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Board of Commissioners'Characteristics And Financial Performanceof State Owned Enterprisesin Indonesia

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Abstract:*The aim of this study is to examine the effect of board of commissioners' characteristics on the financial performance of SOEs. The sample used in this research is state-owned companies listed on the Indonesia Stock Exchange (IDX) as many as 20 companies for the period 2014-2016, with a total of 60 observations. The dependent variable in this study is the company's financial performance as measured by the Piotroski score and the independent variables are the characteristics of the board of commissioners which consist of the size of the board of commissioners, the proportion of independent commissioners, the number of board of commissioners meeting, and the board of commissioners' education. The results show from the four independent variables only the number of board meetings that affect the financial performance of the company. This can be implied the more often the quantity of meeting of board of commissioner expected that less appropriate management quickly detected for immediate action so that impact on company performance.*

Keyword: *Education Board of Commissioners, Financial Performance, Number of Meetings of Board of Commissioners, Proportion of Independent Commissioners,Size of Board of Commissioners.*

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I. INTRODUCTION

State-Owned Enterprises (SOEs) is a business entity which is wholly or partly owned by the state through direct participation derived from separated state assets (Law No.19 of 2003). SOEs play a big role in the national economic system, besides Private Enterprises and cooperatives. SOEs contribute in the Indonesian economy as seen from the tax support paid from the SOEs profit each year is quite large. SOEs produce various goods and services in order to realize the welfare of the people. In Indonesia, the number of SOEs until 2017 was 118 SOEs, and 20 SOEs had successfully gone public, yet others were still trying to improve their financial performance. The data shows, until the beginning of 2017 about 24 SOEs are known to suffer losses (bbc.com). Economic observer Enny Sri Hartati stated the reason for the loss is due to the error factor of management governance, resources and technology.The performance of SOEs often gets poor ratings from the public. SOEs are seen as inefficient business entities, where one of the causes is the use of less-than-optimal resources, loaded with corruption engagement, and resulting in low profitability (Riyanto, 2011). This is evident from the development of low SOE performance, although there are also SOEs that have very good performance. The argument that is often used as an explanation of the bad performance of SOEs is the goal of its establishment that is prioritized on the provision of public services and the fulfillment of community needs compared to the profit.One way to improve the performance of SOEs is to improve the implementation of good corporate governance (GCG) to be more transparent. In Indonesia the issue of Corporate Governance (CG) started from the economic crisis of 1997 and 2008 caused by one of the good CG infrastructure. Some cases that occurred in Indonesia related to CG issues such as PT Lippo and Kimia Farma showed the implementation of CG in Indonesia is still weak (Boediono, 2005). From this phenomenon, the implementation of GCG is expected to improve the performance of SOEs can be achieved.

The Board of Commissioners' characteristics are one that represents CG principles. Previous research on the influence of the Board of Commissioners on performance has been conducted among others: Chistensen, Kent, and Stewart (2010) examining the influence of the Board of Commissioners on the financial performance of companies listed on the Australian Securities Exchange (ASX) with the results of the Board of Commissioners showing a negative impact on performance finance. Hassan et al (2013) who examines corporate governance mechanisms on corporate performance in the United Arab Emirates. In this study shows that voluntary disclosure, CEO duality and Board size affect accounting-based performance in United Arab Emirates, but in this case corporate governance has no effect on company performance. In contrast to Suharjanto and Anggitarani (2010) research, the Board of Commissioners has an impact on financial performance. Further research Kabir et al (2017), examines the role of corporate governance in strengthening the relationship of

corporate social responsibility to financial performance. The results show that corporate governance plays a role in strengthening the relationship of corporate social responsibility to financial performance. Previous research results show varied results.

The updated of this research with previous research is the proxy of financial performance measurement by using Piotroski score which measure company performance using 3 signals (Financial performance signals) that are: (1) Financial performance signals: Profitability, (2) Financial performance signals: Changes in financial leverage / liquidity, (3) Financial performance signals: Operating efficiency. These three signals each have a proxy which is eventually accumulated into a financial score, hereinafter called Piotroski score, so that it can be known to companies with high quality and low quality. The financial strength of the company is the achievement of the company's performance, which requires good corporate governance.The financial strength of a company is important to analyze one of them with the analysis of financial statements using Piotroski score which then can be known the company is in high quality or low quality to assist investment decision making. In addition, this study is associated with the issue of performance of state-owned enterprises that have decreased financial performance trends, so it is necessary to do financial analysis to be used in investment decisions.

The rest of this article proceeds as follows: section II explains the theories underlying hypothesis research and development. Section III describes the method of study, and part IV analysis and extension. The final part of this article is the conclusions, suggestions, limitations of research, implications, and further research.

II. LITERATUR REVIEW

2.1Agency Theory

Agency theory is the foundation for developing CG thinking, stating that companies must be supervised and controlled to ensure that management is done in accordance with the prevailing rules and regulations (Bapepam-LK, 2006). Jensen and Meckling (1976) argue that agency relations are the relationship between manager (the agent) and shareholder (the principal). In agency theory there is a separation between ownership and control because the owner of the capital delegates the decision making to the manager and control to the Board of Commissioners (Lukviarman, 2004). The agency relationship is a contractual relationship between principal (company owner) and agent (company manager) (Jensen and Meckling, 1976) (Fama and Jensen, 1983).

Agency relationships in SOEs, principals are government (Setyowati, 2011) and community (Frederick, 2011) and the agent is the management that runs the company's operations (Peng, 2012). Supervision conducted by the Board of Commissioners serves as a function of supervision and giving advice in accordance with the Law No. PT. 40/2007 about Limited Liability Company,According to Bathula (2008), the agency's theoretical idea is that managers (agents) act opportunistically for personal gain, thus paying less attention to the interests of shareholders (principal). This raises the potential for information asymmetry, where agents have more information than principals. In addition to agency problems, SOEs have conflict of interest context because they have two main goals (Wilcox, Schneider, and Bernal, 2012). The purpose of SOEs is to seek profit from operating activities and serve the public interest (Almasyari, 2015).

The Board of Commissioners assigned to oversee the performance of agents through monitoring mechanisms can reduce agency costs (Fama, 1980, Jensen and Meckling, 1976; Shleifer and Vishny, 1996). This monitoring mechanism is expected to harmonize the interests of related parties (Ujiyanto and Pramuka, 2007). The control mechanism also ensures good business practices that take into account differentiated stakeholders. This research will examine the role of CG on SOEs on the basis of agency theory, so that it is able to improve the financial performance of SOEs.

2.2 Financial Performance

In a study conducted by Piotroski in 2000 evaluated historical financial performance to determine the highest (with a value of 9) and the lowest (with a value of 0) of the company's financial performance. This value is one of the information used by investors to determine investment decisions. The piotroski value contribution is an evaluation of a simple data-based heuristic ratio, where when there is an area applied to stocks that distinguished firms with strong prospects with weak prospects (Rocío et al., 2014).Piotroski score consists of 9 financial performance criteria, 0 (zero) is the lowest qualification and 9 (nine) is the highest qualification. The nine criteria for measuring the overall financial health of a book-to-market company can be categorized into three groups: profitability criteria, operating efficiency criteria, and changes in solvency / liquidity criteria (Rocío et al., 2014):

1. Criteria profitability

This is usedto measuring the company's ability to generate profits. This group has four indicators: ROA (return on assets), ΔROA (change in return on assets), CFO (cash flow from operation as measured by total assets), and Accrual (difference between ROA and CFO). ROA and CFO are rated equal to one if they are

positive, zero if not.

2. Criteria for operating efficiency

This is used to measuring activity turnovers. This group has two indicators: Δ Margin (Change in gross margin) and ΔTurn (change of asset turnover). Positive changes in gross margin and asset turnover indicate an increase in returns to profitability and work efficiency of a company's assets, and rated one if positive, and zero if negative.

3. Changes in solvency / liquidity criteria

Used to measure tie correlation with leverage and liquidity. This group has three indications: ΔLever (leverage change) is rated one if negative and zero otherwise, Δ LIQUD (current ratio change) is rated one if the firm lowers its current ratio from last year and zero on the contrary, and EQOFFER (Equity issuance) which is an indicator variable equal to one if the firm has no equity in the previous year and zero otherwise.

2.3 Corporate Governance

Corporate governance is the relationship between the various participants in the company that determine the direction and performance of the company (Monks and Minow, 2003). The better the implementation of corporate governance mechanism then the company will be in good monitoring condition, so it will improve the performance of the company concerned and can reduce the tendency of fraud in a company. Below is given some definitions from some sources that can be used as a reference. (Agus et al, 2011):

a. Cadbury Committee of United Kingdom:
"A set of rules that define the relationship between shareholders, managers, creditors, the government, employees, and other internal and external stakeholders in respect to their right and responsibilities, or the system by which companies are directed and controlled."

b. Sukrisno Agus (2006) defines good corporate governance as a system governing the relationships of the BoC, BoD, shareholders, and other stakeholders. Good corporate governance is also referred to as a transparent process of determining company goals, achievements and performance appraisals.

c. Organization for Economic Cooperation and Development (OECD):
"The structure through which shareholders, directors, managers, set of the board objectives of the company, the means of attaining those objectives and monitoring performance."

Based on these definitions it can be concluded that CG is an agreed system that is applied to guidelines and controls all parties associated with the organization in achieving its objectives. The objective of CG implementation can be achieved if supported by the application of five CG principles applied in Indonesia according to SOEs Regulation in Indonessia no. PER-01 / MBU / 2011 which are:

a. Transparency,the openness in carrying out the process of decision-making and openness in expressing material and relevant information about the company.
b. Accountability, the clarity of funsi, structure, system, and accountability of corporate organs so that the management of the company run effectively.
c. Responbility, namely compliance in terms of corporate management of sound corporate principles and applicable legislation.
d. Independency of a situation in which the company is managed professionally without any conflict of interest and influence from the management that is inconsistent with the prevailing laws and regulations and sound principles of the corporation.
e. Fairnessis fair and equitable treatment in fulfilling the rights of stakeholders arising under applicable agreements and laws and regulations.

Application of CG principles to SOEs for the following:

1) to optimize the value of SOEs so that the company has strong competitiveness, both nationally and internationally, so as to maintain the existence and sustainable living to achieve the goals and objectives of SOEs
2) encouraging the management of SOEs professionally, efficiently and effectively, and empowering the function and increasing the independence of Persero or Perum organ,
3) encouraging the Persero or Perum organ in making decisions and carrying out actions based on high moral values and compliance with laws and regulations, as well as awareness of social responsibility of SOEs to stakeholders and environmental sustainability in the vicinity of SOEs
4) increase the contribution of SOEs in the national economy, and
5) improving the climate conducive to the development of national investment

Based on the above description can be concluded that the application of good CG principles is expected to optimize the value of SOEs so as to have competitiveness, increase independence, and increase the

contribution of SOEs in the national economy. This study focuses on improving the performance of SOEs through good CG implementation.

2.4Board of Commissioners

The Board of Commissioners, which has the function of monitoring and advisory mechanism of the Board of Directors, plays an important role in ensuring that effective CG implementation is implemented in the company (Law No. 40 Year 2007 about Limited Company). CG's role is focused on the characteristics and activities of the Board of Commissioners (Beiner, Drobetz, Schmid, and Zimmermann, 2004) to be used as proxies in this research: the size of the Board of Commissioners, the proportion of Independent Commissioners, the number of Board of Commissioners meetings, and the proportion of Board education Commissioner.

Application of CG on SOEs based on SOEs ministerial decree no. KEP-117/ M-MBU/ 2002 shows the characteristic of BOC is an important element in influencing the performance of SOEs.

2.4.1The size of the Board of Commissioners

The size of the board of commissioners is precisely determined so as to produce appropriate decisions and have no conflict of interest that may interfere with its ability to perform its duties independently and critically in relation to each other and to directors (Triwahyuningtias, 2012). The board of commissioners is responsible and authorized to oversee management actions, and advises management if it is deemed necessary by the board of commissioners. The size of the board of commissioners is measured using the indicator of the number of members of the board of commissioners of a company.

H1: The size of the board of commissioners is positively related to the performance of the company.

2.4.2Proportion of Independent Commissioners

Independent Commissioners means commissioners from external corporations that do not have financial, management, share ownership and / or family relationships with other members of the Board of Commissioners, directors and / or controlling shareholders or other relationships that may affect their ability to act independently (Wijayanti, 2012). Independent commissioners bear the responsibility to proactively encourage the commissioners in performing their duties as supervisors and advisors. The proportion of independent commissioners is measured by the percentage of the total number of independent commissioners compared to the total number of existing board of commissioners in the company.

H2: The proportion of independent commissioners is positively related to company performance.

2.4.3Number of Meetings of Commissioners' Board

The Board of Commissioners has a duty to maintain a balance between strategy formulation, and policy making and performance by monitoring, controlling, and ensuring compliance with directors. Therefore, the availability of board of commissioners and commissioners committees becomes important and crucial (Lukviarman, 2016). Based on the regulation PER-01 / MBU / 2011 states that the board of commissioners at least held a board meeting once a month. The number of board of commissioners' meetings is measured by the number of meetings conducted by the board of commissioners in one year which are poured in the company's annual report.

H3: The number of board meetings has a positive effect on the performance of the company.

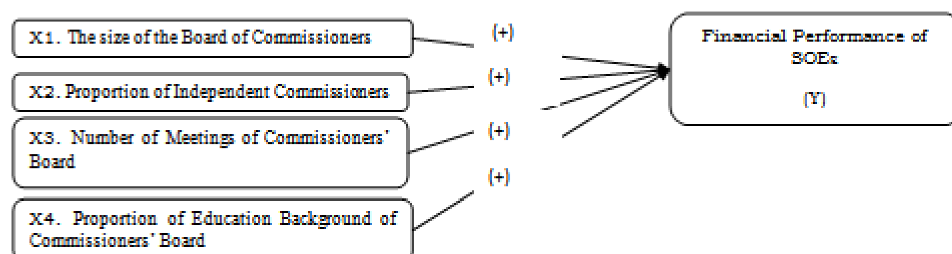
2.4.4Proportion of Education Background of Commissioners' Board

The proportion of the board of commissioners' educational background is the percentage of the number of boards of commissioners with a background in economic education compared to the total number of board of commissioners present within the company.

H4: The proportion of the board's education background is positively related to the performance of the company.

III. Research Method

3.1 Conceptual Framework



3.2 Data Collection and Sampling Characteristics

The population in this research is all SOEs listed in Indonesia Stock Exchange (IDX). The number of SOEs listed on the IDX until 2016 amounted to 20 companies consisting of several sectors. All SOEs listed on the IDX will be sampled in this study with the year of observation 2014-2016, so the research data totaling 60 observations.

3.3 Data collection

To obtain information on the proxy of the Board of Commissioners, secondary data are used in the form of annual reports published to the public (www.idx.co.id) and / or the respective official website of the company. the data is also used to obtain information about the financial performance of each company.

3.3.1 Data analysis method

The analytical technique used in this study is descriptive statistical analysis to describe and describe a data so that it becomes clearer and easier information to be understood. This descriptive statistical test will produce mean, median, standard deviation, minimum value, and maximum value. This study examines the effect of research variables using panel data regression with Least Square Model (PLS) model to test the effect of some independent variables on one dependent variable. Testing is done using the help of the program E-Views version 9 for windows. As regression testing requirements a classical assumption test is performed to ensure that the research data is valid, unbiased, consistent, and the regression coefficient is efficient (Gujarati, 2003). Classic assumption tests include normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test (Ghozali, 2013).

Regression equation based on the model used to test the relationship between variables in this study α determined by 0.01, 0.05, and 0.1 with the following formula:

$$\text{F-score} = \alpha + \beta 1SBC + \beta 2PIC + \beta 3NMC + \beta 4PEBC + \varepsilon$$

Where:

F-score = Financial Performance
α = Constant
β1-4 = Regression Coefficient
SBC = Size of the Board of Commissioners
PIC = Proportion of Independent Commissioners
NMC = Number of Meetings of Commissioners' Board
PEBC = Proportion of Education Background of Commissioners' Board
ε = error term

The coefficient of determination (R^2) measures the extent of the model's ability to explain the variation of the dependent variable (Ghozali, 2013). The statistical test F basically shows whether all independent variables together have an influence on the dependent variable (Ghozali, 2013). The statistical test t shows how big the influence of one independent variable individually in explaining the variation of the dependent variable (Ghozali, 2013).

IV. Result

4.1 Sample

The sample in this research using state-owned company listed in Indonesia Stock Exchange (IDX) amounted to 20 companies with year observation for three year that is 2014-2016, so get total observation counted 60. To analyze data that is by using panel data regression with the help of program E -views version 9 for windows.

4.2 Descriptive Statistics

Descriptive statistics will show the variables in the research clearly and easily understood (Ghozali, 2013). Descriptive statistics will produce the minimum value, maximum value, average, and standard deviation.

Tabel 1 Descriptive statistics

	FSCORE	SBC	PIC	NMC	PEBC
Mean	5.083333	5.966667	0.413162	19.01667	0.390500
Median	5.000000	6.000000	0.366650	15.00000	0.330000
Maximum	8.000000	9.000000	0.666700	57.00000	1.000000
Minimum	2.000000	3.000000	0.200000	2.000000	0.130000
Std. Dev.	1.499058	1.517878	0.110124	10.39963	0.183066
Skewness	-0.142985	-0.324552	0.632072	1.450842	0.917257
Kurtosis	2.515140	2.864745	2.353928	5.444957	3.913553
Jarque-Bera	0.792172	1.099073	5.038668	35.99395	10.50005
Probability	0.672949	0.577217	0.080513	0.000000	0.005247
Sum	305.0000	358.0000	24.78970	1141.000	23.43000

Sum Sq. Dev.	132.5833	135.9333	0.715510	6380.983	1.977285
Observations	60	60	60	60	60

Table 1 presents descriptive statistics of dependent variables and independent variables. Based on the descriptive statistic test for the financial performance variable showing the minimum value 2 and the maximum value of 8, it means that the lowest company occupies the score of performance 2 which means to execute the financial performance with the prospect approaching the weak and the maximum value 8 means the company in the financial performance condition with strong prospect. The average financial performance of SOEs in the score of 5 indicates that the financial performance of the company is not in a state of strong financial performance but also not in a weak state that means being in the middle. This shows that the average prospect of SOEs in the future should still be upgraded to become a company with strong financial performance prospects, because if the financial performance outlook is said to be strong if the score of piotroski is 8 or 9, otherwise the company is in weak financial performance condition if the score of piotroski 0 or 1 (Piotroski, 2000). In this research, SOEs with 8 (high quality) score is PT Indofarma 2014, PT BNI in 2015 and PT Telkom in 2016. Companies with lowest pitroski score are PT Jasa Marga in 2015, PT Krakatau Steel in 2014, and Waskita Karya know 2014 with a score of piotroski 2.

Descriptive statistics for independent variables size of the board of commissioners (SBC) indicate a minimum value of 3 and a maximum value of 9, this means that in a state-owned enterprise the company has at least 3 members of the board of commissioners as in the manufacturing company and at most 9 members of the board of commissioners as in the service company finance. The average size of the board of commissioners is 5.96, meaning that state-owned companies have an average of 5 to 6 people in the company. Based on, the Law No. 40 Year 2007 which requires companies to have at least two members of the board of commissioners within the company. Thus, from the data obtained, it can be concluded that SOEs do not violate laws related to the rules of the number of members of the board of commissioners within the company. The size of the board of commissioners is one of the effectiveness of the function of the board of commissioners in performing its duties to supervise and advise the company.

The proportion of independent commissioners (PIC) shows a minimum value of 20% and a maximum value of 66%, meaning that the company has at least 20% proportion of the board of commissioners, namely financial services company and 66% of the board of commissioners, Perusahaan Gas Negara (PGAS). The average value of PKI shows 40%, meaning that the average state-owned company has a proportion of independent commissioners 40% of the total members of the board of commissioners. Based on PER-01 / MBU / 2011 regulation requiring SOEs to have a proportion of independent commissioners at least 20% of total members of the commissioners, it can be concluded that SOEs have complied with the regulation. The proportion of independent board of commissioners shows the improvement of the effectiveness of the performance of the board of commissioners in carrying out the main task of the supervisory function (Fama & Jensen, 1983), so it is expected that the greater the proportion of independent commissioners in a company the more effective the oversight function of the company in achieving the objectives.

The number of board of commissioners meeting (NMC) shows the minimum number 2 and maximum number 57, meaning that state-owned companies meet at least twice a year and at most 57 meetings a year. The average number indicates 19, meaning that the average state-owned companies do 19 meetings a year. The standard deviation number is quite large which is 10.39 indicating the data gap is quite varied. The data show that most of the SOEs have complied with the PER-01 / MBU / 2011 regulation related to the minimum number of board of commissioners in a year. The average state-owned company holds 19 meetings a year, which is almost twice a month. Board meetings have evaluation function and provide input to management such as previous research (Ntim and Osei, 2011). More frequent board meetings in the company can effectively advise and execute supervisory functions on the part of the management.

The proportion of the education background of members of the board of commissioners (PEBC) indicates a minimum of 13% and a maximum value of 100%, meaning that SOEs has at least 13% of the members of the board of commissioners who are economically educated from the total members of the board of commissioners, and maximum 100% all members of the board of commissioners have economy education background. The average figure shows 39%, meaning the economic education of members of the board of commissioners by 39% of the total members of the board of commissioners. It can be concluded that most of the SOEs members of the board of commissioners are economically educated and consider that the background of economic education is important in consideration of the appointment of the board of commissioners. Earlier research mentioned that the educational background of members of the board of commissioners had a significant positive effect on management decisions that impacted the company's performance (Nicholshon and Kiel, 2004; Farchild and Li, 2005; Adam and Ferreira, 2009).

4.3 Classic assumption test

The data has passed the classical assumption test such as the normality test, multicollinearity, heteroscedasticity, and autocorrelation. Normality test showed 0.7 meaning if> 0,05 then data is normal distribution. Multicollinearity test shows independent variables <0.8 means no relationship between independent variables. The autocorrelation test seen from the Durbin Watson (DW) figure shows 1,473 and compared to the DW table does not show autocorrelation. Heteroscedasticity test shows the number> 0.05 means no heteroscedasticity occurs so that the data show the pattern of the terraced. The data shows that it has passed regression requirements so that the research model can be continued with panel data regression (Least Square Panel).

4.4 Panel Data Regression

Regression analysis is done by testing F value to know the influence of independent variable to dependent variable and t significance value to know influence of independent variable partially to dependent variable (Ghozali, 2013). This study is a panel data regression to examine the effect of board of commissioners' characteristics on the financial performance of SOEs listed on IDX, can be seen in table 2 as follows:

Dependent Variable: FSCORE
Method: Panel Least Squares
Sample: 2014 2016
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.412488	1.001871	3.406114	0.0012
SNC	-0.070409	0.133383	-0.527875	0.5997
PIC	2.976001	1.798367	1.654835	0.1037
NBC	0.036439	0.020579	1.770710	0.0822*
PEBC	0.431349	1.068405	0.403732	0.6880

R-squared	0.142409	Mean dependent var	5.083333
Adjusted R-squared	0.080039	S.D. dependent var	1.499058
S.E. of regression	1.437815	Akaike info criterion	3.643782
Sum squared resid	113.7022	Schwarz criterion	3.818311
Log likelihood	-104.3135	Hannan-Quinn criter.	3.712050
F-statistic	2.283292	Durbin-Watson stat	1.473123
Prob(F-statistic)	0.071918		

***sig on 1%, **sig on 5%, *sig on 10%

V. DISCUSSION

Coefficient of Determination (R^2) shows the number of 0.08 means 8% dependent variable can be explained by the variation of the four independent variables and the rest is explained by other variables outside the research model. This means that financial performance can be explained by the variation of independent variables, namely the size of the board of commissioners, the proportion of independent commissioners, the number of board of commissioners meeting, and the board of commissioners' education. The level of Prob (F-statistic) is 0.071918 means that F test is significant at 10% meaning independent variable that is Characteristic of Board of Commissioner proxied by Size of Board of Commissioner (SBC), Proportion of Independent Commissioner (PIC), Number of Meeting of Board of Commissioner (NMC), and Proportion Background Education Commissioner (PEBC) together affect the independent variables of financial performance (F-SCORE).The value of t in this study is 0.0012, meaning there is a significant influence of each independent variable to the dependent variable. If the value of significance is smaller than the value of t, then the independent variables significantly influence the dependent variable, and vice versa.

Regression equation obtained is Financial Performance (F-Score) = 3,412-0,07SBC + 2,976PIC + 0,036NMC + 0,431PEBC.Table 2 the size of the board of commissioners (SBC) shows the result of 0.599> 0.1, meaning that the size of the board of commissioners has no effect on the probability of improving the financial performance of the company. This result is consistent with the study of Eisenberg et al (1998); Hermalin and Weisbach (2003); Putra (2016) stating that the size of a large board of commissioners does not improve the performance of the company. The results of this study are inconsistent with research Denis & Sarin 1999;

Beiner et al 2004; and Wintoki et al 2012 which states that the size of the larger board of commissioners positively affects the company's performance. According to Sanda et al (2013) states that the optimal number of board of commissioners is 10 members. If the company executed the board of commissioners more than 10 then that was too much and cause a decline in financial performance. If the company employs a board of commissioners at the optimal amount it will improve the performance of the company as it relates to supervisory and control activities. The role and function of the board of commissioners in conducting supervision and advice to the Board of Directors as stipulated in Law no. 40 of 2007 and more specifically regulated through the Minister of State-Owned Enterprises (PER-01 / MBU / 2011) has not run optimally. The average number of members of the board of commissioners owned by the SOEs used as the research sample is considered to be less effective for the size of the board of commissioners. The government through the minister of SOEs should consider the number of members of the board of commissioners within each SOE.

The proportion of Independent Commissioners (PIC) in table 2 shows the result of 0.103> 0.1 it can be concluded that the PIC has no effect on the probability of improvement of the company's financial performance. This is in line with research (Juniarti & Sentosa, 2010) which shows that the proportion of independent commissioners has no effect on the performance of the company. This study contradicts the results of Pathan et al's 2007 study; O'Connell and Cramer, 2010; and Suhardjanto dan Anggitarani, 2010 indicating that the proportion of independent commissioners has a positive and significant impact on the financial performance of the company. SOEs only formally comply with PER-01 / MBU / 2011 regulations requiring the proportion of independent commissioners within a company at least 20% of the total members of the board of commissioners. Its existence within the company is not yet clear the mechanisms of appointment of independent commissioners so as to enable the existing Corruption and collusion practice in appointing independent commissioners that will weaken the application of corporate governance principles in achieving company goals.

The number of Meetings of the Board of Commissioners (NMC) shows a result of 0.082 <0.1, or significant at 10%. This means that NMC positively affects the probability of the company to be rated higher financial performance. This is in line with the research (Suhardjanto and Anggitarani, 2010) found that the higher the frequency of meetings of the board of commissioners, the less appropriate management will be more quickly detected to immediately get the follow-up so that the impact on company performance. Through the number of meetings, the board of commissioners will be able to understand the operational process and financial reporting of the company has been running well, so that will encourage the performance of management to improve the financial performance of the company.

Proportion of Educational Background of Board of Commissioners (PEBC) in table 2 shows 0.688> 0.1, it means that PEBC does not affect the probability of improvement of the company's financial performance. This is in line with the research of Amran and Ahmad (2011) which states that the education background of the board of commissioners has no effect on the performance of the company. The results are not in line with Brown & Caylor's 2006 study. Suhardjanto and Permatasari's research, 2010 limits the board of commissioners' educational background only to Economics and Business. Amran and Ahmad (2011) stated that educational background of Commissioners in accordance with the type of business can support the business continuity of the company. They argue that the board of commissioner's education background does not have to be an economic education background, since the board's education background has no effect on the company's financial performance.

VI. CONCLUSION

This study examines the effect of the board of commissioners' characteristics on the financial performance of SOEs listed on IDX 2014-2016 proxied by the size of the board of commissioners, the proportion of independent commissioners, the number of board of commissioners meeting, and the proportion of the education background of the members of the board of commissioners. The results showed that the higher the number of board meetings will improve the financial performance of the company, while the size of the board of commissioners, the proportion of independent commissioners, the proportion of the background of members of the board of commissioners has no effect on the performance of SOEs.

The expected implication of this research is that the Government through the minister of SOEs should review the number of effective board of commissioners in each SOE. Authorized institutions such as Otoritas Jasa Keuangan (Financial Service Authority) issue clear rules regarding the appointment of an independent commissioner within a company, and the appointment of the board of commissioners does not necessarily have an economic education background. The influence of the number of board of commissioners meeting on the financial performance of SOEs is significant. This needs to be a concern for every SOEs in the quantity of meetings, because it is expected that less appropriate management quickly detected and immediately followed up so that an impact on the financial performance of the company. Other than that the score or ranking of financial performance analyzed by F-score SOEs in Indonesia can be one of the considerations of stakeholders to do business activity and non-business with the company.

The limitation of this study is to only analyze the state-owned enterprises during the three-year period (2014-2016), so further research can increase the number of years to be analyzed so as to provide a more comprehensive picture to know the development performance of SOEs and can add other independent variables in addition to the characteristics of the board of commissioners in order to realize corporate governance, especially in SOEs in Indonesia. In addition there is no explanation about the company's financial performance on the Piotroski score with a range of 3-7, in this study only shows the company's performance ranking by using the piotroski score. Further research can explain about the score in depth.

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