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DISSERTATION

Corporate Governance and Firm Performance in Germany, the United Kingdom and Indonesia

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CHAPTER I
INTRODUCTION

Corporate governance has become one of the important issues in the business world, particularly after the collapses of several notable companies in the beginning of 2000s such as Enron and WorldCom in the United States; Barings Bank, Royal Ahold, Parmalat in Europe; HIH in Australia; and China Aviation Oil in Asia. According to Mayer (1997), corporate governance attempts to align the different interests of investors and managers and to ensure that firms are managed for the benefit of investors. It is an adoption of the Code of Best Business Practices which encompasses various matters such as rules, independence, faithfulness, transparency and so forth (Sapovadia, 2003). It is so important that lacking it can lead to corporate collapses, and it can also restore investor confidence (Mallin, 2013).

Other than for the purpose of survival of a corporation, corporate governance plays important role in helping it to attain its corporate objectives (Mallin, 2013). Good corporate governance ensures firms sufficiently fulfilling both transparency and accountability which are demanded by investors. And in terms of wealth maximisation, not only shareholders, but also other stakeholders (i.e. employees, providers of credit, suppliers, customers, local communities, interest groups, and government) who benefit from corporate governance (Sapovadia, 2003). Corporate governance is essential to any financial system because the providers of the funds need assurance that they will reap the rewards which have been promised to them (Schmidt, 2003).

Given its importance, many government regulatory authorities encourage the corporations in their jurisdictions to imply good corporate governance by complying with corporate governance codes made by them. The code is not legally binding, but in the United Kingdom, the reason of deviation of recommendations set out in the code should be explained in a designated part of annual report (comply-or-explain principle) (Financial Reporting Council, 2014).

Unlike the Anglo-Saxon system which prioritises the interests of shareholders, the German corporate governance system regards corporations as entities that have to serve a multitude of other interests as well (Schmidt, 2003). The shareholders are but one of a wider set of stakeholder interest with the employees and customers being given more emphasis (Mallin, 2013). The employees' interest is also safeguarded in the form of seats for employee representatives in supervisory board. In comparison, Indonesian corporate governance system

adopts both the features of Anglo-Saxon and German system. Corporations in Indonesia are required by law to establish a dual board, i.e. board of directors and board of commissioners (National Committee on Governance, 2006). These boards respectively have similar nature with management board and supervisory board of German system, where the board of directors executes the day-to-day management and the board of commissioners oversees the board of directors. However, employee representatives are not present in the two boards, hence making it similar to Anglo-Saxon system.

Most corporations are profit-oriented. Therefore, economic or business players might raise a question: do corporate governance practices partially and simultaneously influence firm performance? In relation to Germany, the United Kingdom and Indonesia, the question that might be asked is: Do the different organisational contexts in Germany, the United Kingdom and Indonesia influence the effectiveness of corporate governance practices in those countries?

The research topic is the relationship between corporate governance and firm performance in Germany, the United Kingdom and Indonesia. In other words, this research will investigate how determinative corporate governance is on firm performance in those countries. The corporate governance-firm performance relationship has been extensively researched by many scholars. However, most of the research only addresses either the context of developed economies or developing ones. Comparative studies on corporate governance-firm performance relationship between developed and developing economies are currently still in rarity. It is expected that this research promotes better understanding on how corporate governance influences firm performance in countries with different organisational and economic context.

The selection of Germany, the United Kingdom and Indonesia is motivated by the fact that they have distinctive corporate governance system and features. Corporations in Germany are subject to codetermination law which regulates the employees' representation on the corporate board. In addition, Germany is also well known as having a high level of share ownership concentration with banks as prominent shareholders.

Unlike Germany which has dual board structure, executive and non-executive directors in corporations in the United Kingdom work together in one board (single board structure) without employees' representation. In terms of ownership structure, corporations' shares in this country are widely held by shareholders with relatively low percentage. Prominent shareholders are mostly the institutional ones. Meanwhile, Indonesia has dual board structure

without employees' representation on the corporate board. Share ownership in this country is concentrated with family groups as the most prominent shareholders.

This research will contribute to the literature of comparative studies addressing the corporate governance-firm performance relationship between developed (represented by Germany and the United Kingdom) and developing countries (represented by Indonesia). Indonesia is representative for developing countries because it has enjoyed a high economic growth recently and been regarded as one of the 'economic miracles' in East Asia (Lukviarman, 2004). In terms of gross domestic product (GDP), Indonesia is the sixth largest economy in Asia-Pacific. On the other hand, Germany and the United Kingdom are representative for developed countries because Germany is the largest economy in Europe, while the United Kingdom is the second largest in the same region (International Monetary Fund, 2016).

A. A Brief Overview of the Economy of Germany

Germany plays an important role in European economy. It is a founding member of the European Union (formally established in 1993) and the Eurozone (established in 1999). In terms of world trade, Germany exported goods to the value of 1,193.6 billion euros in 2015 (Statistiches Bundesamt, 2016) and hence it is the third largest exporter in the world behind China and the United States (Central Intelligence Agency, 2016). Motor vehicles, trailers and semi-trailers make the highest proportion of trading goods with the value of 227 billion euros in 2015 (Statistisches Bundesamt, 2016). The high export rate is presumably supported by the strong industrial base and the fact that German economy produces approximately 1/3 of its gross domestic product for export (Siebert, 2005).

Since the end of World War II, the economic policy of Germany has been based on a concept labeled as Social Market Economy (*Soziale Marktwirtschaft*) that was promoted by Ludwig Erhard, Germany's first minister of economic affairs. This concept stresses the importance of the protection of the freedom of all market participants on both the supply and demand sides as well as the provision of a strong safety net (Federal Ministry for Economic Affairs and Energy, 2017).

German economy is open to competition. However, many areas of the German economy are protected by the state, especially in the form of protection of the individual (e.g. social

security for unemployment, health care, nursing care, old-age pensions). In addition, the allocation for "social budget" makes up to a third of gross domestic product (Siebert, 2005).

Germany is not bestowed with plentiful natural resources except for coal, wood, and other few minerals. Therefore it still has to import raw materials and energy (Siebert, 2005). In terms of companies, 28 of 500 world's top listed companies measured by revenue are headquartered in Germany (Fortune, 2016a). Nevertheless, Siebert (2005) argued that the performance of the German firms is not identical with the status of the German economy since the large part of the German multinationals' value added generated abroad is not included in the German GDP (unlike foreign firms in Germany whose production counts towards the German GDP). This is also the case for employment of German firms and employment in Germany which are also not identical.

B. A Brief Overview of the Economy of the United Kingdom

Historically, the United Kingdom was one of the most prosperous economies in Europe between 17th and 18th centuries (Baten, 2016). The Industrial Revolution began in the United Kingdom, making this country dominated the world economy mostly throughout 19th century (Economy Watch, 2013b). However, after The Great Exhibition in 1851, other countries such as United States and Germany who have more abundant supply of energy and raw materials began to challenge the domination of the United Kingdom (Hudson, 2011).

As an EU member, the United Kingdom is part of a single market where the free movement of people, goods, services and capital within member states is ensured. However, it is not a member of Eurozone as it still maintains its own economy and continues to use the Pound Sterling as its national currency (Economy Watch, 2013a).

According to The Heritage Foundation (2016), the United Kingdom since 2010s has experienced the strongest growth in G20. This is made possible through the contribution of the sectors of services, manufacturing and construction. The Economy Watch (2013b) stated that the most dominant business sector in this country is service which counts for approximately 78% of GDP. The United Kingdom does not have abundant economically valuable mineral resources. On the other hand, the supply of its energy resources (e.g. oil, natural gas, coal) is the largest in the European Union (Encyclopaedia Britannica, 2017) although its oil and natural gas reserves are in decline which makes this country a net importer of energy since 2005 (Central Information Agency, 2017). Cars, gold, crude and

refined petroleum, and packaged medicaments are the top exports of the United Kingdom (MIT Media Lab, 2017). In terms of companies, 25 of 500 world's largest companies listed by the Fortune Global 500 are headquartered in the United Kingdom (Fortune, 2016b).

C. A Brief Overview of the Economy of Indonesia

Indonesia is one of important economies in Southeast Asia and a founding member of Association of Southeast Asian Nations (ASEAN). It is also a member of G20 major economies and classified as emerging economies (International Monetary Fund, 2016). Traditionally, Indonesia relies on raw commodity exports in its economy, but in recent years the central government has provided strong support to raise the role of manufacturing industry (Van der Schaar Investments, 2017).

In contrast to Germany and the United Kingdom, Indonesia is endowed by abundance and variety of commodities which account for approximately 60% of exports. Indonesia's most important commodity is palm oil which accounts for 51.7% of global palm oil production. Its domestic economy is dominated by privately-held large business groups and state-owned enterprises (Van der Schaar Investments, 2017).

Indonesia has a mixed economic system where the state plays dominant role despite market orientation. This nature is clearly reflected in the Article 33 (2) and (3) of 1945 Constitution of the State of the Republic of Indonesia, which states (translated from Indonesian language according to Indonesia's Ministry of State Secretariat):

(2) Production branches which are important for the state and which affect the livelihood of the people at large shall be controlled by the state.

(3) The land and water and the natural resources contained therein shall be controlled by the state and shall be used for the greatest prosperity of the people.

D. Organisation of the Dissertation

The remainder of this dissertation is structured as follows. Chapter II describes the underlying theories of corporate governance. In Chapter III the literature on corporate governance features in Germany, the United Kingdom and Indonesia is reviewed. Chapter IV develops the hypotheses proposed in this research. Chapter V describes the research variables and methodology. Chapter VI presents the summary of the empirical results. Chapter VII

discusses the empirical results, and Chapter VIII concludes this research, describes its limitations and suggests some recommendations.

CHAPTER II
THEORETICAL FRAMEWORK

A. Overview of Corporate Governance

The term "corporate governance" did not exist in the English language until 1977, although corporate governance issue has already gained a widespread attention when Adolf Berle and Gardiner Means wrote the historical "The Modern Corporation and Private Property" in 1932 (Zingales, 1997). The theories on the corporate governance development and areas already emerged much earlier than the last twenty years or so and are derived from various disciplines such as finance, economics, accounting, law, management, and organizational behaviour (Mallin, 2013).

There is no universally agreed definition of corporate governance defined by scholars. For instance, Demb and Neubauer (1992) argued that the question of corporate governance was always related to performance accountability, particularly prior to World War I. According to Mayer (1997), corporate governance attempts to align the different interests and objectives of investors and managers and ensures that firms are run for the investors' benefit. Turnbull (1997) stated that corporate governance describes all the influences affecting the institutional processes which include appointment of controllers and/or regulators, and it is also involved in organising the production and sale of goods and services.

According to John and Senbet (1998), corporate governance is based on a principle that the shareholders elect the board of directors who subsequently selects the top management. Corporate governance deals with mechanisms of control exercised by corporate stakeholders over corporate insiders and management to protect the stakeholders' interests. In this sense, shareholders are part of stakeholders along with parties who supply capital, as well as employees, consumers, suppliers, and the government. Monks and Minow (2003) described corporate governance as a relationship between various participants in determining the corporate direction and performance. Tirole (2001) argued that apart from maximisation of shareholders' wealth, the firm should also take into account the interest of "stakeholder society" that consists of employees, customers, suppliers, communities around the firm's plants, potential pollutees, etc.

Shleifer and Vishny (1997) argued that the fundamental objective of corporate governance is to assure financiers that they will receive a return from their financial investments. The objectives of corporate governance system are as follows (Zingales, 1997):

a. To maximise the incentives for enhancing the investments value while minimising power seeking in a firm
b. To minimise inefficiency in "ex-post bargaining" (i.e. a bargaining over the "quasi-rents" generated by a firm)
c. To minimise any "governance" risk and allocate the residual risk to the least risk-averse parties

Mayer (1997) argued that the degrees of product market competition may influence the effectiveness of different types of governance systems and forms of corporate governance. In terms of application of policies which adopts specific forms of governance, the product and labour market context within which the policies are being contemplated has to be taken into account.

In order to create good corporate governance systems, Shleifer and Vishny (1997) emphasised the importance of legal protection of investors and some form of concentrated ownership. The United States and the United Kingdom are the examples of countries whose systems base rather more heavily on stronger legal protection, while Germany and Japan have weaker legal protection but more concentrated equity ownership (Denis & McConnell, 2003).

Corporate governance also plays an important role in on the economy of a country. As the finding of Johnson et al. (2000) suggested, corporate governance in general matters considerably for Asian financial crisis in 1997-98, particularly on the exchange rate depreciation and stock market crash. This means that corporate governance is not only important for corporate shareholders, but also for the country as a whole.

Scholars disagree on how corporate governance should be treated or perceived. On the one hand, as Hart (1995) put it, 'Chicago' view believes that statutory corporate governance rules are unnecessary. Efficient corporate governance can be achieved through a market economy without government intervention. Moreover, the statutory rules adversely affect corporations since they will limit the corporate founders' ability to tailor specific corporate governance appropriate with the corporations' own individual circumstances. Therefore, the

best things the government can do are educating and encouraging corporations to implement changes, but not interfering in final decision made by the corporations.

However, unlike 'Chicago' view, Shleifer and Vishny (1997) argued that corporate governance needs particular attention from the government in order to ensure that the capital owners or financiers will get back the return on their capital. They also claimed that it is essential to have legal protection of investor rights as part of the approaches to corporate governance.

Corporate collapses and scandals of many large US corporations such as Enron and Worldcom have revived the interest in corporate governance issues. As a response to these, the Sarbanes-Oxley Act was passed by the US government in 2002 as an effort to restore public confidence in corporate governance. This act incorporates many reforms to improve the accuracy and reliability of corporate disclosures intended to protect investors (Petra, 2005).

B. Underlying Theories: Agency Theory and Institutional Theory

Over the past few decades, scholars have proposed many theories of corporate governance such as agency theory, resource dependence theory, stewardship theory, stakeholder theory, and institutional theory among others. According to Daily et al. (2003), agency theory explains "how the public corporation could survive and prosper despite the self-interested proclivities of managers." Resource dependence theorists argue that the directors' role in the provision of resources needed by a firm enhances organisational functioning, firm performance, and survival. Stewardship theory assumes that executives and directors protect their reputations through actions that maximise firm performance and this hence aligns their interests with those of shareholders. According to Mallin (2013), stakeholder theory focuses on a wider group of constituents (not only shareholders) and hence "the overriding focus on shareholder value becomes less self-evident". On the other hand, Aguilera et al. (2008) posited that interdependencies between the organization and diverse environments influence corporate governance practice (institutional theory).

In this research, only two basic theories are used, namely agency theory and institutional theory. I decide to use agency theory because it is, to the best of my knowledge, the most cited theory in corporate governance studies. In addition, I also use institutional theory in this research due to differences of institutional contexts and/or environments

between Germany, the United Kingdom, and Indonesia. In this research, institutional theory also acts as a "counterbalance" to agency theory which somewhat neglects the environment where a firm operate and tends to generalise the behaviour of managers and shareholders regardless the differences of institutional context.

B. 1. *Agency Theory*

As Mallin (2013) put it, agency theory identifies the agency relationship between the principal and the agent, where the former delegates work to the latter. The issues in agency relationship are related to the opportunism or self-interest of the agent and also the problem of information asymmetry where the agent has more information. The roots of agency relationship are related to economic utilitarianism (Ross, 1973) and it postulates that rational individuals seek to enhance their own utility through favourable alternatives (Cuevas-Rodriguez et al., 2012). According to Hart (1995), agency problem or conflict of interest which involves members of the organisation is one of conditions causing corporate governance issues, along with transaction costs.

Those who approach corporate governance issues from principal-agent perspective see governance arrangements as devices to protect the interests of financiers in a world of imperfectly verifiable actions (Keasey et al., 2005). Jensen and Meckling (1976) argued that if the principal and the agent in a corporation are utility maximisers, it is highly likely that the agent will not always act in the best interests of the principal due to their divergent interests. These divergent interests will lead to 'agency conflict' between the principal and the agent. The effectiveness of corporate governance practice in a corporation therefore depends on how this agency conflict is managed. According to Jensen (1994), the central proposition of agency theory is that rational self-interested people *always* have incentives to reduce or control conflicts of interest. Crutchley and Hansen (1989) argued that such conflict occurs when managers, for example, seek to consume excessive perquisites at shareholders' expense, make decisions beneficial to them but detrimental to stockholders, and make decisions to reduce their personal risk which oppose the shareholders' risk preference.

According to Lubatkin et al. (2007), agency problems develop because agents can hide information and/or act in favour of their own interest. Therefore, principal has incentive to invest in monitoring and incentives, and agents have reason to postperformance bonds to protect against potential losses.

Lubatkin et al. (2007) also argued that agency theory has three normative assumptions:

a. Opportunism is an ever-present threat since executives are naturally opportunistic;
b. Executives' opportunistic tendencies are driven solely by their single-minded desire to maximise a single utility because they are rationally economic; and
c. Public firms are characterised by information asymmetry caused by the absence of principals in day-to-day control and their rational boundedness.

Fama and Jensen (1983) argued that when contracts are not costlessly written and enforced, agency problems will arise. The costs incurred by agency problems include the costs of three activities, namely structuring, monitoring, and bonding a set of contracts among agents with conflicting interests. The governance structures (i.e. the mechanisms that regulate the explicit and implicit contracts between principals and agents) that will survive are those that economise on these costs. In summary, the focus of agency theory is identifying the most efficient contract to align the interests of an agent with those of the principal.

Going further, Fama and Jensen (1983) disagreed with the usage of the term 'separation of ownership and control' which most literature uses and call it 'somewhat imprecise'. Instead, they use the term 'separation of decision management from residual risk bearing', implying that the managers do the decision management and the shareholders bear the residual risk incurred by the managers' decision. The agency problems resulted from such separation are controlled through separation of management (initiation and implementation) and control (ratification and monitoring) of decisions, where the higher level agents ratifying and monitoring the decision initiatives of lower level agents and evaluating their performance. Thanks to this hierarchical partitioning of the decision process, it will be more unlikely for decision agents to act for their own benefit at the expense of residual claimants.

Fama and Jensen (1983) also emphasised the importance of outside directors in the separation of top-level decision management and control since they have incentives to carry out their tasks and do not collude with managers to expropriate residual claimants. They also play an important role in the handling of disagreements among internal managers and serious agency problems between internal managers and residual claimants.

Eisenhardt (1989) argued that there are two problems that can occur in agency relationship which agency theory is concerned to resolve, namely *agency problem* and *problem of risk-sharing*. Agency problem arises when there is a conflict between desires and goals of the principal and agent, and the principal can hardly verify the actual action of the

agent or it is expensive to verify it. Problem of risk-sharing arises when the principal and agent have different attitudes towards risk. Agency theory focuses on determining the most efficient contract governing the principal-agent relationship given assumptions about people, organisations and information.

The agency problem described above mainly pertains to firms with widely-dispersed ownership. For firms with highly-concentrated ownership, Lemmon and Lins (2003) believed that conflict of interest which leads to agency problem occurs between corporate insiders (controlling shareholders and managers) and outside investors. Corporate insiders who have control over firm assets can potentially expropriate outside investors through resources diversion for their private use or by commitment of fund to unprofitable projects that give private benefits.

Some scholars propose specific mechanisms to reduce agency loss and improve firm's efficiency and financial performance. For instance, Jensen and Meckling (1976) suggested share ownership for senior executives as well as stock options. This mechanism is expected to match financial interests of executives and those of shareholders. In addition, it is also possible to threaten the executives of dismissal if the income is low. Jensen and Meckling (1976) also proposed the use of more debt financing, because it reduces total equity financing which in turn also reduce the level of conflict between stockholders and managers. However, this mechanism creates conflict between stockholders and creditors (debt agency cost) since it is possible that stockholders seek to expropriate the wealth of creditors through risky corporate investment decisions. Similarly, Donaldson and Davis (1991) proposed tying executive compensation and levels of benefits to shareholders returns and deferring a part of executive compensation to the future in order to reward long term corporate value maximisation and preclude harmful short term executive actions.

Rozeff (1982) suggested that dividend is one of the devices to reduce agency cost. The idea behind it is that paying out dividend is usually assumed to be accompanied by raising external capital. By so doing, managers are monitored by the new lenders and/or equity suppliers. Due to such monitoring, managers will be induced to take actions more linear with the interests of capital providers.

As Ross (1973) put it, the optimal incentive contract is determined by three factors, namely the manager's risk aversion, the importance of managerial decisions, and the managerial ability on the upfront payment of cash flow ownership. Agency theory emphasises the importance of separating the role-holders of chief executive officer (CEO) and chairman

positions as well as using incentive to align the interests of CEO and shareholders in order to control the 'managerial opportunism' (Donaldson & Davis, 1991).

According to Lubatkin et al. (2007), corporate governance plays a central role as the mechanism to restrain executives' opportunistic nature by enforcing compliance, e.g. monitoring their conduct, gaining access to the firm's internal information flows, providing incentives to agents to ensure that they act in the principal's best interest, and legal sanctions (if necessary).

B. 2. *Institutional Theory*

In contrast to agency theory which exclusively focuses on the relationship between the divergent interests of shareholders and managers, Aguilera et al. (2008) argued that the performance impact of corporate governance practices appears to differ with respect to organisational contexts. They believe that the high or low governance effectiveness is determined by the combination of certain corporate governance practices which depends on the *costs*, *contingencies* and *complementarities* associated with different environments. *Costs* refer to the value of inputs to corporate governance. *Contingencies* refer to the interrelation between corporate governance with variations in internal and external strategic resources that shape a firm's interdependence with market, sectoral, regulatory, or institutional environments. *Complementarities* refer to the overall *bundles* of practices aligned to mutually enhance the ability to achieve effective corporate governance. In addition, Aguilera and Jackson (2003) in their study on variation in corporate governance among advanced capitalist economies explained that corporate governance diversity across countries is influenced by significant dimensions of variation in three key stakeholder groups' (i.e. capital, labour and management) relationships to the firm and the institutional domains shaping these relationships.

Agency theory views agent as opportunistic or self-interested person. On the contrary, Lubatkin et al. (2007) argued that agent's behaviour, whether self-serving or owner-serving, is embedded or partially-determined by the firm's social context and sub-cultures. This also applies to the boundedness of principal's rationality. In explaining the difference in governance practices between nations, Lubatkin et al. (2007) proposed that nationwide preferences for monitoring and rewarding managerial actions influence the propensity of

managers to behave opportunistically, the expression of it, the principals' perception to it, and the principals' effort to govern it.

Aguilera et al. (2008) argued that the study of corporate governance needs to give greater attention to the broader environmental context. This view contrasts agency theory which focuses only to the management of principal-agent problem between shareholders and managers. In summary, institutional theorists argue that the effectiveness of corporate governance practices depends on the environments surrounding the firm. Or, as Aguilera et al. (2008) put it, institutional theory helps to explain why effective corporate governance can be best achieved through many ways.

The cross-national convergence of corporate governance practices is facilitated by the diffusion of "best practice" recommendations. This diffusion occurs after the recommendations are adapted to local contexts of countries who adapt those (Aguilera & Cuervo-Cazurra, 2004) and it is thereby in line with institutional theory.

Other fact which supports institutional theory is that as argued by Aguilera and Jackson (2003) the interactions among stakeholders in corporate governance are different depending on the configurations of institutions of countries in question. The stakeholders consist of capital, labour, and management.

According to Aguilera and Jackson (2003), agency theory views capital as shareholders who have homogenous interests related to risk and return, while institutional theory argues that different types of capital have different identities, interests, time horizons, and strategies. Labour is regarded by agency theory as a party whose interests are treated as an exogenous parameter, while institutional theory takes into account the labour's ability in influencing corporate decision making and controlling firm's resources. Management is viewed by agency theory as, given the opportunity, tending to "rationally maximize their own utility at the expense of their principals" (Davis et al. (1997). On the other hand, institutional theory argues that the dimensions of management are influenced by a variety of institutions (Aguilera & Jackson, 2003).

C. Corporate Governance Systems: Convergence or Divergence?

Recently there have been debates among scholars as to whether corporate governance systems across the globe will converge (to the Anglo-Saxon model) or diverge. Gilson (2000)

argued that the impact of the force of competition would cause the adoption by national systems to a single efficient form. According to Gilson (1996), recent empirical research on corporate governance systems of Germany, Japan and the United States found that the type of convergence is functional, not formal. Such convergence is likely the first response to pressure inflicted by competition. One form of convergence is the adoption of the best practices of the existing systems. During convergence, competitive advantage can be gained by altering firm governance structures (both in emerging and established economies) to incorporate elements desired by global stakeholders (Rubach & Sebora, 1998).

However, there is also a view that the convergence in corporate governance occurs not in the global context. As Branson (2001) believed, such convergence may take place in discrete areas such as financial accounting or disclosure standards; however it is very likely that the convergence happens in regional rather than "global" sphere. On the contrary, Bebchuk and Roe (1999) argued that a nation's corporate governance is shaped by its institutional context and therefore remains divergent and resistant to the force of convergence (or converges in limited scale). This is also voiced by Aguilera and Jackson (2003) who asserted that institutional configurations and stakeholder interactions of a nation influence its corporate governance.

La Porta et al. (2000) posited that functional convergence is likelier to occur than legal convergence because legal convergence needs numerous changes which are politically difficult to be realised. Unlike legal convergence which depends on government policies, functional convergence is induced by individual investors or firms who adapt in ways that create stronger governance despite poor or unsupportive legal environment. Meanwhile, Hansmann and Kraakman (2000) believed that a convergence towards a single governance model which emphasises that managers should act in the interests of all shareholders (controlling and non-controlling) is very likely to occur. The convergence is driven by several forces, including the internal logic of efficiency, competition, interest group pressure, imitation, and the need for compatibility. However, they acknowledged that a convergence in corporate law is expected to proceed more slowly.

In summary, Denis and McConnell (2003) argued that market forces will affect the level of convergence although there are impedances for the market forces to operate throughout the world. On the one hand, it is not clear whether convergence towards stronger legal protection of investors will occur, or how quickly it will occur. On the other hand,

convergence in corporate governance practices (such as board composition and ownership structure) is evident in some countries.

CHAPTER III
LITERATURE REVIEW

In this chapter, the literature review on corporate governance of Germany, the United Kingdom and Indonesia is elaborated. In addition, the variables of corporate governance used in this dissertation are also explained in detail.

A. Corporate Governance in Germany, the United Kingdom and Indonesia

A. 1. *Germany*

German stock corporations are prescribed by law to establish two boards (dual board system), namely management board (*Vorstand*) and supervisory board (*Aufsichtsrat*). The law on this two-tiered board is mainly regulated by Public Corporations Act 1965. Over time, this law has undergone many revisions; particularly by the Law on Furthering Control and Transparency in Public Corporations 1998 which focused on internal corporate governance and reformed the supervisory board in particular (Hopt & Leyens, 2004). The responsibility of management board is to independently manage the enterprise in the interest of the enterprise, thus taking into account the interests of the shareholders, its employees and other stakeholders, with the objective of sustainable creation value. On the other hand, supervisory board's duty is to advise regularly and supervise the management board in the management of the enterprise. The members of management board are appointed and dismissed by supervisory board, and the members of supervisory board are elected by shareholders and employees. The chairman of the supervisory board is a representative of the shareholders (German Corporate Governance Code, 2015) and its deputy is the representative of employees. Management board remuneration is also determined by supervisory board (Schmidt, 2003). In addition, supervisory board is also tasked with networking with stakeholders and business partners and the balancing of interests in the firm. Firm size and shareholder structure considerably affect its control efficiency and the depth of its advisory role (Hopt & Leyens, 2004). In a firm with equal numbers of labour and owners' representatives on supervisory board (with more than 2000 employees), the 1976 codetermination law gives the chair of the supervisory board an extra vote to break a tie in case of deadlock (FitzRoy & Kraft, 2004).

The legal maximum term of supervisory board members is usually five years, but they may be reappointed at the end of the term (Goergen et al., 2005). Schmidt (2003) argued that shared and divergent or even conflicting interests are mixed at the work of supervisory board's members. This occurs due to their dual obligation: they are obliged to act in the best interests of the firm, and at the same time they have a limited freedom to further their specific constituencies' interests.

Members of management board cannot be elected as members of supervisory board, and vice versa. Other than managing company's affairs, management board also sets up long term goals and guidelines (Jungmann, 2006). The management board has autonomous responsibility and its management authority is practically unlimited, unless there are provisions in the articles which call for approval by supervisory board. In addition, supervisory board cannot undertake the management tasks and instruct the management board on what to do (Kühne & Fuss, 2003), but management board is required to report to the supervisory board regularly (Schmidt, 2003). Even the shareholders meeting or majority shareholder do not have a legal right to instruct the management board to take a specific action within its management responsibilities (Schilling, 2001). Nevertheless, the company articles or supervisory board has to specify the types of transactions that subjects to its approval (Hopt & Leyens, 2004).

Other than statutory rules, corporate governance in Germany is also regulated (albeit "softly") by the German Corporate Governance Code. This consolidated code is presented for the first time by the governmental commission *Regierungskommission Corporate Governance Kodex* in 2002 and its approach is self-regulatory comply-or-explain, meaning that public corporations are expected to comply to the code or explain the noncompliance if otherwise (Hopt & Leyens, 2004).

Other than the two-tiered board, German corporate governance system is also distinctive in at least three other characteristics, namely the inclusion of employee representatives on the supervisory board (codetermination), significant bank role, and ownership concentration. The codetermination is regulated by three laws, namely 1951 legislation, Codetermination Act of 1976, and Works Constitution Act of 1952 (Gorton & Schmid, 2002).

According to 1951 legislation, coal and steel industry (*Montan* co-determination) is required to have equal representation between employees and shareholders. The Co-determination Act of 1976 stipulates that a corporation which has more than 2,000 employees must have one-half of the supervisory board members elected by employees. Works

Constitution Act of 1952 requires a corporation which has 500 to 2,000 employees to have one-third employee representation (Gorton & Schmid, 2002). Private corporations (*Gesellschaft mit beschränkter Haftung*, abbreviated *GmbH*) with more than 500 employees and all stock corporations (*Aktiengesellschaft*, abbreviated AG) are subject to codetermination laws (Gorton & Schmid, 2000) except for stock corporations that have fewer than 500 employees and are established after 10 August 1994 (Petry, 2009). Despite the highly noticeable presence of employee representatives in the supervisory board, the casting vote of the chairman gives a slight additional power to shareholders (Hopt & Leyens, 2004).

The large German banks play an influential role in the German corporate governance system. This can be seen on their blocks of shares, the proxy votes which they command, their traditional role as lenders to German corporations (Steger & Hartz, 2006), and their seats in the supervisory board of most large German corporations (Hackethal et al., 2005). Furthermore, German banks also often serve as financial advisers to their business customers (Cheffins, 2001).

Other typical characteristics of the German corporate governance system are the highly concentrated ownership (Jackson et al., 2002) and it is a more important feature of German corporate governance system compared to banks role (Edwards & Nibler, 1999). In regards to ownership structure, Gedajlovic and Shapiro (1998) found that the single largest shareholder has 68% of ownership of their research sample firms. The most important type of these "core" shareholders is families (Faccio & Lang, 2000). However, according to Schmidt (2003), the important blockholders of firms in Germany are other business enterprises, wealthy families, and financial institutions (written in order of importance).

The reason as to why corporate ownership in Germany is highly concentrated may lie on the fact that the amount of German firms going public is low. As La Porta et al. (1997) reported, Germany only had 5 publicly quoted companies per one million people, far below the United States and the United Kingdom (30 and 36 per one million people respectively) in 1996. The other reason is that publicly quoted companies in Germany have "core" shareholders which can exercise their influence, therefore ownership dispersion is reduced (compared with the United States and the United Kingdom) (Cheffins, 2001).

Instead of putting the shareholders' wealth maximisation at the central aim (as normally companies in Anglo-Saxon countries do), companies in Germany traditionally aim to balance the interests of various constituencies linked with them (Cheffins, 2001). In summary, German corporate governance system has had a broader, egalitarian focus – the protection of

stakeholders' interests rather than having a focus on shareholder concerns (Tuschke & Sanders, 2003). The influential stakeholders groups are blockholders, employee and/or union representatives, and banks (Schmidt, 2003).

In summary, the characteristics of German corporate governance is described as an insider control system based on stakeholder orientation whose functioning rests on internal, non-public information (Schmidt, 2003).

A. 2. *United Kingdom (UK)*

The UK corporate governance system prescribes a single board system comprising executive and non-executive directors who are normally elected and dismissed by the shareholders. While the function of day-to-day management falls in the responsibilities of executive directors, non-executive directors are responsible for monitoring the management (Jungmann, 2006). As stated in the UK Corporate Governance Code (2014), the duty of non-executive directors is to "scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance." One of their functions is judgement on strategy, key appointments and standards of conducts. In contrast to German system, the distinction between the functions of executive and non-executive directors is not clearly straightforward (Jungmann, 2006). The Higgs review emphasises that the tasks of non-executive directors are not limited only at monitoring, but they also should contribute to the strategy development. Managerial power in larger companies is devolved revocably to committees which contain directors below board level (Hopt & Leyens, 2004).

Labour participation similar to German codetermination is not an issue in the United Kingdom's corporate governance as it is not regulated in the company law. The company law in the United Kingdom has been largely unaffected by employee concerns since the Bullock Committee's proposals on labour representation at the board level failed in the mid 1970s (Hopt & Leyens, 2004).

Unlike German supervisory board which is restricted to post-decision approval, non-executive directors can also take part in management decisions. Corporate governance in the United Kingdom relies more on the danger of removal by ordinary shareholder resolution (in particular as a consequence of a change of corporate control) than on enforcing managerial care by directors' personal liability (Hopt & Leyens, 2004).

In addition, the company should appoint a senior independent director who should be one of the independent non-executive directors. Independence generally means that there are no relationships or circumstances that might affect the director's judgement. The independence would be questioned in the situations such as: the director was a former employee of the company or group within the last five years; additional remuneration (apart from the director's fee) was received from the company; the director had a material business relationship with the company in the last three years; the director represented a significant shareholder (Mallin, 2013). The UK Corporate Governance Code (2014) stipulates that the combination of executive and non-executive directors (in particular independent non-executive directors) should be appropriate to ensure that the board's decision taking cannot be dominated by individual or small group of individuals.

There are essentially two dimensions of the non-executive director's role (Mallin, 2013), namely:

- As a control or counterweight to executive directors, therefore helps to ensure that an individual person or group cannot unduly influence the board's decision.
- To contribute to the overall leadership and development of the company.

The UK Corporate Governance Code (2014) recommends the clear separation between chairman and chief executive, as stated in Section A.2.1 as follows:

"The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board."

The responsibility for the running of the board is at the hand of the chairman whilst the responsibility for the running of the business is at the hand of chief executive (Mallin, 2013).

Gedajlovic and Shapiro (1998) argued that the British corporate governance system is characterised by relatively passive shareholders, boards of directors that are not always independent of managers, and active market for corporate controls. In terms of ownership structure, shares in most large firms are relatively widely held, such that the largest shareholder holds a modest stake in the company. The largest shareholders are increasingly institutions (institutional investors) which invest on behalf of individuals and hence play an influential role in the corporate environment.

Institutional investors in the United Kingdom comprise mainly pension funds and insurance companies (Mallin, 2013). The UK financial authority pays a great attention to institutional investors. It can be seen in the publication of the "The UK Stewardship Code" in July 2010, which sets out good practice for institutional investors in engaging with invested companies. This code is complementary to the UK Corporate Governance Code for listed companies and, like that Code, should be applied on a 'comply or explain' basis. 'Comply or explain' means that the company are expected to comply with the provisions of the code, otherwise it can explain why it is unable to comply.

In implementing their influential role, institutional investors usually use tools of corporate governance (Mallin, 2013), namely:

- *One-to-one meetings*, where a company will usually arrange to meet with its largest institutional investors on a one-to-one basis during the course of the year. The issues that are most discussed at these meetings are areas of the company's strategy and how the company is planning to achieve its objectives, whether objectives are being met, the quality of the management, etc.
- *Voting*, which the right to vote is a basic prerogative of share ownership, and is particularly important given the division of shareholders and directors in the modern corporation. The voting right may be implemented by institutional investors on all issues that may be raised at their invested company's annual general meeting.
- *Shareholder proposal/resolutions*, which a company in the United Kingdom has a duty to circulate it. It is also intended to be moved at an annual general meeting if a certain number of shareholders request it.
- *Focus lists*, which are established by a number of institutional investors to target underperforming companies and include them on a list of companies that have underperformed a main index (e.g. Standard and Poor's).

In the United Kingdom, the general purpose of a company is to maintain or enhance long-term shareholder value. There are no provisions made either in the legal or the corporate governance systems for employee representation and also for representation of other stakeholder groups such as providers of finance (Mallin, 2013).

A company in the United Kingdom is required by the Listing Rules to state in its annual report how it has applied the principles contained in the UK Corporate Governance

Code and as to whether it has complied with the provisions of the code (Hopt & Leyens, 2004).

A. 3. *Indonesia*

The Indonesian corporate governance system is adopting a two-tiered board system which comprises the board of directors (*Direksi*) and the board of commissioners (*Dewan Komisaris*). Both the directors and the commissioners are elected, expelled and held responsible to shareholders through the annual general meeting. Therefore, both boards are under direct scrutiny from shareholders (Lukviarman, 2004).

Board of directors is responsible collegially for the management of the company, whereas the board of commissioners is responsible collectively for overseeing and providing advices to the board of directors and ensuring that the company implements the good corporate governance. Board of commissioners is prohibited from participating in making any operational decisions. Its membership consists of the so-called 'affiliated' and 'non-affiliated' (or independent) commissioners. The commissioners are considered to be affiliated if they have business and family relations with controlling shareholders, the directors and other commissioners, and with the company itself (Indonesia's Code of Good Corporate Governance, 2006). In addition, there are no legal provisions which grant seats for employee representatives in the board of commissioners, and multi-membership in more than one board of the same company is prohibited (Lukviarman, 2004).

According to Wulandari and Rahman (2004), board of commissioners of Indonesian companies has been facing many criticisms due to the absence of required competence and failure to maintain independence. Possibly these shortcomings occur because the members of the board are usually selected based on their share ownership, close relationship with major shareholders, or due to their previous position in the government bureaucracy.

Wulandari and Rahman (2004) found in their survey on the top 100 listed companies in Indonesia that most of the companies' shares (62.39% on average) are owned by institutional investors, while individual shareholders only own 30.92% of the shares. The corporate governance structure in Indonesia is characterised by the fact that the majority of companies are managed and owned principally by founding family members which in turn leads to little separation between ownership and control. In other words, the ownership structure of companies is highly concentrated and family-based, and most of the founding families are also involved in the boards (Lukviarman, 2004). This is supported by Claessens et al. (2000)

who found that 72% of public listed firms in Indonesia are controlled by families. Moreover, 85% of controlling shareholders in Indonesia appointed their family members to the management or board of directors (Asian Development Bank, 2000).

The concentrated ownership in the hands of family in Indonesia makes it difficult for hostile takeovers to occur. With regard to banks role, the influence of banks on the listed companies is not as strong as in Germany because banks are prohibited by law to hold shares in a company and therefore their representatives are absent in board of directors (Lukviarman, 2004).

Another main feature of Indonesian firms is the high reliance on bank loans as external sources of financing (Lukviarman, 2004). Wulandari and Rahman (2004) also argued that despite the Indonesian companies' heavy reliance on debt financing from banks, banks in Indonesia do not have strong monitoring capacity. This happens because many banks in Indonesia are controlled by families who also control the companies which are financially supported by the banks. Therefore, it is argued that family control plays an important role in Indonesian corporate governance.

Other typical features of Indonesian corporate governance are interlocking directorship and reciprocal ownership arrangement. Interlocking directorship is a situation where an individual holds a position as commissioner or decision maker in more than one company. This phenomenon occurs because there are no legal provisions in Indonesia which limit the directorship in different listed companies. Reciprocal ownership arrangement is the arranged share ownership so that a company owns the share of other companies who reciprocally also own the share of their owner. This phenomenon usually is the case for companies which are members of the same group (Wulandari & Rahman, 2004).

Das (2000) argued that the principle of widely held ownership is generally never accepted by Asian corporations. The corporate governance structure in Indonesia is characterised by the fact that the majority of companies are managed and owned principally by founding family members which in turn leads to little separation between ownership and control. In other words, the ownership structure of companies is highly concentrated and family-based, and most of the founding families are also involved in the boards (Lukviarman, 2004). As Asian Development Bank (2000) found, five largest shareholders of public listed companies in Indonesia own 68% of shares in average. Similarly, Carney and Gedajlovic (2002) claimed that public companies in Indonesia is dominantly owned by family who may utilises them as sources of personal and family wealth enhancement.

A. 4. *Corporate Governance of Germany, the United Kingdom and Indonesia: A Brief Comparison*

From the above description, it can be concluded that Germany, the United Kingdom and Indonesia are distinctive in their corporate governance. Germany is characterised as a country with substantial bank's influence and employee participation. Corporate ownership in this country is concentrated with banks as large shareholders. Corporations in the United Kingdom are generally subject to the tight monitoring conducted by institutional shareholders who normally have large shareholding on them. Unlike their counterparts in Germany, corporate ownership in the United Kingdom is more dispersed and therefore the market for corporate control is more active. Meanwhile in Indonesia, high family corporate ownership is salient for most stock corporations.

Stock markets in Germany, the United Kingdom and Indonesia are also distinctive to each other. German stock market lacks hostile public takeover bids (Hackethal et al., 2005); while in the United Kingdom, the threat of being hostilely taken over is one of disciplining tools on management (Scharfstein, 1988). Such threat is also a rarity in Indonesian market due to the prominence of family corporate ownership.

The main differences between the features of corporate governance in Germany, the The United Kingdom and Indonesia are summarised in the table below:

Table 1 Summary of the main differences between the features of corporate governance in Germany, the United Kingdom and Indonesia

No.	Corporate Governance Features	Germany	United Kingdom	Indonesia
1.	Ownership structure	concentrated, with banks as large shareholders	dispersed, with institutional shareholders (mainly pension funds and insurance) as large shareholders	concentrated, with family as large shareholders

2.	Board structure	dual board with employee participation (codetermination)	single board without employee participation	dual board without employee participation
3.	Market for corporate control	Weak	Strong	weak

B. Corporate Governance Variables

Corporate governance variables used in this research are ownership structure (consists of ownership concentration, directors' ownership, and family ownership), shareholder protection, executive remuneration, codetermination (for firms in Germany), corporate leadership structure (for firms in the United Kingdom), and former executives serving as non-executive directors. The selection of these variables is based on underlying theories (agency and institutional). Variables based on agency theory are ownership structure, executive remuneration, corporate leader structure and former executives serving as non-executive directors. Shareholder protection and codetermination are derived from institutional theory.

B. 1. *Ownership Structure*

B. 1. 1. Ownership Concentration

I decide to use ownership concentration as one of corporate governance variables in this dissertation due to the fact that there is a noticeable difference in terms of this variable in Germany, the United Kingdom and Indonesia. As Table 1 has shown, the share ownership in Germany and Indonesia is concentrated (with banks and family shareholders as most prominent shareholders respectively) while it is dispersed in the United Kingdom. The influence of different level of ownership concentration on firm performance in different countries is investigated in this dissertation.

In his explanation of the difference of ownership structures around the world, Berglöf (1988) postulates that a country's financial system determines its ownership structure. Countries with bank-oriented financial system generally have more concentrated holdings of debt and equity, whereas the opposite is the case for countries with market-oriented financial system. Other scholars such as La Porta et al. (2002) argued that higher cash flow ownership is more needed in countries with poor shareholder protection as a commitment to limit

expropriation. In other words, the equilibrium ownership structure in a country is determined by its legal environment (La Porta et al., 2000).

Since the financial system in Germany is bank-oriented, it is unsurprising to learn the fact that equity ownership of firms in Germany is more concentrated than in the United Kingdom whose financial system is market-oriented and its equity ownership is widely dispersed. As a matter of fact, La Porta et al. (1999) reported that widely-dispersed ownership is common only for large firms in the richest common law countries such as the United States, whereas the firms in countries with poor shareholder protection usually have controlling shareholders (founding family (or its descendants) or state).

Corporations with dispersed ownership are common in the United States, the United Kingdom and in Japan, while corporate ownership in Western Europe and the rest of Asia is generally concentrated (Andres, 2008). As La Porta et al. (1998) documented by measuring the sum of ownership of three largest shareholders, average corporate ownership in Germany is 48%. Similarly, average corporate ownership in Indonesia is 58%. The United Kingdom has the lowest level of ownership concentration (in comparison with Germany and Indonesia) with 19%.

Corporate ownership in East Asia is highly concentrated in the hands of large shareholders (Fan & Wong, 2002), and this is also the case for Indonesia as found by Claessens et al. (2000) where the dominant form of ownership is family ownership (Driffield et al., 2007). Claessens et al. (2000) also found that in Indonesia, control is enhanced through pyramid structures and cross-holding among firms. Moreover, due to such typical ownership structure, numerous controlling owners possess more control than their actual equity ownership (Fan & Wong, 2002).

B. 1. 2. Directors' Ownership

Directors in Germany and Indonesia are placed into two separate boards: management and supervisory. On the other hand, corporations in the United Kingdom have a unitary board structure where all directors (executive and non-executive) are placed into one board. Due to this difference, I decide to use directors' share ownership as one of corporate governance variables in this dissertation and therefore it is expected that the ownership's influence on firm performance can be known.

Demsetz and Lehn (1985) suggest that firms with greater uncertainty will have greater directors' ownership. This uncertainty includes instability of prices, technology, market shares, and so forth. Himmelberg et al. (1999) found that managerial ownership is explained by main variables in the contracting environment, namely firm size, scope for discretionary spending, managerial risk aversion (i.e. observable firm characteristics). These variables influence managerial ownership in ways consistent with the predictions of principal-agent models.

Himmelberg et al. (1999) also argued that in order to become the optimal incentive arrangement for the firm, the levels of directors' ownership should be adjusted with the scope for perquisite consumption. Meanwhile, Demsetz and Lehn (1985) found that directors' ownership is determined by the firm riskiness (measured by stock price volatility).

B. 1. 3. Family Ownership

Family share ownership is dominant in Germany and Indonesia and less so in the United Kingdom. The difference in the dominance of family shareholding makes it interesting to see how the family share ownership influences firm performance in those three countries.

Anderson et al. (2003) posit that founding families "represent a special class of large shareholders that potentially have unique incentive structures, a strong voice in the firm, and powerful motives to manage one particular firm." In addition, Anderson et al. also argued that two respects distinguish founding families with other shareholders: the family's interest in the firm's long-term survival and its concern for the firm's (family's) reputation.

Publicly traded firms across the globe commonly are controlled by family shareholders (Burkart et al, 2002). Anderson and Reeb (2003a) found that one third of Standard and Poor (S&P) 500 firms are owned by families and family ownership accounts for 18 percent of outstanding equity. Such controlling families often hold large equity stakes and are represented in the corporate board (Maury, 2006). Turnover and recruitment costs in family firms are lowered because trust and loyalty are fostered by the working environment (Ward, 1988).

Anderson and Reeb (2003b) posited that founding families have strong incentives to minimise firm risk due to the undiversified nature of their holdings and their desire for firm survival. Firm risk can be reduced by founding families in two ways. First, firm's investment

decisions may be influenced by families through pursuing projects with imperfectly correlated cash flows relative to existing projects (corporate diversification). Second, capital forms that bear low probabilities of default may be chosen by families (more use of equity financing or less use of leverage in the firm's capital structure). However, these strategies can impose costs on diversified and minority shareholders.

Family ownership also has potential drawbacks. Fama and Jensen (1985) claimed that since the interests of the family are not necessarily in line with those of other shareholders, the combination of management and control in the hand of family might lead to sub-optimal investment decisions. Demsetz and Lehn (1985) argued that families may pursue nonpecuniary private benefits of control. According to Shleifer and Vishny (1997), the family executives might remain active in the firm although they are no longer competent (entrenchment effect).

Andres (2008) found that families might be different with other types of large shareholders when they serve as board members. Through serving as board members, families possibly have a deeper relationship with the firm they own-manage or might even feel responsible for other shareholders.

Furthermore, it is possible that family shareholders own shares of a firm indirectly. Indirect ownership means a shareholder hold the shares through entities that he or she controls (Laeven & Levine, 2008). Sacristan-Navarro and Gomez-Anson (2007) argued that indirect ownership occurs when the significant shareholders hold the shares through an intermediate firm. Thus, family shareholders are considered to have an indirect ownership stake at a firm if they hold shares of another firm who is a corporate shareholder of the aforementioned firm.

B. 2. *Shareholder Protection*

La Porta et al. (2000) asserted that the myriad sources of rules protecting shareholders include company, security, bankruptcy, takeover, and competition laws, as well as stock exchange regulations and accounting standards. In many countries, shareholder protection becomes crucial due to its importance in dealing with expropriation of minority shareholders and creditors by the controlling shareholders. In addition, a good legal protection on shareholders also discourages corporate insiders (managers and controlling shareholders) to expropriate minority shareholders since expropriation technology becomes less efficient.

La Porta et al. (2000) also believe that the strength of shareholder protection of a country is closely related to its legal structure and laws origin. In general, two legal systems are used by countries across the globe, namely common law and civil law. Common law system is used by England and its former colonies, while Continental European countries generally use civil law (French and German civil law). Apart from common law and civil law, Scandinavian countries have their own legal system. Common law countries are the best at protecting outside investors, while French civil law countries are the worst at this particular area. Due to the difference of shareholder protection level between Germany, the United Kingdom and Indonesia, it is interesting to see how influential shareholder protection is on the relationship between corporate governance and firm performance.

One might question as to why common law better protects investors than civil law does. According to La Porta et al. (2000), this occurs because the vague fiduciary duty principles of common law are more protective of investors than the straightforward line rules of the civil law. Corporate insiders in civil law countries can often circumvent such rules, thus making investors not well protected from their adverse actions. In addition, the low level of investor protection in civil law countries (compared to common law countries) may be one manifestation of more interventionist government, particularly in French civil law countri**es.**

Klapper and Love (2004) found that the average firm-level governance is lower in countries which have weaker legal systems, reflecting a positive relationship between the quality of a country's corporate governance and its legal environment. Hence, the importance of recommending firms to adopt good governance practices is greater in countries that have weak legal systems.

B. 3. *Executive Remuneration*

Himmelberg et al. (1999) argued that the remuneration contracts awarded to management are endogenously determined by the contracting environments which are different across firms. According to agency theory, remuneration policy is designed in ways that give manager incentives to select and execute actions that facilitate the maximisation of shareholder wealth (Jensen & Murphy, 1990). Executive remuneration can be a powerful tool to reduce the agency conflicts between managers and the firm, while at the same time it also can be a substantial source of agency costs if it is not managed properly (Jensen & Murphy, 2004).

According to Bruce et al. (2005), there are three perspectives on executive remuneration: principal-agent theory, executive power theory, and stakeholder theory. According to principal-agent theory, executive pay arrangements are crafted by shareholders that cause a top management team motivated by self-interest to maximise shareholder value. Meanwhile in self-serving executive model (also known as 'executive power theory' or 'rent extraction theory'), the executive pay arrangements are heavily influenced by socially-derived executive power, deliberately designed to secure rent for an executive board member at the expense of other corporate stakeholders' (e.g. customers, suppliers, employees, etc.). Other perspective, stakeholder theory which shares a same view with stewardship theory, believes that senior managers suspend their own immediate self-interest and therefore their remuneration arrangements rely on the relation between firms and stakeholders.

Bruce et al. (2005) argued that the applicability of each of the above mentioned perspectives is determined by the background and formal national institutions. Similarly, Filatotchev and Allcock (2010) maintained that differences in organisational contexts and their environment cause patterned variation in corporate governance which should be captured by corporate governance aspects of executive compensation outlined by the agency and stakeholder perspectives.

In order to control the conflicts of interest that exist in relation to executive remuneration, there are at least three basic techniques employed by corporate law (Hill & Yablon, 2002), namely:

1. Self-constraint (with judicial enforcement) via fiduciary duties
2. Eliminating or controlling conflicts of interest through corporate governance techniques, such as the use of independent directors, remuneration committees and greater control by shareholders
3. Accepting the existence of managerial self-interest, but at the same time trying to align that self-interest with shareholder interests.

Due to the difference of board structure in Germany, the United Kingdom and Indonesia, it is interesting to see how executive remuneration influences firm performance when executive directors are separated from non-executive directors (in Germany and Indonesia) and when they are put into one board (in the United Kingdom). Therefore, I decide

to include executive remuneration as one of corporate governance variables in this dissertation.

B. 4. *Codetermination*

In a strict sense, Furubotn (1988) defined codetermination "as an organizational mode that ensures labor of *legally sanctioned control rights* in the firm." He also argued that such sharing of control rights provides at least some assurance to the members of coalition of workers-stockholders that *all* interests will be considered in decision-making and it will prevent unfair allocations of quasi rents. Benelli et al. (1987) defined codetermination as "the legislated requirement to seat voting employee representatives on corporate policy-making boards and is unrelated to profit-sharing schemes or employee stock ownership plans." Under the German codetermination law, employees are legally allocated control rights (depending on the number of staff) over corporate assets through seats on the supervisory board, but they have no cash flow rights (Gorton & Schmid, 2004). In codetermined firms, ultimate corporate power is in the hand of supervisory board. The sharing of this power with labour and union representatives represents a radical break with neoclassical model of firm which views shareholder value maximisation as the (only) goal of the firm (FitzRoy & Kraft, 2004).

FitzRoy and Kraft (2004) argued that at least there are two theories concern codetermination, namely property rights theory and participation theory. The property rights theorists claim that codetermination causes the reduction of innovativeness of an organization and may well tend to maintain the status quo in order to avoid any conflict. Conversely, the participation theorists believe that codetermination enables the use of information from employees and will lead to a more cooperative solution and reduces (if does not solve) the conflict between capital owners and workers. As a result, the firm will be more productive and successful on the market. Due to the positive and negative view on codetermination, it is interesting to see how codetermination affects the firm performance in Germany. Therefore, codetermination is included as one of corporate governance variables in this dissertation.

An interesting viewpoint is made by Furubotn (1988) about two types of codetermination: mandatory and voluntary. He claimed that the voluntary codetermined firm shows clear superiority over a legally mandated codetermined of the European type. The voluntary variant tends to promote productivity-enhancing incentives, relatively lower transaction costs, and a more rational allocation of risk. However, there are only a few

examples of voluntarily codetermined firms. A possible explanation of this phenomenon is that workers prefer the use of political power to freely negotiated contracts in order to have best chance for gain.

Gorton and Schmid (2004) argued that codetermination helps employees in protecting their interests against potential opportunistic behavior of shareholders. Furthermore, through codetermination, employees may want to use the firm as an intertemporal insurance vehicle, resisting restructuring, layoffs, and wage reductions. Codetermination also protects them against idiosyncratic or business cycle shocks.

According to Hansmann (1990), the real value of codetermination does not lie in control of the corporation at the board level. Instead, it apparently lies in the access the codetermination gives workers to accurate and credible information about the firm. To sum up, the workers are primarily benefited from the codetermination solely through some informational seats on the board of directors.

Von Rosen (2007) believed that the interaction between management board and supervisory board is profoundly affected by employee participation in decisions and such participation thus also affects a central element of corporate governance. Parity codetermination (representatives of shareholders and employees are equal in numbers) is applied in majority of large-scale companies (*paritätische Mitbestimmung*).

Von Rosen (2007) also argued that although there is an impression of harmonious and conflict-free cooperation in the supervisory board of codetermined firms, the clash between company's and employees' interests still may occur, for instance when the company's interest calls for shifting production abroad. In addition, employee representatives in the supervisory board are required to have high professional qualifications and extensive international experience in accordance with the German Corporate Governance Code.

In addition to the above mentioned issues, Von Rosen (2007) believed that some further relevant issues related with codetermination are the presence of company-external supervisory board members who are often appointed by the trade union; the large size of supervisory board (compared with supervisory boards of other countries); and the situation where the employee representatives only speak or act in the interests of the employees of a company. Members of supervisory board appointed by the trade union might face problems when conflicts of interest between the trade union and the company (e.g. strike) occur. The

large size of supervisory board can hamper high quality discussions in the board and confidentiality is hard to ensure.

B. 5. *Corporate Leadership Structure*

In general, there are two theories that concern the nature of corporate leadership structure, namely agency theory and stewardship theory (Donaldson & Davis, 1991). According to agency theory, the impartial monitoring by board of directors on managerial actions will occur more fully where the board chairperson is independent of executive management (i.e does not hold the chief executive role). When the board chairperson also acts as chief executive, managerial opportunism and agency loss will occur. On the other hand, stewardship theory promotes the fusion of the incumbency of the roles of chair and chief executive as it will bring the benefits of unity of direction and strong command and control which will enhance effectiveness and produce superior returns to shareholders as a result.

According to the proponents of each of two leadership structures, CEO-chair separation is perceived as ensuring effective monitoring, while CEO-chair duality ensures strong leadership (Daily & Dalton, 1997). In more detailed explanation, Dahya et al. (1996) summarised the arguments for CEO-chair separation and CEO-chair duality as follows:

Table 2: Summary of arguments for CEO-chair separation and CEO-chair duality

No.	CEO-chair separation	CEO-chair duality
1.	Ensures balance to the board and check to the CEO	Checks and balances may be supplied by introducing more non-executive directors to the board
2.	Entrenchment is occurred when a person holds both CEO and chair positions	If the CEO has outstanding strategic vision, it is believed that he will shape the destinies of the firm with a minimum of board interference
3.	The absence of important check on CEO's actions could place the company at risk	The majority of largest US companies prefers CEO-chair duality, indicating no significant disadvantage in operational performance or in share performance

4.	Independent chairman may provide a valuable 'outside' perspective	Rationalisation of decision-making process
5.	US companies with independent chairman is empirically proven to enjoy a significant enhancement on profitability	Empirical evidence on the effect of CEO-chair separation/duality is mixed

Motivated by the arguments which encourage CEO-chairman separation and duality, I decide to use CEO-chairman separation as one of corporate governance variables to see how it affects firm performance in the United Kingdom. Therefore it is expected to be known, which of those theories -agency or stewardship- is supported by this dissertation in terms of corporate leadership structure.

B. 6. *Former Executives Serving as Non-Executives Directors*

Non-executive directors (in the United Kingdom), supervisory board members (in Germany) and commissioners (in Indonesia) are tasked to monitor the executive directors in day-to-day management and to ensure that due diligence is observed by them. In order to successfully undertake these tasks, a non-executive director is required to be independent and simultaneously to have expertise and experience on the corporate matters.

Oehmichen et al. (2014) suggested that public and regulatory bodies' attention is increasingly focused on the potential conflicts of interest that might arise from a former executive director when he or she continues his or her service within the firm in a different role. In Germany, the German Stock Corporation Act prohibits the immediate transition (less than two years) of management board members to the supervisory board, unless at least 75% of shareholders support the appointment of former management board members to the supervisory board. Von Rosen (2007) argued that it is a tradition in Germany that members of management board become members of supervisory board following their retirement so that the company could further make use of their specialist expertise and professional experiences. Meanwhile in Indonesia, Indonesia's Code of Good Corporate Governance (2006) recommends firms to have sufficient number of independent commissioners. Former affiliated (having business and family relations with controlling shareholders, directors, commissioners, and with the firm itself) directors and former employees are not (after a certain period of time)

considered as independent. Similarly in the United Kingdom, the independence of non-executive directors might be questioned if he or she has served on the board for more than nine years after the date they were elected to the board (UK Code of Corporate Governance, 2014).

In the German Corporate Governance Code (2015), it is stipulated that "not more than two former members of the Management Board shall be members of the Supervisory Board." Meanwhile the UK Corporate Governance Code (2014) does not limit the amount of non-executive directors who were executives in the same company in the past, but it states that "The board should identify in the annual report each non-executive director it considers to be independent." On the other hand, the Indonesia's Code of Good Corporate Governance (2006) is somewhat lenient towards the presence of former executives serving as non-executive directors. It neither limits the amount of such non-executive directors nor stipulates a disclosure of their (perceived) independence. Non-executive directors in Indonesia are termed "commissioners" and have their seat in Board of Commissioners.

Given the differing scholarly opinions on whether the presence of former executives as non-executive directors brings advantages to a firm, it is interested to see the effect of it on firm performance. Therefore I include it as one of corporate governance variables in this dissertation.

C. Link between Corporate Governance and Firm Performance

Scholars have been investigating since many years whether there is a link between corporate governance and firm performance with mixed results. For instance, Nesbitt (1994) found that long-term stock price returns are positively correlated to corporate governance for CalPERS' (California Public Employees' Retirement System) targeted firms. Brown and Caylor (2004) argued that better-governed firms are relatively more profitable, more valuable, and their shareholders enjoy more cash paid the firms. Padgett and Shabbir (2005) implied that the firms which are more compliant to the 2003 Combined Code in the United Kingdom earned more return than those who are not.

In the context of the United States, Brown and Caylor (2009) found that the governance provisions recently mandated by the US stock exchanges are closely related to firm operating performance. Meanwhile in transitional economies, Zheka (2006) found strong evidence that corporate governance predicts firm performance.

The above mentioned scholars argued that corporate governance is positively related with firm performance. In addition, they also found that firms who practice good governance outperformed those who do not. Based on these findings, there is a strong reason for companies to adopt good practices of corporate governance as recommended by the national authorities or institutional shareholders.

On the contrary, Weir and Laing (2001) concluded from their research that compliance to corporate governance code will not automatically make firms outperform their non-compliant counterparts. Bauer et al. (2004) found that governance standards are negatively related with net-profit-margin and return of equity. In addition, Jog and Dutta (2004) argued that good governance seems to have insignificant relation with firm performance. The findings which showed negative or insignificant relation between corporate governance and firm performance undermine the importance of corporate governance in improving firm performance albeit it is important for firm survival and to safeguard the interests of shareholders.

In the context of emerging markets, the researches on corporate governance-firm performance relation also have split results. Klapper and Love (2004) found that good governance is positively correlated with firm's market valuation and operating performance in emerging markets. They also suggested that such relationship is stronger in countries with weaker legal systems. Wahab et al. (2007) argued that firms which implement recommendations of Malaysian Code on Corporate Governance enjoy an average increase of stock price of about 4.8%. Toudas and Karathanassis (2007) reported that Tobin's Q of democratic companies is higher than that in semi-democratic and dictatorial companies in Greece. Contrarily, Alves and Mendes (2004) concluded that the code of best practices recommended by the Portuguese Securities Market Commission globally does not have a systematic effect on firm returns in Portugal.

CHAPTER IV

HYPOTHESES DEVELOPMENT

According to agency theory, common stock ownership by managers (insider ownership) may reduce agency costs because it better aligns their interests with those of stockholders (Jensen & Meckling, 1976). Lichtenberg and Pushner (1994) found that director ownership appears to slightly reduce the agency conflict between management and shareholders in Japan. Jensen and Meckling (1976) also argued that increasing the fraction of shares owned by corporate insiders will cause the increase in firm value.

The issue of directors' ownership draws a particular attention from scholars who argue that it affects firm performance. Some scholars argue that directors' incentive to improve firm performance will increase linearly with the amount of their shareholding. In other words, the more shares they hold, the more efforts will they put in making the firm more profitable. Farrer and Ramsay (1998) argued that there are minimum share ownership requirements for directors in some companies in Australia, suggesting that it is also important for non-executive directors to have incentives to maximise firm performance. According to Jensen and Meckling (1976), directors' shareholding can reduce agency costs because these costs would be zero if the owner is also the manager of a company. Corporate value maximisation will be achieved if corporate insiders have a large portion of shares in the companies they are working for. In other words, directors are motivated to maximise firm value when they directly bear financial consequences caused by their decisions (Sundaramurthy et al., 2005). In similar vein, Grossman and Hart (1986) argued that the removal of managerial ownership incurs greater transaction costs, hence managerial ownership is deemed to potentially reduce agency conflicts.

A fundamental reason of the importance of directors' shareholding, as argued by Core et al. (2003), is the firm's desire to directly link changes in executive wealth to changes in stock price. Hence it is expected that this will provide incentives to executives in shareholder wealth maximisation.

On the other hand, Farrer and Ramsay (1998) also argued that when the directors' shareholding becomes excessive and at the same time they do not diversify their wealth, the interests of directors may not be aligned with those of outside shareholders because the directors become more risk-averse. In addition, with immense voting power derived from

excessive shareholding and the minimal market monitoring caused by the reluctance of market to take over the companies that dominantly owned by directors, the directors become effectively entrenched (Fama & Jensen, 1983). This view is also shared by Sundaramurthy et al. (2005) who argued that entrenchment effect appears when directors' ownership reaches certain level and such effect negatively impacts firm performance. This negative impact is the manifestation of more complete control obtained by the executives. Therefore, according to this argument, the maximisation of firm performance is achieved by relatively low directors' shareholdings (Farrer & Ramsay, 1998).

There are two notions that support entrenchment effects. First, as argued by Beatty and Zajac (1994), the increased ownership of directors will lead to risk-reducing behaviour that is undesired by stockholders. Second, high directors' ownership can gives executives control over the length of their tenure (Fredrickson et al., 1988), compensation (Finkelstein & Hambrick, 1994) and directors' selection (Whidbee, 1997).

The increased directors' ownership also can reduce the probability of takeover bidding and increases the resistance of management towards takeover (Fama & Jensen, 1983). In addition to creating entrenchment effect, Barnhart and Rosenstein (1998) are convinced that high level of directors' ownership induces directors to take anti-takeover measures or reject share acquisitions so that their positions are secure. This circumstance in turn decreases firm value.

Both arguments which are for and against directors' ownership are supported by empirical works. For instance, Mehran (1995) found that firm performance is positively related to managerial equity holding and also to the percentage of equity in managerial compensation. Contrarily, Shleifer and Vishny (1989) argued that directors' ownership might make managers entrench themselves in company they manage. There are also studies that support both arguments: directors' ownership reduces agency cost and hence improves firm performance when the ownership level is relatively low and then it begins to entrench the managers and hence decreases firm performance when the level exceeds certain point (e.g Morck et al. (1988), Schooley & Barney Jr. (1994)). There is also a view that tries to reconcile both arguments as argued by Denis and McConnell (2003). They believe that the ultimate effect of managerial ownership on firm value is dependent on the tradeoff between the alignment of interests (of shareholders and management) and entrenchment effects.

Han and Suk (1998) found that stock returns increase along with insider ownership. Their finding suggests that management's interests coincide more closely with those of shareholders. However, they warn against excessive insider ownership since it rather hurts firm performance due to possible managerial entrenchment. In line with Han and Suk's (1998) finding, Farrer and Ramsay (1998) argued that directors of Australian companies who have excessive insider shareholdings and are not diversified may adopt an overly conservative approach which suppresses shareholder returns. In addition, high director shareholdings also may cause entrenchment on directors accompanied with immense voting power and minimal market monitoring. Fama and Jensen (1983) posited that managerial entrenchment and wealth expropriation of minority shareholders will occur when managerial ownership exceeds a certain level.

McConnell and Servaes (1990) found that the relationship between insider ownership and corporate value (measured with Tobin's q) is curvilinear. Insider ownership positively influences corporate value until the ownership level reaches approximately 40% to 50%, and beyond this level the influence turns into negative. Similarly, Chen et al. (1993) and Morck et al. (1988) found that the relation between management ownership and corporate value is nonmonotonic. A research by Short and Keasey (1999) also concluded a nonlinear relationship between firm performance and managerial ownership in the United Kingdom. On the contrary, Himmelberg et al. (1999) could not econometrically conclude that changes in managerial ownership influence firm performance.

Bhagat and Bolton (2008) found that stock ownership of board members is significantly positively correlated with better contemporaneous and subsequent operating performance. Kaserer and Moldenhauer (2008) found that insider ownership has a positive impact on corporate performance for German firms.

Based on the literature mentioned above, it appears that the majority of scholars agree that share ownership by a firm's directors improves firm performance as long as the ownership level is not excessive. Thus,

Hypothesis 1: *Directors ownership influences firm performance in Germany, the United Kingdom and Indonesia in an inverted U-shaped relationship. Initially, directors ownership positively influences firm performance, but then the former negatively influences the latter.*

Demsetz and Lehn (1985) argued that economic incentives to monitor managers and decrease agency costs are stronger in concentrated shareholders. According to Klein et al. (2005), agency theory suggests that more effective monitoring is achieved through concentrated ownership. Demsetz and Lehn (1985) claimed that ownership concentration is positively correlated to the degree to which benefits and costs are borne by the same owner.

Ownership concentration has both benefits and costs. Gul et al. (2010) argued that due to entrenchment effect, controlling shareholders have an incentive to cover up their self-serving behaviours or to limit the leakage of related information. Consequently, the informativeness of stock prices of firms become reduced and the stock prices become more synchronous.

On the other hand, Shleifer and Vishny (1986) believed that the alignment of interests between controlling and minority shareholders can be achieved through ownership concentration. Contrarily to Gul et al. (2010), Gomes (2000) argued that controlling shareholders may be encouraged by ownership concentration to voluntarily disclose more and better firm-specific information for the benefit of minority shareholders.

According to Shleifer and Vishny (1986), concentrated shareholdings raise firm value. Ownership concentration may reduce agency costs (Jensen and Meckling, 1976) and is therefore positively related to performance. Large and concentrated investors have substantial economic incentives, influence and power to maximise firm performance (Anderson and Reeb, 2003a). Claessens and Djankov (1999) found that more concentrated ownership is associated with higher profitability for Czech firms. Xu and Wang (1999) found that ownership concentration is positively and significantly correlated with profitability for Chinese public companies. Thomsen and Pedersen (2000) found that ownership concentration positively affects shareholder value (measured with market-to-book value of equity) and profitability (measured with asset returns) for the largest European companies. Zeckhauser and Pound (1990) found that the presence of large shareholders significantly improves corporate performance. According to Claessens et al. (2000), firm value increases with the cash-flow ownership of the largest shareholder in East Asian countries. In the context of Korean economy, firms with low ownership concentration show low firm profitability (Joh, 2003). Edwards and Weichenrieder (2004) argued that the beneficial effects of concentrated ownership for most types of largest shareholder (greater management monitoring and reduced incentives to exploit minority shareholders) are at least in balance with and sometimes

outweigh the harmful effect (greater private benefits of control). These findings support agency theory which suggests that agency cost is lower when ownership is concentrated.

On the contrary, Lehmann and Weigand (2000) found that ownership concentration has a negative impact on profitability on German firms as measured by the return on total assets. Prowse (1992) found that ownership concentration and profitability are unrelated in both firms that are members of corporate groups (*keiretsu*) and independent firms in Japan. Demsetz and Lehn (1985) found no significant relationship between ownership concentration and accounting profit rates. Demsetz and Villalonga (2001) found no statistically significant relation between ownership structure and firm performance. Thomsen (2005) found a negative association between blockholder ownership and firm value in Continental Europe and that blockholder ownership decreases are associated with increases in the stock market value of firms. Cho (1998) found that ownership structure does not affect corporate value. Earle et al. (2005) found that the effects of total blockholdings on profitability and efficiency are small and statistically insignificant in firms listed on the Budapest Stock Exchange. Leech and Leahy (1991) concluded that greater ownership dispersion implies a higher value, profit margin and growth rate of net assets for large British companies.

On the other hand, acknowledging the positive and negative impact of concentrated ownership on firm value, Denis and McConnell (2003) argued that the ultimate effect of blockholder ownership on measured firm value is dependent on the tradeoff between two things; namely the shared benefits of blockholder control and any private extraction of firm value by blockholders. Claessens et al. (2001) found that block ownership by corporations is negatively related to firm performance, while the positive relationship occurred on firms predominantly owned by the government in nine East Asian countries. In addition, ownership by institutional shareholders has no relation with firm performance.

The inconsistent results in investigating the influence of ownership concentration on firm performance may be an indication that the effect of ownership concentration depends on the type of performance measure. Tobin's q was used by Anderson and Reeb (2003a), profitability was used by Claessens and Djankov (1999), while Zeckhauser and Pound (1990) used E/P ratio. Meanwhile, Thomsen (2005) used net sales, Prowse (1992) used average net income to book value ratio, and Demsetz and Lehn (1985) used market rate of return and value and net income to book value as performance measure.

La Porta et al. (2002) found that firms in countries with better protection of minority shareholders enjoy higher valuation. After investigating the ownership concentration in Asia, Heugens et al. (2009) concluded that ownership concentration can positively affect corporate performance in countries lacking legal protection of shareholders. However, this positive relationship does not appear in countries where legal protection is well-developed, where shareholders can rely on mostly external corporate governance mechanisms to protect their investments and assure a reasonable return on investments. Germany is regarded to be relatively weaker in protecting shareholders compared to common law countries, i.e. England and its former colonies (La Porta et al., 2000; Denis & McConnell, 2003). According to La Porta et al. (1998), Indonesia is included in one of French civil law countries, and this particular legal system is regarded to have the weakest protection of shareholders. In similar vein, La Porta et al. (2000) regarded Indonesia along with Korea, Taiwan and Thailand as countries with low legal investor protection.

Based on the above mentioned literature, it appears that the effect of ownership concentration depends on the strength of legal protection of shareholders in a country. Thus,

Hypothesis 2: *The strength of shareholder protection negatively influences the relationship between ownership concentration and firm performance in Germany, the United Kingdom and Indonesia.*

Hypothesis 3: *Ownership concentration positively influences firm performance in Germany and Indonesia.*

Hypothesis 4: *Ownership concentration does not significantly influence firm performance in the United Kingdom.*

Mehran (1995) argued that compensation affects CEO incentives to improve corporate efficiency. Murphy (1985) found that executive compensation is strongly positively related to firm performance as measured by shareholder return and growth in firm sales. Jensen and Murphy (1990) also found a similar result, but the relationship is not significant. Carpenter and Sanders (2002) claimed that top management team pay predicts future firm performance. According to Cosh and Hughes (1997), executive pay is positively related to profitability, share returns and also to size. Thus,

Hypothesis 5: *Executive remuneration positively influences firm performance in Germany, the United Kingdom and Indonesia.*

Jensen and Meckling (1979) argued that the fact that stockholders must be forced by law to accept codetermination is the best evidence that they are adversely affected by it. They also believe that given a choice, potential investors will not voluntarily invest in codetermined firms, strongly suggesting that codetermination is less efficient than other alternatives. However, although codetermination might not be in the shareholders' interest, it might be socially efficient (Freeman & Lazear, 1994). In similar vein with Freeman and Lazear (1994), Smith (1991) argued that codetermination offers advantages for technical efficiency, skill development and knowledge generation. According to Kraft (2001), codetermination has many unfortunate aspects particularly in relation to investment and finance. Alchian (1984) viewed codetermination as synonymous to wealth confiscation.

Gorton and Schmid (2002) found that firms with equal representation on the supervisory board have a significant 26 percent decline in the market-to-book ratio, compared to firms with one-third representation. It is assumed that this happened because employees concern more on maximising employee utility rather than shareholder value. Benelli et al. (1987) found that codetermination does not significantly affect corporate operations and performance. It is assumed that this happened because employees cannot agree on wealth maximisation since their financial claim on the firm is not tradable. FitzRoy and Kraft (1993) found the increase of the number of employees representatives in supervisory board to be associated with 10 to 20% decline in shareholder value. Petry (2009) found that the initiation of codetermination in firms is associated with negative wealth effects of shareholders. In terms of abnormal returns, Petry (2009) also found that only the initiation of codetermination brought large negative wealth effects. A further increase of the number of employees' representatives in supervisory board does not add significant negative abnormal returns once the employees' representatives are on the board.

On the contrary, Gurdon and Rai (1990) found that West German firms with near-parity codetermination are statistically more profitable compared to those with one third and no codetermination. Similarly, Renaud (2007) found that switching from one-third to parity codetermination seems to increase both productivity and profits. Fauver and Fuerst (2006) found that prudent levels of employee representation on corporate boards can increase firm efficiency and market value, with the optimal representation likely to be below 50%. Cable

and FitzRoy (1980) argued that workplace and or board participation enhances productivity. Similarly, FitzRoy and Kraft (2004) found positive productivity effects in large firms which apply 1976 extension to parity codetermination. On the other hand, Wagner (2009) found neither positive nor negative relationship between one-third codetermination and two core performance indicators, namely productivity and profitability in limited-liability companies from West German manufacturing industries. A mixed finding on codetermination also exists, such as Freeman and Lazear (1994) who found that the firm's total revenues would increase with codetermination, but it would shrink the owners' share.

Despite the good performance displayed by codetermined firms as showed in some empirical works, we can hardly be sure that it is codetermination which actually causes the good performance. As Kraft (2001) put it, the higher profits of the codetermined firms are a result of their tendency to being larger than their competitors. Thus,

Hypothesis 6: *Codetermination negatively influences firm performance in Germany.*

Bai et al. (2004) found that CEO-chair duality (CEO and chairman is held by the same individual) has negative effects on market valuation. Haniffa and Hudaib (2006) found that companies with CEO-chair duality seemed not to perform as well as their counterparts with separate board leadership in Malaysian market. Bhagat and Bolton (2008) found that CEO-chair separation is significantly positively correlated with better contemporaneous and subsequent operating performance.

On the contrary, Weir and Laing (2001) found no clear relationship between CEO-chair separation and corporate performance on British firms. Brickley et al. (1997) found no evidence that CEO-chair duality is associated with inferior accounting and market returns. In similar vein, no consistent link between board composition as well as leadership structure and firm financial performance was found in a study conducted by Dalton et al. (1998). Baliga et al. (1996) argued that the market is indifferent to changes in firm's CEO-chair duality status and there is little evidence that changes in the status cause operating performance changes. In the context of developing countries like India, it is found that CEO duality is unrelated to any firm performance measure (Arora & Sharma, 2016).

Donaldson and Davis (1991) made a good comparison between agency theory and stewardship theory with regards to dual leadership effect on firm performance. Agency theory views the superiority of shareholder return observed among firms with dual leadership role is

due to the spurious effects of financial incentives. Contrarily, stewardship theory believes that such superiority is not due to the spurious effects of financial incentives.

Based on the above mentioned literature, scholars are split on the issue of the influence of CEO-chair separation on firm performance. However, as argued by Brickley et al. (1997), CEO-chair duality is proven to be efficient for large firms. Thus,

Hypothesis 7: *Firm size negatively influences the relationship between CEO-chair separation and firm performance in the United Kingdom.*

Hypothesis 8: *CEO-chair separation positively influences the performance of small firms in the United Kingdom*

Fama and Jensen (1983) argued that agency costs should be reduced if the residual claimants and the decision agents are the same. Therefore, it is assumed that agency costs are minimum in family-controlled companies. Andres (2008) argued that the incentive to monitor managers and decrease agency costs should be particularly strong in the case of founding-family ownership since families usually have invested most of their private wealth in the company and are not well-diversified. Maury (2006) found that active and passive family control is associated with higher firm valuations for Western European corporations. Martinez et al. (2007) found that family-controlled public firms performed significantly better than nonfamily public firms in Chile. Anderson and Reeb (2003a) found that family firms perform significantly better than nonfamily firms (measured with return on assets and Tobin's q). Daily and Dollinger (1992) found that family-owned and –managed firms exhibit performance advantages resulted from the unification of ownership and control.

On the contrary, Villalonga and Amit (2006) argued that family control in excess of ownership reduces shareholder value. When the founder serves as the CEO of family firm or as its chairman with a nonfamily CEO, value is added. But when descendants serve as chairman or CEO, value is destroyed. Carney and Gedajlovic (2002) found that the high concentration of public companies ownership in the hands of family may lead the family to control and manage the companies as sources of personal and family wealth enhancement. Anderson and Reeb (2003a) found that firm performance begins to decline when the family ownership level is beyond one-third. Miller and Le Breton-Miller (2006) explained why some family firms perform well and some others perform badly. Family firms perform well when voting control requires significant family ownership, when there is a strong family CEO

without complete voting control and accountable to independent directors, when multiple family members serve as managers, and when the family intends to keep the business for generations. Conversely, family firms perform badly when the concentration or dispersion of ownership or control is too high, when control is exercised without much ownership, and when too many family members clash or drain resources.

Based on the above mentioned literature, it appears that scholars are split on the issue of influence of family ownership on firm performance. Taking into account the finding of Villalonga and Amit (2006) and Anderson and Reeb (2003a), thus

Hypothesis 9: *Family ownership influences firm performance in Germany, the United Kingdom and Indonesia in an inverted U-shaped relationship. Initially, family ownership positively influences firm performance, but then the former negatively influences the latter.*

There are generally two views on the presence of former executives in the corporate board. One view suggests that non-executives who have served as executives in the past lack independence and such situation can create conflicts of interest (Jensen & Meckling, 1976). Such lack of independence combined with misaligned incentives increases agency costs on the side of owners (Baliga et al, 1996). Conversely, the other view believes that by having non-executives who are former executives, a firm can benefit from their strong firm specific experience and knowledge so that they can better advise the executives compared with non-executives who are completely new to the firm (Oehmichen et al., 2014).

Grigoleit et al. (2011) found no relation between former executives (members of management board) serving as non-executive directors (members of supervisory board) and firm performance in Germany. However, the finding of Oehmichen et al. (2014) shows negative influence of former executives serving as non-executive directors on firm performance in Germany. Thus,

Hypothesis 10: *Former executives serving as non-executives negatively influences firm performance of companies in Germany, the United Kingdom and Indonesia.*

CHAPTER V
RESEARCH METHODOLOGY

A. Population and Sample

The data population is 419 industrial and manufacturing companies listed in the Frankfurt Stock Exchange (Germany), 613 industrial and manufacturing companies listed in the London Stock Exchange (the United Kingdom), and 140 industrial and manufacturing companies listed in the Indonesia Stock Exchange. The population comes from the websites of the Frankfurt Stock Exchange, the London Stock Exchange and an independent website about listed firms in the Indonesia Stock Exchange respectively. Of the population, 135 companies (43 companies from Germany, 44 companies from the United Kingdom and 48 companies from Indonesia) meet the sampling criteria. In order to balance the sample size of each country, I decide to determine the number of sampled companies of each country to be 43, so one company from the United Kingdom and five companies from Indonesia are randomly selected and then excluded from the samples. Hence the sample size of this research is 129 companies.

The sampling criteria are as follows:

1. Listed in the Frankfurt Stock Exchange, the London Stock Exchange and the Indonesia Stock Exchange on or prior to 2 January 2008 and remain listed until 31 December 2012.
2. Have complete information required in this research.
3. Financial year end at 31 December from 2008 to 2012.

The sample size is considerably small if compared to the populations. The smallness of the sample size is largely a result of the incompleteness of information required from the firms. In other words, many firms have incomplete required information and hence they have to be removed from the samples.

B. Variables Description

In this research, firm performance is measured with return on assets (ROA) and market-to-book (MTB) ratio; and corporate governance variables used are directors'

ownership, ownership concentration, directors remuneration, codetermination level (for firms in Germany), CEO-chair separation (for firms in the United Kingdom), family ownership and former executives being non-executive directors. ROA and MTB ratio are dependent variables, and the corporate governance variables are independent variables. Control variable used is sales growth, and moderating variables used are shareholders protection and total assets. Further description of the research variables are as follows:

- Return on Assets is calculated by dividing net income with total assets.
- Market-to-Book Ratio is calculated by dividing closing stock price with the result from total assets minus intangible assets and liabilities.
- Directors' ownership is measured by the percentage of ordinary shares owned by the directors (members of management and supervisory board of firms in Germany; members of board of commissioners and board of directors of firms in Indonesia; executive and non-executive directors of firms in the United Kingdom).
- Ownership concentration is measured by the total percentage of the largest five shareholders of a firm.
- Executive remuneration (for members of management board in Germany; executive directors in the United Kingdom; members of board of directors in Indonesia) is measured in Euro for German firms, British pound for British firms and Indonesian rupiah for Indonesian firms.
- Codetermination level is measured by the percentage of employees' representatives in supervisory board, i.e. 0%, 33.33% and 50%.
- CEO-chair separation is equal to "1" if CEO and chairman are held by different individuals and "0" if held by the same individual.
- Family ownership is measured by the percentage of ordinary shares held by family members.
- Former executives serving as non-executive directors are equal to "1" if they exist and "0" if otherwise
- Total assets are measured by the amount of corporate assets at the end of fiscal year (31 December).
- Sales growth is measured in percentage.
- Shareholders protection is equal to "1" if it is weak, "2" if it is average and "3" if it is strong.

C. Data Sources and Analysis Tool

The research method used in this dissertation involves the collation of data through the analysis of annual reports of 129 manufacturing companies and other data sources. Data obtained from annual reports are directors' ownership, executive remuneration, codetermination level and CEO-chair separation. Data on ROA, MTB ratio, ownership concentration, family ownership, total assets, and sales growth are obtained from online financial databases, i.e. Thomson One and Orbis. The research analysis is conducted with the utilisation of *IBM SPSS Statistics 22*, a software package used for statistical analysis.

D. Methodology

Pallant (2010) argued that the technique(s) chosen by the researcher depends on research questions he or she wants to address and the nature of the collected data. As this research is intended to investigate the relationship between dependent and independent variables, the method used in this research is pooled multiple linear regression analysis. The model is as follows:

$$\text{ROA} = \beta_0 + \beta_1 DO + \beta_2 OC + \beta_3 ER + \beta_4 Cod + \beta_5 CCS + \beta_6 FO + \beta_7 FESNED + \beta_8 TA + \beta_9 SG + u$$

$$\text{MTB Ratio} = \beta_0 + \beta_1 DO + \beta_2 OC + \beta_3 ER + \beta_4 Cod + \beta_5 CCS + \beta_6 FO + \beta_7 FESNED + \beta_8 TA + \beta_9 SG + u$$

where:

ROA = return on assets

MTB Ratio = market to book ratio

DO = directors' ownership

OC = ownership concentration

ER = executive remuneration

Cod = codetermination level

CCS = CEO-chair separation

FO = family ownership

FESNED = Former Executives Serving as Non-Executives Directors

TA = total assets

SG = sales growth

In addition to multiple linear regression, quadratic linear regression is also utilised to investigate the curvilinear relationship between directors' ownership as well as family ownership and firm performance.

In this dissertation, I intend to analyse the corporate governance practices and firm performance of 43 German firms, 43 British firms and 43 Indonesian firms listed on the Frankfurt Stock Exchange, London Stock Exchange and Jakarta Stock Exchange respectively from 2008 to 2012. Afterwards, it will be concluded whether there is a relationship between corporate governance and firm performance in Germany, the United Kingdom and Indonesia and also whether the relationship is identical in these countries.

CHAPTER VI

EMPIRICAL RESULTS AND DATA ANALYSIS

In this chapter, the empirical results of this research are presented which are based on the hypotheses elaborated in the previous chapter. These hypotheses are tested to examine the relationship between various corporate governance variables and firm performance (return on assets (ROA) and market-to-book (MTB) ratio).

Before going further, the table of average values of firm performance measures and corporate governance variables in Germany, the United Kingdom and Indonesia is presented as follows.

Table 3: Average values of firm performance measures and corporate governance variables in Germany, the United Kingdom and Indonesia

No.	Firm Performance Measures and Corporate Governance Variables	Average Values		
		Germany	United Kingdom	Indonesia
1.	Return on Assets	2.31%	-3.99%	6.61%
2.	Market-to-Book Ratio	9.13%	1.11%	1.5%
3.	Directors' Ownership	10.51%	9.84%	4.28%
4.	Ownership Concentration	49.38%	44.42%	71.07%
5.	Executive Remuneration	EUR 1,147,281.5	GBP 736,805	IDR 9,122,036,200
6.	Codetermination	12.56%	n/a	n/a
7.	CEO-Chair Separation*	n/a	0.93	n/a
8.	Family Ownership	10.9%	8.84%	3.91%
9.	Former Executives Serving as Non-Executive Directors*	0.25	0.14	0.36

*) the actual values are either 0 or 1 (0 if not present, 1 if present)

A. Return On Assets (ROA)

Return on assets (ROA) is calculated by dividing net income with total assets. This particular performance indicator measures how much revenue a firm can generate from its assets.

In average, ROA of firms listed on the Frankfurt Stock Exchange from 2008 to 2012 is 2.31%. 2009 was the year that the firms have average lowest ROA (-0.7%) and they have the highest average ROA in 2010 (4.3%). For the firms listed on the London Stock Exchange, the average ROA is negative for the entire observation period (-3.99%). The lowest average ROA

occurred in 2012 (-9.59%) and the highest occurred in 2010 (-0.23%). Meanwhile, the firms listed on the Indonesia Stock Exchange have an average ROA of 6.61%. The average ROA reached the lowest level in 2008 (3.64%) and it reached its highest level in 2011 (7.58%). These figures show that the firms listed in the Indonesia Stock Exchange were the most profitable in terms of return on assets between 2008 and 2012.

B. Market-to-Book (MTB) Ratio

Market-to-book ratio (MTB) is calculated by dividing closing stock price with the result from total assets minus intangible assets and liabilities. This particular performance indicator compares the share's market price to its book value.

In average, MTB ratio of firms listed on the Frankfurt Stock Exchange from 2008 to 2012 is 9.13. 2008 was the year that the firms have the average lowest MTB ratio (1.14) and they have the highest average MTB ratio in 2010 (39.33). For the firms listed on the London Stock Exchange, the average MTB ratio is 1.11 for the observation period. The lowest average MTB ratio occurred in 2012 (-2.52) and the highest occurred in 2010 (2.91). Meanwhile, the firms listed on the Indonesia Stock Exchange have an average MTB ratio of 1.5. The average MTB ratio reached the lowest level in 2008 (0.93) and it reached its highest level in 2011 (1.88). These figures show that the firms listed on the Frankfurt Stock Exchange were the highest valued by the investors in the period between 2008 and 2012.

C. Directors' Ownership

Directors' ownership in this research is measured in percentage of total ordinary shares. In average, directors' ownership of firms listed on the Frankfurt Stock Exchange from 2008 to 2012 is 10.52%. 2011 was the year that the directors have the average lowest ownership (9.64%) and they have the highest average directors' ownership in 2008 (11.91%). For the firms listed on the London Stock Exchange, the average directors' ownership is 9.84%. The lowest average directors' ownership occurred in 2011 (9.13%) and the highest occurred in 2008 (10.61%). Meanwhile, the firms listed on the Indonesia Stock Exchange have an average directors' ownership of 4.28 %. Most of the firms have no directors' ownership, and the highest average of directors' ownership level occurred in 2012 (4.49%).

These figures show that the firms listed on the Frankfurt Stock Exchange have the highest level of directors' ownership between 2008 and 2012.

In order to investigate the (curvilinear) relationship between directors' ownership and firm performance in Germany, the United Kingdom and Indonesia, the quadratic regression analysis is conducted, and the directors' ownership variable is centred and squared. The quadratic regression analysis will be conducted below.

C. 1. *Case of Germany*

Below is the table when ROA is used as dependent variable:

Table 4: Regression result of the relationship of directors' ownership and ROA in Germany

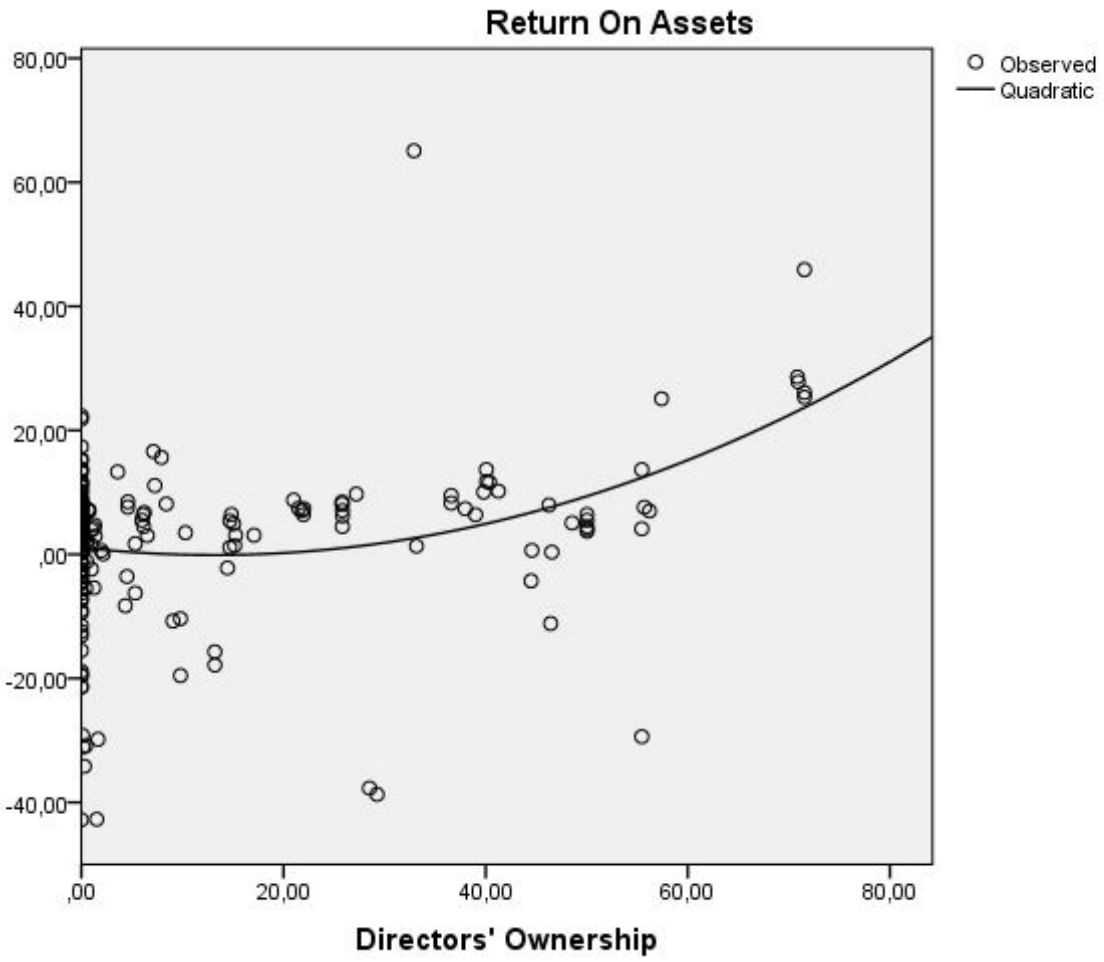
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2,305	,831		2,773	,006		
	DO_c	,192	,045	,279	4,245	,000	1,000	1,000
2	(Constant)	-,057	1,196		-,048	,962		
	DO_c	-,036	,095	-,053	-,382	,703	,219	4,576
	DO_c_sq	,007	,003	,376	2,710	,007	,219	4,576

a. Dependent Variable: Return On Assets

Table 4 shows that the p value of directors' ownership is smaller than α value ($0.007 < 0.05$), so directors' ownership significantly and positively influences ROA of firms in Germany. Below is the curve of the relationship between directors' ownership and ROA.

Figure 1: Relationship between directors' ownership and ROA in Germany



Below is the table of regression result with MTB ratio as dependent variable.

Table 5: Regression result of the relationship of directors' ownership and MTB ratio in Germany

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	9,125	7,540		1,210	,228		
	DO_c	,092	,409	,015	,224	,823	1,000	1,000
2	(Constant)	19,061	10,995		1,734	,084		
	DO_c	1,050	,875	,176	1,201	,231	,219	4,576
	DO_c_sq	-,029	,024	-,182	-1,240	,216	,219	4,576

a. Dependent Variable: Market-to-Book Ratio

Unlike Table 4, Table 5 shows that directors' ownership does not significantly influence MTB ratio (p value > α value; 0.216 > 0.05). So MTB ratio of firms in Germany is not significantly influenced by directors' ownership.

The above results show that directors' ownership significantly and positively influences ROA in a U-shaped relationship. On the other hand, MTB ratio is not significantly influenced by directors' ownership. Therefore, these results partially confirms the findings of scholars who argue that directors' ownership positively influences firm performance (e.g. Han & Suk (1998); Kaserer & Moldenhauer (2008)) and directors' ownership influences firm performance in curvilinear way (McConnell & Servaes (1990) and hence rejects Hypothesis 1 that directors' ownership influences firm performance in an inverted U-shaped relationship in the case of Germany.

C. 2. *Case of the United Kingdom*

Below is the table of regression result when ROA is used as dependent variable:

Table 6: Regression result of the relationship between directors' ownership and ROA in the United Kingdom

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-3,987	1,756		-2,270	,024		
	DO_c	,025	,102	,017	,250	,803	1,000	1,000
2	(Constant)	-4,603	2,463		-1,869	,063		
	DO_c	-,063	,266	-,042	-,235	,815	,146	6,829
	DO_c_sq	,002	,006	,064	,357	,721	,146	6,829

a. Dependent Variable: Return On Assets

Table 6 shows that the p value of directors' ownership is greater than α value (0.721 > 0.05), so directors' ownership does not significantly influence ROA of firms in the United Kingdom. Below is the table of regression result with MTB ratio as dependent variable.

Table 7: Regression result of the relationship between directors' ownership and MTB ratio in the United Kingdom

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,113	,859		1,296	,197		
	DO_c	-,008	,050	-,011	-,164	,870	1,000	1,000
2	(Constant)	,586	1,204		,487	,627		
	DO_c	-,083	,130	-,115	-,641	,522	,146	6,829
	DO_c_sq	,002	,003	,112	,626	,532	,146	6,829

a. Dependent Variable: Market-to-Book Ratio

The p values of directors' ownership showed in Table 7 (0.532) is greater than α value (0.05). This means that directors' ownership also does not significantly influence MTB ratio of firms in the United Kingdom. Therefore, this result contradicts the findings of scholars who argue that directors' ownership positively influences firm performance (e.g. Han & Suk (1998); Kaserer & Moldenhauer (2008)) and directors' ownership influences firm performance in curvilinear way (McConnell & Servaes (1990) and hence rejects Hypothesis 1 that directors' ownership influences firm performance in an inverted U-shaped relationship in the case of the United Kingdom.

C. 3. *Case of Indonesia*

Below is the table of regression results when ROA is used as dependent variable.

Table 8: Regression result of the relationship between directors' ownership and ROA in Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	6,611	,606		10,904	,000		
	DO_c	-,083	,051	-,111	-1,633	,104	1,000	1,000
2	(Constant)	6,888	,683		10,077	,000		
	DO_c	,015	,123	,019	,119	,905	,174	5,760
	DO_c_sq	-,002	,002	-,144	-,879	,380	,174	5,760

a. Dependent Variable: Return On Assets

Table 8 shows the p value of directors' ownership is greater than α value (0.38 > 0.05), so directors' ownership does not significantly influence ROA of firms in Indonesia. Below is the table of regression result with MTB ratio as dependent variable.

Table 9: Regression result of the relationship between directors' ownership and MTB ratio in Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,501	,113		13,279	,000		
	DO_c	-,019	,010	-,135	-1,984	,049	1,000	1,000
2	(Constant)	1,460	,127		11,451	,000		
	DO_c	-,033	,023	-,237	-1,455	,147	,174	5,760
	DO_c_sq	,000	,000	,113	,693	,489	,174	5,760

a. Dependent Variable: Market-to-Book Ratio

The p value of directors' ownership showed in Table 9 (0.489) is greater than α value (0.05). This means that directors' ownership also does not significantly influence MTB ratio of firms in Indonesia. Therefore this result contradicts the findings of scholars who argue that directors' ownership positively influences firm performance (e.g. Han & Suk (1998); Kaserer & Moldenhauer (2008)) and directors' ownership influences firm performance in curvilinear way (McConnell & Servaes (1990) and hence rejects Hypothesis 1 that directors' ownership influences firm performance in an inverted U-shaped relationship in the case of Indonesia.

C. 4. *Case of Germany & Indonesia*

Since both Germany and Indonesia have dual board system, I decide to do regression analysis with combined samples of these countries to see whether the influence of directors' ownership on firm performance with such sample group is similar with that of Germany and Indonesia. Below are the tables of such regression analysis.

Table 10: Regression result of the relationship between directors' ownership and ROA in Germany and Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4,524	,536		8,444	,000		
	DO_c	,080	,034	,113	2,356	,019	1,000	1,000
2	(Constant)	3,637	,734		4,956	,000		
	DO_c	-,041	,076	-,058	-,537	,592	,195	5,116
	DO_c_sq	,003	,002	,191	1,763	,079	,195	5,116

Table 11: Regression result of the relationship between directors' ownership and MTB ratio in Germany and Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	5,398	3,771		1,432	,153		
	DO_c	,104	,238	,021	,438	,661	1,000	1,000
2	(Constant)	10,429	5,171		2,017	,044		
	DO_c	,790	,538	,160	1,467	,143	,195	5,116
	DO_c_sq	-,018	,013	-,155	-1,420	,156	,195	5,116

a. Dependent Variable: Market-to-Book Ratio

The p values of directors' ownership showed in Tables 10 and 11 are greater than α value (0.05) (0.079 when dependent variable is ROA and 0.156 when dependent variable is MTB ratio). This means that directors' ownership does not significantly influence ROA and MTB ratio of firms in Germany and Indonesia when the samples are combined, therefore this result is similar with that of Indonesia but slightly different from that of Germany.

The results of analysis using combined samples of Germany and Indonesia contradict the findings of scholars who argue that directors' ownership positively influences firm performance (e.g. Han & Suk (1998); Kaserer & Moldenhauer (2008)) and directors' ownership influences firm performance in curvilinear way (McConnell & Servaes (1990). Therefore, Hypothesis 1 that directors' ownership influences firm performance in an inverted U-shaped relationship in Germany and Indonesia is also rejected when the samples of two observed countries are combined in the regression analysis.

D. Shareholder Protection

In order to do a moderation analysis to investigate the moderating effect of shareholders protection on the relationship between ownership concentration and firm performance, a moderating variable is created by multiplying the values of ownership concentration and shareholders protection. The analysis is conducted using joint samples of Germany, the United Kingdom, and Indonesia because it cannot be conducted on separate samples due to static values of shareholders protection of each country throughout the observation period. Below is the table of the moderation analysis when ROA is used as dependent variable:

Table 12: Regression result of the relationship between ownership concentration and ROA with shareholders protection as moderator variable

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7,248	6,221		1,165	,244
	Ownership Concentration	,065	,094	,081	,694	,488
	Shareholders Protection	-4,186	2,817	-,192	-1,486	,138
	Moderator	-,008	,048	-,020	-,165	,869

a. Dependent Variable: Return On Assets

Table 13: Regression result of the relationship between ownership concentration and MTB ratio with shareholders protection as moderator variable

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7,721	23,054		,335	,738
	Ownership Concentration	-,111	,347	-,039	-,321	,748
	Shareholders Protection	-6,216	10,440	-,079	-,595	,552
	Moderator	,146	,178	,104	,820	,412

a. Dependent Variable: Market-to-Book Ratio

The p values of moderator variable showed in Tables 12 and 13 are 0.869 (for ROA) and 0.412 (for MTB ratio). Because both p values are more than α value (0.05), it cannot be

confirmed whether shareholders protection moderates the influence of ownership concentration on firm performance. Therefore this result contradicts the findings of Heugens et al. (2009) who argued that ownership concentration can positively affect corporate performance in countries lacking legal protection of shareholders and hence rejects Hypothesis 2 that the strength of shareholder protection negatively influences the relationship between ownership concentration and firm performance in Germany, the United Kingdom and Indonesia.

D. 1. *Case of Germany & Indonesia*

When the regression analysis uses the combined samples of three countries, the moderation effect of shareholder protection on the relationship between ownership concentration and firm performance cannot be confirmed. Next, the regression analysis will use the combined samples of Germany and Indonesia. The reason behind this sample combination is that the corporate ownership in Germany and Indonesia is concentrated, so it is interesting to see whether the effect of shareholder protection on the relationship between ownership concentration and firm performance with such sample group is similar with the result of analysis using combined samples of Germany, the United Kingdom and Indonesia.

Table 14: Regression result of the relationship between ownership concentration and ROA in Germany and Indonesia with shareholders protection as moderator variable

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,425	6,188		,715	,475
	Ownership Concentration	,069	,087	,147	,798	,425
	Shareholders Protection	-2,839	3,437	-,127	-,826	,409
	Moderator	,001	,051	,005	,027	,979

a. Dependent Variable: Return On Assets

Table 15: Regression result of the relationship between ownership concentration and MTB ratio in Germany and Indonesia with shareholders protection as moderator variable

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11,561	44,326		,261	,794
	Ownership Concentration	-,371	,622	-,113	-,595	,552
	Shareholders Protection	-11,071	24,618	-,071	-,450	,653
	Moderator	,385	,368	,189	1,046	,296

a. Dependent Variable: Market-to-Book Ratio

As can be seen on Tables 14 and 15, the p value of moderator variables are greater than α value 0.05 (0.979 when using ROA as firm performance measure and 0.296 when using MTB ratio as firm performance measure). This means that shareholder protection is not proven to moderate the influence of ownership concentration on ROA and MTB ratio, and hence Hypothesis 2 is also rejected when the regression analysis uses the combined samples of Germany and Indonesia.

E. Ownership Concentration

Ownership concentration in this research is measured in the sum of shares ownership of five largest shareholders in percentage. In average, the firms listed on the Frankfurt Stock Exchange have 49.38% of ownership concentration. The highest average ownership concentration occurred in 2010 (51.47%) and 2008 was the year when these firms have the lowest average of ownership concentration (47.42%). For the firms listed on the London Stock Exchange, the average ownership concentration is 44.42%. The lowest average ownership concentration occurred in 2011 (43.6%) and the highest occurred in 2010 (45.06%). Meanwhile, the firms listed on the Indonesia Stock Exchange have an average ownership concentration of 71.07%. The lowest average of ownership concentration occurred in 2008 (69.86%) and the highest occurred in 2011 (72.19%). These figures show that the firms listed on the Indonesia Stock Exchange are the firms with the highest ownership concentration between 2008 and 2012.

The relationship between ownership concentration and firm performance in Germany, the United Kingdom and Indonesia will be investigated below.

E. 1. *Case of Germany*

Table 16: Regression result of the relationship between corporate governance variables and ROA in Germany

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-7,497	2,423		-3,095	,002
	Directors' Ownership	,180	,055	,262	3,260	,001
	Executive Remuneration	,004	,001	,251	3,474	,001
	Codetermination	,106	,052	,145	2,050	,042
	Ownership Concentration	,053	,035	,099	1,508	,133
	Family Ownership	,013	,051	,020	,249	,804
	Total Assets	-,007	,004	-,119	-1,593	,113
	Sales Growth	,110	,030	,235	3,724	,000
	Former Executives Serving as Non-Executive Directors	1,195	1,865	,041	,641	,522

a. Dependent Variable: Return On Assets

On Table 16, we can see that the p value of ownership concentration (0.113) is greater than α value (0.05). Therefore, ownership concentration does not significantly influence ROA of firms in Germany. Table 1 in Appendix shows that the value of R square is 0.214, meaning that 21.4% of the variation of ROA can be explained by independent variables in the model and 78.6% of it is explained by other variables not included in the model. On the other hand, the influence of directors' ownership on ROA of firms in Germany is positive and significant, although the relationship is not in inverted U-shaped curve as proposed in Hypothesis 1.

Table 16 also shows that sales growth significantly and positively influences ROA. To further investigate such influence, I divide the sample of firms in Germany according to their sales growth and then conduct the regression analysis using samples of growing and non-growing firms. Firms with sales growth above average fall into growing firms category, and

those with sales growth below average fall into non-growing firms category. The average sales growth of firms in Germany is 3.39%. Below are the tables of the regression analysis.

Table 17: Regression result of the relationship between corporate governance variables and ROA in Germany (growing firms, 94 observations):

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,634	3,147		-,201	,841
	Directors' Ownership	,069	,059	,154	1,169	,246
	Executive Remuneration	,004	,001	,326	2,763	,007
	Codetermination	,054	,065	,096	,831	,408
	Ownership Concentration	,020	,045	,050	,447	,656
	Family Ownership	,072	,054	,170	1,337	,185
	Total Assets	-,008	,005	-,187	-1,510	,135
	Sales Growth	,024	,030	,078	,780	,438
	Former Executives Serving as Non-Executive Directors	1,207	2,458	,050	,491	,625

a. Dependent Variable: Return On Assets

Table 18: Regression result of the relationship between corporate governance variables and ROA in Germany (non-growing firms, 121 observations):

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-8,505	3,842		-2,214	,029
	Directors' Ownership	,314	,090	,363	3,483	,001
	Executive Remuneration	,003	,002	,158	1,559	,122
	Codetermination	,155	,075	,193	2,060	,042
	Ownership Concentration	,063	,052	,108	1,225	,223
	Family Ownership	-,037	,084	-,045	-,434	,665
	Total Assets	-,004	,007	-,068	-,677	,500
	Sales Growth	,275	,097	,244	2,832	,005
	Former Executives Serving as Non-Executive Directors	2,199	2,625	,072	,838	,404

a. Dependent Variable: Return On Assets

It appears on Tables 17 and 18 that ownership concentration does not significantly influence ROA of growing and non-growing firms in Germany. However, sales growth positively and significantly influences ROA of non-growing firms in Germany. This shows that non-growing firms in Germany are more sensitive to the sales fuctuation in terms of the relationship between sales growth and ROA.

Table 19: Regression result of the relationship between corporate governance variables and MTB ratio in Germany

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,768	23,618		,202	,840
	Directors' Ownership	-,283	,538	-,047	-,525	,600
	Executive Remuneration	-,006	,012	-,040	-,492	,623
	Codetermination	-,297	,504	-,047	-,590	,556
	Ownership Concentration	,350	,344	,075	1,018	,310
	Family Ownership	,329	,499	,058	,658	,511
	Total Assets	-,003	,042	-,006	-,072	,943
	Sales Growth	-,090	,288	-,022	-,312	,755
	Former Executives Serving as Non-Executive Directors	-7,984	18,182	-,031	-,439	,661

a. Dependent Variable: Market-to-Book Ratio

On Table 19, we can see that the p value of ownership concentration (0.31) is greater than α value (0.05). Therefore, ownership concentration does not significantly influence MTB ratio of firms in Germany.

Table 2 in Appendix shows that R-squared of regression analysis when using market-to-book ratio as firm performance measure is 1.5%, meaning that only 1.5% variation of market-to-book ratio of firms in Germany can be explained by the independent variables while 98.5% of the variation is explained by other variables not included in the model.

It can be seen from the results above that ownership concentration in Germany has no influence on firm performance. It is interesting to see whether the same situation occurs when the regression analysis is conducted using individual samples from each observation year.

When the regression analysis is conducted with individual samples from each observation year, ownership concentration does not significantly influence both ROA and MTB ratio from 2008 to 2012. The detailed analysis of this regression analysis is presented in the Tables 53-62 in the Appendix.

From the results of regression analysis above, it can be seen that ownership concentration does not significantly influence firm performance (return on assets and market-to-book ratio) both in combined and individual samples. Therefore, this result contradicts the findings of scholars who argue that ownership concentration or more concentrated ownership improves firm performance (e.g Shleifer & Vishny (1986); Claessens & Djankov (1999); Xu & Wang (1999)) and hence rejects Hypothesis 3 that ownership concentration positively influences firm performance in the case of Germany.

E. 2. *Case of Indonesia*

Table 20: Regression results of the relationship between corporate governance variables and ROA in Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,029	2,660		,387	,699
	Directors' Ownership	-,093	,051	-,123	-1,832	,068
	Executive Remuneration	,000	,000	,179	1,686	,093
	Ownership Concentration	,058	,035	,120	1,686	,093
	Family Ownership	,071	,062	,079	1,148	,252
	Total Assets	-,001	,005	-,027	-,251	,802
	Sales Growth	,085	,022	,253	3,827	,000
	Former Executives Serving as Non Executive Directors	-2,026	1,279	-,109	-1,584	,115

a. Dependent Variable: Return On Assets

On Table 20, we can see that the p value of ownership concentration (0.093) is greater than α value (0.05). Therefore, ownership concentration only marginally significantly influence ROA of firms in Indonesia. Table 5 in Appendix shows that the value of R square is

0.133, meaning that 13.3% of the variation of ROA can be explained by independent variables in the model and 86.7% of it is explained by other variables not included in the model.

Table 20 also shows that sales growth significantly and positively influences return on assets. To further investigate such influence, I divide the sample of firms in Indonesia according to their sales growth and then conduct the regression using samples of growing and non-growing firms. Firms with sales growth above average fall into growing firms category, and those with sales growth below average fall into non-growing firms category. The average sales growth of firms in Indonesia in this research is 12.65%. Below are the tables of the regression analysis.

Table 21: Regression results of the relationship between corporate governance variables and ROA of growing firms in Indonesia (101 observations):

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,271	3,083		1,710	,091
	Directors' Ownership	-,161	,064	-,245	-2,496	,014
	Executive Remuneration	-7,768E-5	,000	-,116	-,719	,474
	Ownership Concentration	,077	,041	,204	1,868	,065
	Family Ownership	,060	,068	,087	,880	,381
	Total Assets	,011	,006	,326	2,015	,047
	Sales Growth	-,058	,035	-,167	-1,662	,100
	Former Executives Serving as Non-Executive Directors	-2,578	1,516	-,173	-1,700	,093

a. Dependent Variable: Return On Assets

Table 22: Regression results of the relationship between corporate governance variables and ROA in non-growing firms in Indonesia (114 observations):

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,130	4,129		,274	,785
	Directors' Ownership	-,092	,071	-,117	-1,296	,198
	Executive Remuneration	,000	,000	,317	2,241	,027
	Ownership Concentration	,070	,052	,125	1,360	,177
	Family Ownership	,125	,101	,119	1,240	,218
	Total Assets	-,012	,008	-,228	-1,605	,111
	Sales Growth	,261	,059	,385	4,441	,000
	Former Executives Serving as Non-Executive Directors	-2,596	1,931	-,126	-1,344	,182

a. Dependent Variable: Return On Assets

It appears on Tables 21 and 22 that ownership concentration does not significantly influence ROA of growing and non-growing firms in Indonesia. However, for growing firms, directors ownership negatively and significantly influences ROA, while total assets positively and significantly influences the same performance measure.

Ownership concentration also does not significantly influence ROA of non-growing firms in Indonesia. However, sales growth significantly and positively influences their ROA. This is similar to non-growing firms in Germany where the firms are more sensitive to the change of total assets in terms of the relationship between total assets and ROA.

The following table shows the regression results for MTB ratio.

Table 23: Regression results of the relationship between corporate governance and MTB ratio in Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,150	,484		-,310	,757
	Directors' Ownership	-,014	,009	-,097	-1,489	,138
	Executive Remuneration	-8,342E-6	,000	-,052	-,498	,619
	Ownership Concentration	,018	,006	,197	2,841	,005
	Family Ownership	-,001	,011	-,007	-,110	,913
	Total Assets	,003	,001	,386	3,663	,000
	Sales Growth	,006	,004	,098	1,529	,128
	Former Executives Serving as Non Executive Directors	-,207	,233	-,060	-,891	,374

a. Dependent Variable: Market-to-Book Ratio

On Table 23, it can be seen that the p value of ownership concentration (0.005) is smaller than α value (0.05). This means that ownership concentration positively and significantly influences market-to-book ratio for firms in Indonesia. Table 6 in Appendix shows that the value of R square is 0.179, meaning that 17.9% of the variation of market-to-book ratio can be explained by independent variables in the model and 81.9% of it is explained by other variables not included in the model.

Table 23 also shows that total assets significantly and positively influences MTB ratio of firms in Indonesia. To further investigate such influence, I divide the sample of firms in Indonesia according to their total assets and then conduct the regression using samples of large and small firms. Firms with total assets above average fall into large firms category, and those with total assets below average fall into small firms category. The average total assets of firms in Indonesia in this research is 157.74 million US dollars. Below are the tables of the regression analysis.

Table 24: Regression results of the relationship between corporate governance variables and MTB ratio in Indonesia (large firms, 69 observations):

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,374	,793		,472	,639
	Directors' Ownership	-,031	,055	-,079	-,569	,571
	Executive Remuneration	-7,162E-6	,000	-,059	-,385	,702
	Ownership Concentration	,002	,009	,028	,239	,812
	Family Ownership	,028	,036	,117	,785	,435
	Total Assets	,003	,001	,442	2,659	,010
	Sales Growth	-,012	,006	-,211	-2,030	,047
	Former Executives Serving as Non-Executive Directors	1,204	,427	,359	2,818	,006

a. Dependent Variable: Market-to-Book Ratio

Table 25: Regression results of the relationship between corporate governance variables and MTB ratio in Indonesia (small firms, 146 observations):

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,148	,634		-,234	,816
	Directors' Ownership	-,021	,009	-,179	-2,349	,020
	Executive Remuneration	1,607E-5	,000	,045	,495	,622
	Ownership Concentration	,025	,008	,260	3,223	,002
	Family Ownership	-,007	,011	-,048	-,625	,533
	Total Assets	-,003	,004	-,075	-,846	,399
	Sales Growth	,014	,005	,212	2,841	,005
	Former Executives Serving as Non-Executive Directors	-,813	,273	-,237	-2,981	,003

a. Dependent Variable: Market-to-Book Ratio

It appears on Table 24 that ownership concentration does not significantly influence MTB ratio of large firms in Indonesia. However, this particular performance measure is sensitive to changes in total assets, sales growth, and former executives serving as non-executive directors. On the other hand, ownership concentration along with sales growth

significantly and positively influence MTB ratio of small firms in Indonesia as shown in Table 25. Directors' ownership and former executives serving as non-executive directors also significantly influence market-to-book ratio, but the influence is negative.

On the last two tables we can see that ownership concentration (generally) positively and significantly influences firm performance for firms in Indonesia when the samples from 2008 to 2012 are used in the regression analysis. It is interesting to see whether the similar result will occur if the analysis is conducted separately for each observation year.

From 2008 to 2012, ownership concentration only had (marginally) significant effect only on market-to-book ratio in 2009 and 2011. The detailed analysis can be seen in Tables 63-72 in the Appendix.

From the results of regression above, it can be seen that ownership concentration only positively and significantly influences MTB ratio when the regression is conducted on samples from 2008 to 2012. When the regression analysis is conducted separately on each observation year, the significant influence of ownership concentration on firm performance did not exist. The relationship between ownership concentration and firm performance is not uniform, so this result partially confirms the findings of scholars who argue that ownership concentration or more concentrated ownership improves firm performance (e.g Shleifer & Vishny (1986); Claessens & Djankov (1999); Xu & Wang (1999)) and hence partially accepts Hypothesis 3 that ownership concentration positively influences firm performance in Indonesia.

E. 3. *Case of Germany and Indonesia*

As we have already seen on the results above when the analysis is conducted separately for both countries, the regression analysis on firms in Germany shows nonsignificance of relationship between ownership concentration and firm performance. In the context of Indonesia, such relationship is nonmonotonous. Since corporate ownership in Germany and Indonesia is concentrated, it is interesting to see whether the similar result occurs when the regression analysis is conducted using combined samples of firms in both countries.

In conducting the regression analysis using the joint samples of firms in Germany and Indonesia, the codetermination variable is excluded from the analysis due to the absence of

this variable in Indonesian context. In addition, the new variable, executive remuneration in US dollars is introduced in the analysis to substitute executive remuneration to uniformise the measurement of this variable of firms in both countries. Two country dummy variables (Germany and Indonesia) are also introduced in the model. When samples of Germany and Indonesia are pooled into one sample group, the regression results are as follows:

Table 26: Regression results of the relationship between corporate governance variables and ROA in Germany and Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1,231	2,005		-,614	,539
	Directors' Ownership	,056	,037	,079	1,511	,131
	Ownership Concentration	,066	,024	,140	2,746	,006
	Family Ownership	,054	,037	,077	1,471	,142
	Total Assets	-,001	,003	-,028	-,514	,608
	Sales Growth	,097	,019	,237	5,191	,000
	Former Executives Serving as Non Executive Directors	-,432	1,103	-,018	-,392	,696
	Executive Remuneration in US dollars	,002	,001	,212	3,732	,000
	Germany	-4,266	1,237	-,191	-3,449	,001

a. Dependent Variable: Return On Assets

Table 26 shows that the p value of ownership concentration (0.006) is smaller than α value (0.05), meaning that ownership concentration significantly and positively influences ROA for firms in Germany and Indonesia. Table 7 in the Appendix shows that the value of R square is 0.173, meaning that 17.3% of the variation of ROA can be explained by independent variables in the model and 82.7% of it is explained by other variables not included in the model. In addition, the T-test results show that the country dummy variable (Germany) is significant (0.001), meaning that the difference between Germany and Indonesia in terms of corporate governance is significant.

Another interesting finding from the above table is the significance of sales growth's influence. In order to further investigate the influence of sales growth on ROA of firms in Germany and Indonesia, I divide the combined samples of firms in Germany and Indonesia according to their sales growth and then conduct the regression using samples of growing and

non-growing firms. Firms with sales growth above average fall into growing firms category, and those with sales growth below average fall into non-growing firms category. Average sales growth of firms in Germany and Indonesia are 3.39% and 12.65% respectively. Below are the tables of the regression analysis.

Table 27: Regression results of the relationship between corporate governance variables and ROA of firms in Germany and Indonesia (growing firms, 195 observations):

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,712	2,065		,345	,731
	Directors' Ownership	-,017	,041	-,035	-,411	,681
	Ownership Concentration	,032	,029	,091	1,118	,265
	Family Ownership	,097	,040	,205	2,436	,016
	Total Assets	,001	,003	,023	,281	,779
	Sales Growth	,001	,023	,005	,063	,950
	Former Executives Serving as Non Executive Directors	-,753	1,376	-,041	-,547	,585
	Executive Remuneration in US dollars	,002	,001	,197	2,236	,027
	Indonesia	4,184	1,490	,254	2,809	,005

a. Dependent Variable: Return On Assets

Table 28: Regression results of the relationship between corporate governance variables and ROA of firms in Germany and Indonesia (non-growing firms of Germany and Indonesia, 235 observations)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6,480	2,644		-2,451	,015
	Directors' Ownership	,116	,057	,137	2,027	,044
	Ownership Concentration	,090	,036	,172	2,492	,013
	Family Ownership	,018	,059	,020	,298	,766
	Total Assets	-,003	,005	-,050	-,643	,521
	Sales Growth	,245	,055	,268	4,409	,000
	Former Executives Serving as Non Executive Directors	-,021	1,596	-,001	-,013	,990
	Executive Remuneration in US dollars	,002	,001	,197	2,469	,014
	Indonesia	4,051	1,823	,161	2,222	,027

a. Dependent Variable: Return On Assets

It appears on Table 27 that ownership concentration does not significantly influence ROA of growing firms in Germany and Indonesia. However, this particular performance measure is sensitive to changes in family ownership level and executive remuneration. On the other hand, ownership concentration as well as directors' ownership, sales growth and executive remuneration significantly and positively influence ROA of non-growing firms in Germany and Indonesia as shown in Table 28. In addition, the T-test results show that the country dummy variable (Indonesia) is significant (0.005 and 0.027), meaning that the difference between Germany and Indonesia in terms of corporate governance of growing and non-growing firms is significant.

Next, the regression analysis on firms in Germany and Indonesia with MTB ratio as firm performance measure will be conducted.

Table 29: Regression results of the relationship between corporate governance variables and MTB ratio of firms in Germany and Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11,157	15,341		-,727	,467
	Directors' Ownership	-,122	,281	-,025	-,433	,665
	Ownership Concentration	,228	,184	,069	1,241	,215
	Family Ownership	,267	,282	,054	,949	,343
	Total Assets	-,002	,022	-,006	-,095	,925
	Sales Growth	-,035	,143	-,012	-,248	,804
	Former Executives Serving as Non Executive Directors	-2,890	8,436	-,017	-,343	,732
	Executive Remuneration in US dollars	-,003	,005	-,037	-,594	,553
	Germany	13,038	9,463	,084	1,378	,169

a. Dependent Variable: Market-to-Book Ratio

Table 29 shows that the p value of ownership concentration (0.215) is greater than α value (0.05), meaning that ownership concentration does not significantly influence MTB ratio for firms in Germany and Indonesia. Table 8 in the Appendix shows that the value of R square is 0.011, meaning that 1.1% of the variation of market-to-book ratio can be explained by independent variables in the model and 98.9% of it is explained by other variables not included in the model. In addition, the T-test results show that the country dummy variable (Germany) is insignificant (0.169), meaning that the difference between Germany and Indonesia in terms of corporate governance is insignificant.

Therefore it can be concluded that when the samples of firms in Germany and Indonesia are pooled into one group of sample, ownership concentration positively and significantly influences ROA (except for growing firms) but not MTB ratio. It is interesting to see whether the regression analysis on individual samples between 2008 and 2012 will also produce the similar result.

When the regression analysis is conducted with individual samples from each observation year, ownership concentration positively and significantly influences ROA in 2009 and 2010. MTB ratio is not significantly influenced by ownership concentration. The detailed analysis of this regression analysis is presented in Tables 73-82 in the Appendix.

The results above show that when the samples of firms in Germany and Indonesia are pooled into one sample group, ownership concentration only significantly and positively influences ROA, except for growing firms and all firms in 2008, 2011 and 2012. Therefore, these results also partially confirms the findings of scholars who argue that ownership concentration or more concentrated ownership improves firm performance (e.g Shleifer & Vishny (1986); Claessens & Djankov (1999); Xu & Wang (1999)) and hence partially accepts Hypothesis 3 that ownership concentration positively influences firm performance in Germany and Indonesia.

E. 4. *Case of the United Kingdom*

The following tables show the regression results for ROA and MTB ratio of firms in the United Kingdom.

Table 30: Regression results of the relationship between corporate governance variables and ROA of firms in the United Kingdom

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-29,815	9,937		-3,000	,003
	Directors' Ownership	,003	,117	,002	,030	,976
	Executive Remuneration	,012	,004	,230	2,719	,007
	CEO-Chair Separation	4,777	7,353	,047	,650	,517
	Ownership Concentration	,088	,151	,047	,580	,562
	Family Ownership	,452	,135	,248	3,352	,001
	Total Assets	,025	,011	,204	2,314	,022
	Sales Growth	,001	,005	,008	,114	,910
	Former Executives Serving as Non-Executive Directors	5,907	4,816	,080	1,226	,221

a. Dependent Variable: Return On Assets

Table 30 shows that the p value of ownership concentration (0.562) is greater than α value (0.05), which means that ownership concentration does not significantly influence ROA of firms in the United Kingdom. Table 3 in the Appendix shows that the value of R square is 0.158, meaning that 15.8% of the variation of ROA can be explained by independent variables in the model and 84.2% of it is explained by other variables not included in the model.

An interesting finding from Table 30 is the significance of total assets' influence. In order to further investigate the influence of total assets on ROA of firms in the United Kingdom, I divide the samples of firms in the country according to their total assets and then conduct the regression using samples of small and large firms. Firms with total assets above average fall into large firms category, and those with total assets below average fall into small firms category. The average total assets of firms in the United Kingdom is 165.21 million US dollars. Below are the tables of the regression analysis.

Table 31: Regression results of the relationship between corporate governance variables and ROA of small firms in the United Kingdom (164 observations)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-36,909	10,965		-3,366	,001
	Directors' Ownership	,011	,128	,008	,086	,931
	Executive Remuneration	,004	,006	,056	,647	,518
	CEO-Chair Separation	4,796	7,848	,050	,611	,542
	Ownership Concentration	,105	,177	,052	,592	,555
	Family Ownership	,545	,147	,302	3,698	,000
	Total Assets	,226	,053	,382	4,259	,000
	Sales Growth	,001	,005	,015	,196	,845
	Former Executives Serving as Non-Executive Directors	-2,381	5,584	-,033	-,426	,670

a. Dependent Variable: Return on Assets

Table 32: Regression results of the relationship between corporate governance variables and ROA of large firms in the United Kingdom (51 observations):

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19,185	9,308		2,061	,045
	Directors' Ownership	-,333	,322	-,110	-1,035	,306
	Executive Remuneration	,001	,003	,025	,234	,816
	Ownership Concentration	-,375	,159	-,272	-2,353	,023
	Family Ownership	-,711	,414	-,192	-1,718	,093
	Total Assets	,004	,009	,050	,476	,636
	Sales Growth	,447	,085	,583	5,223	,000

a. Dependent Variable: Return on Assets

It appears on Table 31 that ownership concentration does not significantly influence ROA of small firms in the United Kingdom. However, this particular performance measure is sensitive to changes in family ownership level and total assets.

Due to static values of coefficients of CEO-chair separation and former executives serving as non-executive directors, these two variables are excluded from Table 32. Ownership concentration as well as family ownership significantly and negatively influence ROA of large firms in the United Kingdom. Sales growth in the United Kingdom also significantly influences ROA, and the influence is positive.

The following table shows the regression analysis with MTB ratio as firm performance measure.

Table 33: Regression results of the relationship between corporate governance variables and MTB ratio of firms in the United Kingdom

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3,083	5,278		,584	,560
	Directors' Ownership	,027	,062	,037	,437	,663
	Executive Remuneration	,001	,002	,044	,482	,630
	CEO-Chair Separation	-,484	3,905	-,010	-,124	,901
	Ownership Concentration	-,056	,080	-,062	-,696	,487
	Family Ownership	-,032	,072	-,036	-,451	,652
	Total Assets	5,968E-5	,006	,001	,010	,992
	Sales Growth	,000	,003	,006	,076	,939
	Former Executives Serving as Non-Executive Directors	1,129	2,558	,031	,441	,659

a. Dependent Variable: Market-to-Book Ratio

Table 33 shows that the p value of ownership concentration (0.487) is greater than α value (0.05), which means that ownership concentration does not significantly influence MTB ratio of firms in the United Kingdom. Therefore, both ROA and MTB ratio of firms in the United Kingdom are not significantly influenced by ownership concentration (except large firms which are negatively and significantly influenced by ownership concentration). Table 4 in the Appendix shows that the value of R square is 0.008, meaning that only 0.8% of the variation of MTB ratio can be explained by independent variables in the model and 99.2% of it is explained by other variables not included in the model. This extremely low R square indicates that the independent variables are not relevant in describing the influence of corporate governance and MTB ratio.

When the regression analysis is conducted with individual samples from each observation year, ownership concentration positively and (marginally) significantly influences ROA only in 2008. MTB ratio is significantly and negatively influenced by ownership concentration in 2008, 2009, 2010 and 2011. The detailed analysis of this regression analysis is presented in Tables 83-92 in the Appendix.

From the above results, it can be seen that there is nonmonotonous relationship between ownership concentration and firm performance of firms in the United Kingdom. Therefore, these results contadicts the findings of scholars who argue that ownership

concentration or more concentrated ownership improves firm performance (e.g Shleifer & Vishny (1986); Claessens & Djankov (1999); Xu & Wang (1999)) and hence rejects Hypothesis 4 that ownership concentration does not significantly influence firm performance in the United Kingdom.

F. Executive Remuneration

Executive remuneration in this research is defined as the remuneration rewarded to executive directors (management board in Germany and board of directors in Indonesia). In average, the firms listed on the Frankfurt Stock Exchange reward the members of management board in the amount of 1,147,281.5 Euros. The highest average executive remuneration was expended in 2011 (€1,222,732) and 2009 was the year when these firms have expended the lowest average executive remuneration (€1,012,363). For the firms listed on the London Stock Exchange, the average executive remuneration is 736,805 British pounds. The lowest average executive remuneration was expended in 2008 (GBP 648,882.1) and the highest was expended in 2012 (GBP 822,461.4). Meanwhile, the firms listed on the Indonesia Stock Exchange expended 9,122,036,200 Indonesian rupiahs for executive remuneration in average. The lowest average executive remuneration was expended in 2009 (IDR 7,038,474,000) and the highest was expended in 2012 (IDR 11,909,970,000).

The relationship between executive remuneration and firm performance in Germany, the United Kingdom and Indonesia will be investigated below.

F. 1. *Case of Germany*

The relationship between executive remuneration and firm performance of the firms in Germany can be seen in Table 16 (for ROA) and Table 19 (for MTB ratio). When using ROA as firm performance measure, the p value of executive remuneration (0.001) is smaller than α value (0.05), meaning that executive remuneration significantly influences ROA. Executive remuneration's coefficient value is positive (0.004), so it positively influences ROA. When using MTB ratio as firm performance measure, the p value of executive remuneration (0.623) is greater than α value (0.05), meaning that executive remuneration does not significantly influence MTB ratio.

The results mentioned above reveal the significance of influence of executive remuneration on ROA and the nonsignificance of its influence on MTB ratio when the regression analysis is conducted using samples from 2008 to 2012. It is interesting to see whether the similar result occurs when the analysis is conducted on individual years from the same period.

When the regression analysis is conducted with samples from individual observation year, executive remuneration only (marginally) positively and significantly influences MTB ratio in 2011. The detailed analysis of this regression analysis is presented in Tables 53-62 in the Appendix.

As the sales growth significantly influences ROA of firms in Germany, it is interesting to see how the influence of executive remuneration on ROA of growing and non-growing firms in this country. Table 17 shows that executive remuneration of growing firms in Germany significantly and positively influences ROA (p value = 0.007; coefficient = 0.004). On the contrary, as Table 18 has shown, executive remuneration does not significantly influence ROA of non-growing firms (p value = 0.122).

From the results of regression analysis above, it can be seen that the influence of executive remuneration on firm performance of firms in Germany appears only when ROA is used as the performance measure. Since the results are non-monotonous, they partially confirm the findings of scholars who argue that executive remuneration is positively related with firm performance (e.g Murphy (1985); Cosh & Hughes (1997)) and hence partially accept Hypothesis 5 that executive remuneration positively influences firm performance in the case of Germany.

F. 2. *Case of the United Kingdom*

The relationship between executive remuneration and firm performance of the firms in the United Kingdom can be seen in Table 30 (for ROA) and Table 33 (for MTB ratio). When using ROA as firm performance measure, the p value of executive remuneration (0.007) is smaller than α value (0.05), meaning that executive remuneration significantly influences ROA. Executive remuneration's coefficient value is positive (0.012), so it positively influences ROA. When using MTB ratio as firm performance measure, the p value of executive remuneration (0.63) is greater than α value (0.05), meaning that executive remuneration does not significantly influence MTB ratio.

The results above are similar with the results of the analysis on the firms in Germany where the relationship between executive remuneration and firm performance depends on the firm performance measure used in the analysis. Executive remuneration of firms in the United Kingdom positively and significantly influences ROA but does not significantly influence MTB ratio. It is interesting to see whether the similar result occurs when the analysis is conducted separately on individual samples from 2008 to 2012.

When the regression analysis is conducted with individual samples from each observation year, executive remuneration does not significantly influence firm performance in the entire observation period on firms in the United Kingdom. The detailed analysis of this regression analysis is presented in Tables 83-92 in the Appendix.

Table 30 also shows that total assets significantly influences ROA of firms in the United Kingdom. In order to know further the influence of executive remuneration on ROA of small and large firms, we can see in Tables 31 and 32 that executive remuneration of small and large firms in the United Kingdom does not significantly influence ROA (p values = 0.518 and 0.816 respectively).

The results above reveal that executive remuneration (generally) significantly and positively influences only ROA of firms in the United Kingdom. The regression analysis on individual observation years shows nonsignificance of influence of executive remuneration on firm performance. Because the significant positive influence of executive remuneration does not occur in all regression analyses, the results above partially confirm the findings of scholars who argue that executive remuneration is positively related with firm performance (e.g Murphy (1985); Cosh & Hughes (1997)) and hence partially accept Hypothesis 5 that executive remuneration positively influences firm performance in the case of the United Kingdom.

F. 3. *Case of Indonesia*

The nature of influence of executive remuneration on firm performance of the firms in Indonesia can be seen in Table 20 (for ROA) and Table 23 (for MTB ratio). The p value of executive remuneration (0.093) is slightly greater than α value (0.05) and the coefficient of executive remuneration is 0, meaning that the influence of executive remuneration on ROA is negligible. When using MTB ratio as firm performance measure, the p value of executive remuneration (0.619) is greater than α value (0.05), meaning that executive remuneration does not significantly influence MTB ratio.

When the regression analysis uses the samples of 2008 until 2012, the significance of executive remuneration on firm performance of firms in Indonesia does not exist. It is interesting to see whether the similar result occurs when the analysis is conducted separately on individual samples from 2008 to 2012.

When the regression analysis is conducted with individual samples from each observation year, executive remuneration only positively and significantly influences ROA of firms in Indonesia in 2008. The detailed analysis of this regression analysis is presented in Tables 63-72 in the Appendix.

Because Table 20 shows that sales growth significantly influences ROA, further analysis is conducted to investigate the influence of executive remuneration on ROA of growing and non-growing firms in Indonesia. In addition, as a follow-up of the finding of total assets' significance on MTB ratio in Table 23, further analysis is also conducted to investigate the influence of executive remuneration on MTB ratio of large and small firms in Indonesia.

Table 21 shows that executive remuneration does not significantly ROA of growing firms in Indonesia (p value = 0.474). Similarly for non-growing firms, Table 22 shows that executive remuneration does not significantly influence ROA (p value = 0.027) because its coefficient is 0. When the regression analysis is conducted on samples of large and small firms, executive remuneration also does not significantly influence MTB ratio (shown in Table 24 and 25).

The above results show that the relationship between executive remuneration and firm performance of firms in Indonesia is nonmonotonous, therefore the results above partially confirm the findings of scholars who argue that executive remuneration is positively related with firm performance (e.g Murphy (1985); Cosh & Hughes (1997)) and hence partially accept Hypothesis 5 that executive remuneration positively influences firm performance in case of Indonesia.

F. 4. *Case of Germany & Indonesia*

Since Germany and Indonesia have similar corporate board structure (dual board), it is interesting to see how the influence of executive remuneration on firm performance is when the samples of firms in Germany and Indonesia are combined. On Table 26, it is shown that executive remuneration significantly and positively influences ROA. ROA in both growing

and non-growing firms are also significantly and positively influenced by executive remuneration (shown in Tables 27 and 28). On the contrary, as Table 29 has shown, executive remuneration does not significantly influence MTB ratio. Therefore, these results partially confirm the findings of scholars who argued that executive remuneration is positively related with firm performance (e.g Murphy (1985); Cosh & Hughes (1997)) and hence partially accept Hypothesis 5 that executive remuneration positively influences firm performance in Germany and Indonesia when the samples of firms of those countries are pooled into one group of samples.

G. Codetermination (for firms in Germany)

The firms in Germany in this research are mostly without employee representatives on the supervisory board. Of 43 observed firms, 28 of them are without employee representatives (27 firms in 2009). Thirteen firms are one-third codetermined (14 firms in 2009), and 2 firms are half-codetermined.

The relationship between codetermination and firm performance of the firms in Germany can be seen in Table 16 (for ROA) and Table 19 (for MTB ratio). When using ROA as firm performance measure, the p value of codetermination (0.042) is smaller than α value (0.05), meaning that codetermination significantly influences ROA. Codetermination's coefficient value is positive (0.106), so the influence is positive. When using MTB ratio as firm performance measure, the p value of executive remuneration (0.556) is greater than α value (0.05), meaning that codetermination does not significantly influence MTB ratio.

Due to the significance of sales growth on ROA, I am interested to conduct the regression analysis using the divided samples based on their sales growth. Table 17 shows that codetermination does not significantly influence ROA of growing firms (p value = 0.408), but the opposite occurs on the non-growing firms where codetermination significantly and positively influences their ROA as shown in Table 18 (p value = 0.042).

The results above reveal that the influence of codetermination only exists on return on assets when the regression analysis uses joint samples from 2008 to 2012. It is interesting to see whether the similar result occurs when the analysis is conducted on individual samples from each observation year.

The regression analyses conducted with individual samples from 2008 to 2012 shows that none of the regression analyses show a result which show negative influence of codetermination on firm performance. The detailed analyses can be seen in Tables 53-62 in the Appendix.

The results above show that codetermination only significanty and positively influences ROA of firms in Germany when joint samples from 2008 to 2012 is used in the analysis. Therefore, they partially confirm the findings of scholars who argue that codetermination positively influences firm performance (Gurdon & Rai (1990); Renaud (2007); Fauver & Fuerst (2006)) and hence reject Hypothesis 6 that codetermination negatively influences German firm performance.

H. CEO-Chair Separation (for Firms in the United Kingdom)

Most of the firms in the United Kingdom in this research separated the positions of CEO and chairman. Of 43 observed firms, only 4 of them combined the positions of CEO and chairman on one person (except for 2010 (2 firms) and 2009 (1 firm). The high number of firms which appointed different individuals on the positions of CEO and chairman implies that most of the sampled firms in the United Kingdom followed the recommendation set by the UK Corporate Governance Code (2014) to separate those positions in the board.

Table 34: Number of firms with CEO-duality in the United Kingdom

Year	Number of firms who combined CEO & chairman position in one person
2008	4
2009	1
2010	2
2011	4
2012	4

In order to investigate the moderating effect of firm size on the relationship between CEO-chair separation and firm performance, a moderating variable (multiplication of values of CEO-chair separation and total assets) is created. Below is the table of the moderation analysis.

Table 35: Regression results of the relationship between CEO-chair separation and ROA (moderated by total assets)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11,993	9,870		-1,215	,226
	CEO-Chair Separation	2,627	10,130	,026	,259	,796
	Total Assets	,132	,234	1,082	,565	,573
	Moderator	-,100	,234	-,823	-,426	,670

a. Dependent Variable: Return On Assets

Table 36: Regression results of the relationship between CEO-chair separation and MTB ratio (moderated by total assets)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,123	5,004		,025	,980
	CEO-Chair Separation	,614	5,135	,012	,119	,905
	Total Assets	,002	,119	,025	,013	,990
	Moderator	,001	,119	,018	,009	,993

a. Dependent Variable: Market-to-Book Ratio

Tables 35 and 36 show that the p values of moderator variable are 0.67 (for ROA) and 0.993 (for MTB ratio). Both p values are greater than α value (0.05), which means the moderator variable (firm size) does not significantly influence the relationship between CEO-chair separation and firm performance. Therefore, these results reject the finding of Brickley et al. (1997) which implies that the efficiency of CEO-chair separation in improving firm performance depends on firm size and hence also reject Hypothesis 7 that firm size negatively influences the relationship between CEO-chair separation and firm performance in the United Kingdom.

Table 31 shows that CEO-chair separation does not significantly influence ROA of small firms (p value = 0.542). The relationship between CEO-chair separation and firm performance of large firms cannot be investigated because all large firms separate the

positions of CEO and chairman. In order to be able to investigate the influence of CEO-chair separation on MTB ratio of small firms in the United Kingdom, the following table shows the regression result for this purpose.

Table 37: Regression result of the influence of CEO-Chair separation on MTB ratio of small firms in the United Kingdom

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,571	6,309		,407	,684
	Directors' Ownership	,026	,074	,035	,353	,725
	Executive Remuneration	,000	,003	,006	,059	,953
	CEO-Chair Separation	-,334	4,516	-,007	-,074	,941
	Ownership Concentration	-,048	,102	-,047	-,473	,637
	Family Ownership	-,028	,085	-,030	-,330	,742
	Total Assets	,010	,031	,033	,327	,744
	Sales Growth	,000	,003	,007	,085	,932
	Former Executives to Non Executives	,754	3,213	,020	,235	,815

a. Dependent Variable: Market-to-Book Ratio

It can be seen on Table 37 that separating the title of CEO and chairman also does not significantly influence MTB ratio of small firms (CEO-Chair separation p value (0.941) > α value (0.05). Now it has already revealed that separating the position of CEO and chairman does not significantly influence both ROA and MTB ratio of small firms in the United Kingdom when the analysis uses the entire samples from 2008 to 2012. It is interesting to see whether the regression analysis with individual samples from 2008 to 2012 also shows the same result.

When the regression analysis is conducted with individual samples from each observation year, CEO-chair separation does not significantly influence firm performance except in 2008 when it significantly and positively influences ROA. The detailed analysis of this regression analysis is presented in Tables 93-102 in the Appendix.

The results of the regression analyses show both the significance and non-significance of CEO-chair separation in influencing firm performance of small firms in the United Kingdom. Therefore, they partially confirm the finding of scholars who argue that CEO-chair

separation improves firm performance (e.g Bai et al. (2004); Haniffa & Hudaib (2006); Bhagat & Bolton (2008) and hence partially accept Hypothesis 8 that CEO-chair separation positively influences the performance of small firms in the United Kingdom.

I. Family Ownership

Family ownership in this research is defined as share ownership of family or founding family members. In average, the level of family ownership of firms listed on the Frankfurt Stock Exchange is 10.9%. The highest average of family ownership occurred in 2010 (11.51%) and the lowest occurred in 2009 (10.53%). For the firms listed on the London Stock Exchange, the average family ownership is 8.84%. The lowest average family ownership occurred in 2008 (8.57%) and the highest occurred in 2009 (9.09%). Meanwhile, the firms listed on the Indonesia Stock Exchange have family ownership of 3.91% in average. The lowest average family ownership occurred in 2009 (3.39%) and the highest occurred in 2012 (4.34%). These figures show that the firms listed on the Frankfurt Stock Exchange have the highest level of family ownership between 2008 and 2012.

One particular attention needs to be paid to family ownership in Indonesia. The sample of firms in Indonesia shows low level of average family ownership (less than 10%), however it is not as clear-cut as it appears. As it is already explained in Chapter III, the ownership structure of firms in Indonesia is highly concentrated and family-based. Of 43 sampled firms in Indonesia, only one of them which does not have corporate shareholders. It is strongly suspected that the family ownership in Indonesia is "disguised" by the presence of corporate shareholders which means firms which hold shares of another firm are owned and/or controlled by a family.

In order to check the inverted U-shaped relationship between family ownership and firm performance, the quadratic regression analysis is conducted, the variable of family ownership is squared and then both the variable and squared variable is mean-centred. Only the mean-centred variables are included in the analysis.

I. 1. *Case of Germany*

Below is the table when ROA is used as dependent variable.

Table 38: Regression results of the relationship between family ownership and ROA of firms in Germany

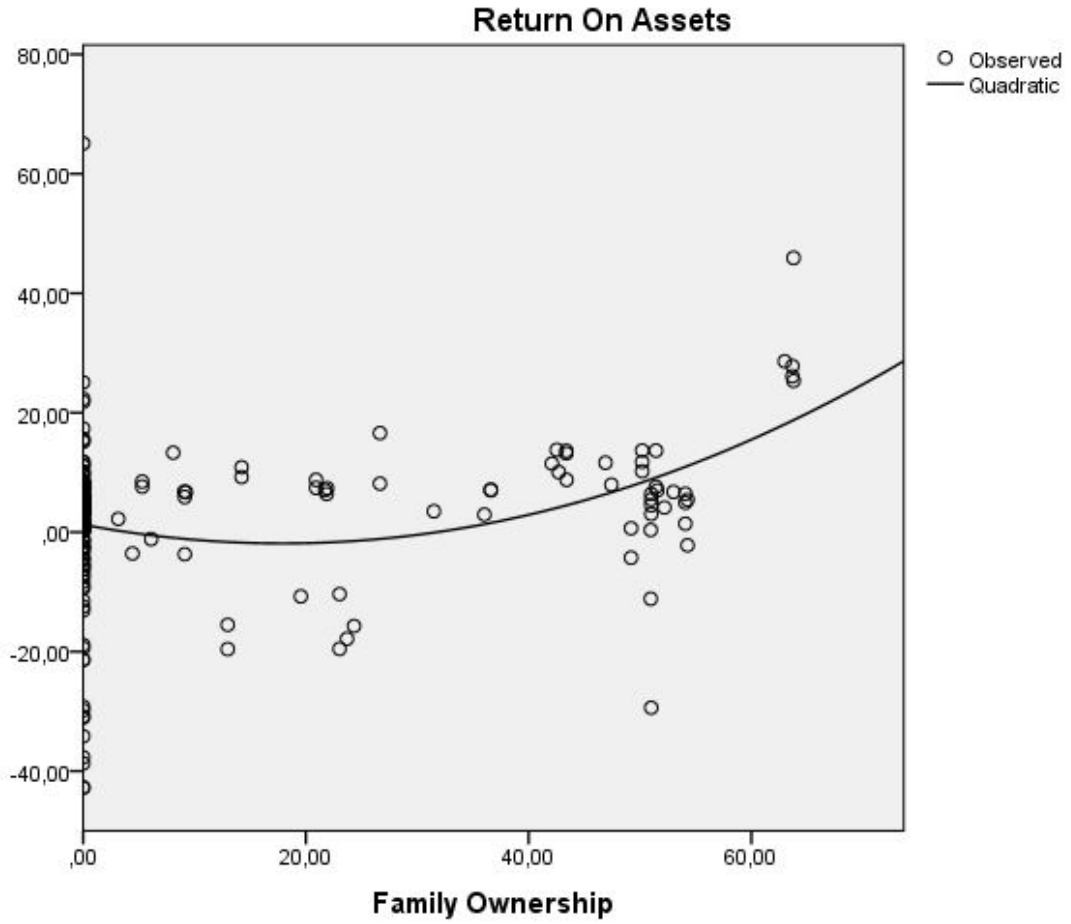
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2,306	,842		2,740	,007		
	FO_c	,152	,043	,235	3,524	,001	1,000	1,000
2	(Constant)	-1,407	1,588		-,886	,377		
	FO_c	-,137	,114	-,211	-1,203	,230	,140	7,141
	FO_c_sq	,010	,004	,481	2,741	,007	,140	7,141

a. Dependent Variable: Return On Assets

Table 38 shows that p value of family ownership squared is smaller than α value ($0.007 < 0.05$), so this variable significantly influences ROA of firms in Germany. In order to see the pattern of the relationship between family ownership and ROA, the curve of this relationship is presented below.

Figure 2: Regression results of the relationship between family ownership and ROA of firms in Germany



Below is the table when MTB ratio is used as dependent variable.

Table 39: Regression results of the relationship between family ownership and MTB ratio of firms in Germany

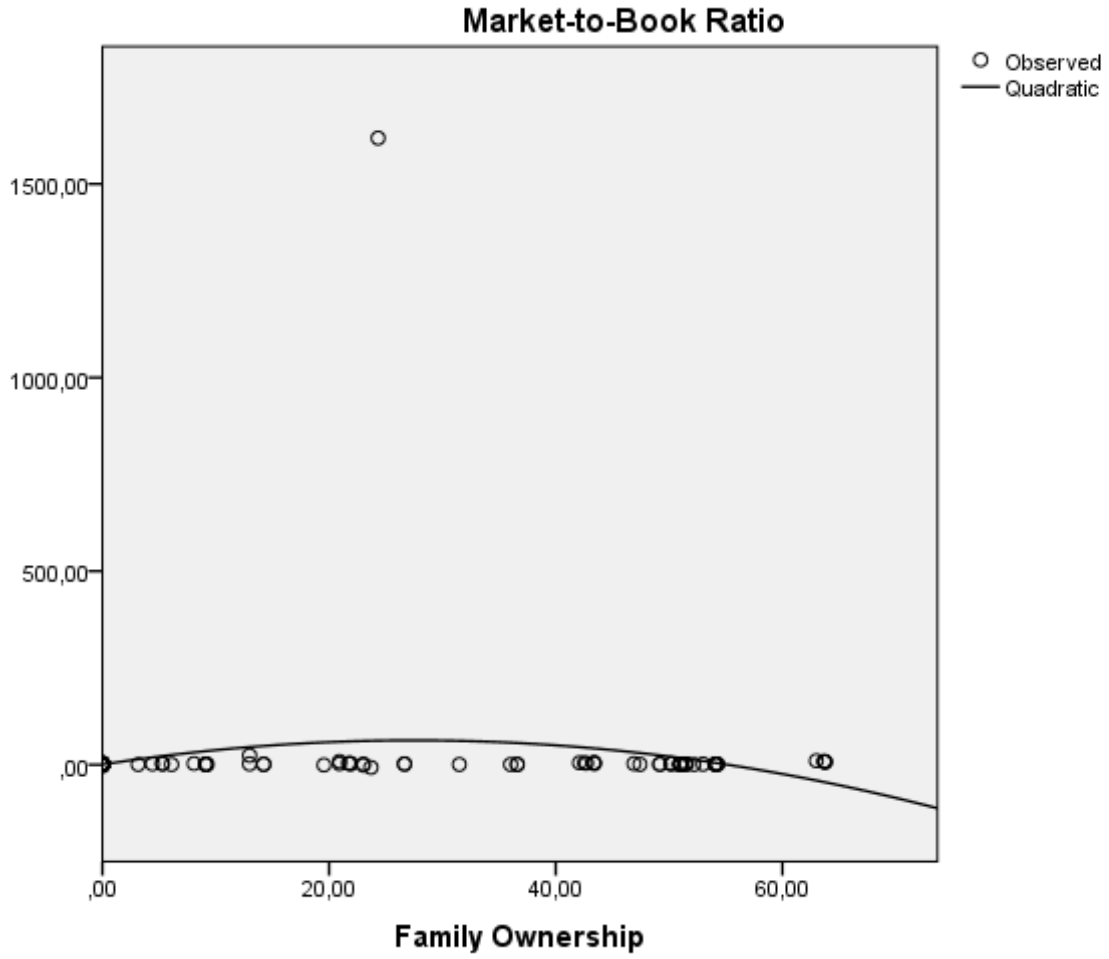
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	9,125	7,530		1,212	,227		
	FO_c	,304	,387	,054	,784	,434	1,000	1,000
2	(Constant)	40,311	14,238		2,831	,005		
	FO_c	2,734	1,021	,484	2,679	,008	,140	7,141
	FO_c_sq	-,082	,032	-,464	-2,568	,011	,140	7,141

a. Dependent Variable: Market-to-Book Ratio

On Table 39, it is shown that p value of family ownership squared is smaller than α value (0.011 < 0.05), meaning that family ownership significantly influence MTB ratio of firms in Germany. In order to see the pattern of the relationship between family ownership and market-to-book ratio, the curve of this relationship is presented below:

Figure 3: Regression results of ther relationship between family ownership and MTB ratio of firms in Germany



The results above show that the p values of family ownership in the quadratic regression are smaller than 0.05 for return on assets (0.007) and market-to-book ratio (0.011). The curve of relationship between family ownership and ROA is U-shaped. Meanwhile, inverted U-shaped appears in the relationship between family ownership and MTB ratio. Therefore, these results partially confirm the findings of scholars who argue that family ownership and control improve firm performance in curvilinear way (e.g Anderson & Reeb (2003a); Villalonga & Amit (2006)) and hence partially accept Hypothesis 9 that family ownership influences firm performance in Germany in an inverted U-shaped relationship.

I. 2. *Case of the United Kingdom*

Below is the table of result when ROA is used as dependent variable:

Table 40: Regression results of the relationship between family ownership and ROA of firms in the United Kingdom

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-3,987	1,740		-2,291	,023		
	FO_c	,247	,124	,135	1,989	,048	1,000	1,000
2	(Constant)	-2,455	2,145		-1,144	,254		
	FO_c	,518	,255	,284	2,034	,043	,237	4,228
	FO_c_sq	-,008	,006	-,170	-1,220	,224	,237	4,228

a. Dependent Variable: Return On Assets

As shown on Table 40, the p value of family ownership is greater than α value (0.224 > 0.05), so this variable does not significantly influence ROA of firms in the United Kingdom. Below is the table of regression result when MTB ratio is used as dependent variable:

Table 41: Regression results of the relationship between family ownership and MTB ratio of firms in the United Kingdom

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,113	,858		1,297	,196		
	FO_c	-,043	,061	-,048	-,708	,480	1,000	1,000
2	(Constant)	,421	1,058		,398	,691		
	FO_c	-,166	,126	-,186	-1,320	,188	,237	4,228
	FO_c_sq	,004	,003	,157	1,116	,265	,237	4,228

a. Dependent Variable: Market-to-Book Ratio

Similarly with Table 40, Table 41 reveals the nonsignificance of influence of family ownership on MTB ratio. This is indicated by the p value of family ownership which is greater than α value (0.265 > 0.05).

The p values of family ownership in the quadratic regression are greater than 0.05 both for ROA (0.224) and MTB ratio (0.265), which means that family ownership does not significantly influence both firm performance measures. Therefore, these results reject the findings of scholars who argue that family ownership and control improve firm performance in curvilinear way (e.g Anderson & Reeb (2003a); Villalonga & Amit (2006)) and hence also reject Hypothesis 8 that family ownership influences firm performance in the United Kingdom in an inverted U-shaped relationship.

I. 3. *Case of Indonesia*

Below is the table of regression result when ROA is used as dependent variable:

Table 42: Regression result of the relationship between family ownership and ROA of firms in Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	6,611	,610		10,837	,000		
	FO_c	-,006	,062	-,007	-,104	,917	1,000	1,000
2	(Constant)	6,409	,752		8,521	,000		
	FO_c	-,065	,141	-,072	-,460	,646	,192	5,215
	FO_c_sq	,002	,004	,072	,461	,645	,192	5,215

a. Dependent Variable: Return On Assets

Table 42 shows that p value of family ownership (0.645) is greater than α value (0.05), which means this variable does not significantly influence ROA of firms in Indonesia. Below is the table of regression result when MTB ratio is used as dependent variable.

Table 43: Regression result of the relationship between family ownership and MTB ratio of firms in Indonesia

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,501	,113		13,242	,000		
	FO_c	-,019	,011	-,113	-1,658	,099	1,000	1,000
2	(Constant)	1,467	,140		10,497	,000		
	FO_c	-,029	,026	-,171	-1,098	,273	,192	5,215
	FO_c_sq	,000	,001	,065	,415	,678	,192	5,215

a. Dependent Variable: Market-to-Book Ratio

On Table 43, we can see the similarity with the result of Table 41 where family ownership does not significantly influence MTB ratio (p value > α value; 0.678 > 0.05). So both ROA and MTB ratio are not significantly influenced by family ownership in the case of firms in Indonesia, therefore these results reject the findings of scholars who argue that family ownership and control improve firm performance (e.g Maury (2006); Martinez et al. (2007); Daily & Dollinger (1992) and hence also reject Hypothesis 9 that family ownership influences firm performance in Indonesia in an inverted U-shaped relationship.

J. Former Executives Serving as Non-Executive Directors (FESNED)

In this research, most of the firms listed on the Frankfurt Stock Exchange do not have former executives serving as supervisory board members (FESNED). Between 2008 and 2012, the highest amount of firms which have former executives in their supervisory boards was 13 (in 2008), and the lowest was 8 (in 2011). Similarly for the firms listed on the London Stock Exchange, the highest amount of firms which have former executives serving as non-executive directors between 2008 and 2012 was 8 (in 2011), and the lowest was 5 (2008 until 2010). Meanwhile, the practice of using the service of former executives as non-executive directors (in board of commissioners) is more common in Indonesia. In 2012, there were 17 firms which do such practice (the highest number between 2008 and 2012). The lowest amount of such firms was 14 (in 2010).

J. 1. *Case of Germany*

The relationship between FESNED and firm performance in Germany can be seen in Table 16 (for ROA) and Table 19 (for MTB ratio). When using ROA as firm performance measure, the p value of FESNED (0.522) is greater than α value (0.05), meaning that such presence of former executives does not significantly influence ROA. When using MTB ratio as firm performance measure, the p value of FESNED (0.661) is greater than α value (0.05), meaning that FESNED also does not significantly influence MTB ratio.

Since sales growth significantly influences ROA of firms in Germany, it is interesting to find out how the influence of FESNED on ROA in growing and non-growing firms in Germany is. Tables 17 and 18 show that FESNED does not significantly influence ROA of growing and non-growing firms of firms in Germany respectively.

The results mentioned above are obtained from the regression analysis which uses the samples from 2008 to 2012. It is interesting to see whether the regression analysis using individual samples from 2008 to 2012 will exhibit the same result.

When the regression analysis is conducted with individual samples from each observation year, FESNED does not significantly influence firm performance in any year. The detailed analysis of this regression analysis is presented in Tables 53-62 in the Appendix.

As we can see on the above results, none of them shows significant influence of FESNED on firm performance. Therefore, these results confirm the finding of Grigoleit et al. (2011) who argued that there is no relationship between FESNED and firm performance and reject the finding of Oehmichen et al. (2014) who argue that FESNED negatively influences firm performance. Hence, in the case of Germany, Hypothesis 10 that former executives serving as non-executives negatively influences firm performance of companies in Germany is rejected.

J. 2. *Case of the United Kingdom*

The relationship between FESNED and firm performance in the United Kingdom can be seen in Table 30 (for ROA) and Table 33 (for MTB ratio). When using ROA as firm performance measure, the p value of FESNED (0.221) is greater than α value (0.05), meaning that such presence of former executives does not significantly influence ROA. Table 31 shows that FESNED of small firms in UK does not significantly influence ROA (p value = 0.67). The influence of FESNED on ROA of large firms cannot be investigated due to static nature of FESNED in these firms throughout the observation period. When using MTB ratio as firm performance measure, the p value of FESNED (0.659) is greater than α value (0.05), meaning that FESNED also does not significantly influence MTB ratio.

The results above are obtained from the regression analysis which uses the joint samples from 2008 to 2012. It is interesting to see whether the regression analysis using individual samples from 2008 to 2012 will exhibit the same result.

When the regression analysis is conducted with individual samples from each observation year, FESNED does not significantly influence firm performance in any year. The detailed analysis of this regression analysis is presented in Tables 83-92 in the Appendix.

As we can see on the above results, none of them shows significant influence FESNED on firm performance. Therefore, these results reject the finding of Oehmichen et al. (2014) who argued that FESNED negatively influences firm performance. Hence, in the case

of the United Kingdom, Hypothesis 10 that former executives serving as non-executives negatively influences firm performance of companies in the United Kingdom is rejected.

J. 3. *Case of Indonesia*

The relationship between FESNED and firm performance in Indonesia can be seen in Table 20 (for ROA) and Table 23 (for MTB ratio). When using ROA as firm performance measure, the p value of FESNED (0.115) is greater than α value (0.05), meaning that such presence of former executives does not significantly influence ROA. When using MTB ratio as firm performance measure, the p value of FESNED (0.374) is also greater than α value (0.05), meaning that FESNED does not significantly influence MTB ratio.

Since sales growth significantly influences ROA of firms in Indonesia, it is interesting to find out how the influence of FESNED in growing and non-growing firms in Indonesia is. Table 21 show that FESNED (only marginally) significantly and negatively influences ROA of growing firms in Indonesia (p value = 0.093; coefficient = -2.578). Conversely, Table 22 shows that FESNED does not significantly influence ROA of non-growing firms in Indonesia (p value = 0.182).

Total assets appear to significantly influence MTB ratio of firms in Indonesia, therefore I decide to investigate the influence of FESNED on MTB ratio of small and large firms in this country. Table 24 shows significant and positive effect of FESNED on MTB ratio of large firms (p value = 0.006; coefficient = 1.204), but Table 25 tells the opposite in regards to small firms (significant but negative; p value = 0.003 and coefficient = -0.813).

The results above are obtained from the regression analysis which uses the joint samples from 2008 to 2012. It is interesting to see whether the regression analysis using individual samples from 2008 to 2012 will exhibit the same result.

When the regression analysis is conducted with individual samples from each observation year, the results are nonmonotonous in terms of the relationship between FESNED and firm performance of firms in Indonesia. From 2008 to 2010, FESNED did not significantly influence firm performance. In 2011 and 2012, FESNED only (marginally) significantly and negatively influenced ROA. The detailed analysis of this regression analysis is presented in Tables 63-72 in the Appendix.

As we can see on the above results, there is generally no significant relationship between FESNED and firm performance of firms in Indonesia. Therefore, these results reject the finding of Oehmichen et al. (2014) who argued that FESNED negatively influences firm performance. Hence, in the case of Indonesia, Hypothesis 10 that former executives serving as non-executives negatively influences firm performance of companies in Indonesia is rejected.

J. 4. *Germany & Indonesia*

Since both Germany and Indonesia have dual board system, it is interesting to see how the appointment of former member of management board to supervisory board (in Germany) or former member of board of directors to board of commissioners (in Indonesia) affects firm performance in these countries when the samples are combined. Table 26 shows that FESNED does not significantly influence ROA of firms in Germany and Indonesia (FESNED p value = 0.696). Furthermore, due to the significance of sales growth on ROA of firms in these countries, I am interested to investigate the influence of FESNED on ROA of firms based on their sales growth. Table 27 and 28 show that ROA of both growing and non-growing firms are not significantly influenced by FESNED. As shown in Table 29, FESNED is also not significant in influencing MTB ratio. Therefore, these results reject the finding of Oehmichen et al. (2014) who argue that FESNED negatively influences firm performance and hence reject Hypothesis 10 that former executives serving as non-executives negatively influences firm performance of companies in Germany and Indonesia.

K. Correlation between Corporate Governance Variables and Firm Performance

The influence of corporate governance variables on firm performance is already described in previous subchapters. The explanation of the correlation is as follows (the correlation matrixes can be found in Tables 103-105 in Appendix).

1. For firms in Germany, ROA significantly and positively correlates with ownership concentration. Although ownership concentration does not significantly influence firm performance, the research shows that the increase in ownership concentration is followed by the increase in ROA.
2. For firms in the United Kingdom, ROA significantly and positively correlates with family ownership. In addition, the multiple linear regression shows that family ownership significantly and positively influences ROA.

3. For firms in Indonesia, three corporate governance variables, namely directors' ownership, executive remuneration, and ownership concentration significantly correlates to firm performance. Ownership concentration correlates significantly and positively with ROA and MTB ratio. Executive remuneration positively correlates with ROA, and directors' ownership negatively correlates with MTB ratio.

Of those correlations, the strongest correlation occurs in Indonesia between ROA and executive remuneration (correlation coefficient = 0.175). However, this significant and positive correlation does not imply a causal relationship since the multiple linear regression shows insignificant influence of executive remuneration on ROA.

CHAPTER VII

RESULTS AND DISCUSSION

The previous chapter has presented the empirical results of the relationship between corporate governance and firm performance in Germany, the United Kingdom, and Indonesia. This chapter elaborates and discusses the findings presented in the previous chapter.

A. Directors' Ownership and Firm Performance

In previous chapter, it is presented that directors' ownership only significantly and positively influences return on assets of firms in Germany in a U-shaped curve. This finding shows that the argument put forward by Jensen and Meckling (1976) which stated that managerial ownership better aligns managers' interest with those of stockholders only applies for the context of Germany. In the context of the United Kingdom and Indonesia, the fluctuation of managerial ownership level does not appear to affect directors' incentive to devote significant effort to improve firm profitability. The view of Lichtenberg and Pushner (1994) that directors' ownership appears to slightly reduce agency conflict between management and shareholders also does not apply in the context of the United Kingdom and Indonesia.

When multiple linear regression analyses are conducted, the significant and positive influence of directors' ownership on return on assets occurs for non-growing firms in Germany and also for non-growing firms in Germany and Indonesia when the samples of these countries are combined together. On the contrary, directors' ownership significantly and negatively influences return on assets of growing firms in Indonesia. In addition, market-to-book ratio of small firms in Indonesia is also significantly and negatively influenced by directors' ownership.

This research implies that the more shares directors in Germany own, their interests will coincide more with those of shareholders as argued by Han and Suk (1998) and increases firm value as argued by Jensen and Meckling (1976). However, this is not the case in the United Kingdom and Indonesia. In addition, the entrenchment hypothesis that argues that directors become entrenched (where external monitoring and control become less effective and firm executives gain more control) at a higher level of ownership (Shleifer & Vishny

(1989), Morck et al. (1988), Schooley & Barney Jr (1994) and Chen et al. (1993)) is not supported by this research in the context of Germany, the United Kingdom and Indonesia.

For the case of the firms in the United Kingdom and Indonesia, the low level of directors' ownership may be attributable to the executive remuneration package that includes share grant. That means the directors own company's shares not because of their own intent to be part of shareholders, but the shareholders through general meeting include share grant to the executive remuneration package as an incentive for the directors to put great efforts to maximise shareholders' wealth.

The insignificant and/or negative relationship between directors' ownership and firm performance found in this research signals that the policy of share grant in directors' executive remuneration package does not optimise the efforts of shareholder value maximisation. In addition, the fear of entrenchment effect when there is high level of directors' ownership is unnecessary. However, the sufficient directors' ownership at a firm is required in order to avoid the firm from becoming a target of hostile takeover (Shivdasani, 1993) and increase the resistance of management towards takeover (Fama & Jensen, 1983). In terms of takeover, sufficient ownership is expected to give incentive to directors to fend off the takeover from the firm, since it is likely that they lose their directorship if the firm is taken over by other parties.

The insignificant relationship between directors' ownership and firm performance contradicts the findings of scholars cited in this research (e.g. Han and Suk (1998), Kaserer and Moldenhauer (2008)) that show positive influence of directors' ownership on firm performance, and in particular the finding of McConnell and Servaes (1990) that show inverted U-shaped relationship between directors' ownership and firm performance. The discrepancy between the results of this research and those of other scholars might be caused by the different firm performance measure and research method used. Han and Suk (1998) used stock return and McConnell and Servaes (1990) used Tobin's q, while this research uses return on assets and market-to-book ratio as performance measure. Kaserer and Moldenhauer (2008) applied 2SLS regression approach, while ordinary least square (OLS) is applied in this research.

In terms of correlation, directors' ownership significantly and negatively correlates with market-to-book ratio in Indonesia at the 0.05 level (see Table 105 in Appendix). This means that firm directors in Indonesia keep their shareholding despite the declining market-to-book ratio. However, I find this phenomenon unsurprising since family ownership is

dominant in Indonesia and therefore family members usually sit in the corporate board and keep their shareholding regardless the firm performance.

B. Shareholders Protection and Firm Performance

In previous chapter, it is presented that shareholders protection is not proven to moderate the influence of ownership concentration on firm performance regardless the strength of the protection in Germany, the United Kingdom, and Indonesia. This finding does not support the finding of Heugens et al. (2009) which stated that ownership concentration can positively affect corporate performance in countries lacking legal protection of shareholders and it does not affect corporate performance in countries where legal protection is well-developed.

This may be an indication that ownership concentration itself is a "by-product" of shareholders protection and substitutes the role of shareholders protection as a corporate governance mechanism to improve firm performance as argued by La Porta et al. (1998) and La Porta et al. (1999). Minority shareholders in countries with weaker shareholders protection (Germany and Indonesia) rely heavily on the monitoring conducted by large shareholders on the corporate executives with which it is expected that the executives strive to maximise shareholder value. However, a tight monitoring by them constitutes expropriation threat which reduces managerial initiative and noncontractible investments (Burkart et al., 1997) and also market values (Claessens et al., 1999). To increase firm value, votes among large shareholders should be equally distributed (Maury & Pajuste, 2005).

Meanwhile in the United Kingdom, the threat of expropriation by large shareholders is not as significant as in Germany and Indonesia due to stronger shareholder protection. In addition, the large proportion of institutional share ownership in the United Kingdom (around 65-80 per cent (Mallin, 2013)) make it somewhat unlikely for expropriation to occur because the institutional shareholders are mainly insurance companies and pension funds which usually belong to representative bodies who have their own best practice corporate governance guidelines. Moreover, these guidelines encompass the recommendations set out in the UK Corporate Governance Code (Mallin, 2013).

C. Ownership Concentration and Firm Performance

In previous chapter, it is presented that the relationship between ownership concentration and firm performance in Germany, Indonesia and the United Kingdom is nonmonotonic. This finding therefore supports partially the finding of Heugens et al. (2009) mentioned above and also the findings of scholars who show positive relationship between ownership concentration and firm performance (e.g Anderson & Reeb, 2003a; Claessens & Djankov, 1999; Zeckhauser & Pound, 1990). Furthermore, the results which show negative relationship and insignificance or noncorrelation between these variables (e.g Thomsen, 2005; Prowse, 1992; Demsetz & Lehn, 1985) are also partially supported by this research.

This finding also partially supports the view of La Porta et al. (1999) that ownership concentration and its effect on firm performance in a country depends on the strength of its shareholders protection. Germany and Indonesia are deemed to have weaker shareholders protection compared to the United Kingdom, and the high ownership concentration in Germany and Indonesia substitutes the role of shareholders protection to protect their investment and assure its return.

Return on assets of firms in Germany and Indonesia is not significantly influenced by ownership concentration. Interestingly, when the samples of firms of those two countries are combined, the regression results show that return on assets (particularly in non-growing firms) are significantly and positively influenced by ownership concentration. On the other hand, return on assets of large firms in the United Kingdom is significantly and negatively influenced by ownership concentration. Such different effect of ownership concentration on return on assets seems to be related with the different level of ownership concentration in those countries where corporate ownership in Germany and Indonesia is more concentrated than in the United Kingdom. Furthermore, this finding also indicates that large shareholders in Germany and Indonesia monitor the firms they own more effectively than large shareholders who own large firms in the United Kingdom.

In terms of market-to-book ratio, only firms in Indonesia (particularly small firms) enjoy significant and positive effect of ownership concentration. This finding might indicate that the stock market in Indonesia reacts positively towards the monitoring conducted by the large shareholders.

The high concentration of ownership of firms in the United Kingdom (nearly 50%) in this research is surprising, because this country is traditionally perceived to have dispersed

corporate ownership. This fact may be attributable to the sector of the sampled firms (manufacture). Meanwhile for Germany and Indonesia, the high concentration of ownership found in this research is consistent with the literature investigating ownership structure in Germany and Indonesia.

In terms of correlation, ownership concentration in Germany positively and significantly correlates with return on assets, and it also positively and significantly correlates with return on assets and market-to-book ratio in Indonesia at the 0.05 level (see Table 103 and Table 105 respectively in Appendix). This means that firms in Germany and Indonesia enjoy better performance when ownership concentration gets higher although the causation effect of ownership concentration on firm performance is nonmonotonic as shown in the regression analyses.

D. Executive Remuneration and Firm Performance

In previous chapter, it is presented that the relationship between executive remuneration and firm performance in Germany, Indonesia and the United Kingdom is nonmonotonic. This finding therefore supports partially the finding of Murphy (1985) and Cosh and Hughes (1997) which show positive relationship between executive remuneration and firm performance.

Executive remuneration is found to be positively and significantly influencing return on assets in Germany and the United Kingdom, but not in Indonesia. This finding indicates that the executive directors in Germany and the United Kingdom are stimulated by their remuneration package to put their best effort in maximising shareholder value.

The non-homogenous nature of relationship between executive remuneration and firm performance in this research partially supports agency theory which argues that the remuneration gives an incentive to managers to maximise the shareholders' wealth. Because return on assets is significantly influenced on several results and market-to-book ratio is not significantly influenced in all results, this finding also supports the literature which claims that the influence of executive remuneration on firm performance depends on the type of performance measure. For example, Murphy (1985) used shareholder return and growth in firm sales, while Cosh and Hughes (1997) used profitability and share return as firm performance.

In terms of correlation, executive remuneration is found to significantly and positively correlate with return on assets in Indonesia at the 0.05 level (see Table 105 in the Appendix). This means that although the influence of executive remuneration cannot be confirmed in Indonesia, the firms enjoy higher return on assets when the amount of remuneration is higher as well.

E. Codetermination and Firm Performance (for Firms in Germany)

In previous chapter, it is presented that codetermination positively influences firm's return on assets in Germany. This positive influence also occurs on return on assets of non-growing firms. This finding therefore supports the findings of Gurdon and Rai (1990), Renaud (2007), and Fauver and Fuerst (2006) which show positive influence of codetermination on firm performance. When the regression analysis is conducted in individual observation years, codetermination does not appear to significantly influence firm performance; therefore supporting the findings of Benelli et al. (1987 and Wagner (2009) which neither show positive nor negative relationship between codetermination and firm performance.

Codetermination is found to be positively influencing firm performance for return on assets but not for market-to-book ratio. This might imply that workers' participation in important decision-makings is beneficial to company's internal performance measure despite the negative attitude from shareholders towards codetermination as argued by Jensen and Meckling (1979). Workers' participation is proven in this research to facilitate the firms to efficiently use their assets. Therefore, this finding is a challenge to Jensen and Meckling (1979), Kraft (2001), and Alchian (1984) who assert that workers' participation will necessarily put disadvantages to shareholders. In terms of correlation, codetermination does not significantly correlate with firm performance (see Table 103 in Appendix).

F. CEO-Chair Separation and Firm Performance (for Firms in the United Kingdom)

In previous chapter, it is presented that firm size (measured in total assets) is not proven to moderate the influence of CEO-chair separation on firm performance. This finding does not support Brickley et al. (1997) who found that the combination of CEO and chair in one individual is efficient and consistent with shareholders' interest generally for large firms.

The argument that CEO-chair separation increases agency costs of controlling the behavior of the chairman, information costs, change of succession processes costs, and other costs (Brickley et al., 1997) is also not supported by this finding.

It is also presented in previous chapter that the relationship between CEO-chair separation and firm performance is slightly nonmonotonic. The only positive relationship between those variables is found in 2008 with return on assets as firm performance measure. Therefore, it can be argued that generally the leadership structure in a firm does not significantly influence either accounting (return on assets) or market valuation (market-to-book ratio) of a small firm. That means regardless combined or separated, the top leadership structure is not proven to bring efficiency on assets use and also does not improve stock performance of small firms in the United Kingdom. Thus, this finding supports Weir and Laing (2001), Brickley et al. (1997) and Baliga et al. (1996) who argue that there is no significant relationship between CEO-chair separation or duality and firm performance. On the other hand, this finding does not confirm the studies of Bai et al. (2004), Haniffa and Hudaib (2006), and Bhagat and Bolton (2008) who argue that separation or combination of top leadership titles significantly influences firm performance.

This research shows that small firms in the United Kingdom economically do not benefit from either combining or separating the top leadership titles. Nevertheless, the importance of splitting these positions cannot be neglected because the monitoring of managerial actions will be more optimal if the board chair is independent of day-do-day management (as explained by Donaldson and Davis (1991) in describing agency theory's view on CEO-chair separation). In terms of correlation, CEO-chair separation does not significantly correlate with firm performance (see Table 104 in Appendix).

G. Family Ownership and Firm Performance

Previous chapter has shown that inverted U-shaped relationship between family ownership and firm performance occurred in the case of market-to-book ratio in Germany. Family ownership does not significantly influence performance of firms in the United Kingdom and Indonesia. Therefore, this finding partially supports Villalonga and Amit (2006) and Anderson and Reeb (2003a) who warn against excessive family ownership. As advocated by agency theorists, family ownership mitigates owner-manager conflict due to family's greater incentives to monitor managers. However, when the ownership is excessive, the

family might use its controlling position in the firm to extract private benefits which is detrimental to small shareholders (Villalonga & Amit, 2006).

In the context of Germany, when family ownership is too high, firm's market-to-book ratio is negatively and significantly affected, indicating the disapproval by the stock market towards excessive family ownership. However, return on assets is significantly and positively affected by family ownership which may imply that the owner family adequately monitors the management and this improves the effectiveness of the firm in assets utilisation. On the other hand, firms in the United Kingdom and Indonesia are neither positively nor negatively influenced by family ownership. That could mean that it cannot be confirmed whether the quality of monitoring provided by the owner family is adequate or inadequate.

Another interesting finding is concerning the influence of family ownership on return on assets when the samples of Germany and Indonesia are combined, where family ownership is found to significantly and positively influence return on assets. This may be an indication that the owner family provides adequate monitoring to the management so that it stimulates the management to put due diligence on their managerial task.

Furthermore, the result of regression analysis on the joint samples of growing firms in Germany and Indonesia shows that growing firms in these two countries enjoy the positive and significant influence of family ownership on their return of assets. Therefore, it may be implied that owner family monitors the management better in growing firms in Germany and Indonesia.

Other interesting finding from the result of linear regression analysis is that return on assets of firms (particularly small firms) in the United Kingdom is significantly and positively influenced by family ownership. This might imply that the monitoring conducted by owner family improves the efficiency of firms in this country in utilising their assets. Furthermore, the threat of expropriation by owner family in a firm in the United Kingdom is not confirmed by this finding. The significance of family ownership on return on assets does not occur on large firms. This might be an indication that the stake of other types of ownership (e.g. institutional) dispels the influence of family ownership on return on assets.

In Germany, banks are traditionally the common large shareholders of public companies. This might explain the moderate level of family ownership in Germany (10.9%). The low level of family ownership in Indonesia (3.91%) is surprising because most companies in Indonesia (as argued by Lukviarman (2004)) are principally managed and

owned by founding family members. However, this fact might be explained with the dominance of private companies as large shareholders where such companies are usually family businesses. Therefore, the cases of *indirect* family ownership are quite common for the firms in Indonesia. Meanwhile, the low level of family ownership in the United Kingdom (8.84%) shows its small role in the governance-performance relationship. This is quite common in countries which have active and large equity markets where the presence of institutional shareholders are most prevalent.

The non-relationship between family ownership on firm performance in Indonesia may suggest that the presence of family ownership is not as important as it is thought to be. As a consequence of going public, a firm is not only owned by its "original" owner, but it is also owned by other groups of shareholders. This in turn may cause a decline in the influence of family ownership in corporate decision making and also (indirectly) in firm performance.

This finding shows that the influence of family ownership is stronger and more prevalent in Germany and the United Kingdom than in Indonesia. This is somewhat surprising due to the fact that family ownership is an important feature of corporate governance in Indonesia. However, as already explained above, the low strength and prevalence of family ownership in Indonesia might be compensated by the presence and influence of private companies (which are usually family businesses) as large shareholders.

In terms of correlation, family ownership positively and significantly correlates with return on assets at the level of 0.05 in the United Kingdom. This might imply that firms with higher family ownership stake in this country outperform those with lower stake of family ownership, although the causation effect of family ownership on firm performance cannot be confirmed (except for small firms).

H. Former Executives Serving as Non-Executive Directors

The previous chapter presents that former executives serving as non-executive directors in Germany and the United Kingdom does not significantly influence firm performance. Meanwhile for Indonesia, the negative influence of former executives serving as non-executive directors on firm performance (return on assets) did occur in 2011 and 2012. The finding of Oehmichen et al. (2014) is therefore not supported in the context of Germany and the United Kingdom, but it is partially supported in the context of Indonesia. On the other hand, the finding in the context of Indonesia supports Grigoleit et al. (2011) who argue that

there is no relation between former executives (members of management board) serving as non-executive directors (members of supervisory board) and firm performance.

In Germany and the United Kingdom, the presence of former executives serving as non-executive directors does not influence firm performance. It indicates that former executives serving as non-executive directors do not affect the monitoring function of supervisory board (in Germany) as argued by agency theorists (e.g Jensen & Meckling, 1976). In addition, the resources based on insights and knowledge gained from experience when such non-executive directors served as executives as argued by Oehmichen et al. (2014) does not seem to play an important role in improving firm performance in Germany and the United Kingdom.

The influence of former executives serving as non-executive directors on firm performance in Indonesia was only marginally significantly negative for return on assets in 2011 and 2012. In those years, it might be assumed that the presence of former executives in board of commissioners in those years slightly decrease the efficiency of the firm in using its assets due to the reduced board's independence and monitoring capability.

Furthermore, market-to-book ratio of large and small firms in Indonesia is influenced by the presence of former executives serving as non-executive directors in different directions. Such presence of former executives significantly and positively influences market-to-book ratio of large firms. Contrarily, market-to-book ratio of small firms suffers from significant and negative influence caused by such presence of former executives. This indicates that large firms gain advantage from the firm-specific internal knowledge and experience possessed by former executives. On the other hand, board's independence and monitoring capability in small firms seem to be decreasing when former executives are present on the board.

In terms of correlation, the presence of former executives serving as non-executive directors does not correlate to firm performance in Germany, the United Kingdom and Indonesia.

I. Multicollinearity and Autocorrelation Tests

Multicollinearity and autocorrelation are two statistical problems that may occur in regression analysis. Bryman and Cramer (2011) stated that multicollinearity reflects the

instability of regression coefficients; hence it is usually regarded as a problem. According to Brooks (2014), multicollinearity occurs when the explanatory variables are very highly correlated with each other, while autocorrelation occurs when the errors in the model are not uncorrelated with one another.

All variables included in the regression model should have a tolerance equal to or above 0.1 (Field, 2013) or 0.2 (Menard, 1995), hence multicollinearity does not occur. A value of 5 or 10 and above for variance inflation factor (VIF) indicates multicollinearity (O'Brien, 2007).

To identify whether positive and/or negative autocorrelation occurs in the regression model, Durbin-Watson test is used. Positive autocorrelation is occurs if d is less than d_l (lower bound), while negative autocorrelation occurs if $(4 - d)$ is less than d_u.

In this research, the only statistical problem that occurs is multicollinearity. It occurs when quadratic linear regression to test Hypothesis 1 and Hypothesis 8 was conducted. This is deemed to be normal because the variable and its squared variable are correlated. More details on the tests of multicollinearity and autocorrelation can be seen in Appendix (Tables 9-30 for multicollinearity test and Tables 31-52 for autocorrelation test).

J. Interpretation of Determination Coefficient

For the firms in Germany (return on assets as performance measure), the regression result shows that the R^2 value is 0.214 or 21.4% (see Table 1 in Appendix). This means that 21.4% of variation of y value is determined by the variation of x values, while 78.6% of it may be explained by other variables not included in this model. When market-to-book ratio is used as performance measure, the regression result shows that the R^2 value is 0.015 or 1.5% (see Table 2 in Appendix). This means that 1.5% of variation of y value is determined by the variation of x values, while 98.5% of it may be explained by other variables not included in this model.

The higher value of R^2 when return on assets is used as performance measure may be interpreted that the independent variables in the model have more explanatory power on internal performance measure. This power is nearly ignorable when market-to-book ratio is used as performance measure, which means that the Frankfurt Stock Exchange's response on the variation of independent variable in the model is nearly non-existent.

For the firms in the United Kingdom (return on assets as performance measure), the regression result shows that the R^2 value is 0.158 or 15.8% (see Table 3 in Appendix). This means that 15.8% of variation of *y* value is determined by the variation of *x* values, while 84.2% of it may be explained by other variables not included in this model. When market-to-book ratio is used as performance measure, the regression result shows that the R^2 value is 0.008 or 0.8% (see Table 4 in Appendix). This means that 0.8% of variation of *y* value is determined by the variation of *x* values, while 99.2% of it may be explained by other variables not included in this model.

Similarly with Germany, the higher value of R^2 when return on assets is used as performance measure may be interpreted that the independent variables in the model have more explanatory power on internal performance measure. This power is nearly ignorable when market-to-book ratio is used as performance measure, which means that the London Stock Exchange's response on the variation of independent variable in the model is nearly non-existent.

For the firms in Indonesia (return on assets as performance measure), the regression result shows that the R^2 value is 0.133 or 13.3% (see Table 5 in Appendix). This means that 13.3% of variation of *y* value is determined by the variation of *x* values, while 86.7% of it may be explained by other variables not included in this model. When market-to-book ratio is used as performance measure, the regression result shows that the R^2 value is 0.179 or 17.9% (see Table 6 in Appendix). This means that 17.9% of variation of *y* value is determined by the variation of *x* values, while 82.1% of it may be explained by other variables not included in this model.

Unlike Germany and the United Kingdom, R^2 of the firms in Indonesia is greater when market-to-book ratio is used as performance measure. This means that the Indonesia Stock Exchange is more responsive to the variation of independent variable in the model compared to the Frankfurt Stock Exchange and the London Stock Exchange. In terms of return on assets, response level of firms in Germany to the variation of independent variables is the highest (21.4%).

K. Summary of the Results

The following table summarises the results of the investigation of corporate governance-firm performance relationship in Germany, the United Kingdom and Indonesia.

Table 44: Summary of the relationship between corporate governance and firm performance in Germany, the United Kingdom and Indonesia

No.	Corporate Governance Variables	Firm Performance Measures					
		ROA			MTB Ratio		
		Germany	UK	Indonesia	Germany	UK	Indonesia
1.	Directors' Ownership	positive	not significant	not significant	not significant	not significant	not significant
2.	Shareholder Protection	not significant	not significant	not significant	not significant	not significant	not significant
3.	Ownership Concentration	not significant	not significant	not significant	not significant	not significant	positive
4.	Executive Remuneration	positive	positive	not significant	not significant	not significant	not significant
5.	Codetermination	positive	n/a	n/a	not significant	n/a	n/a
6.	CEO-Chair Separation	n/a	not significant (small firms)	n/a	n/a	not significant (small firms)	n/a
7.	Family Ownership	positive (quadratic regression) not significant (linear regression)	not significant (quadratic regression) positive (linear regression)	not significant	negative (quadratic regression) not significant (linear regression)	not significant	not significant
8.	Former Executives Serving as Non-Executive Directors	not significant	not significant	not significant	not significant	not significant	not significant

CHAPTER VIII

CONCLUSIONS, LIMITATIONS, AND RECOMMENDATIONS FOR PRACTICE

A. Conclusions

This research addresses the question whether corporate governance influences firm performance and whether the corporate governance-firm performance relation is identical between Germany, the United Kingdom and Indonesia.

Directors' ownership in Germany, the United Kingdom and Indonesia does not significantly influence firm performance. This research cannot confirm the curvilinear relationship between directors' ownership and firm performance as found by McConnell and Servaes (1990) and hence neither encourage nor discourage directors to own a portion of shares of firms they manage. Therefore, the idea of granting shares to executive directors in their remuneration package in order to induce "sense of belonging" on the directors which is expected to encourage them to put best effort to maximise shareholder wealth is misleading and not supported by this research.

The results of this research indicate the absence of substantive relationship between directors' ownership and firm performance. Therefore, in contradiction to Sundaramurthy et al. (2005), this research suggests that encouraging directors to increase their shareholding on the firms they manage may be inappropriate to improve firm performance.

The strength of shareholders protection is not proven to moderate the influence of ownership concentration on firm performance in this research. However, a supportive legal environment is required to attract or maintain investors to or in a country. Investors are usually more inclined to invest their fund in a country where corporate governance and legal environment are well established and maintained.

In addition to the purpose of attracting and maintaining investors to and in a country, a good shareholders protection in a good legal environment is also of paramount importance for the economic stability of the country itself. One good example of how legal environment relates to economic stability is Indonesia. When financial crisis hit East and Southeast Asia in the late 1990s, Indonesia was among the countries which were badly affected by the crisis and it recovered slowly. This slow recovery was arguably in part caused by its weak legal environment, particularly during the regime of President Suharto. The economic recovery

progressed simultaneously with some reforms in legal sector. On the other hand, Germany and the United Kingdom which have better legal environment than Indonesia and were also hit by financial crisis at the late 2000s recovered faster, although the severity of the crisis was slightly lighter than the one which hit East and Southeast Asia.

Ownership concentration acts as a substitute for shareholders protection in countries with weaker shareholders protection like Germany and Indonesia. In Indonesia, the legal framework has been reformed and revised by the government after the Asian crisis in 1997 and the collapse of New Order in 1998, but Indonesia is still lacking quality of law enforcement compared to Germany and the United Kingdom. This can be seen in the Corruption Perception Index published by Transparency International (2015) which ranked Indonesia in 88th of 168 countries and territories (higher rank means lesser corrupt). There relatively low rank of Indonesia in the index reflects the low quality of law enforcement in this country. This argument is supported by Becker and Stigler (1974) who believed that corruption is an extreme manifestation of apparently poor enforcement. Therefore the foreign investors are generally very cautious in investing in Indonesia and very reactive to issues related to economy and law enforcement.

By having a large amount of shareholding on the hand of large shareholders, it is expected that the large shareholders will monitor the management of the firm closely. Such monitoring is more difficult to be done in a firm with widely-dispersed ownership since the cost of monitoring is high and the benefit of it is enjoyed by both active and passive shareholders.

The inconsistent results of the investigation of the influence of executive remuneration on firm performance deserve special attention. The results of this research suggest that executive remuneration should not be used as a main tool to encourage directors to maximise shareholder wealth. Instead of paying too much attention on the design of executive remuneration package, shareholders should encourage the directors to take any required business decisions that guarantee a return on shareholders' investment.

Executive remuneration system can be based on the general views that the executives are paid as a reward for their dedication in managing the firm or merely as a tool given to compensate their efforts. There is also a view to align the remuneration to firm performance to reduce agency costs, but its effectiveness cannot be concluded in this research because it does not investigate the effect of executive remuneration design on firm performance.

The negative effect of codetermination on firm performance (as argued among others by Jensen & Meckling (1979), Kraft (2001), Alchian (1984), Gorton & Schmid (2002), FitzRoy & Kraft (1993), Petry (2009)) in Germany does not appear in this research. Conversely, codetermination effect on firm performance is found to be positive for return on assets, similar to the studies of Gurdon and Rai (1990), Renaud (2007), Fauver and Fuerst (2006), and Freeman and Lazear (1994). This finding shows that the presence of employee representatives in supervisory board can be beneficial to firm performance. The benefit of having them in supervisory board may be in the form of first-hand advice from workers in the production facilities that can improve productivity and also product quality, and this in turn is expected to also improve firm financial performance.

The presence of employee representatives in supervisory board is generally viewed to slow the process of decision making in a firm due to the possibly divergent interests of shareholders and employees. However, this research suggests that such drawback is well compensated by the benefit of codetermination as already mentioned above.

Firm size is not proven to moderate the influence of CEO-chair separation on firm performance in the United Kingdom. CEO-chair separation only significantly and positively influences firm performance (return on assets) in 2008. This may be an indication that in the time of financial crisis, unity of command and control in leadership structure is beneficial to firm performance as argued by stewardship theory.

However, the possible detrimental effect of putting the powers of management and monitoring in the hand of one person at any time should be taken into account. As famously voiced by Sir John Dalberg-Acton, “Power tends to corrupt, and absolute power corrupts absolutely…”, a chairman who is also a CEO may be tempted to undertake harmful actions which put shareholder interests in danger. Therefore, the non-executive directors should put their best efforts in monitoring the management and ensure the CEO/chairman to do his or her task properly, either there is CEO-chairman duality or not.

The curvilinear relationship between family ownership for firms in Germany occurred when the performance is measured by market-to-book ratio. In addition, the results of quadratic regression which show different effect of family ownership on return on assets and market-to-book ratio of firms in Germany are somewhat confusing. Therefore, if these results are taken into account, it depends on the firms in Germany whether they prioritise internal over market performance or the other way around. A sufficient family ownership is expected

to be beneficial for return on assets in Germany, but such ownership should not be excessive to prevent expropriation of owner family on minority shareholders.

On the other hand, curvilinear relationship occurred when the performance is measured by return on assets for firms in the United Kingdom. Therefore, there is a strong reason to avoid excessive family ownership for the context in Germany and the United Kingdom. Meanwhile in Indonesia, it seems to be not very important to pay attention to family ownership in achieving targeted financial performance. However, minority shareholders should be aware of the possibility of being expropriated by majority shareholders, including founding family members.

In Germany and the United Kingdom, the presumed declining of board of directors' independence and monitoring capability caused by the presence of former executives as non-executive directors does not occur. Therefore having this situation in those countries is neither recommended nor discouraged. It depends on the individual need and circumstances of the firm. Meanwhile in Indonesia, it is rather discouraged to assign former directors on the board of commissioners because the research results show that in some years this situation negatively influenced firm performance.

In my opinion, whether a firm needs former executives on its corporate board is highly dependent on certain factors or circumstances, such as firm's age, current situation of a firm, etc. For instance, a newly-established firm may wish to retain its former executives in order to obtain valuable advice and insights from him or her after his or her retirement from executive duties, so that the firm grows under the guidance of persons who knows the firm well. In addition, firms which face difficult challenges may also be in favourable situation if former executives present on the board so that the firms can benefit from the experience and expertise brought by the former executives during the hard times. The effect of the presence of former executives as non-executive directors on the performance of firms with certain circumstances is an interesting topic for further researches.

Since most of the results of this research conflicts with the scholars' findings quoted in previous chapters, it is assumed that the results are dependent on performance measure(s) and the observation period. This discrepancy may be also attributable to methodological issues such as variables selection, type of industry of the sampled firms and sample size. For instance, the usage of corporate governance index (as an independent variable) and samples from all industries may produce different results because the index and such samples represent the corporate governance variables and listed firms (respectively) in a more

comprehensive manner. Also, the financial crisis occurred in 2007-2008 is thought to be an important factor which undermined the influence of corporate governance on firm performance, because the majority of listed firms, regardless the quality of corporate governance, suffered from deteriorated financial performance during the crisis.

This research also shows that the nature of relationship between corporate governance and firm performance in Germany, the United Kingdom and Indonesia is not homogeneous. Therefore, it supports institutional theory (Aguilera & Jackson, 2003) that argues that corporate governance is shaped by social relations and institutional arrangements of a country. This means that a "good" corporate governance practice in one country is not necessarily a "good" corporate governance practice in other countries. In other words, this research concludes that the saying "one size fits all" does not apply in the field of corporate governance.

B. Limitations

This research has some limitations which provide ample avenues for further research.

1. The samples are collected only from manufacturing industry. In order to better investigate the corporate governance-firm performance relationship in publicly traded firms, future researchers are advised to include samples from all industries. By adding firms of all industries into the sample, it is expected that the result will be more reliable and valid. Other possible alternative is to also investigate the corporate governance-firm performance relationship in other industries separately. By so doing, the researcher will be able to confirm whether the nature of the relationship is industry-dependent.
2. The financial crisis occurred during the observation period, particularly in 2008 is likely to undermine the relationship between corporate governance and firm performance. It is advisable for future researchers to control for this factor so that it can be assured that the investigated relationship between corporate governance and firm performance is "free" from externalities' effect. Other alternative is to also utilise non-financial measures for firm performance since it is assumed that such measures are less affected by the financial crisis. By so doing, the nature of corporate governance-firm performance relationship is expected to be easier to assess especially in 2008.

3. The sample size in this research is relatively small. Increasing the sample size may improve the validity and reliability of the research. This can be done by, for instance, adding firms of other all industries as already explained above. The sample size can also be increased by collecting information directly from the companies in addition to the annual reports. This is important since some information of several companies, especially their ownership structure, is not completely available on annual reports and financial databases.
4. The inconsistency between the findings on this research and the others occurred probably because the research generally does not take into account the interrelation between various elements of corporate governance in observed countries (as argued by Schmidt (2003)). It is possible that this interrelation affects the influence of these elements on firm performance. Therefore future researchers are recommended to take into account such interrelation in order to obtain more valid and reliable results.
5. Directors' ownership in this research does not distinguish the ownership caused by stock grant and by voluntary stock purchase. It is possible that the source of directors' ownership affects the directors' incentive to improve firm performance. Therefore it is advisable that future researchers also investigate the influence of directors' ownership on firm performance according to the source of ownership.
6. The type of shareholders is not taken into account in this research. Institutional investors, government, family and individual shareholders have interests which might be conflicting to each other. The influence of ownership concentration on firm performance might depend on the type of major shareholders. Therefore future researchers are recommended to also investigate this influence on firm performance with additional attention to the type of shareholders.
7. Executive remuneration in this research is measured with the total amount of money expended to remunerate the directors without paying attention to the remuneration design. It is possible that the directors' incentive is influenced by the remuneration design and hence the inclusion of remuneration design in the investigation of executive remuneration's influence on firm performance is expected to bring a more reliable and valid result.
8. The identification of family shareholders in this research does not include institutional or corporate shareholders with dominant family ownership. Such identification might be essential in determining the level of family shareholding of

a firm. Furthermore, the reliability and validity of the research will increase if the influence of family ownership on firm performance is also investigated according to the status of family shareholders (corporate or individual). Therefore it is advisable for future researchers to do deeper investigation on the status of firms' shareholders.

C. Recommendations for Practice

Based on the findings of this research, I recommend the following to be practiced.

1. As the findings show that directors' ownership generally does not significantly influence firm performance in Germany, the United Kingdom and Indonesia (only ROA in Germany is positively and significantly influenced by directors' ownership), stock grant and voluntary stock purchase are not recommended to improve firm performance in these countries.
2. The findings show that executive remuneration does not significantly influence MTB ratio in Germany, the United Kingdom and Indonesia. Hence they imply that executive remuneration is not an effective tool to improve firm performance in these countries.
3. As the findings show that family ownership negatively and significantly influences MTB ratio of firms in Germany, family shareholders in this country are suggested to limit their shareholding level. By limiting the level of share ownership, family shareholders of firms in Germany are expected to help keeping the positive market response towards the firm they own.

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APPENDIX

Table 1: R and R^2 for firms in Germany (ROA as performance measure):

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,463[a]	,214	,184	11,44487	2,106

a. Predictors: (Constant), Former Executives serving as Non-Executive Directors, Executive Remuneration, Ownership Concentration, Sales Growth, Codetermination, Family Ownership & Control, Total Assets, Directors' Ownership

b. Dependent Variable: Return On Assets

Table 2: R and R^2 for firms in Germany (MTB ratio as performance measure):

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,124[a]	,015	-,023	111,56988	1,981

a. Predictors: (Constant), Former Executives serving as Non-Executive Directors, Executive Remuneration, Ownership Concentration, Sales Growth, Codetermination, Family Ownership & Control, Total Assets, Directors' Ownership

b. Dependent Variable: Market-to-Book Ratio

Table 3: R and R^2 table for firms in the UK (ROA as performance measure):

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,398[a]	,158	,126	24,02591	2,107

a. Predictors: (Constant), Former Executives to Non Executives, Sales Growth, Family Ownership & Control, Ownership Concentration, Executive Remuneration, CEO-Chair Separation, Directors' Ownership, Total Assets

b. Dependent Variable: Return On Assets

Table 4: R and R^2 for firms in the UK (MTB ratio as performance measure)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,088[a]	,008	-,031	12,76031	1,915

a. Predictors: (Constant), Former Executives to Non Executives, Sales Growth, Family Ownership & Control, Ownership Concentration, Executive Remuneration, CEO-Chair Separation, Directors' Ownership, Total Assets

b. Dependent Variable: Market-to-Book Ratio

Table 5: R and R^2 for firms in Indonesia (ROA as performance measure)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,364[a]	,133	,103	8,45088	2,043

a. Predictors: (Constant), Former Executives Serving as Non Executive Directors, Sales Growth, Executive Remuneration, Directors' Ownership, Ownership Concentration, Family Ownership & Control, Total Assets

b. Dependent Variable: Return On Assets

Table 6: R and R^2 table for firms in Indonesia (MTB ratio as performance measure):

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,423[a]	,179	,151	1,53704	1,795

a. Predictors: (Constant), Former Executives Serving as Non Executive Directors, Sales Growth, Executive Remuneration, Directors' Ownership, Ownership Concentration, Family Ownership & Control, Total Assets

b. Dependent Variable: Market-to-Book Ratio

Table 7: R and R^2 table for firms in Germany and Indonesia (ROA as firm performance)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,416[a]	,173	,158	10,23714	2,060

a. Predictors: (Constant), Germany, Former Executives Serving as Non Executive Directors, Sales Growth, Directors' Ownership, Total Assets, Ownership Concentration, Family Ownership, ER_US DOLLARS

b. Dependent Variable: Return On Assets

Table 8: R and R^2 table for firms in Germany and Indonesia (MTB ratio as firm performance)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,104[a]	,011	-,008	78,32033	1,993

a. Predictors: (Constant), Germany, Former Executives Serving as Non Executive Directors, Sales Growth, Directors' Ownership, Total Assets, Ownership Concentration, Family Ownership, ER_US DOLLARS

b. Dependent Variable: Market-to-Book Ratio

Table 9: Collinearity statistics for Hypothesis 1 (Germany, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DO_c	1,000	1,000
2	(Constant)		
	DO_c	,219	4,576
	DO_c_sq	,219	4,576

a. Dependent Variable: Return On Assets

Table 10: Collinearity statistics for Hypothesis 1 (Germany, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DO_c	1,000	1,000
2	(Constant)		
	DO_c	,219	4,576
	DO_c_sq	,219	4,576

a. Dependent Variable: Market-to-Book Ratio

Table 11: Collinearity statistics for Hypothesis 1 (UK, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DO_c	1,000	1,000
2	(Constant)		
	DO_c	,146	6,829
	DO_c_sq	,146	6,829

a. Dependent Variable: Return On Assets

Table 12: Collinearity statistics for Hypothesis 1 (UK, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DO_c	1,000	1,000
2	(Constant)		
	DO_c	,146	6,829
	DO_c_sq	,146	6,829

a. Dependent Variable: Market-to-Book Ratio

Table 13: Collinearity statistics for Hypothesis 1 (Indonesia, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DO_c	1,000	1,000
2	(Constant)		
	DO_c	,174	5,760
	DO_c_sq	,174	5,760

a. Dependent Variable: Return On Assets

Table 14: Collinearity statistics for Hypothesis 1 (Indonesia, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DO_c	1,000	1,000
2	(Constant)		
	DO_c	,174	5,760
	DO_c_sq	,174	5,760

a. Dependent Variable: Market-to-Book Ratio

Table 15: Collinearity statistics for Hypotheses 3, 5, 6, 10 (Germany, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,590	1,695
	Executive Remuneration	,730	1,369
	Codetermination	,761	1,313
	Ownership Concentration	,887	1,127
	Family Ownership & Control	,614	1,630
	Total Assets	,684	1,462
	Sales Growth	,959	1,042
	Former Executives serving as Non-Executive Directors	,931	1,074

a. Dependent Variable: Return On Assets

Table 16: Collinearity statistics for Hypotheses 3, 5, 6, 10 (Germany, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,590	1,695
	Executive Remuneration	,730	1,369
	Codetermination	,761	1,313
	Ownership Concentration	,887	1,127
	Family Ownership & Control	,614	1,630
	Total Assets	,684	1,462
	Sales Growth	,959	1,042
	Former Executives serving as Non-Executive Directors	,931	1,074

a. Dependent Variable: Market-to-Book Ratio

Table 17: Collinearity statistics for Hypotheses 3, 5, 10 (Indonesia, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,925	1,081
	Executive Remuneration	,371	2,696
	Ownership Concentration	,826	1,210
	Family Ownership & Control	,884	1,131
	Total Assets	,357	2,799
	Sales Growth	,960	1,041
	Former Executives Serving as Non Executive Directors	,878	1,139

a. Dependent Variable: Return On Assets

Table 18: Collinearity statistics for Hypotheses 3, 5, 10 (Indonesia, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,925	1,081
	Executive Remuneration	,371	2,696
	Ownership Concentration	,826	1,210
	Family Ownership & Control	,884	1,131
	Total Assets	,357	2,799
	Sales Growth	,960	1,041
	Former Executives Serving as Non Executive Directors	,878	1,139

a. Dependent Variable: Market-to-Book Ratio

Table 19: Collinearity statistics for Hypothesis 3 (Germany and Indonesia, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,734	1,363
	Ownership Concentration	,943	1,060
	Family Ownership & Control	,732	1,365
	Total Assets	,641	1,561
	Sales Growth	,980	1,020
	Former Executives Serving as Non Executive Directors	,956	1,046
	ER_USD	,634	1,576

a. Dependent Variable: Return On Assets

Table 20: Collinearity statistics for Hypothesis 3 (Germany and Indonesia, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,734	1,363
	Ownership Concentration	,943	1,060
	Family Ownership & Control	,732	1,365
	Total Assets	,641	1,561
	Sales Growth	,980	1,020
	Former Executives Serving as Non Executive Directors	,956	1,046
	ER_USD	,634	1,576

a. Dependent Variable: Market-to-Book Ratio

Table 21: Collinearity statistics for Hypothesis 3, 5, and 10 (UK, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,656	1,525
	Executive Remuneration	,571	1,752
	CEO-Chair Separation	,765	1,307
	Ownership Concentration	,614	1,630
	Family Ownership & Control	,749	1,335
	Total Assets	,528	1,894
	Sales Growth	,919	1,088
	Former Executives to Non Executives	,964	1,037

a. Dependent Variable: Return On Assets

Table 22: Collinearity statistics for Hypotheses 3, 5, 10 (UK, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,656	1,525
	Executive Remuneration	,571	1,752
	CEO-Chair Separation	,765	1,307
	Ownership Concentration	,614	1,630
	Family Ownership & Control	,749	1,335
	Total Assets	,528	1,894
	Sales Growth	,919	1,088
	Former Executives to Non Executives	,964	1,037

a. Dependent Variable: Market-to-Book Ratio

Table 23: Collinearity statistics for Hypothesis 8 (UK (small firms), ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,662	1,511
	Executive Remuneration	,689	1,452
	CEO-Chair Separation	,776	1,289
	Ownership Concentration	,651	1,536
	Family Ownership & Control	,765	1,308
	Total Assets	,635	1,574
	Sales Growth	,917	1,090
	Former Executives to Non Executives	,852	1,174

a. Dependent Variable: Return on Assets

Table 24: Collinearity statistics for Hypothesis 8 (UK (small firms), MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Directors' Ownership	,662	1,511
	Executive Remuneration	,689	1,452
	CEO-Chair Separation	,776	1,289
	Ownership Concentration	,651	1,536
	Family Ownership & Control	,765	1,308
	Total Assets	,635	1,574
	Sales Growth	,917	1,090
	Former Executives to Non Executives	,852	1,174

a. Dependent Variable: Market-to-Book Ratio

Table 25: Collinearity statistics for Hypothesis 9 (Germany, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	FOC_c	1,000	1,000
2	(Constant)		
	FOC_c	,140	7,141
	FOC_c_sq	,140	7,141

a. Dependent Variable: Return On Assets

Table 26: Collinearity statistics for Hypothesis 9 (Germany, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	FOC_c	1,000	1,000
2	(Constant)		
	FOC_c	,140	7,141
	FOC_c_sq	,140	7,141

a. Dependent Variable: Market-to-Book Ratio

Table 27: Collinearity statistics for Hypothesis 9 (UK, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	FOC_c	1,000	1,000
2	(Constant)		
	FOC_c	,237	4,228
	FOC_c_sq	,237	4,228

a. Dependent Variable: Return On Assets

Table 28: Collinearity statistics for Hypothesis 9 (UK, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	FOC_c	1,000	1,000
2	(Constant)		
	FOC_c	,237	4,228
	FOC_c_sq	,237	4,228

a. Dependent Variable: Market-to-Book Ratio

Table 29: Collinearity statistics for Hypothesis 9 (Indonesia, ROA)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	FOC_c	1,000	1,000
2	(Constant)		
	FOC_c	,192	5,215
	FOC_c_sq	,192	5,215

a. Dependent Variable: Return On Assets

Table 30: Collinearity statistics for Hypothesis 9 (Indonesia, MTB ratio)

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	FOC_c	1,000	1,000
2	(Constant)		
	FOC_c	,192	5,215
	FOC_c_sq	,192	5,215

a. Dependent Variable: Market -to-Book Ratio

Table 31: Autocorrelation test for Hypothesis 1 (Germany, ROA)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,279[a]	,078	,074	12,19053	
2	,330[b]	,109	,100	12,01291	2,075

a. Predictors: (Constant), DO_c

b. Predictors: (Constant), DO_c, DO_c_sq

c. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* (2.075) is greater than *dL* (1.653) and *dU* (1.693).
Hence there is no statistical evidence that positive autocorrelation occurred.
To check if negative autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.
$4 - d = 4 - 2.075 = 1.925$ (greater than 1.653 and 1.693)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 32: Autocorrelation test for Hypothesis 1 (Germany, MTB ratio)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,015[a]	,000	-,004	110,55725	
2	,086[b]	,007	-,002	110,41792	2,009

a. Predictors: (Constant), DO_c

b. Predictors: (Constant), DO_c, DO_c_sq

c. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* value (2.009) is greater than *dL* (1.653) and *dU* (1.693). Hence there is no statistical evidence that positive autocorrelation occurred.
To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.
4 – *d* = 4 – 2.009 = 1.991 (greater than 1.653 and 1.693)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 33: Autocorrelation test for Hypothesis 1 (UK, ROA)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,017[a]	,000	-,004	25,75057	
2	,030[b]	,001	-,009	25,80346	2,147

a. Predictors: (Constant), DO_c
b. Predictors: (Constant), DO_c, DO_c_sq
c. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* (2.147) is greater than *dL* (1.653) and *dU* (1.693). Hence there is no statistical evidence that positive autocorrelation occurred.
To check if negative autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.
4 – *d* = 4 – 2.147 = 1.853 (greater than 1.653 and 1.693)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 34: Autocorrelation test for Hypothesis 1 (UK, MTB ratio)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,011[a]	,000	-,005	12,59678	
2	,044[b]	,002	-,007	12,61482	1,907

a. Predictors: (Constant), DO_c
b. Predictors: (Constant), DO_c, DO_c_sq
c. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* value (1.907) is greater than *dL* (1.653) and *dU* (1.693). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

4 – *d* = 4 – 1.907 = 2.093 (greater than 1.653 and 1.693)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 35: Autocorrelation test for Hypothesis 1 (Indonesia, ROA)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,111[a]	,012	,008	8,88951	
2	,126[b]	,016	,007	8,89426	2,035

a. Predictors: (Constant), DO_c

b. Predictors: (Constant), DO_c, DO_c_sq

c. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* value (2.035) is greater than *dL* (1.653) and *dU* (1.693). Hence there is no statistical evidence that positive autocorrelation occurred.
To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

4 – *d* = 4 – 2.035 = 1.965 (greater than 1.653 and 1.693)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 36: Autocorrelation test for Hypothesis 1 (Indonesia, MTB ratio)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,135[a]	,018	,014	1,65716	
2	,143[b]	,020	,011	1,65919	1,751

a. Predictors: (Constant), DO_c

b. Predictors: (Constant), DO_c, DO_c_sq

c. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* value (1.751) is greater than *dL* (1.653) and *dU* (1.693). Hence there is no statistical evidence that positive autocorrelation occurred.
To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

4 – *d* = 4 – 1.751 = 2.249 (greater than 1.653 and 1.693)

Hence there is no statistical evidence that negative autocorrelation occurred.

Table 37: Autocorrelation test for Hypotheses 3, 5, 6, 10 (Germany, ROA)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,463[a]	,214	,184	11,44487	2,106

a. Predictors: (Constant), Former Executives serving as Non-Executive Directors, Executive Remuneration, Ownership Concentration, Sales Growth, Codetermination, Family Ownership & Control, Total Assets, Directors' Ownership

b. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* value (2.106) is greater than *dL* (1.592) and *dU* (1.757). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

$4 - d = 4 - 2.106 = 1.894$ (greater than 1.592 and 1.757)

Hence there is no statistical evidence that negative autocorrelation occurred.

Table 38: Autocorrelation test for Hypotheses 3, 5, 6, 10 (Germany, MTB ratio)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,124[a]	,015	-,023	111,56988	1,981

a. Predictors: (Constant), Former Executives serving as Non-Executive Directors, Executive Remuneration, Ownership Concentration, Sales Growth, Codetermination, Family Ownership & Control, Total Assets, Directors' Ownership

b. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* value (1.981) is greater than *dL* (1.592) and *dU* (1.757). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

$4 - d = 4 - 1.981 = 2.019$ (greater than 1.592 and 1.757)

Hence there is no statistical evidence that negative autocorrelation occurred.

Table 39: Autocorrelation test for Hypotheses 3, 5, 10 (Indonesia, ROA)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,364[a]	,133	,103	8,45088	2,043

a. Predictors: (Constant), Former Executives Serving as Non Executive Directors, Sales Growth, Executive Remuneration, Directors' Ownership, Ownership Concentration, Family Ownership & Control, Total Assets

b. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* value (2.043) is greater than *dL* (1.603) and *dU* (1.746). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

4 – *d* = 4 – 2.043 = 1.957 (greater than 1.603 and 1.746)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 40: Autocorrelation test for Hypotheses 3, 5, 10 (Indonesia, MTB ratio)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,423[a]	,179	,151	1,53704	1,795

a. Predictors: (Constant), Former Executives Serving as Non Executive Directors, Sales Growth, Executive Remuneration, Directors' Ownership, Ownership Concentration, Family Ownership & Control, Total Assets

b. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* value (1.795) is greater than *dL* (1.603) and *dU* (1.746). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

4 – *d* = 4 – 1.795 = 2.205 (greater than 1.603 and 1.746)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 41: Autocorrelation test for Hypotheses 3 (Germany and Indonesia, ROA)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,387[a]	,150	,136	10,36846	2,020

a. Predictors: (Constant), ER_USD, Sales Growth, Former Executives Serving as Non Executive Directors, Family Ownership & Control, Ownership Concentration, Directors' Ownership, Total Assets

b. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* value (2.02) is greater than *dL* (1.603) and *dU* (1.746). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

$4 - d = 4 - 2.02 = 1.98$ (greater than 1.603 and 1.746)

Hence there is no statistical evidence that negative autocorrelation occurred.

Table 42: Autocorrelation test for Hypotheses 3 (Germany and Indonesia, MTB ratio)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,080[a]	,006	-,010	78,40365	1,987

a. Predictors: (Constant), ER_USD, Sales Growth, Former Executives Serving as Non Executive Directors, Family Ownership & Control, Ownership Concentration, Directors' Ownership, Total Assets

b. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* value (1.987) is greater than *dL* (1.603) and *dU* (1.746). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

$4 - d = 4 - 1.987 = 2.013$ (greater than 1.603 and 1.746)

Hence there is no statistical evidence that negative autocorrelation occurred.

Table 43: Autocorrelation test for Hypotheses 4, 5, 10 (UK, ROA)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,398[a]	,158	,126	24,02591	2,107

a. Predictors: (Constant), Former Executives to Non Executives, Sales Growth, Family Ownership & Control, Ownership Concentration, Executive Remuneration, CEO-Chair Separation, Directors' Ownership, Total Assets

b. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* value (2.107) is greater than *dL* (1.592) and *dU* (1.757). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

$4 - d = 4 - 2.107 = 1.893$ (greater than 1.592 and 1.757)

Hence there is no statistical evidence that negative autocorrelation occurred.

Table 44: Autocorrelation test for Hypotheses 4, 5, 10 (UK, MTB ratio)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,088[a]	,008	-,031	12,76031	1,915

a. Predictors: (Constant), Former Executives to Non Executives, Sales Growth, Family Ownership & Control, Ownership Concentration, Executive Remuneration, CEO-Chair Separation, Directors' Ownership, Total Assets

b. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* value (1.915) is greater than *dL* (1.592) and *dU* (1.757). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

$4 - d = 4 - 1.915 = 2.085$ (greater than 1.592 and 1.757)

Hence there is no statistical evidence that negative autocorrelation occurred.

Table 45: Autocorrelation test for Hypothesis 8 (ROA)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,455[a]	,207	,166	25,51583	1,958

a. Predictors: (Constant), Former Executives to Non Executives, Family Ownership & Control, Sales Growth, Executive Remuneration, Directors' Ownership, CEO-Chair Separation, Ownership Concentration, Total Assets

b. Dependent Variable: Return on Assets

According to Durbin-Watson tables, *d* value (1.958) is greater than *dL* (1.515) and *dU* (1.737). Hence there is no statistical evidence that positive autocorrelation occurred.
To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.
$4 - d = 4 - 1.958 = 2.042$ (greater than 1.515 and 1.737)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 46: Autocorrelation test for Hypothesis 8 (MTB ratio)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,071[a]	,005	-,046	14,68084	1,905

a. Predictors: (Constant), Former Executives to Non Executives, Family Ownership & Control, Sales Growth, Executive Remuneration, Directors' Ownership, CEO-Chair Separation, Ownership Concentration, Total Assets

b. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* value (1.905) is greater than *dL* (1.515) and *dU* (1.737). Hence there is no statistical evidence that positive autocorrelation occurred.
To check if positive autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.
$4 - d = 4 - 1.905 = 2.095$ (greater than 1.515 and 1.737)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 47: Autocorrelation test for Hypothesis 9 (Germany, ROA)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,235[a]	,055	,051	12,34097	
2	,296[b]	,087	,079	12,15649	2,095

a. Predictors: (Constant), FOC_c

b. Predictors: (Constant), FOC_c, FOC_c_sq

c. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* (2.095) is greater than *dL* (1.653) and *dU* (1.693).
Hence there is no statistical evidence that positive autocorrelation occurred.
To check if negative autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.
4 – *d* = 4 – 2.095 = 1.905 (greater than 1.653 and 1.693)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 48: Autocorrelation test for Hypothesis 9 (Germany, MTB ratio)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,054[a]	,003	-,002	110,41083	
2	,182[b]	,033	,024	108,98856	2,023

a. Predictors: (Constant), FOC_c

b. Predictors: (Constant), FOC_c, FOC_c_sq

c. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* (2.023) is greater than *dL* (1.653) and *dU* (1.693).
Hence there is no statistical evidence that positive autocorrelation occurred.
To check if negative autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.
4 – *d* = 4 – 2.023 = 1.977 (greater than 1.653 and 1.693)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 49: Autocorrelation test for Hypothesis 9 (UK, ROA)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,135[a]	,018	,014	25,51835	
2	,158[b]	,025	,016	25,48917	2,070

a. Predictors: (Constant), FOC_c

b. Predictors: (Constant), FOC_c, FOC_c_sq

c. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* (2.07) is greater than *dL* (1.653) and *dU* (1.693). Hence there is no statistical evidence that positive autocorrelation occurred.

To check if negative autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

$4 - d = 4 - 2.07 = 1.93$ (greater than 1.653 and 1.693)

Hence there is no statistical evidence that negative autocorrelation occurred.

Table 50: Autocorrelation test for Hypothesis 9 (UK, MTB ratio)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,048[a]	,002	-,002	12,58278	
2	,090[b]	,008	-,001	12,57551	1,917

a. Predictors: (Constant), FOC_c

b. Predictors: (Constant), FOC_c, FOC_c_sq

c. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* (1.917) is greater than *dL* (1.653) and *dU* (1.693).

Hence there is no statistical evidence that positive autocorrelation occurred.

To check if negative autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.

$4 - d = 4 - 1.917 = 2.083$ (greater than 1.653 and 1.693)

Hence there is no statistical evidence that negative autocorrelation occurred.

Table 51: Autocorrelation test for Hypothesis 9 (Indonesia, ROA)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,007[a]	,000	-,005	8,94474	
2	,032[b]	,001	-,008	8,96132	1,993

a. Predictors: (Constant), FOC_c

b. Predictors: (Constant), FOC_c, FOC_c_sq

c. Dependent Variable: Return On Assets

According to Durbin-Watson tables, *d* (1.993) is greater than *dL* (1.653) and *dU* (1.693).
Hence there is no statistical evidence that positive autocorrelation occurred.
To check if negative autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.
4 – *d* = 4 – 1.993 = 2.007 (greater than 1.653 and 1.693)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 52: Autocorrelation test for Hypothesis 9 (Indonesia, MTB ratio)

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,113[a]	,013	,008	1,66170	
2	,116[b]	,014	,004	1,66494	1,714

a. Predictors: (Constant), FOC_c

b. Predictors: (Constant), FOC_c, FOC_c_sq

c. Dependent Variable: Market-to-Book Ratio

According to Durbin-Watson tables, *d* (1.714) is greater than *dL* (1.653) and *dU* (1.693).
Hence there is no statistical evidence that positive autocorrelation occurred.
To check if negative autocorrelation occurred, the value of (4 - *d*) is compared with the values of *dL* and *dU*.
4 – *d* = 4 – 1.714 = 2.286 (greater than 1.653 and 1.693)
Hence there is no statistical evidence that negative autocorrelation occurred.

Table 53: Regression result for Hypotheses 3, 5, 6, 10 (Germany, ROA, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-7,755	5,351		-1,449	,156
	Directors Ownership	,028	,126	,043	,225	,823
	Executive Remuneration	,003	,002	,236	1,399	,171
	Codetermination	,073	,115	,105	,635	,530
	Ownership Concentration	,034	,077	,067	,439	,663
	Family Ownership & Control	,117	,112	,187	1,047	,303
	Total Assets	,001	,009	,012	,068	,946
	Sales Growth	,278	,101	,403	2,767	,009
	Former Executives Serving as Non Executive Directors	2,633	4,279	,093	,615	,542

a. Dependent Variable: Return On Assets

Table 54: Regression result for Hypotheses 3, 5, 6, 10 (Germany, MTB ratio, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4,768	23,618		,202	,840
	Directors' Ownership	-,283	,538	-,047	-,525	,600
	Executive Remuneration	-,006	,012	-,040	-,492	,623
	Codetermination	-,297	,504	-,047	-,590	,556
	Ownership Concentration	,350	,344	,075	1,018	,310
	Family Ownership & Control	,329	,499	,058	,658	,511
	Total Assets	-,003	,042	-,006	-,072	,943
	Sales Growth	-,090	,288	-,022	-,312	,755
	Former Executives Serving as Non Executive Directors	-7,984	18,182	-,031	-,439	,661

a. Dependent Variable: Market-to-Book Ratio

Table 55: Regression result for Hypotheses 3, 5, 6, 10 (Germany, ROA, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,844	4,656		-,181	,857
	Directors Ownership	,176	,116	,319	1,523	,137
	Executive Remuneration	,003	,002	,219	1,237	,224
	Codetermination	,095	,101	,167	,946	,351
	Ownership Concentration	-,041	,069	-,101	-,596	,555
	Family Ownership & Control	,040	,098	,080	,415	,681
	Total Assets	-,005	,009	-,103	-,537	,595
	Sales Growth	,098	,075	,219	1,318	,196
	Former Executives Serving as Non Executive Directors	-,142	4,015	-,006	-,035	,972

a. Dependent Variable: Return On Assets

Table 56: Regression result for Hypotheses 3, 5, 6, 10 (Germany, MTB ratio, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,550	,896		,613	,544
	Directors Ownership	,035	,022	,326	1,590	,121
	Executive Remuneration	,001	,000	,344	1,990	,055
	Codetermination	,008	,019	,073	,421	,676
	Ownership Concentration	-,009	,013	-,115	-,694	,493
	Family Ownership & Control	,011	,019	,112	,588	,561
	Total Assets	-,002	,002	-,255	-1,365	,181
	Sales Growth	,007	,014	,085	,521	,606
	Former Executives Serving as Non Executive Directors	,661	,773	,132	,856	,398

a. Dependent Variable: Market-to-Book Ratio

Table 57: Regression result for Hypotheses 3, 5, 6, 10 (Germany, ROA, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5,489	4,755		-1,154	,256
	Directors Ownership	,155	,100	,298	1,549	,131
	Executive Remuneration	,003	,002	,227	1,253	,219
	Codetermination	,120	,096	,214	1,255	,218
	Ownership Concentration	,100	,067	,231	1,483	,147
	Family Ownership & Control	,005	,102	,010	,049	,961
	Total Assets	-,006	,008	-,133	-,729	,471
	Sales Growth	,048	,069	,116	,691	,494
	Former Executives Serving as Non Executive Directors	-3,922	3,448	-,176	-1,137	,263

a. Dependent Variable: Return On Assets

Table 58: Regression result for Hypotheses 3, 5, 6, 10 (Germany, MTB ratio, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	47,242	133,842		,353	,726
	Directors Ownership	-2,203	2,822	-,169	-,780	,441
	Executive Remuneration	-,060	,068	-,180	-,888	,381
	Codetermination	-1,606	2,700	-,114	-,595	,556
	Ownership Concentration	1,614	1,894	,149	,853	,400
	Family Ownership & Control	2,787	2,862	,225	,974	,337
	Total Assets	,056	,230	,050	,243	,809
	Sales Growth	-1,579	1,939	-,153	-,815	,421
	Former Executives Serving as Non Executive Directors	-40,612	97,054	-,073	-,418	,678

a. Dependent Variable: Market-to-Book Ratio

Table 59: Regression result for Hypotheses 3, 5, 6, 10 (Germany, ROA, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-8,134	4,810		-1,691	,100
	Directors Ownership	,099	,112	,155	,879	,385
	Executive Remuneration	,004	,003	,215	1,313	,198
	Codetermination	,018	,096	,028	,189	,851
	Ownership Concentration	,084	,074	,160	1,148	,259
	Family Ownership & Control	,004	,107	,007	,041	,967
	Total Assets	-,004	,009	-,082	-,502	,619
	Sales Growth	,211	,052	,546	4,087	,000
	Former Executives Serving as Non Executive Directors	,811	3,603	,032	,225	,823

a. Dependent Variable: Return On Assets

Table 60: Regression result for Hypotheses 3, 5, 6, 10 (Germany, MTB ratio, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,969	1,779		1,669	,104
	Directors Ownership	-,011	,042	-,054	-,261	,796
	Executive Remuneration	,000	,001	,039	,203	,841
	Codetermination	-,032	,036	-,154	-,899	,375
	Ownership Concentration	-,030	,027	-,183	-1,117	,272
	Family Ownership & Control	,062	,040	,327	1,558	,129
	Total Assets	-,002	,003	-,094	-,490	,627
	Sales Growth	-,011	,019	-,090	-,576	,569
	Former Executives Serving as Non Executive Directors	2,245	1,333	,278	1,684	,101

a. Dependent Variable: Market-to-Book Ratio

Table 61: Regression result for Hypotheses 3, 5, 6, 10 (Germany, ROA, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-17,432	7,520		-2,318	,027
	Directors Ownership	,506	,165	,552	3,059	,004
	Executive Remuneration	,005	,004	,201	1,261	,216
	Codetermination	,262	,164	,256	1,596	,120
	Ownership Concentration	,078	,107	,108	,728	,472
	Family Ownership & Control	,095	,157	,105	,607	,548
	Total Assets	-,011	,014	-,136	-,819	,419
	Sales Growth	-,072	,079	-,143	-,911	,369
	Former Executives Serving as Non Executive Directors	8,350	5,699	,217	1,465	,152

a. Dependent Variable: Return On Assets

Table 62: Regression result for Hypotheses 3, 5, 6, 10 (Germany, MTB ratio, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,230	,547		,420	,677
	Directors Ownership	,020	,012	,302	1,661	,106
	Executive Remuneration	,000	,000	,177	1,102	,278
	Codetermination	,009	,012	,120	,743	,463
	Ownership Concentration	-,001	,008	-,013	-,084	,933
	Family Ownership & Control	,029	,011	,443	2,541	,016
	Total Assets	-,001	,001	-,111	-,668	,509
	Sales Growth	-,006	,006	-,176	-1,108	,276
	Former Executives Serving as Non Executive Directors	,332	,415	,119	,801	,429

a. Dependent Variable: Market-to-Book Ratio

Table 63: Regression result for Hypotheses 3, 5, 10 (Indonesia, ROA, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,227	6,112		,692	,494
	Directors Ownership	-,003	,101	-,004	-,027	,978
	Executive Remuneration	2,279E-5	,000	,034	,134	,894
	Ownership Concentration	,034	,079	,072	,424	,674
	Family Ownership & Control	,123	,117	,158	1,059	,297
	Total Assets	,002	,008	,071	,275	,785
	Sales Growth	,286	,079	,539	3,633	,001
	Former Executives Serving as Non Executive Directors	-4,995	2,641	-,297	-1,891	,067

a. Dependent Variable: Return On Assets

Table 64: Regression result for Hypotheses 3, 5, 10 (Indonesia, MTB ratio, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,036	1,573		,023	,982
	Directors Ownership	-,012	,026	-,067	-,481	,634
	Executive Remuneration	-1,347E-5	,000	-,075	-,307	,761
	Ownership Concentration	,017	,020	,136	,846	,403
	Family Ownership & Control	-,028	,030	-,132	-,927	,360
	Total Assets	,004	,002	,486	1,969	,057
	Sales Growth	,062	,020	,430	3,040	,004
	Former Executives Serving as Non Executive Directors	-1,094	,680	-,241	-1,609	,117

a. Dependent Variable: Market-to-Book Ratio

Table 65: Regression result for Hypotheses 3, 5, 10 (Indonesia, ROA, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,310	6,118		,868	,391
	Directors Ownership	-,106	,113	-,151	-,936	,356
	Executive Remuneration	-4,333E-5	,000	-,063	-,239	,812
	Ownership Concentration	,049	,079	,106	,622	,538
	Family Ownership & Control	-,037	,135	-,045	-,270	,789
	Total Assets	,009	,010	,254	,928	,360
	Sales Growth	,006	,051	,018	,110	,913
	Former Executives Serving as Non Executive Directors	-5,593	2,912	-,324	-1,920	,063

a. Dependent Variable: Return On Assets

Table 66: Regression result for Hypotheses 3, 5, 10 (Indonesia, MTB ratio, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,553	1,199		-,461	,648
	Directors Ownership	-,026	,022	-,176	-1,172	,249
	Executive Remuneration	-1,693E-5	,000	-,117	-,477	,636
	Ownership Concentration	,030	,016	,304	1,915	,064
	Family Ownership & Control	,021	,027	,123	,790	,435
	Total Assets	,004	,002	,487	1,908	,065
	Sales Growth	-,018	,010	-,278	-1,788	,082
	Former Executives Serving as Non Executive Directors	,271	,571	,075	,475	,637

a. Dependent Variable: Market-to-Book Ratio

Table 67: Regression result for Hypotheses 3, 5, 10 (Indonesia, ROA, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3,937	4,582		,859	,396
	Directors Ownership	-,108	,081	-,211	-1,342	,188
	Executive Remuneration	,000	,000	,221	,853	,399
	Ownership Concentration	,033	,057	,103	,589	,560
	Family Ownership & Control	-,006	,098	-,009	-,057	,955
	Total Assets	,004	,009	,123	,479	,635
	Sales Growth	-,001	,045	-,002	-,011	,991
	Former Executives Serving as Non Executive Directors	-,520	2,104	-,040	-,247	,806

a. Dependent Variable: Return On Assets

Table 68: Regression result for Hypotheses 3, 5, 10 (Indonesia, MTB, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,854	1,357		-,629	,533
	Directors Ownership	-,017	,024	-,110	-,705	,485
	Executive Remuneration	-2,902E-5	,000	-,156	-,608	,547
	Ownership Concentration	,025	,017	,257	1,499	,143
	Family Ownership & Control	-,004	,029	-,022	-,142	,888
	Total Assets	,004	,003	,423	1,663	,105
	Sales Growth	,019	,013	,225	1,447	,157
	Former Executives Serving as Non Executive Directors	-,008	,623	-,002	-,014	,989

a. Dependent Variable: Market-to-Book Ratio

Table 69: Regression result for Hypotheses 3, 5, 10 (Indonesia, ROA, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1,398	4,878		-,287	,776
	Directors Ownership	-,201	,094	-,312	-2,131	,040
	Executive Remuneration	3,709E-5	,000	,035	,164	,870
	Ownership Concentration	,083	,064	,201	1,288	,206
	Family Ownership & Control	,123	,131	,147	,933	,357
	Total Assets	,008	,011	,169	,793	,433
	Sales Growth	,092	,038	,367	2,439	,020
	Former Executives Serving as Non Executive Directors	-2,952	2,421	-,186	-1,219	,231

a. Dependent Variable: Return On Assets

Table 70: Regression result for Hypotheses 3, 5, 10 (Indonesia, MTB ratio, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,202	,819		-,247	,807
	Directors Ownership	-,018	,016	-,183	-1,118	,271
	Executive Remuneration	-1,553E-5	,000	-,097	-,410	,685
	Ownership Concentration	,019	,011	,300	1,721	,094
	Family Ownership & Control	,009	,022	,071	,404	,689
	Total Assets	,002	,002	,229	,963	,342
	Sales Growth	,006	,006	,152	,904	,372
	Former Executives Serving as Non Executive Directors	-,256	,407	-,107	-,629	,534

a. Dependent Variable: Market-to-Book Ratio

Table 71: Regression result for Hypotheses 3, 5, 10 (Indonesia, ROA, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2,165	7,837		-,276	,784
	Directors Ownership	-,129	,157	-,122	-,826	,414
	Executive Remuneration	,001	,000	,600	3,018	,005
	Ownership Concentration	,120	,100	,180	1,202	,237
	Family Ownership & Control	,122	,210	,091	,580	,566
	Total Assets	-,060	,023	-,529	-2,593	,014
	Sales Growth	,272	,134	,304	2,033	,050
	Former Executives Serving as Non Executive Directors	-,785	3,926	-,030	-,200	,843

a. Dependent Variable: Return On Assets

Table 72: Regression result for Hypotheses 3, 5, 10 (Indonesia, MTB ratio, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,239	,514		,465	,645
	Directors Ownership	-,002	,010	-,031	-,185	,854
	Executive Remuneration	2,396E-5	,000	,258	1,153	,257
	Ownership Concentration	,009	,007	,231	1,367	,180
	Family Ownership & Control	,004	,014	,051	,291	,773
	Total Assets	,000	,002	-,070	-,307	,761
	Sales Growth	-,001	,009	-,019	-,112	,912
	Former Executives Serving as Non Executive Directors	-,211	,257	-,140	-,820	,418

a. Dependent Variable: Market-to-Book Ratio

Table 73: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, ROA, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,114	4,260		,496	,621
	Directors' Ownership	,004	,076	,006	,052	,958
	Ownership Concentration	,030	,050	,068	,601	,550
	Family Ownership & Control	,115	,074	,170	1,544	,127
	Total Assets	-,001	,006	-,028	-,217	,828
	Sales Growth	,275	,062	,428	4,468	,000
	Former Executives Serving as Non Executive Directors	-1,605	2,240	-,070	-,716	,476
	ER_USD	,002	,001	,195	1,549	,125
	Germany	-5,697	2,442	-,268	-2,333	,022

a. Dependent Variable: Return On Assets

Table 74: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, MTB ratio, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,252	,925		,272	,786
	Directors' Ownership	,024	,016	,168	1,430	,157
	Ownership Concentration	,005	,011	,059	,497	,620
	Family Ownership & Control	,011	,016	,083	,713	,478
	Total Assets	,001	,001	,058	,431	,667
	Sales Growth	,038	,013	,289	2,848	,006
	Former Executives Serving as Non Executive Directors	-,008	,486	-,002	-,017	,986
	ER_USD	,001	,000	,275	2,068	,042
	Germany	-,257	,530	-,059	-,485	,629

a. Dependent Variable: Market-to-Book Ratio

Table 75: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, ROA, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,513	4,130		1,335	,186
	Directors' Ownership	,044	,077	,073	,576	,566
	Ownership Concentration	,003	,048	,009	,071	,944
	Family Ownership & Control	,038	,073	,065	,519	,605
	Total Assets	,003	,005	,078	,595	,554
	Sales Growth	,051	,041	,136	1,235	,221
	Former Executives Serving as Non Executive Directors	-3,268	2,316	-,157	-1,411	,162
	ER_USD	,001	,001	,150	1,135	,260
	Germany	-5,569	2,471	-,298	-2,254	,027

a. Dependent Variable: Return On Assets

Table 76: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, MTB ratio, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,742	,812		,914	,363
	Directors' Ownership	,007	,015	,060	,485	,629
	Ownership Concentration	,005	,009	,061	,501	,618
	Family Ownership & Control	,016	,014	,135	1,096	,277
	Total Assets	,000	,001	,021	,166	,868
	Sales Growth	-,004	,008	-,058	-,535	,594
	Former Executives Serving as Non Executive Directors	,643	,455	,154	1,412	,162
	ER_USD	,001	,000	,328	2,530	,013
	Germany	-,873	,486	-,233	-1,798	,076

a. Dependent Variable: Market-to-Book Ratio

Table 77: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, ROA, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,874	3,788		-,231	,818
	Directors' Ownership	,024	,063	,046	,379	,706
	Ownership Concentration	,092	,043	,257	2,142	,035
	Family Ownership & Control	,065	,065	,126	1,001	,320
	Total Assets	,004	,005	,109	,854	,396
	Sales Growth	,023	,041	,067	,571	,569
	Former Executives Serving as Non Executive Directors	-1,730	1,987	-,095	-,871	,386
	ER_USD	,001	,001	,118	,861	,392
	Germany	-2,957	2,349	-,179	-1,259	,212

a. Dependent Variable: Return On Assets

Table 78: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, MTB ratio, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-38,576	84,764		-,455	,650
	Directors' Ownership	-,758	1,405	-,070	-,539	,591
	Ownership Concentration	1,060	,961	,141	1,102	,274
	Family Ownership & Control	1,486	1,455	,137	1,022	,310
	Total Assets	,010	,115	,012	,088	,930
	Sales Growth	-,558	,911	-,077	-,612	,542
	Former Executives Serving as Non Executive Directors	-22,919	44,455	-,060	-,516	,608
	ER_USD	-,026	,025	-,147	-1,010	,315
	Germany	62,595	52,561	,181	1,191	,237

a. Dependent Variable: Market-to-Book Ratio

Table 79: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, ROA, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4,860	3,814		-1,274	,206
	Directors' Ownership	-,029	,072	-,043	-,396	,693
	Ownership Concentration	,092	,047	,199	1,955	,054
	Family Ownership & Control	,069	,074	,102	,938	,351
	Total Assets	-,001	,006	-,014	-,129	,898
	Sales Growth	,152	,032	,498	4,806	,000
	Former Executives Serving as Non Executive Directors	-,597	2,045	-,027	-,292	,771
	ER_USD	,002	,001	,172	1,400	,166
	Germany	-2,703	2,655	-,129	-1,018	,312

a. Dependent Variable: Return On Assets

Table 80: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, MTB ratio, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,330	1,214		1,095	,277
	Directors' Ownership	-,008	,023	-,046	-,349	,728
	Ownership Concentration	-,006	,015	-,047	-,381	,705
	Family Ownership & Control	,031	,023	,179	1,340	,184
	Total Assets	-,002	,002	-,140	-1,049	,298
	Sales Growth	-,001	,010	-,009	-,067	,947
	Former Executives Serving as Non Executive Directors	,697	,651	,120	1,071	,288
	ER_USD	,000	,000	,142	,942	,349
	Germany	,426	,845	,078	,504	,616

a. Dependent Variable: Market-to-Book Ratio

Table 81: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, ROA, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9,719	6,143		-1,582	,118
	Directors' Ownership	,238	,115	,256	2,077	,041
	Ownership Concentration	,127	,074	,204	1,706	,092
	Family Ownership & Control	,097	,120	,100	,810	,421
	Total Assets	-,011	,011	-,128	-,976	,332
	Sales Growth	-,011	,066	-,020	-,173	,863
	Former Executives Serving as Non Executive Directors	3,454	3,461	,106	,998	,321
	ER_USD	,005	,002	,299	2,280	,025
	Germany	-3,909	4,030	-,128	-,970	,335

a. Dependent Variable: Return On Assets

Table 82: Regression result for Hypotheses 3, 5, 10 (Germany and Indonesia, MTB ratio, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,251	,405		,620	,537
	Directors' Ownership	,011	,008	,171	1,432	,156
	Ownership Concentration	,005	,005	,126	1,090	,279
	Family Ownership & Control	,022	,008	,327	2,750	,007
	Total Assets	,000	,001	-,075	-,592	,555
	Sales Growth	-,005	,004	-,133	-1,166	,247
	Former Executives Serving as Non Executive Directors	-,051	,228	-,023	-,222	,825
	ER_USD	,000	,000	,285	2,246	,028
	Germany	-,063	,266	-,030	-,238	,812

a. Dependent Variable: Market-to-Book Ratio

Table 83: Regression result for Hypotheses 4, 5, 10 (UK, ROA, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-25,488	38,264		-,666	,510
	Directors Ownership	,096	,507	,037	,189	,851
	Executive Remuneration	,011	,015	,166	,744	,462
	CEO-Chair Separation	-16,472	27,881	-,118	-,591	,559
	Ownership Concentration	,080	,605	,026	,131	,896
	Family Ownership & Control	,515	,543	,175	,948	,350
	Total Assets	,057	,046	,295	1,224	,229
	Sales Growth	-,001	,010	-,013	-,072	,943
	Former Executives Serving as Non Executive Directors	19,631	18,915	,179	1,038	,307

a. Dependent Variable: Return On Assets

Table 84: Regression result for Hypotheses 4, 5, 10 (UK, MTB ratio, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-14,692	26,206		-,561	,579
	Directors Ownership	-,169	,347	-,101	-,487	,630
	Executive Remuneration	,000	,010	-,006	-,024	,981
	CEO-Chair Separation	-6,441	19,095	-,072	-,337	,738
	Ownership Concentration	,330	,415	,171	,797	,431
	Family Ownership & Control	-,162	,372	-,086	-,437	,665
	Total Assets	,028	,032	,229	,892	,379
	Sales Growth	,000	,007	-,006	-,029	,977
	Former Executives Serving as Non Executive Directors	9,986	12,954	,141	,771	,446

a. Dependent Variable: Market-to-Book Ratio

Table 85: Regression result for Hypotheses 4, 5, 10 (UK, ROA, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-14,752	15,093		-,977	,335
	Directors' Ownership	-,071	,218	-,067	-,326	,746
	Executive Remuneration	,007	,006	,244	1,190	,242
	CEO-Chair Separation	1,740	9,740	,031	,179	,859
	Ownership Concentration	,036	,255	,028	,141	,889
	Family Ownership & Control	,255	,207	,218	1,229	,227
	Total Assets	,019	,017	,239	1,121	,270
	Sales Growth	-,008	,020	-,066	-,416	,680
	Former Executives Serving as Non-Executive Directors	2,252	6,928	,053	,325	,747

a. Dependent Variable: Return On Assets

Table 86: Regression result for Hypotheses 4, 5, 10 (UK, MTB ratio, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11,400	7,255		1,571	,125
	Directors' Ownership	,128	,105	,255	1,221	,230
	Executive Remuneration	,002	,003	,144	,692	,493
	CEO-Chair Separation	-,601	4,682	-,022	-,128	,899
	Ownership Concentration	-,251	,123	-,416	-2,044	,049
	Family Ownership & Control	,008	,100	,014	,080	,937
	Total Assets	-,006	,008	-,154	-,714	,480
	Sales Growth	-,012	,010	-,206	-1,282	,208
	Former Executives Serving as Non-Executive Directors	,165	3,330	,008	,049	,961

a. Dependent Variable: Market-to-Book Ratio

Table 87: Regression result for Hypotheses 4, 5, 10 (UK, ROA, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-12,454	17,915		-,695	,492
	Directors' Ownership	,128	,195	,110	,656	,517
	Executive Remuneration	,013	,009	,312	1,394	,172
	CEO-Chair Separation	2,076	13,905	,022	,149	,882
	Ownership Concentration	-,190	,253	-,141	-,751	,458
	Family Ownership & Control	,429	,224	,303	1,918	,063
	Total Assets	,015	,020	,159	,754	,456
	Sales Growth	,068	,035	,340	1,929	,062
	Former Executives Serving as Non-Executive Directors	4,183	8,625	,068	,485	,631

a. Dependent Variable: Return On Assets

Table 88: Regression result for Hypotheses 4, 5, 10 (UK, MTB ratio, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8,875	3,867		2,295	,028
	Directors' Ownership	,050	,042	,209	1,182	,246
	Executive Remuneration	,001	,002	,158	,668	,509
	CEO-Chair Separation	,693	3,001	,036	,231	,819
	Ownership Concentration	-,151	,055	-,549	-2,769	,009
	Family Ownership & Control	-,033	,048	-,113	-,678	,502
	Total Assets	-,007	,004	-,370	-1,654	,107
	Sales Growth	,017	,008	,431	2,310	,027
	Former Executives Serving as Non-Executive Directors	-,969	1,862	-,077	-,521	,606

a. Dependent Variable: Market-to-Book Ratio

Table 89: Regression result for Hypotheses 4, 5, 10 (UK, ROA, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-16,455	24,857		-,662	,512
	Directors' Ownership	,034	,180	,033	,191	,850
	Executive Remuneration	,021	,008	,472	2,672	,011
	CEO-Chair Separation	5,641	20,870	,044	,270	,789
	Ownership Concentration	-,145	,241	-,105	-,601	,552
	Family Ownership & Control	,456	,230	,341	1,983	,056
	Total Assets	-,008	,017	-,083	-,452	,654
	Sales Growth	-,165	,061	-,385	-2,702	,011
	Former Executives Serving as Non-Executive Directors	,499	8,789	,008	,057	,955

a. Dependent Variable: Return On Assets

Table 90: Regression result for Hypotheses 4, 5, 10 (UK, MTB ratio, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,611	3,168		1,771	,085
	Directors' Ownership	,040	,023	,335	1,756	,088
	Executive Remuneration	,001	,001	,204	1,054	,299
	CEO-Chair Separation	,406	2,660	,027	,153	,880
	Ownership Concentration	-,089	,031	-,552	-2,879	,007
	Family Ownership & Control	-,011	,029	-,072	-,384	,703
	Total Assets	-,005	,002	-,429	-2,136	,040
	Sales Growth	-,003	,008	-,064	-,409	,685
	Former Executives Serving as Non-Executive Directors	-,954	1,120	-,137	-,852	,400

a. Dependent Variable: Market-to-Book Ratio

Table 91: Regression result for Hypotheses 4, 5, 10 (UK, ROA, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-73,408	18,867		-3,891	,000
	Directors' Ownership	-,237	,209	-,195	-1,135	,264
	Executive Remuneration	,010	,011	,175	,926	,361
	CEO-Chair Separation	30,802	13,658	,380	2,255	,031
	Ownership Concentration	,549	,304	,332	1,804	,080
	Family Ownership & Control	,530	,274	,315	1,933	,062
	Total Assets	,025	,020	,229	1,255	,218
	Sales Growth	-,275	,097	-,395	-2,848	,007
	Former Executives Serving as Non-Executive Directors	1,949	10,112	,027	,193	,848

a. Dependent Variable: Return On Assets

Table 92: Regression result for Hypotheses 4, 5, 10 (UK, MTB ratio, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6,900	1,630		4,234	,000
	Directors' Ownership	,050	,018	,416	2,748	,010
	Executive Remuneration	,001	,001	,199	1,192	,242
	CEO-Chair Separation	,004	1,180	,000	,003	,998
	Ownership Concentration	-,132	,026	-,815	-5,017	,000
	Family Ownership & Control	-,003	,024	-,017	-,116	,909
	Total Assets	-,006	,002	-,524	-3,249	,003
	Sales Growth	-,020	,008	-,298	-2,432	,020
	Former Executives Serving as Non-Executive Directors	-,182	,873	-,025	-,208	,836

a. Dependent Variable: Market-to-Book Ratio

Table 93: Regression result for Hypothesis 8 (ROA, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-51,050	43,302		-1,179	,250
	Directors Ownership	,095	,555	,037	,172	,865
	Executive Remuneration	-,010	,025	-,103	-,406	,688
	CEO-Chair Separation	-12,820	30,086	-,095	-,426	,674
	Ownership Concentration	,365	,697	,108	,524	,606
	Family Ownership & Control	,654	,597	,223	1,096	,285
	Total Assets	,467	,207	,567	2,259	,034
	Sales Growth	3,090E-5	,011	,001	,003	,998
	Former Executives Serving as Non Executive Directors	2,048	22,510	,019	,091	,928

a. Dependent Variable: Return On Assets

Table 94: Regression result for Hypothesis 8 (MTB ratio, 2012)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-24,222	32,892		-,736	,469
	Directors Ownership	-,186	,421	-,108	-,441	,663
	Executive Remuneration	-,011	,019	-,164	-,570	,574
	CEO-Chair Separation	-4,936	22,853	-,054	-,216	,831
	Ownership Concentration	,471	,530	,207	,889	,383
	Family Ownership & Control	-,110	,453	-,056	-,243	,810
	Total Assets	,173	,157	,313	1,100	,283
	Sales Growth	,000	,009	,008	,034	,973
	Former Executives Serving as Non Executive Directors	3,905	17,098	,054	,228	,821

a. Dependent Variable: Market-to-Book Ratio

Table 95: Regression result for Hypothesis 8 (ROA, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-23,975	16,553		-1,448	,160
	Directors Ownership	-,005	,232	-,005	-,022	,982
	Executive Remuneration	-,003	,008	-,086	-,391	,699
	CEO-Chair Separation	2,492	10,006	,047	,249	,805
	Ownership Concentration	,132	,297	,095	,442	,662
	Family Ownership & Control	,295	,215	,263	1,369	,184
	Total Assets	,209	,078	,591	2,699	,013
	Sales Growth	-,006	,021	-,049	-,283	,780
	Former Executives Serving as Non Executive Directors	-5,583	7,704	-,138	-,725	,476

a. Dependent Variable: Return On Assets

Table 96: Regression result for Hypothesis 8 (MTB ratio, 2011)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13,474	9,166		1,470	,155
	Directors Ownership	,142	,128	,273	1,104	,280
	Executive Remuneration	,003	,004	,167	,693	,495
	CEO-Chair Separation	-,812	5,541	-,030	-,147	,885
	Ownership Concentration	-,294	,165	-,419	-1,788	,086
	Family Ownership & Control	,013	,119	,022	,106	,916
	Total Assets	-,019	,043	-,104	-,433	,669
	Sales Growth	-,012	,011	-,205	-1,077	,292
	Former Executives Serving as Non Executive Directors	,655	4,266	,032	,154	,879

a. Dependent Variable: Market-to-Book Ratio

Table 97: Regression result for Hypothesis 8 (ROA, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-12,650	20,660		-,612	,546
	Directors Ownership	,169	,225	,146	,753	,459
	Executive Remuneration	,007	,012	,130	,613	,546
	CEO-Chair Separation	,247	15,383	,003	,016	,987
	Ownership Concentration	-,274	,326	-,189	-,840	,409
	Family Ownership & Control	,507	,252	,360	2,010	,056
	Total Assets	,159	,090	,329	1,761	,091
	Sales Growth	,085	,041	,446	2,086	,048
	Former Executives Serving as Non Executive Directors	-,825	10,122	-,014	-,082	,936

a. Dependent Variable: Return On Assets

Table 98: Regression result for Hypothesis 8 (MTB ratio, 2010)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10,413	4,431		2,350	,027
	Directors Ownership	,055	,048	,228	1,131	,269
	Executive Remuneration	,002	,003	,144	,649	,522
	CEO-Chair Separation	1,195	3,299	,064	,362	,720
	Ownership Concentration	-,171	,070	-,571	-2,444	,022
	Family Ownership & Control	-,035	,054	-,119	-,641	,528
	Total Assets	-,033	,019	-,336	-1,727	,097
	Sales Growth	,018	,009	,452	2,026	,054
	Former Executives Serving as Non Executive Directors	,051	2,171	,004	,024	,981

a. Dependent Variable: Market-to-Book Ratio

Table 99: Regression result for Hypothesis 8 (ROA, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-15,185	28,089		-,541	,594
	Directors Ownership	,067	,208	,066	,323	,750
	Executive Remuneration	,015	,011	,264	1,375	,182
	CEO-Chair Separation	5,258	23,373	,043	,225	,824
	Ownership Concentration	-,275	,305	-,188	-,900	,377
	Family Ownership & Control	,537	,265	,406	2,028	,054
	Total Assets	,140	,099	,287	1,419	,169
	Sales Growth	-,167	,069	-,394	-2,418	,024
	Former Executives Serving as Non Executive Directors	-6,358	11,411	-,109	-,557	,583

a. Dependent Variable: Return On Assets

Table 100: Regression result for Hypothesis 8 (MTB ratio, 2009)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,766	3,411		1,691	,104
	Directors Ownership	,041	,025	,352	1,626	,117
	Executive Remuneration	,001	,001	,188	,928	,363
	CEO-Chair Separation	,686	2,838	,049	,242	,811
	Ownership Concentration	-,078	,037	-,463	-2,096	,047
	Family Ownership & Control	-,020	,032	-,129	-,610	,548
	Total Assets	-,026	,012	-,461	-2,165	,041
	Sales Growth	-,004	,008	-,087	-,508	,616
	Former Executives Serving as Non Executive Directors	,320	1,386	,048	,231	,819

a. Dependent Variable: Market-to-Book Ratio

Table 101: Regression result for Hypothesis 8 (ROA, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-77,197	21,307		-3,623	,001
	Directors Ownership	-,271	,236	-,231	-1,149	,262
	Executive Remuneration	,002	,016	,022	,118	,907
	CEO-Chair Separation	33,400	15,400	,434	2,169	,040
	Ownership Concentration	,605	,368	,350	1,643	,113
	Family Ownership & Control	,593	,315	,365	1,884	,072
	Total Assets	,073	,132	,124	,554	,585
	Sales Growth	-,283	,113	-,429	-2,503	,020
	Former Executives Serving as Non Executive Directors	,337	13,786	,005	,024	,981

a. Dependent Variable: Return On Assets

Table 102: Regression result for Hypothesis 8 (MTB ratio, 2008)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6,184	1,646		3,758	,001
	Directors Ownership	,049	,018	,413	2,678	,013
	Executive Remuneration	,002	,001	,271	1,862	,075
	CEO-Chair Separation	,512	1,189	,066	,430	,671
	Ownership Concentration	-,113	,028	-,650	-3,987	,001
	Family Ownership & Control	-,014	,024	-,083	-,560	,581
	Total Assets	-,036	,010	-,600	-3,493	,002
	Sales Growth	-,029	,009	-,438	-3,337	,003
	Former Executives Serving as Non Executive Directors	1,741	1,065	,246	1,635	,115

a. Dependent Variable: Market-to-Book Ratio

Table 103: Pearson Correlation Matrix of firms in Germany (N= 215)

	ROA	MTB Ratio	DO	ER	Cod	OC	FO	TA	SG	FESNED	SP
ROA	1	-0.093	0.279	0.265	0.049	0.134*	0.235	0.076	0.254	-0.032	c
MTB Ratio	-0.093	1	0.015	-0.054	-0.052	0.085	0.054	-0.054	-0.02	-0.038	c
DO	0.279	0.015	1	0.123	-0.317	0.21	0.564	0.086	0.082	-0.206	c
ER	0.265	-0.054	0.123	1	0.16*	-0.112	0.195	0.465	0.092	-0.018	c
Cod	0.049	-0.052	-0.317	0.16	1	-0.002	-0.186	0.313	-0.061	0.065	c
OC	0.134*	0.085	0.21	-0.112	-0.002	1	0.227	-0.123	-0.041	-0.031	c
FO	0.235	0.054	0.564	0.195	-0.186	0.227	1	0.004	0.141*	-0.237	c
TA	0.076	-0.054	0.086	0.465	0.313	-0.123	0.004	1	0.009	-0.018	c
SG	0.254	-0.02	0.082	0.092	-0.061	-0.041	0.141*	0.099	1	-0.078	c
FESNED	-0.032	-0.038	-0.206	-0.018	0.065	-0.031	-0.237	-0.018	-0.078	1	c
SP	c	c	c	c	c	c	c	c	c	c	c

Table 104: Pearson Correlation Matrix of firms in the United Kingdom

	ROA	MTB Ratio	DO	ER	CCS	OC	FO	TA	SG	FESNED	SP
ROA	1	0.229	0.017	0.286	0.04	-0.003	0.135*	0.265	-0.017	0.045	c
MTB Ratio	0.229	1	-0.011	0.054	0.021	-0.055	-0.048	0.045	0.002	0.023	c
DO	0.017	-0.011	1	-0.148*	0.009	0.559	0.259	-0.235	-0.038	0.073	c
ER	0.286	0.054	-0.148*	1	0.226	-0.171*	-0.266	0.631	0.01	-0.117	c
CCS	0.04	0.021	0.009	0.226	1	-0.093	-0.375	0.174*	-0.228	0.058	c
OC	-0.003	-0.005	0.559	-0.171*	-0.093	1	0.253	-0.361	0.071	0.036	c
FO	0.135*	-0.048	0.259	-0.266	-0.375	0.253	1	-0.252	-0.023	-0.068	c
TA	0.265	0.045	-0.235	0.631	0.174*	-0.361	-0.252	1	-0.057	-0.145*	c
SG	-0.017	0.002	-0.038	0.01	-0.228	0.071	-0.023	-0.057	1	-0.031	c
FESNED	0.045	0.023	0.073	-0.117	0.058	0.036	0.068	-0.145*	-0.131	1	c
SP	c	c	c	c	c	c	c	c	c	c	c

Table 105: Pearson Correlation Matrix of firms in Indonesia

	ROA	MTB Ratio	DO	ER	OC	FO	TA	SG	FESNED	SP
ROA	1	0.399	-0.111	0.175*	0.146*	-0.007	0.115	0.247	-0.103	c
MTB Ratio	0.399	1	-0.135*	0.281	0.157*	-0.113	0.347	0.144*	-0.014	c
DO	-0.111	-0.135	1	-0.114	0.082	0.214	-0.154*	-0.025	-0.071	c
ER	0.175*	0.281	-0.114	1	0.168*	-0.188	0.75	0.015	0.063	c
OC	0.146*	0.157*	0.082	0.168*	1	-0.14*	-0.088	-0.042	-0.226	c
FO	-0.007	-0.113	0.214	-0.188	-0.14*	1	-0.153*	0.009	0.143*	c
TA	0.115	0.347	-0.154*	0.75	-0.088	-0.153*	1	0.141*	0.219	c
SG	0.247	0.144*	-0.025	0.015	-0.042	0.009	0.141*	1	0.032	c
FESNED	-0.103	-0.014	-0.071	0.063	-0.226	0.143*	0.219	0.032	1	c
SP	c	c	c	c	c	c	c	c	c	c

Description:

ROA: Return On Assets

MTB: Market-To-Book

DO: Directors' Ownership

ER: Executive Remuneration

Cod: Codetermination

CCS: CEO-Chair Separation

OC: Ownership Concentration

FO: Family Ownership

TA: Total Assets

SG: Sales Growth

FESNED: Former Executives Serving as Non-Executive Directors

SP: Shareholders Protection

c: cannot be computed because the variable is constant

*: correlation is significant at the level of 0.05 level

Table 106: Descriptive statistics of samples of firms in Germany

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return On Assets	215	-42,80	65,09	2,3063	12,66593
Market-to-Book Ratio	215	-7,03	1618,75	9,1257	110,31158
Directors' Ownership	215	,00	71,55	10,5148	18,46051
Executive Remuneration	215	128,00	4300,00	1147,2815	747,37924
Codetermination	215	,00	50,00	12,5571	17,34978
Ownership Concentration	215	,00	94,83	49,3822	23,53092
Family Ownership & Control	215	,00	63,78	10,9029	19,50807
Total Assets	215	12,15	959,02	252,5518	218,70868
Sales Growth	215	-62,40	213,82	3,3898	27,03486
Former Executives serving as Non Executive Directors	215	,00	1,00	,2512	,43469
Valid N (listwise)	215				

Table 107: Descriptive statistics of samples of firms in the United Kingdom

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return On Assets	215	-223,59	29,26	-3,9874	25,69409
Market-to-Book Ratio	215	-167,53	25,49	1,1130	12,56811
Directors' Ownership	215	,12	83,91	9,8395	17,31079
Executive Remuneration	215	,00	2791,26	736,8050	511,19314
CEO-Chair Separation	215	,00	1,00	,9302	,25535
Ownership Concentration	215	17,19	91,01	44,4156	13,89998
Family Ownership & Control	215	,00	63,02	8,8375	14,06067
Total Assets	215	2,36	863,20	165,2123	210,57189
Sales Growth	215	-100,00	4747,79	32,5132	332,56076
Former Executives serving as Non Executive Directors	215	,00	1,00	,1395	,34731
Valid N (listwise)	215				

Table 108: Descriptive statistics of samples of small firms in the United Kingdom

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	164	-223,59	29,26	-6,8986	27,94202
Market-to-Book Ratio	164	-167,53	25,49	,8421	14,35248
Directors' Ownership	164	,23	83,91	12,1179	19,12852
Executive Remuneration	164	,00	2562,12	573,7195	413,49847
CEO-Chair Separation	164	,00	1,00	,9085	,28915
Ownership Concentration	164	22,25	91,01	47,1674	13,96742
Family Ownership & Control	164	,00	63,02	10,7222	15,51844
Total Assets	164	2,36	162,07	57,2840	47,22123
Sales Growth	164	-100,00	4747,79	43,1930	380,30454
Former Executives Serving as Non-Executive Directors	164	,00	1,00	,1829	,38779
Valid N (listwise)	164				

Table 109: Descriptive statistics of samples of firms in Indonesia

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return On Assets	215	-46,45	39,56	6,6109	8,92404
Market-to-Book Ratio	215	-5,75	9,57	1,5008	1,66848
Directors' Ownership	215	,00	70,00	4,2779	11,88589
Executive Remuneration	215	228,42	59200,00	9122,0362	10309,48639
Ownership Concentration	215	33,64	99,74	71,0734	18,36821
Family Ownership & Control	215	,00	49,68	3,9054	9,90288
Total Assets	215	4,84	977,47	157,7360	196,42918
Sales Growth	215	-54,21	146,63	12,6462	26,66002
Former Executives Serving as Non-Executive Directors	215	,00	1,00	,3628	,48193
Valid N (listwise)	215				

Table 110 Sampled companies from Germany

No.	Company
1	AAP Implantate AG
2	Adva Optical Networking SE
3	Basler AG
4	Berentzen-Gruppe AG
5	BHS Tabletop AG
6	Biotest AG
7	Brilliant AG
8	Centrotec Sustainable AG
9	Creaton AG
10	Curasan AG
11	Data Modul AG
12	Dürkopp Adler AG
13	Einhell Germany AG
14	Elmos Semiconductor AG
15	Evotec AG
16	First Sensor AG
17	Geratherm Medical AG
18	Grammer AG
19	Herlitz AG
20	Höft & Wessel AG
21	Init Innovation in Traffic Systems AG
22	Intica Systems AG
23	Jenoptik AG
24	Kontron AG
25	Leifheit AG
26	LPKF Laser & Electronics AG
27	Manz AG
28	Maschinenfabrik Berthold Hermle AG
29	Masterflex SE
30	Neschen AG
31	Pfeiffer Vacuum Technology
32	Progress-Werk Oberkirch AG
33	Pulsion Medical Systems SE
34	PVA Tepla AG
35	R Stahl AG
36	Rational AG
37	Schaltbau Holding AG
38	Singulus Technology AG
39	Stratec Biomedical AG
40	Süss Microtec AG
41	UMS United Medical Systems AG
42	Washtec AG
43	Westag & Getalit AG

Table 111 Sampled companies from the United Kingdom

No.	Company
1	Advanced Medical Solutions Group plc
2	AGA Rangemaster Group plc
3	Alliance Pharma plc
4	Ark Therapeutics Group plc
5	Bioquell plc
6	British Polythene Industries plc
7	Churchill China plc
8	Corac Group plc
9	Crimson Tide plc
10	Cyprotex plc
11	Deltex Medical Group plc
12	Devro plc
13	Dialight plc
14	Elementis plc
15	Hill & Smith Holdings plc
16	Hydro International plc
17	Inditherm plc
18	IQE plc
19	Macfarlane Group plc
20	Marshalls plc
21	Michelmersh Brick Holdings plc
22	Molins plc
23	Nichols plc
24	Oxford Biomedica plc
25	Plant Health Care plc
26	Portmeirion Group plc
27	Proteome Sciences plc
28	Puricore plc
29	PV Crystalox Solar plc
30	Rotork plc
31	Skyepharma plc
32	Stadium Group plc
33	Surgical Innovations Group plc
34	Symphony Environmental Technologies plc
35	Telit Communications plc
36	Tex Holdings plc
37	TF & JH Braime (Holdings) plc
38	The Vitec Group plc
39	Toye & Company plc
40	TT Electronics plc
41	Verona Pharma plc
42	Vislink plc
43	Xaar plc

Table 112 Sampled companies from Indonesia

No.	Company
1	Akasha Wira International Tbk
2	Alakasa Industrindo Tbk
3	Arwana Citramulia Tbk
4	PT Asahimas Flat Glass Tbk
5	PT Asia Pacific Fibers Tbk
6	Astra Otoparts Tbk
7	Bentoel Internasional Investama Tbk
8	Budi Starch & Sweetener Tbk
9	Champion Pacific Indonesia Tbk
10	PT Citra Tubindo Tbk
11	Duta Pertiwi Nusantara Tbk
12	Ekadharma International Tbk
13	PT Ever Shine Tex Tbk
15	Indal Aluminium Industry Tbk
19	Jaya Pari Steel Tbk
20	PT Kalbe Farma Tbk
21	Kedawung Setia Industrial Tbk
22	Kimia Farma Tbk
23	KMI Wire & Table Tbk
24	Langgeng Makmur Industri Tbk
25	PT Lion Metal Works Tbk
26	Lionmesh Prima Tbk
27	Mayora Indah Tbk
28	Merck Tbk
29	PT Multi Strada Arah Sarana Tbk
30	Mustika Ratu Tbk
31	Nipress Tbk
33	Prasidha Aneka Niaga Tbk
34	Prima Alloy Steel Universal Tbk
35	Primarindo Asia Infrastructure Tbk
36	Pyridam Farma Tbk
37	Ricky Putra Globalindo Tbk
38	Sat Nusapersada Tbk
39	Sekar Laut Tbk
40	Selamat Sempurna Tbk
41	PT Sepatu Bata Tbk
42	PT SLJ Global Tbk
43	Suparma Tbk