The Impact of Financial Performance and Governance to the Board of Directors Replacement (Empirical Study on State Own Companies in Indonesia)

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Abstract

One of the implication of weak corporate governance may usually be measured from the low sensitivity of management to the company's performance or maintaining management with low performance. This paper is aimed to assess the influence of companies performance and governance to a normal or abnormal replacement of board of directors (turnover) at state own companies in Indonesia.

This paper would investigate at the internal corporate governance mechanism which represented by the independent board of directors and external corporate governance would be represented by a political interest and leverage. The paper confirm two issues. First, that a company's performance influence the consideration in determining the board replacement. Second, there has been no proof that management entrenchment at state own companies influence the board replacement. The research shows the shareholders use return on asset/sales as a performance measurement considered prior the replacement of board member. The higher return on sales, the greater possibility the board replacement would be done on a normal turnover.

Background

Good corporate governance (GCG) aims to encourage the optimum allocation of resources. For the state own enterprise, GCG will give benefit to the shareholder but also useful for public and national economic. One of the implications of the implementation of the weak corporate governance is measured from the low sensitivity of the performance to the management turnover. Volpin (2002) found that there is a low sensitivity on the replacement of the management of the company's performance in Italy. However, Firth, Fung and Rui (2005) in research on state-owned company in China in the period 1998-2002 (a state that have low application of the regulation and corporate governance), does not find management entrenchment and high of replacement management happen to low performance companies.

In state-owned in Indonesia, there are two different character, namely corporate and bureaucratic character of closely related with the political and regulations. The two characters cause potential conflict of interest in state-owned. Shareholder general meeting is held by Minister of State-Owned Enterprises, which represents the government as shareholder in state-owned and have highest authority in all powers that are not submitted to the directors or commissioners (Article 1 paragraph 5 and 13 Law No.19 of 2003: State on Enterprise Act).

Many of the research explain that the political and regulatory environment significantly affects the management system of company. Regulation should be able to improve on the
company's governance, because of a more strict supervision. However, Darmawati (2006) found that the implementation of GCG in the listed state-owned are weaker compared with non state-owned companies. Results of this research is supported by La Porta et al. (1999) which states that there is a weak corporate governance in countries that have weak law enforcement and less legal protection to the investors.

Research on the implementation of GCG in the state-owned and various allegations of potential conflicts of interest around the state-owned, especially on the replacement of state-owned enterprise directors, have benefit to regulator of SOE. A little empirical research about the replacement of directors, especially directors SOEs also encourage the research. In the international perspective, there are many research that relate the replacement of directors to the company performance and governance. Directors have very important role to realize the company strategy and good corporate governance.

This research will observed the influence of the company's performance and governance to the replacement of state-owned directors during the period of 2000-2005. Replacement of directors categories to normal or not normal. Normally replacement happen when the directors end of the contract after 5 years, voluntary resignation or health reasons or other personal reasons and due to die. While not normally mean the replacement that conducted by General Meeting of Shareholders before the end of the contract. The reasons of replacement are caused of low performance, improving the performance by changing new directors or without a clear reason.

**Literature Review**

Implication of good corporate governance will increase the company performance, therefore, research on the replacement of many directors associated with the performance of the company. Wiesbach (1988) based on research in USA, states that low performance of company caused the forced turnover of director. The same result found in Australia (Suchard et al, 2001), Belgium (Renneboog, 2000), English (Dahya et al. 2002), Germany (Kaplan, 1994b) and Japan (Kang and Shivdasani, 1995). With data of 33, DeFond and Hung (2004) in the Firth, Fung and Rui (2005) find the degree of relationship between company performance and CEO compensation is greater in countries with strong law enforcement. The research use accounting profitability, stock returns and growth as a company performance measurement.

Huson, Parrino and Starks (2001) in research on the company listed in Wall Street in the period 1971-1994 found that the forced turnover associated with lower performance of the company. But they found that the change of governance mechanism will strengthen the relationship between the replacement of a director with the company's performance. Ugur and Miller (2006) conducted research in the U.S. found that the relationship between the replacement of directors of the company's performance is higher in companies that are registered in more than one capital market.

Agency theory holds that the management should be responsible for the performance of the company and they can be replaced if the company's low performance. Therefore, one of the most important task of the shareholders appoint and dismiss directors. Good
corporate governance practice suggested that the performance of top management must be evaluated. Research on corporate governance has also identified the development of various monitoring mechanism that aims to ensure that the directors will act in accordance maximum interest of shareholders. According to Fama and Jensen (1983), there are two mechanisms, namely internal and external mechanisms. Internal mechanisms are the board of directors, stock ownership by management, executive compensation. External external mechanism are the market for corporate control, regulations, institutional ownership level and debt financing (Huson, Parrino and Starks (2001). The consideration of choosing the mechanism depends both on the economic and political development (Firth, Fung and Rui, 2005). Jensen (1983) in Huson, Parrino and Starks (2001) says that an external mechanism can work in harmony with the internal mechanisms for controlling agency costs between shareholders and directors. One approach frequently used in research to measure the effectiveness of corporate governance system is to test whether the director be replaced if the company has low performance. Company performance is a reliable measurement of effectiveness directors (Dahya, Mc.Connel and Travlos, 2002). If the company has low performance, the shareholder will make the replacement for the director to better realize the wishes of shareholders. Some international research likes Kaplan (1994b), Kang and Shivdasani (1995), Daily and Dalton (1995), Huson, Parrino and Starks (2001), Dahya, Mc.Connel and Travlos (2002) and Miller and Ugur (2006) give the evidence relation between the replacement of director and the low company performance.

Simons (2000) in Jermias (2005) stated that performance measurement can indicate the effectiveness in achieving the company goals. There are two types of performance measurement that are typically used in evaluating the performance of the company, accounting based and market based measurement. Jermias (2005) stated that market performance, such as stock returns or the market value of equity, tend to be more objective. Accounting based performance tend to be controlled by managers so it considered as performance measurement. Firth, Fung and Rui (2005) also stated that market size is not relevant to use as a tool of performance measurement company.

Researchers expect that the low performance of the company, the shareholders will make the replacement of directors before the end of contract or otherwise shareholders will retain a director until the end of the management contract. Fisrt hypothesis : The higher performance of the company, the replacement of directors occur normally.

Given that most of the characteristics of state-owned shares are still owned by the state, so it difficult to get the market based return. The research use the accounting numbers as performance measurement. Accounting numbers that will be tested as a performance measurement is return on assets (ROA), return on sales (ROS) and sales growth. The ratio of return (profitability) based on operating profit, to avoid bias that often arise due to the action taking big bath which often appear in the vicinity of the replacement of directors.

As part of the internal governance mechanisms, the board (commissioners and directors) are expected to perform the control function. The independence of the board of the
company is expected to realize the GCG and to provide additional value for the company. However, research on the impact of board independence (commissioners and directors) to the performance of the company have results vary. Daily and Dalton (1995) states that the high proportion of outside board of a company associated with the positive performance of the company. Weisbach (1988) found that higher portion of outside directors make difficulties in decision making so the potential the replacement of directors will be higher. The second hypothesis: The higher the proportion of outside directors of company, the less likely the company is experiencing the normal replacement of directors.

Research interested to see how the relationship between outside directors with replacement of director if a replacement is associated with the performance. Therefore, in the development of second hypothesis, the research then examined the relationship between the interaction variables outside directors with the performance to the the replacement of directors.

Different types of investors will have a different goals and this will impact on the replacement mechanism of the Board of Directors. For the listed state-owned, the investors (whether foreign, national institutional or individual) would want the company to maximize wealth of companies. For the state-owned that only owned by the Government have a goal other than profit, such as a smooth service delivery, maintain political stability or other social purposes (Firth, Fung and Rui, 2005). In addition, of the state-owned that owned by Central Government and Local Government, also often have a different goals, as the Regional Government may not be too concerned over the profitability of, and prefer the social and economic development patterns so that the area was assigned programs which is not profit-oriented.

When the company is owned only by a majority of shareholders, of course there is only one interest charged to the company so that shareholders will be more easy to do the replacement of directors when the interest is not reached. In addition, for the company that have more than one stakeholder, such as listed state-owned, of course the replacement of the director may cause a market reaction that changes the value of the company. Moreover, the contribution of state-owned capital market in Indonesia is quite significant about Rp 452.69 billion or 36.82% of the value of market capitalization Indonesian Capital Market (Roziqin, 2007). Based on the above, third hypothesis: When a company is owned by one shareholder, then the less likely the company is experiencing the normal replacement of directors.

Results of research and Wang Xu (1999) in research on state-owned enterprise in China reported that the large proportion of state ownership companies have better performance because of pressing companies to improve efficiency and increase profits, and more easy to monitor performance of the company. But this be debated by Firth, Fung and Rui, (2005) who reported that in addition to consideration of benefits, the Government of China also has many other purposes (non-profit objectives) assigned to the directors. Assignment such as this of course will then weaken or even eliminate the relationship between company performance with the replacement of directors. Related to the above,
researchers interested to see how the relationship between ownership if the replacement director is associated with the performance. Therefore, the research then examined the relationship between the interaction variable between ownership with the performance to the replacement of directors.

Politics and regulations have a significant impact in the economy. Positive accounting theory states that a large company and have a high level of profitability that often attract politicians. According to Scott (2000), there are some economic activities which are governed by regulations such as companies that have monopoly rights in the field of electricity, telecommunications and transportation, the company that has rights on public services and financial institutions. Economic activities attract politicians directly because politicians make the regulation. Based on the results of the research mentioned above and also the mass communication media often associate the replacement of state-owned enterprise directors with the interests of politicians, to test whether the replacement of state-owned enterprise directors influenced by factors which the attraction (interest) for the politicians, the research asked the fourth hypothesis: the greater the political attraction of the company, the less likely the company is experiencing the normal replacement of directors.

According to Fama and Jensen (1983) and Wardhani (2006), one of the external corporate governance mechanism for the control of the company is debt financing. Williamson (2001) states that debt and equity not only functions as an alternative financial instruments, but more as an alternative governance structure. Further Williamson (2001) explains that the debt more effective governance mechanism because it works through the contract, while the control through equity tend to cause greater discretion. The failure of the obligations in the contract can provide the authority for the creditor to dismiss a director. Jensen, 2003 and Franks et al, 2001 in Wardhani (2006) found that companies that have debt tend to be a great change of directors when the company's performance remains low and the financial pressure. Development of debt financing as an external corporate governance mechanisms began at the end of the decade of the 1980s when the strength of internal corporate governance mechanisms are considered too weak to work in a timely manner and produced an efficient response (Jensen, 1993 in Wardhani, 2006).

Williamson (2001) explain there are at least four benefits of the mechanism of debt financing. First, the decision to provide loans give signal to the stakeholders about the quality of the borrower. Second, other stakeholders know that the obligation still loading (fixed obligations) on the debt agreement will force managers to optimize the company's free cash. Third, when the creditor request collateral or rights the assets the company, then it will limit the ability of management to sell non-cash assets, or issue a new debt so that it can reduce the risk. Fourth, contract between creditor and management will protect management from the behavior that disadvantage the company. Based on the results of the research mentioned above, the debt financing will help the shareholders to monitor the activities of company management. Therefore, the shareholders will retain the position of directors when the company have a large debt, so the fifth hypothesis: The
higher the leverage the company, the more likely the company is experiencing the normal replacement of directors.

As control variables the research used the size of the board of directors and the total assets. Research Dahya, Mc.Connel and Travlos (2002) and Firth, Fung and Rui, (2005) examine the sensitivity of performance with the replacement of directors also use the company assets as control variables. In this research, the size of the board of directors is suspected and the company will have a negative relationship with the normal replacement of directors.

In this research will also be conducted with sensitivity testing using a different measure of performance. This is done to see whether the performance of different size will affect the relationship between all the free variables in this research to the normal replacement of directors. The research framework of thought and the influence of variables predicted sign free research to the research variables are bound as described below.

**Research Methodology**

To test the hypotheses, the research first used univariate analysis of all variables for the replacement of a director who is not normal and normal. Logistic regression model was developed to test all the variables considered to the affect free replacement of directors. The research used dummy variables as replacement of directors, 1 for normally replacement and 0 for not normally replacement or replacement before the end of contract. There are three logistic regression model of research:

1. regression replacement of director with five variables that stated in the hyphotesis
2. regression replacement of director with five variables and interaction between performance with government and external directors.
3. regression replacement of director with five variables, interaction variables and control variables

**Model I:**

\[
\ln \frac{p}{1-p} = b_0 + b_1 \text{Perf} + b_2 \text{Eksdew} + b_3 \text{Gov} + b_4 \text{Pol} + b_5 \text{Lev}
\]

**Model II (with interaction variables):**

\[
\ln \frac{p}{1-p} = b_0 + b_1 \text{Perf} + b_2 \text{Eksdew} + b_3 \text{Eksdew} \ast \text{Perf} + b_4 \text{Gov} + b_5 \text{Gov} \ast \text{Perf} + b_6 \text{Pol} + b_7 \text{Lev}
\]

**Model III (with interaction and control variables):**

\[
\ln \frac{p}{1-p} = b_0 + b_1 \text{Perf} + b_2 \text{Eksdew} + b_3 \text{Eksdew} \ast \text{Perf} + b_4 \text{Gov} + b_5 \text{Gov} \ast \text{Perf} + b_6 \text{Pol} + b_7 \text{Lev} + b_8 \text{Sizedew} + b_9 \ln \text{aset}
\]

**Where**

\[
\ln \frac{p}{1-p} = \text{Dummy variables replacement of directors}
\]

1 directors replacement and 0 no replacement or normally replacement.
Perf = Performance of companies
ROA = Operating return_{t-1} to total asset_{t-1};
ROS = Operating return_{t-1} to sales_{t-1};
Sales Growth = ((Sales_{t-1})/(Sales_{t-2})*100%) - 100%

Eksdew = Proportion of external/outside directors
Gov = Government ownership
1 if only owned by government (100% government owned)
Pol = Political, dummy variable, 1 if the companies have politically attractiveness.
Lev = Leverage, total liabilities_{t-1} to total equitas_{t-1}
Sizedew = Number board of directors
LnAset = Size, Natural Logaritma from total aset_{t-1}

Dependent variables that are used in this research is the probability of a replacement director is the replacement of normal and not normal (forced turnover) so that the dummy variables are categorized into the category 1 for the replacement of normal as a reference, and category 0 is not normal for a replacement. Dahya, Mc Connel and Travles (2002) and Firth, Fung and Rui (2005) use similar variable in their research.

The end of the contract due to the replacement of tenure that is appropriate for 5 (five) years in accordance with regulations. The directors assigned for 5 year and can be re-appointed for one times. Normal replacement also occur whether voluntary, health reasons or other personal reasons and due to the director died. While that is not included in the replacement of normal is:

1. replacement by shareholders before the end of tenure without mentioning the obvious reasons or for reasons such as to improve the performance of the company or increase the GCG;
2. nomination as a director / trustee in another state-owned or other government institution but with different directors before the term of office ends;
3. involvement of directors in the law cases;
4. resignation of directors without giving reasons

Normally and not normally replacement is used by Firth, Fung and Rui (2005). Reason to improve the performance of the company and GCG is also often used as shareholders (Ministry of State Owned Enterprises) consideration on dismissed before the term of contract.

Unit analysis of this research is the firm-year replacement of the directors in the period 2000-2005. The population is the replacement of all director members of the state-owned company from 2000 until 2005. Research use purposively sample following criteria:

- Companies that their directors replaced from 2000 until 2005.
- Companies are not the banking industry, finance and insurance.
- All the necessary data complete.
There are 154 companies that their directors are replaced. 21 companies in the financial sector, and 11 companies is outlier. Total samples were 122 companies or 708 firm years.

Result

Table 1 present statistik deskriptif of the samples. Based on the descriptive statistics, 59.8% replacement of directors occur normally. In the period of study, average return on assets is 6.43%, return on sales is 9.10% and sales growth is 13%. The companies have outside directors an average of 34.3%, which means most of the members of directors still come from state-owned companies. Statistical data also shows that 77% compnies only owned by government.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Mean</th>
<th>Median</th>
<th>Max.</th>
<th>Min.</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penggantian Direksi</td>
<td>0,598</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0,005</td>
</tr>
<tr>
<td>Return on assets (ROA)</td>
<td>0,064</td>
<td>0,058</td>
<td>0,312</td>
<td>-0,236</td>
<td>0,093</td>
</tr>
<tr>
<td>Return on sales (ROS)</td>
<td>0,091</td>
<td>0,068</td>
<td>0,592</td>
<td>-0,553</td>
<td>0,181</td>
</tr>
<tr>
<td>Sales growth (GROWTH)</td>
<td>0,130</td>
<td>0,115</td>
<td>0,942</td>
<td>-0,733</td>
<td>0,265</td>
</tr>
<tr>
<td>Outside Directors (Eksdew)</td>
<td>0,343</td>
<td>0,333</td>
<td>1</td>
<td>0</td>
<td>0,25</td>
</tr>
<tr>
<td>Ownership (Gov)</td>
<td>0,770</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0,421</td>
</tr>
<tr>
<td>Daya Tarik Politis (Pol)</td>
<td>0,468</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0,499</td>
</tr>
<tr>
<td>Leverage (Lev)</td>
<td>0,573</td>
<td>0,191</td>
<td>10,068</td>
<td>-4,022</td>
<td>1,369</td>
</tr>
<tr>
<td>Size Dewan (Sizedew)</td>
<td>4,549</td>
<td>5</td>
<td>7</td>
<td>2</td>
<td>0,091</td>
</tr>
<tr>
<td>Asset (Rp Milyar)</td>
<td>6,029</td>
<td>782</td>
<td>213.888</td>
<td>5,54</td>
<td>25.204</td>
</tr>
</tbody>
</table>

Table 2 Univariate Analysis

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Normally replacement (1)</th>
<th>Not Normally replacement (0)</th>
<th>t-test (probability)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on assets (ROA)</td>
<td>7.66026</td>
<td>4.58627</td>
<td>4.283 (0.000)*****</td>
</tr>
<tr>
<td>Return on sales (ROS)</td>
<td>11.57337</td>
<td>5.37390</td>
<td>4.366 (0.000)*****</td>
</tr>
<tr>
<td>Sales growth (GROWTH)</td>
<td>11.48821</td>
<td>15.15536</td>
<td>-1.811 (0.061)*</td>
</tr>
<tr>
<td>Outside Directors (Eksdew)</td>
<td>0.27233</td>
<td>0.40575</td>
<td>-7.112 (0.000)*****</td>
</tr>
<tr>
<td>Ownership (Gov)</td>
<td>0.75943</td>
<td>0.78521</td>
<td>-0.804 (0.422)</td>
</tr>
<tr>
<td>Daya Tarik Politis (Pol)</td>
<td>0.42689</td>
<td>0.52817</td>
<td>-2.652 (0.008)*****</td>
</tr>
<tr>
<td>Leverage (Lev)</td>
<td>0.64838</td>
<td>0.46080</td>
<td>1.900 (0.058)*</td>
</tr>
<tr>
<td>Size Dewan (Sizedew)</td>
<td>4.51651</td>
<td>4.59859</td>
<td>-1.152 (0.250)</td>
</tr>
<tr>
<td>Asset (Rp Milyar)</td>
<td>5.874</td>
<td>6.260</td>
<td>-0.208 (0.835)</td>
</tr>
</tbody>
</table>

* α = 10%, ** α = 5%, *** α= 1%

Average ROA, ROS and leverage is higher in the category of normal replacement of a directors. While average sales growth, outside directors, government ownership, the
attractiveness of political, board size, and higher asset is lower on the category of normal replacement. However, test results of different variables on government ownership, board size and asset value is not significant which means that both the average (mean) a third variable is not different (identical).

Table 3 present result of three the logistic model. G test aimed to see the regression coefficients as a whole. Test results for the G model I, II and III present the value of -2 log likelihood values to reach a very large, 853.38, 848.12 and 823.56. This value is very large compared to the table Khi Square at $\alpha = 5\%$. This means there is at least one of the slope is statistically significant.

Hosmer and Lemeshow test aims to test whether empirical data fit or in accordance with the model so the model can be said to fit (goodness of fit model). Value of Hosmer and Lemeshow test of model I, II, and III, is equal to 0.171, 0.178 and 0.20 where the value is above 5%. In assessing model fit or not can also be seen from the value of Cox and Snell R2 and Nagelkerke R2. Nagelkerke R2 value is a modification of the Cox and Snell coefficient R2 to ensure the value varies from zero to one. As can be seen in table 4.2., The value of Cox and Snell R2 and Nagelkerke R2 for model I is 13.2% and 17.8%; model II was 13.8% and 18.7%, and model III was 16.8% and 22.7%. Coefficients showed that all the independent variables used can explain the possible replacement of a company director have normal or not normal to as much as 13.2% for the Model I. Increasing the value of Cox and Snell R2 and Nagelkerke R2 indicates that the contribution of all independent variables to explain the dependent variables.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wald</td>
<td>Sig</td>
<td>Wald</td>
</tr>
<tr>
<td>Constant</td>
<td>1.164</td>
<td>.000(***)</td>
<td>8.791</td>
</tr>
<tr>
<td>ROA</td>
<td>38.608</td>
<td>.000(***)</td>
<td>19.475</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>9.676</td>
<td>.002(***)</td>
<td>9.118</td>
</tr>
<tr>
<td>EksDew</td>
<td>43.999</td>
<td>.000(***)</td>
<td>26.843</td>
</tr>
<tr>
<td>Gov</td>
<td>.002</td>
<td>.968</td>
<td>2.002</td>
</tr>
<tr>
<td>Pol</td>
<td>10.328</td>
<td>.001(***)</td>
<td>11.912</td>
</tr>
<tr>
<td>Lev</td>
<td>1.623</td>
<td>.203</td>
<td>1.185</td>
</tr>
<tr>
<td>Eks_ROA</td>
<td>.145</td>
<td>.704</td>
<td>.144</td>
</tr>
<tr>
<td>Gov_ROA</td>
<td>4.857</td>
<td>.028(**)</td>
<td>5.098</td>
</tr>
<tr>
<td>Sizedew</td>
<td>.581</td>
<td>.446</td>
<td></td>
</tr>
<tr>
<td>LnAsset</td>
<td>17.583</td>
<td>.000(***)</td>
<td></td>
</tr>
<tr>
<td>Uji G</td>
<td>853.379</td>
<td></td>
<td>848.122</td>
</tr>
<tr>
<td>Hosmer &amp; Lemeshow Test</td>
<td>0.171</td>
<td></td>
<td>0.178</td>
</tr>
<tr>
<td>Cox and Snell R²</td>
<td>0.132</td>
<td></td>
<td>0.138</td>
</tr>
<tr>
<td>Nagelkerke R²</td>
<td>0.178</td>
<td></td>
<td>0.187</td>
</tr>
</tbody>
</table>

* $\alpha = 10\%$, ** $\alpha = 5\%$, *** $\alpha= 1\%$
ROA, sales growth, outside directors and the political attraction is statistically significant in models I and II. In other words, the four independent variables have a significant effect on the likelihood of company directors in replacement of normal or not normal. In the model II that Gov_ROA interaction coefficient is statistically significant, and in model III seen that coefficients Gov_ROA, leverage, Lnasset is statistically significant, although the coefficient political power does not become significant. It can be said that the variable size and interaction Gov_ROA company also has a significant influence on the likelihood of company directors in replacement of the normal and not normal.

Table 4 present the result of logistic regression of three models

**Table 4 Result of Logistic Regression**

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Pred. Sign</th>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Koef. (p-value)</td>
<td>Koef. (p-value)</td>
<td>Koef. (p-value)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>1.164 (0.000) ***</td>
<td>0.849 (0.000) ***</td>
<td>4.467 (0.000) ***</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>+ 0.064 (0.000) ***</td>
<td>0.104 (0.000) ***</td>
<td>0.091 (0.000) ***</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>+ -0.010 (0.002) ***</td>
<td>-0.010 (0.003) ***</td>
<td>-0.009 (0.006) ***</td>
<td></td>
</tr>
<tr>
<td>EksDew</td>
<td>- -2.354 (0.000) ***</td>
<td>-2.208 (0.003) ***</td>
<td>-2.787 (0.006) ***</td>
<td></td>
</tr>
<tr>
<td>Gov</td>
<td>- 0.008 (0.968)</td>
<td>0.368 (0.157)</td>
<td>0.204 (0.441)</td>
<td></td>
</tr>
<tr>
<td>Pol</td>
<td>- -0.586 (0.001) ***</td>
<td>-0.638 (0.001) ***</td>
<td>-0.166 (0.446)</td>
<td></td>
</tr>
<tr>
<td>Lev</td>
<td>+ 0.085 (0.203)</td>
<td>0.073 (0.203)</td>
<td>0.133 (0.064) *</td>
<td></td>
</tr>
<tr>
<td>Eks_ROA</td>
<td>- -0.015 (0.704)</td>
<td>-0.016 (0.705)</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Gov_ROA</td>
<td>- -0.047 (0.028) **</td>
<td>-0.049 (0.024) **</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sizdew</td>
<td>- 0.105 (0.446)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LnAsset</td>
<td>- -0.297 (0.000) ***</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* α = 10%, ** α = 5%, *** α = 1%
From the table above, that the normal replacement of directors (59.89%) higher than the replacement is not normal (40.11%). However, the central focus of this analysis is to see the relationship between the replacement of a director with the company's performance. The replacement of directors normally do the companies that have an average ROA and ROS is higher and statistically significant compared to ROA and ROS company directors who are not normal replacement. Thus it can be concluded that the replacement of directors are owned significantly influenced by the performance of (hypothesis 1).

From model 1, shown that there is a positive relationship and significant in the ROA hypothetical, which means that the higher the performance of the company the more likely the company experienced the normal replacement of directors. In other words when a company has a low performance and greater likelihood of directors does not have replacement normal. This evidence indicates inconsistent with research conducted in Italy by Volpin, (2002) and consistent with research in the United States, Australia, Belgium, England, Germany, Japan and China by (Firth, Fung and Rui, 2005) which states that the lower performance of companies will cause of the replacement of a director who is not normally. If compared with the model I and II, the size of coefficient of performance ROA results consistently show a positive and significant. This result supports the conclusion that the higher the performance of the company the more likely the company experienced the normal replacement of directors. It means that shareholders have on the performance of the company to monitor the activities of directors and the company as consideration of factors in the replacement of directors.

However, the results shown by the different size of the performance of sales growth that marked a significant and negative, so that it can be said the higher sales growth the company the less likely the company is experiencing the normal replacement of directors. This shows that shareholders are more interested to do the replacement of directors are not normal in the companies that have a high sales growth.

From the results of the second hypothesis show that there is a negative relationship and significant in the outside directors (EksDew). The higher proportion of outside directors company, the less likely the company is experiencing the normal replacement of directors. This could be caused by reasons outside directors may not be able to show the desire of shareholders and the implementation of internal corporate governance mechanisms through the outside directors is not held in state-owned. Outside directors may not bring improved performance for the company (Chaganti, Mahajan and Sharma, 1985 in Wardhani (2006). According to the results of research Borokhovich, Parrino and Trapani (1996) that the outside directors failed to show the willingness of shareholders because of specific expertise in a particular area so it does not feel comfortable challenging the decision of directors that the area outside expertise.

This is supported by the descriptive statistics which show that the average proportion of outside directors is only 3.43% of the average size of 4 persons of directors only 1 director who came from outside the company. It can also conclude that the implementation of internal corporate governance mechanisms through the outside directors is not held in state-owned because often there is a suspicion on the integrity of
the various parties outside directors so that shareholders prefer a director of the company and select only from the outside directors who have a particular expertise that is not owned by the company. From the results of the model II and III show that when variables were interacted with the performance does not change the relationship between outside directors with the normal replacement of directors and the results were not significant.

From the results of the hypotheses 3rd that the company stock ownership variables (Gov) does not have a significant. It means, the stock ownership variable does not significantly affect the likelihood of company directors in replacement of the normal. This result is consistent with research Dahya et al (2002) who found no evidence that ownership of company shares on the possible effect the replacement of company directors. From the results of the model II and III show when the company only owned by one shareholder and has a good performance, have the small possibility the company is experiencing the normal replacement of directors. Possible explanation for the case when this is the company's shareholders is the sole shareholder may consider further interest other than the company's performance during the replacement of directors. The interest of shareholderde may be just another form of non-profit objectives, such as the success of a special assignment such as a public services (Firth, Fung and Rui, 2005) or the interests of political (Robison, 1986:211-249; Crouch, 1978:273-303 in Rosser (2003).

From the results of the fourth hypothesis show that there is a negative and significant on the political variables (Pol), The greater the attractiveness of a political factor of the company, the less likely the company is the replacement of the directors normal. These results demonstrate that when a company has one of political factors attraction more likely the company is the replacement of the directors are not normal.

From the results of the fifth hypothesis show that large leverage the more likely means that the company is experiencing the normal replacement of directors but not yet evident in a significant way. Explanation on this matter may be caused by the characteristics of state-owned debt is relatively different from the other private companies. Some of the debt guaranted by government. Characteristics of debt that usually comes from the Government without the contract requirements and strict monitoring. This may be a consideration so that the shareholders do not tend to retain the directors of the company's until the end of contract when the leverage is funded by the Government.

Besides, the OECD report in 2000 states that the creditor in Indonesia in general, only give a little input and input to the system management and decision-making by debtors and the role of monitoring is still weak. This may be due to the weak corporate governance due to the creditor's internal control framework is weak and a lack of adequate regulation, the lack of competition among creditors and the government guarantee explicit and implicit can weaken the monitoring and disciplinary action from creditors.

The control variables, namely size board of directors shows that regardless of the company board of directors, the company is likely to replace directors is the same as normal. While for the company size variable indicates Predicted sign the same and the
value is significant that the larger the company the less likely the company is experiencing the normal replacement of directors.

To test the robustness of the model, the sensitivity analysis is conducted by replacing the return on asset with return on sales. Return on asset and return on sales give the same impact to the probability of director replacement. The second sensitivity analysis is conducted by reducing the data. We only use the replacement of president directors and financial directors. The result consistent with the previous conclusion.

Summary

The study examine the impact of implementation of good corporate governance and state-owned company's performance to the replacement (turnover) of directors. Internal corporate governance mechanisms observed with outside directors and stock ownership structure. External corporate governance mechanisms observed with political interest and leverage.

The result indicate, the performance that measured by sales growth and ROA are factors that effect the replacement of directors in state-owned. Higher performance of the company the more likely a replacement of company director normally. When the company has a low performance, the greater likelihood the replacement of directors are not normal. The shareholders use the company's performance as a consideration factor in the replacement directors. The implementation of internal corporate governance mechanisms through the outside directors influence the probability of replacement of directors normally. The stock ownership structure influence the replacement of directors as normal or not normal. When the company only owned by one shareholder (government) and has a good performance of the small possibility the company is experiencing the normal replacement of directors. The government use the other performance measurement likes the contribution the companies to the public services as a consideration to make replacement of directors.

Further research is expected to use the longer period. In addition, further research is suggested for use for other variables that have not been considered in the model of this research, among others, use the variable characteristics of state-owned business is engaged in the competitive or monopoly and variable characteristics such as expertise of directors and the amount of compensation possible in the normal replacement of directors normal or not.

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