypothesis), as depicted in TABLE 6-58.

Firm Growth did impact on efficiency based on the panel data regression model, since the P-value was 0.0004 for the panel data regression model for asset turn-over (rejecting the null hypothesis), but did not impact on firm performance since the P-value was greater than 0.05 for the panel data regression model for all performance measurements (accepting the null hypothesis), as depicted in TABLE 6-58.

Firm Risk did not influence efficiency and performance based on the panel data regression model, since the P-values were greater than 0.05, (accepting the null hypothesis) as depicted in TABLE 6-58.

Firm Debt did impact on firm efficiency and performance based on the panel data regression model, since the P-values were 0.0000 and 0.0386 for panel data regression model of asset turn-over ratio and earnings before interest and tax, respectively (rejecting the null hypothesis), as depicted in TABLE 6-58.

Liquidity did not influence firm efficiency and performance, since P-values >0.05 for all panel data regression models for efficiency and performance measurements (accepting the null hypothesis), as depicted in TABLE 6-58.

5. ***Is there a significant difference between demographic attributes and company characteristic attributes of directors or commissioners in the six (6) dimensions of accountability of the board member duality?***

In terms of the current development of accountability of the board member duality in the State-Owned Enterprises in Indonesia measured by the six dimensions of accountability, the survey and in-depth interviews found that:

I. ETHICS AND INTEGRITY

- The Null Hypothesis is accepted for several demographic and company characteristic attributes namely gender, education, the number of director position held, and the company status, against the several statements in ETHICS AND INTEGRITY. This means that there is no significant difference between gender, education, the number of director positions held, the company status attributes and several statements in ETHICS AND INTEGRITY.
- On the other hand, the Null Hypothesis is rejected for several demographic and company characteristic attributes namely respondent age, income, parent company age, and industrial sector against the several statements in ETHICS AND INTEGRITY. This means that there is a significant difference between respondent age, income, parent company age, industrial sector attributes and several statements in ETHICS AND INTEGRITY.
- The Company characteristic attributes of the parent company age and the industrial sector are stronger in rejecting the Null Hypothesis than are the demographic attributes against statements/questions formulated in ETHICS AND INTEGRITY.

II. COSTS AND BENEFITS

- The Null Hypothesis is accepted for several demographic and company characteristic attributes, namely gender, respondent age, education, and the company status, against the several statements in COSTS AND BENEFITS. This means that there is no significant difference between gender, respondent age, education, company status attributes and several statements in COSTS AND BENEFITS.

- ❖ On the other hand, the Null Hypothesis is rejected for several demographic and company characteristic attributes, namely income, the number of director position held, parent company age, and industrial sector against the several statements in COSTS AND BENEFITS. This means that there is a significant difference between income, the number of director positions held, parent company age, industrial sector attributes and several statements in COSTS AND BENEFITS.
- ❖ The Demographic attribute of income is stronger in rejecting the Null Hypothesis than the other attributes against statements/questions formulated in COSTS AND BENEFITS.

III. REGULATION

- ❖ The Null Hypothesis is accepted for several demographic and company characteristic attributes namely respondent age, education, company status, and industrial sector against the several statements in REGULATION. This means that there is no significant difference between those attributes and the several statements in REGULATION.
- ❖ On the other hand, the Null Hypothesis is rejected for several demographic and company characteristic attributes, namely gender, income, the number of company to serve, parent company age, and industrial sector against the several statements in REGULATION. This means that there is a significant difference between those attributes and the several statements in REGULATION.
- ❖ The Company characteristic attributes of parent company age is more dominating the results of Rejecting the Null Hypothesis than the other attributes against statements/questions formulated in REGULATION.

IV. *ROLE OF DUAL DIRECTOR*

- The Null Hypothesis is accepted for several demographic and company characteristic attributes namely respondent age, education, and industrial sector against the several statements in ROLE OF DUAL DIRECTOR. This means that there is no significant difference between respondent age, education, industrial sector attributes and several statements in ROLE OF DUAL DIRECTOR.
- On the other hand, the Null Hypothesis is rejected for several demographic and company characteristic attributes, namely gender, income, the number of director position held, and parent company age against the several statements in ROLE OF DUAL DIRECTOR. This means that there is significant difference between gender, income, the number of director position held, parent company age attributes and several statements in ROLE OF DUAL DIRECTOR.
- The demographic attributes results are predominant for the rejection of the Null Hypothesis than are the company characteristic attributes formulated in ROLE OF DUAL DIRECTOR.

V. *FINANCIAL ACCOUNTABILITY*

- The Null Hypothesis is accepted for several demographic and company characteristic attributes namely respondent age, education, the company status, and industrial sector against the several statements in FINANCIAL ACCOUNTABILITY. This means that there is no relationship between those attributes and the several statements in FINANCIAL ACCOUNTABILITY.
- On the other hand, the Null Hypothesis is rejected for several demographic and company characteristic attributes, namely gender, income, the number of company to serve, and parent company age pertaining to statements in FINANCIAL ACCOUNTABILITY. This means that there is significant difference between attributes of gender, income, the number of directorship held in

companies to serve, and parent company age and the several statements in FINANCIAL ACCOUNTABILITY.

- ❖ The demographic attribute of income has a significant relationship with t in FINANCIAL ACCOUNTABILITY.

VI. LEADERSHIP

- ❖ The Null Hypothesis is accepted for several demographic and company characteristic attributes, namely gender, respondent age, education, income, company status, and industrial sector in the dimension of LEADERSHIP. This means that there is no significant relationship between those attributes and several statements in the dimension of FINANCIAL ACCOUNTABILITY.
- ❖ On the other hand, the Null Hypothesis was rejected for several company characteristic attributes, namely number of companies to serve, and parent company age for the dimension of LEADERSHIP. This means that there is a significant relationship between those attributes and several statements in LEADERSHIP.
- ❖ The results for both the demographic attribute of the number of companies to serve and the company characteristic attribute of parent company age did not support the Null Hypothesis regarding LEADERSHIP.

CHAPTER 7: DISCUSSION OF RESULTS

The aim of an argument or discussion should not be victory, but progress -

Joseph Joubert 1824-

INTRODUCTION

It was difficult to find comparable references of the new term. This researcher was unable to find the term 'board member duality' in any of the references that had a similar research focus'This might be due to the different board systems adopted by companies, the limited secondary data published by the subsidiary companies of SOEs, and the different research focuses. As a result, this research used several dual director references to compare specifically the issue of duality mentioned previously, namely CEO duality, interlocking directorship, and multiple directorship which usually have the similar themes of ethics, performance, efficiency, and effectiveness.

7.1. THE PRIMARY RESEARCH QUESTION AND HYPOTHESIS 1, 2

The research question 1 and hypotheses 1 and 2 are dealt with simultaneously for the purposes of the discussion. They are: **Does the duality position of the board of directors in parent and subsidiary have an impact on the agency costs of the SOEs?** The null hypothesis 1 is: Board member duality has no significant influence on operating expenses', and the null hypothesis 2 is: **There is no relationship between board member duality and asset turnover**.

The findings of this research, presented in Chapter 6, reveal that based on the integrated matrix analysis which combines the results of panel data, survey, and interview, the board member duality significantly influences the agency costs of BUMNs. This finding coincidently may give some support to the Supreme Auditor of the Republic of Indonesia's finding that agency problems have moved from the BUMN to the subsidiary company (Qosasi, 2016). The member of the Supreme Auditor commented that the establishment of the subsidiary company tends to be used for the specific interests of the directors (which suggests the type of conflict of interests in group companies—see Chapter 2), in addition, the legislature's control of the subsidiary is relatively weak (YOZ/ANT, 2016). This situation may imply that an agent's goals may be different from those of the ultimate principal/shareholder (see (Berle and Means, 1932), (Jensen and Meckling, 1976) (Fama and Jensen, 1983) and (Porta et al., 2002) in Chapter 2).

The first measurement using operating expenses as a proxy for the agency costs which is modelled in the data panel regression analysis, was significant (p-value < 0.05). This means that the board member duality as the independent variable will influence the operating expenses as the dependent variable (see **TABLE 7-59**). However, the coefficient of determination (R^2) 0.4145 is relatively low which means that the model can explain only the relationship between the board member duality, board size, board composition, government ownership, firm size, firm age, firm growth, firm risk, firm debt, firm liquidity and operating expenses is 0.4145, whereas 0.5855 (1-0.4145) indicates the influence of the other factors.

TABLE 7-59 THE INTEGRATED MATRIX ANALYSIS OF BOARD MEMBER DUALITY AGAINST AGENCY COSTS

No	PANEL DATA						SURVEY											IN-DEPTH INTERVIEW				TOTAL		
	Variable relationship	Corr. (X,Y)	R^2	F Stat	P-Value	Results	Cost and Benefit				Role of Dual Director			Financial Accountability				Question Number				*C	*S	*I
							Q 8	Q 9	Q 15	Q 16	Q 29	Q 30	Q 34	Q 37	Q 41	Q 42	Q 45	Q 1	Q 3a	Q 13	Q 14			
	Efficiency																							
1	OPEX—Duality	0.305	0.4145	0.0000	0.0277	S	C	I	-	S	I	C	S	-	-	-	S	S	C	C	C	5	4	2
2.	ATO—Duality	-0.063	0.9865	0.0000	0.2388	NS	I	C	-	S	C	I	S	-	-	-	-	S	I	I	I	2	3	5

*C = Consistent; *S = Scatter; *I = Inconsistent

In addition, the coefficient of correlation between the board member duality and the operating expenses is positive (+ 0.305). This means that the greater the number of parent company directors who serve as commissioners in subsidiary companies, the greater will be the operating expenses of parent and subsidiary companies. The coefficient correlation of the board member duality and operating expenses support the alternative hypothesis (rejecting the null hypothesis) that the board member duality is positively associated with operating expenses. The total value of OPEX—Duality in the integrated matrix analysis results in **5 Consistencies** which means that the result supports the model of panel data regression analysis; in other words, the board member duality has an impact on the operating expenses.

The second measurement using the asset turn-over ratio as the proxy of the agency costs which is modelled into the data panel regression analysis, was not significant (p-value>0.05).

As discussed in Chapter 3, the board member duality in the context of the parent and subsidiary companies of BUMNs in Indonesia is governed by the three layers of corporate governance structure namely, the public with the government (c.q. the Ministry of BUMN), the government with BUMN and the BUMN with the subsidiary company (see chapter 3). The owner and manager of each layer is different, and therefore there will be a separation of ownership and control as argued by Berle and Means (1932). This discussion applies a new term - "shareholding agent" - to the second layer and the third layer mentioned above, meaning the agent delegated as a shareholder by the principal. The government, as mandated by the public as the shareholder of a BUMN (Anwar and Sam, 2006), through the general meeting of shareholders decides the remuneration for corporate board which includes salary, honorarium, allowance, facilities, and bonus or performance incentive.[77] This remuneration is categorized as operating expenditure which is different from capital expenditure. Operating expenditure includes ongoing costs and consumables for running the business; whereas, the capital expenditure is the cost of developing or providing non-consumable items for the business which will be depreciated or amortised (see Maguire et al. (2008), and Donaldson (2007)). The remuneration of the board members is considered as an operating expenditure, and is one of the agency costs according to Jensen and Meckling

[77] Surat Keputusan Menteri BUMN No. Per-04/MBU/2014 Tentang Pedoman Penetapan Penghasilan Direksi, Dewan Komisaris, dan Dewan Pengawas Badan Usaha Milik Negara [Ministerial Decree of BUMN No.PER-04/MBU/2014 on The Guidance of Remuneration for Directors, Commissioner, Oversight Board of State-Owned Enterprise]; Article 5 (3)

(1976) (see Chapter 2). In addition, the corporate expenses incurred by the corporate board for things such as travel/transport, accommodation, and communication are included in the operating expenditure. The acceptable limit for those expenses may be different for the parent and the subsidiary company. The board member duality holders in BUMNs are allowed to choose the facilities provided by the parent or subsidiary company as long as there is no 'double dipping'.[78]

The finding that the board member duality will impact on agency costs in the parent and subsidiary company relationship of BUMNs is the opposite of Rashid (2012)'s finding. He argues that there is no significant relationship between CEO duality and the agency costs. The duality only gives an enormous power to the CEO but at the same time will lessen the checks and balances in the monitoring system. As argued in Chapter 2 regarding the new term proposed in this research, namely the board member duality, (which is different from the CEO duality, interlocking directorship, and multiple directorship) this research cannot be compared with previous research which addressed the three types of duality mentioned simply because the research on the similar duality construction of the research in BUMN and subsidiary is very limited. At the time of writing, this researcher was unaware of any similar research.

THE FINDING VERSUS THE REALITY

The research finding based on the panel data regression model for the period 2009—2013 that the board member duality has a significant impact on operating expense as the proxy of the agency costs, gives some support to the Ministerial Decree of BUMN number PER-

[78] Surat Keputusan Menteri BUMN No. Per-04/MBU/2014 Tentang Pedoman Penetapan Penghasilan Direksi, Dewan Komisaris, dan Dewan Pengawas Badan Usaha Milik Negara [Ministerial Decree of BUMN No.PER-04/MBU/2014 on The Guidance of Remuneration for Directors, Commissioner, Oversight Board of State-Owned Enterprise]; Article 5 (3)

03/MBU/02/2015[79] which was issued in February 17, of 2015. Chapter 4 Article A (6), stated that "In addition to any of the positions referred to in paragraph 5 (the director duality), a member of the Board of Directors may not hold another position as a member of the Board of Commissioners in other companies, except: a. Board members in subsidiaries/joint venture State-Owned Enterprises, but entitled only to the accumulation of income, as a Commissioner on one or more subsidiaries/joint ventures of a maximum of 30% (thirty percent) of the salary of members of the Board of Directors in the SOEs where he/she is appointed, while other income/the rest is deposited into the State-Owned Enterprises. b. Board members in other companies to represent / promote the interests of state-owned enterprises as long as permitted by the Minister. The Ministerial Decree of BUMN number No.PER-04/MBU/2014 on The Guidance of Remuneration for Directors, Commissioner, Oversight Board of State-Owned Enterprise]; Article 5 (3) previously mentioned also regulates the operating expense for the director duality in BUMNs.[80]

Even though there are several ministerial decrees applying to BUMNs which influence the policies in subsidiary companies, in fact there are no provisions for subsidiary companies in the SOE Act 19/2003. The only provision regarding a subsidiary company in the SOE Act 19/203 is stated in Chapter 4 "the General Meeting of Shareholders" article 14 (3.g) regarding the establishment of subsidiaries or investments. Hence, the provisions intended to ensure that BUMNs implement good corporate governance principles, to some extent, are not binding to the subsidiary companies. On the other hand, the Master Plan of BUMNs, intended to reduce the number of BUMNs, actually increased the number of subsidiary companies. More importantly, the assets of BUMNs are then concentrated in the subsidiary companies. The SOE Act 19/2003 does not regulate a subsidiary company of a BUMN

[79] The ministerial decree on the Requirements, Appointment and Termination Procedures of the Directors of State-Owned Enterprises

[80] See footnote 88.

because the subsidiary company is not a BUMN. This is because the subsidiary company's capital is not owned by the state but by the BUMN. Thus, the corporate governance principles enshrined in the SOE Act are only voluntarily practised in the subsidiary companies; they are not mandatory. Their practices depend on the policy established by each BUMN policy as the parent company (shareholder) which may or may not formally oblige their subsidiary company to practise good corporate governance principles. In fact, there is a possibility that the subsidiary company is used for tunneling assets out from the parent company which is similar to what Li (2010) found in China's public companies, that tunneling by controlling shareholders, often with the aid of executives of companies, is pervasive and severe.

In the context of BUMN, the tunneling of the state's funds or assets from the parent company to subsidiary company might have at least four justified reasons. Firstly, it is intended to develop the subsidiary company and increase its benefits to the parent company; secondly, to increase its business decision flexibility which is not as rigid as it in BUMN; thirdly, to some extent, it may benefit the BUMN if the parent company is a holding company for investment which flows from the fund for investing in its profitable subsidiary companies; and fourthly, as a consequence of the Ministry of BUMN's policy regarding regrouping or holding structures of BUMN whereby some BUMNs are merged into a holding company having several BUMNs as their subsidiary companies (see Chapter 3 section 3 for the scenario and direction of BUMNs).

However, the formation and expansion of a subsidiary company is not a risk-free undertaking for several reasons. Firstly, the doctrine of piercing the corporate veil is adopted in company law no.40/2007. This means that the burden of debt or loss, as a result of a contractual agreement by a subsidiary company with other parties, can be imposed on the parent company, as the subsidiary's shareholder, as long as several criteria are applied.

According to Fuady (2002), the criteria which can lead to piercing the corporate veil are: (1) fraud; (2) inequity; (3) oppression; (4) illegality; (5) excessive domination by shareholder(s); and (6) the subsidiary company has become the *alter ego* of its shareholder(s). Secondly, there are moral risks, in the sense that the four justified reasons above are ridden by individuals' self-interests (alter ego) who act as the controlling shareholder ("shareholding agent"[81]) of a subsidiary company which derived from the ultimate shareholder of BUMN. For example, self-interest is evident in decisions regarding remuneration and facilities given to corporate board members at the annual general meeting of shareholders, especially for board member duality holders who hold two positions, one in a parent and another in a subsidiary company, and who are involved in the decision making. Thirdly, flexibility could be interpreted as meaning that the subsidiary companies need not follow all regulations applying to BUMNs. In fact, the SOE Act regulates only the corporate governance and accountability of BUMNs and it does not explicitly or implicitly include the subsidiary companies. Fourthly, the consequence of the holding structure policy causes the majority of a holding company's assets to be held in the subsidiary companies which are not subject to the SOE Act, unlike the BUMNs. As a result, government control of the subsidiary company is weak, and the Ministry of BUMNs pays less attention to the subsidiary company.

Thus, the underlying activities of subsidiary companies are not as effectively and comprehensively controlled. For example, the Ministry of BUMN maintains no accurate database of the subsidiary companies. The publication of the annual reports of the subsidiary companies of BUMNs is very limited. Interestingly, in the Limited Liability Act 40/2007, there are no provisions regulating subsidiary companies that can be used as the reference for governing the subsidiary of BUMN. If the government wants to increase the accountability and corporate governance of the subsidiary companies of BUMNs, then it

[81] The new terminology proposed in this research as the position of agent who is delegated as shareholder with all right and obligation enshrined in the company act No.40/2007.

should include provisions for subsidiary companies in the SOE Act 19/2003 and Limited Liability Act 40/2007.

Comparing the SOE Act in Indonesia to the ones in the developed country such as Australia and New Zealand, the subsidiary company is clearly defined in the State-Owned Enterprise Act and the definition is usually also linked to the Company Act. For example, the State Owned Enterprise Act 1992 of the State of Victoria in Australia includes definitions[82] and provisions[83] regarding the subsidiary company. The Government Owned Company Act 1993 (GOC) of the state of Queensland in Australia also includes the definition of[84] and many provisions[85] for a subsidiary company. The State Owned Enterprise Act 1986 of New Zealand, which also regulates the subsidiary company, is similar to the ones in Australia.

If the SOE Act 19/2003 does not regulate subsidiary companies, then these could be perceived as not being included within the scope of the state's finance. The Legal Forum of BUMN presented to the Constitution Court a petition for a judicial review to examine the

[82] State Owned Enterprise Act 1992 Part I, Prov. 4: (1) For the purposes of this Act, the question whether a body corporate is a subsidiary (other than a declared subsidiary) of a State business corporation or a reorganising body shall be determined in the same manner as the question would be determined under the Corporations Act if the State business corporation or a reorganising body and the body corporate were corporations within the meaning of that Act. (2) The question whether a body corporate is a subsidiary of a State owned company shall be determined in accordance with the Corporations Act

[83] Part VII, Prov. 87: (1)"The Treasurer may, by Order published in the Government Gazette declare that a provision of this Act applies to a subsidiary of a State business corporation or of a State owned company with such modifications as the circumstances require" (2) A State business corporation and a State owned company must take such action in relation to the constituent documents and management of each of its declared subsidiaries as are necessary to ensure that the businesses, activities and other affairs of the subsidiary are carried out in accordance with the provisions of this Act that apply to it by reason of sub-section (1).

[84] Section 2 Definitions: "subsidiary has the meaning given by the Corporations Act, and includes—
(a) for a GOC or candidate GOC—a government entity declared by regulation to be a subsidiary of the GOC or candidate GOC; and (b) for a candidate GOC associate—a GOC Act entity declared by regulation to be a subsidiary of the associate

[85] For example Chapter 2 "Mechanisms for creating GOCs, in Section 26 " Declaration of GOC Act entity to be subsidiary of candidate GOC associate"; Part 5 "Corporation facilitative mechanism" in provisions 50—67, Part 7 "Corporate Plan" Part 8 "Statement of Corporate Intent", Part 12 "duties and liabilities of directors and other officers"; Part 15 "acquisition and disposal of assets and subsidiaries", and many more provisions.

constitutionality of articles 2 (g)[86] and (i)[87] of the Financial State Act No.17/2003 regarding the BUMNs' wealth that is included in the finances of the state, and articles 6 (1)[88], 9 article (1.b.)[89], 10 (1)[90] and 10 (3)[91], and article 11 (a)[92] of the Supreme Auditor Act No.15/2006 regarding the BUMN being subject to audit by the Supreme Auditor (Court, 2013). The Legal Forum of BUMN wanted to have BUMNs excluded from the state's financial scope in order to decrease government control of BUMNs, and this would apply to subsidiary companies as well. The Constitution Court judges refused all requests from applicants (Court, 2013).

7.2. THE RESEARCH SUB-QUESTION 2 AND HYPOTHESES 3, 4 ,5

The research sub-question 2 and hypotheses 3, 4, and 5 are dealt with simultaneously for the purposes of discussion. They are: ***Does the board member duality have an impact on company Performance*?;** Hypothesis 3 is: **There is no relationship between the Board member duality and Earnings Before Interests and Taxes (EBIT);** Hypothesis 4 is: **There is no relationship between the Board Member Duality and Dividend Pay-Out Ratio**

[86] The state financial wealth includes the wealth of the state and regions which are managed by themselves or by others in the form of cash, securities, receivables, goods, as well as other rights, which can be valued in money, including wealth state separated in the BUMN and/the regional companies

[87] the wealth of others obtained by using the facilities provided by the government

[88] The Supreme Auditor is in charge of examining the management and financial responsibilities state conducted by the Central Government, Local Government, other state institutions, Bank Indonesia, State-Owned Enterprises, Public Service Board, Regional-Owned Enterprises and institutions or other entities that manage state finances

[89] in performing their duties, the supreme auditor is authorized to request information and / or documents that must be provided by each person, an organizational unit of the Central Government, Local Government, Other State institutions, Bank Indonesia, State-Owned Enterprises, Public Service Board, Regional-Owned Enterprises, and agencies or other entities that manage state finances;

[90] The Supreme Auditor assess and / or set the amount of state losses caused by an unlawful act, either intentionally or negligent conducted by the treasurer, manager of BUMN/regional enterprises, and institutions or other entities operating in the management of state finances

[91] To ensure the implementation of the payment of compensation, The Supreme Auditor has the authorities to monitor: a. settlement of the state damages / areas defined by the Government to the civil servants who are not the treasurer and other officials; b. the implementation of imposition of the state restitution/regional to the treasurer, manager of BUMN/regional enterprises, and institutions or other entities that manage state finances that have been set by the supreme auditor; and c. the implementation of imposition of the state restitution/regional specified by a court decision that has had permanent legal force.

[92] The Supreme Auditor can provide: a. opinion to the House of Representatives, Parliament, the Central Government / Local Government, Other Institution Countries, Bank Indonesia, State-Owned Enterprises, Public Service Board, Regional-Owned Enterprises, foundations, and institutions or other entities, which is necessary because of the nature of their work

(DPR); and Hypothesis 5 is: **There is no relationship between the Board Member Duality and Corporate Taxes**.

The findings of this research, presented in Chapter 6, reveal that there is no significant relationship between the board member duality and company performance, thereby supporting the null hypothesis. All of the three performance measurement proxies had P-values > 0.05 meaning that they are not significant as summarised in **TABLE 6-56**. This finding supports what Berg and Smith (1978), Chaganti et al. (1985b), and Baliga et al. (1996) found: that there is no systematic relationship between CEO duality and company performance.

7.3. RESEARCH SUB-QUESTIONS 3 AND HYPOTHESES 6, 7, 8

The research sub-question 3 and hypotheses 6,7, and 8 are dealt with simultaneously for discussion purposes. They are: ***Do the endogen factors, namely board size, board composition, and ownership regarding to the board member duality contribute to agency costs and performance?*** The null hypothesis 6 is: ***There is no relationship between board size and agency costs;*** the null hypothesis 7 is: ***There is no relationship between board composition and agency costs***, and the null hypothesis 8 is: ***There is no relationship between government ownership and agency costs.***

The findings of this research, presented in Chapter 6, reveal that of the three endogenous variables,, only the ownership type influenced asset turn-over as the proxy of the agency costs (rejecting the null hypothesis, P-value < 0.05); whereas, on the corporate performance side, only the board size influenced EBIT and Corporate Tax as the proxies of corporate performance (rejecting the null hypothesis, P-Value < 0.05). The board composition appears to have no significant influence on either agency costs or performance (supporting the null hypothesis, P-value > 0.05). The P-values of all endogenous variables are summarised in TABLE 7-60.

TABLE 7-60 THE P-VALUES OF THE ENDOGEN VARIABLES

No.	Variables	Board Size			Board Composition			Ownership		
		P-Value	Corr. (X,Y)	Results	P-Value	Corr. (X,Y)	Results	P-Value	Corr. (X,Y)	Results
	Agency Cost									
1	ATO	0.058	-0.148	Not Sig.	0.661	-0.052	Not Sig.	0.000	0.118	Significant
2	OPEX	0.056	0.345	Not Sig.	0.104	0.121	Not Sig.	0.187	0.088	Not Sig.
	Performance									
3	EBIT	0.004	0.404	Significant	0.264	0.159	Not Sig	0.524	-0.146	Not Sig.
4	DPR	0.451	-0.012	Not Sig.	0.146	0.010	Not Sig	0.812	-0.108	Not Sig.
5	TAX	0.020	0.392	Significant	0.618	0.122	Not Sig	0.799	-0.048	Not Sig.

BOARD SIZE

The finding reveals that there is no significant relationship between the board size and the agency costs, but there is a significant relationship with corporate performance in parent and subsidiary companies of BUMNs. The board size has a significant relationship with EBIT and corporate tax as the proxies of firm performance as shown P-value < 0.05. As depicted in TABLE 7-60, the board size has a positive correlation with EBIT and tax as the proxies of firm performance, meaning that the bigger board size within reasonable limits would increase the firm performance. The mean and median of the board size produced by the panel data are the same, that is, nine members (see TABLE 6-26). This number is within the range of the results of the survey that the mean of the number of director considered effective is four directors with a variance of three directors. Hence, the maximum number of directors is seven directors, whereas the mean of the number of commissioners considered effective is three commissioners with a variance of three commissioners; so the maximum number of commissioners is six commissioners (see Table 6-26). Thus, the total board size comprising directors and commissioners considered effective is seven to 13 members.

The board size in the two-tier board system comprises directors and commissioners. The finding above slightly supports the argumentation cited by Rashid (2012), Raheja (2005) and

Coles et al. (2008) who argued that “Board size has a number of implications for the board functioning, and thereby firm efficiency and performance”. The findings of previous research on the impact of board size on corporate performance are not consistent. For example, Hermalin and Weisbach (2003) found that there is a significant correlation between board size and performance. The smaller boards tend to be more active and have fewer agency problems and a stronger relationship with corporate performance. On the other hand, Chaganti et al. (1985b) suggest that the bigger board performs better than the smaller board.

THE FINDING VERSUS THE REALITY

The SOE Act no.19/2003 does not regulate the number of director and commissioners in a BUMN and subsidiary company. Thus, the regulation provides no standard reference regarding the number of corporate board members for BUMN and subsidiary that is considered effective. Board size does matter, as the number of corporate members determines the efficiency of the corporate board (OECD, 2013). However, there is no one-size-fits-all. Large boards can lack clear direction and be unwieldy. On the other hand, small boards might not be able to meet all the needs of the company.[93] The rule of thumb for establishing the board size is to take into consideration several factors such as complexity of business, risks associated with the operation, size of company, and the needs of the corporate board itself. In comparison, the SOE Act of Victoria, an Australian State, regulates the maximum number of corporate boards for the State-Owned Enterprise in Part 3, article 23 which states that “There shall be a board of directors of each State business corporation consisting of not less than four, and not more than nine, directors appointed in accordance with this Part”. The Organization for Economic Co-operation and Development (OECD) summarized the maximum and minimum number of members required on boards of directors in several countries as depicted in **TABLE 7-61**.

[93] Ibid p. 76

TABLE 7-61 THE BOARD SIZE IN SEVERAL COUNTRIES

No.	Country	Maximum	Minimum	No.	Country	Maximum	Minimum
1	Australia	9	4	15	Korea	15 (informal)	-
2	Austria	20	-	16	Latvia	3	-
3	Belgium	-	12	17	Lithuania	15	3
4	Brazil	6	-	18	Mexico[1]	n.a.	n.a.
5	Canada	12 (Maximum)	9	19	New Zealand	9	2
6	Chile	7	3	20	Norway	-	3
7	Denmark	-	3	21	Poland	-	3
8	Finland	10	3	22	Portugal[1]	-	-
9	France	18	9	23	Slovenia	-	3
10	Germany[1]	n.a.	n.a.	24	Sweden	9	3
11	Greece	7	-	25	Switzerland	10	5
12	Hungary[1]	7	3	26	Turkey	-	6
13	Israel	12	-	27	United Kingdom[1]	-	-
14	Italy	5	3				

[1] = depending on the company

Sources: modified OECD (2013), Boards of Directors of State-Owned Enterprises: An Overview of National Practices

Considering the rule of thumb in developing the board size, formulating the optimal board size is extremely difficult. However, without guidance and let the shareholding agent of BUMN and subsidiary company decide the board size itself is prone to political intervention and conflict of interest. Thus, the range of the number of corporate board member of BUMN and subsidiary company considered effective based on the complexity, size, risk, and needs of the board should be regulated.

GOVERNMENT OWNERSHIP

The finding reveals that there was significant relationship between the government ownership and asset turn-over as the proxies of the agency costs (rejecting the null hypothesis, P-value< 0.05); but no significant relationship against operating expenses, earnings before interest and tax (EBIT), dividend payout ratio (DPR), and corporate tax as the proxies of the firm performance (Accepting the null hypothesis, P-values > 0.05) (see TABLE 7-60). In addition, the coefficient correlation between government ownership and asset turnover is + 0.118, which is relatively weak. However, even though weak, this coefficient correlation gives the sign that government ownership has some support to increase the asset turn-over of BUMN.

The government ownership of BUMNs can vary from 10% to 100%. As shown in the research sample summarized in **TABLE 6-26**, the mean of government ownership shares was 0.890334 or 89.03%, whereas the median value was 99.90%. The mean (89.03%) of the government ownership of shares shows that the government as shareholder still holds the majority of votes. This means that the government as the shareholder could directly control or significantly influence BUMN policies via general meetings of shareholders or indirectly through directors or commissioners appointed by the government. Sun et al. (2002) argued that “too much government control is indeed bad for enterprises, but too little government ownership may not be good either”. Bortolotti and Faccio (2009) noted that in OECD countries, after the largest wave of privatizations in history at the end of the millennium year 2000 (Y2K), on average, governments still held 62.4% of shares in privatized firms. They concluded that governments in civil law countries tended to retain the majority of shares, whereas the ones in common law countries typically use the “golden share”[94].

THE FINDING VERSUS THE REALITY

The wave of privatization at the end of Y2K (year 2000) also influenced Indonesia. As regulated in the SOE Act 19/2003, the privatization of BUMNs has the following purposes and objectives: (1) to increase the people’s ownership of BUMNs; (2) to increase the efficiency and productivity of BUMNs; (3) to strengthen financial structure and financial management; (4) to strengthen the industrial structure and competitiveness; (5) to strengthen the competitiveness and global orientation of BUMNs; (6) to develop a business

[94] See chapter 3 section 3.2.2.

climate, macro economy, and market capitalization.[95] The results of privatization in Indonesia are summarised in Figure 3-5 and Figure 3-6. The data shows that in general, the government still retains a strong ownership position, at least 51%, of firms such as PT PGN Tbk, PT BNI Tbk, PT Jasa Marga Tbk, PT Wijaya Karya Tbk, PT Pembangunan Perumahan Tbk, PT Krakatau Steel Tbk, PT Garuda Indonesia Tbk, and PT Bank Mandiri Tbk. This proportion of government shares in privatized BUMNs seemingly follows Bortolotti and Faccio (2009)'s argument that, on average, governments in civil law countries (including Indonesia) still hold the majority of shares in BUMNs that have been privatized, whereas the common law countries usually have a "golden share". Interestingly, the government of Indonesia applies both, retaining the majority of shares, or if not, then the government will apply the Golden Share[96] called a "Red-White Share" (the colours of the national flag) as the common law does.

7.4. SUB RESEARCH QUESTIONS 4 AND HYPOTHESIS 9,10, 11,12,13,14

The research sub-question 4 and hypotheses 9, 10, 11, 12, 13 and 14 are discussed simultaneously. They are: ***Do explanatory variables for the board member duality such as firm size, firm age, firm growth, firm risk, debt, and liquidity impact on agency costs and performance?*** The null hypothesis for all control variables is: ***There is no relationship between firm size, firm age, firm growth, firm debt, firm liquidity and agency costs and firm performance.***

The findings of this research as presented in Chapter 6 reveal that of the six explanatory variables, only firm size and the firm debt had an impact on both agency costs and company performance. However, only one of the explanatory variables, namely the firm growth, had an impact on agency costs (P-values < 0.05, rejecting the null hypothesis). On the other

95 Undang-Undang Nomor 19 Tahun 2003 Tentang Badan Usaha Milik Negara [Law No.19 of 2003 on State-Owned Enterprise] (Indonesia) art 74

96 See Chapter 3, section 3.2.2. a "Red—White share" (the colours of the national flag)

hand, the other three explanatory variables, namely the firm age, the firm risk, and the firm liquidity had no significant influence on the agency costs and company performance (P-values >0.05, accepting the null hypothesis) as depicted in TABLE 7-62. This discussion will focus more on the explanatory variables which have a significant relationship with agency costs and/or firm performance, namely firm size, firm debt, and firm growth.

TABLE 7-62 THE P-VALUE OF THE EXPLANATORY VARIABLES ON THE EFFICIENCY AND PERFORMANCE MEASUREMENTS

No.	Variables	Firm Size			Firm Age			Firm Growth		
		P-Value	Corr. (X,Y)	Results	P-Value	Corr. (X,Y)	Results	P-Value	Corr. (X,Y)	Results
	Agency Cost									
1	ATO	0.098	-0.096	Not Sig.	0.229	-0.131	Not Sig.	0.000	-0.000	Significant
2	OPEX	0.000	0.619	Significant	0.633	0.263	Not Sig.	0.062	-0.013	Not Sig.
	Performance									
3	EBIT	0.000	0.533	Significant	0.448	0.093	Not Sig	0.106	-0.012	Not Sig.
4	DPR	0.532	-0.026	Not Sig.	0.268	-0.040	Not Sig	0.519	0.094	Not Sig.
5	TAX	0.000	0.587	Significant	0.538	0.096	Not Sig	0.340	-0.007	Not Sig.
No.	Variables	Firm Risk			Firm Debt			Firm Liquidity		
		P-Value	Corr. (X,Y)	Results	P-Value	Corr. (X,Y)	Results	P-Value	Corr. (X,Y)	Results
	Agency Cost									
1	ATO	0.692	0.007	Not Sig.	0.000	-0.026	Significant	0.519	-0.072	Not Sig.
2	OPEX	0.540	-0.076	Not Sig.	0.632	-0.014	Not Sig.	0.062	-0.035	Not Sig.
	Performance									
3	EBIT	0.405	0.024	Not Sig.	0.039	-0.144	Significant	0.490	0.007	Not Sig.
4	DPR	0.129	-0.015	Not Sig.	0.072	0.030	Not Sig	0.163	0.004	Not Sig.
5	TAX	0.294	-0.121	Not Sig.	0.583	-0.125	Not Sig	0.139	0.024	Not Sig.

FIRM SIZE

According to the findings, there is a significant relationship between the firm size and the operating expense as the proxy of the agency costs, and a significant relationship between the firm size and earnings before interest and tax (EBIT); corporate tax as the proxies of firm performance (rejecting the null hypothesis, P-value<0.05) in parent and subsidiary company of BUMN. As summarized in Table 6-48, the mean of firm size was IDR Rp.51.48684 trillion, maximum value was 733.0998 trillion, and the minimum value was IDR Rp.9.893 billion. The coefficient correlation of firm size against firm performance was positive, that is, +0.5333 for

EBIT and +0.587 for Tax. This positive correlation means that an increase in firm size would increase a firm's performance. This coefficient correlation of the firm size and firm performance is consistent with the findings of Lee (2009) who concluded that firm size has a positive correlation with profit. In addition, firm size may influence the economies of scale attainment; if a firm achieves the economic scale, this will influence the agency cost (Rashid, 2012) which is an important factor in determining the firm's behaviour (Boeri, 1989). Firm size usually provides a measure of diversification and often affects competitive issues (Standard and Services, 2003).

THE FINDING VERSUS THE REALITY

Besides the profitability, the firm size is one of the key performance indicators formulated by the Ministry of BUMN in LKIP 2015[97] (see Chapter 3). The need to increase the firm's size is also included in the master plan of the Ministry BUMN 2015—2019 which is intended to reduce the number of BUMNs from hundreds to approximately 25 BUMNs (see Chapter 3, section 3.3.1). In the context of BUMN, the firm size could be increased by a natural business mechanism or by political consensus which is proposed by the shareholding agent (The Ministry of BUMN). The natural business mechanism includes adding the firm's profit to the retained earnings and attracting investors/companies to invest their money to increase the capital; the political consensus includes policies of merger, regrouping and holding program policies coming from the government (shareholding agent). A firm cannot increase its size in the short term by applying the business mechanism, unless it unexpectedly has a profit windfall. Thus, in order to accelerate the increase in firm size, political consensus is preferred , as mentioned in Chapter 3. The realization of the holding BUMN policy which influenced firm size as of 31 December 2014 occurred in the industrial sectors of banking, docking and shipping, fertilizer, cement, and plantation (see TABLE 3-7). The primary goals of

[97] Laporan Kinerja Instansi Pemerintah 2015 [The Government Institution Performance Report 2015]

the holding BUMN policy are to increase competitiveness, value creation, and increase the professionalism of BUMN. In addition, the holding program is intended to consolidate all resource potential, strengthen the financing capability, and improve efficiency and effectiveness. These measures will increase performance and improve employee welfare, and in turn, this will increase profits and therefore the state's income will increase due to dividends and taxes (Dharmawan, 2015). However, sometimes these ambitious goals do not align with the facts as shown in the following example:

> *"PTPN III[98], a BUMN in plantation industrial sector becomes a holding company comprises 13 subsidiary companies namely PTPN I,II,IV until PTPN XIV which before the holding program they are each BUMN in plantation industrial sector. Those BUMN gave their 90% of share to PTPN III as the holding/parent company using transfer of state share mechanism[99]. This mechanism was chosen because it was relatively not influence directly to the business operation of each companies as the subsidiary companies (Dharmawan, 2015). The firm size of PTPN III initially before holding as of December 31, 2013 is ± IDR 11 trillion, after holding as of 31 December 2014 increase 6 folds that is IDR 65,68 trillion[100]. The holding program of BUMN will be expected to increase in financial performance significantly, such as profit, asset, and capital. The net income of the BUMN plantation holding would exceed IDR 21 trillion and firms size would be IDR 121 trillion in 2019 (feb/dnl, 2014)."*

The holding's expectations of increasing performance and firm size will not be met if the shareholding agent is not concerned about controlling agency costs. In this case, the holding

[98] PTPN stands for Perseroan Terbatas Perkebunan Nusantara, [Nusantara Plantation Limited Liability Company]
[99] Peraturan Pemerintah Nomor 72 Tahun 2014 dan **Keputusan Menteri Keuangan Nomor: 468/KMK.06/2014 tanggal 01 Oktober 2014** Tentang Penambahan Penyertaan Modal Negara Republic Indonesia ke dalam Modal Saham Perusahaan Perseroan (Persero) PT Perkebunan Nusantara III [Governmental Decree No.72 of 2014 and The Ministerial of Finance Decree dated 1st October 2014 on the addition of state capital to the shares capital of PTPN III] (Indonesia)
[100] Annual Reports for PTPN III 2013 and 2014

would not create a synergy but a synergistic failure, the problems of the subsidiary company would be transferred to the holding company. Referring to the PTPN example, at the end of 2015, the holding company of PTPN experienced a loss of ± IDR 615 billion instead of a profit. Compared with the average costs in private companies, PTPN's costs were 20-35 percent higher than the average costs incurred by private companies (Widianto, 2016). To address the problem, the Ministry of BUMN implemented a comprehensive transformation program.(Prasetyo, 2016). The transformation of PTPN included a reduction in the number of directors, increased control of processes, and a focus on the upstream business.

The six new holding BUMNs proposed by the shareholding agent (the Ministry of BUMNs) have been approved by the government, namely PT Pertamina (persero) as a holding company for BUMN in the oil and gas sector, PT Indonesia Asahan Aluminium (Persero) as a holding company for BUMN in the mining sector, PT Dana Reksa (Persero) as a holding company for BUMN in the financial services, including the banking sector, PT Hutama Karya (Persero) as a holding company for BUMN in the construction sector, Perum Bulog as a holding company for BUMN in the food sector, and Perum Perumnas as a holding company for BUMN in housing (Fitra, 2016). However, this holding policy which was proposed by the Minister of BUMN as the shareholding agent needs more investigation according to Sri Mulyani, the Finance Minister of the Republic of Indonesia[101]. Sri Mulyani argues that the holding BUMN should also consider the political process, financial process, corporate culture process, and socio-economic process (Sawitri, 2016). The holding process still needs to be aligned with law and legal consideration and hence requires further study (Fitra, 2016).

The holding policy intended to reduce the number of BUMNs from hundreds to 25 BUMNs, and conversely to increase the firm size of holding BUMNs formulated by shareholding agents basically is converting some BUMNs into subsidiary companies. This means that by

[101] ibid

definition, according to SOE Act No.19/2003, the subsidiary company is no longer part of the BUMN. In fact, the total assets of the holding BUMN will be concentrated in the subsidiary company, which is not subject to the SOE Act No.19/2003. Thus, to minimize the agency problem and increase the control of subsidiary companies as a consequence of the holding program policy, then the research finding versus reality presented in section 7.1 should be considered: that is, the provisions for subsidiary companies of BUMNs should be included in the SOE Act No.19/2003 and (in general) in the Limited Liability Act 40/2007.

FIRM DEBT

The findings reveal that there is a significant relationship between the firm debt and the asset turn-over as the proxy of the agency costs, and that there is significant relationship between the firm debt and earnings before interest and tax (EBIT) as the proxies of firm performance (rejecting the null hypothesis) in parent and subsidiary company of BUMN. In other words, the firm debt has a significant relationship with both the agency costs and the firm's performance. As summarized in TABLE 6-58, Firm Debt has a P-Value <0.05 for asset turn-over ratio and earnings before interest and tax. The mean of the debt ratio was 62% with 24% standard deviation. The coefficient correlation of firm debt with asset turn-over as the proxy of agency costs is relatively weak at -0.026, whereas with EBIT it is slightly higher at -0.144. The weak negative correlation of firm debt with asset turn-over indicates that, to some extent, the debt instrument has not been used to improve the firm's efficiency and reduce the agency costs (Jensen, 1986). Other than increasing the agency costs, the high debt ratio also increases the risk of losing control of the firm (Yazdanfar and Öhman, 2015). In this research, the negative coefficient correlation of firm debt with EBIT shows that the use of debt as the financial motivator to increase performance needs better debt management. Yazdanfar and Öhman (2015) confirmed in their study that debt ratios negatively affect profitability as a proxy of firm performance.

THE FINDING VERSUS THE REALITY

The mean of the debt ratio of BUMN and their subsidiaries in this research was 62%, meaning that the proportion of the firms' assets that are financed by debt is about 62%. The debt ratio of more than 60% is considered quite high, implying greater financial risk. As of 30 of June 2015, the total debt of five BUMNs was US$31,59 million equal to IDR448,57 trillion (Sukirno, 2015). This did not include the debt agreement between BUMNs in the banking sector with China Development Bank i.e. US$3 million equal to IDR43,3 trillion (Safitri, 2015). The debt financing instruments need to be managed extra prudentially and on target, because if mismanaged, then assets of the BUMNs as the guarantee will be seized by creditors, causing the state to lose an enormous amount of economic resources. If there is massive mismanagement of debts in BUMNs, then the effect can be contagious and will impact on the country's debt risk and, combined with the increase in public debt, the worst case scenario would be similar to that of Greece (Kouretas and Vlamis, 2010).

FIRM GROWTH

The finding reveals that there is a significant relationship between the firm growth and asset turn-over as the proxy of the agency costs (rejecting the null hypothesis) in parent and subsidiary companies of BUMNs. As summarized in TABLE 6-58, the P-value for Firm Growth was 0.0004 for panel data regression model for asset turn-over, but had no impact on firm performance since the P-value was greater than 0.05 for all panel data regression model for all performance measurements. However, the coefficient correlation of firm growth compared with the asset turn-over ratio is - 0.001 which is very small, so it can be ignored.

THE FINDING VERSUS THE REALITY

The growth rate of BUMNs' profit calculated by the Compound Annual Growth Rate (CAGR) method for the years 2010—2014 was 10.58% (BUMN, 2016). This growth rate during that period was usually due to organic growth as a result of the increase in output or sales; in other words, growth was boosted by the customer base. In the coming years, when the holding program of BUMNs becomes the priority, inorganic growth resulting from mergers and acquisitions may influence the profit growth of BUMNs.

7.5. THE SUB RESEARCH QUESTION 5

Is there any significant difference between demographic attributes and company characteristic attributes of directors or commissioners in the six (6) dimensions of accountability of the board member duality?

I. ETHICS AND INTEGRITY DIMENSION

The finding reveals that Company characteristic attributes are more dominating in shaping the ethics and integrity as formulated in the six (6) dimensions of accountability than the demographic attributes. The age of the parent company and the industrial sector to which it belongs, as Company characteristic attributes, are related to the majority of statements in the dimension of ETHICS AND INTEGRITY. The age of the parent company may reflect the level of the BUMN's maturity which contributes to shaping the ethics and integrity of their corporate board members' activities. Formally, the more mature BUMNs will have policies regarding ethics and integrity included in a code of conduct/or ethics which contains company values, performance philosophy, and corporate image. The policies are understood and reinforced by directors and commissioners. They also have policies regarding compliance requirements for directors and commissioners, which are usually codified in the board's manual. The communication about ethics and discussions about ethical dilemmas are stated honestly by the commissioner. This may relate to the task of the commissioner who provides oversight and protects the company as well as giving advice to directors (see Chapter 2).

In addition, the industrial sector also has the responsibility to enforce the standards of ethics and integrity for the corporate members by implementing sector regulations. As described in Chapter 3, the BUMN in which the Minister of BUMN has a role as shareholder, also has to follow the regulations of the industrial sector.

II. COSTS AND BENEFITS

The finding reveals that the demographic attribute of income is more dominating in COSTS AND BENEFITS as formulated in the six (6) dimension of accountability than are the other attributes. This means that the demographic attribute of income is the best indicator of how the board member duality performs of his/her tasks.

All respondents in the middle average income bracket of between US$10,000—20,000 monthly state that they use their experiences to benefit both companies. This was also supported by respondents in the upper average income bracket of between US$20,000—25,000 monthly. Interestingly, the respondents with the highest average monthly income above US$25,000 disagree that board member duality holders will use their experiences to the advantage of both companies.

It seems that this finding supports Brick et al. (2006)'s argument that an excessive salary for directors does not improve a company's performance; neither does it contribute to its under-performance. The conflict of interests of the board member duality holder that may arise as a result of the parent-subsidiary company relationship is still a grey area since respondents in all income brackets expressed diametrically opposed views, and were divided almost "fifty-fifty" on the issue. As Wymeersch (2003) stated that the typology of the various groups in a company will influence the level of conflicts of interest (see Chapter 2). "The fifty-fifty" findings may be caused by respondents who came from various typologies of group companies. The respondents in the middle and upper average monthly income bracket between US$20,000—25,000 prefer to choose the interests of the parent company than those of the subsidiary company.

III. REGULATION

The finding reveals that the age of a company is more dominating in REGULATION as formulated in the six (6) dimensions of accountability than are the other attributes. The age of the parent company has a significant correlation with director accountability formulated in REGULATION. The age of the parent company may indicate that a regulation regarding conflicts of interest has been included in corporate policies. Such a regulation may mean that directors and commissioners of the parent company will not be permitted to be involved in a business as a subcontractor to either the parent and/or subsidiary company. The more mature parent company may have also established rigorous criteria for the appointment of the subsidiary's directors and commissioners, followed by appointees signing a management contract which includes key performance indicators.

Even though the demographic attributes are not dominant, gender and income influence the director accountability formulated in REGULATION. The demographic attribute of gender has significant difference with the statement that the role of dual director should be regulated in the SOE act, whereas the demographic attribute of income has significant difference with the director accountability that the role of Dual Directors should be regulated by a code of ethics and/or code of corporate governance.

The majority of respondents in all categories agreed that the board member duality should be regulated. The regulation could be included in the SOE act, the code of conduct and ethics, or in the code of corporate governance which governed the parent and subsidiary companies. Among these measures, regulation by means of the SOE act was the least preferred. A ministerial decree to regulate the board member duality was preferred by most respondents (see the in-depth interviews in TABLE 6-48).

The majority of respondents in all categories agreed that there was a need to develop guidelines for regulating the parent-subsidiary company relationship, including a mechanism to overcome any conflict of interests. The in-depth interviews revealed the respondents' belief that making disclosures at board meetings was one means of preventing the conflict of interests (see the in-depth interviews in TABLE 6-48).

IV. ROLE OF DUAL DIRECTOR

The finding reveals that demographic attributes are more predominant in the ROLE OF DUAL DIRECTOR as formulated in the six (6) dimensions of accountability than the company characteristic attributes. The demographic attributes show that the board member duality holders tended to favour the parent company or the subsidiary company in decisions that affected both companies. However, the majority of the board member duality holders preferred to report to shareholders when they made decisions affecting both companies.

The majority of respondents in all categories agreed that the board member duality holder can bring the same quality of performance to the execution function as a director in the parent company and to the oversight function as a commissioner in a subsidiary company.

Gender attribute has a relationship with the decision preferences to parent company rather than subsidiary company and disagree that the political intervention on boards is common . The gender issue in a corporate directorship attracts researchers to investigate whether there are differences in company performance if women are given more opportunity to be corporate board members. Farrell and Hersch (2005) and Daily et al. (1999) noted that the number of women who are appointed as directors increased significantly during the decade of the 1990s. This trend was also found by Bilimoria and Piderit (1994) who investigated, in particular, the "Effects of sex-based bias". The increase in the number of women serving as corporate board members is not merely because of gender equality; recent research has shown that companies who have more women on corporate boards produced better corporate performance (see Lückerath-Rovers (2013), Liu et al. (2014), and Post and Byron (2015).

In contrast to previous research on the gender issue, the number of female directors/commissioners in BUMN and subsidiary companies is very limited (see Pie Chart 6-3) and neither is this regulated in the SOE Act 19/2003 or the technical regulations derived from it. Meanwhile, a number of countries in European jurisdiction have applied a fixed quota for female representation on corporate boards. Austria has a minimum quota of 25%; Belgium requires a quota of 1/3; Finland requires a minimum of 40% for both genders; Sweden and Norway expressed formal targets for both genders, although not as quotas. In Sweden's case it is 40% representation of both genders, and in Norway there is equal gender representation (OECD, 2013).

The majority of respondents in all categories also agreed that the appointment of the directors and commissioners in the state-owned enterprises should not be a political appointment. However, they were not sure whether the appointment was immune from political intervention.

V. FINANCIAL ACCOUNTABILITY

The finding reveals that the demographic attribute of income is more dominating in FINANCIAL ACCOUNTABILITY as formulated in the six (6) dimensions of accountability than are the other attributes. This means that the demographic attribute of income is the best predictor of how the person with board member duality performs his/her tasks regarding financial accountability. The result is consistent with the finding for the dimension of **COSTS AND BENEFITS** where all respondents who had a middle-range average monthly income between US$ 10,000—25,000 agreed that the board member duality will increase a subsidiary company's performance. This was supported by all corporate board members in parent companies. However, the opposite view was expressed by respondents in the highest average monthly income bracket, who believed that the board member duality will increase a subsidiary company's performance (see Brick et al. (2006) in Costs and Benefits). This view was supported by several corporate board members in subsidiary companies and the holders of board member duality. Interestingly, several respondents in the low average monthly income bracket (US$ 2,000—10,000) also supported the view of the respondents with the highest average monthly income.

The majority of respondents in all categories agreed that the shareholders of a subsidiary company were responsible for formulating the remuneration scheme for commissioner and directors, and the board member duality holder should not receive any income, such as a commission, other than that stated in the remuneration scheme. However, respondents were divided on the issue of whether the board member duality holder should be involved in establishing the salary schedule. Slightly more than half of the respondents believed that they should not be involved in deciding the salary schedule.

They also agreed that the remuneration scheme of the corporate board should be the same as that of the parent company, and that the board member duality could improve the subsidiary company's performance. However, they did not agree that the dividends paid to the parent company will be less when the board member duality structure exists in the parent and subsidiary company relationship. However, the in-depth interview responses indicated that if the respondents had to make a choice regarding the dividend policy, then the board member duality holder had to follow the parent company's direction.

VI. LEADERSHIP

The finding reveals that both the demographic attributes of the number of director positions held and company characteristic attributes of the parent company age were balanced in LEADERSHIP as formulated in the six (6) dimensions of accountability, unlike the other attributes. This means that corporate board members who were leaders and who held several positions in more than one company are aware on the conflict of interests that may arise. On the other hand, when considering the age of the parent company, it was apparent that the level of maturity of the BUMN may contribute to the leadership style of a corporate member, especially if the BUMN has a policy in place to prevent any conflict of interests.

The findings reveal that all corporate board members who serve in more than one company, including the board member duality holder, agree that the board member duality holder, who is also a shareholder of a subsidiary company and chairs the annual general meeting of shareholders, could possibly experience a conflict of interests. Interestingly, the corporate board members of those BUMNs which are relatively mature (41—50 years old) and relatively young (<20 years old) in terms of putting the corporate policy into practice, argue that the chair of the annual general meeting of shareholders should not have a conflict of interests. Thus, there should be a mechanism in place to prevent any conflict of interests that may arise in that situation. The results of the in-depth interview show that the respondents preferred to choose a director of the parent company as the chairman of the general meeting of shareholder of a subsidiary company, who did not hold a position as a duality board member.

CHAPTER 8: CONCLUSIONS, RECOMMENDATIONS, AND IMPLICATIONS

"It is essential that the activities of corporate executives are under constant, vigorous and public scrutiny, because those activities are crucial to the economic well-being of society. If anything, developments both locally and internationally during 2001 have emphasized the need to continuously update and upgrade corporate governance standards. "

- Ann Crotty (Business Day)-

INTRODUCTION

This chapter comprises five sections. **SECTION 8.1: SUMMARY OF CHAPTERS** which presents summaries of essential content of each chapter from this thesis. **SECTION 8.2: RECOMMENDATIONS** will present recommendations for the legislature, executives, and BUMNs regarding the parent and subsidiary company governance, especially regarding the structure of board member duality in BUMN. **SECTION 8.3: IMPLICATION FOR THEORY** presents the implications of the research findings for the Agency Theory which becomes the fundamental theory of the research propositions. **SECTION 8.4: IMPLICATION FOR POLICY AND PRACTICE** presents several implications for policy makers and business practitioners regarding the board member duality structure in BUMN. **SECTION 8.5: LIMITATIONS AND IMPLICATION FOR FURTHER RESEARCH** presents the limitations of this research related to the methodology and data, so further research to address those limitations is suggested. **SECTION 8.6, CONCLUSION,** presents the conclusions drawn from the research findings.

8.1. SUMMARY OF CHAPTER

8.1.1 The Research Context, Aims, and Significance of the Research

In the two-tier board system which divides the corporate board into two boards, namely the oversight board commonly known as the board of commissioners, and the management board usually called the board of directors. The two-tier board system enables the directors of a parent company to also serve as commissioners in subsidiary companies (director duality). This research proposes a new term to refer to this duality situation: “board member duality”. The board member duality is a specific duality situation as described above, and is different from the director dualities which have been the subject of extensive research, namely CEO duality, interlocking directorship, and multiple directorship. The specific characteristics of the board member duality compared to other director dualities are the integration of the executive function and the oversight function, albeit in different entities, but in parent and subsidiary companies. The parent and subsidiary relationship is significant because, even though each company is an independent entity from the legal perspective, in fact the parent company can influence in the subsidiary company’s policies. This situation may also differentiate this study from previous research which was not focused on the corporate governance of parent and subsidiary company.

The board member duality in state-owned enterprises is more complicated when the duality holders, the parent company's directors, also are given the role of “ shareholding agent” of subsidiary companies by the Ministry of State-Owned Enterprises. In practice, this means that a board member duality possibly have three positions simultaneously, namely as director of the parent company, the commissioner of a subsidiary company, and the shareholder of a subsidiary company, which may produce a conflict of interests. Previous research related to this issue usually focused on the impact of the director duality on agency costs and firm performance. The gap in this field of research was addressed through the formulation of the new term “board member duality” in the context of the two-tier board system in parent and subsidiary companies of BUMNs in Indonesia.

Thus, this research was an attempt to address the broad question: **does the board member duality in the State-Owned Enterprises (BUMN) have a significant impact on a firm’s performance and its agency costs? How is the accountability of board member duality**

monitored And more importantly, **how should "the shareholding agent", the parent company and the Ministry of BUMN, respond to the impact of the board member duality in parent and subsidiary governance in order to control the agency costs and to increase in the BUMN's performance**. Based on the findings of this research, recommendations have been made which may assist relevant parties with their decisions and policy making. The objectives of this research were formulated after a literature review as the basis of academic conjecture, and by investigating the provisions contained in the constitution, several laws, government decrees, ministerial decrees, the verdicts of the Constitution Court, Supreme Auditor releases, and relevant information from the national media.

The literature review was focused on works related to director duality in both one-tier and two-tier systems, which also describe the accountability of a dual director in each corporate board system as part of corporate governance mechanism. Therefore, the corporate board model, design, duties and activities that provide a more comprehensive review of the dual director issue of this research were included in the literature review. Then, the various theories relevant to this issue were used to analyze the corporate board and its impact on a firm's costs and performance. The firm's costs are those arising from the agency problem which is described by Agency theory and is the basis of the theory used in this research. However, the antithesis of the Agency theory, namely Stewardship theory, is also included in the literature review to give a balanced and broader perspective. Several opposing theories are presented: social contract theory versus institutional theory, managerial hegemony theory versus class hegemony theory, and stakeholder theory versus resource-dependency theory. The literature review revealed that there was inconsistent evidence regarding the impact of director duality on performance and agency costs. Some researchers found a positive association, others found a negative association, and some researchers found no systematic relationship.

To achieve the intended objectives specified in this research, its scope and limitations were identified and highlighted. This research was confined to parent companies' directors who also serve as commissioners in one or more subsidiary companies - a situation that is known as board member duality in the parent and subsidiary companies of state-owned enterprises. As a basis for the theoretical framework, a panel data sample from 2009—2013 was triangulated with surveys and interviews conducted at the end of 2014. The research question and sub-research questions guided the research process.

8.1.2 Summary of the Theoretical Framework

This research designed and developed a conceptual model for the theoretical framework after a detailed analysis of the literature relating to this field of research. The aim was to establish a thematic linkage between the board member duality in parent and subsidiary companies in State-Owned Enterprises (BUMN) and agency costs which would support policy makers in addressing issue of corporate governance practice in State-Owned Enterprises.

According to the literature, the governance structure of the governing body in parent and subsidiary companies is based on the two-tier board system which differentiates the oversight board from the management board. Then, the director duality structure that exists in parent and subsidiary companies, i.e. the board member duality was compared with the board member non-duality structure in order to analyze flows of agency costs, as well as the flows of return, investment, and expense. The theoretical framework also presents the theory used in this research and financial measurements to analyze several variables. These are the dependent variables and independent variables which indicate agency costs and firm's performance variables explained together with control or explanatory and endogenous variables. In addition, the demographic attributes and company characteristic attributes are also identified in the additional framework to assess and determine the progress of the board member duality holder regarding the 6 (six) dimensions of accountability of the board member duality in the State-Owned Enterprises in Indonesia.

The analysis and explanation of the theoretical framework were aimed at addressing the research question and the research sub-questions. There are 1 (one) research question which flourished into 4 (four) research sub-questions. The 1 (one) research question which, using the analysis, tried to measure the impact of the board member duality against agency costs represented by asset turnover ratio and operating expense. The 4 (four) research sub-questions which, using the analysis, to measure the impact of the board member duality on the firm's performance represented by earnings before interests and tax (EBIT), dividend payout ratio (DPR), and corporate tax, and to measure the influence of the control variables and endogen factors on the model designed for the board member duality against the agency costs and firm's performance, and determine the progress of the accountability of the board member duality in the State-Owned Enterprise in Indonesia.

8.1.3 Summary of the Methodology

The research used both qualitative and quantitative methodologies which were brought together in the triangulation method which combines data triangulation (primary and secondary) and methodology triangulation (survey, interview, and panel data). The primary data were collected using surveys and in-depth interviews, whereas the secondary data was collected from each company to create the panel data. The questions and statements for both the surveys and in-depth interviews were essentially the same, grouped according to 6 (six) dimensions of accountability of the board member duality in State-Owned Enterprises, whereas the panel data was extracted from the financial reports and financial notes published in the annual reports of each State-Owned Enterprise and subsidiaries.

Qualtrics software was used for the survey, giving both descriptive and chi-squared (X^2) statistics which presented the demography of respondents and the level of significance of the individuals' attributes and company characteristic attributes in terms of each statement/question in the survey. In-depth interviews with respondents who have high profiles and expertise in corporate governance in the State-Owned Enterprises were used to confirm the results of the survey. The E-Views software was used to test the panel data regression model which involved a common effects model, random effects model and fixed effects model. The cross-section weight in the generalized least square (GLS) method was used in the panel data regression model to address the big data differences in financial figures between parent company and subsidiary companies. All the results of each research instruments were integrated, compared and analyzed into the integrated matrix analysis which determined the level of consistency regarding the impact of the board member duality against agency costs and performance.

The survey respondents were commissioners and directors of the state-owned enterprises and subsidiaries companies who received the questionnaire survey by on-line and off-line methods including faxes, couriers, and e-mails. In total, 511 survey forms were distributed and 139 were returned, giving a response rate of 27.20%. Four responses were rejected as the surveys were not completed, leaving a total of 135 responses for the analysis. Fifteen respondents targeted for the in-depth interviews and comprised Members of the Supreme Auditor, Deputies of the Ministry of BUMN, Directors and Commissioners of Parent Companies and Subsidiary Companies of BUMNs. Eleven out of 15 respondents were willing to be interviewed, obtaining a response rate of 73.33%. The panel data, comprised of 235 observations comprised the statistical data set, originating from 10 parent companies and 37 subsidiary companies for the period of 2009—2013.

8.1.4 Summary of the Research Results and Discussion

Several findings were obtained from various stages of this research. The research findings are essentially divided into two parts: the findings regarding the impact of the board member duality against the agency costs and performance; the findings regarding the six dimensions of accountability comprising ethics and integrity, costs and benefits, regulation, role of dual director, financial accountability and leadership. Those findings were compared with previous research addressing the similar issues of director duality, and were analysed in the context of the current reality in corporate governance practices of the State-Owned Enterprises in Indonesia.

The findings revealed that there is a significant relationship between agency costs and the board member duality in parent and subsidiary companies of BUMNs, but no significant relationship with firm's performance in the period 2009-2013. The asset turn-over ratio and operating expenses were used as proxies for the agency costs, whereas earnings before interests and taxes (EBIT), dividend payout ratio (DPR), and corporate tax were used to indicate the firm's performance. The endogenous variables i.e. the board size, the board composition, and the government ownership and explanatory variables i.e. the age of firm, debt ratio, growth, liquidity, risk and firm size, were also included in the model to explain the comprehensive context of the variables that might influence the agency costs and performance. The previous research on director duality revealed three types of relationships regarding agency costs and performance, namely positive relationship, negative relationship, and no systematic relationship. This research found that there was no relationship between CEO duality and agency costs; the duality only gives enormous power to the CEO but at the same time will decrease the checks and balances in the monitoring system.

The research findings that there was positively significant relationship between the board member duality and the agency costs based on panel data acquired from the parent and subsidiary company for the period 2009—2013 (Rejecting Null Hypothesis), have gained some relevant support when the Minister of BUMN issued the Ministerial Decrees No. PER-03/MBU/02/2015 and PER-04/MBU/2014. These decrees have been able to exert some sort of control on the board member duality and the operating expenses incurred as a consequence of the directors' appointment in BUMN and their role in the subsidiary company. However, it appears that board member duality does not produce a significant improvement in the subsidiary company's performance. As shown in the panel data regression model, there was no significant relationship between the board member duality and firm's performance (accepting the Null Hypothesis). This may be due to the fact that no key performance indicators have been specified by the shareholding agents as a means of evaluating the role of the board member duality holder regarding the subsidiary's performance. More importantly, the target of dividend payout and corporate tax, as the two out of three proxies of firm's performance, have been decided more by political consensus between the government (executive) and House of Representatives (legislative) when preparing the state income budget than do the internal targets of BUMNs.

The finding versus reality reveals that the SOE Act 19/2003 does not have provisions for subsidiary companies, which is crucial for situations of board member duality in the parent and subsidiary companies. However, in other countries, the subsidiary company is also subject to regulations stipulated by, for example, State-Owned Enterprise Act 90/1992 of Victoria State Australia, Government-Owned Company Act 1993 of Queensland State, and The State-Owned Enterprise Act 1986 of New Zealand. In fact, the parent companies could use their subsidiary companies for tunneling out their assets, but at the same time, the parent company also takes the risk embedded in the doctrine of piercing the corporate veil that may threaten parent company operations. In addition, the Limited Liability Act No.40/2007, as the company law in Indonesia, does not include provisions for the subsidiary company. The Ministry of BUMN as the shareholding agent has issued several decrees to cover the regulation of subsidiary companies, although the legal basis of the ministerial decrees is not as strong as the statute/act. The successor of the Minister of BUMN could always issue new ministerial decrees to replace the ones issued by his/her predecessor. Meanwhile, the Master Plan of BUMN is intended to reduce the number of BUMNs by means of the holding programs; this means that the majority of assets will reside in the subsidiary companies.

The endogenous variables, i.e. the board size, the board composition, and the government ownership, are included in the panel data regression model to obtain a comprehensive understanding of their relationship with the agency costs and firm's performance. The board size was significantly related to the firm’s performance in terms of earnings before interest and tax (EBIT) and corporate tax, but had no relationship with the dividend payout ratio. The mean and median of the board size is for 9 corporate members, whereas the board size considered effective was between 7 to 13 members. There was no significant relationship between the board composition (the data focuses only on the proportion of directors who have board member duality, not the proportion based on expertise) and the agency costs and firm’s performance, whereas the government ownership gave a slightly positive relationship with the assets turn-over.

The explanatory variables of firm size and firm debt have a significant relationship in terms of the agency costs and the firm’s performance. The increase in the firm size indicates an increase in firm’s the performance. However, at the same time, the increase in firm size will also influence the agency costs. The finding versus reality showed that the increase in firm size using political consensus such as executing the holding program in the plantation sector rather than a natural mechanism very often does produce the expected results. The mean of the firm debt ratio in the data sample was relatively high at 62% and the use of debt for financial leverage and to optimize the capital structure has not succeeded in maximizing the profit. The research finding shows that there is a negative association between debt ratio and firm's performance for the parent and subsidiary company sample for the period 2009—2013. BUMNs need to have a better way of managing debt. The firm growth had a slight impact on the agency costs, indicated by their negative association in the model. The increase in revenue also produced an increase in operating expenses as the proxy of the agency costs.

Dimension six of accountability reveals that company characteristic attributes are more influential than individuals' attributes in shaping company ethics and integrity. The age of a firm may reflect the BUMN's maturity, indicating that the policies regarding ethics and integrity have been established and practised. This finding was consistent with the finding for the Regulation dimension that company characteristic attributes were more influential than individuals' attributes. There was also a significant difference between individual and company characteristic attributes in terms of gender. Females were poorly represented on corporate boards of BUMNs, although several previous studies have shown that those companies with more women on corporate boards experienced better corporate performance. In several countries, a fixed quota for female representation on corporate boards has been applied. Austria has a minimum quota of 25%; Belgium requires a one-third quota; Finland requires a minimum of 40% for both genders; Sweden and Norway established formal targets for both genders, although not as quotas; in Sweden's case, it is 40% representation of both genders, and in Norway, it is equal gender representation (OECD, 2013). The financial accountability dimension also showed that the income attribute is the best predictor of the duality holder response. Too high or too low an income causes the board member duality holders to be less committed to boosting a subsidiary's performance. Finally, the leadership dimension reveals that in order to prevent the conflict of interests that may arise, the position of chairman of the shareholder meeting should not be held by a duality holder.

8.2. RECOMMENDATIONS

The research findings which were discussed in Chapter 7 and several sections in Chapter 8 reveal that board member duality was associated positively with operating expenses as the proxy of agency costs, but ironically the board member duality did not have a significant impact on the firm performance in BUMNs in Indonesia. In addition, individual and company characteristic attributes were analysed in the sixth dimension of accountability of the board member duality. It was found that company characteristic attributes were stronger than the individual's attributes in the dimension of 'Ethics and Integrity' and 'Regulation', whereas the individual's attributes were stronger than in the dimension of 'Costs and Benefits', 'Role of Dual Director', and 'Financial Accountability'. Individuals' and company characteristic attributes were relatively balanced in the dimension of 'Leadership'. Based on those findings and discussion which are presented in Chapter 7, this research offers several recommendations to the Legislature, the Government, and the Shareholding Agent, as follows:

8.2.1 At Legislative Level

At the macro level, Indonesia needs a comprehensive corporation law which enables and accommodates any types of legal business to grow healthily, fairly, accountably, responsibly, and benefiting the public. The current corporation law in Indonesia is the Limited Liability Company Law no.40/2007 which essentially only regulates the companies having the legal form of limited liability. The other types of legal business forms are regulated by the Mandatory Company Registration Law No.3/1982 which is inadequate for the rapidly growing business types that are emerging in the digital era. A comprehensive corporation law could become the umbrella law for any types of legal business forms. A comprehensive corporation law could be proposed to the legislature for inclusion in the National Legislation Program list.

At the micro level, several findings of this research reveal the need to add provisions to or amendments of the Limited Liability Law no.40/2007 and the State-Owned Enterprise Act no.19/2003 regarding the control of the agency costs incurred in parent and subsidiary governance. The following recommendations attempt to address this need:

1) The subsidiary company should be defined in the Limited Liability Law No. 40/2007 as a reference source for other legislations including the provisions (see the finding versus the reality of research question 1; sections 7.1.);

2) The subsidiary company should be defined in the State-Owned Enterprise Act No.19/2003 and could refer to the Limited Liability Law amendment (see the finding versus the reality of research question 1; sections 7.1.);

3) The subsidiary company of a BUMN should be defined in the State-Owned Enterprise Act and include the provisions which cover the parent and subsidiary companies' governance (see the finding versus the reality of research question 1; sections 7.1.);

4) The State-Owned Enterprise Act may decide the number of female representatives on the corporate board of a BUMN. It should specify a definite quota, a minimum number, a formal target, or an equal number (see the section 7.5. IV.The role of Dual Director); and

5) The State-Owned Enterprise Act should specify the board size that is considered effective for BUMNs. As a reference, the research suggests that the number of members required for an effective corporate board (commissioner and director) of a BUMN is 7—13 members (see the finding versus the reality; Section 7.3.).

8.2.2 At Government Level

The government as a regulator will apply the same rules to all BUMNs regardless of the industrial sector in which the BUMNs operate. The findings and discussion reveal that the Ministry of BUMN as the regulator has been aware of the need to control the agency costs by issuing the Ministerial Decree of BUMN No.PER-04/MBU/2014 on The Guidance of Remuneration for Directors, Commissioner, Oversight Board of State-Owned Enterprise. However, in order to succeed in the implementation of the ministerial decree and ensure the compliance of all the board member duality holders:

1) The remuneration should be supported by the internal control system, in order to monitor the compliance of all corporate boards with the ministerial decree issued by the Ministry of BUMN (see the finding versus the reality of research question 1; sections 7.1.);

2) The internal auditor conducts the financial auditing with the specific target of periodically auditing expenses and compliance (see the finding versus the reality of research question 1; sections 7.1.).

Then, the government should strengthen the institution of BUMN, since the findings reveal that a company's characteristic attributes were stronger in shaping the ethics and integrity dimension than were the individual attributes (see section 7.5.); therefore:

3) Corporate governance assessment which ensures that BUMNs and their subsidiary companies have been implementing good corporate governance should be conducted periodically.

8.2.3 At shareholding Agent Level

The shareholding agent is the agent who acts as a shareholder. The Ministry of BUMN, when acting as a shareholder of BUMN, could also be considered as the shareholding agent. Thus, the Ministry of BUMN has dual roles, namely as regulator and shareholding agent. The director of a parent company who is simultaneously a shareholder of the subsidiary company is also called the shareholding agent. Therefore, the following recommendations are addressed to shareholding agents.

1) *The Ministry of BUMN as the Shareholding Agent*
   (1) In line with the role of the Ministry of BUMN as the regulator, strengthening the institution of BUMN, which has an impact on ethics and integrity, could be performed via the decisions of the general meeting of shareholders by the Ministry of BUMN as the shareholding agent. For example, this could include the establishment of a corporate policy, corporate charter, board manual, code of corporate governance, code of ethics, the appointment of a corporate governance assessor etc. (see section 7.5.)
   (2) Appointing the number of corporate board member as considered effective and the number of female directors proportionately.
   (3) A policy regarding the conflict of interests occurring in the board member duality and resolution should be established (see section 7.5). In addition, the chairman of the general meeting of the subsidiary company shareholders should not be the shareholding agent who is the holder of board member duality.
   (4) Evaluating the remuneration formula for the corporate board member periodically, because either too low remuneration or too high remuneration is going to have relatively same impact that the board member duality holder would not give the best response to increase the subsidiary performance (see section 7.5.); and
   (5) Establishing the Key Performance Indicators for the parent company which covers the performance of the subsidiary company, tax compliance, and increasing in firm size (7.2.)

2) *The Parent Company Director as the Shareholding Agent*.

   (1) Strengthening the ethics and integrity of institutions by implementing good corporate governance practices in both parent company and subsidiary company (section 7.5.).

   (2) Applying points (2), (3), (4), and (5) for subsidiary companies; and

   (3) Implementing better debt management as the financial leverage to increase firm performance.

8.3. IMPLICATIONS FOR THEORY

This research has substantial implications for the Agency theory. Our research results confirm the Agency theory according to which the principal-agent relationship may create agency problems which give rise to the agency costs. The board member duality structure occurs when the principal or shareholder appoints the parent company's director to serve simultaneously as the commissioner in a subsidiary company. In the context of Agency theory, the duality holder is the agent of the shareholder. Uniquely, the shareholder of a BUMN or of a subsidiary company actually is the shareholding agent of the state which is delegated by the ultimate shareholder, i.e. the Public of the Republic of Indonesia. The board member duality impact negatively upon the agency costs which were defined as the costs incurred as a result of agency problems. The agency costs could be controlled if the principal establishes policies whereby the agent is given authority by the principal and monitors the implementation of policy by analysing the management report and the audit process to ensure the responsibilities of the board member duality in parent and subsidiary companies have been fulfilled.

The extensive literature review and evidence from this research indicate that the absence of provisions for a subsidiary company in the regulatory framework will decrease the accountability and transparency of the relationship between parent and subsidiary companies and in turn, will degrade the quality of corporate governance of BUMN in Indonesia. Further, it highlights the linkage between the board member duality and the agency costs, and the firm's performance. Therefore, the board member duality structure in parent and subsidiary companies of BUMNs needs to be accompanied by a strong regulatory framework that will control the agency costs, and simultaneously improve the firm's performance. This research also addressed the gap in knowledge regarding director duality that exists in State-Owned Enterprises, and emphasized the importance of improving the quality of corporate governance in parent and subsidiary companies in the State-Owned Enterprises. Moreover, this research also provides practical recommendations to strengthen the quality of corporate governance practised in parent and subsidiary companies that have the board member duality structure.

8.4. IMPLICATIONS FOR POLICY AND PRACTICE

This research has many implications for policy makers, business practitioners, shareholders, and BUMNs in Indonesia. It is critical that the legislature be able to provide a strong legal framework that is comprehensive enough to apply to business activities in both private and public sectors. The legal framework should clearly define the type of relationship between one company and another company, and the legal aspects which include the subsidiary company relation, joint venture, shell company, merger, etc. which grow dynamically and fast. The legal framework should also provide equal protection for the shareholder, especially for the minority interests which may be negatively affected by the unhealthy practices of corporate governance (bad corporate governance). The legislature's good intentions to improve the legal framework of business activities in both the private sector and State-Owned Enterprises will encourage other parties to participate in the improvements. The improvement is positive, but the intervention is not. The inclusion in the laws of business judgment rules for the corporate actions of BUMN will increase the effectiveness of law. In turn, certain laws may give the corporate BUMN administrators the courage to take a calculated risk to improve the performance of their respective BUMN. Moreover, a strong and comprehensive legal framework will prevent or minimize bad corporate governance practices in terms of the relationship among corporations, including the relationship between the parent company and its subsidiary.

Since the government is the regulator, the implications of the research results will enable it to improve its efficiency and corporate governance of BUMNs, especially regarding director duality. The government will maintain a level playing field for all BUMN business activities. The rules of the game for BUMNs which are issued by the government and are usually established by the Ministry of Finance, The Ministry of BUMN, and other Technical Ministries, will shape the corporate governance in Indonesia. Therefore, the corporate governance of the parent and subsidiary company which include the board structure, process, and rule shall be underlined and subject to good corporate governance rule. The subsidiary governance is expected to be more adept in implementing the corporate governance principles so that it is transparent, accountable, responsible, independent, and fair (TARIF).

The shareholding agents who are given authority to govern the BUMN and subsidiary will be more accountable and transparent in appointing the corporate board of BUMN. Inefficiency regarding the board member duality which raises the agency costs will be minimized. On the other hand, a set of key performance indicators for directors and commissioners of BUMN to achieve the targeted performance will be developed comprehensively and logically. The conflict of interests associated with the chairman of the general meeting of shareholders that may arise could be prevented or resolved by the mechanism explained in the procedure of the general meeting of shareholders. The issue of remuneration is a common but sensitive one when predicting the corporate board response, so the shareholding agents would periodically review the remuneration formula, especially when deciding the bonus for the holders of board member duality.

8.5. LIMITATIONS AND IMPLICATIONS FOR FURTHER RESEARCH

The major limitation of this research is that the references for board member duality in the State-Owned Enterprise which follows a two-tiered board system, especially for Indonesia were very sparse, as was the availability of data for the subsidiary companies of State-Owned Enterprises. As a result, a concerted effort to collect panel data for duality modelling generated only a relatively small amount of panel data spanning only five years (2009—2013).

Secondly, not all classical assumptions of statistical data were applied in this research, because the panel data acquired in this research was relatively limited spanning only five years. However, the limitation of the panel data modelling was minimized by comparing the panel data results with the results of the surveys and in-depth interviews summarized in the integrated matrix analysis for confirmation of the results.

Thirdly, there were many endogenous and explanatory variables in the model; therefore, only those endogenous and explanatory variables that have significant values in the model were subjected to in-depth analysis.

The triangulation method applied in this research was expected to produce comprehensive quantitative and qualitative results for all research instruments. However, an overemphasis on the methodology may produce several unwanted consequences and limitations as follows:

1) The objectivity of the research is frequently questionable, and raises concerns for sociologists and other social scientists who have long debated the objectivity issue. This poses a challenge to the simplistic understanding of the objective scientific

methods (Letherby et al., 2012). Are the issues raised in the research question truly objective or will they lead to bureaucratic dehumanization? (Brieschke, 1992). The researcher has used his previous experiences in corporate governance and explored the issue by discussing it with the relevant experts, and has attempted to understand the respondents' perceptions of the research issues.

2) The triangulation or mixed-methods approach was very time consuming since this research method requires that each of the quantitative and qualitative processes be finalized before moving to the integrative analysis stage process (see Terrell (2012)). Integrating quantitative and qualitative methods mean that two different paradigms are being integrated, which may destroy the epistemological foundation of each (Rosenberg, 2015). The researcher spent considerable time on the data analyses and used the panel data results as the basis, and then integrated them with the results of the survey and in-depth interviews to support (or otherwise) the panel data results.

3) The quantitative method is an adequate means of presenting the data, although the researcher may sometimes encounter difficulties in interpreting the results. In addition, quantifying a social behavior by means of statistics is very often a simplistic way of representing a more complex reality (Rossman and Wilson, 1985). The over reliance on the P-values and sample size will occur in the statistical tests. Thus, the manipulating of P-values using the sample size could occur in the statistical testing (Ioannidis, 2005).

4) The qualitative method was appropriate for describing a quality or the characteristics of a research object, but had less statistical power to verify the trend than did the quantitative approach. However, the researcher took the risk of collecting too much information some of which was not relevant to the research issue and could not be

used in the analysis. The complexity of the data obtained from the in-depth interviews might not have been summarised adequately, and fine details were omitted. In addition, the selection of words and data during the data analysis and discussion phase may be prone to subjective judgement. As a result, the analysis of qualitative data is difficult (Dixon-Woods et al., 2004). This research has attempted to reconcile the shortcomings of the various research methods by integrating all the research instruments into the integrated matrix analysis.

5) The panel data regression model might not represent the phenomena, might be biased and not efficient since several classical assumptions tests might not have been applied. When all classical assumptions have to be tested in order to hold true, then the problem regarding the sample size occurs, (see the normality test section 6.3.3). However, the number of annual reports of BUMNs and their subsidiaries published in the public media, as a sample for the research, were relatively limited. The researchers compared the panel data regression model using a common effects model, a fixed effects model, and a random effects model, and also applied a Hausman-test to find the better model. Since there was a considerable discrepancy between the statistics of the parent company and subsidiary company, the GLS weighted of cross-section was applied to the model. When the model results had P-values less than 0.05 and the R^2 was close to 1, then that model was chosen.

6) There is always that risk that respondents will misunderstand survey questions and/or statements. Regarding errors in human judgement, Schwarz (2014) states that "minor variations in the research procedures used or the question asked, can result in major differences in the obtained results, sometimes suggesting opposite conclusions about the issue under investigation." The researcher has attempted to minimize the risk by reviewing the questionnaire with the assistance of a linguistic expert, and also the

expert on the research area including the supervisor. Moreover, the researcher ensured that relevant explanations and clarifications were provided in the survey form.

7) The ethical consideration requires the promise of confidentiality to respondents. This means that findings and discussions should be made more general. Occasionally, the general view will result in lack of clarity or ambiguity since too much data can reveal the identity of a respondent.

Some respondents did not respond or only partly responded to the survey. This might not have significantly influenced the results, as Czaja and Blair (1996) suggest that if the number of non-responses is small, then they will not have a significant effect on the results. The non-response participants might not have had time to complete the rather extensive questionnaire, or considered themselves less competent to respond to the questionnaires, or felt that the questions were too narrowly focused. There is a saying that "no one size fits all" in corporate governance. The data sample used for this research consisted of parent and subsidiary companies of BUMN from various industrial sectors each of which has its own specific industry regulations. Some industries, such as the financial services and banking sector, have stringent regulations, whereas others do not. The panel data regression model of this research did not consider the specific characteristic of firms in their particular sector.

As previously mentioned, board member duality usually exists in companies which have a two-tier board system; hence, board member duality can exist in private companies as well as in State-Owned Enterprises. Moreover, private companies can have the board member duality structure, but with a less stringent legal framework. Hence, there is a need for further research to investigate the board member duality and agency costs in private companies.

8.6. Conclusion

The corporate governance of parent and subsidiary companies in the State-Owned Enterprises (BUMN) in Indonesia has received little attention from the public. However, the fact is that the subsidiary companies also contribute to the profit and loss of parent companies presented in the consolidated financial statement. In several BUMNs, the subsidiary company(s) has a bigger market share than does the parent company, and boosts the latter's profits. The board member duality which commonly occurs in parent and subsidiary companies, especially in countries that follow the two-tiered board system, is very often expected to perform many roles involving loss prevention, oversight, and performance. At the same time, the analysis of the board member duality structure shows that it has an impact on agency costs. This research has recommended additional provisions for subsidiary companies that include changes to the Limited Liability Act no. 40/2007 and the State-Owned Enterprise Act no.19/2003, and several practical recommendations for shareholding agents to strengthen the quality of corporate governance in parent and subsidiary companies. The most of the evidence gathered from this research shows that the board member duality practised in parent and subsidiary companies in State-Owned Enterprises are prone to conflict of interests which may impact on agency costs. However, the policies to BUMN and subsidiary companies will usually adapt to the ruling regime, so the results of the research may be relevant to a specific context since "there is no one size that fits all". Therefore, this research can be used as a reference point for corporate governance in BUMN, and further research should be undertaken based on the panel data collected over longer periods and across various regimes.

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Keputusan Menteri BUMN No. PER-21/MBU/2012 tahun 2012 tentang Pedoman Penerapan Akuntabilitas Keuangan badan Usaha Milik Negara [Ministerial Decree of SOE No.PER-21/MBU/2012 of 2012 on the Guidance of Financial accountability implementation of BUMN] (Indonesia)

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Keputusan Menteri BUMN No. PER-01/MBU/2011 tahun 2011 tentang Penerapan Tata Kelola Perusahaan Yang Baik (Good Corporate Governance) Pada Badan Usaha Milik Negara [Ministerial Decree of SOE No.PER-01/MBU/2011 of 2011 on the Implementation of Good Corporate Governance in BUMN] (Indonesia)

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Keputusan Menteri Hukum dan Hak Asasi Manusia No. AHU-17695.AH.01.02 tahun 2012 tentang Penetapan Nama PT Pupuk Sriwijaya [Ministerial Decree of Justice and Human Rights No.AHU-17695.AH.01.02 of 2012 on the Establishment of the Name of PT Pupuk Sriwijaya] (Indonesia)

Peraturan Bank Indonesia No. 8/14/PBI/2006 tahun 2006 tentang Perubahan Peraturan Bank Indonesia No.8/4/PBI/2006 of 2006 tentang Tata Kelola Perusahaan Yang Baik untuk bank komersiil [Regulation of Bank Indonesia No. 8/14/PBI/2006 on amendment to Regulation of Bank Indonesia Number 8/4/PBI/2006 Regarding Implementation of Good Corporate Governance for Commercial Banks] (Indonesia)

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Surat Sekretaris Utama Kementerian BUMN No. SK-16/S.MBU/2012 tahun 2012 tentang Indikator/parameter untuk evaluasi implementasi corporate governance di BUMN [The Letter from Primary Secretary of the Ministry of State-Owned Enterprises No. *SK-16/S.MBU/2012 of 2012* on indicator/parameter for the evaluation of implementation of corporate governance in State-Owned Enterprise] (Indonesia)

Surat Deputi Infrastruktur Bisnis Kementerian BUMN No. S-08/D7.MBU/08/2015 tahun 2015 tentang Pelaksanaan Asesmen Implementasi Kriteria Penilaian Kinerja Unggul tahun 2015 [The Letter from the Deputy of Business Infrastructure of the Ministry of State-Owned Enterprises No. *S-08/D7.MBU/08/2015 of 2015* on the Assessment of the Implementation of Excellent Performance of the year 2015] (Indonesia)

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APPENDICES

APPENDIX A: PANEL DATA SAMPLE

No.	Companies	Status	Industry
1.	**PT BNI 1946**	**Parent Company**	**Finance and Insurance**
2.	PT BNI Life Insurance	Subsidiary	*Finance and Insurance*
3.	PT Bank BNI Syariah	Subsidiary	*Finance and Insurance*
4.	**PT Bank Mandiri**	**Parent Company**	**Finance and Insurance**
5.	PT Bank Syariah Mandiri	Subsidiary	*Finance and Insurance*
6.	PT AXA Mandiri Financial Service	Subsidiary	*Finance and Insurance*
7.	PT Mandiri Sekuritas	Subsidiary	*Finance and Insurance*
8.	PT Mandiri Tunas Finance	Subsidiary	*Finance and Insurance*
9.	PT Sinar Harapan Bali	Subsidiary	*Finance and Insurance*
10.	**PT Pertamina**	**Parent Company**	**Mining**
11.	PT Pertamina EP	Subsidiary	*Mining*
12.	PT Patra Jasa	Subsidiary	*Hotel and Restaurant*
13.	PT Pertamina EP Cepu	Subsidiary	*Mining*
14.	PT Perta Medika	Subsidiary	*Hospital*
15.	PT PHE	Subsidiary	*Mining*
16.	PT Pertamina Retail	Subsidiary	*Mining*
17.	PT Tugu Pratama	Subsidiary	Insurance
18.	**PT PLN**	**Parent Company**	**Gas, Steam, and Cold Air**
19.	PT Bahtera Adiguna	Subsidiary	*Transport*
20.	PT Icon Plus	Subsidiary	*Gas, Steam, and Cold Air*
21.	PT Indonesia Power	Subsidiary	*Gas, Steam, and Cold Air*
22.	PT PJB	Subsidiary	*Gas, Steam, and Cold Air*
23.	PT PLN Batam	Subsidiary	*Gas, Steam, and Cold Air*
24.	PT PLNE	Subsidiary	*Gas, Steam, and Cold Air*
25.	**PT Pupuk Indonesia**	**Parent Company**	**Processing**
26.	PT Mega Eltra	Subsidiary	*Wholesaler and Retailer*
27.	PT Pupuk Iskandar Muda	Subsidiary	*Fertilizer*
28.	PT Pupuk Kaltim	Subsidiary	*Fertilizer*
29.	PT Pupuk Kujang	Subsidiary	*Fertilizer*
30.	PT Rekayasa Industri	Subsidiary	*Fertilizer*
31.	PT Pupuk Sriwijaya	Subsidiary	*Fertilizer*
32.	PT Petrokimia Gresik	Subsidiary	*Fertilizer*
33.	**PT Semen Indonesia**	**Parent Company**	**Processing**
34.	PT Semen Tonasa	Subsidiary	*Cement*
35.	PT Semen Padang	Subsidiary	*Cement*
36.	**PT Telkom**	**Parent Company**	**Information and Telecomm.**
37.	PT Telkomsel	Subsidiary	*Information and Telecommunication*
38.	**PT WIKA**	Subsidiary	**Construction**
39.	PT WIKA Beton	Subsidiary	*Construction*
40.	**PT Garuda Indonesia**	**Parent Company**	**Transport**
41.	PT GMF	Subsidiary	*Maintenance and Facility*
42.	PT Aerowisata	Subsidiary	*Hotel and Restaurant*
43.	**PT RNI**	**Parent Company**	**Agriculture and Plantation**
44.	PT PG Rajawali I	Subsidiary	*Agriculture and Plantation*
45.	PT PG Rajawali II	Subsidiary	*Agriculture and Plantation*
46.	PT Rajawali Nusindo	Subsidiary	*Agriculture and Plantation*
47.	PT Phapros	Subsidiary	*Processing*

APPENDIX B: LIST OF PARENT COMPANIES OF THE STATE OWNED ENTERPRISES

No.	Parent Company	Industry Sector	Government Ownerships	Number of Directors	Number of Commissionaires
1	PTPN III	Agricultural, Forestry, and Fishery	100%	5	5
2	PT RNI	Agricultural, Forestry, and Fishery	100%	4	3
3	Perum Perhutani	Agricultural, Forestry, and Fishery	100%	7	8
4	PT Antam Tbk	Mining and Excavating	65%	5	6
5	PT Timah Tbk	Mining and Excavating	65%	6	5
6	PT Bukit Asam	Mining and Excavating	65%	6	6
7	PT Pertamina	Mining and Excavating	100%	7	4
8	PT PPI	Wholesaler and Retailer	100%	5	4
9	PT Sarinah	Wholesaler and Retailer	100%	3	3
10	PT Pupuk Indonesia	Manufacturing	100%	6	6
11	PT Semen Indonesia	Manufacturing	51%	7	7
12	PT Dirgantara Indonesia	Manufacturing	100%	6	5
13	PT Pal Indonesia	Manufacturing	100%	6	5
14	PT Pindad	Manufacturing	100%	5	5
15	PT Krakatau Steel	Manufacturing	80%	7	6
16	PT INKA	Manufacturing	100%	4	4
17	PT DKB	Manufacturing	100%	4	4
18	Perum Peruri	Manufacturing	100%	5	5
19	PT Kertas Leces	Manufacturing	100%	1	2
20	PT Indofarma Tbk	Manufacturing	80.66%	4	4
21	PT Kimia Farma	Manufacturing	90%	5	4
22	PT LEN	Manufacturing	100%	4	4
23	Perum LKBN Antara	Information and Telecommunication	100%	5	3
24	PT Inti	Information and Telecommunication	100%	3	4
25	PT Telkom	Information and Telecommunication	53.9%	8	7
26	PT Surveyor Indonesia	Professional, Scientific, & Technical Services	85.12%	2	3
27	PT Sucofindo	Professional, Scientific, & Technical Services	95%	4	4
28	PT PGN	Gas, Steam and Cold Air	56.96%	6	6
29	PT PLN	Gas, Steam and Cold Air	100%	8	8
30	PT Pelabuhan Indonesia I	Transport and Storage	100%	4	5
31	PT Pelabuhan Indonesia II	Transport and Storage	100%	6	6
32	PT Pelabuhan Indonesia III	Transport and Storage	100%	4	5
33	PT Angkasa Pura I	Transport and Storage	100%	6	6
34	PT Angkasa Pura II	Transport and Storage	100%	6	6
35	PT KAI	Transport and Storage	100%	9	7

No.	Parent Company	Industry Sector	Government Ownerships	Number of Directors	Number of Commissionaires
36	PT Garuda Indonesia	Transport and Storage	60.51%	6	6
37	PT Pelni	Transport and Storage	100%	6	6
38	PT POS Indonesia	Transport and Storage	100%	6	6
39	PT Jasa Marga Tbk	Transport and Storage	70%	6	5
40	PT Adhi Karya	Construction	51%	6	6
41	PT PP Tbk	Construction	51%	6	5
42	PT Hutama Karya	Construction	100%	6	6
43	PT Wijaya Karya	Construction	66.37%	6	5
44	PERUMNAS	Construction	100%	5	5
45	PT Waskita Karya	Construction	70%	6	6
36	PT BNI Tbk	Financial Services and Insurance	60%	10	8
37	PT Bank Rakyat Indonesia (Persero) Tbk	Financial Services and Insurance	56.75%	11	8
48	PT Bank Mandiri (Persero) Tbk	Financial Services and Insurance	60%	11	7
49	PT Asuransi Jiwasraya	Financial Services and Insurance	100%	4	4
50	PT Taspen	Financial Services and Insurance	100%	6	6
51	PT Jasindo	Financial Services and Insurance	100%	4	5
52	PT Jasa Raharja	Financial Services and Insurance	100%	5	5
53	PT PPA	Financial Services and Insurance	100%	4	4
54	PT Danareksa	Financial Services and Insurance	100%	3	4
55	PT PNM	Financial Services and Insurance	100%	4	4
56	PT Pegadaian	Financial Services and Insurance	100%	6	5
57	PT BPUI	Financial Services and Insurance	100%	3	3
58	PT TWC	Real Estate	100%	4	4
59	PT Pengembangan Pariwisata Bali	Real Estate	100%	3	4
	TOTAL			320	302
	TOTAL BOARD MEMBER				622

APPENDIX C: LIST OF PARENT AND SUBSIDIARY COMPANIES

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
1	PTPN III	1	PTPN I	Agricultural, Forestry, and Fishery	90.00%
		2	PTPN II	Agricultural, Forestry, and Fishery	90.00%
		3	PT Industri Karet Nusantara	Agricultural, Forestry, and Fishery	99.99%
		4	PT ESW Nusantara	Agricultural, Forestry, and Fishery	74.11%
		5	JIC Wood Company Ltd.	Agricultural, Forestry, and Fishery	100.00%
		6	PTPN IV	Agricultural, Forestry, and Fishery	90.00%
		7	PTPN V	Agricultural, Forestry, and Fishery	90.00%
		8	PTPN VI	Agricultural, Forestry, and Fishery	90.00%
		9	PTPN VII	Agricultural, Forestry, and Fishery	90.00%
		10	PTPN VIII	Agricultural, Forestry, and Fishery	90.00%
		11	PTPN IX	Agricultural, Forestry, and Fishery	90.00%
		12	PTPN X	Agricultural, Forestry, and Fishery	90.00%
		13	PTPN XI	Agricultural, Forestry, and Fishery	90.00%
		14	PTPN XII	Agricultural, Forestry, and Fishery	90.00%
		15	PTPN XIII	Agricultural, Forestry, and Fishery	90.00%
		16	PTPN XIV	Agricultural, Forestry, and Fishery	90.00%
		17	PT Sinar Oleo Nusantara	Agricultural, Forestry, and Fishery	100.00%
2	PT RNI	18	PT PG Rajawali I	Agricultural, Forestry, and Fishery	100.00%
		19	PT PG Rajawali II	Agricultural, Forestry, and Fishery	100.00%
		20	PT PG Candi Baru	Agricultural, Forestry, and Fishery	98.85%
		21	PT PG Madu Baru	Agricultural, Forestry, and Fishery	35.00%
		22	PT Perkebunan Mitra Ogan	Agricultural, Forestry, and Fishery	73.58%
		23	PT Perkebunan Mitra Kerinci	Agricultural, Forestry, and Fishery	100.00%
		24	PT Rajawali Nusindo	Agricultural, Forestry, and Fishery	100.00%
		25	PT GIEB Indonesia	Agricultural, Forestry, and Fishery	65.92%
		26	PT Rajawali Citramass	Agricultural, Forestry, and Fishery	100.00%
		27	PT Rajawali Tanjung Sari	Agricultural, Forestry, and Fishery	100.00%
		28	PT Rajawali Gloves	Agricultural, Forestry, and Fishery	61.25%
		29	PT Mitra Rajawali Banjaran	Agricultural, Forestry, and Fishery	100.00%
		30	PT Phapros Tbk	Agricultural, Forestry, and Fishery	56.57%
		31	PT Laras Astra Kartika	Agricultural, Forestry, and Fishery	99.99%
		32	PT Kharisma Pemasaran Bersama Nusantara	Agricultural, Forestry, and Fishery	7.00%
		33	PT Padi Energi Nusantara	Agricultural, Forestry, and Fishery	14.00%
		34	PT BUMN Hijau Lestari	Agricultural, Forestry, and Fishery	8.00%
		35	PT Riset Perkebunan Nusantara	Agricultural, Forestry, and Fishery	7.00%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
3	**PERUM PERHUTANI**	36	PT PALAWI	Agricultural, Forestry, & Fishery	99.83%
		37	PT PAK	Agricultural, Forestry, & Fishery	55.00%
		38	PT Inhutani I	Agricultural, Forestry, & Fishery	100.00%
		39	PT Inhutani II	Agricultural, Forestry, & Fishery	100.00%
		40	PT Inhutani III	Agricultural, Forestry, & Fishery	100.00%
		41	PT Inhutani IV	Agricultural, Forestry, & Fishery	100.00%
		42	PT Inhutani V	Agricultural, Forestry, & Fishery	100.00%
4	**PT ANTAM TBK**	43	PT GAG Nikel Indonesia	Mining and excavating	100.00%
		44	PT Citra Tobindo Sukses Perkasa (Indonesia)	Mining and excavating	100.00%
		45	PT Feni Haltim (Indonesia)	Mining and excavating	100.00%
		46	PT Borneo Edo International Agro (Indonesia)	Mining and excavating	100.00%
		47	PT Gunung Kendaik (Indonesia)	Mining and excavating	100.00%
		48	PT Nusa Karya Arindo (Indonesia)	Mining and excavating	100.00%
		49	PT Sumber Daya Arindo (Indonesia)	Mining and excavating	100.00%
		50	PT Borneo Alumina Indonesia (Indonesia)	Mining and excavating	100.00%
		51	PT Antam Energi (Indonesia)	Mining and excavating	100.00%
		52	Asia Pacific Nickel Pty. Ltd.	Mining and excavating	100.00%
		53	PT Abuki Jaya Stainless Indonesia	Mining and excavating	99.50%
		54	PT Antam Resourcindo	Mining and excavating	99.98%
		55	PT Borneo Edo International	Mining and excavating	99.50%
		56	PT Cibaliung Sumberdaya	Mining and excavating	99.15%
		57	PT Dwi Mitra Enggang Khatulistiwa	Mining and excavating	99.50%
		58	PT Indonesia Coal Resources	Mining and excavating	99.98%
		59	PT International Mineral	Mining and excavating	99.00%
		60	PT Mega Citra Utama	Mining and excavating	99.50%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
5	PT TIMAH TBK	61	PT Timah Investasi Mineral	Mining and excavating	99.99%
		62	PT Tanjung Alam Jaya	Mining and excavating	50.00%
		63	PT Indometal London	Mining and excavating	100.00%
		64	Indometal Limited	Mining and excavating	100.00%
		65	PT Dok dan Perkapalan Air Kantung	Mining and excavating	90.00%
		66	PT Tambang Timah	Mining and excavating	100.00%
		67	PT Timah Industri	Mining and excavating	99.99%
		68	PT Timah Eksplomin	Mining and excavating	100.00%
		69	PT Kuta Raja Tembaga Raya	Mining and excavating	100.00%
		70	PT Timah International Investment	Mining and excavating	100.00%
		71	Great Force Trading Ltd	Mining and excavating	100.00%
		72	PT Timah Bemban Babel	Mining and excavating	100.00%
		73	Rumah Sakit Bakti Timah	Mining and excavating	100.00%
6	PT BUKIT ASAM TBK	74	PT Batubara Bukit Kendi	Mining and excavating	75.00%
		75	PT Bukit Multi Investama	Mining and excavating	99.99%
		76	PT Bukit Asam Prima	Mining and excavating	99.99%
		77	PT Bukit Asam Metana Ombilin	Mining and excavating	99.99%
		78	PT Bukit Asam Metana Enim	Mining and excavating	99.99%
		70	PT Bukit Asam Metana Peranap	Mining and excavating	99.99%
		80	PT Bukit Asam Banko	Mining and excavating	65.00%
		81	PT Internasional Prima Cemerlang	Mining and excavating	51.00%
		82	PT International Prima Coal	Mining and excavating	51.00%
		83	PT Bukit Prima Bahari	Mining and excavating	99.99%
		84	Anthrakas Pte Ltd	Mining and excavating	99.99%
		85	PT Pelabuhan Bukit Prima	Mining and excavating	99.99%
		86	PT Bukit Asam Medika	Mining and excavating	99.99%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
7	PT PERTAMINA	87	PT Pertamina Energy Trading Limited	Mining and excavating	100.00%
		88	Pt Pertamina EP	Mining and excavating	100.00%
		89	PT Pertamina Geothermal Energy	Mining and excavating	100.00%
		90	PT Pertamina Gas	Mining and excavating	100.00%
		91	PT Pertamina Hulu Energi	Mining and excavating	100.00%
		92	PT Pertamina EP Cepu	Mining and excavating	100.00%
		93	PT Pertamina Drilling Service Indonesia	Mining and excavating	100.00%
		94	PT Pertamina Retail	Mining and excavating	100.00%
		95	PT Pertamina Dana Ventura	Mining and excavating	99.93%
		96	PT Pertamina Bina Medika	Mining and excavating	99.98%
		97	PT Patrajasa	Mining and excavating	99.98%
		98	PT Pelita Air Services	Mining and excavating	99.99%
		99	Pertamina Training And Consulting	Mining and excavating	91.00%
		100	PT Elnusa	Mining and excavating	41.10%
		101	PT Pertamina Patra Niaga	Mining and excavating	100.00%
		102	PT Pertamina Trans Kotinental	Mining and excavating	99.99%
		103	Pertamina E&P Libya Limited	Mining and excavating	100.00%
		104	PT Tugu Pratama Indonesia	Mining and excavating	65.00%
		105	PT Pertamina East Natuna	Mining and excavating	100.00%
		106	PT Pertamina EP Cepu Alas Dara & Kemuning	Mining and excavating	100.00%
		107	PT Pertamina Lubricants	Mining and excavating	100.00%
		108	PT Pertamina International EP	Mining and excavating	100.00%
		109	Conoco Philips Algeria Limited, Cayman Island	Mining and excavating	100.00%
8	PT PPI	110	PT Dharma Niaga Putra Steel	Wholesaler and Retail Trade Sectors	99.90%
		111	PT Trisari Veem	Wholesaler and Retail Trade Sectors	60.00%
9	PT SARINAH	112	PT Sari Valuta Asing	Wholesaler and Retail Trade Sectors	99.00%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
10	**PT PUPUK INDONESIA**	113	PT Pupuk Sriwidjaja Palembang	Manufacturing	99.99%
		114	PT Petrokimia Gresik	Manufacturing	99.99%
		115	PT Pupuk Kujang	Manufacturing	99.99%
		116	PT Pupuk Kalimantan Timur	Manufacturing	99.99%
		117	PT Pupuk Iskandar Muda	Manufacturing	99.99%
		118	PT Rekayasa Industri	Manufacturing	90.00%
		119	PT Mega Eltra	Manufacturing	98.73%
		120	PT Pupuk Indonesia Logistik	Manufacturing	97.00%
		121	PT Pupuk Indonesia Energi	Manufacturing	91.00%
		122	PT United Tractor Semen Gresik (UTSG)	Manufacturing	55.00%
11	**PT SEMEN INDONESIA**	123	PT SGG Energi Prima	Manufacturing	97.00%
		124	PT Semen Tonasa	Manufacturing	99.90%
		125	Thang Long Cement Company	Manufacturing	70.00%
		126	PT Semen Padang	Manufacturing	99.90%
		127	PT Kawasan Industri Gresik	Manufacturing	65.00%
		128	PT Industri Kemasan Semen Gresik	Manufacturing	60.00%
		129	PT SGG Prima Beton	Manufacturing	99.90%
		130	PT Krakatau Semen Indonesia	Manufacturing	50.00%
		131	PT Semen Gresik	Manufacturing	99.20%
12	**PT DIRGANTARA INDONESIA**	132	IPTN North America Inc.	Manufacturing	99.99%
		133	PT Nusantara Turbin Propulsi	Manufacturing	100.00%
13	**PT PAL INDONESIA**	134	PT PAL Indonesia Marine Service	Manufacturing	99.80%
14	**PT PINDAD**	135	PT Cakra Mandiri Pratama Indonesia	Manufacturing	99.97%
15	**PT KRAKATAU STEEL**	136	PT Krakatau Wajatama	Manufacturing	100.00%
		137	PT krakatau Daya Listrik	Manufacturing	100.00%
		138	PT KHI Pipe Industries	Manufacturing	98.48%
		139	PT Krakatau Industrial Estate Cilegon	Manufacturing	100.00%
		140	PT Krakatau Engineering	Manufacturing	100.00%
		141	PT Krakatau Bandar Samudera	Manufacturing	100.00%
		142	PT Krakatau Tirta Industri	Manufacturing	100.00%
		143	PT Krakatau Medika	Manufacturing	97.55%
		144	PT Krakatau Information Technology	Manufacturing	100.00%
		145	PT Meratus Jaya Iron & Steel	Manufacturing	66.00%
		146	PT Krakatau Natural Resources	Manufacturing	100.00%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
16	**PT INKA**	147	PT Rekaindo Global Jasa	Manufacturing	49.00%
		148	PT Railindo Global Karya	Manufacturing	45.30%
17	**PT DKB**	149	PT Kodja Terramarin	Manufacturing	100.00%
		150	PT Airin	Manufacturing	100.00%
19	**PERUM PERURI**	151	PT Peruri Wita Timur	Manufacturing	67.00%
		152	PT Peruri Digital Security	Manufacturing	99.63%
		153	PT Kertas Padalarang	Manufacturing	92.59%
		154	PT Peruri Properti	Manufacturing	99.00%
20	**PT KETAS LECES**	155	PT Lebercon Perkasa	Manufacturing	48.40%
		156	PT Sinar Fajar Konfertindo	Manufacturing	24.00%
21	**PT INDOFARMA TBK**	157	PT Indofarma Global Medika	Manufacturing	99.99%
22	**PT KIMIA FARMA TBK**	158	PT Kimia Farma Apotik	Manufacturing	99.99%
		159	PT Kimia Farma Trading & Distribution	Manufacturing	99.99%
		160	PT Sinkona Indonesia Lestari	Manufacturing	56.02%
		161	PT Kimia Farma Diagnostika	Manufacturing	99.00%
23	**PERUM LKBN ANTARA**	162	PT Antar Kencana Utama Estate	Infocom	100.00%
		163	PT IMQ Multimedia Utama	Infocom	98.00%
24	**PT INTI**	164	PT Inti Pindad Mitra Sejati	Infocom	86.15%
		165	PT Inti konten Indonesia	Infocom	99.99%
25	**PT TELKOM**	166	PT Telkomsel	Infocom	65.00%
		167	PT Dayamitra Telekomunikasi	Infocom	100.00%
		168	PT Telekomunikasi Indonesia Internasional	Infocom	100.00%
		169	PT Multimedia Nusantara	Infocom	100.00%
		170	PT Pramindo	Infocom	100.00%
		171	PT Infomedia	Infocom	100.00%
		172	PT Indonusa	Infocom	100.00%
		173	PT Graha Sarana Duta	Infocom	99.99%
		174	PT Napsindo	Infocom	60.00%
		175	PT Telkom Akses	Infocom	100.00%
26	**PT LEN**	176	PT Eltran Indonesia	Manufacturing	90.00%
		177	PT Surya Energi Indotama	Manufacturing	90.00%
		178	PT Len Railway System	Manufacturing	90.00%
27	**PT SURVEYOR INDONESIA**	179	PT Synerga Tata International	Professional, Scientific, & Technical Services	60.00%
		180	Surveyour Carbon Consulting Indonesia	Professional, Scientific, & Technical Services	50.00%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
28	PT SUCOFINDO	181	PT Sucofindo Advisory Utama	Professional, Scientific, & Technical Services	91.43%
		182	PT Sucofindo Episi	Professional, Scientific, & Technical Services	95.00%
		183	PT Sucofindo Logistik	Professional, Scientific, & Technical Services	80.00%
29	PT PGN	184	PT Transportasi Gas Indonesia	Procurement of Gas, Steam and Cold Air	59.87%
		185	PT Gas Telekomunikasi Nusantara	Procurement of Gas, Steam and Cold Air	99.93%
		186	PT PGAS Solution	Procurement of Gas, Steam and Cold Air	99.91%
		187	PT Saka Energi Indonesia	Procurement of Gas, Steam and Cold Air	100.00%
		188	PT PGN LNG	Procurement of Gas, Steam and Cold Air	100.00%
		189	PT Gagas Energi Indonesia	Procurement of Gas, Steam and Cold Air	100.00%
		190	PGN Euro Finance 2003 Ltd.	Procurement of Gas, Steam and Cold Air	
30	PT PLN	191	PT Indonesia Power	Procurement of Gas, Steam and Cold Air	99.99%
		192	PT Pembangkitan Jawa Bali	Procurement of Gas, Steam and Cold Air	99.99%
		193	PT Pelayanan Listrik Nasional Batam	Procurement of Gas, Steam and Cold Air	99.99%
		194	PT Indonesia Comnets Plus	Procurement of Gas, Steam and Cold Air	99.99%
		195	PT PLN Tarakan	Procurement of Gas, Steam and Cold Air	99.99%
		196	PT PLN Batubara	Procurement of Gas, Steam and Cold Air	99.99%
		197	PT PLN Geothermal	Procurement of Gas, Steam and Cold Air	99.99%
		198	PT Pelayaran Bahtera Adhiguna	Procurement of Gas, Steam and Cold Air	99.99%
		199	PT Prima Layanan Nasional Enjiniring	Procurement of Gas, Steam and Cold Air	99.90%
		200	Majapahit Holding BV	Procurement of Gas, Steam and Cold Air	100.00%
		201	PT Haleyora Power	Procurement of Gas, Steam and Cold Air	99.99%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
31	**PT BANK MANDIRI TBK**	202	PT Bank Syariah Mandiri	Financial Services & Insurance	99.99%
		203	PT Usaha Gedung Mandiri	Financial Services & Insurance	99.00%
		204	PT Bumi Daya Plaza	Financial Services & Insurance	93.33%
		205	Bank Mandiri (Europe) Limited	Financial Services & Insurance	100.00%
		206	PT Mandiri Sekuritas	Financial Services & Insurance	99.99%
		207	PT Bank Sinar Harapan Bali	Financial Services & Insurance	81.46%
		208	PT Mandiri Tunas Finance	Financial Services & Insurance	51.00%
		209	MIR Berhad	Financial Services & Insurance	100.00%
		210	PT AXA Mandiri Financial Services	Financial Services & Insurance	51.00%
		211	PT Mandiri AXA General Insurance	Financial Services & Insurance	60.00%
		212	PT Auransi Jiwa Inhealth Indonesia	Financial Services & Insurance	60.00%
32	**PT BANK BRI TBK**	213	PT Bank BRI Syariah	Financial Services & Insurance	99.99%
		214	PT Bank Rakyat Indonesia Agroniaga Tbk	Financial Services & Insurance	79.78%
		215	BRI Remmittance Co. Ltd	Financial Services & Insurance	100.00%
33	**PT BNI TBK**	216	PT BNI Life Insurance	Financial Services & Insurance	60.00%
		217	PT BNI Multifinance	Financial Services & Insurance	99.98%
		218	PT BNI Securities	Financial Services & Insurance	75.00%
		219	BNI Remittance Ltd.	Financial Services & Insurance	100.00%
		220	PT Bank BNI Syariah	Financial Services & Insurance	99.90%
34	**PT ASURANSI JIWASRAYA**	221	PT Stannia Binekajasa	Financial Services & Insurance	99.00%
		222	PT Mitrasraya Adhijasa	Financial Services & Insurance	99.00%
35	**PT TASPEN**	223	PT Arthaloka Indonesia	Financial Services & Insurance	90.13%
36	**PT JASA RAHARJA**	224	PT Asuransi Jasaraharja Putera	Financial Services & Insurance	93.80%
37	**PT PPA**	225	PT PPA Finance	Financial Services & Insurance	99.99%
		226	PT Nindya Karya	Financial Services & Insurance	99.00%
		227	PT Nindya Beton	Financial Services & Insurance	100.00%
		228	PT PPA Kapital	Financial Services & Insurance	99.99%
38	**PT DANAREKSA**	229	PT Danareksa Sekuritas	Financial Services & Insurance	99.999%
		230	PT Danareksa Investment Management	Financial Services & Insurance	99.997%
		231	PT Danareksa Finance	Financial Services & Insurance	99.995%
		232	PT Danareksa Capital	Financial Services & Insurance	99.990%
		233	PT Danareksa Investa Flexi 1	Financial Services & Insurance	100.000%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
39	PT PNM	234	PT PNM Investment Management	Financial Services & Insurance	99.99%
		235	PT PNM Venture Capital	Financial Services & Insurance	99.99%
		236	BPRS Patuh Beramal	Financial Services & Insurance	63.33%
		237	BPRS Mentari	Financial Services & Insurance	55.28%
		238	BPRS Rizky Barokah	Financial Services & Insurance	60.00%
40	PT PEGADAIAN	239	PT Balai Lelang Artha Gasia	Financial Services & Insurance	99.99%
41	PT BPUI	240	PT Bahana Artha Ventura	Financial Services & Insurance	99.45%
		241	PT Bahana Securities	Financial Services & Insurance	99.20%
		242	PT Grahaniaga Tatautama	Financial Services & Insurance	55.88%
		243	PT Bahana TCW Investment Management	Financial Services & Insurance	60.00%
		244	PT Bahana Mitra Usaha	Financial Services & Insurance	100.00%
		245	PT Bahana Mitra Investa	Financial Services & Insurance	99.10%
42	PT PELINDO I	246	PT Prima Terminal Peti Kemas Indonesia	Transportation & Storage	70.00%
43	PT PELINDO II	247	PT EDI Indonesia	Transportation & Storage	51.00%
		248	PT Multi Terminal Indonesia (MTI)	Transportation & Storage	99.00%
		249	PT Rumah Sakit Pelabuhan	Transportation & Storage	99.52%
		250	PT Indonesia Kendaraan Terminal	Transportation & Storage	99.99%
		251	PT Integrasi Logistik Cipta Solusi	Transportation & Storage	51.00%
		252	PT Pengembang Pelabuhan Indonesia	Transportation & Storage	99.99%
		253	PT Jasa Peralatan Pelabuhan	Transportation & Storage	99.99%
		254	PT Energi Pelabuhan Indonesia	Transportation & Storage	55.00%
		255	PT Pengerukan Indonesia	Transportation & Storage	99.90%
		256	PT Jasa Armada Indonesia	Transportation & Storage	99.99%
		257	PT Pendidikan Maritim dan Logistik Indonesia	Transportation & Storage	99.99%
		258	PT Pelabuhan Tanjung Priok	Transportation & Storage	99.99%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
44	PT PELINDO III	259	PT Terminal Peti kemas Surabaya	Transportation & Storage	50.50%
		260	PT Rumah Sakit Pelabuhan Surabaya	Transportation & Storage	98.73%
		261	PT Berlian Jasa Terminal Indonesia	Transportation & Storage	96.84%
		262	PT Pelindo Marine services	Transportation & Storage	97.89%
		263	PT Terminal Teluk Lamong	Transportation & Storage	99.50%
		264	PT Pelindo Daya Sejahtera	Transportation & Storage	90.00%
		265	PT Berlian Manyar Sejahtera	Transportation & Storage	60.00%
		266	PT Pelindo Properti Indonesia	Transportation & Storage	99.00%
		267	PT Alur Pelayaran Barat Surabaya	Transportation & Storage	60.00%
		268	PT Pelindo Energi Logistik	Transportation & Storage	90.00%
		269	PT Pelindo Daya Solusi	Transportation & Storage	99.00%
45	PT ANGKASA PURA I	270	PT Angkasa Pura Hotel	Transportation & Storage	99.97%
		271	PT Angkasa Pura Property	Transportation & Storage	99.85%
		272	PT Angkasa Pura Support	Transportation & Storage	98.61%
		273	PT Angkasa Pura Logistic	Transportation & Storage	98.00%
		274	PT Angkasa Pura Retail	Transportation & Storage	75.50%
46	PT ANGKASA PURA II	275	PT Angkasa Pura Solusi	Transportation & Storage	99.99%
47	PT KAI	276	PT Restorasi Multi Usaha	Transportation & Storage	95.01%
		277	PT Railink	Transportation & Storage	60.00%
		278	PT KAI Commuter Jabodetabek	Transportation & Storage	99.76%
		279	PT KA Properti Manajemen	Transportation & Storage	99.90%
		280	PT KA Pariwisata	Transportation & Storage	99.90%
		281	PT KA Logistik	Transportation & Storage	99.90%
48	PT GARUDA INDONESIA	282	PT Abacus Distribution Systems Indonesia	Transportation & Storage	95.00%
		283	PT Aero System Indonesia	Transportation & Storage	99.99%
		284	PT Aero Wisata	Transportation & Storage	99.99%
		285	PT Citilink Indonesia	Transportation & Storage	99.99%
		286	PT Garuda Maintenance Facility Aero Asia	Transportation & Storage	99.99%
		287	Garuda Holiday France SAS	Transportation & Storage	100.00%
		288	PT Gapura Angkasa	Transportation & Storage	58.75%
49	PT PELNI	289	PT Sarana Bandar Nasional	Transportation & Storage	99.47%
		290	PT Pelita Indonesia Djaja Corporation	Transportation & Storage	99.50%
		291	PT Rumah Sakit Pelni	Transportation & Storage	99.96%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
50	**PT POS INDONESIA**	292	PT Bakti Wasantara Net	Transportation & Storage	51.00%
		293	PT Pos Logistik Indonesia	Transportation & Storage	100.00%
		294	PT Pos Property Indonesia	Transportation & Storage	99.00%
51	**PT JASA MARGA TBK**	295	PT Jalan Lingkar Luar Jakarta	Transportation & Storage	99.00%
		296	PT Marga Sarana Jabar	Transportation & Storage	55.00%
		297	PT Trans Marga Jateng	Transportation & Storage	73.90%
		298	PT Marga Kunciran Cengkareng	Transportation & Storage	76.15%
		299	PT Marga Trans Nusantara	Transportation & Storage	60.00%
		300	PT Marga Lingkar Jakarta	Transportation & Storage	65.00%
		301	PT Marga Nujyasumo Agung	Transportation & Storage	55.00%
		302	PT Transmarga Jatim Pasuruan	Transportation & Storage	97.20%
		303	PT Jasa Marga Pandaan Tol	Transportation & Storage	79.84%
		304	PT Jasamarga Bali Tol	Transportation & Storage	55.00%
		305	PT Jasamarga Kualanamu Tol	Transportation & Storage	55.00%
		306	PT Jasa Layanan Pemeliharaan	Transportation & Storage	99.00%
		307	PT Jasa Marga Properti	Transportation & Storage	99.00%
52	**PT ADHI KARYA**	308	PT Adhi Persada Properti	Construction Services	99.00%
		309	PT Adhi Persada Realty	Construction Services	99.97%
		310	PT Adhi Persada Gedung	Construction Services	99.00%
		311	Adhi Multipower, Pte Ltd.	Construction Services	99.00%
53	**PT PP TBK**	312	PT Alam Inti Energi	Construction Services	30.00%
		313	PT Muba Daya Pratama	Construction Services	49.00%
		314	PT Citra Wasspphutowa	Construction Services	12.50%
		315	PT Mitracipta Polasarana	Construction Services	4.67%
		316	PT PP Taisei	Construction Services	15.00%
54	**PT HUTAMA KARYA**	317	PT Hakaaston	Construction Services	99.75%
		318	PT Hakapole	Construction Services	99.75%
		319	PT HK Realtindo	Construction Services	99.75%
55	**PT WIJAYA KARYA**	320	PT Wijaya Karya Beton	Construction Services	78.40%
		321	PT Wijaya Karya Intrade	Construction Services	96.50%
		322	PT Wijaya Karya Realty	Construction Services	85.26%
		323	PT Wijaya Karya Bangunan Gedung	Construction Services	99.00%
		324	PT Wijaya Karya Insan Pertiwi	Construction Services	90.04%
		325	PT Wijaya Karya Jabar Power	Construction Services	55.00%
56	**PERUMNAS**	326	PT Propernas Griya Utama	Construction Services	97.00%

NO.	PARENT COMPANY	No.	SUBSIDIARY COMPANY	INDUSTRY SECTOR	PARENT OWNERSHIP
57	**PT WASKITA KARYA**	327	PT Ismawa Trimitra	Construction Services	25.00%
		328	PT Citra Waspphutowa	Construction Services	12.50%
		329	PT Trans Lingkar Kita Jaya	Construction Services	18.14%
58	**PT TWC**	330	PT Bhumi Visatanda T & T	Real Estate	100.00%
59	**PT PENGEMBANGAN PARIWISATA BALI**	331	PT Bagus Agro Plaga	Real Estate	51.00%

APPENDIX D: SURVEY QUESTIONAIRES

PARENT--SUBSIDIARY GOVERNANCE RELATIONSHIP SURVEY 2014

THE COLLEGE OF LAW AND JUSTICE

Prepared by: Agus Widodo
PhD Candidate
Student ID 3906938

Supervisor: Prof. Anona Armstrong
Co Supervisor: Dr. James Mcconvill

Thank you for taking part in the survey. We are simply looking to understand the relationship between board member duality and agency cost in parent and subsidiary relationship. The output of this survey will be contributed to understanding of accountability model for parent-subsidiary governance and to improve a better corporate governance practice for the state-owned enterprises in Indonesia. No results will be reported at an demographic level, with respondent confidentiality assured.

Disclaimer:
By participating in this survey, you consent to the transfer of the information you submit to the researcher. The information collected is for research purposes only and will not be publicly associated with any demographic respondent. However, we may share the result of this survey with the public in anonymized or aggregated forms and in academic ways.

The Structure of Survey

The structure of survey is divided into 2 parts, namely **PART I, Respondent Profile** and **PART II, Questionnaire**.

PART I, Respondent Profile is the summary information about respondent and company which comprise 10 questions, whereas **PART II, Questionnaire** is aimed to measure the accountability of Dual Director in parent and subsidiary company which is divided into six dimensions comprised 50 questions. The six dimensions are:

1. **Ethics and Integrity:** This dimension contains some important element of ethics and integrity and is aimed at scanning the progress of ethics and integrity formally for the relationship between parent and subsidiary company.
2. **The Costs and Benefits of Duality in the relationship of Parent and Subsidiary company:** This dimension is aimed to scan the impacts of the duality to costs and benefit in the relationship of Parent and Subsidiary company.
3. **The Regulation of Dual Position:** This dimension is aimed to obtain what should and/or what should not be regulated in the dual position in the relationship of parent and subsidiary company.
4. **Role of Dual Director:** This dimension is aimed to scan the progress of dual director role tendency in the relationship of parent and subsidiary company.
5. **Financial Accountability:** This dimension is aimed to scan the level of financial accountability of dual director in the relationship of parent and subsidiary company.
6. **Leadership:** This dimension is aimed to scan the leadership capacity for dual directors in parent and subsidiary company.

Instruction

How do I complete this survey?

- **To answer a question...**
  Please tick mark the appropriate boxes below that corresponds with your answer. Basically, you have to tick mark one boxes only for every question, but question for PART I No. **P5** you can tick mark more than one boxes if you have more than one position and also can write your position.

- **To change an answer...**
  cross out the boxes for previous answers and tick mark on the appropriate boxes that correspond with your new answer.

- **To finish the survey…**
  Please make sure that you have answered all questions.

PART I
Respondent Profile

P1. Are you Male or Female?

☐ Male
☐ Female

P2. What is your age?

☐ <30 y.o.
☐ 30 y.o. to 40 y.o.
☐ 41 y.o. to 50 y.o.
☐ 51 y.o. to 60 y.o
☐ >60 y.o

P3. What is the highest level of education you have completed?

☐ Less than High School
☐ High school or equivalent
☐ Some college
☐ Bachelor or equivalent.
☐ Master or equivalent
☐ Doctoral or equivalent
☐ Professional Degree

P4. a. How many companies are you appointed to be a director and/or commissionaire?

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ >4

b. In what company are you appointed to be a director and/or commissionaire?

☐ Parent Company ☐ Subsidiary ☐ Both Parent and Subsidiary

Notes: *if you are a director in parent company and also a commissionaire in subsidiary company then you are considered working in both parent & subsidiary. This is also the case if you are also shareholders of parent company and/or subsidiary.*

P5. a. What is your position currently?

In the Parent Company		In the Subsidiary Company	
☐ Shareholders	☐ Commissionaire	☐ Shareholders	☐ Commissionaire
☐ Directors	☐ Senior Manager	☐ Director	☐ Senior Manager
☐ Other please specify ………..		☐ Other please specify…………..	

Note: *If you have more than one relevant position, then you should choose more than one appropriate boxes.*

b. How many member of the board do you consider effective? Please specify…………

P6. a. How many years have you held your first position in the parent company?
(if you do not have second position, skip question b and go to question P7)

☐ <5 years ☐ 5 years to 10 years ☐ >10 years

b. How many years have you held your position in a subsidiary company?

☐ <5 years ☐ 5 years to 10 years ☐ >10 years

P7. What is your average income monthly?

- ☐ ± <20 Million Rupiah
- ☐ ± 20 to 50 Million Rupiah
- ☐ ± 50 to 100 Million Rupiah
- ☐ ± 100 to 200 Million Rupiah
- ☐ ± 200 to 250 Million Rupiah
- ☐ ± >250 Million Rupiah
- ☐ Privately Information

P8. How old is the parent company?

- ☐ ± <10 years
- ☐ ± 11 years to 20 years
- ☐ ± 21 years to 30 years
- ☐ ± 31 years to 40 years
- ☐ ± 41 years to 50 years
- ☐ ± >50 years
- ☐ Do not know

P9. What industrial sector is your company in?

- ☐ Banking
- ☐ Insurance
- ☐ Financial Service
- ☐ Construction
- ☐ Pharmaceutical
- ☐ Industrial Variety
- ☐ Residential & Industrial Area
- ☐ Transport & Tourism
- ☐ Transport Infrastructure
- ☐ Logistic & Certification Service
- ☐ Plantation
- ☐ Forestry
- ☐ Fishery
- ☐ Paper Printing & Publishing
- ☐ Supporting & Agriculture
- ☐ Mining & Cement
- ☐ Strategic Industry
- ☐ Energy, Mineral Resources Sector & Telecommunication
- ☐ Media & Supporting Telecommunication
- ☐ Do not know

P10. Total assets of your company currently (based on your estimation in Rp.)

- ☐ <1 Trillion
- ☐ 1 Trillion to 10 Trillion
- ☐ >10 trillion to 20 Trillion
- ☐ >20 trillion to 50 Trillion
- ☐ >50 Trillion to 100 Trillion
- ☐ >100 trillion to 250 Trillion
- ☐ >250 Trillion to 400 Trillion
- ☐ >400 trillion
- ☐ Do not know

Questionnaire

1	ETHICS AND INTEGRITY	5	4	3	2	1
Q1	The company has stated Ethics and Integrity values formally	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q2	The company has a code of conduct and/or policy relating to compliance	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q3	The company has code of conduct and/or policy relating to compliance specific for					
	a. Commissionaires	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
	b. Directors	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q4	Communication about ethics and conversation that explores ethical					

	dilemmas are stated honestly by:					
	c. Commissionaires	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
	d. Directors	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q5	Ethical values, performance and corporate image which are closely connected are understood and reinforced by:					
	a. Commissionaires	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
	b. Directors	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q6	Directors are clear that upholding the principles and core ethical values and/or integrity come before closing a contract, a deal, a sale, and/or unbridled profitability.	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q7	For a company's continuing success, ethical leadership and action are perceived as critical	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
2	**THE COSTS AND BENEFITS OF DUALITY IN THE RELATIONSHIP OF PARENT AND SUBSIDIARY COMPANY** *Term "**Board Member Duality**" in this survey means director of a parent company who also represents it as a commissionaire in a subsidiary company..*	**5**	**4**	**3**	**2**	**1**
Q8	Director of a parent company who is appointed to be a commissionaire of a subsidiary and at the same time also functions as a shareholder of subsidiary company, is susceptible to conflict of interest	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q9	Establishing a subsidiary is purely for business goals, free from intention to create Board Member Duality and/or political intervention	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q10	A subsidiary company is an independent entity and does not give preference in decision to parent company	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q11	Parent company decisions affect the performance of the subsidiary	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

Q12	Directors of a parent company should not be appointed to be Commissionaires in a subsidiary	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q13	Director of a parent company who also commissionaire in a subsidiary use their experience to the advantage of both companies	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q14	Board Member Duality sometimes create a conflict of interest between parent and subsidiary interests	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q15	Directors of a parent company who also commissionaires in a subsidiary are more effective in controlling subsidiaries than Non Dual position	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q16	Directors of a parent company who also commissionaires in a subsidiary are more efficient in controlling subsidiaries than Non Dual position	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q17	Directors of a parent company who also commissionaires in a subsidiary tend to choose the interests of the parent rather than those of its subsidiary	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
3	**THE REGULATION OF BOARD MEMBER DUALITY**	**5**	**4**	**3**	**2**	**1**
Q18	Control of a subsidiary company by Directors of a parent company who also commissionaires in a subsidiary is preferable than by a Non Dual position	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q19	Board member duality should not be allowed in any situation	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q20	Board Member Duality should be limited	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q21	The role of Director who ….. should be regulated in the SOE Act	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q22	The role of Dual Directors should be regulated by a code of ethics and/or code of corporate governance	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree
Q23	The parent company has a mechanism to overcome a conflict of interest that is faced by Dual	☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

	Directors					
Q24	Guidelines should be developed to regulate the parent-subsidiary relationship	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q25	Directors and commissionaires should not have business or involve as a subcontractor company to either parent or subsidiary	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q26	The appointment of directors in a subsidiary should pass fit and proper testing	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q27	The appointment of a commissionaire in a subsidiary should pass fit and proper testing	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q28	Commissionaires and Directors should sign a management contract which includes Key Performance Indicator					
4	**ROLE OF DUAL DIRECTOR**	**5**	**4**	**3**	**2**	**1**
Q29	Dual Director can separate execution role (as a director) and oversight role (as a commissionaire) correctly	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q30	Dual Director favour the parent company in decisions that affect both companies	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q31	Directors of SOEs are less diligent than directors of privately owned companies	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q32	Dual Director reports to shareholders (State) when they make decisions affecting both companies	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q33	The Directors of SOE are political appointments	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q34	Political intervention on boards is common	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
5	**FINANCIAL ACCOUNTABILITY**	**4**	**3**	**0**	**2**	**1**
Q35	AGM of shareholders of subsidiary have a justified formula to determine the remuneration (salaries, allowance, bonus, and facilities) of directors and commissionaires	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree

Q36	The formula of remuneration for directors and commissionaires in a subsidiary should follow the same scheme as the parent company	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q37	The Dual director should not be involved in voting for subsidiary director's remuneration proposal at an AGM	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q38	The Dual directors should not receive any income other than stated in the remuneration scheme, for example commission.	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q39	Expense or cost of Internal company transactions between parent and subsidiary should be treated at fair value (arm's length transaction)	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q40	Dual directors increase in subsidiary performance	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q41	Subsidiary companies lose profit when they undertake parent company contracts	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q42	Dividend payments to the parent companies are lower when directors hold dual positions	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q43	When subsidiary companies have a loss, the loss is subsidized by the parent company	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q44	The loss from subsidiary business is met by the parent company	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q45	The amount of remuneration from parent company to dual directors should include an amount for oversight of a subsidiary company	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
6	**LEADERSHIP**	**5**	**4**	**3**	**2**	**1**
Q46	Dual director can undertake both of the execution and the oversight function equally well	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q47	The Chair of the AGM should not have a conflict of interest	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q48	A Dual Director should not chair the AGM of a subsidiary company	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree

Q49	Dual directors who are also shareholders in a subsidiary and who chair the AGM have a potential of conflict of interest	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree
Q50	The Dual director should not be involve in voting for a subsidiary director's remuneration proposal an AGM	□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree

Thank you!

That's the end of the survey questions. Your information will be written in the PhD thesis which will be available in the College of Law & Justice, Victoria University. Some of the information may be used for academic journals publication. Some response to question will be remaining confidential and you or your organization will not be named as having participating in the research project if it required.

APPENDIX E: INTERVIEW QUESTIONNAIRES

PARENT--SUBSIDIARY GOVERNANCE RELATIONSHIP 2014

INTERVIEW

THE COLLEGE OF LAW AND JUSTICE

Prepared by: Agus Widodo
PhD Candidate
Student ID 3906938

Supervisor: Prof. Anona Armstrong
Co Supervisor: Dr. James Mcconvill

Disclaimer:
By participating in this interview, you consent to the transfer of the information you submit to the researcher. The information collected is for research purposes only and will not be publicly associated with any demographic respondent. However, we may share the result of this interview with the public in anonymized or aggregated forms and in academic ways.

INTERVIEW QUESTIONS

1. The duality position such as multiple directorships or interlocking directorships sometimes could arise a dilemma, in one hand it could leverage company performance by utilizing the capacity of the duality position holders, but on the other hand, it may also create a conflict of interest for the duality holders. Do you agree or disagree to the statement above? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

What is your opinion regarding to the duality position?

2. It is very common that the board of directors in parent company usually also have a duality position as a commissionaire in subsidiary company (board member duality), even according to corporate charter, CEO of parent company is also a representative of subsidiary's shareholders, could this position lead to a conflict of interest? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

3. a. Is it better for the board member duality as director in parent company and at the same time has a position as commissionaire in subsidiary company of SOEs be regulated and/or be limited? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

Note: if the answer is 1 or 2 or 3, go to question number 4

b. Where should the board member duality be regulated?

☐ AGM of Parent ☐ AGM of Subsidiary ☐ SOE Law ☐ The Ministerial decree ☐ Other: ………….

4. a. Can parent company decision affect negatively to performance of subsidiary company that is reflected in the decrease in sales contracts, the increase in expense that is charged to the subsidiary and/or other decisions that affect negatively to the subsidiary's businesses? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

b. If that the case, can subsidiary company be objection to the parent company decision?

☐ Yes ☐ No ☐ Other opinion

c. Which is the first priority? parent company or subsidiary company?

☐ Parent company ☐ Subsidiary company ☐ Other opinion

d. How to solve the situation in order to get win-win situation?

5. If there is a conflict of interest between representing the parent company and at the same time also representing the subsidiary company in the decision making process, should this situation be regulated in code of ethic?

   ☐ Yes ☐ No ☐ Other opinion

6. According to the SOE Act No.19 of 2003, the SOE is a business entity which 100% or majority of its capital is owned by the state through direct investment originated from the separated state fund, so the board of directors of the SOEs are not the owner of the company that slightly different with the private company that sometimes some of them are also the owner of the company. Is that any different in work ethos between a director who also the owner of the company and a director who is not the owner of a company? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

7. The SOE Act No.19/2003 does not clearly state the status of subsidiary company is SOE or not, what is your opinion regarding to this matter, should the subsidiary be included in the SOE status? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

8. It is very common that the parent company subcontracts the jobs to subsidiary company even though the parent company can do the project (operating holding) therefore it will reduce the

parent company's margin, in other cases the subsidiary companies get commission from procurement projects that are given by parent company. The cost chain given to the subsidiary will reduce the dividend payment to the state moreover if the subsidiary gets loss. Is this justified? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

What is the role of board member duality holders in this situation?

9. How to prove the accountability process of the board member duality that makes a decision impact to parent and subsidiary? Should they report their position or opinion of the decision which impact in both companies to Shareholders? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

10. The appointment of board of directors and boards of commissionaire in SOE is a crucial point that sometimes not immune from political intervention, however, the appointment in Parent company has been regulated by the ministerial decree of MSOE but not reaching the subsidiary. Should the subsidiary company adapt the guidance from the ministerial decree of MSOE? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
☐ Strongly agree	☐ Agree	☐ Not sure	☐ Disagree	☐ Strongly disagree

And how to prevent political intervention on the appointment of the boards?

11. The meeting leader is a crucial factor to result in a good decision; therefore, who will lead the meeting is very important. Based on your knowledge, is there any regulation to appoint a leader who lead a General Meeting of Shareholder in a subsidiary company? and based on your opinion, who should lead the General Meeting of Shareholders in a subsidiary company?

12. According to the corporate charter, CEO is a representative of subsidiary's shareholder; therefore if he/she also has a position as a commissionaire in a subsidiary, he/she holds three positions at the same time: (1) a director of parent company; (2) a shareholders of a subsidiary company; (3) a commissionaire of a subsidiary company. In this case, can he/she lead the

General Meeting of Shareholders in a subsidiary companies? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree

On the other hand, If one of commissionaire or director or of subsidiary company lead the General Meeting of Shareholders whereas he/she is not a CEO of parent company but he/she is still the member of director or senior officer in parent company, is this position will tend to inferior to the CEO of parent company who has a position as a commissionaires in a subsidiary company, what is your opinion. If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree

13. Should the appointment of commissionaire in subsidiary company be regulated and be asked to the parent's shareholders (the SOE) c.q. the Ministry of SOE about their opinion? Or alternatively should the board member duality in parent—subsidiary relationship be regulated? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree

14. Basically, salaries, allowances, bonus, and facilities of directors and commissionaires are determined by General Meeting of Shareholders. However, if in the case of board member duality which at the same times the board member also represents the shareholders of subsidiary company, is there any ethical issue in determining compensation for the directors and commissionaires in the subsidiary company? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree

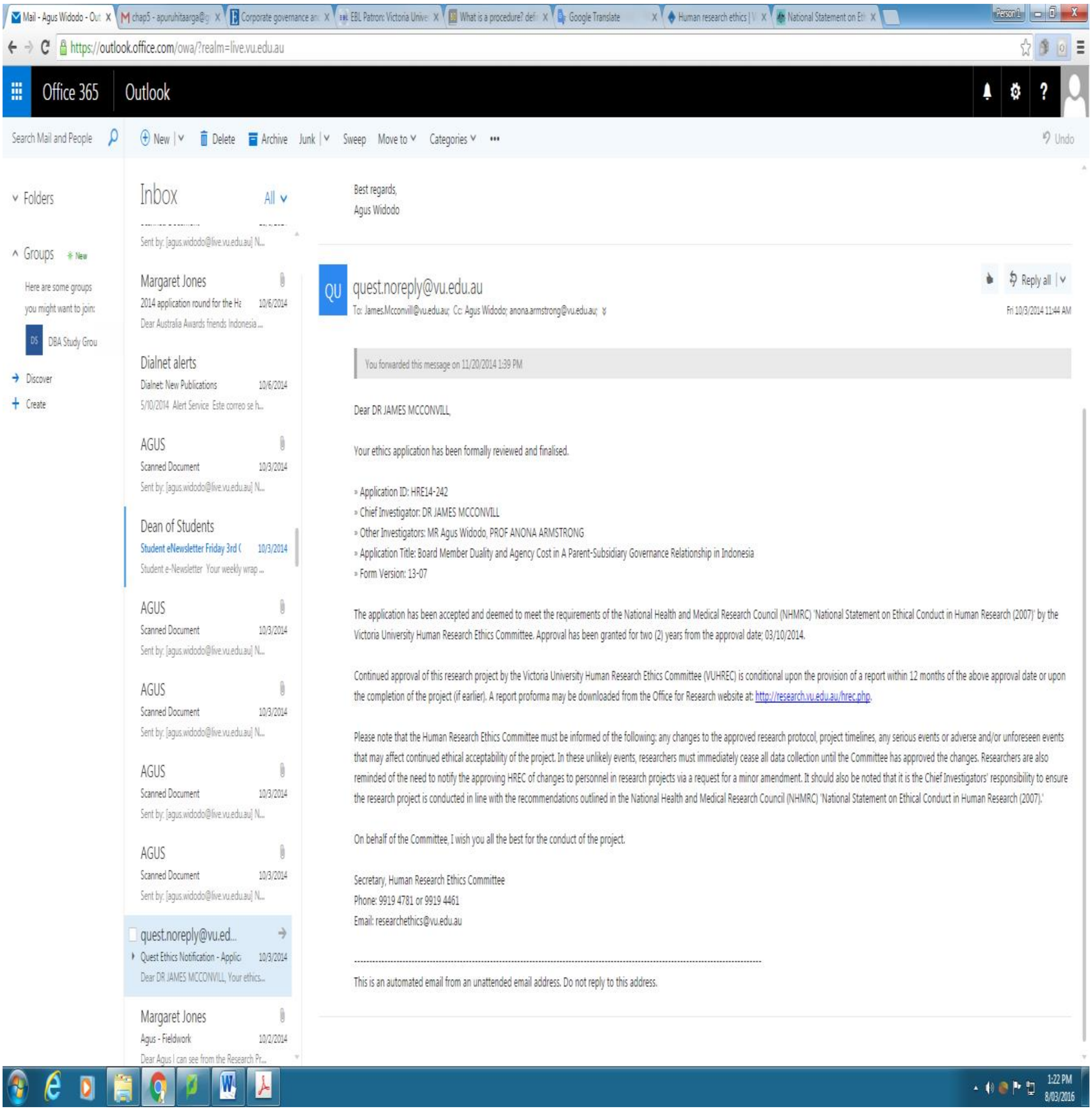
If so, how to solve the ethical issue? Is there any convenances to determine the compensation, especially compared to those in parent company?

15. Dividend policy and reinvestment are the crucial point when directors together with commissionaires propose them to shareholders. In the case board member duality, which one the duality holders should stand their position, whether in the position of parent company or subsidiary company? Do you think that establishing the parent—subsidiary governance relationship guidance is urgent to arrange all the relationship matters today? If scaled from 1 to 5, what is the scale that represents your opinion?

5	4	3	2	1
□ Strongly agree	□ Agree	□ Not sure	□ Disagree	□ Strongly disagree

End of Interview Questions

APPENDIX F: THE HUMAN RESEARCH ETHICS COMMITTEE APPROVAL



quest.noreply@vu.edu.au

To: James.Mcconvill@vu.edu.au; Cc: Agus Widodo; anona.armstrong@vu.edu.au;

Fri 10/3/2014 11:44 AM

You forwarded this message on 11/20/2014 1:39 PM

Dear DR JAMES MCCONVILL,

Your ethics application has been formally reviewed and finalised.

» Application ID: HRE14-242
» Chief Investigator: DR JAMES MCCONVILL
» Other Investigators: MR Agus Widodo, PROF ANONA ARMSTRONG
» Application Title: Board Member Duality and Agency Cost in A Parent-Subsidiary Governance Relationship in Indonesia
» Form Version: 13-07

The application has been accepted and deemed to meet the requirements of the National Health and Medical Research Council (NHMRC) 'National Statement on Ethical Conduct in Human Research (2007)' by the Victoria University Human Research Ethics Committee. Approval has been granted for two (2) years from the approval date; 03/10/2014.

Continued approval of this research project by the Victoria University Human Research Ethics Committee (VUHREC) is conditional upon the provision of a report within 12 months of the above approval date or upon the completion of the project (if earlier). A report proforma may be downloaded from the Office for Research website at: http://research.vu.edu.au/hrec.php.

Please note that the Human Research Ethics Committee must be informed of the following: any changes to the approved research protocol, project timelines, any serious events or adverse and/or unforeseen events that may affect continued ethical acceptability of the project. In these unlikely events, researchers must immediately cease all data collection until the Committee has approved the changes. Researchers are also reminded of the need to notify the approving HREC of changes to personnel in research projects via a request for a minor amendment. It should also be noted that it is the Chief Investigators' responsibility to ensure the research project is conducted in line with the recommendations outlined in the National Health and Medical Research Council (NHMRC) 'National Statement on Ethical Conduct in Human Research (2007).'

On behalf of the Committee, I wish you all the best for the conduct of the project.

Secretary, Human Research Ethics Committee
Phone: 9919 4781 or 9919 4461
Email: researchethics@vu.edu.au

This is an automated email from an unattended email address. Do not reply to this address.

APPENDIX G: CONSENT FORM

FORM PERSETUJUAN UNTUK BERPARTISIPASI DALAM PENELITIAN

(*CONSENT FORM FOR PARTICIPANTS INVOLVED IN RESEARCH*)

INFORMASI KEPADA PARTISIPAN (*INFORMATION TO PARTICIPANTS*):

Kami mengharapkan anda untuk berpartisipasi dalam penelitihan yang berjudul Rangkap Jabatan dan Biaya Agensi pada Tata kelola Hubungan Induk—Anak Perusahaan di Indonesia

Fokus penelitihan ini adalah menganalisa hubungan antara rangkap jabatan dan biaya agensi pada induk dan anak perusahaan di BUMN, serta aspek etika dalam rangkap jabatan tersebut. Penelitian ini akan menitikberatkan pada analisis secara kritis dan evaluasi perangkapan jabatan dan biaya agensi pada tatakelola hubungan induk dan anak perusahaan di BUMN, selain itu juga akuntabilitas anggota dewan di kedua perusahaan tersebut. Sasaran dari penelitian ini adalah menemukan apakah perangkapan jabatan pada tata kelola hubungan induk dan anak perusahaan memberikan pengaruh lebih ke biaya daripada keuntungan atau sebaliknya, dan apa yang dapat dipelajari dari perangkapan tersebut. Sebagai pencarian filosofi dan teori, riset ini mencoba menemukan pendekatan teori yang mana yang meberikan pengaruh kepada BUMN di Indonesia, apakah pendekatan teori keagenan (Agency Theory) atau pendekatan teori penatalayanan (Stewardship Theory) dan terlebih penting adalah bagaimana meningkatkan kinerja dan akuntabilitas rangkap jabatan sebagai bagian dari mekanisme tata kelola korporasi.

Resiko yang mungkin muncul sangatlah kecil karena ketidaknyamanan untuk menjawab pertanyaan adalah resiko yang mungkin muncul selama wawancara berlangsung.

We would like to invite you to be a part of a study into Board Member Duality and Agency Cost in A Parent—Subsidiary Governance Relationship in Indonesia

This research mainly focuses on an analysing the relationship between the board member duality and agency cost in parent—subsidiary governance in the SOE and also ethical aspect of the duality. The study will also focus on critically analyzing and evaluating the board member duality and agency cost in parent and subsidiary governance relationship in the state-owned enterprises, as well as the accountability of the board in those companies. The objective of the study is to discover whether the board member duality in parent and subsidiary governance relationship gives an impact more to the cost than benefit, or vice versa, and what can be learned from the duality.

As a theoretical and philosophical quest, this research tries to find to which theoretical approach that gives more influence to the state-owned enterprises in Indonesia, whether it is an agency theory or stewardship theory approaches and more importantly how to improve performance and accountability of board member duality as a part of corporate governance mechanism.

The potential risk might be minimal since uncomfortable for answering the questions is the only possible risk throughout the interview.

PERNYATAAN DARI PARTISIPAN

CERTIFICATION BY SUBJECT

Saya, ________________________________

Alamat, ______________________________

I, ______________________________________

of ______________________________________

Dengan ini mengakui bahwa saya paling tidak berumur lebih dari 18 tahun dan saya secara sukarela memberikan persetujuan untuk ikut serta dalam penelitihan yang berjudul Rangkap Jabatan dan Biaya Agensi pada Tata kelola Hubungan Induk—Anak Perusahaan di Indonesia Yang diselenggarakan oleh Universitas Victoria oleh Prof. Anona Armstrong.

Dengan ini mengakui bahwa keobyektifan dari penelitihan beserta resiko dan kaidah-kaidah pengamannya terkait dengan prosedur sebagaimana penelitian ini harus dilakukan, telah sepenuhnya dijelaskan kepada saya oleh: Agus Widodo

Dan bahwa saya dengan bebas memberikan persetujuan untuk ikut berpartisipasi pada procedure yang disebutkan dibawah ini:

- Wawancara dimana jawaban akan direkam dalam tape perekam; ataupun jawaban akan direkam dalam bentuk catatan

Saya mengakui bahwa saya telah diberikan kesempatan untuk bertanya serta diberikan jawaban dan saya memahami bahwa saya bisa mundur dari penelitihan ini sewaktu-waktu dan pengunduran diri tersebut tidak akan membahayakan saya dalam bentuk apapun juga. Saya juga telah diberikan informasi bahwa informasi yang saya berikan akan disimpan dan dijaga kerahasiaannya.

certify that I am at least 18 years old and that I am voluntarily giving my consent to participate in the study:*

Board Member Duality and Agency Cost in A Parent—Subsidiary Governance Relationship in Indonesia *being conducted at Victoria University by: Prof. Anona Armstrong*

I certify that the objectives of the study, together with any risks and safeguards associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by: Agus Widodo
and that I freely consent to participation involving the below mentioned procedures:

- *An interview in which the answer will be recorded on an audio tape; or in which the answer will be recorded in the form of note taking*

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this study at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide will be kept confidential.

Menandatangani

Signed:

Tanggal

Date:

Pertanyaan apapun terkait peran serta anda dalam proyek ini dapat disampaikan kepada Peneliti
Prof. Anona Armstrong

+61399196155 or Anona.Armstrong@vu.edu.au

Any queries about your participation in this project may be directed to the researcher

Prof. Anona Armstrong

+61399196155 or Anona.Armstrong@vu.edu.au

Jika ada pertanyaan atau ketidakpuasan dalam hal bagaimana anda diperlakukan, anda dapat menghubungi Ethics Secretary, Victoria University Human Research Ethics Committee, Office for Research, Victoria University, PO Box 14428, Melbourne, VIC, 8001 or phone (03) 9919 4781.

If you have any queries or complaints about the way you have been treated, you may contact the Ethics Secretary, Victoria University Human Research Ethics Committee, Office for Research, Victoria University, PO Box 14428, Melbourne, VIC, 8001 or phone (03) 9919 4781

APPENDIX H: INFORMATION TO PARTICIPANTS INVOLVED IN RESEARCH

INFORMATION TO PARTICIPANTS INVOLVED IN RESEARCH

You are invited to participate

You are invited to participate in a research project entitled [Click here and provide project title].

This project is being conducted by a student researcher [provide student's name] as part of a [provide course details, for example Honours/Masters/PhD study] at Victoria University under the supervision of [provide supervisor's title and name] from [provide details of faculty].

OR

This project is being conducted by [enter title and name of VU staff) from [enter details of College] at Victoria University.

Project explanation

[Click here and provide a short summary of the project]

What will I be asked to do?

[Click here and list down details of what participants will be requested to do and how much time will be involved]

What will I gain from participating?

[Click here and explain potential benefits including payment/reimbursement to participants]

How will the information I give be used?

[Click here and list how the information is to be used by the researcher]

What are the potential risks of participating in this project?

[Click here and provide a clear indication of any potential risks associated with participating in the project]

How will this project be conducted?

[Click here and provide a brief explanation of methodology in simple language]

Who is conducting the study?

[Click here and list details of organisation/s involved in the project]

[Click here and list details of the Chief Investigator including contact details]

[Click here and list details of the Student Researcher (if applicable) including contact details]

Any queries about your participation in this project may be directed to the Chief Investigator listed above.

If you have any queries or complaints about the way you have been treated, you may contact the Ethics Secretary, Victoria University Human Research Ethics Committee, Office for Research, Victoria University, PO Box 14428, Melbourne, VIC, 8001, email researchethics@vu.edu.au or phone (03) 9919 4781 or 4461

APPENDIX I: E-MAIL COMMUNICATION WITH CONTACT PERSON IN INDONESIA

Fw: Data collection for research

iwantaufiqp@yahoo.com

Reply all|

To:

apuruhitaarga@gmail;

Agus Widodo;

Mon 8/25/2014 11:52 AM

Inbox

Sent from INDOSAT

From: "iwan" <itaufiq@yahoo.com>
Date: Mon, 25 Aug 2014 01:51:25 +0000
To: <iwantaufiqp@yahoo.com>
ReplyTo: itaufiq@yahoo.com
Subject: Fw: Data collection for research

Sent from INDOSAT

From: "iwan" <itaufiq@yahoo.com>
Date: Sun, 24 Aug 2014 06:40:17 +0000
To: Agus Widodo<agus.widodo@live.vu.edu.au>
ReplyTo: itaufiq@yahoo.com
Subject: Re: Data collection for research

Dear Mr. Widodo,

I would like to thank you for your email.
I will help and support you to provide data and information you need to conduct the research.
For further communication, please send email to my official email address: iwan.tp@bpkp.go.id.

Sincerely yours,
Iwan T. Purwanto,
The Supervision Head of Sub-Directorate for Construction and Trading State-Owned Business.
The Finance and Development Supervisory Agency
The Republic of Indonesia

Please forward to iwan.tp@bpkp.go.id
Sent from INDOSAT

From: Agus Widodo <agus.widodo@live.vu.edu.au>
Date: Sun, 24 Aug 2014 03:06:51 +0000
To: itaufiq@yahoo.com<itaufiq@yahoo.com>
Cc: anona.armstrong@vu.edu.au<anona.armstrong@vu.edu.au>; James Mcconvill<James.Mcconvill@vu.edu.au>; apuruhitaarga@gmail.com<apuruhitaarga@gmail.com>
Subject: Data collection for research

Dear Mr. Purwanto, SE, MBA
The Supervision Head of Sub-Directorate for Construction and Services Business.
The Finance and Development Supervisory Agency
The Republic of Indonesia

How are you? I hope this e-mail finds you well.

Mr. Purwanto, at the end quarter of this year I am planning to collect the research data in Jakarta. One of my data target is the SOE's financial report stored in our office, the Finance and Development Supervisory Agency.

My research area is corporate governance that focuses on the parent-and subsidiary governance.
I use the triangulation method for the research methodology that combines quantitative and qualitative method. The instruments I use are Interview, Survey and database development.

I need you to help and support me to find and show data regarding the financial statement stored in our office especially for the SOEs which have parent-subsidiary relationship (2008--2012).
Would you like to help and support me to collect and the data?

I really appreciate for your kindly help and look forward to hearing from you soon.

Thank you in advance.
Kindly regards,
Agus Widodo

APPENDIX J: ASSIGNMENT LETTER

VICTORIA UNIVERSITY
MELBOURNE AUSTRALIA

Governance Research Program
College of Law and Justice

Queen St Campus
295 Queen Street
PO BOX 14428 MELBOURNE
VICTORIA 8001 AUSTRALIA
PHONE +61 9919 6155
7 October 2014

Mr. Imam A. Putro
The Main Secretary
The Ministry of State-owned Enterprises
Jakarta.

Dear Mr. Putro,

Reference	: Agus Puruhitaarga Purnomo Widodo
Student ID	: 3906938
Program	: PhD
University	: College of Law and Justice, Victoria University,Melbourne, Australia.

Agus Widodo is conducting research into corporate governance in parent and subsidiary state-owned enterprises in fulfilment of his PhD degree program. His research is focused on the relationship between board member duality in parent companies and its impact on agency costs.

The purpose of his study is to improve the accountability of directors holding dual positions in parent and subsidiary companies. He expects that the result of the research will contribute to policy decision-making, especially in the Government of the Republic of Indonesia Ministry of State-owned Enterprises with all its SOEs, and to academic theory.

In the methodology he will conduct interviews, a survey and also collect corporate documents that are relevant to the research. The research activity will be conducted in compliance with the ethics application approved by the Victoria University Ethics Committee.

I am writing to request you to provide him with any assistance and support he may need, and invite you, and any other parties who may be interested, to take the opportunity to participate in the research.

Thank you for your help and support. Please contact me if you need any further information (Tel.6139919 6155; anona.armstrong@vu.edu.au).

Yours sincerely,

[redacted]

Anona Armstrong AM
Director of Research
College of Law & Justice

APPENDIX K: ITINERARY DOCUMENT

Booking #:	7887090
Cost Centre:	VUTAUSA
Date:	07-Oct-2014
Consultant:	FLAVIA LAY
Phone:	03 9098 9301
Email:	flavia.lay@campustravel.com.au
Ordered By:	JONES / MARGARET MS
GDS Reference:	KRX8W8

Campus Travel
The Smart Choice

LEVEL 1 436 ST KILDA RD
MELBOURNE VIC 3004

Passenger

WIDODO / AGUS MR

ONLINE BOOKINGS - AFTER HOURS:
Should you make a booking after hours on one of our online booking tools, and travel is within the next 6 hours, please contact our after hours emergency assist team to reconfirm your booking. Calls within Australia 1300 662 703 or from overseas + 61 2 9734 0333.

IT IS YOUR RESPONSIBILITY TO CONFIRM THIS ITINERARY IS CORRECT AND MATCHES THE NAME AS PER THE PASSPORT.
PLEASE CHECK ALL VISA REQUIREMENTS REQUIRED FOR YOUR TRAVEL AT http://cibtvisas.com.au/vu

EMERGENCY AFTER HOURS ASSISTANCE
For urgent assistance during office hours Mon-Fri 0830-1730hrs please contact the office on 03 9026 3001.
Outside normal business hours, please call 1300 662 703 (Australia) or +61 2 9734 0333 (International).

E-TICKETS HAVE BEEN ISSUED FOR YOUR JOURNEY. DETAILS ARE AS FOLLOWS:

Your Itinerary

Thu 09 Oct 2014 at 1030	**GARUDA (GA717)**
Departing:	MELBOURNE (Terminal 2) at 1030
Arriving:	JAKARTA (Terminal 2) at 1350
Class of Service:	N - Economy Class [N-NLRTAUMS] *
Flight Status:	Confirmed [HK]
Airline Reference:	4KAEFB
Ticket Number (WIDODO / AGUS MR):	126 5862244265
Aircraft:	AIRBUS 332
Number of Seats:	1
Number of Stops:	0
Flight Time:	7 hrs 20 mins
Remarks:	*** 40kg checked in baggage ***

Wed 10 Dec 2014 at 2225	**GARUDA (GA716)**
Departing:	JAKARTA (Terminal 2) at 2225
Arriving:	MELBOURNE (Terminal 2), Thu 11 Dec 2014 at 09:00
Class of Service:	N - Economy Class [N-NLRTAUMS] *
Flight Status:	Confirmed [HK]
Airline Reference:	4KAEFB
Ticket Number (WIDODO / AGUS MR):	126 5862244265
Aircraft:	AIRBUS 332
Number of Seats:	1
Number of Stops:	0
Flight Time:	6 hrs 35 mins
Remarks:	*** 40kg checked in baggage ***

*** Please check the booking terms and conditions for the rules of carriage for each flight on your itinerary.**

***Airline card payment fees may apply to your booking, please check with your Travel Manager for the most up to date charges.**