

TRANSPARENCY LEVEL OF GOOD CORPORATE GOVERNANCE AND BOARD CROSS-DIRECTORSHIP ON COMPANY VALUE

Chairil Afandy¹, Intan Zoraya², Paulus Suluk Kananlua³, Akram Harmoni Wiardi⁴
^{1,2,3,4}Faculty of Economics and Business, University of Bengkulu, Indonesia

Abstrak | Penerapan praktik good corporate governance bertujuan untuk mencapai optimalisasi alokasi sumberdaya perusahaan sehingga pertumbuhan dan kemakmuran pemilik perusahaan dapat dicapai. Efektifitas pengelolaan korporasi dalam jangka panjang dapat menyebabkan peningkatan kinerja perusahaan yang menguntungkan pemegang saham dan publik secara umum. Penelitian ini difokuskan pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada tahun 2018 hingga 2019. Pada penelitian ini diuji tingkat transparansi good corporate governance dan cross-directorship pada company value. Metode pengumpulan data menggunakan data historis dan diuji menggunakan regresi sederhana. Hasil penelitian ini menyimpulkan bahwa transparansi corporate governance berpengaruh pada nilai perusahaan dengan praktek-praktek corporate governance (sesuai dengan KNKCG), dimana dapat membantu manajer dalam menggambarkan tingkat transparansi mereka pada pelaksanaan good corporate governance. Cross-directorships dewan memiliki pengaruh terhadap nilai perusahaan. Peran ini sangat berguna karena berkaitan dengan sumber daya yang langka sehingga dapat menciptakan keunggulan yang kompetitif.

Kata Kunci: cross-directorship, good corporate governance, nilai perusahaan, transparansi

Abstract | The implementation of good corporate governance practices aims to optimize the allocation of company resources to achieve the growth and welfare of company owners. In the long term, effective corporate governance can improve company performance, which benefits the shareholders and public. This research focuses on manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2019. The level of transparency of good corporate governance and cross-directorship on company value were examined. This study used historical data, and multiple regression analysis was operated to analyze the data. The results concluded that corporate governance transparency has a significant effect on company value with corporate governance practices (in accordance with KNKCG), which can help managers describe their level of transparency in implementing good corporate governance. The cross-directorships board also has an impact on company value. This role is beneficial for obtaining necessary information and resources, considering that limited resources can create competitive advantages.

Keywords: company value, cross-directorship, good corporate governance, transparency

Introduction

The Economic Crisis that hit East Asia in late 1997 and the opening of large-scale financial scandals (for example, the Enron, Worldcom, and Global Crossing scandals) have sparked discussion about the importance of a corporate governance system in a country. Various writings describe the negative consequences of a weak corporate governance system and try to identify the determinants that can improve the implementation of corporate governance. Crisis that occurred in Southeast Asia and other countries occurred not only due to macroeconomic factors but also due to weak corporate governance in these countries, such as vulnerable laws, accounting standards and financial auditing that are not yet established, under-regulated capital markets, inadequate supervision by commissioners, and neglect of minority rights. This means that good corporate governance does have not only positive results for shareholders but also for the wider community in the form of national economic growth.

Corporate governance concerns the problem of controlling the company's top executives' behavior to protect the interests of company owners (shareholders). This problem arises because of the separation between ownership and management of the company—owners as suppliers of company capital delegate authority over company management to professional managers. As a result, the authority to use corporate resources is entirely in the hands of the executives.

One of the decisions that management must take is the level of information disclosure to stakeholders. There is a lot of research on disclosure issues. Based on the types of exposure, previous research can also be divided into mandatory and voluntary disclosure research, i.e.; Labelle (2002), Black et al. (2003), Chong and Silanes (2012), and research that examines certain types of disclosures, such as financial disclosures, social responsibility disclosures, environmental disclosures, etc. This study investigates a kind of disclosure, namely the disclosure of good corporate governance (GCG) in the company's annual report. GCG is

related to the company's internal and external influences; precisely, the proportion of the roles of the members of the board of commissioners and directors is believed to be able to increase competitive human resources and company performance. In the long term, it can improve long-term value and profits. The research objective is to examine the effect of GCG disclosure on company market value.

The implementation of GCG is believed to improve company performance or value. Increasing the company's performance is for the benefit of shareholders and the general public interest. This question can be found in various corporate governance codes in almost all countries. For example, Dey Report (1994) in Labelle (2002) suggests that effective corporate governance, in the long run, can improve company performance and benefit shareholders.

The same conclusion is stated by the guidelines prepared by the KNKCG (2001) in Indonesia. KNKCG said that the GCG guidelines they compiled, among others, aim to "maximize the value of the company and the value of the company for shareholders by increasing the principles of transparency, accountability,...." (point 1) and to "encourage the management of the company in a professional, transparent, efficient,...." (item 2). McKinsey & Co's research found that the company's growth expectations determine around 90% of the market value of Indonesian public companies, and only the remaining 10% is determined by current earning streams, namely the company's actual ability to create profits. As a comparison, the market value of healthy public companies in developed countries is only 30%, determined by growth expectations. The remaining 70% is determined by the company's actual performance or current earning streams.

Mc Kinsey & Co's in 2001 follow-up survey in Asian, European, Latin American, and USA countries shows that in the perception of international investors, Indonesia is a country that has low-quality corporate governance in Asia, compared to 5 other Asian countries, namely Japan, Taiwan, Thailand, Korea, and Malaysia. The research also states that investors would pay a higher premium for

companies that implement GCG. Indonesian companies, especially public companies, are expected to get a high compensation for implementing GCG.

Based on the survey, it is interesting to examine whether investors are willing to pay a higher premium to companies that practice GCG and disclose information to the market, especially in annual reports as the primary source of company information. Compensation can be measured by the price paid by investors for the company's equity (market price). If, in reality, investors are willing to pay a higher premium, the value of the practice and disclosure of GCG information will also be higher than that of companies that do not practice and disclose GCG. The company value used in this research is the price to book value ratio. Research on good corporate governance has been widely conducted. Black et al. (2003) found that investors rated the same earnings as higher for companies that implemented GCG better. Labelle (2002) found that disclosure on the implementation of good corporate governance has a positive relationship with company performance in the eyes of investors. Klapper and Love (2002) found a positive relationship between corporate governance and company performance as measured by ROA and Tobin's Q. Chong and Silanes (2012) found that companies with better corporate governance had higher Tobin's Q and Price-Book values.

Jaafar and El-Shawa (2009) found that multiple directorships and board size positively and significantly affect company performance as measured by ROA, and Tobin's Q. Jiraporn et al. (2009) found that companies with small board sizes have high company value. Tobin's Q. Kusumawati and Riyanto (2005) calculated company value found that the level of transparency of good corporate governance and the number of commissioners has a positive effect on company value, while the level of cross-directorships has a negative impact on company value.

Agency Theory

Anthony and Govindarajan (2005) explain that an agency relationship arises when one of the principals hires another party as an agent to delegate decision-making authority to the

agent. The agency theory assumes that individuals will act in their interests. An agent assesses satisfaction from the compensation received and other additions to the agency relationship such as free time, attractive working conditions, lots of free time, and flexible work.

On the other hand, the principals are only interested in the financial return (return) obtained from the investment they have invested in the company. The difference in interest between the principal and the agent will impact the perspective of assessing risk preferences where the principal is more risk-neutral (risk-averse). In contrast, the agent prefers to take risks (risk taker). Shareholders tend to be interested in company performance that focuses on maximizing returns and the price of their investment securities. At the same time, managers are more concerned with broad psychological and economic needs, including maximizing compensation. The difference in interests between principal and agent often creates agency conflicts between the two parties. Eisenhardt (1989) explains accounting theory using three assumptions of human nature to use, namely humans will generally be selfish, humans have a limited mindset regarding perceptions in the future (bounded rationality), and humans always avoid risk (risk-averse). The role of agents as managers would have more knowledge regarding the developments and internal information about the company in the future than principals. However, the agent will still provide information about the condition of the company's financial statements to the principal.

Theory of Good Corporate Governance

Discussion based on Good Corporate Governance (GCG) theory arises due to the separation between the ownership and control functions, which would cause an agency problem. The existence of corporate Governance is expected to reduce agency problems. A company management principle aims to encourage company performance and provide economic value to shareholders. According to the Forum for Corporate Governance in Indonesia (FCGI), CG was defined as a set of regulations governing the

relationship between shareholders, creditors, government, employees, and other internal and external stakeholders concerning their rights and obligations to regulate and control the company. The basic principles contained in the GCG concept include (1) Fairness, (2) Transparency, (3) Accountability, and (4) Responsibility.

Suppliers, consumers, communities, employees, government, and other parties concerning their powers and responsibilities to achieve organizational goals. Based on the above definitions, it can be concluded that GCG is a system, process, and set of regulations based on principles of fairness, transparency, accountability, and responsibility, which regulates the relationship between various interested stakeholders, including shareholders, and managers, creditors. In agency theory, potential conflicts of interest are identified due to differences in the objectives of each party based on the position and interests of the company. To minimize conflicts, the company needs to have rules and internal control mechanisms that effectively direct the company's operations and support the ability to identify parties with different interests.

There has not been much research to show the benefits of bonding costs. Bonding costs are agency costs borne by agents, which reflect management's efforts to establish that they will not blame the authority given to them (Kusumawati and Riyanto, 2005). The agent realizes that the principal is "suspicious" of them and tends to blame them if any. The mechanism used to solve agency problems was the corporate governance mechanism; namely, internal mechanisms are related to the ownership structure, board of commissioners, and corporate governance audit committee on performance.

GCG Transparency

In the agency theory perspective, weak governance is part of the agency costs that occur and reflects the divergence of interest between the principal (owner) and agent management (Kusumawati and Riyanto, 2005). The existence of inherent agency problems in modern organizational management indicates that company value

will increase if the owner can control management behavior so as not to waste company resources. Agents who are risk-averse and self-serving (self-serving behavior) will allocate resources (invest) that do not increase company value. Actions that are detrimental to the company can occur because of the asymmetry of information between the principal and the agent regarding problems related to the organization. As a result of this information asymmetry, owners find it difficult to know (observe) whether the agent has acted properly (Eisenhardt, 1985) in Kusumawati and Riyanto (2005).

Various research was conducted to test the influence of corporate governance on company performance and company value. However, a study showed that only one aspect of agency cost is monitoring charges. Corporate governance reduces monitoring costs due to increased supervision and company transparency (Kusumawati and Riyanto, 2005). Many studies have shown that the effect of the mechanism of good something is wrong. Management is aware of this and strives to be trusted by the principals. One of the efforts was to demonstrate good faith in providing comprehensive and transparent reports to principals.

Disclosure about corporate governance practices (according to the KNKCG) can be used by management to tell investors that they have tried hard to reduce their opportunistic behavior (Kusumawati and Riyanto, 2005). Investors are expected to receive these signals and rate the company higher. Thus, disclosure of the implementation of good corporate governance has a positive relationship with company performance in the eyes of investors (Labelle, 2002).

Board Cross-Directorship

The level of board cross-directorship is the proportion of the number of board members (commissioners and directors) who serve as commissioners or directors in other companies to the total number of board members (commissioners and directors) (Kusumawati and Riyanto, 2005). This is a function of the resources dependence of the board of commissioners and the board of directors. The resource dependence function

of the board was first proposed by Pfeffer (1972, 1973). This role is instrumental, considering that scarce resources can create competitive advantages (Conner and Prahalad, 1996). Valuable, rare, and socially complex relationships developed by board members will be difficult to imitate by other companies to be a source of competitive advantage (Brigham and Houston, 2010). Board members who do cross-directorship have a more comprehensive range of experience and information, which is expected to be helpful to the company than board members who do not. The assumption that board cross-directorships will be profitable for the company can increase the company's value in the eyes of investors.

Company value in this study is defined as market value. This is because the company value can provide maximum prosperity for shareholders if the company's share price increases. The higher the share price, the higher the shareholder's wealth. To achieve company value, shareholders generally leave their management to professionals. Professionals are positioned as managers or commissioners. Samuel (2000) in Nurlela and Islahudin (2008) explain that enterprise value (EV) or also known as company value is an essential concept for investors because it is an indicator for the market to assess companies' whole. Meanwhile, Wahyudi and Pawestri (2006) states that company value is the price a prospective buyer is willing to pay if the company is sold.

Investors use financial ratios to determine the market value of the company. It's indicate the investor's assessment of the company's past performance and its prospects for the future. There are several ratios to measure the market value of a company, one of which is Tobin's Q. The more excellent value of the Tobin's Q ratio indicates that the company has better growth prospects and more significant intangible assets. This occurs because of the higher market value of the company's assets, the greater investors' willingness to make more sacrifices to own the corporate. Companies with a high Tobin's q value usually have a powerful company brand image, while companies with a low Tobin's q value are

generally in a very competitive industry or an industry that is starting to weaken.

In general, Tobin's Q is almost same as market to book ratio, but according to James Tobin's in Sukamulja (2004), Tobin's Q has different characteristics, including:

- a. Replacement Cost vs Book Value.
Tobin's Q uses replacement cost as the denominator, while the market-to-book ratio uses the book value of total equity. In their research, Black et al. (2003) found that the difference between the replacement cost value and the book value of total assets was insignificant, so the two variables could replace each other.
- b. Total Assets vs Total Equity
The market-to-book ratio uses only the equity factor (common stock and preferred stock) in the measurement. The use of the equity factor shows that the market-to-book ratio only considers one type of investor, namely investor of shares, both common stock, and preferred stock. In comparison, Tobin's Q provides broader insight to investors. As economic entities, companies use equity in financing their operational activities and other sources such as debt, both short and long term. Therefore, the assessment needed by the company is not only from investors but also from creditors. The bigger the loan given by the creditor shows that, the higher the trust is given. This indicates that the company has an even greater market value. With that in mind, Tobin's Q uses the Market value of total assets.

Company Value

If the company's share price has increased, its value will increase, and it is hoped that it can maximize prosperity for shareholders. The higher the share price, the higher the worth for shareholders. To achieve the desired company value, investors will hand over the company's management to professionals to serve as managers or board of commissioners. Wahyudi and Pawestri (2006) reveal that company value can be measured from the company's stock price. Company value reflects equity and book value, both from total debt, total equity, and the market value of the

company's equity. From various definitions of company value, it can be concluded that company value is the core value of a company which can be identified by looking at its stock price in the market or stock exchange. Thus, the company's high share price will indicate that the company value is also high.

Market Value Measurement

The measurement of company value is carried out using valuation ratios or market ratios. The appraisal ratio is the most comprehensive measurement of a company's performance because it reflects the combined effect of risk and returns on returns, according to Weston and Copeland (1997).

Hypothesis Development

Disclosure of the implementation of good corporate governance has a positive relationship with company performance in the eyes of investors (Labelle, 2002). This statement is also supported by a survey conducted by McKinsey and KOID (2003), which shows that investors are willing to pay a higher premium for well-governed companies in Indonesia.

The problem in this study is whether GCG transparency in the annual report gets a response from the market. This problem is also related to whether the market considers GCG disclosure in the annual report in detail or only looks at other corporate governance factors that are easily recognized. Thus, the first hypothesis in this study can be stated as follows:

H₁: The level of transparency of Good Corporate Governance has a positive effect on the company's market value.

The problem in this study is whether GCG transparency in the annual report gets a response from the market. This problem is also related to whether the market considers GCG disclosure in the annual report in detail or only looks at other corporate governance factors that are easily recognized. Specifically, the market uses the hypothesis regarding the relationship between board cross-directorships and company value. The board is defined here as a commissioner and board of

directors. This is done because the other hypothesis emphasizes the board's role as a supervisory tool for directors and management. In this context, the board in question is the board of commissioners. This perspective views the board as a tool for obtaining necessary information and resources (Dalton and Daily, 1999 in Young et al., 2001). This role is instrumental, considering that scarce resources can create competitive advantages (Conner and Prahalad, 1996). Valuable, rare, and socially complex relationships developed by board members will be difficult to imitate by other companies to be a source of competitive advantage (Barney, 1991 in Young et al. 2001). The assumption that board cross-directorships will be profitable for the company can increase the company's value in the eyes of investors.

H₂: The level of board cross-directorships has a positive effect on the market value of the company.

Method

Research Design

The nature of this study is a causal relationship, the independent variable (variables that affect) and the dependent variable (variables that are influenced) Sugiyono (2009: 56). The variables in this study are the level of transparency of good corporate governance and board cross-directorship as the independent variable and company value as the dependent variable. This research was conducted for 7 (seven) months starting from April 2020 to October 2020.

The data collection method used in this research is a literature study, which is a way of getting data by reading and studying books related to the problems discussed in this study. The type of data used in this study is secondary data, namely the company's annual report data from 2018 to 2019. Meanwhile, the data used can be obtained from the report.

The population used in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2019. While the companies in the sample were

selected based on the purposive sampling method with certain criteria, namely:

1. Fifty four (54) manufacturing companies are listed for annual reports from 2018 to 2019 and it can be accessed at www.idx.com
2. Companies that were not delisted during that period.
3. Companies that use the rupiah currency in their financial statements.
4. Companies that provide curriculum vitae of each member of the commissioners and directors.

The analytical tool used is multiple linear regression analysis and t-test to test the effect partially.

Results and Discussion

The population in this study were all manufacturing companies in the consumer goods industry that were listed on the Indonesian stock exchange for the period 2018-2019. The number of companies in the study population was 54 companies. The companies that were selected as samples were based on purposive sampling criteria. Based on these criteria, the number of companies that became the research sample was 53 companies with an observation period of 2 years, so the research sample became 106 companies.

Normality test

The normality test in order to test whether in the regression model the two variables have a normal distribution (Ghozali, 2011). The results of normality testing for all variables are presented in the table below.

Table 1. Normality Test Results

Equation 1	
<i>Kolmogorov-Smirnov Z</i>	0,547
<i>Asymp. Sig. (2-tailed)</i>	0,926
Explanation	Normal Data

Autocorrelation Test

The autocorrelation test was conducted to determine whether there was a correlation the confounding error in period t and in period t-

1. The results of autocorrelation test are presented in Table 2.

Table 2. Autocorrelation Test Results

Equation 1					
K	DL	DU	DW	CRITERIA	EXPLANATION
2	1,440	1,678	1,89	1,6785<DW	Autocorrelation
	2	5	3	<2,315	Free

Multicollinearity Test

The multicollinearity test was carried out in order to test whether the regression model has a correlation between the independent variables. To test if there is a multicollinearity problem, it can be concluded on the Tolerance and Variance Inflation Factor (VIF) values. The multicollinearity test results can be seen in Table 3 as follows.

Table 3. Multicollinearity Test Results

Variable	Tolerance	VIF	Explanation
NP	0,333	3,005	Multicollinearity Free
TGCG	0,337	2,970	Multicollinearity Free
CDD	0,0974	1,028	Multicollinearity Free

Heteroscedasticity Test

We operate heteroscedasticity test in order to test whether in the regression model there is an inequality of variance from the residuals of one observation. If the result of correlation coefficient of all variables on the residual is >0.05, it can shows that the regression model does not have indication of heteroscedasticity. The results of the heteroscedasticity are presented in Table 6 as follows:

Table 4. Heteroscedasticity Test Results

Variable	Tolerance	Significant	Explanation
NP	0,297	0,767	Heteroscedasticity free
TGCG	1,264	0,211	Heteroscedasticity free
CDD	-0,088	0,930	Heteroscedasticity free

The results of the calculation show that the transparency of Good Corporate Governance has a significant effect on company value partially, so it can be concluded that the first

hypothesis (H_1) is supported. Based on Table 7, the significance value (Sig.) of the Board Cross-directorship variable is smaller than the α value, namely $0.038 < 0.05$. The calculation estimate that the board cross-directorship has a significant effect on company value.

Table 5. Partial Significance Test (t test)

Coefficients ^a					
Model	Unstandardized Coefficients		Std. Coef.	T	Sig.
	B	Std. Error			
1 (Constant)	.341	.055		6.192	.000
TGCG	.050	.015	.293	3.408	.001
CDD	.013	.006	.174	2.096	.038

a. Dependent Variable: NP

The dependent variable in this regression model is company value, while the independent variable is transparency of good corporate governance and board cross-directorship. The regression model based on the results of table 6 is:

$$NP = 0.050 \text{ TGCG} + 0.013 \text{ CDD} + \epsilon$$

The explanation of the above equation is as follows:

1. A constant value of 0.341 states that if there is transparency of good corporate governance and board cross-directorship, the likely value of the company value index is 0.341.
2. The coefficient of the regression equation for the transparency of good corporate governance have a positive value of 0.050, which means that an increase in the transparency of good corporate governance is equal to the unit value, then there will be an increase in the value of the company by 0.050 assuming the other independent variables are constant.
3. The coefficient of the regression equation for board cross-directorship is 0.013, which is positive, indicating that, if the board's cross-directorship value increases, the company value will increase by 1.3%.

From the previous description, it can be said that disclosure of corporate governance practices (in accordance with KNKCG) can

help managers describe their level of transparency in the implementation of good corporate governance. Because this reporting is voluntary (not a requirement determined by the stock exchange authority), this disclosure can also be seen as a signal from management to investors that the company has been managed properly (positive signal). This disclosure can be used by management to inform investors that they have made every effort to reduce their opportunistic behavior. Investors are expected to receive these signals and rate the company higher. Thus, disclosure of the implementation of good corporate governance has a positive relationship with company performance in the eyes of investors (Labelle, 2002). This statement is also supported by a survey conducted by McKinsey and Koid in 2003 which shows that investors are willing to pay a higher premium for well-governed companies in Indonesia.

The relationship between board cross-directorships and company value is defined here as the board commissioners and the board directors. It is become clear because the other hypothesis emphasizes the role of the board as a supervisory tool for directors and management. For this context, the board in question is the board of commissioners. This hypothesis does not emphasize the supervisory function of the board, but rather the function resource dependence of both commissioners and the board directors. This perspective views the board as a tool to obtain information and important resources (Dalton and Daily, 1999 in Young, et al 2001). This role is very useful considering that scarce resources can actually create competitive advantages (Conner and Prahalad, 1996). Valuable, rare, and socially complex relationships developed by board members will be difficult to imitate by other companies so that they can be a source of competitive advantage (Barney, 1991 in Young et al. 2001).

Conclusion

Based on the results we conclude that corporate governance transparency have an effect on company value incorporated with corporate governance practices (in accordance with KNKCG) which can assist managers in describing their level of transparency on the

implementation of good corporate governance. This reports is voluntary (not an obligation determined by the stock exchange authority), and the disclosure can also be seen as a signal from management to investors that the company has been managed properly (positive signal). Board cross-directorships are proven to have an effect on company value, meaning that the board is a tool to obtain important information and resources. This role is very useful considering that scarce resources can actually create a competitive advantage.

Suggestions

We suggest conducting an interview regarding the role of the board of directors and commissioners in order to be able to complete qualitative appropriateness and validate their role on company performance. Based on the result, we suggest for future research to add the components listed in the dependent variable, by adding existing components other than components that have been used so that the results can better describe the conditions; expand the object of research, by adding research samples; and extend or add the year of the sampling sample, by selecting a sample that is representative of the bias in explaining it.

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