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Board Characteristics and Accounting Performance in the Banking Industry: The Indonesian Experience

Abstract

This paper examines the effect of board characteristics on accounting return in Indonesian banking industry. The conceptual framework borrows from agency theory claiming that board is held liable for monitoring responsibilities and that monitoring effectiveness will lead to higher corporate achievement. Yet the theory predicts that board characteristics matter in constituting firm performance. It is hypothesized that leadership structure, representation of independent directors, board size, and the rank of college board chairperson attended are necessary attributes enable the board to deliver better performance. The investigation is based on a dataset consisting of 83 banks during 2009-2015. Panel data analysis reveal that the proportion of independent directors, board leadership structure, and board size shows insignificant influence. The rank of universities the board chairperson graduated is found to have an impact on accounting earnings. The impact is robust after the type of controlling owners is taken into account. Yet the association between university rank and performance is more pronounced in the listed-banks.

Keywords: Accounting Performance; Board Characteristics; Corporate Governance

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Abstrak

Penelitian ini menelaah efek karakteristik dewan komisaris terhadap laba akuntansi pada industri perbankan di Indonesia. Kerangka konseptual mengikuti teori keagenan yang memprediksi bahwa struktur kepemimpinan, representasi komisaris independen, ukuran dewan komisaris, dan ranking universitas tempat ketua dewan komisaris bersekolah merupakan atribut penting dalam menghasilkan kinerja keuangan bank. Penelitian dilakukan dengan didasarkan pada sampel yang terdiri dari 85 bank dalam periode tahun 2009-2015. Analisa panel data menunjukkan bahwa struktur kepemimpinan, representasi komisaris independen, dan ukuran dewan komisaris merupakan prediktor kinerja akuntansi yang insignifikan. Ranking universitas tempat ketua dewan komisaris bersekolah menunjukkan pengaruh positif terhadap laba akuntansi. Pengaruh tersebut menjadi kuat setelah tipe pengendali diperhitungkan. Hubungan antara peringkat universitas dan kinerja lebih kuat di bank-bank yang terdaftar di bursa efek.

Kata Kunci: Kinerja Akuntansi; Karakteristik Dewan; Tata Kelola

Corporate governance has been claimed as a necessary condition for corporate growth and survival. While extensive papers have examined the effect of corporate governance on organizational performance, yet they heavily focus on non-financial firm and less attention has been devoted to financial institutions, particularly banking industry. Leventis & Dimitropoulos (2012) describe that banks are the most important element of financial systems and the failure of banking industry might jeopardize the whole economic system of any given country. Indeed banking industry has been quoted as having unique characteristics that differs from other sectors (Kanagaretnam, Lim, & Lobo, 2010). This, in part, explains why banking industry needs specific regulatory system to mitigate the risk of failure that results in displays distinct pattern of governance structure. The distinctive pattern eventually serves a basis for rationalizing the notion that the effect of governance mechanisms on organizational outcome might be industry-specific (Leventis, Dimitropoulos, & Owusu-Ansah, 2013). This view suggests that the findings of non-bank-based study might not be applicable to banking industry. Accordingly, investigation of the role of governance mechanisms in relation to firm performance in banking industry, particularly in emerging market, is required.

Firm-level governance might consist of various mechanisms that forms specific governance portfolio systematically designed to fulfill firm specific environment. However, the board of directors has been quoted as the apex of firm-level governance responsible for serving as first-line defense against opportunistic behavior of management (Denis & Mc Connell, 2003). Yet, governance research believes that the characteristics of directors might dictate board effectiveness in fulfilling their responsibility (O'Sullivan, Mamun & Hassan, 2016; Haque, 2017; Ng & Thosuwanchot, 2017). This view suggests that board characteristics might serve as an influential predictor of organizational outcome. In this paper, investigate the link between the board characteristics and accounting performance of banking indus-

try in Indonesia. Using a dataset consisting of 83 banks for the period of 2009-2015, the analysis reveal that the proportion of independent directors, board leadership structure, and board size shows insignificant influence. The rank of universities the board chairperson graduated is found to have an impact on accounting earnings. The impact is robust after controlling for the type of controlling owners. Yet the association between university rank and performance is more pronounced in the listed-banks.

This paper makes two contributions to governance literature. First, I combine personal characteristics and education of board chairperson and thus provide an insight how the simultaneous effect of those properties might shape board monitoring effectiveness and, therefore, organizational work. Second, I control for the strength of market for corporate control that stems from different bank characteristics.

HYPOTHESIS DEVELOPMENT

Agency theory hinges upon the assumption that individuals are solely motivated by self-interest (Jensen & Meckling, 1976). Within corporate context, the underlying assumption implies that agents prefer to act in the best of their interest that might potentially harm shareholders' wealth. Accordingly, it is asserted that firm value, as a measure of shareholder wealth, is an inverse function of opportunistic behavior of corporate executive. Although principal-agent relationship might rely on mutually agreed contract to mitigate agency problem, Baiman (1990) argue that naturally contract is incomplete due to the bounded capability of individual to foresee any possible future contingency. Therefore, the finance literature proposed corporate governance mechanisms, as the second best solution, to align the interests of contracting parties.

While check and balance system might consist of various mechanisms, Denis and Sarin suggest that the board of directors is at the apex of the corporate governance. Within agency framework,

the board is primarily responsible to monitor management in order to protect the interests of shareholders (Zahra & Pearce, 1989; Hung, 1998). Effective board monitoring has been claimed as enhancing the sensitivity of agents' performance to the labor market and thereby potentially discouraging the agents from pursuing self-interest actions (Alchian & Demsetz, 1972; Fama, 1980). Accordingly, the effectiveness of the board in fulfilling monitoring function would manifest in the organizational achievement. However, the characteristics of the directors serving on the board have been claimed as constituting the effectiveness of the board in fulfilling monitoring responsibility (Eugene F. Fama & Jensen, 1983; Baysinger & Hoskisson, 1990). This view suggests that particular board characteristics, to some extent, give an influence on corporate performance. Accordingly, the growing body of research has tried to obtain empirical evidence on the link between board characteristics and various organizational outcome such as, among others, financial performance (Rodriguez-Fernandez, Fernandez-Alonso, & Rodriguez-Rodriguez, 2014), corporate social responsibility (Chang et al., 2017), and audit report lag (Basuony et al., 2016). Literature posts that board characteristics might refer to independence, board size, and educational attainment.

Board Independence and Size

Within agency theory, board independence has been quoted as the most important determinant of board monitoring effectiveness. This view is rooted on the premise that being independence of management is a necessary condition to enable the board to exercise objective judgment of managerial performance. Eventually, objective judgment has been quoted as enhancing the likelihood of market for corporate control to work properly and thus put a pressure on management to perform better. Therefore, the board would effectively exercise monitoring role whenever it comprises independent directors sufficiently (Adams & Ferreira, 2007). They ar-

gue that having sufficient outside directors on the board represents the separation between management decisions and control decisions that provides the board with authority to scrutinize management actions. While the concept of independence is a multidimensional discussion, Raheja (2005) argues that board independence is best represented by outside directors without any affiliations with management, of which the fate of those directors is unconstrained by management decisions. Accordingly, agency literature predicts that the firm performance would be enhanced with higher proportion of outside directors serving on the board (Dalton et al., 1998).

Complementary to the representation of outside directors, Hopt & Leyens (2004) suggest that firm might structure their board leadership as either being combined or separated. Agency theory suggest that leadership structure drives board independence and therefore board effectiveness in fulfilling monitoring responsibility (Fosberg & Nelson, 1999; Krause, Semadeni, & Cannella Jr, 2014). This view is based on the claim that chairperson is the most influential actor within the board and thus might dictate board activities (Adams & Ferreira, 2007). Fama & Jensen (1983) imply that separated leadership reflects the presence of separation between management and control decisions and thereby implicitly provides the board with implicit power to control information flows (Baliga, Moyer & Rao, 1996; Duru, Iyengar, & Zampelli, 2016). Accordingly, separated leadership potentially encourages board independence and therefore facilitates the board to effectively and to influence management behavior (Elsayed, 2007; Lewellyn & Fainshmidt, 2017). However, separated leadership might create rivalry between board chairperson and corporate executive officer (Baliga, Moyer & Rao, 1996; Brickley, Coles & Jarrell, 1997). In other words, separated leadership potentially offset managerial discretion that might hinder innovations and business opportunities.

Along with board independence, board size has been quoted as a determinant of board effectiveness. The importance of board size hinges upon coordination and information arguments. The coordination argument posits that any given group with larger number of member is more likely to experience communication problem that obstructs coordination among group members. This view suggests smaller board size is more likely to monitor management effectively. For example, Guest (2009) observes that board size exhibits negative impact on Tobin Q and market return while Torchia & Calabrò (2016) find a negative influence of board size on corporate transparency. However, information argument describes that each director serving on the board might bring specific knowledge, skill, and network that benefits the firm. Therefore, larger board potentially delivers better monitoring and advice to management that lead to superior performance (Romano & Guerrini, 2014). Given the conflicting effect, Gaur, Bathula, & Singh (2015) propose a contingency model on the link between board size and organizational outcome. In support to this notion, the effect of board size and corporate performance has been documented as conditional to, among others, the strength of monitoring committee (Upadhyay, Bhargava, & Faircloth, 2014) and corporate life cycle (Wahba & Elsayed, 2014).

College Quality the Chairperson Attended

Educational background has been quoted as determining cognitive ability of any given individual (Unger et al., 2009) that drives attitude towards innovation (Barker III & Mueller, 2002) and creative problem-solving (Bantel & Jackson, 1989). In other words, cognitive base drives individual ability to cope with specific complexity of an environment and assignment (Hambrick & Mason, 1984). However, the link between any given educational background and cognitive ability might vary across the quality of college the chairperson attended. Resources-based perspective posits that higher quality colleges

provide better academic staffs and necessary resources and therefore permit them to offer superior research and teaching (Wright, 1988; McGuinness, 2003). Accordingly, graduates from higher quality colleges are perceived as having competitive advantage and higher problem-solving capability that lead to higher wage (Li et al., 2012). However, self-fulfilling perspective disputes the value added created by higher quality colleges (Hartog, Sun, & Ding, 2010). Indeed, this perspective suggests that the competitive advantage of higher quality colleges hinges upon the qualification of enrolling student. Particularly, the perspective argues that higher quality college attract prospective student with higher academic qualification (Black, Smith, & Daniel, 2005) and thereby dispute the superior quality proclaimed by particular college. Nevertheless, both resources-based and self-fulfilling perspectives conclude that higher quality colleges provide important signal to labor market that their graduates are characterized with better cognitive ability to engage in problem-solving assignment (Long, 2008; Drydakis, 2016).

METHODS

The investigation relies on a dataset comprising banks operating in Indonesia during 2009-2015. The list of all banks is obtained from the central bank (Bank Indonesia). The data source relies on annual report, of which is manually downloaded from company website. The sample excludes bank-years with unavailable annual report. Further, we delete observations with unavailable information in annual report. Subject to these procedures, the final sample consists of 83 banks (520 observations). To address possible concerns about outliers, all continuous variables are winsorized at the 1st and 99th percentiles (Vafeas & Vlittis, 2016).

The effect of board characteristics on accounting performance is investigated by estimating the following model:

$$ROE_{it} = b_1 LEAD_{it} + b_2 IND_{it} + b_3 BDSZ_{it} + b_4 SCRANK_{it} + b_5 ACSZ_{it} + b_6 OWN5_{it} + b_7 BRCH_{it} + b_8 FRAGE_{it} + b_8 DTE_{it} + e_{it}$$

All tests is conducted using panel data OLS regressions. Firm and year is denoted as subscripts *i* and *t* respectively. In this study, accounting-based measure, in particular return on equity (ROE) is adopted as a proxy of bank’s financial performance since not all banks in our sample are publicly traded on stock exchanges. The ROE defined as the ratio of income after taxes to total equity. Leadership structure (CHAIND) is dummy variable that takes 1 if an independent director serves as board chairperson and 0 otherwise. The proportion of independent directors (COMIND) is the number of independent directors divided by total number of directors. Board size (TMTSZ) is the number of directors serving on the board. The university rank (SCRANK) is a 1-7 scale based on the ranking of university the board chairperson graduated. The rank relies on global university ranking endorsed by Times Higher Education. A score of 1 is assigned to universities within top 1-100, 2 to top 101-200, and so forth, while a score of 7 is assigned to universities beyond top 600. The audit committee size (ACSZ) is the number of directors serving on audit committee. Ownership (OWN) is defined the ag-

gregate ownership of top 5 shareholders. Firm size (BRCH) is an ordinal scale that take 1 if the bank has a maximum of 5 branch offices, 2 has 6-10, and so forth while the score take 21 if the bank has at least 101 branch offices. Firm age (FRAGE) is the year of observation minus the year the bank was incorporated in log natural form. Debt to Equity (DTE) is the ratio of total debt to total equity.

RESULTS

Descriptive and Univariate

Table 1 presents descriptive statistics of variables. The average value of the ROE is 0.16 and the standard deviation is 0.12, while the minimum and the maximum are -0.18 and 0.44 respectively.

The board chairperson in less than half of the banks in our sample is held by independent director (mean of leadership structure is 0.39) during the period of observation. The mean of board independence is 0.60 while the standard deviation is 0.14. The largest board consists of 9 directors while the smallest comprise 1 director, having a mean of 4 and standard deviations of 1.5. The mean value of university ranks is 3.26 suggesting that, on average, the board chairperson is graduated from top 200-300 worldwide universities. In some cases, chairpersons obtain a degree from top 100 universi-

Table 1. Descriptive Statistics

	N	Min	Max	Mean	Std
ROE	506	-0.185	0.440	0.158	0.116
CHAIND	523	0.000	1.000	0.390	0.488
COMIND	509	0.250	1.000	0.600	0.144
COMSZ	520	1.000	9.000	4.067	1.492
SCRANK	457	1.000	7.000	3.260	1.952
ACSZ	514	1.000	6.000	3.494	0.881
OWN5	508	0.556	1.000	0.924	0.125
BRCH	523	1.000	21.000	16.398	6.346
FRAGE	488	2.079	4.625	3.532	0.499
DTE	521	0.125	15.620	6.743	3.258

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ties (minimum= 1) while others are graduated from beyond top 700 universities (max= 7) with standard deviation of 1.95. The size of audit committee ranges between 1 and 6 members with a mean value of 4. Top 5 shareholders, on average, own 92 percent of common shares with the minimum and maximum ownership that show scores of 56 percent and 100 percent. Firm's age ranges between 2.08 and 4.63 with a mean value of 3.53. The debt to equity ratio varies between 0.13 and 15.6, having a mean and a standard deviation of 6.7 and 3.2 respectively.

Correlation analysis (Pearson's) in Table 2 explores bivariate associations among all variables. ROE correlates with most of independent variables except with CHAIND, ACSZ, and OWN5. The correlations are as follows, with COMIND ($r= -0.08$), with COMSZ ($r= 0.09$), with SCRANK ($r= -0.30$), with BRCH ($r= 0.41$), with FRAGE ($r= 0.30$), and with DTE ($r= 0.34$). The highest coefficient among independent variables is found between COMSZ and BRCH ($r= -0.42$) showing that the model is less likely to suffer from multicollinearity problem among independent variables.

Multivariate

Table 3 shows results of stepwise analysis of bank performance on board characteristics for the full sample using baseline model in Equation 1. All

models show relatively high Prob. > χ^2 while R^2 ranges from 0.23-0.27. Column 1, 2, and 3 respectively reveal that chairperson independence (CHAIND), the proportion of independent directors serving on the board (COMIN), and board size (COMSZ) are insignificant predictors of bank accounting performance. In column 4, the insignificance effect persists when chairperson independence, the proportion of independent directors, and board size are taken into account simultaneously. In column 5 the rank of university board chairperson attended shows a significant effect on accounting return at 5 percent level. The negative sign indicates that better accounting return is more likely to be observed in the bank with board chairperson graduated from highest rank universities (better quality). In column 6, the effect of school rank remains significant in the presence of other board characteristics.

While the previous table empirically confirms that education matters, agency theory suggests that internal governance mechanisms requires market for corporate control, as a necessary condition, to work well. Based on this premise, we address this issue by introducing listing status and government ownership as surrogates for the strength of market for corporate control. Table 4 presents estimates from the basic model, where the sample is decomposed into two groups based on listing status. The argument behind this procedure is that listed firms are

Table 2. Correlations (Pearson's)

	1	2	3	4	5	6	7	8	9
ROE	1.00								
CHAIND	0.05	1.00							
COMIND	-0.08 c	0.22 a	1.00						
COMSZ	0.09 c	0.00	-0.28 a	1.00					
SCRANK	-0.30 a	0.13 a	0.16 a	-0.22 a	1.00				
ACSZ	-0.06	0.15 a	-0.05	0.39 a	0.09 c	1.00			
OWN5	-0.01	-0.07	0.04	-0.33 a	0.09 c	-0.17 a	1.00		
BRCH	0.41 a	0.11 b	-0.12 a	0.42 a	-0.36 a	0.20 a	-0.32 a	1.00	
FRAGE	0.30 a	-0.14 a	-0.17 a	0.25 a	-0.30 a	0.11 b	-0.08 c	0.30 a	1.00
DTE	0.34 a	-0.03	-0.06	0.14 a	-0.13 a	0.08 c	-0.21 a	0.38 a	0.10 b

more likely to receive vigilant market scrutiny and therefore market for corporate control is more likely to work better in the listed firms (Burgstahler, Hail & Leuz, 2006; Van Tendeloo & Vanstraelen, 2008). This view suggests that directors of listed firms face performance pressure and therefore it is expected that listed firm would display stronger association between directors' characteristics and accounting return. Column 1 reports the results for sub-sample of non-listed bank. All personal characteristics of directors (chairperson independence, board independence, and board size) fail to produce significant effect on corporate performance even at marginal level. The rank of college remains negatively related to accounting return at 5 percent significance level suggesting that directors graduated from top rank college are more likely to deliver better organizational outcome. As for control variables, number of branch, age, and debt to equity ratio are sig-

nificantly affect firm performance suggesting that larger, older, and lower leveraged bank are more profitable. In column 2, the insignificant effect of chairperson independence and board size persist. However, the proportion of independent directors becomes negatively affecting accounting return although the statistical significance falls into marginal level (z-value= -1.74).

Other characteristic that might hamper market for corporate control to work well is the existence of government ownership. It is described that government ownership might have a specific impact on public (Untoro, 2017) and internal governance system that eventually determines the effectiveness of disciplinary mechanisms to work well (Borisova et al., 2015). This view is grounded on the notion that government ownership serves as an implicit guarantee that allows management to escape from potential default consequences (Stiglitz, 1993). Fur-

Table 3. Regressions of Bank's Performance on Board Characteristics

		1	2	3	4	5	6
_cons	Coeff.	0.01	0.03	-0.02	0.01	0.01	0.03
	z-value	0.13	0.38	-0.23	0.09	0.11	0.34
CHAIND	Coeff.	-0.01			0.00		-0.02
	z-value	-1.08			-0.03		-1.21
COMIND	Coeff.		-0.04		-0.03		-0.02
	z-value		-1.24		-0.88		-0.80
COMSZ	Coeff.			0.00	0.01		0.00
	z-value			1.04	1.14		-0.55
SCRANK	Coeff.					-0.01 b	-0.01 c
	z-value					-2.13	-1.90
ACSZ	Coeff.	-0.01 c	-0.01 c	-0.01 b	-0.01 b	-0.02 b	-0.02 b
	z-value	-1.78	-1.80	-1.99	-2.01	-2.48	-2.40
OWN5	Coeff.	0.07	0.07	0.08	0.07	0.08 c	0.08 c
	z-value	1.35	1.40	1.48	1.46	1.77	1.73
BRCH	Coeff.	0.01 a	0.01 a	0.00 a	0.01 a	0.00 b	0.00 a
	z-value	3.94	4.05	3.42	3.62	2.39	2.76
FRAGE	Coeff.	0.00	0.00	0.00	0.00	0.02	0.02
	z-value	-0.01	-0.24	0.25	-0.10	1.06	0.89
DTE	Coeff.	0.01 a	0.01 a	0.01 a	0.01 a	0.01 a	0.01 a
	z-value	4.46	4.75	4.48	4.78	4.58	4.98
constant		Yes	Yes	Yes	Yes	Yes	Yes
Year - FE		Yes	Yes	Yes	Yes	Yes	Yes
R ² -overall		0.23	0.24	0.24	0.24	0.27	0.26
Wald chi ²		44.76	49.90	44.33	50.97	53.82	61.09
Prob> chi ²		0.00	0.00	0.00	0.00	0.00	0.00

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ther, Borisova et al. (2012) posit that government controlled firm is more likely to put anti-takeover provision and thus prevent external governance mechanisms to discipline management. In other words, government ownership might provide management with less incentive to perform well and, accordingly, is more likely to omit beneficial effect of board monitoring. Therefore, it is reasonable to predict that the presence of government ownership might affect the relationship between board characteristics and organizational outcome. To test this proposition, we rerun our model by decomposing the sample into two equal group based on the presence of government ownership, the results are presented in Table 5. Column 1 reports estimates of subsample without government ownership and column 2 displays the results of banks with government ownership. The models are significant at 0.001

level and explains 23 percent (column 1) and 26 percent (column 2) variations in accounting performance.

In the absence of government ownership, the results suggest that there is no significant effect of chairperson independence (CHAIND, z-value= -0.50), board independence (COMIND, z-value= -0.78), and board size (COMSZ, z-value= -0.72). However, we note that our measure of school rank significantly is related to return on equity at 1 percent (z-value= -2.63). The negative sign indicates that board chairperson graduated from top rank college is more likely to deliver better accounting performance. By contrast, in the bank with government ownership, we find that independent chairperson is associated with lower accounting performance (CHAIND, z-value= -2.68). The effect of board independence (COMIND, z-value= -0.78) and board

Table 4. Regressions of Bank's Performance on Board Characteristics

		Non-listed	Listed
_cons	Coeff.	0.34	0.21
	z-value	1.38	1.82
CHAIND	Coeff.	-0.03	0.01
	z-value	-1.60	0.33
COMIND	Coeff.	-0.01	-0.09 c
	z-value	-0.45	-1.74
COMSZ	Coeff.	-0.01	0.01
	z-value	-1.20	1.14
SCRANK	Coeff.	-0.02 b	-0.01 b
	z-value	-2.06	-2.11
ACSZ	Coeff.	-0.01	-0.01
	z-value	-1.55	-0.73
OWN5	Coeff.	-0.28	-0.11 c
	z-value	-1.13	-1.87
BRCH	Coeff.	0.01 a	0.00
	z-value	3.40	0.71
FRAGE	Coeff.	0.04 c	0.00
	z-value	1.85	-0.15
DTE	Coeff.	0.01 b	0.01 a
	z-value	2.36	4.57
Constant		Yes	Yes
Year-FE		Yes	Yes
R ² -overall		0.45	0.24
Wald chi ²		57.78	43.35
Prob> chi ²		0.00	0.00

size (COMSZ, z-value= -0.70). School rank remains an important predictor of firm performance although the level of significance decreases (SCRANK, z-value= -1.68, p= 10 percent).

DISCUSSION

Descriptive statistics reveals that the distribution of ROE displays a modest variation across banks regarding the accounting performance they achieve. Surprisingly, outsider-dominated board is a common practice in Indonesian banking industry and the variation across firms is low. Overall, although the rank of awarding universities quite varies across sample, yet chairpersons in banking industry is well educated. Lastly, prevalence of excessive ownership concentration is evident in Indonesian banking industry.

Unconditional step-wise analysis reveal that chairperson independence, the proportion of inde-

pendent directors, and board size do not serve as determinants of accounting return. In contrast, better accounting return is more likely to be observed in the bank with board chairperson graduated from highest rank universities (better quality). The results remain unchanged across individual and simultaneous tests. This suggests that the results are less likely to suffer from interplay effects among governance mechanisms. Further, I take the strength of market for corporate control into account. First, I decompose sample into two groups based on listing status. This test is grounded on the premise that listed firms face higher scrutiny and performance pressure. Therefore, it is asserted that scrutiny and pressure would put listed firms to be more aligned to market for corporate control. In both groups, personal characteristics of directors (chairperson independence, board independence, and board size) remain exhibiting insignificant estimation consis-

Table 5. Regressions of Bank’s Performance on Board Characteristics

		Nogov	Gov
_cons	Coeff.	0.19 B	0.34 b
	z-value	2.19	2.26
CHAIND	Coeff.	-0.01	-0.04 a
	z-value	-0.50	-2.68
COMIND	Coeff.	-0.03	-0.03
	z-value	-0.78	-0.78
COMSZ	Coeff.	0.00	0.00
	z-value	0.72	-0.70
SCRANK	Coeff.	-0.01 A	-0.01 c
	z-value	-2.63	-1.68
ACSZ	Coeff.	0.00	-0.02 b
	z-value	-0.38	-2.05
OWN5	Coeff.	-0.05	0.16 b
	z-value	-0.94	2.12
BRCH	Coeff.	0.00	0.00
	z-value	1.23	-0.33
FRAGE	Coeff.	-0.01	-0.03
	z-value	-0.88	-1.35
DTE	Coeff.	0.00 A	0.01 a
	z-value	2.71	3.56
Year- FE		Yes	Yes
R ² -overall		0.23	0.26
Wald chi ²		37.23	41.90
Prob> chi ²		0.00	0.00

tently of accounting performance while the significant effect of university rank persists. The finding thus confirms that the association between board characteristics and is insensitive to the presence of different listing status. Next, I split the sample into two equal group based on the presence of government ownership. It is claimed that government ownership might grant management with less accountability from business failure. Therefore, this view suggests that the existence of government ownership might reduce the strength of market for corporate control. The analysis reveals that chairperson independence, board independence, board size is insignificant while board chairperson from top rank school have a positive effect on accounting return in subsample firms with government ownership. In the presence of government ownership, the results of board independence and board size persist while chairperson independence, however, becomes negative predictor of dependent variable. One plausible explanation of this pattern is that independent board chairperson is more likely to suffer from information problem (Raheja, 2005), that eventually prevent the chairperson to set up robust monitoring agenda. Another explanation is that poor performing banks simply put independent director to serve as board chairperson in order to convince market that they aware of governance problem, of which might result in underperforming achievement (Prabowo & Simpson, 2011). The rank of college remains positive.

Taken together, the results tell several points. First, board independence, board size is insignificant determinant of accounting return consistently. Second, the effect of chairperson independence on ROE might be sensitive to different population. Third, the rank of schoolboard chairperson attended serve as credible predictor of firm performance irrespective to the existence of other governance mechanisms and the strength of market for corporate control.

CONCLUSION AND SUGGESTIONS

Conclusion

In this paper, I examine the effect of chairperson independence, overall board independence, board size, and chairperson education on return on equity in banking industry in Indonesia. The underlying framework borrows from agency theory postulating that independent directors might shape board monitoring effectiveness. Board size has been quoted as bringing knowledge and skill diversity although, on the other hand, might raise coordination and communication issues. The rank of college the chairperson graduated might serve as a proxy for cognitive ability of chairperson that is necessary for coordinating and setting monitoring strategy and agenda. The sample is based on the dataset comprising banks operating in Indonesia during 2009-2015, of which bank-years with unavailable annual and necessary report are omitted, resulting in the final sample consisting of 86 banks (520 observations).

Further, I winsorized all continuous variables at the 1st and 99th percentiles to address possible outliers issue. Using panel data regressions in unconditional estimation, I find that chairperson independence, the proportion of independent directors, and board size are insignificant predictors of bank accounting performance while the rank of university board chairperson attended shows a significant effect on accounting return.

To test the robustness of the results, further analysis reveals that the effect of board characteristics on accounting performance is moderated by the strength of market for corporate control. I address this issue by introducing listing status and government ownership, of which are expected to produce variation in the strength of market for corporate control. The results remain unchanged; chairperson independence, the proportion of independent directors, and board size are insignificantly related to bank performance while the rank significantly

affects accounting return. However, I find that the effect of university rank board chairperson attended on bank performance is more pronounced in the bank without government ownership.

Suggestions

While the results are robust to variation in the market for corporate control, the analysis might suffer from endogeneity issue. For example, poor performing banks might simply add independent

director to serve as board chairperson in order to convince market that they aware of governance problem. Another example is that directors graduated from top rank college might have better access to join reputable bank with profitable record. If this is a case, the analysis might produce biased-estimation that stems from reverse causality (Wintoki, Linck, & Netter, 2012; Lau, Shrestha & Yu, 2016). Therefore, future research addressing those shortcomings would be of worth of governance literature.

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